

Financial Statements

Science and Technology Campus Corporation

Years ended June 30, 2003 and 2002 with Report of Independent Auditors



**Auditor of State
Betty Montgomery**

Board of Directors
Science and Technology Campus Corporation
1381 Kinnear Road, Suite 218
Columbus, Ohio 43212

We have reviewed the Independent Auditor's Report of the Science and Technology Campus Corporation, Franklin County, prepared by Ernst & Young LLP, for the audit period July 1, 2002 through June 30, 2003. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Science and Technology Campus Corporation is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

November 7, 2003

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Science and Technology Campus Corporation
(An Ohio Not-for-Profit Corporation)

Financial Statements

Years ended June 30, 2003 and 2002

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Ernst & Young LLP
1100 Huntington Center
41 South High Street
Columbus, OH 43215

Phone: (614)224-5678
Fax: (614) 222-3939
www.ey.com

Report of Independent Auditors

Board of Directors
Science and Technology
Campus Corporation
(An Ohio Not-for-Profit Corporation)

We have audited the accompanying statements of financial position of the Science and Technology Campus Corporation (an Ohio not-for-profit corporation) (the Corporation) as of June 30, 2003 and 2002, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Science and Technology Campus Corporation (an Ohio not-for-profit corporation) as of June 30, 2003 and 2002, and the results of its activities and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have issued our report dated October 2, 2003 on our consideration of the Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report when considering the results of our audit.

October 2, 2003

Science and Technology Campus Corporation
(An Ohio Not-for-Profit Corporation)

Statements of Financial Position

	June 30	
	2003	2002
Assets		
Cash and cash equivalents	\$ 659,890	\$ 1,787,652
Short term investments	200,000	-
Assets limited as to use (Note 2)	140,475	358,835
Receivable from The Ohio State University (Note 3)	-	162,414
Receivable from The State of Ohio (Note 2)	251,401	-
Rent receivable (less allowance for doubtful accounts of \$39,516 and \$0, respectively)	133,486	195,200
Investments in start-up companies (less allowance for impairment of \$75,000 and \$90,000, respectively)	746,738	497,090
Prepaid expenses	28,073	30,050
Property and equipment, at cost:		
Leasehold estate (Note 2)	12,370,000	12,370,000
Buildings	14,447,676	13,121,409
Equipment	239,395	137,630
Construction in process	261,100	-
	<u>27,318,171</u>	<u>25,629,039</u>
Less accumulated amortization and depreciation	(2,150,894)	(1,414,353)
Net property and equipment	<u>25,167,277</u>	<u>24,214,686</u>
Other assets	<u>151,919</u>	<u>188,099</u>
 Total assets	 <u><u>\$ 27,479,259</u></u>	 <u><u>\$ 27,434,026</u></u>
 Liabilities and net assets		
Accounts payable	\$ 202,573	\$ 76,379
Accrued liabilities	291,990	230,818
Accrued interest	12,604	395,213
Notes payable and long-term debt (Notes 3 and 5)	13,071,851	12,100,000
Fair value of interest rate swap (Note 6)	349,436	146,299
Leasehold obligation	3,394,846	3,831,242
Net assets - unrestricted	<u>10,155,959</u>	<u>10,654,075</u>
 Total liabilities and net assets	 <u><u>\$ 27,479,259</u></u>	 <u><u>\$ 27,434,026</u></u>

See accompanying notes.

Science and Technology Campus Corporation
(An Ohio Not-for-Profit Corporation)

Statements of Activities

	Year ended June 30	
	2003	2002
Revenues:		
Rental income (Note 3)	\$ 2,728,933	\$ 2,224,981
Contributions	641,401	635,000
Interest income	21,861	64,972
Grants	447,540	580,420
Other income	29,453	19,199
Total revenues	3,869,188	3,524,572
Expenses:		
Rental operating expenses:		
Interest expense	427,036	448,079
Utilities	583,505	439,330
Repairs and maintenance	143,039	251,891
Depreciation	426,539	116,628
Amortization of leasehold interest in property	309,996	309,996
Management fees (Note 3)	113,116	81,927
Other	158,522	127,763
Total rental operating expenses	2,161,753	1,775,614
General and administrative expenses:		
Salaries and related expenses	1,251,896	992,817
Consulting	89,768	24,035
Legal	38,004	45,405
Insurance	40,672	50,561
Accounting	50,901	39,501
Marketing and advertising	11,975	30,962
Project development costs	58,467	73,772
Telecommunications	32,161	19,934
Travel, meals and meetings	71,643	46,413
Bad debt expense	59,516	-
Impairment of investments in start-up companies (Note 2)	113,511	90,000
Change in fair value of interest rate swap (Note 6)	203,137	146,299
Other	183,900	141,161
Total general and administrative expenses	2,205,551	1,700,860
Total expenses	4,367,304	3,476,474
(Deficit) excess of revenues over expenses	\$ (498,116)	\$ 48,098

(Continued on next page)

Science and Technology Campus Corporation
(An Ohio Not-for-Profit Corporation)

Statements of Activities (continued)

	Year ended June 30	
	2003	2002
(Deficit) excess of revenues over expenses	\$ (498,116)	\$ 48,098
Net assets - unrestricted at beginning of year	<u>10,654,075</u>	<u>10,605,977</u>
Net assets - unrestricted at end of year	<u>\$ 10,155,959</u>	<u>\$ 10,654,075</u>

See accompanying notes.

Science and Technology Campus Corporation
(An Ohio Not-for-Profit Corporation)

Statements of Cash Flows

	Year ended June 30	
	2003	2002
Operating activities		
Change in net assets - unrestricted	\$ (498,116)	\$ 48,098
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Amortization and depreciation	736,541	452,685
Impairment charge on investments in start-up companies (Note 2)	113,511	90,000
Change in fair value of interest rate swap (Note 6)	203,137	146,299
Change in operating assets and liabilities:		
Short term investments	(200,000)	-
Rent receivable	61,714	(45,290)
Receivable from The State of Ohio	(251,401)	-
Receivable from The Ohio State University	162,404	1,369,116
Prepaid expenses	1,977	30,696
Other assets	36,190	(109,948)
Accounts payable	126,194	(2,202,869)
Accrued liabilities and interest	(329,443)	16,070
Net cash provided by (used in) operating activities	162,708	(205,143)
Investing activities		
Decrease (increase) in assets limited as to use	218,360	(358,835)
Increase in investments in start-up companies	(363,159)	(587,090)
Increase in construction in process	(261,100)	-
Additions to property and equipment	(101,765)	(63,689)
Additions to buildings	(1,326,267)	(3,684,448)
Net cash used in investing activities	(1,833,931)	(4,694,062)
Financing activities		
Principle reduction in leasehold obligation	(436,396)	(411,000)
Principle reduction in notes payable and long term debt	(280,532)	-
Proceeds from notes payable and long term debt	1,260,389	5,100,000
Net cash provided by financing activities	543,461	4,689,000
Net decrease in cash and cash equivalents	(1,127,762)	(210,205)
Cash and cash equivalents at beginning of year	1,787,652	1,997,857
Cash and cash equivalents at end of year	\$ 659,890	\$ 1,787,652
Interest Paid	\$ 860,282	\$ 551,584

See accompanying notes.

Science and Technology Campus Corporation
(An Ohio Not-for-Profit Corporation)

Notes to Financial Statements

Years ended June 30, 2003 and 2002

1. Organization and Presentation

The Science and Technology Campus Corporation (an Ohio Not-for-Profit Corporation), (the “Corporation”), was formed on March 1, 1996 to further develop the Science and Technology Campus at The Ohio State University (the University).

The Corporation’s sources of funding include rental income and contributions received under agreements with the University, the State of Ohio Department of Development and the City of Columbus Department of Trade and Development. The Corporation is constructing facilities on leased properties for the purpose of developing the Science and Technology Campus.

The Corporation reports contributions as unrestricted support unless explicit donor stipulations specify how the donated cash must be used. Where stipulations have been made and they have been satisfied in the same reporting period then the contribution is reported as unrestricted.

2. Summary of Significant Accounting Policies

Rental Income

Rents are recognized in the period earned. Any prepaid rents are deferred to the period benefited.

Use of Estimates

The preparation of financial statements in conformity with accounting principals generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to the 2002 financial statements to conform to the 2003 presentation.

Science and Technology Campus Corporation
(An Ohio Not-for-Profit Corporation)

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Cash Equivalents

The Corporation considers temporary investments purchased with an initial maturity of three months or less to be cash equivalents for the statements of financial position and for purposes of preparing the statements of cash flows.

Short-term Investments

The Corporation considers temporary investments purchased with an initial maturity of four to twelve months to be short-term investments for the statements of financial position and for purposes of preparing the statements of cash flows. As of June 30, 2003, the balance consisted of certificates of deposit.

Assets Limited as to Use

The Corporation considers assets that have been designated by contract or internally designated for a specific purpose to be limited as to use and are recorded at market value. Assets limited as to use consisted of the following:

	June 30	
	2003	2002
Project Fund	\$ -	\$ 218,360
Money Market Fund	140,475	140,475
Total balance	<u>\$ 140,475</u>	<u>\$ 358,835</u>

The Project Fund (the Fund) was created as part of the Trust Indenture Agreement (the Agreement) between the Corporation and Fifth Third Bank to hold the proceeds of the Adjustable Rate Taxable Securities, Series 2001, (the Project Notes) issued during the year. As of June 30, 2003 all of the proceeds had been used for their intended purpose. As of June 30, 2002, \$4,881,640 of the proceeds had been used for their intended purpose (See Note 5).

The Corporation also maintains a money market account that will be drawn upon to make the principal payments on the Adjustable Rate Taxable Securities, Series 2001 on the first day of November of each year (See Note 5). The Corporation deposits funds into this account on a monthly basis toward the required principal payment amount is available on the due date. The money market fund earns interest at a variable rate.

Science and Technology Campus Corporation
(An Ohio Not-for-Profit Corporation)

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Investments in Start-up Companies

The Corporation invests in closely held, start-up companies and other ventures. These investments are typically in the form of convertible promissory notes and are accounted for at cost, which approximates fair value. The Corporation reviews its investments for impairment at least annually. Due to the start-up nature of the companies that the Corporation invests in, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The activity in the reserve for impairment account was as follows:

	Year ended June 30	
	2003	2002
Beginning balance	\$ 90,000	\$ -
Provision for impairment	113,511	90,000
Write-offs	<u>(128,511)</u>	<u>-</u>
Ending balance	<u>\$ 75,000</u>	<u>\$ 90,000</u>

Leasehold Estate

Leasehold estate is recorded at its estimated fair market value at original acquisition and amortized using the straight-line method based on the assets' estimated useful life of forty years.

Buildings and Equipment

Upon completion of construction, building costs are depreciated over the remaining estimated useful life of the related property of 36 years.

Equipment is recorded at cost and depreciated using the straight-line method based on the assets' estimated useful life of three to five years.

Science and Technology Campus Corporation
(An Ohio Not-for-Profit Corporation)

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Grants

The Corporation receives grants from various City of Columbus and State of Ohio funding sources. Funds received from these grants are used to invest in start-up companies (See “Investments” above) and for operating expenses. These funds are only available on a reimbursement basis and the restrictions must be satisfied prior to applying for funding. The Corporation also receives matching contributions from various corporate or individual sponsors. These contributions have no donor-imposed restrictions.

3. Related Party Transactions

Rental Income

The Corporation subleases certain property to affiliates of the University. For the years ended June 30, 2003 and 2002, rental income from affiliates amounted to \$1,424,411 and \$1,400,191, respectively. For the year ended June 30, 2002 and the nine months ended March 31, 2003, the University provided management services for properties leased by the Corporation from the University. Rent collections and expense disbursements related to leased properties were accounted for by the University and net rents were submitted to the Corporation on a quarterly basis. In April 2003, the Corporation hired an independent party to provide property management services. As of June 30, 2003 and 2002, affiliate rent receivables amounted to \$300 and \$160,565, respectively. The following is a schedule by year of minimum future gross rental income on non-cancelable operating leases as of June 30, 2003:

Year Ending June 30:	
2004	\$ 1,985,091
2005	2,006,147
2006	2,016,513
2007	1,673,919
2008	1,661,046
Thereafter	<u>2,606,503</u>
Total minimum future rentals	<u>\$ 11,949,219</u>

Science and Technology Campus Corporation
(An Ohio Not-for-Profit Corporation)

Notes to Financial Statements (continued)

3. Related Party Transactions (continued)

Operating Support

The Corporation received \$300,000 in operating support from the University during each of the fiscal years ended June 30, 2003 and 2002. These funds, while reflected as cash contributions, have no specific restrictions attached and are used for normal operating expenses. These funds are provided to the Corporation pursuant to the Development Agreement, which specifies that the University will continue to support the Corporation with these funds on an annual basis. The term of the operating support provided by the Development Agreement has been extended through the fiscal year ended June 30, 2004.

Joint Use Agreement

The Corporation entered a Joint Use Agreement with the University whereby the University has utilized an appropriation of \$4 million from a State of Ohio Capital Funding Allocation to fund the construction and development of certain properties under lease by the Corporation. The terms of the agreement include a provision for the State of Ohio to recapture a portion of funding over a fifteen year period in an event of default. The Corporation has assessed the possibility of default as remote and accordingly the accompanying financial statements do not include any accrued liabilities related to this contingency. There were no related party contributions or other activity in fiscal years 2003 or 2002 representing University funding from the joint use agreement.

Leasehold Obligations

Leasehold agreements require the Corporation to pay all costs of leased properties including operating costs, maintenance, renovation, and assessments. Leasehold obligations are due to the University and require aggregate monthly payments of \$54,016 with maturity dates ranging from December 2007 to October 2010. Interest rates are fixed at rates ranging from 5.6% to 6.3%.

Science and Technology Campus Corporation
(An Ohio Not-for-Profit Corporation)

Notes to Financial Statements (continued)

3. Related Party Transactions (continued)

Leasehold Obligations (continued)

Future minimum lease payments for the next five fiscal years and thereafter are as follows:

2004	\$ 648,193
2005	648,193
2006	648,193
2007	648,193
2008	530,355
Thereafter	978,023
Total minimum lease payments	<u>4,101,149</u>
Less amounts representing interest	<u>(706,303)</u>
Present value of leasehold obligation	<u>\$ 3,394,846</u>

Notes Payable

The University has authorized up to \$21 million in construction financing for development at the Science and Technology Campus provided certain criteria are met. As of June 30, 2003 and 2002, the Corporation had drawn \$8,260,389 and \$7,000,000, respectively, of the available funds.

The Corporation signed a reimbursement agreement with the University on November 1, 2002 relating to \$7 million of the payable balance. Under the terms of the agreement, interest accrues from November 1, 2002 and is calculated on a variable basis based on the actual interest rate received on the University's Series B Commercial Paper. The interest rate as of June 30, 2003 was approximately 5.4%. For the year ended June 30, 2003 and 2002, \$219,446 and \$0, respectively, of interest was paid in cash. Interest expense recognized on this obligation for the year ended June 30, 2003 was \$219,446 (partially offset by a \$194,000 reduction of interest accrued in 2002, which was previously estimated on an interim basis prior to November 1, 2002). None of the interest on this obligation was capitalized during the year ended June 30, 2003. Outstanding debt and accrued interest are payable to the University on a monthly basis through the maturity date of January 2024. As of June 30, 2003 and 2002, the outstanding balance on the notes was \$6,921,462 and \$7,000,000, respectively.

Science and Technology Campus Corporation
(An Ohio Not-for-Profit Corporation)

Notes to Financial Statements (continued)

3. Related Party Transactions (continued)

Notes Payable (continued)

As of June 30, 2003, the Corporation had drawn an additional \$1,260,389 of the total available funds for which it has not entered into a reimbursement agreement with the University. For the year ended June 30, 2003, the Corporation had accrued interest on the borrowings, at an imputed rate of 4%, totaling \$12,604 (none of which was capitalized). None of the principal amount of these borrowings had been repaid as of June 30, 2003.

Pass-Through Funding

The Corporation acts as a pass-through entity from time to time. The Corporation has an agreement with the University to manage construction of various projects. The agreement provides \$9 million in pass through funding for construction costs. In accordance with the agreement, the Corporation does not recognize any revenue or capitalize construction costs related to this project. As of June 30, 2003 and 2002, the Corporation had a receivable of \$0 and \$162,414, respectively, from the University related to construction expenditures for these projects that had not yet been reimbursed.

Management Fees

The University managed certain properties for the Corporation. The management fees charged to the Corporation by the University are calculated at the rate of 4.5% of monthly gross rents. For the year ended June 30, 2002, the Corporation incurred management fees of \$81,927. For the nine months ended March 31, 2003, the Corporation incurred management fees of \$89,483. The Corporation utilized a non-affiliated property management company subsequent to March 31, 2003.

4. Defined Contribution Retirement Plan

The Corporation sponsors a defined contribution retirement plan under the guidelines of section 401(a) of the Internal Revenue Code. Contributions to the plan are based on a rate of 7.25% of compensation, plus 5.7% of compensation in excess of the Social Security Wage Base subject to Internal Revenue Code compensation limits. Full time employees are immediately eligible and 100% vested. For the years ended June 30, 2003 and 2002, the Corporation incurred retirement expense of \$76,910 and \$60,073, respectively.

Science and Technology Campus Corporation
(An Ohio Not-for-Profit Corporation)

Notes to Financial Statements (continued)

5. Long-term Debt

In October 2001, the Corporation issued \$5.1 million in Adjustable Rate Taxable Securities, Series 2001, (the Project Notes). The proceeds of the Project Notes have been used to finance construction costs. The Project Notes have a variable interest rate. The interest rate was 1.15% and 2.00% as of June 30, 2003 and 2002, respectively.

The owners of the Project Notes have the option to demand redemption of their outstanding Notes at dates defined in the agreement. The Corporation has entered into a remarketing agreement, which requires the remarketing agent to utilize its best efforts to remarket any such bonds that may be tendered for payment. If the proceeds to the remarketing agent are not sufficient to purchase the Project Notes tendered, the Trustee is required to draw on an irrevocable letter of credit to pay the necessary purchase price. The letter of credit expires November 15, 2006.

For the year ended June 30, 2003 and 2002, the Corporation incurred interest costs relating to this note of \$255,452 and \$103,670, respectively. All of the interest costs incurred during the year ended June 30, 2002 were capitalized. Since the related building was completed in July 2002, no interest was capitalized during the year ended June 30, 2003. As of June 30, 2003 and 2002, the Corporation had repaid \$210,000 and \$0 of the principal due on the note.

In addition, the Corporation has designated funds in a money market account for the repayment of principal in the amount of \$140,475 (See Note 2). Principal payments for the next five fiscal years and thereafter are as follows:

2004	\$	215,000
2005		220,000
2006		225,000
2007		230,000
2008		240,000
Thereafter		<u>3,760,000</u>
Total principal payments	\$	<u>4,890,000</u>

Science and Technology Campus Corporation
(An Ohio Not-for-Profit Corporation)

Notes to Financial Statements (continued)

6. Interest Rate Swap Agreement

In December 2001, the Corporation entered into an interest rate swap agreement with a bank as a hedge against the interest rate risk associated with borrowing at a variable rate. The Corporation's objective is to eliminate the variability of cash flows in interest payments for a portion of its variable rate debt. The swap agreement has a notional amount of \$2,876,520 and \$3,000,000 as of June 30, 2003 and 2002, respectively, and effectively locked a portion of the Corporation's variable rate note at fixed rates of 4.30% for the period from February 1, 2002 to December 1, 2003, 5.85% for the period from December 1, 2003 to December 1, 2005, and 6.90% for the period from December 1, 2005 to December 20, 2006. The swap agreement is in effect for a period of five years ending in December 2006. The Corporation does not use derivative financial instruments for speculative purposes.

As of June 30, 2003 and 2002, the fair value of the swap agreement, based on current settlement prices, was a liability of \$349,436 and \$146,299, respectively. In accordance with the provisions of Statement of Financial Accounting Standards No. 133, the change in the fair value of the interest rate swap agreement has been recorded as an expense on the statement of activities.

7. Federal Income Taxes

The Internal Revenue Service has ruled that the Corporation is a tax-exempt organization as defined under Section 501(c)(3) of the Internal Revenue Code; accordingly, no provision for federal income taxes has been reflected in the financial statements.

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Ernst & Young LLP
1100 Huntington Center
41 South High Street
Columbus, OH 43215

Phone: (614)224-5678
Fax: (614) 222-3939
www.ey.com

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements in Accordance With *Government Auditing Standards*

Board of Directors
Science and Technology Campus Corporation
(An Ohio Not-for-Profit Corporation)

We have audited the financial statements of Science and Technology Campus Corporation (an Ohio Not-for-Profit Corporation) (the Corporation) as of and for the year ended June 30, 2003, and have issued our report thereon dated October 2, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Directors, management and the Auditor of the State of Ohio and is not intended to be and should not be used by anyone other than these specified parties.

Ernst & Young LLP

October 2, 2003



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

SCIENCE AND TECHNOLOGY CAMPUS CORPORATION

FRANKLIN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 20, 2003**