



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**LIBERTY CENTER LOCAL SCHOOL DISTRICT
HENRY COUNTY**

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STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

One Government Center
Suite 1420
Toledo, Ohio 43604-2246
Telephone 419-245-2811
800-443-9276
Facsimile 419-245-2484
www.auditor.state.oh.us

REPORT OF INDEPENDENT ACCOUNTANTS

Liberty Center Local School District
Henry County
103 West Young Street
P.O. Box 434
Liberty Center, Ohio 43532-0434

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Liberty Center Local School District (the District) as of and for the year ended June 30, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 audit provides a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to above presents fairly, in all material respects, the financial position of the Liberty Center Local School District, Henry County, as of June 30, 2002, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2002 on our consideration of the District'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 in considering the results of our audit.

A handwritten signature in black ink, appearing to read "Jim Petro".

Jim Petro
Auditor of State

December 10, 2002

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LIBERTY CENTER LOCAL SCHOOL DISTRICT
HENRY COUNTY

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
AS OF JUNE 30, 2002

	Governmental Fund Types		
	General	Special Revenue	Debt Service
ASSETS AND OTHER DEBITS			
Assets:			
Equity in Pooled Cash, Cash Equivalents and Investments	\$2,603,135	\$85,110	\$196,331
Receivables:			
Taxes	2,427,073		284,891
Accounts	97	1,122	
Intergovernmental	2,794	16,457	
Accrued Interest	12,168		
Notes Receivable			
Income Tax	357,969		
Materials and Supplies Inventory	9,589		
Fixed Assets			
Accumulated Depreciation			
Other Debits:			
Amount Available in Debt Service Fund for Retirement of Long-Term Obligations			
Amount to be Provided From General Government Resources			
Total Assets and Other Debits	\$5,412,825	\$102,689	\$481,222

Proprietary Fund Type	Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Trust and Agency			
\$86,496	\$29,421			\$3,000,493
				2,711,964
				1,219
				19,251
				12,168
	1,000			1,000
				357,969
13,728				23,317
172,287		\$15,318,127		15,490,414
(104,250)				(104,250)
			\$196,331	196,331
			3,770,457	3,770,457
\$168,261	\$30,421	\$15,318,127	\$3,966,788	\$25,480,333

(Continued)

LIBERTY CENTER LOCAL SCHOOL DISTRICT
HENRY COUNTY

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
AS OF JUNE 30, 2002
(Continued)

	Governmental Fund Types		
	General	Special Revenue	Debt Service
LIABILITIES, FUND EQUITY AND OTHER CREDITS			
Liabilities:			
Accounts Payable	\$11,690	\$260	
Accrued Wages and Benefits	707,728	18,035	
Compensated Absences Payable	27,164		
Intergovernmental Payable	100,133	4,442	
Deferred Revenue	2,247,394	3,222	\$261,146
Due to Students			
Note Payable			
General Obligation Bonds Payable			
Total Liabilities	3,094,109	25,959	261,146
Fund Equity and Other Credits:			
Investment in General Fixed Assets			
Contributed Capital			
Retained Earnings:			
Unreserved			
Fund Balances:			
Reserved:			
Reserved for Encumbrances	39,314	2,777	
Reserved for Inventory	9,589		
Reserved for Debt Service Principal			196,331
Reserved for Notes Receivable			
Reserved for Property Taxes	179,348		23,745
Unreserved:			
Unreserved, Undesignated	2,090,465	73,953	
Total Fund Equity and Other Credits	2,318,716	76,730	220,076
Total Liabilities, Fund Equity and Other Credits	\$5,412,825	\$102,689	\$481,222

The notes to the general-purpose financial statements are an integral part of this statement.

Proprietary Fund Type	Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Trust and Agency			
\$300				\$12,250
24,596				750,359
18,338			\$386,033	431,535
12,427			47,255	164,257
6,939				2,518,701
	\$23,884			23,884
			293,500	293,500
			3,240,000	3,240,000
62,600	23,884		3,966,788	7,434,486
		\$15,318,127		15,318,127
128,591				128,591
(22,930)				(22,930)
				42,091
				9,589
				196,331
	1,000			1,000
				203,093
	5,537			2,169,955
105,661	6,537	15,318,127		18,045,847
\$168,261	\$30,421	\$15,318,127	\$3,966,788	\$25,480,333

**LIBERTY CENTER LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND
FOR THE YEAR ENDED JUNE 30, 2002**

	<u>Governmental Fund Types</u>	
	<u>General</u>	<u>Special Revenue</u>
Revenues:		
Intergovernmental	\$4,492,764	\$245,024
Interest	111,133	1,232
Tuition and Fees	275,508	962
Rent	2,731	
Extracurricular Activities		171,963
Gifts and Donations	207,354	10,061
Income Tax	926,054	
Property and Other Local Taxes	2,260,277	
Miscellaneous	18,270	5,773
Total Revenues	8,294,091	435,015
Expenditures:		
Instruction:		
Regular	3,527,079	76,424
Special	922,752	95,437
Vocational	181,341	
Other	184,656	
Support services:		
Pupils	282,355	49,926
Instructional Staff	104,261	16,408
Board of Education	30,531	
Administration	644,791	32,636
Fiscal	221,510	
Operation and Maintenance of Plant	724,960	
Pupil Transportation	377,435	212
Central	207,406	21,621
Extracurricular activities	209,712	181,839
Capital Outlay	250,339	
Debt Service		
Debt Service - Principal		
Debt Service - Interest		
Total Expenditures	7,869,128	474,503
Excess of Revenues Over (Under) Expenditures	424,963	(39,488)
Other Financing Sources and Uses		
Operating Transfers In		10,000
Proceeds from Sale of Fixed Assets	75	1,200
Refund of Prior Year Expenditures	70	603
Other Financing Sources		4,890
Operating Transfers Out	(15,765)	
Refund of Prior Year Receipts		(2,085)
Total Other Financing Sources (Uses)	(15,620)	14,608
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	409,343	(24,880)
Fund Balance at Beginning of Year	1,909,373	101,610
Fund Balance at End of Year	\$2,318,716	\$76,730

The notes to the general-purpose financial statements are an integral part of this statement.

Governmental Fund Types		Fiduciary Fund Types	Totals (Memorandum Only)
Debt Service	Capital Projects	Expendable Trust	
\$26,952	\$30,780	\$77	\$4,795,520
			112,442
			276,470
			2,731
			171,963
			217,415
			926,054
261,265			2,521,542
		295	24,338
<u>288,217</u>	<u>30,780</u>	<u>372</u>	<u>9,048,475</u>
	30,780		3,634,283
			1,018,189
			181,341
			184,656
			332,281
			120,669
			30,531
			677,427
6,441			227,951
			724,960
			377,647
	5,000		234,027
		313	391,864
			250,339
110,000			110,000
198,185			198,185
<u>314,626</u>	<u>35,780</u>	<u>313</u>	<u>8,694,350</u>
<u>(26,409)</u>	<u>(5,000)</u>	<u>59</u>	<u>354,125</u>
			10,000
			1,275
			673
			4,890
			(15,765)
			(2,085)
			(1,012)
(26,409)	(5,000)	59	353,113
246,485	5,000	6,478	2,268,946
<u>\$220,076</u>		<u>\$6,537</u>	<u>\$2,622,059</u>

**LIBERTY CENTER LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND
FOR THE YEAR ENDED JUNE 30, 2002**

	General		Variance: Favorable (Unfavorable)
	Budget	Actual	
Revenues:			
Intergovernmental	\$4,338,173	\$4,489,970	\$151,797
Interest	155,000	109,619	(45,381)
Tuition and Fees	328,400	280,906	(47,494)
Rent	1,500	2,731	1,231
Extracurricular Activities			
Gifts and Donations	203,000	207,354	4,354
Income Tax	880,000	890,706	10,706
Property and Other Local Taxes	2,286,879	2,278,502	(8,377)
Miscellaneous	10,000	18,373	8,373
Total Revenues	8,202,952	8,278,161	75,209
Expenditures:			
Current:			
Instruction:			
Regular	3,559,830	3,483,026	76,804
Special	963,220	922,094	41,126
Vocational	203,016	190,429	12,587
Other	184,660	184,656	4
Support services:			
Pupils	291,956	278,436	13,520
Instructional Staff	107,255	104,323	2,932
Board of Education	44,953	31,572	13,381
Administration	681,685	641,345	40,340
Fiscal	239,135	220,899	18,236
Operation and Maintenance of Plant	791,654	742,249	49,405
Pupil Transportation	458,155	377,371	80,784
Central	240,260	208,255	32,005
Non-Instructional Services			
Extracurricular activities	221,870	208,870	13,000
Capital Outlay	326,137	296,673	29,464
Debt Service			
Debt Service - Principal			
Debt Service - Interest			
Total Expenditures	8,313,786	7,890,198	423,588
Excess of Revenues Over (Under) Expenditures	(110,834)	387,963	498,797
Other Financing Sources and Uses			
Operating Transfers In			
Proceeds from Sale of Fixed Assets	500	75	(425)
Refund of Prior Year Expenditures	140	140	
Other Financing Sources			
Operating Transfers Out	(20,000)	(15,765)	4,235
Refund of Prior Year Receipts	(297,000)	(296,902)	98
Total Other Financing Sources (Uses)	(316,360)	(312,452)	3,908
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(427,194)	75,511	502,705
Fund Balances at Beginning of Year	2,240,445	2,240,445	
Prior Year Encumbrances Appropriated	244,779	244,779	
Fund Balance at end of Year	\$2,058,030	\$2,560,735	\$502,705

Special Revenue			Debt Service		
Budget	Actual	Variance: Favorable (Unfavorable)	Budget	Actual	Variance: Favorable (Unfavorable)
\$242,044	\$231,789	(\$10,255)	\$26,010	\$26,952	\$942
2,835	1,232	(1,603)			
1,600	962	(638)			
164,838	171,799	6,961			
16,800	10,061	(6,739)			
			255,847	260,105	4,258
6,800	5,773	(1,027)			
434,917	421,616	(13,301)	281,857	287,057	5,200
81,616	72,898	8,718			
107,212	94,965	12,247			
49,917	47,849	2,068			
27,219	15,781	11,438			
36,794	31,706	5,088			
			8,000	6,441	1,559
242	242				
31,607	21,744	9,863			
206,001	184,934	21,067			
			110,000	110,000	
			198,185	198,185	
540,608	470,119	70,489	316,185	314,626	1,559
(105,691)	(48,503)	57,188	(34,328)	(27,569)	6,759
15,000	10,000	(5,000)			
	1,200	1,200			
603	603				
4,890	4,890				
(2,085)	(2,085)		(22,840)	(22,839)	1
18,408	14,608	(3,800)	(22,840)	(22,839)	1
(87,283)	(33,895)	53,388	(57,168)	(50,408)	6,760
93,525	93,525		246,739	246,739	
22,436	22,436				
\$28,678	\$82,066	\$53,388	\$189,571	\$196,331	\$6,760

(Continued)

**LIBERTY CENTER LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

	Capital Projects		Variance: Favorable (Unfavorable)
	Budget	Actual	
Revenues:			
Intergovernmental	\$30,780	\$30,780	
Interest			
Tuition and Fees			
Rent			
Extracurricular Activities			
Gifts and Donations			
Income Tax			
Property and Other Local Taxes			
Miscellaneous			
Total Revenues	30,780	30,780	
Expenditures:			
Current:			
Instruction:			
Regular	30,780	30,780	
Special			
Vocational			
Other			
Support services:			
Pupils			
Instructional Staff			
Board of Education			
Administration			
Fiscal			
Operation and Maintenance of Plant			
Pupil Transportation			
Central	5,000	5,000	
Non-Instructional Services			
Extracurricular activities			
Capital Outlay			
Debt Service			
Debt Service - Principal			
Debt Service - Interest			
Total Expenditures	35,780	35,780	
Excess of Revenues Over (Under) Expenditures	(5,000)	(5,000)	
Other Financing Sources and Uses			
Operating Transfers In			
Proceeds from Sale of Fixed Assets			
Refund of Prior Year Expenditures			
Other Financing Sources			
Operating Transfers Out			
Refund of Prior Year Receipts			
Total Other Financing Sources (Uses)			
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(5,000)	(5,000)	
Fund Balances at Beginning of Year	5,000	5,000	
Prior Year Encumbrances Appropriated			
Fund Balance at end of Year	5,000	5,000	

The notes to the general-purpose financial statements are an integral part of this statement.

Expendable Trust			Totals (Memorandum Only)		
Budget	Actual	Variance: Favorable (Unfavorable)	Budget	Actual	Variance: Favorable (Unfavorable)
			\$4,637,007	\$4,779,491	\$142,484
\$150	\$77	(\$73)	157,985	110,928	(47,057)
			330,000	281,868	(48,132)
			1,500	2,731	1,231
			164,838	171,799	6,961
50	500	450	219,850	217,915	(1,935)
			880,000	890,706	10,706
850	295	(555)	2,542,726	2,538,607	(4,119)
1,050	872	(178)	17,650	24,441	6,791
			8,951,556	9,018,486	66,930
			3,672,226	3,586,704	85,522
			1,070,432	1,017,059	53,373
			203,016	190,429	12,587
			184,660	184,656	4
			341,873	326,285	15,588
			134,474	120,104	14,370
			44,953	31,572	13,381
			718,479	673,051	45,428
			247,135	227,340	19,795
			791,654	742,249	49,405
			458,397	377,613	80,784
			276,867	234,999	41,868
1,000		1,000	1,000		1,000
580	313	267	428,451	394,117	34,334
			326,137	296,673	29,464
			110,000	110,000	
			198,185	198,185	
1,580	313	1,267	9,207,939	8,711,036	496,903
(530)	559	1,089	(256,383)	307,450	563,833
			15,000	10,000	(5,000)
			500	1,275	775
			743	743	
			4,890	4,890	
			(20,000)	(15,765)	4,235
			(321,925)	(321,826)	99
			(320,792)	(320,683)	109
(530)	559	1,089	(577,175)	(13,233)	563,942
4,978	4,978		2,590,687	2,590,687	
			267,215	267,215	
\$4,448	\$5,537	\$1,089	\$2,280,727	\$2,844,669	\$563,942

**LIBERTY CENTER LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND EQUITY
ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2002**

	<u>Proprietary Fund Types</u>		Totals (Memorandum Only)
	<u>Enterprise</u>	<u>Internal Service</u>	
Operating Revenues:			
Sales	\$257,752		\$257,752
Other Revenues	811	\$26,493	27,304
Total Operating Revenues	<u>258,563</u>	<u>26,493</u>	<u>285,056</u>
Operating Expenses			
Salaries	125,481		125,481
Fringe Benefits	48,423		48,423
Purchased Services	8,901		8,901
Materials and Supplies	170,938	16,331	187,269
Depreciation	12,014		12,014
Other		10,362	10,362
Total Operating Expenses	<u>365,757</u>	<u>26,693</u>	<u>392,450</u>
Operating Loss	<u>(107,194)</u>	<u>(200)</u>	<u>(107,394)</u>
Non-Operating Revenues			
Federal Donated Commodities	26,933		26,933
Interest	1,302		1,302
Federal and State Subsidies	59,075		59,075
Other		200	200
Total Non-Operating Revenues	<u>87,310</u>	<u>200</u>	<u>87,510</u>
Loss Before Operating Transfers	(19,884)		(19,884)
Operating Transfers-In	3,500		3,500
Net Loss	(16,384)		(16,384)
Retained Earnings at Beginning of Year	(6,546)		(6,546)
Retained Earnings at End of Year	(22,930)		(22,930)
Contributed Capital at End of Year	128,591		128,591
Total Fund Equity at End of Year	<u>\$105,661</u>		<u>\$105,661</u>

The notes to the general-purpose financial statements are an integral part of this statement.

**LIBERTY CENTER LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2002**

	<u>Proprietary Fund Types</u>		Totals (Memorandum Only)
	<u>Enterprise</u>	<u>Internal Service</u>	
Increase (Decrease) in Cash and Cash Equivalents			
<u>Cash Flows from Operating Activities:</u>			
Cash Received from Sales	\$257,903		\$257,903
Other Cash Receipts	811	\$26,493	27,304
Cash Payments to Suppliers for Goods and Service	(143,996)	(16,331)	(160,327)
Cash Payments for Contract Services	(8,901)		(8,901)
Cash Payments for Employee Services	(122,045)		(122,045)
Cash Payments for Employee Benefits	(49,478)		(49,478)
Other Cash Payments		(\$10,362)	(10,362)
Net Cash Used by Operating Activities	<u>(65,706)</u>	<u>(200)</u>	<u>(65,906)</u>
<u>Cash Flows from Noncapital Financing Activities:</u>			
Operating Grants Received	59,075		59,075
Transfers In	3,500		3,500
Other		200	200
Net Cash Provided by Noncapital Financing Activities	<u>62,575</u>	<u>200</u>	<u>62,775</u>
<u>Cash Flows from Investing Activities:</u>			
Interest Received	<u>1,302</u>		<u>1,302</u>
Net Cash Provided by Investing Activities	<u>1,302</u>		<u>1,302</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>			
Payments for Capital Acquisitions	<u>(3,655)</u>		<u>(3,655)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(3,655)</u>		<u>(3,655)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(5,484)		(5,484)
Cash and Cash Equivalents at Beginning of Year	<u>91,980</u>		<u>91,980</u>
Cash and Cash Equivalents at End of Year	<u>\$86,496</u>		<u>\$86,496</u>

(Continued)

**LIBERTY CENTER LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

	<u>Proprietary Fund Types</u>		Totals (Memorandum Only)
	<u>Enterprise</u>	<u>Internal Service</u>	
Reconciliation of Operating Loss to Net Cash Used by Operating Activities:			
Operating Loss	(\$107,194)	(\$200)	(\$107,394)
<u>Adjustments to Reconcile Operating Loss to To Net Cash Used by Operating Activities:</u>			
Depreciation	12,014		12,014
Donated Commodities Used During the Year	26,933		26,933
(Increase) Decrease in Assets:			
Accounts Receivable	151		151
Material and Supplies Inventory	683		683
Increase (Decrease) in Liabilities:			
Compensated Absences Payable	2,240		2,240
Intergovernmental Payable	(1,682)		(1,682)
Deferred Revenue	(674)		(674)
Accrued Wages and Benefits	1,523		1,523
Accounts Payable	300		300
	<u>41,488</u>		<u>41,488</u>
Total Adjustments	<u>41,488</u>		<u>41,488</u>
Net Cash Used by Operating Activities	<u>(\$65,706)</u>	<u>(\$200)</u>	<u>(\$65,906)</u>

The notes to the general-purpose financial statements are an integral part of this statement.

**LIBERTY CENTER LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

The Liberty Center Local School District is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. Liberty Center Local School District is a local school district as defined by § 3311.03 of Ohio Revised Code. The District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the District. The board oversees the operations of the District's four instructional/support facilities.

The Reporting Entity

The District has implemented the Government Accounting Standards Board (GASB) pronouncements concerning the definition of the reporting entity. Accordingly, the District's balance sheet includes all funds, account groups, agencies, boards, commissions, and component units over which the District officials exercise oversight responsibility.

Oversight responsibility includes such aspects as appointment of governing body members, budget review, approval of property tax levies, outstanding debt secured by District full faith and credit or revenues, and responsibility for funding deficits. On this basis, there were no organizations subject to the District's oversight responsibility, which required incorporation into the financial statements.

The School District is associated with organizations, which are defined as jointly governed organizations, a related organization and group purchasing pools. These organizations include the Northwest Ohio Computer Association, the Northern Buckeye Education Council, the Four County Career Center, the Northwestern Ohio Educational Research Council, Inc., the Liberty Center Public Library, the Northern Buckeye Education Council's Employee Insurance Benefit Program, and the Northern Buckeye Education Council Workers' Compensation Group Rating Plan. These organizations are presented in Notes 12, 13, and 14 to the general-purpose financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into retained earnings components. The enterprise fund operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

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The modified accrual basis of accounting is followed for the governmental, expendable trust, and agency funds. The full accrual basis of accounting is followed by the proprietary funds. The District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to the proprietary funds provided they do not conflict with or contradict GASB pronouncements.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, includes property taxes, income taxes, grants, entitlements and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from income taxes is recognized in the period in which the income is earned. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements included timing requirements, which specify the year when the revenue resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources provided to the District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are deemed both measurable and available: taxpayer-assessed income taxes, interest, tuition, grants, and student fees.

Deferred revenues arise when assets are recognized before revenue recognition criteria have been satisfied. Delinquent property taxes and property taxes for which there is an enforceable legal claim as of June 30, 2002, but which were levied to finance fiscal year 2003 operations, are recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met and receivables that are not collected within the available period are also recorded as deferred revenue. On the modified accrual basis, revenues that are not collected within the available period are recorded as deferred revenue.

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported on the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

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B. Fund Accounting

The District maintains its accounting in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity, which stands separate from the activities reporting in other funds. The restrictions associated with each class of funds are as follows:

Governmental Funds - The funds through which most Board of Education functions are typically financed.

General Fund - The fund used to account for all financial resources except those required to be segregated and accounted for in other funds. The General Fund is the general operating fund of the District.

Special Revenue Funds - The funds used to account for the proceeds of specific revenue sources (other than capital projects) that are legally restricted to disbursements for specified purposes.

Debt Service Funds - The funds used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. According to the governmental accounting principles, the Debt Service Fund accounts for the payment of long-term debt for Governmental Funds only. Under Ohio law, the Debt Service Fund might also be used to account for the payment of debt for Proprietary Funds and the short-term debt of both Governmental and Proprietary Funds.

Capital Projects Funds - The funds used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds).

Proprietary Funds - The funds used to account for Board activities that are similar to business operations in the private sector. Proprietary Funds are accounted for on a flow of economic resources measurement focus. All assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Proprietary fund measurement focus is upon determination of net income, financial position and cash flows.

Enterprise Funds - The funds used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

Internal Service Funds - The funds used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the governmental unit, or to other governmental units, on a cost reimbursement basis.

Fiduciary Funds - The funds used to account for assets not owned by the Board, but held for a separate entity.

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Trust Funds - The funds used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include Expendable Trust Funds.

Agency Funds - The funds used to account for assets held by the District as an agent. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Account Groups

General Fixed Assets - Fixed assets acquired or constructed for general governmental services are recorded as expenditures in the fund making the expenditures and capitalized at cost in the General Fixed Assets Account Group.

General Long-Term Obligations - This group of accounts is established to account for all long-term obligations of the District except those accounted for in the Proprietary Funds.

C. Budgetary Accounting

Budgets are adopted on a cash basis.

The District is required by State statute to adopt an annual appropriation budget for all funds. The Title VI-B Flow Thru Grant, Eisenhower Math-Science Grant, and Federal Preschool Grant special revenue funds pass through grants in which the Northwest Educational Service Center is the primary recipient. Budgetary information for these funds is included within the District's reporting entity for which the "appropriated budget" is adopted, and the District does not maintain separate budgetary records.

The specific timetable is as follows:

1. Prior to January 15, the Treasurer submits to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. A public hearing is publicized and conducted to obtain taxpayers' comments. The purpose of this Budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the Board adopted budget is filed with the County Budget Commission for rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources, which states the projected revenue of each fund. The annual appropriation measure (the true operating budget) is then developed at the fund, function and object level of expenditures, which are the legal levels of budgetary control.
4. A temporary appropriation measure to control cash disbursements may be passed on or about July 1 of each year for the period July 1 to September 30. An annual appropriation measure must be passed by October 1 of each year for a period July 1 to June 30. The appropriation measure may be amended or supplemented during the year, as new information becomes available. Appropriations may not exceed estimated resources.

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5. The District maintains budgetary control by not permitting expenditures to exceed appropriations within each fund, function and object without approval of the Board of Education. The Board permits management to make discretionary budgetary adjustments within each fund, which are approved by the Board on a monthly basis. Any adjustments that alter the total fund appropriation require specific action of the Board.
6. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.

The District's budget (budget basis) for all funds accounts for certain transactions on a basis, which differs from generally accepted accounting principles (GAAP basis). The major differences between the budget basis and the GAAP basis are that:

1. Revenues are recorded when received in cash for budget purposes as opposed to when susceptible to accrual for GAAP purposes.
2. Expenditures and expenses are recorded when paid in cash or encumbered for budget purposes as opposed to when the liability is incurred for GAAP purposes.

An analysis of the difference between GAAP and budgetary basis for all governmental fund types and expendable trust fund for the year ended June 30, 2002 follows:

	Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses				
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust
Budget Basis	\$75,511	(\$33,895)	(\$50,408)	(\$5,000)	\$559
Revenue Accruals	15,930	13,399	1,161		(500)
Expenditure Accruals	(21,330)	(7,428)			
Other Financing Sources (Uses)	296,832		22,838		
Reserve for Encumbrances	42,400	3,044			
GAAP Basis	<u>\$409,343</u>	<u>(\$24,880)</u>	<u>(\$26,409)</u>	<u>(\$5,000)</u>	<u>\$59</u>

D. Encumbrances

The District is required to use the encumbrance method of accounting. Under this system, purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation. At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

E. Cash and Investments

To improve cash management, cash received by the School District is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is

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maintained through the School District's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the balance sheet.

During the fiscal year 2002, investments were limited to Star Ohio, repurchase agreements, FNMAs, and certificates of deposit.

Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost.

The School District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2002. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio's share price, which is the price of the investment, could be sold for on June 30, 2002.

Following Ohio statutes, the Board of Education has by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general funds during fiscal year 2002 amounted to \$111,133, which included \$16,670 assigned from other District funds; interest in the amount of \$2,611 was credited to other District funds.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the School District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

F. Inventory

Inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consist of expendable supplies held for consumption. The cost has been recorded as an expenditure at the time individual inventory items were purchased. Reported inventories in these funds are equally offset by a fund balance reserve, which indicates they are unavailable for appropriation. Inventories of proprietary funds consist of donated food, purchased food, and school supplies held for resale and are expended when used.

G. Property, Plant and Equipment

1. General Fixed Assets Account Group

General fixed assets are capitalized at cost (or estimated historical cost) and updated for the cost of additions and retirements during the year in the General Fixed Assets Account Group. Contributed fixed assets are recorded at their fair market values as of the date donated. The District follows the policy of not capitalizing assets with a cost of less than \$250. This is based primarily on the uniqueness of these items to a school operation. No depreciation is recognized for asset in General Fixed Assets Account Group.

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Public Domain ("infrastructure") general fixed assets consisting of curbs, gutters, sidewalks, drainage and lighting systems are not capitalized, as these assets are immovable and of value only to the government. The District does not have any infrastructure.

2. Proprietary Funds

Property plant and equipment reflected in the Proprietary Funds are stated at historical cost (or estimated historical cost) and updated for the cost of additions and retirements during the year. Contributed fixed assets are recorded at their fair market values as of the date donated. Depreciation has been provided for furniture, fixtures, and equipment on a straight-line basis over an estimated useful life of seven to twenty years.

H. Interfund Transactions

During the course of normal operations, the District has numerous transactions between funds. The most significant include:

1. Transfers of resources from one fund to another fund through which resources are to be expended are recorded as operating transfers.
2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund.
3. Short-term interfund loans are reflected as interfund receivables and interfund payables.

I. Total Columns on Financial Statements

Total columns on the financial statements are captioned "Totals (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. This information is not comparable to a consolidation. Interfund-type eliminations have not been made in the combining of the data.

J. Compensated Absences

The District has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 16, "Accounting for Compensated Absences". In conformity with GASB Statement No. 16, the School District accrues vacation as earned by its employees if the leave is attributable to past service and it is probable that the District will compensate the employees for the benefits through paid time or some other means, such as cash payments at termination or retirement.

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent it is probable that benefits will result in termination payments. The liability is an estimate based on the School District's past experience of making termination payments.

For governmental funds, the District provides a liability for unpaid accumulated sick leave and vacation time for eligible employees in the period the employees become eligible to receive payment. The current portion of unpaid compensated absences is the amount to be paid using expendable available resources and is reported as an accrued liability in the fund from which

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the individuals who have accumulated the unpaid compensated absences are paid. The balance of the liability is reported in the General Long-Term Obligations Account Group. In proprietary funds, compensated absences are expensed when earned. The entire amount of unpaid compensated absences is reported as a fund liability.

K. Long-term Obligations

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in the debt service fund for payment early in the following year. For the other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the General Long-Term Obligation Account Group. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

L. Fund Balance Reserves

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity, which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, inventories of supplies and materials, debt service principal, property taxes, loans receivable.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute.

M. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

3. EQUITY IN POOLED CASH AND INVESTMENTS

State statutes classify monies held by the School District into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the School District Treasury, in commercial accounts payable or withdrawal on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current two-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim monies are those monies, which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be

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evidenced by time certificates of deposit maturing not more than one year from the date of deposit, or by savings or deposit accounts including passbook accounts.

Protection of School District's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures or any other securities issued by any federal government agency; or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuance of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bond and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio);

Investments in stripped principal or interest obligations, reverse purchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Cash on Hand: At year end, the School District had \$200 in undeposited cash on hand which is included on the balance sheet of the School District as part of "equity in pooled cash and cash equivalents". The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits With Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements."

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Deposits: At the year-end, the carrying amount of the District's deposits was \$2,185,099 and the bank balance was \$2,271,547. Of the bank balance:

1. \$250,036 was covered by Federal Depository Insurance; and
2. \$2,021,511 was secured by pooled collateral that was held in the pledging financial institution's name. All State statutory requirements for the depositing of money had been followed.

Investments: The School District's investments are required to be categorized to give an indication of the level of risk assumed by the School District at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. STAR Ohio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

	Category 2	Category 3	Carrying Amount	Fair Value
FNMA Security	\$250,000		\$250,000	\$250,000
Repurchase Agreement		\$77,116	77,116	78,923
State Treasurer's Investment Pool			488,078	488,078
Total Investments	\$250,000	\$77,116	\$815,194	\$817,001

The classification of cash and cash equivalents, and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting."

A reconciliation between the classifications of cash and cash equivalents and investments on the combined financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents	Investments
GASB Statement No. 9	\$3,000,493	
Cash on Hand	(200)	
Investments of the Cash Management Pool:		
FNMA Security	(250,000)	\$250,000
Repurchase Agreement	(77,116)	77,116
State Treasurer's Investment Pool	(488,078)	488,078
GASB Statement No. 3	\$2,185,099	\$815,194

4. PROPERTY TAXES

Property taxes include amounts levied against real, public utility, and tangible property located within the District. All property is required to be reappraised every six years with a triennial update.

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Real property taxes, excluding public utility property, are assessed at 35 percent of appraised market value. Pertinent real property tax dates are:

Collection Dates	January and July of the current year
Lien Date	January 1 of the year preceding the collection year
Levy Date	April 1 of the year preceding the collection year

Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25 percent of its true value.

The taxes are based on assessed values determined at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of the current calendar year. Pertinent tangible personal property tax dates are:

Collection Dates	April and September of the current year
Lien Date	January 1 of the current year
Levy Date	April 1 of the year preceding the collection year

Most public utility tangible personal property currently is assessed at 35 percent of its true value. Pertinent public utility tangible personal property tax dates are:

Collection Dates	January and July of the current year
Lien Date	December 31 of the second year preceding the collection year
Levy Date	April 1 of the year preceding the collection year

The County Treasurers collect real estate property taxes on behalf of all taxing districts within the Counties of the District. The County Auditors periodically remit to the District its portion of the taxes collected with final settlement in March and September.

The County Treasurers collect personal property taxes on behalf of all taxing districts within the Counties of the District. The County Auditors periodically remit to the District its portion of the taxes collected with final settlement in May and October.

Taxes receivable represent current and delinquent real property, tangible personal property, and public utility property taxes, which are measurable at June 30, 2002. These taxes are intended to finance the next fiscal year's operations, and are therefore offset by a credit to deferred revenue, except for the portion, which is available to advance as of June 30, 2002.

The assessed values of properties upon which property tax revenues were based are as follows:

	<u>Amount</u>
Commercial/Industrial	\$4,201,530
Residential/Agricultural	65,632,740
Public Utilities	9,592,376
General Personal Property	<u>8,903,000</u>
Total Valuation	<u><u>\$88,329,646</u></u>

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5. FIXED ASSETS

A summary of changes in the General Fixed Assets Account Group is as follows:

<u>Asset Category</u>	Balance at 6/30/01	Additions	Disposals	Balance at 6/30/02
Land and Land Improvements	\$1,076,041	\$14,957		\$1,090,998
Buildings	9,833,636	263,114		10,096,750
Furniture, Fixtures and Equipment	2,411,183	232,202	\$23,015	2,620,370
Motor Vehicles	846,679			846,679
Text and Library Books	642,084	21,246		663,330
Totals	\$14,809,623	\$531,519	\$23,015	\$15,318,127

A summary of Enterprise Fund fixed assets at June 30, 2002 follows:

<u>Asset Category</u>	Balance at 6/30/2002
Furniture and Equipment	\$172,287
Less: Accumulated Depreciation	104,250
Totals	\$68,037

6. LONG-TERM OBLIGATIONS

During the year ended June 30, 2002, the following changes occurred in obligations reported in the General Long-Term Obligations Account Group:

	Balance at 7/1/01	Additions	Deductions	Balance at 6/30/02
General obligation bonds	\$3,350,000		\$110,000	\$3,240,000
Note Payable		\$324,500	\$31,000	293,500
SERS and SERS surcharge	48,385		1,130	47,255
Employee benefit obligations	325,746	60,287		386,033
Total Long-Term Obligations	\$3,724,131	\$384,787	\$142,130	\$3,966,788

General Obligation Bonds in the amount of \$3,240,000 were issued in March 1994 and will mature in December 2018. The interest rate at June 30, 2002 was 4.45 percent to 6.15 percent for the general obligation bonds.

Total expenditures for interest for the above debt for the period ended June 30, 2002 was \$198,185.

The scheduled payments of principal and interest on debt outstanding at June 30, 2002 are as follows:

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<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$115,000	\$193,092	\$308,092
2004	120,000	187,628	307,628
2005	125,000	180,963	305,963
2006	135,000	172,969	307,969
2007	140,000	164,513	304,513
thereafter	<u>2,605,000</u>	<u>1,079,786</u>	<u>3,684,786</u>
Total	<u>\$3,240,000</u>	<u>\$1,978,951</u>	<u>\$5,218,951</u>

7. COMPENSATED ABSENCES

Employees earn vacation at rates specified under State of Ohio law and based on credited service. Clerical, Technical, and Maintenance and Operation employees with one or more years of service are entitled to vacation ranging from 10 to 20 Days. Employees with less than one year of service earn no vacation. Certain employees are permitted to carry over vacation leave if approved by the Superintendent.

All employees are entitled to a sick leave credit equal to one and one-quarter days for each month of service (earned on a pro rata basis for less than full-time employees). This sick leave will either be absorbed by time off due to illness or injury or, within certain limitations, be paid to the employee upon retirement. The amount paid to an employee upon retirement is limited to one-fourth of the accumulated sick leave to a maximum of 50 days for classified employees and 53 days for certified employees.

At June 30, 2002 the current amount of unpaid compensated absences in all funds, except for the proprietary funds, and the balance of the liability in the General Long-Term Obligation Account Group were \$27,164 and \$386,033, respectively. The liability for compensated absences in the proprietary funds at June 30, 2002 was \$18,338.

8. DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

The School District participates in the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 E. Broad Street, Columbus, Ohio 43215-3771 or by calling (614) 227-4090.

Plan members are required to contribute 9.3 percent of their annual covered salary and the School District is required to contribute 14 percent. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School District's contributions for pension obligations to STRS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$374,642, \$352,176, and \$203,108 respectively; 85 percent has been contributed for fiscal

**LIBERTY CENTER LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
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(Continued)**

year 2002 and 100 percent for fiscal years 2001 and 2000. \$82,012 representing the unpaid contribution for fiscal year 2002 is recorded as a liability within the respective funds.

B. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 45 N. Fourth Street, Columbus, Ohio 43215 or by calling (614) 222-5853.

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The School District's contributions for pension obligations to SERS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$61,968, \$56,266, and \$73,825 respectively; 60 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. \$63,948 representing the unpaid contribution for fiscal year 2002 is recorded as a liability within the respective funds and the general long-term obligations account group.

9. POSTEMPLOYMENT BENEFITS

The State Teachers Retirement System (STRS) provides comprehensive health care benefits to retirees and their dependents. Coverage includes hospitalization, physician fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Pursuant to the Revised Code, the State Teachers Retirement Board has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of health care costs in the form of monthly premiums.

The Revised Code grants authority to STRS to provide health care coverage to benefit recipients, spouses and dependents. By Ohio law, the cost of the coverage paid from STRS funds shall be included in the employer contribution rate, currently at 14 percent of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Reserve Fund from which health care benefits are paid. For the fiscal year ended June 30, 2001, the board allocated employer contributions equal to 4.5 percent of covered payroll to Health Care Reserve Fund. The balance in the Health Care Reserve Fund was \$3.256 billion on June 30, 2001.

For the year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000. There were 102,132 eligible benefit recipients.

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989 with less than twenty-five years of service credit must pay a portion of

**LIBERTY CENTER LOCAL SCHOOL DISTRICT
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(Continued)**

their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for the basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. At June 30, 2002, the allocation rate is 8.54 percent. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal 2002, the minimum pay has been established as \$12,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2002 were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, the Retirement System's net assets available for payment of health care benefits were \$335.2 million.

The number of participants currently receiving health care benefits is approximately 50,000.

The portion of your employer contributions that were used to fund postemployment benefits can be determined by multiplying actual employer contributions times .61, then adding the surcharge due as of June 30, 2002, as certified to your district by SERS.

10. RISK MANAGEMENT

A. Comprehensive

The District maintains comprehensive insurance coverage with private carriers for liability, real property, building contents, and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. In addition, real property contents are fully insured. Settled claims have not exceeded this commercial coverage in any of the past three years, and there has been no significant reduction in insurance coverage from last year.

B. Employee Insurance Benefits Program

The District participates in the Northern Buckeye Education Council Employee Insurance Benefits Program (the Program), a public entity shared risk pool consisting of school districts within Defiance, Fulton, Henry, and Williams Counties and other eligible governmental entities. The District pays monthly premiums to the Northern Buckeye Education Council for the benefits offered to its employees, which includes health, dental, and life insurance plans. Northern Buckeye Education Council is responsible for the management and operations of the program. The agreement for the Program provides for additional assessments to participants if the premiums are insufficient to pay the program costs for the fiscal year. Upon withdrawal from the Program, a participant is responsible for any claims not processed and paid and any related administrative costs.

C. Workers' Compensation Group Program

The District participates in the Northern Buckeye Education Council Workers' Compensation Group Rating Plan (the Plan), an insurance purchasing pool. The Plan is intended to reduce premiums for the participants. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all

**LIBERTY CENTER LOCAL SCHOOL DISTRICT
HENRY COUNTY**

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(Continued)**

school districts in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate.

Participation in the Plan is limited to educational entities that can meet the Plan's selection criteria. Each participant must apply annually. The Plan provides the participants with a centralized program for the processing, analysis and management of workers' compensation claims and a risk management program to assist in developing safer work environments. Each participant must pay its premiums, enrollment or other fees, and perform its obligations in accordance with the terms of the agreement.

11. ENTERPRISE FUNDS SEGMENT INFORMATION

The District maintains two Enterprise Funds, which provide lunchroom/cafeteria and uniform school supply services. Segment information for the year ended June 30, 2002 was as follows:

	Lunchroom/ Cafeteria	Uniform School Supplies	Total Enterprise Funds
Operating revenues	\$251,254	\$7,309	\$258,563
Depreciation	12,014		12,014
Operating income (loss)	(103,848)	(3,346)	(107,194)
Donated commodities	26,933		26,933
Interest	1,302		1,302
Grants	59,075		59,075
Operating transfers in		3,500	3,500
Net income (loss)	(16,538)	154	(16,384)
Net working capital	33,750	3,874	37,624
Total assets	164,387	3,874	168,261
Total liabilities	62,600		62,600
Total equity	101,787	3,874	105,661

12. JOINTLY GOVERNED ORGANIZATIONS

A. Northwest Ohio Computer Association

The District is a participant in the Northwest Ohio Computer Association (NWOCA). NWOCA is an association of public school districts within the boundaries of Defiance, Fulton, Henry, Lucas, Wood and Williams counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. NWOCA is governed by the Northern Buckeye Education Council and its participating members. Total fees paid by the District to NWOCA during this fiscal year were \$40,868. Financial information can be obtained from Cindy Siler, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

**LIBERTY CENTER LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

B. Northern Buckeye Education Council

The Northern Buckeye Education Council (NBEC) was established in 1979 to foster cooperation among various educational entities located in Defiance, Fulton, Henry, and Williams counties. NBEC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its member educational entities and bylaws adopted by the representatives of the member educational entities. NBEC is governed by an elected Board consisting of two representatives from each of the four counties in which the member educational entities are located. The Board is elected from an Assembly consisting of a representative from each participating educational entity. Total disbursements made by the District to NBEC for GAAP conversion services during this fiscal year were \$3,000. To obtain financial information write to the Northern Buckeye Education Council, Cindy Siler, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

C. Four County Career Center

The Four County Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of five representatives from the Northwest Ohio Educational Service Center - one each from the counties of Defiance, Fulton, Henry, and Williams and one additional representative; one representative from each of the city school districts; one representative from each of the exempted village school districts. The Four County Career Center possesses its own budgeting and taxing authority. To obtain financial information write to the Four County Career Center, Lois Knuth, who serves as Treasurer, at Route 1, Box 245A, Archbold, Ohio 43502.

D. Northwestern Ohio Educational Research Council, Inc.

The Northwestern Ohio Educational Research Council, Inc. (NOERC) is a jointly governed organization formed to bring educational entities into a better understanding of their common educational problems, facilitate and conduct practical educational research, coordinate educational research among members, provide a means for evaluating and disseminating the results of research, serve as a repository for research and legislative materials and provide opportunities for training. The NOERC serves twenty-five county area of Northwest Ohio. The Board of Directors consists of superintendents from two educational service centers, two exempted village school districts, five local school districts, and five city school districts, as well as representatives from two private or parochial schools and three institutions of higher education. Each active member is entitled to one vote on all issues addressed by the Board of Directors. Financial information can be obtained from the Northwestern Ohio Educational Research Council, Inc., P.O. Box 456, Ashland, Ohio 44805.

13. RELATED ORGANIZATION

Liberty Center Public Library

The Liberty Center Public Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Liberty Center Local School District Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires, and fires personnel, and does not depend on the District for operational subsidies. Although the District does serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate and the purpose are discretionary

**LIBERTY CENTER LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
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(Continued)**

decisions made solely by the Board of Trustees. Financial information can be obtained from the Liberty Center Public Library, Connie Busch, Clerk/Treasurer, at 111 East Street, Liberty Center, Ohio 43532.

14. GROUP PURCHASING POOLS

A. NBEC Employee Insurance Benefits Program

Northern Buckeye Education Council Employee Insurance Benefits Program (the Pool) is a public entity shared risk pool consisting of educational entities located in Defiance, Fulton, Henry, and Williams counties. The Pool is governed by the Northern Buckeye Education Council and its participating members. Total disbursements made by the District to NBEC for employee insurance benefits during this fiscal year were \$585,319. Financial information can be obtained from Northern Buckeye Education Council, Cindy Siler, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

B. NBEC Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Northern Buckeye Education Council Workers' Compensation Group Rating Plan (WCGRP) was established through the Northern Buckeye Education Council (NBEC) as an insurance purchasing pool. The WCGRP is governed by the Northern Buckeye Education Council and the participating members of the WCGRP. The Executive Director of the NBEC coordinates the management and administration of the program. During this fiscal year, the District paid an enrollment fee of \$791 to the WCGRP to cover the costs of administering the program.

15. SCHOOL DISTRICT INCOME TAX

In 1995, the voters of the Liberty Center Local School District passed a 1 percent school income tax on wages earned by residents of the District. The taxes are collected by the State Department of Taxation in the same manner as the state income tax. In the fiscal year ending June 30, 2002, the District recorded income tax revenue of \$926,054 in the General Fund, of which \$357,969 is recorded as a receivable at June 30, 2002.

16. SCHOOL FUNDING DECISION

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

**LIBERTY CENTER LOCAL SCHOOL DISTRICT
HENRY COUNTY**

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The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

The State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001. In November, 2001, the Court granted the request for reconsideration, but also ordered the parties to participate in a settlement conference with a court appointed mediator. On March 21, 2002, the mediator issued his final report indicating that the conference was unable to produce a settlement. The case is now under reconsideration by the Court.

The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

17. INTERFUND TRANSACTIONS

Transfers between funds during the year ended June 30, 2002, were as follows:

<u>For the year ended June 30, 2002</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund		\$15,765
Special Revenue Funds	\$10,000	
Enterprise Funds	3,500	
Agency Funds	2,265	
Total	<u>\$15,765</u>	<u>\$15,765</u>

18. SET-ASIDE CALCULATIONS AND FUND RESERVES

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years. In prior years, the District was also required to set aside money for budget stabilization. For fiscal year 2002, only the unspent portion of certain workers compensation refunds is required to be set aside at fiscal year end. The balance no longer required by statute for budget stabilization was designated by the District to be used for budget stabilization.

The following cash basis information describes the change in the year-end set-aside amounts for textbooks, capital acquisition, and budget stabilization. Disclosure of this information is required by State statute.

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Balance as of June 30, 2001	(\$22,567)		\$27,921
Current Year Set-aside Requirement	133,025	\$133,025	
Qualifying Disbursements	<u>(194,204)</u>	<u>(230,238)</u>	<u>(27,921)</u>
Total	<u>(\$83,746)</u>	<u>(\$97,213)</u>	
Balance Carried Forward to FY 2003	<u>(\$83,746)</u>		

**LIBERTY CENTER LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
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(Continued)**

The District had qualifying disbursements during the year that reduced the set-aside amounts to below zero. These extra amounts for textbooks and instructional materials may be used to reduce the set-aside requirements of future years. Negative amount for capital acquisition is not presented as being carried forward to the next fiscal year.

19. CONTRACTUAL COMMITMENTS

At June 30, 2002, the District had a contractual commitment relating to the purchase of two new school buses from Cardinal Bus Sales for \$103,258.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

One Government Center
Suite 1420
Toledo, Ohio 43604-2246
Telephone 419-245-2811
800-443-9276
Facsimile 419-245-2484
www.auditor.state.oh.us

**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON INTERNAL CONTROL
REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Liberty Center Local School District
Henry County
103 West Young Street
P.O. Box 434
Liberty Center, Ohio 43532-0434

To the Board of Education:

We have audited the financial statements of Liberty Center Local School District (the District) as of and for the year ended June 30, 2002, and have issued our report thereon dated December 10, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 District'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 District'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 misstatement in amounts that would be material in relation to the financial statement 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. However, we noted a matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of the District in a separate letter dated December 10, 2002.

Liberty Center Local School District
Henry County
Report of Independent Accountants on Compliance and on Internal Control
Required by *Government Auditing Standards*
Page 2

This report is intended solely for the information and use of the audit committee, management and the Board of Education, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a long horizontal stroke extending to the right.

Jim Petro
Auditor of State

December 10, 2002



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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

LIBERTY CENTER LOCAL SCHOOL DISTRICT

HENRY 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
JANUARY 7, 2003**