



**LIBERTY TOWNSHIP
HIGHLAND COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2001-2000



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

LIBERTY TOWNSHIP
HIGHLAND COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Report of Independent Accountants	1
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances – All Governmental Fund Types – For the Year Ended December 31, 2001	3
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances – All Governmental Fund Types – For the Year Ended December 31, 2000	4
Notes to the Financial Statements	5
Report of Independent Accountants on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	11
Schedule of Findings	13
Schedule of Prior Audit Findings	14

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REPORT OF INDEPENDENT ACCOUNTANTS

Liberty Township
Highland County
7339 Pea Ridge Road
Hillsboro, Ohio 45133

To the Board of Trustees:

We have audited the accompanying financial statements of Liberty Township, Highland County, Ohio, (the Township) as of and for the years ended December 31, 2001 and 2000. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these 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.

As discussed in Note 1, the Township prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Township as of December 31, 2001 and 2000, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2002, on our consideration of the Township'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.

This report is intended solely for the information and use of management, the Board, and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

Jim Petro
Auditor of State

February 25, 2002

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**LIBERTY TOWNSHIP
HIGHLAND COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2001**

	<u>Governmental Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Local Taxes	\$39,540	\$128,345	\$167,885
Intergovernmental	293,190	101,181	394,371
Special Assessments	0	2,486	2,486
Earnings on Investments	30,087	49	30,136
	<u>362,817</u>	<u>232,061</u>	<u>594,878</u>
Cash Disbursements:			
Current:			
General Government	128,625	0	128,625
Public Safety	0	57,422	57,422
Public Works	1,943	163,210	165,153
Health	8,500	0	8,500
	<u>139,068</u>	<u>220,632</u>	<u>359,700</u>
Total Cash Disbursements	<u>139,068</u>	<u>220,632</u>	<u>359,700</u>
Total Receipts Over/(Under) Disbursements	<u>223,749</u>	<u>11,429</u>	<u>235,178</u>
Other Financing Receipts/(Disbursements):			
Transfers-In	0	6,000	6,000
Transfers-Out	(6,000)	0	(6,000)
	<u>(6,000)</u>	<u>6,000</u>	<u>0</u>
Total Other Financing Receipts/(Disbursements)	<u>(6,000)</u>	<u>6,000</u>	<u>0</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	217,749	17,429	235,178
Fund Cash Balances, January 1	<u>356,458</u>	<u>128,739</u>	<u>485,197</u>
Fund Cash Balances, December 31	<u>\$574,207</u>	<u>\$146,168</u>	<u>\$720,375</u>
Reserve for Encumbrances, December 31	<u>\$91</u>	<u>\$629</u>	<u>\$720</u>

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

**LIBERTY TOWNSHIP
HIGHLAND COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2000**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Local Taxes	\$34,047	\$120,613	\$154,660
Intergovernmental	459,241	96,889	556,130
Special Assessments	0	2,177	2,177
Earnings on Investments	16,622	77	16,699
Other Revenue	2,000	0	2,000
	<u>511,910</u>	<u>219,756</u>	<u>731,666</u>
Total Cash Receipts			
	<u>511,910</u>	<u>219,756</u>	<u>731,666</u>
Cash Disbursements:			
Current:			
General Government	161,376	0	161,376
Public Safety	0	52,534	52,534
Public Works	690	147,390	148,080
Health	16,524	0	16,524
	<u>178,590</u>	<u>199,924</u>	<u>378,514</u>
Total Cash Disbursements			
	<u>178,590</u>	<u>199,924</u>	<u>378,514</u>
Total Receipts Over/(Under) Disbursements	<u>333,320</u>	<u>19,832</u>	<u>353,152</u>
Other Financing Receipts/(Disbursements):			
Sale of Fixed Assets	0	1,903	1,903
	<u>0</u>	<u>1,903</u>	<u>1,903</u>
Total Other Financing Receipts/(Disbursements)			
	<u>0</u>	<u>1,903</u>	<u>1,903</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	<u>333,320</u>	<u>21,735</u>	<u>355,055</u>
Fund Cash Balances, January 1	<u>23,138</u>	<u>107,004</u>	<u>130,142</u>
Fund Cash Balances, December 31	<u>\$356,458</u>	<u>\$128,739</u>	<u>\$485,197</u>
Reserve for Encumbrances, December 31	<u>\$75,236</u>	<u>\$45,694</u>	<u>\$120,930</u>

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

**LIBERTY TOWNSHIP
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

Liberty Township, Highland County, Ohio (the Township), is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Township is directed by a publicly-elected three-member Board of Trustees. The Township provides general governmental services including road and bridge maintenance. The Township contracts with City of Hillsboro to provide fire protection.

The Township's management believes these financial statements present all activities for which the Township is financially accountable.

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. Cash and Deposits

The Township Clerk deposits all available funds on the Township. The Township funds are deposited in a public funds interest checking account and certificates of deposit with a local commercial bank. The Township pools its cash to capture the highest rate of return. Interest income is distributed to the Township funds based upon the Ohio Constitution.

D. Fund Accounting

The Township uses fund accounting to segregate cash and investments that are restricted as to use. The Township classifies its funds into the following types:

1. General Fund

The General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

These funds are used to account for proceeds from specific sources (other than from trusts or for capital projects) that are restricted to expenditure for specific purposes. The Township had the following significant Special Revenue Funds:

Motor Vehicle License Fund - This fund receives property tax money to construct, maintain, and repair Township roads and bridges.

**LIBERTY TOWNSHIP
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Road and Bridge Fund - This fund receives tax money to construct, maintain and repair Township roads and bridges.

Gasoline Tax Fund - This fund receives gasoline tax money to construct, maintain and repair Township roads.

Fire Levy Fund - This fund receives the proceeds from the property tax levy for providing Township residents with fire protection service.

Permissive Motor Vehicle License Tax Fund - This fund receives proceeds from tax levied on all motor vehicle licenses for Township road maintenance and repairs.

E. Budgetary Process

The Ohio Revised Code requires that each fund be budgeted annually.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The Board of Trustees must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of January 1. The County Budget Commission must also approve estimated resources.

3. Encumbrances

The Ohio Revised Code requires the Township to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated. The Township did not encumber all commitments required by Ohio law (per finding #1).

A summary of 2001 and 2000 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

G. Unpaid Vacation and Sick Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the basis of accounting used by the Township.

**LIBERTY TOWNSHIP
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

2. EQUITY IN POOLED CASH

The Township maintains a cash pool used by all funds. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash at December 31 was as follows:

	2001	2000
Demand deposits	\$149,939	\$133,197
Certificates of deposit	570,436	352,000
Total deposits	\$720,375	\$485,197

Deposits: Deposits are either insured by the Federal Depository Insurance Corporation or collateralized by the financial institution's public entity deposit pool.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ended December 31, 2001 and 2000 follows:

2001 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$374,777	\$362,817	(\$11,960)
Special Revenue	223,576	238,061	14,485
Total	\$598,353	\$600,878	\$2,525

2001 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$582,384	\$145,159	\$437,225
Special Revenue	402,092	221,261	180,831
Total	\$984,476	\$366,420	\$618,056

2000 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$459,710	\$511,910	\$52,200
Special Revenue	210,010	221,659	11,649
Total	\$669,720	\$733,569	\$63,849

**LIBERTY TOWNSHIP
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

2000 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$488,235	\$253,826	\$234,409
Special Revenue	310,771	245,618	65,153
Total	\$799,006	\$499,444	\$299,562

The Township did not obtain prior certification of availability of funds by the fiscal officer for certain purchase commitments made during the year nor were commitments properly encumbered as required by Ohio law.

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by the Board of Trustees. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payment, the first half is due December 31. The second half payment is due the following June 20.

Public utilities are also taxed on personal and real property located within the Township.

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the Township.

5. RETIREMENT SYSTEMS

The Township's officials and full-time employee belongs to the Public Employees Retirement System (PERS) of Ohio. PERS are cost-sharing, multiple-employer plans. This plans provide retirement benefits, including post-retirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2001 and 2000, PERS members contributed 8.5% of their gross salaries. The Township contributed an amount equal to 13.55% of participants' gross salaries for 2001 and from January 1, 2000 through June 30, 2000. PERS temporarily reduced the employer contribution rate to 8.13%, effective July 1, 2000 through December 31, 2000. The Township has paid all contributions required through December 31, 2001.

**LIBERTY TOWNSHIP
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

6. RISK MANAGEMENT

Commercial Insurance

The Township has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles; and
- Errors and omissions.

Risk Pool Membership

The Township belongs to the Ohio Township Association Risk Management Authority (OTARMA), a risk-sharing pool available to Ohio townships. OTARMA provides property and casualty insurance for its members. OTARMA is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund OTARMA. OTARMA pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty Insurance

OTARMA retains casualty risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured with APEEP up to \$1,750,000 per claim and \$5,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$10,000,000, from the General Reinsurance Corporation.

If losses exhaust OTARMA's retained earnings, APEEP covers OTARMA losses up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

Property Insurance

OTARMA retains property risks including automobile physical damage up to \$100,000 on any specific loss. The Travelers Indemnity Company reinsures specific losses exceeding \$100,000. The Travelers Indemnity Company also provides aggregate excess coverage for property including automobile physical damage subject to an annual stop loss. When the stop loss is reached in any year, The Travelers Indemnity Company provides coverage in excess of \$10,000.

The aforementioned casualty and property reinsurance agreements do not discharge OTARMA's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

Financial Position

OTARMA's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31:

LIBERTY TOWNSHIP
HIGHLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)

6. RISK MANAGEMENT (Continued)

<u>Casualty Coverage</u>	<u>2000</u>	<u>1999</u>
Assets	\$22,684,383	\$18,172,222
Liabilities	<u>8,924,977</u>	<u>5,947,013</u>
Retained earnings	<u>\$13,759,406</u>	<u>\$12,225,209</u>
<u>Property Coverage</u>	<u>2000</u>	<u>1999</u>
Assets	\$4,156,784	\$3,544,437
Liabilities	<u>497,831</u>	<u>674,752</u>
Retained earnings	<u>\$3,658,953</u>	<u>\$2,869,685</u>

NOTE: The information reflected above is the most recent financial information available for OTARMA's financial position.



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

Liberty Township
Highland County
7339 Pea Ridge Road
Hillsboro, Ohio 45133

To the Board of Trustees:

We have audited the accompanying financial statements of Liberty Township, Highland County, Ohio (the Township), as of and for the years ended December 31, 2001 and 2000, and have issued our report thereon dated February 25, 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 Township'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 one instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2001-40436-001. We also noted certain immaterial instances of noncompliance that we have reported to management of the Township in a separate letter dated February 25, 2002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township'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. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Township's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2001-40436-001.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described

as item 2001-40436-001 above to be a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Township in a separate letter dated February 25, 2002.

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

Jim Petro
Auditor of State

February 25, 2002

**LIBERTY TOWNSHIP
HIGHLAND COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2001 AND 2000**

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

Noncompliance Citation/Material Weakness

FINDING NUMBER 2001-40436-001

Ohio Rev. Code, Section 5705.41 (D), requires that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

This Section also provides for two exceptions to the above requirements:

1. Then and Now Certificates - If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, the Board of Trustees may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate.
2. If the amount involved is less than \$1,000, the Clerk may authorize payment through a Then and Now Certificate without affirmation of the Board of Trustees, if such expenditure is otherwise valid.

The Township failed to get the fiscal officer's certification before making commitments. Thirty-seven percent of the expenditures and obligations tested were initiated without obtaining the prior certification of the Clerk/Treasurer and neither exception provided for above was used. Every effort should be made by the Township to properly utilize the encumbrance method of accounting by certifying funds on purchase orders. Failure to properly certify funds could result in overspending funds.

**LIBERTY TOWNSHIP
HIGHLAND COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
FISCAL YEAR END DECEMBER 31, 1999 AND 1998**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
1999-40436-001	Improper posting of advance and receipt	No	Partially corrected. Repeated in Management letter.
1999-40436-002	Prior certification not obtained for expenditures	No	Not Corrected Finding No. 2001-40436-001
1999-40436-003	Improper transfer of funds	Yes	
1999-40436-004	Supplemental appropriations/amendments posted without proper approval	Yes	
1999-40436-005	PO were not signed by the Clerk	No	Partially corrected See Mgt. Letter comment
1999-40436-006	Accurate record of Board actions not kept	Yes	
1999-40436-007	Destruction of records	Yes	
1999-40436-008	Errors on annual financial report	No	Partially corrected See Mgt. Letter comment
1999-40436-009	Variance in estimated receipts	No	Partially corrected See Mgt. Letter comment
1999-40436-010	Budgetary information not being properly prepared/monitored	No	Partially corrected See Mgt. Letter comment



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LIBERTY TOWNSHIP

HIGHLAND 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
APRIL 2, 2002**