

AUDITED FINANCIAL STATEMENTS

The University of Akron Foundation
Years Ended June 30, 2000 and 1999



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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Board of Trustees
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We have reviewed the independent auditor's report of The University of Akron Foundation, Summit County, prepared by Ernst & Young LLP, for the audit period July 1, 1999 through June 30, 2000. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

JIM PETRO
Auditor of State

January 5, 2001

The University of Akron Foundation

Audited Financial Statements

Years Ended June 30, 2000 and 1999

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Report of Independent Auditors

Board of Trustees
The University of Akron Foundation

We have audited the accompanying statements of financial position of The University of Akron Foundation, as of June 30, 2000 and 1999, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of The University of Akron Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The University of Akron Foundation as of June 30, 2000 and 1999, and the changes in its net assets and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 25, 2000 on our consideration of The University of Akron Foundation'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.

Ernst & Young LLP

August 25, 2000

The University of Akron Foundation

Statements of Financial Position

	June 30	
	2000	1999
Assets		
Cash	\$ 22,569	\$ 559,216
Accounts and notes receivable	79,991	124,706
Investments	168,237,611	121,187,218
Pledges receivable, net	3,270,825	3,765,068
Property (net of \$144,383 and \$137,966 of accumulated depreciation)	351,098	357,516
Total assets	<u>\$171,962,094</u>	<u>\$125,993,724</u>
Liabilities and net assets		
Liabilities:		
Accounts payable	\$ 19,951	\$ 5,461
Contributions payable to the University	124,877	28,259
Unearned revenue	1,761	2,788
Refundable advances	241,509	94,001
Refundable grant	100,000	100,000
Annuity payment liability	8,581,022	8,040,239
Other liabilities	118,163	76,699
Total liabilities	<u>9,187,283</u>	<u>8,347,447</u>
Net assets:		
Unrestricted	8,650,778	7,350,112
Temporarily restricted	90,495,817	58,000,657
Permanently restricted	63,628,216	52,295,508
Total net assets	<u>162,774,811</u>	<u>117,646,277</u>
Total liabilities and net assets	<u>\$171,962,094</u>	<u>\$125,993,724</u>

See notes to the financial statements.

The University of Akron Foundation

Statement of Activities

Year Ended June 30, 2000 with Comparative
Totals for Year Ended June 30, 1999

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2000	Total 1999
Revenues, gains and other income					
Contributions	\$ 99,739	\$ 2,479,483	\$ 2,757,980	\$ 5,337,202	\$ 4,117,526
Net appreciation in the fair value of investments	1,658,453	34,530,875	1,963,831	38,153,159	13,930,064
Change in the fair value of split interest agreements	148,344	565,808	6,485,952	7,200,104	1,732,858
Dividends and interest	1,506,781	734,773	37,286	2,278,840	1,872,372
Rental income	18,350	10,125		28,475	24,100
Other	5,000	96,201		101,201	105,522
Net assets released from restrictions	5,834,446	(5,789,418)	(45,028)		
Total revenues, gains and other income	<u>9,271,113</u>	<u>32,627,847</u>	<u>11,200,021</u>	<u>53,098,981</u>	<u>21,676,920</u>
Expenses					
Distributions to or for The University of Akron:					
Direct distributions to the University	6,806,618			6,806,618	5,579,055
Distributions on behalf of the University	403,861			403,861	246,431
Administration of the Foundation:					
Services performed by the University personnel	518,119			518,119	515,495
Professional fees	125,610			125,610	84,592
Travel and entertainment	42,312			42,312	39,421
Donor recognition	12,793			12,793	13,264
Depreciation	6,417			6,417	6,417
Office expense	8,200			8,200	8,021
Insurance and taxes	28,148			28,148	5,472
Awards	3,000			3,000	3,000
Miscellaneous	15,369			15,369	14,427
Change in donor designation		132,687	(132,687)		
Total expenses	<u>7,970,447</u>	<u>132,687</u>	<u>(132,687)</u>	<u>7,970,447</u>	<u>6,515,595</u>
Change in net assets	1,300,666	32,495,160	11,332,708	45,128,534	15,161,325
Net assets, beginning of year	7,350,112	58,000,657	52,295,508	117,646,277	102,484,952
Net assets, end of year	<u>\$ 8,650,778</u>	<u>\$ 90,495,817</u>	<u>\$ 63,628,216</u>	<u>\$162,774,811</u>	<u>\$117,646,277</u>

See notes to the financial statements.

The University of Akron Foundation

Statement of Activities

Year Ended June 30, 1999

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other income				
Contributions	\$ 244,292	\$ 1,203,645	\$ 2,564,067	\$ 4,012,004
Net appreciation in the fair value of investments	580,421	12,864,695	484,948	13,930,064
Change in the fair value of split interest agreements	39,305	209,394	1,484,159	1,732,858
Dividends and interest	1,125,613	738,747	8,012	1,872,372
Rental income	18,350	5,750		24,100
Other		105,522		105,522
Net assets released from restrictions	5,703,476	(5,701,607)	(1,869)	
Total revenues, gains and other income	7,711,457	9,426,146	4,539,317	21,676,920
Expenses				
Distributions to or for The University of Akron:				
Direct distributions to the University	5,579,055			5,579,055
Distributions on behalf of the University	246,431			246,431
Administration of the Foundation:				
Services performed by the University personnel	515,495			515,495
Professional fees	84,592			84,592
Travel and entertainment	39,421			39,421
Donor recognition	13,264			13,264
Depreciation	6,417			6,417
Office expense	8,021			8,021
Insurance and taxes	5,472			5,472
Awards	3,000			3,000
Miscellaneous	14,427			14,427
Change in donor designation		220,272	(220,272)	
Total expenses	6,515,595	220,272	(220,272)	6,515,595
Change in net assets	1,195,862	9,205,874	4,759,589	15,161,325
Net assets, beginning of year	6,154,250	48,794,783	47,535,919	102,484,952
Net assets, end of year	\$ 7,350,112	\$ 58,000,657	\$ 52,295,508	\$117,646,277

See notes to the financial statements.

The University of Akron Foundation

Statements of Cash Flows

	Year Ended June 30	
	2000	1999
Cash flows from operating activities		
Change in net assets	\$ 45,128,534	\$ 15,161,325
Adjustment to reconcile change in net assets to net cash provided by (used in) operating activities:		
Net appreciation in the fair value of investments	(38,153,159)	(13,930,064)
Change in value of split interest agreements	(7,200,104)	(1,732,858)
Depreciation	6,417	6,417
Loss on sale of property		15,967
Effect of changes in assets and liabilities:		
Accounts and notes receivable	44,715	56,399
Pledges receivable, net	494,243	704,021
Accounts payable and other liabilities	151,545	(911,440)
Net cash provided by (used in) operating activities	<u>472,191</u>	<u>(630,233)</u>
Cash flow from investing activities		
Change in investments	(1,549,621)	963,894
Expenditures for property, net		(171,792)
Net cash (used in) provided by investing activities	<u>(1,549,621)</u>	<u>792,102</u>
Cash flows from financing activities		
Change in annuity payment liability	540,783	250,606
Net (decrease) increase in cash	<u>(536,647)</u>	<u>412,475</u>
Cash, beginning of year	559,216	146,741
Cash, end of year	<u>\$ 22,569</u>	<u>\$ 559,216</u>

See notes to the financial statements.

The University of Akron Foundation

Notes to Financial Statements

Year Ended June 30, 2000 and 1999

1. Summary of Organization

The University of Akron Foundation (the “Foundation”) is a non-for-profit organization. The Foundation’s mission is to provide financial assistance to The University of Akron (the “University”) by encouraging and administering gifts and bequests.

The Foundation receives contributions from the following support groups of the University:

John R. Buchtel Society (the Society)

The Society includes seven gift clubs, ranging from the Loyalty Club for annual donors of up to \$99 to the 1870 Benefactors Club for lifetime contributions of \$1 million or more.

Partners in Excellence (the Group)

The Group constitutes an array of companies, foundations, and business organizations providing financial, technical, and material assistance to the University, including:

- Unrestricted support to the University
- Support for the Crusade for Scholars Program
- Support for the Center for Economic Education
- Support for the Intercollegiate Athletic Program
- Support for Restricted Purposes

2. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements of the Foundation are prepared on the accrual basis of accounting.

Income Taxes

The Foundation is an Ohio nonprofit organization, tax-exempt under Section 501(c)(3) of the Internal Revenue Code and exempt from federal, state and local income tax on related income.

The University of Akron Foundation

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Use of Estimates

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

Cash and Cash Equivalents

The Foundation considers all highly liquid instruments with a maturity of three months or less when purchased to be cash equivalents.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value. The fair value of investments are based on quoted market prices. Donated investments are recorded as contributions at fair value on the date received. The realized gains (losses) on investments is the difference between the proceeds received and the average cost of investments sold. Net appreciation in the fair value of investments (including realized gains (losses), unrealized gains (losses), interest and dividends) is included in revenues, gains and other income of unrestricted net assets unless the investment income is restricted by the donor.

Property

Property is recorded at cost at date of acquisition or estimated fair value at date of donation. Depreciation is computed over the estimated useful lives of the assets using the straight-line method. Building and building improvements are generally depreciated over 20 to 40 years.

Reclassifications

Certain 1999 amounts have been reclassified to conform to the 2000 presentation.

The University of Akron Foundation

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Pledges Receivable

The Foundation records pledges and unconditional promises to give as receivables and revenue in the year the pledge is made. Those that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as revenue until the conditions are substantially met.

Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, accounts receivable and accounts payable and other liabilities are reasonable estimates of fair value due to the short-term nature of these financial instruments. Investments, pledges receivable and annuity payment liability are substantially reported at fair value.

Unrestricted Net Assets

Unrestricted net assets result from public support and revenue not subject to donor imposed restrictions.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are used to differentiate resources, the use of which has been restricted by the donors to a specific time period or purpose, from resources on which no external restrictions have been placed or which arise as a result of the operations of the Foundation.

Permanently restricted net assets (endowment funds) have been restricted by donors to be held in perpetuity.

The University of Akron Foundation

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Credit Risk Concentrations

Financial instruments which potentially expose the Foundation to concentrations of credit risk include cash and cash equivalents, investments in marketable securities and pledges receivable. As a matter of policy, the Foundation only maintains cash balances with financial institutions having a high credit quality. Concentration of credit risk for investments in marketable securities is mitigated by both the distribution of investment funds among asset managers and the overall diversification of managed investment portfolios. Concentration of credit risk for pledges receivable are generally limited due to the dispersion of these balances over a wide base of donors.

Expenses

The Foundation's expenses are classified into two categories: (1) distributions to or for The University of Akron and (2) administration of the Foundation. The expenses relating to the administration of the Foundation include both fund raising and management and general activities.

The University of Akron Foundation

Notes to Financial Statements (continued)

3. Investments

The fair value of investments at June 30, 2000 and 1999, consisted of the following:

	2000	1999
Pooled investment funds managed for The Foundation:		
KeyTrust, Oak Associates	\$ 77,629,037	\$ 44,258,722
Oppenheimer Capital Trust Company	9,625,123	18,731,217
Bank One Trust	1,695,184	1,615,399
The Common Fund	19,613,038	24,433,243
Westwood Management Corp.	11,728,156	11,339,322
Dreman Value Management	7,431,577	9,174,767
Sterling Capital	5,262,973	
Systematic Financial	9,593,242	
Lazard Freres	10,370,278	
	152,948,608	109,552,670
Mutual funds	2,095,240	2,163,661
U.S. Treasury obligations	1,658,485	2,433,246
Bonds	1,957,209	1,033,084
Commercial paper	2,650,000	1,700,000
Common stocks	6,236,838	3,271,196
Preferred Stocks	24,375	27,600
Repurchase agreements	225,000	350,000
Certificates of deposit	171,559	162,984
Insurance policies, cash surrender value	166,114	139,949
Net investment in direct financing leases (<i>Note 7</i>)	104,183	171,896
Investments in real estate		180,932
Total	\$ 168,237,611	\$ 121,187,218

The pooled investment funds are invested in diverse portfolios. Limitations have been placed on the trust fund managers to stay within specified parameters in managing the portfolios. Approximately 80% and 78% of the pooled investment funds were invested in common and preferred stocks in a variety of industries and 20% and 22% were invested in fixed income securities at June 30, 2000 and 1999, respectively.

The University of Akron Foundation

Notes to Financial Statements (continued)

3. Investments (continued)

The Foundation appropriates a limited portion of the appreciation on investments held by endowments for distribution to endowment beneficiaries. Actual distributions from endowments are based on a spending policy set by the Foundation's Board of Trustees. Under this spending policy, appropriated income is calculated at 5% of the average market value of endowment investments for the prior three years.

4. Pledges Receivable

Unconditional promises to give recorded as pledges receivable at June 30, 2000 and 1999 were as follows:

	<u>2000</u>	<u>1999</u>
Due in less than one year	\$ 1,453,169	\$ 1,678,295
Due in one to five years	2,418,972	2,759,899
Due in more than five years		33,366
	3,872,141	4,471,560
Less—amount estimated to be uncollectible	363,425	418,341
Less—unamortized discount	237,891	288,151
Total pledges receivable, net	<u>\$ 3,270,825</u>	<u>\$ 3,765,068</u>

As of June 30, 2000, the Foundation has approximately \$14,500,000 in numerous outstanding pledges which are considered to be intentions to give and are contingent upon future events. These pledges are not accrued as contributions receivable because they do not represent unconditional promises to give. It is not practicable to estimate the ultimate realizable value of these pledges or the period over which they might be collected.

5. Contributions Payable to The University

The Foundation may receive gifts on behalf of the University. The Foundation records a contribution payable to the University for such gifts. In 2000, the Foundation recorded approximately \$800,000 of contributions received on behalf of the University. In 1999, these amounts were not reflected in the Foundation's statements of activities.

The University of Akron Foundation

Notes to Financial Statements (continued)

6. Split-Interest Agreements

The Foundation has entered into charitable gift annuity agreements which include provisions requiring the Foundation to pay periodic fixed payments to beneficiaries during their lifetimes. Charitable gift annuities differ from other charitable giving options in that the annuity is a general obligation of the Foundation. Accordingly, if the assets of the gift are exhausted as a result of required payments to beneficiaries, then the unrestricted assets of the Foundation will be utilized to fund future payments.

The Foundation has also entered into unitrust, annuity trust and pooled income agreements which include provisions for the Foundation to pay beneficiaries periodic payments until either the assets of the trust have been exhausted or until death of the beneficiaries. Upon death of the beneficiaries, any remaining property in the trust or pooled income fund will be transferred to the Foundation in accordance with agreements.

The Foundation accounts for such agreements by recording the fair market value of assets donated as of the date of the gift, and by recording the actual present value of the annuities payable using applicable IRS tables (discount rates used at June 30, 2000 and 1999 were 8.0% and 6.4%, respectively), based on the term of the agreement, as a liability. The balance of the gift is recorded as either unrestricted, temporarily restricted, or permanently restricted contributions, as appropriate.

The Foundation's payments to beneficiaries under the split-interest agreements reduce the annuity liability. Adjustments to the annuity liability are made to report amortization of the discount and record changes in the life expectancy of the beneficiary. These adjustments, as well as the return on the underlying investment assets (fair value of \$30,210,311 at June 30, 2000 and \$22,489,416 at June 30, 1999), are recognized in the statement of activities as changes in the value of split-interest agreements.

7. Leasing Arrangements

Operating Leases

The Foundation leases certain real estate to the University and an outside company. Future minimum rental revenue to be received for operating leases consist of the following at June 30, 2000: 2001—\$18,350, 2002—\$18,350, 2003—\$18,350, 2004—\$18,350 and 2005—\$18,350.

The University of Akron Foundation

Notes to Financial Statements (continued)

7. Leasing Arrangements (continued)

Direct Financing Leases

The Foundation also leases other real estate to the University under leases which have been accounted for as direct financing leases because they permit the University to acquire the property for \$1 at the completion of the lease term.

The components of the Foundation's net investment in direct financing leases at June 30, 2000 and 1999 are as follows:

	<u>2000</u>	<u>1999</u>
Future minimum lease payments to be received	\$113,161	\$193,900
Less—unearned income	8,978	22,004
Total	<u>\$104,183</u>	<u>\$171,896</u>

Minimum payments to be received in the future under the direct financing leases are as follows:

Year Ending June 30:	
2001	\$ 75,436
2002	37,725
Total	<u>\$113,161</u>

Interest income from the Foundation's net investment in direct financing leases is recognized based on a constant periodic rate of return determined for each lease.

8. University Services

The University of Akron allocates certain overhead expenses to the Foundation totaling \$500,000 in fiscal 2000 and 1999. These amounts are recorded as services performed by University personnel in the Statement of Activities.

9. Revocable Trust

In February 1987, the Foundation was named beneficiary of a revocable trust which has investments totaling \$241,509 at June 30, 2000 (on a fair value basis). The fair value of the trust's assets have been included in the statements of position as investments and refundable advances. All income of the trust is paid to the Foundation and recognized when received.

The University of Akron Foundation

Notes to Financial Statements (continued)

10. Refundable Grant

In June 1995, the Foundation received a \$100,000 grant from a donor which stipulated that the principle be returned to the donor upon their request. Under the donor agreement, the investment earnings on the original principal are being placed in a scholarship fund in the name of the donor.

11. Net Assets

Unrestricted net assets at June 30, 2000 and 1999 are as follows:

	<u>2000</u>	<u>1999</u>
Current operations	\$ 1,814,539	\$ 1,990,864
Board designated	6,826,620	5,085,598
Annuity funds	9,619	273,650
Total	<u>\$ 8,650,778</u>	<u>\$ 7,350,112</u>

Temporarily restricted net assets, principally related to scholarships, specific schools within the University, department chairs, and various other purposes related to support of the University at June 30, 2000 and 1999 are as follows:

	<u>2000</u>	<u>1999</u>
Accumulated appreciation on endowment investments in accordance with the spending policy (<i>Note 3</i>)	\$ 77,933,555	\$ 48,320,727
Specific purpose funds	9,612,819	7,119,137
Split-interest agreements	1,998,782	1,432,974
Pledges receivable	950,661	1,127,819
Total	<u>\$ 90,495,817</u>	<u>\$ 58,000,657</u>

The University of Akron Foundation

Notes to Financial Statements (continued)

11. Net Assets (continued)

Permanently restricted net assets, principally related to scholarships, specific schools within the University, department chairs, and various other purposes related to support of the University at June 30, 2000 and 1999 are as follows:

	<u>2000</u>	<u>1999</u>
Endowment funds	\$ 41,687,165	\$ 36,915,706
Split-interest agreements	19,620,887	12,742,553
Pledges receivable	2,320,164	2,637,249
Total	<u>\$ 63,628,216</u>	<u>\$ 52,295,508</u>

During fiscal 2000, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes of scholarships and development of the University in the amounts of \$5,834,446 (\$5,703,476 during fiscal 1999).



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

Board of Trustees
The University of Akron Foundation

We have audited the financial statements of The University of Akron Foundation as of and for the year ended June 30, 2000, and have issued our report thereon dated August 25, 2000. We conducted our audit in accordance with generally accepted auditing standards 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 University of Akron Foundation'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 University of Akron Foundation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the University of Akron Foundation in a separate letter dated August 25, 2000.

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Ernst & Young LLP

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

Ernst & Young LLP

August 25, 2000



STATE OF OHIO
OFFICE OF THE AUDITOR

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THE UNIVERSITY OF AKRON FOUNDATION
SUMMIT 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 25, 2001**