



**TOBACCO USE PREVENTION AND CONTROL FOUNDATION
FRANKLIN COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2001



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**TOBACCO USE PREVENTION AND CONTROL FOUNDATION
FRANKLIN COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS

Tobacco Use Prevention and Prevention Foundation
246 North High Street
Columbus, Ohio 43215

To the Foundation:

We have audited the Balance Sheet of the Tobacco Use Prevention and Prevention Foundation (the Foundation) as of June 30, 2001 and the related Statement of Revenues, Expenditures and Changes in Fund Balance for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

As discussed in Note 1, the financial statements present only the activity of the Foundation, a fund of the State of Ohio, and are not intended to present fairly the financial position of the State of Ohio and the results of its operations and cash flows of its proprietary fund types and nonexpendable trust funds in conformity with accounting principles generally accepted in the United States of America.

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 financial statements referred to above present fairly, in all material respects, the financial position of the Tobacco Use Prevention and Prevention Foundation as of June 30, 2001, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2, the Foundation adopted the Governmental Accounting Standards Board Statement No. 33 during the year ended June 30, 2001.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2001 on our consideration of the Tobacco Use Prevention and Control 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.

JIM PETRO
Auditor of State

September 21, 2001

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TOBACCO USE PREVENTION AND CONTROL FOUNDATION

**BALANCE SHEET
JUNE 30, 2001**

ASSETS

Cash	\$25,000
Investments	228,797,020
Tobacco Settlement Receivable	116,474,083
Interest Receivable	<u>4,898,481</u>
Total Assets	<u><u>\$350,194,584</u></u>

LIABILITIES AND FUND BALANCE

Accounts Payable	<u>\$9,783</u>
Total Liabilities	9,783
Fund Balance - Reserved	<u>350,184,801</u>
Total Liabilities and Fund Balance	<u><u>\$350,194,584</u></u>

The accompanying notes are an integral part of these financial statements.

TOBACCO USE PREVENTION AND CONTROL FOUNDATION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2001

Revenues:

Tobacco Settlement Revenues	\$330,404,281
Interest Income	19,790,303
	350,194,584
Total Revenues	350,194,584

Expenditures:

Administrative	9,783
	9,783
Excess of Revenues Over Expenditures	350,184,801
Fund Balance, July 1, 2000	0
	0
Fund Balance, June 30, 2001	\$350,184,801

The accompanying notes are an integral part of these financial statements.

TOBACCO USE PREVENTION AND CONTROL FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

The Tobacco Use Prevention and Control Foundation (the Foundation) was created by amended Senate Bill No. 192, effective June 2000, to "... prepare a plan to reduce tobacco use by Ohioans, with emphasis on reducing the use of tobacco by youth, minority and regional populations, pregnant women, and others who may be disproportionately affected by the use of tobacco. The plan shall cover a period of at least five years and be updated annually." The Bill further describes a variety of means by which the Foundation is to develop its plan and carry out its charge.

Pursuant to its legislative mandate, the Foundation's Board is created in Ohio Revised Code Section 183.04 and is enabled through ORC 183.04 to ORC 183.09, inclusive. The Foundation's Board is composed of twenty voting members as set forth in Section 183.04 of the Ohio Revised Code. Members include eight health professionals, health researchers, or representatives of health organizations; one person with experience in financial planning and accounting; one person with experience in media and mass marketing; seven individuals recommended one each by the following entities: the American Cancer Society, the American Heart Association, the American Lung Association, the Association of Hospitals and Health Systems, the Ohio State Medical Association, the Association of Ohio Health Commissioners, the Ohio Dental Association; and three officials (Director of Health, Executive Director of the Commission on Minority Health, and the Attorney General) sitting ex officio.

Method of Operation

The Foundation shall carry out, or provide funding through grants for private or public agencies to carry out, research and programs related to tobacco use prevention and cessation. The Foundation shall establish an objective process to determine which research and program proposals to fund. The Foundation shall also adopt rules under Chapter 119 of the Revised Code regarding conflicts of interest in the research and programs it funds.

To carry out the duties of the Foundation, a separate endowment fund was created in the custody of the Treasurer of State but not part of the State Treasury. The endowment fund shall consist of amounts appropriated from the Foundation's trust fund, grants and donations made to the Foundation, and investment earnings of the fund. The endowment fund shall be used by the Foundation to carry out its duties. The Foundation is the trustee of the endowment fund and disbursements shall be paid by the Treasurer of State only upon instruments duly authorized by the Foundation's Board of Trustees or its designee.

The endowment fund is responsible for covering administrative expenditures such as staff salaries, equipment purchases, rental payments and program expenses. As a result of the legislation defining the Foundation's employees as state employees, the State established an appropriation to provide payroll for state employees of the foundation, which is reimbursed by the Foundation's endowment fund. An appropriation amount of \$500,000 was established in anticipation of hiring several employees during the year; however, no employees have been hired as of the end of fiscal year 2001. Since the assets of the foundation are required to be maintained in unappropriated custodial accounts no budgetary monitoring or reporting is required.

At the request of the Foundation, the Treasurer of State shall select and contract with one or more investment managers to invest all money credited to the fund that is not currently needed for carrying out the functions of the Foundation. The eligible list of investments, as well as limitations and other requirements, shall be the same as for the Public Employees Retirement System under Section 145.11 of the Revised Code.

TOBACCO USE PREVENTION AND CONTROL FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2001

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Method of Operation (Continued)

The accompanying financial statements of the Tobacco Use Prevention and Control Foundation present the financial position and results of operations of the Foundation. The financial statements, as of June 30, 2001, and for the year then ended, conform with accounting principles generally accepted in the United States of America as applied to governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles. The GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification) documents these principles. The Foundation's significant accounting policies are as follows.

A. Reporting Entity

Within the State of Ohio's Comprehensive Annual Financial Report, the Tobacco Use Prevention and Control Foundation is included as part of the primary government. The Foundation's management believes these financial statements present all activities for which the Foundation is financially responsible.

B. Basis of Presentation - Fund Accounting

The Foundation uses a special revenue fund to report its financial position and results of operations. The special revenue fund is an independent fiscal and accounting entity with a self-balancing set of accounts, and accounts for revenues sources that are legally restricted to expenditure for specific purposes.

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

Governmental funds are accounted for using a flow of current financial resources measurement focus. Under this measurement focus, operating statements present increases (i.e., revenues) and decreases (i.e., expenditures) in net current assets, and unreserved fund balance is a measure of available expendable resources.

The modified accrual basis of accounting has been applied to the special revenue fund. Under the modified accrual basis of accounting, the Foundation recognizes revenues when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction is determinable, and "available" means the amount is collectible within the current period or soon enough thereafter to pay liabilities of the current period. The Foundation considers revenues as available when collected within 60 days after year end.

Under the modified accrual basis, expenditures are recorded when related fund liabilities are incurred, which are recognized as expenditures when due.

Significant revenue sources susceptible to accrual under the modified accrual basis of accounting include tobacco settlement revenues and interest income.

TOBACCO USE PREVENTION AND CONTROL FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2001

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Cash

Cash of the Foundation includes amounts held in a checking account at a financial institution and at June 30, 2001, the Foundation had \$25,000 on deposit. The Foundation does not require these to be collateralized but are fully collateralized by the financial institution.

E. Investments

Investments of the Foundation include amounts on deposit in the Treasurer of State's endowment fund custodial account. Custodial account deposits are maintained within the State Treasury Asset Reserve of Ohio (STAROhio), whereby the deposits are pooled with other deposits and reinvested daily. The investments are considered short-term and are reported at cost which approximate the market values. At June 30, 2001, the Foundation reported \$228,797,020 in investments. The pooled deposits at STAROhio have the general characteristics of a demand deposit account whereby additional cash can be deposited at any time and can also be effectively withdrawn at any time, without prior notice or penalty. The Treasurer of State is the investment advisor and administrator of STAROhio, a statewide external investment pool authorized under Section 135.45, Ohio Revised Code.

The Foundation's investments are normally categorized to give an indication of the level of custodial risk assumed by the entity as of June 30, 2001. Category 1 includes investments that are insured or registered or for which the securities are held by the Foundation or its agent in the Foundation's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the Foundation's agent but not in the Foundation's name. Investments with STAROhio are not required to be categorized due to their nature.

GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, requires disclosure of assets and liabilities arising from securities lending transactions. STAROhio investments are subject to lending transactions by the Treasurer of State. The STAROhio Fund issues a separate audited financial report and resulting assets and liabilities are not reported on the Foundation's balance sheet.

F. Revenues and Receivables

Tobacco Settlement Revenues

Tobacco settlement revenues comprise the Foundation's primary source of revenue. These revenues are derived from the 1998 Tobacco Master Settlement Agreement (the Agreement) which was entered into by the State of Ohio, along with numerous other states, against major tobacco product manufacturers. The Agreement stipulates the conditions and calculations to be applied in order for each state to receive its annual allotments. Revised Code Section 183.02 requires all payments received by the State to be deposited into the Treasurer of State's Tobacco Master Settlement Agreement Fund and the payments and related interest are to be distributed by the Office of Budget and Management in accordance with the distribution schedule. Revised Code Section 183.02 (C) stipulates the payments to the Foundation from the Agreement shall be as follows:

TOBACCO USE PREVENTION AND CONTROL FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2001

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Revenues and Receivables (Continued)

Tobacco Settlement Revenues (Continued)

<u>Year</u>	<u>Amount or Percentage</u>
2000 (First Payment Credited)	104,855,223
2000 (Net Amount Credited)	70.30%
2001	62.84
2002	61.41
2003	63.24
2004	66.65
2005	66.24
2006	65.97
2012	56.01

Before fiscal year 2012 begins, the Foundation must report to the Governor and Legislature the progress the Foundation has made towards its goals and whether a need for additional funding still exists. At this point, the Governor and Legislature will decide whether funding to the Foundation will be continued. Funding estimates for receiving monies under the Master Tobacco Settlement Agreement were only projected through the year 2025; however, under the terms of the Agreement payments from the tobacco product manufacturers are to continue into perpetuity.

The State of Ohio received 7.1 percent less than the pre-adjusted base pay amount contained in the Agreement, resulting in the Foundation receiving less tobacco settlement revenues than anticipated due to adjustment factors such as inflation and volume. Revised Code Section 183.02 (I) further states that future year revenues from the Agreement are contingent upon sufficient proceeds being received to cover designated revenue set asides for the Education Facilities Trust and Endowment Funds. The Foundation recognizes a receivable for tobacco settlement revenues on the date the payment is received by the State since the revenue is both measurable and available. The Foundation's tobacco settlement receivable at June 30, 2001, was \$116,474,083.

Interest Income

The Foundation receives interest income from the State of Ohio for any earnings resulting from the time the State receives the master tobacco settlement money until the time in which the monies are paid into the Foundation's custodial account. In addition, the Foundation earns interest income from deposits with STAROhio and funds held in a checking account at a financial institution. The Foundation recognizes this revenue in the period in which it is measurable and available. The Foundation's interest receivable at June 30, 2001, was \$4,898,481.

G. Expenditures and Accounts Payable

Grants

During fiscal year 2001, no grants were disbursed as a result of the recently created Foundation and appointment of Board members. Currently, the Board is developing guidelines to oversee the implementation and monitoring of future grant activity. In future years, the majority of expenditure activity will be comprised of this type of activities.

TOBACCO USE PREVENTION AND CONTROL FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2001

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Expenditures and Accounts Payable (Continued)

Administrative Expenditures

Administrative expenditures include operating and overhead items such as travel, advertising, start-up costs incurred by Department of Health personnel, and other miscellaneous expenditures. Accounts payable relating to administrative expenditures at June 30, 2001 were \$9,783 (including \$7,393 to the Department of Health for funds advanced by it to the Foundation). Ohio Revised Code Section 183.30 (A) requires no more than five percent of total expenditures within a fiscal year shall be for administrative purposes; however, H. B. 94 eliminated the requirement in fiscal years 2001 and 2002, provided the Foundation has submitted a spending plan to the Controlling Board and the Controlling Board has approved the plan.

H. Fund Balance

In accordance with reporting requirements associated with GASB Statement No. 33's purpose restrictions, fund balance will be reported as reserved for the purpose which the resources are required to be used.

I. Self-Insurance

The State of Ohio serves as the Foundation's primary government and is self-insured for claims covered under its traditional healthcare plan, vehicle liability, public fidelity blanket bonds, property losses, and tort liability. Additionally, the State of Ohio participates in a public entity risk pool which covers liabilities associated with claims submitted to the Bureau of Workers' Compensation.

2. CHANGES IN ACCOUNTING PRINCIPLES

For fiscal year 2001, the Foundation implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, which became effective for fiscal years beginning after June 15, 2000. GASB Statement No. 33 requires the Foundation to report nonexchange transactions involving financial or capital resources. Nonexchange transactions occur when an entity gives (or receives) value without directly receiving (or giving) equal value in return.

Implementation of GASB Statement No. 33 during the Foundation's initial year of existence resulted in the recognition of voluntary nonexchange transactions associated with tobacco settlement revenues received from the Tobacco Master Settlement Agreement in the amount of \$330,404,281 and \$19,790,303 in related interest earnings during fiscal year 2001.

3. CONTINGENCIES

As of June 30, 2001, the Foundation's management, in consultation with the Attorney General's Office, was unaware of any pending litigation which could result in a material unfavorable outcome requiring amounts to be reported or disclosed in the Foundation's financial statements.

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

Tobacco Use Prevention and Control Foundation
246 North High Street
Columbus, Ohio 43215

We have audited the financial statements of the Tobacco Use Prevention and Control Foundation, (the Foundation) as of and for the year ended June 30, 2001, and have issued our report thereon dated September 21, 2001 wherein we noted the Foundation adopted GASB 33. 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 Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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. Our test results 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 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 do not require inclusion in this report, that we have reported to the management of the Foundation in a separate letter dated September 21, 2001.

Tobacco Use Prevention and Control Foundation
Report of Independent Accountants on Compliance
and on Internal Control Required by
Government Auditing Standards
Page 2

This report is intended for the information and use of the Foundation, the Foundation's Board which serves as the equivalent to an audit committee, management of the State of Ohio and the Ohio Legislature, and is not intended to be and should not be used by anyone other than these specified parties.

JIM PETRO
Auditor of State

September 21, 2001



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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TOBACCO USE PREVENTION AND CONTROL FOUNDATION

FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
OCTOBER 18, 2001**