TOBACCO USE PREVENTION AND CONTROL FOUNDATION
FRANKLIN COUNTY

REGULAR AUDIT
FOR THE YEAR ENDED JUNE 30, 2005

Auditor of State
Betty Montgomery

TOBACCO USE PREVENTION AND CONTROL FOUNDATION
FRANKLIN COUNTY

TABLE OF CONTENTS

TITLE **PAGE**

THIS PAGE IS INTENTIONALLY LEFT BLANK.

Auditor of State
Betty Montgomery

REPORT OF INDEPENDENT ACCOUNTANTS

Board of Trustees
Tobacco Use Prevention and Control Foundation
300 East Broad Street, Suite 310
Columbus, Ohio 43215-3704

We have audited the accompanying basic financial statements of the Tobacco Use Prevention and Control Foundation (the Foundation), State of Ohio, as of and for the year ended June 30, 2005, as listed in the table of contents. 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.

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 opinions.

As discussed in Note 1, the Foundation's financial statements present the financial position and the changes in financial position of only the Tobacco Use Prevention and Control Foundation. They do not purport to, and do not present fairly the financial position of the State of Ohio as of June 30, 2005, and the changes in its financial position and cash flows, where applicable, and the respective budgetary comparison for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tobacco Use Prevention and Control Foundation, State of Ohio, as of June 30, 2005, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, during the year ended June 30, 2005, the Foundation adopted the Governmental Accounting Standards Board's Statement No. 40, *Deposit and Investment Risk Disclosures*.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2005, on our consideration of the Foundation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

35 N. Fourth St. / Second Floor / Columbus, OH 43215
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
www.auditor.state.oh.us

Management's Discussion and Analysis is not a required part of the Foundation's basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

Betty Montgomery

Betty Montgomery
Auditor of State

September 23, 2005

TOBACCO USE PREVENTION AND CONTROL FOUNDATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2005
UNAUDITED

The management of the Ohio Tobacco Use Prevention and Control Foundation (TUPCF), part of the primary government of the State of Ohio, offers readers of the Foundation's financial statements this narrative overview and analysis of the financial activities of the Foundation for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented herein in conjunction with the Foundation's financial statements, which begin on page 8 of this report.

The financial statements highlight the activities of the Foundation that are principally supported by investment income or by use of the principal portion of the endowment fund. Programs of the Foundation are intended to reduce and eliminate tobacco use in the State of Ohio. In this regard, the Foundation has seven specific goals as follows:

- Prevent youth tobacco use initiation
- Reduce youth tobacco use
- Reduce tobacco use among diverse and underserved populations, including those disproportionately affected by tobacco
- Reduce tobacco use among pregnant women
- Reduce exposure to secondhand tobacco smoke
- Reduce adult tobacco use
- Reduce smokeless tobacco use among youth and adults.

The financial arrangement of the Foundation is unlike those for most state agencies. The most significant difference is that the Foundation's annual budget is not appropriated by the General Assembly. The monies received from the Tobacco Master Settlement Agreement (MSA) are given to the Foundation and are deposited in its endowment fund. The endowment fund is a "custodial fund", a certain type of fund permitted by state law. The fund is held in the custody of the Treasurer of State, but is not, by law, part of the state treasury. The Foundation's assets are managed by the Foundation's governing board. The Foundation's board, not the Governor and not the General Assembly, determines its annual budget. The Foundation also must manage the investment of its assets under limitations established by state law. This is a responsibility most state agencies do not have.

FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2005 are as follows:

- The Foundation's net assets decreased by $18,549,320 or 5.5%.

- During 2005, the Foundation's cash and investments (all at market value) decreased by $109,654.

- During 2005, there was a net excess of expenditures over revenues of $18,549,320.

- During 2005, investment income was $17,480,985 or 87% of the $20 million budgeted.

- During 2005, $17,056,906 of cessation and prevention grants were disbursed to over 100 grantees as follows:

    - $7,618,310-Community I Grants

    - $2,737,447-High Risk Population Grants

    - $4,138,383-Community II Grants

    - $353,083-Smokeless pilot project grants

    - $375,000-College Student pilot project grants

  - $333,334-Pregnant Women pilot project grants
  - $418,379-Clean Indoor Air pilot project grants
  - $143,014-Young adult pilot
  - $290,000-Chronic illness-pilot
  - $500,000-Mental Health/Substance Abuse/ MRDD pilot
  - $149,956-Tobacco Public Policy Center

- During 2005, the Foundation spent $5,733,988 on a contract with the National Jewish Medical Center to operate a smoking quit line (1-800-934-4840). Over 30,000 Ohioans called the Ohio Quit Line.

- During 2005, the Foundation spent $10,257,484 in its counter-marketing efforts. This is an aggressive statewide media and counter-marketing campaign which utilizes youth empowerment messages and images to combat the nearly $500 million dollars in marketing that tobacco manufacturers spend each year in Ohio. The goal is to de-normalize tobacco use among the general public, especially among the group most at risk for starting a tobacco habit – children and teens ages 11-15.

- During 2005, administrative costs of the Foundation were $1,016,381or 2.80% of operating expenses.

- During 2005, $1,778,149 was spent with certified Ohio Minority Business Enterprise (MBE) companies.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Foundation's basic financial statements. The Foundation's basic financial statements comprise two components: 1) financial statements, and 2) notes to the financial statements.

The Foundation follows governmental accounting principles, which means these statements are presented in a manner similar to other governmental units. The financial statements are designed to provide readers with a broad overview of the Foundation's finances in total. These statements offer short and long-term financial information about its activities.

The *Governmental Funds Balance Sheet / Statement of Net Assets* presents information on all of the Foundation's assets and liabilities, including information about the nature and amounts of investments and the Foundation's net assets at June 30, 2005. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Foundation is improving or deteriorating.

The *Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance / Statement of Activities* presents information showing the changes in the Foundation's net assets during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. earned but unused vacation leaves and accrued interest receivable).

FINANCIAL ANALYSIS OF THE FOUNDATION

The following is condensed financial information as of June 30:

	2004	2005	% Change
Total Assets	335,283,073	$318,346,082	(5.1%)
Total Liabilities	978,023	2,590,352	164.9%
Total Net Assets	334,305,050	315,755,730	(5.5%)
Revenues			
Tobacco Settlement	16,851,294	0	n/a
Investment income	33,898,845	17,480,985	(48.4)%
Donations/Grants	50,166	208,500	315.6%
Total Revenues	50,800,305	17,689,485	(65.2)%
Operating Expenditures	31,145,607	36,238,805	16.4%
Change in Net Assets	19,654,698	(18,549,320)	(194.4)%
Ending Net Assets	$334,305,050	$315,755,730	(5.5)%

The reasons for Significant Changes from fiscal year 2005 are as follows:

- Investment income had a modest gain in 2005, as compared to a very significant gain in 2004, directly attributable to the financial markets. The Foundation's assets are invested per ORC 183.08(A) which limits investments to those permitted for the public retirement systems under ORC 145.11.

- Tobacco settlement revenues in fiscal year 2005 were zero and in fiscal year 2004 were $16,851,294. Fiscal year 2005 tobacco settlement revenues that were originally designated for the Foundation were diverted to the state's General Revenue Fund.

- The change in liabilities is an increase of $1,612,329 and is primarily related to an increase in accounts payables due to the timing of receiving invoices from vendors.

- Total operating expenditures in fiscal year 2005 were $36,238,805 and, in fiscal year 2004, $31,145,607. The Foundation was formed in fiscal year 2001 and the first staff person was hired in fiscal year 2002. Fiscal year 2003 was the first full year of operations with a budget of $27,098,571. FY 2004 continued a "ramping up" of the operations of the Foundation. The budget for fiscal year 2004 was $38,211,342 and for fiscal year 2005 was $53,305,790. As a result of the continued diversion of payments of the tobacco settlement revenues from the legislature, the budget for fiscal year 2006 will be $47.2 million dollars. This amount was approved by the Foundation's Board of Trustees at their August, 2005 retreat and is less than the minimum amount of approximately $62 million suggested for Ohio by the United States Centers for Disease Control (CDC).

CAPITAL ASSETS

At the end of fiscal year 2005, the Foundation had $146,743 invested in net capital assets, as detailed below:

Capital Assets at June 30

	2004	2005	% Change
Furniture	$101,546	$111,492	9.8%
IT Equipment	111,987	117,685	5.1%
Total Capital Assets	$213,533	$229,167	7.3%
Less Accumulated Depreciation	$ 48,309	$ 82,424	70.6%
Net Capital Assets	$165,224	$146,743	(11.2%)

The net capital assets of the Foundation decreased $18,481 during fiscal year 2005. Total assets increased $15,634 while accumulated depreciation increased $34,115. IT Equipment is being depreciated over five years and office furniture over a ten year period.

ACCOMPLISHMENTS

During its third full year of operation that ended June 30, 2005, the Foundation provided cash payments of $17,056,906 in grants to prevent and control the use of tobacco (i.e., $7,618,310 for Community I Grants, $4,138,383 for Community II Grants, $2,737,447 for High Risk Grants, $353,083 for Smokeless pilot project grants, $375,000 for College Student pilot project grants, $333,334 for Pregnant Women pilot project grants, $418,379 for Clean Indoor Air pilot project grants, $143,014 for Young adult pilot project grants, $290,000 for chronic illness pilot project grants, $500,000 for mental health/substance abuse/MRDD pilot project grants, and $149,956 for the Tobacco Public Policy Center).

The Foundation spent $5,733,988 to operate the Ohio tobacco quitline which served over 30,000 Ohioans.

The Foundation funded a total of $859,557 for evaluation and research activities. These funds were spent with RTI (Research Triangle Institute) to conduct evaluation studies of the effectiveness of the Foundation's counter-marketing efforts; with Ohio University and the Gallup Organization to evaluate the effectiveness of the Foundation's tobacco prevention and cessation grants; and with the firm of Kennedy, Cottrell + Associates to perform financial reviews of the various prevention and cessation grants.

Finally the Foundation spent $10,257,484 in its counter-marketing media campaign which is part of an overall $50 million, five year program. The Foundation at the end of the fiscal year 2005 had eighteen staff members.

ECONOMIC FACTORS

- In June 2003, HB 95 was signed into law. This legislation contained provisions relating to $112,262,375 in funds the Foundation was to receive from the Master Settlement Agreement for fiscal year 2004. HB 95 diverted this fiscal year 2004 payment into the State of Ohio's General Revenue Fund. These diverted dollars are to be repaid to the Foundation from tobacco revenues that the State receives in fiscal year 2015. The bill called for up to $120 million dollars to be diverted. In July 2004 (FY 2005) the Foundation was notified that it would receive $16,851,294 of funds that were not utilized for diversion.

- In May 2004, HB 434 was signed into law. This legislation contained provisions stating that the Foundation would receive appropriations of $0 and $107,500,000 in FY 2005 and FY 2006 respectively from the Tobacco Master Settlement Fund Group. In addition the legislation appropriated $1,273,000 and $1,298,000 for FY 2005 and FY 2006, respectively for operating expenses (all personnel costs). These amounts were increased to $1,495,768 and $1,525,136 respectively by action of the Controlling Board on November 15, 2004.

- In June 2005, HB 66 was signed into law. This legislation contained provisions stating that the Foundation would not receive the appropriations previously approved for FY 2006 in the amount of $107,500,000 and furthermore the Foundation would not receive any appropriations for FY 2007. There was no mention in the legislation of any repayment of these diverted funds.

- For fiscal year 2005 the Foundation Board approved a budget of total expenditures of $53.3 million including $45.9 million for programs. Actual expenditures for fiscal year 2005 were 36,238,805. As a result of the actions of the legislature in June 2005, the Foundation Board in August, 2005 approved a revised FY 2006 budget of total expenditures of approximately $47.2 million dollars for fiscal year 2006. Furthermore the Foundation Board approved the concept of spending at a rate that ensures that the Foundation is in existence for at least ten additional years starting with fiscal year 2006. However, spending may be "front-loaded" so as to have the greatest impact on changing the culture in Ohio as it relates to smoking.

- For fiscal year 2005 the Foundation and its investment advisors believed the economic recovery would continue such that net investment income for FY 05 will be approximately 7% of the endowment fund balance or approximately $20.0 million dollars. Actual investment earnings achieved were $17,480,985 or 87.4% of the budgeted amount.

CONTACTING THE FOUNDATION'S FINANCIAL MANAGEMENT

This financial report is designed to provide an overview of the Foundation's finances and its accountability for the money it receives. If you have questions about this report or need additional financial information, contact Marvin Gutter, Ph.D., CPA, Finance Director, Ohio Tobacco Use Prevention and Control Foundation, 300 East Broad Street, Suite 310, Columbus, Ohio 43215-3704.

TOBACCO USE PREVENTION AND CONTROL FOUNDATION
GOVERNMENTAL FUND BALANCE SHEET / STATEMENT OF NET ASSETS
JUNE 30, 2005

	Special Revenue Fund	Adjustments (See Note 2)	Statement of Net Assets
Assets:			
Cash and cash equivalents	$ 1,698,063	$ -	$ 1,698,063
Investments at market value (cost $299,724,831)	316,422,198	-	316,422,198
Deposit for compensated absences	16,675	-	16,675
Collateral on lent securities	41,674	-	41,674
Tobacco settlement receivable	-	-	-
Prepaid employee health benefits	20,729	-	20,729
Capital assets, net of accumulated depreciation	-	146,743	146,743
Total Assets	$ 318,199,339	$ 146,743	$ 318,346,082
Liabilities:			
Accounts payable	$ 2,320,312	$ -	$ 2,320,312
Personnel payable	73,308	-	73,308
Obligations under lent securities	41,674	-	41,674
Compensated absences:			
Due within one year	-	24,699	24,699
Due after one year	-	130,359	130,359
Total Liabilities	2,435,294	155,058	2,590,352
Fund Balance / Net Assets:			
Reserved for compesated absences	16,675	(16,675)	-
Reserved for employee health benefits	20,729	(20,729)	
Fund balance reserved	315,726,641	(315,726,641)	-
Total Fund Balance	315,764,045	(315,764,045)	-
Total liabilities and fund balance	$ 318,199,339		
Net Assets:			
Invested in net capital assets, net of related debt		146,743	146,743
Restricted for programs to decrease tobacco use		315,608,987	315,608,987
Total net assets		$ 315,755,730	$ 315,755,730

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

TOBACCO USE PREVENTION AND CONTROL FOUNDATION
STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE / STATEMENT OF ACTIVITIES
JUNE 30, 2005

	Special Revenue Fund	Adjustments (See Note 2)	Statement of Ativities
Revenues			
Investment income (loss)	$ 17,480,985	$ -	$ 17,480,985
Tobacco settlement revenues	-	-	-
Other	208,500	-	208,500
Total Revenues	17,689,485	-	17,689,485
Expenditures / Expenses:			
Personnel costs	1,290,130	30,015	1,320,145
Contracts	17,214,723	-	17,214,723
Operating costs	612,915	-	612,915
Depreciation	-	34,116	34,116
Grants	17,056,906	-	17,056,906
Capital Outlay	15,635	(15,635)	-
Total Expenditures / Expenses	36,190,309	48,496	36,238,805
Excess (Deficit) of Revenues over Expenditures/Expenses	(18,500,824)	18,500,824	-
Change in net assets	-	(18,549,320)	(18,549,320)
Fund Balance / Net Assets:			
Beginning Balance - July 1, 2004	334,264,869	40,181	334,305,050
Ending Balance - June 30, 2005	$ 315,764,045	$ (8,315)	$ 315,755,730

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

THIS PAGE IS INTENTIONALLY LEFT BLANK.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Authorizing Legislation

The Tobacco Use Prevention and Control Foundation (the Foundation) was created by amended Senate Bill No. 192, effective June 2000, to develop a plan and to implement programs designed to decrease tobacco use in Ohio with emphasis on reducing the use of tobacco by youth, minority and regional populations, pregnant women, and other populations disproportionately affected by tobacco use. The plan shall cover a period of at least five years and be updated annually. The legislation 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 was created in Ohio Revised Code (ORC) Section 183.04 and is enabled in ORC 183.04 through ORC 183.09 inclusive. The Foundation's Board is composed of twenty voting and four non-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; three State officials (Director of Health, Executive Director of the Commission on Minority Health, and the Attorney General) sitting ex officio; and two members each from the House and Senate (non-voting).

Method of Operation

The Foundation shall implement or provide funding through grants to 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 Ohio Revised Code regarding conflicts of interest in the research and programs which it funds.

To carry out the duties of the Foundation, a separate endowment fund (Tobacco Use Prevention and Control Endowment Fund) was created in the custody of the Treasurer of State but which is not part of the State Treasury. Legislation requires the endowment fund to consist of funds disbursed to it through the Foundation's Tobacco Use Prevention and Control Trust Fund (Fund H87), grants and donations made to the Foundation, and investment earnings of the endowment fund. The endowment fund shall be used by the Foundation to carry out its legislative mandate. The Foundation is the trustee of the endowment fund and the Treasurer of State shall pay disbursements only upon instruments duly authorized by the Foundation's Board of Trustees or its designee. The endowment fund, however, is not a trust fund.

The endowment fund is to be used to pay all Foundation expenditures such as staff salaries, equipment purchases, rental payments and program expenses. The legislation also defined the Foundation's employees as State employees, which as a result required the State of Ohio to establish an appropriation line item (Central Accounting System Fund 5M8-Tobacco Use Prevention and Control Operating Expenses fund) to provide for the Foundation's payroll. This amount is then reimbursed by and through the Foundation's endowment fund. For the year ended June 30, 2005, the amount appropriated was $1,495,768 and for the year ended June 30, 2006 the amount was $1,525,136. As of June 30, 2005, the number of employees has increased to eighteen. The majority of the Foundation's assets are required to be maintained in the endowment fund, an un-appropriated account, which is monitored by the Foundation. Payroll costs were less than 3.70% of the Foundation's total reported expenses and less than 0.42% of the total net assets; therefore, no budgetary comparison information is provided.

At the request of the Foundation, the Treasurer of State shall select and contract with one or more investment mangers to invest all money credited to the fund that is not currently needed for carrying out the functions of the Foundation.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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, 2005, 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 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. Government-Wide and Fund Financial Statements

In accordance with GASB Statement 34, the Foundation has presented government-wide financial statements (the Statement of Net Assets and the Statement of Activities). These statements are required to report all non-fiduciary activities. Government-wide accounting is designed to provide a more comprehensive view of the Foundation's operations and financial position as a single economic entity.

Fund financial statements are also provided for the Foundation's governmental fund. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions relating to certain functions or activities.

As allowed by GASB Statement 34 for entities engaged in a single governmental program, the Foundation has chosen to present its fund financial statements with its government-wide statements. This was accomplished by using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this measurement focus, operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net assets. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. 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.

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 liabilities are incurred, which are recognized as expenditures when due.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant sources susceptible to accrual under the modified accrual basis of accounting include tobacco settlement revenues, investment income and vendor payments.

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

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, which accounts for revenue sources that are legally restricted to specific purpose expenditures. Two separate accounts exist within the special revenue fund; these are the Tobacco Use Prevention and Control Endowment Fund and the Tobacco Use Prevention and Control Operating Expense Fund. These accounts are described within Note 1, Method of Operations.

D. Deposits and Investments

During the year ended June 30, 2005, the Foundation adopted the Governmental Accounting Standards Board's Statement No. 40, *Deposit and Investment Risk Disclosures.*

Deposits - At fiscal year end, the carrying amount of the Foundation's cash deposits was $1,698,062 and the bank balance was the same. Of the bank balance, $36,670 was held on deposit by the State of Ohio, and $1,661,392 was maintained in a custodial account held by the Treasurer of State. $1,561,392 was collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Foundation's name. The State's cash pool under the Treasurer of State's administration has the general characteristics of a demand account whereby additional cash can be deposited at any time and can also be effectively withdrawn at any time, within certain budgetary limitations, without notice or penalty.

Investments - At fiscal year end, the fair values of investments were as follows:

Investment Type	Total Fair Value
U.S. Government Obligations	$ 19,437,148
U.S. Government Strips	1,322,646
U.S. Government Agency Obligations	38,309,179
Corporate Bonds and Notes	50,691,483
Total Debt Securities	109,760,456
Common and Preferred Stock (Domestic)	159,816,574
Common and Preferred Stock (Foreign)	1,201,385
Mutual Funds (Equities)	44,355,286
Total Equities	205,373,245
Investments before accrued interest and dividends	315,133,701
Accrued interest and dividends	1,288,497
Total Investments	$ 316,422,198

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of a failure of a depository institution or counterparty to a transaction, the Foundation will be unable to recover the value of deposits, investments, or collateral securities in the possession of an outside party. At June 30, 2005, all investments were registered in the name of the Foundation. The Foundation does not have a formal policy to limit custodial credit risk.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign Currency Risk – Foreign currency risk is the risk that changes in exchange rates between the U.S. Dollar and foreign currencies could adversely affect an investment's fair value. The Foundation does not have a formal investment policy regarding foreign currency risk. The Foundation had no exposure to foreign currency risk at fiscal year end.

Credit Risk – Credit risk is the risk that an issuer or counterparty to an investment will be unable to fulfill its obligations. Pursuant to the Foundation's investment policy, only high yield money managers (as designated by the Foundation) are permitted to invest in fixed income securities rated BB or less by S&P, Moody's or Fitch.

The Foundation's exposure to credit risk, based on both Moody's and Standard & Poor's Credit Ratings, is as follows:

Quality Rating	US Government Agency Obligations	Corporate Bonds and Notes	Total
AAA	$ 14,028,087	$ 12,795,080	$ 26,823,167
AA1	-	83,641	83,641
AA2	-	1,079,364	1,079,364
AA3	-	266,733	266,733
AA-	975,365	2,091,330	3,066,695
A1	-	2,507,565	2,507,565
A+	-	4,475,951	4,475,951
A2	148,800	3,774,205	3,923,005
A	-	2,506,773	2,506,773
A3	-	3,610,479	3,610,479
A-	-	448,899	448,899
BAA1	-	2,788,677	2,788,677
BBB+	-	669,155	669,155
BAA2	-	2,239,987	2,239,987
BBB	-	1,562,081	1,562,081
BAA3	-	1,589,886	1,589,886
BBB-	-	703,525	703,525
BA1	-	576,238	576,238
BB+	-	911,311	911,311
BA2	-	180,155	180,155
BB	-	46,884	46,884
BA3	-	64,006	64,006
B1	-	57,188	57,188
B+	-	53,500	53,500
B2	-	147,000	147,000
CAA1	-	46,250	46,250
Unrated	23,156,927	5,415,620	28,572,547
Total Credit Risk Debt Securities	$ 38,309,179	$ 50,691,483	$ 89,000,662
U.S. Government Obligations			19,437,148
U.S. Government Strips			1,322,646
Total Debt Securities			$ 109,760,456

Concentration of Credit Risk – Concentration of credit risk is the risk of inability to recover the value of deposits, investments, or collateral securities in the possession of an outside party caused by a lack of diversification. Pursuant to the Foundation's investment policy, the securities (stocks and bonds in the aggregate) of any one company (except government agencies) may not exceed 5% of the total portfolio, and no more than 10% of the total portfolio may be invested in any one industry.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Individual treasury securities may represent 30% of the total portfolio, while the total allocation to treasury bonds and notes may represent up to 100% of the portfolio's aggregate bond position. The Foundation had no exposure to concentration of credit risk at fiscal year end.

Interest Rate Risk – Interest rate risk is the risk that an interest rate change could adversely affect an investment's fair value. According to the Foundation's investment policy, the maximum maturity for any single security is 40 years and the weighted average portfolio maturity may not exceed 10 years. Fixed income investment managers are to maintain the duration of their portfolios between 80% to 120% of the duration of the index assigned to their portfolio.

The reporting of effective duration in the table below quantifies, to the fullest extent possible, the interest rate risk of the Foundation's fixed income assets.

	Investment Maturities (in years)				
Investment Type	**Less than 1**	**1-5**	**6-10**	**More than 10**	**Total Fair Value**
U.S. Government Obligations	$ 1,765,878	$ 4,417,672	$ 9,666,248	$ 3,587,350	$ 19,437,148
U.S. Government Strips	-	-	1,164,495	158,151	1,322,646
U.S Government Agency Obligations	3,751,193	11,161,103	4,167,686	19,229,197	38,309,179
Corporate Bonds and Notes	5,521,460	23,141,006	9,683,029	12,345,988	50,691,483
Total	$ 11,038,531	$ 38,719,781	$ 24,681,458	$ 35,320,686	$ 109,760,456

E. Capital Assets and Depreciation

It is the Foundation's policy to capitalize all assets with an initial cost of $1,000 or more. Capital assets are reported in the "Statement of Net Assets" column, but are not reported in the "Special Revenue Fund" column on the accompanying Governmental Fund Balance Sheet/Statement of Net Assets. All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year.

All reported capital assets of the Foundation are depreciated. Depreciation is computed using the straight-line method of depreciation over the applicable useful life of the asset. One half year of depreciation is recorded in both the year of acquisition and the final year of useful life.

F. Securities Lending Transactions

GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, requires disclosure of assets and liabilities arising from securities lending transactions. Foundation cash on deposit with the Treasurer of State was, during the current fiscal year, subject to lending transactions. Under the lending program, which is administered by a custodial agent bank, certain securities are transferred to an independent broker-dealer (borrower) in exchange for cash collateral. The Treasurer (for cash on deposit with the Treasurer of State) reinvests the collateral in various investments (types), including U.S. government and agency obligations, repurchase agreements, commercial paper, corporate bonds, and money market funds.

The lending agreements require the custodial agents to ensure that the lent securities are collateralized at no less than 102 percent of their market value. As of June 30, 2005, the State had no credit exposure since the amount owed to borrowers exceeded the amount borrowers owed either the Foundation or the State. In accordance with paragraph 9 of GASB Statement No. 28, the Foundation's recording of assets and liabilities for securities lending transactions is based on their share of the cash, at the balance sheet date, as calculated by the Office of Budget and Management and/or the Treasurer of State.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Deposit for Compensated Absences

This amount represents the allocated portion of the Foundation's share of the balance in the State Accrued Leave Fund at June 30, 2005, and consists of payroll assessments paid into the Fund by the Foundation during the year. It is an amount pre-funded for compensated absences.

H. Revenues and Receivables

Tobacco settlement revenues comprise one of the Foundation's primary sources of revenues. These revenues are derived from the 1998 Master Settlement Agreement (MSA) which was entered into by the State of Ohio, along with numerous other states, against major tobacco product manufacturers.

The MSA stipulates the conditions and calculations to be applied in order for each state to receive its annual allotments. Ohio 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:

Year	Amount or Percentage
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 that point, the Governor and Legislature will decide whether funding to the Foundation will be continued. Funding estimates for receiving monies under the Master Settlement Agreement were only projected through the year 2025; however, under the terms of the MSA payments from the tobacco product manufacturers are to continue into perpetuity.

ORC Section 183.02 (1) further states that future year revenues from the MSA are contingent upon sufficient proceeds being received to cover designated revenues 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 and it is probable the amount will be transferred to the Foundation. There were no tobacco settlement receivables due the Foundation at June 30, 2005.

HB 405, which was signed into law in December 2001, contained several provisions to address a projected shortfall in the state's General Revenue Fund (GRF) for fiscal years 2002 and 2003. Section 32 of the act allows for $260 million in tobacco revenue that Ohio receives in fiscal year 2002 and fiscal year 2003 to be transferred to the GRF, if it is needed to help balance the GRF budget. Of the $260 million total, $221,195,998 would have gone to the Foundation at the rate of $105,678,188 for fiscal year 2002 and $115,517,810 for fiscal year 2003. As a result, in fiscal year 2002 and fiscal year 2003 no funds were transferred to the Foundation as the monies were diverted to the GRF. In addition, HB 405 stated the dollars diverted to help offset reduced revenues to the GRF in fiscal year 2002 and fiscal year 2003 will be repaid to the Foundation from tobacco revenue that the state receives in fiscal year 2013 and fiscal year 2014.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In June 2003, HB 95 was signed into law. This legislation contained provisions relating to $112,262,375 in funds the Foundation was to receive from the MSA for fiscal year 2004. As a result of HB 95 all but $16,851,294 of this fiscal year 2004 payment was diverted into the GRF. These diverted dollars are to be repaid to the Foundation from tobacco revenues that the state receives in fiscal year 2015.

In June 2005, HB 66 was signed into law. This legislation contained provisions relating to fiscal year 2005 and 2006 MSA payments. As a result of HB 66 any and all of the fiscal year 2005 and 2006 payments that were to come to the Foundation were diverted into the GRF. There is no provision in HB 66 that these diverted dollars are to be repaid to the Foundation.

I. Interest Income

The Foundation receives interest income from the State of Ohio for any earnings resulting from the time the State receives the MSA monies until the time it is disbursed. The Foundation at June 30, 2005 had $19,001 in a cash account (Fund H87) from such earnings.

J. Expenditures and Accounts Payable

Grants

In fiscal year 2005, $17,056,906 of tobacco prevention and cessation grants were funded. Grants expenditures are recognized at the time the payment is made.

Administrative Expenditures

Administrative expenditures include expenditures not directly attributable to the programmatic aspect of the Foundation. These include salary and wages of non-program personnel, and the proportionate share of all expenses related to the general administration of the Foundation. Ohio Revised Code Section 183.30 (A) requires that no more than five percent of the total expenditures within a fiscal year shall be for administrative purposes. Actual administrative expenditures for fiscal year 2005 were 2.80% of total expenditures.

K. Compensated Absences

The State of Ohio has established laws governing employee leave benefits and policies. Under these policies, Foundation employees earn vacation leave, sick leave, and personal leave at various rates within limits specified under state law. Generally, employees accrue vacation leave at a rate of 3.1 hours every two weeks for the first five years of employment, up to a maximum rate of 9.2 hours every two weeks after 25 years of employment. Employees may accrue a maximum of three years vacation leave credit. At termination or retirement, the State pays employees, at their current full rate, 100% of unused vacation leave, personal leave, and, in certain cases, compensatory time and 50% of unused sick leave.

The Foundation accrues vacation, compensatory time, and personal leaves as liabilities when an employee's right to receive compensation is attributable to services already rendered and it is probable that the employee will be compensated through paid time off or some other means, such as at termination or retirement. Compensatory time is not subject to pay off at termination or retirement; it must be used in paid time off or it will be lost. Leave time that has been earned, but is unavailable for use as paid time off or as some other form of compensation because an employee has not met a minimum service time requirement, is accrued to the extent that it is considered to be probable that the conditions for compensation will be met in the future.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Foundation accrues sick leave using the vesting method. Under this method, the liability is recorded on the basis of leave accumulated by employees who are eligible to receive termination payments, as of the balance sheet date, and on leave balances accumulated by other employees who are expected to become eligible in the future to receive such payments.

L. Fund Balance/Net Assets

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

M. 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 that covers liabilities associated with claims submitted to the Bureau of Workers' Compensation.

2. EXPLANATION OF DIFFERENCES BETWEEN THE GOVENMENTAL FUND AND GOVERNMENT-WIDE FINANCIAL STATEMENTS

Total "Fund Balance" of the Foundation's governmental fund on the Governmental Fund Balance Sheet differs from "Total Net Assets" of the governmental activities reported in the Statement of Net "Assets. The "Excess (deficit) of Revenues over Expenditures / Expenses" of the Foundation's governmental fund on the Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund balance differs from the Foundation's change in net assets on the Statement of Activities. This difference primarily results from the long-term economic focus of the government-wide statements versus the current financial resources of the governmental fund statements.

The following is a detailed description of the amounts included in the "Adjustments" column of the accompanying financial statements:

Governmental Fund Balance Sheet/Statement of Net Assets

<u>Capital Assets</u>
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the special revenue fund; however, capital assets are reported in the Statement of Net Assets column………………………………………… $146,743

<u>Compensated Absences</u>
No liability for compensated absences is reported in the special revenue fund because the liability is not expected to be liquidated with expendable available financial resources. However, long-term liabilities are reported in the Statement of Net Assets column……………………………………………………………………………….………. $155,058

Statement of Revenues, Expenditures, and Change in Fund Balance/Statement of Activities

<u>Capital Outlay</u>
The special revenue fund reports capital outlays as expenditures. However, for the Statement of Activities column, the cost of those assets is allocated over their estimated useful lives as depreciation expense……………………………………………………. (15,635)

2. EXPLANATION OF DIFFERENCES BETWEEN THE GOVENMENTAL FUND AND GOVERNMENT-WIDE FINANCIAL STATEMENTS (Continued)

Depreciation For the Statement of Activities column, the cost of capital assets is allocated over the assets' estimated useful lives as depreciation expense. No depreciation expense is recorded for the special revenue fund…………………………………………………..	$34,116
Personnel Costs Some expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and, therefore, are not reported as expenditures in the special revenue fund…………………………………..	$30,015

3. PENSION PLAN

All employees of the Foundation participate in the Public Employees Retirement System of Ohio (PERS). PERS administers three separate pension plans as described below:

1. The Traditional Pension Plan-a cost sharing, multiple-employer defined benefit pension plan
2. The Member-Directed Plan-a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings.
3. The Combined Plan-a cost sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, employer contributions are invested by PERS to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

PERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits.

Chapter 145 of the Ohio Revised Code assigns the authority to establish and amend benefit provisions to the PERS Board.

PERS issues a stand alone financial report, which may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614)-466-2085 or 1-800-222-PERS (7377).

Employee and employer contributions to PERS are established under the Ohio Revised Code and are based upon percentages of covered employee's gross salaries, with the contribution rate percentages being calculated annually by the Retirement Board's actuaries. In fiscal year 2005 and fiscal year 2004 the employee and the employer contribution were 8.50% and 13.31% respectively, for all Foundation employees. The Foundation's required contributions to PERS for the years ended June 30, 2005 and 2004 were $135,214 and $124.803 respectively. The total PERS payrolls for employees of which all employees are covered by PERS were $1,015,880 in fiscal year 2005 and $937,667 in fiscal year 2004.

4. OTHER POST EMPLOYMENT BENEFITS

PERS provides post retirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit under the Traditional and Combined plans. Health care coverage for disability recipients and primary survivor recipients is also available.

4. OTHER POST EMPLOYMENT BENEFITS (Continued)

The health care coverage provided by the retirement system is considered an "Other Post Employment Benefit (OPEB)" as described in GASB Statement No. 12, *Disclosure of Information on Post Employment Benefits Other Than Pension Benefits by State and Local Government Employers.* The Ohio Revised Code provides statutory authority for employer contributions and requires public employers to fund post retirement healthcare through their contributions to PERS. A portion of each employer contribution to PERS (13.31% of covered payroll) is set aside for the funding of post retirement health care. For the year ended June 30, 2005 that portion was 4.0% for all Foundation employees.

The related assumptions and calculations were based on the PERS's latest actuarial review performed as of December 31, 2003. Included in the assumptions is the entry age normal actuarial cost method of valuation to determine the present value of the OPEB with the difference between assumed and actual experience (actuarial gains and losses) becoming part of the unfunded actuarial accrued liability. Also all investments are carried at market value, and for valuation purposes include the smoothed market approach. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets. In addition, the investment assumption rate for 2003 was 8.00%. Finally an annual increase of 4.0 %, compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0% base increase, were assumed to range from 0.50% to 6.30%.

Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1% to 6% for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase at 4% (the projected wage inflation rate).

Other Post Employment Benefits (OPEB) are advance funded on an actuarially determined basis. There are approximately 369,885 active contributing participants state-wide. The portion of the employer contribution actually made to fund post employment benefits can be determined by multiplying actual employer contributions times 0.3005 or in the Foundation's case is equal to $39,006. The actuarial value of the Retirement System's net assets available for OPEB at December 31, 2003 was $10.5 billion. PERS' actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were $26.9 billion and $16.4 billion, respectively.

Finally, PERS adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures PERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs. Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

5. CONTINGENCIES

As of June 30, 2005 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.

6. COMPENSATED ABSENCES

The current portion of the liability for compensated absences consists of the amount of compensated absences that is due to be paid within one year of the balance sheet date, as estimated by the State of Ohio's Office of Budget and Management by analyzing trend data from the previous three fiscal years.

6. COMPENSATED ABSENCES (Continued)

Changes in compensated absences for the year ended June 30, 2005 are as follows:

Balance at 6/30/04	Increase	Decrease	Balance at 6/30/05	Amounts Due In One Year
$125,043	$30,015	$0	$155,058	$24,699

7. FIXED/CAPITAL ASSETS

A summary of capital asset activity during the fiscal year follows:

Asset Category	**Balance at 6/30/04**	**Additions**	**Deletions**	**Balance at 6/30/05**
Furniture	$101,546	$ 9,937	$ -	$ 111,483
IT Equipment	111,987	5,698	-	117,685
Subtotal	213,533	15,635	-	229,168
Accumulated Depreciation	(48,309)	(34,116)	-	(82,425)
Net Capital Assets	$ 165,224	$(18,481)	$ -	$146,743

Depreciation is calculated using the straight-line basis over the estimated useful lives of the assets. The useful life for Furniture is 10 years and, for IT Equipment, 5 years.

8. LEASES

During fiscal year 2003, the Foundation entered into a lease agreement for office and storage space. Leased properties not having elements of ownership are classified as operating leases and likewise are recorded as expenditures when payable. Total operating lease expense for fiscal year 2005 was $118,517. According to the Foundation's lease agreement, after the initial lease term ended on June 30, 2003, the Foundation has the option to renew the lease for up to five (5) successive and continuous terms of two (2) years each upon the same terms and conditions of the original lease agreement, except that the base rent will increase as of July 1, 2007 and July 1, 2011. Renewal of the lease is contingent upon the Foundation being in compliance with the existing terms of the contract. Future minimum lease payments under this lease agreement are as follows:

Year	Amount
2006	109,740
2007	109,740
2008	115,092
2009	115,092
2010-2013	471,576
Total Lease Payments	$921,240

THIS PAGE IS INTENTIONALLY LEFT BLANK.

Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Tobacco Use Prevention and Control Foundation
300 East Broad Street, Suite 310
Columbus, Ohio 43215-3704

We have audited the financial statements of the governmental activities of the Tobacco Use Prevention and Control Foundation (the Foundation), State of Ohio, as of and for the year ended June 30, 2005, which collectively comprise the Foundation's basic financial statements and have issued our report thereon dated September 23, 2005, wherein we noted the Foundation adopted GASB Statement # 40. 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 Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Foundation's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when 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. In a separate letter to the Foundation's management dated September 23, 2005, we reported an other matter involving internal control over financial reporting we did not deem a reportable condition.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We intend this report solely for the information and use of the Foundation management, the Foundation's Board which serves as the equivalent to an audit committee, management of the State of Ohio and the Ohio Legislature. It is not intended for anyone other than these specified parties.

Betty Montgomery

Betty Montgomery
Auditor of State

September 23, 2005

35 N. Fourth St. / Second Floor / Columbus, OH 43215
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
www.auditor.state.oh.us

Auditor of State
Betty Montgomery

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

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 11, 2005