
Secretary of State

State of Oregon

CHILDREN'S TRUST FUND OF OREGON

For the Year Ended June 30, 2001



Audits Division

Contract Auditor: Grove, Mueller & Swank, P.C.

Secretary of State

State of Oregon

CHILDREN'S TRUST FUND OF OREGON

For the Year Ended June 30, 2001



Audits Division

OFFICE OF THE
SECRETARY OF STATE

Bill Bradbury
Secretary of State



AUDITS DIVISION
Cathy Pollino
Director

(503) 986-2255
FAX (503) 378-6767

Auditing for a Better Oregon

The Honorable John Kitzhaber, M.D.
Governor of Oregon
State Capitol Building
Salem, Oregon 97310

The Board of Trustees
Children's Trust Fund of Oregon
800 NE Oregon Street, Suite 1140
Portland, Oregon 97232-2162

This report contains the audited financial statements of the Children's Trust Fund of Oregon (CTFO) as of and for the period ended June 30, 2001, and a report on the CTFO's compliance with laws and regulations and on internal control over financial reporting. The audit was performed by Grove, Mueller & Swank, P.C. for the Secretary of State Audits Division.

OREGON AUDITS DIVISION

Bill Bradbury
Secretary of State

Fieldwork Completion Date:
August 17, 2001

CHILDREN'S TRUST FUND OF OREGON
FINANCIAL STATEMENTS
Year Ended June 30, 2001

CHILDREN'S TRUST FUND OF OREGON
TABLE OF CONTENTS

	<i>Page</i>
<i>INDEPENDENT AUDITORS' REPORT</i>	
<i>FINANCIAL STATEMENTS</i>	
Combining Balance Sheet	2
Statements of Revenues, Expenditures and Changes in Fund Balance - Expendable Trust	3
Statement of Revenues, Expenses and Changes in Fund Balance - Nonexpendable Trust	4
Statement of Cash Flows - Nonexpendable Trust	5
Notes to Financial Statements	6-10
<i>INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS</i>	11



GROVE, MUELLER & SWANK, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Children's Trust Fund of Oregon
1410 SW Morrison Street, Suite 502
Portland, Oregon

Secretary of State
Division of Audits
255 Capitol Street NE, Suite 500
Salem, Oregon

We have audited the accompanying combining balance sheet and individual fund financial statements of the Children's Trust Fund of Oregon as of and for the year ended June 30, 2001, as listed in the table of contents. These financial statements are the responsibility of the Children's Trust Fund'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 *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 Children's Trust Fund of Oregon as of June 30, 2001, and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 17, 2001 on our consideration of the Children's Trust Fund's internal control over financial reporting and our tests of their compliance with certain provisions of laws, regulations, contracts and grants. This 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.


CERTIFIED PUBLIC ACCOUNTANTS
August 17, 2001

E-Mail Address • cpas@gmscpa.com

Mailing Address • P.O. Box 2122 • Salem, Oregon 97308-2122

Salem • 475 Cottage Street NE, Suite 200 • Salem, Oregon 97301-3814 • (503) 581-7788 • FAX (503) 581-0152
Albany • P.O. Box 663 • 519 S. Lyon Street • Albany, Oregon 97321-0570 • (541) 967-2315 • FAX (541) 926-5926

MEMBERS OF THE McGLADREY NETWORK • WORLDWIDE SERVICES THROUGH RSM INTERNATIONAL

CHILDREN'S TRUST FUND OF OREGON
COMBINING BALANCE SHEET
JUNE 30, 2001

	<u>Children's Trust Fund Expendable Trust</u>	<u>Children's Trust Endowment Fund Nonexpendable Trust</u>	<u>Totals (Memorandum Only)</u>
ASSETS			
Cash and cash equivalents	\$ 350,631	\$ 19,789	\$ 370,420
Investments	-	4,792,714	4,792,714
Accounts receivable	-	2,200	2,200
Due from other agencies	14,138	-	14,138
Fixed assets, net	-	2,746	2,746
	<u> </u>	<u> </u>	<u> </u>
<i>Total Assets</i>	<u>\$ 364,769</u>	<u>\$ 4,817,449</u>	<u>\$ 5,182,218</u>
 LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ -	\$ 21,269	\$ 21,269
Due to other agencies	9,822	-	9,822
Compensated absences	-	3,975	3,975
	<u> </u>	<u> </u>	<u> </u>
<i>Total Liabilities</i>	9,822	25,244	35,066
 Fund Balances			
Reserved for endowment fund			
Principal	-	4,792,205	4,792,205
Unrestricted, undesignated	354,947	-	354,947
	<u> </u>	<u> </u>	<u> </u>
<i>Total Fund Balances</i>	354,947	4,792,205	5,147,152
	<u> </u>	<u> </u>	<u> </u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 364,769</u>	<u>\$ 4,817,449</u>	<u>\$ 5,182,218</u>

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

CHILDREN'S TRUST FUND OF OREGON
CHILDREN'S TRUST FUND - EXPENDABLE TRUST
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
YEAR ENDED JUNE 30, 2001

REVENUES

Donations and contributions	\$ 370,926
<i>Total Revenues</i>	370,926

EXPENDITURES

Contract payments	391,671
Miscellaneous costs	<u>6</u>
<i>Total Expenditures</i>	<u>391,677</u>

DEFICIENCY OF REVENUES UNDER EXPENDITURES (20,751)

OTHER FINANCING SOURCES

Interest	<u>15,244</u>
<i>Total Other Financing Sources</i>	<u>15,244</u>

EXPENDITURES OVER REVENUES AND OTHER FINANCING SOURCES (5,507)

FUND BALANCE, Beginning of year 360,454

FUND BALANCE, End of year \$ 354,947

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

CHILDREN'S TRUST FUND OF OREGON
CHILDREN'S TRUST ENDOWMENT FUND - NONEXPENDABLE TRUST
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE
YEAR ENDED JUNE 30, 2001

OPERATING REVENUES	\$ 5,300
<i>Total Operating Activities</i>	5,300
OPERATING EXPENSES	
Salaries and wages	131,173
Services and supplies	122,532
Depreciation	<u>600</u>
<i>Total Operating Expenses</i>	<u>254,305</u>
OPERATING LOSS	(249,005)
NON-OPERATING REVENUES	
Interest	240,753
Unrealized gain on investments	<u>40,572</u>
<i>Total Non-Operating Revenues</i>	<u>281,325</u>
INCOME BEFORE OPERATING TRANSFERS	32,320
OPERATING TRANSFERS IN	<u>758,998</u>
NET INCOME	791,318
FUND BALANCE, Beginning of year	<u>4,000,887</u>
FUND BALANCE, End of year	<u><u>\$ 4,792,205</u></u>

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

CHILDREN'S TRUST FUND OF OREGON

CHILDREN'S TRUST ENDOWMENT FUND - STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2001

CASH FLOWS FROM OPERATING ACTIVITIES

Operating loss	\$ (249,005)
Adjustments to changes in net assets	
Depreciation	600
Unrealized gain in investments	40,572
Increase (decrease) in cash due to changes in assets and liabilities:	
Increase in accounts receivable	(2,200)
Decrease in due from other agencies	210,193
Increase in accounts payable	10,359
Decrease in compensated absences liabilities	(1,173)
<i>Total Adjustments</i>	<u>258,351</u>
<i>Net Cash Provided by Operating Activities</i>	9,346

CASH FLOWS FROM NONCAPITAL FINANCING

Operating transfers in	<u>758,998</u>
<i>Net Cash Provided by Noncapital Financing Activities</i>	758,998

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of equipment	(1,875)
Purchase of investments	(5,527,405)
Sales of investments	4,528,042
Interest on cash balances	<u>240,753</u>
<i>Net Cash Used in Investing Activities</i>	<u>(760,485)</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS

	7,859
<i>CASH BALANCE, Beginning of year</i>	<u>11,930</u>
<i>CASH BALANCE, End of year</i>	<u>\$ 19,789</u>

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

CHILDREN'S TRUST FUND OF OREGON
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2001

The accompanying financial statements of the Children's Trust Fund of Oregon have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), the Financial Accounting Standards Board (FASB), and the American Institute of Certified Public Accountants (AICPA). In accordance with GASB Statement No. 20, the Children's Trust Fund of Oregon does not apply FASB pronouncements issued after November 30, 1989, unless GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Board of Trustees of the Children's Trust Fund of Oregon (CTFO) is part of the State of Oregon reporting entity and was established as an independent agency by the 1995 Legislature. It is the mission of the CTFO to foster healthy child development and functioning by ending the harm of child abuse and neglect to Oregon's children. The CTFO provides moneys to community-based educational and service programs designed to reduce the occurrence of child abuse and neglect. Previously, the function was located in the Department of Human Resources (1985-93) and the Commission for Children and Families (1993-95). The CTFO operates under the provisions of sections 418.187 through 418.199 and 432.090, 463.370 and 137.303 of the Oregon Revised Statutes (ORS).

The Children's Trust Fund of Oregon is an independent entity separate from the State of Oregon as of July 1, 2001. The organization was reorganized as a new tax exempt organization under Section 501(c)(3) of the Internal Revenue Code.

The agency has two statutorily designated accounts, the Children's Trust Fund (ORS 418.199) and the Children's Trust Endowment Fund (ORS 418.198). The Children's Trust Fund receives resources from an Oregon personal income tax check-off, workplace fund-raising drives such as the State Employees' Charitable Fund Drive, sales of heirloom birth certificates by the Health Division, profits from the Boxing and Wrestling Commission and various grants, gifts and donations. All moneys in this fund are earmarked to go directly to the individual programs.

Funding for the Children's Trust Endowment Fund is received from a statutorily determined share of Criminal Fine and Assessment Account (CFAA) revenues. Receipts from the CFAA distribution pay the agency's administrative costs. All other moneys in the fund shall be accumulated until the principal in the fund reaches \$5 million. Thereafter, 80 percent of the income generated by the fund investments may be expended as provided in ORS 418.187 to 418.199.

Basis of Presentation

The Children's Trust Fund of Oregon is accounted for in two separate fiduciary funds. The Trust fund is accounted for in an expendable trust fund where both principal and income may be expended in the course of the fund's designated operation. A nonexpendable trust fund accounts for the transactions, assets, liabilities, and fund equity of the Endowment Fund where the principal must be preserved intact, but the income earned on the principal is available for expenditure for designated purposes.

CHILDREN'S TRUST FUND OF OREGON
NOTES TO FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2001

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting

Basis of accounting refers to when revenues, expenditures, expenses and transfers, and the related assets and liabilities are recognized in the accounts and reported in the financial statements. All expendable trust funds are accounted for using the current financial resources measurement focus and are maintained on the modified accrual basis of accounting. Under this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues) and decreases (i.e., expenditures) in net current assets.

Nonexpendable trust funds are accounted for using the flow of economic resources measurement focus and are maintained on the accrual basis of accounting. Under this method, all assets and liabilities associated with the operations of these funds are included on the balance sheet. Revenues are recognized when they are earned and expenses are recognized when liabilities are incurred.

Revenue Recognition

Donations and contributions of the Trust Fund are recognized when they are received. They are comprised of monies received from United Way, private donations, income tax check-off donations from the Department of Revenue and automatic payroll deductions made by employees of the State of Oregon, Oregon University Systems and the Oregon Health Sciences University.

Operating transfers in reported in the Endowment Fund are received from the Department of Revenue's Criminal Fine and Assessment Account.

Budgetary Accounting

The State of Oregon's budgets are approved on a biennial basis, where the biennium begins July 1 and ends June 30 of each odd-numbered year. Financial activities are budgeted at the agency, program, component, or element level.

Cash and Investments

State Statutes authorize investment in obligations of the U.S. Treasury, certificates of deposit, U.S. Government Agency Securities, instrumentalities of U.S. Government-sponsored corporations, commercial paper, bankers acceptances, repurchase agreements and the State of Oregon Local Government Investment Pool. The Children's Trust Fund of Oregon's cash deposits meet the requirements of the Oregon Revised Statutes in relation to the collateralization requirements.

Investments are carried at fair value. Accordingly, unrealized gains or losses are recorded for the increase or decrease in market value of assets.

Property and Equipment

Equipment is stated at cost. Depreciation is computed on the straight-line method over the estimated useful lives of the various assets. The cost of assets retired or otherwise disposed of and the related accumulated depreciation are eliminated from the accounts in the year of disposal.

CHILDREN'S TRUST FUND OF OREGON
NOTES TO FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2001

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

For purposes of the financial statements, the Children's Trust Fund of Oregon considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reporting amounts of certain assets, liabilities, revenues and expenses as of and for the year ended June 30, 2001.

Compensated Absences

Employees accrue vacation leave at various accrual rates and may generally be paid for up to a maximum of 250 hours of accrued vacation leave at termination. Accumulated vacation leave that is expected to be paid within 90 days is reported as an expense and a liability of the nonexpendable trust fund. Amounts of accumulated vacation leave that are not expected to be liquidated with current resources are reported as a long-term liability in the nonexpendable trust fund. No liability is recorded for nonvesting, accumulated sick leave. The compensated absences liability is calculated based upon current salary rates. The total liability for the CTFO was \$3,975 at June 30, 2001.

Retirement Plan

Substantially all of the CTFO's employees are participants in the State of Oregon Public Employees Retirement System (PERS). Contributions to PERS are made on a current basis as required by the plan and charged to expenditures as funded.

Total Column

Total columns on the combining balance sheet are captioned "memorandum only" to indicate that they are presented only for use in financial analysis. Data in this column does not present financial position in conformity with generally accepted accounting principles.

INVESTMENTS

	<u>Cost</u>	<u>Fair Value</u>
United States Treasury Notes, matures 10/31/01 - 6.25% yield	\$ 974,102	\$ 985,764
United States Treasury Bills, matures 8/2/01	200,413	200,413
United States Treasury Bills, matures 8/9/01	251,093	251,093
United States Treasury Bills, matures 2/28/01	1,674,644	1,674,644
United States Treasury Bills, matures 9/20/01	1,626,070	1,626,070
Money Market - Treasury Portfolio	<u>54,729</u>	<u>54,730</u>
<i>Total Investments</i>	<u>\$ 4,781,051</u>	<u>\$ 4,792,714</u>

CHILDREN'S TRUST FUND OF OREGON
NOTES TO FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2001

INVESTMENTS (Continued)

Investments are categorized to give an indication of the level of risk assumed. Category 1 includes investments that are insured or registered or for which the securities are held by the Trust Fund or its agent in the Trust Fund's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counter-party's trust department or agent in the Trust Fund's name. Category 3 includes uninsured and unregistered investments held by the counter-party or by its trust department or agent, but not in the Trust Fund's name. The above investments are classified as category 1.

DEFINED BENEFIT RETIREMENT PLAN

CTFO employees participate in the Oregon Public Employee's Retirement System (PERS), a cost sharing multiple-employer defined benefit retirement plan. All Agency employees are eligible to participate in the system after completing six months of service. Total payroll was \$104,006 and covered payroll was \$104,006 for the year ended June 30, 2001. PERS is administered by the Public Employees Retirement Board under the guidelines of *Oregon Revised Statutes*, Chapter 238. The PERS retirement allowance, payable monthly for life, may be selected from twelve retirement benefit options. Options include survivorship benefits and lump-sum refunds. The basic benefit formula is 1.67 percent of a member's final average salary multiplied by the member's number of years of service. Benefits may also be calculated under either a money match or an annuity-plus-pension computation if a greater benefit results. PERS also provides death and disability benefits. A copy of the Oregon Public Employees Retirement System annual financial report may be obtained from PERS, P.O. Box 23700, Tigard, Oregon 97281-3700.

CTFO picks up the employee contribution (covered employees are required by state statutes to contribute 6.0 percent of their salary to the plan). CTFO is required by statute to contribute actuarially computed amounts as determined by PERS. Rates are subject to change as a result of subsequent actuarial valuations. Currently, the rate is 9.73 percent of each covered employee's salary. The amount contributed by the Agency for the years ended June 30, 2001, 2000 and 1999, were \$10,120, \$7,370 and \$9,034, respectively, which was equal to the required contribution for each of the years.

Ten-year historical trend information showing PERS's progress in accumulating sufficient assets to pay benefits when due is presented in the PERS annual financial report.

UNEMPLOYMENT BENEFITS

State agencies are subject to the Department of Employment Act. State employees who qualify are entitled to benefit payments during periods of unemployment. Each state agency is required to reimburse the Department of Employment for benefit payments made to their former employees. There appears to be no practical method of estimating the amount of future benefit payments that may be made to former employees for wage credits earned prior to June 30, 2001. Consequently, this potential obligation is not included in the accompanying financial statements. There were no reimbursements made by the CTFO for the year ended June 30, 2001.

INSURANCE

Insurance programs are administered for the State of Oregon by the Risk Management Division of the Department of Administrative Services, which provides insurance coverage to all state agencies with a Blanket Honesty and Faithful Performance Bond, General Liability and Vehicle Liability Self Insurance, and a self-insurance property damage program.

CHILDREN'S TRUST FUND OF OREGON
NOTES TO FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2001

COMMITMENTS

Program Fund Award

Program fund award commitments from the Expendable Trust Fund through June 30, 2003 are for 40 programs and \$988,000.

Operating Lease

The Children's Trust Fund of Oregon's facility is leased on an operating lease with expires March 31, 2003.

Future minimum rental payments under the non-cancelable office lease are as follows:

<u>Year Ending</u> <u>June 30,</u>	
2002	\$ 9,488
2003	<u>6,448</u>
	<u>\$ 15,936</u>

Rental expense under such operating leases was \$8,868 for 2001.

On March 1, 2002 and 2003, the basic rents for the office lease are to be adjusted for changes in the Consumer Price Index.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the financial statements of the Children's Trust Fund of Oregon (CTFO), as of and for the year ended June 30, 2001, and have issued our report thereon dated August 17, 2001. 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 CTFO's financial statements are free of material misstatement, we performed tests of their 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 CTFO'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.

This report is intended solely for the information and use of the Board of Trustees of the Children's Trust Fund of Oregon's management, the State of Oregon Division of Audits, the governor of the State of Oregon and the Oregon Legislative Assembly, and is not intended to be and should not be used by anyone other than those specified parties.


CERTIFIED PUBLIC ACCOUNTANTS

Salem, Oregon
August 17, 2001

FACTS ABOUT THE SECRETARY OF STATE AUDITS DIVISION

The Oregon Constitution provides that the Secretary of State shall be, by virtue of his office, Auditor of Public Accounts. The Audits Division exists to carry out this duty. The division reports to the elected Secretary of State and is independent of the Executive, Legislative, and Judicial branches of Oregon government. The division audits all state officers, agencies, boards, and commissions and oversees audits and financial reporting for local governments.

Directory of Key Officials

<i>Director</i>	Cathy Pollino, CGFM, MBA
<i>Acting Deputy Director</i>	Charles A. Hibner, CPA
<i>Deputy Director</i>	Mary E. Wenger, CPA

This report, which is a public record, is intended to promote the best possible management of public resources.

If you received a copy of an audit report and no longer need it, you may return it to the Audits Division. We maintain an inventory of past audit reports. Your cooperation helps us save on printing costs.

Oregon Audits Division
Public Service Building
255 Capitol Street NE • Suite 500
Salem, Oregon 97310

We invite comments on our reports through our Hotline or Internet address.

Ph. 503-986-2255
Hotline: 800-336-8218
Internet: Audits.Hotline@state.or.us

<http://www.sos.state.or.us/audits/audithp.htm>

Auditing to Protect the Public Interest and Improve Oregon Government