



**OHIO TUITION TRUST AUTHORITY
FRANKLIN COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED JUNE 30, 2001 AND 2000



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**OHIO TUITION TRUST AUTHORITY
FRANKLIN COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Report of Independent Accountants	1
Combining Financial Statements	
Balance Sheet	3
Statement of Revenues, Expenses, and Changes in Retained Earnings	4
Statement of Cash Flows	5
Notes to the Financial Statements	7
Individual Schedules of Combining Statements	
Balance Sheet	19
Statement of Revenues, Expenses, and Changes in Retained Earnings	20
Statement of Cash Flows	21
Report of Independent Accountants on Compliance and on Internal Control required by <i>Government Auditing Standards</i>	23

THIS PAGE INTENTIONALLY LEFT BLANK



STATE OF OHIO
OFFICE OF THE AUDITOR
JIM PETRO, AUDITOR OF STATE

35 North Fourth Street
Columbus, Ohio 43215
Telephone 614-466-3402
800-443-9275
Facsimile 614-728-7199
www.auditor.state.oh.us

REPORT OF INDEPENDENT ACCOUNTANTS

Ohio Tuition Trust Authority
Franklin County
580 South High Street, Suite 208
Columbus, Ohio 43215-5644

To the Ohio Tuition Trust Authority:

We have audited the accompanying combining financial statements of the Ohio Tuition Trust Authority, State of Ohio, as of and for the years ended June 30, 2001 and 2000. These financial statements are the responsibility of the Ohio Tuition Trust Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 1, the financial statements present only the Ohio Tuition Trust Authority's Enterprise Fund and are not intended to present fairly the financial position of the State of Ohio and the results of the State of Ohio's operations and cash flows of its proprietary fund types in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the combining financial statements referred to above present fairly, in all material respects, the financial position of the Ohio Tuition Trust Authority as of June 30, 2001 and 2000, and the results of its operations and the cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

We performed our audit to form an opinion on the financial statements of the Ohio Tuition Trust Authority's Enterprise Fund taken as a whole. The accompanying financial information listed as individual schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the Ohio Tuition Trust Authority's Enterprise Fund financial statements. We subjected this information to the auditing procedures applied in the audit of the Ohio Tuition Trust Authority's Enterprise Fund financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the Ohio Tuition Trust Authority's Enterprise Fund financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2001 on our consideration of the Ohio Tuition Trust Authority's internal control over financial reporting for its Enterprise Fund and our tests of its compliance with certain provisions of laws, regulations, and contracts applicable to its Enterprise Fund. 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 28, 2001

Ohio Tuition Trust Authority

Combining Balance Sheet

As of June 30, 2001 with comparative for June 30, 2000

	Guaranteed Program Totals 06/30/01	Variable Savings Program Totals 06/30/01	Enterprise Fund Totals 06/30/01	Enterprise Fund Totals 06/30/00
ASSETS				
Current Assets				
Cash	\$24,884	\$209,217	\$234,101	\$37,295
Collateral on Lent Securities	22,808		22,808	2,577
Marketable Securities (at market value)	46,204,455		46,204,455	39,200,759
Other Receivable		78,504	78,504	19
Due from Guaranteed Program Trust Fund	263,760		263,760	184,458
Due from Variable Program	612,361		612,361	
Total Current Assets	47,128,268	287,721	47,415,989	39,425,108
Restricted Assets				
Cash Held for Tuition Benefits	62,252		62,252	31,287
Marketable Securities (at market value)	505,706,112		505,706,112	457,211,364
Total Restricted Assets	505,768,364		505,768,364	457,242,651
Fixed Assets				
Equipment	645,639		645,639	632,926
Leasehold Improvements	70,781		70,781	70,781
Less: Accumulated Depreciation	(520,278)		(520,278)	(442,970)
Total Fixed Assets	196,142		196,142	260,737
TOTAL ASSETS	553,092,774	287,721	553,380,495	496,928,496
LIABILITIES AND RETAINED EARNINGS				
Current Liabilities				
Accounts Payable	176,282		176,282	92,555
Accounts Payable-State of Ohio	30,905		30,905	3,089
Accrued Liabilities	161,209		161,209	153,758
Liabilities for Securities Sold	9,000,566	71,988	9,072,554	2,013,139
Obligation under Securities Lending	22,808		22,808	2,577
Due to Guaranteed Program Reserve Fund	263,760		263,760	184,458
Due to Guaranteed Program		612,361	612,361	
Current Portion-Tuition Benefits Payable	36,900,000		36,900,000	31,200,000
Total Current Liabilities	46,555,530	684,349	47,239,879	33,649,576
Non-Current Liabilities				
Tuition Benefits Payable	449,900,000		449,900,000	354,500,000
Total Non-Current Liabilities	449,900,000		449,900,000	354,500,000
Total Liabilities	496,455,530	684,349	497,139,879	388,149,576
Retained Earnings				
Retained Earnings	56,637,244	(396,628)	56,240,616	108,778,920
Total Retained Earnings	56,637,244	(396,628)	56,240,616	108,778,920
TOTAL LIABILITIES AND RETAINED EARNINGS	\$553,092,774	\$287,721	\$553,380,495	\$496,928,496

The Notes to the Financial Statements are an integral part of the financial statements.

Ohio Tuition Trust Authority

Combining Statement of Revenues, Expenses, and Changes in Retained Earnings

For the 12 Month Period Ended June 30, 2001 with comparative for June 30, 2000

	Guaranteed Program Totals 06/30/01	Variable Savings Program Totals 6/30/01 *	Enterprise Fund Totals 06/30/01	Enterprise Fund Totals 06/30/00
OPERATING REVENUES				
Contract Fees	\$116,660		\$116,660	\$156,470
Unit Sales	70,237,285		70,237,285	63,049,690
Investment Income	5,622,441	753	5,623,194	26,828,694
Miscellaneous Revenue		503	503	2
Basis Point Revenue		121,313	121,313	
Administrative Fee from Putnam		100,000	100,000	
Putnam Hard Dollar Contribution		1,254,148	1,254,148	
TOTAL OPERATING REVENUES	75,976,386	1,476,717	77,453,103	90,034,856
OPERATING EXPENSES				
Personal Services	2,577,748	809,642	3,387,390	2,950,767
Maintenance	816,318	436,629	1,252,947	1,307,498
Depreciation	77,308		77,308	131,646
Expenses Paid by Putnam	627,074	627,074	1,254,148	
Tuition Benefits Expense (Payouts)	22,842,407		22,842,407	16,053,025
Actuarial Tuition Benefit Expense	101,177,207		101,177,207	69,117,206
TOTAL OPERATING EXPENSES	128,118,062	1,873,345	129,991,407	89,560,142
OPERATING INCOME (LOSS)	(52,141,676)	(396,628)	(52,538,304)	474,714
NONOPERATING REVENUE (EXPENSES)				
Loss on Disposal of Fixed Assets				(519)
INCOME (LOSS) BEFORE OPERATING TRANSFERS	(52,141,676)	(396,628)	(52,538,304)	474,195
NET INCOME (LOSS)	(52,141,676)	(396,628)	(52,538,304)	474,195
BEGINNING RETAINED EARNINGS	108,778,920		108,778,920	108,304,725
ENDING RETAINED EARNINGS	\$56,637,244	(\$396,628)	\$56,240,616	\$108,778,920

* The Variable Savings Program began operations on 10/2/2000

The Notes to the Financial Statements are an integral part of the financial statements.

Ohio Tuition Trust Authority

Combining Statement of Cash Flows

As of June 30, 2001 with comparative for June 30, 2000

	Guaranteed Program Totals 06/30/01	Variable Savings Program Totals 6/30/01 *	Enterprise Fund Totals 06/30/01	Enterprise Fund Totals 06/30/00
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash Received from Customers	\$70,353,945		\$70,353,945	\$63,206,160
Cash Payments to Suppliers for Goods and Services	(1,248,090)	(603)	(1,248,693)	(1,295,171)
Cash Payments to Employees/consultants/professional contracts for Services	(2,502,921)	(6,233)	(2,509,154)	(2,183,689)
Other Operating Cash Receipts (payments)	(23,640,571)	215,300	(23,425,271)	(16,849,816)
Net cash provided (used) by operating activities	42,962,363	208,464	43,170,827	42,877,484
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Interfund Transfers In (Out)				
Net cash flows provided (used) by noncapital financing activities				
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of Capital Assets	(49,988)		(49,988)	(56,211)
Proceeds from Sales of Fixed Assets				
Net Cash flows provided (used) by capital and related financing activities	(49,988)		(49,988)	(56,211)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Proceeds from the Sales and Maturities of Investments	1,173,503,234		1,173,503,234	842,804,006
Purchase of Investments	(1,237,235,213)		(1,237,235,213)	(905,292,685)
Investment Income Received	20,838,158	753	20,838,911	19,188,670
Net Cash Flows Provided (Used) by investing activities	(42,893,821)	753	(42,893,068)	(43,300,009)
Net Increase (Decrease) in Cash and Cash Equivalents	18,554	209,217	227,771	(478,736)
Cash and Cash Equivalents, July 1	68,582	0	68,582	547,318
Cash and Cash Equivalents, June 30	\$87,136	\$209,217	\$296,353	\$68,582

Reconciliation of Operating Income to Net Cash Provided by Operating Activities				
Net Income (Loss)	(\$52,141,676)	(\$396,628)	(\$52,538,304)	\$474,714
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities				
Investment Income	(5,622,441)	(753)	(5,623,194)	(26,828,694)
Depreciation	77,308		77,308	131,646
Miscellaneous Nonoperating (Revenues) Expenses				(1)
Decrease (Increase) in Assets:				
Other Receivables	19	(78,504)	(78,485)	743
Increase (Decrease) in Liabilities				
Accounts Payable	111,543		111,543	18,268
Accrued Liabilities	7,451		7,451	736
Due to Other Funds	(612,361)	612,361		118
Benefits Payable	101,100,000		101,100,000	69,117,206
Other Liabilities	42,520	71,988	114,508	(37,252)
Net Cash Flows Provided (Used) by Operating Activities	\$42,962,363	\$208,464	\$43,170,827	\$42,877,484

* The Variable Savings Program began operations on 10/2/2000

The Notes to the Financial Statements are an integral part of the financial statements.

THIS PAGE INTENTIONALLY LEFT BLANK

**OHIO TUITION TRUST AUTHORITY
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

1. INTRODUCTION

The Ohio Tuition Trust Authority (Tuition Trust) was established by Chapter 3334, Ohio Revised Code in 1989 and is part of the legal reporting entity of the State of Ohio. The governing body consists of an eleven-member board of which no more than six can be from the same political party. This board consists of six members appointed by the governor with the advice and consent of the Senate. One shall represent state institutions of higher education, one shall represent private nonprofit colleges and universities located in Ohio, and four shall have experience in the fields of banking, investment banking, marketing, insurance, or law. The speaker of the House of Representatives and the president of the Senate shall appoint four members: one member of the House of Representatives shall be from each political party, and one member of the Senate shall be from each political party. The chancellor of the Board of Regents, or designate, is the ex officio voting member.

The primary objectives for Tuition Trust are to help make higher education affordable and accessible to all citizens of Ohio, to maintain state institutions of higher education by helping to provide a stable financial base to these institutions, to provide citizens of Ohio with financing assistance for higher education and protection against rising tuition costs, to encourage elementary and secondary students in this state to achieve academic excellence, and to promote a well-educated and financially secure population to the ultimate benefit of all citizens of the State of Ohio. The program consists of promoting the issuance of college savings bonds, the sale of tuition units, and effective October 2000 offering a variable college savings program. All available programs will be collectively called CollegeAdvantage. The Variable Program is not covered in these financial statements and has been subjected to a separate audit. (See Note 1B for a full description of the Variable Savings Program)

All funds available through CollegeAdvantage will be available for use at any college in the country, with refund and transfer options available. They will offer the same state advantages for Ohio residents, including the new state of Ohio income tax deduction on contributions. Since all funds are Section 529 Qualified State Tuition Programs, earnings on the funds are federally tax deferred until used for college. Additionally, due to recent changes in federal tax laws, benefits of the plan will be exempt from federal income tax for qualified payouts subsequent to January 1, 2002. Due to a sunset provision in the new tax laws, this tax exemption will expire at the end of calendar year 2011 unless the U. S. Congress decides to extend it beyond that time.

Except as otherwise specified in Chapter 3334, Ohio Revised Code, Tuition Trust is not required to adhere to the provisions of Chapters 123, 125, and 4117, Ohio Revised Code. The Department of Administrative Services (DAS), upon the request of the Tuition Trust, shall act as the Tuition Trust's agent, for the purchase of equipment, supplies, insurance and services, or the performance of administrative services pursuant to Chapter 125, Ohio Revised Code.

The Guaranteed Fund is guaranteed by the full faith and credit of the State of Ohio and is guaranteed to keep pace with tuition inflation. Only Ohio residents can participate, and purchasers cannot receive refunds until the beneficiary is 18.

**OHIO TUITION TRUST AUTHORITY
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

1. INTRODUCTION (Continued)

A. Reporting Entity

The accompanying financial statements report the financial position, results of operations, and cash flows of and for the fiscal year ended June 30, 2001 of the Enterprise Fund. The Enterprise Funds consists of the Guaranteed program and administrative components associated with the Variable Savings plan. The assets of the Variable Savings plan are not part of the reporting entity of the Ohio Tuition Trust Authority as more fully described in Note 8. Enterprise Fund Totals of the financial position, results of operations, and cash flows for the fiscal year ended June 30, 2000 have been presented for comparison purposes only. These funds are part of the State of Ohio's reporting entity. The accompanying statements are not intended to present all enterprise activities of the State of Ohio. The State of Ohio Comprehensive Annual Financial Report (CAFR) provides more extensive disclosures regarding the significant accounting policies of the State as a whole.

B. Variable Savings Program

In June 2000, Governor Taft signed into law Senate Bill 161 creating a variable return college savings option. Beginning October 2nd, 2000, the new college savings fund has been available in conjunction with the Tuition Trust's guaranteed plan. Three new Variable Investment Funds have been developed in partnership with Putnam Investments, giving Ohioans four college savings choices. The four funds include: 1) a Guaranteed Fund (the original prepaid fund); 2) an Age-Based Fund, with investments weighted more towards equities (stocks) during a child's younger years, then gradually shifting to more conservative investments as the child approaches college age; 3) a Balanced Fund, with investments more equally weighted in both equities and bonds; and 4) a Growth Fund, with investment primarily in equities. Beginning in July, 2001 for the fiscal year 2002 and beyond, an additional fund, the Aggressive Growth Fund, consisting entirely of equities, will be offered. These five funds are marketed under the name CollegeAdvantage Saving Plan.

Following the passage of SB 161, the Tuition Trust embarked on a nationwide search for an investment firm to not only manage the new funds, but also help the Tuition Trust provide customer service and marketing support. After an extensive review process, Tuition Trust Board of Directors selected Putnam Investments. Putnam provides marketing, investment management, record keeping and administrative services for amounts invested under the Variable Program.

The Variable Investment Funds offer the same benefits as the original plan . As stated in the introduction, all funds available through CollegeAdvantage will be available for use at any college in the country, with refund and transfer options available. They will offer the same state advantages for Ohio residents, including the new state of Ohio income tax deduction on contributions. Since all funds are Section 529 Qualified State Tuition Programs, earnings on the funds are federally tax deferred until used for college. Additionally, due to recent changes in federal tax laws, benefits of the plan will be exempt from federal income tax for qualified payouts subsequent to January 1, 2002. Due to a sunset provision in the new tax laws, this tax exemption will expire at the end of calendar year 2011 unless the U. S. Congress decides to extend it beyond that time.

**OHIO TUITION TRUST AUTHORITY
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

1. INTRODUCTION (Continued)

B. Variable Savings Program (Continued)

The Variable Fund offers variable rates of return contingent on market performance. They are not guaranteed by the state. Anyone in the country is able to participate, not just Ohio residents. Contributors are able to request refunds at any time for any reason, subject to certain penalties for non-qualified withdrawals.

As of June 30, 2001 the Net Assets of the CollegeAdvantage Variable Savings Plan Trust Fund are \$427,731,970. The Trust Fund is not covered in these financial statements and has been subjected to a separate audit.

2. SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting-Enterprise Fund Accounting

Fund accounting uses a self-balancing set of funds to account for all activity. An enterprise fund is part of the proprietary group of funds within a governmental organization. In an enterprise fund, operations of the enterprise are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is to provide goods or services to the general public on a continuing basis while recovering the cost through the sales price. This fund type is accounted for using the full accrual basis of accounting. Accrual accounting attempts to record the financial effects of transactions, events, and circumstances in the period in which they occur rather than in the period in which cash is received or paid by the organization. The activities of the Tuition Trust Authority are reported as an enterprise fund since the cost of providing the Guaranteed Program is recovered through revenues of the program. Start up and administrative costs associated with the Variable Program are recovered thru basis point revenue, fees, and contributions . (See Note 2. C. 2. for a description of the variable savings plan revenue.)

Tuition Trust classifies resources into four (4) separate funds for accounting purposes. These funds are authorized by Ohio Revised Code section 3334.11 and are described below:

Guaranteed Program

Trust Fund

This Trust Fund is restricted in its use, and can only be used to pay claims for payment pursuant to tuition payment contracts. The fund is used to account for the assets and the actuarial liability related to providing tuition payments for participants.

Reserve Fund

The Reserve Fund is used to account for administrative revenues related to the program such as enrollment fees and the administrative portion of each tuition unit (approximately \$5 for each tuition unit purchased).

**OHIO TUITION TRUST AUTHORITY
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Accounting-Enterprise Fund Accounting (Continued)

Guaranteed Program (Continued)

Operating Fund (Central Accounting System (CAS) Fund 645)

The Operating Fund is used to account for advertising, administrative costs, and appropriations of the program. Funds are transferred from the Reserve Fund when necessary to pay the costs of operating the program.

Variable Program

Variable Savings Operating Fund (Central Accounting System (CAS) Fund 5P3)

The Variable Savings Operating Fund is used to account for the administrative revenues and costs of the Variable Savings Plan.

B. Stance on Financial Accounting Standards

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20:

Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting, the Tuition Trust follows GASB guidance as applicable to proprietary funds and Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements. The Tuition Trust will not adopt any FASB Statements and Interpretations issued after November 30, 1989.

C. Revenue

1. Guaranteed Savings Plan

From July 1 to September 30, 2000, participants in the program generally paid a \$50.00 enrollment fee. Tuition Trust offered a discounted enrollment fee of \$25.00 for Newborn Contracts. Subsequent to October 1, 2000, the preceding fee structure was terminated in order to bring Guaranteed Savings Plan fees into line with those of the new Variable Savings Plan.

Participants could purchase tuition units at a cost of \$47.50 (July 1, 2000 through September 30, 2000) and \$51.00 (October 1, 2000 through June 30, 2001). Volume discount purchases made during the 2001 fiscal year were priced based on the age of the beneficiary and the number of units purchased at any one time. Volume discount prices ranged from \$42.00 to \$49.00.

Tuition units purchased through payroll deduction (PDS) or automatic cash transaction (ACT) could be purchased for \$45.00 (July 1-September 30, 2000) and \$49.00 (October 1, 2000 through June 30, 2001).

**OHIO TUITION TRUST AUTHORITY
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Revenue (Continued)

1. Guaranteed Savings Plan (Continued)

A purchase of 100 tuition units will prepay approximately one year's tuition at an average-priced Ohio public university. Fees and tuition unit purchases are recognized when received. The tuition unit price has been actuarially determined. Fees and approximately \$5 of each tuition unit are transferred to and accounted for in the Reserve Fund to cover present and future administrative costs, and to provide a reserve for the Trust Fund. The balance of each tuition unit is recorded as Unit Sales in the Trust Fund.

Total net, unused units and credits on account as of June 30, 2001 are 9,511,215. Total contracts remaining open as of June 30, 2001 are 90,676.

2. Variable Savings Plan

Significant administrative revenue for the Variable Savings Operating Fund was derived from the following sources:

- Basis Point revenue is received on sales of the Variable Savings Plan. The Tuition Trust receives 10 basis points (0.1%) on all sales made by investment advisors and 5 basis points (0.05%) on all sales made to Ohio residents directly by the Tuition Trust. These amounts are calculated daily by Putnam Investments and payment is received by the Tuition Trust quarterly.
- For the fiscal year 2001, the Tuition Trust received a fixed \$100,000 fee from Putnam Investments to offset administrative costs.
- Putnam Investments paid a contractually determined amount directly for marketing expenses for the benefit of the CollegeAdvantage program. This amount is labeled "Putnam Hard Dollar Contribution".

D. Expenses

Tuition Benefit Expenses (Payouts) are recognized when they are paid and Actuarial Tuition Benefits Expense is adjusted at the end of the fiscal year by an amount used to adjust the tuition benefit liability as determined by the actuarial study.

Prior to fiscal year 2001, the Guaranteed Program absorbed all operating expenses related to the passage of the legislation and early development of the new Variable College Savings Plan. The Tuition Trust has conducted internal studies of operating expenses. Based on the results of those studies, the Tuition Trust has determined that certain common expenses should be allocated between the Guaranteed and Variable Savings Programs based on criteria established for the varying type of operating expense. Specific expenses that can be directly attributed to the Guaranteed and Variable Savings Programs, are expensed to the respective programs.

**OHIO TUITION TRUST AUTHORITY
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Marketable Securities

PERS (Public Employees Retirement System of Ohio), designated by state statute as the Tuition Trust investment manager, provides market values for all marketable securities on a monthly basis. In addition to PERS, OTTA has contracted with the following external money managers to manage a portion of its securities:

Marvin & Palmer	International Equities
Capital Guardian	International Equities
Sanford Bernstein	Large Cap Equities
Brandywine Asset Management	Small/Mid Cap Equities

Marketable securities consist of equity and debt securities for both Trust and Reserve Funds. Equity securities are valued at the end of the periods by the stock market closing prices, while Debt securities are valued by averaging three bid-side quotes from broker/dealers.

Fiscal Year 2001, realized and unrealized gains were as follows:

	RESERVE	TRUST	TOTAL
Realized Gain or (Loss)	\$(535,999)	\$(2,332,745)	\$(2,868,744)
Net Increase (Decrease) in Fair Value	\$ 1,611,435	\$(13,841,849)	\$(12,230,414)
Unrealized Gain (Loss) On Investments	\$ 1,191,954	\$ 15,982,390	\$ 17,174,344

F. Accrued Liabilities

Accrued Liabilities consist of compensated absences and wages payable owed to Tuition Trust employees as of June 30, 2001, the wages payable, accumulated vacation, sick, personal, and compensatory time amounted to \$55,053; \$68,065; \$21,628; \$5,682; and \$10,781, respectively.

The State of Ohio, which governs the Tuition Trust employees' leave benefits and policies, pays compensation to separated employees for leave balances accumulated during the employee's term of service. In accordance with Governmental Accounting Standards Board Statement No. 16, *Accounting for Compensated Absences*, the Tuition Trust calculates the compensated absences liability on employees' fiscal year-end balances for vacation, personal, sick, and compensatory leaves. Included in the liability is an amount accrued for salary-related payments directly associated with the payment of compensated absences upon termination, such as Medicaid taxes.

**OHIO TUITION TRUST AUTHORITY
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Collateral on Lent Securities/Obligation under Securities Lending

During Fiscal Year 2001, the Treasurer of State routinely lends securities from the State's investment portfolio under securities lending agreements. For the State's securities out on loan, the Treasurer receives cash collateral from the borrower. The Treasurer reinvests the collateral in various types, including U.S. government and agency obligations, repurchase agreements, commercial paper, corporate bonds, and money market funds. Also, cash collateral may be placed with financial institutions. For cash collateral the Treasurer receives for securities out on loan, as of June 30, the State reports assets and liabilities arising from the securities lending transactions on the balance sheets of the funds that have the risk of loss on the collateral assets.

While all three funds, Operating, Reserve, and Trust are authorized to participate in Securities Lending Agreements, during Fiscal Year 2001 only the Operating Fund participated in Securities Lending transactions.

H. Self-Insurance

The State of Ohio serves as Tuition Trust Authority'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.

3. DEPOSITS AND INVESTMENTS

A. Deposits

Cash deposits in Operating Fund 645 are part of the pooled cash and investments held by the Treasurer of the State of Ohio. The resources in the pool are not segregated by individual state agency. The Reserve and Trust fund's deposits and investments are transferred to the custody of the Treasurer of the State of Ohio, but are segregated from other State funds. These assets will be invested in the same manner as the Public Employees Retirement System (PERS), pursuant to section 145.11, Ohio Revised Code. During fiscal year 2001, the investment staff of PERS made investment recommendations on behalf of the Tuition Trust, subject to the Tuition Trust's approval and within the investment policy guidelines adopted by the Board of Directors.

As of June 30, 2001, the carrying amount and bank balance was \$296,353. The entire \$296,353 was either insured or collateralized, with securities held by Tuition Trust or by its agent in Tuition Trust's name, as follows:

<u>Accounts</u>	<u>Carrying</u>	<u>FDIC</u>	<u>Collateralize</u>	<u>Totals</u>
Operating Fund 645	\$24,884	\$0	\$24,884	\$24,884
Operating Fund 5P3	209,217	0	209,217	209,217
Trust Fund-Lockbox Account	62,252	62,252	0	62,252
Totals	<u>\$296,353</u>	<u>\$62,252</u>	<u>\$234,101</u>	<u>\$296,353</u>

**OHIO TUITION TRUST AUTHORITY
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

B. Investments

The investments are categorized below to give an indication of the level of risk assumed by Tuition Trust at year-end. Category 1 includes investments that are insured or registered or for which Tuition Trust or its agent in Tuition Trust's name holds securities. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department in Tuition Trust's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in Tuition Trust's name. Tuition Trust does not have any Category 3 securities.

Categorized Investments Carrying Amount

	Category 1	Category 2	Total (at Market Value)
Government and Governmental Backed Securities	\$228,184,692	\$0	\$228,184,692
Stocks *	322,429,990	0	322,429,990
Sweep Account	0	1,295,885	1,295,885
Totals	<u>\$550,614,682</u>	<u>\$1,295,885</u>	<u>\$551,910,567</u>

* Includes equities managed by all investment managers.

Investments not categorized	
Investments held in a securities lending collateral investment pool	\$22,808

4. TUITION BENEFITS PAYABLE

Tuition Benefits Payable represents the actuarially determined present value (APV) of future tuition obligations. This valuation method reflects the present value of estimated tuition benefits that will be paid in future years and is adjusted for the effects of projected tuition increases and the termination of Tuition Trust contracts. Beginning with the 1995 Actuarial Valuation, the Tuition Trust's actuarial firm, with approval of the Board of Directors, adopted a methodology to smooth volatility in investment values. This methodology recognizes each year one-third of the difference between (1) assets at fair market value and (2) the expected assets based on the actuarial investment return assumption. The result is that the assets used to determine the programs surplus are not the same as the market or cost value of assets found in the programs financial statements. This "smoothed" method of asset determination is referred to as the Actuarial Value of Assets.

**OHIO TUITION TRUST AUTHORITY
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

4. TUITION BENEFITS PAYABLE (Continued)

The results are as follows:

APV of future benefits and expenses payable	\$ 486,800,000
Actuarial net assets available	\$ 555,413,812
Assets as a percentage of tuition benefits and expense obligation	114.1 %

The following assumptions were used in the actuarial determination of tuition benefits payable:

Rate of return (investment of current and future assets)	7.5 %	Compounded annually
Projected tuition increase	8.2 %	Next 4 years*
	5.75%	Thereafter
Consumer Price Index (CPI) Inflation Rate	2.5 %	

* This represents a change in the assumption for annual tuition growth from a constant 6% per year to the percentages indicated. The 5.75% assumption for 2006 and later years was chosen because it is approximately the average real (adjusted for inflation) increase in tuition annually from 1975 through 2005 (30 years) assuming 8.2% increases in tuition annually from 2002 through 2005 combined with the actuary's 2.5% assumption for future inflation. This change in actuarial assumption results in a decrease in surplus of \$26.3 million from June 30, 2000 to June 30, 2001.

5. TAX STATUS

Section 529 of the *Internal Revenue Code* provides that all "Qualified State Tuition Programs" are exempt from federal taxation with the exception that they are subject to the unrelated business income tax (UBIT). This new law also includes a transition rule that allows for tax-exempt treatment for all earlier years of Tuition Trust operations.

On August 24, 1998 the IRS issued proposed regulations to clarify Section 529. Prior to the release of such regulations, Tuition Trust worked with legal counsel to amend its enabling state legislation, Chapter 3334 of the *Ohio Revised Code*, and its administrative rules, filed in Chapter 3334 of the *Ohio Administrative Code*, to insure that the Ohio prepaid tuition plan is in timely compliance with all known requirements of Section 529.

The Ohio Tuition Trust had filed with the IRS to obtain a Private Letter Ruling. However, pending further guidance from the IRS regarding the recent tax law changes and the program changes entailed, the Tuition Trust is in the process of amending it's request. A Private Letter Ruling constitutes the IRS opinion on whether the programs administered by the Tuition Trust are in compliance with Section 529 (ie Qualified) and therefore eligible for tax advantaged treatment. The Tuition Trust believes that a favorable ruling will be obtained.

**OHIO TUITION TRUST AUTHORITY
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

6. CONTINGENCIES

State agencies and their employees are parties to numerous legal proceedings, which normally occur, in governmental operations. Those cases, which result in an unfavorable outcome, are either absorbed in the Tuition Trust's subsequent year budget or are funded through the General Assembly. There are no legal proceedings, which, in the opinion of management, are likely to have a material affect on any of the Tuition Trust's funds.

7. PENSION PLAN

All Tuition Trust employees participate in the statewide Public Employees Retirement System of Ohio (PERS). PERS is a cost-sharing, multiple-employer defined benefit pension plan administered by the PERS Retirement Board. PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Chapter 145 of the Ohio Revised Code provides legal authority to the Retirement Board to establish and amend pension benefit provisions. The PERS issues a stand-alone financial report that includes financial statements and required supplementary information. This report may be obtained by making a written request to the Retirement Board at 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085.

Required employee and employer contributions to PERS are established under the Ohio Revised Code and are based on percentages of covered employees' gross salaries, with the contribution rate percentages being calculated annually by the Retirement Board's actuaries. The employee contribution rate is 8.5 percent of covered payroll; the employer contribution rate is 10.65 percent of the covered payroll costs. Employer contributions required and made to PERS for 2001, 2000, 1999 were \$121,481, \$176,373 and \$147,887, respectively.

8. OTHER POST-EMPLOYMENT BENEFITS

Public Employees Retirement System of Ohio provides post-retirement health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit and to primary survivor recipients of such retirees. Health care coverage for disability recipients is available.

The health care coverage provided by the retirement system is considered an Other Post-employment Benefits (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2000 employer contribution rate for state employers was 10.65% of covered payroll; 4.3% was the position that was used to fund health care for the year.

The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to PERS.

**OHIO TUITION TRUST AUTHORITY
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

8. OTHER POST-EMPLOYMENT BENEFITS (Continued)

OPEB are financed through employer contributions and investment earnings there on. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions are expected to be sufficient to sustain the program indefinitely.

Expenditures for OPEB during 2000 were \$559,606,294. As of December 31, 2000, the estimated net assets available for future OPEB payments were \$10,965,429,369. The number of benefit recipients eligible for OPEB at December 31, 2000 was 131,428.

For comparability purposes, please see the footnotes for the year ended June 30, 2000 in our previous annual report.

THIS PAGE INTENTIONALLY LEFT BLANK

Ohio Tuition Trust Authority

Schedule of Combining Balance Sheets

As of June 30, 2001 with comparative for June 30, 2000

	Guaranteed			Program Totals 06/30/01	Enterprise Fund Totals 06/30/00
	Operating Fund	Reserve Fund	Trust Fund		
ASSETS					
Current Assets					
Cash	\$24,884			\$24,884	\$37,295
Collateral on Lent Securities	22,808			22,808	2,577
Marketable Securities (at market value)		46,204,455		46,204,455	39,200,759
Other Receivable					19
Due from Trust Fund		263,760		263,760	184,458
Due from Variable Fund	612,361			612,361	
Total Current Assets	660,053	46,468,215		47,128,268	39,425,108
Restricted Assets					
Cash Held for Tuition Benefits			62,252	62,252	31,287
Marketable Securities (at market value)			505,706,112	505,706,112	457,211,364
Total Restricted Assets			505,768,364	505,768,364	457,242,651
Fixed Assets					
Equipment	645,639			645,639	632,926
Leasehold Improvements	70,781			70,781	70,781
Less: Accumulated Depreciation	(520,278)			(520,278)	(442,970)
Total Fixed Assets	196,142			196,142	260,737
TOTAL ASSETS	856,195	46,468,215	505,768,364	553,092,774	496,928,496
LIABILITIES AND RETAINED EARNINGS					
Current Liabilities					
Accounts Payable	176,282			176,282	92,555
Accounts Payable-State of Ohio	30,905			30,905	3,089
Accrued Liabilities	161,209			161,209	153,758
Liabilities for Securities Sold	2,626	9	8,997,931	9,000,566	2,013,139
Obligation under Securities Lending	22,808			22,808	2,577
Due to Reserve Fund	285		263,475	263,760	184,458
Due to Guaranteed Fund					
Current Portion-Tuition Benefits Payable			36,900,000	36,900,000	31,200,000
Total Current Liabilities	394,115	9	46,161,406	46,555,530	33,649,576
Non-Current Liabilities					
Tuition Benefits Payable			449,900,000	449,900,000	354,500,000
Total Non-Current Liabilities			449,900,000	449,900,000	354,500,000
Total Liabilities	394,115	9	496,061,406	496,455,530	388,149,576
Retained Earnings					
Retained Earnings	462,080	46,468,206	9,706,958	56,637,244	108,778,920
Total Retained Earnings	462,080	46,468,206	9,706,958	56,637,244	108,778,920
TOTAL LIABILITIES AND RETAINED EARNINGS	\$856,195	\$46,468,215	\$505,768,364	\$553,092,774	\$496,928,496

The Notes to the Financial Statements are an integral part of the financial statements.

Ohio Tuition Trust Authority
Schedule of Combining Statements of Revenues,
Expenses, and Changes in Retained Earnings

For the 12 Month Period Ended June 30, 2001 with comparative for June 30, 2000

	Operating Fund	Guaranteed		Program Totals 06/30/01	Enterprise Fund Totals 06/30/00
		Reserve Fund	Trust Fund		
OPERATING REVENUES					
Contract Fees		\$116,660		\$116,660	\$156,470
Unit Sales		6,954,756	63,282,529	70,237,285	63,049,690
Investment Income	6,181	3,711,809	1,904,451	5,622,441	26,828,694
Miscellaneous Revenue					2
TOTAL OPERATING REVENUES	6,181	10,783,225	65,186,980	75,976,386	90,034,856
OPERATING EXPENSES					
Personal Services	1,767,677	4,255	805,816	2,577,748	2,950,767
Maintenance	816,318			816,318	1,307,498
Depreciation	77,308			77,308	131,646
Expenses Paid by Putnam	627,074			627,074	
Tuition Benefits Expense (Payouts)			22,842,407	22,842,407	16,053,025
Actuarial Tuition Benefit Expense			101,177,207	101,177,207	69,117,206
TOTAL OPERATING EXPENSES	3,288,377	4,255	124,825,430	128,118,062	89,560,142
OPERATING INCOME (LOSS)	(3,282,196)	10,778,970	(59,638,450)	(52,141,676)	474,714
NONOPERATING REVENUE (EXPENSES)					
Loss on Disposal of Fixed Assets					(519)
INCOME (LOSS) BEFORE OPERATING TRANSFERS	(3,282,196)	10,778,970	(59,638,450)	(52,141,676)	474,195
Interfund Transfers In (Out)	3,696,000	(3,696,000)			
NET INCOME (LOSS)	413,804	7,082,970	(59,638,450)	(52,141,676)	474,195
BEGINNING RETAINED EARNINGS	48,276	39,385,236	69,345,408	108,778,920	108,304,725
ENDING RETAINED EARNINGS	\$462,080	\$46,468,206	\$9,706,958	\$56,637,244	\$108,778,920

The Notes to the Financial Statements are an integral part of the financial statements.

Ohio Tuition Trust Authority

Schedule of Combining Statements of Cash Flows

As of June 30, 2001 with comparative for June 30, 2000

	Guaranteed			Program Totals 06/30/01	Enterprise Fund Totals 06/30/00
	Operating Fund	Reserve Fund	Trust Fund		
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash Received from Customers		\$7,071,416	\$63,282,529	\$70,353,945	\$63,206,160
Cash Payments to Suppliers for Goods and Services	(1,248,090)			(1,248,090)	(1,295,171)
Cash Payments to Employees/consultants/professional contracts for Services	(2,502,921)			(2,502,921)	(2,183,689)
Other Operating Cash Receipts (payments)	89,086	(4,227)	(23,725,430)	(23,640,571)	(16,849,816)
Net cash provided (used) by operating activities	(3,661,925)	7,067,189	39,557,099	42,962,363	42,877,484
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Interfund Transfers In (Out)	3,696,000	(3,696,000)			
Net cash flows provided (used) by noncapital financing activities	3,696,000	(3,696,000)			
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition of Capital Assets	(49,988)			(49,988)	(56,211)
Proceeds from Sales of Fixed Assets					
Net Cash flows provided (used) by capital and related financing activities	(49,988)			(49,988)	(56,211)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Proceeds from the Sales and Maturities of Investments		291,006,458	882,496,776	1,173,503,234	842,804,006
Purchase of Investments		(297,147,218)	(940,087,995)	(1,237,235,213)	(905,292,685)
Investment Income Received	3,502	2,769,571	18,065,085	20,838,158	19,188,670
Net Cash Flows Provided (Used) by investing activities	3,502	(3,371,189)	(39,526,134)	(42,893,821)	(43,300,009)
Net Increase (Decrease) in Cash and Cash Equivalents	(12,411)	0	30,965	18,554	(478,736)
Cash and Cash Equivalents, July 1	37,295	0	31,287	68,582	547,318
Cash and Cash Equivalents, June 30	\$24,884	\$0	\$62,252	\$87,136	\$68,582

Reconciliation of Operating Income to Net Cash Provided by Operating Activities					
Net Income (Loss)	(\$3,282,196)	\$10,778,970	(\$59,638,450)	(\$52,141,676)	\$474,714
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities					
Investment Income	(6,181)	(3,711,809)	(1,904,451)	(5,622,441)	(26,828,694)
Depreciation	77,308			77,308	131,646
Miscellaneous Nonoperating (Revenues) Expenses					(1)
Decrease (Increase) in Assets:					
Intergovernmental Receivables					
Other Receivables		19		19	743
Increase (Decrease) in Liabilities					
Accounts Payable	111,543			111,543	18,268
Accrued Liabilities	7,451			7,451	736
Intergovernmental Payable					
Due to Other Funds	(612,361)			(612,361)	118
Deferred Revenues					
Benefits Payable			101,100,000	101,100,000	69,117,206
Other Liabilities	42,511	9		42,520	(37,252)
Net Cash Flows Provided (Used) by Operating Activities	(\$3,661,925)	\$7,067,189	\$39,557,099	\$42,962,363	\$42,877,484

The Notes to the Financial Statements are an integral part of the financial statements.

THIS PAGE INTENTIONALLY LEFT BLANK



**STATE OF OHIO
OFFICE OF THE AUDITOR**

JIM PETRO, AUDITOR OF STATE

35 North Fourth Street
Columbus, Ohio 43215
Telephone 614-466-3402
800-443-9275
Facsimile 614-728-7199
www.auditor.state.oh.us

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

Ohio Tuition Trust Authority
Franklin County
580 South High Street, Suite 208
Columbus, Ohio 43215-5644

We have audited the combining financial statements of the Ohio Tuition Trust Authority as of and for the years ended June 30, 2001 and 2000, and have issued our report thereon dated September 28, 2001. 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 Ohio Tuition Trust Authority'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. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Ohio Tuition Trust Authority'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 controls over financial reporting that do not require inclusion in this report, that we have reported to management of the Ohio Tuition Trust Authority in a separate letter dated September 28, 2001.

This letter is intended solely for the information and use of Ohio Tuition Trust Authority's management and the Ohio General Assembly and is not intended to be and should not be used by anyone other than these specified parties.

JIM PETRO
Auditor of State

September 28, 2001



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

OHIO TUITION TRUST AUTHORITY

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 16, 2001**