



**Auditor of State
Betty Montgomery**

**OHIO TUITION TRUST AUTHORITY
FRANKLIN COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Report of Independent Accountants	1
Management's Discussion and Analysis	3
Financial Statements	
Balance Sheet	7
Statement of Revenues, Expenses, and Changes in Fund Net Assets	8
Statement of Cash Flows	9
Statement of Fiduciary Net Assets	10
Statement of Changes in Fiduciary Net Assets	11
Notes to the Financial Statements	13
Individual Schedules	
Balance Sheet	25
Schedule of Revenues, Expenses, and Changes in Fund Net Assets	26
Schedule of Cash Flows	27
Schedule of Fiduciary Net Assets – Putnam Options	28
Schedule of Fiduciary Net Assets – Vanguard Options	29
Schedule of Changes in Fiduciary Net Assets – Putnam Options	30
Schedule of Changes in Fiduciary Net Assets – Vanguard Options	31
Report of Independent Accountants on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	33
Schedule of Prior Audit Findings	35

This page intentionally left blank.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

We have audited the accompanying financial statements of the Ohio Tuition Trust Authority, State of Ohio, as of and for the year ended June 30, 2004, as listed in the table of contents. 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 did not audit the financial statements of the Private Purpose Trust Fund. Other auditors audited those statements. They have furnished their reports thereon to us, and we based our opinion, insofar as it relates to the amounts included for the Private Purpose Trust Fund, on the reports of the other auditors. The prior year partial comparative information has been derived from the Ohio Tuition Trust Authority's fiscal year 2003 financial statements and, in our report dated September 30, 2003, we expressed an unqualified opinion on the respective financial statements.

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 and the reports of the other auditors provide a reasonable basis for our opinions.

As discussed in Note 1, the financial statements present only the Ohio Tuition Trust Authority's Enterprise Fund and Private Purpose Trust Fund activity 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 or fiduciary fund types in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Ohio Tuition Trust Authority as of June 30, 2004, and the results of its operations and the cash flows of the proprietary fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2004 on our consideration of the Ohio Tuition Trust Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. 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.

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 financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We applied limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion thereon.

We conducted our audit to form an opinion on the financial statements of the Ohio Tuition Trust Authority's Enterprise Fund and Private Purpose Trust 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 financial statements. We and the other auditors subjected this information to the auditing procedures applied in the audit of the Ohio Tuition Trust Authority's Enterprise Fund and Purpose Trust Fund financial statements, respectively. In our opinion, this information is fairly presented, in all material respects, in relation to the Ohio Tuition Trust Authority's Enterprise Fund and Purpose Trust Fund financial statements taken as a whole.

As of June 30, 2004, the liabilities of the Ohio Tuition Trust Authority exceeded assets by \$289,354,000 in their Enterprise Fund. Management's Discussion and Analysis identifies a variety of factors which contributed to this deficit position. However, as discussed in Note 1, the liabilities related to the Guaranteed Program reported in the Enterprise Fund are guaranteed by the full faith and credit of the State of Ohio. In addition, as discussed in Note 9, the Ohio Tuition Trust Authority has extended the temporary suspension of new enrollments and additional contributions to existing accounts.

The financial statements include partial prior-year comparative information. Such information does not include Management's Discussion and Analysis and the Notes to the Financial Statements required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Ohio Tuition Trust Authority's financial statements for the year ended June 30, 2003, from which such partial information was derived.



Betty Montgomery
Auditor of State

December 9, 2004

Ohio Tuition Trust Authority
Management's Discussion and Analysis
June 30, 2004
(Unaudited)

As management of the Ohio Tuition Trust Authority (OTTA), a part of the primary government of the State of Ohio, we offer readers of OTTA's financial statements this narrative overview and analysis of OTTA's financial activities for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with OTTA's financial statements, which begin on page 7 of this report.

Financial Highlights

- OTTA's invested assets increased during fiscal year 2004 by \$88,769,212 or 11.7%.
- OTTA's unit sales decreased by \$72,695,444 or 68.7% in fiscal year 2004 from fiscal year 2003 as a result of the suspension of sales in the Guaranteed Savings Plan.
- Tuition Benefits Payable increased over fiscal year 2003 by \$61,200,000 or 5.7% as a result of the suspension of sales in the Guaranteed Savings Plan.
- The robust Return on Investments of 14.12% for fiscal year 2004 combined with the relatively modest increase in Tuition Benefits Payable combined to reduce OTTA's Fund Deficit by \$29,595,121 or 9.3% over fiscal year 2003.
- OTTA enhanced its offerings by adding the Vanguard Savings Program during May 2004. The Vanguard Savings Program features 15 low-cost, passively managed fund options to Ohio and national customers.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to OTTA's basic financial statements. OTTA's basic financial statements consist of three components: 1) financial statements 2) notes to the financial statements and 3) individual schedules.

Financial statements. OTTA follows enterprise fund accounting, which means these statements are presented in a manner similar to a private-sector business. The financial statements are designed to provide readers with a broad overview of OTTA's finances by fund and in total. These statements offer short and long-term financial information about its activities.

The *balance sheet* presents information on all of OTTA's assets and liabilities, including information about the nature and amounts of investments in resources (assets), obligations (liabilities) and OTTA's net assets as of June 30, 2004. Over time, increases or decreases in the net assets may serve as a useful indicator of whether OTTA's financial position is improving or deteriorating.

The *statement of revenues, expenses and changes in fund net assets* presents information showing how OTTA's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of

Ohio Tuition Trust Authority
Management's Discussion and Analysis
June 30, 2004
(Unaudited)

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., depreciation and earned but unused vacation leave).

The *statement of cash flows* provides information about OTTA's cash receipts and cash payments during the reporting period. This statement summarizes the net changes resulting from operating, investing and non-capital financing activities.

Each of the financial statements highlights programs of OTTA that are principally supported by sales and investment income, programs that are intended to recover all of their costs through program fees or investment earnings (business type activities).

The *statement of fiduciary net assets* and the *statement of changes in fiduciary net assets* present information on the net assets and changes in net assets of the Putnam Savings Program and Vanguard Savings Program, which are classified as Private Purpose Trust Funds and are managed by Putnam Investments and Vanguard Investments respectively.

The financial statements can be found on pages 7 - 11 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements and individual schedules. The notes to financial statements can be found on pages 12 - 27 of this report.

Individual schedules. A sub fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. OTTA, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. The individual schedules can be found on pages 28 - 34 of this report.

Analysis of OTTA's Financial Position and Results of Operations

The tables below provide a summary of OTTA's financial positions and operations for fiscal years ended June 30, 2004 and June 30, 2003:

Ohio Tuition Trust Authority
Management's Discussion and Analysis
June 30, 2004
(Unaudited)

Combining Balance Sheet

(all amounts expressed in thousands of dollars)

	2004	2003	Dollar Change	Total Percent Change
Current Assets	16,826	3,727	13,099	351.5%
Restricted Assets	776,447	687,748	88,699	12.9%
Non-Current Assets	71,425	71,355	70	0.1%
Fixed Assets	116	117	(1)	-1.1%
Total Assets	864,814	762,947	101,867	13.4%
Current Liabilities	67,268	72,297	(5,029)	-7.0%
Tuition Benefits Payable	1,086,900	1,009,600	77,300	7.7%
Total Liabilities	1,154,168	1,081,897	72,271	6.7%
Total Net Assets	(289,354)	(318,950)	29,596	9.3%
Total Liab.and net assets	864,814	762,947	101,867	13.4%

As noted earlier, net assets may serve as a useful indicator of an entity's financial position. In OTTA's case, liabilities exceed assets by \$289,354,666 as of June 30, 2004. As stated, this represents a 9.3% improvement over OTTA's deficit position at June 30, 2003. Recovering financial markets during fiscal year 2004 and a modest increase in Tuition Benefits Liability, compared to fiscal year 2003, led to the improved position. Please see footnote number 4 in the Notes to the Financial Statements for additional information.

During fiscal year 2004, OTTA's total assets increased by \$101,867,100 or 13.4%. This is better than would have been expected given the suspension in unit sales. The larger than expected increase in total assets reflects the improving investment environment prevalent during fiscal year 2004.

The following table summarizes the changes in OTTA's Revenues and Expenses between fiscal years 2004 and 2003:

Ohio Tuition Trust Authority
Management's Discussion and Analysis
June 30, 2004
(Unaudited)

**Combining Statement of Revenues,
Expenses and Changes in Fund Net Assets**

(all amounts expressed in thousands of dollars)

	2004	2003	Dollar Change	Total Percent Change
Operating Revenues:				
Fees and Unit Sales	33,170	105,865	(72,695)	-68.7%
Investment Income	108,999	29,141	79,858	274.0%
Miscellaneous Revenue	6,261	4,796	1,465	30.5%
Total Operating Revenues	148,430	139,802	8,628	6.2%
Operating Expenses				
Operating Expenses	7,841	7,230	611	8.5%
Tuition Benefits Expense	110,993	381,239	(270,246)	-70.9%
Total Operating Expenses	118,834	388,469	(269,635)	-69.4%
Operating Income (Loss)	29,596	(248,667)	278,263	111.9%
Beginning Net Assets	(318,950)	(70,283)	(248,667)	353.8%
Ending Net Assets	(289,354)	(318,950)	29,596	9.3%

OTTA's two primary sources of operating revenue are unit sales and investment income, while the significant operating expense is tuition benefits expense. For the year ending June 30, 2004, OTTA had an increase in operating income compared to fiscal year 2003 of \$278,261,874 or 111.9%. This was attributable mainly to the following:

- A \$79,858,778 increase in investment income caused by improving market values of securities held by OTTA.
- A \$72,695,444 decrease in unit sales due to suspension of sales in the Guaranteed Savings Program.
- A \$270,245,501 decrease in tuition benefits expense as a result of more modest growth during FY04 and the slower estimated increase in the projected future tuition growth due to suspension of sales in the Guaranteed Savings Program.

Contacting OTTA's Financial Management

This financial report is designed to provide a general overview of OTTA's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Chief Financial Officer, Ohio Tuition Trust Authority, 580 S High St., Suite 208, Columbus, Ohio 43215 or call (800)233-6734 or visit OTTA's website at www.collegeadvantage.com.

Ohio Tuition Trust Authority - Enterprise Fund

Balance Sheet

*As of June 30, 2004 with comparative for June 30, 2003
(amounts in thousands)*

	Enterprise Fund Total as of 6/30/04	Enterprise Fund Total as of 6/30/03
ASSETS		
Current Assets		
Cash and Cash-Equivalents	\$ 665	\$ 505
Collateral on Lent Securities	11,115	347
Other Current Assets	5,046	2,875
Total Current Assets	16,826	3,727
Non-Current Assets		
Marketable Securities (at market value)	71,425	71,355
Total Non-Current Assets	71,425	71,355
Restricted Assets		
Cash Held for Tuition Benefits	71	271
Marketable Securities (at market value)	776,376	687,477
Total Restricted Assets	776,447	687,748
Fixed Assets		
Equipment	876	779
Leasehold Improvements	71	71
Less: Accumulated Depreciation	(831)	(733)
Total Fixed Assets	116	117
TOTAL ASSETS	864,814	762,947
LIABILITIES AND NET ASSETS		
Current Liabilities		
Other Current Liabilities	1,353	1,050
Obligation Under Securities Lending	11,115	347
Current Portion-Tuition Benefits Payable	54,800	70,900
Total Current Liabilities	67,268	72,297
Restricted Non-Current Liabilities		
Tuition Benefits Payable from Restricted Assets	1,086,900	1,009,600
Total Restricted Non-Current Liabilities	1,086,900	1,009,600
Total Liabilities	1,154,168	1,081,897
Net Assets		
Unrestricted Assets	(289,470)	(319,067)
Invested in Capital Assets	116	117
Total Net Assets	(289,354)	(318,950)
TOTAL LIABILITIES AND NET ASSETS	\$ 864,814	\$ 762,947

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

Ohio Tuition Trust Authority - Enterprise Fund

Statement of Revenues, Expenses, and Changes in Fund Net Assets

*For the 12 Month Period Ended June 30, 2004 with comparative for June 30, 2003
(amounts in thousands)*

	Enterprise Fund Totals 6/30/2004	Enterprise Fund Totals 6/30/2003
OPERATING REVENUES		
Contract Fees	\$ 1	\$ 2
Unit Sales	33,169	105,863
Investment Income	27,436	21,376
Net increase (decrease) in fair value of investments	81,563	7,765
Miscellaneous Revenue	-	6
Basis Point Revenue	5,272	3,477
Putnam Hard Dollar Contribution	989	1,313
TOTAL OPERATING REVENUES	148,430	139,802
OPERATING EXPENSES		
Personal Services	5,242	4,458
Maintenance	1,512	1,330
Depreciation	98	129
Expenses Paid By Putnam	989	1,313
Tuition Benefits Expenses (Payouts)	49,793	38,939
Actuarial Tuition Benefits Expense	61,200	342,300
TOTAL OPERATING EXPENSES	118,834	388,469
OPERATING INCOME (LOSS)	29,596	(248,667)
CHANGE IN NET ASSETS	29,596	(248,667)
BEGINNING NET ASSETS	(318,950)	(70,283)
ENDING NET ASSETS	\$ (289,354)	\$ (318,950)

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

Ohio Tuition Trust Authority - Enterprise Fund

Statement of Cash Flows

As of June 30, 2004 with comparative for June 30, 2003

(amounts in thousands)

	Enterprise Fund Totals FY 6/30/04	Enterprise Fund Totals FY 6/30/03
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers	\$ 33,169	\$ 105,865
Cash Payments to Suppliers for Goods and Services	(13,295)	(1,245)
Cash Payments to Employees/consultants/professional contracts for Services	(5,112)	(4,461)
Other Operating Cash Receipts (payments)	(33,533)	(35,751)
Net cash provided (used) by operating activities	(18,771)	64,408
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of Capital Assets	(96)	(54)
Net Cash flows provided (used) by capital and related financing activities	(96)	(54)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from the Sales and Maturities of Investments	308,703	139,527
Purchase of Investments	(317,760)	(229,264)
Investment Income Received	27,436	21,376
Net Cash Flows Provided (Used) by investing activities	18,379	(68,361)
Net Increase (Decrease) in Cash and Cash Equivalents	(488)	(4,007)
Cash and Cash Equivalents, July 1	1,224	5,231
Cash and Cash Equivalents, June 30	\$ 736	\$ 1,224

**Reconciliation of Operating Income to Net Cash
Provided by Operating Activities**

Operating Income (Loss)	\$ 29,596	\$ (248,667)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities		
Investment Income	(108,999)	(29,141)
Depreciation	98	129
Decrease (Increase) in Assets:		
Other Receivables	(11,737)	(560)
Increase (Decrease) in Liabilities:		
Accounts Payable	(48)	85
Accrued Liabilities	131	(4)
Benefits Payable	61,200	342,300
Other Liabilities	10,988	266
Net Cash Flows Provided (Used) by Operating Activities	\$ (18,771)	\$ 64,408

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

Ohio Tuition Trust Authority - Private Purpose Trust Fund
Statement of Fiduciary Net Assets
As of June 30, 2004 with comparative for June 30, 2003
(amounts in thousands)

ASSETS

Investments in securities, at value
Cash Equivalents
Dividends, interest, and other receivables
Receivable for units sold
Receivable for securities sold

6/30/2004	6/30/2003
\$ 2,826,597	\$ 2,233,310
234,942	189,566
14	7
2,031	2,678
14,540	30,454
\$ 3,078,124	\$ 2,456,015

Total Assets

LIABILITIES

Payable for securities purchased
Payable for units redeemed
Accrued management and administrative fees
Deferred excess of book value on wrapper agreements
Accrued audit fees
Accrued reports to shareholders fee
Payable for other

15,748	32,136
1,298	964
3,935	3,070
(503)	656
174	149
460	279
174	-
21,286	37,254

Total Liabilities

Net Assets Held in Trust for Plan Participants

\$ 3,056,838	\$ 2,418,761
---------------------	---------------------

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

Ohio Tuition Trust Authority - Private Purpose Trust Fund
Statement of Changes in Fiduciary Net Assets
As of June 30, 2004 with comparative for June 30, 2003
(amounts in thousands)

	6/30/2004	6/30/2003
ADDITIONS		
Contributions:		
Units sold	\$ 830,034	\$ 839,709
Investment earnings:		
Investment income	54,058	37,836
Net realized/unrealized appreciation (depreciation) on underlying fund shares	293,866	12,603
Total investment earnings	347,924	50,439
Less investment expenses	23,338	15,358
Net investment earnings	324,586	35,081
Total additions	1,154,620	874,790
DEDUCTIONS		
Units redeemed	515,064	185,153
Distributions to unitholders	1,479	398
Total deductions	516,543	185,551
Change in net assets	638,077	689,239
Net Assets Held in Trust for Plan Participants - Beginning	2,418,761	1,729,522
Net Assets Held in Trust for Plan Participants - Ending	\$ 3,056,838	\$ 2,418,761

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

This page intentionally left blank.

**OHIO TUITION TRUST AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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 from each political party, and one member of the Senate 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 offering a variable college savings program. All available programs are collectively called CollegeAdvantage.

The Guaranteed Program consists of the Operating sub fund, Reserve sub fund, and Trust sub fund. It sells units based on the weighted average tuition of the thirteen state funded universities in Ohio. Only Ohio residents can participate and purchasers cannot receive refunds until the beneficiary is 18. The Guaranteed Program is guaranteed by the full faith and credit of the State of Ohio. (see note 1B for a full description of the Variable Savings Program)

All funds available through CollegeAdvantage are available for use at any college in the country, with refund and transfer options available. They offer the same state advantages for Ohio residents, including the 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, under current federal tax laws, benefits of the plan are exempt from federal income tax for qualified payouts.

Except as otherwise specified in Chapter 3334, Ohio Revised Code, Tuition Trust is not required to adhere to the provisions of Chapters 123 *Department of Administrative Services – Public Works*, 125 *Department of Administrative Services – Office Services*, and 4117 *Public Employees’ Collective Bargaining*, of the 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.

Reporting Entity

A. Guaranteed Savings Program – Enterprise Fund

The accompanying financial statements report the financial position, results of operations, and cash flows for the fiscal year ended June 30, 2004 of the Enterprise Fund consisting of the Guaranteed and the administrative portion of the Variable Savings programs. Enterprise Fund Totals of the financial position, results of operations, and cash flows for the fiscal year ended June 30, 2003 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.

**OHIO TUITION TRUST AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

B. Variable Savings Program – Fiduciary (PPTF) Fund

In June 2000, Governor Taft signed into law Senate Bill 161 creating a variable return college savings option. In October 2000, the Tuition Trust launched the CollegeAdvantage 529 Savings Plan offering market-based options managed by Putnam Investments in addition to the Tuition Trust's Guaranteed Savings Fund. As of June 30, 2004, there were 17 investment options, which included four asset allocation options that invested in up to 11 Putnam mutual funds, and 13 individual investment options each representing a distinct asset class and investing in a single Putnam mutual fund. Two additional age-based asset allocation options were opened in November of 2004.

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 Savings Program.

In early 2004, after an extensive search and RFP process, the Tuition Trust Board of Directors selected and approved The Vanguard Group which would offer Index options within CollegeAdvantage. In May 2004, the Vanguard options were launched. There are 15 Index options available, ranging from conservative options to aggressive options. The Vanguard Group manages the investments for CollegeAdvantage. The Tuition Trust is responsible for all record keeping and administration of these options.

The Variable Savings Program offers the same benefits as the Guaranteed Savings Fund. 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 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, under current 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 current 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.

The Variable Savings Program offers the Putnam investment options with variable rates of return contingent on market performance and the Vanguard options which are index based. These options 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 nonqualified withdrawals.

Contributions to the Variable Savings Program are evidenced through the issuance of units in a particular portfolio. Contributions and withdrawals are subject to terms and limitations defined in the participation agreement. Contributions are invested in units of the assigned portfolio on the same day the contribution has been credited to the participant's account. Withdrawals are based on the unit value calculated for such portfolio on the date the withdrawal request is accepted. Unit values are determined daily based upon the total value of each Portfolio's assets, less its liabilities, divided by the number of its outstanding units.

The Variable Savings Program is recorded as a Private Purpose Trust Fund in these financial statements. These statements report the financial position and results of operations for the year ended June 30, 2004 of the Fiduciary Fund consisting of the Variable Savings Program. Fiduciary Fund totals of the financial position and results of operations for the year ended June 30, 2003 have also been added for comparison purposes only.

**OHIO TUITION TRUST AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

2. Significant Accounting Policies

A. Basis of Accounting-Enterprise Fund

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 Tuition Trust are reported as an enterprise fund since the cost of providing the CollegeAdvantage Program will be recovered through revenues of the program. Administrative costs associated with the Variable Program are recovered through basis point revenue, fees, and contributions. (See Note 2. C. 2. for a description of the variable savings plan revenue.) Some minor changes were made in the fiscal year 2003 presentation to conform with the present year's presentation.

Tuition Trust classifies resources into five (5) separate sub funds for accounting purposes. These sub funds are authorized by Ohio Revised Code section 3334.11 and are described below:

Enterprise Fund

Trust Sub Fund

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

Reserve Sub Fund

The Reserve Sub 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).

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

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

Variable Savings Operating Sub Funds (Central Accounting System (CAS) Funds 5P3 and 5AM)

The Variable Savings Operating Sub Funds are used to account for the administrative revenues and costs of the Variable Savings Plan. Fund 5P3 accounts for the administrative revenues and costs of the Putnam program and Fund 5AM accounts for the administrative revenue and costs of the Vanguard program. These funds are separate and discrete from the Variable Savings Program Private Purpose Trust Funds.

**OHIO TUITION TRUST AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Private Purpose Trust Funds

The Private Purpose Trust Funds are used to report the Fiduciary Net Assets and Changes in the Fiduciary Net Assets of the Variable Savings Program managed by Putnam Investments and The Vanguard Group. This arrangement is used to report an investment trust fund “under which principal and income benefit individuals, private organizations, or other governments” as stated in GASB Statement No. 34. The Variable Savings Program is set up for the benefit of its customers and involves no commitment on the part of the State of Ohio.

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.

Beginning in fiscal year 2002, the Tuition Trust implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, which became effective for all component units of the State of Ohio, including the Tuition Trust, with fiscal years beginning after June 30, 2001. GASB Statement No. 34 requires the Tuition Trust to classify its assets and liabilities as current versus non-current on the Balance Sheets, and its net assets as restricted, unrestricted, and capital. The statement also requires the inclusion of a Management’s Discussion and Analysis as noted on page 3. The statement further requires the presentation of the Statement of Fiduciary Net Assets and Statement of Changes in Fiduciary Net Assets for OTTA’s Private Purpose Trust Fund. The implementation of GASB Statement No. 34 did not require the Authority to restate any prior year balances.

Beginning in 2002, the Tuition Trust also implemented the provisions of GASB Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*, which requires simultaneous implementation with Statement No. 34. GASB Statement No. 37 amends Statement No. 34 to either 1) clarify certain provisions that, in retrospect, may not have been sufficiently clear for consistent application or 2) modify other provisions that the GASB Board believed may have unintended consequences in some circumstances. The implementation of GASB Statement No. 37 did not require the Tuition Trust to restate any prior year balances.

Additionally, beginning in 2002, the Tuition Trust implemented the provisions of GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, which also requires simultaneous implementation with Statement No. 34. The implementation of GASB Statement No. 38 did not require the Tuition Trust to restate any prior year balances.

C. Cash and Cash Equivalents

Cash and cash equivalents include amounts on deposit with Trustees, as defined in GASB Statement No. 9 for the purpose of the Statement of Cash Flows. Also for the purpose of the statement of cash flows, OTTA considers cash deposits with a maturity of three months or less when purchased to be cash equivalents, except for StarOhio.

**OHIO TUITION TRUST AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

D. Revenue

1. Guaranteed Savings Plan – Enterprise Fund

The Guaranteed Savings Fund is intended for long-term savings (four or more years). Contributions to the Fund purchase tuition units. If a tuition unit is held on account until the beneficiary reaches age 18, a unit can be redeemed at a value equal to 1% of the weighted average tuition (WAT) of the 13, four-year Ohio public universities. As the WAT increases at the state universities, so too does the projected redemption value of tuition units. The Guaranteed Savings Fund is backed by the full faith and credit of the State of Ohio and is available to families residing in Ohio at the time the account is established.

Account owners in the Guaranteed Savings Fund could buy tuition units through the anytime, any amount option at a cost of \$78 (July 1, 2002 – Sept. 30, 2002), \$80 (October 1, 2002 – December 31, 2002), \$81.50 (January 1, 2003 – April 10, 2003), \$83 (April 11, 2003 – April 30, 2003), \$89 (May 1, 2003 – August 27, 2003) and \$95 (August 28, 2003 – December 31, 2003).

Account owners in the Guaranteed Savings Fund could buy tuition units through the autopay option (EFT or payroll deduction) at a cost of \$76 (July 1, 2002 – Sept. 30, 2002), \$78 (October 1, 2002 – December 31, 2002), \$79.50 (January 1, 2003 – April 10, 2003), \$81 (April 11, 2003 – April 30, 2003), \$89 (May 1, 2003 – August 27, 2003) and \$93 (August 28, 2003 – December 31, 2003).

Account owners with a newborn child (0 to 12 months) in the Guaranteed Savings Fund could buy tuition units through the Newborn option at a cost of \$72 (July 1, 2002 – Sept. 30, 2002), \$74 (October 1, 2002 – December 31, 2002), \$75.50 (January 1, 2003 – April 10, 2003), \$77 (April 11, 2003 – April 30, 2003) and \$83 (May 1, 2003 – August 27, 2003).

The purchase of 100 tuition units generally will provide the beneficiary with one year of in-state, undergraduate tuition at an average-priced Ohio public four-year university, if units are held on account until the beneficiary is 18 or older. The actual number of tuition units needed to cover tuition will vary based on the actual tuition being charged at an individual institution. Additional tuition units will be needed to cover room and board, graduate or professional school, or other educational expenses.

Fees and tuition unit contributions are recognized when received. The tuition unit price is actuarially determined. Fees and approximately \$5 of each tuition unit are transferred to and accounted for in the Reserve Sub Fund to cover present and future administrative costs, and to provide a reserve for the Trust Sub Fund. The balance of each tuition unit is recorded as Unit Sales in the Trust Sub Fund.

2. Variable Savings Plan – Enterprise Fund

Significant administrative revenue for the Variable Savings Operating Sub Funds were derived from the following sources:

- Basis Point revenue is received on sales of the Variable Savings Plan. For the Putnam program, the Tuition Trust receives 20 basis points (0.20%) 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 Vanguard program, the Tuition Trust receives 20 basis points (0.20%) on all sales, both Ohio and National. This amount is calculated daily and payment is received by the Tuition Trust monthly.
- 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”.

**OHIO TUITION TRUST AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

E. 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.

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.

F. Balance Sheet Classifications

As discussed in Note 2B, for fiscal year 2004, the Authority was required to classify its balance sheet, detailing current and noncurrent assets and restricted and unrestricted net assets, as follows:

- Current: Due within one year from June 30, 2004
- Noncurrent: Due after June 30, 2005
- Restricted: Restricted for usage by statutory requirements
- Unrestricted: Not restricted for usage

G. Capital Assets and Facilities

OTTA's capital assets include office furniture, equipment and an automobile. OTTA defines capital assets as assets with an initial, individual cost of \$1,000 or more and an estimated useful life of at least five years. Such assets are recorded at historical cost and depreciation is computed using the straight line method.

OTTA leases office space under an operating Lease that renews annually on July 1st. Lease expense for fiscal year 2004 is approximately \$146,836 and is accounted for in the Operating Sub Fund.

H. Marketable Securities

During the fiscal year, the following money managers managed the securities in the Guaranteed Savings Fund portfolio and provided market values on a monthly basis:

Manager	Asset Class	Management Period
Capital Guardian Trust Company	International Equities	July 2003 – June 2004
Sanford C. Bernstein	Domestic Equities	July 2003 – June 2004
Brandywine Asset Management	Domestic Equities	July 2003 – June 2004
Marvin & Palmer Associates, Inc.	International Equities	July 2003 – April 2004
Banc One Investments Advisors	Domestic Equities Fixed Income	July 2003 – June 2004 July 2003 – June 2004
STAR Ohio	Short Term Investments	July 2003 – June 2004
Next Century Growth Managers	Domestic Equities	July 2003 – June 2004
Delaware International	International Equities	July 2003 – June 2004

Marketable securities consist of equity and debt securities for both Trust and Reserve Sub 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.

**OHIO TUITION TRUST AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

During Fiscal Year 2004, realized and unrealized gains were as follows:

	<u>RESERVE</u>	<u>TRUST</u>	<u>TOTAL</u>
REALIZED GAIN OR (LOSS)	\$ 232,968	\$ 11,921,627	\$ 12,154,595
NET INCREASE (DECREASE) IN FAIR VALUE	\$(2,906,135)	\$ 72,314,732	\$ 69,408,597
UNREALIZED GAIN (LOSS) ON INVESTMENTS	\$ 1,194,305	\$ 83,968,394	\$ 85,162,699

The calculation of realized gains and losses is independent of the calculation of the net change in the fair value of the investments. The realized gains and losses for the current year include unrealized gains and losses on those same investments that were recognized in previous fiscal years as part of the net appreciation or depreciation in the fair value of investments.

I. Accrued Liabilities

Accrued Liabilities consist of compensated absences and wages payable owed to Tuition Trust employees as of June 30, 2004. The wages payable, accumulated vacation, sick, personal, compensatory time and Medicare adjustment to compensated absences amounted to \$97,841; \$88,422; \$33,345; \$7,539; \$21,750; and \$1,875, 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 Medicare taxes.

J. Collateral on Lent Securities/Obligation under Securities Lending

During Fiscal Year 2004, 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 sub funds, Operating, Reserve, and Trust are authorized to participate in Securities Lending Agreements, during Fiscal Year 2004 only the Operating Sub Fund and Trust Sub Fund participated in Securities Lending transactions.

**OHIO TUITION TRUST AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

K. Self-Insurance

The State of Ohio serves as the Tuition Trust'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.

3. Deposits and Investments

A. Deposits

Cash deposits in Operating Sub 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 sub 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 a manner subject to the Tuition Trust's approval and within the investment policy guidelines adopted by the Board of Directors.

As of June 30, 2004, the carrying amount and bank balance was \$736,221. Of that amount, \$171,206 was FDIC insured and the remainder collateralized with securities held by Tuition Trust or by its agent in Tuition Trust's name, as follows:

<u>Accounts</u>	<u>Carrying Amount</u>	<u>FDIC</u>	<u>Collat- eralized</u>	<u>Totals</u>
Cash Equity with Treasurer	\$ 635	\$ -	\$ 635	\$ 635
Operating Sub Fund 645	\$ 28,103	\$ -	\$ 28,103	\$ 28,103
Putnam Plan Sweep Acct.	\$ 544,807	\$ 100,000	\$ 444,807	\$ 544,807
Operating Sub Fund 5P3	\$ 91,470	\$ -	\$ 91,470	\$ 91,470
Unrestricted Sub-Total	\$ 665,015	\$ 100,000	\$ 565,015	\$ 665,015
Trust Fund-Lockbox Acct.	\$ 71,206	\$ 71,206	\$ -	\$ 71,206
Totals	<u>\$ 736,221</u>	<u>\$ 171,206</u>	<u>\$ 565,015</u>	<u>\$ 736,221</u>

The Operating Sub Fund 5P3 includes the balance in the Putnam money market account. This account is classified as cash because it is designated for payment of the Putnam operating expenses of the Variable Savings Program Operating Sub Funds. Money market accounts are classified as marketable securities in the Reserve and Trust Sub Funds since their use is restricted for payment of tuition liabilities.

**OHIO TUITION TRUST AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

B. Investments

1. Enterprise Fund

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/ dealer's firm in Tuition Trust's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or agent but not in Tuition Trust's name. Tuition Trust does not have any Category 3 securities.

Categorized Investments Carrying Amount

	<u>Category 1</u>	<u>Category 2</u>	<u>Total at Market Value</u>
Government and Governmental Backed Securities	\$362,339,814	\$ -	\$ 362,339,814
Stocks *	\$436,025,850	\$ -	\$ 436,025,850
Index Fund-Lockbox Acct.	\$ (108,704)	\$ -	\$ (108,704)
Putnam-Lockbox Acct.	\$ 62,696	\$ -	\$ 62,696
Sweep Account	\$ -	\$ 961,227	\$ 961,227
STAR Ohio	\$ -	\$ -	\$ 48,520,388
Totals	<u>\$798,319,656</u>	<u>\$ 961,227</u>	<u>\$ 847,801,271</u>

* Includes equities managed by all investment managers.

Investments not categorized
Investments held in a securities lending collateral investment pool \$11,115,694

2. Private Purpose Trust Funds

a. Security Valuation

Investments are reported at fair value and are accounted for by the Plan accordingly, with changes in the fair value included in the results from investment operations. The Plan's investments represent shares of mutual funds rather than individual securities, and as such are not subject to classification by credit risk under GASB Statement No. 3.

b. Security transactions and related investment income

Security transactions, normally shares of the Putnam Funds and the Vanguard Funds, are accounted for on the trade date (date the order to buy or sell is executed). Gains or losses on shares of the Putnam Funds and the Vanguard Funds sold are determined on the identified cost basis.

OHIO TUITION TRUST AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Income and capital gain distributions from the Putnam Funds and the Vanguard Funds, if any, are recorded on the ex-dividend date.

As of June 30, 2004 the Net Assets of the CollegeAdvantage Putnam Savings Plan Private Purpose Trust Fund are approximately \$3,034,393,000. Net Assets of the CollegeAdvantage Vanguard Savings Plan Private Purpose Trust Fund are approximately \$22,445,000.

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. The results are as follows:

APV of future benefits and expenses payable	\$1,141,700,000
Actuarial net assets available	\$ 847,100,000
APV of Payments from Variable Savings Program	\$ 42,200,000
Assets as a percentage of tuition benefits and expense obligation	77.89 %

The following assumptions, as determined by management, were used in the actuarial determination of tuition benefits payable:

Rate of return (investment of current and future assets)	7.0 %	Compounded annually
Projected tuition increase	10.00%	2005 and thereafter
Consumer Price Index (CPI)		
Inflation Rate	2.5 %	

The surplus/(deficit) changes due to experience and actuarial assumption changes can be summarized as follows:

(amounts in millions)

Surplus/(Deficit) as of June 30, 2003	\$ (321.1)
Interest on the deficit at 7.0%	(22.5)
Recognition of gain from investment returns	54.2
Additional surplus/(deficit) from new unit purchases	(3.2)
Lower than assumed tuition increase	43.4
Budget Savings	1.1
Fewer units/credits redeemed than expected	(2.8)
Credit payouts lower than expected	0.3
Interest gain on late tuition payouts	0.5
Change in assumptions	(43.8)
Other	(0.7)
Surplus/(Deficit) as of June 30, 2004	(294.6)
Value of Future Contingent Payments for the variable investment options	42.2
Surplus/(Deficit) as of June 30, 2004	<u>\$ (252.4)</u>

**OHIO TUITION TRUST AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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 Guaranteed Savings Program 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 filed an amended request in March, 2002. A Private Letter Ruling constitutes the IRS opinion on whether the programs administered by the Tuition Trust are in compliance with Section 529 and therefore eligible for tax advantaged treatment. Although the IRS has not yet responded to the request, the Tuition Trust does not have any reason to believe a favorable ruling will not be received.

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 effect on any of the Tuition Trust's funds.

7. Pension Plan

All Tuition Trust employees participate in the statewide Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer defined benefit pension plan administered by the OPERS Retirement Board. OPERS 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 OPERS 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 OPERS 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 costs; the employer contribution rate is 13.31 percent of the covered payroll costs. Employer contributions required and made to OPERS for 2004, 2003, and 2002 were \$198,824, \$188,202 and \$186,190 respectively.

**OHIO TUITION TRUST AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

8. Other Post-Employment Benefits

Ohio Public Employees Retirement System provides postretirement health care coverage to age and service retirants with 10 or more years of qualifying Ohio service credit and to primary survivor recipients of such retirants. 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 OPERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2003 employer contribution rate for state employers was 13.31% of covered payroll; 5.0% 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 postretirement health care through their contributions to OPERS.

OPEB are financed through employer contributions and investment earnings thereon. 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 2003 (the latest information available) were \$907,769,092. As of December 31, 2003, the estimated net assets available for future OPEB payments were \$10,813,803,449 and the number of benefit recipients eligible for OPEB was 143,643.

9. Subsequent Events

On August 26, 2004, the Board of Directors of the Tuition Trust passed a resolution to continue to temporarily suspend any contributions in the Guaranteed Savings Fund for an additional 12 month period beginning January 1, 2005 and ending December 31, 2005.

For comparability purposes, please see the footnotes for the year ended June 30, 2003 in our previous annual report.

Ohio Tuition Trust Authority - Enterprise Fund

Schedule of Balance Sheets

As of June 30, 2004 with comparative for June 30, 2003
(amounts in thousands)

	Guaranteed Savings Plan		Putnam Savings Plan		Vanguard *	Enterprise Fund	
	as of 6/30/04	as of 6/30/03	as of 6/30/04	as of 6/30/03	as of 6/30/04	as of 6/30/04	as of 6/30/03
ASSETS							
Current Assets							
Cash	\$ 29	\$ 12	\$ 636	\$ 493	\$ -	\$ 665	\$ 505
Collateral on Lent Securities	11,115	347				11,115	347
Other Receivable	2,938	1,808	1,387	1,067	721	5,046	2,875
Due from Trust Fund	(830)	107	1,464	(107)	(634)	-	-
Total Current Assets	13,252	2,274	\$ 3,487	\$ 1,453	\$ 87	16,826	3,727
Non-Current Assets							
Marketable Securities (at market value)	69,645	70,133	1,888	1,222	(108)	71,425	71,355
Total Non-Current Assets	69,645	70,133	1,888	1,222	(108)	71,425	71,355
Restricted Assets							
Cash Held for Tuition Benefits	71	271				71	271
Marketable Securities (at market value)	776,376	687,477				776,376	687,477
Total Restricted Assets	776,447	687,748				776,447	687,748
Fixed Assets							
Equipment	876	779				876	779
Leasehold Improvements	71	71				71	71
Less: Accumulated Depreciation	(831)	(733)				(831)	(733)
Total Fixed Assets	116	117	-	-	-	116	117
TOTAL ASSETS	\$ 859,460	\$ 760,272	\$ 5,375	\$ 2,675	\$ (21)	\$ 864,814	\$ 762,947
LIABILITIES AND RETAINED EARNINGS							
Current Liabilities							
Accounts Payable	268	307				268	307
Accounts Payable-State of Ohio	61	69				61	69
Accrued Liabilities	267	211	75			342	211
Other Liabilities	645	10	37	453	-	682	463
Obligation under Securities Lending	11,115	347				11,115	347
Current Portion-Tuition Benefits Payable	54,800	70,900				54,800	70,900
Total Current Liabilities	67,156	71,844	112	453	-	67,268	72,297
Non-Current Liabilities							
Tuition Benefits Payable from Restricted Assets	1,086,900	1,009,600				1,086,900	1,009,600
Total Non-Current Liabilities	1,086,900	1,009,600	-	-	-	1,086,900	1,009,600
Total Liabilities	1,154,056	1,081,444	112	453	-	1,154,168	1,081,897
Net Assets							
Unrestricted Assets	(294,712)	(321,290)	5,263	2,223	(21)	(289,470)	(319,067)
Invested in Capital Assets	116	117				116	117
Total Net Assets	(294,596)	(321,173)	5,263	2,223	(21)	(289,354)	(318,950)
TOTAL LIABILITIES AND NET ASSETS	\$ 859,460	\$ 760,272	\$ 5,375	\$ 2,675	\$ (21)	\$ 864,814	\$ 762,947

* The Vanguard Savings Plan began sales on 5/24/04. No comparative data are available.

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

Ohio Tuition Trust Authority - Enterprise Fund

Schedule of Revenues, Expenses, and Changes in Fund Net Assets

For the 12 Month Period Ended June 30, 2004 with comparative for June 30, 2003
(amounts in thousands)

	Guaranteed Savings Plan		Putnam Savings Plan		Vanguard *	Enterprise Fund Totals	
	6/30/2004	6/30/2003	6/30/2004	6/30/2003	6/30/2004	6/30/2004	6/30/2003
OPERATING REVENUES							
Contract Fees	\$ 1	\$ 2				\$ 1	\$ 2
Unit Sales	33,169	105,863				33,169	105,863
Investment Income	108,998	29,138	\$ 1	\$ 3		108,999	29,141
Miscellaneous Revenue	-	6	-	-		-	6
Basis Point Revenue			5,270	3,477	\$ 2	5,272	3,477
Putnam Hard Dollar Contribution	99	262	890	1,051	-	989	1,313
TOTAL OPERATING REVENUES	142,267	135,271	\$6,161	4,531	2	148,430	139,802
OPERATING EXPENSES							
Personal Services	3,678	3,516	1,564	942	-	5,242	4,458
Maintenance	844	780	668	550	-	1,512	1,330
Depreciation	98	129				98	129
Expenses Paid by Putnam	99	262	890	1,051	-	989	1,313
Tuition Benefits Expenses(Payouts)	49,770	38,939			23	49,793	38,939
Actuarial Tuition Benefits Expense	61,200	342,300				61,200	342,300
TOTAL OPERATING EXPENSES	115,689	385,926	3,122	2,543	23	118,834	388,469
OPERATING INCOME (LOSS)	26,578	(250,655)	3,039	1,988	(21)	29,596	(248,667)
Interfund Transfers In (Out)							
NET INCOME (LOSS)	26,578	(250,655)	3,039	1,988	(21)	29,596	(248,667)
BEGINNING NET ASSETS	(321,174)	(70,519)	2,224	236	-	(318,950)	(70,283)
ENDING NET ASSETS	\$ (294,596)	\$ (321,174)	\$ 5,263	\$ 2,224	\$ (21)	\$ (289,354)	\$ (318,950)

* The Vanguard Savings Plan began sales on 5/24/04. No comparative data are available.

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

Ohio Tuition Trust Authority - Enterprise Fund

Schedule of Cash Flows

As of June 30, 2004 with comparative for June 30, 2003
(amounts in thousands)

	Guaranteed Savings Plan		Putnam Savings Plan		Vanguard *	Enterprise Fund Totals	
	6/30/2004	6/30/2003	6/30/2004	6/30/2003	6/30/2004	6/30/2004	6/30/2003
CASH FLOWS FROM OPERATING ACTIVITIES:							
Cash Received from Customers	\$ 33,169	\$ 105,865				\$ 33,169	\$ 105,865
Cash Payments to Suppliers for Goods and Services	(11,587)	(695)	\$ (987)	\$ (550)	\$ (721)	(13,295)	(1,245)
Cash Payments to Employees/consultants/professional contracts for Services	(3,623)	(3,520)	(1,489)	(941)	-	(5,112)	(4,461)
Other Operating Cash Receipts (payments)	(38,366)	(38,794)	4,854	3,043	(21)	(33,533)	(35,751)
Net cash provided (used) by operating activities	(20,407)	62,856	2,378	1,552	(742)	(18,771)	64,408
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES							
Interfund Transfers In (Out)	600	-	(600)	-	-	-	-
Net cash flows provided (used) by noncapital financing activities	600	-	(600)	-	-	-	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES							
Acquisition of Capital Assets	(96)	(54)				(96)	(54)
Proceeds from Sales of Fixed Assets	-	-				-	-
Net Cash flows provided (used) by capital and related financing activities	(96)	(54)				(96)	(54)
CASH FLOWS FROM INVESTING ACTIVITIES:							
Proceeds from the Sales and Maturities of Investments	304,268	138,070	4,435	1,457	-	308,703	139,527
Purchase of Investments	(311,984)	(226,477)	(6,518)	(2,787)	742	(317,760)	(229,264)
Investment Income Received	27,434	21,372	2	4	-	27,436	21,376
Net cash flows provided (used) by investing activities	19,718	(67,035)	(2,081)	(1,326)	742	18,379	(68,361)
Net Increase (Decrease) in Cash and Cash Equivalents	(185)	(4,233)	(303)	226	-	(488)	(4,007)
Cash and Cash Equivalents, July 1	282	4,515	942	716	-	1,224	5,231
Cash and Cash Equivalents, June 30	\$ 97	\$ 282	\$ 639	\$ 942	\$ -	\$ 736	\$ 1,224

	6/30/2004	6/30/2003	6/30/2004	6/30/2003	6/30/2004	6/30/2004	6/30/2003
Reconciliation of Operating Income to Net Cash Provided by Operating Activities							
Net Income (Loss)	\$ 26,578	\$ (250,655)	\$ 3,039	\$ 1,988	\$ (21)	\$ 29,596	\$ (248,667)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities							
Investment Income	(108,997)	(29,138)	(2)	(3)	-	(108,999)	(29,141)
Depreciation	98	129				98	129
Miscellaneous Nonoperating (Revenues) Expenses	-	-	-	-	-	-	-
Decrease (Increase) in Assets:							
Intergovernmental Receivables	-	-				-	-
Other Receivables	(10,697)	(89)	(319)	(471)	(721)	(11,737)	(560)
Increase (Decrease) in Liabilities:							
Accounts Payable	(48)	85				(48)	85
Accrued Liabilities	56	(4)	75			131	(4)
Intergovernmental Payable	-	-				-	-
Due to Other Funds	-	(107)	-	107	-	-	-
Deferred Revenues	-	-				-	-
Benefits Payable	61,200	342,300				61,200	342,300
Other Liabilities	11,403	335	(415)	(69)	-	10,988	266
Net Cash Flows Provided (Used) by Operating Activities	\$ (20,407)	\$ 62,856	\$ 2,378	\$ 1,552	\$ (742)	\$ (18,771)	\$ 64,408

* The Vanguard Savings Plan began sales on 5/24/04. No comparative data are available.

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

Ohio Tuition Trust Authority - Private Purpose Trust Fund
Schedule of Fiduciary Net Assets - Putnam Options
As of June 30, 2004 with comparative for June 30, 2003
(amounts in thousands)

ASSETS

Investments in securities, at value
Cash Equivalents
Dividends, interest, and other receivables
Receivable for units sold
Receivable for securities sold

6/30/2004	6/30/2003
\$2,804,746	\$2,233,310
233,770	189,566
4	7
1,433	2,678
14,540	30,454
\$3,054,493	\$2,456,015

Total Assets

LIABILITIES

Payable for securities purchased
Payable for units redeemed
Accrued management and administrative fees
Deferred excess of book value on wrapper agreements
Accrued audit fees
Accrued reports to shareholders fee
Payable for other

14,567	32,136
1,294	964
3,934	3,070
(503)	656
174	149
460	279
174	0
20,100	37,254

Total Liabilities

Net Assets Held in Trust for Plan Participants

\$3,034,393	\$2,418,761
--------------------	--------------------

* The Vanguard Savings Plan began sales on 5/24/04. No comparative data are available.

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

Ohio Tuition Trust Authority - Private Purpose Trust Fund
Schedule of Fiduciary Net Assets - Vanguard Options
As of June 30, 2004 with comparative for June 30, 2003
(amounts in thousands)

ASSETS

Investments in securities, at value
Cash equivalents
Dividends, interest, and other receivables
Receivables for units sold
Total Assets

6/30/2004	6/30/2003
\$ 21,851	\$ -
1,172	-
10	-
598	-
\$ 23,631	\$ -

LIABILITIES

Payable for securities purchased
Payables for units redeemed
Accrued expenses
Total Liabilities

1,181	-
4	-
1	-
1,186	-

Net Assets Held in Trust for Plan Participants

\$ 22,445	\$ -
------------------	-------------

* The Vanguard Savings Plan began sales on 5/24/04. No comparative data are available.

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

Ohio Tuition Trust Authority - Private Purpose Trust Fund
Schedule of Changes in Fiduciary Net Assets - Putnam Options
As of June 30, 2004 with comparative for June 30, 2003
(amounts in thousands)

	6/30/2004	6/30/2003
ADDITIONS		
Contributions:		
Units sold	\$ 807,472	\$ 839,709
Investment earnings:		
Investment income	54,000	37,836
Net realized/unrealized appreciation (depreciation) on underlying fund shares	293,714	12,603
Total investment earnings	347,714	50,439
Less investment expenses	23,336	15,358
Net investment earnings	324,378	35,081
Total additions	1,131,850	874,790
DEDUCTIONS		
Units redeemed	514,739	185,153
Distributions to unitholders	1,479	398
Total deductions	516,218	185,551
Change in net assets	615,632	689,239
Net Assets Held in Trust for Plan Participants - Beginning	2,418,761	1,729,522
Net Assets Held in Trust for Plan Participants - Ending	\$ 3,034,393	\$2,418,761

* The Vanguard Savings Plan began sales on 5/24/04. No comparative data are available.

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

Ohio Tuition Trust Authority - Private Purpose Trust Fund
Schedule of Changes in Fiduciary Net Assets - Vanguard Options
As of June 30, 2004 with comparative for June 30, 2003
(amounts in thousands)

ADDITIONS	6/30/2004	6/30/2003 *
Contributions		
Units sold	\$ 22,562	\$ -
Investment earnings:		
Investment income	58	-
Net realized/unrealized appreciation (depreciation) on underlying fund shares	152	-
Total investment earnings	210	-
Less investment expenses	2	-
Net investment earnings	208	-
Total additions	22,770	-
DEDUCTIONS		
Units redeemed	325	-
Total deductions	325	-
Change in net assets	22,445	-
Net Assets Held in Trust for Plan Participants - Beginning	-	-
Net Assets Held in Trust for Plan Participants - Ending	\$ 22,445	\$ -

* The Vanguard Savings Plan began sales on 5/24/04. No comparative data are available.

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

This page intentionally left blank.



Auditor of State Betty Montgomery

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

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

We have audited the accompanying financial statements of the Ohio Tuition Trust Authority, State of Ohio, as of and for the year ended June 30, 2004, and have issued our report thereon dated December 9, 2004. We did not audit the financial statements of the Private Purpose Trust Fund. Other auditors audited those statements. They have furnished their reports thereon to us, and we based our opinion, insofar as it relates to the amounts included for the Private Purpose Trust Fund, on the reports of the other auditors. The prior year summarized comparative information has been derived from the Ohio Tuition Trust Authority's fiscal year 2003 financial statements and, in our report dated September 30, 2003, we expressed an unqualified opinion on the respective financial statements.

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, 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*. However, we noted certain matters that we reported to management of the Ohio Tuition Trust Authority, in a separate letter dated December 9, 2004.

Other auditors performed tests of compliance related to the Private Purpose Trust Fund listed above and the results of those tests are reported separately. There was no noncompliance related to the Private Purpose Trust Fund which was considered reportable for the Ohio Tuition Trust Authority.

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

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 will report to management of the Ohio Tuition Trust Authority in a separate letter dated September 30, 2003.

Other auditors performed procedures to obtain an understanding of the internal controls of the Private Purpose Trust Fund listed above and the results of those tests are reported separately. There were no comments related to the Private Purpose Trust Fund which were considered reportable for the Ohio Tuition Trust Authority.

This report is intended 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.



Betty Montgomery
Auditor of State

December 9, 2004

OHIO TUITION TRUST AUTHORITY

Schedule of Prior Audit Findings
 July 1, 2003 through June 30, 2004

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected, Significantly Different Corrective Action Taken, or Finding No Longer Valid. Explain:
2003-01	Balances in the lockbox account in excess of the FDIC coverage were not collateralized.	Yes	Fully Corrected



**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

**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
JANUARY 20, 2005**