



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**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 of Statements	
Balance Sheet	27
Statement of Revenues, Expenses, and Changes in Fund Net Assets	28
Statement of Cash Flows	29
Report of Independent Accounts on Compliance and on Internal Control required by <i>Government Auditing Standards</i>	31

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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 financial statements of the Enterprise Fund of the Ohio Tuition Trust Authority, State of Ohio, as of and for the years ended June 30, 2002 and 2001. We did not audit the financial statements of the Private Purpose Trust Fund. Those statements were derived from financial statements audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Private Purpose Trust Fund, is based solely on the report of the other auditors. 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 and the report of the other auditors provide a reasonable basis for our opinion.

As discussed in Note I, 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 enterprise funds 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 Enterprise and Private Purpose Trust Funds of the Ohio Tuition Trust Authority as of June 30, 2002 and 2001, and the results of their operations and the cash flows of the Enterprise Fund for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note II, during the year ended June 30, 2002, the Authority adopted Governmental Accounting Standards Board Statements 34, 37 and 38.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2002 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.

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. We did not audit the information and express no opinion thereon.

We performed 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 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 and Private Purpose Trust Funds financial statements taken as a whole.



JIM PETRO
Auditor of State

September 30, 2002

Ohio Tuition Trust Authority
Management's Discussion and Analysis
June 30, 2002
(UNAUDITED)

As management of the Ohio Tuition Trust Authority (OTTA), a component unit 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, 2002. 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 2002 by \$111,031,617 or 20.1%.
- OTTA's unit sales increased by \$93,454,873 or 132.8% in fiscal year 2002 over fiscal year 2001.
- Tuition units sold increased over fiscal year 2001 by 1,456,118 units or 98.5%.
- New contracts sold increased over fiscal year 2001 by 9,099 or 118.5%.
- Tuition Benefits Payable increased over fiscal year 2001 by \$232,500,000 or 51.7% resulting in a decrease in the fund balance.

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 of statements.

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, 2002. 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 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 financial statements can be found on pages 7 - 9 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 of statements. The notes to financial statements can be found on pages 12 - 26 of this report.

Ohio Tuition Trust Authority
Management's Discussion and Analysis
June 30, 2002
(UNAUDITED)

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 of statements can be found on pages 28 - 30 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 2002 and 2001, respectively. Although OTTA first implemented GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, in fiscal year 2002, comparative numbers have been included for analysis purposes. The following table summarizes changes in OTTA's net assets between June 30, 2002 and June 30, 2001:

Balance Sheet				
(all amounts expressed in thousands of dollars)				
	2002	2001	Dollar Change	Total Percent Change
Current Assets	3,051	1,212	1,839	151.9%
Restricted Assets	606,756	505,768	100,988	20.0%
Non-Current Assets	60,677	46,204	14,473	31.3%
Fixed Assets	164	196	(32)	-16.6%
Total Assets	670,648	553,380	117,268	21.2%
Current Liabilities	58,531	38,239	20,292	53.1%
Tuition Benefits Payable	682,400	449,900	232,500	51.7%
Total Liabilities	740,931	488,139	252,792	51.8%
Total Net Assets	(70,283)	65,241	(135,524)	-207.7%
Total Liab.and net assets	670,648	553,380	117,268	21.2%

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 \$70,283,037 as of June 30, 2002. This deficit position is directly attributable to the large increase in Tuition Benefits Payable, necessitated by the estimated increase in future tuition growth and lower than projected investment returns. However, when using the actuarial value of assets, the assets equal liabilities. Please see footnote number 4 in the Notes to the Financial Statements for additional information.

During fiscal year 2002, OTTA's total assets increased by \$117,267,905 or 21.2%. This is less than would have been expected given the observed increase in unit sales. The smaller than expected increase in total assets reflects the challenging investment environment prevalent during fiscal year 2002.

Ohio Tuition Trust Authority
Management's Discussion and Analysis
June 30, 2002
(UNAUDITED)

The following table summarizes the changes in OTTA's Revenues and Expenses between fiscal years 2002 and 2001:

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

(all amounts expressed in thousands of dollars)

	2002	2001	Dollar Change	Total Percent Change
Operating Revenues:				
Fees and Unit Sales	163,809	70,354	93,455	132.8%
Investment Income	(16,822)	14,623	(31,445)	-215.0%
Miscellaneous Revenue	2,449	1,476	973	65.9%
Total Operating Revenues	149,436	86,453	62,983	72.9%
Operating Expenses	6,285	5,971	314	5.2%
Tuition Benefits Expense	278,675	124,020	154,655	124.7%
Total Operating Expenses	284,960	129,991	154,969	119.2%
Operating Income (Loss)	(135,524)	(43,538)	(91,986)	211.3%
Beginning Net Assets	65,241	108,779	(43,538)	-40.0%
Ending Net Assets	(70,283)	65,241	(135,524)	-207.7%

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, 2002, OTTA had an increase in operating loss compared to fiscal year 2001 of \$91,985,348 or 211.3%. This was attributable to the following:

- A \$31,444,934 decrease in investment income caused by declining market values of securities held by OTTA.
- A \$154,655,321 increase in tuition benefits expense as a result of higher sales in conjunction with higher than expected tuition growth during FY02 and the estimated increase in the projected future tuition growth.

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 Assistant Director, 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.

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Ohio Tuition Trust Authority - Enterprise Fund

Balance Sheet

As of June 30, 2002 with comparative for June 30, 2001, as Restated

	Enterprise Fund Total as of 6/30/02	Enterprise Fund Total as of 6/30/01
ASSETS		
Current Assets		
Cash and Cash-Equivalents	739,783	234,101
Other Current Assets	2,311,809	977,430
Total Current Assets	3,051,592	\$1,211,531
Non-Current Assets		
Marketable Securities (at market value)	60,677,457	46,204,458
Total Non-Current Assets	60,677,457	46,204,458
Restricted Assets		
Cash Held for Tuition Benefits	4,490,938	62,250
Marketable Securities (at market value)	602,264,729	505,706,114
Total Restricted Assets	606,755,667	505,768,364
Fixed Assets		
Equipment	725,647	645,639
Leasehold Improvements	70,781	70,781
Less: Accumulated Depreciation	(632,787)	(520,278)
Total Fixed Assets	163,641	196,142
TOTAL ASSETS	670,648,357	553,380,495
LIABILITIES AND NET ASSETS		
Current Liabilities		
Other Current Liabilities	2,731,394	1,339,879
Current Portion-Tuition Benefits Payable	55,800,000	36,900,000
Total Current Liabilities	58,531,394	38,239,879
Restricted Non-Current Liabilities		
Tuition Benefits Payable	682,400,000	449,900,000
Total Restricted Non-Current Liabilities	682,400,000	449,900,000
Total Liabilities	740,931,394	488,139,879
Net Assets		
Net Unrestricted Assets	(70,446,678)	46,076,110
Net Restricted Assets	-	18,968,364
Net Capital Assets	163,641	196,142
Total Net Assets	(70,283,037)	65,240,616
TOTAL LIABILITIES AND NET ASSETS	670,648,357	\$553,380,495

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, 2002 with comparative for June 30, 2001, as Restated

	Enterprise Fund Totals 6/30/2002	Enterprise Fund Totals 6/30/2001
OPERATING REVENUES		
Contract Fees	\$2,275	\$116,660
Unit Sales	163,806,543	70,237,285
Investment Income	19,589,294	20,722,352
Net increase (decrease) in fair value of investments	(36,411,034)	(6,099,158)
Miscellaneous Revenue	234	503
Basis Point Revenue	1,585,356	121,313
Administrative Fee from Putnam	-	100,000
Putnam Hard Dollar Contribution	863,501	1,254,148
TOTAL OPERATING REVENUES	149,436,169	86,453,103
OPERATING EXPENSES		
PERSONAL SERVICES	3,776,529	3,387,390
MAINTENANCE	1,532,346	1,252,947
DEPRECIATION	112,509	77,308
EXPENSES PAID BY PUTNAM	863,502	1,254,148
TUITION BENEFITS EXPENSES (PAYOUTS)	27,274,936	22,842,407
ACTUARIAL TUITION BENEFITS EXPENSE	251,400,000	101,177,207
TOTAL OPERATING EXPENSES	284,959,822	129,991,407
OPERATING INCOME (LOSS)	(135,523,653)	(43,538,304)
CHANGE IN NET ASSETS	(135,523,653)	(43,538,304)
BEGINNING NET ASSETS	65,240,616	108,778,920
ENDING NET ASSETS	(70,283,037)	\$65,240,616

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, 2002 with comparative for June 30, 2001, as Restated

	Enterprise Fund Totals FY 6/30/02	Enterprise Fund Totals FY 6/30/01
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers	\$163,808,818	\$70,353,946
Cash Payments to Suppliers for Goods and Services	(1,449,139)	(1,248,693)
Cash Payments to Employees/consultants/professional contracts for Services	(3,722,165)	(2,509,154)
Other Operating Cash Receipts (payments)	(25,804,564)	(23,425,272)
Net cash provided (used) by operating activities	132,832,950	43,170,827
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of Capital Assets	(80,008)	(49,988)
Proceeds from Sales of Fixed Assets		
Net Cash flows provided (used) by capital and related financing activities	(80,008)	(49,988)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from the Sales and Maturities of Investments	1,364,533,326	1,173,503,252
Purchase of Investments	(1,511,941,193)	(1,237,235,213)
Investment Income Received	19,589,294	20,838,892
Net Cash Flows Provided (Used) by investing activities	(127,818,573)	(42,893,069)
Net Increase (Decrease) in Cash and Cash Equivalents	4,934,369	227,770
Cash and Cash Equivalents, July 1	296,352	68,582
Cash and Cash Equivalents, June 30	5,230,721	\$296,352

Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating Income (Loss)	(135,523,653)	(43,538,304)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities		
Investment Income	16,821,740	(14,623,194)
Depreciation	112,509	77,308
Miscellaneous Nonoperating (Revenues) Expenses	(23,562)	
Decrease (Increase) in Assets:		
Intergovernmental Receivables		
Other Receivables	(539,851)	(78,484)
Increase (Decrease) in Liabilities		
Accounts Payable	83,217	114,201
Accrued Liabilities	54,366	7,452
Benefits Payable	251,400,000	101,100,000
Other Liabilities	448,184	111,848
Net Cash Flows Provided (Used) by Operating Activities	\$132,832,950	\$43,170,827

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, 2002 with comparative for June 30, 2001

	6/30/2002	6/30/2001
ASSETS		
Investments in securities, at value	\$1,621,798,211	\$407,142,133
Cash Equivalents	110,678,901	20,710,636
Dividends, interest, and other receivables	756	421,913
Receivable for units sold	3,461,652	3,359,896
Receivable for securities sold	14,884,610	
Total Assets	1,750,824,130	431,634,578
Liabilities		
Payable for securities purchased	17,661,262	3,349,083
Payable for units purchased	433,496	
Accrued management and administrative fees	3,080,578	553,525
Accrued reports to shareholders fee	126,987	
Total Liabilities	21,302,323	3,902,608
Net Assets Held in Trust for Plan Participants	\$1,729,521,807	\$427,731,970

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, 2002 with comparative for June 30, 2001

	6/30/2002	6/30/01*
ADDITIONS		
Contributions:		
Units purchased	\$1,475,427,341	\$435,491,857
Investment earnings:		
Investment income	24,182,232	3,502,583
Net unrealized appreciation (depreciation) on underlying fund shares	(139,587,220)	(8,467,380)
Total investment earnings	(115,404,988)	(4,964,797)
Less investment expenses	8,212,989	846,753
Net investment earnings	(123,617,977)	(5,811,550)
Total additions	1,351,809,364	429,680,307
DEDUCTIONS		
Units redeemed	50,002,836	1,948,337
Distributions to unitholders	16,691	
Total deductions	50,019,527	1,948,337
Change in net assets	1,301,789,837	427,731,970
Net Assets Held in Trust for Plan Participants - Beginning	427,731,970	0
Net Assets Held in Trust for Plan Participants - Ending	\$1,729,521,807	\$427,731,970

* Program began operations on 10/2/2000.

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

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**OHIO TUITION TRUST AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

I. 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 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 and is guaranteed to keep pace with tuition inflation. 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, 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.

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, 2002 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, 2001 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, 2002**

I. Introduction (Continued)

B. Variable Savings Program – Private Purpose Trust Fund

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. Fourteen new Variable Investment Funds have been developed in partnership with Putnam Investments, giving Ohioans fifteen college savings choices. The fifteen 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; 4) a Growth Fund, with investment primarily in equities; 5) the Aggressive Growth Fund, consisting entirely of equities; 6) ten individual funds which may be combined to make a custom plan for each beneficiary. These fifteen 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. 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.

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 nonqualified withdrawals.

The Variable Fund is recorded as a Private Purpose Trust Fund in these financial statements.

**OHIO TUITION TRUST AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

II. 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.)

Tuition Trust classifies resources into four (4) separate sub funds for accounting purposes. These 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 Fund (Central Accounting System (CAS) Fund 5P3)

The Variable Savings Operating Sub Fund is used to account for the administrative revenues and costs of the Variable Savings Plan. This fund is separate and discrete from the Variable Savings Program Private Purpose Trust Fund.

**OHIO TUITION TRUST AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

A. Basis of Accounting-Enterprise Fund (Continued)

Private Purpose Trust Fund

The Private Purpose Trust Fund is used to report the Fiduciary Net Assets and Changes in the Fiduciary Net Assets of the Variable Savings Program managed by Putnam Investments. 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.

For the 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.

During 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, during 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.

**OHIO TUITION TRUST AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

II. Significant Accounting Policies (Continued)

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.

D. Revenue

1. Guaranteed Savings Plan – Enterprise Fund

Participants could purchase tuition units at a cost of \$51.00 (July 1, 2001 through September 30, 2001), \$56.00 (October 1, 2001 through January 14, 2002), \$59.50 (January 15, 2002 through March 31, 2002), and \$69.00 (April 1, 2002 through June 30, 2002).

Tuition units purchased through payroll deduction (PDS) or automatic cash transaction (ACT) could be purchased for \$49.00 (July 1-September 30, 2001), \$55.00 (October 1, 2001 through January 14, 2002), \$58.50 (January 15, 2002 through March 31, 2002), and \$67.00 (April 1, 2002 through June 30, 2002).

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 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.

Total net, unused units and credits on account as of June 30, 2002 are 12,019,140. Total contracts remaining open as of June 30, 2002 are 104,910.

2. Variable Savings Plan – Enterprise Fund

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

- Basis Point revenue is received on sales of the Variable Savings Plan. The Tuition Trust receives 15 basis points (0.15%) 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.
- 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".

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.

**OHIO TUITION TRUST AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

II. Significant Accounting Policies (Continued)

E. Expenses (Continued)

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 1B, for fiscal year 2002, 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, 2002
- Noncurrent: Due after June 30, 2003
- Restricted: Restricted for usage by statutory requirements
- Unrestricted: Not restricted for usage

G. Fixed Assets and Facilities

OTTA's fixed assets include office furniture, equipment and an automobile. OTTA defines fixed 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 2002 is approximately \$160,000 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
PERS (Public Employees Retirement System of Ohio)	Domestic Equities	July 2001 – February 2002
	Domestic Fixed Income	July 2001 – February 2002
	International Equities	July 2001 – June 2002
	Short Term Investments	July 2001 – February 2002
Banc One Investments Advisors	Domestic Equities Fixed Income	February 2002 – June 2002
Sanford C. Bernstein	Domestic Equities	July 2001 – June 2002
Brandywine Asset Management	Domestic Equities	July 2001 – June 2002
Marvin & Palmer Associates, Inc.	International Equities	July 2001 – June 2002
Capital Guardian Trust Company	International Equities	July 2001 – June 2002
STAR Ohio	Short Term Investments	February 2002 – June 2002

**OHIO TUITION TRUST AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

II. Significant Accounting Policies (Continued)

H. Marketable Securities (Continued)

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.

During Fiscal Year 2002, realized and unrealized gains were as follows:

	RESERVE	TRUST	TOTAL
REALIZED GAIN OR (LOSS)	\$ 520,116	\$(1,606,139)	\$(1,086,023)
NET INCREASE (DECREASE) IN FAIR VALUE	\$ 800,157	\$(36,132,121)	\$(35,331,964)
UNREALIZED GAIN (LOSS) ON INVESTMENTS	\$ 1,964,685	\$(11,516,153)	\$(9,551,468)

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, 2002, the wages payable, accumulated vacation, sick, personal, and compensatory time amounted to \$67,132; \$91,984; \$32,308; \$6,685; and \$17,466, 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.

**OHIO TUITION TRUST AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

II. Significant Accounting Policies (Continued)

J. Collateral on Lent Securities/Obligation under Securities Lending

During Fiscal Year 2002, 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 2002 only the Operating Sub Fund participated in Securities Lending transactions.

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

III. 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 the same manner as the Public Employees Retirement System (PERS), pursuant to section 145.11, Ohio Revised Code. During fiscal year 2002, 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.

**OHIO TUITION TRUST AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

III. Deposits and Investments (Continued)

A. Deposits (Continued)

As of June 30, 2002, the carrying amount was \$5,230,721. The entire \$5,230,721 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 Amount</u>	<u>FDIC</u>	<u>Collateralized</u>	<u>Totals</u>
Operating Sub Fund 645	\$ 24,544	\$ 0	\$ 24,544	\$ 24,544
Operating Sub Fund 5P3	715,239	0	715,239	715,239
Trust Fund-Lockbox Account	4,490,938	4,490,938	0	4,490,938
Totals	\$ 5,230,721	\$ 4,490,938	\$ 739,783	\$ 5,230,721

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 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

	<u>Category 1</u>	<u>Category 2</u>	<u>Total (at Market Value)</u>
Government and Governmental Backed Securities	\$ 242,439,130	\$ 0	\$ 242,439,130
Stocks *	419,275,167	0	419,275,167
Sweep Account	0	1,227,888	1,227,888
Totals	\$ 661,714,297	\$ 1,227,888	\$ 662,942,185

* Includes equities managed by all investment managers.

**OHIO TUITION TRUST AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

III. Deposits and Investments (Continued)

1. Enterprise Fund (Continued)

Investments not categorized	
Investments held in a securities lending collateral investment pool	\$11,584

2. Private Purpose Trust Fund

a. Security Valuation

Investments in the Putnam Funds are valued at the net asset value per share as of the close of trading on each day the New York Stock Exchange is open for business.

b. Security transactions and related investment income

Security transactions, normally shares of the Putnam 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 sold are determined on the identified cost basis.

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

As of June 30, 2002 the Net Assets of the CollegeAdvantage Variable Savings Plan Private Purpose Trust Fund are \$1,729,521,807.

IV. 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 actuarial 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. The results are as follows:

APV of future benefits and expenses payable	\$ 738,200,000
Actuarial net assets available	\$ 714,400,000
APV of Payments from Variable Program	\$ 23,800,000
Assets as a percentage of tuition benefits and expense obligation	100.0 %

**OHIO TUITION TRUST AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

IV. Tuition Benefits Payable (Continued)

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)	7.5 %	Compounded annually
Projected tuition increase	11 %	2003*
	10 %	2004*
	9 %	2005*
	6.5%	Thereafter
Consumer Price Index (CPI) Inflation Rate	2.5 %	

IV. Tuition Benefits Payable (Continued)

* This represents a change in the assumption for annual tuition growth from 8.2% per year to the percentages indicated. The 6.5% 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 the indicated increases in tuition from 2003 through 2005 combined with the actuary's 2.5% assumption for future inflation. This change in actuarial assumption can be summarized as follows:

(amounts in millions)

Actuarial Surplus as of June 30, 2001	\$ 68.6
Adjustment to last year's surplus	3.0
Interest on the surplus at 7.5%	5.4
Recognition of shortfall in investment returns	(23.3)
Additional surplus from new unit purchases	(8.5)
Credits redeemed at lower rate	0.2
Higher than assumed tuition increase	(28.8)
Budget Savings	0.1
Fewer units/credits redeemed than expected	(4.0)
Interest gain on late tuition payouts	0.3
Changes in actuarial assumptions	(35.9)
Other	(0.9)
Actuarial Surplus as of June 30, 2002 before APV basis points revenue	(23.8)
APV of Payments from Variable Program	23.8
Actuarial Surplus as of June 30, 2002	<u>\$ 0.0</u>

V. 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.

**OHIO TUITION TRUST AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

V. Tax Status (Continued)

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 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.

VI. 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.

VII. 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 costs; the employer contribution rate is 13.31 percent of the covered payroll costs. Employer contributions required and made to PERS for 2002, 2001, 2000 were \$186,190, \$121,481 and \$176,373 respectively.

VIII. Other Post-Employment Benefits

Public Employees Retirement System of Ohio 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.

**OHIO TUITION TRUST AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

VIII. Other Post-Employment Benefits (Continued)

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 2001 employer contribution rate for state employers was 13.31% 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 postretirement health care through their contributions to PERS.

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 2001 (the latest information available) were \$693,484,110. As of December 31, 2001, the estimated net assets available for future OPEB payments were \$9,936,383,994 and the number of benefit recipients eligible for OPEB was 134,769.

IX. Restatement of Comparative Financial Statements

The Tuition Trust restated the comparative financial statements to adjust Investment Income by \$9,000,000 in the Trust Fund. Investment Income was understated by the amount of a Cash Transaction in Process in the comparative fiscal year ending June 30, 2001 on the Statement of Revenues, Expenses and Changes in Fund Net Assets.

For comparability purposes, please see the footnotes for the year ended June 30, 2001 in our previous annual report.

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Ohio Tuition Trust Authority - Enterprise Fund

Schedule of Balance Sheets

As of June 30, 2002 with comparative for June 30, 2001, as Restated

	Guaranteed Program Total		Variable Savings Plan		Enterprise Fund	
	as of 6/30/02	as of 6/30/01	as of 6/30/02	as of 6/30/01	as of 6/30/02	as of 6/30/01
ASSETS						
Current Assets						
Cash	\$24,544	\$24,884	\$715,239	\$209,217	\$739,783	\$234,101
Collateral on Lent Securities	11,584	22,808			11,584	22,808
Other Receivable	22,476		595,877	78,504	618,353	78,504
Due from Trust Fund	1,127,843	263,757			1,127,843	263,757
Due from Variable Fund	554,029	612,361			554,029	612,361
Total Current Assets	1,740,476	\$923,810	\$1,311,116	287,721	3,051,592	1,211,531
Non-Current Assets						
Marketable Securities (at market value)	60,677,457	46,204,458			60,677,457	46,204,458
Total Non-Current Assets	60,677,457	46,204,458			60,677,457	46,204,458
Restricted Assets						
Cash Held for Tuition Benefits	4,490,938	62,252			4,490,938	62,252
Marketable Securities (at market value)	602,264,729	505,706,112			602,264,729	505,706,112
Total Restricted Assets	606,755,667	505,768,364			606,755,667	505,768,364
Fixed Assets						
Equipment	725,647	645,639			725,647	645,639
Leasehold Improvements	70,781	70,781			70,781	70,781
Less: Accumulated Depreciation	(632,787)	(520,278)			(632,787)	(520,278)
Total Fixed Assets	163,641	196,142	-		163,641	196,142
TOTAL ASSETS	669,337,241	\$553,092,774	\$1,311,116	287,721	670,648,357	553,380,495
LIABILITIES AND RETAINED EARNINGS						
Current Liabilities						
Accounts Payable	251,835	176,281			251,835	176,281
Accounts Payable-State of Ohio	38,567	30,905			38,567	30,905
Accrued Liabilities	215,575	161,210			215,575	161,210
Other Liabilities	10,215	566	521,747	71,988	531,962	72,554
Obligation under Securities Lending	11,584	22,808			11,584	22,808
Due to Reserve Fund	153,515	263,760			153,515	263,760
Due to Guaranteed Fund	974,327		554,029	612,361	1,528,356	612,361
Current Portion-Tuition Benefits Payable	55,800,000	36,900,000			55,800,000	36,900,000
Total Current Liabilities	57,455,618	37,555,530	1,075,776	684,349	58,531,394	38,239,879
Non-Current Liabilities						
Tuition Benefits Payable	682,400,000	449,900,000			682,400,000	449,900,000
Total Non-Current Liabilities	682,400,000	449,900,000	-		682,400,000	449,900,000
Total Liabilities	739,855,618	487,455,530	1,075,776	684,349	740,931,394	488,139,879
Net Assets						
Net Unrestricted Assets	(70,682,018)	46,472,738	235,340	(396,628)	(70,446,678)	46,076,110
Net Restricted Assets	-	18,968,364			-	18,968,364
Net Capital Assets	163,641	196,142			163,641	196,142
Total Net Assets	(70,518,377)	65,637,244	235,340	(396,628)	(70,283,037)	65,240,616
TOTAL LIABILITIES AND NET ASSETS	\$669,337,241	553,092,774	\$1,311,116	\$287,721	\$670,648,357	\$553,380,495

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

Ohio Tuition Trust Authority - Enterprise Fund
Schedule of Statements of Revenues,
Expenses, and Changes in Fund Net Assets

For the 12 Month Period Ended June 30, 2002 with comparative for June 30, 2001, as Restated

	Guaranteed Program Totals		Variable Program Totals		Enterprise Fund Totals	
	6/30/2002	6/30/2001	6/30/2002	6/30/2001	6/30/2002	6/30/2001
OPERATING REVENUES						
Contract Fees	\$2,275	\$116,660			\$2,275	\$116,660
Unit Sales	163,806,543	70,237,285			163,806,543	70,237,285
Investment Income	(16,824,591)	14,622,441	2,851	753	(16,821,740)	14,623,194
Miscellaneous Revenue			234	503	234	503
Basis Point Revenue			1,585,356	121,313	1,585,356	121,313
Administrative Fee from Putnam				100,000	-	100,000
Putnam Hard Dollar Contribution			863,501	1,254,148	863,501	1,254,148
TOTAL OPERATING REVENUES	146,984,227	84,976,386	\$2,451,942	1,476,717	\$149,436,169	\$86,453,103
OPERATING EXPENSES						
PERSONAL SERVICES	2,935,311	2,577,748	841,218	809,642	3,776,529	3,387,390
MAINTENANCE	985,341	816,318	547,005	436,629	1,532,346	1,252,947
DEPRECIATION	112,509	77,308			112,509	77,308
EXPENSES PAID BY PUTNAM	431,751	627,074	431,751	627,074	863,502	1,254,148
TUITION BENEFITS EXPENSES (PAYOUTS)	27,274,936	22,842,407			27,274,936	22,842,407
ACTUARIAL TUITION BENEFITS EXPENSE	251,400,000	101,177,207			251,400,000	101,177,207
TOTAL OPERATING EXPENSES	283,139,848	128,118,062	1,819,974	1,873,345	284,959,822	129,991,407
OPERATING INCOME (LOSS)	(136,155,621)	(43,141,676)	631,968	(396,628)	(135,523,653)	(43,538,304)
Interfund Transfers In (Out)						
NET INCOME (LOSS)	(136,155,621)	(43,141,676)	631,968	(396,628)	(135,523,653)	(43,538,304)
BEGINNING NET ASSETS	65,637,244	108,778,920	(396,628)	-	65,240,616	108,778,920
ENDING NET ASSETS	(70,518,377)	\$65,637,244	\$235,340	(396,628)	(70,283,037)	65,240,616

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

Ohio Tuition Trust Authority - Enterprise Fund

Schedule of Statements of Cash Flows

As of June 30, 2002 with comparative for June 30, 2001, as Restated

	Guaranteed		Variable		Enterprise	
	Program Totals FY 6/30/02	Program Totals FY 6/30/01	Program Totals 6/30/2002	Program Totals 6/30/2001	Fund Totals 6/30/2002	Fund Totals 6/30/2001
CASH FLOWS FROM OPERATING ACTIVITIES:						
Cash Received from Customers	\$163,808,818	\$70,353,945			\$163,808,818	\$70,353,945
Cash Payments to Suppliers for Goods and Services	(902,134)	(1,248,090)	(547,005)	(603)	(1,449,139)	(1,248,693)
Cash Payments to Employees/consultants/professional contracts for Services	(2,880,945)	(2,502,921)	(841,220)	(6,233)	(3,722,165)	(2,509,154)
Other Operating Cash Receipts (payments)	(27,695,960)	(23,640,571)	1,891,396	215,300	(25,804,564)	(23,425,271)
Net cash provided (used) by operating activities	132,329,779	42,962,363	503,171	208,464	\$132,832,950	\$43,170,827
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	(80,008)	(49,988)			(80,008)	(49,988)
Proceeds from Sales of Fixed Assets					-	-
Net Cash flows provided (used) by capital and related financing activities	(80,008)	(49,988)			(80,008)	(49,988)
CASH FLOWS FROM INVESTING ACTIVITIES:						
Proceeds from the Sales and Maturities of Investments	1,364,533,326	1,173,503,252			1,364,533,326	1,173,503,252
Purchase of Investments	(1,511,941,193)	(1,237,235,213)			(1,511,941,193)	(1,237,235,213)
Investment Income Received	19,586,443	20,838,139	2,851	753	19,589,294	20,838,892
Net Cash Flows Provided (Used) by investing activities	(127,821,424)	(42,893,822)	2,851	753	(127,818,573)	(42,893,069)
Net Increase (Decrease) in Cash and Cash Equivalents	4,428,347	18,553	506,022	209,217	\$4,934,369	\$227,770
Cash and Cash Equivalents, July 1	87,135	68,582	209,217	-	296,352	68,582
Cash and Cash Equivalents, June 30	\$4,515,482	87,135	715,239	\$209,217	\$5,230,721	\$296,352
Reconciliation of Operating Income to Net Cash Provided by Operating Activities						
Net Income (Loss)	(136,155,621)	(43,141,676)	\$631,968	(396,628)	(135,523,653)	(43,538,304)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities						
Investment Income	16,824,591	(14,622,441)	(2,851)	(753)	16,821,740	(14,623,194)
Depreciation	112,509	77,308			112,509	77,308
Miscellaneous Nonoperating (Revenues) Expenses	589,527		(613,089)		(23,562)	-
Decrease (Increase) in Assets:						
Intergovernmental Receivables					-	-
Other Receivables	(22,476)	19	(517,375)	(78,503)	(539,851)	(78,484)
Increase (Decrease) in Liabilities						
Accounts Payable	83,217	114,201			83,217	114,201
Accrued Liabilities	54,366	7,451			54,366	7,451
Intergovernmental Payable					-	-
Due to Other Funds	(554,759)	(612,360)	554,759	612,360	-	-
Deferred Revenues					-	-
Benefits Payable	251,400,000	101,100,000			251,400,000	101,100,000
Other Liabilities	(1,575)	39,861	449,759	71,988	448,184	111,849
Net Cash Flows Provided (Used) by Operating Activities	\$132,329,779	42,962,363	\$503,171	208,464	132,832,950	43,170,827

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

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**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, OH 43215-5644

We have audited the accompanying financial statements of the Enterprise Fund of the Ohio Tuition Trust Authority, State of Ohio, as of and for the years ended June 30, 2002 and 2001, and have issued our report thereon dated September 30, 2002. We did not audit the financial statements of the Private Purpose Trust Fund. Those statements were derived from financial statements audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the Private Purpose Trust Fund, is based solely on the reports of the other auditors. Our report noted the Authority adopted Governmental Accounting Standards Board Statement numbers 34, 37, and 38. These financial statements are the responsibility of the 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.

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*.

Other auditors performed tests of noncompliance 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Ohio Tuition Trust Authority's internal control over financial reporting, except for the Private Purpose Trust Fund identified above which was performed by other auditors, 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 30, 2002.

Other auditors performed procedures to obtain an understanding of the internal controls of the Private Purpose Trust Fund listed above. 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.



JIM PETRO
Auditor of State

September 30, 2002



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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
NOVEMBER 21, 2002**