



**Auditor of State
Betty Montgomery**

**OHIO TUITION TRUST AUTHORITY
FRANKLIN COUNTY**

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Auditor of State Betty Montgomery

REPORT OF INDEPENDENT ACCOUNTANTS

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, 2003. 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. Those statements were 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. The prior year partial comparative information has been derived from the Ohio Tuition Trust Authority's fiscal year 2002 financial statements and, in our report dated September 30, 2002, 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 report of the other auditors provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Ohio Tuition Trust Authority's Enterprise Fund and 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, 2003, 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 September 30, 2003 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.

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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 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 Fund financial statements taken as a whole.

As of June 30, 2003, the liabilities of the Ohio Tuition Trust Authority exceeded assets by \$318,950,000 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 temporarily suspended 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, 2002, from which such partial information was derived.



Betty Montgomery
Auditor of State

September 30, 2003, except for Note 9,
as to which the date is October 10, 2003

Ohio Tuition Trust Authority
Management's Discussion and Analysis
June 30, 2003
(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, 2003. 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 2003 by \$97,585,351 or 14.72%.
- OTTA's unit sales decreased by \$57,943,975 or 35.4% in fiscal year 2003 from fiscal year 2002.
- Tuition units sold decreased from fiscal year 2002 by 1,561,870 units or 53.8%.
- New contracts sold decreased from fiscal year 2002 by 6,896 or 41.1%.
- Tuition Benefits Payable increased over fiscal year 2002 by \$342,300,000 or 46.37% 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.

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, 2003. 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 *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 Variable Savings Program, which is classified as a Private Purpose Trust Fund and is managed by Putnam Investments.

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

**Ohio Tuition Trust Authority
Management's Discussion and Analysis
June 30, 2003
(Unaudited)**

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 13 - 26 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 27 - 29 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, 2003 and June 30, 2002:

Combining Balance Sheet

(all amounts expressed in thousands of dollars)

	2003	2002	Dollar Change	Total Percent Change
Current Assets	4,163	3,051	1,112	36.4%
Restricted Assets	688,909	606,756	82,153	13.5%
Non-Current Assets	71,890	60,677	11,213	18.5%
Capital Assets	117	164	(47)	-28.6%
Total Assets	765,079	670,648	94,431	14.1%
Current Liabilities	74,429	58,531	15,898	27.2%
Tuition Benefits Payable	1,009,600	682,400	327,200	47.9%
Total Liabilities	1,084,029	740,931	343,098	46.3%
Total Net Assets	(318,950)	(70,283)	(248,667)	-353.8%
Total Liab.and net assets	765,079	670,648	94,431	14.1%

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 \$318,949,788 as of June 30, 2003. 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. Please see footnote number 4 in the Notes to the Financial Statements for additional information.

During fiscal year 2003, OTTA's total assets increased by \$94,430,432 or 14.1%. This is better than would have been expected given the observed decrease in unit sales. The larger than expected increase in total assets reflects the improving investment environment prevalent during the last quarter of fiscal year 2003.

The following table summarizes the changes in OTTA's Revenues and Expenses between fiscal years 2003 and 2002:

**Ohio Tuition Trust Authority
Management's Discussion and Analysis
June 30, 2003
(Unaudited)**

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

(all amounts expressed in thousands of dollars)

	2003	2002	Dollar Change	Total Percent Change
Operating Revenues:				
Fees and Unit Sales	105,865	163,809	(57,944)	-35.4%
Investment Income	29,141	(16,822)	45,963	273.2%
Miscellaneous Revenue	4,796	2,449	2,347	95.8%
Total Operating Revenues	139,802	149,436	(9,634)	-6.4%
Operating Expenses	7,230	6,285	945	15.0%
Tuition Benefits Expense	381,239	278,675	102,564	36.8%
Total Operating Expenses	388,469	284,960	103,509	36.3%
Operating Income (Loss)	(248,667)	(135,524)	(113,143)	-83.5%
Beginning Net Assets	(70,283)	65,241	(135,524)	-207.7%
Ending Net Assets	(318,950)	(70,283)	(248,667)	-353.8%

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, 2003, OTTA had an increase in operating loss compared to fiscal year 2002 of \$113,143,098 or 83.5%. This was attributable mainly to the following:

- A \$45,962,580 increase in investment income caused by improving market values of securities held by OTTA.
- A \$57,943,975 decrease in unit sales compared to the unusually high sales in fiscal year 2002.
- A \$102,563,796 increase in tuition benefits expense as a result of high tuition growth during FY03 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 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.

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Ohio Tuition Trust Authority - Enterprise Fund

Balance Sheet

As of June 30, 2003 with comparative for June 30, 2002

(amounts in thousands)

	Enterprise Fund Total as of 6/30/03	Enterprise Fund Total as of 6/30/02
ASSETS		
Current Assets		
Cash and Cash-Equivalents	\$ 505	\$ 740
Other Current Assets	3,658	2,312
Total Current Assets	4,163	\$3,052
Non-Current Assets		
Marketable Securities (at market value)	71,890	60,677
Total Non-Current Assets	71,890	60,677
Restricted Assets		
Cash Held for Tuition Benefits	271	4,491
Marketable Securities (at market value)	688,638	602,265
Total Restricted Assets	688,909	606,756
Capital Assets		
Equipment	779	725
Leasehold Improvements	71	71
Less: Accumulated Depreciation	(733)	(633)
Total Capital Assets	117	163
TOTAL ASSETS	765,079	670,648
LIABILITIES AND NET ASSETS		
Current Liabilities		
Other Current Liabilities	3,529	2,731
Current Portion-Tuition Benefits Payable	70,900	55,800
Total Current Liabilities	74,429	58,531
Restricted Non-Current Liabilities		
Tuition Benefits Payable from Restricted Assets	1,009,600	682,400
Total Restricted Non-Current Liabilities	1,009,600	682,400
Total Liabilities	1,084,029	740,931
Net Assets		
Unrestricted Assets	(319,067)	(70,446)
Invested in Capital Assets	117	163
Total Net Assets	(318,950)	(70,283)
TOTAL LIABILITIES AND NET ASSETS	\$ 765,079	\$ 670,648

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, 2003 with comparative for June 30, 2002
(amounts in thousands)*

	Enterprise Fund Totals 6/30/2003	Enterprise Fund Totals 6/30/2002
OPERATING REVENUES		
Contract Fees	\$ 2	\$ 2
Unit Sales	\$105,863	163,807
Investment Income	21,376	19,589
Net increase (decrease) in fair value of investments	7,765	(36,411)
Miscellaneous Revenue	6	0
Basis Point Revenue	3,477	1,585
Putnam Hard Dollar Contribution	1,313	864
TOTAL OPERATING REVENUES	139,802	149,436
OPERATING EXPENSES		
Personal Services	4,458	3,776
Maintenance	1,330	1,532
Depreciation	129	113
Expenses Paid By Putnam	1,313	864
Tuition Benefits Expenses (Payouts)	38,939	27,275
Actuarial Tuition Benefits Expense	342,300	251,400
TOTAL OPERATING EXPENSES	388,469	284,960
OPERATING INCOME (LOSS)	(248,667)	(135,524)
CHANGE IN NET ASSETS	(248,667)	(135,524)
BEGINNING NET ASSETS	(70,283)	65,241
ENDING NET ASSETS	\$ (318,950)	\$ (70,283)

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, 2003 with comparative for June 30, 2002
(amounts in thousands)

	Enterprise Fund Totals FY 6/30/03	Enterprise Fund Totals FY 6/30/02
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers	\$ 105,865	\$ 163,809
Cash Payments to Suppliers for Goods and Services	(1,245)	(1,449)
Cash Payments to Employees/consultants/professional contracts for Services	(4,461)	(3,722)
Other Operating Cash Receipts (payments)	(35,751)	(25,805)
Net cash provided (used) by operating activities	\$64,408	132,833
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of Capital Assets	(54)	(80)
Net Cash flows provided (used) by capital and related financing activities	(54)	(80)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from the Sales and Maturities of Investments	139,527	1,364,533
Purchase of Investments	(229,264)	(1,511,941)
Investment Income Received	21,376	19,589
Net Cash Flows Provided (Used) by investing activities	(68,361)	(127,819)
Net Increase (Decrease) in Cash and Cash Equivalents	(4,007)	4,934
Cash and Cash Equivalents, July 1	5,231	297
Cash and Cash Equivalents, June 30 (see note 3A)	\$ 1,224	\$ 5,231

Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating Income (Loss)	\$ (248,667)	\$ (135,524)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities		
Investment Income	(29,141)	16,822
Depreciation	129	113
Miscellaneous Nonoperating (Revenues) Expenses	-	(23)
Decrease (Increase) in Assets:		
Other Receivables	(560)	(540)
Increase (Decrease) in Liabilities		
Accounts Payable	85	83
Accrued Liabilities	(4)	54
Benefits Payable	342,300	251,400
Other Liabilities	266	448
Net Cash Flows Provided (Used) by Operating Activities	\$64,408	\$ 132,833

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, 2003 with comparative for June 30, 2002
(amounts in thousands)

	6/30/2003	6/30/2002
ASSETS		
Investments in securities, at value	\$ 2,233,310	\$ 1,621,798
Cash Equivalents	189,566	110,679
Dividends, interest, and other receivables	7	1
Receivable for units sold	2,678	3,462
Receivable for securities sold	30,454	14,884
Total Assets	2,456,015	1,750,824
Liabilities		
Payable for securities purchased	32,136	17,661
Payable for units redeemed	964	433
Accrued management and administrative fees	3,070	3,081
Deferred excess of book value on wrapper agreements	656	
Accrued audit fees	149	
Accrued reports to shareholders fee	279	127
Total Liabilities	37,254	21,302
Net Assets Held in Trust for Plan Participants	\$ 2,418,761	\$ 1,729,522

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, 2003 with comparative for June 30, 2002
(amounts in thousands)

	6/30/2003	6/30/2002
ADDITIONS		
Contributions:		
Units sold	\$ 839,709	\$ 1,475,428
Investment earnings:		
Investment income	37,836	24,182
Net realized/unrealized appreciation (depreciation) on underlying fund shares	12,603	(139,587)
Total investment earnings	50,439	(115,405)
Less investment expenses	15,358	8,213
Net investment earnings	35,081	(123,618)
Total additions	874,790	1,351,810
DEDUCTIONS		
Units redeemed	185,153	50,003
Distributions to unitholders	398	17
Total deductions	185,551	50,020
Change in net assets	689,239	1,301,790
Net Assets Held in Trust for Plan Participants - Beginning	1,729,522	427,732
Net Assets Held in Trust for Plan Participants - Ending	\$ 2,418,761	\$ 1,729,522

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

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**OHIO TUITION TRUST AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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 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 *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.

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, 2003 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, 2002 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, 2003
(Continued)**

1. 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. 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. CollegeAdvantage now has 18 investment options, which include four asset allocation portfolios that invest in up to eight Putnam mutual funds, and 13 individual investment options each representing a distinct asset class and investing in a single Putnam mutual fund and the Guaranteed Savings Fund (available only in Ohio). The four asset allocation portfolios include 1) an Age-Based Option with investments weighted more towards equities during a child's younger years, then gradually shifting to more conservative investments as the child approaches college ages; 2) a Balanced Option with approximately 60% of the portfolio invested in equities and 40% in fixed income; 3) a Growth Option with approximately 85% of the portfolio invested in equities and 15% in fixed income; and 4) an Aggressive Growth Option with approximately 100% of the portfolio invested in equities.

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.

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 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, 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 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 Savings Program is recorded as a Private Purpose Trust Fund in these financial statements.

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.

**OHIO TUITION TRUST AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

2. Significant Accounting Policies (Continued)

A. Basis of Accounting-Enterprise Fund (Continued)

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 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 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.

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.

**OHIO TUITION TRUST AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

2. Significant Accounting Policies (Continued)

B. Stance on Financial Accounting Standards (Continued)

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, 2003
(Continued)**

2. Significant Accounting Policies (Continued)

D. Revenue (Continued)

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) and \$89 (May 1, 2003 – present).

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) and \$87 (May 1, 2003 – present).

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 – present).

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.

**OHIO TUITION TRUST AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

2. Significant Accounting Policies (Continued)

D. Revenue (Continued)

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 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.
- 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.

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 2003, 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, 2003
- Noncurrent: Due after June 30, 2004
- 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.

**OHIO TUITION TRUST AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

2. Significant Accounting Policies (Continued)

G. Capital Assets and Facilities (Continued)

OTTA leases office space under an operating Lease that renews annually on July 1st. Lease expense for fiscal year 2003 is approximately \$144,200 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)	International Equities	July 2002 – March 2003
Capital Guardian Trust Company	International Equities	July 2002 – June 2003
Sanford C. Bernstein	Domestic Equities	July 2002 – June 2003
Brandywine Asset Management	Domestic Equities	July 2002 – June 2003
Marvin & Palmer Associates, Inc.	International Equities	July 2002 – June 2003
Banc One Investments Advisors	Domestic Equities Fixed Income	July 2002 – June 2003 July 2002 – June 2003
STAR Ohio	Short Term Investments	July 2002 – June 2003
Next Century Growth Managers	Domestic Equities	August 2002 – June 2003
Delaware International	International Equities	April 2003 – June 2003

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 2003, realized and unrealized gains were as follows:

	<u>RESERVE</u>	<u>TRUST</u>	<u>TOTAL</u>
REALIZED GAIN OR (LOSS)	\$ 475,664	\$(19,970,082)	\$ (19,494,418)
NET INCREASE (DECREASE) IN FAIR VALUE	\$ 2,363,536	\$ 24,896,159	\$ 27,259,695
UNREALIZED GAIN (LOSS) ON INVESTMENTS	\$ 4,100,440	\$ 12,721,625	\$ 16,822,065

**OHIO TUITION TRUST AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

2. Significant Accounting Policies (Continued)

H. Marketable Securities (Continued)

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, 2003. The wages payable, accumulated vacation, sick, personal, compensatory time and Medicare adjustment to compensated absences amounted to \$73,608; \$89,136; \$31,032; \$7,360; \$8,694; and \$1,664, 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 2003, 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 2003 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 that covers liabilities associated with claims submitted to the Bureau of Workers' Compensation.

**OHIO TUITION TRUST AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

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, 2003, the carrying amount was \$1,223,585. Of that amount, \$574,763 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>Collat- eralized</u>	<u>Totals</u>
Operating Sub Fund 645	\$ 12,149	\$ -	\$ 12,149	\$ 12,149
Operating Sub Fund 5P3	\$ 462,614	\$ -	\$ 462,614	\$ 462,614
Trust Fund-Lockbox Acct.	\$ 270,919	\$ 36,180	\$ -	\$ 36,180
Variable-Lockbox Acct.	\$ 477,903	\$ 63,820	\$ -	\$ 63,820
Totals	<u>\$ 1,223,585</u>	<u>\$ 100,000</u>	<u>\$ 474,763</u>	<u>\$ 574,763</u>

At June 30, 2003, the Tuition Trust did not have the contents of the Variable and Trust Fund Lockboxes fully collateralized and was, therefore, not in compliance with Ohio Revised Code section 135.18.

The Operating Sub Fund 5P3 includes the balance in the Variable Savings Program's money market account. This account is classified as cash because it is designated for payment of the operating expenses of the Variable Savings Program Operating Sub Fund. 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.

B. Investments

i. 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.

**OHIO TUITION TRUST AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

3. Deposits and Investments (Continued)

B. Investments (Continued)

i. Enterprise Fund (Continued)

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	\$503,425,364	\$ -	\$ 503,425,364
Stocks *	\$255,797,520	\$ -	\$ 255,797,520
Sweep Account	\$ -	\$ 857,275	\$ 857,275
Totals	<u>\$759,222,884</u>	<u>\$ 857,275</u>	<u>\$ 760,080,159</u>

* Includes equities managed by all investment managers.

Investments not categorized	
Investments held in a securities lending collateral investment pool	\$346,995

ii. 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, 2003 the Net Assets of the CollegeAdvantage Variable Savings Plan Private Purpose Trust Fund are \$2,418,760,928.

**OHIO TUITION TRUST AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

4. Tuition Benefits Payable

Tuition Benefits Payable represents the actuarially determined present value (APV) of future tuition obligations. This valuation method reflects the present value of estimated tuition benefits that will be paid in future years and is adjusted for the effects of projected tuition increases and the termination of Tuition Trust contracts. Beginning with the 1995 Actuarial Valuation, the Tuition Trust's actuarial firm, with approval of the Board of Directors, adopted a methodology to smooth volatility in investment values. This methodology recognizes each year one-third of the difference between (1) assets at fair market value and (2) the expected assets based on the actuarial investment return assumption. The result is that the assets used to determine the program's actuarial surplus are not the same as the market or cost value of assets found in the program's 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	\$1,080,500,000
Actuarial net assets available	\$ 809,300,000
APV of Payments from Variable Program	\$ 34,800,000
Assets as a percentage of tuition benefits and expense obligation	78.12 %

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	16.24 %	2004*
	10.00%	Thereafter*
Consumer Price Index (CPI) Inflation Rate	2.5 %	

*This represents a change in the assumption for annual tuition growth from 10.0% in 2004, 9.0% in 2005 and 6.5% thereafter to the indicated rates. The effect of this change in actuarial assumption can be summarized as follows:

**OHIO TUITION TRUST AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

4. Tuition Benefits Payable (Continued)

(amounts in millions)

Actuarial Surplus/(Deficit) as of June 30, 2002	\$ (23.8)
Interest on the surplus at 7.5%	(1.8)
Recognition of shortfall in investment returns	(25.0)
Additional surplus from new unit purchases	(12.5)
Credits redeemed at lower rate	0.2
Higher than assumed tuition increase	(0.8)
Budget savings	0.6
Fewer units/credits redeemed than expected	(5.5)
Interest gain on late tuition payouts	0.4
Change in investment return assumption	(31.1)
Changes in tuition growth assumption	(174.3)
Other	<u>2.4</u>
Actuarial Deficit as of June 30, 2003 before APV basis points revenue	(271.2)
APV of Payments from Variable Program	<u>34.8</u>
Actuarial Deficit as of June 30, 2003 after APV basis points revenue	<u>\$ (236.4)</u>

5. Tax Status

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

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

The Ohio Tuition Trust had filed with the IRS to obtain a Private Letter Ruling. However, pending further guidance from the IRS regarding the recent tax law changes and the program changes entailed, the Tuition Trust 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.

**OHIO TUITION TRUST AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

7. Pension Plan

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

Required employee and employer contributions to PERS are established under the Ohio Revised Code and are based on percentages of covered employees' gross salaries, with the contribution rate percentages being calculated annually by the Retirement Board's actuaries. The employee contribution rate is 8.5 percent of covered payroll costs; the employer contribution rate is 13.31 percent of the covered payroll costs. Employer contributions required and made to PERS for 2003, 2002, and 2001 were \$188,202, \$186,190 and \$121,481 respectively.

8. 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.

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 2002 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 PERS.

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 2002 (the latest information available) were \$776,006,852. As of December 31, 2002, the estimated net assets available for future OPEB payments were \$8,886,282,086 and the number of benefit recipients eligible for OPEB was 139,665.

9. Subsequent Events

On August 28, 2003, the Board of Directors of the Tuition Trust passed a resolution to limit the amount of total contributions in the Guaranteed Savings Fund to \$2,000 per calendar year, per contributor/married couple/, per beneficiary to be effective on August 28, 2003.

**OHIO TUITION TRUST AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

9. Subsequent Events

On September 29, 2003, the Tuition Trust executed a revised contract with Provident Bank to fully collateralize the balances in the Variable and Trust Fund Lockbox accounts in order to comply with Ohio Revised Code section 135.18.

On October 8, 2003, the Board of Directors of the Tuition Trust passed a resolution to temporarily suspend sales of new enrollments in the Guaranteed Savings Fund effective immediately on October 8, 2003 through December 31, 2004. Contributions to existing Guaranteed Savings Fund accounts are temporarily suspended for a 12-month period beginning January 1, 2004, and ending December 31, 2004.

For comparability purposes, please see the footnotes for the year ended June 30, 2002 in our previous annual report.

Ohio Tuition Trust Authority - Enterprise Fund

Schedule of Balance Sheets

As of June 30, 2003 with comparative for June 30, 2002
(amounts in thousands)

	Guaranteed Program Total		Variable Savings Plan		Enterprise Fund	
	as of 6/30/03	as of 6/30/02	as of 6/30/03	as of 6/30/02	as of 6/30/03	as of 6/30/02
ASSETS						
Current Assets						
Cash	\$ 12	\$ 25	\$ 493	\$ 715	\$ 505	\$ 740
Collateral on Lent Securities	347	12			347	12
Other Receivable	112	22	1,067	596	1,179	618
Due from Trust Fund	2,025	1,128			2,025	1,128
Due from Variable Fund	107	554			107	554
Total Current Assets	2,603	\$1,741	\$ 1,560	1,311	4,163	3,052
Non-Current Assets						
Marketable Securities (at market value)	70,667	60,677	\$1,223		71,890	60,677
Total Non-Current Assets	70,667	60,677	1,223		71,890	60,677
Restricted Assets						
Cash Held for Tuition Benefits	271	4,491			271	4,491
Marketable Securities (at market value)	688,638	602,265			688,638	602,265
Total Restricted Assets	688,909	606,756			688,909	606,756
Fixed Assets						
Equipment	779	725			779	725
Leasehold Improvements	71	71			71	71
Less: Accumulated Depreciation	(733)	(633)			(733)	(633)
Total Fixed Assets	117	163	-	-	117	163
TOTAL ASSETS	762,296	\$669,337	\$2,783	1,311	765,079	670,648
LIABILITIES AND RETAINED EARNINGS						
Current Liabilities						
Accounts Payable	307	251			307	251
Accounts Payable-State of Ohio	69	39			69	39
Accrued Liabilities	211	216			211	216
Other Liabilities	10	10	453	521	463	531
Obligation under Securities Lending	347	12			347	12
Due to Reserve Fund	-	154			-	154
Due to Guaranteed Fund	2,025	974	107	554	2,132	1,528
Current Portion-Tuition Benefits Payable	70,900	55,800			70,900	55,800
Total Current Liabilities	73,869	57,456	560	1,075	74,429	58,531
Non-Current Liabilities						
Tuition Benefits Payable from Restricted Assets	1,009,600	682,400			1,009,600	682,400
Total Non-Current Liabilities	1,009,600	682,400	-	-	1,009,600	682,400
Total Liabilities	1,083,469	739,856	560	1,075	1,084,029	740,931
Net Assets						
Unrestricted Assets	(321,290)	(70,682)	2,223	236	(319,067)	(70,446)
Invested in Capital Assets	117	163			117	163
Total Net Assets	(321,173)	(70,519)	2,223	236	(318,950)	(70,283)
TOTAL LIABILITIES AND NET ASSETS	\$ 762,296	\$ 669,337	\$ 2,783	\$ 1,311	\$ 765,079	\$ 670,648

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, 2003 with comparative for June 30, 2002
(amounts in thousands)

	Guaranteed Program Totals		Variable Program Totals		Enterprise Fund Totals	
	6/30/2003	6/30/2002	6/30/2003	6/30/2002	6/30/2003	6/30/2002
OPERATING REVENUES						
Contract Fees	\$ 2	\$ 2			\$ 2	\$ 2
Unit Sales	105,863	163,807			105,863	163,807
Investment Income	29,138	(16,825)	\$ 3	\$ 3	29,141	(16,822)
Miscellaneous Revenue	6		-	0	6	0
Basis Point Revenue			3,477	1,585	3,477	1,585
Putnam Hard Dollar Contribution	262		1,051	864	1,313	864
TOTAL OPERATING REVENUES	135,271	146,984	4,531	2,452	139,802	149,436
OPERATING EXPENSES						
Personal Services	3,516	2,935	942	841	4,458	3,776
Maintenance	780	985	550	547	1,330	1,532
Depreciation	129	113			129	113
Expenses Paid by Putnam	262	432	1,051	432	1,313	864
Tuition Benefits Expenses(Payouts)	38,939	27,275			38,939	27,275
Actuarial Tuition Benefits Expense	342,300	251,400			342,300	251,400
TOTAL OPERATING EXPENSES	385,926	283,140	2,543	1,820	388,469	284,960
OPERATING INCOME (LOSS)	(250,655)	(136,156)	1,988	632	(248,667)	(135,524)
Interfund Transfers In (Out)						
NET INCOME (LOSS)	(250,655)	(136,156)	1,988	632	(248,667)	(135,524)
BEGINNING NET ASSETS	(70,519)	65,637	236	(396)	(70,283)	65,241
ENDING NET ASSETS	\$ (321,174)	\$ (70,519)	\$ 2,224	\$ 236	\$ (318,950)	\$ (70,283)

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, 2003 with comparative for June 30, 2002
(amounts in thousands)

	Guaranteed Program Totals		Variable Program Totals		Enterprise Fund Totals	
	FY 6/30/03	FY 6/30/02	6/30/2003	6/30/2002	6/30/2003	6/30/2002
CASH FLOWS FROM OPERATING ACTIVITIES:						
Cash Received from Customers	\$ 105,865	\$ 163,809	\$ -	\$ -	\$ 105,865	\$ 163,809
Cash Payments to Suppliers for Goods and Services	(695)	(902)	(550)	(547)	(1,245)	(1,449)
Cash Payments to Employees/consultants/professional contracts for Services	(3,520)	(2,881)	(941)	(841)	(4,461)	(3,722)
Other Operating Cash Receipts (payments)	(38,794)	(27,696)	3,043	1,891	(35,751)	(25,805)
Net cash provided (used) by operating activities	62,856	132,330	1,552	503	64,408	132,833
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	(54)	(80)			(54)	(80)
Proceeds from Sales of Fixed Assets					-	-
Net Cash flows provided (used) by capital and related financing activities	(54)	(80)			(54)	(80)
CASH FLOWS FROM INVESTING ACTIVITIES:						
Proceeds from the Sales and Maturities of Investments	138,070	1,364,533	1,457		139,527	1,364,533
Purchase of Investments	(226,477)	(1,511,941)	(2,787)		(229,264)	(1,511,941)
Investment Income Received	21,372	19,586	4	3	21,376	19,589
Net cash flows provided (used) by investing activities	(67,035)	(127,822)	(1,326)	3	(68,361)	(127,819)
Net Increase (Decrease) in Cash and Cash Equivalents	(4,233)	4,428	226	506	(4,007)	4,934
Cash and Cash Equivalents, July 1	4,515	87	716	210	5,231	297
Cash and Cash Equivalents, June 30 (see note 3A)	\$ 282	\$ 4,515	\$ 942	\$ 716	\$ 1,224	\$ 5,231
Reconciliation of Operating Income to Net Cash Provided by Operating Activities						
Net Income (Loss)	\$ (250,655)	\$ (136,156)	\$ 1,988	\$ 632	\$ (248,667)	\$ (135,524)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities						
Investment Income	(29,138)	16,825	(3)	(3)	(29,141)	16,822
Depreciation	129	113			129	113
Miscellaneous Nonoperating (Revenues) Expenses	-	590	-	(613)	-	(23)
Decrease (Increase) in Assets:						
Intergovernmental Receivables					-	-
Other Receivables	(89)	(22)	(471)	(518)	(560)	(540)
Increase (Decrease) in Liabilities						
Accounts Payable	85	83			85	83
Accrued Liabilities	(4)	54			(4)	54
Intergovernmental Payable					-	-
Due to Other Funds	(107)	(555)	107	555	-	-
Deferred Revenues					-	-
Benefits Payable	342,300	251,400			342,300	251,400
Other Liabilities	335	(2)	(69)	450	266	448
Net Cash Flows Provided (Used) by Operating Activities	\$ 62,856	\$ 132,330	\$ 1,552	\$ 503	\$ 64,408	\$ 132,833

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

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**Auditor of State
Betty Montgomery**

**REPORT OF INDEPENDENT ACCOUNTANTS 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 financial statements of the Enterprise Fund of the Ohio Tuition Trust Authority as of and for the year ended June 30, 2003, and have issued our report thereon dated September 30, 2003. 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. The prior year summarized comparative information has been derived from the Ohio Tuition Trust Authority's fiscal year 2002 financial statements and, in our report dated September 30, 2002, 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 instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as item 2003-001.

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.

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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

September 30, 2003

Ohio Tuition Trust Authority
Schedule of Findings

Finding Number	2003-001
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Collateralization of Cash Deposits – Compliance

Ohio Revised Code Section 135.18 states, in part...”The treasurer, shall require the institution designated as a public depository to pledge to and deposit with the treasurer, as security for the repayment of all public moneys to be deposited in the public depository during the period of designation pursuant to the award, eligible securities of aggregate market value equal to the excess of the amount of public moneys to be at the time so deposited, over and above such portion or amount of such moneys as is at such portion or amount of such moneys as is at such time insured by the federal deposit insurance corporation or by any other agency”. It is the responsibility of management to implement internal control procedures to ensure proper collateral is held for security for the repayment of all public moneys.

Currently, the Ohio Tuition Trust Authority (OTTA) maintains one lockbox account at Provident Bank for the collection of unit sales for both the Guaranteed and Variable programs, under the custody of the Treasurer of State. Approximately \$945,571,391 (\$839,708,538 for the Variable and \$105,862,853 for the Guaranteed) in unit sales was processed through this lockbox account during the audit period. Each day, OTTA reconciles the previous day’s sales and transfers the reconciled balance to the appropriate Guaranteed or Variable account. The balance of the lockbox account at June 30, 2003, was \$748,822 (\$477,903 for the Variable and \$270,919 for the Guaranteed); however, the total balance was not fully collateralized at year-end or during the audit period. Although, the account is covered by the federal deposit insurance corporation up to \$100,000, the remaining balance was uncollateralized.

If accounts are not adequately collateralized, as set forth in Ohio Rev. Code §135.18, the Authority has an increased risk these public moneys could be lost or otherwise unrecoverable should there be issues with the financial institution holding those funds. This could cause financial hardships for the Authority and/or the State of Ohio and subject them to undue public scrutiny. Management indicated they had understood this account to be collateralized; however their research revealed that it was not. Upon notification of this issue, the Authority completed the appropriate procedures to ensure the account was collateralized, as required.

We recommend management implement internal control procedures which require all accounts of the Authority to be periodically evaluated to ensure they are properly collateralized in accordance with ORC §135.18, and that any other risk factors associated with these public funds are properly addressed.



**Auditor of State
Betty Montgomery**

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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 6, 2003**