



**OHIO TUITION TRUST AUTHORITY
FRANKLIN COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED JUNE 30, 2000 AND 1999



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**OHIO TUITION TRUST AUTHORITY
FRANKLIN COUNTY**

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**OHIO TUITION TRUST AUTHORITY
FRANKLIN COUNTY**

**APPOINTED OFFICIALS AND ADMINISTRATIVE PERSONNEL
AS OF JUNE 30, 2000**

APPOINTED OFFICIALS

OHIO TUITION TRUST AUTHORITY	TITLE	TERM EXPIRATION
Senator W. Scott Oelslager	Co-Chairman	January 2001
Representative George Distel	Co-Chairman	January 2001
Senator Rhine McLin	Board Member	January 2001
Representative Jon Myers	Board Member	January 2001
Dr. Matthew Filipic	Board Member	Continuous
Ms. Robin Jones	Board Member	January 2002
Mr. Keith Mabee	Board Member	January 2002
Mr. George Turk	Board Member	January 2003
Dr. Mark Weinberg	Board Member	January 2004
Mr. Jonathan Petuchowski	Board Member	January 2001
Mr. Jonathon Ivec	Board Member	January 2003

ADMINISTRATIVE PERSONNEL

OHIO TUITION TRUST AUTHORITY	TITLE	TERM EXPIRATION
Jacqueline Williams	Executive Director	Continuous

LEGAL COUNSEL

Jan Alan Neiger, Attorney General's Office

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**STATE OF OHIO
OFFICE OF THE AUDITOR**

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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 Ohio Tuition Trust Authority, State of Ohio, as of and for the years ended June 30, 2000 and 1999. 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 generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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 over financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Ohio Tuition Trust Authority Enterprise Fund, as of June 30, 2000 and 1999, and the results of its operations and the cash flows for the years then ended in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the financial statements of the Ohio Tuition Trust Authority Enterprise Fund taken as a whole. The individual Operating Fund, Reserve Fund, and Trust Fund statements are presented for purposes of additional analysis and are not a required part of the Ohio Tuition Trust Authority Enterprise Fund financial statements. Such information has been subjected to the auditing procedures applied in the audit of the Ohio Tuition Trust Authority Enterprise Fund financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the Ohio Tuition Trust Authority Enterprise Fund financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2000 on our consideration of the Ohio Tuition Trust Authority's internal control over financial reporting for its Enterprise Fund and our tests of its compliance with certain provisions of laws, regulations, and contracts applicable to its Enterprise Fund. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink, appearing to read "Jim Petro", with a large, stylized flourish at the end.

JIM PETRO
Auditor of State

September 27, 2000

Ohio Tuition Trust Authority

Balance Sheet

As of June 30, 2000 with Comparative for June 30, 1999, As Restated

	Operating Fund	Reserve Fund	Trust Fund	Enterprise Fund Totals as of 6/30/00	Enterprise Fund Totals as of 6/30/99
ASSETS					
Current Assets					
Cash	\$37,295	\$0	\$0	\$37,295	\$546,220
Collateral on Lent Securities	2,577	0	0	2,577	215,749
Marketable Securities (at market value)	0	39,200,759	0	39,200,759	33,752,927
Other Receivable	0	19	0	19	743
Due from Trust Fund	0	184,458	0	184,458	156,344
Total Current Assets	39,872	39,385,236	0	39,425,108	34,671,983
Restricted Assets					
Cash Held for Tuition Benefits	0	0	31,287	31,287	1,098
Marketable Securities (at market value)	0	0	457,211,364	457,211,364	390,534,803
Other Receivable	0	0	0	0	4,104
Total Restricted Assets	0	0	457,242,651	457,242,651	390,540,005
Fixed Assets					
Equipment	632,926	0	0	632,926	550,423
Leasehold Improvements	70,781	0	0	70,781	70,781
Less: Accumulated Depreciation	(442,970)	0	0	(442,970)	(323,946)
Total Fixed Assets	260,737	0	0	260,737	297,258
TOTAL ASSETS	300,609	39,385,236	457,242,651	496,928,496	425,509,246
LIABILITIES AND RETAINED EARNINGS					
Current Liabilities					
Accounts Payable	92,555	0	0	92,555	74,716
Accounts Payable-State of Ohio	3,089	0	0	3,089	0
Accrued Liabilities	153,758	0	0	153,758	153,022
Other Liabilities	69	0	2,013,070	2,013,139	26
Obligation under Securities Lending	2,577	0	0	2,577	215,749
Due to Reserve Fund	285	0	184,173	184,458	156,344
Current Portion-Tuition Benefits Payable	0	0	31,200,000	31,200,000	25,100,000
Current Unredeemed Gift Certificates	0	0	0	0	4,664
Total Current Liabilities	252,333	0	33,397,243	33,649,576	25,704,521
Non-Current Liabilities					
Tuition Benefits Payable	0	0	354,500,000	354,500,000	291,500,000
Total Non-Current Liabilities	0	0	354,500,000	354,500,000	291,500,000
Total Liabilities	252,333	0	387,897,243	388,149,576	317,204,521
Retained Earnings					
Retained Earnings	48,276	39,385,236	69,345,408	108,778,920	108,304,725
Total Retained Earnings	48,276	39,385,236	69,345,408	108,778,920	108,304,725
TOTAL LIABILITIES AND RETAINED EARNINGS	\$300,609	\$39,385,236	\$457,242,651	\$496,928,496	\$425,509,246

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

Ohio Tuition Trust Authority

Statement of Revenues, Expenses, and Changes in Retained Earnings

For the 12 Month Period Ended June 30, 2000 with Comparative for June 30, 1999, As Restated

	Operating Fund	Reserve Fund	Trust Fund	Enterprise Fund Totals 06/30/00	Enterprise Fund Totals 06/30/99
OPERATING REVENUES					
Contract Fees	\$0	\$156,470	\$0	\$156,470	\$192,550
Unit Sales	0	6,673,840	56,375,850	63,049,690	55,773,119
Investment Income	7,927	1,660,992	25,159,775	26,828,694	38,929,789
Miscellaneous Revenue	1	0	1	2	32,726
TOTAL OPERATING REVENUES	7,928	8,491,302	81,535,626	90,034,856	94,928,184
OPERATING EXPENSES					
PERSONAL SERVICES	2,145,527	6,090	799,150	2,950,767	2,002,619
MAINTENANCE	1,307,498	0	0	1,307,498	963,355
DEPRECIATION	131,646	0	0	131,646	114,186
TUITION BENEFITS EXPENSES (PAYOUTS)	0	0	16,053,025	16,053,025	11,854,130
ACTUARIAL TUITION BENEFITS EXPENSE	0	0	69,117,206	69,117,206	56,300,000
TOTAL OPERATING EXPENSES	3,584,671	6,090	85,969,381	89,560,142	71,234,290
OPERATING INCOME (LOSS)	(3,576,743)	8,485,212	(4,433,755)	474,714	23,693,894
NONOPERATING REVENUE (EXPENSES)					
Loss on Disposal of Fixed Assets	(519)	0	0	(519)	(18,307)
INCOME (LOSS) BEFORE OPERATING TRANSFERS	(3,577,262)	8,485,212	(4,433,755)	474,195	23,675,587
Interfund Transfers In (Out)	3,260,000	(3,260,000)	0	0	0
NET INCOME (LOSS)	(317,262)	5,225,212	(4,433,755)	474,195	23,675,587
BEGINNING RETAINED EARNINGS	365,538	34,160,024	73,779,163	108,304,725	84,629,138
ENDING RETAINED EARNINGS	\$48,276	\$39,385,236	\$69,345,408	\$108,778,920	\$108,304,725

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

Ohio Tuition Trust Authority

Statement of Cash Flows

For the 12 Month Period Ended June 30, 2000 with Comparative for June 30, 1999, As Restated

	Operating Fund	Reserve Fund	Trust Fund	Enterprise Fund Totals FY 6/30/00	Enterprise Fund Totals FY 6/30/99
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash Received from Customers	\$0	\$6,830,310	\$56,375,850	\$63,206,160	\$55,961,800
Cash Payments to Suppliers for Goods and Services	(1,295,171)	0	0	(1,295,171)	(931,769)
Cash Payments to Employees/consultants/professional contracts for Services	(2,183,689)	0	0	(2,183,689)	(2,186,720)
Other Operating Cash Receipts (payments)	8,449	(6,090)	(16,852,175)	(16,849,816)	(9,178,793)
Net cash provided (used) by operating activities	(3,470,411)	6,824,220	39,523,675	42,877,484	43,664,518
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Interfund Transfers In (Out)	3,260,000	(3,260,000)	0	0	0
Net cash flows provided (used) by noncapital financing activities	3,260,000	(3,260,000)	0	0	0
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition of Capital Assets	(56,211)	0	0	(56,211)	(121,199)
Proceeds from Sales of Fixed Assets	0	0	0	0	0
Net Cash flows provided (used) by capital and related financing activities	(56,211)	0	0	(56,211)	(121,199)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Proceeds from the Sales and Maturities of Investments	0	201,546,151	641,257,855	842,804,006	1,371,866,539
Purchase of Investments	0	(207,736,008)	(697,556,677)	(905,292,685)	(1,433,224,767)
Investment Income Received	8,449	2,374,885	16,805,336	19,188,670	17,494,716
Net Cash Flows Provided (Used) by investing activities	8,449	(3,814,972)	(39,493,486)	(43,300,009)	(43,863,512)
Net Increase (Decrease) in Cash and Cash Equivalents	(258,173)	(250,752)	30,189	(478,736)	(320,193)
Cash and Cash Equivalents, July 1	295,468	250,752	1,098	547,318	867,511
Cash and Cash Equivalents, June 30	\$37,295	\$0	\$31,287	\$68,582	\$547,318

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

Ohio Tuition Trust Authority

Statement of Cash Flows

*For the 12 Month Period Ended June 30, 2000 with Comparative for June 30, 1999, As Restated
(Continued)*

	Operating Fund	Reserve Fund	Trust Fund	Enterprise Fund Totals FY 6/30/00	Enterprise Fund Totals FY 6/30/99
Reconciliation of Operating Income to Net Cash					
Provided by Operating Activities					
Operating Income (Loss)	(\$3,576,743)	\$8,485,212	(\$4,433,755)	\$474,714	\$23,693,894
Adjustments to Reconcile Operating Income (Loss)					
to Net Cash Provided (Used) by Operating Activities					
Net Increase(Decrease) In Fair Market Value of Investments	(7,927)	(1,660,992)	(25,159,775)	(26,828,694)	(38,929,789)
Depreciation	131,646	0	0	131,646	114,186
Miscellaneous Nonoperating (Revenues) Expenses	0	0	(1)	(1)	(32,726)
Decrease (Increase) in Assets:					
Intergovernmental Receivables	0	0	0	0	62,967
Other Receivables	743	0	0	743	2,702,059
Due from Other Funds	0	0	0	0	0
Other Assets	0	0	0	0	0
Increase (Decrease) in Liabilities					
Accounts Payable	18,268	0	0	18,268	(138,032)
Accrued Liabilities	736	0	0	736	(20,345)
Intergovernmental Payable	0	0	0	0	(2,391)
Due to Other Funds	118	0	0	118	167
Deferred Revenues	0	0	0	0	0
Benefits Payable	0	0	69,117,206	69,117,206	56,300,000
Other Liabilities	(37,252)	0	0	(37,252)	(85,472)
Net Cash Flows Provided (Used) by Operating Activities	(\$3,470,411)	\$6,824,220	\$39,523,675	\$42,877,484	\$43,664,518

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

**OHIO TUITION TRUST AUTHORITY
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2000 AND 1999**

Introduction

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

The primary objectives for Tuition Trust are to help make higher education affordable and accessible to all citizens of Ohio, to maintain state institutions of higher education by helping to provide a stable financial base to these institutions, to provide citizens of Ohio with financing assistance for higher education and protection against rising tuition costs, to encourage elementary and secondary students in this state to achieve academic excellence, and to promote a well-educated and financially secure population to the ultimate benefit of all citizens of the State of Ohio. The program consists of promoting the issuance of college savings bonds, the sale of tuition units, and effective beginning in October 2000 offering a variable college savings program.

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.

In June 2000, Governor Taft signed into law Senate Bill 161 creating a variable return college savings option. The new college savings funds will be available in conjunction with the Tuition Trust's current plan. Three new Variable Investment Funds will be developed, giving Ohioans four college savings choices. The four funds include: 1) a Guaranteed Fund (the current prepaid fund); 2) an Age-Based Fund, with investments weighted more towards equities (stocks) during a child's younger years, then gradually shifting to more conservative investments as the child approaches college age; 3) a Balanced Fund, with investments more equally weighted in both equities and bonds; and 4) a Growth Fund, with investment primarily in equities. These four funds will be marketed under the name College Advantage Saving Plan.

During fiscal year 2000, Tuition Trust incurred some operating expenses related to the passage of the legislation in early development of the new College Savings 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 is the fourth largest mutual fund company in the country.

All funds available through the Tuition Trust 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. And, since all funds are Section 529 Qualified State Tuition Programs, earnings on the funds are federally tax deferred until used for college.

**OHIO TUITION TRUST AUTHORITY
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2000 AND 1999
(Continued)**

Introduction (Continued)

Key differences between the Guaranteed Fund and the Variable Investment Funds:

The Guaranteed Fund is guaranteed by the full faith and credit of the State of Ohio and is guaranteed to keep pace with tuition inflation.

The new investment funds will offer variable rates of return contingent on market performance. They will not be guaranteed by the state. Anyone in the country will be able to participate, not just Ohio residents. Contributors will be able to request refunds at any time for any reason, subject to certain penalties for nonqualified withdrawals.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The accompanying financial statements report the financial position, results of operations, and cash flows of and for the fiscal years ended June 30, 2000 and June 30, 1999. This fund is part of the State of Ohio's reporting entity. The accompanying statements are not intended to present all enterprise activities of the State of Ohio. The **State of Ohio Comprehensive Annual Financial Report** (CAFR) provides more extensive disclosures regarding the significant accounting policies of the State as a whole.

B. Basis of Accounting-Enterprise Fund Accounting

Fund accounting uses a self-balancing set of funds to account for all activity. An enterprise fund is part of the proprietary group of funds within a governmental organization. In an enterprise fund, operations of the enterprise are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is to provide goods or services to the general public on a continuing basis while recovering the cost through the sales price. This fund type is accounted for using the full accrual basis of accounting. Accrual accounting attempts to record the financial effects of transactions, events, and circumstances in the period in which they occur rather than in the period in which cash is received or paid by the organization. The activities of Tuition Trust are reported as an enterprise fund since the cost of providing the Prepaid Tuition Program will be recovered through revenues of the program.

Tuition Trust classifies resources into three (3) separate funds for accounting purposes. These funds are authorized by Ohio Revised Code section 3334.11 and are described below:

Trust Fund

The Trust 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.

**OHIO TUITION TRUST AUTHORITY
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2000 AND 1999
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Reserve Fund

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

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

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

C. 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.

D. Revenue

Participants in the program generally paid a \$50.00 enrollment fee. Tuition Trust offered a discounted enrollment fee of \$25.00 for Newborn Contracts. Tuition Trust also offered a discounted enrollment fee if the contract was postmarked by a certain date. The enrollment fee was \$10.00 if postmarked by January 31 and then from April 1 through June 30. Customers could save an additional \$10.00 by participating in the Customer Referral Program when enrolling in the prepaid program. By attaching a referral coupon to the contract, the customer could deduct \$10.00 off the enrollment fee of \$10.00 or \$50.00 for regular enrollments and \$25.00 for newborns. The existing customer referring the new customer also received \$10.00 (before October 1, 1999) or \$20.00 (if after October 1, 1999) on their account for referring a new customer to Tuition Trust. Customers attaching a copy of their Golden Buckeye Card to their contract also received \$10.00 off the enrollment fee (enrollment fees and discounts did not change from fiscal year 1999).

Participants could purchase tuition units at a cost of \$43.00 and \$45.50 (July 1, 1998 through September 30, 1998 and July 1, 1999 through September 30, 1999, respectively) and \$45.50 and \$47.50 (October 1, 1998 through June 30, 1999 and October 1, 1999 through June 30, 2000, respectively). Volume discount purchases made during the fiscal years 1999 and 2000 were priced based on the age of the beneficiary and the number of units purchased at any one time. Volume discount prices ranged from \$35.50 to \$45.00.

**OHIO TUITION TRUST AUTHORITY
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2000 AND 1999
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Revenue (Continued)

Tuition units purchased through payroll deduction (PDS) or automatic cash transaction (ACT) could be purchased for \$43.50 from July 1, 1999 through September 30, 1999 (\$41.00 from July 1, 1998 through September 30, 1998), and for \$45.00 from October 1, 1999 through June 30, 2000 (\$43.50 from October 1, 1998 through June 30, 1999).

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

Total net, unused units and credits on account as of June 30, 2000 and 1999 were 8,567,738 and 8,193,784, respectively. Total contracts remaining open as of June 30, 2000 and 1999 were 85,371 and 74,024, respectively.

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. Other expenses are recognized when incurred.

F. Equipment

Beginning in fiscal year 1996, fixed assets are recorded at cost and capitalized if the purchase price is \$500 or more and if it has a useful life of at least five years. Prior to fiscal year 1996, assets costing \$100 or more were capitalized and depreciated. Depreciation is computed using the straight-line method with no salvage value based on a 5-year estimated useful life with the half-year convention for assets acquired during the first year.

Changes in Fixed Assets for the year ended June 30, 1999 were as follows:

	Beginning Balance <u>July 1, 1998</u>	<u>Additions</u>	<u>Deletions</u>	Ending Balance <u>June 30, 1999</u>
Machinery & Equipment	\$ 490,481	\$ 121,200	\$ (61,258)	\$ 550,423
Leasehold Improvements	70,781	0	0	70,781
Less Accumulative Depreciation	<u>(252,710)</u>	<u>(71,236)</u>	<u>0</u>	<u>(323,946)</u>
Total	<u>\$ 308,552</u>	<u>\$ 49,964</u>	<u>\$ (61,258)</u>	<u>\$ 297,258</u>

**OHIO TUITION TRUST AUTHORITY
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2000 AND 1999
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Equipment (Continued)

Changes in Fixed Assets for the year ended June 30, 2000 were as follows:

	Beginning Balance <u>July 1, 1999</u>	<u>Additions</u>	<u>Deletions</u>	Ending Balance <u>June 30, 2000</u>
Machinery & Equipment	\$ 550,423	\$ 95,644	\$ (13,141)	\$ 632,926
Leasehold Improvements	70,781	0	0	70,781
Less Accumulative Depreciation	<u>(323,946)</u>	<u>(119,024)</u>	<u>0</u>	<u>(442,970)</u>
Total	<u>\$ 297,258</u>	<u>\$ (23,380)</u>	<u>\$ (13,141)</u>	<u>\$ 260,737</u>

G. Marketable Securities

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

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

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

During Fiscal Year 1999, realized and unrealized gains were as follows:

	<u>RESERVE</u>	<u>TRUST</u>	<u>TOTAL</u>
REALIZED GAIN OR (LOSS)	\$3,404,841	\$20,826,207	\$24,231,048
NET INCREASE (DECREASE) IN FAIR VALUE	\$(2,029,033)	\$3,232,960	\$ 1,203,927
UNREALIZED GAIN (LOSS) ON INVESTMENTS	\$(294,024)	\$35,378,721	\$35,084,697

**OHIO TUITION TRUST AUTHORITY
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2000 AND 1999
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Marketable Securities (Continued)

During Fiscal Year 2000, realized and unrealized gains were as follows:

	<u>RESERVE</u>	<u>TRUST</u>	<u>TOTAL</u>
REALIZED GAIN OR (LOSS)	\$(957,101)	\$12,390,072	\$11,432,971
NET INCREASE (DECREASE) IN FAIR VALUE	\$ 311,198	\$(3,799,266)	\$ (3,488,068)
UNREALIZED GAIN (LOSS) ON INVESTMENTS	\$(419,481)	\$29,824,239	\$29,404,758

H. Accounts Payable

Accounts payable is primarily advertising costs incurred and the cost of services received prior to the end of the fiscal year but not paid as of June 30. The accounts payable amount includes all payables through July 31, which is Tuition Trust's cutoff date for accumulating payable information from the State's Central Accounting System (CAS).

I. Accounts Payable-State of Ohio

Accounts Payable-State of Ohio consists of amounts due to other state agencies for products purchased and services rendered during the fiscal year but not paid as of June 30. The accounts payable amount includes all payables through July 31, the State's cutoff date for accumulating payable information from the State's Central Accounting System (CAS).

J. Accrued Liabilities

Accrued Liabilities consist of compensated absences and wages payable owed to Tuition Trust employees as of June 30. The wages payable, accumulated vacation, sick, personal, and compensatory time for fiscal year 2000 were \$53,116; \$63,487; \$22,293; \$5,605; and \$9,258, respectively. The amounts for fiscal year 1999 were \$72,663; \$59,561; \$16,113; \$924; and \$3,761, 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
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2000 AND 1999
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Accrued Liabilities (Continued)

Collateral on Lent Securities/Obligation under Securities Lending

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

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

2. DEPOSITS AND INVESTMENTS

A. Deposits

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

As of June 30, 1999, the carrying amount and bank balance was \$547,318. The entire \$547,318 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 Fund 645	\$ 295,468	\$0	\$295,468	\$295,468
Reserve Fund - Reserve Account	250,752	100,000	150,752	250,752
Trust Fund-Lockbox Account	<u>1,098</u>	<u>1,098</u>	<u>0</u>	<u>1,098</u>
Totals	<u>\$547,318</u>	<u>\$101,098</u>	<u>\$446,220</u>	<u>\$547,318</u>

**OHIO TUITION TRUST AUTHORITY
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2000 AND 1999
(Continued)**

2. DEPOSITS AND INVESTMENTS (Continued)

A. Deposits (Continued)

As of June 30, 2000, the carrying amount and bank balance was \$68,582. The entire \$68,582 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 Fund 645	\$ 37,295	\$0	\$37,295	\$37,295
Trust Fund-Lockbox Account	<u>31,287</u>	<u>31,287</u>	<u>0</u>	<u>31,287</u>
Totals	<u>\$68,582</u>	<u>\$31,287</u>	<u>\$37,295</u>	<u>\$68,582</u>

B. Investments

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

Categorized Investments Carrying Amount 1999

	<u>Category 1</u>	<u>Category 2</u>	<u>Total (at Market Value)</u>
Government and Governmental Backed Securities	\$165,222,256	\$0	\$165,222,256
Stocks *	258,995,699	0	258,995,699
Sweep Account	<u>0</u>	<u>69,774</u>	<u>69,774</u>
Totals	<u>\$424,217,955</u>	<u>\$69,774</u>	<u>\$424,287,729</u>

Investments not categorized

Investments held in a securities lending collateral investment pool \$215,749.

**OHIO TUITION TRUST AUTHORITY
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2000 AND 1999
(Continued)**

2. DEPOSITS AND INVESTMENTS (Continued)

B. Investments (Continued)

<u>Categorized Investments Carrying Amount</u>			
	<u>Category 1</u>	<u>Category 2</u>	<u>Total (at Market Value)</u>
Government and Governmental Backed Securities	\$198,020,888	\$0	\$198,020,888
Stocks *	297,666,251	0	297,666,251
Sweep Account	<u>0</u>	<u>724,984</u>	<u>724,984</u>
Totals	<u>\$495,687,139</u>	<u>\$724,984</u>	<u>\$496,412,123</u>

* Includes equities managed by all investment managers.

Investments not categorized
Investments held in a securities lending collateral investment pool \$2,577.

3. 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 actuarial firm of Milliman & Robertson, Inc., with approval of the Board of Directors, adopted a methodology to smooth volatility in investment values. This methodology recognizes each year one-third of the difference between (1) assets at fair market value and (2) the expected assets based on the actuarial investment return assumption. The result is that the assets used to determine the programs surplus are not the same as the market or cost value of assets found in the programs financial statements.

This "smoothed" method of asset determination is referred to as the Actuarial Value of Assets. The results are as follows:

	<u>2000</u>	<u>1999</u>
APV of future benefits and expenses payable	\$ 385,700,000	316,600,000
Net assets available	\$ 480,345,651	399,371,994
Assets as a percentage of tuition benefits and expense obligation	124.5 %	126.1%

**OHIO TUITION TRUST AUTHORITY
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2000 AND 1999
(Continued)**

3. TUITION BENEFITS PAYABLE (Continued)

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

Rate of return (investment of current and future assets)	7.5 %	Compounded annually
Projected tuition increase	6.0 %	Compounded annually*
Consumer Price Index (CPI) Inflation Rate	2.5 % (fiscal year 2000), and 3% (fiscal year 1999)	

* This is a compounded average result. Tuition rates are assumed to grow based on a formula reflecting CPI, student enrollment, and proportion to total expenditures covered by tuition.

4. 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.

5. 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.

6. 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.

**OHIO TUITION TRUST AUTHORITY
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2000 AND 1999
(Continued)**

6. PENSION PLAN (Continued)

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 the current and previous two years were:

Fiscal Year Ending June 30	Covered Payroll	Rate	Employer Contribution
2000	\$1,325,114	13.31%	\$176,373
1999	\$1,111,100	13.31%	\$147,887
1998	\$1,037,929	13.31%	\$138,148

7. 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 Postemployment 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 1998 employer contribution rate for state employers was 13.31% of covered payroll; 4.2% (4.29% in 1999) 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 1998 were \$440,596,663. As of December 31, 1998, the unaudited estimated net assets available for future OPEB payments were \$9,447,325,318. The number of benefit recipients eligible for OPEB at December 31, 1998 was 115,579.

Expenditures for OPEB during 1999 were \$523,599,349. As of December 31, 1999, the unaudited estimated net assets available for future OPEB payments were \$9,870,285,641. The number of benefit recipients eligible for OPEB at December 31, 1999 was 118,062.

**OHIO TUITION TRUST AUTHORITY
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2000 AND 1999
(Continued)**

7. OTHER POST-EMPLOYMENT BENEFITS (Continued)

During 1997, the Retirement Board adopted a new calculation method for determining employer contributions applied to OPEB. Under the new method, effective January 1, 1998, employer contributions, equal to 4.2% of member covered payroll, are used to fund health care expenses. Under the prior method, accrued liabilities and normal cost rates were determined for retiree health care coverage.

8. RESTATEMENT OF COMPARATIVE FINANCIAL STATEMENTS

The Tuition Trust restated the comparative financial statements to adjust Marketable Securities in the amount of \$436,656 and \$1,755,216 in the Reserve and Trust Funds respectively. Marketable Securities was overstated by the amount of the Interest Receivable in the comparative fiscal year ending June 30, 1999 on the Balance Sheet. Interest Receivable is now a component of the Marketable Securities line item.



**STATE OF OHIO
OFFICE OF THE AUDITOR**

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

Ohio Tuition Trust Authority
Franklin County
580 South High Street, Suite 203
Columbus, Ohio 43215

We have audited the financial statements of the Ohio Tuition Trust Authority as of and for the years ended June 30, 2000 and 1999, and have issued our report thereon dated September 27, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Ohio Tuition Trust Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Ohio Tuition Trust Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters 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 27, 2000.

Ohio Tuition Trust Authority
Report on Compliance and on Internal Control Required by
Government Auditing Standards
Franklin County
Page 2

This report is intended for the information and use of the Ohio Tuition Trust Authority, its management, the State of Ohio, and the Ohio Legislature and is not intended to be and should not be used by anyone other than the specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro", with a large, stylized flourish at the end.

JIM PETRO
Auditor of State

September 27, 2000



STATE OF OHIO
OFFICE OF THE AUDITOR

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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
OCTOBER 10, 2000