



**Auditor of State
Betty Montgomery**

**OHIO TUITION TRUST AUTHORITY
FRANKLIN COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

We have audited the accompanying financial statements of the Ohio Tuition Trust Authority (the Authority), State of Ohio, as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the Ohio Tuition Trust Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Private Purpose Trust Fund. Other auditors audited those statements. They have furnished their reports thereon to us and we based our opinion, insofar as it relates to the amounts included for the Private Purpose Trust Fund, on the reports of the other auditors.

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 reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

As discussed in Note 1, the Authority's financial statements present the financial position and changes in financial position of only the Enterprise Fund and Private Purpose Trust Fund of the Ohio Tuition Trust Authority. They do not purport to, and do not, present fairly the financial position of the State of Ohio as of June 30, 2005, or the changes in financial position and cash flows of its proprietary fund types or fiduciary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based on our audit and the reports 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, 2005, 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.

As discussed in Note 2, during the year ended June 30, 2005, the Authority adopted the Governmental Accounting Standards Board's Statement No. 40, *Deposit and Investment Risk Disclosures*.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2005, 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, contracts, and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing in internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing 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 accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements of the Ohio Tuition Trust Authority's Enterprise Fund and Private Purpose Trust Fund. The accompanying financial information listed as individual schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the Ohio Tuition Trust Authority's financial statements. We and the other auditors subjected this information to the auditing procedures applied in the audit of the Ohio Tuition Trust Authority's Enterprise Fund and Private Purpose Trust Fund financial statements, respectively. In our opinion, based on our audit and the reports of the other auditors, this information is fairly stated in all material respects in relation to the Ohio Tuition Trust Authority's Enterprise Fund and Purpose Trust Fund financial statements taken as a whole.

As of June 30, 2005, the liabilities of the Ohio Tuition Trust Authority exceeded assets by \$242,140,912 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 2, the Ohio Tuition Trust Authority has extended the temporary suspension of new enrollments and additional contributions to existing accounts.



Betty Montgomery
Auditor of State

October 5, 2005

Ohio Tuition Trust Authority
Management's Discussion and Analysis
June 30, 2005
(Unaudited)

As management of the Ohio Tuition Trust Authority (OTTA), a part of the primary government of the State of Ohio, we offer readers of OTTA's financial statements this narrative overview and analysis of OTTA's financial activities for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with OTTA's financial statements, which begin on page 9 of this report.

Financial Highlights

- OTTA's invested assets increased during fiscal year 2005 by \$12,384,981 or 1.5%.
- Tuition Benefits Payable decreased over fiscal year 2004 by \$34,900,000 or 3.1% as a result of the suspension of sales in the Guaranteed Savings Plan.
- The solid Return on Investments of 8.36% for fiscal year 2005 along with the decrease in Tuition Benefits Payable combined to reduce OTTA's Fund Deficit by \$47,213,754 or 16.3% over fiscal year 2004.
- OTTA enhanced its offerings by adding the Vanguard Savings Program during May 2004. The Vanguard Savings Program features 15 low-cost, passively managed index fund options offered to Ohio and national customers.

Overview of the Financial Statements

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

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

The *balance sheet* presents information on all of OTTA's assets and liabilities, including information about the nature and amounts of investments in resources (assets), obligations (liabilities) and OTTA's net assets as of June 30, 2005. 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 cashflows in future fiscal periods (e.g., depreciation and earned but unused vacation leave).

Ohio Tuition Trust Authority
Management's Discussion and Analysis
June 30, 2005
(Unaudited)

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 principally supported by sales and investment income. These programs are intended to recover all of their costs through program fees or investment earnings (business type activities).

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

The financial statements can be found on pages 9 - 13 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements and individual schedules. The notes to financial statements can be found on pages 15 - 31 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 33 - 39 of this report.

Analysis of OTTA's Financial Position and Results of Operations

The tables below provide a summary of OTTA's financial position and operations for the fiscal years ended June 30, 2005 and June 30, 2004:

Ohio Tuition Trust Authority
Management's Discussion and Analysis
June 30, 2005
(Unaudited)

Condensed Comparative Balance Sheet

(all amounts expressed in thousands of dollars)

	2005	2004	Dollar Change	Total Percent Change
Current Assets	3,304	13,927	(10,623)	-76.3%
Restricted Assets	788,884	778,546	10,339	1.3%
Non-Current Assets	74,272	72,225	2,047	2.8%
Fixed Assets	167	116	51	44.0%
Total Assets	866,627	864,814	1,813	0.2%
Current Liabilities	69,268	67,268	2,001	3.0%
Tuition Benefits Payable	1,039,500	1,086,900	(47,400)	-4.4%
Total Liabilities	1,108,768	1,154,168	(45,401)	-3.9%
Total Net Assets	(242,141)	(289,355)	47,214	16.3%
Total Liabilities and Net Assets	866,627	864,814	1,813	0.2%

As noted earlier, net assets may serve as a useful indicator of an entity's financial position. In OTTA's case, liabilities exceed assets by \$242,140,912 as of June 30, 2005. As stated, this represents a 16.3% improvement over OTTA's deficit position at June 30, 2004. Sound financial markets during fiscal year 2005 and a decrease in Tuition Benefits Liability, compared to fiscal year 2004, led to the improved position. Please see footnote number 4 in the Notes to the Financial Statements for additional information.

During fiscal year 2005, OTTA's total assets increased by \$1,813,136 or .2%. This modest increase is expected given the suspension in unit sales. The increase in total assets reflects the stable investment environment prevalent during fiscal year 2005.

Ohio Tuition Trust Authority
Management's Discussion and Analysis
June 30, 2005
(Unaudited)

The following table summarizes the changes in OTTA's Revenues and Expenses during fiscal years 2005 and 2004:

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

(all amounts expressed in thousands of dollars)

	2005	2004	Dollar Change	Total Percent Change
Operating Revenues:				-
Fees and Unit Sales	-	33,169	(33,169)	100.0%
Investment Income	70,117	109,000	(38,883)	-35.7%
Miscellaneous Revenue	7,311	6,261	1,050	16.8%
Total Operating Revenues	77,428	148,430	(71,002)	-47.8%
Operating Expenses	8,580	7,842	738	9.4%
Tuition Benefits Expense	21,634	110,993	(89,359)	-80.5%
Total Operating Expenses	30,214	118,835	(88,621)	-74.6%
Operating Income (Loss)	47,214	29,595	17,619	59.5%
Beginning Net Assets	(289,355)	(318,950)	29,595	9.3%
Ending Net Assets	(242,141)	(289,355)	47,214	16.3%

Ohio Tuition Trust Authority
Management's Discussion and Analysis
June 30, 2005
(Unaudited)

OTTA's primary source of operating revenue is investment income, while the significant operating expense is tuition benefits expense. For the year ending June 30, 2005, OTTA had an increase in operating income compared to fiscal year 2004 of \$17,618,630 or 59.5%. This was attributable mainly to the following:

- A \$38,882,851 decrease in investment income caused by solid returns on securities held by OTTA as compared to the extraordinary returns of the previous year.
- A total absence of unit sales due to suspension of sales in the Guaranteed Savings Program compared to six months worth of sales in FY04.
- An \$89,359,703 decrease in tuition benefits expense as a result of more modest tuition increases during FY05 and the decrease in the projected future tuition growth due to suspension of sales in the Guaranteed Savings Program.

Contacting OTTA's Financial Management

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

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Ohio Tuition Trust Authority - Enterprise Fund

Balance Sheet

As of June 30, 2005
(amounts in thousands)

	Enterprise Fund Total as of 6/30/05
ASSETS	
Current Assets	
Cash and Cash-Equivalents	\$ 847
Collateral on Lent Securities	566
Other Current Assets	1,891
Total Current Assets	3,304
Non-Current Assets	
Marketable Securities (at market value)	74,272
Total Non-Current Assets	74,272
Restricted Assets	
Cash Held for Tuition Benefits	1,085
Marketable Securities (at market value)	787,799
Total Restricted Assets	788,884
Fixed Assets	
Equipment	952
Leasehold Improvements	71
Less: Accumulated Depreciation	(856)
Total Fixed Assets	167
TOTAL ASSETS	866,627
LIABILITIES AND NET ASSETS	
Current Liabilities	
Other Current Liabilities	1,402
Obligation Under Securities Lending	566
Current Portion-Tuition Benefits Payable	67,300
Total Current Liabilities	69,268
Restricted Non-Current Liabilities	
Tuition Benefits Payable from Restricted Assets	1,039,500
Total Restricted Non-Current Liabilities	1,039,500
Total Liabilities	1,108,768
Net Assets	
Unrestricted Assets	(242,308)
Invested in Capital Assets	167
Total Net Assets	(242,141)
TOTAL LIABILITIES AND NET ASSETS	\$ 866,627

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, 2005

(amounts in thousands)

	Enterprise Fund Totals 6/30/2005
OPERATING REVENUES	
Investment Income	\$ 24,703
Net increase (decrease) in fair value of investments	45,413
Miscellaneous Revenue	1
Basis Point Revenue	6,327
Putnam Hard Dollar Contribution	984
TOTAL OPERATING REVENUES	77,428
OPERATING EXPENSES	
Personal Services	6,141
Maintenance	1,431
Depreciation	25
Expenses Paid By Putnam	983
Tuition Benefits Expenses	21,634
TOTAL OPERATING EXPENSES	30,214
OPERATING INCOME (LOSS)	47,214
CHANGE IN NET ASSETS	47,214
BEGINNING NET ASSETS	(289,355)
ENDING NET ASSETS	\$ (242,141)

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, 2005
(amounts in thousands)

	Enterprise Fund Totals FY 6/30/05
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash Payments to/from Suppliers for Goods and Services	\$ 9,252
Cash Payments to Employees/consultants/professional contracts for Services	(5,985)
Other Operating Cash Receipts (payments)	(60,741)
Net cash provided (used) by operating activities	(\$57,474)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition of Capital Assets	(76)
Net Cash flows provided (used) by capital and related financing activities	(76)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from the Sales and Maturities of Investments	299,932
Purchase of Investments	(266,903)
Investment Income Received	24,703
Net Cash Flows Provided (Used) by investing activities	57,732
Net Increase (Decrease) in Cash and Cash Equivalents	182
Cash and Cash Equivalents, July 1	665
Cash and Cash Equivalents, June 30 (see note 3A)	\$ 847
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income (Loss)	\$ 47,214
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Investment Income	(70,116)
Depreciation	25
Decrease (Increase) in Assets:	
Other Receivables	10,804
Increase (Decrease) in Liabilities:	
Accounts Payable	(122)
Accrued Liabilities	156
Benefits Payable	(34,900)
Other Liabilities	(10,535)
Net Cash Flows Provided (Used) by Operating Activities	(\$57,474)

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, 2005
(amounts in thousands)

ASSETS

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

6/30/2005
\$ 3,435,568
295,867
818
1,543
1,220
\$ 3,735,016

Total Assets

LIABILITIES

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

2,306
1,188
4,734
1,481
775
\$ 10,484

Total Liabilities

Net Assets Held in Trust for Plan Participants

\$ 3,724,532

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, 2005
(amounts in thousands)

	6/30/2005
ADDITIONS	
Contributions:	
Units sold	\$ 857,839
Investment earnings:	
Investment income	62,516
Net realized/unrealized appreciation (depreciation) on underlying fund shares and wrapper agreements	203,393
Total investment earnings	265,909
Less investment expenses	26,561
Net investment earnings	239,348
Total additions	\$ 1,097,187
DEDUCTIONS	
Units redeemed	426,825
Distributions to unitholders	2,668
Total deductions	\$ 429,493
Change in net assets	\$ 667,694
Net Assets Held in Trust for Plan Participants - Beginning	\$ 3,056,838
Net Assets Held in Trust for Plan Participants - Ending	\$ 3,724,532

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, 2005**

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

All funds available through CollegeAdvantage are available for use at any college in the country, with refund and transfer options available. They offer the same state advantages for Ohio residents, including the state of Ohio income tax deduction on contributions. Since all funds are Section 529 Qualified State Tuition Programs, earnings on the funds are federally tax deferred until used for college. Additionally, under current federal tax laws, benefits of the plan are exempt from federal income tax for qualified payouts.

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

**OHIO TUITION TRUST AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Reporting Entity

A. Guaranteed Savings Program – Enterprise Fund

The accompanying financial statements report the financial position, results of operations, and cash flows for the fiscal year ended June 30, 2005 of the Enterprise Fund consisting of the Guaranteed and the administrative portion of the Variable Savings programs. These funds are part of the State of Ohio's reporting entity. The accompanying statements are not intended to present all enterprise activities of the State of Ohio. The **State of Ohio Comprehensive Annual Financial Report** (CAFR) provides more extensive disclosures regarding the significant accounting policies of the State as a whole.

B. Variable Savings Program – Fiduciary (PPTF) Fund

In June 2000, Governor Taft signed into law Senate Bill 161 creating a variable return college savings option. In October 2000, the Tuition Trust launched the CollegeAdvantage 529 Savings Plan offering market-based options managed by Putnam Investments in addition to the Tuition Trust's Guaranteed Savings Fund. As of June 30, 2005, the CollegeAdvantage program offered 19 Putnam investment options including age-based, balanced (mix of stocks and bonds), fixed income, and equity options.

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 for the Putnam options.

In early 2004, after an extensive search and RFP process, the Tuition Trust Board of Directors selected and approved The Vanguard Group which would offer Index options within CollegeAdvantage. In May 2004, 15 Vanguard options were launched with a mix of age-based, balanced, fixed income, and equity index options. The Vanguard Group manages the investments for CollegeAdvantage. The Tuition Trust is responsible for all record keeping and administration of these options.

The Variable Savings Program offers the same benefits as the Guaranteed Savings Fund. All funds available through CollegeAdvantage will be available for use at any college in the country, with refund and transfer options available. They will offer the same state advantages for Ohio residents, including the state of Ohio income tax deduction on contributions. Since all funds are Section 529 Qualified State Tuition Programs, earnings on the funds are federally tax deferred until used for college. Additionally, under current federal tax laws, benefits of the plan will be exempt from federal income tax for qualified payouts subsequent to January 1, 2002. Due to a sunset provision in the current tax laws, this tax exemption will expire at the end of calendar year 2010 unless the U. S. Congress decides to extend it beyond that time.

**OHIO TUITION TRUST AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

The Variable Savings Program offers the Putnam investment options with variable rates of return contingent on market performance and the Vanguard options which are index based. These options are not guaranteed by the state. Anyone in the country is able to participate, not just Ohio residents. Contributors are able to request refunds at any time for any reason, subject to certain penalties for nonqualified withdrawals.

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

The Variable Savings Program is recorded as a Private Purpose Trust Fund in these financial statements. These statements report the financial position and results of operations for the year ended June 30, 2005 of the Fiduciary Fund consisting of the Variable Savings Program.

2. Significant Accounting Policies

A. Basis of Accounting-Enterprise Fund

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

**OHIO TUITION TRUST AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Enterprise Fund

Trust Sub Fund

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

Reserve Sub Fund

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

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

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

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

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

Private Purpose Trust Funds

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

B. Stance on Financial Accounting Standards

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20: *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, the Tuition Trust follows GASB guidance as applicable to proprietary funds and Financial Accounting Standards Board (FASB)

**OHIO TUITION TRUST AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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.

Beginning with Fiscal Year 2005, the Tuition Trust implemented the provisions of GASB statement No. 40, *Deposit and Investment Risk Disclosures*, an amendment of GASB statement No. 3. This statement establishes more comprehensive disclosure requirements addressing common risks of the deposits and investments of state and local governments. Please see Note 3 for disclosure of the Tuition Trust’s deposits and investments.

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
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D. Revenue

1. Guaranteed Savings Plan – Enterprise Fund

The Guaranteed Savings Fund is intended for long-term savings (four or more years). Contributions to the Fund purchased 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 was available to families residing in Ohio at the time the account was established. Sales of units in the Guaranteed Savings Fund were suspended as of January 1, 2004 and will remain suspended through December 31, 2005.

The redemption 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.

2. Variable Savings Plan – Enterprise Fund

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

- Basis Point revenue is received on sales of the Variable Savings Plan. For the Putnam program, the Tuition Trust receives 20 basis points (0.20%) on all sales made by investment advisors and 5 basis points (0.05%) on all sales made to Ohio residents directly by the Tuition Trust. These amounts are calculated daily by Putnam Investments and payment is received by the Tuition Trust quarterly. For the Vanguard program, the Tuition Trust receives 20 basis points (0.20%) on all sales, both Ohio and National. This amount is calculated daily and payment is received by the Tuition Trust monthly.
- Putnam Investments paid a contractually determined amount directly for marketing expenses for the benefit of the CollegeAdvantage program. This amount is labeled “Putnam Hard Dollar Contribution”.

E. Expenses

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

**OHIO TUITION TRUST AUTHORITY
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The Tuition Trust has conducted internal studies of operating expenses. Based on the results of those studies, the Tuition Trust has determined that certain common expenses should be allocated between the Guaranteed and Variable Savings Programs based on criteria established for the varying type of operating expense. Specific expenses that can be directly attributed to the Guaranteed and Variable Savings Programs, are expensed to the respective programs.

F. Balance Sheet Classifications

As discussed in Note 2B, for fiscal year 2005, the Authority was required to classify its balance sheet, detailing current and non-current assets and restricted and unrestricted net assets, as follows:

- Current: Due within one year from June 30, 2005
- Non-current: Due after June 30, 2006
- Restricted: Restricted for usage by statutory requirements
- Unrestricted: Not restricted for usage

G. Capital Assets and Facilities

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

OTTA leases office space under an operating Lease that renews annually on July 1st. Lease expense for fiscal year 2005 is approximately \$140,704 and is accounted for in the Operating Sub Fund.

H. Marketable Securities

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

Manager	Asset Class	Management Period
Capital Guardian Trust Company	International Equities	July 2004 – June 2005
Sanford C. Bernstein	Domestic Equities	July 2004 – June 2005
Brandywine Asset Management	Domestic Equities	July 2004 – June 2005
JP Morgan Investments Advisors	Domestic Equities	July 2004 – December 2004
	Fixed Income	July 2004 – June 2005

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STAR Ohio	Short Term Investments	July 2004 – June 2005
Next Century Growth Managers	Domestic Equities	July 2004 – June 2005
Mondrian Investment Partners (US), Inc.	International Equities	July 2004 – June 2005
Seix Advisors	Fixed Income	August 2004 – June 2005
GMO (Grantham, Mayo, Van Otterloo & Co., LLC)	Equity & Fixed Income	August 2004 – June 2005
State Street Global Advisors	Domestic Equity	December 2004 – June 2005

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 2005, realized and unrealized gains were as follows:

	<u>RESERVE</u>	<u>TRUST</u>	<u>TOTAL</u>
REALIZED GAIN OR (LOSS)	\$ 268,116	\$37,284,635	\$37,552,752
NET INCREASE (DECREASE) IN FAIR VALUE	\$(877,533)	\$ 8,738,104	\$ 7,860,571
UNREALIZED GAIN (LOSS) ON INVESTMENTS	\$ 316,840	\$82,977,217	\$83,294,058

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.

**OHIO TUITION TRUST AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

I. Accrued Liabilities

Accrued Liabilities consist of compensated absences and wages payable owed to Tuition Trust employees as of June 30, 2005. The wages payable, accumulated vacation, sick, personal, compensatory time and Medicare adjustment to compensated absences amounted to \$118,634; \$104,408; \$39,368; \$6,755; \$19,200; and \$2,183, 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 2005, the Treasurer of State routinely lent securities from the State's investment portfolio under securities lending agreements. For the State's securities out on loan, the Treasurer received cash collateral from the borrower. The Treasurer reinvested 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 could have been placed with financial institutions. For cash collateral the Treasurer received for securities out on loan, as of June 30, the State reported assets and liabilities arising from the securities lending transactions on the balance sheets of the funds that had 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 2005 only the Operating Sub Fund and Trust 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
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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, 2005, the carrying amount and bank balance was \$846,842. Of that amount, \$100,000 was FDIC insured and the remainder collateralized, with securities held by Tuition Trust or by its agent in Tuition Trust's name, as follows:

<u>Accounts</u>	<u>Carrying Amount</u>	<u>FDIC</u>	<u>Collat- eralized</u>	<u>Totals</u>
Cash Equity with Treasurer	\$ 635	\$ -	\$ 635	\$ 635
Operating Sub Fund 645	\$ 66,053	\$ -	\$ 66,053	\$ 66,053
Suspense Account	\$ 93,242	\$ -	\$ 93,242	\$ 93,242
Putnam Plan Sweep Acct.	\$ 539,531	\$100,000	\$ 439,531	\$ 539,531
Operating Sub Fund 5P3	\$ 78,838	\$ -	\$ 78,838	\$ 78,838
Index Payout Account	\$ 910	\$ -	\$ 910	\$ 910
Index Operating Account	\$ 30,822	\$ -	\$ 30,822	\$ 30,822
Operating Sub Fund 5AM	\$ 36,811	\$ -	\$ 36,811	\$ 36,811
Unrestricted Sub-Total	<u>\$ 846,842</u>	<u>\$100,000</u>	<u>\$ 746,842</u>	<u>\$ 846,842</u>

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

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B. Investments

i. Enterprise Fund

As of June 30, 2005, the Ohio Tuition Trust Authority had the following investments and maturities:

Investment Type	Investment Maturities (in years)					Credit Rating
	Fair Value	Less (<) than 1	1-5	6-10	more (>) than 10	
Corporate Bonds (Domestic)	\$ 6,916,643	\$ 196,531	\$ 6,310,372		\$ 409,740	BB *
Corporate Bonds (Domestic)	697,635		697,635			B1 **
Corporate Bonds (Domestic)	4,183,996		2,635,973	1,548,023		B *
Asset Backed Securities/Credit	4,372,479		2,041,477	1,829,758	501,244	AAA*
Asset Backed Securities/Credit	5,641,767		3,693,239	1,948,528		Aaa**
Asset Backed Securities/Credit	5,443,636		4,852,062	591,574		AA*
Asset Backed Securities/Credit	16,038,881	256,409	7,589,976	7,864,000	328,496	A*
Asset Backed Securities/Credit	470,310		427,454	42,856		A**
Asset Backed Securities/Credit	10,469,014		4,463,433	3,971,014	2,034,567	BBB*
Asset Backed Securities/Credit	2,423,756		1,623,106	713,672	86,978	Baa**
Asset Backed Securities/Credit	2,180,555		1,210,281	970,274		BB*
Asset Backed Securities/Credit	820,802			820,802		Not Rated
US Government Agency Obligations	9,351,667	135,634	4,529,471	4,337,214	349,348	Agency
Money Market	3,290,851	3,290,851				AA*
Money Market	32,501,539	32,501,539				AAA*
Mortgages	17,898,309			1,902,009	15,996,300	AAA*
Mortgages	2,052,744				2,052,744	Aaa**
Mortgages	55,912				55,912	Not Rated
Mortgages	112,482,803		3,401,276	5,652,024	103,429,503	Agency
US Government Obligations	61,929,747	22,063,415	15,888,368	17,071,160	6,906,804	Government
US Government Strips	28,192,718		5,553,053	21,330,453	1,309,212	Government
Short Term Investments	16,227,242	16,227,242				AAA
Mutual Funds-Bond (Domestic)	44,254,788		44,254,788			BB
Common & Preferred Stock (Domestic)	107,163,282					N/A
Mutual Funds-Equities (Domestic)	161,961,969					N/A
Mutual Funds-Equities (International)	107,350,257					N/A
Mutual Funds-Global Balanced Fund	91,304,809					N/A
Short Term Investments	1,008,248	1,008,248				N/A
Short Term Investments	6,470,249	6,470,249				AA*
Total GSF Market Value	\$ 863,156,608	\$ 82,150,118	\$ 109,171,964	\$ 70,593,361	\$ 133,460,848	

* Standard & Poors; ** Moody's

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Interest Rate Risk - The fixed income portion of the portfolio is invested in “plain vanilla” fixed income securities. All fixed income products are exposed to interest rate risk. Theoretically, all mortgages have embedded options as they can be paid off at any time. While some of the mortgages that we purchase for the portfolio could technically be considered derivatives, they are not the highly leveraged derivatives that are considered risky (options, futures, etc.). Currently, we break out our Collateralized Mortgage Obligation (CMO) allocation between CMO non-derivative and CMO derivative securities and use these allocations to control the overall risk within the portfolio in conjunction with the other sectors into which we are investing the portfolio.

Credit Risk - At the time of purchase, all investments in non-U.S. Treasury or Government Sponsored sectors shall carry an investment grade rating by at least one of the two major ratings agencies: Standard & Poor’s or Moody’s. For S&P the lowest rating considered investment grade is BBB-, while the lowest investment grade rating awarded by Moody’s is Baa3. No more than 20% of fixed income portfolios shall be in the lowest ratings. In the case of bonds down graded below the minimum allowed in this investment policy, the manager will have a period of 90 days to liquidate the bond from the portfolio.

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Investment Type	Investment Custodial Credit Risk Categories (Allocate using fair value)				
	Investment Balance (MV @ 6/30/05) per investment manager reports	Not Exposed to Custodial Credit Risk	Held by the Counterparty	Held by the Counterparty's Trust Dept. or Agent & not in the Authority's name	Total Carrying Amount (MV @ 6/30/05)
Corporate Bonds (Domestic)	\$ 6,916,643	\$ 6,916,643			\$ 6,916,643
Corporate Bonds (Domestic)	697,635	697,635			697,635
Corporate Bonds (Domestic)	4,183,996	4,183,996			4,183,996
Asset Backed Securities/Credit	4,372,479	4,372,479			4,372,479
Asset Backed Securities/Credit	5,641,767	5,641,767			5,641,767
Asset Backed Securities/Credit	5,443,635	5,443,635			5,443,635
Asset Backed Securities/Credit	16,038,881	16,038,881			16,038,881
Asset Backed Securities/Credit	470,310	470,310			470,310
Asset Backed Securities/Credit	10,469,014	10,469,014			10,469,014
Asset Backed Securities/Credit	2,423,756	2,423,756			2,423,756
Asset Backed Securities/Credit	2,180,555	2,180,555			2,180,555
Asset Backed Securities/Credit	820,802	820,802			820,802
US Government Agency Obligations	9,351,668	9,351,668			9,351,668
Money Market	3,290,851	3,290,851			3,290,851
Money Market	32,501,539	32,501,539			32,501,539
Mortgages	17,898,309	17,898,309			17,898,309
Mortgages	2,052,744	2,052,744			2,052,744
Mortgages	55,912	55,912			55,912
Mortgages	112,482,803	112,482,803			112,482,803
US Government Obligations	61,929,748	61,929,748			61,929,748
US Government Strips	28,192,718	28,192,718			28,192,718
Short Term Investments	16,227,242	16,227,242			16,227,242
Mutual Funds-Bond (Domestic)	44,254,788	44,254,788			44,254,788
Common & Preferred Stock (Domestic)	107,163,282	107,163,282			107,163,282
Mutual Funds-Equities (Domestic)	161,961,969	161,961,969			161,961,969
Mutual Funds-Equities (International)	107,350,257	107,350,257			107,350,257
Mutual Funds-Global Balanced Fund	91,304,809	91,304,809			91,304,809
Short Term Investments	1,008,248	1,008,248			1,008,248
Short Term Investments	6,470,249	6,470,249			6,470,249
Total GSF Market Value	\$ 863,156,608	\$ 863,156,608	\$ -	\$ -	\$ 863,156,608

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Custodial Credit Risk – Ohio law provides that the Authority’s assets shall be held in the custody of the Treasurer of State but not co-mingled with any other state funds. Instruments of title are delivered to the Treasurer’s office or to a qualified custodial bank designated by the Treasurer, as provided in Section 135.18 of the Ohio Revised Code. The Treasurer of State on order of the Executive Director of the Authority must make disbursements from the Trust and Reserve Funds.

ii. Private Purpose Trust Funds

a. Security Valuation

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

b. Security transactions and related investment income

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

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

As of June 30, 2005 the Net Assets of the CollegeAdvantage Putnam Savings Plan Private Purpose Trust Fund are approximately \$3,528,202,000. Net Assets of the CollegeAdvantage Vanguard Savings Plan Private Purpose Trust Fund are approximately \$196,330,000.

Tuition Benefits Payable

Tuition Benefits Payable represents the actuarially determined present value (APV) of future tuition obligations. This valuation method reflects the present value of estimated tuition benefits that will be paid in future years and is adjusted for the effects of projected tuition increases and the termination of Tuition Trust contracts. The results are as follows:

APV of future benefits and expenses payable	\$1,106,800,000
Actuarial net assets available	\$ 856,800,000
APV of Payments from Variable Savings Program	\$ 48,800,000

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Assets as a percentage of tuition benefits and expense obligation 81.82 %

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	8.00 %	Fall 2006
	10.00 %	Thereafter
Consumer Price Index (CPI) Inflation Rate	2.5 %	

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

(amounts in millions)

Surplus/(Deficit) as of June 30, 2004	\$ (294.6)
Interest on the deficit at 7.0%	(20.6)
Investment gain	11.0
Lower than assumed tuition increase	37.7
More units/credits redeemed than expected	0.7
Credit payouts lower than expected	0.1
Interest gain on late tuition payouts	0.5
Change in assumptions	19.0
Change in credit bias	0.6
Other	(4.4)
Surplus/(Deficit) as of June 30, 2005	<u>(250.0)</u>
Value of Future Contingent Payments for the variable investment options	48.8
Surplus/(Deficit) as of June 30, 2005	<u><u>\$ (201.2)</u></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

**OHIO TUITION TRUST AUTHORITY
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Chapter 3334 of the *Ohio Administrative Code*, to insure that the Ohio Guaranteed Savings Program is in timely compliance with all known requirements of Section 529.

The Ohio Tuition Trust had filed with the IRS to obtain a Private Letter Ruling. However, pending further guidance from the IRS regarding the recent tax law changes and the program changes entailed, the Tuition Trust filed an amended request in March, 2002. A Private Letter Ruling constitutes the IRS opinion on whether the programs administered by the Tuition Trust are in compliance with Section 529 and therefore eligible for tax advantaged treatment. Although the IRS has not yet responded to the request, the Tuition Trust does not have any reason to believe a favorable ruling will not be received.

6. Contingencies

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

7. Pension Plan

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

Required employee and employer contributions to OPERS are established under the Ohio Revised Code and are based on percentages of covered employees' gross salaries, with the contribution rate percentages being calculated annually by the Retirement Board's actuaries. The employee contribution rate is 8.5 percent of covered payroll costs; the employer contribution rate is 13.31 percent of the covered payroll costs. Employer contributions required and made to OPERS for 2005, 2004, and 2003 were \$210,132, \$198,824 and \$188,202 respectively.

8. Other Post-Employment Benefits

Ohio Public Employees Retirement System provides post-retirement 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.

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The health care coverage provided by the retirement system is considered an Other Post Employment Benefits (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2004 employer contribution rate for state employers was 13.31% of covered payroll; 4.0% was the position that was used to fund health care for the year.

The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS.

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

Expenditures for OPEB during 2004 (the latest information available) were \$963,384,400. As of December 31, 2004, the estimated net assets available for future OPEB payments were \$11,609,113,358 and the number of benefit recipients eligible for OPEB was 146,966.

9. Subsequent Events

On September 1, 2005, CollegeAdvantage, in partnership with Fifth Third Bancorp, introduced the Fifth Third 529 Bank Options. The first of these options is the Fifth Third 529 Savings Account, an FDIC insured savings account that Fifth Third has agreed to pay at an increased introductory interest rate for the first twelve months of availability. After the first 12 months, the interest rate will be set between 10 and 20 basis points higher than the comparable regular savings account rates offered by Fifth Third in Ohio. The balance of these options consists of Fifth Third 529 Certificates of Deposit consisting of terms ranging from 3 to 144 months. The CD rates will be at least 25 basis points higher than the comparable regular CD rates offered by Fifth Third in Ohio. The initial term of the agreement with Fifth Third Bancorp runs until September 1, 2010, at which time renewal will be considered.

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Ohio Tuition Trust Authority - Enterprise Fund

Schedule of Balance Sheets

As of June 30, 2005
(amounts in thousands)

	Guaranteed Savings Plan as of 6/30/05	Putnam Savings Plan as of 6/30/05	Vanguard Savings Plan as of 6/30/05	Enterprise Fund as of 6/30/05
ASSETS				
Current Assets				
Cash	\$ 160	\$ 618	\$ 69	\$ 847
Collateral on Lent Securities	566			566
Other Receivable	140	1,720	31	1,891
Interfund Balances	(1,426)	1,427	(1)	0
Total Current Assets	(560)	\$ 3,765	\$ 99	3,304
Non-Current Assets				
Marketable Securities (at market value)	69,913	4,110	249	74,272
Total Non-Current Assets	69,913	4,110	249	74,272
Restricted Assets				
Cash Held for Tuition Benefits	1,085			1,085
Marketable Securities (at market value)	787,799			787,799
Total Restricted Assets	788,884			788,884
Fixed Assets				
Equipment	952			952
Leasehold Improvements	71			71
Less: Accumulated Depreciation	(856)			(856)
Total Fixed Assets	167	-	-	167
TOTAL ASSETS	858,404	\$ 7,875	\$ 348	866,627
LIABILITIES AND RETAINED EARNINGS				
Current Liabilities				
Accounts Payable	159			159
Accounts Payable-State of Ohio	48			48
Accrued Liabilities	413	38	47	498
Other Liabilities	413	35	249	697
Obligation under Securities Lending	566			566
Current Portion-Tuition Benefits Payable	67,300			67,300
Total Current Liabilities	68,899	73	296	69,268
Non-Current Liabilities				
Tuition Benefits Payable from Restricted Assets	1,039,500			1,039,500
Total Non-Current Liabilities	1,039,500	-	-	1,039,500
Total Liabilities	1,108,399	73	296	1,108,768
Net Assets				
Unrestricted Assets	(250,162)	7,802	52	(242,308)
Invested in Capital Assets	167			167
Total Net Assets	(249,995)	7,802	52	(242,141)
TOTAL LIABILITIES AND NET ASSETS	\$ 858,404	\$ 7,875	\$ 348	\$ 866,627

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, 2005
(amounts in thousands)*

	Guaranteed Savings Plan 6/30/2005	Putnam Savings Plan 6/30/2005	Vanguard Savings Plan 6/30/2005	Enterprise Fund 6/30/2005
OPERATING REVENUES				
Investment Income	\$ 70,109	\$ 7		\$ 70,116
Miscellaneous Revenue	1	-		1
Basis Point Revenue		6,103	\$ 224	6,327
Putnam Hard Dollar Contribution	-	984	-	984
TOTAL OPERATING REVENUES	70,110	\$7,094	224	77,428
OPERATING EXPENSES				
Personal Services	3,313	1,277	1,551	6,141
Maintenance	538	229	664	1,431
Depreciation	25			25
Expenses Paid by Putnam	-	983	-	983
Tuition Benefits Expenses	21,634			21,634
TOTAL OPERATING EXPENSES	25,510	2,489	2,215	30,214
OPERATING INCOME (LOSS)	44,600	4,605	(1,991)	47,214
Interfund Transfers In (Out)		(2,065)	2,065	-
NET INCOME (LOSS)	44,600	2,540	74	47,214
BEGINNING NET ASSETS	(294,596)	5,262	(21)	(289,355)
ENDING NET ASSETS	\$ (249,996)	\$ 7,802	\$ 53	\$ (242,141)

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, 2005
(amounts in thousands)

	Guaranteed Savings Plan 6/30/2005	Putnam Savings Plan 6/30/2005	Vanguard Savings Plan 6/30/2005	Enterprise Fund Totals 6/30/2005
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash Payments to Suppliers for Goods and Services	\$ 9,788	\$ (562)	\$ 26	\$ 9,252
Cash Payments to Employees/consultants/professional contracts for Services	(3,167)	(1,314)	(1,504)	(5,985)
Other Operating Cash Receipts (payments)	(67,315)	6,101	473	(60,741)
Net cash provided (used) by operating activities	(60,694)	4,225	(1,005)	(57,474)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Interfund Transfers In (Out)	596	(2,028)	1,432	-
Net cash flows provided (used) by noncapital financing activities	596	(2,028)	1,432	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of Capital Assets	(76)	-	-	(76)
Proceeds from Sales of Fixed Assets	-	-	-	-
Net Cash flows provided (used) by capital and related financing activities	(76)	-	-	(76)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Proceeds from the Sales and Maturities of Investments	292,505	7,427	-	299,932
Purchase of Investments	(256,896)	(9,649)	(358)	(266,903)
Investment Income Received	24,696	7	-	24,703
Net cash flows provided (used) by investing activities	60,305	(2,215)	(358)	57,732
Net Increase (Decrease) in Cash and Cash Equivalents	131	(18)	69	182
Cash and Cash Equivalents, July 1	29	636	-	665
Cash and Cash Equivalents, June 30 (see note 3A)	\$ 160	\$ 618	\$ 69	\$ 847
Reconciliation of Operating Income to Net Cash Provided by Operating Activities				
Net Income (Loss)	\$ 44,600	\$ 2,540	\$ 74	\$ 47,214
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities				
Investment Income	(70,109)	(7)	-	(70,116)
Depreciation	25	-	-	25
Miscellaneous Nonoperating (Revenues) Expenses	-	2,065	(2,065)	-
Decrease (Increase) in Assets:				
Intergovernmental Receivables	-	-	-	-
Other Receivables	10,448	(334)	690	10,804
Increase (Decrease) in Liabilities:				
Accounts Payable	(122)	-	-	(122)
Accrued Liabilities	146	(36)	46	156
Intergovernmental Payable	-	-	-	-
Due to Other Funds	-	-	-	-
Deferred Revenues	-	-	-	-
Benefits Payable	(34,900)	-	-	(34,900)
Other Liabilities	(10,783)	(2)	250	(10,535)
Net Cash Flows Provided (Used) by Operating Activities	\$ (60,694)	\$ 4,225	\$ (1,005)	\$ (57,474)

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

Ohio Tuition Trust Authority - Private Purpose Trust Fund
Schedule of Fiduciary Net Assets - Putnam Options
As of June 30, 2005
(amounts in thousands)

ASSETS

	6/30/2005
Investments in securities, at value	\$ 3,239,595
Cash Equivalents	295,524
Dividends, interest, and other receivables	639
Receivable for units sold	1,295
Receivable for securities sold	1,183
Total Assets	\$ 3,538,236

LIABILITIES

Payable for securities purchased	1,907
Payable for units redeemed	1,185
Accrued management and administrative fees	4,686
Deferred excess of book value on wrapper agreements	1,481
Accrued reports to shareholders and audit fees	775
Total Liabilities	\$ 10,034

Net Assets Held in Trust for Plan Participants **\$ 3,528,202**

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

Ohio Tuition Trust Authority - Private Purpose Trust Fund
Schedule of Fiduciary Net Assets - Vanguard Options
As of June 30, 2005
(amounts in thousands)

ASSETS

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

6/30/2005
\$ 195,973
343
179
248
37
\$ 196,780

Total Assets

LIABILITIES

Payable for securities purchased
 Payables for units redeemed
 Accrued expenses

399
3
48
\$ 450

Total Liabilities

Net Assets Held in Trust for Plan Participants

\$ 196,330

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

Ohio Tuition Trust Authority - Private Purpose Trust Fund
Schedule of Changes in Fiduciary Net Assets - Putnam Options
As of June 30, 2005
(amounts in thousands)

	6/30/2005
ADDITIONS	
Contributions:	
Units sold	\$ 672,913
Investment earnings:	
Investment income	59,424
Net realized/unrealized appreciation (depreciation) on underlying fund shares and wrapper agreements	197,783
Total investment earnings	257,207
Less investment expenses	26,225
Net investment earnings	230,982
Total additions	\$ 903,895
DEDUCTIONS	
Units redeemed	407,418
Distributions to unitholders	2,668
Total deductions	\$ 410,086
Change in net assets	\$ 493,809
Net Assets Held in Trust for Plan Participants - Beginning	\$ 3,034,393
Net Assets Held in Trust for Plan Participants - Ending	\$ 3,528,202

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

Ohio Tuition Trust Authority - Private Purpose Trust Fund
Schedule of Changes in Fiduciary Net Assets - Vanguard Options
As of June 30, 2005
(amounts in thousands)

	6/30/2005
ADDITIONS	
Contributions:	
Units sold	\$ 184,926
Investment earnings:	
Investment income	3,092
Net realized/unrealized appreciation (depreciation) on underlying fund shares	5,610
Total investment earnings	8,702
Less investment expenses	336
Net investment earnings	8,366
Total additions	\$ 193,292
DEDUCTIONS	
Units redeemed	19,407
Total deductions	\$ 19,407
Change in net assets	\$ 173,885
Net Assets Held in Trust for Plan Participants - Beginning	\$ 22,445
Net Assets Held in Trust for Plan Participants - Ending	\$ 196,330

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

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

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

We have audited the accompanying financial statements of the Ohio Tuition Trust Authority, State of Ohio, as of and for the year ended June 30, 2005, and have issued our report thereon dated October 5, 2005, wherein we noted the Authority adopted GASB Statement No. 40. We did not audit the financial statements of the Private Purpose Trust Fund. Other auditors audited those statements. They have furnished their reports thereon to us, and we based our opinion, insofar as it relates to the amounts included for the Private Purpose Trust Fund, on the reports of the other auditors.

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 the Comptroller General of the United States' *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 to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Ohio Tuition Trust Authority's management dated October 5, 2005, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

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.

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Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
www.auditor.state.oh.us

Compliance and Other Matters

As part of reasonably assuring whether the Ohio Tuition Trust Authority's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially effect 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 an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Other auditors performed tests of 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.

We intended this report solely for the information and use of Ohio Tuition Trust Authority's management and the Ohio General Assembly. It is not intended for anyone other than these specified parties.



Betty Montgomery
Auditor of State

October 5, 2005



**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 17, 2005**