

OHIO TUITION TRUST AUTHORITY
Columbus, Ohio

Financial Statements
and
Supplementary Financial Information
For the years ended June 30, 2014 and 2013

and Independent Auditors' Report Thereon



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Dave Yost • Auditor of State

Members of the Board
Ohio Tuition Trust Authority
35 E Chestnut Street, 8th Fl
Columbus, OH 43215-2541

We have reviewed the *Independent Auditors' Report* of the Ohio Tuition Trust Authority, Franklin County, prepared by Schneider Downs & Co., Inc., for the audit period July 1, 2013 through June 30, 2014. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Ohio Tuition Trust Authority is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

October 14, 2014

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OHIO TUITION TRUST AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014, 2013 AND 2012

(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 years ended June 30, 2014, 2013, and 2012. We encourage readers to consider the information presented here in conjunction with OTTA's financial statements, which begin on Page 9 of this report.

The primary objective for OTTA is to help make higher education affordable by providing tax-advantaged investment opportunities to save in advance for higher education expenses. This program consists of offering two variable college savings plans and the Guaranteed Savings Plan. All available plans are collectively called CollegeAdvantage. The variable college savings plans consist of two separate and distinct sales channels: direct and advisor. Effective November 2013, OTTA transitioned the recordkeeping and fund accounting services for the direct plan to Ascensus College Savings Recordkeeping Services, LLC (fka Upromise Investments Recordkeeping Services, LLC). The recordkeeping and fund accounting services for the advisor plan are handled by BlackRock Advisors, LLC. The recordkeeping and distributions for the Guaranteed Savings Plan are handled by OTTA. Sales of new units of the Guaranteed Savings Plan were suspended in 2004.

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 two components: 1) financial statements and 2) notes to the financial statements.

Financial statements: OTTA follows enterprise fund accounting, which means these statements are presented in a manner similar to a private-sector business. These statements offer short-term and long-term financial information about its activities.

The *statement of net position* 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 position. Over time, increases or decreases in the net position 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 position* presents information showing how OTTA's net position changed during the most recent fiscal year. All changes in net position 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 affect cash flows in prior and future fiscal periods (e.g., depreciation and earned but unused vacation leave).

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

Each of the financial statements highlights the OTTA plans, which are principally supported by investment income. These plans are intended to recover all of their costs through fees or investment earnings (business-type activities).

OHIO TUITION TRUST AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014, 2013 AND 2012
(UNAUDITED)

The *statement of fiduciary net position* and the *statement of changes in fiduciary net position* present information on the net position and changes in net position of the options offered in the variable savings plans. Those options are available in the CollegeAdvantage Direct 529 Savings Plan and the CollegeAdvantage Advisor 529 Savings Plan. The two variable savings plans are classified in the Private Purpose Trust fund.

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.

A summary comparison of the Enterprise Fund's financial position and operations is presented below:

Condensed Comparative Balance Sheets At June 30, 2014, 2013 and 2012

	2014	2013	2012
Current Assets, excluding securities	\$ 27,760,072	\$ 11,968,160	\$ 5,768,943
Securities	5,713,297	19,507,207	19,500,405
Restricted Securities	465,409,184	481,432,160	519,858,294
Other Assets	109,207	86,493	137,281
Total Assets	498,991,760	512,994,020	545,264,923
Current Liabilities, excluding liabilities related to tuition benefits	2,051,884	3,829,204	2,573,465
Tuition Benefits Liability	423,200,000	469,700,000	553,000,000
Total Liabilities	425,251,884	473,529,204	555,573,465
Total Net Position	\$ 73,739,876	\$ 39,464,816	\$ (10,308,542)

Statement Of Revenues, Expenses And Changes In Fund Net Position Years Ended June 30, 2014, 2013 and 2012

	2014	2013	2012
Operating Revenue:			
Investment Income	\$ 49,312,299	\$ 34,323,445	\$ 6,895,852
Basis Points Revenue	10,677,761	12,710,373	11,324,984
Total Operating Revenue	59,990,060	47,033,818	18,220,836
Operating Expenses, excluding Tuition Benefits Expense	9,707,357	9,907,923	13,397,104
Tuition Benefits Expense	62,507,643	70,652,537	66,760,090
Actuarial Tuition Benefits Expense	(46,500,000)	(83,300,000)	(39,599,000)
Total Operating Expenses	25,715,000	(2,739,540)	40,558,194
Change in Net Position	34,275,060	49,773,358	(22,337,358)
Beginning Net Position	39,464,816	(10,308,542)	12,028,816
Ending Net Position	\$ 73,739,876	\$ 39,464,816	\$ (10,308,542)

OHIO TUITION TRUST AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014, 2013 AND 2012

(UNAUDITED)

Analysis of OTTA's Financial Position and Results of Operations

Enterprise Fund - Guaranteed Savings Plan

OTTA's assets restricted for tuition benefits and administrative expense decreased \$16,023,000 (3.3%) and \$38,426,000 (7.4%) while investment returns realized were 10.5% and 6.4% during the years ending June 30, 2014 and 2013, respectfully. In addition, the Tuition Benefits Payable decreased \$46,500,000 (9.9%) and \$83,300,000 (15.6%) during the same time period. The Tuition Benefits liability decrease is a result of the continued redemption of units and credits by Plan participants, net of actuarial changes. Investment returns caused the assets to decrease at a slower rate than the payout of tuition units and credits.

OTTA's primary source of operating revenue is investment income and a small administrative fee that is assessed against the assets of the CollegeAdvantage participants, while the significant operating expense is tuition benefits expense. For the fiscal years ended June 30, 2014 and 2013, OTTA's net position increased \$34.3 and \$49.8 million, respectively, primarily due to the increase in investment returns while tuition benefit payouts and operating expenses decreased year over year.

Private Purpose Trust Fund - Variable Savings Plan

Financial Summary

A summary comparison of the Private Purpose Trust Fund's fiduciary net position and statement of changes is presented below:

Condensed Statement of Fiduciary Net Position at June 30, 2014, 2013 and 2012

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Total Assets	\$ 8,726,051,647	\$ 7,506,108,204	\$ 6,378,943,811
Total Liabilities	<u>(10,688,056)</u>	<u>(142,539,620)</u>	<u>(6,047,958)</u>
Net Position Held In Trust For Plan Participants	\$ <u>8,715,363,591</u>	\$ <u>7,363,568,584</u>	\$ <u>6,372,895,853</u>

OHIO TUITION TRUST AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014, 2013 AND 2012
(UNAUDITED)

Condensed Statement Of Changes in Fiduciary Net Position
Years Ended June 30, 2014, 2013 and 2012

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Additions:			
Units sold	\$ 986,026,499	\$ 1,105,688,772	\$ 958,236,008
Exchanges in	1,212,248,778	813,647,448	660,689,035
Net investment earnings	<u>1,087,541,597</u>	<u>681,476,891</u>	<u>33,627,807</u>
Total Additions	3,285,816,874	2,600,813,111	1,652,552,850
Deductions:			
Units redeemed	721,773,089	796,492,932	694,333,146
Exchanges out	<u>1,212,248,778</u>	<u>813,647,448</u>	<u>660,689,035</u>
Total Deductions	<u>1,934,021,867</u>	<u>1,610,140,380</u>	<u>1,355,022,181</u>
Change In Net Position	1,351,795,007	990,672,731	297,530,669
Beginning net position	<u>7,363,568,584</u>	<u>6,372,895,853</u>	<u>6,075,365,184</u>
Ending net position	<u>\$ 8,715,363,591</u>	<u>\$ 7,363,568,584</u>	<u>\$ 6,372,895,853</u>

Analysis of OTTA's Financial Position and Results of Operations
Private Purpose Trust Fund - Variable Savings Plan

As noted previously, OTTA offers two variable college savings plans. The variable college savings plans consist of two separate and distinct sales channels: direct and advisor.

The benefits available in both plans are as follows:

- Earnings grow tax-free at both the state and federal level.
- Withdrawals are tax-free when used for Internal Revenue Code 529-qualified higher education expenses.
- Ohio taxpayers may deduct up to \$2,000 a year for contributions, per beneficiary, from their Ohio taxable income. Contributions over \$2,000 in a year may be carried over to future tax years until they are fully deducted.
- Funds can be used at any accredited college or university in the country (2-4 yr., graduate, or technical; schools that are eligible for federal financial aid).

The Direct Plan is, in general, a lower-cost option than the Advisor Plan, since the customers are not receiving professional investment advice, and they are choosing to select their own investment strategy and manage their own accounts. The OTTA administers and has overall program management responsibility for the day-to-day operations of the CollegeAdvantage Direct Plan. As of June 30, 2014, the plan offers 23 low-cost options from The Vanguard Group, Fifth Third Bank, PIMCO, and GE Asset Management.

OHIO TUITION TRUST AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014, 2013 AND 2012
(UNAUDITED)

The CollegeAdvantage Advisor Plan is for customers working with an investment advisor. The advisor plan offers different investment options and fund managers than the direct plan. As of June 30, 2014, there are 21 investment options, including 3 age-based options, 3 Target-Risk Investment Options and 15 Single Strategy investment options available through the BlackRock CollegeAdvantage plan.

The assets under management for the Direct and Advisor Plans for the three years ended June 30, 2014, 2013 and 2012 are as follows:

	(in millions)		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Assets Under Management			
Direct	\$ 3,972	\$ 3,222	\$ 2,662
Advisor	<u>4,744</u>	<u>4,143</u>	<u>3,713</u>
 Total	 <u>\$ 8,716</u>	 <u>\$ 7,365</u>	 <u>\$ 6,375</u>

The asset growth is attributable to investment returns and net contributions (net of withdrawals) in fiscal years ending June 30, 2014 and 2013 as follows:

	<u>2014</u>	<u>2013</u>
Direct		
Investment Returns	15.9%	11.7%
Net Contributions	7.4%	9.4%
 Advisor		
Investment Returns	13.6%	9.8%
Net Contributions	1.0%	1.8%

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, 35 East Chestnut St, 8th floor, Columbus, Ohio 43215 or call (800)233-6734 or visit OTTA's website at www.collegeadvantage.com.

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INDEPENDENT AUDITORS' REPORT

Board
Ohio Tuition Trust Authority
Columbus, Ohio

Report on the Financial Statements

We have audited the accompanying financial statements of the Enterprise Fund and the Private Purpose Trust Fund information of the Ohio Tuition Trust Authority (OTTA), a department of the State of Ohio (State), as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the OTTA's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to opine on these financial statements based on our audit. We did not audit the majority of the financial statements of the Private Purpose Trust Fund, representing 95%, 99%, and 97%, respectively, of the assets, net position, and revenues of OTTA as of and for the year ended June 30, 2014. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Private Purpose Trust Fund, are based solely on the reports of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the OTTA's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the OTTA's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our opinions.

Opinions

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Enterprise Fund and the Private Purpose Trust Fund information of OTTA, as of June 30, 2014 and 2013, and the respective changes in financial position and where applicable, cash flows, thereof for the years then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include management's discussion and analysis, listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Information

As discussed in Note 1, the financial statements of OTTA are intended to present the financial position and changes in financial position and, where applicable, cash flows of only the Enterprise Fund and the Private Purpose Trust Fund information of OTTA. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2014, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2014 on our consideration of OTTA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering OTTA's internal control over financial reporting and compliance.

Schneider Downs & Co., Inc.

Columbus, Ohio
September 30, 2014

OHIO TUITION TRUST AUTHORITY

STATEMENTS OF NET POSITION
ENTERPRISE FUND
AS OF JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 26,851,817	\$ 10,740,300
Collateral on loaned securities	162,207	99,115
Basis points receivable	737,940	1,120,723
Other current assets	8,108	8,022
Securities	5,713,297	19,507,207
Securities restricted for tuition benefits payable	81,100,000	79,800,000
	<hr/>	<hr/>
Total Current Assets	114,573,369	111,275,367
 RESTRICTED SECURITIES		
Administrative expenses	98,794,295	95,270,614
Tuition benefits payable	285,514,889	306,361,546
 OTHER ASSETS	<hr/>	<hr/>
	109,207	86,493
	<hr/>	<hr/>
Total Assets	\$ 498,991,760	\$ 512,994,020
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 1,466,218	\$ 1,444,786
Accrued compensation and compensated leave	423,459	386,687
Payable to fund managers	-	1,898,616
Obligation under securities lending	162,207	99,115
Liabilities payable from restricted assets:		
Tuition Benefits Payable	81,100,000	79,800,000
	<hr/>	<hr/>
Total Current Liabilities	83,151,884	83,629,204
 LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Tuition benefits payable	342,100,000	389,900,000
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Total Liabilities	425,251,884	473,529,204
 NET POSITION	<hr/>	<hr/>
	\$ 73,739,876	\$ 39,464,816
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See notes to financial statements.

OHIO TUITION TRUST AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

ENTERPRISE FUND

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
OPERATING REVENUES		
Interest and dividend income	\$ 7,692,317	\$ 9,075,759
Basis points revenue	10,677,761	12,710,373
Net increase in fair value of securities	41,619,982	25,247,686
	<u>59,990,060</u>	<u>47,033,818</u>
OPERATING EXPENSES		
Tuition benefits expenses (payouts)	62,507,643	70,652,537
Actuarial tuition benefits expense, net of payouts	(46,500,000)	(83,300,000)
Payroll and employee benefits	2,820,029	2,864,272
Other operating expenses	6,837,424	6,992,862
Depreciation	49,904	50,789
	<u>25,715,000</u>	<u>(2,739,540)</u>
Change In Net Position	34,275,060	49,773,358
NET POSITION		
Beginning of Year	<u>39,464,816</u>	<u>(10,308,542)</u>
End of Year	<u>\$ 73,739,876</u>	<u>\$ 39,464,816</u>

See notes to financial statements.

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OHIO TUITION TRUST AUTHORITY

STATEMENTS OF CASH FLOWS

ENTERPRISE FUND

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash payments for payroll and employee benefits	\$ (2,890,769)	\$ (2,710,221)
Cash payments for operating expenses other than payroll and employee benefits	(6,781,097)	(7,281,092)
Cash payments to/ from fund managers - variable savings plan	(1,898,616)	1,483,321
Cash payments for tuition benefits	(62,507,643)	(70,652,537)
Cash receipts from basis points	<u>11,060,544</u>	<u>13,291,532</u>
Net Cash Used In Operating Activities	(63,017,581)	(65,868,997)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the sales and maturities of securities	482,143,510	576,091,163
Purchase of securities	(410,795,959)	(512,549,575)
Interest and dividends received	<u>7,781,547</u>	<u>9,193,165</u>
Net Cash Provided By Investing Activities	<u>79,129,098</u>	<u>72,734,753</u>
Net Increase In Cash And Cash Equivalents	16,111,517	6,865,756
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>10,740,300</u>	<u>3,874,544</u>
End of year	<u>\$ 26,851,817</u>	<u>\$ 10,740,300</u>

	<u>2014</u>	<u>2013</u>
RECONCILIATION OF CHANGE IN NET POSITION TO NET CASH USED IN OPERATING ACTIVITIES		
CHANGE IN NET POSITION	\$ 34,275,060	\$ 49,773,358
Adjustment to reconcile change in net position to net cash used in operating activities:		
Investment income	(49,312,299)	(34,323,445)
Change in operating assets and liabilities		
Basis points receivable	382,783	581,158
Other assets	(22,714)	73,177
Accounts payable and accrued liabilities	21,433	(211,504)
Accrued compensation and compensated leave	36,772	54,938
Payable to fund managers	(1,898,616)	1,483,321
Tuition benefits payable	<u>(46,500,000)</u>	<u>(83,300,000)</u>
Net Cash Used In Operating Activities	<u>\$ (63,017,581)</u>	<u>\$ (65,868,997)</u>

See notes to financial statements.

OHIO TUITION TRUST AUTHORITY

STATEMENTS OF FIDUCIARY NET POSITION

PRIVATE PURPOSE TRUST FUND

AS OF JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Investments in securities, at value	\$8,473,870,424	\$7,134,510,386
Cash equivalents	241,727,290	230,971,175
Dividends, interest, and other receivable	1,498,831	3,081,292
Receivable for units sold	7,942,995	4,873,943
Receivable for securities sold	<u>1,012,107</u>	<u>132,671,408</u>
 Total Assets	 <u>\$8,726,051,647</u>	 <u>\$7,506,108,204</u>
LIABILITIES		
Cash overdraft	\$ 2,117,672	\$ 1,409,928
Payable for securities purchased	2,011,815	136,499,041
Payable for units redeemed	3,494,565	1,840,364
Accrued management and administrative fees	1,474,479	1,395,491
Accrued sales fees	<u>1,589,525</u>	<u>1,394,796</u>
 Total Liabilities	 <u>10,688,056</u>	 <u>142,539,620</u>
 NET POSITION HELD IN TRUST FOR PLAN PARTICIPANTS	 <u><u>\$8,715,363,591</u></u>	 <u><u>\$7,363,568,584</u></u>

See notes to financial statements.

OHIO TUITION TRUST AUTHORITY

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
PRIVATE PURPOSE TRUST FUND
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
ADDITIONS		
Contributions:		
Units sold	\$ 986,026,499	\$ 1,105,688,772
Exchanges in	1,212,248,778	813,647,448
Total Contributions	<u>2,198,275,277</u>	<u>1,919,336,220</u>
Investment earnings:		
Investment income	320,031,180	183,658,127
Net realized/unrealized appreciation on underlying fund shares	803,021,436	529,738,258
Total Investment Earnings	<u>1,123,052,616</u>	<u>713,396,385</u>
Less: Investment Expenses	<u>35,511,019</u>	<u>31,919,494</u>
Net Investment Earnings	<u>1,087,541,597</u>	<u>681,476,891</u>
Total Additions	<u>3,285,816,874</u>	<u>2,600,813,111</u>
DEDUCTIONS		
Units redeemed	721,773,089	796,492,932
Exchanges out	1,212,248,778	813,647,448
Total Deductions	<u>1,934,021,867</u>	<u>1,610,140,380</u>
Change In Net Position	1,351,795,007	990,672,731
NET POSITION		
Held in Trust for Plan Participants - Beginning of Year	<u>7,363,568,584</u>	<u>6,372,895,853</u>
Held in Trust for Plan Participants - End of Year	<u><u>\$8,715,363,591</u></u>	<u><u>\$7,363,568,584</u></u>

See notes to financial statements.

OHIO TUITION TRUST AUTHORITY

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

NOTE 1 - ORGANIZATION

The Ohio Tuition Trust Authority (OTTA) was established by Chapter 3334 of the Ohio Revised Code in 1989 and is part of the legal reporting entity of the State of Ohio within the Board of Regents. 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, one shall have experience in the field of marketing or public relations, one shall have experience in the field of information systems design or management, and two shall have experience in the field of banking, investment banking, 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 the chancellor's designee, is an ex officio voting member.

The primary objective for OTTA is to help make higher education affordable by providing tax-advantaged investment opportunities to save in advance for higher education expenses. The program consists of two variable college savings plans and maintaining recordkeeping and distributions for the Guaranteed Savings Plan (Guaranteed Plan). Sales of new units of the Guaranteed Plan were suspended in 2004. All available plans are collectively called CollegeAdvantage.

All funds available through CollegeAdvantage are available for use at any college in the country, with refund and transfer options available. They offer advantages for Ohio residents, including the State of Ohio income tax deduction on contributions. Since these funds are part of a Section 529 Qualified State Tuition Program, earnings on the funds are federally tax-exempt if the funds are used for college upon withdrawal.

Except as otherwise specified in Chapter 3334, Ohio Revised Code, OTTA 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 OTTA, shall act as OTTA's agent, for the purchase of equipment, supplies, insurance and services, or the performance of administrative services pursuant to Chapter 125, Ohio Revised Code.

Guaranteed Savings Plan - Enterprise Fund

The accompanying enterprise financial statements report the financial position, results of operations and cash flows for the fiscal years ended June 30, 2014 and 2013 of the Enterprise Fund consisting of the Guaranteed Savings Plan and the administrative portion of the Variable Savings plans. These funds are part of the State of Ohio's reporting entity. The accompanying statements are not intended to present all enterprise activities of the State of Ohio. The **State of Ohio Comprehensive Annual Financial Report** (CAFR) provides more extensive disclosures regarding the significant accounting policies of the State as a whole.

OHIO TUITION TRUST AUTHORITY

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

NOTE 1 - ORGANIZATION (Continued)

The Guaranteed Plan is guaranteed by the full faith and credit of the State of Ohio. Either the owner or beneficiary were required to be Ohio residents at the time the account was established. The Guaranteed Plan sold credits from 1989 to June 1994 and sold units from July 1994 to December 2003. 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, while credit values are equal to 115% of a unit value in the year redeemed. The redemption value changes proportionately in relation to the changes in WAT. 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 are necessary to cover room and board, graduate or professional school, or other educational expenses.

Variable Savings Plan - Private Purpose Trust Fund

In June 2000, Governor Taft signed into law Senate Bill 161, creating a variable return college savings option. In October 2000, OTTA launched Ohio's 529 plan, CollegeAdvantage, offering market-based investment options. CollegeAdvantage has two separate and distinct sales channels: the CollegeAdvantage Direct Plan and the CollegeAdvantage Advisor Plan.

The CollegeAdvantage Direct Plan is for customers who are comfortable selecting and managing their own investments. The direct plan is, in general, a lower-cost option, since the customer is not receiving professional investment advice, and customers are choosing to select their own investment strategy and manage their own accounts. The OTTA administers and has overall program management responsibility for the day-to-day operations of the CollegeAdvantage Direct Plan. As of June 30, 2014, the plan offers 23 lower-cost options from The Vanguard Group, Fifth Third Bank, PIMCO, and GE Asset Management, including 4 Age-Based options, 5 Risk-Based Options, and 14 Individual Options. The direct plan is open to investors in Ohio and across the country. Through October 2013, OTTA was responsible for all recordkeeping and administration of The Vanguard Group, PIMCO, Oppenheimer Funds and GE Asset Management direct plan options. Effective November 2013, OTTA transitioned the recordkeeping and fund accounting services for the direct plan to Ascensus College Savings Recordkeeping Services, LLC (fka Upromise Investments Recordkeeping Services, LLC) in a seven-year agreement that terminates November 4, 2020. Also effective November 2013, OTTA discontinued the Oppenheimer Funds option; assets were transferred to a Vanguard fund option with similar characteristics. Fifth Third Bank maintains, on OTTA's behalf, separate records for each account involving Savings Products; these services include the recordkeeping and accounting for each individual account.

Contributions to the Vanguard, PIMCO, and GE investment options 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 in good order. 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.

OHIO TUITION TRUST AUTHORITY

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

NOTE 1 - ORGANIZATION (Continued)

Contributions to Fifth Third Bank are evidenced through the establishment of a savings account or certificate of deposit. Contributions and withdrawals are subject to the terms and limitations defined in the participation agreement. Contributions are invested in the savings account or CD on the same day the contribution has been credited to the participant's account. Withdrawals are based on the value of the savings account or CD on the date the withdrawal request is accepted. The value of the savings account or CD is based upon the principal and interest earned as of the date the withdrawal request is accepted. An early withdrawal penalty can be assessed to a CD if it is withdrawn prior to its stated maturity date.

The CollegeAdvantage Advisor Plan is for customers working with an investment advisor. The advisor plan offers the same 529 tax-saving benefits but has different investment options and fund managers than the direct plan. On October 1, 2009, BlackRock Advisors, LLC launched the BlackRock CollegeAdvantage Plan through financial advisors. As of June 30, 2014, there are 21 investment options, including 3 Age-Based Options, 3 Target-Risk Investment Options and 15 Single Strategy Investment Options available through the BlackRock CollegeAdvantage plan. The BlackRock contract was renegotiated June 18, 2014 for seven years with an option to renew for a subsequent two-year renewal term.

The Variable Savings Plan is recorded as a Private Purpose Trust Fund in these financial statements. These statements report the financial position and results of operations for the years ended June 30, 2014 and 2013 of the Fiduciary Fund consisting of the Variable Savings Plan.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of significant accounting policies consistently applied by management in the preparation of the accompanying financial statements follows:

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

OHIO TUITION TRUST AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 OTTA 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 Savings Plan are recovered through fees charged on customer accounts and revenue sharing agreements between OTTA and some of the investment managers. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are investment income and basis points charged to customers for investments in CollegeAdvantage options. Operating expenses for the enterprise funds include tuition benefits expense, the cost of marketing products and services and administrative expenses. All revenues and expenses not meeting this definition would be reported as non-operating revenues and expenses.

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 OTTA follows GASB guidance as applicable to proprietary funds.

OTTA classifies fund resources into four separate sub funds for accounting purposes. These sub funds are authorized by Ohio Revised Code section 3334.11 and are described below:

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 pursuant to tuition payment contracts, make refunds, pay investment fees and other costs in administering the Trust Sub Fund.

Reserve Sub Fund - The Reserve Sub Fund is used to account for administrative revenues related to the plan such as enrollment fees and the administrative portion of each tuition unit (approximately \$5 for each tuition unit purchased). The Reserve Sub Fund is governed by the same limitations as prescribed for the Trust Sub Fund.

Operating Sub Fund - The Operating Sub Fund is used to account for administrative expenses of the Guaranteed Savings Plan. Funds are transferred from the Reserve Sub Fund when necessary to pay the costs of operating the plan.

Variable Savings Operating Sub Fund - The Variable Savings Operating Sub Fund is used to account for the administrative revenues and administrative costs of the Variable Savings Plan.

OHIO TUITION TRUST AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting - Private Purpose Trust Fund

The Private Purpose Trust Fund is used to report the Fiduciary Net Position and Changes in the Fiduciary Net Position of the Variable Savings Plan managed by BlackRock, The Vanguard Group, Fifth Third Bank, PIMCO, and GE Asset Management. GASB Statement No. 34 recommends the use of a Private Purpose Trust Fund in situations in which principal and income benefit individuals, private corporations, or other governments. The Variable Savings Plan is set up for the benefit of its customers and involves no commitment on the part of the State of Ohio.

Cash and Cash Equivalents

Cash and cash equivalents include amounts on deposit with the State of Ohio and amounts on deposit with financial institutions. OTTA considers cash deposits with a maturity of three months or less when purchased to be cash-equivalents, except for STAR Ohio and repurchase agreements. At June 30, 2014 the portion of OTTA's deposits held by the Ohio Treasurer of State was not exposed to custodial credit risk. Of the portion on deposit with a banking institution, \$250,000 was FDIC insured and the remainder collateralized with securities held by pledging financial institutions' trust department or agent but not in OTTA's name.

Collateral on Loaned Securities/Obligation under Securities Lending

During fiscal year 2014, 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 State is obligated to return the cash to the borrower when the security lending agreement terminates. The Treasurer reinvested the collateral in various types of investments, including U.S. government and agency obligations, repurchase agreements, commercial paper, corporate bonds, asset-backed securities, master notes, variable rate notes, and money market funds. Also, cash collateral may have been placed with financial institutions. For cash collateral the Treasurer received for securities out on loan, as of June 30 2014, the State reported assets and liabilities arising from the securities lending transactions on the financial statements of the funds that had the risk of loss on the collateral assets.

Securities

Securities consist of equity and debt securities. 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. Net increase in fair value of securities includes both realized and unrealized gains on securities. Certain securities are restricted by statute for payment of obligations of the OTTA pursuant to tuition payment contracts.

OHIO TUITION TRUST AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue

Administrative revenue for the Variable Savings Operating Sub Funds is derived from basis points revenue, which is received on assets of the Variable Savings Plan as follows:

CollegeAdvantage Direct Plan

Since November 2013, all Direct Plan customers pay 4 basis points (0.04%) on assets under management invested in options offered through The Vanguard Group, PIMCO, and GE Asset Management. The amount is calculated daily and payment is received by OTTA monthly.

Through October 2013, OTTA received 15 basis points (0.15%) on assets under management at the Vanguard Group, except for the Vanguard S&P 500 Portfolio, on which OTTA received 10 basis points (0.10%). OTTA also received 15 basis points (0.15%) from PIMCO, Oppenheimer and GE Asset Management.

OTTA receives 15 basis points (0.15%) on all Fifth Third Bank assets under management. This amount, paid by Fifth Third as a revenue share, is calculated daily and payment is received by OTTA monthly.

BlackRock CollegeAdvantage Plan

OTTA also receives basis points revenue on assets under management from BlackRock. Since November 2013, all Advisor Plan customers pay 4 basis points (0.04%) to OTTA for an administrative fee. Through October 2013, OTTA collected 10 basis points (0.10%) from Advisor Plan customers.

OTTA also has a revenue sharing agreement with BlackRock. In the contract signed effective June 18, 2014, OTTA receives a revenue share of 12 basis points (0.12%) on the first \$6 billion of assets; when assets reach \$6 billion, the basis points decrease to 11.5 (0.115%); and when assets reach \$8 billion, the basis points decrease to 11 (0.11%). Prior to June 18, 2014 the revenue share agreement provided for 12 basis points (0.12%) on the first \$4 billion of assets; 14 basis points (0.14%) on assets from \$4 billion to \$5 billion; and 17 basis points (0.17%) on assets over \$5 billion. The amount is calculated daily and payment is received monthly.

In addition, under a former contract, BlackRock agreed to pay \$250,000 annually to OTTA for scholarships. This provision terminated with the signing of the contract effective June 18, 2014.

Expenses

Tuition Benefit Expenses (Payouts) are recognized when the Guaranteed Plan units are redeemed. The actuarial tuition benefits expense reflects the amount used to adjust the tuition benefit payable as determined by the actuarial valuation.

OHIO TUITION TRUST AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The OTTA has conducted internal studies of operating expenses. Based on the results of those studies, the OTTA has determined that certain common expenses should be allocated between the Guaranteed and Variable Savings Plans based on criteria established for the various types of operating expenses. Specific expenses that can be directly attributed to the Guaranteed and Variable Savings Plans are expensed to the respective programs.

Self-Insurance

The State of Ohio serves as the OTTA'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.

Income Taxes

Because OTTA is a department of the State, the income of OTTA is not subject to federal or state income tax.

Accounting Pronouncements

The GASB has recently issued the following new accounting pronouncements that will be effective in future years and may be relevant to OTTA:

- GASB No. 68, "Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27"
- GASB No. 69, "Government Combinations and Disposals of Government Operations"
- GASB No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date"

Management has not yet evaluated the impact that the adoption of these statements will have on its financial statements.

Reclassifications

Certain prior-year amounts have been reclassified to conform with the current year's presentation.

OHIO TUITION TRUST AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

NOTE 3 - DEPOSITS

The carrying amount of OTTA's deposits was approximately \$26,851,800 and \$10,740,000, and the bank balance was approximately \$27,776,000 and \$13,221,000, at June 30, 2014 and 2013, respectively.

	<u>2014</u>	<u>2013</u>
State of Ohio's pooled cash and investments held by the Ohio Treasurer of State	\$ 583,000	\$ 831,000
Custodial accounts held by the Ohio Treasurer of State	12,181,000	10,557,000
Deposits with banking institution	<u>15,012,000</u>	<u>1,833,000</u>
	<u>\$ 27,776,000</u>	<u>\$ 13,221,000</u>

OTTA's Variable Savings Operating Sub Fund has funds on deposit in the STAR Plus program, a program endorsed and supported by the State Treasurer's office. STAR Plus is a cash management program that provides Ohio political subdivisions with access to hundreds of FDIC insured banks via one convenient account, offering participants secure FDIC-insured bank deposits (maximum deposit of \$15 million per account, increased to \$20 million July 1, 2014), a competitive yield, and weekly liquidity. The STAR Plus deposit is classified as a deposit with a banking institution.

NOTE 4 - INVESTMENTS

The Guaranteed Savings Fund investment managers are authorized to invest in domestic equities, international equities, domestic fixed income, global balanced strategies, short-term investments and securities lending. Other investment strategies may be permitted if approved by the Board of Directors to be a prudent investment decision. The managers of separately managed accounts are not permitted to: borrow money; pledge, hypothecate, mortgage or encumber assets; loan money; purchase or sell real estate; purchase or sell commodities; or, invest in 144a securities and non-marketable securities.

The Guaranteed Savings Fund also has funds invested in the State Treasury Asset Reserve of Ohio (STAR Ohio). STAR Ohio is an investment pool managed by the State Treasurer's office, which allows governments within the state to pool their funds for investment purposes. The investment objectives of STAR are the preservation of capital, the maintenance of liquidity, and providing current income. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price at which the investment could be sold. Standard & Poor's has assigned an "AAAm" money market rating, its highest rating, to STAR. By obtaining a triple A rating, STAR Ohio is considered to have a superior capacity to maintain principal (\$1.00 per share value) and limit exposure to loss. The rating is based on an analysis of the pool's management, investment guidelines, portfolio holdings and market price exposure.

OHIO TUITION TRUST AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

NOTE 4 - INVESTMENTS (Continued)

	Balance (Fair Value @ 6/30/14)	Credit Quality Rating						Not Rated
		AAA	AA	A	BBB	BB	B	
U.S. Government Obligations	\$ 5,077,023	-	\$ 5,077,023	-	-	-	-	-
Mortgage and Asset-backed Securities	12,607,779	\$ 8,729,020	3,572,395	\$ 306,364	-	-	-	-
Corporate Bonds	753,918	-	-	-	\$ 468,636	\$ 285,282	-	-
Bond Mutual Funds	242,719,767	-	6,649,395	-	-	7,410,114	\$ 8,214,221	\$ 220,446,037
Total Fixed Maturities	<u>261,158,487</u>	<u>8,729,020</u>	<u>15,298,813</u>	<u>306,364</u>	<u>468,636</u>	<u>7,695,396</u>	<u>8,214,221</u>	<u>220,446,037</u>
Equity Mutual Funds (Domestic)	120,409,714	-	-	-	-	-	-	120,409,714
Equity Mutual Funds (Foreign)	41,463,306	-	-	-	-	-	-	41,463,306
Total Equities	<u>161,873,020</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>161,873,020</u>
STAR Ohio Repurchase Agreements	8,585,980	8,585,980	-	-	-	-	-	-
	<u>39,504,994</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>39,504,994</u>
	<u>\$ 471,122,481</u>	<u>\$ 17,315,000</u>	<u>\$ 15,298,813</u>	<u>\$ 306,364</u>	<u>\$ 468,636</u>	<u>\$ 7,695,396</u>	<u>\$ 8,214,221</u>	<u>\$ 421,824,051</u>

OHIO TUITION TRUST AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

NOTE 4 - INVESTMENTS (Continued)

	Balance (Fair Value @ 6/30/13)	Credit Quality Rating						Not Rated
		AAA	AA	A	BBB	BB	B	
U.S. Government Obligations	\$ 22,795,140	-	\$ 22,795,140	-	-	-	-	-
Mortgage and Asset-backed Securities	5,444,524	\$ 1,745,087	3,390,925	\$ 308,512	-	-	-	-
Corporate Bonds	3,527,081	-	117,001	110,922	\$ 2,621,648	\$ 293,142	\$ 384,368	-
Bond Mutual Funds	210,476,657	-	6,635,866	-	-	9,221,745	-	\$ 194,619,046
Total Fixed Maturities	<u>242,243,402</u>	<u>1,745,087</u>	<u>32,938,932</u>	<u>419,434</u>	<u>2,621,648</u>	<u>9,514,887</u>	<u>384,368</u>	<u>194,619,046</u>
Common and Preferred Stock								
(Domestic)	14,905,084	-	-	-	-	-	-	14,905,084
(Foreign)	202,382	-	-	-	-	-	-	202,382
Equity Mutual Funds								
(Domestic)	159,164,255	-	-	-	-	-	6,708,217	152,456,038
(Foreign)	53,292,973	-	-	-	-	-	-	53,292,973
Total Equities	<u>227,564,694</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,708,217</u>	<u>220,856,477</u>
STAR Ohio Repurchase Agreements	25,136,080	25,136,080	-	-	-	-	-	-
	5,995,191	-	-	-	-	-	-	5,995,191
	<u>\$ 500,939,367</u>	<u>\$ 26,881,167</u>	<u>\$ 32,938,932</u>	<u>\$ 419,434</u>	<u>\$ 2,621,648</u>	<u>\$ 9,514,887</u>	<u>\$ 7,092,585</u>	<u>\$ 421,470,714</u>

OHIO TUITION TRUST AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

NOTE 4 - INVESTMENTS (Continued)

Custodial Credit Risk - Custodial risk for securities is the risk that, in the event of failure of a counterparty to a transaction, OTTA will not be able to recover the value of the security that is in the possession of an outside party. Ohio law provides that OTTA's assets shall be held in the custody of the Treasurer of State but not comingled 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.

Credit Risk - Fixed-Income Securities - The risk that an issuer of an investment will not satisfy its obligation is called credit risk. This risk is measured by ratings assigned by a nationally recognized statistical rating organization. OTTA's Investment Policy states that the fixed income portfolio will consist primarily of domestic investment grade bonds. A portion of the domestic fixed income portfolio may be invested in below investment grade (high yield) bonds in order to improve overall returns and to provide diversification. Any below-investment grade portfolio shall have the vast majority of its portfolio invested in BB and B rated securities, the highest two credit quality tiers of this asset class.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss that may be attributed to the magnitude of OTTA's investment in a single issuer. In 2014 and 2013, there is no single issuer comprising 5% or more of the overall portfolio.

Interest Rate Risk - Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. OTTA has established an asset allocation policy designed to obtain investment returns sufficient to allow assets to meet statutory and contractual obligations of the agency and its programs to participants and defray reasonable expenses of administering program operations. The policy requires the fixed income portfolio to be invested with duration characteristics that are within a range consistent with Barclay's Aggregate Index.

Foreign Currency Risk - The securities in the Guaranteed Savings Fund portfolio are indirectly exposed to foreign currency risk through underlying investments in mutual funds that hold international securities. These investments involve risks not normally associated with investing in securities of U.S. corporations, such as foreign currency exchange rate fluctuation and adverse political and economic developments in foreign countries.

OHIO TUITION TRUST AUTHORITY

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

NOTE 4 - INVESTMENTS (Continued)

	Balance (Fair Value @ 6/30/14)	Securities Maturities (In Years)			
		Less than 1	1-5	6-10	More than 10
U.S. Government Obligations	\$ 5,077,023	\$ 5,077,023	-	-	-
Mortgage and Asset-backed Securities	12,607,779	127,946	\$ 5,615,904	\$ 3,410,273	\$ 3,453,656
Corporate Bonds	753,918	-	753,918	-	-
Bond Mutual Funds	242,719,767	242,719,767	-	-	-
Equity Mutual Funds (Domestic)	120,409,714	120,409,714	-	-	-
Equity Mutual Funds (Foreign)	41,463,306	41,463,306	-	-	-
Star Ohio	8,585,980	8,585,980	-	-	-
Repurchase Agreements	39,504,994	39,504,994	-	-	-
	<u>\$ 471,122,481</u>	<u>\$ 457,888,730</u>	<u>\$ 6,369,822</u>	<u>\$ 3,410,273</u>	<u>\$ 3,453,656</u>
	Balance (Fair Value @ 6/30/13)	Less than 1	1-5	6-10	More than 10
U.S. Government Obligations	\$ 22,795,140	\$ 16,631,587	\$ 6,163,553	-	-
Mortgage and Asset-backed Securities	5,444,524	-	536,021	\$ 308,512	\$ 4,599,991
Corporate Bonds	3,527,081	2,747,241	779,840	-	-
Bond Mutual Funds	210,476,657	210,476,657	-	-	-
Common and Preferred Stock (Domestic)	14,905,084	14,905,084	-	-	-
Common and Preferred Stock (Foreign)	202,382	202,382	-	-	-
Equity Mutual Funds (Domestic)	159,164,255	159,164,255	-	-	-
Equity Mutual Funds (Foreign)	53,292,973	53,292,973	-	-	-
Star Ohio	25,136,080	25,136,080	-	-	-
Repurchase Agreements	5,995,191	5,995,191	-	-	-
	<u>\$ 494,944,176</u>	<u>\$ 482,556,259</u>	<u>\$ 7,479,414</u>	<u>\$ 308,512</u>	<u>\$ 4,599,991</u>

OHIO TUITION TRUST AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

NOTE 5 - PRIVATE PURPOSE TRUST FUND

Investments are reported at fair value and are accounted for accordingly. The investments represent units in Private Purpose Trust Fund portfolios, which in turn invest in underlying mutual funds rather than individual securities.

Security transactions, normally units of the portfolios of the BlackRock Funds, the Vanguard Funds, the PIMCO Funds, and the GE Funds are accounted for on the trade date (date the order to buy or sell is executed). Investments in the Fifth Third options are accounted for on the date the contribution is accepted by Fifth Third.

Income and capital gain distributions from the Funds, if any, are recorded on the ex-dividend date. Interest is compounded continuously and credited monthly on the Fifth Third options based on the stated rate of interest for the product.

As of June 30, 2014 and 2013, the cash equivalents and investments of the Private Purpose Trust Fund options were as follows:

	<u>2014</u>		<u>2013</u>	
	<u>Cash and Cash Equivalents</u>	<u>Investments</u>	<u>Cash and Cash Equivalents</u>	<u>Investments</u>
CollegeAdvantage Advisor Plan	-	\$ 4,743,892,424	\$ 463,226	\$ 4,142,612,907
CollegeAdvantage Direct Plan	\$ <u>241,727,290</u>	<u>3,729,978,000</u>	<u>230,507,949</u>	<u>2,991,897,479</u>
	<u>\$ 241,727,290</u>	<u>\$ 8,473,870,424</u>	<u>\$ 230,971,175</u>	<u>\$ 7,134,510,386</u>

NOTE 6 - TUITION BENEFITS PAYABLE

Tuition benefits payable represents the actuarially determined present value (APV) of future tuition obligations of the Guaranteed Savings Plan. This valuation 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 OTTA contracts. The results are as follows:

	<u>2014</u>	<u>2013</u>
APV of future tuition benefits and expenses payable	\$ 423,200,000	\$ 469,700,000
Actuarial net position available in Guaranteed Savings Fund	\$ 465,400,000	\$ 481,500,000
Assets as a percentage of tuition and expense obligation	109.97%	102.51%

OHIO TUITION TRUST AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

NOTE 6 - TUITION BENEFITS PAYABLE (Continued)

	<u>2014</u>	<u>2013</u>
Individual fund net position balances as June 30 were as follows:		
Guaranteed Savings Fund:		
Operating Sub Fund	\$ (3,616,524)	\$ (2,908,756)
Reserve Sub Fund	113,138,827	108,986,618
Trust Sub Fund	<u>(67,269,696)</u>	<u>(94,320,670)</u>
Total Guaranteed Savings Fund	42,252,607	11,757,192
Variable Savings Operating Sub Fund	<u>31,487,269</u>	<u>27,707,624</u>
Total Net Position - Enterprise Fund	<u>\$ 73,739,876</u>	<u>\$ 39,464,816</u>

As mentioned in Note 2, included in the statement of net position of the Enterprise Fund is the Variable Savings Operating Fund.

The following assumptions were used in the actuarial determination of tuition benefits payable as of June 30, as follows:

	<u>2014</u>	<u>2013</u>
Economic assumptions set by the OTTA Board:		
Rate of return (investment of current and future assets)	5.0%	5.0%
Projected tuition increase - Fall 2014	-	2.5%
Projected tuition increase thereafter	6.0%	6.0%
U.S. Bureau of Labor Statistics assumption:		
Consumer price index (CPI) inflation rate	2.5%	2.5%

NOTE 7 - OPERATING LEASES

In October 2013, OTTA moved to office space in a State of Ohio owned building. There is no lease agreement between the State and OTTA. The OTTA is billed quarterly by the State. Office space expense for fiscal 2014 was \$144,000. Future office space rent payments are estimated to be \$147,000 annually.

NOTE 8 - CONTINGENCIES

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

OHIO TUITION TRUST AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

NOTE 9 - PENSION PLAN

Ohio Public Employees Retirement System (OPERS) administers three separate pension plans as described below:

1. The Traditional Pension Plan - a cost-sharing, multiple-employer defined benefit pension plan.
2. The Member-Directed Plan - a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings.
3. The Combined Plan - a cost-sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits.

The authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2013 and 2012, member and employer contribution rates were consistent across all three plans. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Pension Plan.

The 2013 and 2012 member contribution rates were 10.0% of covered payroll for members in state and local classifications. The 2013 and 2012 employer contribution rate for state and local employers was 14.0% of covered payroll. Total required employer contributions for all plans are equal to 100% of employer charges.

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. Employer contributions required and made to OPERS for the fiscal years ended June 30, 2014, 2013, and 2012 were approximately \$271,000; \$276,000; and \$315,000, respectively.

OHIO TUITION TRUST AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

NOTE 10 - OTHER POST-EMPLOYMENT BENEFITS

OPERS maintains a cost-sharing, multiple-employer, defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2013 and 2012, state and local employers contributed at a rate of 14.0% of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0% of covered payroll for state and local employer units. Active members do not make contributions to the OPEB Plan.

OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code Section 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional and Combined Plans was 1.0% during calendar year 2013; the rate was 4.0% in calendar year 2012. Effective January 1, 2014, the portion of employer contributions allocated to healthcare was raised to 2.0% for both plans, as recommended by the OPERS Actuary. The portion of the OTTA's employer contributions that were used to fund post-employment benefits for calendar year 2013 and 2012 approximated \$19,500 and \$83,100, respectively.

The OPERS Board of Trustees is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4.0% of the employer contributions toward the health care fund after the end of the transition period.

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SUPPLEMENTARY FINANCIAL INFORMATION

INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

Board
Ohio Tuition Trust Authority
Columbus, Ohio

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by Comptroller General of the United States, the financial statements of Ohio Tuition Trust Authority (OTTA) as of and for the year ended June 30, 2014, and have issued our report thereon dated September 30, 2014. We did not audit the majority of the financial statements of the Private Purpose Trust Fund, which represent 95% percent, 99% percent, and 97% percent, respectively, of the assets, net position, and revenues. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Private Purpose Trust Fund, are based solely on the reports of other auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the OTTA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of OTTA's internal control. Accordingly, we do not express an opinion on the effectiveness of OTTA's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified..

Compliance and Other Matters

As part of obtaining reasonable assurance about whether OTTA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of OTTA's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering OTTA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Schneider Downs & Co., Inc.

Columbus, Ohio
September 30, 2014



Dave Yost • Auditor of State

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 21, 2014**