

**OHIO TUITION TRUST AUTHORITY
FRANKLIN COUNTY**

FINANCIAL STATEMENT AUDIT

FOR THE YEAR ENDED JUNE 30, 2006



**Auditor of State
Betty Montgomery**

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

We have reviewed the *Report of Independent Accountants* of the Ohio Tuition Trust Authority, Franklin County, prepared by Kennedy, Cottrell + Associates for the audit period July 1, 2005 through June 30, 2006. 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 cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

December 13, 2006

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**OHIO TUITION TRUST AUTHORITY
FRANKLIN COUNTY**

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INDEPENDENT AUDITOR'S 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, 2006, which collectively comprise the Authority's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit. We 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 obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

As described in Note 1, the Authority's financial statements present the financial position, changes in financial position, and cash flows 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, 2006, 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, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 10, 2006 on our consideration of the Ohio Tuition Trust Authority's internal control over reporting and our tests of its compliance and other matters. The purpose of that report is to describe the scope of our testing and not to provide an opinion on the internal controls over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Kennedy, Cottrell + Associates LLC

Kennedy, Cottrell + Associates
October 10, 2006

Ohio Tuition Trust Authority
Management's Discussion and Analysis
June 30, 2006
(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, 2006. We encourage readers to consider the information presented here in conjunction with OTTA's financial statements, which begin on page 7 of this report.

Financial Highlights

- OTTA's invested assets decreased during fiscal year 2006 by \$1,747,500 or 0.2%.
- Tuition Benefits Payable decreased over fiscal year 2005 by \$10,900,000 or 1.0% as a result of the continued suspension of sales in the Guaranteed Savings Plan.
- The solid Return on Investments of 8.16% for fiscal year 2006 along with the decrease in Tuition Benefits Payable combined to reduce OTTA's negative Net Asset balance by \$11,756,108 or 4.9% over fiscal year 2005.
- OTTA enhanced its offerings by adding the Fifth Third 529 Bank Options during September 2005. The Fifth Third Bank Options include a 529 Savings Account and a 529 CD product (ranging from 3 to 144 months in length).

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 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, 2006. Over time, increases or decreases in the net assets may serve as a useful indicator of whether OTTA's financial position is improving or deteriorating.

The *statement of revenues, expenses and changes in fund net assets* presents information showing how OTTA's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., depreciation and earned but unused vacation leave).

Ohio Tuition Trust Authority
Management's Discussion and Analysis
June 30, 2006
(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 capital and related 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, the Vanguard Savings Program and the Fifth Third Savings Program, which are classified as Private Purpose Trust Funds and are managed by Putnam Investments, Vanguard Investments and Fifth Third Bank respectively.

The financial statements can be found on pages 7-11 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 12-29 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, 2006 and June 30, 2005:

Condensed Comparative Balance Sheet
(all amounts expressed in thousands of dollars)

	2006	2005	Dollar Change	Total Percent Change
Current Assets	8,039	7,132	907	12.7%
Restricted Assets	783,459	787,464	(4,005)	-0.5%
Non-Current Assets	75,668	73,411	2,257	3.1%
Fixed Assets	265	167	98	58.7%
Total Assets	867,431	868,174	(743)	-0.1%
Current Liabilities	81,569	69,268	12,301	17.8%
Non-Current Liabilities	1,014,700	1,039,500	(24,800)	-2.4%
Total Liabilities	1,096,269	1,108,768	(12,499)	-1.1%
Total Net Assets	(228,838)	(240,594)	11,756	4.9%
Total Liabilities and Net Assets	867,431	868,174	(743)	-0.1%

Ohio Tuition Trust Authority
Management's Discussion and Analysis
June 30, 2006
(Unaudited)

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 \$228,837,676 as of June 30, 2006. As stated, this represents a 4.9% improvement over OTTA's deficit position at June 30, 2005. Sound financial markets during fiscal year 2006 and a decrease in Tuition Benefits Liability, compared to fiscal year 2005, led to the improved position.

During fiscal year 2006, OTTA's total assets decreased by \$743,000 or 0.1%. This modest decrease is expected given the suspension in unit sales, the higher tuition payouts in fiscal year 2006 and the slightly lower investment return compared to FY05.

The following table summarizes the changes in OTTA's Revenues and Expenses during fiscal years 2006 and 2005:

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

(all amounts expressed in thousands of dollars)

	2006	2005	Dollar Change	Total Percent Change
Operating Revenues:				
Fees and Unit Sales	-	-	-	-
Investment Income	69,629	71,664	(2,035)	-2.8%
Miscellaneous Revenue	9,289	7,311	1,978	27.1%
Total Operating Revenues	78,918	78,975	(57)	-0.1%
Operating Expenses	10,315	8,580	1,735	20.2%
Tuition Benefits Expense	56,847	21,634	35,213	162.8%
Total Operating Expenses	67,162	30,214	36,948	122.3%
Operating Income (Loss)	11,756	48,761	(37,005)	-75.9%
Beginning Net Assets	(240,594)	(289,355)	48,761	16.9%
Ending Net Assets	(228,838)	(240,594)	11,756	4.9%

Ohio Tuition Trust Authority
Management's Discussion and Analysis
June 30, 2006
(Unaudited)

OTTA's primary source of operating revenue is investment income, while the significant operating expense is tuition benefits expense. For the fiscal year ended June 30, 2006, OTTA had a decrease in operating income compared to fiscal year 2005 of \$37,004,774 or 75.9%. This was attributable mainly to the following:

- A \$35,213,075 increase in tuition benefits expense as a result of the change in tuition benefits payable from FY04 to FY05 and from FY05 to FY06.

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.

Ohio Tuition Trust Authority - Enterprise Fund

Balance Sheet

*As of June 30, 2006
(amounts in thousands)*

ASSETS	
Current Assets	
Cash and Cash-Equivalents	\$ 2,757
Collateral on Lent Securities	261
Interest and Dividends Receivable	2,798
Basis Points Receivable	1,983
Other Current Assets	240
Total Current Assets	8,039
Non-Current Assets	
Marketable Securities (at market value)	75,668
Total Non-Current Assets	75,668
Restricted Assets	
Marketable Securities (at market value)	783,459
Total Restricted Assets	783,459
Fixed Assets	
Equipment	1,060
Leasehold Improvements	71
Less: Accumulated Depreciation	(866)
Total Fixed Assets	265
TOTAL ASSETS	867,431
LIABILITIES AND NET ASSETS	
Current Liabilities	
Other Current Liabilities	108
Obligation Under Securities Lending	261
Tuition Benefits Payable	81,200
Total Current Liabilities	81,569
Restricted Non-Current Liabilities	
Tuition Benefits Payable	1,014,700
Total Restricted Non-Current Liabilities	1,014,700
Total Liabilities	1,096,269
Net Assets	
Unrestricted Assets	(229,103)
Invested in Capital Assets	265
Total Net Assets	(228,838)
TOTAL LIABILITIES AND NET ASSETS	\$ 867,431

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, 2006
(amounts in thousands)

OPERATING REVENUES	
Interest & Dividend Investment Income	\$ 28,113
Net Increase (Decrease) in Fair Value of Investments	41,516
Basis Point Revenue	7,759
Putnam Hard Dollar Contribution	1,530
TOTAL OPERATING REVENUES	78,918
OPERATING EXPENSES	
Personal Services	6,867
Maintenance	1,908
Depreciation	10
Expenses Paid By Putnam	1,530
Tuition Benefits Expenses	56,847
TOTAL OPERATING EXPENSES	67,162
OPERATING INCOME (LOSS)	11,756
CHANGE IN NET ASSETS	11,756
BEGINNING NET ASSETS as restated	(240,594)
ENDING NET ASSETS	\$ (228,838)

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, 2006
(amounts in thousands)

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash Payments to/from Suppliers for Goods and Services	\$ (1,927)
Cash Payments to Employees/consultants/professional contracts for Services	(6,885)
Other Cash Payments	(68,893)
Other Cash Receipts	7,992
Net cash provided (used) by operating activities	(69,713)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of Capital Assets	(108)
Net Cash flows provided (used) by capital and related financing activities	(108)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from the Sales and Maturities of Investments	1,727,164
Purchase of Investments	(1,685,595)
Investment Income Received	30,162
Net Cash Flows Provided (Used) by investing activities	71,731
Net Increase (Decrease) in Cash and Cash Equivalents	1,910
Cash and Cash Equivalents, July 1	847
Cash and Cash Equivalents, June 30 (see note 3A)	\$ 2,757
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income (Loss)	\$ 11,756
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Investment Income	(69,629)
Depreciation	10
Decrease (Increase) in Assets:	
Other Receivables	(274)
Increase (Decrease) in Liabilities:	
Accounts Payable	(18)
Accrued Liabilities	(1,145)
Benefits Payable	(10,900)
Other Liabilities	487
Net Cash Flows Provided (Used) by Operating Activities	\$ (69,713)

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, 2006
(amounts in thousands)

ASSETS

Investments in securities, at value
Cash Equivalents
Dividends, interest, and other receivables
Receivable for units sold
Receivable for securities sold
Deferred excess of book value on wrapper agreements
Total Assets

6/30/2006
\$ 4,394,729
15,657
1,753
1,731
1,355
3,143
\$ 4,418,368

LIABILITIES

Payable for securities purchased
Payable for units redeemed
Accrued management and administrative fees
Accrued reports to shareholders and audit fees
Total Liabilities

3,104
1,348
5,485
372
\$ 10,309

Net Assets Held in Trust for Plan Participants

\$ 4,408,059

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, 2006
(amounts in thousands)

	6/30/2006
ADDITIONS	
Contributions:	
Units sold	\$ 892,468
Investment earnings:	
Investment income	157,326
Net realized/unrealized appreciation (depreciation) on underlying fund shares and wrapper agreements	156,220
Total investment earnings	313,546
Less investment expenses	31,509
Net investment earnings	282,037
Total additions	\$ 1,174,505
DEDUCTIONS	
Units redeemed	487,163
Distributions to unitholders	3,815
Total deductions	\$ 490,978
Change in net assets	\$ 683,527
Net Assets Held in Trust for Plan Participants - Beginning	\$ 3,724,532
Net Assets Held in Trust for Plan Participants - Ending	\$ 4,408,059

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

**OHIO TUITION TRUST AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

1. Introduction

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

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

The Guaranteed Program consists of the Operating sub fund, Reserve sub fund, and Trust sub fund. It sold units based on the weighted average tuition of the thirteen state funded universities in Ohio. Only Ohio residents can participate. 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 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, 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, 2006**

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, 2006 of the Enterprise Fund consisting of the Guaranteed Savings Program 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 – Private Purpose Trust Fund

In June 2000, Governor Taft signed into law Senate Bill 161 creating a variable return college savings option. 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. 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, 2006, the CollegeAdvantage program offered 19 Putnam investment options including age-based, balanced (mix of stocks and bonds), fixed income, and equity options. 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 Request for Proposal (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.

In 2005, a search and RFP process were conducted to expand the CollegeAdvantage offerings to include bank products. In September of 2005, Fifth Third 529 Bank Options were launched. These options include a 529 savings account and a 529 CD product with a range of 3 months to 144 months to invest in the CD's. Fifth Third Bank 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 Putnam investment options with variable rates of return contingent on market performance, the Vanguard options which are index based and

**OHIO TUITION TRUST AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

the Fifth Third options with interest rates based on the non-promotional interest rates being offered in the Cincinnati affiliate market. 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 Putnam and Vanguard Savings Programs 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. Contributions to the Fifth Third Savings Program are evidenced through the set up 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 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, 2006 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 Tuition Trust are reported as an enterprise fund since the cost of providing the CollegeAdvantage Program will be recovered

**OHIO TUITION TRUST AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

through revenues of the program. Administrative costs associated with the Variable Savings 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:

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 administrative expenses of the Guaranteed Saving 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 ,5AM and 5DC)

The Variable Savings Operating Sub Funds are used to account for the administrative revenues and administrative costs of the Variable Savings Plan. Funds 5P3, 5AM and 5DC account for the administrative revenues and administrative expenses of the Putnam, Vanguard and Fifth Third programs, respectively.

Private Purpose Trust Fund

**OHIO TUITION TRUST AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

The Private Purpose Trust Fund is used to report the Fiduciary Net Assets and Changes in the Fiduciary Net Assets of the Variable Savings Program managed by Putnam Investments, The Vanguard Group and Fifth Third Bank. 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 Program is set up for the benefit of its customers and involves no commitment on the part of the State of Ohio.

B. Stance on Financial Accounting Standards

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20: *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, the Tuition Trust follows GASB guidance as applicable to proprietary funds and Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements. The Tuition Trust will not adopt any FASB Statements and Interpretations issued after November 30, 1989.

C. Cash and Cash Equivalents

Cash and cash-equivalents include amounts on deposit with the State of Ohio in CAS Funds 645, 5P3, 5AM and 5DC 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 restricted for tuition benefits.

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, 2006.

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

**OHIO TUITION TRUST AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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 was 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. The Tuition Trust receives 10 basis points (0.10%) on all Fifth Third Bank program 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 valuation.

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

**OHIO TUITION TRUST AUTHORITY
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A description of current and non-current assets and restricted and unrestricted net assets is as follows:

- Current: Due within one year from June 30, 2006
- Non-current: Due after June 30, 2007
- 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 2006 was \$185,100 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 2005 – June 2006
Sanford C. Bernstein	Domestic Equities	July 2005 – June 2006
Brandywine Asset Management	Domestic Equities	July 2005 – June 2006
JP Morgan Investments Advisors	Fixed Income	July 2005 – June 2006
STAR Ohio	Short Term Investments	July 2005 – June 2006
Next Century Growth Managers	Domestic Equities	July 2005 – June 2006
Mondrian Investment Partners (US), Inc.	International Equities	July 2005 – June 2006
Seix Advisors	Fixed Income	July 2005 – June 2006
GMO (Grantham, Mayo, Van Otterloo & Co., LLC)	Equity & Fixed Income	July 2005 – June 2006
State Street Global	Domestic Equity	July 2005 – June

**OHIO TUITION TRUST AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Advisors		2006
BlackRock Investment Advisors, Inc.	Fixed Income	November 2005 – June 2006

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 2006, realized and unrealized gains were as follows:

	<u>RESERVE</u>	<u>TRUST</u>	<u>TOTAL</u>
REALIZED GAIN OR (LOSS)	\$ 66,864	\$44,700,933	\$44,767,797
CHANGE IN FAIR VALUE OVER COST (UNREALIZED)	\$(3,390,287)	\$ 139,161	\$(3,251,126)
UNREALIZED GAIN (LOSS) ON INVESTMENTS	\$(1,079,565)	\$73,588,525	\$72,508,960

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.

OTTA has invested funds 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. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price at which the investment could be sold.

I. Accrued Liabilities

**OHIO TUITION TRUST AUTHORITY
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FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Accrued Liabilities consist of compensated absences and wages payable owed to Tuition Trust employees as of June 30, 2006. The wages payable, accumulated vacation, sick, personal, compensatory time and Medicare adjustment to compensated absences amounted to \$153,504; \$164,951; \$55,816; \$13,197; \$15,974; and \$2,900, 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 2006, 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 of investments, 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 2006 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.

3. Deposits and Investments

**OHIO TUITION TRUST AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

A. Deposits

At fiscal year end, the carrying amount of Tuition Trust's deposits was \$2,757,279 and the bank balance was the same. Of the bank balance, \$429,727 was held on deposit by the State of Ohio as part of the State of Ohio's pooled cash and investments held by the Ohio Treasurer of State, \$1,587,777 was maintained in custodial accounts held by the Ohio Treasurer of State, and \$740,475 was held on deposit with a banking institution.

At fiscal year end, the portion of the Tuition Trust'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, \$100,000 was FDIC insured and the remainder collateralized, with securities held by the pledging financial institutions' trust department or agent but not in the Tuition Trust's name.

B. Investments

i. Enterprise Fund

As of June 30, 2006, the Ohio Tuition Trust Authority had the following investments and maturities:

(A) Investment Type	(B) Investment Balance (MV @ 6/30/06) per NCB Trade Date Statements	(C) Investment Custodial Credit Risk Categories (Allocate using fair value)				Total Carrying Amount (MV @ 6/30/06)
		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		
US Government Obligations	\$89,699,844	\$89,699,844	\$0	\$0	\$89,699,844	
US Government Obligations-Strips	\$19,249,227	\$19,249,227	\$0	\$0	\$19,249,227	
US Agency & Instrumentality Obligations	\$102,794,659	\$102,794,659	\$0	\$0	\$102,794,659	
US Agency & Instrumentality Obligations	\$34,520	\$34,520	\$0	\$0	\$34,520	
US Agency & Instrumentality Obligations	\$6,474,684	\$6,474,684	\$0	\$0	\$6,474,684	
US Agency & Instrumentality Obligations	\$407,868	\$407,868	\$0	\$0	\$407,868	
Corporate Bonds & Notes (Domestic)	\$1,916,868	\$1,916,868	\$0	\$0	\$1,916,868	
Corporate Bonds & Notes (Domestic)	\$8,037,450	\$8,037,450	\$0	\$0	\$8,037,450	
Corporate Bonds & Notes (Domestic)	\$8,756,250	\$8,756,250	\$0	\$0	\$8,756,250	
Corporate Bonds & Notes (Domestic)	\$2,101,669	\$2,101,669	\$0	\$0	\$2,101,669	
Corporate Bonds & Notes (Domestic)	\$344,278	\$344,278	\$0	\$0	\$344,278	

**OHIO TUITION TRUST AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Corporate Bonds & Notes (Domestic)	\$571,205	\$571,205	\$0	\$0	\$571,205
Corporate Bonds & Notes (Domestic)	\$10,426,925	\$10,426,925	\$0	\$0	\$10,426,925
Corporate Bonds & Notes (Domestic)	\$2,465,130	\$2,465,130	\$0	\$0	\$2,465,130
Corporate Bonds & Notes (Domestic)	\$1,883,238	\$1,883,238	\$0	\$0	\$1,883,238
Corporate Bonds & Notes (Domestic)	\$359,550	\$359,550	\$0	\$0	\$359,550
Corporate Bonds & Notes (Foreign)	\$267,856	\$267,856	\$0	\$0	\$267,856
Corporate Bonds & Notes (Foreign)	\$832,647	\$832,647	\$0	\$0	\$832,647
Corporate Bonds & Notes (Foreign)	\$1,360,595	\$1,360,595	\$0	\$0	\$1,360,595
Corporate Bonds & Notes (Foreign)	\$133,250	\$133,250	\$0	\$0	\$133,250
Asset Backed Securities	\$51,834,279	\$51,834,279	\$0	\$0	\$51,834,279
Asset Backed Securities	\$500,860	\$500,860	\$0	\$0	\$500,860
Asset Backed Securities	\$732,563	\$732,563	\$0	\$0	\$732,563
Asset Backed Securities	\$632,414	\$632,414	\$0	\$0	\$632,414
Asset Backed Securities	\$600,705	\$600,705	\$0	\$0	\$600,705
Bond Mutual Funds-Other (Domestic)	\$53,412,286	\$53,412,286	\$0	\$0	\$53,412,286
Common & Preferred Stock (Domestic)	\$90,718,058	\$90,718,058	\$0	\$0	\$90,718,058
Equity/Balanced Mutual Funds-Other (Domestic)	\$256,688,683	\$256,688,683	\$0	\$0	\$256,688,683
Equity/Balanced Mutual Funds (Foreign)	\$109,071,892	\$109,071,892	\$0	\$0	\$109,071,892
STAROhio	\$13,616,006	\$13,616,006	\$0	\$0	\$13,616,006
Money Market Funds	\$22,185,064	\$22,185,064	\$0	\$0	\$22,185,064
Repurchase Agreements	\$1,016,862	\$1,016,862	\$0	\$0	\$1,016,862
Total	\$859,127,384	\$859,127,384	\$0	\$0	\$859,127,384

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.

OHIO TUITION TRUST AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

(A) Investment Type	(B) Investment Balance (MV @ 6/30/06) per NCB Trade Date Statements	(D) Investment Maturities (in years)			
		Less (<) than 1	1-5	6-10	more (>) than 10
US Government Obligations	\$89,699,844	\$55,774,624	\$10,155,023	\$9,606,414	\$14,163,783
US Government Obligations-Strips	\$19,249,227	\$0	\$1,880,254	\$16,383,838	\$985,136
US Agency & Instrumentality Obligations	\$102,794,659	\$289,119	\$2,836,519	\$4,883,685	\$94,785,335
US Agency & Instrumentality Obligations	\$34,520	\$0	\$0	\$0	\$34,520
US Agency & Instrumentality Obligations	\$6,474,684	\$3,166,016	\$2,643,556	\$0	\$665,112
US Agency & Instrumentality Obligations	\$407,868	\$0	\$0	\$407,868	\$0
Corporate Bonds & Notes (Domestic)	\$1,916,868		\$890,801	\$1,026,067	
Corporate Bonds & Notes (Domestic)	\$8,037,450		\$7,036,307	\$1,001,143	
Corporate Bonds & Notes (Domestic)	\$8,756,250	\$589,915	\$5,999,486	\$1,016,711	\$1,150,138
Corporate Bonds & Notes (Domestic)	\$2,101,669		\$1,354,471	\$595,625	\$151,573
Corporate Bonds & Notes (Domestic)	\$344,278		\$344,278		
Corporate Bonds & Notes (Domestic)	\$571,205	\$75,085	\$347,903	\$148,218	
Corporate Bonds & Notes (Domestic)	\$10,426,925	\$113,899	\$5,400,771	\$2,924,985	\$1,987,271
Corporate Bonds & Notes (Domestic)	\$2,465,130	\$371,388	\$1,702,199		\$391,544
Corporate Bonds & Notes (Domestic)	\$1,883,238	\$318,525	\$851,625	\$713,088	
Corporate Bonds & Notes (Domestic)	\$359,550		\$359,550		
Corporate Bonds & Notes (Foreign)	\$267,856		\$267,856		
Corporate Bonds & Notes (Foreign)	\$832,647	\$74,939	\$531,921	\$70,786	\$155,001
Corporate Bonds & Notes (Foreign)	\$1,360,595		\$438,949	\$302,642	\$619,005
Corporate Bonds & Notes (Foreign)	\$133,250		\$133,250		
Asset Backed Securities	\$51,834,279		\$12,662,569	\$1,813,475	\$37,358,235
Asset Backed Securities	\$500,860				\$500,860
Asset Backed Securities	\$732,563		\$732,563		
Asset Backed Securities	\$632,414		\$97,272		\$535,142
Asset Backed Securities	\$600,705		\$102,036	\$417,821	\$80,848
Bond Mutual Funds-Other (Domestic)	\$53,412,286	\$17,272,825	\$36,139,461		
Common & Preferred Stock (Domestic)	\$90,718,058				
Equity/Balanced Mutual Funds-Other (Domestic)	\$256,688,683				
Equity/Balanced Mutual Funds (Foreign)	\$109,071,892				
STAROhio	\$13,616,006	\$13,616,006			
Money Market Funds	\$22,185,064	\$22,185,064			
Repurchase Agreements	\$1,016,862	\$1,016,862			

**OHIO TUITION TRUST AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Total **\$859,127,384** **\$114,864,267** **\$92,908,619** **\$41,312,365** **\$153,563,502**

(A) Investment Type	(B) Investment Balance (MV @ 6/30/06) per NCB Trade Date Statements	(E) Credit Rating *	(F) Foreign Currency
US Government Obligations	\$89,699,844	AAA	USD
US Government Obligations-Strips	\$19,249,227	AAA	USD
US Agency & Instrumentality Obligations	\$102,794,659	Not Rated	USD
US Agency & Instrumentality Obligations	\$34,520	AAA*	USD
US Agency & Instrumentality Obligations	\$6,474,684	AAA	USD
US Agency & Instrumentality Obligations	\$407,868	AA	USD
Corporate Bonds & Notes (Domestic)	\$1,916,868	AAA	USD
Corporate Bonds & Notes (Domestic)	\$8,037,450	AA	USD
Corporate Bonds & Notes (Domestic)	\$8,756,250	A	USD
Corporate Bonds & Notes (Domestic)	\$2,101,669	A*	USD
Corporate Bonds & Notes (Domestic)	\$344,278	BBB*	USD
Corporate Bonds & Notes (Domestic)	\$571,205	BBB	USD
Corporate Bonds & Notes (Domestic)	\$10,426,925	BAA	USD
Corporate Bonds & Notes (Domestic)	\$2,465,130	BA	USD
Corporate Bonds & Notes (Domestic)	\$1,883,238	B	USD
Corporate Bonds & Notes (Domestic)	\$359,550	B *	USD
Corporate Bonds & Notes (Foreign)	\$267,856	AA	USD
Corporate Bonds & Notes (Foreign)	\$832,647	A	USD
Corporate Bonds & Notes (Foreign)	\$1,360,595	BAA	USD
Corporate Bonds & Notes (Foreign)	\$133,250	BA	USD
Asset Backed Securities	\$51,834,279	AAA	USD
Asset Backed Securities	\$500,860	AA*	USD
Asset Backed Securities	\$732,563	AA	USD
Asset Backed Securities	\$632,414	A	USD
Asset Backed Securities	\$600,705	BAA	USD
Bond Mutual Funds-Other (Domestic)	\$53,412,286	Not Rated	USD
Common & Preferred Stock (Domestic)	\$90,718,058	N/A	USD
Equity/Balanced Mutual Funds-Other (Domestic)	\$256,688,683	N/A	USD

**OHIO TUITION TRUST AUTHORITY
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Equity/Balanced Mutual Funds (Foreign)	\$109,071,892	N/A	USD
STAROhio	\$13,616,006	AAA	USD
Money Market Funds	\$22,185,064	Not Rated	USD
Repurchase Agreements	\$1,016,862	AA	USD
Total	\$859,127,384		

* Credit ratings listed with * are Standard & Poor's; all others are Moody's

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 Fund

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.

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. Investments in the Fifth Third options are accounted for on the date the contribution is accepted.

Income and capital gain distributions from the Putnam Funds and the Vanguard Funds, if any, are recorded on the ex-dividend date. Interest is earned on the Fifth Third options each day based on the stated rate of interest for the product.

As of June 30, 2006 the Investments of the CollegeAdvantage Putnam Savings Plan Private Purpose Trust Fund were \$4,017,323,000. Cash and Investments of the CollegeAdvantage Vanguard Savings Plan Private Purpose Trust Fund were \$292,000 and \$377,406,000, respectively. Cash of the CollegeAdvantage Fifth Third Savings Plan Private Purpose Trust Fund was \$15,365,000.

4. Tuition Benefits Payable

**OHIO TUITION TRUST AUTHORITY
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FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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	\$1,095,900,000
Actuarial net assets available	\$ 864,100,000
APV of Payments from Variable Savings Program	\$ 55,200,000
Assets as a percentage of tuition benefits and expense obligation	83.89 %

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	10.0 %	Annually
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, 2005	\$ (250.0)
Adjustment to beginning of year's assets	9.1
Interest on the deficit at 7.0%	(16.9)
Investment gain	9.3
Lower than assumed tuition increase	9.7
Corrected beneficiary dates of birth	7.0
Interest gain on late tuition payouts	0.6
Other	(0.6)
Surplus/(Deficit) as of June 30, 2006	(231.8)
Value of Future Contingent Payments for the variable investment options	55.2
Surplus/(Deficit) as of June 30, 2006	<u>\$ (176.6)</u>

5. Tax Status

**OHIO TUITION TRUST AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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

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

In October of 2000, the Tuition Trust filed a Private Letter Ruling Request (“PLR”) with the IRS seeking a determination that its program (including all of its investment options) met the requirements for exemption from federal income tax as a qualified state tuition program described in IRC Section 529. Based on subsequent tax law changes, an amended PLR was filed with the IRS in March 2002. On February 14, 2006, the IRS returned the Tuition Trust’s PLR stating that unlike privately run tuition programs, state sponsored tuition programs (such as that administered by the Tuition Trust) are not required to obtain a ruling or determination from the IRS in order to be exempt from federal tax as a qualified tuition program. The IRS further stated that after final regulations are issued for 529 qualified programs, it would reconsider the above referenced “No Rule” position on PLR’s.

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.

**OHIO TUITION TRUST AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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 9.0 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 2006, 2005 and 2004 were \$254,394, \$210,132 and \$198,824, respectively.

8. Other Post-Employment Benefits

Ohio Public Employees Retirement System provides post-retirement health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit and to primary survivor recipients of such retirees. Health care coverage for disability recipients is available.

The health care coverage provided by the retirement system is considered an Other Post Employment Benefits (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2005 employer contribution rate for state employers was 13.31% of covered payroll; 4.0% was the portion 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 2005 (the latest information available) were \$1,085,508,757. As of December 31, 2005, the estimated net assets available for future OPEB payments were \$11,845,713,012 and the number of benefit recipients eligible for OPEB was 151,758.

9. Prior Period Adjustments

These prior period adjustments are to correct the market value of investments and to restate interest receivable as of 6/30/05.

**OHIO TUITION TRUST AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Prior period adjustments are the net effect of changes resulting from the correction of an error. Because such amounts are the product of errors from a prior period, they are not properly included as part of the results of operations of the current period, rather are reported as a direct adjustment to beginning net assets to restate that amount to what it would have been had the error not occurred.

The Tuition Trust recorded two prior period restatements in fiscal year 2006 as a result of the following:

1. Error in recording of the fair market value of investments;
2. Error in recording of interest receivable.

The effects of these restatements are presented below:

Net Assets, June 30, 2005	(\$242,140,912)
Marketable Securities (at market value)-	
Restricted Assets	\$ 1,806,200
Interest and Dividends Receivable	<u>(\$ 259,072)</u>
Net Assets, July 1, 2005	<u>(\$240,593,784)</u>

The effect of this restatement on operations of the preceding year was an overstatement of Net Increase (Decrease) in Fair Value of Investments (\$1,806,200) and an understatement of Investment Income (\$259,072).

10. Subsequent Events

On July 17, 2006, the Tuition Trust took over the record keeping and administration of the Putnam direct customers' accounts (O share accounts). Up to this point, Putnam had performed all of the record keeping and administration of the direct customers. The Tuition Trust had requested to take over these responsibilities in order to be consistent with the handling of all of the other direct customers' accounts (Guaranteed Savings Program, Vanguard Savings Program and Fifth Third Savings Program). Putnam is still responsible for the management of the investment portfolios for all three channels of Putnam customers (Putnam Direct, Ohio Advisor and National Advisor).



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited the financial statements of the Ohio Tuition Trust Authority (the "Authority"), State of Ohio, as of and for the year ended June 30, 2006, and have issued our report thereon dated October 10, 2006. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. In a separate letter to the Ohio Tuition Trust Authority's management dated October 10, 2006, we reported a matter involving internal control over financial reporting which we did not deem a reportable condition.

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.

Compliance and Other Matters

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

Ohio Tuition Trust Authority
Independent Auditor's Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Required by *Government Auditing Standards*
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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.

This report is intended solely for the information and use of the Board of Trustees, management of the Authority, and the Auditor of State of Ohio and is not intended to be and should not be used by anyone other than these specified parties.

Kennedy, Cottrell + Associates LLC

Kennedy, Cottrell + Associates
October 10, 2006



**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
DECEMBER 26, 2006**