

OHIO TUITION TRUST AUTHORITY
Columbus, Ohio

Financial Statements
and
Supplementary Financial Information
For the years ended June 30, 2016 and 2015

and Independent Auditors' Report Thereon



Big Thinking. Personal Focus.

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Dave Yost • Auditor of State

Board
Ohio Tuition Trust Authority
35 East Chestnut Street 8th Floor
Columbus, Ohio 43215

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, 2015 through June 30, 2016. 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 "Dave Yost".

Dave Yost
Auditor of State

December 1, 2016

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OHIO TUITION TRUST AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016, 2015 AND 2014

(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, 2016, 2015, and 2014. 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. OTTA outsources the recordkeeping and fund accounting services for the direct plan to Ascensus College Savings Recordkeeping Services, LLC and for the advisor plan to 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 on December 31, 2003.

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.

OHIO TUITION TRUST AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016, 2015 AND 2014
(UNAUDITED)

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).

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 for the Enterprise Fund at June 30, 2016, 2015 and 2014

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Current Assets, excluding securities	\$ 35,477,645	\$ 34,529,617	\$ 27,760,072
Securities	1,205,175	1,201,569	5,713,297
Restricted Securities	338,056,811	399,917,661	465,409,184
Other Assets	59,061	83,826	109,207
Total Assets	<u>374,798,692</u>	<u>435,732,673</u>	<u>498,991,760</u>
Deferred Outflows	<u>514,338</u>	<u>125,742</u>	<u>-</u>
Current Liabilities, excluding liabilities related to tuition benefits	1,933,687	1,951,615	2,051,884
Net Pension Liability	1,478,889	1,113,362	-
Tuition Benefits Liability	297,200,000	342,800,000	423,200,000
Total Liabilities	<u>300,612,576</u>	<u>345,864,977</u>	<u>425,251,884</u>
Deferred Inflows	<u>88,358</u>	<u>22,365</u>	<u>-</u>
Total Net Position	\$ <u>74,612,096</u>	\$ <u>89,971,073</u>	\$ <u>73,739,876</u>

OHIO TUITION TRUST AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016, 2015 AND 2014
(UNAUDITED)

Statement of Revenues, Expenses and Changes in Fund Net Position Years Ended June 30, 2016, 2015 and 2014

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Operating Revenue:			
Investment (Loss) Income	\$ (1,239,694)	\$ (720,409)	\$ 49,312,299
Basis Points Revenue	<u>7,665,786</u>	<u>9,363,302</u>	<u>10,677,761</u>
Total Operating Revenue	6,426,092	8,642,893	59,990,060
Operating Expenses, excluding Tuition			
Benefits Expense	8,173,120	8,439,570	9,707,357
Tuition Benefits Expense	59,211,949	63,361,242	62,507,643
Actuarial Tuition Benefits Expense	<u>(45,600,000)</u>	<u>(80,400,000)</u>	<u>(46,500,000)</u>
Total Operating Expenses	21,785,069	(8,599,188)	25,715,000
Change in Net Position	(15,358,977)	17,242,081	34,275,060
Beginning Net Position (Restated - FY15)	<u>89,971,073</u>	<u>72,728,992</u>	<u>39,464,816</u>
Ending Net Position	<u>\$ 74,612,096</u>	<u>\$ 89,971,073</u>	<u>\$ 73,739,876</u>

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 \$61,860,850 (15.5%) and \$65,492,000 (14.1%), while investment returns realized were 0.0% and -0.2% during the years ended June 30, 2016 and 2015, respectively. In addition, the tuition benefits payable decreased \$45,600,000 (13.3%) and \$80,400,000 (19.0%) during the same time periods. The tuition benefits liability decrease is a result of the continued redemption of units and credits by plan participants, net of actuarial changes.

OTTA's primary source of operating revenue is investment income and a small administrative fee that was assessed to each credit or unit sold to the CollegeAdvantage participants, while the significant operating expense is tuition benefits expense. For the fiscal years ended June 30, 2016 and 2015, OTTA's net position (decreased)/increased (\$15.4 million) and \$16.2 million, respectively, primarily due to variability in investment returns and actuarial tuition benefit expense.

OHIO TUITION TRUST AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016, 2015 AND 2014
(UNAUDITED)

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, 2016, 2015 and 2014

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total Assets	\$ 9,382,125,701	\$ 9,191,959,273	\$ 8,726,051,647
Total Liabilities	<u>(32,826,355)</u>	<u>(9,272,487)</u>	<u>(10,688,056)</u>
Net Position Held In Trust For Plan Participants	\$ <u>9,349,299,346</u>	\$ <u>9,182,686,786</u>	\$ <u>8,715,363,591</u>

Condensed Statement Of Changes in Fiduciary Net Position
Years Ended June 30, 2016, 2015 and 2014

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Additions:			
Units sold	\$ 1,530,560,996	\$ 1,594,712,996	\$ 986,026,499
Exchanges in	828,605,410	786,503,917	1,212,248,778
Net investment earnings	<u>(8,584,693)</u>	<u>228,115,762</u>	<u>1,087,541,597</u>
Total Additions	2,350,581,713	2,609,332,675	3,285,816,874
Deductions:			
Units redeemed	1,355,363,743	1,355,505,563	721,773,089
Exchanges out	<u>828,605,410</u>	<u>786,503,917</u>	<u>1,212,248,778</u>
Total Deductions	<u>2,183,969,153</u>	<u>2,142,009,480</u>	<u>1,934,021,867</u>
Change In Net Position	166,612,560	467,323,195	1,351,795,007
Beginning net position	<u>9,182,686,786</u>	<u>8,715,363,591</u>	<u>7,363,568,584</u>
Ending net position	\$ <u>9,349,299,346</u>	\$ <u>9,182,686,786</u>	\$ <u>8,715,363,591</u>

OHIO TUITION TRUST AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016, 2015 AND 2014

(UNAUDITED)

**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, 2016, the plan offers 24 low-cost options from The Vanguard Group, Dimensional Fund Advisors, and Fifth Third Bank.

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, 2016, there are 23 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, 2016, 2015 and 2014 are as follows:

	(in millions)		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Assets Under Management			
Direct	\$ 4,626	\$ 4,343	\$ 3,972
Advisor	<u>4,722</u>	<u>4,840</u>	<u>4,743</u>
Total	<u>\$ 9,348</u>	<u>\$ 9,183</u>	<u>\$ 8,715</u>

OHIO TUITION TRUST AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016, 2015 AND 2014

(UNAUDITED)

The asset growth/(decline) is attributable to investment returns and net contributions (net of withdrawals) in fiscal years ended June 30, 2016 and 2015 as follows:

	<u>2016</u>	<u>2015</u>
Direct		
Investment Returns	1.3%	3.4%
Net Contributions	5.2%	5.9%
	<u>2016</u>	<u>2015</u>
Advisor		
Investment Returns	(1.6%)	1.7%
Net Contributions	(0.8%)	0.4%

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, 2016 and 2015, 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 financial statements of the Private Purpose Trust Fund, as of and for the year ended June 30, 2016 and 2015. 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, 2016 and 2015, 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, the schedule of proportionate share of the net pension liability (asset), and the schedule of employer contributions and contributions subsequent to measurement date, 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, 2016, 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 28, 2016 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 28, 2016

OHIO TUITION TRUST AUTHORITY

STATEMENTS OF NET POSITION
ENTERPRISE FUND
AS OF JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 34,313,021	\$ 32,967,004
Collateral on loaned securities	75,530	146,303
Basis points receivable	1,089,094	1,416,310
Securities	1,205,175	1,201,569
Securities restricted for tuition benefits payable	<u>73,200,000</u>	<u>76,400,000</u>
 Total Current Assets	 109,882,820	 112,131,186
 RESTRICTED SECURITIES		
Administrative expenses	15,062,287	14,992,825
Tuition benefits payable	249,794,524	308,524,836
 OTHER ASSETS		
Fixed assets	53,426	74,633
Net pension asset	<u>5,635</u>	<u>9,193</u>
 Total Assets	 <u>\$ 374,798,692</u>	 <u>\$ 435,732,673</u>
 DEFERRED OUTFLOW OF RESOURCES	 <u>\$ 514,338</u>	 <u>\$ 125,742</u>
 CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 1,572,878	\$ 1,479,775
Accrued compensation and compensated leave	285,279	325,537
Obligation under securities lending	75,530	146,303
Liabilities payable from restricted assets:		
Tuition Benefits Payable	<u>73,200,000</u>	<u>76,400,000</u>
 Total Current Liabilities	 75,133,687	 78,351,615
 LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Tuition benefits payable	224,000,000	266,400,000
 NET PENSION LIABILITY	 <u>1,478,889</u>	 <u>1,113,362</u>
 Total Liabilities	 <u>\$ 300,612,576</u>	 <u>\$ 345,864,977</u>
 DEFERRED INFLOW OF RESOURCES	 <u>\$ 88,358</u>	 <u>\$ 22,365</u>
 NET POSITION	 <u>\$ 74,612,096</u>	 <u>\$ 89,971,073</u>

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, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
OPERATING REVENUES		
Interest and dividend income	\$ 8,866,479	\$ 7,804,663
Basis points revenue	7,665,786	9,363,302
Net decrease in fair value of marketable securities	<u>(10,106,173)</u>	<u>(8,525,072)</u>
 Total Revenues	 <u>6,426,092</u>	 <u>8,642,893</u>
OPERATING EXPENSES		
Tuition benefits expense (payouts)	59,211,949	63,361,242
Actuarial tuition benefits expense, net of payouts	(45,600,000)	(80,400,000)
Payroll and employee benefits	2,192,742	2,480,571
Other operating expenses	5,962,853	5,919,055
Depreciation	<u>17,525</u>	<u>39,944</u>
 Net Operating Expenses	 <u>21,785,069</u>	 <u>(8,599,188)</u>
 Change In Net Position	 <u>(15,358,977)</u>	 <u>17,242,081</u>
NET POSITION		
Beginning of Year	89,971,073	73,739,876
Effect of GASB 68/71 Implementation	<u>-</u>	<u>(1,010,884)</u>
 Beginning of Year - Restated in FY 2015 for GASB 68/71	 <u>89,971,073</u>	 <u>72,728,992</u>
 End of Year	 <u><u>\$74,612,096</u></u>	 <u><u>\$89,971,073</u></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, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash payments for payroll and employee benefits	\$ (2,186,516)	\$ (2,588,587)
Cash payments for operating expenses	(5,866,069)	(5,902,760)
Cash payments for tuition benefits	(59,211,949)	(63,361,242)
Cash receipts from basis points	<u>7,993,002</u>	<u>8,684,933</u>
Net Cash Used In Operating Activities	(59,271,532)	(63,167,656)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the sales and maturities of securities	117,432,818	352,960,427
Purchase of securities	(65,696,758)	(291,495,680)
Interest and dividends received	<u>8,881,489</u>	<u>7,818,096</u>
Net Cash Provided By Investing Activities	<u>60,617,549</u>	<u>69,282,843</u>
Net Increase in Cash and Cash Equivalents	1,346,017	6,115,187
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>32,967,004</u>	<u>26,851,817</u>
End of year	<u><u>\$ 34,313,021</u></u>	<u><u>\$ 32,967,004</u></u>

	<u>2016</u>	<u>2015</u>
RECONCILIATION OF CHANGE IN NET POSITION TO NET CASH USED IN OPERATING ACTIVITIES		
CHANGE IN NET POSITION	\$ (15,358,977)	\$ 17,242,081
Adjustment to reconcile change in net position to net cash used in operating activities:		
Investment loss	1,239,694	720,409
Pension	46,483	(10,094)
Change in operating assets and liabilities		
Basis points receivable	327,217	(678,370)
Other assets	21,207	42,682
Accounts payable and accrued liabilities	93,102	13,558
Accrued compensation and compensated leave	(40,258)	(97,922)
Tuition benefits payable	<u>(45,600,000)</u>	<u>(80,400,000)</u>
Net Cash Used In Operating Activities	<u>\$ (59,271,532)</u>	<u>\$(63,167,656)</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, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
ADDITIONS		
Contributions:		
Units sold	\$ 1,530,560,996	\$ 1,594,712,996
Exchanges in	828,605,410	786,503,917
Total Contributions	<u>2,359,166,406</u>	<u>2,381,216,913</u>
Investment earnings:		
Investment income	342,464,356	386,717,886
Net realized/unrealized depreciation on underlying fund shares	<u>(315,204,005)</u>	<u>(120,908,504)</u>
Total Investment Earnings	27,260,351	265,809,382
Less: Investment Expenses	<u>35,845,044</u>	<u>37,693,620</u>
Net Investment (Losses) Earnings	<u>(8,584,693)</u>	<u>228,115,762</u>
Total Additions	<u>2,350,581,713</u>	<u>2,609,332,675</u>
DEDUCTIONS		
Units redeemed	1,355,363,743	1,355,505,563
Exchanges out	<u>828,605,410</u>	<u>786,503,917</u>
Total Deductions	<u>2,183,969,153</u>	<u>2,142,009,480</u>
Change In Net Position	166,612,560	467,323,195
NET POSITION		
Held in Trust for Plan Participants - Beginning of Year	<u>9,182,686,786</u>	<u>8,715,363,591</u>
Held in Trust for Plan Participants - End of Year	<u>\$ 9,349,299,346</u>	<u>\$ 9,182,686,786</u>

See notes to financial statements.

OHIO TUITION TRUST AUTHORITY

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

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 Ohio Department of Higher Education (formerly 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 Ohio Department of Higher Education, 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 on December 31, 2003. All available plans are collectively called CollegeAdvantage.

All funds invested in CollegeAdvantage may be used 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 qualified college expenses 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* and 4117 *Public Employees' Collective Bargaining*, of the Ohio Revised Code. Effective September 29, 2015, OTTA became subject to Chapter 125 of the Ohio Revised Code, except with respect to investment contracts approved under the powers of the OTTA Board under Section 3334.03 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, 2016 and 2015 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, 2016 AND 2015

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. 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. The CollegeAdvantage Direct Plan (Direct Plan) and the CollegeAdvantage Advisor Plan (Advisor Plan) coupled with the CollegeAdvantage Guaranteed Plan comprise the CollegeAdvantage Program.

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. The Direct Plan is open to investors in Ohio and across the country.

At June 30, 2016, the Direct Plan offers 24 options from The Vanguard Group, Dimensional Fund Advisors, and Fifth Third Bank, including 4 Age-Based options, 5 Risk-Based Options, and 15 Individual Options. Through June 18, 2015 the Direct Plan offered 23 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.

Effective November 2013, OTTA transitioned the recordkeeping and fund accounting services for the Direct Plan to Ascensus College Savings Recordkeeping Services, LLC in a seven-year agreement that terminates November 4, 2020. 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 and Dimensional 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, 2016 AND 2015

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. 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, 2016, there are 23 investment options, including 3 Age-Based Options, 3 Target-Risk Investment Options and 17 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, 2016 and 2015 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, 2016 AND 2015

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.

OHIO TUITION TRUST AUTHORITY

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, Dimensional Fund Advisors, 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 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, 2016, 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 2016, 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 2016, 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.

OHIO TUITION TRUST AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Securities

Securities consist of equity and debt securities. OTTA categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are valued using prices quoted in active markets for those securities. Level 2 inputs are values using quoted prices for similar assets in active markets and are valued by averaging three bid-side quotes from broker/dealers. Level 3 inputs are valued using the best information available (OTTA does not hold any securities valued using Level 3 inputs).

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 OTTA pursuant to tuition payment contracts. Included in securities is cash which is restricted for the use of tuition benefits and administrative expenses.

Securities Restricted for Administrative Expenses are held in the Reserve Sub Fund. During fiscal 2015, an actuarial valuation of funds necessary to cover future administrative costs of the Guaranteed Savings Plan was conducted. Based on the valuation, OTTA approved a one-time transfer of funds, approximately \$83,500,000, held in the Reserve Fund to the Trust Fund, which is restricted for tuition benefits payable.

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

Effective June 19, 2015, all Direct Plan customers pay 2 basis points (0.02%) on assets under management invested in options offered through The Vanguard Group and Dimensional Fund Advisors. For the period November 2013 through June 18, 2015, all Direct Plan customers paid 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.

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 July 2015, all Advisor Plan customers pay 2 basis points (0.02%) to OTTA for an administrative fee. For the period November 2013 through June 2015, all Advisor Plan customers paid 4 basis points (0.04%) to OTTA for an administrative fee.

OHIO TUITION TRUST AUTHORITY

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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%). The amount is calculated daily and payment is received monthly.

Expenses

Tuition Benefit Expense (Payouts) is 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.

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.

Pensions

For purposes of measuring the net pension liability/asset, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Ohio Public Employees Retirement System (OPERS) and additions to/deductions from OPERS' fiduciary net position have been determined on the same basis as they are reported by OPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Income Taxes

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

OHIO TUITION TRUST AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Pronouncements

GASB issued Statement No. 72, *Fair Value Measurement and Application*, which provides guidance for determining a fair value measurement for financial reporting purposes. This statement is effective for reporting periods beginning after June 15, 2015. The provisions of GASB Statement No. 72 have been implemented, and OTTA's financial statements and note disclosures reflect any required changes.

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. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* (effective fiscal year 2016 and 2017)
- GASB No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (effective fiscal year 2017)
- GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (effective fiscal year 2018)
- GASB No. 77, *Tax Abatement Disclosures* (effective fiscal year 2017)
- GASB No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans* (effective fiscal year 2017)
- GASB No. 79, *Certain External Investment Pools and Pool Participants* (effective fiscal year 2016 and 2017)
- GASB No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14* (effective fiscal year 2017)
- GASB No. 81, *Irrevocable Split-Interest Agreements* (effective fiscal year 2018)
- GASB No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73* (effective fiscal year 2017)

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

OHIO TUITION TRUST AUTHORITY

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 3 - DEPOSITS

The carrying amount of OTTA's deposits in the Enterprise Fund was approximately \$34,313,000 and \$32,967,000, and the bank balance was approximately \$35,476,000 and \$34,193,000 at June 30, 2016 and 2015, respectively.

	<u>2016</u>	<u>2015</u>
State of Ohio's pooled cash and investments held by the Ohio Treasurer of State	\$ 840,000	\$ 600,000
Custodial accounts held by the Ohio Treasurer of State	15,020,000	14,031,000
Deposits with banking institution	<u>19,616,000</u>	<u>19,562,000</u>
	<u>\$ 35,476,000</u>	<u>\$ 34,193,000</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 \$50 million per account), a competitive yield, and weekly liquidity. The STAR Plus deposit is classified as a deposit with a banking institution.

NOTE 4 - SECURITIES - GUARANTEED SAVINGS FUND

The Guaranteed Savings Fund investment managers are authorized to invest in domestic equities, international equities, global fixed income, global balanced strategies, short-term investments and securities lending. Other investment strategies may be permitted if approved by the OTTA Board 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 preserving capital, maintaining 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, 2016 AND 2015

NOTE 4 - SECURITIES - GUARANTEED SAVINGS FUND (Continued)

	Balance (Fair Value @ 6/30/16)	Credit Quality Rating						Not Rated
		AAA	AA	A	BBB	BB	B	
U.S. Government								
Obligations	\$ 1,955,951	\$ 1,955,951	-	-	-	-	-	-
Mortgage and Asset- Backed Securities	19,344,494	13,816,550	\$ 5,221,330	\$ 306,614	-	-	-	-
Bond Mutual Funds	<u>182,150,846</u>	<u>-</u>	<u>6,656,159</u>	<u>-</u>	<u>-</u>	<u>\$ 7,758,901</u>	<u>\$ 7,708,330</u>	<u>\$ 160,027,456</u>
Total Fixed Maturities	<u>203,451,291</u>	<u>15,772,501</u>	<u>11,877,489</u>	<u>306,614</u>	<u>-</u>	<u>7,758,901</u>	<u>7,708,330</u>	<u>160,027,456</u>
Equity Mutual Funds	109,954,608	-	-	-	-	-	-	109,954,608
STAR Ohio	12,505,753	12,505,753	-	-	-	-	-	-
Restricted Cash*	2,670,390	-	-	-	-	-	-	2,670,390
Repurchase Agreements	<u>10,679,944</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,679,944</u>
	<u>\$ 339,261,986</u>	<u>\$ 28,278,254</u>	<u>\$ 11,877,489</u>	<u>\$ 306,614</u>	<u>-</u>	<u>\$ 7,758,901</u>	<u>\$ 7,708,330</u>	<u>\$ 283,332,398</u>
	Balance (Fair Value @ 6/30/15)	Credit Quality Rating						Not Rated
		AAA	AA	A	BBB	BB	B	Not Rated
U.S. Government								
Obligations	\$ 9,831,118	\$ 9,831,118	-	-	-	-	-	-
Corporate Bonds	440,212	-	-	-	\$ 440,212	-	-	-
Mortgage and Asset- Backed Securities	13,764,051	9,633,445	\$ 3,823,599	\$ 307,007	-	-	-	-
Bond Mutual Funds	<u>193,066,078</u>	<u>-</u>	<u>-</u>	<u>6,650,280</u>	<u>-</u>	<u>\$ 7,458,264</u>	<u>\$ 8,029,020</u>	<u>\$ 170,928,514</u>
Total Fixed Maturities	<u>217,101,459</u>	<u>19,464,563</u>	<u>3,823,599</u>	<u>6,957,287</u>	<u>440,212</u>	<u>7,458,264</u>	<u>8,029,020</u>	<u>170,928,514</u>
Equity Mutual Funds	154,187,482	-	-	-	-	-	-	154,187,482
Partnerships and Hedge Funds	<u>6,949,544</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,949,544</u>
Total Equities	<u>161,137,026</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>161,137,026</u>
STAR Ohio	13,835,254	13,835,254	-	-	-	-	-	-
Restricted Cash*	2,372,179	2,372,179	-	-	-	-	-	-
Repurchase Agreements	<u>6,673,312</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,673,312</u>
	<u>\$ 401,119,230</u>	<u>\$ 35,671,996</u>	<u>\$ 3,823,599</u>	<u>\$ 6,957,287</u>	<u>\$ 440,212</u>	<u>\$ 7,458,264</u>	<u>\$ 8,029,020</u>	<u>\$ 338,738,852</u>

* Cash restricted for tuition benefits and administrative expenses

OHIO TUITION TRUST AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 4 - SECURITIES - GUARANTEED SAVINGS FUND (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 2016 and 2015, 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, 2016 AND 2015

NOTE 4 - SECURITIES - GUARANTEED SAVINGS FUND (CONTINUED)

	Balance (Fair Value @ 6/30/16)	Securities Maturities (In Years)			
		Less than 1	1-5	6-10	More than 10
U.S. Government Obligations	\$ 1,955,951	\$ 1,955,951	-	-	-
Mortgage and Asset-Backed Securities	19,344,494	975,256	\$ 13,749,271	\$ 431,155	\$ 4,188,812
Bond Mutual Funds	182,150,846	182,150,846	-	-	-
Equity Mutual Funds	109,954,608	109,954,608	-	-	-
Star Ohio	12,505,753	12,505,753	-	-	-
Restricted Cash *	2,670,390	2,670,390	-	-	-
Repurchase Agreements	10,679,944	10,679,944	-	-	-
	<u>\$ 339,261,986</u>	<u>\$ 320,892,748</u>	<u>\$ 13,749,271</u>	<u>\$ 431,155</u>	<u>\$ 4,188,812</u>

	Balance (Fair Value @ 6/30/15)	Securities Maturities (In Years)			
		Less than 1	1-5	6-10	More than 10
U.S. Government Obligations	\$ 9,831,118	\$ 9,831,118	-	-	-
Corporate Bonds	440,212	440,212	-	-	-
Mortgage and Asset-Backed Securities	13,764,051	169,378	\$ 8,310,875	\$ 1,912,399	\$ 3,371,399
Bond Mutual Funds	193,066,078	193,066,078	-	-	-
Equity Mutual Funds	154,187,482	154,187,482	-	-	-
Partnerships and Hedge Funds	6,949,544	6,949,544	-	-	-
Star Ohio	13,835,254	13,835,254	-	-	-
Restricted Cash *	2,372,179	2,372,179	-	-	-
Repurchase Agreements	6,673,312	6,673,312	-	-	-
	<u>\$ 401,119,230</u>	<u>\$ 387,524,557</u>	<u>\$ 8,310,875</u>	<u>\$ 1,912,399</u>	<u>\$ 3,371,399</u>

* Cash restricted for tuition benefits and administrative expenses

OHIO TUITION TRUST AUTHORITY
NOTES TO FINANCIAL STATEMENTS
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NOTE 4 - SECURITIES - GUARANTEED SAVINGS FUND (Continued)

OTTA's categorization of investments within the fair value hierarchy are as follows:

	Balance (Fair Value @ 6/30/16)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Government Obligations	\$ 1,955,951	-	\$ 1,955,951	-
Mortgage and Asset-backed Securities	19,344,494	-	19,344,494	-
Bond Mutual Funds	182,150,846	\$ 182,150,846	-	-
Equity Mutual Funds	109,954,608	109,954,608	-	-
Star Ohio	12,505,753	12,505,753	-	-
Restricted Cash *	2,670,390	2,670,390	-	-
Repurchase Agreements	10,679,944	10,679,944	-	-
	<u>\$ 339,261,986</u>	<u>\$ 317,961,541</u>	<u>\$ 21,300,445</u>	<u>-</u>
	Balance (Fair Value @ 6/30/15)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Government Obligations	\$ 9,831,118	-	\$ 9,831,118	-
Corporate Bonds	440,212	-	440,212	-
Mortgage and Asset-backed Securities	13,764,051	-	13,764,051	-
Bond Mutual Funds	193,066,078	\$ 193,066,078	-	-
Equity Mutual Funds	154,187,482	154,187,482	-	-
Partnership and Hedge Funds	6,949,544	6,949,544	-	-
Star Ohio	13,835,254	13,835,254	-	-
Restricted Cash *	2,372,179	2,372,179	-	-
Repurchase Agreements	6,673,312	6,673,312	-	-
	<u>\$ 401,119,230</u>	<u>\$ 377,083,849</u>	<u>\$ 24,035,381</u>	<u>-</u>

* Cash restricted for tuition benefits and administrative expenses

OHIO TUITION TRUST AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 5 - PRIVATE PURPOSE TRUST FUND

Investments are reported at fair value and are accounted for accordingly. The investments in the Mutual Fund-Based Options 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, and Dimensional Fund Advisors are accounted for on the trade date (date the order to buy or sell is executed). Income and capital gain distributions from the Funds, if any, are recorded on the ex-dividend date.

Investments in the Fifth Third options (Banking Options) are bank deposits; they are accounted for on the date the contribution is accepted by Fifth Third. Interest is compounded continuously and credited monthly on the Fifth Third options based on the stated rate of interest for the product.

Investments in the Private Purpose Trust Fund are valued in the fair value hierarchy as Level 1 inputs, using quoted prices in active markets for identical assets.

At June 30, 2016 and 2015, cash equivalents and investments of the Private Purpose Trust Fund options were as follows:

	2016		2015	
	Cash and Cash Equivalents	Investments	Cash and Cash Equivalents	Investments
CollegeAdvantage Advisor Plan	-	\$ 4,728,913,462	-	\$ 4,840,050,191
CollegeAdvantage Direct Plan	\$ 249,948,624	4,374,746,000	\$ 244,095,910	4,098,443,000
	\$ 249,948,624	\$ 9,103,659,462	\$ 244,095,910	\$ 8,938,493,191

OHIO TUITION TRUST AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

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:

	2016	2015
APV of future tuition benefits and expenses payable	\$ 297,200,000	\$ 342,800,000
Actuarial net position available in Guaranteed Savings Fund	338,100,000	399,900,000
Assets as a percentage of tuition and expense obligation	114%	117%
	2016	2015
Individual fund net position balances at June 30 were as follows:		
Guaranteed Savings Fund:		
Operating Sub Fund	\$ (5,545,145)	\$ (4,702,216)
Reserve Sub Fund	114,499,621	113,631,092
Trust Sub Fund	(68,459,902)	(52,186,691)
Total Guaranteed Savings Fund	40,494,574	56,742,185
Variable Savings Operating Sub Fund	34,117,522	33,228,888
Total Net Position - Enterprise Fund	\$ 74,612,096	\$ 89,971,073

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:

Economic assumptions set by the OTTA Board FY16:

Tuition Inflation Assumption:

Fall 2016: An amount equal to the maximum amount of tuition and mandatory fee increases permitted by the State of Ohio biennial budget, as signed into law by Governor Kasich; and

Fall 2017 and thereafter: 5.5%

Rate of return (investment of current and future assets) Fall 2016 and thereafter: 4.5%

Economic assumptions set by the OTTA Board FY15:

Tuition Inflation Assumption:

For Fall 2015 and Fall 2016: An amount equal to the maximum amount of tuition and mandatory fee increases permitted by the State of Ohio biennial budget, as signed into law by Governor Kasich; and for school years commencing thereafter: 5.5%

Rate of return (investment of current and future assets) Fall 2015 and thereafter: 4.5%

OHIO TUITION TRUST AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 6 - TUITION BENEFITS PAYABLE (Continued)

In addition to the assumptions set by the OTTA Board, the actuarial determination includes the assumption that the Consumer Price Index (CPI) inflation rate will be 2.5%.

NOTE 7 - PENSIONS

General Information about the Pension Plan

Employees of OTTA are provided with pensions through the Ohio Public Employees Retirement System (OPERS). 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/financial/reports.shtml#CAFR/>, by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 1-614-222-5601 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2015 and 2014, member and employer contribution rates were consistent across all three plans.

The 2015 and 2014 employee contribution rates were 10.0% of covered payroll for members in state and local classifications. The 2015 and 2014 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.

OHIO TUITION TRUST AUTHORITY

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 7 - PENSIONS (Continued)

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, 2016, 2015, and 2014 were approximately \$201,000; \$252,000; and \$271,000, respectively.

General Information about Post-Employment Benefits

Through December 31, 2015, OPERS maintained a cost-sharing, multiple-employer, defined benefit post-employment healthcare plan, which included 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. Beginning in calendar 2016, OPERS replaced the group plan offered to Medicare eligible retirees with a program in which a qualifying member receives an allowance deposited to an HRA (Health Reimbursement Arrangement) which may be used to reimburse the cost of coverage selected through the OPERS Medicare Connector. The OPERS Medicare Connector is a relationship with a vendor selected by OPERS and tasked with assisting retirees, spouses and dependents with selecting a medical and pharmacy plan. OPERS introduced the OPERS Medicare Connector with an effective date of January 1, 2016 for Traditional Pension and Combined plan retirees enrolled in Medicare Parts A and B. OPERS will continue offering a medical plan and prescription drug plan for non-Medicare participants.

OPERS maintains three health trusts. Two trusts, the Post-Employment Health Care Fund (401(h) fund) and the 115 Health Care Trust, work together to provide funding to eligible members of the Traditional Pension and Combined plans. The third trust is a Voluntary Employees' Beneficiary Association (VEBA) that provides funding for members of the Member-Directed Plan. The three trusts are considered separate legal entities under Internal Revenue Service regulations and are reported separately in the OPERS financial statements.

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 2.0% during calendar year 2015 and 2014. The employer contribution as a percent of covered payroll deposited to the VEBA for participants in the Member-Directed Plan was 4.5% for calendar years 2015 and 2014. The portion of the OTTA's employer contributions that were used to fund post-employment benefits for calendar years 2015 and 2014 approximated \$22,000 and \$38,000, respectively.

The OPERS Board of Trustees is also authorized to provide access to health care coverage for disability recipients and primary survivor recipients. Spouses and dependents of eligible recipients, as defined in rules governing the health care plans, may be covered through additional premiums.

OHIO TUITION TRUST AUTHORITY

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 7 - PENSIONS (Continued)

Pension Liabilities and Assets, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

During the year ended June 30, 2015, OTTA adopted GASB Statement 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement 27* and GASB Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Under the new standards, the net pension liability or asset equals OTTA's proportionate share of the OPERS plan's collective present value of estimated future pension benefits attributable to active and inactive employees' past service minus plan assets available to pay these benefits.

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" - that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of the pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, OTTA is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by state statute. A change in these caps requires action of both Houses of the General Assembly, and approval of the Governor. Benefit provision are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system against the public employer. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules, or in the case of compensated absences (i.e., sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contributions rates, and return on investments affect the balance of the net pension liability, but are outside the control of OTTA. In the event that contributions, investment returns and other changes are insufficient to keep up with required pension payments, state statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68 and 71, OTTA's statements prepared on an accrual basis of accounting include an annual pension expense for its proportionate share of each plan's change in net pension liability or asset.

OHIO TUITION TRUST AUTHORITY

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 7 - PENSIONS (Continued)

At June 30, 2016 OTTA reported a net pension liability of \$1,478,889 for its proportionate share of the Traditional Plan's net pension liability and a net pension asset of \$5,635 for its proportionate share of the Combined Plan's net pension asset. The net pension liability/asset was measured as of December 31, 2015 and represents OTTA's proportionate share of the relevant pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of the pension plan's fiduciary net position. At December 31, 2015, OTTA's proportion was 0.008538% of the Traditional Plan's net pension liability and 0.011580% of the Combined Plan's net pension asset. The net pension liability/asset calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

For the years ended June 30, 2016 and 2015, OTTA recognized pension expense of \$248,121 and \$251,898, respectively. OTTA reported deferred outflows of resources and deferred inflows of resources related to the two pension plans from the following sources:

	<u>June 30, 2016</u>		<u>June 30, 2015</u>	
	<u>Deferred</u>	<u>Deferred</u>	<u>Deferred</u>	<u>Deferred</u>
	<u>Outflows of</u>	<u>Inflows of</u>	<u>Outflows of</u>	<u>Inflows of</u>
	<u>Resources</u>	<u>Resources</u>	<u>Resources</u>	<u>Resources</u>
Differences between expected and actual experience	-	\$ 33,210	-	\$ 22,365
Net difference between projected and actual earnings on pension plan	\$ 440,697	-	\$ 59,967	-
Change in proportionate share	3,199	55,148	-	-
OTTA contributions subsequent to the measurement date	<u>70,442</u>	<u>-</u>	<u>65,775</u>	<u>-</u>
	<u>\$ 514,338</u>	<u>\$ 88,358</u>	<u>\$ 125,742</u>	<u>\$ 22,365</u>

OHIO TUITION TRUST AUTHORITY

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 7 - PENSIONS (Continued)

Included in deferred outflows of resources at June 30, 2016 is \$70,442 related to pensions resulting from OTTA contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	Amount
2017	\$ 70,647
2018	78,162
2019	110,153
2020	98,433
2021	(497)
Thereafter	(1,360)

Key Methods and Assumptions Used in Valuation of Total Pension Liability		
Actuarial Information	Traditional Pension Plan	Combined Plan
Valuation Date	December 31, 2015	December 31, 2015
Experience Study	5-Year period Ended December 31, 2010	5-Year period Ended December 31, 2010
Actuarial Cost Method	Individual entry age	Individual entry age
Actuarial Assumptions:		
Investment Rate of Return	8.00%	8.00%
Wage Inflation	3.75%	3.75%
Projected Salary Increases	4.25% - 10.05% (includes wage inflation at 3.75%)	4.25% - 8.05% (includes wage inflation at 3.75%)
Cost-of-Living Adjustments	Pre-1/7/2013 Retirees: 3.00% Simple Post-1/7/2013 Retirees: 3.00% Simple through 2018, then 2.80% Simple	Pre-1/7/2013 Retirees: 3.00% Simple Post-1/7/2013 Retirees: 3.00% Simple through 2018, then 2.80% Simple

Mortality rates were based on the RP-2000 mortality table projected 20 years using Projection Scale AA. For males, 105% of the combined healthy male mortality rates were used. For females, 100% of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based upon the RP-2000 mortality table with no projections. For males, 120% of the disabled female mortality rates were used, set forward two years. For females, 100% of the disabled female mortality rates were used.

The actuarial assumptions used in the December 31, 2015 valuation were based on the results of an actuarial experience study for the five-year period ended December 31, 2010. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

OHIO TUITION TRUST AUTHORITY

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 7 - PENSIONS (Continued)

The allocation of investment assets within the Pension Plan portfolio is approved by the OPERS Board. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the Plans. The following table displays the OPERS Board-approved asset allocation policy for 2015 and the long-term expected real rates of return.

Asset Class	Target Allocation for 2015	Weighted Average Long-Term Expected Real Rate of Return
Fixed Income	23.0%	2.31%
Domestic Equities	20.7	5.84
International Equity	18.3	7.40
Real Estate	10.0	4.25
Private Equity	10.0	9.25
Other Investments	18.0	4.59
Total	100.0%	5.27%

The long-term expected rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentages, adjusted for inflation.

The discount rate used to measure the total pension liability was 8.00% for both the Traditional Pension Plan and the Combined Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for both the Traditional Pension Plan and the Combined Plan was applied to all periods of projected benefit payments to determine the total pension liability.

The following table represents OTTA's proportionate share of the net pension liability calculated using the discount rate of 8.0%, as well as its proportionate share of the net pension liability if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate.

Sensitivity of Net Pension Liability/ (Asset) to Changes in the Discount Rate			
Employers' Net Pension Liability/(Asset)	1% Decrease 7%	Current Discount 8%	1% Increase 9%
Traditional Pension Plan	\$ 2,356,232	\$ 1,478,889	\$ 738,879
Combined Pension Plan	\$ (116)	\$ (5,675)	\$ (10,075)

OHIO TUITION TRUST AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 8 - OPERATING LEASES

The OTTA uses 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 2016 and 2015 was \$142,000 and \$145,000, respectively. The OTTA expects to move to new State owned office space in fiscal 2017; future office space rent payments are not known.

NOTE 9 - 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.

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SUPPLEMENTARY FINANCIAL INFORMATION

OHIO TUITION TRUST AUTHORITY

REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)
(SEE ACCOMPANYING INDEPENDENT AUDITORS' REPORT)
(AMOUNTS PRESENTED DETERMINED AS OF DECEMBER 31)

	Traditional Pension Plan		
	2015	2014	2013
OTTA's proportion of the net pension liability	0.008538%	0.009231%	0.009231%
OTTA's proportionate share of the net pension liability	\$ 1,478,889	\$ 1,113,362	\$ 1,088,215
OTTA's covered-employee payroll	\$ 1,063,000	\$ 1,375,000	\$ 1,405,000
OTTA's proportionate share of the net pension liability as a percentage of its covered-employee payroll	139%	81%	77%
Plan fiduciary net position as a percentage of the total pension liability	81.1%	86.5%	86.4%
	Combined Pension Plan		
	2015	2014	2013
OTTA's proportion of the net pension asset	0.011580%	0.023878%	0.023878%
OTTA's proportionate share of the net pension liability (asset)	\$ (5,635)	\$ (9,193)	\$ (2,506)
OTTA's covered-employee payroll	\$ 42,000	\$ 92,000	\$ 94,000
OTTA's proportionate share of the net pension asset as a percentage of its covered-employee payroll	13%	10%	3%
Plan fiduciary net position as a percentage of the total pension liability	117.0%	114.6%	104.6%

*This schedule is required to show information for 10 years. However, until a full 10-year trend is compiled, governments are required to only present information for those years for which information is available.

OHIO TUITION TRUST AUTHORITY

REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS AND CONTRIBUTIONS SUBSEQUENT TO
MEASUREMENT DATE
(SEE ACCOMPANYING INDEPENDENT AUDITORS' REPORT)
(AMOUNTS PRESENTED AS OF JUNE 30)

	<u>Traditional Pension Plan</u>		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 116,720	\$ 128,977	\$ 139,754
Contributions in relation to the contractually required contribution	\$ (116,720)	\$ (128,977)	\$ (139,754)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
OTTA's covered-employee payroll	\$ 1,167,000	\$ 1,290,000	\$ 1,397,000
Contributions as a percentage of covered-employer payroll	10%	10%	10%

	<u>Combined Pension Plan</u>		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 4,625	\$ 8,598	\$ 9,317
Contributions in relation to the contractually required contribution	\$ (4,625)	\$ (8,598)	\$ (9,317)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
OTTA's covered-employee payroll	\$ 46,300	\$ 86,000	\$ 93,000
Contributions as a percentage of covered-employer payroll	10%	10%	10%

* This schedule is required to show information for 10 years. However, until a full 10-year trend is compiled, governments are required to only present information for those years for which information is available.



Big Thinking. Personal Focus.

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, 2016, and have issued our report thereon dated September 28, 2016. We did not audit the financial statements of the Private Purpose Trust Fund. 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, is 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 28, 2016

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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
DECEMBER 13, 2016**