



Comprehensive Annual Financial Report
A Component Unit of the State of Ohio
Year Ending December 31, 2005

Richard A. Curtis, Executive Director

6161 Busch Boulevard, Suite 119
Columbus, Ohio 43229-2553



**Auditor of State
Betty Montgomery**

Board of Trustees
Highway Patrol Retirement System
6161 Busch Blvd.
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Columbus, Ohio 43229-2553

We have reviewed the *Independent Auditor's Report* of the Highway Patrol Retirement System, Franklin County, prepared by Kennedy, Cottrell + Associates, LLC for the audit period January 1, 2005 through December 31, 2005. 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 Highway Patrol Retirement System is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

June 19, 2006

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Introductory Section

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Highway Patrol Retirement System, Ohio

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Carla E. Perry

President

Jeffrey R. Emen

Executive Director

Highway Patrol Retirement System Board of Trustees



Staff Lieutenant John Allard
Elected Member/Chair



Major John Born
Elected Member/Vice Chair



Staff Lieutenant Cory Davies
Elected Member



Sergeant Walter Davis
Elected Member



Trooper Dennis Gorski
Elected Member



Larry Davis
Retired Member Representative



R. Dean Huffman
Retired Member Representative



Colonel Paul McClellan
Ex-Officio Member



Kenneth C. Boyer
Treasurer of State's Investment Designee



Dan Lohmeyer
General Assembly's Investment Expert Appointee



Joseph H. Thomas
Governor's Investment Expert Appointee

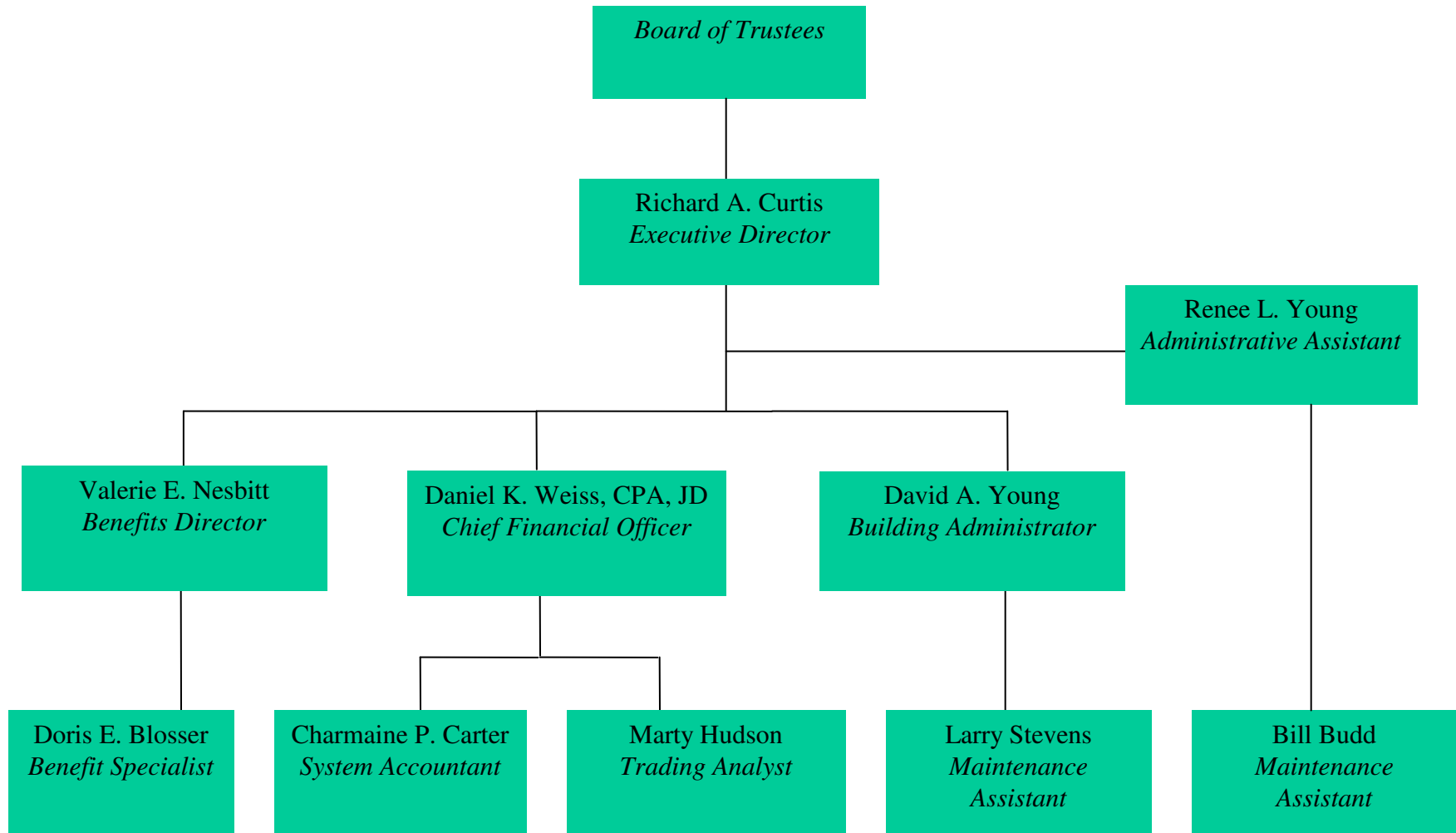


Richard A. Curtis
Executive Director



Cheryl Pokorny
Assistant Attorney General, Legal Counsel

Organizational Chart



Professional Consultants

Medical Advisor

Earl N. Metz, M.D.
Columbus, Ohio

Independent Auditor

Kennedy, Cottrell + Associates
Columbus, Ohio

Actuary

Gabriel, Roeder, Smith & Company
Southfield, Michigan

Investment Consultant

Callan Associates Inc.
Chicago, Illinois

Investment Managers

Brandywine Asset Management
Wilmington, Delaware
Small/Mid Cap Value Equity

DePrince, Race & Zollo, Inc.
Orlando, Florida
Large Cap Value Equity

Eubel, Brady & Suttman
Dayton, Ohio
Small/Mid Cap Value Equity

Fidelity Management Trust Company
Boston, Massachusetts
Real Estate

INTECH
Palm Beach Gardens, Florida
Large Cap Growth Equity

JPMorgan Fleming Asset Management
New York, New York
International Equity

MacKay-Shields Financial Corporation
New York, New York
Large Cap Value Equity

Munder Capital Management
Birmingham, Michigan
Fixed Income

Oak Associates
Akron, Ohio
Large Cap Growth Equity

Pinnacle Associates LTD.
New York, New York
Small/Mid Cap Core Equity

BlackRock
New York, New York
Real Estate

State Street Global Advisors
Boston, Massachusetts
Large Cap Indexed

Timbervest
Atlanta, Georgia
Timberland Real Estate

Wells Capital Management
Los Angeles, CA
Fixed Income

Western Asset
Pasadena, California
Fixed Income

Westfield Capital Management
Boston, MA
Small/Mid Cap Growth Equity

World Asset Management
Birmingham, Michigan
*Small-Mid Cap Indexed
& International Equity*

See page 44

Legislative Summary

During 2005, the Ohio House and Senate passed legislation enabling the HPRS to implement a Deferred Retirement Option Plan, or DROP. This program enables an eligible active member to accrue pension benefits in a tax-deferred account while continuing in his or her current position with the Highway Patrol.

The DROP program benefits all involved. The active member accrues benefits in an additional retirement account that affords a wider variety of distribution options. The employer – the State Highway Patrol – retains trained and experienced employees, thus avoiding recruitment and training costs for replacements. The

HPRS delays health care expense until the active member stops working.

The HPRS, in conjunction with the other Ohio public pension funds, was successful in getting legislation introduced that would authorize the formation of Health Savings Accounts. With an HSA, an active member contributes pre-tax funds to an account that may be used to pay out-of-pocket health care expenses after retirement. As long as the funds are used for health care expenses, they remain tax-free.

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May 31, 2006

Letter of Transmittal

Members of the Board of Trustees:

It is our privilege to submit to you the *Comprehensive Annual Financial Report* for the Highway Patrol Retirement System (HPRS) for the fiscal year ending December 31, 2005. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, rests with the management of the system. We believe this report reflects a careful stewardship of the system's assets and dedicated service to our members and our retirees.

The Ohio General Assembly established the Highway Patrol Retirement System in 1941 with membership limited to state troopers and communications personnel employed by the Highway Patrol. This creation of a statewide defined benefit plan followed eleven years of membership in the Public Employees Retirement System of Ohio. Today, membership in the Highway Patrol Retirement System is limited to troopers with arrest authority, trooper cadets in training while at the Highway Patrol Training Academy, and members of the radio division hired prior to November 2, 1989.

Benefits provided to plan participants include age and service pensions, disability retirement, survivor pensions, death benefits, and health care coverage for pension benefit recipients and their eligible dependents. A more detailed pension and benefits description is provided in the Plan Summary in the Actuarial Section.

The *Comprehensive Annual Financial Report* is divided into five sections - (1) the Introductory Section including this letter of transmittal and information about the organization of HPRS, (2) the Financial Section containing the basic financial statements, Management's Discussion and Analysis of the financial data, and the Independent Auditor's Report, (3) the Investment Section containing portfolio listings, statistical charts, and the Investment Policy adopted by the Board, (4) the Actuarial Section detailing the results of annual actuarial valuations, the independent actuary's opinion as to the financial stability of the system, and the system's Plan Summary, and (5) the Statistical Section including historical data to identify progress of the system.

Major Initiatives and Changes Enacted

The Highway Patrol Retirement System was created to provide quality benefits for members, retirees, and surviving dependents. Although health care benefits are not required by statute, HPRS has provided affordable coverage to retirees, surviving widows, and eligible dependents since July 1974. Providing quality health care coverage while controlling costs continues to be a major responsibility of the Board. HPRS health care benefits are pre-funded, and each year the Board evaluates the preceding year's health care expenditures and implements any needed changes in plan design, co-payments, deductibles, and premiums. In August 1999, the system made vision coverage available to benefit recipients and dependents, and in January 2000, dental coverage was also made available. The Board will continue to monitor the benefits and costs of health care and seek to provide the best coverage possible at an affordable cost.

In the past several years, increases in prescription drug costs have far exceeded those of other health care costs. Plan design changes implemented in 2001, 2002, 2003, and 2004 have reduced the rate of increase but the rate is still well in excess of the actuarially projected rate of 4% per year. While there has been an accelerated trend toward drug therapy instead of clinical treatment, ostensibly to reduce hospitalizations and otherwise limit health care costs, the system's experience indicates that the increased costs of prescription drugs has far exceeded any savings offset. Marketing efforts by drug manufacturing companies have resulted in physicians changing prescriptions from older, but very effective drugs, to newer and more expensive drugs, without appreciable improvement in treatment. Additionally, many new medications are accompanied by other medications to treat the side effects of the primary medication.

Investments

The funds of the system are invested to maximize both current income yield and long-term appreciation. The HPRS investment policy objective is to assure that the system meets the responsibility of providing quality benefits for retirees and their surviving dependents. The portfolio is diversified to earn the highest possible rate of

return while operating within the *prudent person* parameters of risk to protect the fund from severe depreciation during adverse market conditions.

Investment returns for the Highway Patrol Retirement System in 2005 were 7.42%, with a three-year annualized return of 14.62%, and a five-year annualized return of 5.98%. Because current fund expenditures exceed current fund income, the total investment portfolio increased to \$702.3 million (excluding collateral on loaned securities) at December 31, 2005, representing only a 4.6% increase from 2004. A new asset allocation was implemented on January 1, 2005.

For a detailed analysis of financial operations, please refer to Management's Discussion and Analysis on pages 13 through 15.

Internal Controls

The management of HPRS has implemented and is responsible for a system of internal accounting controls. These controls are designed to assure the safeguarding of assets and the reliability of financial records. We believe that the internal accounting controls in place are adequate to meet the purpose for which they were intended. We also believe that the financial statements, supporting schedules, and statistical tables are fairly presented in all material respects.

Funding

The goal of the Board has been to limit the period of unfunded liability to no more than thirty years. Unfunded actuarially accrued pension liabilities are currently amortized over a thirty-four year period from December 31, 2004. Since 1991, the unfunded liabilities for pension obligations and health care costs have been reported separately.

Certificate of Achievement for Excellence in Financial Reporting

The Governmental Finance Officers Association of the United States and Canada (GFOA) awarded a *Certificate of Achievement for Excellence in Financial Reporting* to the Highway Patrol Retirement System for its comprehensive annual financial report for the fiscal year ended December 31, 2004. In order to be awarded a *Certificate of Achievement*, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A *Certificate of Achievement* is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the *Certificate of Achievement* program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Professional Services

To aid in efficient and effective management of the system, professional services are provided to the Highway Patrol Retirement System by consultants appointed by the Board. Gabriel, Roeder, Smith & Company of Southfield, Michigan provides actuarial services. The investment advisor to the Board is Callan Associates of San Francisco, California. Under contract with the Auditor of the State of Ohio, Kennedy, Cottrell + Associates, Certified Public Accountants of Columbus, Ohio, audited the financial records of the system.

Acknowledgments

The preparation of this report reflects the combined efforts of the system's staff under the direction of the Board of Trustees. It is intended to provide complete and reliable information as a basis for making management decisions, a means for determining compliance with legal provisions, and a means for determining responsible stewardship over the assets contributed by the members and their employer, the State of Ohio.

This report is being mailed to all Highway Patrol facilities where members are assigned, to professional services used by the Highway Patrol Retirement System, to legislative members in a leadership position, and to anyone who requests a copy.

Respectfully Submitted,



Richard A. Curtis, Executive Director



Daniel K. Weiss, CPA, JD, Chief Financial Officer



Financial Section



INDEPENDENT AUDITOR'S REPORT

The Retirement Board
Ohio State Highway Patrol Retirement System

We have audited the accompanying combining statement of plan net assets of the Ohio State Highway Patrol Retirement System (HPRS), a component unit of the State of Ohio, as of December 31, 2005, and the related combining statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of HPRS' management. Our responsibility is to express opinions on these financial statements based on our audit.

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 provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Ohio State Highway Patrol Retirement System as of December 31, 2005, and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated May 23, 2006 on our consideration of the Ohio State Highway Patrol Retirement System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. 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.

The Management's Discussion and Analysis on pages 13-15 and Required Supplementary Information on pages 25-26 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

We conducted our audit to form an opinion on the financial statements that collectively comprise the HPRS' basic financial statements. The accompanying financial information listed as Additional Supplementary Schedules in the table of contents is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

The introductory section on pages 1-10, the investment section on pages 31-47, the actuarial section on pages 48-56, and the statistical section on pages 57-60 have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Kennedy, Cottrell + Associates LLC

Kennedy, Cottrell + Associates
May 23, 2006

certified public accountants
business and government consultants

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Management's Discussion and Analysis

Financial Highlights

- At December 31, 2005, the assets of HPRS exceeded liabilities by \$711,718,909. All of the net assets are held in trust for pension and health benefits, and are available to meet HPRS's ongoing obligation to plan participants and their beneficiaries.
- During 2005, HPRS's total net assets increased by \$29,923,874, or 4.4%, with 156.7% of this increase attributable to investment activity.
- HPRS's funding objective is to meet long-term benefit obligations through contributions and investment income. At December 31, 2004, the date of the latest actuarial valuation, HPRS funds totaled 77.6% of projected obligations.
- Revenues (Additions to Plan Net Assets) for the year were \$78,126,176, which includes member and employer contributions of \$30,056,304 and investment income of \$46,888,921.
- Expenses (Deductions in Plan Net Assets) increased 10.8% over the prior year. Of this amount, pension benefits increased by 7.2%, health care expenses increased by 28.5%, and administrative expenses increased by 8.1%.

Overview of the Financial Statements

HPRS's financial statements consist of these components:

1. Combining Statement of Plan Net Assets.
2. Combining Statement of Changes in Plan Net Assets.
3. Notes to the Financial Statements.

This report also contains other supplementary information in addition to the basic financial statements themselves.

The *Combining Statement of Plan Net Assets* provides a snapshot of account balances at year-end, indicating the assets available for future payments to retirees, less any current liabilities of the system.

The *Combining Statement of Changes in Plan Net Assets* provides a summary of current year additions and deductions to the plan. At December 31, 2004, the date of the latest actuarial valuation, HPRS's current funding ratio was 77.6%. This means that HPRS's fund had approximately \$0.78 available for each \$1.00 of projected pension liability.

The *Combining Statement of Plan Net Assets* and the *Combining Statement of Changes in Plan Net Assets* report information about HPRS's activities and financial position. These statements reflect the full accrual basis of accounting, which is similar to the accounting method

used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. All investment gains and losses are shown at trade date rather than settlement date. Investments are shown at fair value, reflecting both realized and unrealized gains and losses. Each capital asset is depreciated over its expected useful life.

The difference between HPRS assets and liabilities is reported on these statements as *Net Assets Held in Trust for Pension and Postemployment Health Care Benefits*. Over time, increases and decreases in HPRS's net assets are one indicator of whether the fund's financial health is improving or deteriorating. Other factors, such as market conditions, should be considered in measuring HPRS's overall health (see HPRS's financial statements on pages 16-17 of this report).

The *Notes to the Financial Statements* provide additional information that is essential to a full understanding of the data provided in the financial statements (see *Notes to the Financial Statements* on pages 18-24 of this report).

Other Information

In addition to the financial statements and accompanying notes, this report presents certain required supplementary information concerning HPRS's progress in funding its obligations to provide pension benefits to members (see *Required Supplementary Schedules* on page 25 of this report).

The schedules of administrative expenses, investment expenses, and payments to consultants are presented immediately following the required supplementary information.

HPRS Activities

Revenues - Additions to Plan Net Assets. Employer and member contributions, as well as income from investments, provide reserves needed to finance retirement benefits. In 2005, total contributions, plus investment gains in a favorable market, resulted in positive additions of \$78.1 million. Employer and member contributions increased by 7.0% and 4.8%, respectively, primarily because of an increase in the employer contribution rate and an increase in overall payroll.

Revenues - Additions to Plan Net Assets (In 000's)

	<u>2004</u>	<u>2004</u>	<u>\$ Change</u>	<u>% Change</u>
Net				
Appreciation in Fair Value of Investments	\$38,315	\$61,335	(\$23,020)	(37.5%)
Interest and Dividend Income	11,419	16,705	(5,286)	(31.6)
Real Estate Operating Income, Net	186	192	(6)	(3.1)
Investment Expenses	-3,312	(3,465)	153	(4.4)
Security Lending Activity, Net	281	193	88	45.6
Employer Contributions	21,474	20,073	1,401	7.0
Member Contributions	8,582	8,193	389	4.7
Transfers from Other Ohio Systems	1181	856	325	38.0
Total Additions	\$78,126	\$104,082	(\$25,956)	(24.9%)

The investment section of this report summarizes the result of investment activity for the year ending December 31, 2005.

Expenses - Deductions from Plan Net Assets. The HPRS was created to provide retirement, disability, and survivor benefits to qualified members and their beneficiaries. The cost of these programs includes benefit payments as designated by the plan, refunded contributions, and the administrative costs of the system. In 2005, total deductions from plan net assets increased 10.8%. This included a 7.2% increase in pension benefits, largely attributable to an increase in the number of benefit recipients and cost of living adjustments. Health care expenses increased by 28.5% and administrative expenses increased by 8.1%. Refunds of member contributions increased by 217.9%, offset by a decrease in transfers of contributions to other Ohio retirement systems of 32.9%

Expenses - Deductions from Plan Net Assets (In 000's)

	<u>2005</u>	<u>2004</u>	<u>\$ Change</u>	<u>% Change</u>
Pension Benefits	\$37,716	\$35,187	\$2,529	7.2%
Refunds of Member Contributions	496	156	340	217.9
Health Care	8,932	6,949	1,983	28.5
Administrative Expenses	654	605	49	8.1
Transfers to Other Ohio Systems	404	602	(198)	(32.9)
Total Deductions	\$48,202	\$43,499	\$4,703	10.8%

Changes in Net Assets

In 2005, *Net Assets Held in Trust for Pension and Postemployment Health Care Benefits* increased by \$29,923,873, or 4.4%. Investment income attributable to the appreciation in fair values of investments equaled \$38,315,047, or 128.0% of the increase in net assets. All of the net assets are available to meet HPRS's ongoing obligation to plan participants and their beneficiaries.

Changes in Net Assets (In 000's)

	<u>2005</u>	<u>2004</u>
Beginning Balance	\$684,569	\$623,987
Prior Period Restatement	(2,773)	---
Ending Balance	711,719	684,569
Total Change	\$29,923	\$60,582
% Change	4.4%	9.7%

Capital Assets

As of December 31, 2005, HPRS's investment in capital assets totaled \$31,174 (net of accumulated depreciation), an increase of \$451, or 1.5% from December 31, 2004. This investment in capital assets includes office equipment, software, and furniture for administrative use. The increase in HPRS's net investment in capital assets for the current year was largely attributable to the acquisition of a new asset, less the depreciation of existing assets.

Total Assets

In 2005, total assets increased by \$7,408,139, or 0.8%. The increase in total assets was largely attributable to investment gains.

Assets (In 000's)

	<u>2005</u>	<u>2004</u>	<u>\$ Change</u>	<u>% Change</u>
Cash & Short-Term Investments	\$8,573	\$10,837	(\$2,264)	(20.9%)
Receivables	3,553	4,577	(1,024)	(22.4)
Investments, at Fair Value	702,260	671,174	31,086	4.6
Collateral on Loaned Securities	186,626	207,010	(20,384)	(9.8)
Other Assets	31	37	(6)	(16.2)
Total Assets	<u>\$901,043</u>	<u>\$893,635</u>	<u>\$7,408</u>	<u>0.8%</u>

Total Liabilities

Total liabilities decreased by \$19,741,520, or 9.4%, primarily as a result of a decrease in securities lending activity at the end of 2005. The decrease in total liabilities attributable to a lower level of securities lending activity was \$20,384,808. Without this decrease, total liabilities would have increased by \$643,288, or 0.3%.

Liabilities (In 000's)

	<u>2005</u>	<u>2004</u>	<u>\$ Change</u>	<u>% Change</u>
Current Liabilities	<u>\$189,324</u>	<u>\$209,066</u>	<u>\$19,742</u>	<u>9.4%</u>
Total Liabilities	<u>\$189,324</u>	<u>\$209,066</u>	<u>\$19,742</u>	<u>9.4%</u>

Summary

Despite three consecutive years of negative investment returns from 2000 through 2002, HPRS rebounded from 2003 through 2005 to show strong gains in the securities markets. Both management and HPRS's actuary concur that HPRS remains in a financial position to meet its obligations to the plan participants and beneficiaries. The current financial position of HPRS is the result of a very strong and successful investment program, risk management, and strategic planning.

Requests for Information

This financial report is designed to provide retirees, members, trustees, and investment managers with a general overview of HPRS's finances and to show accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, HPRS, 6161 Busch Boulevard, Suite 119, Columbus, OH 43229-2553.

Combining Statement of Plan Net Assets

December 31, 2005

	Pension	Postemployment Health Care	Total
Assets			
Cash and Short-Term Investments	\$7,362,897	\$1,210,221	\$8,573,118
Receivables			
Accrued Investment Income	916,014	150,563	1,066,577
Employer Contributions Receivable	1,088,449	177,189	1,265,638
Member Contributions Receivable	1,122,274	--	1,122,274
Tenant Rent Receivable	84,838	13,945	98,783
Total Receivables	3,211,575	341,697	3,553,272
Investments, at Fair Value			
Domestic Equity	345,462,730	56,782,876	402,245,606
Fixed Income	126,817,682	20,844,717	147,662,399
Real Estate	31,989,307	5,258,005	37,247,312
International Equity	98,856,185	16,248,753	115,104,938
Total Investments	603,125,904	99,134,351	702,260,255
Collateral on Loaned Securities	160,280,420	26,344,906	186,625,326
Property and Equipment, Net	26,773	4,401	31,174
Total Other Assets	26,773	4,401	31,174
Total Assets	774,007,569	127,035,576	901,043,145
Liabilities			
Accrued Health Care Benefits	--	1,266,148	1,266,148
Accounts Payable	1,060,157	174,257	1,234,414
Other Liabilities	40,516	6,659	47,175
Accrued Payroll and Withholdings	129,833	21,340	151,173
Obligations Under Securities Lending	160,280,420	26,344,906	186,625,326
Total Liabilities	161,510,926	27,813,310	189,324,236
Net Assets Held in Trust for Pension and Postemployment Health Care Benefits	\$612,496,643	\$99,222,266	\$711,718,909

(A *Schedule of Funding Progress* is presented on page 25.)
See accompanying *Notes to Financial Statements*.

Combining Statement of Changes in Plan Net Assets

Year Ending December 31, 2005

	Pension	Postemployment Health Care	Total
Additions			
Contributions			
Employer	\$18,467,789	\$3,006,385	\$21,474,174
Member	8,582,130	---	8,582,130
Transfers from Other Systems	1,180,951	---	1,180,951
Total Contributions	28,230,870	3,006,385	31,237,255
Investment Activity			
Net Appreciation in Fair Value of Investments	30,527,306	7,787,741	38,315,047
Interest and Dividend Income	9,806,615	1,611,890	11,418,505
Real Estate Operating Income, Net	159,537	26,223	185,760
	40,493,458	9,425,854	49,919,312
Less: Investment Expenses	2,844,233	467,500	3,311,733
Net Income from Investment Activity	37,649,225	8,958,354	46,607,579
Income from Security Lending Activity			
Gross Income	5,634,856	926,188	6,561,044
Less: Borrower Rebates	5,289,752	869,464	6,159,216
Less: Management Fees	103,478	17,008	120,486
Net Income from Security Lending Activity	241,626	39,716	281,342
Total Net Investment Income	37,890,851	8,998,070	46,888,921
Total Additions	66,121,721	12,004,455	78,126,176
Deductions			
Benefits Paid Directly to Participants	37,716,268	---	37,716,268
Refunds of Member Contributions	495,640	---	495,640
Health Care Expenses	---	8,932,259	8,932,259
Administrative Expenses	561,817	92,344	654,161
Transfers to Other Systems	403,975	---	403,975
Total Deductions	39,177,700	9,024,603	48,202,303
Net Increase	26,944,021	2,979,852	29,923,873
Net Assets Held in Trust for Pension and Postemployment Health Care Benefits			
Balance, December 31, 2004, as restated	\$585,552,622	\$96,242,414	\$681,795,036
Balance, December 31, 2005	\$612,496,643	\$99,222,266	\$711,718,909

See accompanying *Notes to Financial Statements*.

Notes to Financial Statements

Year Ending December 31, 2005

Plan Description

Organization - HPRS is a single-employer retirement system for uniformed and certain radio personnel of the Ohio State Highway Patrol. It was created by Ohio Revised Code Chapter 5505 and is administered by a Board of Trustees comprised of five active members, two retired members, three appointed members, and one ex-officio member. The Board appoints an executive director, actuary, investment consultant, and employees.

HPRS administers both a defined benefit pension plan and a postemployment health care plan. All financial information for pensions and health care is presented separately in the combining financial statements. HPRS, a separate financial reporting entity in accordance with criteria established by Governmental Accounting Standards Board Statement No. 14, is a component unit of the State of Ohio.

Membership - HPRS membership consisted of the following at December 31, 2004 (the latest available actuarial data):

Pension Benefits

Retirees & beneficiaries currently receiving benefits	1,282
Terminated members not yet receiving benefits	9

Current members

Vested	283
Nonvested	1,279

Contributions - The Ohio Revised Code requires contributions by active members and the Ohio State Highway Patrol. The member contribution rate is established by the Ohio General Assembly and any change in the rate requires legislative action. The employer contribution rate is established by the Board of HPRS and certified to the State of Ohio every two years. By law, the employer rate may not exceed three times the member contribution rate.

In 2005, active members and the Ohio State Highway Patrol were required to contribute the following percentages of active member payroll:

<u>Member</u>	
January 1 to December 31	10.0%
<u>Employer</u>	
January 1 to June 30	24.5%
July 1 to December 31	25.5%

The Board of HPRS allocated the employer contribution rate to basic retirement benefits and health care benefits as follows:

	<u>Basic Retirement</u>	<u>Health Care</u>	<u>Total</u>
January 1 to June 30	21.00%	3.50%	24.5%
July 1 to December 31	22.00%	3.50%	25.5%

The allocation of the employer contribution rate to basic retirement benefits has been established as the rate necessary to cover normal cost, plus the amortization of the unfunded actuarially accrued liabilities based on a twenty-nine (29) year amortization schedule. The contribution rate allocated to health care benefits is sufficient to cover normal costs, and to provide level cost financing of the unfunded actuarially accrued liabilities. The adequacy of the employer contribution rate is determined using the entry age normal cost method.

Contributions may be refunded to a member who terminates employment with the Ohio State Highway Patrol or to the member's beneficiary following the member's death, if no survivor benefits are payable.

Members with credited service in Ohio Public Employees Retirement System (OPERS), School Employees Retirement System (SERS), State Teachers Retirement System (STRS), Cincinnati Retirement System (CRS), or the military are eligible to receive transferred credited service from any or all of these systems. Any service, except for military service, that is not concurrent with service within HPRS will be included in the determination of retirement benefits. Similarly, a member with credited service and funds in HPRS may transfer such service to OPERS, SERS, STRS, or CRS upon retirement.

Benefits - Members are eligible for normal retirement benefits upon reaching age 52 and accumulating at least 20 years of Ohio State Highway Patrol service credit. The benefit is a percentage of the member's final average salary, defined as the average of the member's three highest salaried years. The percentage is determined by multiplying 2.5% times the first 20 years of service, plus 2.25% for the next 5 years of service, plus 2.0% for each year in excess of 25 years of service. A member's pension may not exceed 79.25% of the final average salary. Early retirement with reduced benefits is available upon reaching age 48 with 20 years of service credit. Early retirement with normal benefits is available upon reaching age 48 with 25 years of service credit.

In addition to retirement benefits, HPRS also provides for disability, survivor, and health care benefits. All members receiving a benefit are eligible to receive medical coverage. Qualified dependents of a deceased member are eligible for monthly survivor benefits.

HPRS provides access to health care for all benefit recipients and reimburses Medicare Part B basic premiums to eligible benefit recipients.

Summary of Significant Accounting Policies

Basis of Accounting - HPRS financial statements are prepared using the accrual basis of accounting, under which expenses are recorded when the liability is incurred and revenues are recorded when they are earned and become measurable. Member and employer contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Investment purchases and sales are substantially recorded as of their trade date. Administrative expenses are financed by investment income.

The accounting and reporting policies of HPRS conform to accounting principles generally accepted in the United States of America (GAAP). The preparation of financial statements in conformity with GAAP 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 revenue and expenses during the reporting period. Actual results could differ from these estimates.

GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and Statement No. 26, *Financial Reporting for Postemployment Health Care Plans Administered by Defined Benefit Pension Plans*, require that plan assets be split between pension benefits and health care. To meet this requirement, plan assets and liabilities not specifically identifiable to a plan were proportionately allocated to the pension and postemployment health care plans.

Investments -- Income on all investments is recognized on the accrual basis. Gains and losses on sales and exchanges, recognized on the trade date, are determined using the average cost of the security sold for equity securities and the specific cost of securities sold for all other investments.

All investments are reported at fair value. Fair value is the amount that the plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller, other than in a forced or liquidation sale.

Short-term investments are reported at cost, which approximates fair value. Securities traded on a national exchange are valued at the last reported sales price at the current exchange rate. Fair values of real estate investments are based on information provided by the fund’s managers or by independent appraisal for assets not managed independently.

Net appreciation, or depreciation, in fair value of investments is determined by calculating the change in the fair value of investments between the beginning of the year and the end of the year, less purchases of investments at cost, plus sales of investments at fair value. Investment expense consists of those expenses directly related to HPRS investment operations, as well as an allocation of certain administrative expenses.

Prior Period Restatement - Prior period adjustments are the net effect of changes resulting from the correction of an error. Because these 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, they 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.

An error was discovered in the way HPRS had accrued investment income, which required a restatement of net assets in the prior period, as follows:

Net Assets, December 31, 2004	\$684,569,250
Investment Income Accrual Adjustment	<u>(2,774,214)</u>
Net Assets, December 31, 2004, as restated	<u>\$681,795,036</u>

Accrued Health Care Benefits - Accrued health care benefits are based upon estimates furnished by the claims administrators. These estimates have been developed from prior claims experience.

In general, costs of retiree health care benefits are recognized as claims are incurred and premiums are paid. Health care benefit expenses in 2005 of \$8,932,259 are shown on the accompanying *Combining Statement of Changes in Plan Net Assets*.

Federal Income Tax Status - HPRS is a qualified entity under Section 501(a) of the Internal Revenue Code and is therefore exempt from federal income taxes.

Deposits and Investment Risk Disclosures

Deposits – HPRS cash balances represent both operating cash accounts held by US Bank and the State Highway Patrol Federal Credit Union, and investment cash on deposit with US Bank as the investment custodian. Cash balances are either interest-bearing or invested in highly liquid debt instruments with an original maturity of three

months or less. At December 31, 2005, the carrying value of all HPRS's book deposits was \$8,573,118 (including money market funds of \$7,086,840), as compared to bank balances of \$9,609,588. The difference in the carrying amount and the bank balances is caused by outstanding warrants and deposits in transit.

Investments – Ohio Revised Code Section 5505.06 authorizes HPRS to invest in various instruments (meeting various guidelines), including the following:

- commercial paper issued by a U. S. corporation,
- obligations of the U. S. Treasury, federal agencies, government-sponsored corporations, and government-backed repurchase agreements,
- bonds, notes and other debt securities,
- equities approved by an outside investment advisor,
- high quality money-market instruments, and
- real estate and related securities including improved or unimproved real property, mortgage collective investment funds, notes secured by real property, mortgage-backed bonds, and pass-through securities backed by mortgages.

Total Investments at Fair Value, December 31, 2005

Domestic Equity	\$402,245,606
U.S. Government Obligations	9,829,009
U.S. Government Guaranteed Mortgages	1,970,943
U.S. Government Agency Obligations	25,368,840
Collateralized Mortgages	4,259,219
Corporate Bonds	17,769,618
Asset-Backed Securities	7,397,512
Fixed Income Funds	81,067,258
Real Estate	37,247,312
International Equity	115,104,938
Total Investments	<u>\$702,260,255</u>
Collateral on Loaned Securities	<u>\$186,625,326</u>

All investments, including domestic and international, are registered in the name of HPRS.

Credit Risk – Credit risk is the risk that an issuer or counterparty to an investment will be unable to fulfill its obligations. HPRS does not have a policy to limit credit risk.

HPRS exposure to credit risk, based on S&P Quality Ratings, is as follows:

<u>Quality Rating</u>	<u>Total</u>
AAA	\$36,801,961
AA+	11,551,001
AA	44,440,354
AA-	2,557,805
A+	3,453,337
A	3,445,020
A-	3,919,208
BBB+	1,755,199
BBB	2,371,700
BB+	13,049,166
B+	<u>12,517,696</u>
 Total Credit Risk Debt Securities	 \$135,862,447
U.S. Government Obligations and Guaranteed Securities	 <u>\$11,799,952</u>
Total Debt Securities	<u><u>\$147,662,399</u></u>

Concentration of Credit Risk – Concentration of credit risk is the risk of inability to recover the value of deposits, investments, or collateral securities in the possession of an outside party caused by a lack of diversification. Investment managers are expected to maintain diversified portfolios by sector and issuer. Pursuant to its investment policy, HPRS has no more than ten percent of the fixed income portfolio invested in the securities of any one issuer, and no more than five percent in any one issue, with the exception of U.S. government securities.

Interest Rate Risk – Interest rate risk is the risk that an interest rate change could adversely affect an investment’s fair value.

HPRS does not have a policy to limit interest rate risk.

The reporting of effective duration in the table below quantifies, to the fullest extent possible, the interest rate risk of the system’s fixed income assets.

Effective Duration of Fixed Income Investments

	Investment Maturities				<u>Totals</u>
	<u><1 Year</u>	<u>1-5 Years</u>	<u>>5-10 Years</u>	<u>>10 Years</u>	
U.S. Government Obligations	\$1,487,340		\$1,150,359	\$7,191,310	\$9,829,009
U.S. Government Guaranteed Mortgages				1,970,943	1,970,943
U.S. Government Agency Obligations	14,636	\$6,157,379	6,039,652	13,157,173	25,368,840
Collateralized Mortgages				4,259,219	4,259,219
Asset-Backed Securities		6,856,639	488,130	52,743	7,397,512
Corporate Bonds		3,867,348	7,838,648	6,063,622	17,769,618
Commingled Funds		12,517,696	68,549,562		81,067,258
Totals	\$1,501,976	\$29,399,062	\$84,066,351	\$32,695,010	\$147,662,399

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of a failure of a depository institution or counterparty to a transaction, HPRS will be unable to recover the value of deposits, investments, or collateral securities in the possession of an outside party. At December 31, 2005, all debt securities were registered in the name of HPRS and held in the custody of US Bank.

The Federal Deposit Insurance Corporation (FDIC) insured \$138,423 of HPRS bank balances. The remaining bank balance was collateralized with securities held in the name of US Bank in a pooled collateral fund for all public funds, as required by state statute. HPRS does not have a policy to limit custodial credit risk.

Foreign Currency Risk – Foreign Currency Risk is the risk that changes in exchange rates between the U.S. dollar and foreign currencies could adversely affect an investment's fair value. HPRS does not have a policy to limit foreign currency risk. HPRS exposure to currency exchange risk is as follows:

International Equity Securities, December 31, 2005

Currency	Allocation	Fair Value
Argentina	0.03%	\$38,325
Australia	2.22	2,553,523
Austria	0.24	271,217
Bahamas	0.02	26,462
Belgium	1.35	1,549,138
Belize	0.00	2,044
Bermuda	0.27	308,982
Brazil	2.06	2,367,051
British Virgin Islands	0.02	21,630
Canada	3.47	3,993,627
Cayman Islands	0.05	53,472
Chile	0.20	234,372
China	0.37	427,027
Colombia	0.01	7,668
Denmark	0.23	261,735
Finland	1.25	1,444,016
France	9.19	10,574,486
Germany	6.23	7,165,559
Greece	0.18	203,432
Hong Kong	3.50	4,024,233
Hungary	0.02	22,464
Iceland	0.00	2,209
India	0.31	356,034
Indonesia	0.06	74,027
Ireland	0.75	864,947
Israel	0.19	218,528
Italy	3.99	4,598,197
Japan	18.01	20,727,216
Luxembourg	0.07	85,974
Malaysia	0.02	27,107
Mexico	0.99	1,142,548
Netherlands	4.91	5,653,252
Netherlands Antilles	0.00	2,092
New Zealand	0.03	39,157
Norway	0.49	567,493
Panama	0.00	4,140
Peru	0.03	29,693
Philippines	0.03	39,123
Poland	0.03	40,253
Portugal	0.10	112,624
Russia	0.80	924,697
Singapore	0.33	385,435
South Africa	0.53	607,093
South Korea	1.35	1,549,645
Spain	2.43	2,793,116
Sweden	1.26	1,452,667
Switzerland	9.19	10,578,341
Taiwan	0.37	421,076
Thailand	0.05	57,212
Turkey	0.06	71,136
United Kingdom	20.74	23,869,048
Venezuela	0.01	5,812
Total Securities		
Subject to Foreign		
Currency Risk	98.04%	\$112,850,357
United States Dollars	1.96	2,254,581
Total	100.00%	\$115,104,938

Securities Lending -- Ohio Revised Code Section 5505.06 and the Board of Trustees authorizes HPRS to participate in a securities lending program. Under this program, administered by US Bank, securities are loaned to investment brokers/dealers (borrowers). In return, HPRS receives cash collateral and agrees to return the collateral for the same securities in the future. Cash collateral from securities loaned is, simultaneous to the loan, reinvested in repurchasing agreements ("repo's"). Securities loaned and repo's are collateralized at a minimum of 102 percent of the fair value of loaned securities. Collateral is marked-to-market daily. If the fair value of the collateral held falls below 102 percent of the fair value of securities loaned, additional collateral is provided. The maturity of the repo's is always identical to the maturity of the securities loaned. Further, there is always a positive spread between the cost of funds raised from securities loaned and the income earned from the associated repo's. At year-end, HPRS had no credit risk exposure to borrowers because the fair value of collateral HPRS held exceeded the fair value of securities loaned. Either HPRS or the borrowers can terminate all loans on demand. The custodial bank and its affiliates are prohibited from borrowing HPRS securities. HPRS cannot pledge or sell collateral securities received unless the borrower defaults.

As of December 31, 2005, the fair values of loaned securities and associated collateral (repo agreements and short-term investments) were \$179,114,581 and \$186,625,326, respectively.

Total net proceeds from securities lending was \$281,342 in 2005.

Derivatives – Derivatives are instruments on which the fair values are derived from the value of some other asset or index. At December 31, 2005, HPRS held mortgage and asset-backed securities that may be categorized as derivative securities.

The yield on a mortgage or asset-backed security depends on both the amount of interest collected over the life of the security and the change in the market value. To the extent that the underlying debt is retired before maturity, the yield is reduced.

The fair value of mortgage and asset-backed securities held by HPRS at December 31, 2005 was \$4,259,219 and \$7,397,512, respectively.

Property and Equipment

Capital Assets – An item of property or equipment in excess of \$5,000 is capitalized at cost when acquired. An improvement in excess of \$5,000 that extends the useful life of an asset is capitalized. An expenditure for maintenance or repair of an asset is expensed as incurred. Depreciation

is computed using the straight-line method over the following range of useful lives of the assets:

Furniture and Fixtures	3 - 10 years
Office Equipment	3 - 10 years

The following is a summary of equipment, at cost, less accumulated depreciation, at December 31, 2005:

Cost, 12/31/04	\$154,080
+ Additions	11,750
- Retirements	---
Cost, 12/31/05	\$165,830
Accumulated Depreciation, 12/31/04	\$123,020
+ Depreciation	11,636
- Retirements	---
Accumulated Depreciation, 12/31/05	\$134,656
Book Value, 12/31/05	\$31,174

Pension Benefits for Employees

The employees of HPRS are members of the Ohio Public Employee Retirement System (OPERS), which 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, employer contributions are invested by OPERS to provide a formula retirement benefit similar in nature to 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.

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 writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-6701 or 800-222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2005, member and employer contribution rates were consistent across all three plans. The 2005 member contribution rate was 8.5%

of covered payroll. The 2005 employer contribution rate was 13.55% of covered payroll. HPRS employer contributions to OPERS for the years ending December 31, 2005, 2004, and 2003 were \$72,998, \$70,264, and \$68,486, respectively, which were equal to the required contributions for each year.

Other Postemployment Benefits for Employees

As described above, Ohio Public Employees Retirement System (OPERS) administers three separate pension plans — the Traditional Pension Plan, the Member-Directed Plan, and the Combined Plan. OPERS provides retirement, disability, survivor, cost-of-living adjustments, death benefits, and postemployment health care coverage 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 postemployment health care coverage.

In order to qualify for postemployment health care coverage, Age & Service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS is considered to be an Other Postemployment Benefit (OPEB) as described in GASB Statement 12.

A portion of each employer's contribution to OPERS is set aside for the funding of postemployment health care. The Ohio Revised Code provides statutory authority for employer contributions to fund postemployment health care. The 2005 employer contribution rate was 13.55% of covered payroll, of which 4.00% was used to fund health care for the year — a total of \$21,549.

The assumptions and calculations below are based on OPERS' latest actuarial review performed as of December 31, 2004:

- Funding Method — An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarially accrued liability.
- Assets Valuation Method — All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used under which assets are adjusted annually to reflect 25% of unrealized market appreciation (or depreciation).
- Investment Return — The investment assumption rate is 8.00%.
- Active Employee Total Payroll — An annual increase of 4.00%, compounded annually, is the base portion of the individual pay increase

assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.00% base increase, are assumed to range from 0.50% to 6.30%.

- Health Care — Health care costs are assumed to increase at the projected wage inflation rate, plus an additional factor ranging from 1% to 6% for the next 8 years. In subsequent years (9 and beyond), health care costs are assumed to increase at 4% (the projected wage inflation rate).

OPEB are advance-funded on an actuarially determined basis. At December 31, 2005, the number of active contributing participants in the Traditional Pension and Combined Plans totaled 376,109. The actuarial value of OPERS' net assets available for OPEB at December 31, 2004 was \$10.8 billion. The actuarially accrued liability and the unfunded actuarially accrued liability, based on the actuarial cost method used, were \$29.5 billion and \$18.7 billion, respectively.

In 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs. Under the HCPP, retirees eligible for health care coverage will

receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

Effective January 1, 2006, member and employer contribution rates increased to allow for additional funds to be allocated to the health care plan.

Risk Management

HPRS purchases insurance policies in varying amounts providing coverage for general liability, property damage, employee, and public official liability. No settlements exceeded insurance coverage over the past three years and coverage has not been significantly reduced.

Contingent Liabilities

HPRS is a party to various litigation actions. While the final outcome cannot be determined at this time, management is of the opinion that the liability, if any, for these legal actions will not have a material adverse effect on the financial position of HPRS.

Required Supplementary Schedules

Schedule of Employer Contributions

Years Ending December 31, 2000-2005

Annual Required

<u>Year</u>	<u>Contribution</u>	<u>% Contributed</u>
2000	13,210,189	100
2001	13,901,313	100
2002	14,923,893	100
2003	16,361,339	100
2004	17,205,610	100
2005	18,467,789	100 in 1 st half; 96.9 in 2 nd half

The amounts reported in this schedule do not include contributions for postemployment health care benefits.

The Board adopted all contribution rates as recommended by the actuary.

Schedule of Funding Progress

Years Ending December 31, 1999-2004

Valuation <u>Year</u>	Actuarially Accrued <u>Liab. (AAL)</u>	Valuation <u>Assets</u>	Unfunded Actuarially Accrued <u>Liab. (UAAL)</u>	Assets as a <u>% of AAL</u>	Active Member <u>Payroll</u>	UAAL as a <u>% of Active Member Payroll</u>
1999 ▲	577,010,085	546,510,779	30,499,306	94.7	66,017,381	46.2
2000 ►	594,222,603	570,039,631	24,182,972	95.9	69,028,285	35.0
2001	636,715,458	551,279,438	85,436,020	86.6	76,344,002	111.9
2002 ►	663,069,805	527,604,456	135,465,349	79.6	78,997,065	171.5
2003	702,799,017	545,981,513	156,817,504	77.7	81,737,962	191.9
2004 ▲	734,464,371	569,858,387	164,605,984	77.6	81,757,707	201.3

The amounts reported in this schedule do not include assets or liabilities for postemployment health care benefits.

▲ Plan amendment.

► Assumption or method change.

Notes to the Trend Data

Information in the *Required Supplementary Schedules* is from the actuarial valuation for each year indicated.

Additional information from the latest actuarial valuation is as follows:

Valuation Date	December 31, 2004
Actuarial Cost Method	Entry Age
Amortization Method	Level Percent Open
Remaining Amortization Period	30 years for retirement allowances in determining the Annual Required Contribution
Asset Valuation Method	4 year smoothed market, 20% Corridor
<u>Actuarial assumptions:</u>	
Investment Rate of Return	8.0%
Projected Salary Increases	4.3 – 7.7%, including wage inflation of 4.0%
Cost-of-living adjustments for retirees	3% CPI increases for years after age 53

Notes to Required Supplementary Schedules

Description of Schedule of Funding Progress

When a new benefit that applies to service already rendered is added, an “unfunded accrued liability” is created. Laws governing HPRS require that these additional liabilities be financed systematically over a period of future years. Also, if actual financial experiences are less favorable than assumed financial experiences, the difference is added to unfunded accrued liabilities.

In an inflationary economy, the value of the dollar decreases over time. This environment results in member pay increasing in dollar amounts, resulting in unfunded accrued liabilities increasing in dollar amount, all at a time when the actual substance of these items may be decreasing. Looking at just dollar amounts of unfunded accrued liabilities can be misleading. Unfunded accrued liabilities divided by active member payroll provides an index, which aids understanding. The smaller the ratio of unfunded liabilities to active member payroll, the stronger the system. Observation of this relative index over a period of years will give an indication of whether the system is becoming financially stronger or weaker.

Actuarial Assumptions and Methods

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at December 31, 2004.

An entry age normal actuarial cost method of valuation is used in determining benefit liabilities and normal cost. Differences in the past between assumed experience and actual experience (“actuarial gains and losses”) become part of actuarially accrued liabilities. Unfunded actuarially accrued liabilities are amortized to produce payments (principal and interest) that are a level percent of payroll contributions.

The assets were valued on a market basis that recognizes each year’s gain or loss between actual and assumed investment return over a closed four-year period.

Other actuarial assumptions and methods are as follows:

- a rate of return on investments of 8.0% as of December 31, 2004, compounded annually, net of administration expenses,
- projected salary increases of 4.0%, compounded annually, attributable to inflation,
- additional projected salary increases ranging from 0.3% to 3.7% per year, depending on service, attributable to seniority and merit,
- postemployment mortality life expectancies of members based on the 1983 Group Annuity Mortality Male and Female Tables,
- rates of withdrawal from active service before retirement for reasons other than death, rates of disability, and expected retirement ages developed on the basis of actual plan experience,
- projected health care premium increases of 4.0%, compounded annually, attributable to inflation,
- health care benefit recipients are eligible for Medicare on attainment of age 65, or immediately, if retired for disability, and
- employer contributions paid in equal installments throughout the employer fiscal year.

The following employer, member, and retiree data is from the latest actuarial valuation, dated December 31, 2004:

Actuarial Value of Pension Benefits Payable

Retiree & beneficiaries currently receiving benefits & terminated members not yet receiving benefits	\$445,084,791
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Current Members

Accumulated member contributions Including allocated investment income	\$77,100,466
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Additional Information

Schedule of Administrative Expenses

Year Ending December 31, 2005

Personnel	<u>\$270,516</u>
Professional and Technical Services	
Computer services	37,600
Actuary	79,900
Training and seminars	32,394
Medical Consulting	4,540
Audit	15,580
Miscellaneous services by others	7,302
Medical services	<u>6,317</u>
Total Professional and Technical Services	<u>183,633</u>
Communications	
Printing	11,449
Postage	23,737
Telephone	<u>12,249</u>
Total Communications	<u>47,435</u>
Other Expenses	
Office Rent	65,923
Depreciation	11,300
Insurance	27,822
Equipment repairs and maintenance	2,556
Supplies	7,712
Miscellaneous	15,363
Retirement study commission	3,084
Travel	12,908
Membership and subscriptions	1,946
New equipment	<u>3,963</u>
Total Other Expenses	<u>152,577</u>
Total Administrative Expenses	<u><u>\$654,161</u></u>

Above amounts do not include investment department administrative expenses.

Schedule of Investment Expenses

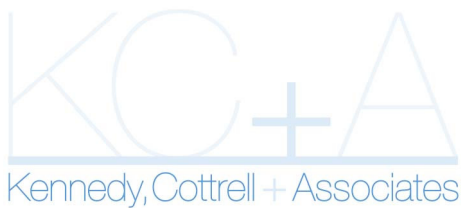
Year Ending December 31, 2005

Personnel	<u>\$259,908</u>
Professional Services	
Investment services	2,820,929
Monitor services	<u>180,017</u>
Total Professional Services	<u>3,000,946</u>
Other Expenses	
Computer Services	37,600
Memberships and subscriptions	2,920
Printing and supplies	<u>10,359</u>
Total Other Expenses	<u>50,879</u>
Total Investment Expenses	<u><u>\$3,311,733</u></u>

Payments to Consultants

Year Ending December 31, 2005

<u>Consultant</u>	<u>Fee</u>	<u>Service</u>
Gabriel, Roeder, Smith & Co.	\$79,000	Actuarial
Kennedy, Cottrell + Associates	14,925	Auditing
Callan Associates	170,017	Investment
Elkins/McSherry	10,000	Investment



INDEPENDENT AUDITOR'S 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

The Retirement Board
Ohio State Highway Patrol Retirement System

We have audited the combining statement of plan net assets of the Ohio State Highway Patrol Retirement System (HPRS), as of December 31, 2005, and the related combining statement of changes in plan net assets for the year then ended, and have issued our report thereon dated May 23, 2006. 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 HPRS' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions 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 caused by error or fraud 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether HPRS' 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.

This report is intended for the information and use of the audit committee, management, Board of Trustees, and 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
May 23, 2006

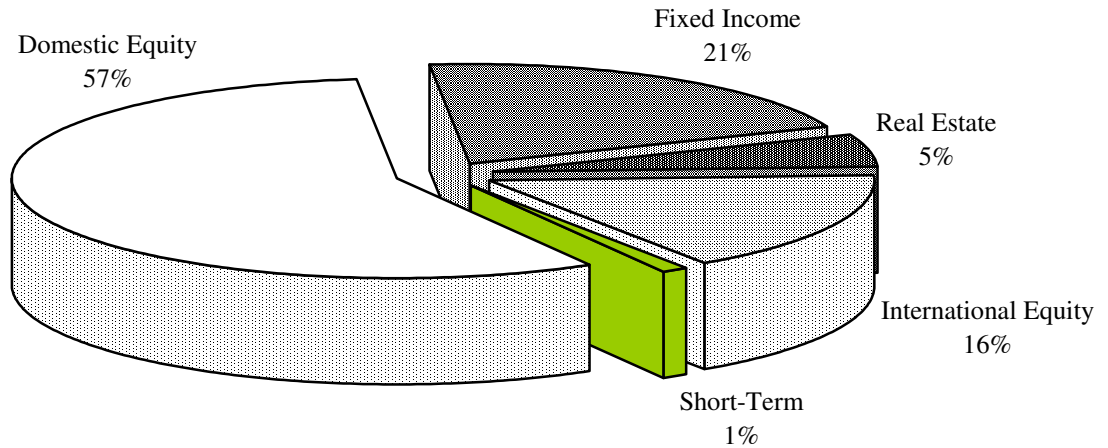
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Investment Section

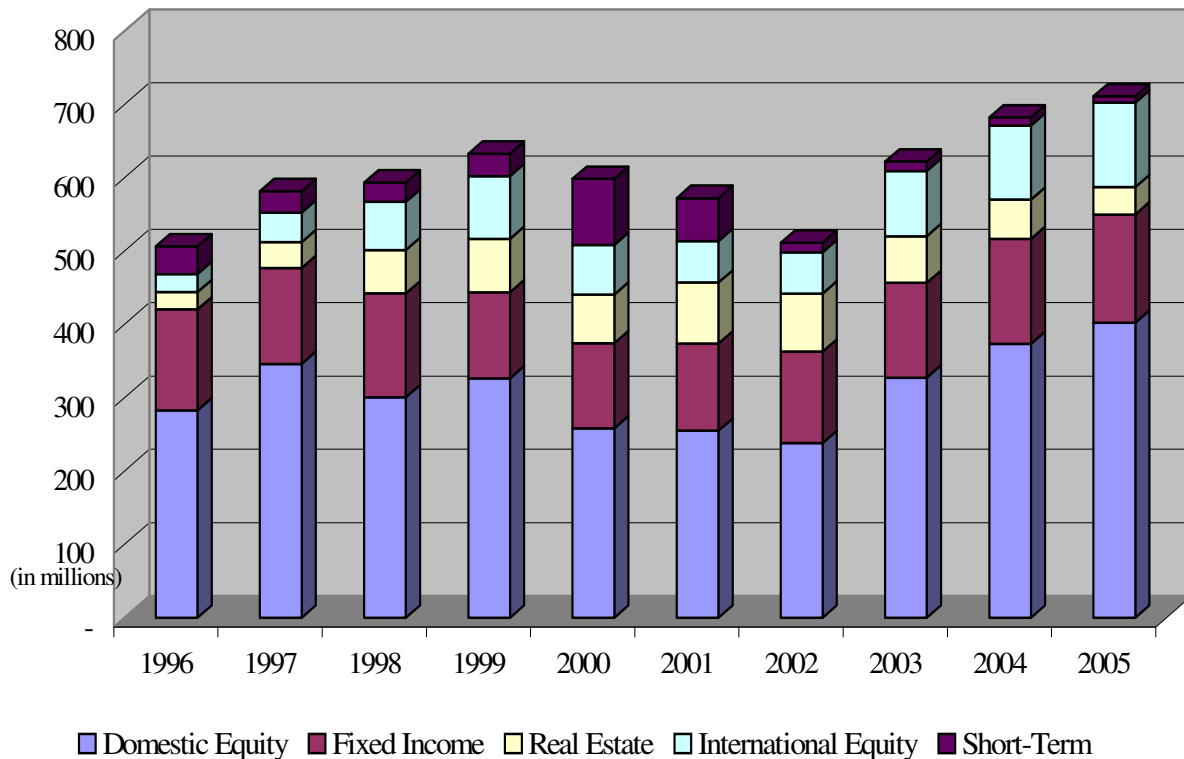
Investment Distribution

at Fair Value, December 31, 2005



Ten-Year Investment Comparison

at Fair Value, December 31, 2005



Investment Review

Year Ending December 31, 2005

General Market & Economic Conditions

Santa Claus never came to the U.S. stock market. A fourth quarter stock rally derailed after short-term Treasury yields (two-year) surpassed longer ones (five-year and 10-year) for the first time since 2000. The last four times the yield curve inverted preceded a recession. The Dow advanced 2.1% for the fourth quarter and a meager 1.7% for the year. The S&P 500 (+2.1%) and NASDAQ (+2.7%) rose during the quarter. The S&P 500, a broad market indicator of U.S. stocks, advanced 4.9% for the year -- the smallest annual gain since 1994. The paltry 2.1% return for the NASDAQ was the least annual movement since the tech-laden index began trading in 1971. Despite solid earnings and economic growth, escalating oil prices and the Iraq war plagued U.S. markets all year. Not surprisingly, energy was the best performing sector of the S&P 500 for 2005. Other commodities did well, especially gold, exceeding \$500 an ounce. During the quarter, value (S&P 500 Citi Value: +2.2%) edged growth (S&P 500 Citi Growth: +2.0%). For the year, midcaps beat large and small -- the latter had led for more than five years. In December, the Fed increased short-term interest rates to 4.25%, its eighth rate hike of the year. For the quarter, the Lehman Aggregate Bond Index rose 0.59%. 2005 ended with the Treasury yield curve inverted. The disconnect between short and long-term yields in a rising interest rate environment prompted Fed Chairman Alan Greenspan earlier this year to call it a "conundrum." U.S. Treasuries (+2.79%) led the fixed income sector during the 12-month period. The dollar, helped by the U.S. interest rate hikes, came roaring back in 2005 to record its best performance in four years, climbing more than 12% each against the euro and yen. The lackluster U.S. markets sent many investors overseas, where the markets sizzled. MSCI EAFE jumped 4.1% for the quarter. In Asia, the markets (MSCI Pacific: +8.6%) fared even better. For the year, Japan's Nikkei 225 surged more than 40% and Seoul's KOSPI Index topped that, rocketing more than 50%. Emerging Markets continued its winning ways, up 7.2% for the quarter and 34.5% for the year. The Istanbul IMKB-100, the benchmark Turkish stock index, came in first among major equity indexes, soaring 59% in 2005.

Source: Callan Associates

Investment Operations

Given the outstanding performance achieved by most public pension funds in 2004 -- the HPRS investment return was over 12% -- many market analysts predicted that 2005 would return to more normal levels. For the HPRS, that would be about 8%. That was the case with the HPRS achieving a 7.6% return. Across the HPRS portfolio, managers in all asset classes recorded strong performance. According to Callan Associates, the HPRS investment consultant, the HPRS return in 2005 was median level for all public pension funds. Over the next two years, the negative effects of 2000-2002 will drop out

of the 5-year numbers and the HPRS performance will return to more normal and expected levels.

A measurement of pension fund solvency is the unfunded period. This period refers to the number of years it would take to pay for the benefits earned by members for which there are no current assets to cover. It is normal for a pension fund to have an unfunded period, and typically those periods are between 20 and 30 years. Under Ohio Law, the public pension funds are expected to have an unfunded period of 30 years or less. If that period exceeds 30 years, the funds are required to develop a plan to reduce that unfunded period and report the plan and progress on the plan to the legislature. The unfunded period can increase when benefits are added and made retroactive to retired members. The unfunded period can also increase when investment expectations are not achieved. For example, if benefit increases exceeded the level expected, or if investment returns were below the level expected, the unfunded period would increase. During the last 10 years, both of these conditions occurred.

To address the unfunded period in recent years, the HPRS increased and decreased the employer and employee contribution rates. When the unfunded period was unusually low, the HPRS reduced either the employer or employee contribution rate, or both. Likewise, when the unfunded period was above acceptable levels, contribution rates were increased.

In September of 2004, the HPRS Board increased the employer contribution rate by 1% to lower the unfunded period below 30 years. It is expected that, over the next few years, the unfunded period will fluctuate and that other increases/decreases in contribution rates may be necessary. Considering the almost-daily news that private sector corporations are increasing their contributions to their pension plans, this continuous process should not be a cause for concern.

With regard to monitoring system costs and maintaining financial solvency, the HPRS continually makes minor adjustments to preclude the need to make drastic changes to contributions and/or benefits that may adversely impact members in the short-term. Working with the investment consultant, the Board continues to adjust the investment strategy to optimize returns. These changes will position the investment portfolio to meet or exceed the 8% expected rate of return during the next three years. Any changes are made after considering the expected rates of return for all asset classes. The Board intentionally modified the investment portfolio to minimize the level of risk so that 8% could be attained in the next few years with less risk.

Summary by Richard A. Curtis, Executive Director

Schedule of Investment Results

Year Ending December 31, 2005

	<u>2005</u>	<u>2004</u>	<u>3-Year</u>	<u>5-Year</u>
Domestic Equity	6.45%	14.74%	18.89%	4.49%
Standard & Poors 500 (large cap)	4.91	10.88	14.39	0.54
Russell 2500 (small/mid cap)	8.11	18.29	23.00	9.14
International Equity	13.58	17.59	20.95	4.29
MSCI EAFE Index	13.54	20.25	23.68	4.55
Fixed Income	4.12	5.61	5.53	7.10
Lehman Brothers Aggregate	2.43	4.34	3.62	5.87
Real Estate	14.99	9.06	9.91	9.01
NCREIF Classic Index	20.06	14.43	13.83	10.61
Domestic Short Term	4.32	1.76	2.35	2.84
Total Fund	7.42	12.13	14.62	5.98
Absolute Objective	8.00	8.00	8.00	8.00
Relative/Composite Benchmark ►	7.88	12.20	14.44	5.51

► Relative/Composite Benchmark: 32% S&P 500, 16% Russell 2500, 25% L/B Aggregate, 15% MSCI EAFE Index, and 12% NCREIF Total Index.

All returns are reported gross of fees, using time-weighted annualized rates of return, in accordance with the Association for Investment Management and Research (AIMR) standards.

Source: Callan Associates

Investment Summary

December 31, 2005

<u>Portfolio Type</u>	<u>Fair Value</u>	<u>% of Total Fair Value</u>	<u>Policy %</u>
Domestic Equity	\$402,245,606	56.6	48.0
Fixed Income	147,662,399	20.8	25.0
Real Estate	37,247,312	5.2	12.0
International Equity	115,104,938	16.2	15.0
Short-Term	8,573,118	1.2	0.0
Total	<u>\$710,833,373</u>	<u>100.0</u>	<u>100.0</u>

For a complete list of portfolio holdings, please contact the Chief Financial Officer, HPRS, 6161 Busch Boulevard, Suite 119, Columbus, OH 43229-2553.

Largest Equity Holdings (by Fair Value)

December 31, 2005

	<u>Shares</u>	<u>Fair Value</u>
General Electric Co	98,000	\$3,434,900
Pfizer Inc	122,300	2,852,036
Verizon Communications Inc	88,800	2,674,656
Exxon Mobil Corp	46,850	2,631,565
Citigroup Inc	53,100	2,576,943
American Power Conversion Corp	102,200	2,248,400
Northrop Grumman Corp	36,500	2,194,015
Chevron Corp	37,400	2,123,198
Wyeth	45,900	2,114,613
Bank of America Corp	45,682	2,108,224

Largest Fixed-Income Holdings (by Fair Value)

December 31, 2005

	<u>Coupon %</u>	<u>Maturity</u>	<u>Rating</u>	<u>Par Value</u>	<u>Fair Value</u>
US Treasury Bond	8.000	11/15/21	AAA	\$2,500,000	\$3,444,250
US Treasury Bond	7.500	11/15/16	AAA	1,500,000	1,884,135
US Treasury Bond	6.250	05/15/30	AAA	1,500,000	1,862,925
FNMA Pool #788908	6.000	08/01/34	AAA	1,533,360	1,547,865
Federal Home Loan Bank	5.800	09/02/08	AAA	1,500,000	1,537,500
Federal Home Loan Mortgage	6.250	03/05/12	AA-	1,500,000	1,522,965
Federal Home Loan Mortgage	4.750	12/08/10	AAA	1,500,000	1,497,660
US Treasury Note	2.000	05/15/06	AAA	1,500,000	1,487,340
Ford Credit Auto Owner Tr 05-A	3.480	11/15/08	AAA	1,500,000	1,481,040
FNMA Grantor Trust 2002-M2	4.717	08/25/12	AAA	1,500,000	1,475,235

Investment Portfolio

December 31, 2005

Fixed Income

	<u>Coupon %</u>	<u>Maturity</u>	<u>Par Value</u>	<u>Fair Value</u>
US Treasury Bond	7.500	11/15/16	\$1,500,000	\$1,884,135
US Treasury Bond	6.250	05/15/30	1,500,000	1,862,925
US Treasury Bond	8.000	11/15/21	2,500,000	3,444,249
US Treasury Note	2.000	05/15/06	1,500,000	1,487,340
US Treasury Note	4.000	11/15/12	100,000	97,848
US Treasury Note	4.250	08/15/15	965,000	952,523
US Treasury Note	4.375	08/15/12	100,000	99,988
Total US Government Obligations			\$8,165,000	\$9,829,008

Govt National Mtg Assoc 02-9	5.881	03/16/24	605,960	615,795
GNMA Pool #423876	7.500	07/15/26	56,576	59,646
GNMA Pool #423906	7.500	07/15/26	57,870	61,011
GNMA Pool #575876	6.500	12/15/31	253,753	265,223
GNMA Pool #781598	5.000	05/15/33	980,811	969,267
Total US Government Guaranteed Mortgages			\$1,954,970	\$1,970,942

Federal Home Loan Bank	5.800	09/02/08	\$1,500,000	\$1,537,500
Federal Home Loan Mortgage	4.750	12/08/10	1,500,000	1,497,660
Federal Home Loan Mortgage	5.300	05/12/20	1,500,000	1,461,555
Federal Home Loan Mortgage	5.125	07/15/12	250,000	254,533
Federal Home Loan Mortgage	6.250	03/05/12	1,500,000	1,522,965
Federal Home Loan Mortgage	6.875	09/15/10	1,000,000	1,088,440
Federal National Mortgage	4.300	02/17/10	975,000	959,156
Federal National Mortgage Assn	4.375	09/07/07	250,000	248,125
Federal National Mortgage Assn	5.500	03/15/11	1,000,000	1,033,750
Federal National Mortgage Assn	7.125	01/15/30	825,000	1,076,881
FHLMC Gold Pool #C00492	7.500	01/01/27	\$38,049	40,040
FHLMC Gold Pool #E00476	6.500	03/01/12	127,674	131,135
FNMA DUS Pool #385278	6.110	07/01/12	965,896	1,014,751
FNMA Pool #313708	7.500	08/01/12	127,087	133,650
FNMA Pool #323406	5.978	11/01/08	493,672	503,077
FNMA Pool #525908	7.000	12/01/29	12,278	12,824
FNMA Pool #535466	7.000	08/01/30	14,492	15,128
FNMA Pool #735417	6.500	03/01/35	898,827	923,751
FNMA Pool #767413	5.500	01/01/34	1,123,834	1,113,911
FNMA Pool #779668	5.500	07/01/34	1,116,118	1,106,262
FNMA Pool #788908	6.000	08/01/34	1,533,360	1,547,865
FNMA Pool #796023	6.000	09/01/34	918,882	927,575
FHLMC 1531-M	6.000	06/15/08	321,604	323,421
FHLMC 1617-PJ	6.200	01/15/23	77,901	77,807
FHLMC 1669-G	6.500	02/15/23	12,436	12,413
FHLMC 2123-PE	6.000	12/15/27	168,815	170,410
FHLMC 2587-WB	5.000	11/15/16	1,300,000	1,290,068
FHLMC 2700-PG	4.500	05/15/32	800,000	755,928
FHLMC 2802 NC	5.000	05/15/28	500,000	497,215
FHLMC 2836 QD	5.000	09/15/27	1,000,000	991,470
FNMA 1993-208J	6.250	02/25/23	140,608	140,301
FNMA 1993-223VD	6.150	08/25/06	14,646	14,636
FNMA 2002-70 PL	5.000	04/25/15	474,358	473,633
FNMA Grantor Trust 2002-M2	4.717	08/25/12	1,500,000	1,475,235
FNMA Series 2003-32 CL KB	5.000	03/25/17	1,000,000	995,770
Total U.S. Government Agency Obligations			\$24,980,537	\$25,368,841

Fixed Income (continued)

	<u>Coupon %</u>	<u>Maturity</u>	<u>Par Value</u>	<u>Fair Value</u>
American Home Mortgage Inv Tr 04-3 5A	4.290	10/25/34	\$1,033,127	\$1,009,303
Banc of America Coml Mtg	7.109	11/15/31	442,355	454,392
Bear Stearns Alt-A Tr 04-11	4.873	10/25/34	1,005,647	1,007,749
Bear Stearns Alt-a Tr 05-5	5.433	07/25/35	673,026	673,026
Merrill Lynch MTG INV 97-C1	7.120	06/18/29	134,346	135,210
Morgan Stanley Cap I 04-HQ4	4.830	04/14/40	1,000,000	979,540
Total Collateralized Mortgages			\$4,288,501	\$4,259,220
Capital One Multi Asst 03-A6	2.950	08/17/09	\$975,000	\$960,921
Centex Home Equity 01-A A4	6.470	07/25/29	52,920	52,743
CPL Transition Funding LLC 02-1	5.010	01/15/10	1,473,421	1,472,640
Distribution Financial Tr 03-2 A	4.460	04/15/08	1,000,000	1,000,330
Ford Credit Auto Owner Tr 05-A	3.480	11/15/08	1,500,000	1,481,040
M & I Auto Loan Trust 03-1 B	3.450	02/21/11	500,000	488,130
Navistar Financial Owner TR 03-A	2.240	11/15/09	900,000	878,814
Navistar Financial Corp Owner TR 04-A	2.010	08/15/08	1,077,636	1,062,894
Total Asset-Backed Securities			\$7,478,977	\$7,397,512
Archer-Daniels-Midland	7.000	02/01/31	\$900,000	\$1,060,443
Becton Dickinson	6.700	08/01/28	800,000	923,208
Block Financial Corp	5.125	10/30/14	600,000	563,160
British Telecom PLC	8.375	12/15/10	500,000	569,180
Coca Cola Enterprises	8.500	02/01/22	600,000	788,862
Comcast Cable Communication	8.375	03/15/13	445,000	515,079
Deluxe Corp	5.000	12/15/12	260,000	220,779
Developers Divers Realty	3.875	01/30/09	1,000,000	960,540
General Electric Capital Corp	6.000	06/15/12	1,000,000	1,053,190
Goldman Sachs Capital I	6.345	02/15/34	750,000	787,898
Household Finance Corp	8.000	07/15/10	1,000,000	1,115,580
Independence Comm Bank Var	3.750	04/01/14	455,000	435,840
International Lease Finance Corp	5.875	05/01/13	1,000,000	1,034,840
Keycorp FRN	4.393	07/23/07	1,000,000	1,002,290
Knight-Ridder Inc	6.875	03/15/29	550,000	456,181
Landesbank Baden Wurttemberg	6.350	04/01/12	450,000	490,959
Morgan Stanley	5.300	03/01/13	1,000,000	1,002,010
Pitney Bowes Inc	5.000	03/15/15	250,000	246,723
Private Export Funding	4.550	05/15/15	750,000	734,295
SLM Corp	5.125	08/27/12	260,000	260,377
SLM Corp FRN	4.340	07/27/09	220,000	219,758
SunTrust Capital II	7.900	06/15/27	1,000,000	1,071,710
US BANK NA MN	6.375	08/01/11	1,200,000	1,281,396
Virginia Electric & Power	4.100	12/15/38	1,000,000	975,320
Total Corporate Bonds			\$16,090,000	\$17,769,618
Western Asset High Yield Portfolio				\$12,517,696
Western Asset Strategic Emerging Markets				13,049,166
Western Asset Strategic Non-Hedged				11,060,042
Wells Capital Management				44,440,354
Total Commingled Funds				\$81,067,258
Total Fixed Income				\$147,662,399

Domestic Equity

	<u>Shares</u>	<u>Fair Value</u>		<u>Shares</u>	<u>Fair Value</u>
3M Co	17,700	\$1,371,750	Arch Chemicals Inc	24,300	\$726,570
A A R Corp	21,600	517,320	Arch Coal Inc	2,500	198,750
A M R Corp Del	3,700	82,251	Ashford Hospitality Trust Inc	53,890	565,306
A T M I Inc	25,100	702,047	AT&T Inc	77,300	1,893,077
Abbott Labs	50,300	1,983,329	Autodesk Inc	6,400	274,752
Abercrombie & Fitch Co Class A	7,400	482,332	Automatic Data Processing Inc	4,400	201,960
Acambis PLC ADR	24,300	175,689	Autozone Inc	1,300	119,275
Accredited Home Lenders	25,380	1,258,340	Avery Dennison Corp	15,000	829,050
Activision Inc	6,333	87,015	Avnet Inc	5,400	129,276
Actuant Corporation	13,700	764,460	BJs Wholesale Club	25,500	753,780
Adobe System Inc	7,260	268,330	BJ Services Co	5,100	187,017
Advance Auto Parts Inc	20,350	884,411	BMC Software Inc	66,700	1,366,683
Advanced Analogic Technologies Inc	51,600	714,660	Baker Hughes Inc	4,800	291,744
Advanced Medical Optics Inc	11,500	480,700	Bank New York Inc	29,000	923,650
Aetna Inc	4,400	414,964	Bank of America Corp	45,682	2,108,224
Affiliated Managers Group Inc	6,800	545,700	Bard, C R Inc	8,900	586,688
Affymetrix Inc	7,100	339,025	Barnes & Noble Inc	14,400	614,448
Aflac Inc	29,300	1,360,106	Barr Labs Inc	10,400	647,816
Agere Systems Inc	3,500	45,150	Bausch & Lomb Inc	2,000	135,800
Agilent Technologies Inc	4,100	136,489	Baxter International Inc	9,600	361,440
Air Products & Chemicals Inc	5,300	313,707	Bearingpoint Inc	98,800	776,568
Akamai Technologies Inc	3,400	67,762	Beckman Coulter Inc	200	11,380
Alamosa Holdings Inc	3,200	59,552	Becton Dickinson & Co	6,600	396,528
Alcoa Inc	60,000	1,774,200	BellSouth Corp	68,050	1,844,155
Allergan Inc	3,600	388,656	Bemis Inc	40,500	1,128,735
Allele Inc	2,100	92,400	Berkley, W R Corp	2,200	104,764
Alliance Data Systems Corp	12,600	448,560	Best Buy Co Inc	400	17,392
Alliance Gaming Corp	20,000	260,400	Blackrock Inc	200	21,696
Alliant Techsystems Inc	300	22,851	Block, H R Inc	600	14,730
Allstate Corp	14,450	781,312	Blockbuster Inc Class A	84,900	318,375
Alltel Corp	21,000	1,325,100	Blyth Inc	8,000	167,600
Altria Group Inc	14,500	1,083,440	Boeing Co	2,000	140,480
Amdocs Limited	45,800	1,259,500	Borders Group Inc	9,700	210,199
American Eagle Outfitters Inc	36,900	847,962	Borg Warner Inc	18,200	1,103,466
American International Group Inc	200	13,646	Borland Software Corp	29,200	190,676
American Power Conversion Corp	102,200	2,248,400	Bowater Inc	34,300	1,053,696
American Standard Cos	31,050	1,240,448	Brinker International Inc	9,900	382,734
American Tower Corp	10,100	273,710	Bristol-Myers Squibb Co	34,800	799,704
Americredit Corp	39,350	1,008,541	Broadcom Corp	6,400	301,760
Americredit Corp	7,600	182,400	Brown & Brown Inc	4,200	128,268
Ametek Inc	15,600	663,624	Brown Forman Corp Class B	5,700	395,124
Amgen Inc	4,100	323,326	CBRL Inc	800	28,120
Amphenol Corp Class A	9,500	420,470	CEC Entertainment Inc	33,350	1,135,234
Amsouth Bancorporation	24,500	642,145	CH Robinson Worldwide Inc	3,000	111,090
Amylin Pharmaceuticals Inc	6,500	259,480	CONSOL Energy Inc	18,200	1,186,276
Analog Devices Inc	900	32,283	CVS Corp	39,400	1,040,948
AnnTaylor Stores Corp	1,400	48,328	Cablevision Systems NY Group Class A	45,900	1,077,273
Apollo Group Inc Class A	600	36,276	Cabot Corp	14,700	526,260
Apple Computer Inc	8,100	582,309	Cadbury Schweppes plc (ADR 4)	21,300	815,577
Applebee's International Inc	200	4,518	Cadence Design systems Inc	900	15,228
Aptar Group Inc	4,500	234,900	Campbell Soup Co	1,600	47,632
Aqua America Inc	1,200	32,760	Capital Leasing Funding Inc	51,630	543,664
Aramark Corp Class B	6,200	172,236	Cardinal Health Inc	10,600	728,750
Arch Cap Group Ltd	14,000	766,500	Career Education Corp	22,700	765,444

Domestic Equity (continued)

	<u>Shares</u>	<u>Fair Value</u>		<u>Shares</u>	<u>Fair Value</u>
Caremark Rx Inc	7,000	\$362,530	Danaher Corp	2,700	\$150,606
Carlisle Cos Inc	900	62,235	Darden Restaurants Inc	10,400	404,352
Carmax Inc	200	5,536	Del Monte Foods Co	85,800	894,894
Cash America International Inc	31,500	730,485	Dell Inc	1,000	29,950
Caterpillar Inc	1,000	57,770	Denbury Resources Inc	18,500	421,430
Cb Richard Ellis Group Inc Class A	1,100	64,735	DEX Media Inc	37,500	1,015,875
Cce Spinco Inc	325	4,258	Diamond Offshore Drilling Inc	4,600	319,976
Celgene Corp	6,600	427,680	Dicks Sporting Goods Inc	7,800	259,272
CenturyTel Inc	16,000	530,560	Diebold Inc	18,100	687,800
Ceridian Corp	3,400	84,490	Direct General Corp	35,600	601,640
Cerner Corp	2,100	190,911	Discovery Holding Co	5,900	89,385
Certegy Inc	1,100	44,616	Donnelley R R & Sons Co	21,300	728,673
Charles River Laboratories	4,900	207,613	Dover Corp	29,400	1,190,406
Check Free Corp	6,800	312,120	Dow Chemical Co	27,400	1,200,668
Checkpoint Systems Inc	27,400	675,410	Dow Jones & Co Inc	27,800	986,622
Cheesecake Factory Inc	6,000	224,340	Dress Barn Inc	19,000	733,590
Chesapeake Energy Corp	58,900	1,868,897	DuPont, E I de Nemours & Co	47,700	2,027,250
Chevron Corp	37,400	2,123,198	Duke Energy Corp	22,100	606,645
Chicago Mercantile Exch Holdings Inc	500	183,745	Dun & Bradstreet Corp	600	40,176
Chicos FAS Inc	12,400	544,732	Dycom Industries Inc	30,800	677,600
Chiron Corp	5,000	222,200	EOG Resources Inc	6,800	498,916
Church and Dwight Inc	4,900	161,847	East West Bancorp Inc	14,100	514,509
Cimarex Energy Co	4,313	185,502	Eaton Vance Corp	1,500	41,040
CINRAM Ltd	62,100	1,462,455	Ecolab Inc	1,300	47,151
Cintas Corp	13,280	546,206	Edwards A G Inc	23,800	1,115,268
Cisco Systems Inc	4,200	71,904	Edwards Lifesciences Corp	5,900	245,499
Citigroup Inc	53,100	2,576,943	Elan Corp plc (ADR)	56,200	782,866
Citizens Communications Co	83,700	1,023,651	Eli Lilly & Co	30,300	1,714,677
Citrix Systems Inc	4,500	129,285	EMCOR Group Inc	14,100	952,173
Claire's Stores Inc	800	23,376	Emerson Electric Co	4,200	313,740
Clear Channel Communications Inc	2,100	66,045	Encore Capital Group Inc	14,500	251,575
Coach Inc	800	26,672	Endo Pharmaceuticals Holdings Inc	5,200	157,352
Coca Cola Co	12,900	519,999	Energen Corp	11,600	421,312
Cognizant Technology Solutions	2,700	135,729	Energizer Holdings Inc	5,800	288,782
COGNOS Inc	6,200	215,202	Energy East Corp	19,600	446,880
Colgate Palmolive Co	28,100	1,541,285	Engelhard Corp	23,000	693,450
Comcast Corp Class A	51,000	1,321,920	ENSCO International Inc	24,900	1,104,315
Commerce Bancorp Inc NJ	5,800	199,578	Equifax Inc	10,800	410,616
Community Health Systems Inc	6,300	241,542	Equitable Resources Inc	400	14,676
Computer Sciences Corp	17,700	896,328	Everest RE Group Ltd	10,000	1,003,500
ConocoPhillips	12,700	738,886	Expedia Inc	5,300	126,988
Cooper Cameron Corp	2,700	111,780	Express Scripts Inc Class A	6,900	578,220
Corinthian Colleges Inc	57,300	674,421	Exxon Mobil Corp	46,850	2,631,565
Corning Inc	14,100	277,206	Fair Isaac Corp	6,100	269,437
Corporate Executive Board Co	200	17,940	Family Dollar Stores Inc	47,500	1,177,525
Corrections Corp of America	11,700	526,149	Federal Realty Inv Trust	1,400	84,910
Corus Bankshares Inc	14,800	832,796	Federated Investors Inc	1,700	62,968
Covance Inc	6,500	315,575	First Data Corp	2,700	116,127
Coventry Health Care Inc	1,950	111,072	First Energy Corp	7,550	369,875
Crown Castle International Corp	6,100	164,151	Fiserv Inc	3,400	147,118
Cullen Frost Bankers Inc	10,400	558,272	Fisher Scientific International Inc	200	12,372
Cytoc Corp	16,600	468,618	Flagstar Bancorp Inc	38,300	551,520
DTE Energy Co	6,950	300,171	Fleetwood Enterprises Inc	70,400	869,440
DaVita Inc	9,100	460,824	Florida Rock Industries Inc	1,400	68,684

Domestic Equity (continued)

	<u>Shares</u>	<u>Fair Value</u>		<u>Shares</u>	<u>Fair Value</u>
Foot Locker Inc	800	\$18,872	Hubbell Inc Class B	21,500	\$970,080
Forest City Enterprises Inc Class A	6,900	261,717	Humana Inc	15,300	831,249
Forest Laboratories Inc	13,800	561,384	Hunt J B Transportation Services Inc	34,700	785,608
Fortune Brands Inc	200	15,604	Huntington Bancshares Inc	47,500	1,128,125
Foundry Networks Inc	58,500	807,885	Huntsman Corp	28,800	495,936
Franklin Resources Inc	7,400	695,674	IMS Health Inc	400	9,968
Freescale Semiconductor Inc Class B	900	22,653	ITT Educational Services Inc	7,500	443,325
Fuller H B Co	14,500	465,015	I T T Industries Inc	2,100	215,922
Gallagher, Arthur J & Co	200	6,176	IAC Interactivecorp	3,500	99,085
Gannett Inc	7,800	472,446	IDEX Corp	13,300	546,763
Gap Inc	31,800	560,952	IDEXX Laboratories Inc	3,700	266,326
Gemstar TV Guide International Inc	133,000	347,130	Inamed Corp	300	26,304
Genentech Inc	8,300	767,750	INCO Ltd	23,700	1,032,609
General Electric Co	98,000	3,434,	IndyMac Bancorp Inc	2,200	85,844
General Growth Properties	4,400	206,756	Infinity Property & Casualty Co	4,500	167,445
General Mills Inc	19,300	951,876	infoUSA Inc	32,000	349,760
Genzyme Corp	1,300	92,014	Integrated Alarm Services	62,000	177,940
Getty Images Inc	1,600	142,832	Intel Corp	20,000	499,200
Gilead Sciences Inc	2,000	105,140	Inter-Tel Inc	34,400	673,208
Global Payments Inc	6,600	307,626	International Business Machines Corp	17,300	1,422,060
Global Power Equipment Group Inc	69,700	315,044	International Paper Co	38,100	1,280,541
Goldcorp Inc	28,500	634,980	Intersil Corp	4,900	121,912
Golden West Financial Corp	200	13,200	International Flavors & Fragrances	18,700	626,450
Goldman Sachs Group Inc	8,250	1,053,608	Intuit Inc	4,900	261,170
Goodrich Corp	700	28,770	Investment Technology Group Inc	15,100	535,144
Google Inc Class A	600	248,916	Invitrogen Corp	2,800	186,592
Grant Prideco Inc	2,600	114,712	Iron Mountain Inc	5,400	227,988
GTECH Holdings Corp	13,300	422,142	ITLA Capital Corp	16,100	786,485
Guidant Corp	8,600	556,850	Ivax Corp	14,900	466,817
HCA Inc	28,850	1,456,925	J P Morgan Chase & Co	35,444	1,406,772
HCC Insurance Holdings Inc	6,100	181,048	Jabil Circuit Inc	2,600	96,434
Halliburton Co	5,300	328,388	Jacobs Engineering Group Inc	4,700	318,989
Hanover Insurance Group Inc	400	16,708	Johnson & Johnson	23,400	1,406,340
Harrah's Entertainment Inc	5,900	420,611	Joy Global Inc	1,050	42,000
Harsco Corp	7,900	533,329	K B Home	3,100	225,246
Harte-Hanks Communications Inc	1,000	26,390	Kellogg Co	6,000	259,320
Hartford Financial Services Group Inc	10,400	893,256	Kerr McGee Corp	5,275	479,287
Hasbro Inc	61,000	1,230,980	Kimberly Clark Corp	35,000	2,087,750
Health Management Associates Inc	16,800	368,928	Kinder Morgan Inc	5,400	496,530
Health Net Inc	20,400	1,051,620	Kinross Gold Corp	71,900	662,918
Heinz H J Co	37,000	1,247,640	Knight Ridder Inc	10,570	669,081
Helen of Troy Corp Ltd	9,300	149,823	Kohl's Corp	2,700	131,220
Helmerich & Payne Inc	3,700	229,067	Kraft Foods Inc Class A	15,900	447,903
Highland Hospitality Corp	26,000	287,300	Kroger Co	38,950	735,376
Hilfiger, Tommy Corp	44,000	714,560	Laboratory Corp of America Holdings	1,900	102,315
Hillenbrand Industries Inc	14,300	706,563	Lam Research Corp	200	7,136
Hilton Hotels Corp	1,100	26,521	Lamar Advertising Co Class A	2,600	119,938
HNI Corp	5,500	302,115	Laureate Education Inc	600	31,506
Home Depot Inc	17,700	716,496	LeapFrog Enterprises Inc	63,000	733,950
HomeBanc Corp	97,120	726,458	LECG Corp	20,000	347,600
Honeywell International Inc	39,200	1,460,200	Lee Enterprises Inc	6,900	254,679
Hospira Inc	5,100	218,178	Legg Mason Inc	9,200	1,101,148
Houston Exploration Co	10,700	564,960	Leucadia National Corp	12,000	569,520
Hovnanian Enterprises Inc	1,000	49,640	Levitt Corp	17,600	400,224

Domestic Equity (continued)

	<u>Shares</u>	<u>Fair Value</u>		<u>Shares</u>	<u>Fair Value</u>
Liberty Global Inc Class A	20,500	\$461,250	National Semiconductor Corp	10,800	\$280,584
Lifepoint Hospitals Inc	6,400	240,000	Neenah Paper Inc	18,600	520,800
Limited Brands	56,500	1,262,775	NetIQ Corp	19,800	243,342
Lincare Holdings Inc	6,900	289,179	Newell Rubbermaid Inc	35,800	851,324
Linear Technology Corp	400	14,428	Newfield Exploration Co	1,600	80,112
Lockheed Martin Corp	300	19,089	News Corp Inc Class A	3,700	57,535
Lone Star Steakhouse Saloon	4,000	94,960	Nextel Partners Inc Class A	14,200	396,748
Lowe's Cos Inc	100	6,666	Nike Inc Class B	200	17,358
Lucent Technologies Inc	183,000	486,780	Noble Energy Inc	300	12,090
MCG Capital Corp	21,800	318,062	Nokia Corp	72,500	1,326,750
MEMC Electronic Materials Inc	10,000	221,700	Nordstrom Inc	7,000	261,800
MGM Mirage	5,800	212,686	North Fork Bancorporation Inc NY	27,700	757,872
Mair Holdings Inc	38,080	179,357	Northeast Utilities	54,300	1,069,167
Manor Care Inc	17,800	707,906	Northern Trust Corp	2,200	114,004
Marathon Oil Corp	22,000	1,341,340	Northrop Grumman Corp	36,500	2,194,015
Market Corp	100	31,705	Northstar Realty Finance Corp	12,600	128,394
Marriott International Inc Class A	1,400	93,758	NRG Energy Inc	11,200	527,744
Martin Marietta Materials Inc	13,000	997,360	NTL Inc	10,400	708,032
Massey Energy Co	14,900	564,263	NVIDIA Corp	1,700	62,152
Mattel Inc	1,400	22,148	NVR INC	1,190	835,380
McGraw-Hill Cos Inc	5,500	283,965	O'Reilly Automotive Inc	3,700	118,437
McCormick & Co Inc	500	15,460	OfficeMax Inc	22,900	580,744
McKesson Corp	9,200	474,628	OmniVision Technologies Inc	36,800	734,528
MeadWestvaco Corp	39,300	1,101,579	Omnicare Inc	11,800	675,196
Medco Health Solutions Inc	23,700	1,322,460	Omnicom Group Inc	1,800	153,234
Mediacom Communications	260,800	1,431,792	Oracle Corp	16,200	197,802
Medimmune Inc	3,500	122,570	Oshkosh Truck Corp	8,000	356,720
Medtronic Inc	5,500	316,635	OSI Pharmaceuticals Inc	26,400	740,256
Merck & Co Inc	27,900	887,499	Outback Steakhouse Inc	4,200	174,762
Mercury General Corp	7,000	407,540	Owens-Illinois Inc	92,100	1,937,784
Mercury Interactive Corp	8,400	233,436	P F Chang's China Bistro Inc	13,900	689,857
Meridian Resource Corp	53,800	225,960	PMI Group Inc	24,500	1,006,215
Merrill Lynch & Co Inc	14,200	961,766	PNC Financial Services Corp	10,250	633,758
Michaels Stores Inc	800	28,296	Packaging Corporation of America	34,900	800,955
Micron Technology Inc	1,500	19,965	Panera Bread Co Class A	2,900	190,472
Microsoft Inc	45,900	1,200,285	Patterson-UTI Energy Inc	15,000	494,250
Midas Inc	17,000	312,120	Patterson Cos Inc	3,500	116,900
Miller Herman Inc	1,900	53,561	Paychex Inc	500	19,060
Millipore Corp	4,000	264,160	Peabody Energy Corp	3,000	247,260
Mills Corp	11,900	499,086	Penn National Gaming Inc	500	16,475
Molson Coors Brewing Co Class B	15,400	1,031,646	Penney J C Co Inc	6,700	372,520
Monsanto Co	5,200	403,156	People's Bank	2,600	80,756
Monster Worldwide Inc	12,100	493,922	Pepsi Bottling Group Inc	1,900	54,359
Moodys Corp	8,000	491,360	PepsiCo Inc	10,700	632,156
Morgan Stanley	11,200	635,488	Pfizer Inc	122,300	2,852,036
Motorola Inc	26,550	599,765	Pharmaceutical Product Development	4,800	297,360
Murphy Oil Corp	23,800	1,284,962	Philadelphia Consolidated Holding Corp	1,700	164,373
Mylan Labs Inc	4,400	87,824	Pioneer Natural Resources	4,900	251,223
NCI Buildings Systems Inc	15,000	637,200	Pixar	900	47,448
NCR Corp	1,400	47,516	Plains Exploration & Product Co	2,600	103,298
NII Holdings Inc Class B	7,600	331,968	Polaris Industries Inc	7,500	376,500
NSTAR	33,500	961,450	Polo Ralph Lauren Corp	700	39,298
NACCO Industries Inc Class A	8,200	960,630	Polycom Inc	32,700	500,310
National-Oilwell Varco Inc	6,400	401,280	Power Integrations	30,700	730,967

Domestic Equity (continued)

	<u>Shares</u>	<u>Fair Value</u>		<u>Shares</u>	<u>Fair Value</u>
Praxair Inc	500	\$26,480	Simon Property Group Inc	1,000	\$76,630
Precision Castparts Corp	2,000	103,620	SINA Corp	19,000	459,040
Pride International Inc	29,200	897,900	SLM Corp	8,900	490,301
Procter & Gamble Co	34,392	1,990,609	Smith International Inc	7,200	267,192
Progressive Corp	2,000	233,560	Sonic Corp	4,000	118,000
Protein Design Labs Inc	6,100	173,362	Sonoco Products Co	10,600	311,640
Prudential Financial Inc	14,250	1,042,958	South Financial Group	24,400	671,976
Public Storage Inc	800	54,176	Southwestern Energy Co	1,200	43,128
QUALCOMM Inc	8,800	379,104	Sprint Nextel Corp	72,500	1,693,600
Quanta Capital Holdings Ltd	59,050	301,155	SRA International Inc	16,100	491,694
Quest Diagnostics Inc	6,500	334,620	St Jude Medical Inc	5,700	286,140
Questar Corp	2,600	196,820	St Paul Travelers Companies Inc	13,805	616,669
Quicksilver Resources Inc	3,300	138,633	Standard Pacific Corp	900	33,120
R H Donnelley Corp	200	12,324	Starbucks Corp	4,500	135,045
RailAmerica Inc	41,000	450,590	Starwood Hotels & Resorts Worldwide	900	57,474
Raytheon Co	7,500	301,125	State Street Corp	11,900	659,736
Red Hat Inc	8,200	223,532	Station Casinos Inc	1,600	108,480
Reebok International Ltd	1,500	87,345	Stericycle Inc	3,700	217,856
Reliant Energy Inc	171,500	1,769,880	Stone Energy Corp	13,300	605,549
Renaissance RE Holdings Ltd	8,800	388,168	Stryker Corp	5,800	257,694
Renal Care Group Inc	8,400	397,404	Sunoco Inc	8,800	689,744
Rent-A-Center Inc	55,300	1,042,958	SunTrust Banks Inc	18,900	1,375,164
Republic Services Inc	13,600	510,680	SUPERVALU Inc	26,200	850,976
ResMed Inc	8,200	314,142	Synopsys Inc	46,702	936,842
Respironics Inc	12,500	463,375	Synovus Financial Corp	1,800	48,618
Reynolds & Reynolds Co Class A	600	16,842	SYSCO Corp	16,300	506,115
RLI Corp	11,500	573,505	TJX Companies Inc	600	13,938
Rockwell Automation Inc	1,300	76,908	TXU Corp	1,000	50,190
Rockwell Collins Inc	7,800	362,466	Talbot's Inc	17,200	478,504
Rohm & Haas Co	17,900	866,718	Target Corp	600	32,982
Roper Industries Inc	2,600	102,726	Techne Corp	3,000	168,240
Ross Stores Inc	7,400	213,860	Telephone & Data Special	7,200	249,192
Rowna Cos Inc	29,100	1,037,124	Telephone & Data Systems Inc	7,200	259,416
Royal Group Technologies Ltd	73,400	660,600	TeleWest Global Inc	37,900	902,778
Russ Berrie & Co Inc	9,400	107,348	Tellabs Inc	83,800	913,420
SFBC International Inc	34,100	545,941	Tesororo Corp	800	49,240
SPX Corp	14,100	645,357	Texas Instruments Inc	16,300	522,741
Sabre Holdings Corp	59,100	1,424,901	The Hershey Co	14,700	812,175
Saks Inc	1,200	20,232	The Scotts Miracle-Gro Co	800	36,192
Salesforce.com Inc	1,300	41,665	The St Joe Co	8,100	544,482
SanDisk Corp	2,000	125,640	The Topps Co	42,400	315,032
Santarus Inc	90,600	480,180	Thermo Electron Corp	15,900	479,067
Sappi Limited (ADR)	76,700	869,011	Thomas Properties Group Inc	40,000	500,000
Sara Lee Corp	4,700	88,830	Tiffany & Co	400	15,316
Satyam Computer (ADR)	9,100	332,969	Timberland Co Class A	25,490	829,700
Schein, Henry Inc	4,200	183,288	Time Warner Inc	63,400	1,105,696
Schering Plough Corp	28,600	596,310	Toll Brothers Inc	10,300	356,792
Schwab Charles Corp	24,500	359,415	Torchmark Corp	11,500	639,400
Scientific Atlanta Inc	1,200	51,684	Tower Group Inc	50,000	1,099,000
Scripps, E W Co	7,300	350,546	Transaction Systems Architects Inc	32,400	932,796
Sealed Air Corp	400	22,468	Transocean Inc	16,650	1,160,339
Sears Holdings Corp	100	11,553	Triad Hospital Inc	14,300	560,989
ServiceMaster Co	63,600	760,020	Tribune Co	9,300	281,418
Sherwin Williams Co	19,500	885,690	Trimble Navigation Limited Inc	1,500	53,235
Siebel Systems Inc	3,400	35,938	Trinity Industries Inc	12,350	544,265

Domestic Equity (continued)

	<u>Shares</u>	<u>Fair Value</u>
U S Bancorp	34,800	\$1,040,172
UST Inc	37,800	1,543,374
United Health Group Inc	19,420	1,206,759
United Online Inc	53,900	766,458
United Parcel Service Inc Class B	15,700	1,179,855
United Technologies Corp	3,100	173,321
Universal Health Services Inc Class B	4,000	186,960
USA Mobility Inc	8,825	244,629
V F Corp	11,900	658,546
Valor Communications Group Inc	43,500	495,900
Valspar Corp	34,400	848,648
Varian Medical Systems Inc	200	10,068
Varian Semiconductor	11,600	509,588
VCA Antech Inc	4,300	121,260
Verizon Communications Inc	88,800	2,674,656
Wachovia Corp	17,950	948,837
Wal-Mart Stores Inc	21,300	996,840
Walgreen Co	7,600	336,376
Washington Federal Inc	36,912	848,607
Washington Mutual Inc	37,000	1,609,500
Washington Post Co	100	76,500
Waste Connections Inc	10,750	370,445
Waste Management Inc	36,000	1,092,600
Watson Pharmaceuticals Inc	20,800	676,208
Weight Watchers International Inc	8,200	405,326
WellPoint Inc	8,886	709,014
Wells Fargo & Co	18,600	1,168,638
Wendy's International Inc	2,300	127,098
WestCorp Inc	800	53,288
Western Digital Corp	13,800	256,818
Western Gas Resources Inc	6,100	287,249
Westwood One Inc	500	8,150
Whole Foods Markets Inc	9,200	711,988
Wiley, John & Sons Inc	3,400	132,736
Williams Sonoma Inc	8,500	366,775
Wintrust Financial Corp	11,900	653,310
Wrigley, William Jr. Co	7,200	478,728
Wyeth	45,900	2,114,613
XTO Energy Inc	8,566	376,390
Xilinx Inc	600	15,126
Yellow Roadway Corp	10,800	481,788
Yum! Brands Inc	4,600	215,648
Zenith National Insurance Corp	16,350	754,062
Zimmer Holdings Inc	4,800	323,712
Total Securities	10,481,420	\$304,131,800
S&P 500		\$53,010,343
Russell 2500		45,103,463
Total Indexed Funds		\$98,113,806
Total Domestic Equity		\$402,245,606

Summary Schedule of Investment Manager Fees

Year Ending December 31, 2005

<u>Manager</u>	<u>Assets Managed, 12/31/05</u>	<u>Fees</u>
BlackRock	--	\$99,187
Brandywine Asset Management	\$63,100,811	360,827
DePrince, Race & Zollo, Inc.	63,388,333	338,425
Eubel, Brady & Suttman	18,053,568	92,741
Fidelity Management Trust Company	4,788,160	32,863
HPRS Internal Staff (real estate)	6,400,000	--
INTECH	78,544,547	366,832
JPMorgan Fleming Asset Management	65,019,093	406,562
MacKay-Shields Financial Corporation	58,205,627	236,828
Munder Capital Management	66,595,141	155,819
Oak Associates	--	7,088
Pinnacle Associates LTD.	--	8,556
State Street Global Advisors	53,010,343	22,051
Timbervest	26,059,152	181,523
Wells Capital Management	44,440,354	3,825
Western Asset	36,626,904	137,681
Westfield Capital Management	22,838,914	221,108
World Asset Management	95,189,308	68,545
Total	<u>\$702,260,255</u>	<u>\$2,740,461</u>

Summary Schedule of Broker Fees

Year Ending December 31, 2005

<u>Brokers</u>	<u>Fees</u>	<u>Shares</u>	<u>Average Cost</u>
Abel Noser	\$8,056	402,780	\$0.020
Capital Institutional Services	45,968	2,750,845	0.017
Citigroup Global Markets Inc	50,332	2,020,292	0.025
Donaldson & Co	59,826	4,004,651	0.015
Goldman Sachs	23,901	1,161,450	0.021
Instinet	6,480	324,000	0.020
Jefferies & Co	6,576	436,500	0.015
Merrill Lynch	3,838	376,511	0.010
Rosenblatt Securities Inc	12,712	635,600	0.020
UBS Securities LLC	29,117	2,398,900	0.012
Weeden & Co	4,906	245,300	0.020
Other	8,910	471,130	0.019
Total	<u>\$260,622</u>	<u>15,227,959</u>	<u>\$0.017</u>

Investment Objectives, Policies, and Guidelines

Objectives

1. The purpose of this Investment Policy statement is to comply with the directive of Ohio Revised Code Section 5505.06, wherein the Board of Trustees is to adopt public "policies, objectives or criteria for the operation of the investment program." As such, this statement is intended to provide general guidelines within which the Board may take full advantage of its investment authority pursuant to ORC Section 5505.06, while complying with its fiduciary responsibility. This statement is not intended to restrict the Board from consideration of all lawful and legal investment opportunities.
2. The primary objective of the Highway Patrol Retirement System is to provide eligible members with scheduled pension benefits. Although the fund is not governed by the Employees Retirement Income Security Act of 1974 (ERISA), the basic provisions contained in that Act are recognized and will serve as guidance to the management of this fund. In particular, the *prudent person* guidelines are to be followed with regard to the investment management of the fund. These guidelines require that the Board and other system fiduciaries exercise the care, skill, prudence, and diligence – under the circumstances then prevailing – that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims.
3. A secondary objective of the fund is to maintain a sufficient degree of liquidity in order to meet unanticipated demands and changing environments.
4. Consistent with prudent standards for preservation of capital and maintenance of liquidity, the goal of the fund is to earn the highest possible rate of return consistent with the fund's tolerance for risk as determined periodically by the Board in its role as a fiduciary. This objective should ensure adequate funds to meet scheduled benefits while maintaining level contributions.
5. In meeting these objectives, the Board will give consideration to investments that enhance the welfare of the State of Ohio, and Ohio citizens, where such investments offer safety and quality of return comparable to other investments currently available. Equal consideration will be given to investments otherwise qualifying under this section that involve minority-owned and controlled firms, or firms owned and controlled by women, either alone or in joint venture with other firms.

Policies

1. Diversification of assets will ensure that adverse or unexpected results from a security class will not have a detrimental impact on the entire portfolio. Diversification is interpreted to include diversification by asset type, performance and risk characteristic, number of investments, and by investment style of management organizations.

These guidelines may be implemented through specific directions or instructions to investment managers, and those directions or instructions may contain other more specific restrictions on diversification of assets by percentage holdings, by quality, or other factors.

2. Asset classes and ranges considered appropriate for investment of fund assets are to be determined by the Board in accordance with these investment guidelines.
3. Assignment of responsibilities for each asset category (components of each asset category) may be assigned to one or more management firms that may be "specialty" managers (i.e., managing only one type of asset class).
4. The Board shall, at least annually, establish a policy with the goal to increase utilization of Ohio-qualified investment managers, when an Ohio-qualified investment manager offers quality, services, and safety comparable to other investment managers otherwise available.
5. The Board shall, at least annually, establish a policy with the goal to increase utilization of Ohio-qualified agents for the execution of domestic equity and fixed income trades on behalf of the retirement system, when an Ohio-qualified agent offers quality, services, and safety comparable to other agents otherwise available.

Investment Guidelines for Specific Asset Classes

In order to achieve the return objectives, the fund will employ the following investment strategies:

1. U.S. equities will represent from 39 to 49 percent of the market value of total fund assets with a targeted average of 44 percent. The term "equities" includes common stock, convertible bonds, and convertible stock.

2. Non-U.S. equities will represent from 10 to 20 percent of the market value of total fund assets with a targeted average of 15 percent.
3. Real estate may represent 7 to 11 percent of total fund assets with a targeted average of 9 percent.
4. U.S. fixed income obligations, including cash, will represent from 19 to 25 percent of the market value of total fund assets with a targeted average of 22 percent. Intermediate-term bonds may include contractual payments, preferred stocks, and bonds with a maturity date greater than one year and less than or equal to ten years. Long-term bonds have a maturity date greater than ten years.
5. Investments in hedge funds or funds of hedge funds may represent up to 5 percent of the total value of the investment fund.
6. Investments in private equity funds or funds of private equity funds may represent up to 5 percent of the total value of the investment fund.

Asset Allocation

As the result of an asset allocation study, the following was adopted as part of the system's overall Investment Policy in December 2004:

Short-Term Investments. When investing cash balances in order to provide effective cash management, emphasis will be placed on the protection of principal through the purchase of high-quality money market instruments, including money market open-end mutual funds, while attempting to achieve the highest available return.

Daily cash balances may be invested through the HPRS custodian, under contract with the office of the Treasurer of State of Ohio.

Fixed Income Investments. The core bond portfolio will be diversified as to type of security, issuer, coupon, and maturity. Qualifying bonds, at the time of purchase, must be rated as investment-grade by at least two nationally-recognized bond rating services. Generally, the average maturity of the fixed income portfolio will be ten years or less, although individual securities may be longer.

An alternative bond portfolio may invest in (1) high-yield or other non-investment-grade bonds, (2) non-United States bonds, and (3) bonds issued by emerging countries.

No more than ten percent of the fixed income portfolio is to be invested in the securities of any one issuer, and no more than five percent in any one issue, with the exception of U.S. government securities. Diversification of the bond portfolio will be accomplished by investing in U.S. government bonds and U.S. agency bonds, and/or domestic corporate bonds.

Investment contracts with bond managers will delineate the limitations placed on investments, as described above.

Equities. Equities may include common stock, preferred stock, and securities convertible into common stock. Equities must comply with the *prudent person* standard.

Real Estate. Real estate and related securities permitted under Ohio Revised Code Section 5505.06 include improved or unimproved real property, mortgage collective investment funds (Real Estate Investment Trusts or Real Estate Funds), notes secured by real property, mortgage-backed bonds, and pass-through securities backed by mortgages.

The real estate portfolio will be constructed and managed to –

- provide sufficient diversity to protect against adverse conditions in any single market sector,
- provide diversity among geographical locations, property types, and property sizes,
- provide relatively stable returns consistent with the overall U.S. commercial real estate market,
- provide a strong current income stream with the potential for long-term principal growth,
- primarily contain fully developed, fully leased properties, and
- minimize the use of debt financing.

International Securities. Pursuant to Ohio Revised Code Section 5505.06, both equity and fixed international securities are permitted investments. The fund may invest in securities issued by sovereign governments and corporations.

Hedge Funds/Funds of Hedge Funds. Pursuant to Ohio Revised Code Section 5505.06, the fund may invest in hedge funds with an individual manager or invest in funds of hedge funds. Hedge fund investments may be single or multi-strategy investments.

Private Equity/Funds of Private Equity Funds.

Pursuant to Ohio Revised Code Section 5505.06, the fund may invest in private equity funds with an individual manager or invest in funds of private equity funds.

Performance

Comparative performance measurement of the total fund and its components will be conducted quarterly to insure that fund managers are providing added value to the general market values. Total equity returns are expected to exceed the S&P 500 benchmark (generally accepted as the "market") by 1% annually over a market cycle (generally three to five years). In addition, equity managers will be expected to exceed the median of their peer group as measured by style and capitalization. Small/mid capitalization managers are expected to exceed the Russell 2500 benchmark or some comparable benchmark by 1% annually over a market cycle. Fixed income returns are expected to exceed their individual benchmark, such as the Lehman Government Corporate or Lehman Aggregate for long duration managers, and Lehman Intermediate Government Corporate for intermediate duration managers, or short benchmarks as appropriate.

International managers will be measured against suitable international benchmarks such as EAFE (Europe, Australia, and the Far East). Real estate managers will be compared to suitable real estate benchmarks such as the NCREIF.

Over a market cycle, the total fund return is expected to exceed the following benchmarks:

- A minimum return target of 8 percent, representing the fund's actuarial assumption, and also representing the long-term inflation rate of 3 percent plus a risk premium of 5 percent.
- A composite reference fund comprised of 40 percent S&P 500 Index, 20 percent Russell 2500

Index, 20 percent Lehman Brothers Aggregate Index, 10 percent MSCI EAFE Index, and 10 percent NCREIF Classic Index. Results of each asset class will also be compared to the relevant market index.

Investment Responsibilities

The Board recognizes that its role is supervisory, and that discretion is delegated to the investment managers who must adhere to the general guidelines established by the Board. The primary role of the Board is to –

- establish performance goals,
- identify and review appropriate investment policy and guidelines,
- retain outside investment and actuarial counsel, and
- review the results of the fund on a regular basis, and implement changes in the investment policies, objectives, asset allocation, and investment managers as needed.

Annual Review

In light of rapid changes in the capital markets and in investment management techniques, these guidelines will be reviewed by the Board on an annual basis. Changes and exceptions to these guidelines may be made at any time with the approval of the Board.

Revised, June 16, 2005

Revised, June 26, 2003

Revised, November 15, 2001

Revised, June 22, 1999

Revised, March 13, 1997

Adopted and approved, September 7, 1994

Revised, June 29, 1994

Revised, September 5, 1990

Revised, June 1, 1988

Adopted and approved, June 11, 1986



Actuarial Section

June 7, 2006

The Retirement Board
Ohio State Highway Patrol Retirement System
6161 Busch Boulevard, Suite 119
Columbus, Ohio 43229

Dear Board Members:

The basic financial objective of the Highway Patrol Retirement System (HPRS) is to establish and receive contributions which:

- when expressed in terms of percents of active member payroll will remain approximately level from generation to generation, and
- when combined with present assets and future investment return will be sufficient to meet the financial obligations of HPRS to present and future retirees and beneficiaries.

The financial objective is addressed within the annual actuarial valuation. The valuation process develops contribution rates that are sufficient to fund the plan's current cost (i.e., the costs assigned by the valuation method to the year of service about to be rendered), as well as to fund unfunded actuarial accrued liabilities as a level percent of active member payroll over a finite period. The most recent valuations were completed based upon population data, asset data, and plan provisions as of December 31, 2004.

The plan administrative staff provides the actuary with data for the actuarial valuation. The actuary relies on the data after reviewing it for internal and year-to-year consistency. The actuary summarizes and tabulates population data in order to analyze longer term trends. The plan's external auditor also audits the actuarial data annually.

The actuary prepared or assisted in preparing the following supporting schedules for the Comprehensive Annual Financial Report:

Actuarial Section

Summary of Assumptions

Funding Method, Asset Valuation Method, Interest Rate

Payroll Growth

Probabilities of Age & Service Retirement

Probabilities of Separation from Active Employment Before Age & Service Retirement

Health Care and Medicare

Short-Term Solvency Test

Recent Experience in the Health Care Fund

Membership Data

Analysis of Financial Experience

Supplementary Schedules

Schedule of Funding Progress

Schedule of Employer Contributions

Notes to Trend Data

The Retirement Board

June 7, 2006

Page 2

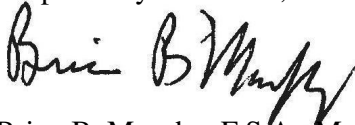
Assets are valued on a market related basis that recognizes each year's difference between actual and assumed investment return over a closed four-year period.

Actuarial valuations are based upon assumptions regarding future activity in specific risk areas including the rates of investment return and payroll growth, eligibility for the various classes of benefits, and longevity among retired lives. These assumptions are adopted by the Board after considering the advice of the actuary and other professionals. The assumptions and the methods comply with the requirements of Statement 25 of the Governmental Accounting Standards Board. Each actuarial valuation takes into account all prior differences between actual and assumed experience in each risk area and adjusts the contribution rates as needed. The assumptions used in the December 31, 2004 valuation were based upon a study of experience during the years 1995-99.

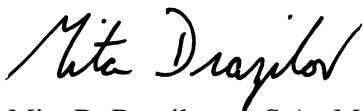
Investment return during 2004 was greater than assumed levels for HPRS, and acted to offset some, but not all, of the scheduled losses from prior years. Consequently, the pension amortization period as of December 31, 2004 is now 34 years. The comparable figure from the 2003 valuation, after adjusting for plan provision changes, is 29 years. The Retiree Health Plan continues to be cause for concern. Based upon the present contribution rate allocation, the Plan is expected to remain solvent until 2021. Benefit payout and available resources need to be brought in line before that time if the Plan is to continue to provide meaningful benefits.

Based upon the results of the December 31, 2004 valuations, we are pleased to report to the Board that the Highway Patrol Retirement System of Ohio is meeting its basic financial objective with respect to pensions and continues in sound condition in accordance with actuarial principles of level percent of payroll financing. Continued cost containment efforts can have a positive effect on the Retiree Health Plan, but we believe additional contribution income is likely to be needed.

Respectfully submitted,



Brian B. Murphy, F.S.A., M.A.A.A.



Mita D. Drazilov, A.S.A., M.A.A.A.

BBM:mdd:lr

Gabriel Roeder Smith & Company

Summary of Assumptions

After consulting with the actuary, these assumptions have been adopted by the Highway Patrol Retirement System Board of Trustees, effective January 1, 2003.

Funding Method. An entry age normal actuarial cost method of valuation is used in determining liabilities and normal cost. Differences between assumed and actual experience (i.e., actuarial gains and losses) become part of actuarial accrued liabilities. Unfunded actuarial accrued liabilities are amortized to produce payments (principal and interest), which are level percent of payroll contributions.

Asset Valuation Method. The asset valuation method recognizes assumed investment income fully each year. Differences between actual and expected investment income are phased in over a closed four-year period.

Interest Rate. The investment return rate used in making valuations was 8.0% per year, compounded annually (net after administration expenses).

Payroll Growth. Base pay increases are assumed to be 4.0% annually, attributable to broad economic effects such as inflation and real wage growth. Additional merit and seniority increases are assumed as follows:

<u>Service Years</u>	<u>Merit & Seniority</u>	<u>Base (Economic)</u>	<u>Total</u>
0-4	3.7%	4.0%	7.7%
5-9	2.0	4.0	6.0
10-14	1.5	4.0	5.5
15 +	0.3	4.0	4.3

Health Care. Premiums are assumed to increase 4.0% annually. All retirees are assumed to receive a joint and survivor pension benefit. Medicare reimbursement is assumed to remain constant at \$78.20 per month.

Medicare. Benefit recipients were assumed to be eligible for Medicare at age 65.

Other Assumptions.

Probabilities of Age & Service Retirement

*Percentage of Eligible Members
Retiring Within Next Year*

<u>Retirement Ages</u>	<u>Unreduced Benefit</u>	<u>Reduced Benefit</u>
48	40%	2%
49	35	2
50	25	2
51	30	2
52	25	--
53	25	--
54	40	--
55	25	--
56	25	--
57	25	--
58	30	--
59	35	--
60+	100	--

Postemployment mortality is based on the 1983 Group Annuity Mortality Male and Female Tables.

Rates of separation from active service before retirement are developed on the basis of actual plan experience.

Probabilities of Separation from Active Employment before Age & Service Retirement

Percentage of Active Members Separating Within Next Year

<u>Sample Age</u>	<u>Death</u>			
	<u>Disability</u>	<u>Men</u>	<u>Women</u>	<u>Other</u>
20	0.08%	0.02%	0.01%	2.57%
25	0.08	0.02	0.01	2.24
30	0.23	0.03	0.02	1.91
35	0.42	0.04	0.02	1.56
40	0.70	0.06	0.03	0.84
45	0.85	0.11	0.05	0.41
50	1.13	0.20	0.08	0.15
55	1.32	0.31	0.13	0.00

Short-Term Solvency Test. The HPRS financing objective is to pay for benefits through contributions that remain approximately level from year to year as a percentage of member payroll. If the contributions to the system are level in concept and soundly executed, the system will pay all promised benefits when due - the ultimate test of financial soundness.

A short-term solvency test is one means of checking a system's progress under its funding program. In a short-term solvency test, the plan's present assets (cash and investments) are compared with (1) active member

contributions on deposit, (2) the liabilities for future benefits to present retired lives, and (3) the liabilities for service already rendered by active members. In a system that has been following the discipline of level percent financing, the liabilities for active member contributions on deposit (1) and the liabilities for future benefits to present retired lives (2) will be fully covered by present

assets, except in rare circumstances. In addition, the liabilities for service already rendered by active members will be partially covered by the remainder of present assets. Generally, if the system has been using level cost financing, the funded portion of column 3 will increase over time.

Accrued Liabilities and Assets Allocated to Retirement, Survivor, and Disability Allowances

Year	(1)	(2)	(3)	Valuation Assets	Percentage of Accrued Liabilities Covered by Reported Assets		
	Active Member Contributions	Retirees, Beneficiaries & Vested Deferrers	Active Members (Employer Financed Portion)		(1)	(2)	(3)
1999▲	\$55,558,145	\$333,340,728	\$188,111,212	\$546,510,779	100	100	84
2000▶	59,455,707	358,422,165	176,344,731	570,039,631	100	100	86
2001	63,969,216	374,228,361	198,517,881	551,279,438	100	100	57
2002▶	68,794,904	391,098,788	203,176,113	527,604,456	100	100	33
2003	73,358,075	412,818,959	216,621,983	545,981,513	100	100	28
2004▲	77,100,466	445,084,791	212,279,114	569,858,387	100	100	22

▲ Plan Amendment

▶ Assumption or method change

Postemployment Health Care and Medicare Reimbursement

Year	Covered Lives	Medical	Prescriptions	Med B	Dental	Vision	Member Premiums/ Adjustments	Net Paid By HPRS	Per Covered Life	Pavroll	% of Pavroll
1999	1,772	\$3,315,914	\$1,364,990	\$197,606			\$619,894	\$5,498,404	\$3,103	\$66,017,381	8.3
2000	1,848	3,190,885	1,684,300	203,157			(358,082)	4,720,260	2,554	69,028,285	6.8
2001	1,900	3,730,167	1,960,825	231,046			138,317	6,060,355	3,190	76,344,002	7.9
2002	1,943	4,147,534	2,431,297	260,772	\$194,893	\$80,909	(200,021)	6,915,384	3,559	78,997,065	8.8
2003	1,912	4,256,046	2,681,414	290,506	209,429	82,097	(507,642)	7,011,850	3,667	81,737,962	8.6
2004	1,928	4,074,972	2,710,367	347,585	230,994	84,136	(641,707)	6,806,347	3,530	81,757,707	8.3

Active Member Data

<u>Year Ending December 31</u>	<u>Active Members</u>	<u>Annual Payroll</u>	<u>Average Annual Salary</u>	<u>% Increase in Average Pay</u>
1999	1,445	\$66,017,381	\$45,687	1.4
2000	1,489	69,028,285	46,359	1.5
2001	1,520	76,344,002	50,226	8.3
2002	1,548	78,997,065	51,032	1.6
2003	1,542	81,737,962	53,008	3.9
2004	1,562	81,757,707	52,342	(1.3)

Retiree and Beneficiary Data

<u>Year Ending December 31</u>	<u>Added to Rolls</u>		<u>Removed from Rolls</u>		<u>Rolls at End of Year</u>		<u>% Increase In Annual Allowances</u>	<u>Average Annual Allowances</u>
	<u>Number</u>	<u>Annual Allowances</u>	<u>Number</u>	<u>Annual Allowances</u>	<u>Number</u>	<u>Annual Allowances</u>		
1999	82	\$2,930,342	19	\$417,782	1,123	\$25,481,652	10.9	\$22,691
2000	78	2,640,298	27	516,382	1,174	27,605,568	8.3	23,514
2001	53	2,177,124	20	258,996	1,207	29,523,696	6.9	24,460
2002	55	2,211,612	31	498,012	1,231	31,237,296	5.8	25,376
2003	48	2,356,620	26	352,128	1,253	33,241,788	6.4	26,532
2004	58	3,448,140	29	409,836	1,282	36,280,092	9.1	28,296

Analysis of Financial Experience

Gains and Losses in Pension Accrued Liabilities Resulting from Differences Between Assumed Experience and Actual Experience

<u>Type of Activity</u>	Gain (or Loss) for Year	
	2004	2003
Age & Service Retirements. If members retire at older ages or with lower final average pay than assumed, there is a gain. If younger ages or higher average pays, a loss.	\$143,945	\$360,013
Disability Retirements. If disability claims are less than assumed, there is a gain. If more claims, a loss.	530,593	922,921
Death-in-Service Benefits. If survivor claims are less than assumed, there is a gain. If more claims, a loss.	(63,567)	(61,743)
Withdrawal From Employment. If more liabilities are released by withdrawals than assumed, there is a gain. If smaller releases, a loss.	72,037	16,440
Pay Increases. If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	10,509,323	544,991
Contribution Income. If more contributions are received than expected, there is a gain. If less, a loss.	0	0
Investment Income. If there is greater investment income than assumed, there is a gain. If less income, a loss.	(9,723,198)	(14,482,283)
Other. Miscellaneous gains and losses resulting from data adjustments, timing of financial transactions, valuation methods, and other events.	(7,585,111)	(4,693,807)
Gain (or Loss) During Year From Financial Experience	(\$6,115,978)	(\$17,393,468)
Non-Recurring Items. Adjustments for benefit and assumption changes.	3,403,007	0
Composite Gain (or Loss) During Year	(\$2,712,971)	(\$17,393,468)

Plan Summary

Purpose

The Highway Patrol Retirement System (HPRS) was created by the Ohio General Assembly in 1944 for the purpose of providing retirement and survivor benefits for its participants and beneficiaries.

Administration

The general administration and management of the Highway Patrol Retirement System are vested in the Highway Patrol Retirement System Board of Trustees under Ohio Revised Code Chapter 5505. The eleven-member Board consists of the Superintendent of the State Highway Patrol, three appointed members, five elected active members, and two elected retired members.

The appointed members are designated by the Governor, the Treasurer of State, and the legislature.

The active members are elected to four-year terms by members of the plan. Any contributing member is eligible to become an active member candidate, and all contributing members are eligible to vote in the active member election process. Any retiree who is an Ohio resident, and who has not served as a statutory or active member of the Board during the past three years, is eligible to become a retired member candidate. All retirees are eligible to vote in the retired member election process.

The Superintendent of the State Highway Patrol serves by virtue of the office held. The legal advisor of the Retirement Board is the Attorney General of the State of Ohio. A chairperson and vice chairperson are elected by the Board annually. All regular Board meetings are considered to be public meetings. The members of the Board serve without compensation, but are not expected to suffer any loss because of absence from regular employment while engaged in official Board duties, and are reimbursed for actual and necessary expenses.

Employer Contributions

State statute requires that the Board certify the employer contribution rate to the Office of Budget and Management on even-numbered years. The employer rate may not be lower than the member rate, nor may it exceed three times the member rate.

Member Contributions

All members of the HPRS, through payroll deductions, must contribute the percentage of their regular salary established by law. Individual member accounts are maintained by the HPRS and the amount contributed is refundable upon termination of employment.

Service Credit

Additional service credit may be purchased at any time prior to retirement if the service is (1) prior Highway Patrol Service, (2) military service, (3) prior full-time service as a contributing member of the Ohio Police & Fire Pension Fund, State Teachers Retirement System of Ohio, School Employees Retirement System of Ohio, Ohio Public Employees Retirement System, or the Cincinnati Retirement System. Prior full-time contributing service credit and member contributions may also be transferred directly from Ohio Public Employees Retirement System to HPRS. The following types of service credit may be used to meet the maximum number of years of service necessary to qualify for unreduced pension benefits: (1) military service pursuant to the Uniformed Services Employment and Re-employment Rights Act of 1994, (2) Ohio Police & Fire Pension Fund, and (3) contributing service in Ohio Public Employees Retirement System as a cadet at the Highway Patrol Training Academy.

Retirement

Service Retirement. A member is eligible to receive a service pension upon retirement from active service by (1) attaining age 52 and accumulating at least 20 years of Highway Patrol service credit or (2) attaining age 48 and accumulating at least 25 years of service credit. Benefit payments become effective the day following the last day of employment and are payable monthly throughout the retiree's lifetime.

Reduced Retirement. From ages 48 through 51, a member who has accumulated at least 20 but less than 25 years of service credit, may retire and be eligible to receive a lifetime reduced pension based on the following schedule:

Age	Reduced Pension
48	75 percent of normal service pension
49	80 percent of normal service pension
50	86 percent of normal service pension
51	93 percent of normal service pension

The election to receive a reduced pension may not be changed once a retiree has received a payment.

Deferred Retirement. In order to maximize pension benefits, a member who becomes eligible to receive a pension may elect deferred retirement benefits.

Resignation or Discharge. A member who voluntarily resigns or is discharged from the State Highway Patrol for any reason other than dishonesty, cowardice, intemperate habits, or conviction of a felony, and who has accumulated at least 15 but less than 20 years of total service credit,

receives a pension equal to one and one-half percent of the final average salary, multiplied by the number of years of service. This pension becomes payable at age 55.

Disability Retirement. A member who retires as the result of a disability incurred in the line of duty receives a pension of not less than 61.25 percent, nor more than 79.25 percent, of the final average salary. A member who retires as the result of a disability that was not incurred in the line of duty receives a pension of not less than 50 percent, nor more than 79.25 percent, of the final average salary.

Payment Plans

Benefit payments vary in amount depending on the member's age, length of service, final average salary, and payment plan selection. The final average salary, which includes base pay, longevity, hazard duty, shift differential, and professional achievement pay, is determined by computing the average of the member's three highest years of salary.

Each member may select from the following three retirement payment plans:

Plan 1 - Single Life Annuity. This plan pays the highest monthly amount; however, it is limited to the lifetime of the retiree. The pension benefit is calculated by multiplying the computed pension factor by the final average salary. The pension factor is computed by multiplying the number of years of service for years 1 through 20 by 2.5 percent, for years 21 through 25 by 2.25 percent, and for years 26 through 34 by 2.0 percent. A pension may not exceed 79.25 percent of the member's final average salary. Members approved for disability retirement may only receive the single life annuity.

Under this plan, a surviving spouse receives a monthly benefit of \$900 or one-half the monthly pension, whichever is greater.

Plan 2 - Joint and Survivor Annuity. This plan is the actuarial equivalent of a single life annuity and is likewise limited to the lifetime of the retiree; however, the payment is reduced because it is based on the combined life expectancies of the retiree and the designated beneficiary. Survivor benefits are paid in addition to the amounts under this plan.

Plan 3 - Life Annuity Certain and Continuous. This plan is an annuity, payable for a guaranteed period. If the retiree dies before the end of the guaranteed period, the pension amount is paid to the designated beneficiary for the remainder of the specified period. Survivor benefits are paid in addition to the amounts under this plan.

Partial Lump Sum (PLUS) Distribution. In addition to selecting one of the three retirement payment plans, a

retiree may elect to receive a lump sum cash payment, either as a taxable distribution, or as a rollover to a tax-qualified plan. As a result, the retiree will receive a reduced monthly pension for life. To be eligible for a PLUS distribution, a retiree must have attained age 51 with at least 25 years of total service, or age 52 with at least 20 years of total service. The lump sum amount may not be less than six times the monthly single life pension and not more than sixty times the monthly single life pension.

Survivor Benefits

Survivor benefits are paid to eligible survivors of deceased members and retirees of the Highway Patrol Retirement System.

If a member was not eligible for a retirement pension at the time of death, the surviving spouse receives a monthly survivor benefit of \$900.

The surviving spouse of a deceased retiree, or of a member who was eligible to receive a retirement pension at the time of death, receives a monthly benefit of \$900 or one-half the monthly pension, whichever is greater.

Each surviving dependent child receives \$150 monthly until age 18, or if a full-time college student, until age 23.

Health Care

A comprehensive Preferred Provider medical health care plan is currently offered to all benefit recipients and their dependents. Benefit recipients have the choice of selecting one of two offered networks. In addition, benefit recipients may elect to cover spouses and dependent children by authorizing the appropriate premium deduction.

Dental and vision coverage is also available to benefit recipients and dependent children. The Board, which has the authority to implement changes, annually evaluates the premiums and plan design.

Medicare

Benefit recipients who submit proof of Medicare Part B coverage are reimbursed for the basic Part B premium, up to \$78.20 monthly.

Cost of Living

At age 53 and thereafter, retirees receive an annual cost of living adjustment (COLA) equal to 3.0%. Survivor benefit recipients are eligible for a COLA increase after receiving benefits for twelve months. Disability benefit recipients are eligible for a COLA increase after receiving benefits for sixty months, or at age 53, whichever occurs first.

Death After Retirement

Upon the death of a retiree, a lump sum payment of \$5,000 is paid to the surviving spouse, or to the retiree's estate if there is no surviving spouse.



Statistical Section

Additions by Source

Pension Benefits

<u>Year</u>	<u>Member Contributions</u>	<u>Employer Contributions</u>	<u>Net Investment Income</u>	<u>Transfers from Other Systems</u>	<u>Total</u>
1998	\$6,573,762	\$13,101,039	\$13,029,413	\$503,509	\$33,207,723
1999	6,708,497	13,569,730	33,612,434	444,135	54,334,796
2000	6,954,301	13,210,189	(14,120,288)	925,998	6,970,200
2001	7,042,044	13,901,313	(17,920,157)	999,380	4,022,580
2002	7,563,173	14,923,893	(42,921,956)	999,176	(19,435,714)
2003	8,136,974	16,361,339	105,112,725	763,419	130,374,457
2004	8,192,944	17,205,610	63,191,361	856,496	89,446,411
2005	8,582,130	18,467,789	37,890,851	1,180,951	66,121,721

Other Postemployment Benefits

<u>Year</u>	<u>Employer Contributions</u>	<u>Net Investment Income</u>	<u>Total</u>
1998	\$2,687,150	\$1,396,472	\$4,083,622
1999	2,783,534	6,878,890	9,662,424
2000	3,346,581	(3,114,980)	231,601
2001	3,521,665	(2,900,183)	621,482
2002	3,780,715	(6,673,383)	(2,892,668)
2003	3,395,749	18,885,722	22,281,471
2004	2,867,602	12,051,961	14,919,563
2005	3,006,385	8,998,070	12,004,455

Deductions by Type

Pension Benefits

<u>Year</u>	<u>Benefits</u>	<u>Refunds</u>	<u>Transfers to Other Systems</u>	<u>Administrative</u>	<u>Total</u>
1998	\$21,539,636	\$164,054	\$281,606	\$648,144	\$22,633,440
1999	24,324,038	529,654	196,414	449,167	25,499,273
2000	27,042,946	363,067	904,972	549,168	28,860,153
2001	29,457,281	306,452	448,381	524,922	30,737,036
2002	31,325,089	266,137	1,054,264	462,200	33,107,690
2003	33,074,853	386,931	789,387	559,052	34,810,223
2004	35,187,531	155,989	602,345	518,834	36,464,699
2005	37,716,268	495,640	403,975	561,817	39,177,700

Other Postemployment Benefits

<u>Year</u>	<u>Health Care</u>	<u>Administrative</u>	<u>Total</u>
1998	\$3,128,888	\$114,378	\$3,243,266
1999	5,498,402	78,854	5,577,256
2000	4,720,260	95,423	4,815,683
2001	6,179,096	90,422	6,269,518
2002	7,025,043	78,635	7,103,678
2003	7,181,129	93,769	7,274,898
2004	6,948,650	86,031	7,034,681
2005	8,932,259	92,344	9,024,603

Average Monthly Benefit Amount by Type

<u>Year</u>	<u>Service</u>	<u>Disability</u>	<u>Survivor</u>	<u>Total</u>
1996	\$1,785	\$1,364	\$776	\$1,540
1997	1,941	1,438	808	1,672
1998	2,086	1,583	841	1,806
1999	2,183	1,757	858	1,891
2000	2,254	1,862	861	1,960
2001	2,379	1,984	880	2,038
2002	2,475	2,037	906	2,115
2003	2,577	2,116	932	2,211
2004 ■	2,738	2,191	1,033	2,358

■ 2004 is the latest actuarial evaluation.

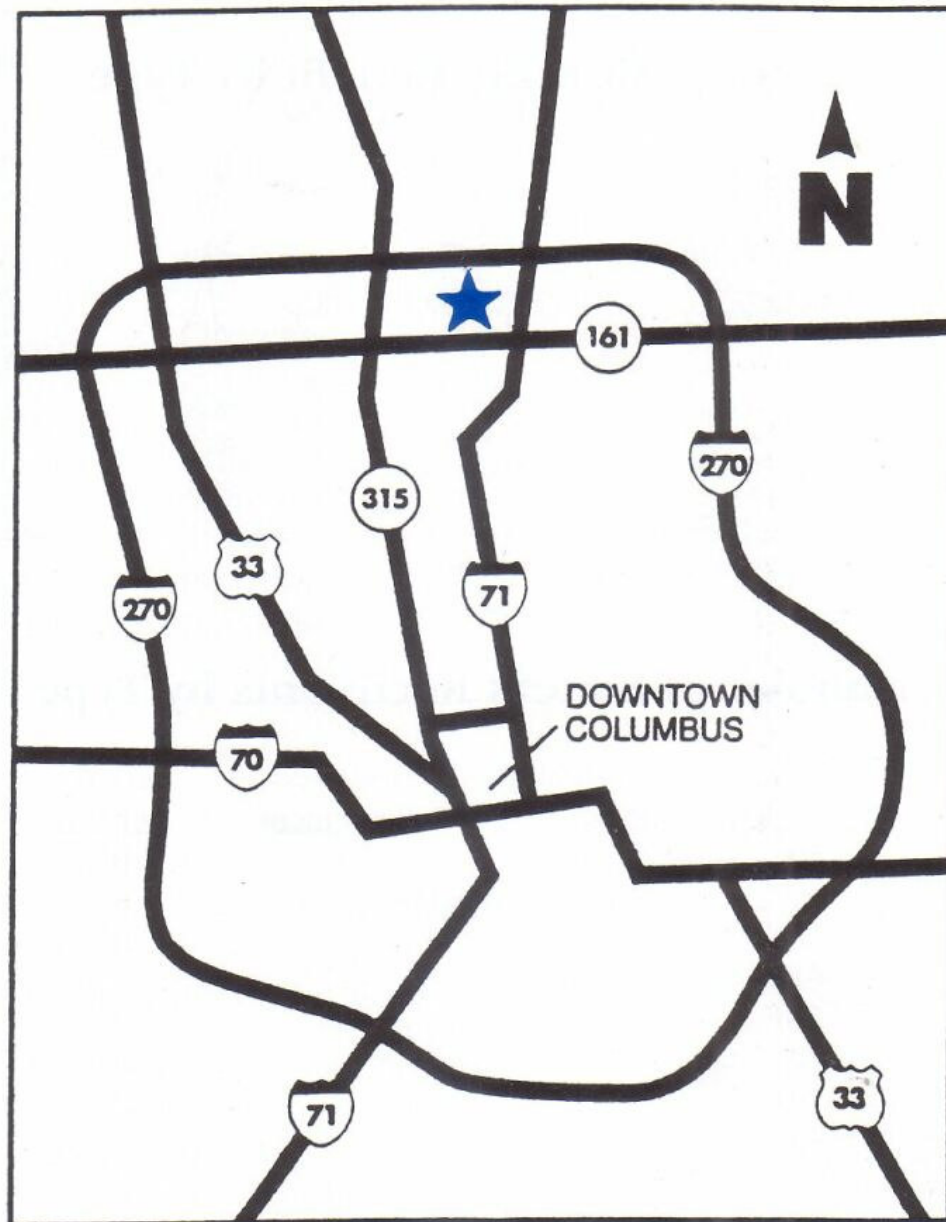
Number of Benefit Recipients by Type

<u>Year</u>	<u>Service Retirement</u>	<u>Disability Retirement</u>	<u>Deferred Retirement</u>	<u>Survivor Benefits</u>	<u>Total</u>
1996	664	44	8	203	919
1997	725	44	9	215	993
1998	793	45	6	219	1,063
1999	833	57	4	230	1,124
2000	858	65	3	249	1,175
2001	879	73	7	255	1,214
2002	891	74	6	262	1,233
2003	913	78	4	257	1,252
2004	937	83	6	260	1,286
2005	963	91	9	275	1,339

Benefit Expenses by Type

<u>Year</u>	<u>Health Care</u>	<u>Service ◇</u>	<u>Disability</u>	<u>Survivor</u>	<u>Total</u>
1996	\$2,022,608	\$13,596,871	\$633,663	\$1,689,614	\$17,942,756
1997	2,499,178	15,830,921	785,875	2,065,619	21,181,593
1998	3,128,888	18,497,476	855,775	2,177,384	24,659,523
1999	5,498,404	22,094,306	1,139,917	1,089,813	29,822,440
2000	4,720,260	23,015,278	1,407,201	2,620,466	31,763,205
2001	6,179,096	24,891,330	1,605,426	2,961,525	35,637,377
2002	7,025,043	26,354,819	1,828,394	3,141,877	38,350,133
2003	7,181,129	27,826,812	1,875,919	3,186,291	40,070,152
2004	6,948,650	29,743,167	2,051,805	3,258,253	42,001,875
2005	8,932,259	32,008,472	2,306,265	3,401,531	46,648,527

◇ Includes reduced, early retirement, PLUS, & death benefits.



Highway Patrol Retirement System
6161 Busch Boulevard, Suite 119
Columbus, Ohio 43229-2553
Telephone 614-431-0781
Fax 614-431-9204
e-mail system@ohprs.org
www.ohprs.org

Office Hours: 8:00 am to 4:30 pm

One block west of Interstate 71 on State Route 161, drive north on Busch Boulevard. Turn left at the first traffic light, Shapter Avenue. Turn right into the entrance.



**Auditor of State
Betty Montgomery**

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800-282-0370

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HIGHWAY PATROL RETIREMENT SYSTEM

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
JUNE 29, 2006**