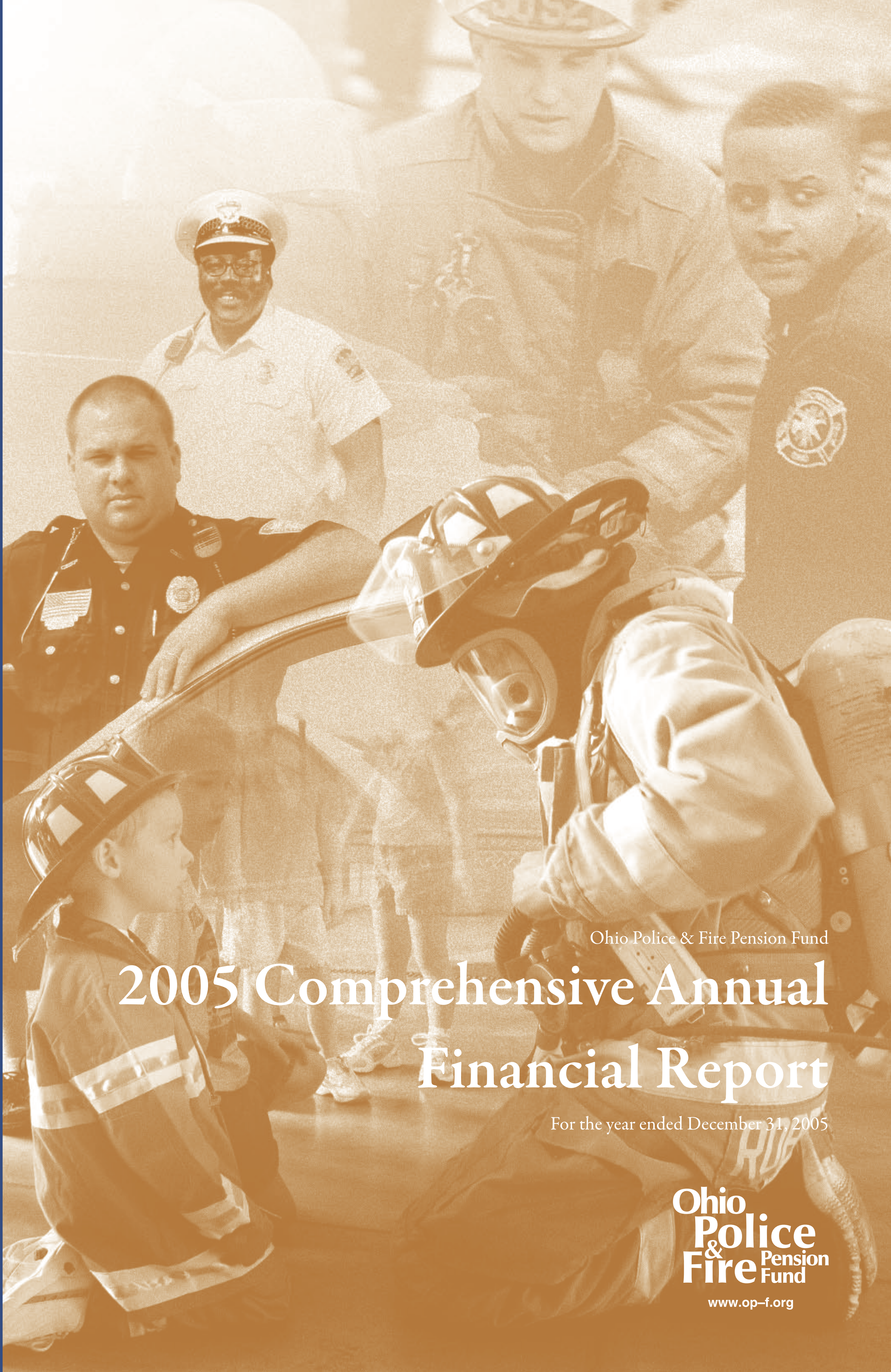

Ohio Police & Fire Pension Fund

2005 Comprehensive Annual Financial Report

For the year ended December 31, 2005

Ohio Police & Fire Pension Fund

www.op–f.org

Auditor of State
Betty Montgomery

Board of Trustees
Ohio Police & Fire Pension Fund
140 East Town Street
Columbus, Ohio 43215

We have reviewed the *Independent Auditors' Report* of the Ohio Police & Fire Pension Fund, Franklin County, prepared by Clark, Schaefer, Hackett & Co. 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 Ohio Police & Fire Pension Fund is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

July 31, 2006

88 E. Broad St. / P.O. Box 1140 / Columbus, OH 43216-1140
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us

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Comprehensive Annual Financial Report

For the year ended December 31, 2005

Prepared through the combined efforts of the OP&F staff.

Ohio Police & Fire Pension Fund

140 East Town Street • Columbus, Ohio 43215
www.op–f.org • 800–860–9599

Table of Contents

Board of Trustees

About The Board Of Trustees

Ohio law provides for the Ohio Police & Fire Pension Fund Board of Trustees to be comprised of nine members. There are six employee members elected to four–year terms by their respective member groups: two representatives of police departments, two representatives of fire departments, one retired firefighter and one retired police officer. The Board also includes three investment experts, which changed with the enactment of Senate Bill 133 in September 2004. Each investment expert—one appointed by the Governor, one by the Treasurer of State, and one appointed jointly by the Senate President and Speaker of the House—must have professional investment expertise.

Prior to Senate Bill 133, these members of the OP&F Board of Trustees were a municipal fiscal officer appointed by the Governor, the Ohio Attorney General and the Ohio Auditor of State.

Administrative Staff

William J. Estabrook, Executive Director
J. Keith Byrd, Deputy Executive Director
Theodore G. Hall, Chief Investment Officer
Diane M. Lease, General Counsel
Scott K. Miller, Internal Auditor
N. Kay Penn, Member Services Director
Stewart A. Smith, Chief Financial Officer

Professional Consultants

Actuary

Buck Consultants

Legal Counsel

Ohio Attorney General, the Honorable Jim Petro

Independent Accountants

Clark, Schaefer, Hackett & Co.

Investment Consultants & Managers

(See page 43)

Certificate of Achievement Award

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Ohio Police & Fire Pension Fund

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.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

Letter of Transmittal

Ohio Police & Fire Pension Fund
140 East Town Street / Columbus, Ohio 43215–5164 / Tel. (614) 228–2975 / www.op–f.org

May 22, 2006

Dear Chairman and Members of the Board of Trustees:

We are pleased to submit to you the Comprehensive Annual Financial Report (CAFR) of the Ohio Police and Fire Pension Fund (OP&F) for the year ended December 31, 2005. This CAFR was prepared to aid interested parties in assessing OP&F's status at December 31, 2005, and its results for the year then ended.

The report is divided into five sections:

(1) The Introductory Section contains this Letter of Transmittal, along with the identification of the administrative organization of OP&F and the *Certificate of Achievement for Excellence in Financial Reporting*;
(2) The Financial Section includes the Management's Discussion and Analysis (MD&A), Independent Auditors' Report, Basic Financial Statements, Notes to Basic Financial Statements, Required Supplementary Information (RSI), notes to RSI and additional information of OP&F;
(3) The Investment Section contains the investment report, portfolio summary, and the investment policy and guidelines;
(4) The Actuarial Section includes significant actuarial data pertaining to OP&F and the certification letter from Buck Consultants and Investor Solutions and results of their annual actuarial valuation; and
(5) The Statistical Section includes historical data reporting progress of OP&F.

Accounting System and Internal Controls

The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America applicable to governmental units, including the pronouncements of the Governmental Accounting Standards Board (GASB). Additional information on OP&F's significant accounting policies are contained in the Notes to Basic Financial Statements in the Financial Section.

Management is responsible for establishing and maintaining an effective internal control structure designed to ensure that the assets of OP&F are protected from loss, theft, or misuse; and to ensure that adequate accounting data is compiled to allow for the preparation of Basic Financial Statements in conformity with accounting principles generally accepted in the United States of America. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that:

(1) the cost of a control should not exceed the benefits likely to be derived; and
(2) the valuation of costs and benefits requires estimates and judgments by management.

Management believes its internal control structure meets these objectives.

Plan History and Overview

OP&F is a cost sharing multiple–employer public employee retirement system and was created by the Ohio General Assembly in 1965, replacing 454 separate local police and firefighter relief and pension funds in Ohio. The statewide Fund began operating on January 1, 1967. On that date, the local pension funds transferred their assets and liabilities to OP&F. Assets transferred to OP&F totaled approximately $75 million, while OP&F's actuary computed the liabilities accrued up to 1966 at approximately $490 million. Employers are paying the remaining unfunded accrued liability over a 67–year period, which began in 1969 and totaled nearly $36.2 million as of December 31, 2005.

OP&F provides pension and disability benefits to qualified participants, survivor, and death benefits and sponsors health care program for qualified spouses, children and dependent parents. Please refer to the Plan Summary in the Actuarial Section for further information on plan benefits.

Membership in OP&F is mandatory under Ohio law for all full–time police officers employed by Ohio municipalities. Full–time fire fighters employed by townships, municipalities, township joint fire districts or other political subdivisions must become members of OP&F if satisfactory completion of a firefighter training course approved under former Section 3303.07, Section 4765.55, or conducted under Section 3737.33 of the Ohio Revised Code is required for employment. The table below is a tabulation of current participating employers at December 31, 2005:

Participating Employers

	Police	Fire	Total
Municipalities	251	224	475
Townships	–	113	113
Villages	286	31	317
TOTAL	**537**	**368**	**905**

Major Initiatives and Accomplishments

OP&F continued its project to redesign our member information system and clean up member data. That initiative enabled OP&F to kick–off a New Pension Administration System (NPAS) project in January 2003. Significant changes to current processes and procedures have taken place related to the project allowing OP&F to better serve its members. The completion date for the member module portion of the project was December 2005 with ongoing enhancements and additional project phases including web–based member account access and employer payroll reporting to be completed by early 2007.

During 2005, OP&F began a strategic planning process. This 3–year strategic plan was completed in 2006 and encompasses initiatives to improve services to our members and our employers, improve OP&F's funding status and funding ratios, and redesign retiree health care to help insure that the Post–Employment Health Care Fund remains solvent for the foreseeable future.

Senate Bill 134, which allowed OP&F to offer a Deferred Retirement Option Plan (DROP) to members, was passed into law at the beginning of 2002. Enrollment in DROP began in January 2003. At the close of 2005, approximately 2,600 members have enrolled in the program.

Financial Overview

OP&F receives virtually all of its funds from the following sources: member contributions, employer contributions, benefit recipient health care premiums, state subsidies and reimbursements, and investment earnings. Additions to net assets totaled almost $1,439 million in 2005. The employee and employer contribution rates for 2005 were 10% for members, 19.5% for police employers and 24% for fire employers, and remained unchanged from the prior year.

Additions to Fiduciary Net Assets *(in thousands)*	2005 Amount	2005 Percent	2004 Amount	2004 Percent
Net Investment Income	$ 847,359	59%	$ 1,152,391	66%
Contributions	581,305	40%	573,546	33%
Interest on Local Funds Receivable	1,549	0%	1,580	0%
Other	8,676	1%	14,686	1%
TOTAL	**$ 1,438,889**	**100%**	**$ 1,742,203**	**100%**

Investment earnings were positive with returns of 8.82% for 2005 and 13.3% for 2004.

Deductions to Fiduciary Net Assets *(in thousands)*	2005 Amount	2005 Percent	2004 Amount	2004 Percent
Benefits	$ 876,697	96%	$ 820,839	96%
Administrative Expenses	15,930	2%	15,850	2%
Refund of Employee Contributions	16,471	2%	15,307	2%
Other	157	0%	210	0%
TOTAL	**$ 909,255**	**100%**	**$ 852,206**	**100%**

Significant increases in the Benefits expense line are attributable to the inclusion of DROP expenses for 2005, normal trend increases in the number of retirees and disability grants. Additionally, there was an increase in health care costs related to the second year of OP&F's redesigned health care plan.

Please refer to Management's Discussion and Analysis for additional financial details.

Funding Practices and Actuarial Overview

Funds are derived from the excess of additions over deductions, and are accumulated by OP&F in order to meet current and future benefit obligations to retirees and other beneficiaries. Due to recoveries experienced in global equity markets over the past couple years, OP&F experienced an increase in plan net assets in 2005 by approximately $530 million. Health care currently operates on a pay–as–you–go basis with a minimal amount of reserves being set aside to operate the program. The current actuarial analysis performed on the health care program project a solvency period of at least 10 years.

Investment Policy

OP&F invests all available funds in order to maximize both current income yield and long–term appreciation. The primary objective of OP&F's investment policy is to assure that OP&F meets its responsibilities for providing retirement and other benefits. The portfolio is diversified to provide adequate cash flow and to provide the highest possible total return on OP&F's assets with the least exposure to risk. Over the past two years, OP&F's total rate of return on its investment portfolio has been favorable with gains of 8.8% for 2005, and 13.3% for 2004. Our most recent rates of return compare favorably to our actuarial rate of return of 8.25%.

Details of portfolio composition, rates of return, analysis of significant economic conditions, and additional information concerning OP&F's investment policy are provided in the Investment Section of this report.

Material Plan Amendments

There were no material plan amendments in 2005. See the "Actuarial Section" for the assumption used within this report.

Independent Audit

Clark, Schaefer, Hackett and Company, independent certified public accountants, audited the financial statements of OP&F for the year ended December 31, 2005, and their opinion thereon is included in the "Financial Section."

Notes to Basic Financial Statements

The notes to basic financial statements, which follow the Basic Financial Statements, contain additional information and are an integral part of such statements.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to OP&F for its CAFR for the fiscal year ended December 31, 2004. The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR, whose contents conform to program standards. Such reports must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement Program requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

The preparation of this report reflects the combined efforts of OP&F'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, to disclose compliance with legal provisions, and as a means of determining responsible stewardship for the assets contributed by the members and their employers.

The cooperation of OP&F's employers is vital to our success and is greatly appreciated.

Respectfully submitted,

William J. Estabrook
Executive Director

Stewart A. Smith, CPA
Chief Financial Officer

The 2005 Comprehensive Annual Financial Report

Financial Section

The Ohio Police & Fire Pension Fund

Ohio Police & Fire Pension Fund

140 East Town Street • Columbus, Ohio 43215
www.op–f.org • 800–860–9599

Independent Auditors' Report

Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS
www.cshco.com

Independent Auditors' Report

To the Board of Trustees of
Ohio Police and Fire Pension Fund

We have audited the accompanying statements of fiduciary net assets of the fiduciary funds and the changes in assets and liabilities of the agency fund of the Ohio Police and Fire Pension Fund (OP&F) as of and for the years ended December 31, 2005 and 2004, and the related statements of changes in fiduciary net assets of the fiduciary funds for the years then ended. These financial statements are the responsibility of OP&F's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the fiduciary net assets of the fiduciary funds and the changes in assets and liabilities of the agency fund of OP&F, as of December 31, 2005 and 2004, and the respective changes in fiduciary net assets of the fiduciary funds, thereof 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 16, 2006 on our consideration of OP&F's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and required supplementary information on pages 4 through 6and page 29 are not a required part of the basic financial statements but are supplementary informationrequired by accounting principles generally accepted in the United States of America. We have appliedcertain limited procedures, which consisted principally of inquiries of management regarding the methodsof measurement and presentation of the required supplementary information. However, we did not auditthe information and express no opinion on it.

2525 N. Limestone Street, Suite 103, Springfield, OH 45503, 937/399–2000, FAX 937/399–5433

CINCINNATI COLUMBUS DAYTON MIDDLETOWN SPRINGFIELD

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise OP&F's basic financial statements. The introductory section, the schedule of administrative expenses, the schedule of investment expenses, investment section, actuarial section, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of administrative expenses and the schedule of investment expenses have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section, investment section, actuarial section and statistical section 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.

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
May 16, 2006

Management's Discussion and Analysis (Unaudited)

This Management Discussion and Analysis (MD&A) of the Ohio Police & Fire Pension Fund's financial performance provides a narrative overview of financial activities for the fiscal year ended December 31, 2005. The MD&A is designed to focus on the current year's activities, resulting changes, and currently known facts. We encourage you to read it in conjunction with OP&F's financial statements, notes to the financial statements, and the letter of transmittal included in the Introduction section of OP&F's CAFR.

Financial Highlights

Plan additions are received primarily from employer and member pension contributions and investment income. For fiscal year 2005 these additions totaled $1,438,888,982 and were $1,742,202,681 in 2004, which is a 17.4% decrease. This amount fluctuates dramatically because it includes realized and unrealized investment gains and losses based on domestic and international market performance. The employer and member contribution rates during 2005 remained unchanged from the prior year. Member contributions are 10% for all members, while employer contributions are 19.5% and 24% for police and fire employers, respectively.

Plan deductions are incurred primarily for the purpose for which OP&F was created, the payment of pension and survivor benefits. Included in the deductions from plan net assets for 2005 were benefits for retirement, deferred retirement, disability, health care, and survivor benefits. Also included were contribution refunds, administrative and other expenses. Pension benefits are funded through a combination of member and employer contributions, and investment income. Health care expenses are funded on a pay–as–you–go–basis through a portion of employer contributions, health care premiums, and investment income. Deductions totaled $909,255,006 in 2005 and were $852,206,201 in 2004, which is a 6.7% increase over 2004.

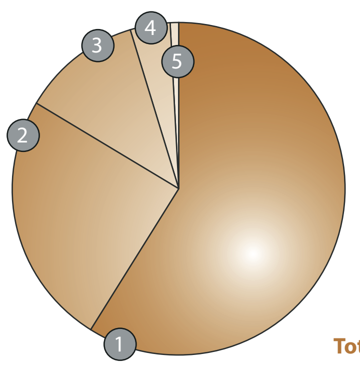
1 Investment Income—58.9%, $847,358,826

2 Employer Contributions—24.9%, $358,210,998

3 Member Contributions—11.7%, $167,822,150

4 Health Care Premiums—3.8%, $55,271,881

5 Other—0.7%, $10,225,127



2005 Plan Additions

Total 2005 Plan Additions—$1,438,888,982

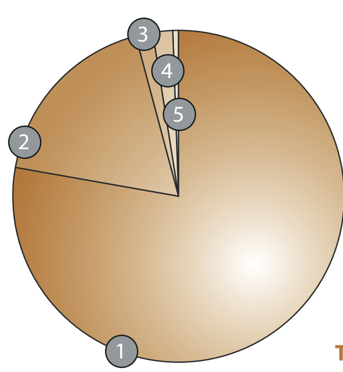
1 Benefits—78.4%, $713,385,766

2 Health Care—18.0%, $163,311,330

3 Refunds—1.8%, $16,470,725

4 Administrative—1.8%, $15,929,645

5 Other—0.0%, $157,540



2005 Plan Deductions

Total 2005 Plan Deductions—$909,255,006

Overview Of Financial Statements

Following the MD&A are the Statements of Fiduciary Net Assets and the Statements of Changes in Fiduciary Net Assets. OP&F's financial statements are prepared using the accrual basis of accounting and are in compliance with applicable Governmental Accounting Standards Board Statements.

The Statements of Fiduciary Net Assets provides a snap–shot view at year–end for the amount the plan has accumulated in assets to pay for benefits. The Statements of Changes in Fiduciary Net Assets show what has happened to the plan assets during the fiscal year. If net assets increased, then additions were greater than the deductions. If net assets decreased, then additions to the plan were less than the deductions from the plan.

In addition to the combining financial statements and accompanying notes, certain required supplementary information (RSI) is provided. The schedule of funding progress shows on an actuarial basis whether OP&F's ability to pay for benefits is improving or deteriorating over time. Also included in the required supplementary information is a schedule of employer contributions and notes to the required supplementary information. Both schedules provide data over the past six years. Following the Required Supplementary Information are schedules of administrative and investment expenses.

A condensed version of our financial information is being provided as part of this discussion.

Condensed Fiduciary Net Asset Information (in millions)

	2005	2004	2003	2005 Change Amount	2005 Change Percent	2004 Change Amount	2004 Change Percent
Cash & Short–term Investments	$ 487.2	$ 506.1	$ 503.3	$ (18.9)	–3.7%	$ 2.8	0.6%
Total Receivables	**385.0**	**201.9**	**276.1**	**183.1**	**90.7%**	**(74.2)**	**–26.9%**
Investments, at Fair Value	10,192.8	9,413.5	8,549.5	779.3	8.3%	864.0	10.1%
Collateral on Loaned Securities	1,633.0	2,033.0	1,598.0	(400.0)	(19.7%)	435.0	27.2%
Capital Assets, Net of Depreciation	27.3	27.3	26.6	0.0	0.0%	0.7	2.6%
Other Assets	0.7	0.2	0.1	0.5	250.0%	0.1	100.0%
Total Assets	**12,726.0**	**12,182.0**	**10,953.6**	**544.0**	**4.5%**	**1,228.4**	**11.2%**
Benefits & Accounts Payable	313.6	183.1	89.2	130.5	71.3%	93.9	105.3%
Investments Payable	2,075.0	2,191.1	1,946.6	(116.1)	–5.3%	244.5	12.6%
Total Liabilities	**2,388.6**	**2,374.2**	**2,035.8**	**14.4**	**0.6%**	**338.4**	**16.6%**
NET ASSETS AVAILABLE	**$ 10,337.4**	**$ 9,807.8**	**$ 8,917.8**	**$ 529.6**	**5.4%**	**$ 890.0**	**10.0%**

Condensed Changes in Fiduciary Asset Information (in millions)

	2005	2004	2003	2005 Change Amount	2005 Change Percent	2004 Change Amount	2004 Change Percent
Contributions	$ 581.3	$ 573.5	$ 521.6	$ 7.8	1.4%	$ 51.9	10.0%
Net Investment Gain/(Loss)	847.4	1,152.4	1,745.2	(305.0)	–26.5%	(592.8)	–34.0%
Other Additions	10.2	16.3	18.6	(6.1)	–37.4%	(2.3)	–12.4%
Total Additions	**1,438.9**	**1,742.2**	**2,285.4**	**(303.3)**	**–17.4%**	**(543.2)**	**–23.8%**
Benefits	876.7	820.8	774.0	55.9	6.8%	46.8	6.0%
Refunds	16.5	15.3	16.8	1.2	7.8%	(1.5)	–8.9%
Administration Expenses & Other	16.1	16.1	17.9	0.0	0.0%	(1.8)	–10.1%
Total Deductions	**909.3**	**852.2**	**808.7**	**57.1**	**6.7%**	**43.5**	**5.4%**
Net Increase/(Decrease)	529.6	890.0	1,476.7	(360.4)	–40.5%	(586.7)	–39.7%
Net Assets, Beginning of Year	9,807.8	8,917.8	7,441.1	890.0	10.0%	1,476.7	19.8%
NET ASSETS, END OF YEAR	**$10,337.4**	**$ 9,807.8**	**$ 8,917.8**	**$ 529.6**	**5.4%**	**$ 890.0**	**10.0%**

Financial Analysis

Fiduciary Net Assets

Net assets available for benefits and expenses in 2005 were $10,337,444,064 versus $9,807,810,088 in 2004, which represents a 5.4% overall net increase. The overall net increase can be primarily attributed to appreciation on the fair value of investments, and a decrease in investment commitments payable at the end of the year. Additionally, the largest decrease is directly related to an 85.8% increase in the liabilities related to the DROP program. Please refer to the Investment Section for additional information on our investment activities in 2005.

Revenue Additions to Fiduciary Net Assets

Pension contributions from employers and members increased $9.5 million or 1.8% in 2005 due to the increase in covered payroll, which is the contribution base. The active member population or contributing members increased by 562 to 27,879 while the average annual salary remained relatively flat. As a result, member contributions increased only slightly by 1.1%.

Contributions paid by members and beneficiaries for their share of the health care costs decreased slightly from $55.7 million to $55.3 million or down .7% in 2005. This reflects only changes in the covered participants, as there were no major plan changes in 2005.

Contributions received through the state subsidy decreased 52.6% or $1.3 million from $2.5 million to $1.2 million due to the fact that a $1.2 million subsidy was eliminated in the State of Ohio's 2005 budget and the membership base receiving the remaining subsidies decreased slightly as well.

Net investment income/appreciation decreased by 26.5% in 2005 over 2004 as the U.S. and international markets found positive territory but not to the same levels as in 2004. Investment net appreciation totaled $631,814,335 in 2005, which represented 36.4% of this increase and can be directly attributed to the overall 8.82% return on investments experienced on our assets versus the 13.29% return of 2004.

Expense Deductions from Fiduciary Net Assets

Benefit deductions for retirement, deferred retirement, disability and survivors increased $55.9 million or 6.8% in 2005. The majority of the increase is due to our DROP program having better than expected participation, and an increasing scale upon which contributions are allocated to the actual accounts, which allows active members to accrue pension benefits, contributions and interest in a separate account. Other increases are due to the increase in the retirees and beneficiaries rolls by 217 or .9%, plus a 3% cost of living adjustment for eligible recipients, and a slight increase in member refunds.

Health care benefit costs increased in total by 3.5% in 2005 versus a 6.1% decrease in 2004. Health care payments totaled $163.3 million in 2005 and represented nearly 17.6 % of all plan deductions. The Board of Trustees has made progress to preserve these benefits by addressing the continual rise in health care costs with major changes in the program adopted in 2004. Additional changes are expected to the program in 2007 and 2008. These benefits are not guaranteed or prepaid so cost sharing is required to offset costs.

Refunds to members increased by 7.6 % in 2005. This includes actual refunds of pension contributions and liabilities incurred for inactive members who are non–vested and who have accumulated contributions on deposit with OP&F.

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Statement of Fiduciary Net Assets as of December 31, 2005

	Pensions	Post–employment Health care	2005 Total	Death Benefit Agency Fund
Assets				
Cash and Short–term Investments	$ 471,652,802	$ 15,510,926	$ 487,163,728	$ 511,328
Receivables				
Employers' Contributions	58,178,706	31,352,566	89,531,272	—
Members' Contributions	15,394,392	—	15,394,392	—
Accrued Investment Income	30,936,072	1,017,374	31,953,446	—
Investment Sales Proceeds	205,191,225	6,747,985	211,939,210	—
Local Funds Receivable	36,196,034	—	36,196,034	—
Total Receivables	**345,896,429**	**39,117,925**	**385,014,354**	—
Investments, at fair value				
Bonds	1,246,679,045	40,998,690	1,287,677,735	—
Mortgage & Asset Backed Securities	711,245,387	23,390,246	734,635,633	—
Stocks	4,768,219,367	156,809,201	4,925,028,568	—
Real Estate	587,322,227	19,314,868	606,637,095	—
Commercial Mortgage Funds	77,844,753	2,560,028	80,404,781	—
Venture Capital	222,852,435	7,328,797	230,181,232	—
International Securities	2,254,083,666	74,128,524	2,328,212,190	—
Total Investments	**9,868,246,880**	**324,530,354**	**10,192,777,234**	—
Collateral on Loaned Securities	**1,581,052,777**	**51,995,012**	**1,633,047,789**	—
Capital Assets				
Land	3,098,114	101,886	3,200,000	—
Building and Improvements	20,513,161	674,602	21,187,763	—
Furniture and Equipment	4,090,035	134,506	4,224,541	—
Computer Software and Hardware	8,156,025	268,222	8,424,247	—
Accumulated Depreciation	(9,378,002)	(308,408)	(9,686,410)	—
Total Capital Assets, Net	26,479,333	870,808	27,350,141	—
Prepaid Expenses and Other	671,893	22,097	693,990	—
Total Assets	**12,294,000,114**	**432,047,122**	**12,726,047,236**	**511,328**
Liabilities				
Health Care Payable	—	13,381,824	13,381,824	—
Investment Commitments Payable	427,859,349	14,070,721	441,930,070	—
Accrued Administrative Expenses	9,382,347	308,551	9,690,898	—
Other Liabilities	14,950,504	491,667	15,442,171	—
Due to State of Ohio	—	—	—	511,328
DROP Liabilities	266,351,111	8,759,309	275,110,420	—
Obligations Under Securities Lending	1,581,052,777	51,995,012	1,633,047,789	—
Total Liabilities	**2,299,596,088**	**89,007,084**	**2,388,603,172**	**511,328**
NET ASSETS HELD IN TRUST FOR PENSION AND POST–EMPLOYMENT HEALTH CARE BENEFITS	**$ 9,994,404,026**	**$ 343,040,038**	**$ 10,337,444,064**	**—**

(An unaudited schedule of funding progress is presented on page 29.) See Notes to Basic Financial Statements.

Statement of Fiduciary Net Assets as of December 31, 2004

	Pensions	Post–employment Health care	2005 Total	Death Benefit Agency Fund
Assets				
Cash and Short–term Investments	$ 491,747,305	$ 14,388,362	$ 506,135,667	$15,532,874
Receivables				
Employers' Contributions	58,115,618	32,339,360	90,454,978	—
Members' Contributions	11,669,666	—	11,669,666	—
Accrued Investment Income	26,542,461	776,624	27,319,085	—
Investment Sales Proceeds	34,620,465	1,012,983	35,633,448	—
Local Funds Receivable	36,844,808	—	36,844,808	—
Total Receivables	**167,793,018**	**34,128,967**	**201,921,985**	**—**
Investments, at fair value				
Bonds	1,285,046,396	37,600,028	1,322,646,424	—
Mortgage & Asset Backed Securities	345,591,915	10,111,904	355,703,819	—
Stocks	4,633,772,576	135,582,635	4,769,355,211	—
Real Estate	540,631,011	15,818,683	556,449,694	—
Commercial Mortgage Funds	94,899,417	2,776,725	97,676,142	—
Venture Capital	184,319,141	5,393,116	189,712,257	—
International Securities	2,061,602,173	60,321,790	2,121,923,963	—
Total Investments	**9,145,862,629**	**267,604,881**	**9,413,467,510**	**—**
Collateral on Loaned Securities	**1,975,299,672**	**57,796,607**	**2,033,096,279**	**—**
Capital Assets				
Land	3,109,031	90,969	3,200,000	—
Building and Improvements	20,585,440	602,323	21,187,763	—
Furniture and Equipment	4,356,845	127,480	4,484,325	—
Computer Software and Hardware	6,370,928	186,411	6,557,339	—
Accumulated Depreciation	(7,857,784)	(229,916)	(8,087,700)	—
Total Capital Assets, Net	26,564,460	777,267	27,341,727	—
Prepaid Expenses and Other	217,979	6,379	224,358	—
Total Assets	**11,807,485,063**	**374,702,463**	**12,182,187,526**	**15,532,874**
Liabilities				
Health Care Payable	—	14,028,550	14,028,550	—
Investment Commitments Payable	153,656,185	4,495,929	158,152,114	—
Accrued Administrative Expenses	9,336,563	273,185	9,609,748	—
Other Liabilities	11,127,215	325,579	11,452,794	—
Due to State of Ohio	—	—	—	15,532,874
DROP Liabilities	143,829,549	4,208,404	148,037,953	—
Obligations Under Securities Lending	1,975,299,671	57,796,608	2,033,096,279	—
Total Liabilities	**2,293,249,183**	**81,128,255**	**2,374,377,438**	**15,532,874**
NET ASSETS HELD IN TRUST FOR PENSION AND POST–EMPLOYMENT HEALTH CARE BENEFITS	**$ 9,514,235,880**	**$ 293,574,208**	**$ 9,807,810,088**	**—**

Statement of Changes in Fiduciary Net Assets Year Ended December 31, 2005

	Pensions	Post–employment Health care	2005 Total
Additions			
From Contributions			
Employers'	$ 228,841,958	$ 128,183,051	$ 357,025,009
Members'	167,822,150	—	167,822,150
State of Ohio—Subsidies	1,185,989	—	1,185,989
Health Care Premiums	—	55,271,881	55,271,881
Total Contributions	**397,850,097**	**183,454,932**	**581,305,029**
From Investment Income			
Net Appreciation (Depreciation) Value of Investments	610,948,585	20,865,750	631,814,335
Bond Interest	88,987,436	3,039,191	92,026,627
Dividends	68,115,416	2,326,348	70,441,764
Real Estate Operating Income, net	51,272,918	1,751,126	53,024,044
Foreign Securities	1,115,356	38,093	1,153,449
Other Investment Income	19,889,961	679,303	20,569,264
Less Investment Expenses	(23,948,169)	(817,902)	(24,766,071)
Net Investment Income	**816,381,503**	**27,881,909**	**844,263,412**
From Securities Lending Activities			
Securities Lending Income	59,574,977	2,034,666	61,609,643
Security Lending Expense, Borrower Rebates	(55,642,457)	(1,900,359)	(57,542,816)
Security Lending Expense, Management Fees	(939,332)	(32,081)	(971,413)
Total Securities Lending Expense	**(56,581,789)**	**(1,932,440)**	**(58,514,229)**
Net Income from Securities Lending	2,993,188	102,226	3,095,414
Interest on Local Funds Receivable	1,549,039	—	1,549,039
Other Income	4,802,824	3,873,264	8,676,088
Total Additions	**1,223,576,651**	**215,312,331**	**1,438,888,982**
Deductions			
From Benefits			
Retirement Benefits	367,372,848	—	367,372,848
DROP Benefits	117,676,051	—	117,676,051
Disability Benefits	172,541,739	—	172,541,739
Health Care Benefits	—	163,311,330	163,311,330
Survivor Benefits	55,795,128	—	55,795,128
From Refunds			
Contribution Refunds	16,470,725	—	16,470,725
From Expenses			
Administrative Expenses	13,394,474	2,535,171	15,929,645
Other Expenses	157,540	—	157,540
Total Deductions	**743,408,505**	**165,846,501**	**909,255,006**
Net Increase	480,168,146	49,465,830	529,633,976
Net assets held in trust for pension and post–employment health care benefits			
Balance, Beginning of year	9,514,235,880	293,574,208	9,807,810,088
BALANCE, END OF YEAR	**$ 9,994,404,026**	**$ 343,040,038**	**$ 10,337,444,064**

(An unaudited schedule of funding progress is presented on page 29.) See Notes to Basic Financial Statements.

Statement of Changes in Fiduciary Net Assets Year Ended December 31, 2004

	Pensions	Post–employment Health care	2004 Total
Additions			
From Contributions			
Employers'	$ 224,246,896	$ 125,183,522	$ 349,430,418
Members'	165,948,955	—	165,948,955
State of Ohio—Subsidies	2,501,471	—	2,501,471
Health Care Premiums	—	55,665,341	55,665,341
Total Contributions	**392,697,322**	**180,848,863**	**573,546,185**
From Investment Income			
Net Appreciation (Depreciation) Value of Investments	964,189,258	29,662,642	993,851,900
Bond Interest	88,291,038	2,716,215	91,007,253
Dividends	63,898,508	1,965,795	65,864,303
Real Estate Operating Income, net	17,757,584	546,300	18,303,884
Foreign Securities	183,459	5,644	189,103
Other Investment Income	6,701,565	206,169	6,907,734
Less Investment Expenses	(26,229,644)	(806,937)	(27,036,581)
Net Investment Income	**1,114,791,768**	**34,295,828**	**1,149,087,596**
From Securities Lending Activities			
Securities Lending Income	29,265,733	900,341	30,166,074
Security Lending Expense, Borrower Rebates	(25,052,271)	(770,716)	(25,822,987)
Security Lending Expense, Management Fees	(1,008,298)	(31,020)	(1,039,318)
Total Securities Lending Expense	**(26,060,569)**	**(801,736)**	**(26,862,305)**
Net Income from Securities Lending	3,205,164	98,605	3,303,769
Interest on Local Funds Receivable	1,579,547	—	1,579,547
Other Income	7,364,880	7,320,704	14,685,584
Total Additions	**1,519,638,681**	**222,564,000**	**1,742,202,681**
Deductions			
From Benefits			
Retirement Benefits	360,015,084	—	360,015,084
DROP Benefits	86,462,085	—	86,462,085
Disability Benefits	162,151,716	—	162,151,716
Health Care Benefits	—	157,839,137	157,839,137
Survivor Benefits	54,371,041	—	54,371,041
From Refunds			
Contribution Refunds	15,306,505	—	15,306,505
From Expenses			
Administrative Expenses	13,637,634	2,215,590	15,850,224
Other Expenses	210,409	—	210,409
Total Deductions	**692,154,474**	**160,051,727**	**852,206,201**
Net Increase	827,484,207	62,512,273	889,996,480
Net assets held in trust for pension and post–employment health care benefits		—	
Balance, Beginning of year	8,686,751,673	231,061,935	8,917,813,608
BALANCE, END OF YEAR	**$ 9,514,235,880**	**$ 293,574,208**	**$ 9,807,810,088**

Statement of Changes in Assets and Liabilities—Death Benefit Agency Fund as of December 31, 2005 and 2004

	Balance December 31, 2004	Additions	Deductions	Balance December 31, 2005
Assets				
Cash and Short–Term Investments	$ 15,532,874	$ 10,000,000	$25,021,546	$ 511,328
Total Assets	**15,532,874**	**10,000,000**	**25,021,546**	**511,328**
Liabilities				
Due to State of Ohio	15,532,874	10,000,000	25,021,546	511,328
Total Liabilities	**$ 15,532,874**	**$10,000,000**	**$ 25,021,546**	**$ 511,328**

Notes to Basic Financial Statements December 31, 2005 and 2004

Summary of Significant Accounting Policies

The following are the significant accounting policies followed by the Ohio Police & Fire Pension Fund (OP&F).

Basis of Accounting

OP&F's financial statements have been prepared using the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when a liability is incurred.

New Accounting Pronouncement

During the year ended December 31, 2005, OP&F adopted the provisions of Governmental Accounting Standards Board Statement No. 46 Net Assets Restricted by Enabling Legislation—an amendment of GASB Statement No. 34 and Statement No. 47 Accounting for Termination Benefits. Implementation of these new accounting pronouncements has no effect on these financial statements.

In March 2003, the Governmental Accounting Standards Board (GASB) issued Statement No. 40: Deposit and Investment Risk Disclosures, which revised the necessary disclosures that address risks related to deposits and investments and amended Statement No. 3: Deposits with Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements. Statement No. 40 involves required disclosures about:

- Custodial credit risk
- Credit risk
- Concentration of credit risk
- Interest rate risk, and
- Foreign currency risk

Additional disclosures are required regarding investment policies related to disclosed risks, and for investments with fair values that are highly sensitive to interest rate changes. The requirements of Statement No. 40 are effective for financial statements for periods beginning after June 15, 2004. Early adoption is encouraged by the GASB. OP&F elected to adopt Statement No. 40 effective as of January 1, 2004.

The preparation of the financial statements requires management to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Significant items subject to estimates and assumptions include the market value of certain investments, carrying amount of capital assets, and assets and obligations related to employee and member benefits. Actual results could differ from those estimates.

Reclassifications

OP&F reclassified the Death Benefit Agency Fund into segregated financial statements, separate from the pension and health care financial statements. For comparative purposes, reclassifications were made for each year displayed.

Investments

Investment purchases and sales are recorded on a trade date basis. Dividend income is recognized on the ex–dividend date, while interest and rental income are recognized when earned.

Investments are reported at fair market value. Short–term investments are valued at amortized cost, which approximates fair market value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal payments discounted at prevailing interest rates for similar instruments. The fair value of real estate is based on independent appraisals and internal valuations. Investments that do not have an established market are reported at estimated fair market value. Private equity limited partnership interest is based on values established by the partnership's valuation committees.

Net appreciation is determined by calculating the change in the fair value of investments between the end of the year and the beginning of the year, less the cost of investments purchased, plus proceeds from sales of investments at fair value. Investment expense consists of administrative expenses directly related to the OP&F's investment operations and a proportional amount of all other administrative expenses allocated based on the ratio of OP&F's investment staff to total OP&F staff.

Federal Income Tax Status

OP&F was determined to be a trust under section 401(a) of the Internal Revenue Code that is exempt from Federal income taxes under Section 501(a) of the Internal Revenue Code.

Administrative Costs

The costs of administering the plan is financed by investment income.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is computed using the straight–line method over the estimated useful lives of the related assets. The range of estimated useful lives is as follows:

Buildings and improvements:	40 years
Furniture and equipment:	3 to 10 years
Computer software and hardware:	2 to 10 years

	January 1, 2005	Additions	Disposals	December 31, 2005
Capital Assets				
Land	$ 3,200,000	—	—	$ 3,200,000
Building & Improvements	21,187,763	—	—	21,187,763
Furniture & Equipment	4,484,325	—	($259,784)	4,224,541
Computer Software & Hardware	6,557,339	$ 1,866,908	—	8,424,247
Total Capital Assets, Gross	**35,429,427**	**1,866,908**	**($259,784)**	**37,036,551**
Accumulated Depreciation				
Building & Improvements	(3,009,268)	(543,254)	—	(3,552,522)
Furniture & Equipment	(3,258,489)	(388,573)	255,557	(3,391,505)
Computer Software & Hardware	(1,819,943)	(1,046,023)	123,583	(2,742,383)
Total Accumulated Depreciation	**(8,087,700)**	**(1,977,850)**	**379,140**	**(9,686,410)**
TOTAL CAPITAL ASSETS, NET	**$ 27,341,727**	**$ (110,942)**	**$ 119,356**	**$ 27,350,141**

Contributions and Benefits

Employer and member contributions are recognized when due or in the period the related member salaries are earned. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Description Of The System

Organization

OP&F is a cost–sharing, multiple–employer public employee retirement system established by Chapter 742 of the Ohio Revised Code (ORC) in 1967 to consolidate the various individual local police and firefighter's relief and pension funds into one statewide plan. OP&F is administered by a nine member Board of Trustees, consisting of four active members, two retired members, and three investment experts, which changed with the enactment of Senate Bill 133 in September 2004. Each investment expert—one appointed by the Governor, one by the Treasurer of State, and one appointed jointly by the Senate President and Speaker of the House—must have professional investment expertise. OP&F administers pension, and disability benefits to qualified participants. In addition, OP&F administers survivor, and death benefits and sponsors health care programs for qualified retirees, survivors, spouses, children and dependent parents. OP&F is a separate financial reporting entity in accordance with criteria established by Governmental Accounting Standards Board Statement No. 14. Because OP&F is legally separate, a voting majority of the governing board is not appointed by the State and it is fiscally independent of other state and local governments.

Plan Membership

Employer and member data as of January 1, 2005 and 2004, based on the most recent actuarial valuation, is as follows:

	2005			2004		
Employee Members	Police	Fire	Total	Police	Fire	Total
Retirees and Beneficiaries						
Currently receiving benefits	13,812	10,528	24,340	13,662	10,474	24,136
Terminated employees entitled to benefits but not yet receiving them	143	81	224	150	61	211
TOTAL BENEFIT MEMBERS	**13,955**	**10,609**	**24,564**	**13,812**	**10,535**	**24,347**
Current Members						
Vested	5,694	5,025	10,719	5,374	4,574	9,948
Nonvested	9,576	7,584	17,160	10,372	8,121	18,493
Total Current Members	15,270	12,609	27,879	15,746	12,695	28,441
TOTAL EMPLOYEE MEMBERS	**29,225**	**23,218**	**52,443**	**29,558**	**23,230**	**52,788**
Employer Members						
Municipalities	251	224	475	252	225	477
Townships	0	113	113	0	109	109
Villages	286	31	317	288	29	317
TOTAL EMPLOYER MEMBERS	**537**	**368**	**905**	**540**	**363**	**903**

Benefits

Plan benefits are established under ORC Chapter 742. Members are eligible for normal retirement benefits at age 48 with 25 years of service credit. The normal retirement benefit is equal to 2.5% of annual earnings for each of the first 20 years of service, 2.0% for each of the next 5 years of service and 1.5% for each year of service thereafter. However, this normal retirement benefit is not to exceed 72% of the member's "average annual salary" or "recalculated average salary" as the case may be, for the three, 12 consecutive months during which the total "salary" was greatest. With 15 years of service credit, retirement of age service commuted with reduced benefits is available upon reaching age 48, and 25 years from the date the member became a qualified employee in a police or fire department, whichever date is later.

In addition to retirement benefits, OP&F also provides disability, survivor, and death benefits. Disability benefits are available to all members and vary by length of service and type of disability. Statutory survivor benefits are specified dollar amounts paid to eligible survivors, children and dependent parents upon the death of an active member or retiree. A death benefit of $1,000 is payable to the surviving spouse, designated beneficiary, or estate of each deceased or retired member.

OP&F also administers the Ohio Public Safety Officers Death Benefit Agency Fund, which provides special benefits to eligible survivors of public safety officers who are killed in the line of duty or who die from injuries or disease incurred in the performance of official duties. These eligible survivors are entitled to receive the member's full monthly salary, which will be reduced at the member's retirement eligibility date. The dependent's benefit will be terminated at the dependent's attainment of age 18 (or 23 if attending school). The spouse's benefit is a lifetime benefit. These death benefit payments are in addition to any optional payment plan benefits elected by the member. Funding for Death Fund Agency Benefits is received from the State of Ohio.

Deferred Retirement Option Plan (DROP)

Effective January 2003, the Deferred Retirement Option Plan (DROP) is an optional benefit that allows eligible police officers and firefighters to accumulate a lump sum of money for retirement, subject to the member meeting certain criteria. OP&F is proud to offer this benefit to its membership, which has been the most requested addition to OP&F's benefit offerings in many years.

OP&F members who are eligible for a normal service retirement (48 years of age or older with 25 years or more of service credit) can enter the DROP program by delaying retirement and continuing to work as police officers or firefighters. Upon the DROP effective date, a member's pension is calculated as if that were the date of retirement. While the member continues to work and draw their normal salary, the amount they would have received in retirement benefits, plus annual 3% cost–of–living adjustments (COLAs), accumulate tax–deferred at OP&F on their behalf. As the DROP participant continues to work, a portion of their OP&F member contribution, plus 5% interest, also accumulates into DROP.

When members end their active employment and retire within the required period, which terminates their DROP participation, they begin to receive their monthly pension that was determined on their DROP effective date (plus COLAs) and will be eligible for health care benefits based on the eligibility guidelines in place at the time of their retirement. Members who have terminated employment can begin to withdraw funds from their DROP accrual in a lump–sum payment or installments, as long as three full years have elapsed from their DROP effective date. To receive the benefit of DROP, without penalty, members must work at least three more years in an OP&F–covered position and they must terminate employment and retire within eight years.

Health Care

OP&F sponsors a comprehensive health care program for eligible benefit recipients and their eligible dependents. This program is not guaranteed and the benefits are subject to change at any time upon action of the Board of Trustees. The program includes prescription drugs and reimbursement of Medicare Part B premiums. Benefit recipients pay a portion of the health care cost through a monthly contribution.

Under Ohio law, medical costs paid from the funds of the plan are included in the employer contribution rates, which are currently 19.5% and 24% of salaries for police and fire employers, respectively. The Board of Trustees allocated employer contributions equal to 7.75% of annual covered payroll to the Health Care Stabilization Fund, which was part of the Pension Reserve Fund for 2005 and 2004.

Refunds

Upon termination of employment, members may withdraw accumulated contributions to OP&F. Acceptance of a refund cancels the member's rights and benefits in OP&F. Employer contributions to OP&F are not refundable.

Contributions And Reserves

Contributions

The ORC requires contributions by active employers and their members. The contribution requirement was not actuarially determined, but rather established by law in the ORC. Contribution rates are, however, subject to annual review by the Ohio Retirement Study Council. Additionally, an actuary is used to determine the actuarial implications of the requirement. The adequacy of contribution rates is determined annually using the entry age normal with frozen initial liability actuarial cost method. Rates established by the ORC at December 31, 2005 and 2004:

(% of active member payroll)	Police	Fire
Employer	19.50	24.00
Member	10.00	10.00
TOTAL STATUTORY RATE	**29.50**	**34.00**

Senate Bill 82 established the length of the amortization period for unfunded pension liability as the primary measure of OP&F's financial status, with a period of 30 years or less being considered satisfactory. This 30–year target is to be attained by December 31, 2006 and maintained thereafter. As of January 1, 2005, the amortization period under the current statutory rates is infinite. OP&F is currently exploring a variety of funding alternatives to attain the 30–year target, and will submit a Board approved plan to the oversight board as required by law.

Combined employer and member contributions as a percentage of the total active member payroll required and made for 2005 and 2004 represented 29.50% for police and 34.00% for firefighters. Employer and member contributions were $173,776,807 and $91,080,197, respectively, for police and $183,248,202 and $76,741,953, respectively, for firefighters for the year ended December 31, 2005. Employer and member contributions were approximately $173,622,144 and $90,731,062, respectively, for police and $175,808,274 and $75,217,893, respectively, for firefighters for the year ended December 31, 2004.

In accordance with the ORC, the State of Ohio is required to contribute additional amounts to finance the cost of certain state–legislated benefit improvements. The total amount contributed by the State of Ohio was $1,185,989 and $2,501,471 for the years ended December 31, 2005 and 2004, respectively.

Local Funds Receivable

Local governments are required by state statute to pay the unfunded portion of the actuarially determined liability of the local police and firefighter's relief and pension funds that were merged to form OP&F in 1967. The ORC designates this obligation of the local governments the "Employers' Accrued Liability." Interest on the outstanding balance is being accrued at the rate of 4.25%, compounded semiannually. Local governments began repayment in 1969 and payments are required to be made until 2035. Between 1969 and 1973, payments of principal and interest were received at incremental semiannual rates ranging from 1% to 5% of the original receivable balance. Between 1973 and 2035, semiannual payments of principal and interest are required to be made by the local governments at a rate of 2.5% of the original receivable balance. The underpaid balance due at December 31, 2005 and 2004, respectively, includes $104,638 and $260,614 due from local governments which had previously underpaid their semiannual payment and from local governments that joined OP&F subsequent to 1967 according to a 20–year payment plan.

The following is a summary of the amounts due on the local funds receivable:

Year ending December 2006	$ 2,198,028
Year ending December 2007	2,198,028
Year ending December 2008	2,187,054
Year ending December 2009	2,167,826
Year ending December 2010	2,167,826
Thereafter	52,275,055
Total projected payments	63,193,817
Less interest portion	(26,997,783)
BALANCE AT DECEMBER 31, 2005	**$ 36,196,034**

Reserves

As required by ORC 742.59, the following accounts have been established for the reserves held for current and future benefits and are separated between police and fire:

The Police Officers' and Firefighters' Contribution Fund accumulates the contributions deducted from the salaries of members. Upon retirement, a member's accumulated contributions are transferred to the Police Officers' or Firefighters' Pension Reserve Fund.

The Police Officers' and Firefighters' Employers' Contribution Fund is the depository for employer contributions. Based on actuarial valuations, amounts are transferred from this account to the Police Officers' and Firefighters' Pension Reserve Fund.

The Police Officers' and Firefighters' Pension Reserve Fund is the account from which all retirement, disability, health care and survivor benefits are paid. Included in this Fund is the Health Care Stabilization Fund from which payments for the health care benefits are made. Amounts are transferred into the Pension Reserve Fund from the Contribution Fund and the Guarantee Fund.

The Guarantee Fund records all investment earnings of OP&F. In addition, contributions from the State of Ohio, exclusive of death benefit contributions, are recorded in this fund. Annually, investment earnings are transferred to the Pension Reserve Funds and the Expense Fund.

The Expense Fund is used to record all expenses for the administration and management of OP&F. Annually funds are transferred from the Guarantee Fund to cover expenses incurred.

Net assets available for benefits for the various funds were as follows:

	2005	2004
Members' Contribution	$ 1,642,677,095	$ 1,532,127,004
Employers' Contribution	2,686,845,969	2,437,476,084
Pension Reserve	6,007,921,000	5,838,207,000
TOTAL	**$ 10,337,444,064**	**$ 9,807,810,088**

Cash and Investments

Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a system will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the failure of the counterparty to a transaction, a system will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

In accordance with Ohio Revised Code 135.18 and 135.181, OP&F requires that demand deposit accounts be fully collateralized with U.S. obligations at 105% of the value of the cash. OP&F's domestic custodial bank collateralizes the demand deposit accounts for all Ohio pension funds, under its custody, in one pool and held in its name with rights to the Treasurer of the State Ohio. OP&F's policy is to adhere to this statutory guideline for the domestic deposit accounts. The international custodial bank is allowed to hold cash in foreign local banks for immediate settlement of pending trade transactions. The cash held in these foreign local banks are not collateralized. Excess cash received in OP&F's trust accounts are invested in a Short Term Investment Fund (STIF). All OP&F's domestic Depository Trust Company and Fed–eligible securities are held in the custodial bank's nominee name for the benefit of OP&F. The custodial bank provides book entry accounting for OP&F's real estate and private equity assets.

Investments

Section 742.11 of the Ohio Revised Code grants the Board of Trustees full power to invest the assets of OP&F. This statue requires that investments be made with care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like nature and with like aims; and by diversifying the investments of the disability and pension fund so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so.

A summary of short–term securities and investments at fair value is as follows:

Category	2005	2004
Commercial Paper	$ 425,086,906	$ 466,545,755
U.S. Government Bonds	574,310,651	570,307,707
Corporate Bonds And Obligations	709,545,103	752,338,717
Mortgage & Asset Backed Obligations	734,635,633	355,703,819
Municipal Bonds	3,821,981	—
Domestic Stocks	1,967,743,992	2,568,569,700
Domestic Pooled Stocks	2,957,284,576	2,200,785,511
International Securities	2,328,212,190	2,121,923,963
Real Estate	606,637,095	556,449,694
Commercial Mortgage Funds	80,404,781	97,676,142
Private Equity	230,181,232	189,712,257
GRAND TOTAL	**$ 10,617,864,140**	**$ 9,880,013,265**

Commercial paper is included in cash and short–term investments on the Statement of Fiduciary Net Assets.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In accordance with Section. 742.11 of the Ohio Revised Code: "The board and other fiduciaries shall discharge their duties with respect to the funds solely in the interest of the participants and beneficiaries." These duties shall be carried out " with 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 and like aims; and by diversifying the investments of the disability and pension fund so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so."

Core Fixed–Income

OP&F has three core fixed–income portfolios, all managed externally, which contain government, mortgage and asset–backed securities and corporate bonds. These external managers invest in securities based on guidelines provided by the OP&F Board of Trustees. It is the policy of OP&F that securities in the core fixed–income portfolio shall be rated BBB– or better by two standard rating services at the time of purchase. OP&F allows some of its investment managers to purchase securities that are "not rated" as long as they deem these securities to be at least equivalent to the minimum ratings at the time of purchase.

- Government instruments include those issued by the U.S. Treasury as well as fixed–income instruments, other than mortgage–backed securities, of an agency or instrumentality of the United States government.
- Mortgage–backed instruments include collateralized mortgage obligations and real estate mortgage investment conduits (REMIC's), whose payment of principal and interest is insured by the full faith and credit of the United States government, or an agency or instrumentality thereof. Also included in this category are GNMA project loans, pools and participation certificates, FNMA and FHLMC.
- Corporate bonds consist of debt instruments issued by domestic corporations or U.S. dollar–denominated debt issued by foreign entities and managed by a U.S. based investment manager.

High Yield Fixed–Income

OP&F has high yield fixed–income portfolios, all managed externally. The high yield bond asset class consists of the portion of the U.S. corporate bond market that is rated below BBB– by S&P or below Baa3 by Moody's. Accordingly, credit risks associated with these bonds are greater than with core fixed–income bonds. OP&F's policy is to invest in high yield bonds issued by U.S. Corporations with a minimum credit rating of CCC or equivalent. OP&F allows some of its investment managers to purchase securities that are "not rated" as long as they deem these securities to be at least equivalent to the minimum ratings at the time of purchase. It is possible after purchase that the security is downgraded. In the event of an investment guideline violation and in the event of a security downgrade, such that the ratings (Moody's, S&P, or Fitch Investor's Service) are below the allowable minimum security quality, the Manager is obligated by contract to inform OP&F in writing within five business days of such violation. Such notice will include the action the Manager intends to take with regard to the violation and over what time period that action will be taken. Both the method and timing of the violation resolution must be agreeable to OP&F.

The following tables show ratings by asset class in OP&F's fixed–income portfolio as of December 31, 2005 and 2004:

Ratings by Asset Class—2005

Moody's / S&P Ratings	A3/A– and Above	Baa3/BBB– to A3/A–	B3/B– to– Baa3/BBB–	C/C– to B3/B	Full Faith & Credit	Not Rated	Grand Total
Corporate Bond Obligations	$ 187,593,944	$ 67,067,174	$ 416,151,049	$ 35,814,939	—	$ 2,917,997	$ 709,545,103
Mortgage and Asset–Backed Securities	245,046,115	—	—	—	$ 489,589,518	—	734,635,633
Municipal Bonds	3,821,981	—	—	—	—	—	3,821,981
U.S. Government Agencies	36,382,607	—	—	—	—	—	36,382,607
U.S. Government Treasury STRIPS	—	—	—	—	29,429,504	—	29,429,504
U.S. Government Treasury Notes	—	—	—	—	508,498,540	—	508,498,540
GRAND TOTAL	**$ 472,844,647**	**$ 67,067,174**	**$ 416,151,049**	**$ 35,814,939**	**$ 1,027,517,562**	**$ 2,917,997**	**$ 2,022,313,368**

Ratings by Asset Class – 2004

Moody's / S&P Ratings	A3/A– and Above	Baa3/BBB– to A3/A–	B3/B– to– Baa3/BBB–	C/C– to B3/B	Full Faith & Credit	Not Rated	Grand Total
Corporate Bond Obligations	$ 175,393,108	$ 83,617,852	$ 412,502,174	$ 56,894,750	—	$ 23,930,833	$ 752,338,717
Mortgage and Asset–Backed Securities	324,245,076	—	—	—	$ 31,458,743	—	355,703,819
U.S. Government Agencies	41,007,377	—	—	—	—	—	41,007,377
U.S. Government Treasury STRIPS	14,142,330	—	—	—	5,518,144	—	19,660,474
U.S. Government Treasury Notes	5,174,810	—	—	—	504,465,046	—	509,639,856
GRAND TOTAL	**$559,962,701**	**$83,617,852**	**$412,502,174**	**$56,894,750**	**$541,441,933**	**$23,930,833**	**$1,678,350,243**

Short–Term Investments

The short–term investment portfolio consists of commercial paper. At the time of purchase, the commercial paper must be rated within the two highest classifications established by two standard rating services. However, it is possible that after the purchase, the ratings could change. The security with the A3/P2 rating, in the table below, was rated within the two highest classifications at the time of purchase, but it was downgraded at year–end. The following table lists the ratings as of December 31, 2005 and 2004:

S&P/Moody's Rating	Fair Value 2005	% 2005	Fair Value 2004	% 2004
A–1/P–1	$ 62,209,119	14.63	$ 156,997,877	33.65
A–1/P–2	92,323,992	21.72	45,857,367	9.83
A–2/P–1	24,939,445	5.87	—	—
A–2/P–2	245,614,350	57.78	249,332,617	53.44
A–3/P–2	—	—	14,357,894	3.08
GRAND TOTAL	**$ 425,086,906**	**100.00**	**$ 466,545,755**	**100.00**

Convertible Bonds

OP&F allows its active international investment managers to hold 7% to 15% of their entire portfolio in convertible bonds with no minimum credit rating specified. These percentages vary by manager depending on their investment style and OP&F's overall investment objectives. For the periods ending December 31, 2005 OP&F did not hold convertible bonds while it held two international convertible bonds as at December 31, 2004. The following table lists the ratings for the two periods:

S&P/Moody's Rating	Fair Value 2005	% 2005	Fair Value 2004	% 2004
BBB+ / A1	0	0.00	$ 491,812	10.48
Not rated	0	0.00	4,198,302	89.52
GRAND TOTAL	**0**	**0.00**	**$4,690,114**	**100.00**

Interest Rate Risk

Collateralized Mortgage Obligations

In 2005 OP&F did not hold any interest–only bonds. In 2004 OP&F held one interest–only bond that was secured by credit card receivables with a fair value of $762,338. These securities are based on cash flows from interest payments on underlying loans. Therefore, they are sensitive to prepayments by the debtor, which may result from a decline in interest rates.

In general, mortgage–backed securities entitle their holders to receive both principal and interest payments from the payments made by the borrowers of the underlying mortgages over the lives of those loans. The life of the mortgage that underlies a mortgage–backed security can be shortened by several economic events, including borrower refinancing. When interest rates fall and remain very low a growing number of borrowers will refinance their existing loans causing mortgaged–backed security holder to be repaid more quickly than anticipated. This early repayment is a form of market risk assumed by OP&F and other owners of mortgaged–backed securities.

To the contrary, when interest rates begin to rise, the refinancing of existing mortgages begins to slow. If the rates remain high for long periods of time, fewer borrowers refinance their mortgages. This causes mortgage–backed security holders to be repaid over longer periods of time. This prolonged repayment is known as extension risk and is another form of market risk assumed by OP&F and other owners of mortgaged–backed securities.

Variable Rate Securities

OP&F's core fixed–income and high yield managers are permitted to hold variable–rate coupons whose rates may vary directly or inversely with changes in a related interest rate. As of December 31, 2005 and 2004 OP&F did not hold any securities with such variable–rate coupons.

Duration is a measure of a fixed income security's cash flows using present values, weighted for cash flows as a percentage of the investment's full price. The duration measurement used is "effective duration" and is provided for each Core fixed–income portfolio and for the composite of all portfolios. All Core fixed–income managers are given a range of permissible durations around the duration of their benchmark index. Since portfolio level duration is the best measure of interest rate risk, OP&F does not require our managers to measure or report on the duration of each security sector. OP&F does not measure the duration of our high yield portfolios because interest rate risk is a very small part of the total risk of high yield securities. The major risks are credit risk and interest rate spread risk. The following table lists the effective duration for OP&F's fixed–income portfolio as of December 31, 2005 and 2004:

Investment Type	Fair Value 2005	Effective Duration 2005	Fair Value 2004	Effective Duration 2004
U.S. Government Obligations	$ 508,498,539	8.49	$ 507,155,098	6.04
U.S. Government STRIPS	29,429,504	7.91	19,660,474	7.07
U.S. Government Agencies	36,382,608	3.86	41,007,377	3.28
Mortgage and Asset–Backed Securities	262,577,899	4.56	355,703,819	3.38
Corporate Bonds Obligations	734,635,633	3.37	252,507,938	4.74
Municipal Bonds	3,821,980	2.61	—	0
TOTAL PORTFOLIO EFFECTIVE DURATION	**$ 1,575,346,163**	**5.32**	**$ 1,176,034,706**	**4.88**

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. OP&F does not permit more than 10% of the core fixed–income portfolio to be invested in the securities of any one issuer, and no more than 5% in any one issue on a dollar duration basis, with the exception of United States Government or Agency securities. For the high yield portfolio, no more than 10% of the entire portfolio at market shall be invested in securities of a single issue or issuer, unless otherwise approved by the Board of Trustees. At December 31, 2005 and 2004, OP&F did not hold investments in any one issuer that represented 5 % or more of the plan net assets.

Securities Lending

OP&F participates in domestic and international securities lending programs, as authorized by the Board of Trustees. Securities are loaned to investment broker/ dealers (borrower). Securities loaned are collateralized by the borrower at 102% of the domestic and 105% of the international loaned securities' fair value. OP&F has minimized its exposure to credit risk due to borrower default by having the lending agent bank determine daily that required collateral meets the specified collateral requirements. There are no restrictions on the amount of the securities that can be loaned. Contracts with lending agents require them to indemnify OP&F if the borrowers fail to return the securities or fail to pay OP&F for income distributions by the securities' issues while the securities are on loan. All securities loans can be terminated on demand and the maturities of the investments made with an acceptable form of collateral generally match the maturities of the securities loans.

OP&F has not experienced any losses due to credit or market risk on securities lending activity since implementation of the program. OP&F does have the ability to pledge or sell collateral securities absent a borrower default.

The following represents the balances relating to the securities lending transactions at December 31, 2005 and 2004:

Securities Lent as of December 31, 2005

Securities Lent	Underlying Security	Collateral Received	Collateral Fair Value	Type of Collateral
U.S. Government and Treasuries	$ 713,358,529	$ 727,183,756	$ 727,183,756	Cash
Domestic Corporate Fixed Income	215,368,305	220,847,641	220,847,641	Cash
Domestic Equities	604,061,376	630,928,334	630,928,334	Cash
International Equities	52,126,502	54,088,058	54,088,058	Cash
TOTAL SECURITIES LENT	**$ 1,584,914,712**	**$ 1,633,047,789**	**$ 1,633,047,789**	

Securities Lent as of December 31, 2004

Securities Lent	Underlying Security	Collateral Received	Collateral Fair Value	Type of Collateral
U.S. Government and Treasuries	$ 673,512,258	$ 686,123,458	$ 686,123,458	Cash
Domestic Corporate Fixed Income	260,969,913	266,975,188	266,975,188	Cash
Domestic Equities	1,011,686,502	1,045,773,640	1,045,773,640	Cash
International Equities	32,969,531	34,223,993	34,223,993	Cash
TOTAL SECURITIES LENT	**$ 1,979,138,204**	**$ 2,033,096,279**	**$ 2,033,096,279**	

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. OP&F's target allocation for international equity is 20% of the total investment assets. Cash or cash equivalents shall be invested in the OP&F custodian's STIF account, except for local non–U.S. currencies held pending settlement of transactions. For the years ending December 31, 2005 and 2004, OP&F's exposure to foreign currency risk is as follows:

2005 Exposure To Foreign Currency Risk

Currency	Maturity Date	Fair Value (Cash Deposits)	Fair Value (Common Stock)	Fair Value (Bonds)	Total Fair Value (Cash Deposits and Securities)
Australian Dollar	Not Applicable	$ 356,196	$ 71,064,142	—	$ 71,420,338
Brazilian Real	Not Applicable	392,822	26,545,528	—	26,938,350
British Pound	Not Applicable	104,092	368,001,194	—	368,105,286
Canadian Dollar	Not Applicable	21,390	109,893,812	—	109,915,202
Chilean Peso	Not Applicable	4,656	1,206,076	—	1,210,732
Czech Koruna	Not Applicable	—	1,636,147	—	1,636,147
Danish Kroner	Not Applicable	(1,246)	13,910,795	—	13,909,549
Egyptian Pound	Not Applicable	—	868,421	—	868,421
Euro	Not Applicable	592,917	505,247,519	—	505,840,436
Hong Kong Dollar	Not Applicable	12,106	97,190,873	—	97,202,979
Hungarian Forint	Not Applicable	—	8,615,968	—	8,615,968
Indian Rupee	Not Applicable	300,026	14,050,021	—	14,350,047
Indonesian Rupiah	Not Applicable	4,697,904	4,917,812	—	9,615,716
Israeli Shekel	Not Applicable	—	2,590,147	—	2,590,147
Japanese Yen	Not Applicable	308,176	352,630,778	—	352,938,954
Malaysian Ringgit	Not Applicable	42,052	15,450,474	—	15,492,526
Mexican Peso	Not Applicable	106,426	16,556,445	—	16,662,871
New Turkish Lira	Not Applicable	58,548	24,864,566	—	24,923,114
New Zealand Dollar	Not Applicable	7,590	7,405,444	—	7,413,034
Norwegian Krone	Not Applicable	34,503	35,861,264	—	35,895,767
Philippine Peso	Not Applicable	1	6,019,582	—	6,019,583
Polish Zloty	Not Applicable	—	2,488,719	—	2,488,719
Singapore Dollar	Not Applicable	1,075	15,162,842	—	15,163,917
South African Rand	Not Applicable	1,557	25,866,832	—	25,868,389
South Korean Won	Not Applicable	74	79,279,652	—	79,279,726
Swedish Krona	Not Applicable	8,313	33,547,520	—	33,555,833
Swiss Franc	Not Applicable	94,965	125,804,905	—	125,899,870
Taiwanese New Dollar	Not Applicable	689,702	83,501,988	—	84,191,690
Thailand Baht	Not Applicable	68,681	11,208,076	—	11,276,757
Foreign Securities Denominated in U.S. Dollars	Not Applicable	N/A	265,502,694	—	265,502,694
GRAND TOTAL		**$ 7,902,526**	**$ 2,326,890,236**	**—**	**$ 2,334,792,762**

2004 Exposure To Foreign Currency Risk

Currency	Maturity Date	Fair Value (Cash Deposits)	Fair Value (Common Stock)	Fair Value (Bonds)	Total Fair Value (Cash Deposits and Securities)
Argentina Peso	Not Applicable	—	$ 1,135,919	—	$ 1,135,919
Australian Dollar	Not Applicable	$ 71,231	29,273,067	—	29,344,298
Brazilian Real	Not Applicable	344,818	22,677,619	—	23,022,437
Canadian Dollar	Not Applicable	4,895	23,863,966	—	23,868,861
Swiss Franc	12/23/2005	1,216,457	—	$ 491,812	1,708,269
Swiss Franc	Not Applicable	—	99,232,213	—	99,232,213
Chilean Peso	Not Applicable	4,287	418,827	—	423,114
Czech Koruna	Not Applicable	—	2,464,463	—	2,464,463
Danish Kroner	Not Applicable	4,495	7,510,269	—	7,514,764
Euro	Not Applicable	6,701,296	414,371,791	—	421,073,087
British Pound	Not Applicable	1,316,926	269,936,837	—	271,253,763
Hong Kong Dollar	Not Applicable	201,316	37,854,690	—	38,056,006
Hungarian Forint	Not Applicable	—	3,432,218	—	3,432,218
Indonesian Rupiah	Not Applicable	317,813	2,271,506	—	2,589,319
Israeli Shekel	Not Applicable	—	3,810,664	—	3,810,664
Indian Rupee	Not Applicable	1,225,736	4,652,746	—	5,878,482
Japanese Yen	7/11/2005	781,408	—	4,198,302	4,979,710
Japanese Yen	Not Applicable	—	223,658,099	—	223,658,099
South Korean Won	Not Applicable	72	30,134,652	—	30,134,724
Mexican Peso	Not Applicable	—	10,261,947	—	10,261,947
Malaysian Ringgit	Not Applicable	123,308	11,448,956	—	11,572,264
Norwegian Krone	Not Applicable	123,046	12,963,509	—	13,086,555
New Zealand Dollar	Not Applicable	209	8,690,359	—	8,690,568
Philippine Peso	Not Applicable	—	2,570,484	—	2,570,484
Polish Zloty	Not Applicable	—	1,292,221	—	1,292,221
Swedish Krona	Not Applicable	241,077	27,082,914	—	27,323,991
Singapore Dollar	Not Applicable	19,608	13,029,485	—	13,049,093
Thailand Baht	Not Applicable	45,130	5,125,318	—	5,170,448
Turkish Lira	Not Applicable	—	5,449,442	—	5,449,442
Taiwanese New Dollar	Not Applicable	203,979	22,642,522	—	22,846,501
South African Rand	Not Applicable	40	33,447,457	—	33,447,497
Foreign Securities Denominated in U.S. Dollars	Not Applicable	NA	786,688,185	—	786,688,185
GRAND TOTAL		**$ 12,947,147**	**$ 2,117,392,345**	**$ 4,690,114**	**$ 2,135,029,606**

Investments

Section 742.11 of the Ohio Revised Code grants the Board of Trustees full power to invest the assets of OP&F. This statute also requires that investments be made with care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like nature and with like aims; and by diversifying the investments of the disability and pension fund so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so.

Derivatives

Derivatives are generally defined as investment instruments whose value depends on, or is derived from, the value of an underlying asset, reference rate, or index.

OP&F has classified the following as derivatives:

Mortgage and Asset–Backed Securities

OP&F invested in Planned Amortization Class and Sequential Pay Real Estate Mortgage Investment Conduit bonds issued by GNMA, FHLMC, and FNMA. Planned Amortization Class bonds are retired according to a payment schedule so as to have a stable average life and yield even if expected prepayments rates change within a specified broad range of prepayment possibilities. Sequential Pay bonds begin to pay principal when classes with an earlier priority have paid to a zero balance. Such bonds enjoy uninterrupted payment of principal until paid to a zero balance. In terms of credit risk, the United States government explicitly backs GNMA mortgage securities programs and implicitly backs FHLMC and FNMA mortgage securities programs.

Futures Contracts

Future contracts are contracts to buy or sell units of an index or financial instrument on specified future date at a price agreed upon when the contract is originated. OP&F invested in three index funds: MSCI EAFE (Europe, Australia and Far East), S&P 500 and Russell 1000. Those funds to a minor extent utilized stock index futures contracts to equitize cash balances. OP&F's exposure represented less than 1% of the total portfolio market value at year–end.

Forward–Currency Contracts

Forward currency contracts are legal agreements between two parties to purchase and sell a foreign currency, for a price specified at the contract date, with delivery and settlement in the future. OP&F, through its external investment managers, enters into forward currency contracts to hedge underlying foreign currency exposure in its non–U.S. equity portfolios back to the U.S. dollar or to provide the quantity of foreign currency needed to settle trades. Some of OP&F's Investment Managers may convert foreign currency back to U.S. dollars. The risks associated with such contracts include changes in the value of foreign currency relative to the U.S. dollar and the risk of default by the counterparty. In order to manage the risk of changes in the value of foreign currency, Investment Managers may not hedge more than 50% of the underlying equity portfolio value. To manage counterparty risk Investment Managers utilize various financially sound counterparties. All the contracts are valued at the spot foreign exchange rate at December 31, 2005 and 2004. The changes in the value of the open contracts are recognized as unrealized appreciation/depreciation. A realized gain or loss is recorded at the time of the delivery/closing of the contract. The realized gain or loss is the difference between the value of the original contract and the closing/delivery value of such contracts. Both realized and unrealized gain and losses are included in the Statement of Changes in Fiduciary Net Assets as net appreciation/depreciation. As of December 31, 2005 OP&F had outstanding forward contacts purchases with a fair value of $117,038,067 and sales with a fair value of $115,716,113. The unrealized appreciation of these contracts was $1,321,954. During 2005, OP&F realized a gain of $975,167 on delivered/closed contracts. As of December 31, 2004 OP&F had outstanding forward contract purchases with a fair value of $17,482,953 and sales with a fair value of $17,642,340. The unrealized depreciation of these contracts was $158,496. During 2004, OP&F realized a loss of $1,426,296 on delivered/closed contracts.

OP&F has not violated any legal, regulatory, or contractual provisions by its participation in these types of derivative instruments and there is no known undue credit, market, or legal risk. These instruments were purchased in order to enhance OP&F's overall rate of return.

Mortgage Notes Payable

OP&F has undertaken mortgage loans collateralized by real estate properties for the purchase of the secured properties. The balances of these notes are included in the investment commitments payable on the statements of plan net assets. The details for the various notes are as follows:

Secured Property	Inception Date	Maturity Date	Interest Rate	Original Balance	Dec. 31, 2005 Balance	Dec. 31, 2004 Balance
The Loop	Apr. 16, 2002	May 11, 2032	6.41%	$ 27,250,000	$ 26,149,078	$ 26,404,138
Tower Place	Dec. 22, 2000	Jul. 01, 2009	8.05%	25,625,000	23,155,801	23,731,880
St. Andrews	Oct. 29, 1998	Dec. 01, 2006	7.91%	16,152,000	14,394,000	14,692,000
Vista Ridge	Nov. 16, 1995	Dec. 01, 2005	7.80%	15,145,000	—	13,146,000
Remington	May 24, 2002	Jun. 01, 2009	6.25%	9,200,000	9,200,000	9,154,654
Frazee Road	Mar 29, 1999	Apr. 01, 2009	6.75%	9,100,000	8,848,506	8,981,986
Oak Brook	Jun. 15, 1997	Jun. 15, 2007	6.40%	10,500,000	8,718,805	8,981,716
St. Andrews	Nov. 12, 1998	Dec. 01, 2006	6.50%	5,000,000	5,000,000	5,000,000
Hawthorne Plaza	Jul. 15, 2005	Jan. 10, 2012	7.47%	13,243,000	13,137,000	—
TOTAL				**$ 131,215,000**	**$ 108,603,190**	**$ 110,092,374**

As of December 31, 2005, scheduled annual principal payments on the mortgage loans are as follows:

Year ending December 31, 2006	$ 21,113,000
Year ending December 31, 2007	9,930,000
Year ending December 31, 2008	1,632,000
Year ending December 31, 2009	31,290,000
Year ending December 31, 2010	1,035,000
Thereafter	43,603,190
TOTAL PAYMENTS	**$ 108,603,190**

A roll–forward of the mortgage notes payable is as follows:

Balance at December 31, 2004	**$ 110,092,374**
Additional debt assumed	13,243,000
Principal payments made	(14,732,184)
BALANCE AT DECEMBER, 2005	**$ 108,603,190**

Defined Benefit Pension Plan

OP&F contributes to the Ohio Public Employees Retirement System of Ohio (OPERS), a cost–sharing, multiple–employer plan for all staff. OPERS administers three separate pension plans, provides retirement, disability benefits, and survivor benefits to qualified plan members and beneficiaries. Benefit provisions and contribution requirements are established by the Ohio legislature and are codified in Chapter 145 of the Ohio Revised Code. OPERS issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215–4642 or by calling (614) 466–2085 or 1–800–222–7377.

Plan members are required to contribute 8.5% of their annual covered salary, while employers are required to contribute 13.55%. OP&F's contributions to OPERS for the years ending December 31, 2005, 2004, 2003, were $1,180,733, $1,300,742 and $1,186,569, respectively, equal to the required contributions for each year.

Other Post–Employment Benefits

In addition to the pension benefits, OPERS provides post–retirement health care coverage to qualifying members based on years of service at retirement and plan selection qualification. Health care coverage for disability recipients and qualified survivor recipients is available. The health care coverage provided by OPERS is considered an Other Post–Employment Benefit (OPEB), as described in GASB Statement No. 12. At December 31, 2005, the plan had 355,287 active participants.

A portion of each employer's contribution to OPERS is set aside for the funding of post–retirement health care. The 2005 employer rate was 13.55% of covered payroll, of which 4.0% was the portion used to fund health care for the year. For the year ended December 31, 2005, approximately $348,522 of employer contributions OP&F made to OPERS was the portion used to fund health care.

The Ohio Revised Code provides statutory authority requiring public employers to contribute to the post–retirement health care through their contributions to OPERS.

The actuarial value of OPERS net assets available for OPEB at December 31, 2004 were $10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were $29.5 billion and $18.7 billion, respectively.

The actuarial present value of accrued post–employment benefits was determined based on the entry age normal method of funding. Significant actuarial assumptions based on OPERS latest Actuarial Review performed as of December 31, 2004 are as follows: an investment rate of return of 8.0%, investments valued at market value, adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets, no change in the number of active members, base pay rate increases of 4.0% and annual pay increases over and above the 4.0% base increase ranging from .50% to 6.30% and health care cost assume an increase of 4.0% annually.

Commitments and Contingencies

OP&F is a defendant in a number of lawsuits pertaining to matters that are incidental to performing routine business functions. OP&F management is of the opinion that ultimate resolution of such claims will not result in a material, adverse effect on OP&F's financial position as of December 31, 2005.

OP&F is committed to making additional capital contributions of $218,040,020 towards our private equity program. Our private equity program had $230,181,232 and $189,712,257 in fair value at December 31, 2005, and 2004, respectively.

State of Ohio Death Benefit Agency Fund

Pursuant to ORC Section 742.62, the Board of Trustees of the Ohio Police & Fire Pension Fund administers the State of Ohio Public Safety Officers Death Benefit Fund. This program was established by the State of Ohio to provide monthly benefit payments to eligible surviving family members of Ohio firefighters and law enforcement officers who have been killed in the line of duty or die of a duty—related accident or illness. Funds are disbursed to OP&F on a quarterly basis each State fiscal year (July 1–June 30) and are paid monthly by OP&F to eligible recipients. The unused balance at June 30 is returned to the State. The Death Benefit Agency Fund is considered to be an agency fund administered by the Ohio Police & Fire Pension Fund and, accordingly, its assets of $511,328 and $15,532,874 and the related liability for unpaid benefits are included in the accompanying financial statements as of December 31, 2005 and 2004, respectively.

Additional Disclosures

The Ohio Ethics Commission and the Franklin County Prosecutor's Office each have on–going investigations regarding the activities of former Board of Trustees members and specific staff members of the Ohio Police & Fire Pension Fund (OP&F). OP&F management believes the Ethics Commission investigation is focusing on the lack of disclosures made by staff members, as required by the Ohio Revised Code. It is also management's belief that the Franklin County Prosecutor's Office investigation focuses on actions of former Board members in the evaluation and retainment process relating to the performance of outside investment managers hired by OP&F. While the results of theses investigations are not known as of the date of the audit report, management does not believe the outcome of either investigation will have material effect on the organization's financial statements taken as a whole.

Required Supplementary Information

Schedule Of Funding Progress

Valuation Year	Valuation Assets	Actuarial Accrued Liabilities (AAL)	Unfunded Actuarial Accrued Liabilities (UAAL)	Ratio of Assets to AAL	Active Member Payroll	UAAL as a Percentage of Active Member Payroll
1999	$ 7,988,578,000	$ 8,995,564,000	$ 1,006,986,000	88.81%	$ 1,338,514,000	75.23%
2000	8,498,069,000	9,506,564,000	1,008,214,000	89.39%	1,407,542,000	71.63%
2001	9,076,469,000	9,785,766,000	709,297,000	92.75%	1,534,336,000	46.23%
2002	8,682,704,000	10,508,367,000	1,825,663,000	82.63%	1,606,274,000	113.66%
2003	9,337,103,000	10,798,378,000	1,461,275,000	86.47%	1,644,399,000	88.86%
2004	9,337,462,000	11,545,050,000	2,207,588,000	80.88%	1,683,554,000	131.13%

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

Schedule of Contributions From Employers and Other Contributing Entities

	Annual Required Contributions*	Percentage Contributed
Year ended December 31, 1999	$191,646,415	100%
Year ended December 31, 2000	206,796,608	100%
Year ended December 31, 2001	205,979,830	100%
Year ended December 31, 2002	205,992,860	100%
Year ended December 31, 2003	277,724,840	79%
Year ended December 31, 2004	257,851,201	88%

* The amounts reported in this schedule do not include contributions for post–employment health care coverage. The Government Accounting Standards Board (GASB) required disclosure of the Annual Required Contributions (ARC) using a maximum amortizations period of 40 years. Amounts shown as the ARC for each year may be different from the contributions required by state statue. The information here was determined as part of the actuarial valuations for the date indicated. Additional information as of the latest actuarial valuations is shown in the table below.

Notes to the Required Supplementary Schedules

The information presented in the required supplemental schedules was determined as part of the actuarial valuation at the dated indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	January 1, 2005
Actuarial cost method	Entry Age
Amortization method	Level percent of payroll, open
Remaining amortization period	40 years (Infinite, on an actual basis)
Asset valuation method	5–year adjusted market value with a corridor of 20% of the market value.
Actuarial assumptions:	
Investment rate of return	8.25%
Projected salary increases	5.0–11.0%
Cost–of–living adjustments	3.0% simple
Inflation	3.0%

Schedule of Administrative Expenses* For the year ended December 31, 2005 and 2004

	2005	2004
Personnel Services		
Salaries and wages	$ 8,963,375	$ 9,037,805
OPERS contributions	1,180,733	1,300,742
Insurance	1,502,598	1,306,501
Fringe benefits/employee recognition	28,262	29,600
Tuition reimbursement	58,741	41,630
Total Personnel Services	**11,733,709**	**11,716,278**
Professional Services		
Actuarial	329,210	322,125
Audit	158,787	187,747
Custodial Banking Fees	2,079,448	1,756,717
Investment Fees & Consulting	19,884,412	22,893,998
Other Consulting	1,417,039	1,130,957
Banking Expense	50,715	66,427
Total Professional Services	**23,919,611**	**26,357,971**
Communications Expense		
Printing and Postage	573,060	607,935
Telephone	98,429	72,639
Member/Employer Education	36,651	67,719
Other Communications	83,649	76,200
Total Communications Services	**791,789**	**824,493**
Other Operating Expense		
Conferences and Education	77,784	167,831
Travel	127,618	148,924
Computer Technology	338,740	299,658
Other Operating	524,300	546,650
Warrant Clearing	7,828	7,705
ORSC Expense	44,208	59,308
Depreciation Expense – Capital	1,977,004	1,631,912
Total Other Operating Expenses	**3,097,482**	**2,861,988**
Net Building Expense (includes rent)	**1,153,125**	**1,126,075**
TOTAL ADMINISTRATIVE EXPENSES	**$ 40,695,716**	**$ 42,886,805**

Schedule of Investment Expenses**

For the year ended December 31,	2005	2004
Investment Manager Services	$ 19,062,017	$ 22,236,735
Custodial Banking Fees	2,079,448	1,756,717
Other Professional Services	822,397	672,262
Other Direct Investment Expenses	1,652,120	1,379,271
Allocation of Other Administrative Expenses	1,150,089	991,596
TOTAL INVESTMENT EXPENSES	**$ 24,766,071**	**$ 27,036,581**
TOTAL NET ADMINISTRATIVE EXPENSES	**$ 15,929,645**	**$ 15,850,224**

* Includes investment related administrative expenses.

** A portion of the non–Investment Department administrative expenses is allocated to Investment Expense based on the ratio investment staff to Total Fund staff.

The 2005 Comprehensive Annual Financial Report

Investment Section

The Ohio Police & Fire Pension Fund

Ohio Police & Fire Pension Fund
140 East Town Street • Columbus, Ohio 43215
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Investment Report

Introduction

The investment authority of the Fund is specified in Section 742 of the Ohio Revised Code. Importantly, the Code requires that the Board and other fiduciaries discharge their duties solely in the interest of the participants and beneficiaries, for the exclusive purpose of providing benefits to participants and their beneficiaries and defraying reasonable expenses of administering the Fund. Within the guidelines of the Code, the Fund has developed an internal Investment Policy that provides for appropriate diversification of assets, and an acceptable expected return on investments after consideration of investment risks. Investment performance returns are prepared by Wilshire Associates.

Significant Developments In 2005

Most of our efforts last year were focused on implementing the recommended structural changes that emanated from our asset/liability study and asset class structural review conducted in 2004. Following are these and other noteworthy investment accomplishments and issues addressed by the Fund last year:

- Discontinued active style bets in large cap U.S. equity
- Terminated Boston Partners value mandate and Waddell & Reed growth mandate
- Changed INTECH mandate from large cap growth to large cap core
- Introduced portable alpha
    - Conducted search for a derivatives–based enhanced index manager and hired Western Asset Management
    - Active currency management
    - Global macro
    - Long/short equity
- Moved S&P 500 Index fund to Russell 1000 Index fund to offset increased portfolio cap size tied to introduction of S&P 500 based portable alpha program
- Replaced existing managers in mid cap U.S. equity
    - Terminated Harris Investment Management and Fidelity
    - Hired Chicago Equity and Earnest Partners
- Eliminated passive international equity component, combined developed and emerging markets equity asset classes into a single non–U.S. equity asset class and terminated an underperforming EAFE manager
    - Eliminated passive EAFE mandate for State Street Global Advisors
    - Changed Fidelity mandate from EAFE to ACWI ex–U.S.
    - Hired Acadian and Thornburg for ACWI ex–U.S. equity mandates
    - Terminated Capital Guardian's EAFE mandate
- Increased allocation to inflation protected securities and expanded mandate from Treasury Inflation Protected Securities (TIPS) to global inflation protected securities
- Replaced two of three existing high yield managers
    - Terminated Shenkman Capital and W.R. Huff
    - Hired Lehman Brothers and Loomis Sayles
- Continued to work toward target allocation in private equity
    - Made commitments to Montauk TriGuard Fund III, Linsalata Capital Partners Fund V and Lexington Capital Partners VI
- Outsourced oversight of the real estate portfolio to The Townsend Group
- Changed real estate implementation strategy from a mixture of separate accounts and commingled funds to solely commingled funds
- Continued to work toward target allocation in real estate
    - Made commitments to CB Richard Ellis Strategic Fund IV, GMAC Realty Partners II, JP Morgan Alternative Property Fund, LaSalle Income & Growth Fund IV, Starwood Hospitality Fund, Tri–Continental Capital VII, and Westbrook Real Estate Fund VI
    - Acquired Hawthorne Plaza (prior to strategy change)
- Continued to work with IFS on fiduciary audit
- Adopted Derivatives Policy Statement
- Amended Investment Policy and Guidelines
- Amended Investment Manager Search Policy
- Amended Investment Manager Monitoring and Evaluation Policy
- Amended Proxy Voting Policy
- Amended Private Equity Investment Policy
- Portfolio value increased by nearly $740 million
- Portfolio return gross of fees was 8.82%

Economic Environment

The U.S. economy performed impressively in 2005. Real GDP increased 3.5%, versus 4.2% the prior year, but continued to build on the sustained expansion that gained traction in the middle of 2003. The unemployment rate fell to 4.9% as American employers for the second straight year added more than two million workers to their payrolls. Productivity continued its brisk advance. The economy achieved these gains despite some significant obstacles, most notably the Federal Reserve's eight additional rate hikes, sharp increases in energy prices, financial troubles in the auto and airline sectors, ongoing war and tensions in the Middle East, corporate scandals in the headlines, and three major hurricanes. On a positive note, longer–term interest rates remained low, corporate risk spreads stayed relatively narrow by historical standards, housing remained strong, equity markets advanced, banks continued to ease standards and terms on businesses loans, the dollar was strong, capital spending picked up, non–energy import prices moderated, and business and consumer balance sheets improved.

Inflation pressures increased in 2005. Steeply rising energy prices nudged up overall inflation, raised business costs, and squeezed household budgets. For the second year in a row, inflation as measured by the CPI, rose more than 3%, or more exactly 3.4% last year versus 3.3% in 2004. Prices of consumer energy products jumped more than 20%, with large increases in prices of natural gas, gasoline, and fuel oil. However, food prices rose only modestly. Rising energy prices boosted the cost of producing other goods and services, especially for energy–intensive items like chemicals and plastics. In addition, prices of other commodities such as lumber and various metals, which soared in 2004 due to growing worldwide economic demand, rose further in early 2005. Still, these higher input costs had little impact on the prices of core goods and services as the CPI, less food and energy, rose 2.2% for the second straight year. This can be attributed to several factors. The U.S. economy has become less energy intensive. In addition, advances in productivity as well as moderate increases in wages and salaries have restrained unit labor costs in recent years. The inflation picture is increasingly complex due to things like growing foreign trade, global competition, outsourcing, aging demographics, and higher health care costs.

The Federal Reserve continued to raise their target federal funds rate by 25 basis points at each of their eight meetings in 2005, thus boosting the funds rate a full 2 percentage points to 4.25%. This represented the thirteenth such increase since the Fed's tightening campaign began in June 2004. A subtle change in the language from the highly scrutinized FOMC meeting minutes hinted at an end to monetary tightening in the not–too–distant future. Despite the continued rate hikes, interest rates were still relatively low from an historical perspective.

Household spending was an important source of growth in total demand last year. The growth in household consumption was supported by rising employment and moderate wage increases. Expenditures were buoyed as well by significant gains in household wealth largely based on increased home values and steadily rising equity prices. However, sharply higher gasoline and heating bills reduced the amount of income available for spending on other consumer goods and services.

Corporate profits continued their strong growth in 2005, boosted in part by continuing productivity advances. While profits in the energy sector were especially strong, gains were widespread. Profits from current production increased 16.4% in 2005, compared with an increase of 12.6% in 2004. Domestic profits increased 17.4%, compared with an increase of 14.1%. These increased profits, as well as substantial repatriation of foreign profits, helped lead to a jump in mergers and a record setting level of share repurchases. However, dividends increased only 4.3% versus an increase of 16.5% in 2004. In addition, the improvement in corporate balance sheets promoted a solid increase in spending on equipment and software last year. Although the financial condition of the business sector is generally strong, several areas of weakness are obvious, such as the automobile and airline industries. Despite these problems, favorable conditions in the business sector should encourage continued growth of capital investment.

Outside the U.S., economic activity strengthened last year. Oil exporting countries were obvious beneficiaries of global growth. Growth has been particularly strong in the developing countries of Brazil, India, China, and Korea. Importantly, signs began to appear that Japan could be emerging from its lengthy slump and its battle with deflation. In the euro area, growth has been somewhat modest by global standards, but recent indicators suggest this region could be strengthening as well. Expanding foreign economic activity helped drive strong growth in U.S. exports in 2005, while the growth of imports slowed. Even so, the U.S. trade deficit increased further last year, exacerbated in part by a jump in the value of imported crude oil. Fortunately for the U.S., our trading partners continued to recycle their growing U.S. dollar balances back into our debt markets, helping to keep long–term interest rates lower than they otherwise would be.

The outlook for 2006 remains cautiously optimistic as the consensus projects another positive year for the U.S. economy. Real GDP is expected to increase about 3 to 3.5% this year. The unemployment rate is expected to spend 2006 between 4.5 and 5%. Inflation, as measured by the CPI, should again come in around 3% for the year. Most of the fundamental factors underlying the strength of the economy last year should continue this year, promoting further expansion of activity with moderate inflation. Investment spending, continued job growth, and a narrowing trade deficit should support continued growth. The consumer likely will continue spending, although at a reduced rate as jobs and incomes increase but rising interest rates and still high energy prices eat away at disposable income. The outlook is becoming a little murky as corporate profit growth continues but at a slowing pace, still relatively low borrowing costs are now rising, and the steep rise in home prices moderates, thus tempering the growth of household net worth. Meanwhile, the Fed, now under Ben Bernanke, will stay focused on inflation risks, so their tightening crusade should continue through the first half of 2006, barring a significant economic slowdown.

Total Fund

Thanks to a diversified asset mix, the performance of both our total portfolio and our policy index were respectable last year. Our allocations to non–U.S. equity and alternative investments in private equity and real estate were the major contributors to our returns. Our total portfolio, net of mortgage loans, was valued at $9.77 billion at the beginning of the year and ended the year at $10.51 billion. This gain contributed toward a decent return of 8.82% gross of fees for the year compared to a policy index return of 8.98%. This brought our 3–year annualized gross of fees return to 15.44% and our 5–year annualized gross of fees return to 5.91%. While our 3–year return lagged the policy index return of 15.86%, our 5–year return exceeded the policy index return of 5.72%.

We believe that a well–diversified portfolio will serve the Fund well over the long–term, and in an effort to maintain that diversity, we continue to rebalance the portfolio assets within allocation ranges as dictated by investment policy. In addition to forcing us to sell high and buy low, a disciplined rebalancing policy removes human emotion from the decision making process. As stated in past reports and as evidenced in recent structural decisions, we continue to evaluate non–correlated, non–traditional asset classes in our search for optimal risk–adjusted returns.

Equities

For most U.S. equity investors, 2005 was not a particularly memorable year. Higher energy prices and an increasingly tighter monetary policy dampened the equity market's upside at times during the year, but these forces were largely offset by continued strong corporate earnings growth and generally upbeat news on the economy. The stock market's response to the devastating hurricanes that hit the Gulf Coast was surprisingly muted as low long–term interest rates and the prospect of additional fiscal stimulus seemed to offset concerns about the negative impact on energy prices and short–term economic growth.

Despite healthy economic growth, performance was subdued as the market struggled to advance in the face of the Fed's continued monetary tightening and high energy prices. With the exception of the mid cap segment, returns for major U.S. equity indices were in the single digits, thus falling below their long–term averages. The Wilshire 5000 index returned 6.38% in 2005 and the S&P 500 Index returned 4.91%. Mid cap stocks continued their recent outperformance, despite widespread expectations that large cap stocks were due to outperform. While the large cap Russell 1000 Index returned 6.27%, the Russell Midcap Index returned 12.65%. Meanwhile, the small cap Russell 2000 Index underperformed both the large and mid cap indices with a return of 4.55%. Within these indices, there was not much differentiation by style, although value did outperform growth in all capitalizations. Our U.S. equity composite gross of fees return was 7.59% for the year beating its benchmark, the Wilshire 5000, by 121 basis points. This was in spite of the added transactional costs involved in moving to our new domestic equity structure as noted above.

Given expectations of somewhat slower economic growth, continued cost pressures, moderating profit growth and subdued interest rates increases, 2006 domestic equity returns are expected to be similar to 2005 returns. Given their greater exposure to foreign economies that are expected to outpace growth in the U.S., it would not be surprising to see large cap U.S. stocks finally outperform in 2006.

Equity prices rose substantially in most non–U.S. developed and emerging market countries in 2005. This performance was supported by the continued global economic expansion and by interest rates that, in most countries, remained well below historical averages. Rising commodity prices buoyed the stock prices of companies in the energy and mining sectors, and share prices in the technology sector also increased sharply. The MSCI ACWI ex–U.S. Index returned 30.06% in local currency terms and 17.11% in U.S. dollars. The MSCI EAFE Index of non–U.S. developed countries returned 29.54% in local currency and 14.02% in U.S. dollars, while the MSCI Emerging Markets Index returned 35.81% in local currency and 34.54% in U.S. dollars. Returns as measured in U.S. dollars were lower because the dollar, for the first time in many years, was stronger against most major currencies. Against a basket of major currencies, the nominal trade–weighted exchange value of the dollar rose 7.14% last year. The dollar's overall appreciation was driven by its sharp gains against the currencies of several major industrial countries. However, the dollar did depreciate against a number of significant trading partners' currencies: the Canadian dollar, the Mexican peso, the Brazilian real, and the Korean won.

Our international non–U.S. developed markets composite returned 14.10% gross of fees beating its benchmark, the MSCI EAFE Index, by 67 basis points. Our emerging markets composite returned 26.24% falling short of its benchmark, the MSCI EMF Index, by a whopping 830 basis points. As noted above, we have transitioned our international equities to a new structure in which we have combined the separate allocations to developed and emerging markets into one allocation of non–U.S. equities and adopted the MSCI ACWI ex–U.S. Index as our benchmark. Based on the returns mentioned above and our structural change, we recently terminated our lone emerging markets manager and distributed these assets among the ACWI ex–U.S. managers.

Expectations are that many of the non–U.S. markets are due for a breather in 2006. Still returns are expected to be positive given a continuation of global economic growth, moderate interest rates, and reasonable valuations.

Fixed Income

For the U.S. fixed income markets as a whole, it was at best a mediocre year. The total return of the Lehman Brothers Aggregate Index was 2.43% for the year. This was the lowest calendar year return for the Aggregate since 1999 and the third lowest return in 20 years. It should be remembered, however, this was also a year in which the Fed pushed their fed funds target rate from 2.25% to 4.25%, so it is worth noting how well the fixed income market hung in there with this as a backdrop.

The 20–plus year Treasury index had a total return for the year of 8.57% during a major flattening of the yield curve. Investment grade corporate bonds and mortgages had lackluster returns, both underperforming Treasuries. Corporate bonds were badly affected by the plight of GM and Ford, two of the largest issuers of corporate debt. Corporate bond investors also became increasingly concerned about the large increase in private equity activity and with the large amount of cash on the balance sheets of Corporate America. In both cases, corporate bond investors became concerned that equity investors would benefit to the detriment of their fixed income counterparts. Corporate and mortgage sectors did, however, benefit from strong overseas demand.

Bond markets were dominated during 2005 by speculation about the pace and duration of the Fed's tightening cycle, especially with the pending change in leadership of the institution. End of year tension over Ben Bernanke's imminent takeover after more than 18 years of the Alan Greenspan era led to uncertainty as to whether the U.S. central bank would, could, or should continue boosting rates like it did in 2005. Market expectations of continued Fed tightening drove short–term rates higher and helped produce a significant flattening of the yield curve. The difference in yield between 2 and 10–year Treasuries plunged from 115 basis points at the start of 2005 to practically zero by year–end. During the final week of 2005, the 2–10 year portion of the curve inverted, which has usually, but not always, been an indicator of approaching recession. At the same time, a drop in energy prices, which had soared after the Gulf Coast hurricanes, calmed fears of inflation. Signs also began to emerge that higher mortgage rates and lofty home prices could finally be pinching affordability in surging property markets. Growth in new home prices decelerated and inventories of new and existing homes rose.

Our core fixed income composite returned 2.67% gross of fees versus the Lehman Aggregate return of 2.43% for 2005. The Lehman U.S. TIPS Index return was 2.84% for the year, while our TIPS manager's return was slightly better at 2.96% gross of fees. In keeping with a 2004 asset allocation decision, we contributed another $183 million to our U.S. TIPS manager last year. However, we are still working to implement this manager's new, broadened mandate, which allows investment in non–U.S. inflation protected securities.

High Yield

In the context of the U.S. high yield market, one Lehman Brothers analyst said that 2005 returns were "downright pedestrian". The high yield market, as measured by the Credit Suisse Developed Countries HY Index, finished the year on a slight positive note with a return of 2.03%. While not exactly overwhelming, these returns were consistent with the relatively low returns across fixed income securities in 2005.

Credit spreads, which measure the yield differential between high quality and lower quality fixed income securities, negatively impacted performance in both the fourth–quarter and full year 2005. Over the course of 2005, credit spreads widened a bit, indicating investors' preference for higher quality bonds, thus hurting high yield returns relative to those of higher quality bonds. The spread difference between the Merrill Lynch High Yield Master Index and the 10–Year Treasury stood at 3.22% at the beginning of 2005, and ended the year at 4.02%. This widening put pressure on returns within the high yield universe. New issuance of high yield securities in 2005 was down versus 2004 levels. However, new issuance was fairly well diversified by industry, and average issue size was in line with 2004. Overall, the credit quality of issues coming to market remained low last year, with approximately 44% of the new issues coming to market rated B– or below vs. the historical average of 33% (Source: Merrill Lynch).

High yield default rates remained low in 2005, under 2% according to JP Morgan, which compares favorably versus the long–term average default rate of 4.2% for the domestic high yield market. Over half of 2005's total defaults were concentrated within the Transportation (i.e. Delphi and Collins & Aikman) and Aerospace (i.e. Delta Air Lines, Northwest Airlines) industries.

High yielding convertible issues experienced selling pressure throughout 2005, as convertible arbitrage hedge funds sold into the high yield market. In the recent market environment of low interest rates and low volatility, the returns that convertible arbitrage hedge funds produced disappointed their investors. Many of these investors expressed their disappointment through redemptions, which in turn led to hedge funds selling convertibles. This selling pressure kept prices low in the convertible bond market and created some of the best valuations since 1987. A similar phenomenon happened in 1994. As the Federal Reserve was aggressively raising rates, convertible valuations declined. The valuation collapse that occurred in 1994 was relatively short–lived and convertibles returned to more normal valuations.

Credit spreads remain historically tight, but reflect positive elements in the below–investment grade universe. Currently, the high yield market is benefiting from relatively strong corporate balance sheets, low default rates, and continued strength in the economy. The high yield market looks fairly valued overall.

Our composite high yield gross of fees return was 2.61% in 2005, while our benchmark, the CSFB Developed Countries HY Index, had a return of 2.03%. Following the Board's decision in 2004 to terminate our two underperforming managers, we hired and funded Lehman Brothers Asset Management and Loomis Sayles as replacements for Shenkman Capital and W.R. Huff.

Real Estate

Despite modestly rising interest rates and concerns about looming inflation, real estate outperformed all expectations again in 2005, whether measured by total return, capital flows or improving fundamentals. Performance was very strong in 2005; the NCREIF Property Index (NPI) generated a total gross return of 20.1% for the year. Capital flows to the asset class were again extremely strong, as pension funds, leveraged investors, offshore investors and private REITs all continued to move capital into the asset class. It is estimated that more than $420 billion in capital was poured into the U.S. real estate markets in 2005. This capital competed intensely for all types of real assets, but especially for core real estate with a dependable income stream, thereby pushing prices higher and driving cap rates and internal rates of return lower.

While the impact of such strong capital flows remained a concern, particularly if interest rates rose more than expected, real estate transactions were supported by improving fundamentals. Declining vacancy rates in all major property types, generally limited new supply, declining concessions, and actual rent growth in some property types in select markets all contributed to the strength of the asset class. These improving conditions are expected to continue in 2006. In addition, the ongoing recovery in the property markets, coupled with concerns raised by high energy costs, and threat of continued rising interest rates, created more incentive for buyers and sellers to complete transactions.

Of the four main property types represented in the NPI, multifamily jumped to the top of the pack in 2005. Multifamily returned 21.2% for the year, with returns driven by strong capital flows and improving fundamentals. Affordability became a factor as the booming housing market drove up values across all residential property types making multifamily rentals more attractive to a large group priced out of the housing market. Higher mortgage rates in 2006 are expected to reduce housing affordability even further in many markets and support the rental market in the near to medium term. As with prior years, a continued area of concern is new development, as new supply exceeded demand in many growth–oriented markets.

Last year saw a turnaround for the industrial sector, producing a total gross return of 20.3%, second only to multifamily. After three years of lagging performance, vacancy was down, lease–up times were shorter and rental concessions declined. Warehouse demand improved substantially, particularly in the three largest distribution markets, Los Angeles, Chicago and New Jersey. The result in 2005 was strong absorption, bringing the national vacancy rate down to 10.2% at year–end, compared to 10.9% a year earlier. Rising export and import trade flows, and healthy consumer and business spending supported the rising demand in this sector.

Retail properties provided a 20.0% return in 2005, placing this sector third among the traditional property types. The best performing sub–type was neighborhood shopping centers, which generated a return of 23.7%. Pricing appeared to show some signs of stabilizing in 2005, although a tremendous amount of capital was committed to this sector once again. The consumer remained strong in 2005, pushing up retail sales, which was remarkable given spiking energy costs and rising interest rates. Higher energy costs and rising interest rates are expected to slow sales growth in 2006, but solid job growth and growing incomes should cushion any softening from demand side fundamentals. Risks remain on the supply side through new construction and the consolidation of grocers.

Conditions in the office sector also improved last year. Steady job growth, strong corporate profits and attractive rents all increased demand for office space. As net absorption increased and construction declined, office vacancy nationally fell to 14.2%, down from 15.8% posted in 2004. Slow but steady absorption is projected over the next several years, albeit with modest rental growth. Sublease space also declined and rents exhibited signs of stability, especially in prime office properties and markets. The office sector is poised for stronger operating performance in 2006, as vacancy rates continue to fall in most markets and landlords reduce concessions and tenant improvement costs.

At the end of 2005, the market value of our real estate portfolio was nearly $500 million, or 4.7% of total assets. Unfunded commitments of $191 million would bring the total funded and committed portfolio to $690 million, or 6.6% of total Fund assets. The portfolio return was a healthy 24.5%, outperforming the NPI return of 20.1% by 440 basis points. Portfolio returns consisted of 10.2% income and 13.2% appreciation.

In 2005, we made total commitments of $125 million to two enhanced return and four high return funds: LaSalle Income and Growth IV and J.P. Morgan Alternative Property Fund in the enhanced return sector, and Starwood Hospitality Fund I, Tricontinental Capital Fund VII, Westbrook Fund VI and CBRE Strategic Partners IV in the high return sector. The Fund acquired Hawthorne Plaza, a retail center in suburban Kansas City.

In 2005, the Board decided to change the primary investment vehicle for stable return investments from separate accounts to commingled funds. Unfunded commitments to our current separate accounts managed by INVESCO Realty Advisors and DB/RREEF were terminated. The Fund will invest new capital in the stable return sector through open–end commingled funds, and will continue to invest in non–core sectors through open and closed end funds. We expect a significant amount of dispositions from the separate account portfolios in 2006, but these sales will be based upon property level issues and market considerations, not on a need to liquidate the separate accounts. It is likely that the separate account properties will be sold over a 12 to 24 month period, absent changes in market conditions.

We are positioned to increase the size of our real estate portfolio in 2006. The Board approved an investment plan that calls for the Fund to commit over $500 million to reach our 8% allocation. Of that amount, the bulk will be targeted primarily into open–end core commingled funds. Given the current pricing of core real estate and investment queues, we will attempt to deploy this capital over a two–year time frame. We also expect to commit the remainder of our available assets to enhanced and high return funds in 2006, seeking to take advantage of improving real estate fundamentals and gaps in the capital markets. We will continue to seek high quality properties and funds, as we believe assets that are of superior quality and location will outperform over time and will provide stability to our portfolio.

In conjunction with our shift out of separate accounts and into commingled funds, the Board also decided to outsource the oversight of our real estate investments to our consultant, The Townsend Group. While we have been working to accomplish this transition, we wanted to take this opportunity to thank our prior real estate staff for their dedication and hard work during their time with OP&F.

Private Equity

For the year ended September 2005 (private equity returns are lagged by one quarter), our small allocation to private equity provided a return of 26.76% versus its public markets–based benchmark (Wilshire 5000 + 5%) return of 20.37%. In terms of the two most prominent private equity subclasses, for the one–year ended September 2005, venture capital returned 19.7% and buyouts returned 32.5%, according to Thomson Venture Economics and the National Venture Capital Association.

Fueling the performance of both private equity subclasses was the prominent merger and acquisition activity within both subclasses. As mentioned last year, merger and acquisition activity remained elevated due to Corporate America's desire to put to work the large amount of cash on their balance sheets. Other factors fueling mergers and acquisitions were the maturation of the business cycle and increasing shareholder activism, which placed greater emphasis on Corporate America to earn the highest risk adjusted returns on their assets.

Although the overall initial public offering (IPO) market had its best year since 2000, in terms of the number of companies going public, mergers and acquisitions remained the preferred method of liquidity for most privately–held companies due to high cost of being a public company imposed by Sarbanes–Oxley and D&O insurance. As a result of these regulatory constraints in the U.S., private equity professionals are becoming more inclined to take privately held companies public in non–U.S. markets. In turn, the private equity industry continues to evolve into a global marketplace.

Besides the lack of a fruitful IPO market, other areas of concern within private equity include increased valuation multiples and the record amount of capital raised by private equity firms in 2005. According to figures compiled by the Private Equity Analyst, private equity firms raised $151.8 billion. This amount represents a 65% increase over the amount raised in 2004 and trails only the record of $177.9 billion set in 2000. The main culprit has been the amount of capital raised by the buyout segment, especially among buyout funds larger than $5 billion. The biggest question facing the industry is whether the record amount of fundraising will lead to lower future returns.

We continue to work steadily toward our 3% target allocation. On an invested basis, private equity comprised 2.2% of the Fund's assets vs. 1.6% at the end of 2004. Our total committed capital since the inception of our private equity program was $533.8 million, of which $202.3 million has yet to be called. In addition, we have 25.0 million in Euro commitments, of which 13.3 million has yet to be called. Distributions since inception of the program have totaled $178.5 million and 2.8 million Euros.

In the future, we will continue to work toward our 3% target by reviewing and monitoring existing relationships for further investment and by looking at a limited number of new managers. In addition, we will continue to look for ways to diversify our private equity program in order to achieve the highest risk–adjusted returns.

2006 Developments and Challenges Ahead

The Board has been heavily involved in an analysis of the Fund's health care program and related costs. They have spent month after month reviewing and debating the tug–of war between our pension liabilities and continually fast–growing health care costs. Like all plan sponsors that provide a health care program, our Board faces some gut–wrenching decisions on how to meet our pension obligations and still offer cost effective medical coverage for our retired members. Through all this, the Board and staff have nevertheless been active on the investment front so far in 2006. While it is still early in the year, we are off to a good start in our efforts to evaluate and implement ways to provide prudent and competitive returns for our membership. Below are some of the items already addressed in 2006 and a number that still lie ahead:

- Completed manager searches
  - Portable alpha—active currency
    - Hired Mellon Capital and FX Concepts
  - Real estate commingled funds
    - Made commitments to Blackstone V and Walton Street V
  - Private equity
    - Made commitments to Landmark XIII, HarbourVest International PE Partners V, Park Street VII and Blue Point Capital Partners II
- Manager searches in progress
  - Portable alpha—global macro
- Manager searches remaining to be initiated
  - Portable alpha—Long/short equity

    - Real estate commingled funds
- Complete implementation of pending initiatives
    - Portable alpha—enhanced index
    - Portable alpha—active currency
    - Expansion of Bridgewater mandate to global TIPS
    - Liquidation of separate account properties
    - Transition of staff duties to the real estate consultant
- Evaluate alternative methods to add value
    - Derivatives use
    - Timber
    - Currency overlay
    - Secondary real estate funds
- Terminated sole remaining emerging markets manager and distributed assets among ACWI ex–U.S. managers
- Reviewed our Proxy Voting Policy and implemented changes primarily aimed at increasing board independence and eliminating conflicts of interest.
- Rebuild real estate to target allocation
- Receive final IFS fiduciary audit report, respond and implement acceptable recommendations.

We have always stated our intention to earn at least an 8.25% return over time, which is our actuarial assumption rate. As mentioned in the past, we are targeting a higher return to help the Fund meet statutory funding requirements and to lessen the impact of rising health care costs. Like many other plan sponsors, our consultant, Board and staff periodically review our return assumptions to determine if we need to modify our asset allocation plan. Our recent review found that, based on updated assumptions, our expected return has increased slightly and by more than the increase of the expected risk of the portfolio. As such, we continue to believe in our current allocation and structure plans, but we will continue to explore new investment ideas and look for ways to improve the efficiency of and reduce the costs of our operations.

Investment Portfolio Summary

Investment Portfolio Summary

Investment Type	% of Fair Value	Fair Value
Commercial Paper	4.00%	$ 425,086,906
U.S. Government Bonds	5.41%	574,310,651
Corporate Bonds And Obligations	6.68%	709,545,103
Mortgage & Asset Backed Obligations	6.92%	734,635,633
Municipal Bonds	0.04%	3,821,981
Domestic Stocks	18.53%	1,967,743,992
Domestic Pooled Stocks	27.85%	2,957,284,576
International Securities	21.93%	2,328,212,190
Real Estate	5.71%	606,637,095
Commercial Mortgage Funds	0.76%	80,404,781
Venture Capital	2.17%	230,181,232
TOTAL	**100.00%**	**$ 10,617,864,140**

Ten Largest Common Stocks (by Market Value)

Stock	Shares	Market Value
ING Groep NV	1,002,209	$ 34,641,570
GlaxoSmithKline PLC	1,313,481	33,129,587
BNP Paribas	400,959	32,330,330
Samsung Electronics Co Ltd	39,980	26,085,986
BAE Systems PLC	3,934,671	25,790,390
Sanofi–Aventis	292,448	25,530,071
America Movil SA de CV	769,000	22,500,940
Toyota Motor Corporation	419,900	21,776,024
Royal Bank of Scotland Group PLC	708,277	21,342,765
High Tech Computer Corp	1,076,000	20,184,418

Ten Largest Bonds and Obligations (by Market Value)

	Coupon	Maturity Date	Par Value	Market Value
FNMA	5.000	TBA*	$ 122,650,000	$ 118,847,850
U.S. Treasury Note	3.875	04/15/29	44,590,000	72,908,406
U.S. Treasury Note	4.250	01/15/10	43,550,000	55,897,130
U.S. Treasury Note	3.625	04/15/28	30,000,000	47,663,307
FNMA	5.500	TBA*	45,600,000	45,144,000
U.S. Treasury Note	0.875	04/15/10	43,550,000	43,532,993
U.S. Treasury Note	3.250	01/15/09	41,700,000	40,375,608
U.S. Treasury Note	2.500	09/30/06	38,360,000	37,819,124
U.S. Treasury Note	2.375	01/15/25	28,100,000	31,210,583
FNMA POOL	4.000	09/01/18	30,594,511	29,269,768

* To be announced (TBA)

Ten Largest Real Estate Holdings (by Market Value)

Property	Market Value
The Loop	$ 80,900,000
Vista Ridge	59,100,000
Tempe Commerce	47,600,000
200 Tower Place	46,600,000
Inland Empire	44,000,000
St. Andrews Apartments	41,700,000
Oakbrook	34,430,000
Hawthorne Plaza	33,305,000
Frazee Road	31,100,000
49 Stevenson	27,600,000

A complete listing of the portfolio's holdings can be obtained by contacting the Ohio Police & Fie Pension fund at (614) 228–2975.

Schedule Of Investment Results For Year Ended December 31, 2005

	Annualized Rates of Return		
	1—Year	3—Year	5—Year
U.S. Equity			
OP&F	7.59%	16.50%	3.25%
DJ Wilshire 5000	6.38%	16.35%	2.10%
International Equity			
OP&F	14.10%	23.32%	3.37%
MSCI ACWI ex—U.S. (Net)	16.62%	25.69%	6.27%
Emerging Markets			
OP&F	26.24%	34.66%	16.41%
MSCI EMF Index	34.54%	38.35%	19.43%
Fixed Income			
OP&F—Core	2.67%	4.22%	6.37%
Lehman Aggregate	2.43%	3.62%	5.87%
OP&F—High Yield	2.61%	12.10%	9.70%
CSFB Developed Countries HY	2.03%	13.39%	9.81%
OP&F—TIPS	2.96%	NA	NA
Lehman U.S. TIPS Index	2.84%	NA	NA
OP&F—Commercial Mortgages *	9.83%	8.64%	8.42%
Lehman Mortgage Index *	3.29%	3.71%	6.11%
Real Estate *			
OP&F	26.25%	17.53%	13.93%
Wilshire Real Estate Fund	20.06%	14.42%	9.75%
NCREIF	19.20%	13.00%	11.00%
Private Equity *			
OP&F	26.76%	5.66%	–7.34%
Wilshire 5000 + 5%	20.37%	24.24%	4.58%
Total Portfolio			
OP&F	8.82%	15.44%	5.91%
** Policy Index	8.98%	15.86%	5.72%

* One quarter in arrears

Policy Benchmark

46% DJ Wilshire 5000, 18% Lehman Aggregate, 20% of MSCI ACWI ex—U.S., 8% NCREIF Property Index, 5% CSFB Dev. Countries HY, 3% DJ Wilshire 5000 + 5%

Time Weighted methodology is used when calculating performance

Investment Consultants and Money Managers

Investment Consultants

Wilshire Associates
The Townsend Group

Investment Managers—Private Equity

Abbott Capital Management, LLC
Adams Street Partners
Alpha Capital Partners Ltd.
Athenian Venture Partners
Blue Chip Venture Partners, LP
Blue Point Capital Partners, LP
Brantley Venture Partners
Chemicals & Materials Enterprise Associates
Harbourvest Partners LLC
Horseley Bridge Partners, LLC
Kirtland Capital Partners
Landmark Equity Partners
Lexington Capital Partners
Linsalata Capital Partners
MV Economic Development, Ltd.
Montauk TriGuard Management Inc.
Morgenthaler Venture Partners
Northgate Capital Group
Park Street Capital
Peppertree Partners, LLC
Primus Venture Partners
Riverside Capital Associates
Wilshire Private Markets, LLC

Investment Managers—Fixed Income

JPMorgan Investment Advisors Inc.
Bridgewater Associates
GMAC Institutional Advisors
Lehman Brothers Asset Management LLC
Loomis Sayles & Company LP
MacKay Shields LLC
Prima Capital Advisors, LLC
Shenkman Capital Management, Inc.
Western Asset Management
W.R. Huff Asset Management Co., LLC

Investment Managers—U.S. Equity

Boston Partners Asset Management, L.P.
Chicago Equity Partners LLC
Columbia Asset Management
Earnest Partners LLC
Enhanced Investment Technologies, LLC
Fidelity Management Trust Co.
Harris Investment Management, Inc.
State Street Global Advisors
Waddell & Reed Investment Management Co.

Investment Managers—Real Estate

AEW Capital Management
CB Richard Ellis Investors, LLC
DLJ Real Estate Capital Partners, Inc.
Fremont Realty Capital
GMAC Institutional Advisors
Heitman Value Partners
INVESCO Realty Advisors
JP Morgan Investment Management Inc.
LaSalle Investment Management
Lone Star
Lubert—Adler Management Co., LLC
Starwood Capital Group
Stockbridge Real Estate Fund
The RREEF Funds
Tri Capital Group Inc.
Walton Street Capital LLC
Westbrook Partners, LLC

Investment Managers—International Equity

Acadian Asset Management Inc.
Capital Guardian Trust Company
Capital International Inc.
Causeway Capital Management LLC
Fidelity Management Trust Company
State Street Global Advisors
Thornburg Investment Management Inc.
Wells Capital Management

Schedule of Brokers' Fees Paid For the year December 31, 2005

Broker Name	Fees Paid	Units Traded	Average Cost Per Unit
Goldman Sachs	$ 415,773	17,589,000	$ 0.0236
Merrill Lynch	400,960	317,425,000	0.0013
Morgan Stanley	376,862	94,091,000	0.0040
UBS Securities	331,913	20,505,000	0.0162
Citigroup	256,512	17,558,000	0.0146
Lehman Brothers	248,363	17,963,000	0.0138
Capital Institutional Services	239,170	5,306,000	0.0451
Credit Suisse First Boston	232,847	12,953,000	0.0180
JP Morgan	183,434	14,414,000	0.0127
BNY, ESI & Company	181,932	11,397,000	0.0160
Deutsche Bank	169,929	25,576,000	0.0066
Bear Stearns	149,940	17,235,000	0.0087
Instinet	126,074	6,306,000	0.0200
Investment Technology Group	97,528	4,777,000	0.0204
Mcdonald & Co. Securities	83,911	1,713,000	0.0490
Weeden	79,889	2,714,000	0.0294
BT Alex Brown	76,224	3,315,000	0.0230
Prudential Securities	74,442	1,490,000	0.0500
Liquidnet Inc.	73,047	2,834,000	0.0258
Pershing	70,890	3,905,000	0.0182
BancAmerica	66,642	1,421,000	0.0469
Jefferies & Co.	65,002	2,695,000	0.0241
Sanford C. Bernstein	59,242	1,289,000	0.0460
Rosenblatt Securities Inc	58,643	2,935,000	0.0200
Knight Securities	51,539	1,388,000	0.0371
Robert Baird	49,455	1,041,000	0.0475
Broadcort Capital Corp.	49,078	982,000	0.0500
CIBC World Markets	47,056	1,183,000	0.0398
Thomas Weisel Partners, LLC	47,017	983,000	0.0478
ABN Amro	44,762	2,101,000	0.0213
Banco Santander	44,702	5,890,000	0.0076
Fidelity Capital Markets	39,498	2,764,000	0.0143
HSBC Securities Inc.	36,185	8,437,000	0.0043
Legg Mason	35,229	777,000	0.0453
Pacific American Securities	34,408	860,000	0.0400
Bank of New York	33,013	676,000	0.0488
ING Bank London	32,232	1,300,000	0.0248
Lynch Jones	31,834	771,000	0.0413
Raymond James & Associates	31,283	1,157,000	0.0270
Avondale Partners LLC	30,257	1,027,000	0.0295
Mizuho Securities	29,526	1,477,000	0.0200
Dresdner Kleinwort Benson	29,238	1,865,000	0.0157
SG Cowen Securities Corp	27,107	581,000	0.0467
Dowling & Partners	25,903	518,000	0.0500
Credit Agricole Indo Cheuveax	25,389	1,274,000	0.0199
Credit Lyonnais	24,311	550,000	0.0442
Boston Institutional Services	22,921	467,000	0.0491
Fox Pitt Kelton Inc.	21,649	505,000	0.0429
Keefe Bruyette And Woods	21,441	456,000	0.0470
Adams Harkness & Hill	21,121	450,000	0.0469
Morgan Keegan	20,318	446,000	0.0456
Autranet, Inc.	20,073	421,000	0.0477
Broker's Fees Less Than 20,000 each	846,676	91,222,000	0.0093
TOTAL	**$ 5,892,390**	**738,975,000**	**$ 0.0080**

Investment Policy and Guidelines

I. Introduction

The purpose of this Statement of Investment Policy and Guidelines is to define the framework for investing the assets of the Ohio Police & Fire Pension Fund (OP&F). This Statement is intended to provide general principles for establishing the goals of OP&F, the allocation of assets and the employment of outside asset management. The statutory investment authority of the Board is set forth in Sections 742.11 to 742.113 and sections 742.114, 742.116 of the Ohio Revised Code (ORC), as more fully outlined in this Policy and Guidelines.

The objectives of OP&F have been established in conjunction with a comprehensive review of the current and projected financial requirements. These objectives are:

- To have the ability to pay all benefit and expense obligations when due.
- To maintain the purchasing power of the current assets and all future contributions by maximizing the rate of return on OP&F's assets.
- To achieve and maintain a fully funded status with regard to the accumulated benefit obligation.
- To control the costs of administering OP&F and managing the investments.

In order to achieve these objectives, the Board of Trustees will conduct itself in accordance with ORC Section 742.11, which provides "The Board and other Fiduciaries shall discharge their duties with respect to OP&F solely in the interest of the participants and beneficiaries." These duties shall also be carried out "with 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 and like aims", as referenced in ORC Section 742.11. All aspects of this statement should be interpreted in a manner consistent with OP&F's objectives. At least annually, the Board shall adopt policies, objectives or criteria for the operation of the investment program.

Investment Policies and Manager Guidelines referenced in this document are not reproduced in their entirety, but the essence of each Policy and Manager Guideline is reflected herein.

II. Definition Of Responsibilities

A. Investment Committee/Board of Trustees' Responsibilities

- Establish the strategic investment policy for OP&F (asset allocation) and periodically review policy in light of any changes in actuarial variables and market conditions.
- Select qualified consultants and investment managers to advise on and manage OP&F's assets recognizing the goals set forth in ORC Sections 742.11 and 742.116.
- Monitor and review the performance of selected managers to determine achievement of goals and compliance with policy guidelines.
- Monitor the costs of the investment operations at least annually.
- Review, on a continuing basis, the current Investment Policies of OP&F and make such changes as appropriate.
- Review the annual investment plan prepared by the staff. As conditions warrant, revise the annual investment plan as the year progresses.
- Review and approve or disapprove real estate transactions when required by Board policy.
- Monitor investment activity for compliance with Board policies and adherence by investment managers to strategy and direction.
- Review the overall investment performance to determine whether it meets established benchmarks.
- Evaluate and assign all investment managers to a rating category (except that only the Board may assign categories 4 and P4, termination), as outlined in the Investment Manager Monitoring and Evaluation Policy.
- Review suggested changes or additions to the functions and operations regarding the Investment operations of similar institutional investors.
- Review the proposed Investment department annual operating budget and report its recommendations to the Finance Committee.

B. Staff Responsibilities

- Manage OP&F assets under its care, custody and/or control in accordance with the Investment Policy Statement objectives and guidelines set forth herein.
- Monitor both internally and externally managed assets to ensure compliance with guidelines set forth in this policy statement.
- Promptly vote all proxies and related actions in a manner consistent with OP&F's long–term interests and objectives set forth herein. Maintain detailed records of said voting of proxies and related actions and comply with all regulatory objectives related thereto.
- Report to the Board quarterly regarding the status of the portfolio and its performance for various time periods. Meet with the Board at least annually to report on their performance and compliance with goals and objectives.
- Acknowledge and agree in writing to their fiduciary responsibility to fully comply with the entire Investment Policy Statement set forth herein, and as modified in the future.

C. Investment Consultants' Responsibilities

- Provide independent and unbiased information
- Assist in the development of Investment Policy Statement
- Monitor compliance with Investment Policy Statement
- Assist in the development of strategic asset allocation targets
- Assist in development of performance measurement standards
- Monitor and evaluate manager performance on an ongoing basis
- Conduct due diligence when a manager fails to meet a standard
- Establish a procedural due diligence search process
- Conduct manager searches when needed for policy implementation

D. Investment Managers' Responsibilities

- Manage OP&F assets under its care, custody and/or control in accordance with the Investment Policy Statement objectives and guidelines set forth herein and its governing agreement with OP&F.
- Exercise full investment discretion over the assets in their care within the guidelines set forth in this policy statement and the specific guidelines established for the manager in the governing agreement with OP&F.
- Promptly inform the Board and staff in writing regarding all changes of a material nature pertaining to the firm's organization and professional staff.
- If directed, promptly vote all proxies and related actions in a manner consistent with OP&F's long–term interests and objectives set forth herein. Each manager designated to vote shall keep detailed records of said voting of proxies and related actions and will comply with all regulatory obligations related thereto.
- Report to the Board quarterly regarding the status of the portfolio and its performance for various time periods. Meet with the Board at least annually to report on their performance and compliance with goals and objectives.
- Acknowledge and agree in writing to their fiduciary responsibility to fully comply with the entire Investment Policy Statement set forth herein, and as modified in the future.

III. Asset Allocation

It is the responsibility of the Board to determine the allocation of assets among distinct capital and private markets. The allocation will be completed in a manner consistent with commonly recognized financial principles. Application of these principles is expected to lead to a portfolio with the highest level of return consistent with the risk tolerance of OP&F.

The procedure for determining the allocation will consider the relevant characteristics of the liabilities and potential assets of OP&F. The liability considerations shall include, but not be limited to, current and expected future values of the benefits, contributions and total assets. These factors are important for identifying the investment horizon of OP&F and its cash flow requirements. The asset characteristics considered shall include, but not be limited to, the potential return relative to the potential risk.

The asset allocation must be consistent with the investment standards specified in ORC Section 742.11.

Based on an asset allocation and liability study, which analyzed the expected returns of various asset classes, projected liabilities and the risks associated with alternative asset mix strategies, the Board has established the following asset allocation:

Asset Class	Target Allocation	Range (%)
Domestic Equity	46%	± 5
Non–U.S. Equity	20%	± 3
Fixed Income	18%	± 2
High Yield	5%	± 2
Real Estate	8%	± 2
Private Equity	3%	± 2
Cash Equivalents	0%	+ 0.5
TOTAL	**100%**	

The study has shown that this is a favorable asset mix for meeting longer–term goals under both good and bad market conditions.

The asset allocation represents a long term strategy. Short term market shifts may cause the asset mix to drift from the allocation targets. Should the target percentage fall out of the indicated range for a particular asset class, the Board will cause the staff and investment manager(s) to rebalance from the over–allocated class to the under–allocated class.

IV. Performance Expectations

The most important expectation is the achievement of results consistent with this Policy Statement and the analysis set forth in the asset allocation study of October 2004. A long term 4% annualized real rate of return (net of inflation as measured by the Consumer Price Index) is a reasonable expectation in light of this policy. Long term is defined as a market cycle (generally 3–5 years).

OP&F shall also strive to achieve a long–term rate of return, which is equal to or greater than the actuarial rate assumption. The Board expects the total fund to rank in the top half of a comparable public fund universe over the long–term.

OP&F shall attempt to achieve these return goals without unnecessary risk to principal. The risk/return characteristics of OP&F shall be reviewed on a periodic basis (no less than every five years) through a comprehensive asset allocation and liability study. The goal of the study shall be to formulate a portfolio which maximizes return while minimizing overall risk through the most efficient combination of legal asset classes.

V. Investment Implementation

The implementation of an investment portfolio designed to achieve the above objectives must be consistent with governing statutes as specified in Sections 742.11 to 742.113, 742.114, 742.116 and with the Ohio–Qualified Investment Manager Policy and the Ohio–Qualified Broker Policy.

Where appropriate, OP&F will invest assets through the use of qualified investment managers. The allocations to these managers will be made in accordance with the results of the Asset Allocation process and established procedures.

The Board, in conjunction with the Investment Consultant, will establish specific search procedures, including the specification of minimum criteria for the selection of new qualified investment managers, to implement the strategic asset allocation plan. Among the criteria to be used for screening purposes will be assets managed, manager style, track record, staff, communication, fees, risk/reward statistics, etc. All managers, with the exception of emerging management firms that may warrant specialized criteria, must meet the criteria established by the Board. The Investment Manager Search Policy is included later in this Policy as Section XI.

The Board shall give equal consideration to minority owned and controlled firms and firms owned and controlled by women which otherwise meet the criteria established by the Board. Ohio based firms shall also be given consideration, providing that specified criteria are met and such firm offers quality, services, and safety comparable to other investment managers otherwise available to the Board.

VI. Specific Guidelines

A. Domestic Equity

Investment Objectives

Total return of the domestic equity composite portfolio should exceed the return of the Dow Jones Wilshire 5000 Index over a three–year period on an annualized basis. Total return of each manager's portfolio should rank above the median when compared to their peer group over a three–year period on an annualized basis and should exceed their benchmark return as specified in each manager's guidelines.

Investment Guidelines & Characteristics

Assets eligible to be managed in this class of investments will be found in the Ohio Revised Code Sec. 742.11. The following guidelines and characteristics shall apply unless otherwise approved by the Board of Trustees:

1. The main focus of investing will be on companies headquartered and/or domiciled in the United States.
2. The composite portfolio shall have similar portfolio characteristics as that of the Dow Jones Wilshire 5000 Index. Each individual manager's portfolio shall have similar characteristics to the manager's style benchmark.
3. For diversification purposes, each manager's portfolio has a maximum threshold for the amount of cash and individual security weightings that may be held at any one time. Each manager's portfolio is also required to hold a minimum number of issues.
4. Trading shall be left to the discretion of the investment manager with the exception that OP&F may direct a reasonable amount of commissions to help defray qualified Fund expenses.
5. The ability to purchase private placements, Rule 144A stock and purchase securities on margin is prohibited.

Investment Structure

The domestic equity allocation will have a target of forty–six percent (46%) of total fund assets. The structure of the domestic equity allocation will be diversified among passive and active capitalization managers as follows:

1. Passive Large Capitalization Core Exposure
   The passive large capitalization core component has a target allocation of thirty–seven and one–half percent (37.5%) of the domestic equity allocation. This is an index fund portfolio intended to provide broad market exposure for and diversification to OP&F's equity portfolio through holdings in large capitalization equities and is to be constructed so as to match the characteristics and return of the Russell 1000 Index.
2. Active Large Capitalization Core Exposure
   The active large capitalization core component has a target allocation of sixteen and one–half percent (16.5%) of the domestic equity allocation. The overall objective is to provide risk–adjusted returns greater than the return of the Russell 1000 Index. This exposure will be intended to provide diversification to OP&F's passive large capitalization core exposure.
3. Active Large Capitalization Alpha Transfer Exposure
   The active large capitalization alpha transfer component has a target allocation of twenty–one percent (21.0%) of the domestic equity allocation. The overall objective is to provide risk–adjusted returns greater than the return of the Standard & Poor's 500 Index. S&P 500 market exposure, obtained through the use of derivatives, will be combined with strategies that represent diversified sources of alpha with a broad range of risk characteristics. For a complete description of the appropriate use of derivatives, please see OP&F's Derivatives Policy Statement.
4. Active Small/Mid Capitalization Core Exposure
   The active small/mid capitalization core component has a target allocation of twenty–five percent (25.0%) of the domestic equity allocation. The diversification of the equity base into small/mid capitalization companies will lower overall portfolio risk while providing the opportunity for enhanced returns by exploiting the inefficiencies in this segment of the marketplace. This component shall consist of several complementary managers.

B. Non–U.S. Equity

Investment Objectives

Total return of the Non–U.S. equity composite portfolio should exceed the return of the Morgan Stanley Capital International All Country World Index ex–U.S. (MSCI ACWI–ex US) over a three–year period on an annualized basis. Total return of each manager's portfolio should rank above the median when compared to their peer group over a three–year period on an annualized basis and should exceed their benchmark return as specified in each manager's guidelines.

Investment Guidelines & Characteristics

Assets eligible to be managed in this class of investments will be found in the Ohio Revised Code Sec. 742.11. The following guidelines and characteristics shall apply unless otherwise approved by the Board of Trustees:

1. The main focus of investing will be companies headquartered or domiciled in the MSCI ACWI–ex–US countries.
2. The composite portfolio shall have similar portfolio characteristics as that of the MSCI ACWI–ex US. Each manager's portfolio shall have similar characteristics to the manager's style benchmark.

3. For diversification purposes, each manager's portfolio has a maximum threshold for the amount of cash and individual security weightings that may be held at any one time.
4. While the geographic and economic sector diversification will be left to the manager's discretion, each manager's portfolio shall be appropriately diversified with the manager's stated investment approach.
5. Trading shall be left to the discretion of the investment manager. OP&F may direct a reasonable amount of commissions to help defray qualified Fund expenses.
6. The ability to leverage the portfolio, sell securities short and purchase securities on margin is prohibited.
7. The use of swaps and the ability to purchase any type of unlisted security for which there is not a public market is prohibited.
8. The investment managers may enter into forward exchange or futures contracts on currency provided that use of such contracts is designed for defensive purposes.

Investment Structure

The Non–U.S. equity allocation will be managed solely on an active basis in order to exploit the perceived inefficiencies in the Non–US equity markets. The Non–U.S. equity allocation will have a target of twenty percent (20%) of total fund assets. This allocation may be satisfied with any combination of ACWI–ex US, EAFE and Emerging Market managers.

C. Fixed Income

1. Investment Grade

Investment Objectives

Total return of the investment grade fixed income composite portfolio should exceed the return of the Lehman Aggregate Index over a three–year period on an annualized basis. Total return of each manager's portfolio should rank above the median when compared to their peer group over a three–year period on an annualized basis and should exceed their benchmark return as specified in each manager's guidelines.

Investment Guidelines & Characteristics

Assets eligible to be managed in this class of investments will be found in the Ohio Revised Code Sec. 742.11. The following guidelines and characteristics shall apply unless otherwise approved by the Board of Trustees:

1. The main focus of investing will be on dollar denominated fixed income securities. Non–U.S. dollar denominated securities are prohibited.
2. The composite portfolio as well as each manager's portfolio shall have similar portfolio characteristics as that of the Lehman Aggregate Index.
3. Issues must have a minimum credit rating of BBB– or equivalent at the time of purchase.
4. Each manager's portfolio has a specified effective duration band.
5. For diversification purposes, sector exposure limits exist for each manager's portfolio. In addition, each manager's portfolio will have a minimum number of issues.
6. Each manager's portfolio has a maximum threshold for the amount of cash that may be held at any one time.
7. Each manager's portfolio must have a dollar–weighted average quality of A or above.

Investment Structure

The investment grade fixed income allocation will be managed solely on an active basis in order to exploit the perceived inefficiencies in the investment grade fixed income markets and will have a target of twelve percent (12%) of total fund assets. For diversification purposes, the allocation will be divided between at least two active managers.

2. Global Inflation Protected Securities (GIPS)

Investment Objectives

Total return of the GIPS composite portfolio should exceed the return of a custom weighted–average mix of the Barclays country indexes within the Global Inflation–Linked Bond Index over three–year period on an annualized basis. Total return of each manager's portfolio should exceed their benchmark return as specified in each manager's guidelines.

Investment Guidelines & Characteristics

Assets eligible to be managed in this class of investments will be found in the Ohio Revised Code Sec. 742.11. The following guidelines and characteristics shall apply unless otherwise approved by the Board of Trustees:

1. Permitted countries include any country issuing Inflation Linked bonds with a sovereign local currency credit rating (S&P) of A– or better.
2. The net exposure to individual countries may vary between a specified duration band.
3. The net duration of each manager's portfolio may vary between a specified duration band.
4. No active foreign currency exposure is permitted. All foreign currency exposure must be fully hedged back to the USD.
5. Nominal U.S. Treasury bonds may be used as a substitute for Inflation Linked bonds up to a stated maximum amount. Non–U.S. nominal bonds may not be purchased.
6. The ability to leverage the portfolio, purchase securities on margin, purchase Rule 144A securities or private placements is prohibited.
7. The ability to purchase equity instruments or any securities that may convert to equity is prohibited.

Investment Structure

The GIPS allocation will be managed solely on an active basis in order to exploit the perceived inefficiencies in Inflation Protected Securities markets and will have a target of six percent (6%) of total fund assets.

3. Commercial Mortgages

Investment Objective

Total return of the commercial mortgage composite portfolio should equal a real rate of return of four percent, net of investment management fees, over rolling ten–year periods. The Board of Trustees has determined that inclusion of commercial mortgage investments secured by real estate, may, depending on market circumstances, enhance the risk/return characteristics of OP&F.

Investment Guidelines & Characteristics

Assets eligible to be managed in this class of investments will be found in the Ohio Revised Code Sec. 742.11. The following guidelines and characteristics shall apply unless otherwise approved by the Board of Trustees:

1. The main focus of investing will be on commercial mortgage whole loans which provide for fixed income payments derived from underlying property cash flows.
2. Risk shall be controlled through diversification strategies and the retention of qualified managers with acceptable loan underwriting and/or commercial mortgage acquisition experience.

Investment Structure

The commercial mortgage allocation will be managed solely on an active basis in order to exploit the perceived inefficiencies in the commercial mortgage market. The commercial mortgage allocation will have a target of zero percent (0%) of total fund assets but will allow for up to a two percent (2%) allocation, which shall be included within the Fixed Income allocation. OP&F will utilize commingled fund investments to manage its commercial mortgage allocation.

D. High Yield

Investment Objectives

Total return of the high yield fixed income composite portfolio should exceed the return of the CS First Boston High Yield Index, Developed Countries Only over a three–year period on an annualized basis. Total return of each manager's portfolio should rank above the median when compared to their peer group over a three–year period on an annualized basis and should exceed their benchmark return as specified in each manager's guidelines.

Investment Guidelines & Characteristics

Assets eligible to be managed in this class of investments will be found in the Ohio Revised Code Sec. 742.11. The following guidelines and characteristics shall apply unless otherwise approved by the Board of Trustees:

1. The main focus of investing will be on fixed income securities issued by U.S. corporations. Non–U.S. dollar denominated securities are prohibited.
2. The composite portfolio as well as each manager's portfolio shall have similar portfolio characteristics as that of the CS First Boston High Yield Index, Developed Countries Only.
3. Issues must have a minimum credit rating of CCC or equivalent at the time of purchase.
4. Each manager's portfolio will be diversified by economic industry.
5. Each manager's portfolio has a maximum threshold for the amount of cash that may be held at any one time.
6. Purchased issues must meet the minimum original issue size as stated in each manager's investment guidelines.
7. Each manager's portfolio must have a dollar–weighted average quality of B–/B3 or above.

Investment Structure

The high yield fixed income allocation will be managed solely on an active basis in order to exploit the perceived inefficiencies in the high yield markets and to minimize the probability of exposure to securities in default. The high yield fixed income allocation will have a target of five percent (5%) of total fund assets.

E. Real Estate

Investment Objectives

Total return of the real estate composite portfolio should exceed, prior to investment advisor fees, the NCREIF Property Index by 100 basis points measured over rolling three–year periods. The role of real estate in OP&F's portfolio is to provide an inflation hedge and a return that negatively correlates with stock and bond returns, thereby reducing the volatility and risk of the total portfolio. Real estate must also provide a total return that is competitive on a risk–adjusted basis with stocks and bonds.

Investment Guidelines & Characteristics

Assets eligible to be managed in this class of investments will be found in the Ohio Revised Code Sec. 742.11. The following guidelines and characteristics shall apply unless otherwise approved by the Board of Trustees:

1. The main focus of investing will be on core properties (i.e., operating, substantially leased, well located, institutional quality in the traditional property types which include office, apartment, retail and industrial). OP&F will opportunistically make investments in non–core, institutional quality properties (i.e., hotels, senior housing, etc.) to capture superior risk–adjusted returns caused by imbalances in the real estate and capital markets.
2. For diversification purposes, properties will be diversified by type, location and size of investment and by advisor.
3. Leverage will be utilized only if acceptable debt service coverage, loan to value ratios and other protection can be provided.

Investment Structure

The real estate allocation will have a target of eight percent (8%) of total fund assets. The real estate allocation will be managed solely on an active basis in order to exploit the perceived inefficiencies in the real estate market. OP&F will utilize both separately managed accounts and commingled funds to manage its allocation to real estate. OP&F's preferred investment vehicle is a separate account because it affords OP&F the highest degree of control over its investments. OP&F also prefers to own 100% of each core property investment. Commingled fund investments will be made to allow OP&F to invest in higher return, higher risk assets and in extraordinarily large properties.

F. Private Equity

Investment Objective

Total return, net of fees, of the private equity composite portfolio should exceed the Wilshire 5000 by 500 basis points calculated over a rolling ten–year period. Returns shall be calculated on a time–weighted rate of return basis. Each partnership should rank in the top quartile when compared to their vintage year peer group. Returns for each partnership shall be calculated on an internal, or dollar–weighted, rate of return basis. The private equity allocation is designed to provide an attractive risk–adjusted rate of return to OP&F.

Investment Guidelines & Characteristics

Assets eligible to be managed in this class of investments will be found in the Ohio Revised Code Sec. 742.11. The following guidelines and characteristics shall apply unless otherwise approved by the Board of Trustees:

1. For diversification purpose, OP&F will seek to maintain exposure to the following private equity asset classes as such: 30–50% venture capital, 45–70% buyouts and 0–10% distressed debt/others.
2. OP&F will seek to maintain geographic diversification as such: 75–100% U.S. and 0–25% Non–U.S.
3. OP&F will seek to maintain stage, vintage year, capitalization and industry diversification within the private equity composite portfolio.
4. OP&F shall not invest in any individual partnership in which the capital commitment of the general partner is not equal to or greater than 1% of the total capital committed at the time of the final closing of the partnership. OP&F shall not invest in any fund of funds in which the capital commitment of the general partner does not represent a significant commitment in relation to the financial circumstances of the general partner.
5. The maximum and minimum percentage interest and dollar amount of total capital committed for each partnership and fund of funds at the time of the final closing is as follows:

Partnerships

Guideline	Min	Max
Percentage Interest	n/a	10%
Dollar Amount	$5mm	n/a

Fund of Funds

Guideline	Min	Max
Percentage Interest	n/a	15%
Dollar Amount	$10mm	n/a

The minimum dollar amount shall not apply to individual partnerships or fund of funds which, due to over–subscription, choose to limit our capital commitment to less than $5 and $10 million, respectively.

Investment Structure

The private equity allocation will have a target of three percent (3%) of total fund assets. OP&F may utilize any of the following types of vehicles in implementing our private equity strategy: fund of funds, partnerships, limited liability companies or group trusts. OP&F may also participate in secondary offerings or purchase private equity placements from other investors on the secondary market. Individual partnerships will be used on an opportunistic basis and will either be partnerships also held by one of our fund of funds or partnerships with a significant presence in the state of Ohio. Significant presence will be defined as having a fully operational office within the state comprised of at least two investment professionals, one of which is a managing member of the general partner.

G. Cash Equivalents

Investment Objective

Total return of the portfolio should exceed the 91–day Treasury Bill rate of return over rolling twelve–month periods. To provide effective cash management when investing cash balances, emphasis is placed on the protection of principal through the purchase of higher quality money market instruments, while at the same time attempting to achieve the highest available return.

Investment Guidelines & Characteristics

Assets eligible to be managed in this class of investments will be found in the Ohio Revised Code Sec. 742.11. The following guidelines and characteristics shall apply unless otherwise approved by the Board of Trustees:

1. Authorized investments include: commercial paper rated A2/P2 or better, repurchase agreements, reverse repurchase agreements, agency discount notes and U.S. Treasury Bills. Repurchase agreements and reverse repurchase agreements shall be limited to instruments of the Fund's domestic sub–custodian bank. Certificates of deposit and banker's acceptances may also be purchased. All obligations shall mature within two hundred seventy days of the date of purchase.
2. Credit reviews of approved issuers of commercial paper shall be performed on a regular basis, but no less than every six months for issuers rated A1/P1 and every three months for issuers rated A2/P2 or split rated.
3. Total holdings of commercial paper in any one industry shall not exceed the greater of 0.50% of the total fund assets or $50 million.

4. Repurchase agreements and reverse repurchase agreements shall be limited to the greater of $50 million or 0.70% of total fund assets.
5. Agency discount notes and U.S. Treasury bills shall have no exposure limits.
6. Commercial paper exposure limits shall be based upon credit rating and current outlook as described in OP&F's Short Term Cash Management Policies and Guidelines.

Investment Structure

Cash or cash equivalents have a target allocation of zero percent (0%) of total fund assets but will allow for up to one–half percent (0.5%) allocation. Investment staff is responsible for the cash management function.

VII. Proxy Voting

OP&F's Board of Trustees believes that common stock proxies are valuable and should be voted in the long–term interests and objectives of the Plan set forth herein. Common stock proxies may be executed by the Sr. Investment Officer or the Chief Investment Officer, or their designees, and by designated outside money managers. Staff or any manager that exercises a proxy vote shall keep detailed records of said voting of proxies and related actions and will comply with all regulatory obligations related thereto and the policies set forth in the Board's "Proxy Voting Policy Statement." The internal staff shall provide a semi–annual summary report of proxy voting actions to the Investment Committee/Board of Trustees.

VIII. Securities Lending

The investment objective for the securities lending program is to generate incremental income within a high quality investment program that safeguards the return of principal, maintains adequate daily liquidity, ensures diversification and tightly controls exposure to fluctuating interest rates. The program may be operated by a bank trustee or a third party lending agent. Marking to market shall be performed daily and a minimum of 102% collateral shall be diligently maintained. Securities lending reports shall be provided monthly by the agent to the staff. Staff will present a semi–annual summary report to the Investment Committee/Board of Trustees.

IX. Investment Manager Monitoring And Evaluation Policy

The purpose of the OP&F Investment Manager Monitoring and Evaluation Policy is to establish the process and discipline for managing the investment manager relationship. The policy states the process, responsibilities and important factors for consideration in the monitoring and evaluation process.

The successful monitoring and evaluation of managers depends on synthesizing a multi–faceted array of investment factors, including historical data and forward looking characteristics that are often linked. The process must also examine the investment manager's business capabilities and ability to attract and retain investment and support professionals. The Policy seeks to examine all material information about OP&F's investment managers that may materially impact the relationship and investment objectives of the Board.

OP&F will consider, but not be limited to, the following factors in monitoring and evaluating its investment managers:

A. Stability and experience of firm in the investment product;
    1. Stability of the firm, as measured by the quality of the organizational structure of the firm; the existence of, or potential for, significant developments in the firm; and the expected financial stability of the firm.
    2. Experience of the firm in providing investment management services to similar institutional investors, as measured by the firm's history of providing such services.
    3. Ownership of the firm, as measured by the depth and structure of the incentive programs and the ownership type for key investment professionals in the subject product.
    4. Firm commitment to improvement as measured by whether or not there is a clear business plan/strategy, reinvestment in the firm with an overall commitment for enhancements/improvements.
    5. Adverse organizational issues, as measured by the existence of litigation or other investigations; and the existence of financial problems.

B. Quality, stability, depth and experience of investment professionals;
   1. Experience of portfolio manager(s) in providing similar services to similar institutional investors, as measured by the length of time the portfolio manager(s) has served as a portfolio manager to such investors; demonstrated expertise in providing such services to other such investors.
   2. Stability of the firm's professional base, as measured by personnel turnover.
   3. Depth of personnel, as measured by the firm's account/portfolio manager and account/investment management personnel ratios; and back–up procedures for providing services to OP&F in the absence of the portfolio manager(s).

C. Client service and relationships;
   1. Assets under management, as measured by the amount in the subject product as well as the experience of managing other similar asset class products.
   2. The similarity of a firm's clients to OP&F, as measured by the amount of institutional tax–exempt assets under management and the size of the individual accounts currently under management.
   3. Stability of the firm's client base, as measured by the number of accounts gained or lost.
   4. Procedures for client contact, timely reporting, compliance monitoring, reconciliation process with OP&F's custodian and responsiveness to reporting data and formatting requirements.

D. Investment philosophy and process;
   1. Defined philosophy and process implementation, as measured by whether the philosophy is effectively communicated and what the process is and why it works. It should be identified as to whether the process is based on sound research and whether or not they are focusing on temporary or permanent inefficiencies in the market.
   2. Portfolio construction process, as measured by whether or not the manager is benchmark oriented such that there are distinct portfolio objectives and on–going monitoring relative to these objectives. It should be identified as to whether the process contains risk controls, and if so, are they part of a disciplined process and who is performing the monitoring.
   3. Research, as measured by whether there are appropriate resources given the product style, whether the research performed is qualitative or quantitative, and whether or not there are separate research departments by product type or one fully integrated research staff.
   4. Sources of information, as measured by whether the data used in the process is collected and/or assimilated by outside organizations or generated internally and how the information is processed and interpreted.

E. Investment performance and risk control;
   1. The investment manager's alpha for active managers and tracking error for passive managers relative to the target benchmark. Active managers will also be expected to rank in the top half of managers with similar objectives over a 3 to 5 year period, if available. Additional focus will be placed on return/risk ratios and information ratios which incorporate both absolute and manager specific risk.

F. Investment fees;
   1. Investment management fees shall be competitive and of an appropriate structure for the product type and assets under management.

Monitoring Responsibilities

It is important for the roles of the participants in the implementation of this Policy be clear and delineated. The following is intended as a guide to reflect the overall framework for the participants in the process. Participant responsibilities may vary from time to time.

Investment Committee/Board of Trustees

Responsible for the overall management of OP&F and investment manager relationship. Staff and consultant will provide the Board with periodic updates on the investment structure, overall investment manager performance and compliance with guidelines. Also responsible for the overall management of OP&F's investment program. This shall include ongoing review of the asset allocation plan, investment structure, investment performance and other related issues. The Committee/Board shall be responsible for approving investment policies and procedures and shall assign investment managers to a monitoring category (except that only the Board may assign categories 4 and P4, termination).

Staff

Responsible for the day–to–day management of this Policy and the investment manager relationship, including investment reporting and investment guideline compliance. Staff will report all material manager issues to the consultant for review and to the Board for its consideration.

Investment Consultant

Responsible for assisting the staff and Board in establishing strategic investment policy and strategy. The consultant will monitor the consistency of investment manager mandates with the investment objectives, investment manager guidelines and will prepare quarterly performance measurement reports. The consultant will report all material investment manager issues to the staff and Board.

Investment Manager

Responsible for managing the investment portfolio within the objectives and guidelines established by the Board. The investment manager is responsible for self–monitoring of the portfolio and notifying the staff when there are any deviations from the guidelines and when modifications to the guidelines may be appropriate. The investment manager is responsible for the quality and timeliness of its reporting, including the reconciliation of its portfolio with OP&F's custodian.

Frequency Of Monitoring

The investment manager's performance, risk and portfolio characteristics will be monitored on a monthly/quarterly basis, or more frequently, and will be evaluated relative to the Board approved investment manager guidelines and objectives.

Manager Monitoring Conclusions

The Board seeks long term and successful relationships with its investment managers. The monitoring process is intended to ensure the success of the relationship. All investment managers will be assigned, as noted above, to one of the following categories, which will be reviewed by the Investment Committee/Board of Trustees at least annually:

1. Retain the investment manager with no material changes in the relationship;
2. Retain the investment manager with issues of a material nature to be noted and monitored on a regular basis;
3. Retain the investment manager and place on probation with specific material issues identified and a plan and time period developed to resolve issue; and
4. Terminate the investment manager relationship and redeploy the assets.

Where potentially material and adverse issues arise in OP&F's current investment manager relationships, the Investment Committee/Board of Trustees will review the issues and may re–assign the manager to another category in the case of 1–3 rating. The assignment of a 4 rating must be approved by the Board.

Once a manager has been downgraded, they may not be upgraded for at least 6 months. During this time period the reasons for the rating downgrade will be evaluated thoroughly by the staff and the manager's progress on their corrective action plans will be followed. Although managers will be prohibited from obtaining a rating upgrade within 6 months of a rating downgrade, a manager may be further downgraded or recommended for termination at any time.

In conjunction with the annual manager evaluation conducted by the staff and the Investment Committee/ Board of Trustees, the following review schedule will be followed for managers rated either a '2' or '3':

- '2' The staff and the Investment Committee/Board of Trustees will review manager performance and the issues which resulted in the rating downgrade at least every 6 months until the rating has been upgraded to a '1'. Further downgrading to a '3' will result in the review schedule noted below:
- '3' Due to the severity of this rating, quarterly reviews will be conducted of managers rated a '3'.

When deemed necessary by the staff or Investment Committee/Board of Trustees, managers will be requested to attend these reviews.

In the case of investment managers or general partners who act as managers of private, essentially non–marketable, investment vehicles such as private equity and commingled real estate investment funds, all investment managers will be assigned, as noted above, to one of the following categories which will be reviewed by the Investment Committee/Board of Trustees at least annually:

- P1. The investment manager may be considered for future assignments.
- P2. The investment manager has specific material issues which need to be resolved before the manager may be considered for future assignments.
- P3. The investment manager may not be considered for future assignments.
- P4. Removal of the investment manager or sale of our interest should be actively pursued and acted upon if in the best interest of OP&F.

Where potentially material and adverse issues arise in OP&F's current investment manager relationships, the Investment Committee/Board of Trustees will review the issues and may re–assign the manager to another category in the case of a P1–P3 rating. The assignment of a P4 rating must be approved by the Board.

Termination Of An Investment Manager

The Board will review the adverse material issues and circumstances prior to terminating an investment manager. The major issues to consider will include:

- Longer term prospects of the investment manager in correcting the issue;
- Potential changes in the relationship;
- The cost of termination;
- Replacement alternatives; and
- How the investment manager's assets will be redeployed.

Manager Due Diligence Visits

The staff will meet with those investment managers whose performance falls below the 70th percentile relative to their peers for all of the following: current quarter; year–to–date; and trailing one year time periods. The staff will also meet with investment managers for non–performance issues that are material to the relationship, including but not limited to: firm or investment product stability, key professional turnover, client service and investment reporting.

X. Communications

Each manager will provide hard copy reports at least quarterly, including performance measurement, asset inventories, transaction summaries, market commentary or anything else deemed significant at the time of reporting. Each manager is expected to meet with OP&F's Board at least annually, unless notified otherwise.

XI. Investment Manager Search Policy

The selection of investment managers will be conducted only under a Request for Proposal (RFP) process that will consider the following issues:

A. The investment strategy for the manager search will be considered within the strategic asset allocation plan, investment structure and other applicable investment policies and procedures approved by the Board, including the Ohio–Qualified Investment Manager Policy.

B. The RFP minimum criteria will be consistent with the search investment strategy and will be established by the Investment Committee/Board of Trustees of Trustees, with the assistance of staff and the investment consultant. The selection criteria may include such items as:

   1. Stability and experience of firm in the investment product;
      a. Stability of the firm, as measured by the quality of the organizational structure of the firm; the existence of, or potential for, significant developments in the firm; and the expected financial stability of the firm.
      b. Experience of the firm in providing investment management services to similar institutional investors, as measured by the firm's history of providing such services.
      c. Ownership of the firm, as measured by the depth and structure of the incentive programs and the ownership type for key investment professionals in the subject product.
      d. Firm commitment to improvement as measured by whether or not there is a clear business plan/strategy, reinvestment in the firm with an overall commitment for enhancements/improvements.

   e. Adverse organizational issues, as measured by the existence of litigation or other investigations; and the existence of financial problems.
2. Quality, stability, depth and experience of investment professionals;
   a. Experience of portfolio manager(s) in providing similar services to similar institutional investors, as measured by the length of time the portfolio manager(s) has served as a portfolio manager to such investors; demonstrated expertise in providing such services to other such investors.
   b. Stability of the firm's professional base, as measured by personnel turnover.
   c. Depth of personnel, as measured by the firm's account/portfolio manager and account/investment management personnel ratios; and back–up procedures for providing services to OP&F in the absence of the portfolio manager(s).
3. Client service and relationships;
   a. Assets under management, as measured by the amount in the subject product as well as the experience of managing other similar asset class products.
   b. The similarity of a firm's clients to OP&F, as measured by the amount of institutional tax–exempt assets under management and the size of the individual accounts currently under management.
   c. Stability of the firm's client base, as measured by the number of accounts gained or lost.
   d. Procedures for client contact, timely reporting, compliance monitoring, reconciliation process with OP&F's custodian and responsiveness to reporting data and formatting requirements.
4. Investment philosophy and process;
   a. Defined philosophy and process implementation, as measured by whether the philosophy is effectively communicated and what the process is and why it works. It should be identified as to whether the process is based on sound research and whether or not they are focusing on temporary or permanent inefficiencies in the market.
   b. Portfolio construction process, as measured by whether or not the manager is benchmark oriented such that there are distinct portfolio objectives and on–going monitoring relative to these objectives. It should be identified as to whether the process contains risk controls, and if so, are they part of a disciplined process and who is performing the monitoring.
   c. Research, as measured by whether there are appropriate resources given the product style, whether the research performed is qualitative or quantitative, and whether or not there are separate research departments by product type or one fully integrated research staff.
   d. Sources of information, as measured by whether the data used in the process is collected and/or assimilated by outside organizations or generated internally and how the information is processed and interpreted.
5. Investment performance and risk control;
   a. The investment manager's alpha for active managers and tracking error for passive managers relative to the target benchmark. Active managers will also be expected to rank in the top half of managers with similar objectives over a 3 to 5 year period, if available. Additional focus will be placed on return/risk ratios and information ratios which incorporate both absolute and manager specific risk.
6. Investment fees;
   a. The total cost of performing investment advisory services as measured by the Fee Proposal based on a total account size. The managers in the search will be evaluated relative to each other as well as to a representative peer universe.

C. The search may be on a closed or open manager universe basis. Closed universe searches shall be used only in circumstances where an expedited process is required to avoid material harm to OP&F or where there is approval to reconsider the finalists of a prior search concluded within the preceding two years, by an affirmative vote of at least 75% of the members of the Board of Trustees who have been elected or appointed and are serving on OP&F's Board at the time of the meetings. The retention of a manager in a closed universe search shall be subject to a due diligence review by the Investment Committee/Board of Trustees, staff and consultant. When reopening a prior search, due diligence shall be performed on those managers constituting the finalists of the original search.
D. RFPs will be sent to managers identified as likely to meet the stated qualifications and to those requesting the RFP in an open universe search. An advertisement will be placed in an investment industry or national business publication in open universe searches. In addition, as required by the statute, OP&F will provide public notice of an open universe search along with the search criteria through an advertisement issued in an industry publication and/or by a posting on OP&F's Web site. In closed universe searches, the Investment Committee/Board of Trustees shall approve all potential candidates with the assistance of the staff and consultant.
E. Staff and the Board's investment consultant will review all timely submitted RFPs to ensure that all search criteria have been met.
F. Staff and the Board's investment consultant will evaluate all RFPs having met established criteria and produce written reports summarizing the findings and manager rankings to the Investment Committee/Board of Trustees.
G. The Investment Committee/Board of Trustees will consider the staff and consultant reports as well as other material information when determining the list of managers for finalist interviews.
H. The Investment Committee/Board of Trustees will interview and evaluate the finalists with the assistance of staff and the investment consultant.
I. The staff, investment consultant and/or Investment Committee/Board of Trustees may conduct a due diligence visit with the finalists.
J. The Board may approve, fail to approve or modify the amount and/or timing of funding, investment guidelines and fees of the approved managers.

XII. Review Procedures

In addition to the regular performance reviews, the Board in conjunction with its consultant will review this policy statement at least once a year to determine if revisions are warranted.

It is not expected that investment policy will change frequently, in particular short term changes in the financial markets should generally not require an adjustment in the investment policy.

The 2005 Comprehensive Annual Financial Report

Actuarial Section

The Ohio Police & Fire Pension Fund

Ohio Police & Fire Pension Fund
140 East Town Street • Columbus, Ohio 43215
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Report of Actuary

buckconsultants
an ACS company

December 14, 2005

Board of Trustees
Ohio Police & Fire Pension Fund
140 East Town Street
Columbus, Ohio 43215

Members of the Board:

This report presents the results of the annual actuarial valuation of the assets and liabilities of the Ohio Police & Fire Pension Fund ("Fund") as of January 1, 2005, prepared in accordance with Chapter 742 of the Ohio Revised Code. The valuation takes into account all of the promised benefits to which members are entitled, including pension and survivor benefits.

The valuation was based on the actuarial assumptions and methods as adopted by the Board of Trustees, including a valuation interest rate of 8¼% per annum compounded annually. The assumptions and methods are unchanged from the prior valuation.

The actuarial assumptions and methods comply with the parameters set forth in Governmental Accounting Standards No. 25.

Assets and Membership Data

The Fund reported to the actuary the individual data for members of the Fund as of the valuation date. While we did not verify the data at their source, we did perform tests for internal consistency and reasonableness. The amount of assets in the trust fund taken into account in the valuation was based on statements prepared for us by the Fund.

Funding Objectives and Progress

The actuary uses an actuarial cost method to determine the portion of the Fund's liabilities accrued by the members as of the valuation date and the portion that is attributable to future years of service. The rate of contribution necessary to systematically fund the future service liabilities, the normal cost rate, is calculated under the cost method to be a level percentage of active member payroll. The portion of the liabilities accrued as of the valuation date, the actuarial accrued liability, is compared to a market—related value of the Fund's assets. The amount of liabilities in excess of the assets is called the unfunded actuarial accrued liability. The actuary determines how many years is required by the Fund to completely amortize the unfunded actuarial accrued liability, using the member and employer contributions reduced by the amount of normal cost for the year.

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Section 742.16 of the Revised Code, as adopted by Senate Bill No. 82, sets forth an objective that the number of years required to amortize the unfunded actuarial accrued liability (the funding period) be no more than 30 years. If the funding period exceeds 30 years, a plan shall be developed and presented by the Board of Trustees to reduce the funding period to not more than 30 years by the 2007 plan year. The 2005 actuarial valuation results in a funding period of infinite years, which compares to the infinite period developed in the 2004 actuarial valuation. The infinite funding period is attributable to the less than assumed investment performance of the Fund during the period 2000 through 2002. It should be noted that the funded ratio (i.e., the ratio of actuarial assets to the actuarial accrued liability) is 80.9%. This funded ratio is a decline from the 86.5% determined as of January 1, 2004.

Financial Results and Membership Data

The valuation report shows detailed summaries of the financial results of the valuation and membership data used in preparing this valuation. The actuary prepared supporting schedules included in the Actuarial and Statistical Sections of the Ohio Police & Fire Pension Fund Comprehensive Annual Financial Report. The actuary prepared the trend data schedules included in the Financial Section of the Ohio Police & Fire Pension Fund Comprehensive Annual Financial Report.

Qualified actuaries completed the valuations in accordance with accepted actuarial procedures as prescribed by the Actuarial Standards Board. The qualified actuaries are members of the American Academy of Actuaries and are experienced in performing actuarial valuations of public employee retirement systems. To the best of our knowledge, this report is complete and accurate and has been prepared in accordance with generally accepted actuarial principles and practice.

Respectfully submitted,

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Description of Actuarial Assumptions and Methods

Assumptions

Interest Rate

8.25% per annum, compounded annually.

Salary Increase

Assumed annual salary increases are as follows:

Years of Service	Salary Increase Rate
1 or less	11.0%
2	9.5%
3	8.5%
4	6.5%
5 or more	5.0%

Withdrawal Rates

The following sample withdrawal rates are based on age and service (for causes other than death, disability, or retirement).

Police

Age	Years of Service										
	0	1	2	3	4	5	6	7	8	9	10+
25	0.02440	0.02440	0.02475	0.02031	0.01745	0.01511	0.01420	0.01384	0.01218	0.01311	0.01311
30	0.02056	0.02056	0.02113	0.02012	0.01824	0.01608	0.01452	0.01355	0.01211	0.01168	0.01168
35	0.02309	0.02309	0.02400	0.02376	0.02158	0.01863	0.01601	0.01405	0.01230	0.01059	0.00959
40	0.03017	0.03017	0.03130	0.03043	0.02715	0.02279	0.01866	0.01532	0.01271	0.00969	0.00590
45	0.04104	0.04104	0.04204	0.03944	0.03458	0.02846	0.02247	0.01742	0.01337	0.00919	0.00311
50	0.05501	0.05501	0.05546	0.05012	0.04339	0.03543	0.02737	0.02041	0.01449	0.00957	0.00299
55	0.07155	0.07155	0.07112	0.06199	0.05322	0.04350	0.03327	0.02436	0.01621	0.01124	0.00737
60	0.09038	0.09038	0.08881	0.07480	0.06390	0.05259	0.04013	0.02931	0.01860	0.01438	0.01438

Firefighters

Age	Years of Service										
	0	1	2	3	4	5	6	7	8	9	10+
25	0.00530	0.00749	0.00864	0.00903	0.00858	0.00749	0.00607	0.00510	0.00453	0.00434	0.00434
30	0.00912	0.00882	0.00824	0.00749	0.00684	0.00632	0.00588	0.00549	0.00515	0.00483	0.00483
35	0.01145	0.00989	0.00866	0.00767	0.00714	0.00699	0.00699	0.00679	0.00631	0.00547	0.00417
40	0.01277	0.01082	0.00978	0.00931	0.00916	0.00923	0.00925	0.00893	0.00799	0.00628	0.00359
45	0.01308	0.01159	0.01161	0.01242	0.01293	0.01307	0.01269	0.01193	0.01022	0.00729	0.00312
50	0.01242	0.01218	0.01412	0.01700	0.01846	0.01851	0.01731	0.01581	0.01302	0.00850	0.00282
55	0.01082	0.01257	0.01728	0.02306	0.02575	0.02557	0.02310	0.02057	0.01640	0.00993	0.00272
60	0.00831	0.01275	0.02109	0.03060	0.03480	0.03423	0.03008	0.02623	0.02038	0.01159	0.00285

Rates Of Disability And Death Before Retirement

Rates of death are based on the 1994 Group Annuity Mortality Table (sex distinct) set back five years for male police officers and seven years for male firefighters and set forward three years for female police officers and female firefighters. The following sample rates apply to active members.

Police Officers

Age	Annual Rate of Death—Male	Annual Rate of Death—Female	Annual Rate of Disability
20	0.034%	0.029%	0.002%
30	0.066%	0.042%	0.124%
40	0.085%	0.088%	0.708%
50	0.158%	0.191%	2.533%
55	0.258%	0.336%	4.270%
60	0.442%	0.668%	6.546%
62	0.558%	0.864%	7.662%
65	0.798%	1.176%	—

Firefighters

Age	Annual Rate of Death—Male	Annual Rate of Death—Female	Annual Rate of Disability
20	0.025%	0.029%	0.004%
30	0.059%	0.042%	0.067%
40	0.085%	0.088%	0.379%
50	0.135%	0.191%	2.939%
55	0.210%	0.336%	5.270%
60	0.358%	0.668%	7.610%
62	0.442%	0.864%	8.530%
65	0.63%	1.176%	—

Occurrence Of Disability

On duty permanent and total	35%
On duty partial	61%
Off duty ordinary	4%

Retirement Rates

The following rates apply to members upon reaching eligibility for retirement.

Annual Rate of Retirement

Age	Police	Firefighters
48	30%	30%
49	20%	20%
50	20%	20%
51	20%	20%
52	20%	20%
53	20%	25%
54	20%	25%
55	20%	25%
56	20%	25%
57	20%	25%
58	20%	25%
59	25%	30%
60	25%	30%
61	25%	30%
62	25%	35%
63	25%	35%
64	25%	35%
65	100%	100%

Drop Retirement Rates

DROP participants are assumed to retire at the retirement rates shown above, with the following exceptions:

Second and third years of DROP	0%
Eighth year of DROP	100%

Retirement Age For Inactive Vested Participants

Commencement at age 48 and 25 years of service from full–time hire date, whichever is later.

Deferred Retirement Option Plan (Drop) Elections

All members who do not retire when first eligible are assumed to elect DROP.

Death After Retirement

According to the 1994 Group Annuity Mortality Table (male only) with one–year set forward for all pensioners. 1994 Group Annuity Mortality Table (female only) with two–year set forward for all beneficiaries. 1994 Group Annuity Mortality Table (male only) for disableds, with six–year set forward for police and five–year set forward for firefighters.

Future Expenses

The normal cost is increased by all administrative expenses budgeted, net of the State Subsidy received from the State of Ohio.

Unknown Data For Members

Same as those exhibited by members with similar known characteristics.

Percent Married

85%

Age of Spouse

Females three years younger than males.

Dependent Parents

Costs based upon allowance for mortality (same rates as for beneficiaries), but no specific allowance for change in dependency status.

Dependent Children

Each member is assumed to have two children, born when the member was age 26. Dependency is assumed to cease when the child is 22.

Cola Annuities

Where an election is possible, all members are assumed to elect the COLA annuity. The assumed Consumer Price Index increase is a rate equal to or greater than 3% per year.

Methods

Actuarial Cost Method

Projected benefit method with level percentage entry age normal cost and open–end unfunded accrued liability. Gains and losses are reflected in the accrued liability.

Asset Valuation Method

A five–year moving market average value of assets that spreads the difference between the actual investment income and the expected income on the market value (based on the valuation interest rate) over a period of five years. The actuarial value shall not be less than 80% or more than 120% of market value.

Payroll Growth

Inflation rate of 3% plus productivity increase rate of 1%.

Cost Of Living

3% per annum.

Data

Census And Assets

The valuation was based on members of the Fund as of January 1, 2005 and does not take into account future members. All census and asset data was supplied by the Fund.

Summary of Benefit and Contribution Provisions

The following is intended to summarize the key provisions valued in this valuation. Members of the Fund and other parties should not rely on this summary as a substitute for or legal interpretation of the laws and rules of the Code covering this retirement plan.

Eligibility for Membership

Immediate upon commencement of employment.

Member Contributions

10% of salary.

Normal Service Retirement

Eligibility

Age 48 with 25 years of service.

Benefit

An annual amount equal to a percentage of "average annual salary," where the percentage equals 2.5% for each of the first 20 years of service, 2% for each of the next five years of service, and 1.5% for service in excess of 25 years to a maximum of 72% of the average annual salary. Average annual salary means one–third of the total salary during the three 12 consecutive months for which the total earnings were greatest.

Special Service Retirement

Eligibility

Age 62 with 15 years of service.

Benefit

Same as the normal service retirement benefit.

Termination Before Retirement with 25 Years Service

Benefit

Same as the normal service retirement benefit, except benefit commences when member reaches age 48.

Termination Before Retirement with 15 Years Service

Benefit

An annual amount equal to a percentage of average annual salary, where the percentage equals 1.5% times years of service. Benefit commences at the later of age 48 and 25 years from the date of full–time hire.

Termination Before Retirement with Less Than 15 Years Service

Benefit

A lump sum amount equal to the sum of the member's contributions to the Fund.

Deferred Retirement Option Plan (DROP)

Eligibility

Age 48 with 25 years of service.

Benefit

Member elects to defer retirement and must remain in the DROP at least three years, but not more than eight years, for there to be no penalties. At retirement, member receives:

(1) the normal service retirement benefit determined as of the date the member entered DROP, plus cost–of–living adjustments, and

(2) the DROP account balance paid in a lump sum or in installments.

The DROP account balance is credited until retirement with the member's retirement benefit amount for the year, adjusted for cost–of–living, plus a portion of the member's contribution for the year, plus interest credited at 5% compounded annually. Annual member contributions are credited to the DROP account based on the following schedule:

Years 1 and 2	50% of member's contribution
Year 3	75% of member's contribution
Years 4–8	100% of member's contribution

If the member terminates employment in the first three years of participating in the DROP, the member forfeits all interest credited to his DROP account. If the member terminates after eight years, the member forfeits all DROP benefits and receives a normal service retirement benefit determined as of his termination date, counting service credit for the DROP participation period.

If the member becomes disabled while participating in the DROP, the member can choose to remain in the DROP or receive a disability benefit determined as of his disability date and forfeit all DROP benefits.

If the member dies while participating in the DROP, the member's spouse or beneficiary receives the DROP account balance and a monthly survivor benefit of 50% of the benefit the member would have received had the member retired the day before death and elected a 50% joint and survivor annuity. (If the member selected a percentage greater than 50%, that percentage applies.) All other death benefits apply as well.

Permanent and Total Disability (On Duty)

Eligibility

No age or service requirement.

Benefit

An annual amount equal to 72% of average annual salary.

Partial Disability (On Duty)

Eligibility

No age or service requirement.

Benefit

An annual amount determined by the Board, not to exceed 60% of average annual salary. If the member has 25 years of service, the amount will be equal to the normal service retirement amount.

Ordinary Disability (Off Duty)

Eligibility

5 years of service.

Benefit

An annual amount determined by the Board, not to exceed 60% of average annual salary.

Pre–retirement Death Benefit

Eligibility

Upon death, before retirement but after satisfying eligibility for normal service retirement or age/service commuted retirement.

Benefit

Surviving spouse or contingent dependent beneficiary receives 50% of the benefit the member would have received had the member retired on the date of death under the 50% joint and survivor annuity form of benefit.

Statutory Death Benefit

Eligibility

Upon death for any active or retired member.

Benefit

The benefit is paid to the surviving spouse for life, and to any surviving children until they reach age 18 (22 if a full–time student) or marry, which ever occurs first, and to any surviving disabled children for life. If the deceased member leaves no surviving spouse or children, a benefit is paid to any surviving dependent parents during their lifetime or until dependency ceases or until remarriage.

The benefit amount depends on the beneficiary type. The amount is increased each July 1 by 3% of the Base Benefit. The benefit amounts are shown below.

Monthly Benefit Amount

Beneficiary Type	Base	Base Plus Increases Through July 1, 2004	Next Increase Effective July 1, 2005
Spouse	$ 550	$ 628.10	$ 16.50
Child	150	171.30	4.50
Parents			
If one	200	228.40	6.00
If two	100	114.20	3.00

Note: Spouse's benefit is $410 if spouse is receiving a full death benefit under the Death Benefit Agency Fund statute.

Lump Sum Death Benefit

Eligibility

Upon death for any retired or disabled member.

Benefit

A lump sum payment of $1,000.

Optional Forms of Benefit

The standard form of benefit is a life annuity. For married members, the standard form of benefit is an actuarially reduced benefit payable under the 50% joint and survivor annuity form, unless the member's spouse provides written consent.

Retiring members may elect to have actuarially reduced benefits payable under certain and continuous and joint and survivor annuity forms under certain conditions. Such elections may require spousal consent. Elected options may be canceled within one year after benefits commence, with consent of the beneficiary.

COLA or Terminal Pay

Members retiring after January 1, 1989, and who have 15 or more years of services as of January 1, 1989, are allowed to select between:

(1) a pension calculated on the basis of average annual salary which is increased to reflect terminal pay adjustments, or

(2) a pension based on average annual salary excluding terminal pay adjustment, but increasing by 3% of the initial pension each retirement anniversary after July 1, 1988.

The additive 3% COLA annuity without terminal pay adjustment is the automatic form for active members with less than 15 years of service as of January 1, 1989.

Active Member Valuation Data

Valuation Year	Number of Employers		Number of Active Members		Average Annual Salary		Percentage of Average Annual Salary Increases		Annual Payroll (Millions)
	Police	Fire	Police	Fire	Police	Fire	Police	Fire	
1999	590	350	15,775	11,867	$ 47,241	$ 47,416	5.2%	5.2%	$ 1,338.5
2000	573	352	15,778	21,158	49,113	49,459	4.0%	4.3%	1,407.6
2001	559	354	15,877	12,451	54,335	54,402	7.8%	7.2%	1,534.3
2002	541	362	15,924	12,556	56,661	56,687	4.3%	4.2%	1,606.3
2003	540	363	15,746	12,695	56,081	57,367	–1.0%	1.2%	1,644.4
2004	538	368	15,270	12,609	58,744	59,617	4.7%	3.9%	1,683.6

Active Members

Valuation Year	Number of Active Members *	Percentage Change in Membership	Total Annual Payroll (Thousands)	Percentage Change in Payroll
1999	27,642	1.88%	$ 1,338,514	7.16%
2000	27,936	1.06%	1,407,542	5.16%
2001	28,328	1.40%	1,534,336	9.01%
2002	28,480	0.54%	1,606,274	4.69%
2003	28,441	–0.14%	1,644,399	2.37%
2004	27,879	–1.98%	1,683,554	2.38%

* Includes rehired retirees

Retirants and Beneficiaries

Retirees And Beneficiaries

Valuation Year	Number on Roll	Additions	Deletions	Percentage Change in Membership	Annual Allowance (Thousands)	Percentage Change in Allowance
1999	22,389	1,456	832	3.01%	—	—
2000	23,013	1,174	774	2.79%	—	—
2001	23,413	1,257	747	1.74%	$ 510,080	—
2002	23,923	975	762	2.18%	542,997	—
2003	24,136	963	759	0.89%	558,305	2.82%
2004	24,340	—	—	0.85%	580,645	4.00%

Gains and Losses in Accrued Liabilities

Gains and losses in accrued liabilities resulting from differences between assumed and actuarial experience as of January 1, 2005 and January 1, 2004

Type of Activity	2005	2004
Turnover	$ 25,782,559	$ 8,182,881
If more liabilities are released by withdrawal separations from active membership than assumed, there is a gain. If smaller releases, there is a loss.		
Retirement	(20,068,891)	22,866,956
If members retire at older ages than assumed, there is a gain. If younger, there is a loss.		
Death among retired members and beneficiaries	(211,265,346)	(203,724,700)
If more deaths occur than assumed, there is a gain. If fewer deaths, there is a loss.		
Disability Retirants	7,474,284	(2,079,102)
If disability claims are less than assumed, there is a gain. If greater increases, there is a loss.		
Salary increase/decrease	17,289,939	136,025,734
If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.		
Return to work	(23,587,220)	(11,091,673)
If participants return to work with previous service restored, there is a loss		
New Entrants	(3,395,403)	(4,381,347)
If new entrants join OP&F, there is a loss.		
Deaths among actives	(2,982,421)	(6,222,218)
If claims costs are less than assumed, there is a gain. If more claims, a loss.		
Investments	(457,100,471)	203,193,961
If there is a greater investment return than assumed, there is a gain. If less, there is a loss.		
Payroll Growth	194,068	41,622,189
If payroll increases more than assumed, there is a gain. If payroll does not increase as assumed, there is a loss.		
TOTAL GAIN (OR LOSS) DURING THE YEAR	**$ (667,658,902)**	**$ 184,392,681**

Short–Term Solvency Test

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 valuation assets are compared with:

1) Active member contributions on deposit;
2) The liabilities for future benefits to present retired lives;
3) The liabilities for service already rendered by active members.

In a system that has been following the discipline of level percent of payroll financing, the liabilities for active member contributions on deposit (liability 1) and the liabilities for future benefits to present retired lives (liability 2) will be fully covered by present assets (except in rare circumstances). In addition, the liabilities for service already rendered by active members (liability 3) will be partially covered by the remainder of present assets. Generally, if the system has been using level cost financing, the funded portion of liability 3 will increase over time. Liability 3 being fully funded is very rare. Because OP&F changed its actuarial cost method from the aggregate method to the entry age normal method effective January 1, 1997, comparable solvency test data is not available for years prior to that date.

Accrued Liabilities ($ Amounts in Thousands)

	(1) Active Valuation Year	(2) Member Contributions	(3) Retirants and Beneficiaries	Active Members (Employer Financed Portion)	Valuation Assets	Portion of Accrued Liabilities Covered by Reported Assets (1)	(2)	(3)
Police	2000	$ 603,980	$ 2,674,691	$ 1,840,992	$ 4,330,425	100%	100%	57%
Fire	2000	$ 467,926	$ 1,987,723	$ 1,420,252	$ 3,574,761	100%	100%	79%
Police	2001	$ 644,164	$ 2,839,294	$ 1,914,232	$ 4,632,337	100%	100%	60%
Fire	2001	$ 508,155	$ 2,089,072	$ 1,511,366	$ 3,865,732	100%	100%	84%
Police	2002	$ 699,146	$ 3,099,628	$ 1,711,626	$ 5,110,052	100%	100%	77%
Fire	2002	$ 551,227	$ 2,275,967	$ 1,448,172	$ 3,966,417	100%	100%	79%
Police	2003	$ 746,520	$ 3,299,989	$ 1,894,086	$ 4,905,728	100%	100%	45%
Fire	2003	$ 593,228	$ 2,401,021	$ 1,573,523	$ 3,776,976	100%	100%	50%
Police	2004	$ 792,449	$ 3,390,164	$ 1,911,501	$ 5,269,436	100%	100%	57%
Fire	2004	$ 639,074	$ 2,448,043	$ 2,448,043	$ 4,067,667	100%	100%	61%
Police	2005	$ 840,875	$ 3,510,610	$ 2,152,500	$ 5,260,325	100%	100%	42%
Fire	2005	$ 691,252	$ 2,497,311	$ 1,852,502	$ 4,077,137	100%	100%	48%

Plan Summary

Purpose

OP&F was established by the Ohio General Assembly to provide pension and disability benefits to members of OP&F and eligible benefits to their surviving spouses, children and dependent parents.

Administration

The administration, control and management of OP&F are vested in the Ohio Police & Fire Pension Board of Trustees which is comprised of the following nine members:

- Three representatives of police departments;
- Three representatives of fire departments;
- Three investment experts—one appointed by the Governor, one by the Treasurer of State, and one appointed jointly by the Senate President and Speaker of the House—must have professional investment expertise.

The representatives of police and fire departments are elected to four–year terms by the respective members, with one police and one fire position being a retired member or surviving spouse.

Membership

Membership in OP&F is mandatory under Ohio law for all full–time police officers employed by Ohio municipalities and appointed under the required statutory provisions. Full–time firefighters employed by townships, municipalities, joint fire districts or other political subdivisions who have satisfactorily completed a firefighter training course approved under former Section 3303.07, Section 4765.55 or conducted under Section 3737.33 of the Ohio Revised Code, are also required to be OP&F members.

Contributions

Contributions are established by statute. Employers of police officers pay 19.5% of salary; employers of firefighters pay 24% of salary. Members contribute 10% of salary.

Benefits

Service Retirement

Upon attaining a qualifying age with sufficient service credit, a member of OP&F may retire and receive a lifetime monthly pension.

Normal Pension

Eligibility—Age 48 and 25 years of service.

Benefit—An annual pension equal to a percentage of the "average annual salary." The percentage equals 2.5% for each of the first 20 years of service, 2% for each of the next five years of service and 1.5% for each year of service in excess of 25 years, to a maximum of 72% of the "average annual salary."

Service Commuted

Eligibility—15 years of service.

Benefit—Commencing at age 48 plus 25 years from full–time hire date, whichever is later; an annual pension equal to 1.5% of the average annual salary multiplied by the number of full years of service.

Age/Service Commuted

Eligibility—Age 62 and 15 years of service

Benefit—The same formula applies as for the normal service pension.

Disability Benefits

Members who become unable to perform their official duties and whose earning capacities are impaired may qualify for disability benefits.

Disability benefits are classified as either service–incurred (on–duty) or non–service–incurred (off–duty) and differ in eligibility requirements and benefit formulas. Annual medical evaluations are required for disability benefit recipients who would not have met the age and service requirements for normal service retirement, unless the Board waives this requirement based upon an OP&F physician's certification that the disability is ongoing and further evaluation would not be cost effective. OP&F further requires annual earnings statements to be submitted, unless waived by the Board of Trustees.

Permanent and Total Disability (On–Duty)
Eligibility—No age or service requirement.

Benefit—An annual benefit equal to 72% of the "average annual salary."

Partial Disability (On–Duty)
Eligibility—No age or service requirement.

Benefit—An annual benefit fixed by the Board of Trustees to be a certain percent of the "average annual salary" up to 60%. If the member has 25 or more years of service, the annual disability benefit is equal to the accrued normal service pension.

Non–service Incurred Disability (Off–Duty) Eligibility—Any age and five years of service. Benefit—An annual benefit is the percent awarded by the Board and may not exceed 60% of the "average annual salary." Service credit over 25 years cannot be used in calculating an off duty disability award.

Deferred Retirement Option Plan (DROP)

Eligibility—Normal Retirement.

Benefit—The Normal Retirement Benefit is determined at the date of DROP entry and receives annual cost–of–living adjustments (COLAs) during the member's participation on DROP. DROP annual accrual is the sum of the Normal Retirement Benefit at DROP entry, with applicable COLA paid at DROP anniversary, member contributions credited to DROP and interest credited at a fixed rate of 5% compounded annually.

Member contributions are credited based on the number of years of DROP service under the following schedule:

Years 1–2	50% of member's contributions (5.0% of pay)
Year 3	75% of member's contributions (7.5% of pay)
Years 4–8	100% of member's contributions (10.0% of pay)

The minimum participation in DROP, without penalty, is three years and the maximum is eight years. If a member terminates within the first three years of joining DROP, then the member forfeits all of their DROP interest. If a member chooses to continue working after eight years in DROP, the member forfeits all DROP benefits and receives the Normal Retirement Benefit upon retirement, with service during the DROP period included.

At retirement, the member receives their Normal Retirement Benefit determined at the time of DROP entry, with the COLA adjustment to date of retirement when eligible and the DROP account balance as a lump sum, periodic payment (a partial distribution) or monthly annuity.

If the member dies while participating in DROP, the spouse or designated beneficiary will receive the entire DROP account balance determined at the time of death. The surviving spouse or contingent dependent beneficiary shall receive the greater of the retirement allowance made at the time of DROP entry or the Normal Retirement Benefit paid with COLA adjustments to the date of death, paid as if the member had elected a 50% joint and survivor option at death. All other statutory death benefits will apply.

If the member becomes disabled while in DROP, the member can choose either to receive a disability benefit or stay in DROP. If the member stays in DROP, the disability benefit is forfeited. If the member chooses the disability benefit, the member forfeits all DROP benefits and receives the disability benefit, with service during the DROP period included.

Rights Upon Separation From Service
Deferred Pension—If a member meets the service credit requirement for any service retirement pension but leaves service before attaining the required age, a pension becomes payable upon attainment of the qualifying age and filing the appropriate paperwork with OP&F.

Refund of contributions—Upon separation from service, a member can receive the contributions made to the plan by himself or, on his behalf, by his employer. Employer contributions are not refundable.

Statutory Survivor Benefits

Eligibility—Upon death of any member of OP&F, active or retired.

Benefit—Surviving Spouse's Benefit—An annual amount equal to $6,600, plus an annual cost of living allowance of 3% of the original base, paid each July 1, beginning July 1, 2000.

Surviving Child—An annual amount equal to $1,800, payable until such child attains age 18 or marries, whichever occurs first. The payment can continue to an unmarried full–time student until age 22. A dependent disabled child is entitled to a benefit regardless of age at time of member's death until marriage, death, or recovery. A cost–of–living allowance of 3% of the original base is payable each July 1.

Dependent Parents—If there is no surviving spouse or children, an annual amount of $2,400 is payable to one dependent parent or $1,200 each to two dependent parents for life or until dependency ceases or remarriage. A cost–of–living allowance of 3% of the original base is payable each July 1.

Lump Sum Death Benefit

On the death of a retired or disabled member of OP&F, a lump sum payment of one thousand dollars ($1,000) is paid to the member's surviving spouse or, if no surviving spouse, to a designated beneficiary. If no spouse or beneficiary, then to the member's estate.

Annuities

Effective February 28,1980, for those retiring on either service pensions or disability benefits, optional annuity plans can be chosen. Members can elect actuarially reduced benefits under a joint and survivor annuity or life annuity certain and continuous plans. Effective April 25,1984, Pre–retirement Survivor Annuity was added to the plan, as discussed below.

Annuity Types

Pre–retirement Survivor Annuity

Eligibility—Upon death before retirement but after having satisfied the requirements for normal service retirement.

Benefit—The surviving spouse or contingent dependent beneficiary will receive the equivalent of a 50% joint and survivor annuity, calculated under the assumption that the decedent had retired effective the day following his/her death.

Single Life Annuity

For unmarried members, this is the standard annuity plan. Married members may elect this plan only if the spouse consents to the selection.

Joint and Survivor Annuity

For married members, this is the standard annuity plan at the 50% continuation level. Any percent between 1% and 100% (if less than 50%, requires spouses consent) of the members reduced pension may be continued to the surviving nominated beneficiary if not the spouse, the percent continued may be limited based on the beneficiary's age (if someone other than the surviving spouse, only with the spouse's consent). This plan automatically terminates upon death of the beneficiary, to be effective the month following the date of death, or it may be cancelled upon divorce with the consent of the member's spouse or a specific court order.

Life Annuity Certain and Continuous

The minimum guarantee is 5 years and the maximum is 20 years. 100% of the members' reduced pension continues to the beneficiary for the guarantee period selected.

Group Health Insurance and Medicare

Commencing January 1,1974, the Board may contract for group health insurance on the basis of part or all of the cost of the premium for the coverage to be paid by OP&F. Medical and prescription drug coverage sponsored by OP&F are not vested rights and are subject to change at any time upon action of the Board of Trustees.

Effective January 1, 1977, OP&F is mandated to pay the premium for supplemental Medicare (Part B), upon obtaining the proper documentation from members of their enrollment in the medicare program.

Effective July, 1992, retirees and survivors make monthly medical benefit health care contributions, which are credited to the Health Care Stabilization Fund. These contributions are reviewed on an annual basis to determine adequacy with the rising cost of health care. In 2004, a new contribution strategy was implemented. Retirees and survivors now pay a percentage of the full cost of the benefit. The percentage ranges from 25% to 100% for themselves and dependents based on the year of retirement, age at retirement, number of years of service, and retirement type.

In August 2005, at the request of OP&F, Buck consultants prepared the *Attestation of Actuarial Equivalence for the 2006 Retiree Drug Subsidy*, under the Medicare Modernization Act of 2003 (Medicare Part D program).

Tiered Retirement Plan—COLA or Terminal Pay (Non–COLA)

Members retiring on or after July 24,1986, who had 15 or more years of service as of January 1, 1989, are allowed to select between two different pension calculation plans. Under the terminal pay method, a pension is calculated using terminal payments such as accrued sick leave and vacation compensation to increase the average annual salary, but subject to certain limitations, and these members do not receive cost of living adjustments. Under the COLA method, no terminal payments are added, but the pension is subject to annual increases equal to a 3% increase of the original base per year.

The COLA method is the automatic calculation method for an active member with fewer than 15 years of service as of January 1,1989. The COLA percentage equals a fixed 3% increase of the original base benefit per year.

Post–Retirement Cost–of–Living Allowance (COLA)

Members who retired prior to July 24,1986 or their surviving beneficiaries under optional plans are entitled to cost–of–living increases. The annual increase is paid on July 1st of each year. The annual COLA increase is $360 under a Single Life Annuity Plan with proportional reductions for optional payment plans.

Re–employed Retirants' Defined Contribution Plan Benefit

Effective June 30, 1991, every person who is retired under an Ohio public pension plan and who is re–employed in an OP&F covered position must contribute to OP&F at the same rate as other police officers or firefighters. The employer pays the normal rate as well. When the re–employed retirant terminates employment and becomes eligible, he or she has the option of receiving either a lump sum payment or a life time annuity paid monthly.

If the member waits until age 60 to receive this benefit, the lump sum payment is an amount equal to twice his/her contributions plus interest. The lifetime monthly cash payment is based on the value of the lump sum option. If the monthly annuity would be less than $25, then only the lump sum option is available.

In 2005, H.B. 449 now allows members who terminate before age 60, to receive their account balance. They may apply for their account balance at termination, however, member contributions are not doubled. Rather the calculation is based on the account balance plus interest. In addition, spousal consent is required before any payout can occur and a member can elect a joint and survivor benefit if a monthly annuity is payable.

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The 2005 Comprehensive Annual Financial Report

Statistical Section

The Ohio Police & Fire Pension Fund

Ohio Police & Fire Pension Fund
140 East Town Street • Columbus, Ohio 43215
www.op–f.org • 800–860–9599

Revenues by Source*

Year	Member Contributions and Purchases	Employer Contributions	Employer Contributions as a percentage of Covered Payroll	Investment and Securities Lending Income	Health Care Premiums	Other Revenues	Total Revenues
2000	$ 144,967,340	$ 304,889,375	21.0%	$ (165,140,849)	$ 5,657,431	$ 10,847,211	$ 301,220,508
2001	150,531,967	312,085,249	20.7%	(443,461,307)	6,874,699	9,902,147	35,932,755
2002	167,137,216	321,672,124	19.2%	(870,447,801)	12,623,875	18,492,245	(350,522,341)
2003	164,475,228	337,241,531	20.5%	1,745,178,931	17,207,506	21,233,729	2,285,336,925
2004	165,948,955	349,430,418	21.2%	1,152,391,365	55,665,341	18,766,602	1,742,202,681
2005	167,822,150	357,025,009	21.2%	847,358,826	55,271,881	11,411,116	1,438,888,982

Expenses by Type*

Year	Benefit Payments	Administrative Expenses	Refund of Member Contributions	Discount on Early Payoff	Other Expenses	Total Expenses
2000	$ 573,783,703	$ 13,224,510	$ 11,069,721	$ 22,321,629	$ 713,134	$ 621,112,697
2001	621,572,113	13,122,347	10,438,362	3,721,025	1,050,563	649,904,410
2002	677,585,955	14,887,089	16,838,054	—	1,014,783	710,325,881
2003	773,939,207	16,671,884	16,802,458	—	1,182,081	808,595,630
2004	820,839,063	15,850,224	15,306,505	—	210,409	852,206,201
2005	876,697,096	15,929,645	16,470,725	—	157,540	909,255,006

Benefit Expenses by Type

Year	Service	DROP**	Disability	Health Care	Survivor	Total Benefits
2000	$ 301,252,668	—	$ 115,063,199	$ 111,817,485	$ 45,650,351	$ 573,783,703
2001	319,641,712	—	125,003,758	129,173,470	47,753,173	621,572,113
2002	335,997,524	—	137,566,788	153,651,881	50,369,762	677,585,955
2003	350,498,175	$ 53,736,996	149,624,796	168,060,654	52,018,586	773,939,207
2004	360,015,084	86,462,085	162,151,716	157,839,137	54,371,041	820,839,063
2005	367,372,848	117,676,051	172,541,739	163,311,330	55,795,128	876,697,096

* Tables do not include amounts reported in the Death Benefit Agency Fund.

** Implementation date of January 1, 2003.

Retired Membership by Type of Benefits (Source: Actuarial Valuation)

Service Retirement

	Service		Disability		Survivors		Total
Year	Police	Fire	Police	Fire	Police	Fire	Beneficiaries
2000	6,204	5,125	2,947	2,021	3,211	2,451	21,959
2001	6,312	5,155	3,046	2,082	3,244	2,550	22,389
2002	6,321	5,155	3,055	2,088	3,798	2,996	23,413
2003	6,418	5,188	3,193	2,202	3,916	3,006	23,923
2004	6,459	5,173	3,291	2,300	3,912	3,001	24,136
2005	6,452	5,101	3,429	2,364	3,931	3,063	24,340

Average Monthly Benefit Payments* for Members Placed on Retirement

Service Retirement

Year	Normal	Service Commuted	Age Commuted	Age / Service
2000	$ 2,783	$ 732	—	$ 1,232
2001	2,987	830	—	1,500
2002	3,130	742	—	1,840
2003	3,150	990	—	1,569
2004	3,128	1,081	—	1,673
2005	3,125	1,102	—	1,231

Disability Retirement

Year	Permanent and Total	Permanent and Total Presumptive	Partial	Partial Presumptive	Off Duty
2000	$ 2,380	$ 2,061	$ 2,380	$ 2,258	$ 1,760
2001	2,373	2,858	2,332	2,278	1,649
2002	2,970	3,029	2,672	2,965	1,993
2003	3,133	3,203	2,854	3,042	2,029
2004	3,209	3,163	2,712	3,080	2,167
2005	3,327	3,254	2,624	3,160	1,924

* Source: Numbers calculated by taking an average of final placements for retirees as listed in OP&F Board of Trustees monthly reports.

Number of Employer Units

Year	Municipalities Police	Municipalities Fire	Townships Police	Townships Fire	Villages Police	Villages Fire
2000	258	213	—	105	332	32
2001	251	215	—	105	322	32
2002	252	219	—	106	307	29
2003	252	223	—	110	289	29
2004	252	225	—	109	288	29
2005	251	224	—	113	286	31

Death Benefit Agency Fund

Pursuant to Section 742.63 of the Ohio Revised Code, the Board of Trustees of the Ohio Police and Fire Pension Fund administers the State of Ohio Death Benefit Fund. This program was established by the State of Ohio to provide monthly benefit payments to surviving family members of Ohio fire fighters and law enforcement officers who have been killed in the line of duty or die of a duty–related accident or illness. Funds are disbursed to OP&F, on a quarterly basis, each State fiscal year (July 1–June 30) and benefits are paid monthly by OP&F to eligible recipients. The unused balance at June 30 is returned to the State. The assets and liabilities of the Death Benefit Agency Fund are included in the Fund's combining statement of plan net assets as of December 31, 2005 as an agency fund. The following is a schedule of Death Benefit Agency Fund financial activity:

Balance January 1, 2005	**$ 15,532,874**
Less: Survivor Benefits Paid January 1 to June 30, 2005	(9,736,863)
Balance returned to State of Ohio	(5,796,011)
State Funding Received	10,000,000
Less: Survivor Benefits Paid July 1 – December 31, 2005	(9,488,672)
BALANCE DECEMBER 31, 2005	**$ 511,328**

Ohio Police & Fire Pension Fund

140 East Town Street
Columbus, Ohio 43215

Active Membership: 888–864–8363
Retirees and Survivors: 800–860–9599
General Information: (614) 228–2975
TTY: (614) 221–3846
Facsimile: (614) 628–1777
E–mail: questions@op–f.org

www.op–f.org

Prudence • Integrity • Empathy

The Ohio Police & Fire Pension Fund (OP&F) is dedicated to providing retirement and related benefits, accurate information, dependable communication and valuable educational assistance to our members. As responsible fiduciaries, we will professionally manage the resources of OP&F and implement its practices, plans and benefit services with the highest ethical standards.

Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS
www.cshco.com

Report on Compliance and 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*

To the Board of Trustees of the
Ohio Police and Fire Pension Fund

We have audited the financial statements of the Ohio Police and Fire Pension Fund (OP&F) as of and for the year ended December 31, 2005, and have issued our report thereon dated May 16, 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 OP&F's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control 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 OP&F's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

We noted certain matters that we reported to management of the OP&F in a separate letter dated May 16, 2006.

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

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
May 16, 2006

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OHIO POLICE AND FIRE PENSION FUND

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
AUGUST 10, 2006