OHIO STATE HIGHWAY PATROL RETIREMENT SYSTEM

Financial Statements

December 31, 2000

with

Independent Auditors' Report

STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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The Retirement Board
Ohio State Highway Patrol Retirement System

We have reviewed the independent auditor's report of the Ohio State Highway Patrol Retirement System, Franklin County, prepared by Clark, Schaefer, Hackett & Co., Certified Public Accountants, for the audit period January 1, 2000 through December 31, 2000. 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 State Highway Patrol Retirement System is responsible for compliance with these laws and regulations.

JIM PETRO
Auditor of State

June 29, 2001

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OHIO STATE HIGHWAY PATROL RETIREMENT SYSTEM

Table of Contents

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

Independent Auditors' Report

The Retirement Board
Ohio State Highway Patrol Retirement System

We have audited the accompanying combining statement of plan net assets of the Ohio State Highway Patrol Retirement System (HPRS), a component unit of the State of Ohio, as of December 31, 2000 and the related combining statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of HPRS' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly in all material respects the plan net assets of the Ohio State Highway Patrol Retirement System as of December 31, 2000 and the changes in plan net assets for the year then ended in conformity with generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The required Supplementary Schedules, including a schedule of funding progress and a schedule of employer contributions, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standard Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. The accompanying financial information listed as Additional Supplementary Schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Additional Supplementary Information is the responsibility of the system's management. This Additional Supplementary information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 20, 2001 on our consideration of Ohio State Highway Patrol Retirement System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Clark, Schaefer, Hackett & Co.

Columbus, Ohio
March 20, 2001

COMBINING STATEMENT OF PLAN NET ASSETS
as of December 31, 2000

	2000		
	Pension	Post Employment	Total
ASSETS			
Cash and short-term investments	$ 70,755,478	$ 12,290,858	$ 83,046,336
Receivables			
Accrued investment income	1,626,926	282,612	1,909,538
Employer contributions receivable	1,541,900	390,547	1,932,447
Employee contributions receivable	1,146,022	--	1,146,022
Commission recapture receivable	29,455	5,117	34,572
Tenant rent receivable	4,481	779	5,260
TOTAL RECEIVABLES	4,348,784	679,055	5,027,839
Investments, at fair value			
Common stock	198,653,375	34,507,863	233,161,238
Government and corporate bonds	98,751,587	17,154,031	115,905,618
Commingled funds	86,145,895	14,964,311	101,110,206
Real estate	60,797,313	10,561,036	71,358,349
Collateral on loaned securities	8,330,037	1,447,002	9,777,039
TOTAL INVESTMENTS	452,678,207	78,634,243	531,312,450
Prepaid expenses	15,314	2,660	17,974
Property and equipment-net	145,480	25,271	170,751
TOTAL ASSETS	527,943,263	91,632,087	619,575,350
LIABILITIES			
Accrued health care benefits	--	676,166	676,166
Accounts payable	573,105	99,553	672,658
Other liabilities	39,666	6,890	46,556
Accrued payroll and withholdings	72,215	12,544	84,759
Obligations under securities lending	8,330,037	1,447,002	9,777,039
TOTAL LIABILITIES	9,015,023	2,242,155	11,257,178
NET ASSETS HELD IN TRUST FOR PENSION AND POSTEMPLOYMENT HEALTH CARE BENEFITS	$ 518,928,240	$ 89,389,932	$ 608,318,172

(A schedule of funding progress is presented on page 9)

See notes to financial statements

COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS
Year Ended December 31, 2000

	Pension	Post Employment	Total
ADDITIONS			
Contributions:			
Employer	$ 13,210,189	$ 3,346,581	16,556,770
Employees	6,954,301	--	6,954,301
State of Ohio	17,977	4,554	22,531
Transfer from other systems	925,998	--	925,998
TOTAL CONTRIBUTIONS	21,108,465	3,351,135	24,459,600
Investment activity:			
Net depreciation in fair value of investments	(23,713,286)	(4,781,860)	(28,495,146)
Interest income	7,897,043	1,372,190	9,269,233
Dividend income	2,502,656	434,862	2,937,518
Security lending - gross	36,464	6,336	42,800
Real estate operating income - net	363,914	63,234	427,148
	(12,913,209)	(2,905,238)	(15,818,447)
Less investment expense	1,207,079	209,742	1,416,821
NET INVESTMENT ACTIVITY	(14,120,288)	(3,114,980)	(17,235,268)
TOTAL ADDITIONS	6,988,177	236,155	7,224,332
DEDUCTIONS			
Benefits paid directly to participants	27,042,946	--	27,042,946
Refunds of employee contributions	363,067	--	363,067
Health care expenses	--	4,720,260	4,720,260
Administrative expenses	549,168	95,423	644,591
Transfers to other Ohio Retirement Systems	904,972	--	904,972
TOTAL DEDUCTIONS	28,860,153	4,815,683	33,675,836
NET DECREASE	(21,871,976)	(4,579,528)	(26,451,504)
NET ASSETS HELD IN TRUST FOR PENSION AND POSTEMPLOYMENT HEALTH CARE BENEFITS BALANCE, BEGINNING OF YEAR :	540,800,216	93,969,460	634,769,676
BALANCE, AT END OF YEAR	518,928,240	89,389,932	608,318,172

See notes to financial statements

Notes To Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following are the significant accounting principles and practices of the Ohio State Highway Patrol Retirement System (HPRS).

Organization

HPRS (the Plan) is a single-employer retirement system for all uniformed and radio personnel of the Ohio State Highway Patrol. The plan was created by Chapter 5505 of the Ohio Revised Code (Revised Code) and is administered by a board comprised of four active members, one retired member, and two voting ex-officio members. HPRS is a separate financial reporting entity in accordance with criteria established by Governmental Accounting Standards Board Statement No. 14, is a component unit of the State of Ohio and receives state appropriations.

HPRS administers both a defined benefit pension plan and a postemployment health care plan. All financial information for pensions and health care is presented separately in the combining financial statements.

Basis of Accounting

HPRS financial statements are prepared using the accrual basis of accounting, under which expenses are recorded when the liability is incurred and revenues are recorded when they are earned and become measurable. Investment purchases and sales are substantially recorded as of their trade date. Administrative expenses are financed exclusively with investment income. HPRS funding is determined on an actuarial basis using the entry age normal cost method.

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting,* the System follows GASB guidance as applicable to proprietary funds and Financial Accounting Standards Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

The accounting and reporting policies of HPRS conform to generally accepted accounting principles (GAAP). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

The employees of HPRS are members of the Public Employee Retirement System of Ohio (PERS).

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

Investments

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

- Commercial paper issued by a U. S. corporation and rated Prime-1 by Moody's Investor Service (Moody's), A-1 by Standard and Poor's Corporation (Standard and Poor's), and/or Duff-1 by Duff and Phelps Investment Management Company (Duff and Phelps) with the parent company's long-term debt being rated within the three highest classifications by Moody's, Standard and Poor's and/or Duff and Phelps,
- Obligations of the U. S. Treasury, federal agencies, government sponsored corporations and government backed repurchase agreements,
- Bonds, notes and other debt securities rated within the three highest classifications by at least two of the rating services (Moody's, Standard and Poor's, and Duff and Phelps),
- Equities approved by an outside investment advisor,
- High quality money-market instruments, and
- Real estate and related securities including improved or unimproved real property, mortgage collective investment funds, notes secured by real property, mortgage-backed bonds and pass-through securities backed by mortgages.

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

All investments are reported at fair value. Fair value is the amount that the plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller -- that is, other than in a forced or liquidation sale. Short-term investments are reported at cost, which approximates fair value. Corporate bonds are valued at the median price by the brokerage firms. Securities traded on a national exchange are valued at the last reported sales price at current exchange rate. The fair value of real estate is based upon independent appraisal.

Net Appreciation/Depreciation

Net appreciation/depreciation is determined by calculating the change in the fair value of investments between the beginning of the year and the end of the year, less purchases of investments at cost, plus sales of investments at fair value. Investment expense consists of those expenses directly related to HPRS investment operations, as well as a proportional amount of all other administrative expenses allocated based on a ratio of HPRS investment staff to total HPRS staff. HPRS has no individual investment that exceeds 5% of net assets available for benefits.

Accrued Health Care Benefits

Accrued health care benefits are based upon estimates furnished by the claims administrator. These estimates have been developed from prior claims experience.

Federal Income Tax Status

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

Property and Equipment (Non-Investment Assets)

Property and equipment are recorded at cost. Depreciation is computed using the straight-line method over the following useful lives of the assets:

Furniture and Fixtures	1 - 10 years
Office Equipment	1 - 10 years

2. PLAN DESCRIPTION

Purpose

HPRS was established in 1944 by the Ohio General Assembly as a single-employer, defined benefit pension and postemployment health care plan. HPRS is authorized to provide retirement and disability benefits, postemployment health care benefits, annual cost-of-living adjustments, and death benefits to retired members, as well as survivor benefits to qualified dependents of deceased members of the Ohio State Highway Patrol. Chapter 5505 of the Ohio Revised Code provides statutory authority to establish and amend benefits. HPRS is considered part of the State of Ohio financial reporting entity and is included in the State's Comprehensive Annual Financial Report as a pension trust fund.

Administration

The general administration and management of HPRS is vested in a seven member Retirement Board consisting of four elected members, one elected retiree, and two statutory members. The Board appoints an executive director, actuary, investment consultant, and employees.

Membership

HPRS membership consisted of the following at December 31, 1999 (our latest available actuarial data):

Retirees & beneficiaries currently receiving benefits	1,123
Terminated employees not yet receiving benefits	4
Current employees:	
Vested	264
Nonvested	1,181

Contributions

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

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

Benefits

Members are eligible for normal retirement benefits upon reaching age 52 and accumulating at least 20 years of Ohio State Highway Patrol service credit. The benefit is a percentage of the member's final average salary, defined as the average of the member's three highest salaried years. The percentage is determined by multiplying 2.5% times the first 20 years of service plus 2.25% for the next 5 years of service (which is .25% higher than 1999) plus 2.0% for each year in excess of 25 years of service. A member's pension may not exceed 79.25% of the final average salary. Early retirement with reduced benefits is available upon reaching age 48 with 20 years of service credit. Early retirement with normal benefits is available upon reaching age 48 with 25 years of service credit.

In addition to retirement benefits, HPRS also provides for disability, survivor, and health care benefits.

Qualified dependents of a deceased member are eligible for monthly survivor benefits. All members receiving a benefit are eligible to receive medical insurance.

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

3. CASH AND INVESTMENTS

Deposits

HPRS maintains cash and an investment pool. Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less. At December 31, 2000, the carrying value of all HPRS's book deposits was $83,046,336 (which includes money market funds of $90,082,354), as compared to bank balances of $92,674,237. The differences in the carrying amount and the bank balances are caused by outstanding warrants/checks and deposits in transit. Of the bank balances, the Federal Deposit Insurance Corporation insured $100,000. The remaining bank balance was covered by collateral held in the name of HPRS' pledging financial institution in a pooled collateral fund for all public funds, as required by state statue.

Investments

HPRS investments are categorized to give an indication of the level of risk assumed by HPRS at year-end. Category 1 includes investments that are insured, registered, or for which the securities are held by HPRS or its agent in the name of HPRS. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent, in the name of HPRS. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent, but not in the name of HPRS.

All investments of HPRS meet the criteria of Category 1, except for real estate investments totaling $71,358,349 that, by their nature, are not required to be categorized.

Fair value of securities is based primarily on quotations from national security exchanges. Fair values of investments in real estate are based on information provided by the fund's managers or at the net present value of the projected net income stream for assets not managed independently.

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

As of December 31, 2000, the fair values of loaned securities and associated collateral (repo agreements and short-term investments) were $9,577,197 and $9,777,039, respectively.

Gross income from securities lending was $42,800 in 2000.

2000 Investments

	Fair Value
Common Stocks	$ 233,161,238
U.S. Government and Agency Obligations	23,577,457
Mortgage Pass Throughs	6,818,663
Collateralized Mortgages	36,598,810
Corporate Bonds	33,112.938
Asset-backed Securities	15.797.750
Collateral on Loaned Securities	9,777,039
Real Estate	71,358,349
Commingled funds	101,110,206
Total	$ 531,312,450

4. PROPERTY AND EQUIPMENT

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

Furniture and fixtures	$ 69,308
Equipment	235,926
	305,234
Accumulated depreciation	(134,483)
	$ 170,751

Depreciation expense charged to the plan was $55,300 for the year ended December 31, 2000.

5. CONTRIBUTIONS

The Ohio Revised Code requires contributions by active members and the Ohio State Highway Patrol. The Retirement Board, within the allowable rates established by the Ohio Revised Code, establishes contribution rates. Active members and the Ohio State Highway Patrol were required to contribute the following percentages of active member payroll:

	Employee	Employer
January 1 to June 30, 2000	10.00 %	23.50 %
July 1 to December 31, 2000	9.50 %	23.50 %

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

Basic Retirement	Health Care	Total
18.75 %	4.75 %	23.50 %

The allocation of the employer contribution rate to basic retirement benefits has been established as the rate necessary to cover normal cost, plus the amortization of the unfunded actuarial accrued liabilities based on a 20-year amortization schedule (the amortization period increased from 10 years in 1999). The contribution rate allocated to health care benefits is sufficient to cover normal costs, and to provide level cost financing of the unfunded actuarial accrued liabilities. The adequacy of the employer contribution rate is determined using the entry age normal cost method.

6. HEALTH CARE

In addition to providing pension benefits, HPRS pays health insurance claims on behalf of all persons receiving monthly pension or survivor benefits and Medicare part B basic premiums for those eligible benefit recipients upon proof of coverage. In general, costs of retiree health care benefits are recognized as claims are incurred and premiums are paid. Health care benefit expenses in 2000 of $4,720,260 are shown on the accompanying Combining Statements of Changes in Plan Net Assets.

7. PENSION BENEFIT

All employees of HPRS are eligible to participate in the Public Employees Retirement System of Ohio (the "PERS of Ohio"), a cost-sharing multiple employer defined benefit pension plan. PERS of Ohio provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Chapter 145 of the Ohio Revised Code provides statutory authority to establish and amend benefits. The Public Employees Retirement System of Ohio issues a stand-alone financial report that includes financial statements and required supplementary information. Interested parties may obtain a copy from PERS, 277 East Town Street, Columbus, Ohio 43215-4642, Telephone (614) 466-2085.

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 8.5%. The employer rate for local employers was 10.84% in 2000. HPRS employer contributions to PERS of Ohio for the years ended December 31, 2000, 1999 and 1998 were $40,922, $50,242, and $49,046, respectively, which were equal to the required contributions for each year.

8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

Public Employment Retirement System of Ohio provides postretirement health care coverage to age and service retirees with ten or more years of qualified Ohio service credit. Health care coverage is available to recipients of disability and primary survivor pensions. The health care coverage provided by PERS is considered Other Postemployment Benefits (OPEB) as described in GASB 12. A portion of each employer's contribution to PERS is set aside for the funding of postretirement health care. The portion of 2000 employer contributions that was used to fund health care for the year was 4.3% of the total 10.84% contribution, or 39.67% of the total employer contribution.

The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to PERS.

OPEB are financed through employer contributions and investment earnings thereon. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions are expected to be sufficient to sustain the program indefinitely.

The number of active contributing participants at December 31, 1999 was 401,339. The net assets available for OPEB at December 31, 1999 was $10,805.5 million. The actuarially accrued liability and the unfounded actuarial accrued liability, based on the actuarial cost method used, were $12,473.6 million and $1,668.1 million, respectively.

HPRS employer contributions for OPEB during 2000 totaled $16,234, which equaled the required contribution for the year.

9. RISK MANAGEMENT

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

10. CONTINGENT LIABILITIES

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

Required Supplementary Schedules

Schedule of Funding Progress **

For the years ended December 31, 1994-1999

Valuation Year		Actuarial Accrued Liab. (AAL)	Valuation Assets	Unfunded Actuarial Accrued Liab. (UAAL)	Ratio of Assets to AAL	Active Member Payroll	UAAL as a % of Active Member Payroll
1994	#	374,006,767	330,787,044	43,219,723	88.4	58,116,787	74.4
1995	* #	424,351,694	370,425,462	53,926,232	87.3	59,825,356	90.1
1996		454,514,187	411,316,254	43,197,933	90.5	59,239,349	72.9
1997	*	496,917,335	460,667,112	36,250,223	92.7	62,233,299	58.2
1998		532,956,745	509,859,924	23,096,821	95.7	65,153,864	35.4
1999	*	577,010,085	546,510,779	30,499,306	94.7	66,017,381	46.2

** Plan Amended.*

 # Revised actuarial assumptions or methods.

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

Schedule of Employer Contributions

For the years ended December 31, 1995-2000

Year	Annual Required Contribution	% Contributed
1995	10,774,957	100
1996	12,176,108	100
1997	12,236,515	100
1998	13,101,039	100
1999	13,569,730	100
2000	13,210,189	100

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

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

Notes to Trend Data

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

Valuation Date	December 31, 1999
Actuarial cost method	Entry Age
Amortization method	Level percent closed
Remaining amortization period	20 years for retirement allowances
Asset valuation method	4 year smoothed market
Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increases	*5.5 - 8.5%
*Includes inflation at	3% or more
Cost-of-living adjustments for retirees	CPI increases for years after age 53 (maximum of 3%)

Notes To Required Supplementary Schedules

1. DESCRIPTION OF SCHEDULE OF FUNDING PROGRESS

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

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

2. ACTUARIAL ASSUMPTIONS AND METHODS

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at December 31, 1999.

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

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

Other actuarial assumptions and methods are as follows:

(1) A rate of return on the investments of 7.75% as of December 31, 1999, compounded annually, net of administration expenses,
(2) projected salary increases of 5.0%, compounded annually, attributable to inflation,
(3) additional projected salary increases ranging from 0.5% to 3.5% per year, depending on service, attributable to seniority and merit,
(4) postretirement mortality life expectancies of members based on 95% of the 1971 Group Annuity Mortality Male and Female Tables, projected to 1984,
(5) rates of withdrawal from active service before retirement for reasons other than death, rates of disability and expected retirement ages developed on the basis of actual plan experience,
(6) projected health care premium increases of 5.0%, compounded annually, attributable to inflation,
(7) health care benefit recipients are eligible for Medicare on attainment of age 65, or immediately, if retired for disability, and
(8) employer contributions paid in equal installments throughout the employer fiscal year.

Employer, employee and retiree data as of December 31, 1999 (our latest available actuarial data) follows:

Pension Benefits:	
Retirees & beneficiaries currently receiving benefits & terminated employees not yet receiving benefits	$333,340,728
Current employees:	
Accumulated employee contributions including allocated investment income	55,558,145
Employer-financed, vested	83,837,519
Employer-financed, nonvested	84,361,766

SUPPLEMENTARY INFORMATION

ADMINISTRATIVE EXPENSES

Year Ended December 31, 2000

		2000
PERSONNEL COSTS		$ 221,477
PROFESSIONAL AND TECHNICAL SERVICES		
	Computer services	52,202
	Actuary	56,550
	Training and seminars	22,262
	Medical consulting	4,751
	Audit	13,640
	Miscellaneous services by others	25,553
	Medical services	12,653
		187,611
COMMUNICATIONS		
	Printing	10,112
	Postage	11,798
	Telephone	7,580
		29,490
OTHER EXPENSES		
	Office Rent	65,922
	Depreciation	55,300
	Insurance	21,825
	Equipment repairs and maintenance	11,574
	Shipping and travel	2,470
	Supplies	11,264
	Miscellaneous	181
	Loss on disposal of equipment	6,969
	Retirement study commission	3,497
	Travel	9,071
	Membership and subscriptions	17,021
	New equipment	919
		206,013
	TOTAL	$ 644,591

Note: Above amounts do not include investment department administrative expenses which are deducted from income.

SUPPLEMENTARY INFORMATION

SCHEDULE OF INVESTMENT EXPENSES

Year ended December 31, 2000

	2000
PERSONNEL COSTS	$ 199,664
PROFESSIONAL SERVICES	
Investment services	1,020,711
Monitor services	108,072
Security lending expense	15,664
	1,144,446
OTHER EXPENSES	
Computer Services	52,202
Memberships and subscriptions	11,347
Printing and supplies	9,162
	72,711
TOTAL	1,416,821

PAYMENTS TO CONSULTANTS

Year ended December 31, 2000

FIRM	FEE	NATURE OF SERVICE
Gabriel, Roeder, Smith & Co.	56,550	Actuarial
Clark, Schaefer, Hackett & Co.	13,640	Auditing
Callan Associates	62,172	Investment
Demarche Associates	76,400	Investment

(Note: Fees paid to investment professionals see page xx.)

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

Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Accounting Standards*

The Retirement Board
Ohio State Highway Patrol Retirement System

We have audited the combining statement of plan net assets of the Ohio State Highway Patrol Retirement System (HPRS), as of December 31, 2000, and the related combining statement of changes in plan net assets for the year then ended, and have issued our report thereon dated March 20, 2001. We conducted our audit in accordance with generally accepted auditing standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Ohio State Highway Patrol Retirement System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Ohio State Highway Patrol Retirement System'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 assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Ohio State Highway Patrol Retirement System, in a separate letter dated March 20, 2001.

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

Clark, Schaefer, Hackett & Co.

Columbus, Ohio
March 20, 2001

6161 BUSCH BOULEVARD
SUITE 119
COLUMBUS, OHIO 43229

Ohio State Highway Patrol
RETIREMENT SYSTEM

PHONE: (614) 431-0781
(614) 466-2268
FAX: (614) 431-9204

To Whom It May Concern:

The accompanying financial statements are included in the Ohio State Highway Patrol Retirement System's comprehensive annual financial report (CAFR). The CAFR contains more detailed information which has been excluded from these financial statements. The CAFR may be obtained by calling (614) 431-0781.

Sincerely,

Daniel K. Weiss

Daniel K. Weiss
Chief Financial Officer

Ohio State
Highway Patrol
RETIREMENT SYSTEM

Comprehensive Annual Financial Report

A Component Unit of the State of Ohio

Year Ending December 31, 2000

Richard A. Curtis, Executive Director

6161 Busch Boulevard, Suite 119
Columbus, Ohio 43229

Ohio State
Highway Patrol
RETIREMENT SYSTEM

Comprehensive Annual Financial Report

A Component Unit of the State of Ohio

Year Ending December 31, 2000

Prepared Through the Combined Efforts of the HPRS Staff

Table of Contents

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Ohio State
Highway Patrol
RETIREMENT SYSTEM

Introductory Section

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Ohio State Highway Patrol Retirement System

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 1999

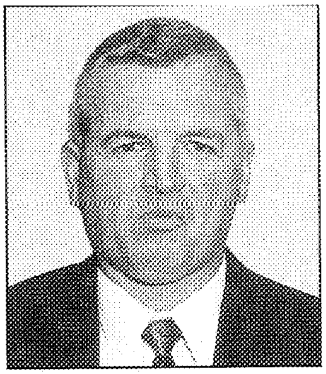
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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

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

Anne Spray Kinney
President

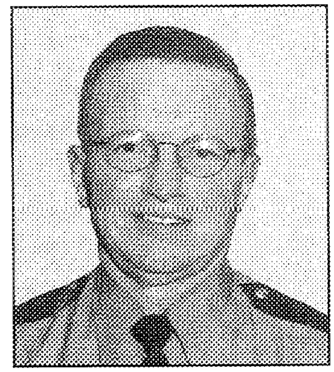
Jeffrey L. Esser
Executive Director

The Ohio State Highway Patrol Retirement System Board of Trustees

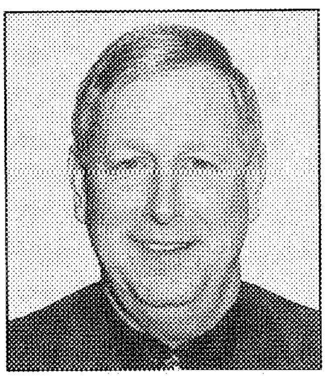


Major D.L. Anderson
Elected Member

R. Dean Huffman
Retired Member/Chairperson

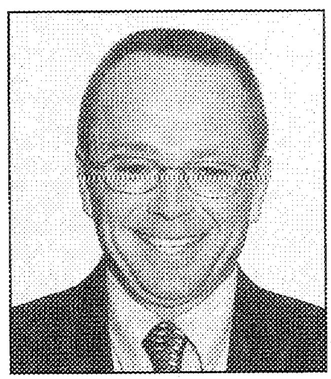


Colonel Kenneth Morckel
Statutory Member

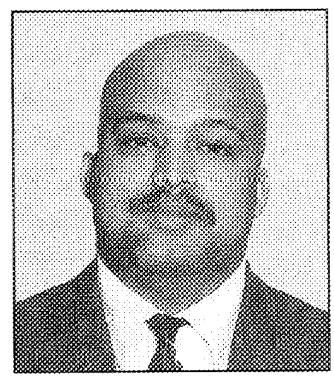


Major J.P. Allen
Elected Member

Sergeant John Allard
Elected Member

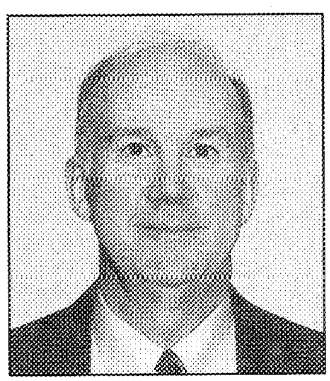


Trooper Dennis Gorski
Elected Member



O'Neal Saunders
Statutory Member representing Jim Petro, Auditor of State

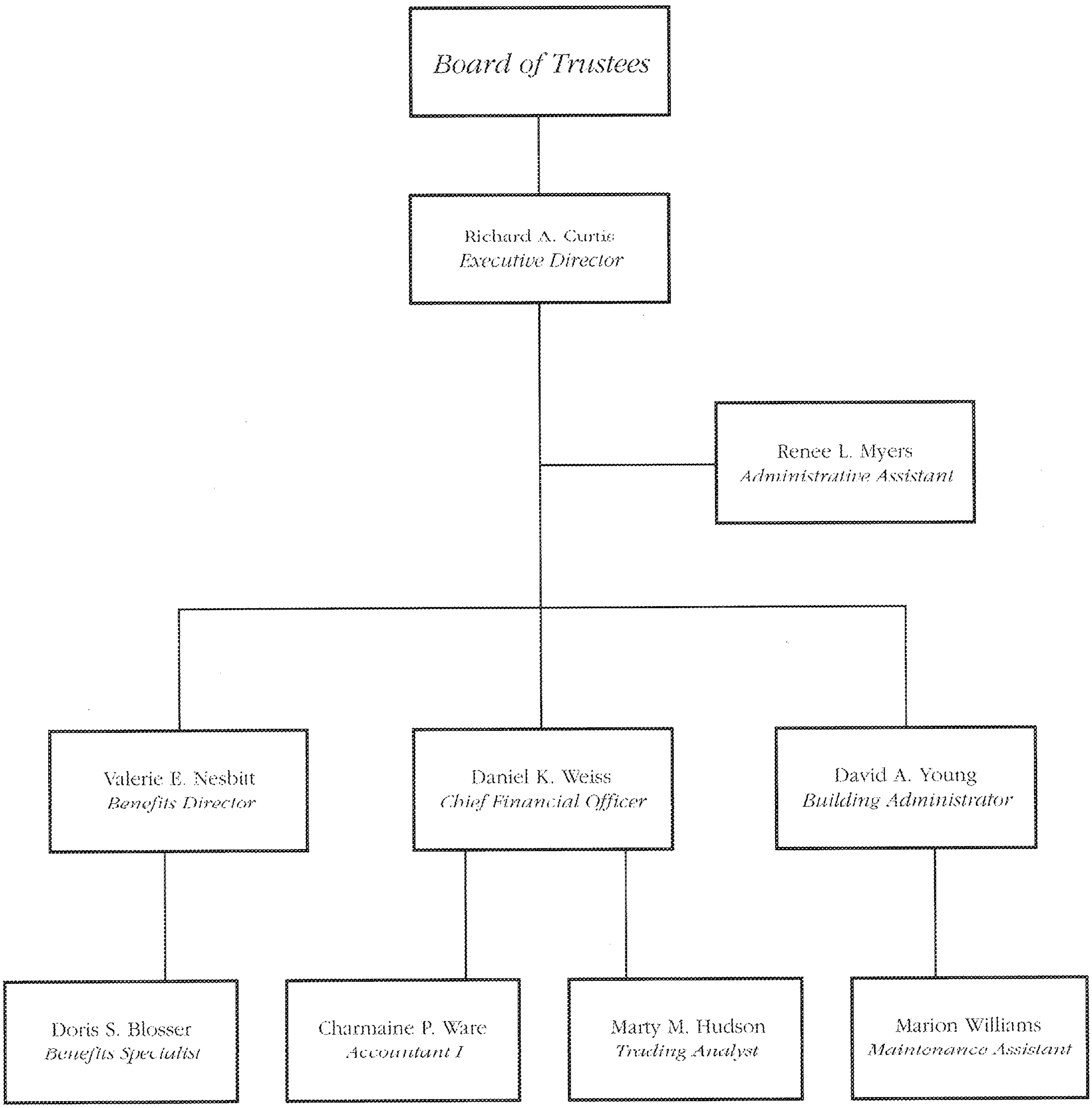
Ken Brunke, Jr.
Callan Associates
Investment Consultant



Richard A. Curtis
Executive Director

Cheryl Pokorny
Assistant Attorney General
Legal Counsel

Organizational Chart



Professional Consultants

Medical Advisor

Glenn Mohler, M.D.
Columbus, Ohio

Independent Auditor

Clark, Shaefer, Hackett & Company
Columbus, Ohio

Actuary

Gabriel, Roeder, Smith & Company
Southfield, Michigan

Investment Consultant

Callan Associates Inc.
Chicago, Illinois

Investment Managers

Bank of Ireland Asset Management
Greenwich, Connecticut
International Equity Funds

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

Dresdner RCM Global Investors
San Francisco, California
Large Cap Growth Equity

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

Fidelity Management Trust Company
Boston, Massachusetts
Real Estate Funds

Fifth Third/Maxus Investment Group
Cleveland, Ohio
Micro Cap Equity

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

Metropolitan Life Insurance Company
New York, New York
Real Estate Funds

Munder Capital Management
Birmingham, Michigan
Fixed Income

Navellier & Associates
Reno, Nevada
Small/Mid Cap Growth Equity

Oak Associates
Akron, Ohio
Large Cap Growth Equity

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

State Street Global Advisors
Boston, Massachusetts
Large Cap Indexed Funds

Templeton Institutional Funds
Fort Lauderdale, Florida
International Equity Funds

Legislative Summary

The past year was much less busy at the federal level with the debate on Social Security all but eliminated during the Presidential election. At the state level, however, the legislative process was active due to the passage of a pension benefits bill.

The future of the Social Security Fund is still in doubt. Many financial experts predict that the fund will become insolvent in the 2030's. The most pressing matter is that the fund must earn a higher return on its investments than the federal government currently provides. The most likely solution is that a bipartisan committee will produce a study with recommendations and some form of those recommendations will pass through Congress.

There are six states whose government employees are totally exempt from Social Security and another 13 states with more than 70% of their employees exempt. Fortunately, these states are key states in terms of population and electoral votes. When these states unified against mandatory coverage, the future of such legislation darkened. The mandatory inclusion of state and local government workers is likely to be at least a discussion item, if not a recommendation, of any panel directed to study the fund. As with any proposed legislative change, we must always be vigilant because these actions have a way of resurfacing quickly as amendments to bills that are on the fast track.

The Ohio delegation of Senators and Representatives is uniformly opposed to such mandatory coverage and we have them to thank for standing tall when it counted on this issue.

At the state level, there were several interesting initiatives in legislation. A new bill was introduced to provide members of the non-uniformed public employee retirement systems in Ohio the opportunity to switch to a defined contribution plan from the current defined benefit plan. A defined benefit plan is one in which the employee and employer contribute, the funds are invested by a board or some other authority, and the employee is guaranteed a certain pension benefit upon meeting minimum age and service criteria. The investment returns of the plan do not impact the guaranteed pension benefit. Conversely, a defined contribution plan permits the employee to select the type of investment and either benefit or suffer from that decision. The pension benefit provided by a defined contribution plan is totally dependent on the results of the investments. A defined contribution plan provides for greater portability if the employee resigns before achieving minimum vesting rights. A defined benefit plan provides disability and survivor benefits not available in the defined contribution plan.

This new bill received only limited attention since all the non-uniformed systems were in the design phase of a defined contribution option within their respective systems.

In 1999, Representative Jim Jordan (R - 85th District) introduced House Bill 375, a pension benefit enhancement bill for the HPRS. Similarly, Senator Robert Spada (R – 24th District) introduced Senate Bill 189, a companion bill to HB 375. Both bills proceeded through their respective chambers, passing each subcommittee, committee, and floor vote without a dissenting vote. The Senate version finished first and thus became the law. Senate Bill 189 contains the following benefit enhancements for retirants, survivors, and active members:

- Increases the minimum pension benefit from $1,000 to $1,050 per month for age & service and disability retirants
- Increases the minimum pension benefit from $850 to $900 per month for early age & service retirants
- Increases the minimum pension benefit from $850 to $900 per month for surviving spouses
- Reduces the active member contribution rate from 10% to 9.5%
- Increases the pension factor for years 21 through 25 from 2.0% to 2.25% for age & service and disability retirants, raising the maximum pension accrual from 78% to 79.25%
- Increases the lump sum death benefit payment from the HPRS from $1,000 to $5,000
- Inserts language that eliminates unintended impacts of previous benefit bills
- Permits members who retired prior to September 21, 1994 to change their annuity option from single life annuity to either a joint & survivor option or a period certain option

Provisions of SB 189 became effective June 30, 2000 and July 1, 2000.

In 2000, the Board of HPRS developed the issues for a benefits enhancement bill to be introduced in the next session of the legislature beginning in January 2001. The actuarial costing of those proposals was completed in 2000.

During 2000, House Bill 535 passed and becomes effective in January 2002. Under this bill, accumulated pension benefits are considered marital property and, upon divorce, a court may order that the HPRS disperse a specified portion to a former spouse. The benefits would not commence until the HPRS member retires and would cease upon the death of that member.

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Ohio State Highway Patrol
RETIREMENT SYSTEM

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May 31, 2001

Letter of Transmittal

Dear Members of the Board of Trustees:

It is our privilege to submit to you the *Comprehensive Annual Financial Report* for the Highway Patrol Retirement System (HPRS) for the fiscal year ending December 31, 2000. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, rests with the management of the system. We believe this report reflects a careful stewardship of the system's assets and dedicated service to our members and our retirants.

The Ohio General Assembly established the Ohio Highway Patrol Retirement System in 1944 as a retirement system whose membership was limited to state troopers and communications personnel employed by the Highway Patrol. This creation of a statewide defined benefit plan followed eleven years of membership in the Public Employees Retirement System of Ohio. Today membership in the Ohio Highway Patrol Retirement System is limited to troopers with arrest authority and trooper cadets in training while at the Highway Patrol Training Academy.

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

The *Comprehensive Annual Financial Report* is divided into five sections — (1) the Introductory Section including this letter of transmittal and information about the organization of HPRS, (2) the Financial Section containing the general purpose financial statements and footnotes of the system along with the Independent Auditor's Report, (3) the Investment Section containing portfolio listings, statistical charts, and the Investment Policy adopted by the Board, (4) the Actuarial Section detailing the results of annual actuarial valuations, including the independent actuary's opinion as to the financial stability of the system, (5) the Statistical Section including historical data to identify progress of the system, and (6) the system's Plan Summary.

Major Initiatives and Changes Enacted

The Ohio Highway Patrol Retirement System was created to provide quality benefits for members, retirants, and surviving dependents. Although health care benefits are not required by statute, HPRS has provided this coverage at no cost to retirants and surviving widows, and to eligible dependents at a modest premium, since July 1974. Providing quality health care coverage while controlling costs continues to be a major responsibility of the Board. HPRS health care benefits are pre-funded, and each year the Board evaluates the preceding year's health care expenditures and implements any needed changes in plan design, co-payments, deductibles and premiums. In August 1999, the system began providing optical coverage to the retirant at no additional cost and in January 2000, dental coverage was also added at no additional cost. The Board will continue to monitor the benefits and costs of health care and seek to provide the best coverage possible at an affordable cost.

During 1999, the Board developed a comprehensive benefit enhancement package, which was enacted as Senate Bill 189. This legislation became effective in June and July 2000, allowing for improvement of both benefits and eligibility for benefits, while reducing the employee rate of contribution. Funding for the terms of this legislation has been provided by extending the system's period of unfunded liabilities from 10 to 20 years.

In 2000, health care costs decreased by 14.2%. The system's goal is to provide the best health care coverage available, and at a reasonable cost. Close monitoring of these costs reveals some astonishing facts. In 2000, as in 1999, a few members accounted for major expenses. These expenses were typically incurred during the last six months of a member's life. Long-term chronic illnesses accounted for other major expenses. The system utilizes a variety of cost containment measures to limit these expenses; however, these measures have been carefully selected to insure that quality health care is always foremost. No reductions in coverage or benefits are currently being considered.

In the past three years, increases in prescription drug costs have far exceeded those of other health care costs. Members are receiving prescription benefits at five times the rate of 1970. While there has been an accelerated trend toward drug therapy instead of clinical treatment, ostensibly to reduce hospitalizations and otherwise limit health care costs, the system's experience indicates that the increased costs of prescription drugs has far exceeded any savings offset.

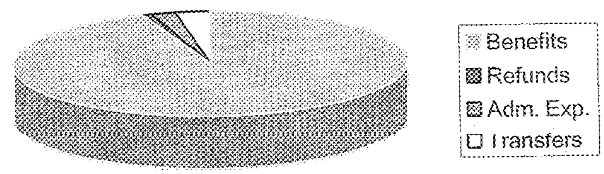
Additions to Plan Net Assets

	2000	1999	Increase/ (Decrease)
Investment Income	($17,235,267)	$40,491,325	($57,726,592)
Employer Contributions	16,579,301	16,378,796	200,505
Member Contributions	6,954,301	6,708,497	245,804
Other	925,998	418,603	507,395
Total Additions	$7,224,332	$63,997,221	($56,772,889)

Employer and member contributions, as well as income from investments, provide reserves needed to finance retirement benefits. Total contributions, less investment losses in an unfavorable market, totaled $7.2 million in 2000. Employer and employee contributions increased by 1.2% and 3.7%, respectively.

Deductions from Plan Net Assets

The Highway Patrol Retirement System was created to provide retirement, disability, and survivor benefits to qualified members and their beneficiaries. The cost of these programs may include benefit payments as designated by the plan, refunded contributions, and the administrative costs of the system. Total 2000 deductions from plan net assets increased 8.4% from 1999. The majority of this increase was because of an increase in benefit recipients and cost of living adjustments.



Investments

The funds of the system are invested to maximize both current income yield and long-term appreciation. The HPRS investment policy objective is to assure that the system meets the responsibility of providing quality benefits for retirants and their surviving dependants. The portfolio is diversified to earn the highest possible rate of return while operating within the *prudent person* parameters of risk to protect the fund from severe depreciation during adverse market conditions.

The Highway Patrol Retirement System portfolio decreased to $604.6 million (excluding collateral on loaned securities) as of December 31, 2000, representing a 4.7% decrease from 1999. Investment returns for the total fund in 2000 were (.29%), with a three-year total return of 3.25%, and a five-year return of 7.78%.

Funding

HPRS funding is authorized by Ohio Revised Code Section 5505.15. The employee contribution is calculated as 9.50% of gross payroll, and deducted prior to the calculation of federal taxes. Every even-numbered year, the Board of HPRS certifies the employer contribution rate to the Ohio Office of Budget and Management for inclusion in the biennial budget beginning the first day of July of the following year. The current employer contribution rate is 23.50% of employee gross payroll.

The employer contribution rate includes contributions related to both pension benefits and postemployment health care. The portion of the employer contribution rate allocated to health care is 4.00% for the period July 1, 1999 to June 30, 2001. The remaining 19.50% of the employer contribution rate is allocated to pension benefits for the period July 1, 1999 to June 30, 2001. This allocation will amortize the unfunded actuarial accrued pension liabilities over a 10-year period from December 31, 1998.

The goal of the Board has been to limit the period of unfunded liability to no more than 30 years. This has been accomplished since 1992. Since 1991, the unfunded liabilities for pension obligations and health care costs have been reported separately.

Certificate of Achievement for Excellence in Financial Reporting

The Governmental Finance Officers Association of the United State and Canada (GFOA) awarded a *Certificate of Achievement for Excellence in Financial Reporting* to the Highway Patrol Retirement System for its Comprehensive Annual Financial Report (CAFR) for the year ending December 31, 1999. To be awarded a *Certificate of Achievement*, a governmental unit must publish an easily readable and efficiently organized report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

Professional Services

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

Acknowledgments

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

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

Respectfully Submitted,

Richard A. Curtis

Richard A. Curtis, Executive Director

Daniel K. Weiss

Daniel K. Weiss, Chief Financial Officer

Financial Section

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

Independent Auditors' Report

The Retirement Board
Ohio State Highway Patrol Retirement System

We have audited the accompanying combining statements of plan net assets of the Ohio State Highway Patrol Retirement System (HPRS), a component unit of the State of Ohio, as of December 31, 2000 and the related combining statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of HPRS' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly in all material respects the plan net assets of the Ohio State Highway Patrol Retirement System as of December 31, 2000 and the changes in plan net assets for the year then ended in conformity with generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The required Supplementary Schedules, including a schedule of funding progress and a schedule of employer contributions, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standard Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. The accompanying financial information listed as Additional Supplementary Schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Additional Supplementary Information is the responsibility of the system's management. This Additional Supplementary information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued a report dated March 20, 2001 on our consideration of Ohio State Highway Patrol Retirement System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Clark, Schaefer, Hackett & Co.

Columbus, Ohio
March 20, 2001

Combining Statement of Plan Net Assets

December 31, 2000

	Pension	Postemployment Health Care	Total
Assets			
Cash and Short-Term Investments	$70,755,478	$12,290,858	$83,046,336
Receivables			
Accrued Investment Income	1,626,926	282,612	1,909,538
Employer Contributions Receivable	1,541,900	390,547	1,932,447
Employee Contributions Receivable	1,146,022	—	1,146,022
Commission Recapture Receivable	29,455	5,117	34,572
Tenant Rent Receivable	4,481	779	5,260
Total Receivables	4,348,784	679,055	5,027,839
Investments, at Fair Value			
Common Stock	198,653,375	34,507,863	233,161,238
Government and Corporate Bonds	98,751,587	17,154,031	115,905,618
Commingled Funds	86,145,895	14,964,311	101,110,206
Real Estate	60,797,313	10,561,036	71,358,349
Collateral on Loaned Securities	8,330,037	1,447,002	9,777,039
Total Investments	452,678,207	78,634,243	531,312,450
Prepaid Expenses	15,314	2,660	17,974
Property and Equipment, Net	145,480	25,271	170,751
Total Assets	527,943,263	91,632,087	619,575,350
Liabilities			
Accrued Health Care Benefits	—	676,166	676,166
Accounts Payable	573,105	99,553	672,658
Other Liabilities	39,666	6,890	46,556
Accrued Payroll and Withholdings	72,215	12,544	84,759
Obligations Under Securities Lending	8,330,037	1,447,002	9,777,039
Total Liabilities	9,015,023	2,242,155	11,257,178
Net Assets Held in Trust for Pension and Postemployment Health Care Benefits	$518,928,240	$89,389,932	$608,318,172

(A *Schedule of Funding Progress* is presented on page 25.)

See accompanying *Notes to Financial Statements*.

Combining Statement of Changes in Plan Net Assets

Year Ending December 31, 2000

	Pension	Postemployment Health Care	Total
Additions			
Contributions			
Employer	$13,210,189	$3,346,581	$16,556,770
Employees	6,954,301	—	6,954,301
State of Ohio	17,977	4,554	22,531
Transfer from Other Systems	925,998	—	925,998
Total Contributions	21,108,465	3,351,135	24,459,600
Investment Activity			
Net Depreciation in Fair Value of Investments	(23,713,286)	(4,781,860)	(28,495,146)
Interest Income	7,897,043	1,372,190	9,269,233
Dividend Income	2,502,656	434,862	2,937,518
Security Lending, Gross	36,464	6,336	42,800
Real Estate Operating Income, Net	363,914	63,234	427,148
	(12,913,209)	(2,905,238)	(15,818,447)
Less Investment Expense	1,207,079	209,742	1,416,821
Net Investment Activity	(14,120,288)	(3,114,980)	(17,235,268)
Total Additions	6,988,177	236,155	7,224,332
Deductions			
Benefits Paid Directly to Participants	27,042,946	—	27,042,946
Refunds of Employee Contributions	363,067	—	363,067
Health Care Expenses	—	4,720,260	4,720,260
Administrative Expenses	549,168	95,423	644,591
Transfers to Other Ohio Retirement Systems	904,972	—	904,972
Total Deductions	28,860,153	4,815,683	33,675,836
Net Decrease	(21,871,976)	(4,579,528)	(26,451,504)
Net Assets Held in Trust for Pension and Postemployment Health Care Benefits			
Balance, December 31, 1999	540,800,216	93,969,460	634,769,676
Balance, December 31, 2000	$518,928,240	$89,389,932	$608,318,172

See accompanying *Notes to Financial Statements.*

Notes to Financial Statements

Year Ending December 31, 2000

Summary of Significant Accounting Policies

The following are the significant accounting principles and practices of the Ohio State Highway Patrol Retirement System (HPRS).

Organization - HPRS (the Plan) is a single-employer retirement system for all uniformed and radio personnel of the Ohio State Highway Patrol. The plan was created by Chapter 5505 of the Ohio Revised Code (Revised Code) and is administered by a Board comprised of four active members, one retired member, and two voting ex-officio members. HPRS is a separate financial reporting entity in accordance with criteria established by Governmental Accounting Standards Board Statement No. 14, is a component unit of the State of Ohio and receives state appropriations.

HPRS administers both a defined benefit pension plan and a postemployment health care plan. All financial information for pensions and health care is presented separately in the combining financial statements.

Basis of Accounting - HPRS financial statements are prepared using the accrual basis of accounting, under which expenses are recorded when the liability is incurred and revenues are recorded when they are earned and become measurable. Investment purchases and sales are substantially recorded as of their trade date. Administrative expenses are financed exclusively with investment income. HPRS funding is determined on an actuarial basis using the entry age normal cost method.

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, the system follows GASB guidance as applicable to proprietary funds and Financial Accounting Standards Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

The accounting and reporting policies of HPRS conform to generally accepted accounting principles (GAAP). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

The employees of HPRS are members of the Public Employee Retirement System of Ohio (PERS).

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

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

- Commercial paper issued by a U. S. corporation and rated Prime-1 by Moody's Investor Service (Moody's), A-1 by Standard and Poor's Corporation (Standard and Poor's), and/or Duff-1 by Duff and Phelps Investment Management Company (Duff and Phelps) with the parent company's long-term debt being rated within the three highest classifications by Moody's, Standard and Poor's and/or Duff and Phelps,
- Obligations of the U. S. Treasury, federal agencies, government sponsored corporations and government backed repurchase agreements,
- Bonds, notes and other debt securities rated within the three highest classifications by at least two of the rating services (Moody's, Standard and Poor's, and Duff and Phelps),

- Equities approved by an outside investment advisor,

- High quality money-market instruments, and

- Real estate and related securities including improved or unimproved real property, mortgage collective investment funds, notes secured by real property, mortgage-backed bonds and pass-through securities backed by mortgages.

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

All investments are reported at fair value. Fair value is the amount that the plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller — that is, other than in a forced or liquidation sale. Short-term investments are reported at cost, which approximates fair value. Corporate bonds are valued at the median price by the brokerage firms. Securities traded on a national exchange are valued at the last reported sales price at current exchange rate. The fair value of real estate is based upon independent appraisal.

Net Depreciation in Fair Value of Investments - Net depreciation, or appreciation, is determined by calculating the change in the fair value of investments between the beginning of the year and the end of the year, less purchases of investments at cost, plus sales of investments at fair value. Investment expense consists of those expenses directly related to HPRS investment operations, as well as a proportional amount of all other administrative expenses allocated based on a ratio of HPRS investment staff to total HPRS staff. HPRS has no individual investment that exceeds 5% of net assets available for benefits.

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

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

Fixed Assets - Property and equipment are recorded at cost. Depreciation is computed using the straight-line method over the following useful lives of the assets:

Furniture and Fixtures	1 - 10 years
Office Equipment	1 - 10 years

Plan Description

Purpose -HPRS was established in 1944 by the Ohio General Assembly as a single-employer, defined benefit pension and postemployment health care plan. HPRS is authorized to provide retirement and disability benefits, postemployment health care benefits, annual cost-of-living adjustments, and death benefits to retired members, as well as survivor benefits to qualified dependents of deceased members of the Ohio State Highway Patrol. Chapter 5505 of the Ohio Revised Code provides statutory authority to establish and amend benefits. HPRS is considered part of the State of Ohio financial reporting entity and is included in the State's Comprehensive Annual Financial Report as a pension trust fund.

Administration - The general administration and management of HPRS is vested in a seven-member Retirement Board consisting of four elected members, one elected retirant, and two statutory members. The Board appoints an executive director, actuary, investment consultant, and employees.

Membership HPRS membership consisted of the following at December 31, 1999 (our latest available actuarial data):

<u>Pension Benefits</u>	
Retirants & beneficiaries currently receiving benefits	1,123
Terminated employees not yet receiving benefits	4
<u>Current employees</u>	
Vested	264
Nonvested	1,181

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

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

Benefits - Members are eligible for normal retirement benefits upon reaching age 52 and accumulating at least 20 years of Ohio State Highway Patrol service credit. The benefit is a percentage of the member's final average salary, defined as the average of the member's three highest salaried years. The percentage is determined by multiplying 2.5% times the first 20 years of service plus 2.25% for the next 5 years of service (which is .25% higher than 1999) plus 2.0% for each year in excess of 25 years of service. A member's pension may not exceed 79.25% of the final average salary. Early retirement with reduced benefits is available upon reaching age 48 with 20 years of service credit. Early retirement with normal benefits is available upon reaching age 48 with 25 years of service credit.

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

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

Cash and Investments

Deposits - HPRS maintains cash and an investment pool. Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less. At December 31, 2000, the carrying value of all HPRS's book deposits was $83,046,336 (which includes money market funds of $90,082,354), as compared to bank balances of $92,674,237. The differences in the carrying amount and the bank balances are caused by outstanding warrants/checks and deposits in transit. Of the bank balances, the Federal Deposit Insurance Corporation insured $100,000. The remaining bank balance was covered by collateral held in the name of HPRS' pledging financial institution in a pooled collateral fund for all public funds, as required by state statue.

Investments - HPRS investments are categorized to give an indication of the level of risk assumed by HPRS at year end. Category 1 includes investments that are insured, registered, or for which the securities are held by HPRS or its agent in the name of HPRS. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent, in the name of HPRS. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent, but not in the name of HPRS.

All investments of HPRS meet the criteria of Category 1, except for real estate investments totaling $71,358,349 that, by their nature, are not required to be categorized.

Fair value of securities is based primarily on quotations from national security exchanges. Fair values of investments in real estate are based on information provided by the fund's managers or at the net present value of the projected net income stream for assets not managed independently.

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

As of December 31, 2000, the fair values of loaned securities and associated collateral (repo agreements and short-term investments) were $9,577,197 and $9,777,039, respectively.

Gross income from securities lending was $42,800 in 2000.

2000 Investments

	Fair Value
Common Stocks	$233,161,238
U.S. Government Obligations	23,577,457
Mortgage Pass Throughs	6,818,663
Collateralized Mortgages	36,598,810
Corporate Bonds	33,112,938
Asset-backed Securities	15,797,750
Collateral on Loaned Securities	9,777,039
Real Estate	71,358,349
Commingled funds	101,110,206
Total	$531,312,450

Property and Equipment

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

Furniture and fixtures	$69,308
Equipment	235,926
	$305,234
Accumulated depreciation	(134,483)
Total	$170,751

Depreciation expense charged to the plan was $55,300 for the year ending December 31, 2000.

Contributions

The Ohio Revised Code requires contributions by active members and the Ohio State Highway Patrol. The Retirement Board, within the allowable rates established by the Ohio Revised Code, establishes contribution rates. Active members and the Ohio State Highway Patrol were required to contribute the following percentages of active member payroll:

	Employee	Employer
January 1 to June 30, 2000	10.00%	23.50%
July 1 to December 31, 2000	9.50%	23.50%

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

Basic Retirement	Health Care	Total
18.75%	4.75%	23.50%

The allocation of the employer contribution rate to basic retirement benefits has been established as the rate necessary to cover normal cost, plus the amortization of the unfunded actuarial accrued liabilities based on a 20-year amortization schedule (the amortization period increased from 10 years in 1999). The contribution rate allocated to health care benefits is sufficient to cover normal costs, and to provide level cost financing of the unfunded actuarial accrued liabilities. The adequacy of the employer contribution rate is determined using the entry age normal cost method.

Health Care

In addition to providing pension benefits, HPRS pays health insurance claims on behalf of all persons receiving monthly pension or survivor benefits and Medicare part B basic premiums for those eligible benefit recipients upon proof of coverage. In general, costs of retirant health care benefits are recognized as claims are incurred and premiums are paid. Health care benefit expenses in 2000 of $4,720,260 are shown on the accompanying *Combining Statement of Changes in Plan Net Assets.*

Pension Benefits

All employees of HPRS are eligible to participate in the Public Employees Retirement System of Ohio (the "PERS of Ohio"), a cost-sharing multiple employer defined benefit pension plan. PERS of Ohio provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Chapter 145 of the Ohio Revised Code provides statutory authority to establish and amend benefits. The Public Employees Retirement System of Ohio issues a stand-alone financial report that includes financial statements and required supplementary information. Interested parties may obtain a copy from PERS, 277 East Town Street, Columbus, Ohio 43215-4642, Telephone (614) 466-2085.

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 8.5%. The employer rate for local employers was 10.84% in 2000. HPRS employer contributions to PERS of Ohio for the years ending December 31, 2000, 1999 and 1998 were $40,922, $50,242, and $49,046, respectively, which were equal to the required contributions for each year.

Postemployment Benefits Other Than Pension Benefits

Public Employment Retirement System of Ohio provides postretirement health care coverage to age and service retirants with ten or more years of qualified Ohio service credit. Health care coverage is available to recipients of disability and primary survivor pensions. The health care coverage provided by PERS is considered Other Postemployment Benefits (OPEB) as described in GASB 12. A portion of each employer's contribution to PERS is set aside for the funding of postretirement health care. The portion of 2000 employer contributions that was used to fund health care for the year was 4.3% of the total 10.84% contribution, or 39.67% of the total employer contribution.

The Ohio Revised Code provides statutory authority requiring public employers to fund postretirement health care through their contributions to PERS.

OPEB are financed through employer contributions and investment earnings thereon. The contributions allocated to retirant health care, along with investment income on allocated assets and periodic adjustments in health care provisions are expected to be sufficient to sustain the program indefinitely.

At December 31, 1999, PERS had 401,339 active contributing participants. There were $10,805.5 million in net assets available for OPEB. The actuarially accrued liability and the unfounded actuarial accrued liability, based on the actuarial cost method used, were $12,473.6 million and $1,668.1 million, respectively.

HPRS employer contributions for OPEB during 2000 totaled $16,234, which equaled the required contribution for the year.

Risk Management

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

Contingent Liabilities

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

Required Supplementary Schedules

Schedule of Employer Contributions

Years Ending December 31, 1995-2000

Year	Annual Required Contribution	% Contributed
1995	$10,774,957	100%
1996	12,176,108	100
1997	12,236,515	100
1998	13,101,039	100
1999	13,569,730	100
2000	13,210,189	100

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

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

Schedule of Funding Progress

Years Ending December 31, 1994-1999

Valuation Year	Actuarial Accrued Liab. (AAL)	Valuation Assets	Unfunded Actuarial Accrued Liab. (UAAL)	Assets as a % of AAL to AAL	Active Member Payroll	UAAL as a % of Active Member Payroll
1994 ▶	$374,006,767	$330,787,044	$43,219,723	88.4%	$58,116,787	74.4%
1995 ▲▶	424,351,694	370,425,462	53,926,232	87.3	59,825,356	90.1
1996	454,514,187	411,316,254	43,197,933	90.5	59,239,349	72.9
1997 ▲	496,917,335	460,667,112	36,250,223	92.7	62,233,299	58.2
1998	532,956,745	509,859,924	23,096,821	95.7	65,153,864	35.4
1999 ▲	577,010,085	546,510,779	30,499,306	94.7	66,017,381	46.2

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

▲Plan amendment.

▶Assumption or method change.

Notes to the Trend Data

Information in the *Required Supplementary Schedules* is from the actuarial valuation for each year indicated. Additional information from the latest actuarial valuation is as follows:

Valuation Date	December 31, 1999
Actuarial cost method	Entry Age
Amortization method	Level percent closed
Remaining amortization period	20 years for retirement allowances
Asset valuation method	4 year smoothed market
<u>Actuarial assumptions:</u>	
Investment rate of return	7.75%
Projected salary increases	5.5 - 8.5%
Inflation	3% or more
Cost-of-living adjustments for retirants	CPI increases for years after age 53 (maximum of 3%)

Notes To Required Supplementary Schedules

Description of *Schedule of Funding Progress*

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

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

Actuarial Assumptions and Methods

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at December 31, 1999.

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

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

Other actuarial assumptions and methods are as follows:

1. A rate of return on the investments of 7.75% as of December 31, 1999, compounded annually, net of administration expenses,
2. projected salary increases of 5.0%, compounded annually, attributable to inflation,
3. additional projected salary increases ranging from 0.5% to 3.5% per year, depending on service, attributable to seniority and merit,
4. postretirement mortality life expectancies of members based on 95% of the 1971 Group Annuity Mortality Male and Female Tables, projected to 1984,
5. rates of withdrawal from active service before retirement for reasons other than death, rates of disability and expected retirement ages developed on the basis of actual plan experience,
6. projected health care premium increases of 5.0%, compounded annually, attributable to inflation,
7. health care benefit recipients are eligible for Medicare on attainment of age 65, or immediately, if retired for disability, and
8. employer contributions paid in equal installments throughout the employer fiscal year.

The following employer, employee, and retirant data is from the latest actuarial valuation, dated December 31, 1999:

<u>Pension Benefits</u>	
Retirants & beneficiaries currently receiving benefits & terminated employees not yet receiving benefits	$333,340,728
<u>Current employees</u>	
Accumulated employee contributions including allocated investment income	55,558,145
Employer-financed, vested	83,837,519
Employer-financed, nonvested	84,361,766

Additional Information

Schedule of Administrative Expenses

Year Ending December 31, 2000

Personnel	$221,477
Professional and Technical Services	
Computer services	52,202
Actuary	56,550
Training and seminars	22,262
Medical consulting	4,751
Audit	13,640
Miscellaneous services by others	25,553
Medical services	12,653
Total Professional and Technical Services	187,611
Communications	
Printing	10,112
Postage	11,798
Telephone	7,580
Total Communications	29,490
Other Expenses	
Office Rent	65,922
Depreciation	55,300
Insurance	21,825
Equipment repairs and maintenance	11,574
Shipping and travel	2,470
Supplies	11,264
Miscellaneous	181
Loss on disposal of equipment	6,969
Retirement study commission	3,497
Travel	9,071
Membership and subscriptions	17,021
New equipment	919
Total Other Expenses	206,013
Total Administrative Expenses	$644,591

Above amounts do not include investment department administrative expenses.

Schedule of Investment Expenses

Year Ending December 31, 2000

Personnel	$199,664
Professional Services	
Investment services	1,020,711
Monitor services	108,072
Security lending expense	15,664
Total Professional Services	1,144,446
Other Expenses	
Computer Services	52,202
Memberships and subscriptions	11,347
Printing and supplies	9,162
Total Other Expenses	72,711
Total Investment Expenses	$1,416,821

Payments to Consultants

Year Ending December 31, 2000

Consultant	Fee	Service
Gabriel, Roeder, Smith & Co.	$56,550	Actuarial
Clark, Schaefer, Hackett & Co.	13,640	Auditing
Callan Associates	62,172	Investment
Demarche Associates	76,400	Investment

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

Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Accounting Standards*

The Retirement Board
Ohio State Highway Patrol Retirement System

We have audited the combining statement of plan net assets of the Ohio State Highway Patrol Retirement System (HPRS), as of December 31, 2000, and the related combining statement of changes in plan net assets for the year then ended, and have issued our report thereon dated March 20, 2001. We conducted our audit in accordance with generally accepted auditing standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Ohio State Highway Patrol Retirement System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Ohio State Highway Patrol Retirement System'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 assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Ohio State Highway Patrol Retirement System, in a separate letter dated March 20, 2001.

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

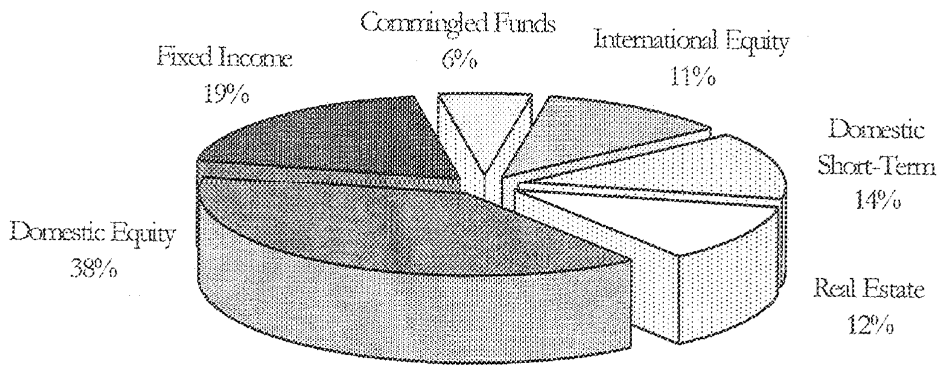
Clark, Schaefer, Hackett & Co.

Columbus, Ohio
March 20, 2001

Investment Section

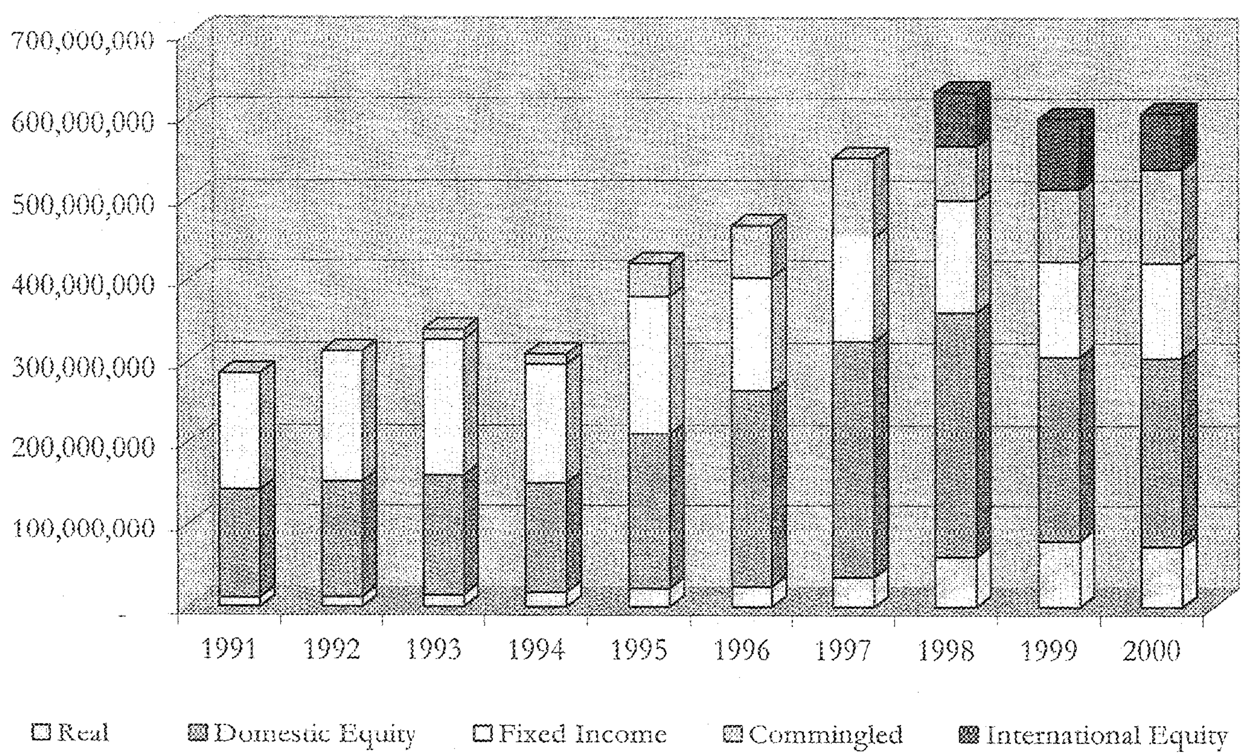
Investment Distribution

at Fair Value, December 31, 2000



Ten-Year Investment Comparison

at Fair Value, December 31, 2000



In the *Ten-Year Investment Comparison*, Domestic Short-Term Funds are included under Commingled Funds.

Investment Review

Year Ending December 31, 2000

U.S. Economy

The longest expansion in U.S. economic history came to a rather abrupt end during 2000. After setting a new record for longevity in March 2000, the U.S. economy generated spectacular growth in GDP through the first half of the year, only to see growth fall off in the third and fourth quarters. Real GDP expanded at an annual rate of 4.8% and 5.6% in the first two quarters, then slipped to 2.2% and 1.0% in the last two quarters.

Inflation finished the year at 3.4%, up notably from a low of 1.6% in 1998 and 2.5% in 1999. Productivity gains and imported deflation held inflation down during the past three years, but the positive effect of these factors may be waning. Energy prices erupted in 2000 with the surge in the price of oil, although the price per barrel has fallen back from the peak set earlier in the year. Most industry observers expect that the worst oil prices are behind us. In real 2000 dollars, the price of oil is still substantially below the prices of the early 1980's.

The greater inflation impact on consumers and industry may come from electricity and natural gas prices. Natural gas prices in December were up fourfold from a year earlier.

Domestic Stock Market

The U.S. stock market declined during 2000; the S&P 500 fell 9.11%. The market declined in each of the last three quarters, with the largest decline during the fourth quarter. The Technology (-40.08%) and Communication Services (-35.76%) sectors were the worst performing sectors during the year. Utilities (+58.64%) and Health Care (+36.58%) were the best performing sectors for the year.

Value funds across capitalization levels outperformed their growth counterparts for the year, generating positive returns on average. For the year, the median mid cap broad manager returned 10.12%, trailed by the median small cap broad manager's return of 7.39%, while the median large cap broad manager lost 4.54%.

Domestic Bond Market

U.S. bond funds, excluding High Yield, generated positive returns for the year. The Lehman Aggregate Index advanced 11.63%, while the Lehman Government/Credit returned 11.85% for the year. The year 2000 turned out to be the High Yield market's worst year since 1990, with the median manager returning -3.83%.

The Treasury yield curve flattened during most of the fourth quarter from its previous inverted shape, which dominated for most of the year.

Non-U.S. Equity Market

International equity markets declined in each quarter during the year, with a decline of 14.17% for the year. MSCI Europe generated a negative 8.39% return for the year, while MSCI Pacific generated a negative 25.78% return for the year.

The MSCI Emerging Markets Free Index declined 30.61% for the year.

Investment Operations

The Year 2000 was like a tale of two different years for most public pension funds. During the first half of the year, investment returns were positive and generally refuted the predictions of most experts about a rapid slowdown after the Y2K crisis. Those experts got their wish during the third and fourth quarters of the year when most investments gave back all the first half earnings and more. The HPRS had a negative return of .29% for the year. While it is never a proud moment to have a negative return, the HPRS had the best return of any of the five Ohio Public Pension Plans. The long-term numbers for the HPRS are strong and there is no concern about the future ability to meet expenses.

In 2000, the Board made some restructuring changes to the investment portfolio. The investments in small and mid capitalization stocks were consolidated into a combined small/mid cap commitment to value and another to growth. Active managers were retained to operate those portfolios. Passive investments in small/mid value and growth indices are being readied as the market continues to improve.

A modest investment was made in timberland. This is a first for the HPRS and requires a specialized business venture with an investor named TimberVest. This investment is a long-term strategy from which we expect yields somewhere between bonds and real estate investments. The relative risk of this investment is lower than most other investments with similar yields.

The high-flying, costly stocks that led the investment world for the last three to four years suffered severe reverses in 2000. Many investors saw their portfolios reduced from several hundred million dollars to less than 5 million in value. It is times like these that verify the wisdom of balanced investments in diversified funds. In 2000, the HPRS was well balanced to handle an otherwise dismal investment environment. What were formerly the leaders of the pack are now the followers and the downtrodden value stocks rebounded.

The prediction for the Year 2001 is much less certain, as most analysts have become reluctant to take much risk. Most, however, expect slow but steady growth and returns for a balanced portfolio to be around 7-9% by the end of the year.

Other than an allocation study planned for the fall of 2001, the Board does not intend to significantly change the investment strategy or replace managers.

Schedule of Investment Performance

Year Ending December 31, 2000

	2000	1999	3-Year	5-Year
Domestic Equity	**-6.40%**	**4.10%**	**-1.39%**	—
Standard & Poors 500 (large cap)	-9.11	21.00	12.26	18.33
Russell 2000 (small cap)	-3.02	21.30	4.65	10.32
International Equity	**-7.35**	**30.50**	**11.77**	—
MSCI EAFE Index	-14.17	27.20	9.35	7.13
Fixed Income	**11.05**	**0.10**	**6.55**	—
Lehman Brothers Aggregate	11.63	-0.80	6.37	6.46
Real Estate	**18.35**	**7.50**	**8.89**	—
NCREIF Classic Index	13.01	11.90	14.11	13.61
Domestic Short Term	**5.66**	**4.50**	**5.21**	—
Total Fund	**-0.29**	**6.80**	**3.25**	**7.78**
Absolute Objective	7.75	7.75	7.75	7.75
Relative/Composite Benchmark ▶	-2.28	16.40	10.01	13.13

▶ Relative/Composite Benchmark: 40% S&P 500, 20% Russell 2000, 10% MSCI EAFE, 20% Lehman Aggregate and 10% NCREIF Index.

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

Source: Callan Associates

Investment Summary

December 31, 2000

Portfolio Type	% of Total Fair Value	Fair Value	Policy %
Domestic Equity	$233,161,238	38.6%	60.0%
Fixed Income	115,905,618	19.2	20.0
Commingled Funds	116,590,691	19.3	0.0
Real Estate	71,358,349	11.8	10.0
International Equity	67,565,851	11.2	10.0
Total	$604,581,747	100.0	40.6

Largest Equity Holdings (by Fair Value)

December 31, 2000

Rank	Shares	Description	Fair Value
1.	97,750	Pfizer Inc	$5,881,100
2.	15,000	Citigroup Inc	5,873,880
3.	85,000	General Electric Co	4,074,730
4.	85,860	JP Morgan Chase & Co	3,882,147
5.	83,000	Cisco Systems Inc	3,710,250
6.	72,800	American Standard Co	3,589,950
7.	66,500	Verizon Communications	3,333,313
8.	7,500	SBC Communications	3,328,175
9.	31,000	EMC Corp	3,098,900
10.	24,900	Morgan Stanley Dean Witter	2,956,025

Largest Fixed-Income Holdings (by Fair Value)

December 31, 2000

Rank	Par	Name	Coupon	Maturity	Rating	Fair Value
1.	$4,700,000	US Treasury Notes	7.00%	07/15/06	AAA/AAA	$5,115,668
2.	4,000,000	US Treasury Bonds	7.25	08/15/22	AAA	4,822,480
3.	4,750,000	Bank United FSB MTN	5.40	02/02/04	AAA/Aaa	4,633,625
4.	3,450,000	Residential Accredit Loans, Inc	7.25	11/25/27	AAA/AAA	3,452,139
5.	3,150,000	Heller Financial Inc Mtn	6.50	07/22/02	A-/A3	3,134,313
6.	3,000,000	Contimortgage Home Equity Loan	6.93	11/25/22	AAA/Aaa	3,005,400
7.	3,000,000	Federal Home Loan Bank	5.80	09/02/08	NR/Aaa	2,971,860
8.	2,500,000	FHLMC 1669-G	6.50	02/15/23	AAA/AAA	2,529,675
9.	2,500,000	FHLMC 1675-H	6.38	10/15/22	AAA/AAA	2,520,300
10.	2,489,387	Champion Hm Eqty Ln Trst 97-2	6.71	09/25/29	AAA/AAA	2,491,876

Investment Portfolio

December 31, 2000

Fixed Income

Par	Description	Rate	Maturity	Fair Value
$2,000,000	AllTel Corp	7.500%	03/01/06	$2,033,340
1,500,000	AON Corp	6.900	07/01/04	1,503,900
1,000,000	Bank One Corp FRN	5.121	07/28/03	1,011,580
360,000	Chevron Trust Fund	8.110	12/01/04	376,200
1,500,000	Continental Airlines	6.320	11/01/08	1,446,090
1,950,000	Countrywide Capital 1 Trust	8.000	12/15/26	1,709,487
1,115,000	Deutsche Bank Financial	6.700	2/13/06	1,123,485
2,000,000	Ford Motor Credit Co	7.600	08/01/05	2,056,960
1,000,000	Ford Motor Credit Corp Mtn	9.030	12/30/09	1,087,000
1,000,000	Ford Motor Credit Mtn	6.570	03/27/01	1,000,310
2,000,000	General Electric Capital Corp.	8.850	04/01/05	2,214,380
3,150,000	Heller Financial Inc Mtn	6.500	07/22/02	3,134,313
1,200,000	IBM Corp	7.500	06/15/13	1,269,996
1,000,000	Knight Ridder Inc	6.875	03/15/29	849,080
1,500,000	May Department Stores Co	6.875	11/01/05	1,504,965
1,450,000	Monsanto Co.-ESOP	8.130	12/15/06	1,541,118
2,500,000	Pitney Bowes Inc.	5.950	02/01/05	2,419,100
1,100,000	Safeco Corp	7.875	03/15/03	1,113,794
800,000	Sears Roebuck Acceptance	6.610	10/09/01	800,144
1,600,000	Swiss Bank Corp NY	6.750	07/15/05	1,624,496
1,500,000	Texaco Capital Inc	6.000	06/15/05	1,506,945
1,000,000	Times Mirror Co	7.450	10/15/09	1,028,200
750,000	TransAmerica Finance Corp	7.250	08/15/02	758,055
$32,975,000	Total Corporates			$33,112,938

$454,193	CIT RV 1996-AA ABS	5.400	12/15/11	$449,651
800,000	Fed Home Loan Mrtg Corp 1617PJ	6.200	01/15/23	790,248
1,000,000	FHLMC Pool 2091-PD	6.000	04/15/21	997,500
1,500,000	FHLMC 1531-M	6.000	06/15/08	1,482,645
2,000,000	FHLMC 1552-GB	6.500	12/15/21	2,016,860
1,600,000	FHLMC 1574-PG	6.500	02/15/21	1,617,488
1,500,000	FHLMC 1602-PO	6.500	04/15/22	1,491,555
2,500,000	FHLMC 1669-G	6.500	02/15/23	2,529,675
2,500,000	FHLMC 1675-H	6.375	10/15/22	2,520,300
1,500,000	First Union Mtg TR 2000-C2 A2	7.202	09/15/10	1,564,260
339,868	Fleetwood ABS 1993-AA	6.000	01/15/08	338,909
1,578,087	FNMA 1993-139G	6.250	07/25/19	1,572,658
2,300,000	FNMA 1993-141 PV	6.750	03/25/22	2,311,500
1,099,697	FNMA 1993-149H	6.000	09/25/20	1,093,505
2,000,000	FNMA 1993-149K	6.500	08/25/23	1,973,120
1,431,000	FNMA 1993-183K	6.500	07/25/23	1,409,077

Fixed Income (continued)

Par	Description	Rate	Maturity	Fair Value
1,475,000	FNMA 1993-208 J	6.250	02/25/23	1,457,020
500,000	FNMA 1993-223 VD	6.150	08/25/06	500,600
440,297	FNMA 1998-68 A	6.000	12/25/19	438,919
2,000,000	FNMA G94-7 PH PAC-1 (11)	7.500	02/17/23	2,069,360
1,600,000	FNMA G94-9 PG	6.500	03/17/18	1,608,496
1,000,000	GNMA 1996-9 PD	7.000	01/20/25	1,014,370
171,366	INMC 96-E A2 Whole Loan	6.930	05/25/26	170,830
3,450,000	Residential Accredit Loans, Inc	7.250	11/25/27	3,452,139
1,750,000	Student Loan Marketing Association	5.736	01/25/10	1,728,125
$36,489,507	Total Collateralized			$36,598,809
$4,750,000	Bank United FSB MTN	5.400	02/02/04	$4,633,625
3,000,000	Federal Home Loan Bank	5.800	09/02/08	2,971,860
1,750,000	Federal Home Loan Bank	5.700	09/10/08	1,713,635
1,200,000	Federal Home Loan Bank	5.700	09/10/08	1,175,064
1,500,000	Federal Home Loan Mtg Bank	7.000	02/15/03	1,541,010
1,500,000	US Treasury Inflation Index	3.875	01/15/09	1,604,115
4,700,000	US Treasury Note	7.000	07/15/06	5,115,668
4,000,000	US Treasury Bonds	7.250	08/15/22	4,822,480
$22,400,000	Total U.S. Guaranteed			$23,577,457
$1,264,752	FHLMC Pool #E00476	6.500	03/01/12	$1,266,586
546,294	FHLMC Pool #C00492	7.500	01/01/27	555,685
783,288	FNMA Pool #525908	7.000	12/01/29	784,510
676,593	FNMA Pool #535466	7.000	08/01/30	677,648
1,241,056	FNMA Pool #313708	7.500	08/01/12	1,268,322
980,601	GNMA Pool #423876	7.500	07/15/26	998,379
1,244,961	GNMA Pool #423906	7.500	07/15/26	1,267,533
$6,737,545	Total Mortgages			$6,818,662
$2,000,000	AAMES Mortgage Trust 97-CA6F	6.890	11/15/27	$2,009,380
500,000	AT&T Universal Card Master Trust	5.879	04/17/03	500,155
500,000	Capital Auto Rec Asst TR 00-1	7.000	01/17/05	504,840
2,489,387	Champion Hm Eqty Ln Trst 97-2	6.710	09/25/29	2,491,876
1,500,000	Chase Manhattan Credit Card	7.040	02/15/05	1,503,270
1,000,000	Circuit City Credit Crd Master	6.107	02/15/06	1,003,120
3,000,000	Contimortgage Home Equity Loan	6.930	11/25/22	3,005,400
1,000,000	MLMI 1997-C1 A-3	7.120	06/18/29	1,033,560
2,000,000	Standard Credit CD MTR 1994-2A	7.250	04/07/08	2,102,500
1,613,952	The Money Store Home Equity Loan	8.925	06/15/22	1,643,649
$15,603,339	Total Asset-Backed			$15,797,750
$114,205,390	**Total Fixed Income**			**$115,905,617**

Domestic Equity

Shares	Description	Fair Value
8,000	21st Century Insurance Group	$114,000
11,400	Abgenix Inc	673,313
10,100	Ace Limited	428,619
6,800	Actrade International	150,025
20,000	Adobe Systems Inc	1,163,750
40,200	Air Products & Chemicals Inc	1,648,200
58,124	Alcoa Inc	1,947,154
44,900	Allstate	1,955,956
18,000	America Online Inc	626,400
35,600	American General Corp	2,901,400
23,900	American International Group	2,355,650
72,800	American Standard Co	3,589,950
2,000	Ameron International	74,500
37,000	Amgen Inc	2,365,706
29,000	Anheuser Busch Co Inc	1,319,500
2,000	Annuity & Life RE Holdings	63,875
73,200	Apple Computer Inc	1,088,850
10,500	Applied Biosystems Group	987,662
10,200	Applied Materials Inc	389,513
21,600	Applied Micro Circuits Corp	1,621,013
56,900	AT&T Corp	981,525
15,200	Aurora Biosciences Corp	477,850
15,000	Aviall Inc	75,945
9,000	Avon Products Inc	430,875
25,400	Bank of America Corp	1,165,225
24,800	Becton Dickinson & Co	858,700
21,400	BJ Services	1,473,925
6,000	Borg Warner Automotive	240,000
10,000	Boykin Lodging Inc	85,000
10,000	Brantley Capital Corp	82,500
4,500	Bristol Myers Squibb Co	332,721
19,200	Brocade Communications	1,762,800
30,100	Burlington Resources Inc	1,520,050
7,800	C&D Technologies Inc	336,863
12,000	Capital Automotive REIT Inc	165,750
13,000	CBRL Group Inc	236,438
14,000	Celgene Corp	455,000
50,500	CenturyTel Inc	1,805,375
14,700	Charter One Financial	424,463
5,400	Check Point Software Technologies	721,240
24,000	Chevron Corp	2,026,500
97,000	Cisco Systems Inc	3,710,250
115,033	Citigroup Inc	5,873,880

Domestic Equity (continued)

Shares	Description	Fair Value
10,000	Clear Channel Communications	484,380
33,900	Clorox Co	1,203,450
31,600	Coastal Corp	2,790,675
13,500	Coca Cola Co	822,663
13,000	Colgate Palmolive Co	839,150
10,600	Commercial Federal Corp	206,038
80,900	Conagra Foods Inc	2,103,400
14,000	Corning Inc	739,382
15,000	Corrpro	44,063
20,000	CSFBdirect	75,000
4,000	Datum Inc	89,000
16,000	Dell Computer Corp	279,008
4,300	Devon Energy Corp	262,171
12,000	Dial Corp	132,000
41,381	Digital Lightwave Inc	1,311,260
31,500	Donnelley, RR & Sons Co	850,500
32,900	DTE Energy Company	1,281,044
55,000	Edison International	859,375
27,500	Electronic Data Systems Corp	1,588,125
13,000	Electronics for Image	181,188
46,600	EMC Corp	3,098,900
2,468	Employee Solutions Inc	7
20,000	Emulex Corp	1,598,750
21,000	Encompass Services Corp	106,313
61,133	Energizer Holdings Inc	1,306,718
66,800	Energy East Corp	1,315,125
13,000	Enron Corp	1,080,625
15,000	Equus II Inc	132,195
35,000	Ethyl Corp	50,330
7,800	Everest RE Group LTD	558,675
40,000	Excel Legacy Corp	95,000
21,000	Exodus Communications	420,000
10,000	Falcon, R&B Corp	229,375
31,500	Federated Dept Stores	1,102,500
75,941	Fleet Boston Financial Corp	2,852,534
4,400	Fuller, H.B. Co	173,594
15,000	Gainsco Inc	39,375
9,000	Genentech Inc	733,500
18,600	General Dynamics Corp	1,450,800
85,000	General Electric Co	4,074,730
43,000	Genrad Inc	430,000
14,000	GlaxoSmithKline PLC	784,000
12,200	Goldman Sachs Group Inc	1,304,638
5,000	Great Lakes Bancorp	37,500
4,300	Greenpoint Financial Corp	176,031

Domestic Equity (continued)

Shares	Description	Fair Value
35,500	Harrah's Entertainment Inc	936,313
21,400	Hasbro Inc	227,375
39,800	HealthSouth Corp	649,238
42,200	Heinz, HJ Company	2,001,863
10,000	Hewlett Packard Co	315,630
8,000	Hollinger International Inc	127,000
15,000	Hologic Inc	76,875
16,500	Home Depot Inc	753,852
23,937	Honeywell International Inc	1,132,519
9,500	Human Genome Sciences Inc	658,474
28,500	Humana Inc	434,625
23,800	I2 Technologies Inc	1,294,125
45,800	IMC Global Inc	712,763
44,500	Ingersoll Rand Co	1,863,438
82,200	Intel Corp	2,471,171
24,500	International Business Machine	2,082,500
62,400	International Paper	2,546,700
15,500	International Rectifier Corp	465,000
20,000	Iomega Corp	67,000
20,600	IVAX Corporation	788,980
85,860	JP Morgan Chase & Co	3,882,147
10,000	JDS Uniphase Corp	416,875
3,200	Johnson & Johnson	336,202
10,300	Juniper Networks	1,298,446
17,000	Key Energy Group Inc	177,438
40,200	Kimberly Clark Corp	2,841,738
3,400	Knight-Ridder Inc	193,375
4,300	Laboratory Corp	756,800
6,000	Lancaster Colony Corp	168,375
20,000	Lazare Kaplan Intl Inc	101,260
3,500	Lee Enterprises Inc	104,344
27,800	Lilly, Eli & Co	2,587,144
32,500	Lincoln National Corp	1,537,656
17,800	Linear Technology Corp	823,250
15,500	Macrovision Corp	1,147,242
2,700	Marsh & McLennan Companies Inc	315,900
5,000	Martin Marietta Materials Inc	211,500
20,100	Maxim Integrated Products Inc	961,034
5,000	Maxwell Technologies Inc	74,375
79,500	McDonalds	2,703,000
6,200	Medimmune Inc	295,666
60,000	Meditrust Corp	153,750
19,800	Medtronic Inc	1,195,425
28,600	Merck & Co Inc	2,677,675
16,900	Mercury Interactive Corp	1,525,225

Domestic Equity (continued)

Shares	Description	Fair Value
20,200	MGIC Investment Corp	1,362,238
54,300	Microsoft Corp	2,355,263
10,500	Millennium Pharmaceutc	649,688
37,300	Morgan Stanley Dean Witter	2,956,025
113,800	Motorola Inc	2,304,450
7,500	Movado Group Inc	114,375
3,500	Murphy Oil Corp	211,531
14,600	Nabors Industries Inc	863,590
9,800	NACCO Inc	428,138
9,800	Network Appliance Inc	629,038
9,900	Newport Corp	778,233
21,000	Nextel Communications Inc	519,750
99,200	Niagara Mohawk Holdings Inc	1,655,400
18,000	Nike Inc Class B	1,004,634
38,000	Nokia Corp ADS	1,653,000
10,000	Nortel Network Corp (Hldg Co)	320,630
8,000	North Fork Bancorp	196,500
9,300	NSTAR Inc	398,738
21,400	Nvidia Corp	701,184
15,800	Oak Technology	137,263
152,000	Office Depot Inc	1,083,000
67,000	Ogden Corp	1,030,125
7,000	Oglebay Norton	134,750
35,000	Olympic Steel	68,906
38,000	Oracle Corp	1,104,394
15,000	Orthologic Corp	43,125
20,200	Pacific Century Financial	357,288
7,500	Pacificare Health Systems	112,500
15,000	Park-Ohio Holdings Corps	73,125
30,000	Perceptron	43,140
6,900	Perkin Elmer	724,500
127,850	Pfizer Inc	5,881,100
25,500	Pharmacia Corp	1,555,500
6,700	Phelps Dodge Inc	373,944
16,100	Pilgrim's Pride Corp, Class B	125,781
33,500	Pitney Bowes Inc	1,109,688
9,300	Plexus Corp	282,633
2,500	PMC-Sierra Inc	196,563
17,200	PNC Financial Services Group	1,256,675
25,400	Power-One Inc	998,538
22,500	Powerwave Technologies Inc	1,316,250
20,900	Procter & Gamble Co	1,639,344
3,500	Professional Detailing	370,180
10,400	Protein Design Labs	903,500
11,000	Public Service Co of NM Mexico	294,938

Domestic Equity (continued)

Shares	Description	Fair Value
12,000	Qualcomm Inc	986,256
7,100	Quest Diagnostics Inc	1,008,200
28,000	Qwest Communications	1,144,500
69,900	Ralston-Ralston Purina Group	1,826,138
37,200	Raytheon Co, Class B	1,155,525
8,600	Regions Financial Corp	234,888
5,400	RenaissanceRE Holdings LTD	422,888
21,100	Respironics	601,350
6,500	Reynolds & Reynolds	131,625
25,000	Rocky Shoes & Boots	96,875
69,700	SBC Communications	3,328,175
9,200	Schering Plough Corp	522,100
4,500	Schlumberger LTD	359,721
31,800	Schwab (Charles) Corp	902,325
17,600	Scientific Atlanta Inc	573,100
4,300	SDL INC	637,208
45,800	Sears	1,591,550
3,000	Second Bancorp Inc	43,500
20,000	Senior Housing Properties Trust	186,250
9,500	Siebel System Inc	642,438
28,900	Solutia Inc	346,800
8,000	Spacelabs Medical Inc	104,000
11,000	Spherion Inc	124,438
70,000	Strategic Distribution	30,660
58,000	Sun Microsystems Inc	1,616,750
25,000	SunGard Data Systems Inc	1,178,125
65,400	Sunoco Inc	2,203,163
18,000	Target Corp	580,500
23,500	Techne Corp	847,469
8,000	Technitrol Inc	329,000
4,300	Telephone & Data Systems Inc	387,000
23,000	Temple Inland	1,233,375
39,000	Tenet Healthcare Corp	1,733,063
27,800	Texaco Inc	1,727,075
25,200	Textron Inc	1,171,800
15,000	Time Warner	783,600
10,600	Tollgrade Communications	386,900
11,000	Torchmark Corp	422,813
72,100	Tosco Corporation	2,446,894
7,100	Tricon Global Restaurants	234,300
11,100	Trigon Healthcare Inc	863,719
6,000	Trinity Industries Inc	150,000
39,000	Tyco International LTD	2,164,500
10,500	TyCom LTD	234,938
500	US Freightways Corp	15,039

Domestic Equity (continued)

Shares	Description	Fair Value
123,700	Unisys Corp	1,809,113
4,000	Universal Health Services Inc	447,000
45,400	Unocal	1,756,413
7,000	UST Inc	196,438
11,800	USX - US Steel Group	212,400
600	VF Corporation	21,744
22,500	Valero Energy Corp	836,719
2,300	VeriSign Inc	170,632
9,000	VERITAS Software Co	787,500
66,500	Verizon Communications	3,333,313
22,100	Vertex Pharmaceuticals Inc	1,580,150
17,000	Vodafone Group PLC	608,821
10,000	Walgreen Co	418,130
20,000	Wal-Mart Stores Inc	1,062,500
44,200	Washington Mutual Savings	2,345,363
5,700	Waters Corp	475,950
7,400	Wellpoint Health Networks	852,850
16,700	Western Resources Inc	414,369
40,000	Worldcom, Inc. GA	562,520
3,600	XL Capital	314,550
6,216,427	Total	$232,328,431

Summary Schedule of Broker Fees

Year ending December 31, 2000

Brokers	Fees	Shares	Average Cost
ABN Amro Chicago Group	$2,465	58,100	0.042
Adams & Harkness	0	1,100	0.000
Autranet	9,121	162,900	0.056
Baird, Robert W	2,789	47,900	0.058
Banc/American Securities	1,782	29,700	0.060
Bear Stearns	12,964	256,400	0.051
Bernstein Sanford	12,235	214,300	0.057
Blair, William & Co	150	3,000	0.050
BNY ESI & Co	47,065	4,770,586	0.010
Bradford, J C	30	600	0.050
Branch, Cabell & Co	95	1,900	0.050
Bridge & Co	4,929	97,650	0.050
B-Trade Services	324	10,800	0.030
Buckingham Research	282	4,700	0.060
Canadian Imperial	870	31,000	0.028
Cantor Fitzgerald	0	90,000	0.000
Chase H & Q	0	8,200	0.000
CS First Boston	10,797	388,000	0.028
Dain Rauscher Wessels	490	20,200	0.024
Davidson, D A	729	24,300	0.030
DB Alex. Brown LLC	165	3,300	0.050
DB Clearing Services	240	25,500	0.009
Deutsche Bank Securities	60	12,700	0.005
Donaldson, Lufkin	7,160	146,900	0.049
Ernst-SDG	1,569	230,600	0.007
ESI	980	19,600	0.050
Evaluation Assoc	1,535	30,700	0.050
Fidelity Capital Markets Co	25	3,000	0.008
First Union Capital Markets	4,573	86,767	0.053
FleetBoston Robertson Stephens	597	63,370	0.009
Fox-Pitt Kelton	1,554	25,900	0.060
Goldman Sachs	20,648	534,600	0.039
Habrecht & Quist	115	9,500	0.012
Helfin & Co	0	15,300	0.000
Herzog, Heine, Geduld	0	254,391	0.000
ING Baring Furman Selz	7,339	165,900	0.044
Instinet	284	8,800	0.032
Interstate Group	956	19,114	0.050
Jefferies Securities	10,862	228,800	0.047
Jones & Assoc	708	11,800	0.060
Keefe, Bruyette & Woods	1,290	21,500	0.060
Knight Securities	489	166,500	0.003
Ladenburg Thalman	180	3,000	0.060

Brokers	Fees	Shares	Average Cost
Legg Mason Wood Walker	354	16,400	0.022
Lehman Brothers	9,505	211,300	0.045
Lewco Security Agent	1,500	37,600	0.040
Lynch, Jones, Ryan	206,663	3,512,127	0.059
McDonald & Co	11,109	504,402	0.022
Merrill Lynch	20,067	384,800	0.052
Morgan Keegan & Co	756	12,600	0.060
Morgan Stanley	13,430	314,700	0.043
Morgan, J P	4,531	158,600	0.029
National Securities Corp	0	30,500	0.000
NationsBanc Montgomery Sec	1,323	62,200	0.021
Nutmeg Securities	4,056	430,100	0.009
O'Neil, William & Co	690	12,500	0.055
Oppenheimer Corp	1,122	41,300	0.027
Pacific American Securities	3,650	89,500	0.041
Pacific Crest Securities	438	138,100	0.003
Paine Webber	5,395	108,900	0.050
PCS Securities	145	2,900	0.050
Prudential Securities	15,856	300,100	0.053
Raymond James	7,226	110,100	0.066
Robertson Stephens	1,248	20,800	0.060
Robinson Humphrey	260	5,200	0.050
Rochdale Securities Co	7,048	127,175	0.055
Russell, Frank	145	2,900	0.050
Salomon Smith Barney	24,381	524,900	0.046
SBC Warburg Dillon Read	446	8,800	0.051
SBK Brooks Invest Corp	350	5,000	0.070
Schroder Wertheim	498	8,300	0.060
Schwab, Charles	121	2,416	0.050
SG Cowen Securities Corp	13,633	252,800	0.054
Soundview Financial Group	849	32,200	0.026
Southwest Securities Inc	0	29,100	0.000
Sparpe Capital Inc	235	4,700	0.050
Spear, Leeds & Kellogg Cap	0	49,700	0.000
Stanford Group	750	12,500	0.060
Standard & Poors	15,426	243,735	0.063
Thomas Weisel Partners	1,110	23,600	0.047
Thomson Institutional Serv	234	3,900	0.060
US Bancorp	1,025	20,200	0.051
Wasserstein, Perella Co	2,468	44,000	0.056
Weeden & Co	642	10,700	0.060
Weil, Howard	150	3,000	0.050
Total	$547,278	16,223,233	

Investment Objectives, Policies, and Guidelines

Objectives

1. The purpose of this Investment Policy statement is to comply with the directive of Ohio Revised Code Section 5505.06, wherein the Board of Trustees is to adopt public "policies, objectives or criteria for the operation of the investment program." As such, this statement is intended to provide general guidelines within which the Board may take full advantage of its investment authority pursuant to ORC Section 5505.06, while complying with its fiduciary responsibility. This statement is not intended to restrict the Board from consideration of all lawful and legal investment opportunities.

2. The primary objective of the Highway Patrol Retirement System is to provide eligible employees with scheduled pension benefits. Although the fund is not governed by the Employees Retirement Income Security Act of 1974 (ERISA), the basic provisions contained in that Act are recognized and will serve as guidance to the management of this fund. In particular, the *prudent person* guidelines are to be followed in regard to the investment management of the fund. These guidelines require that the Board and other system fiduciaries exercise the care, skill, prudence and diligence, under the circumstances then prevailing, that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims.

3. A secondary objective of the fund is to maintain a sufficient degree of liquidity in order to meet unanticipated demands and changing environments.

4. Consistent with prudent standards for preservation of capital and maintenance of liquidity, the goal of the fund is to earn the highest possible rate of return consistent with the fund's tolerance for risk as determined periodically by the Board in its role as a fiduciary. This objective should ensure adequate funds to meet scheduled benefits while maintaining level contributions.

5. In meeting these objectives, the Board will give consideration to investments that enhance the welfare of the State of Ohio, and Ohio citizens, where such investments offer safety and quality of return comparable to other investments currently available. Equal consideration will be given to investments otherwise qualifying under this section that involve minority-owned and controlled firms, or firms owned and controlled by women, either alone or in joint venture with other firms.

6. The fund will be operated within the direction of Ohio Revised Code Section 5505.06.

Policies

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

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

2. Asset classes and ranges considered appropriate for investment of fund assets are to be determined by the Board in accordance with these investment guidelines.

3. Assignment of responsibilities for each asset category (components of each asset category) may be assigned to one or more management firms that may be "specialty" managers (i.e., managing only one type of asset class).

Investment Guidelines for Specific Asset Classes

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

1. U.S. equities will represent from 60 to 80 percent of the market value of total fund assets with a targeted average of 70 percent. The term "equities" includes common stock, convertible bonds and convertible stock. Within the equity portion of the portfolio, the fund will strive for the following diversification strategy:

	Target	Minimum	Maximum
Large Cap	40%	30%	50%
Small Cap	10	10	20
International	10	5	15
Real Estate	10	5	15

2. Non-U.S. equities will represent from 0 to 15 percent of the market value of total fund assets with a targeted average of 10 percent.

3. Real estate may represent 5 to 15 percent of total fund assets with a targeted average of 10 percent.

4. U.S. fixed income obligations, including cash, will represent from 15 to 40 percent of the market value of total fund assets with a targeted average of 20 percent. Intermediate-term bonds may include contractual payments, preferred stocks, and bonds with a maturity date greater than one year and less than or equal to 10 years. Long-term bonds have a maturity date greater than 10 years. Within the bond portion of the portfolio, the fund will strive for the following diversification strategy:

	Target	Minimum	Maximum
Short-term	0%	0%	5%
Intermediate-term	25	20	40
Long-term	0	0	10

Asset Allocation

As the result of an asset allocation study, the following was adopted as part of the system's overall Investment Policy in January 1999:

1. Short-Term Investments

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

The investment staff may invest cash balances in commercial paper, obligations of the U.S. Treasury, federal agencies, government-sponsored corporations, and government-backed repurchase agreements. Qualifying commercial paper must be issued by U.S. corporations, and must be rated Prime-1 by Moody's Investor Service, A-1 by Standard and Poor's Corporation, or Duff-1 by Duff and Phelps Investment Management Company, with the parent company's long-term debt being rated within the three highest classifications by Moody's, Standard and Poor's, or Duff and Phelps Investment Management Company. All commercial paper purchased will mature in ninety-five days or less, and at no time will the total amount of commercial paper outstanding exceed five percent of the total value of all funds at cost. All instruments of the U.S. government, federal agencies, or government-sponsored corporations will mature in two years or less from the date of purchase.

2. Fixed Income Investments

The bond portfolio will be diversified as to type of security, issuer, coupon, and maturity. Qualifying bonds, at the time of purchase, must be rated within the three highest classifications by at least two of the rating services (Standard and Poor's Corporation, Moody's Investor Service, and Duff and Phelps Investment Management Company). Generally, the average maturity of the fixed income portfolio will be ten years or less, although individual securities may be longer.

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

(1) U.S. Government Bonds and U.S. Agency Bonds
(2) Domestic Corporate Bonds

3. Equities

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

4. Real Estate

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

The real estate portfolio will be constructed and managed to:

a) Provide sufficient diversity to protect against adverse conditions in any single market sector,

b) Provide diversity among geographical locations, property types, and property sizes,

c) Provide relatively stable returns consistent with the overall U.S. commercial real estate market,

d) Provide a strong current income stream with the potential for long-term principal growth,

e) Primarily contain fully developed, fully leased properties, and

f) Minimize the use of debt financing.

5. International Securities

Pursuant to Ohio Revised Code Section 5505.06, both equity and fixed international securities are permitted investments. The fund may invest in fixed income securities issued by (1) sovereign governments or (2) rated corporations that are in investment classes similar to the top three domestic investment classes.

Performance

Comparative performance measurement of the total fund and its components will be conducted quarterly to insure that fund managers are providing added value to the general market values. Total equity returns are expected to exceed the S&P 500 benchmark (generally accepted as the "market") by 1% annually over a market cycle (generally three to five years). In addition, equity managers will be expected to exceed the median of their peer group as measured by style and capitalization. Small capitalization managers are expected to exceed the Russell 2000 benchmark or some comparable benchmark by 1% annually over a market cycle. Fixed income returns are expected to exceed their individual benchmark, such as the Lehman Government Corporate or Lehman Aggregate for long duration managers, and Lehman Intermediate Government Corporate for intermediate duration managers, or short benchmarks as appropriate.

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

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

- A minimum return target of 7.75 percent, representing the fund's actuarial assumption, and also representing the long-term inflation rate of 4 percent plus a risk premium of 3.75 percent.

- A composite reference fund comprised of 40 percent S&P 500 Index, 20 percent Russell 2000 Index, 20 percent Lehman Brothers Aggregate Index, 10 percent MSCI EAFE Index, and 10 percent NCREIF Classic Index. Results of each asset class will also be compared to the relevant market index.

Investment Responsibilities

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

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

Annual Review

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

Revised, June 22, 1999
Revised, March 13, 1997
Adopted and approved, September 7, 1994
Revised, June 29, 1994
Revised, September 5, 1990
Revised, June 1, 1988
Adopted and approved, June 11, 1986

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Ohio State
Highway Patrol
RETIREMENT SYSTEM

Actuarial Section

GRS

GABRIEL, ROEDER, SMITH & COMPANY
Consultants & Actuaries

1000 Town Center • Suite 1000 • Southfield, Michigan 48075 • 248-799-9000 • 800-521-0498 • fax 248-799-9020

June 1, 2001

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

Dear Board Members:

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

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

The financial objective is addressed within the annual actuarial valuation. The valuation process develops contribution rates that are sufficient to fund the plan's current cost (i.e. the costs assigned by the valuation method to the year of service about to be rendered), as well as to fund unfunded actuarial accrued liabilities as a level percent of active member payroll over a finite period. The most recent valuations were completed based upon population data, asset data, and plan provisions as of December 31, 1999.

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

The actuary prepared the following supporting schedules for the Comprehensive Annual Financial Report:

Actuarial Section

Summary of Assumptions

Funding Method, Asset Valuation Method, Interest Rate

Payroll Growth

Probabilities of Age & Service Retirement

Probabilities of Separation from Active Employment Before Age & Service Retirement

Health Care and Medicare

Short-Term Solvency Test

June 1, 2001

Recent Experience in the Health Care Fund

Membership Data

Analysis of Financial Experience

Supplementary Schedules

Schedule of Funding Progress

Schedule of Employer Contributions

Notes to Trend Data

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

Actuarial valuations are based upon assumptions regarding future activity in specific risk areas including the rates of investment return and payroll growth, eligibility for the various classes of benefits, and longevity among retired lives. These assumptions are adopted by the Board after considering the advice of the actuary and other professionals. The assumptions and the methods comply with the requirements of Statement 25 of the Governmental Accounting Standards Board. Each actuarial valuation takes into account all prior differences between actual and assumed experience in each risk area and adjusts the contribution rates as needed. The non-economic assumptions used in the December 31, 1999 valuation were based upon a study of actual experience during the years 1990-94. The economic assumptions used in the December 31, 1999 valuation were based upon an economic assumption study as of December 31, 1993.

Pension experience was favorable during 1999 but health experience was poor. For pension valuation purposes, smaller pay increases than assumed produced a significant actuarial gain. Retirement, death, disability, turnover and investment return in total also produced a small gain. Benefit changes increased liabilities and offset the gains noted above.

Based upon the results of the December 31, 1999 valuations, we are pleased to report to the Board that the Highway Patrol Retirement System of Ohio is meeting its basic financial objective and continues in sound condition in accordance with actuarial principles of level percent of payroll financing.

Respectfully submitted,

GABRIEL, ROEDER, SMITH & COMPANY

Brian B. Murphy, F.S.A., M.A.A.A.   Mita D. Drazilov, A.S.A., M.A.A.A.

BBM:jmc

Summary of Assumptions

After consulting with the actuary, these assumptions have been adopted by the Ohio State Highway Patrol Retirement System Board of Trustees.

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

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

Interest Rate. The investment return rate used in making valuations was 7.75% per year, compounded annually (net after administration expenses).

Payroll Growth. Base pay increases are assumed to be 5.0% annually, attributable to broad economic effects such as inflation and real wage growth. Additional merit and seniority increases are assumed as follows:

Service Years	Merit & Seniority	Base (Economic)	Total
0-4	3.5%	5.0%	8.5%
5-9	2.5	5.0	7.5
10-14	1.5	5.0	6.5
15 +	0.5	5.0	5.5

Health Care. Premiums are assumed to increase 5.0% annually. All retirants are assumed to receive a joint and survivor pension benefit. Medicare reimbursement is assumed to remain constant at $45.50 per month.

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

Other Assumptions.

Probabilities of Age & Service Retirement
Percentage of Eligible Members Retiring Within Next Year

Retirement Ages	Unreduced Benefit	Reduced Benefit
48	25%	2%
49	25	2
50	25	2
51	25	2
52	25	
53	25	
54	50	
55 +	100	

Post-Retirement mortality is assumed to be 95% of the 1971 Group Annuity Mortality Male and Female Tables, projected to 1984.

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

Probabilities of Separation from Active Employment before Age & Service Retirement
Percentage of Active Members Separating Within Next Year

Sample Age	Disability	Death Men	Death Women	Other
20	0.08%	0.04%	0.03%	3.10%
25	0.08	0.05	0.03	2.80
30	0.08	0.05	0.04	2.10
35	0.18	0.07	0.05	1.20
40	0.39	0.10	0.07	0.60
45	0.70	0.18	0.10	0.50
50	1.12	0.30	0.18	0.50
55	1.67	0.50	0.32	0.50

Short-Term Solvency Test

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

A short-term solvency test is one means of checking a system's progress under its funding program. In a short-term solvency test, the plan's present assets (cash and investments) are compared with (1) active member contributions on deposit, (2) the liabilities for future benefits to present retired lives, and (3) the liabilities for service already rendered by active members. In a system that has been following the discipline of level percent financing, the liabilities for active member contributions on deposit (1) and the liabilities for future benefits to present retired lives (2) will be fully covered by present assets, except in rare circumstances. In addition, the liabilities for service already rendered by active members will be partially covered by the remainder of present assets. Generally, if the system has been using level cost financing, the funded portion of column 3 will increase over time.

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

Year	(1) Active Member Contributions	(2) Retirants, Beneficiaries & Vested Deferreds	(3) Active Members (Employer Financed Portion)	Valuation Assets	Portion of Accrued Liabilities Covered by Reported Assets (1)	(2)	(3)
1990▲▶	$33,450,086	$99,323,100	$128,850,151	$188,239,168	100	100	43
1991	37,105,492	108,596,896	143,521,590	222,109,351	100	100	53
1992	40,347,533	120,178,654	148,746,295	258,609,387	100	100	66
1993▲	44,494,424	137,111,461	169,850,540	297,050,305	100	100	68
1994▶	47,947,979	156,363,745	169,695,043	330,787,044	100	100	75
1995▲▶	50,547,938	189,010,261	184,793,495	370,425,462	100	100	71
1996	52,297,873	218,164,080	184,052,234	411,316,254	100	100	77
1997▲	53,264,614	260,095,357	183,557,364	460,667,112	100	100	80
1998	53,797,385	291,066,407	188,092,953	509,859,924	100	100	88
1999▲	55,558,145	333,340,728	188,111,212	546,510,779	100	100	84

▲ Plan Amendment

▶ Assumption or method change

Postemployment Health Care And Medicare Reimbursement

Year	Covered Lives	Med. B Reimb.	Medical	Prescriptions	Unallocated	Total Costs	Cost per Covered Life	Payroll	% of Payroll
1990	925	$77,363	$1,009,153	$213,716	($94,251)	$1,205,981	$1,304	$45,679,355	2.6%
1991	976	86,740	1,267,327	251,004	180,583	1,785,654	1,830	48,488,406	3.7
1992	1,045	97,117	1,643,276	298,493	76,046	2,114,932	2,024	50,235,996	4.2
1993	1,081	118,109	1,553,628	299,410	(90,525)	1,880,622	1,740	55,781,585	3.4
1994	1,133	141,384	1,239,008	320,360	3,314	1,704,066	1,504	58,116,787	2.9
1995	1,225	149,440	1,512,523	364,096	(66,83)	1,959,225	1,599	59,825,356	3.3
1996	1,379	155,769	1,353,932	491,525	21,382	2,022,608	1,467	59,239,349	3.4
1997	1,499	166,743	1,623,640	849,321	(140,526)	2,499,178	1,667	62,233,299	4.0
1998	1,602	171,223	2,147,334	1,122,248	(311,917)	3,128,888	1,953	65,153,864	4.8
1999	1,772	197,606	3,315,914	1,364,990	619,894	5,498,404	3,103	66,017,381	8.3

Active Member Data

Year Ending December 31	Active Members	Annual Payroll	Average Annual Salary	% Increase in Average Pay
1990	1,301	$45,679,355	$35,111	3.2%
1991	1,326	48,488,406	36,567	4.1
1992	1,371	50,235,996	36,642	0.2
1993	1,467	55,781,585	38,024	3.8
1994	1,465	58,116,787	39,670	4.3
1995	1,455	59,825,356	41,117	3.6
1996	1,375	59,239,349	43,083	4.8
1997	1,445	62,233,299	43,068	0.0
1998	1,446	65,153,864	45,058	4.6
1999	1,445	66,017,381	45,687	1.4

Retirant Data

Year Ending December 31	Added to Rolls	Removed from Rolls	Retirants	Total Monthly Pensions	Average Pension
1990	—	—	654	$660,112	$1,009
1991	40	19	675	732,576	1,085
1992	50	19	706	819,869	1,161
1993	27	10	723	927,168	1,282
1994	48	7	764	1,057,577	1,384
1995	68	6	826	1,184,405	1,434
1996	113	28	911	1,402,909	1,540
1997	96	23	984	1,645,613	1,672
1998	96	20	1,060	1,914,091	1,806
1999	89	26	1,123	2,123,471	1,891

Analysis of Financial Experience

Year Ending December 31, 2000

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

Type of Activity	Gain (or Loss) for Year
Age & Service Retirements. If members retire at older ages or with lower final average pay than assumed, there is a gain. If younger ages or higher average pays, a loss.	$352,470
Disability Retirements. If disability claims are less than assumed, there is a gain. If more claims, a loss.	(1,169,222)
Death-in-Service Benefits. If survivor claims are less than assumed, there is a gain. If more claims, a loss.	(197,970)
Withdrawal From Employment. If more liabilities are released by withdrawals than assumed, there is a gain. If smaller releases, a loss.	854,241
Pay Increases. If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	6,857,260
Contribution Income. If more contributions are received than expected, there is a gain. If less, a loss.	0
Investment Income. If there is greater investment income than assumed, there is a gain. If less income, a loss.	1,632,154
Death After Retirement. If retirants live longer than assumed, there is a loss. If not as long, a gain.	Not Available
Other. Miscellaneous gains and losses resulting from data adjustments, timing of financial transactions, valuation methods, and other events.	(5,316,545)
Gain (or Loss) During Year From Financial Experience	3,012,388
Non-Recurring Items. Adjustments for plan amendments and other adjustments.	(12,337,525)
Composite Gain (or Loss) During Year	($9,325,137)

Plan Summary

Purpose

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

Administration

The general administration and management of the Ohio State Highway Patrol Retirement System are vested in the State Highway Patrol Retirement System Board of Trustees under Ohio Revised Code Chapter 5505. The seven-member Board consists of the following:

Superintendent of the State Highway Patrol
Auditor of State
Four elected employee members
One elected retirant member

The employee members are elected to four-year terms by members of the plan. Any contributing member is eligible to become an employee member candidate, and all contributing members are eligible to vote in the employee member election process. Any retirant who is an Ohio resident, and who was not an employee member of the Board at retirement, is eligible to become a retirant member candidate. All retirants are eligible to vote in the retirant member election process.

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

Employer Contributions

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

Member Contributions

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

Service Credit

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

Retirement

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

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

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

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

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

Resignation or Discharge. A member who voluntarily resigns or is discharged from the State Highway Patrol for any reason other than dishonesty, cowardice, intemperate habits, or conviction of a felony, and who has accumulated at least 15 but less than 20 years of total service credit, receives a pension equal to one and one-half percent of the final average salary, multiplied by the number of years of service. This pension becomes payable at age 55.

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

Payment Plans

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

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

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

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

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

Survivor Benefits

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

If a member was not eligible for a retirement pension at the time of death, the surviving spouse receives a monthly survivor benefit of $900.00.

The surviving spouse of a deceased retirant, or of a member who was eligible to receive a retirement pension at the time of death, receives a monthly benefit of $900.00 or one-half the monthly pension, whichever is greater.

Each surviving dependent child receives $150.00 monthly until age 18, or if a full-time college student, until age 23.

Health Care

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

Medicare

Benefit recipients who submit proof of Medicare Part B coverage are reimbursed for their basic Part B premium, up to $45.50 monthly.

Cost of Living

At age 53 and thereafter, retirants receive an annual cost of living adjustment (COLA) equal to the increase in the Consumer Price Index for the year, plus the retirant's banked points, up to a maximum adjustment of 3.0%. Survivor benefit recipients are eligible for a COLA increase after receiving benefits for twelve months. Disability benefit recipients are eligible for a COLA increase after receiving benefits for sixty months, or at age 53, whichever occurs first.

Death After Retirement

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

Statistical Section

Revenues by Source

Year	Employee Contribution	Employer Contribution	Employer Contribution Rate as a % of Covered Payroll	Net Investment Income ▼◀	Other Income ▶	Total
1991	$5,137,607	$11,757,826	24.2%	$15,317,957	$133,816	$32,347,206
1992	5,355,985	12,312,378	24.5	19,390,741	129,534	37,188,638
1993	5,755,510	13,405,126	24.5	25,646,009	820,951	45,627,596
1994	6,178,165	14,329,203	4.5	61,260,626	191,007	81,959,001
1995	7,303,832	13,889,107	24.5	81,951,492	356,435	103,500,866
1996	6,223,468	14,706,925	24.0	61,852,801	494,651	83,277,845
1997	6,146,774	14,779,887	24.0	77,695,690	330,119	98,952,470
1998	6,573,762	15,788,189	24.0	14,425,885	503,509	37,291,345
1999 ▲	6,708,497	16,353,264	23.5	40,491,324	444,135	63,997,220
2000	6,954,301	16,579,300	23.5	(17,235,267)	925,998	7,224,332

Expenses by Type

Year	Administrative ▼	Benefits	Refunds	Transfers ▶	Total
1991	$617,877	$10,181,571	$107,757	-----	$10,907,205
1992	952,752	11,540,409	133,206	-----	12,626,367
1993	1,343,946	12,141,793	162,564	$134,135	13,782,438
1994	1,499,291	14,189,938	45,387	13,908	15,748,524
1995	1,948,308	15,565,242	207,795	127,478	17,848,823
1996	730,844	17,942,756	67,323	140,376	18,881,299
1997	828,229	21,181,593	231,705	98,810	22,340,337
1998	762,523	24,659,523	164,054	281,606	25,867,706
1999	528,021	29,822,440	529,654	196,414	31,076,529
2000	644,592	31,763,206	363,067	904,972	33,675,837

▲Rate changed by Board, effective July 1, 1999.
▶Prior to 1993, transfers to other Ohio Retirement Systems were shown as deductions from Other Income.
▼Effective 1996, investment expenses are reflected in net investment income rather than in administrative expenses.
◀Effective 1997, net investment income reflects adjustments to fair value.

Average Monthly Benefit by Type

Year	Service	Disability	Survivor	Total
1991	$1,276	$906	$553	$1,082
1992	1,363	933	576	1,161
1993	1,502	1,158	587	1,282
1994	1,614	1,210	610	1,384
1995	1,672	1,265	605	1,434
1996	1,785	1,364	776	1,540
1997	1,941	1,438	808	1,672
1998	2,086	1,583	841	1,806
1999 ▩	2,183	1,757	858	1,891

▩ 1999 is the latest actuarial evaluation.

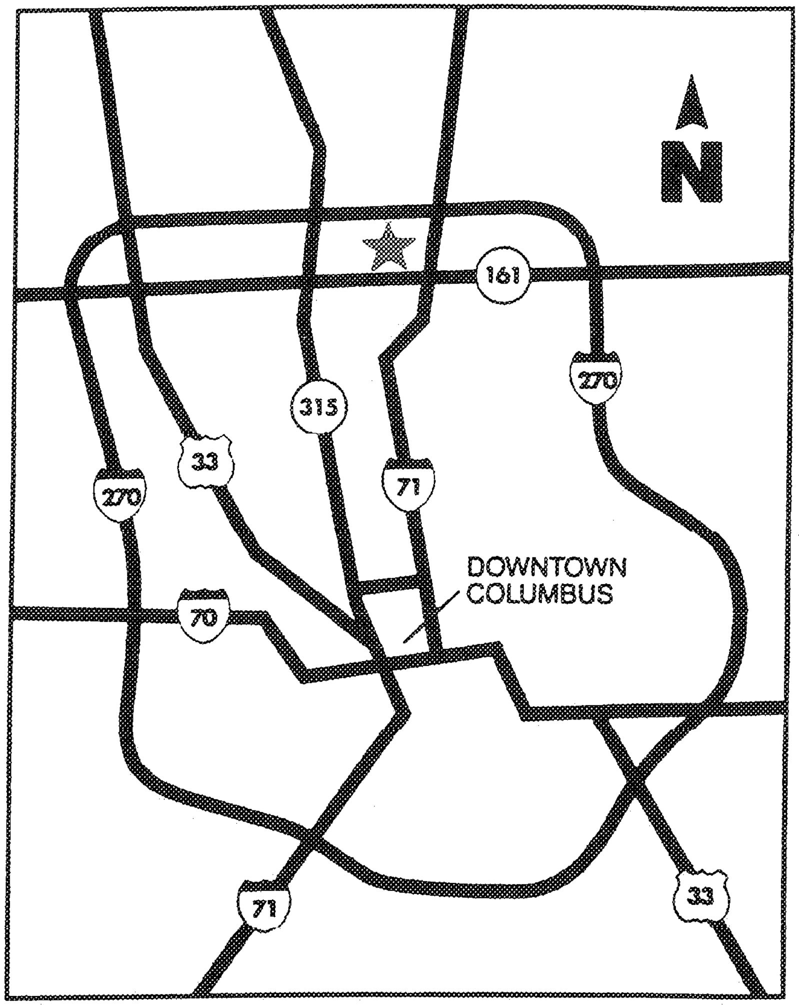
Number of Benefit Recipients by Type

Year	Service Retirement	Disability Retirement	Deferred Retirement	Survivor Benefits	Total
1991	477	36	12	162	687
1992	509	35	10	162	716
1993	527	36	12	160	735
1994	568	35	12	161	776
1995	617	39	12	170	838
1996	664	44	8	203	919
1997	725	44	9	215	993
1998	793	45	6	219	1,063
1999	833	57	4	230	1,124
2000	858	65	3	249	1,175

Benefit Expenses by Type

Year	Health Care	Service ✧	Disability	Survivor	Total
1990	$1,205,981	$6,061,981	$358,675	$1,054,200	$8,680,837
1991	1,785,654	6,920,455	377,369	1,098,093	10,181,571
1992	2,114,932	7,960,373	399,013	1,066,091	11,540,409
1993	1,880,622	8,741,102	405,983	1,114,086	12,141,793
1994	1,704,066	10,814,350	473,131	1,198,390	14,189,937
1995	1,959,225	11,771,088	533,619	1,301,310	15,565,242
1996	2,022,608	13,596,871	633,663	1,689,614	17,942,756
1997	2,499,178	15,830,921	785,875	2,065,619	21,181,593
1998	3,128,888	18,497,476	855,775	2,177,384	24,659,523
1999	5,498,404	22,094,306	1,139,917	1,089,813	29,822,440
2000	4,720,260	23,015,278	1,407,201	2,620,466	31,763,206

✧ Includes reduced, early retirement, & death benefits.



Highway Patrol Retirement System
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e-mail system@ohprs.org
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Office Hours: 8:00 am to 4:30 pm

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

STATE OF OHIO
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OHIO STATE HIGHWAY PATROL RETIREMENT SYSTEM

FRANKLIN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JULY 24, 2001