



OHIO DEFERRED COMPENSATION

OHIO PUBLIC EMPLOYEES DEFERRED COMPENSATION PROGRAM

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the year ended December 31, 2012



Dave Yost • Auditor of State

Members of the Board
Ohio Public Employees Deferred Compensation Program
257 East Town Street, Suite 400
Columbus, Ohio 43215

We have reviewed the *Independent Auditors' Report* of the Ohio Public Employees Deferred Compensation Program, Franklin County, prepared by Clark, Schaefer, Hackett & Co., for the audit period January 1, 2012 through December 31, 2012. 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 Public Employees Deferred Compensation Program is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

June 10, 2013

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**OHIO PUBLIC EMPLOYEES
DEFERRED COMPENSATION PROGRAM
Comprehensive Annual Financial Report
For the year ended December 31, 2012**

R. Keith Overly, Executive Director
Paul D. Miller, Assistant Director-Finance

257 East Town Street, Suite 400, Columbus, Ohio 43215-4623

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TABLE OF CONTENTS

INTRODUCTORY SECTION.....	3
CERTIFICATE OF ACHIEVEMENT	4
ORGANIZATIONAL CHART.....	5
TRANSMITTAL LETTER	6
PLAN SUMMARY	11
FINANCIAL SECTION	17
INDEPENDENT AUDITORS' REPORT.....	18
MANAGEMENT'S DISCUSSION AND ANALYSIS	20
<u>BASIC FINANCIAL STATEMENTS</u>	
STATEMENTS OF PLAN NET POSITION AVAILABLE FOR BENEFITS	24
STATEMENTS OF CHANGES IN PLAN NET POSITION AVAILABLE FOR BENEFITS	25
NOTES TO THE FINANCIAL STATEMENTS	26
SUPPLEMENTAL COMBINING SCHEDULE OF PLAN NET POSITION AVAILABLE FOR BENEFITS	45
SUPPLEMENTAL COMBINING SCHEDULE OF CHANGES IN PLAN NET POSITION AVAILABLE FOR BENEFITS	46
SUPPLEMENTAL SCHEDULE OF ADMINISTRATION FUND DEDUCTIONS	47
SUPPLEMENTAL SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS	48
SUPPLEMENTAL SCHEDULE OF INVESTMENT EXPENSES	49
INVESTMENT SECTION.....	50
INVESTMENT SUMMARY	51
SCHEDULE OF PERFORMANCE VERSUS BENCHMARKS.....	52
INVESTMENT MIX	53
STABLE VALUE OPTION DIVERSIFICATION	54
STATISTICAL SECTION	55
STATISTICAL INFORMATION.....	56
CHANGES IN NET PLAN NET POSITION AVAILABLE FOR BENEFITS	57
EMPLOYEE PARTICIPATION	58
DEFERRAL/ACCOUNT TRENDS.....	58
NUMBER OF EMPLOYERS CONTRIBUTING	59
PRINCIPLE CONTRIBUTING EMPLOYERS.....	59
BENEFIT PAYMENTS.....	60

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OHIO DEFERRED COMPENSATION

OHIO PUBLIC EMPLOYEES DEFERRED COMPENSATION PROGRAM

INTRODUCTORY SECTION

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Ohio Public Employees
Deferred Compensation Program

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2011

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.



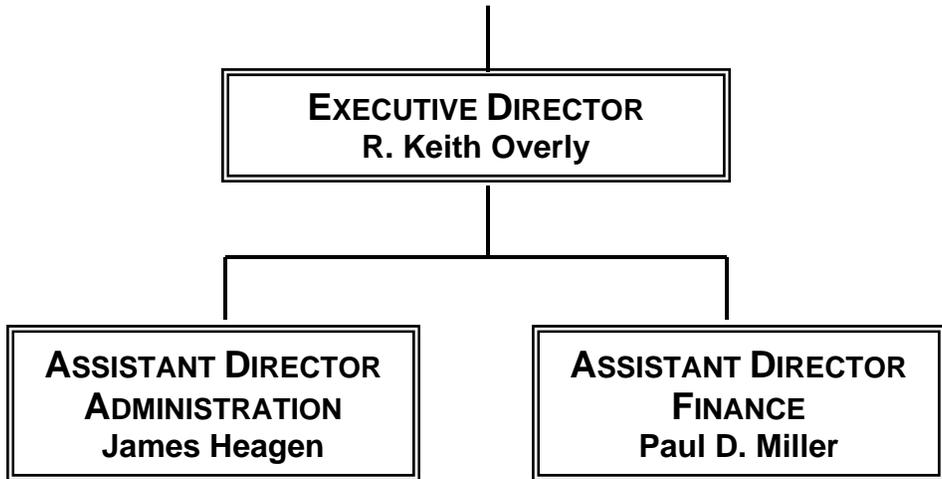
Christopher P. Morill

President

Jeffrey R. Emer

Executive Director

**ORGANIZATIONAL CHART
AS OF 12/31/12**



Advisors to the Board

Independent Public Accountants

Clark, Schaefer, Hackett & Co.

Legal Counsel

Mike DeWine, Attorney General

Investment Consultant

Hewitt EnnisKnupp



OHIO DEFERRED COMPENSATION

OHIO PUBLIC EMPLOYEES DEFERRED COMPENSATION PROGRAM

May 15, 2013

Dear Chair and Members of the Board:

We are pleased to present the Comprehensive Annual Financial Report (CAFR) for the Ohio Public Employees Deferred Compensation Program (the Program) for the year ended December 31, 2012. The CAFR was prepared to assist the user in understanding the functions of the Program and how participants use the Program to supplement their retirement income. Program management is responsible for the contents of this presentation. Management's Discussion and Analysis (MD&A) complements this letter of transmittal and should be read in conjunction with it.

The Ohio Revised Code created the Deferred Compensation Board (the Board) to administer the Program for all eligible employees. The Program provides services to more than 202,000 participant accounts from 1,784 State and local government employers. The State created the Program as a separate legal entity from the State and does not appoint a voting majority of the Program's governing Board. The Program is self-funded and governed by its own Board. The State does not approve the Program's budget or set Program rates or charges. Therefore, the Program is not part of the State of Ohio reporting entity.

Program History and Overview

The Program first received deferrals in 1976 pursuant to Internal Revenue Code (IRC) Section 457 and Ohio Revised Code Section 148. All public employees who are eligible to participate in one of the State's statutory retirement systems (including the Cincinnati Retirement System) are eligible to contribute, on a pre-tax basis, a portion of their annual includable compensation. Withdrawals may be made at retirement, death, or termination of employment, or due to certain qualifying unforeseeable emergencies. Participation is strictly voluntary, and the Program is intended to supplement retirement benefits from the other statutory retirement systems.

Economic Conditions and Outlook

All Program participants are members of one of the State's statutory retirement systems, and changes in pension benefits or policies at those systems will directly affect the participants' financial situation in retirement. For several years, management of these retirement systems have proposed changes that would modify retirement benefits, but enhance the long-term financial health of the systems. In September 2012, the Ohio legislation and governor enacted these pension reform laws.

The pension law changes included: increased pension contribution rates, higher retirement age requirements, new guidelines for cost-of-living adjustments, and new formulas to calculate benefits. Generally, Ohio's public employees will be working a longer career and receiving a lower pension. These pension changes should make individual savings a more important part of public employees' overall retirement plan, and the Program is positioned to fulfill these needs. However, the short-term result of pension reform was an immediate increase in retirements before the new pension rules became effective.

The national and local economies continue to recover from the financial crisis of 2008. The number of jobs in Ohio is now increasing, which normally leads to increased income tax collections by State and local governments, which in turn could help stabilize these governmental budgets. The improved financial position of both public employers and their public employees is beneficial to Program operations.

Also since the financial crisis of 2008, the U.S. stock markets have shown four straight years of positive performance. As an example, the S&P 500 index fund offered by the Program returned 26.6 percent, 15.1 percent, 2.1 percent, and 16.0 percent for the years 2009 through 2011 respectively. The positive market performance has helped restore the participant investment losses of 2008, given participants the confidence to maintain or increase their payroll contributions, and encouraged other public employees to join the Program.

The Program achieved these all-time high levels in 2012:

- Year-end assets are \$9.2 billion.
- The number of contributing employers is 1,784.
- The number of participant accounts increased to 202,901.
- Average account balance rose to \$45,197.
- The number of accounts receiving a benefit distribution is 32,106.
- Annual benefit distributions are \$277.6 million.

During 2012, the Program amended its administrative fund reserve policy to maintain six to eighteen months of annual operating expenses in reserve. As of December 31, 2012, the Program had approximately twelve months of operating expenses in cash reserves and was in good financial shape to face negative market fluctuations, which could adversely affect operating revenues.

Major Initiatives

During 2012, the Program focused its communication and education plans on retirement income adequacy. The goal was to raise awareness about how much income would be needed in retirement, and whether participants were saving enough today to create the necessary income to achieve a successful retirement.

The Program's most popular investment option continues to be the Stable Value Option (SVO). The SVO is a conservative investment option that invests in a diversified mix of fixed-income securities and guarantee contracts issued by financial institutions and insurance companies. As the Program matures and more participants are carrying account balances into and through retirement, the SVO will continue to play an important role in the Program's investment line-up.

During 2012, Program management continued to work with its consultants and investment managers to restructure many of the SVO policies, strategies, and contract terms. The results included:

- Identify and fund two new SVO investment managers (who meet the Program's women and minority-owned, Ohio-based, and emerging business enterprises policy).
- Work to replace one guarantee provider, who is reducing its wrap book of business.
- Identify and negotiate contract terms with two new guarantee providers.
- Identify and negotiate contract terms with two new investment managers.
- Develop an allocation plan to move some assets from three existing SVO managers to the two new investment managers during February 2013.

Financial Information and the Internal Control Structure

Program management is responsible for the information in this report and for establishing and maintaining a system of internal controls sufficient to provide integrity to all financial information and to permit reporting in conformity with accounting principles generally accepted in the United States of America. We believe that the information presented in this CAFR is accurately and fairly presented in all material respects. Internal controls can provide reasonable, but not absolute assurance that Program objectives will be met. The concept of reasonable assurance implies a high degree of assurance, constrained by the costs and benefits of establishing incremental control procedures.

The "Plan Net Position Available for Benefits" and "Changes in Plan Net Position Available for Benefits" are included as a "Pension Fund" in the Financial Section of this presentation. The Program reports all financial activity on the accrual basis of accounting. Additions are recorded in the period in which they are earned, and deductions are recorded in the period in which the liability is incurred.

Excess Administration Fund cash is held in money market accounts and certificates of deposit. Cash is held for capital acquisitions and is used to supplement monthly operations if administrative expenses exceed revenues during a given month. Program management seeks to maintain sufficient cash reserves to cover six to eighteen months of operating expenses. The Program held about twelve months of operating expenses in reserve as of December 31, 2012.

Program Additions

Additions come from investment income earned on participant accounts, employee contributions, transfers from other plans, and recordkeeping reimbursements. Net investment income of \$1.48 billion over the past three years was the largest source of Program additions. Employee contributions were only slightly less, adding \$1.32 billion over the three years.

A downturn in the number of public sector jobs continues to negatively affect employee contributions, which were \$427 million in 2012 compared to \$448 million in 2011 and \$446 million in 2010. The positive financial markets and investment performance have begun to positively influence behavior, and the number of participants actively deferring at year-end was 0.4 percent higher compared to last year-end. The amount transferred into the Program from other retirement plans rose 36.8 percent between 2012 and 2011.

Program Deductions

During 2012, the amount of participant distributions increased by 6.1 percent over 2011 and 16.9 percent over 2010. The continued retirement of baby-boomers has increased the pool of participants eligible to take an account distribution, and Ohio pension reforms encouraged many to finalize their retirement plans prior to 2013.

The amounts transferred to other eligible retirement plans, including transfers to defined benefit plans to purchase service credit, increased 3.8 percent between 2012 and 2011. In 2012, administrative expenses increased by 2.9 percent over the prior year, primarily due to higher customer service costs.

Investments

The Program is a self-directed plan, so participants choose the investment options for their current deferrals and balances. The Board has adopted an investment policy to ensure that a sufficient number of suitable, diverse investment options are offered.

The SVO continues to be the most popular investment choice and accounts for 48.7 percent of all invested assets. The one-year return on SVO investments was 2.7 percent in 2012. In addition to the SVO, participants can select from 15 mutual fund options or select a target date fund to create a diversified portfolio. Investment performance results and related investment expense ratios are reported to participants in their annual and quarterly statements, as well as the Program's newsletter and website. A listing of investment options and their performance returns is included in the Investment Section of this report.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) most recently awarded a Certificate of Achievement for Excellence in Financial Reporting to the Ohio Public Employees Deferred Compensation Program for the fiscal year ended December 31, 2011. The Certificate of Achievement is the highest form of recognition for excellence in State and local government financial reporting. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized CAFR, whose contents conform to program standards. Such reports must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current CAFR continues to conform to Certificate of Achievement program requirements, and will be submitted to the GFOA to determine its eligibility for another Certificate of Achievement.

Independent Auditors

The financial statements of the Program for the years ended December 31, 2012 and 2011 were audited by Clark, Schaefer, Hackett & Co. under contract with the Auditor of State of Ohio.

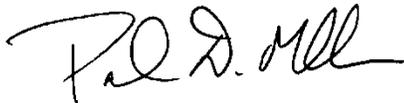
Acknowledgments

The preparation of this report reflects the combined efforts of the Program's staff under the direction of the Board and its Audit Committee. The purpose of this report is to provide complete and reliable information as a basis for making decisions and as a means for determining responsible stewardship over the assets contributed by participants.

Respectfully submitted,



R. Keith Overly
Executive Director



Paul D. Miller, CPA
Assistant Director-Finance

PLAN SUMMARY

Ohio Revised Code Section 148 established the Ohio Public Employees Deferred Compensation Plan (the Plan), which will at all times comply with the current Internal Revenue Code and Internal Revenue Service Regulations. The Plan is effective as to each eligible employee (i.e. public employees as defined in Section 148.01(A)(1) of the Ohio Revised Code) upon the date he or she becomes an active participant by executing a participation agreement with the employer.

This Plan summary includes all Plan revisions approved by the Board that were effective as of December 31, 2012. Participants should refer to the Plan Document for complete Plan information.

Delegation by Employer - The participating employers have delegated their administrative powers, duties, and responsibilities under the Plan to the Ohio Public Employees Deferred Compensation Board.

Commencement of Participation - Each eligible employee shall be permitted to participate under this Plan. An eligible employee shall elect to participate and become an active participant by executing a participation agreement with their employer. A participation agreement shall specify:

- a. The amount of the active participant's compensation, which the employer and the participant agree to defer, subject to limitations;
- b. The date as of which reduction and deferral of compensation pursuant to the participation agreement shall begin, which date shall be as early as administratively practicable, but no earlier than the first day of the first calendar month following the execution of the participation agreement; and
- c. The investment option(s) selected by the participant.

Maximum and Minimum Deferrals - Normally, the maximum amount that may be deferred by an active participant into the Plan in any Plan year shall not exceed the lesser of (A) \$17,000 for the year 2012, and then indexed as allowed by law in future years or (B) 100 percent of an active participant's includable compensation (as defined by the Internal Revenue Code). In addition, for the year 2012, participants who have attained age 50 may defer an additional \$5,500, which amount may increase in future years as indexed as allowed by law.

Under certain circumstances, participants may defer up to two times the normal annual deferral limit during each of the last three years prior to normal retirement age if the participant contributed less than the maximum amount during earlier years.

The limitations on the maximum amount of deferral above shall be reduced by any amount excluded from the participant's gross income for the Plan year under another Section 457 plan maintained by any employer.

The minimum deferral amount per pay shall be: (a) weekly pay \$7.00, (b) bi-weekly pay \$15.00, (c) semi-monthly pay \$15.00, or (d) monthly pay \$30.00. A minimum allocation to any investment option shall be \$10.00 per pay, or the full deferral if it is less than \$10.00.

Amendments of Participation Agreements - The election of an eligible employee to participate under the Plan is irrevocable as to all amounts actually deferred under the participation agreement. The participant may, by amendment of the participation agreement or other forms authorized by the administrator, do any of the following: (a) change the specification of any investment option as to the amounts to be deferred in the future; (b) terminate the election to be an active participant; or (c) change the amount of compensation to be deferred. An amendment or termination shall be effective as early as administratively practicable, but not earlier than the first day of the following calendar month.

Exchanges - A participant (or beneficiary, if the participant has died) may make exchanges between investment options. Any such exchange shall be effective at the price next computed following receipt of the exchange request and shall be subject to such restrictions as are established by the Plan administrator. Participants who complete four exchanges in any 45-day period will lose their electronic trading privileges, and be restricted to one mail-in exchange every five days for the following twelve-month period.

Maintenance of Accounts - The Plan administrator shall establish an account for each participant to which shall be credited or charged, as the case may be, amounts deferred under the Plan and any increase or decrease of the account value of the investment options specified in the participation agreement or any amendment thereto. All investment options offered under this Plan must be offered by persons, companies, or entities authorized and duly licensed by the State of Ohio and appropriate Federal agencies regulating such investments to do business in the State of Ohio. The Plan and the employer shall not be responsible for any decrease in value of a participant's account resulting from capital or market changes or any other changes occurring in the investment option or the participant's account. The Plan administrator may from time to time assess reasonable service charges against all or any portion of the deferred amounts or accounts to defray costs associated with the implementation and administration of the Plan.

Crediting of Accounts - Each participant's account shall be credited with amounts authorized for deferral and received by the Plan administrator.

Report - A report of the total amount credited to a participant's account, in such form as the Plan administrator determines, shall be furnished to the participant not more than 60 days after the end of each calendar quarter. All reports to a participant shall be based on the net fair market value of the investment options as of the end of the reporting period, to the extent such values are available to the Plan administrator.

Assets Held in Trust - Plan assets are not the property of participating employees. All Plan assets and income shall be held by the Board in trust on behalf of the employer for the exclusive benefit of participants and their beneficiaries. All assets, whenever contributed to the Plan, are assigned to the trust established by the Board.

Rollovers - Any participant who has separated from service with an employer with which the participant maintained an account under an eligible retirement plan may, upon proper written request, rollover the account value from that account to the participant's Ohio Public Employees Deferred Compensation Plan account.

Any participant who has separated from service with an employer with which the participant maintained an account with the Ohio Public Employees Deferred Compensation Plan may, upon proper written request, rollover the account value from that account directly to another eligible retirement plan.

Service Credit Purchase - Participants may use all or a portion of their account balances as a direct trustee-to-trustee transfer to a governmental defined benefit system, which permits the purchase of permissive service credit or the repayment of service credits.

In-Service Transfers - If an employer offers multiple IRC 457 deferred compensation plans, which meet certain conditions, the Plan will allow participants to move their account balances between plans as an in-service transfer prior to severance from employment.

Election of Benefit Payment Date - (a) Participant - Upon severance from employment, a participant may elect a date to begin receiving benefit payments from the Plan. Benefit payments may begin after verification of severance, receipt of final deferral, and completion of the Withdrawal Election Form. Payments must begin no later than December 31 of the year in which the participant reaches age 70½. If the participant has not had a severance from employment as of this date, then payments must begin no later than December 31 of the year in which the participant has a severance from employment.

(b) Beneficiary - If a participant or spousal beneficiary dies before his or her account has been exhausted, then the remaining account balance shall be paid to the designated beneficiary. The beneficiary shall have the right to elect a benefit option, subject to the following limitations. (1) If a participant dies on or after the required minimum distribution date, payments shall continue to be paid to the beneficiary at least as rapidly as they were being paid to the participant. (2) If a participant dies before the required minimum distribution date, the beneficiary may choose a payment option subject to the following requirements: (a) if the beneficiary is the participant's surviving spouse, distribution may be delayed until December 31 of the year in which the participant would have reached age 70½, or (b) if the beneficiary is someone other than the surviving spouse, distribution of the account must begin by December 31 of the year following the participant's death, or (c) if the beneficiary is not a person, such as a trust or estate, the entire account must be distributed by the end of the calendar year which contains the fifth anniversary of the participant's death. (3) If a spousal beneficiary dies after the participant, but before the full account value is distributed, any remaining account value will be paid to the spousal beneficiary's designated beneficiaries in a lump-sum payment.

Election of Benefit Payment Options - All distributions are subject to the requirements of IRC Sections 457(d) and 401(a)(9) and the regulations there under. The Plan administrator will annually determine if the participant's or beneficiary's annual distributions meet their minimum distribution requirements and adjust the amount, if necessary, to comply with these provisions.

Initial benefit payment elections and subsequent changes will be effective only if made on forms provided or in the manner prescribed by the Plan administrator and received by the date determined by the Plan administrator. Purchased annuity benefit payments options may not be changed once payments have begun. No benefit payment option shall be available which is not provided for on the benefit payment election form provided by the Plan administrator or is not permitted by the Plan document. Benefit payments are taxable income to participants and beneficiaries in the year of distribution and are subject to the applicable tax withholding rules.

Require Elections for Benefit Payment Date and Option - (a) Participant - If a participant does not choose a benefit payment date, benefit payments shall begin by December 31 of the year the participant reaches age 70½. Benefits shall be paid for a fixed time period over the maximum number of years allowed by the required minimum distribution tables.

(b) Beneficiary - If a spousal beneficiary of a participant who dies before the required minimum distribution date does not elect a benefit payment date, benefit payments shall begin by December 31 of the year the participant would have reached age 70½. If a non-spousal beneficiary of a participant does not choose a benefit payment date, benefit payments shall begin by December 31 of the year following the participant's death. Benefits shall be paid for a fixed time period for

the maximum number of years allowed by the required minimum distribution tables.

Emergency Withdrawals - A participant may request an unforeseeable emergency withdrawal by submitting that request in writing on the approved form to the Plan administrator's staff. If the request is denied, a request for review of the staff determination may be made in writing. If this review fails to confirm a claim of unforeseeable emergency, an appeal may be made in writing to the Board's Unforeseeable Emergency Appeals Committee. The decision of the Appeals Committee may be appealed to the Ohio Public Employees Deferred Compensation Board. The decision of the Board shall be final and not subject to further appeal. If at any time a request for withdrawal is approved, the Plan administrator may thereupon distribute so much of the participant's account as is necessary to provide the amount approved to meet the unforeseeable emergency.

Acceleration - If upon a participant's separation from service and the Board's receipt of the last deferral, the participant's account value is less than \$1,000, the Plan administrator may accelerate the payment of benefits otherwise due in the future and pay to such participant the full account value in a lump sum less the required tax withholding.

Qualified Domestic Relations Order - The Plan administrator shall comply with the provisions of a domestic relations order which the Plan administrator determines to constitute a Qualified Domestic Relations Order, as defined by the Internal Revenue Code. The Plan permits distributions at any time to an alternative payee under a Qualified Domestic Relations Order.

Small Balance Distribution - A participant may elect a small balance distribution if their account value is \$5,000 or less, the full value of the account is to be distributed, the participant has not deferred into the Plan for two years, the participant agrees not to recommence deferrals to the Plan for one year, and there has been no prior distribution under this Plan provision.

Benefit Payment Options - The following benefit payment options are available under the Plan. Definitions of each are provided on the benefit payment election form.

1. Payments of an annual percent
2. Payments of a dollar amount
3. Systematic withdrawals for a fixed time period
4. Partial lump sum payout
5. Lump sum payout

Designation of Beneficiaries - At any time after commencing participation in the Plan, a participant, or spousal beneficiary may designate a beneficiary or joint annuitant for any benefits that the participant or spousal beneficiary is entitled to

receive under the Plan and which are unpaid at the time of the participant's death, on a form filed with and accepted by the Plan administrator. If a participant or spousal beneficiary dies without having a proper beneficiary form completed and on file, the benefits payable on or after the date of death shall be paid to the fiduciary of the probate estate; provided, however, that if the Plan administrator does not receive notice that a fiduciary has been appointed and qualified within 90 days after the death, payment may be made to those persons entitled to receive the property under intestacy laws of the jurisdiction of their residence at the time of the participant's death.

If a non-spousal beneficiary dies while receiving Plan benefits, any remaining benefits which the non-spousal beneficiary is entitled to receive under the Plan and which are unpaid at the time of the beneficiary's death shall be paid in a lump sum amount determined under each applicable investment option to the fiduciary of the beneficiary's probate estate; provided, however, that if the Plan administrator does not receive notice that a fiduciary has been appointed and qualified within 90 days after the death of the beneficiary, payment shall be made to those persons entitled to receive the beneficiary's property under the intestacy laws of the jurisdiction of the beneficiary's residence at the time of death.

If a trust is named as beneficiary, satisfactory evidence must be furnished to the Plan that the trust is the only beneficiary qualified to receive payment. The Plan will be fully discharged of liability for any action taken by the trustee and for all amounts paid to the trustee. In all dealings with the trust, the Plan will be fully protected against the claims of every other person. The Plan will not recognize a change in the trust as beneficiary unless the change is documented on forms provided by the Plan administrator.

Designation Forms - A participant may change any beneficiary or joint annuitant at any time by filing with the Plan administrator a dated change of beneficiary form or joint annuitant form. These designations shall be on forms provided by the Plan administrator and shall be effective on the date filed with and accepted by the Plan administrator. Any change of joint annuitant must be made prior to commencement of annuity payments.



OHIO DEFERRED COMPENSATION

OHIO PUBLIC EMPLOYEES DEFERRED COMPENSATION PROGRAM

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Ohio Public Employees Deferred Compensation Board
Columbus, Ohio

Report on the Financial Statements

We have audited the accompanying statements of plan net position available for benefits of the Ohio Public Employees Deferred Compensation Program (the Program) as of December 31, 2012 and 2011, and the related statements of changes in plan net position available for benefits for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net financial position available for benefits of the Program, as of December 31, 2012 and 2011, and the changes in plan net position available for benefits for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Change in Accounting Principles

As described in Note 17, during the year ended December 31, 2012, the Program adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*; GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*; and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

2525 north limestone street, ste. 103
springfield, oh 45503

www.cshco.com
p. 937.399.2000
f. 937.399.5433

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 20 to 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

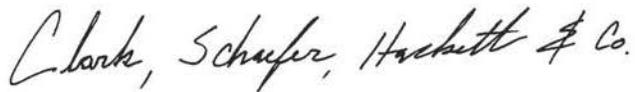
Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Program's basic financial statements. The introductory section (pages 4 to 16), the supplementary schedules (pages 45 to 49), the investment section (pages 51 to 54), and the statistical section (pages 56 to 60) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary schedules are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section, the investment section, and the statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 2013 on our consideration of the Program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Program's internal control over financial reporting and compliance.



Springfield, Ohio
May 15, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

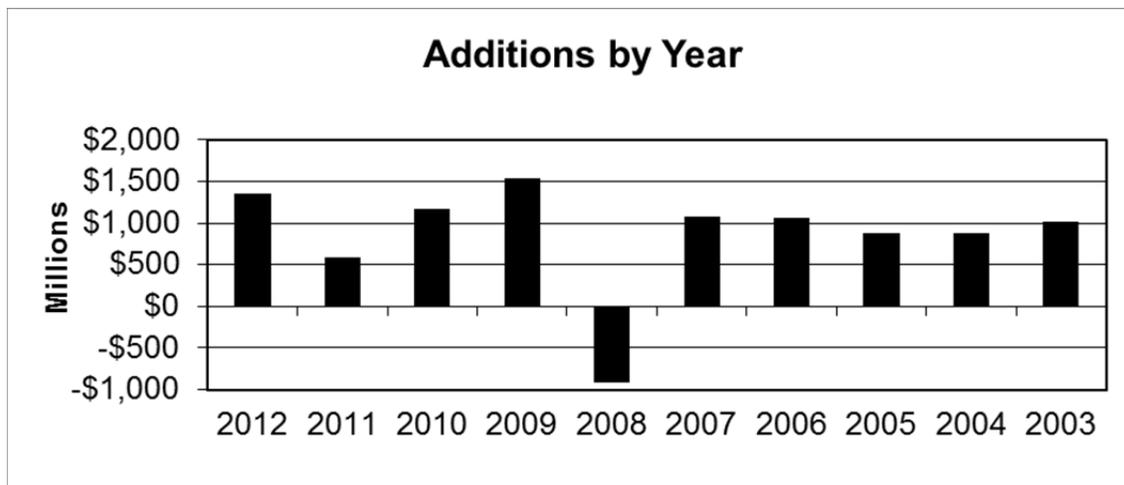
Management of the Ohio Public Employees Deferred Compensation Program offers this narrative overview of the financial statements contained in this CAFR. The financial statements consist of the Statements of Plan Net Position Available for Benefits and the Statements of Changes in Plan Net Position Available for Benefits. All assets and liabilities associated with the Program's operations are included on the Statement of Plan Net Position Available for Benefits. The Program's financial activities for the periods are reported on the Statement of Changes in Plan Net Position Available for Benefits. Additional information is presented in the Notes to the Financial Statements and the Supplemental Information Schedules.

PROGRAM ADDITIONS

Total additions in 2012 were significantly higher than 2011 due to greater investment income, which resulted from strong equity market returns this year. In addition, transfers from other plans have steadily increased. However, total employee contributions decreased in 2012. Although the number of contributing employees increased for the first time in five years, the average employee contribution dropped to the lowest amount in four years.

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Net investment income	\$789,312,760	\$36,223,330	\$655,048,164
Employee contributions	426,982,639	447,896,090	445,634,894
Transfer from other plans	126,454,338	92,464,484	68,956,446
Recordkeeping income	5,814,203	5,516,931	5,295,739
Total Additions	<u>\$1,348,563,940</u>	<u>\$582,100,835</u>	<u>\$1,174,935,243</u>

The graph below shows the ten-year history of total Program additions. While employee contributions had been generally steady over the past ten years, investment income has the greatest impact on the year-to-year variations.



PROGRAM DEDUCTIONS

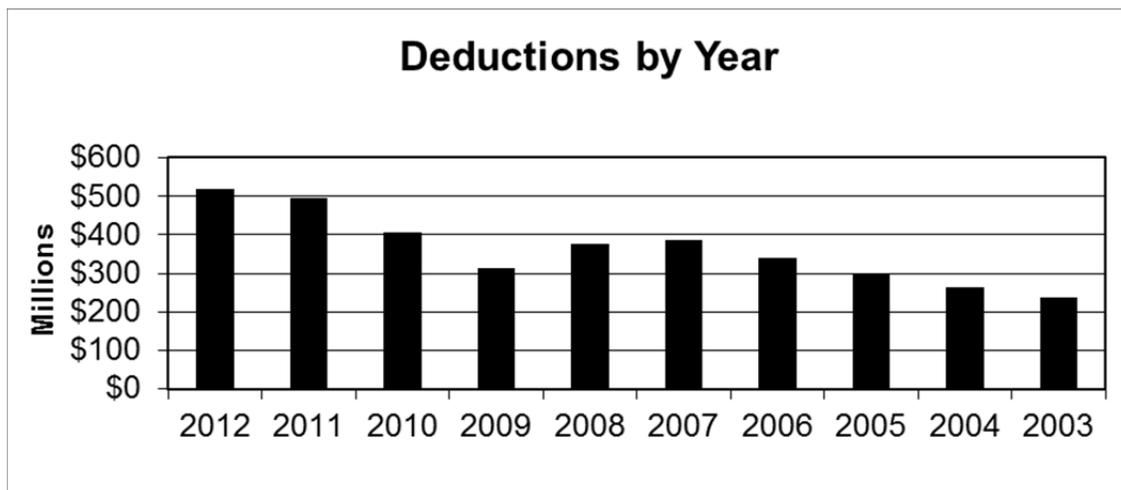
The general trend over the past ten years has been a steady increase in total deductions due to higher participant distributions and greater transfers to other retirement plans. These increases are due to more people taking distributions (larger numbers of baby-boomers are retiring) and greater amounts withdrawn (larger account balances available due to recent positive market performance).

Many participants have chosen to transfer their account balances to other retirement plans or IRAs in order to consolidate their accounts with one provider. Other deductions are primarily administrative expenses, which increased 2.9 percent between 2012 and 2011.

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Distributions to participants	\$277,630,284	\$261,600,043	\$237,403,473
Transfers to other plans	232,549,170	224,028,714	161,453,327
Other deductions	<u>9,326,122</u>	<u>9,066,978</u>	<u>8,740,048</u>
Total Deductions	<u>\$519,505,576</u>	<u>\$494,695,735</u>	<u>\$407,596,848</u>

The graph below shows the ten-year history of total Program deductions. The upward trend in total deductions paused in 2008 and 2009, as both distributions and transfers decreased slightly. The financial market declines of 2008 dropped participant account values in 2009, and coupled with Federal tax law changes that suspended the required annual distributions for those over age 70½, encouraged participants to lower their distribution requests in 2009.

Since 2009, higher account values and restoration of these required annual distributions have resulted in total deductions resuming their long-term upward trend.

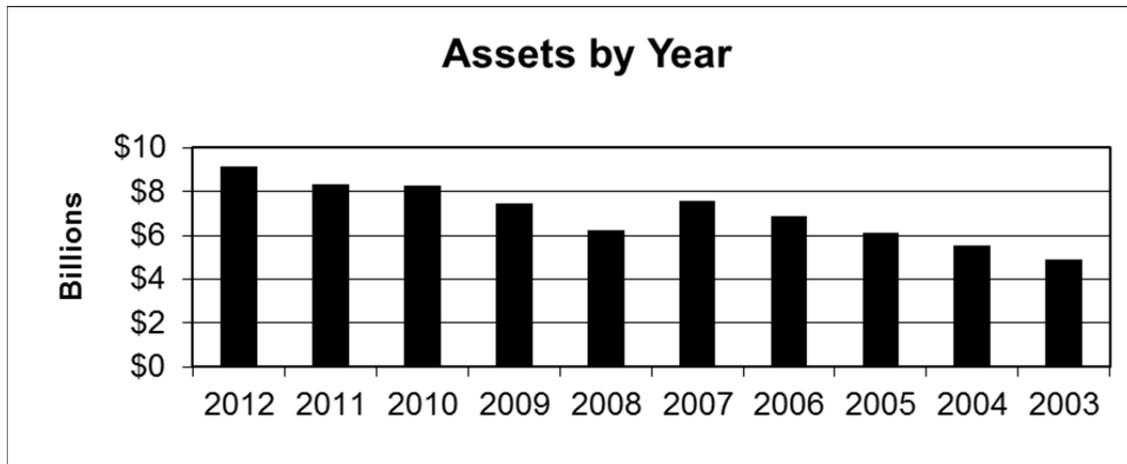


PLAN NET POSITION AVAILABLE FOR BENEFITS

Total assets at December 31, 2012 increased 9.9 percent compared to 2011, primarily due to a large increase in net investment income, but also due to positive participant cash flows (contributions and transfers in exceeded distributions and transfers out). Program liabilities are generally unpaid operating expenses at year-end and trade settlement payments due for investments purchased on the final business day of the year.

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Total Assets	\$9,172,084,429	\$8,346,667,031	\$8,258,674,888
Total Liabilities	<u>1,547,691</u>	<u>5,188,657</u>	<u>4,601,614</u>
Net Position Available for Benefits	<u>\$9,170,536,738</u>	<u>\$8,341,478,374</u>	<u>\$8,254,073,274</u>
Change in Net Position	<u>\$829,058,364</u>	<u>\$87,405,100</u>	<u>\$767,338,395</u>

As shown in the graph below, assets have generally trended up over the past ten years, representing an improvement to the overall financial position of the Program. The severity of the 2008 market decline was one of extraordinary proportions, leading to a considerable loss of Program assets. Positive cash flows plus a rebound in the financial markets have offset the assets lost in 2008, resulting in a resumption of our growing trend.



PROGRAM ACTIONS

In January 2012, after conducting a search for an investment consultant, the Program retained Hewitt EnnisKnupp for another five-year contract term. The search process included publishing a Request for Proposal document, receiving and scoring responses from five consulting firms, and hearing presentations from the top three firms. As the Program's investment consultant, Hewitt EnnisKnupp will review the Program's investment structure and policy statements, supervise investment manager services, evaluate investment manager performance, and assist with investment manager selections.

The Program has been involved in legal proceedings against Pilgrim Baxter & Associates (Pilgrim) since terminating the PBHG Growth Fund as an investment option in February 2004. The Program was the named lead plaintiff in a national class action lawsuit that sought to recover funds lost due to Pilgrim's alleged breach of fiduciary duties. Pilgrim was sued in Federal court and charged with civil fraud by the U.S. Securities and Exchange Commission (SEC) after revelations surfaced that fund executives had engaged in significant "market timing" activities. During 2012, the Program finally received its pro rata distribution from this class action lawsuit settlement. Total proceeds were approximately \$1.14 million, which were subsequently allocated and paid to the participants who had invested in this option during the period in question. In addition to the settlement distribution in 2012, the Program had previously distributed \$1.5 million to participants in 2007 in connection with separate PBHG settlements with the SEC.

The Program has emphasized the importance of competitive fees to participants for many years. Recently, the U.S. Department of Labor issued fee disclosure regulations for ERISA retirement plans. These regulations directly affected 401(k) plans, but not 457 plans such as the Program. However, the Program intends to honor the spirit of these regulations and provide increased and improved fee disclosures. Fee disclosures have been enhanced in enrollment materials, newsletters, and throughout our website content.

STATEMENTS OF PLAN NET POSITION AVAILABLE FOR BENEFITS

As of December 31, 2012 and 2011

	2012	2011
Assets:		
Investments:		
Stable value option	\$4,457,831,460	\$4,292,993,836
Mutual funds	4,141,860,160	3,628,144,174
Collective trust funds	528,863,316	377,093,002
Purchased annuities	25,169,634	27,297,487
Total investments	9,153,724,570	8,325,528,499
Cash and cash equivalents	10,215,145	9,360,807
Contributions receivable and cash held for investment	6,670,842	10,438,966
Accounts and other receivables	1,314,894	1,142,329
Property and equipment, net	158,978	196,430
Total assets	9,172,084,429	8,346,667,031
Liabilities:		
Accounts payable	1,217,798	4,885,078
Accrued expenses	329,893	303,579
Total liabilities	1,547,691	5,188,657
Plan Net Position Available for Benefits	\$9,170,536,738	\$8,341,478,374

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

STATEMENTS OF CHANGES IN PLAN NET POSITION AVAILABLE FOR BENEFITS

For the years ended December 31, 2012 and 2011

	2012	2011
Additions:		
Net Investment Income:		
Net gain (loss) on funds	\$666,840,490	(\$96,637,673)
Stable value income	135,065,084	144,322,845
Investment expenses	(12,592,814)	(11,461,842)
Net investment income	789,312,760	36,223,330
Employee contributions	426,982,639	447,896,090
Transfers from other plans	126,454,338	92,464,484
Recordkeeping income	5,814,203	5,516,931
Total additions	1,348,563,940	582,100,835
Deductions:		
Distributions to participants	277,630,284	261,600,043
Transfers to other plans	232,549,170	224,028,714
Administrative expenses	9,326,122	9,066,978
Total deductions	519,505,576	494,695,735
Change in Net Position	829,058,364	87,405,100
Plan Net Position Available for Benefits:		
Beginning of Year	8,341,478,374	8,254,073,274
End of Year	\$9,170,536,738	\$8,341,478,374

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

NOTES TO THE FINANCIAL STATEMENTS

1. General Description of the Program:

The following description of the Ohio Public Employees Deferred Compensation Program (the Program) is provided for general information only. Participants should refer to the Plan Document for complete information.

The Program is a voluntary defined contribution pension plan established pursuant to Ohio Revised Code (ORC) Section 148. Under the Program provisions, any public employee within Ohio (as defined in Section 148.01(A)(1) of the Code) is eligible to contribute into the Program, through payroll deductions, any amount up to the maximum permitted under Section 457 of the Internal Revenue Code. Amounts contributed by employees are deferred for Federal and State income tax purposes until such amounts are distributed by the Program. As of December 31, 2012 and 2011, there were 1,784 and 1,766 respectively, State and local governments actively participating in the Program.

Plan assets are not the property of the participating employees. All Plan assets and income are held by the Board in trust on behalf of the employers for the exclusive benefit of participants and their beneficiaries. All assets, whenever contributed to the Plan, are assigned to the trust established by the Board.

As of December 31, 2012, Program participants have the following investment options:

- A Stable Value Option administered by the Program. Investment portfolios are managed by Deutsche Bank Trust Company Americas (Deutsche), Earnest Partners (Earnest), JP Morgan Asset Management (JP Morgan), Nationwide Asset Management LLC (Nationwide), Payden & Rygel (Payden), Pyramis Global Advisors Trust Company (Pyramis), and State Street Bank and Trust (State Street).
- Mutual funds are managed by Dodge & Cox Funds (Dodge & Cox), Fidelity Investment Company (Fidelity), First Pacific Advisors (FPA), Hartford Investor Services Company (Hartford), Janus Equity Funds (Janus), PIMCO Funds (PIMCO), Franklin Templeton Funds (Templeton), and The Vanguard Group, Inc. (Vanguard).
- Target date collective trust funds are managed by BlackRock Institutional Trust Company (BlackRock).

NOTES TO THE FINANCIAL STATEMENTS, Continued

- Universal life and whole life insurance contracts are underwritten by Ohio National Life Insurance Company (Ohio National). Effective January 1, 1989, these life insurance contracts were no longer offered as new investment options available to participants.

Participants may withdraw the value of their deferred account upon termination of employment, retirement, disability, or unforeseeable financial emergency. Participants may select various payout options including lump sum payments or payments over various periods. If a purchased annuity option was selected, the payments may be actuarially determined.

At termination of employment or retirement, participants investing in universal and whole life insurance contracts may continue to make premium payments directly to the insurance carrier, or they may receive the cash surrender value of the contract less any applicable surrender charges. In the case of the death of a participant, the face value of the insurance contract is payable to their beneficiary as taxable ordinary income.

2. Summary of Significant Accounting Policies:

Organization:

The Ohio Revised Code Section 148.02 created the Deferred Compensation Board to administer the Program for all eligible employees. However, under the criteria set forth in governmental accounting standards, the Program is not considered a component unit of the State of Ohio, because of the following:

- The Program is a separate legal entity.
- The State does not appoint a voting majority of the Program's Board.
- The State does not approve the Program budget or set Program rates or charges.
- The Program provides services to Ohio local governments as well as to the State of Ohio.

The Ohio Deferred Compensation Board is comprised of the members of the Ohio Public Employees Retirement System (OPERS) Board, a member of the Ohio Senate, and a member of the Ohio House of Representatives. The two members from the Ohio General Assembly must be of different political parties and are appointed by their respective leadership. Seven members of the OPERS Board are elected by the groups they represent: retired employees (2), State employees, municipal employees, county employees, non-teaching employees of State colleges and universities, and miscellaneous employees. The four statutory Board members are the Director of the Ohio Department of Administrative Services and investment experts appointed by the Governor of Ohio, Treasurer of State, and Ohio General Assembly.

NOTES TO THE FINANCIAL STATEMENTS, Continued

Basis of Accounting and Measurement Focus:

The activities of the Program are accounted for as a Pension Fund, and follow the accrual basis of accounting and reporting for defined contribution plans recommended by the Governmental Accounting Standards Board. The Program is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the Program's operations are included on the statement of plan net position. Activities of the Program are accounted for in two funds, which are combined for the purpose of financial reporting:

Program Fund:

The Program Fund reflects all employee contributions, earnings, or losses on investments and distributions to participants.

Administration Fund:

The Administration Fund is used to account for customer service and administrative costs incurred by the Board. The Administration Fund recovers the costs of its operations through fees charged to the Program Fund and from recordkeeping reimbursements from certain investment providers.

Stable Value Option:

The Program administers the Stable Value Option (SVO), which is the stable value investment option offered to participants. As of December 31, 2012, the Program has stable value funds invested with seven professional investment managers. The Program determines the quarterly interest rate credited to participants by calculating the net weighted average return of the investment portfolios. The Program is also responsible for calculating daily account balances, disbursing funds for benefit withdrawals and processing investment exchanges.

As of December 31, 2012, the investment pools of the Stable Value Option include portfolios managed by Deutsche, Earnest, JP Morgan, Nationwide, Payden, Pyramis, and State Street. The Program's investment policy specifies investment guidelines, including asset class, credit rating, portfolio diversification and duration. The Deutsche portfolio maintains a cash reserve account to buffer the other investment portfolios from daily cash flows into and out of the Stable Value Option.

NOTES TO THE FINANCIAL STATEMENTS, Continued

Funds invested in the Stable Value Option portfolios are covered by guarantee agreements with banks and insurance companies. These agreements provide the formulas for determining the quarterly interest rate earned by the stable value investment portfolio and provide for benefit withdrawals at the guaranteed value. As of December 31, 2012, the Program's guarantee agreements are with Bank of America, Metropolitan Life Insurance, Monumental Life Insurance, Natixis Financial Products, and the Royal Bank of Canada.

Investments Valuation:

Investments of the Stable Value Option are valued at contract value, which represents contributions received, plus the interest credited, less applicable charges and amounts withdrawn.

Mutual fund investments are valued at the share prices of mutual funds as reported by the fund providers, which represent contributions received, plus appreciation (depreciation) of the underlying portfolio, less applicable charges and amounts withdrawn.

Collective trust fund investments are valued at the unit prices of the collective trust funds as reported by the fund providers, which represent contributions received, plus appreciation (depreciation) of the underlying portfolio, less applicable charges and amounts withdrawn.

Assets held for purchased annuities are valued at amounts reported by Nationwide, which are actuarially determined. These amounts represent reserves established by Nationwide and are based on actuarial assumptions as to anticipated mortality, withdrawals, and investment yield. Nationwide periodically adjusts and updates these assumptions.

Life Insurance Contracts:

As previously disclosed, universal and whole life insurance options are no longer available as new investment options. The cash value before surrender charges or other assessments of existing policies was \$687,300 and \$819,700 at December 31, 2012 and 2011, respectively. Premiums paid for these policies are expensed when made. The amount of life insurance in force was \$5,863,700 and \$6,148,100 at December 31, 2012 and 2011, respectively.

NOTES TO THE FINANCIAL STATEMENTS, Continued

Stable Value Income:

Stable value income was recorded as earned for each of the investment components of the Stable Value Option. The gross crediting rates for each portfolio were adjusted quarterly and ranged from 2.32 percent to 4.03 percent during 2012, and from 2.36 percent to 4.54 percent during 2011.

The assets held for purchased annuities were credited interest based on reserve assumptions used by Nationwide at the participant's annuitization date. These annuitization rates ranged from -2.2 percent to +3.1 percent during 2012, and from -2.7 percent to +3.9 percent during 2011.

Net Gain or Loss on Invested Funds:

Mutual and collective trust fund investment income or loss consists of dividends and capital gains paid, and appreciation or depreciation on the funds.

Historical Trend Information:

Unaudited historical trend information designed to provide information about the Program's progress is presented in the accompanying Statistical Section of this presentation.

Property and Equipment:

Property and equipment of the Board are stated at cost less accumulated depreciation. Depreciation on property and equipment is calculated using the straight-line method over the estimated useful lives of the assets.

Board Employees' Deferred Compensation Benefits:

All employees of the Board are eligible to participate in the Program, which it administers. The Deferred Compensation Board employees' assets in the Program were valued at fair value and are included as plan net assets.

Reclassifications:

Certain prior year amounts may have been reclassified to conform to the current year's presentation.

NOTES TO THE FINANCIAL STATEMENTS, Continued

3. Tax Status:

The Program is an eligible deferred compensation program as defined by Section 457 of the Internal Revenue Code. Accordingly, any amount of compensation deferred under the Program and any income attributable to the amounts so deferred shall be included in the taxable income of the participant only for the taxable year in which such compensation or other income is paid or otherwise made available to the participant or his beneficiary.

4. Employee Contributions:

Participant contributions receivable and held for investment represent amounts withheld from participants but not remitted to the investment providers at year-end. The Program maintains a bank account for the purpose of consolidating the deposit of all participant contributions. Contributions are subsequently remitted to the investment providers as designated by the participants. Funds deposited but not remitted to the investment providers were \$2,323,708 and \$6,788,965 at December 31, 2012 and 2011, respectively.

5. Cash:

The Board's policy is to invest excess Administrative Fund cash in bank checking and money market accounts, certificates of deposit, or issues of the U.S. Government and its agencies, all with maturities of two years or less. The Program also may invest in StarOhio, an investment pool managed by the State Treasurer's Office that allows governments within the State to pool their funds for investment purposes. StarOhio is not registered with the Securities Exchange Commission as an investment company, but does operate in a manner similar to Rule 2a-7 of the Investment Company Act of 1940. Investments in StarOhio are valued at StarOhio's share price, which is the price the investment could be sold for on December 31, 2012.

At December 31, 2012 and 2011, the bank cash balances were \$10,238,434 and \$9,777,792 respectively. The bank balances were insured up to \$250,000 by the Federal Deposit Insurance Corporation. The remaining bank deposits are covered by collateral held in the name of the Program's pledging financial institution, as required by State statute.

NOTES TO THE FINANCIAL STATEMENTS, Continued

6. Program Investments:

A summary of Program investments is as follows:

	December 31, 2012	
	Carrying Value	Fair Value
Stable Value Option	\$4,457,831,460	\$4,726,068,785
Mutual Funds	4,141,860,160	4,141,860,160
Collective Trust Funds	528,863,316	528,863,316
Purchased Annuities	25,169,634	25,169,634
Total Investments	\$9,153,724,570	\$9,421,961,895

	December 31, 2011	
	Carrying Value	Fair Value
Stable Value Option	\$4,292,993,836	\$4,526,437,569
Mutual Funds	3,628,144,174	3,628,144,174
Collective Trust Funds	377,093,002	377,093,002
Purchased Annuities	27,297,487	27,297,487
Total Investments	\$8,325,528,499	\$8,558,972,232

Stable Value Option:

The Stable Value Option invests in a diversified portfolio of bonds and fixed income investments including U.S. government and agency securities, residential and commercial mortgage-backed securities, asset-backed securities and corporate securities. The SVO also invests in stable value contracts which may include wrapper contracts, and separate and general account group annuity and other types of investment contracts (SV Contracts). SV Contracts, which are contractual agreements issued by banks, insurance companies, and other financial institutions, are purchased by the SVO with the objective of providing principal stability. The SVO may also invest in commingled bank trust funds or insurance company funds which own bonds or fixed income securities described above. SV Contracts are normally valued using a book value record determined by the contract's terms, which is intended to help reduce principal fluctuations and provide for certain transactions at book value. SV Contracts credit a stated interest rate that is determined periodically and may vary from period to period. SV Contract issuers are typically paid on-going fees from the assets of the SVO. These fees are calculated based on a percentage of the SV Contract's book value. The SVO's returns are affected by cash flows including employer and employee contributions, withdrawals and transfers, and the total return performance of associated fixed income account portfolios.

NOTES TO THE FINANCIAL STATEMENTS, Continued

At December 31, 2012, investments in separate account portfolios managed by Nationwide, and State Street were held in custody for the Program by the Bank of New York Mellon and State Street Bank and Trust, respectively. The quoted market prices of these investments have been used for disclosure purposes. Funds managed by Deutsche and Pyramis were in commingled bond funds, held by Deutsche and Pyramis, respectively, and are disclosed at fair value. Investments with JPMorgan, Earnest, and Payden were held in a Metropolitan Life Insurance Company commingled fund that is part of a separate account group annuity contract, and are disclosed at fair value. The investments of the SVO are governed by an investment policy enacted by the Board.

The Program has entered into SV Contracts to fund qualified withdrawals at contract value for participant driven transactions as allowed by the normal operation of the Program. The SVO book value represents participant contributions plus earnings based on the credited rate of interest stipulated under the terms of the various SV Contracts. As of December 31, 2012, the fair value of the SVO assets exceeded the book value by \$268 million or 6 percent. The crediting rate formula under many of the SV Contracts is intended to converge the SVO assets over time, although changing market conditions, combined with participant activity, may affect the feasibility and timing of converging the carrying and fair values of the SVO.

A summary of the fair value of investments in the Stable Value Option by investment manager at December 31, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Deutsche Asset Management	\$1,593,958,527	\$1,660,869,909
State Street Bank and Trust	962,982,639	939,131,224
JP Morgan Investment Advisors	721,653,201	698,667,897
Nationwide Life Insurance Co.	660,925,266	622,906,066
Pyramis Global Advisors	633,272,172	604,862,473
Earnest Partners	102,208,428	0
Payden & Rygel	51,068,552	0
	4,726,068,785	4,526,437,569
Total Fair Value	4,726,068,785	4,526,437,569
Total Carrying Value	4,457,831,460	4,292,993,836
Difference	\$268,237,325	\$233,443,733

NOTES TO THE FINANCIAL STATEMENTS, Continued

The SVO is typically expected to maintain a relatively stable principal value. However, in some circumstances the SVO's principal value may fluctuate up or down without advance notice. Therefore, it is possible to lose money investing in the SVO. An investment in the SVO is not insured or guaranteed by the Program, SVO managers, the FDIC, or any other government agency. Some of the primary risks that may impact the SVO are described below.

Credit Risk – The Program's investment policy requires the average quality of the SVO structure to be A-/A3 or better and restricts the amount of investments in securities rated below BBB-/Baa3 to 10 percent or less of assets. In addition, no more than one percent of the assets will be invested in any single high yield (below BBB) issuer.

As of December 31, 2012, the overall average credit quality of the SVO portfolio was AA-. The market value weighted average credit quality of the SVO investments are determined by Standard & Poor's Rating Services ("S&P"), Moody's Investor Services, Inc. ("Moody's"), and/or Fitch Ratings ("Fitch") as of December 31, 2012, and are shown in the table below. Investments in U.S. government securities or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk.

<u>Credit Rating</u>	<u>Fair Value</u>	<u>Percentage of Portfolio</u>
AAA	\$1,436,652,005	30.4%
AA	281,112,616	5.9%
A	817,959,290	17.3%
BBB	565,507,292	12.0%
BB	17,309,281	0.4%
B and below	10,032,544	0.2%
Subtotal	3,128,573,028	66.2%
U.S. Treasuries and Government Securities	1,597,495,757	33.8%
Fair Value Stable Value Investments	4,726,068,785	100.0%

Concentration of Credit Risk – The Program's investment policy precludes investments in any one corporate issuer from exceeding 5 percent of the SVO assets.

NOTES TO THE FINANCIAL STATEMENTS, Continued

Interest Rate Risk – Interest rate risk is the chance that changes in market interest rates will adversely affect the fair value of the investments. The Program’s investment policy segments the SVO into three different categories; a liquidity buffer, a fixed maturity schedule, and an open maturity structure.

Within the liquidity buffer, the SVO will primarily invest in short-term investment funds or money market instruments, but may also invest in high-quality buffer stable value contracts that provide same day liquidity for withdrawals.

The investments within the fixed maturity schedule will normally pursue a passive laddered maturity structure, whereby the dollar-weighted duration of the structure will be no more than 3.5 years.

The underlying portfolios within the open market structure will be kept within +/- 20.0 percent of the duration of the Barclays Capital Intermediate Aggregate Bond Index or the Barclays Capital Stable income Market Index.

The segmented time distribution reflects fixed-income maturities over different time intervals. The longer the maturity, the more susceptible the value of the investment is to fluctuate in market interest rates.

The following table shows the maturity of the SVO investments segmented by time period and sector.

<u>Investment</u>	<u>Less than 1 Year</u>	<u>1-5 Years</u>	<u>6-10 Years</u>	<u>More than 10 Years</u>	<u>Total</u>
U.S. Treasury Securities	\$66,941,326	\$1,115,008,451	\$201,857,798	\$216,496	\$1,384,024,071
Mortgage Obligations	116,923,055	561,411,987	157,615,258	442,601,336	1,278,551,636
Corporate Bonds	80,048,943	748,673,584	295,701,424	9,270,432	1,133,694,383
Cash Equivalents	323,078,960	151,025	-	-	323,229,985
Asset Backed Securities	42,747,086	180,995,419	23,606,778	4,031,546	251,380,829
U.S. Government Agency Securities	1,662,380	192,147,386	19,012,432	649,488	213,471,686
Other Government Related Securities	5,970,898	64,077,513	16,136,415	2,666,801	88,851,627
Traditional GICs	-	52,864,568	-	-	52,864,568
Fair Value Stable Value Investments	<u>\$637,372,648</u>	<u>\$2,915,329,933</u>	<u>\$713,930,105</u>	<u>\$459,436,099</u>	<u>\$4,726,068,785</u>

The Stable Value Option investments include collateralized mortgage obligations (CMO) and asset-backed securities (ABS). These types of securities are purchased for their predictable cash flow characteristics and for favorable yields compared to similar investments. However, these investment vehicles are based on cash flows from interest and principal payments from the underlying investments that are sensitive to prepayments, which may result from a decline in interest rates. At December 31, 2012 the Program had investments in CMO and ABS totaling \$283 million and \$251 million, respectively.

NOTES TO THE FINANCIAL STATEMENTS, Continued

Mutual Funds:

Shares of mutual funds are priced at the net asset value as calculated by the fund provider. A summary of year-end investments as of December 31, 2012 and 2011 is as follows:

	Mutual Funds - 2012			Mutual Funds - 2011		
	<u>Fair Value</u>	<u>Share Price</u>	<u>Shares Owned (1,000's)</u>	<u>Fair Value</u>	<u>Share Price</u>	<u>Shares Owned (1,000's)</u>
Fidelity:						
Contrafund	\$794,434,088	\$77.57	10,242	\$731,091,165	\$67.46	10,837
Growth Company	485,713,531	93.38	5,201	417,636,371	80.89	5,163
Total Fidelity Funds	1,280,147,619			1,148,727,536		
Dodge & Cox:						
Stock	598,472,289	121.90	4,910	527,693,732	101.64	5,192
Balanced	369,937,957	78.06	4,739	324,540,838	67.45	4,812
Total Dodge & Cox Funds	968,410,246			852,234,570		
Vanguard:						
Capital Opportunity	286,417,416	77.63	3,690	251,311,360	68.16	3,687
Institutional Index	195,118,103	130.52	1,495	165,851,039	115.04	1,442
International Growth	157,444,505	61.28	2,569	136,237,211	51.99	2,620
Small-Cap Index	98,757,389	38.76	2,548	83,575,628	33.39	2,503
Total Bond Market Index	95,523,377	11.09	8,613	81,672,912	11.00	7,425
Total International Stock Index	81,416,199	100.18	813	70,168,846	87.32	804
Total Vanguard Funds	914,676,989			788,816,996		
PIMCO Total Return	330,438,704	11.24	29,398	241,640,540	10.87	22,230
Janus Twenty Fund	236,663,439	62.06	3,813	202,805,339	51.09	3,970
FPA Capital Fund	221,410,934	44.85	4,937	222,010,913	41.57	5,341
Templeton Foreign Fund	118,810,598	6.79	17,498	106,042,618	5.85	18,127
Hartford Small Company	71,301,631	19.74	3,612	65,865,662	17.07	3,859
Total Mutual Funds	\$4,141,860,160			\$3,628,144,174		

Collective Trust Funds:

A target date fund is a single investment option that provides a diversified mix of investments (equities, fixed income, cash, commodities, etc.). The fund initially invests aggressively and then becomes more conservative over time, as the portfolio ages and nears the retirement date within the fund name. When the target date fund reaches the retirement year within the fund name, the fund is closed out, and all assets are moved to the retirement income option.

Over the years, the Program has moved from actively-managed target date mutual fund investments in ten-year increments to passively-managed collective trust funds in five-year increments. These changes were made to provide investors with better fund selections, lower fees, and lower market risk. The annualized expense ratio of these options has decreased from 0.85% to the current rate of 0.24%.

NOTES TO THE FINANCIAL STATEMENTS, Continued

Shares of collective trust funds are priced at the net asset value as calculated by the fund provider. A summary of year-end investments as of December 31, 2012 and 2011 is as follows:

	<u>Collective Trust Funds - 2012</u>			<u>Collective Trust Funds - 2011</u>		
	<u>Fair Value</u>	<u>Shares</u>		<u>Fair Value</u>	<u>Shares</u>	
		<u>Price</u>	<u>Owned</u>		<u>Price</u>	<u>Owned</u>
		(1,000's)			(1,000's)	
BlackRock Investments:						
LifePath Retirement	99,967,777	12.54	7,972	66,407,747	11.53	5,760
LifePath 2015	43,997,440	11.93	3,688	27,018,245	10.88	2,483
LifePath 2020	156,809,701	11.68	13,425	122,550,534	10.52	11,649
LifePath 2025	28,741,612	11.47	2,506	15,292,887	10.23	1,495
LifePath 2030	110,698,094	11.26	9,831	86,650,889	9.94	8,717
LifePath 2035	14,477,326	11.06	1,309	6,575,688	9.69	679
LifePath 2040	58,327,858	10.87	5,366	45,374,215	9.46	4,796
LifePath 2045	6,075,865	10.69	568	2,551,738	9.23	276
LifePath 2050	9,767,643	10.67	915	4,671,059	9.17	509
Total BlackRock	<u>\$528,863,316</u>			<u>\$377,093,002</u>		

Purchased Annuities:

Assets held for purchased annuities are valued at amounts reported by Nationwide, which are actuarially determined. Investments in purchased annuities were \$25,169,634 and \$27,297,487 at December 31, 2012 and 2011, respectively.

7. Investment Expenses:

Investment manager, custodian, and book value guarantee fees are charged against the assets within the Stable Value Option portfolios. Due to the restructuring of the Stable Value Option in 2012 and 2011, including replacing and renegotiating wrap contracts, the cost of book value guarantees continues to increase significantly.

Select mutual fund investments require participants to hold these investments for specified periods or the participant is assessed a redemption fee by the fund. The Program has collected and remitted redemption fees to the mutual funds to benefit the remaining investors of the fund.

NOTES TO THE FINANCIAL STATEMENTS, Continued

Fees associated with the Program investment options are shown below:

	<u>2012</u>	<u>2011</u>
Stable Value - Book Value Guarantee Fees:	\$8,391,510	\$7,603,336
Stable Value - Management/Custodial Fees:		
JP Morgan Investment Advisors	1,169,075	1,040,152
Deutsche Asset Management	1,065,069	1,050,154
Nationwide Life Insurance Co.	808,525	792,231
Pyramis Global Advisors	646,734	608,936
State Street Bank and Trust	342,191	135,215
Earnest Partners	85,722	0
Payden & Rygel	42,969	0
Goode Investment Management	0	83,319
Total Stable Value Investment Expenses	12,551,795	11,313,343
Total Mutual Fund Redemption Fees	41,019	148,499
Total Investment Expenses	<u>\$12,592,814</u>	<u>\$11,461,842</u>

8. Recordkeeping Income:

Certain mutual fund investment providers compensate the Program for performing recordkeeping responsibilities. These reimbursement rates vary by mutual fund provider and range from 0.08 percent to 0.25 percent of assets annually.

In addition, the Program collects a recordkeeping fee on all investment balances in the Stable Value Option, which effectively reduces the net crediting rate earned by investors. The Program also collects the same recordkeeping fee on all investment balances in the LifePath collective trust fund options. This annualized fee was 0.09 percent in 2012 and 2011.

Total recordkeeping revenues collected by the Program were \$10,148,892 and \$9,566,694 for the years ended December 31, 2012 and 2011, respectively.

The Administration Fund may also recover administrative costs through charges to participant accounts in the Program Fund. Due to positive reserve funding, this administrative fee has not been charged since the fourth quarter of 2006.

NOTES TO THE FINANCIAL STATEMENTS, Continued

9. Customer Service Expense:

The Program has contracted with Nationwide Retirement Solutions (NRS) to provide enrollment, education, and customer service to all eligible employees and participants. NRS has 15 employees who provide group and individual meeting opportunities, while visiting employer worksites throughout the State. NRS has 30 employees at their Service Center, who provide participants with call center, walk-in, and administrative support services. In addition, NRS provides an interactive website and automated phone system for both service and educational purposes.

In 2009, the Program renegotiated the terms and extended the contract with NRS through June 30, 2014. Costs associated with customer service expenses were \$6,014,681 and \$5,749,030 for the years ended December 31, 2012 and 2011, respectively.

10. Vacation and Sick Leave:

As of December 31, 2012 and 2011, the Program had accrued \$222,400 and \$201,900 respectively, for unused vacation and sick leave for full-time employees of the Board. At termination or retirement, employees are entitled to full compensation for all unused vacation time. With two years or more of employment prior to termination, employees are entitled to 50 percent payment of unused sick leave at termination.

11. Leases:

In 2009, the Board signed a ten-year lease agreement for office space. The new office space allowed the Board's administrative offices and Service Center offices to move into one facility, realize savings in net occupancy costs, and achieve operational efficiencies. Base rental payments for this new operating lease were \$260,800 during both 2012 and 2011, which are allocated to administrative rent and customer service expenses in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS, Continued

Future scheduled minimum lease payments (base rental expense) under the new office operating lease at December 31, 2012 are as follows:

<u>Year-ending</u> <u>December 31</u>	<u>Amount</u>
2013	\$260,800
2014	277,779
2015	281,175
2016	281,175
2017	281,175
2018	281,175
2019	46,863

12. Property and Equipment:

Property and equipment includes purchases of \$1,000 or more with a useful life of at least three years. Property and equipment at December 31 are summarized as follows:

	<u>Estimated</u> <u>Useful Life</u>	<u>2012</u>	<u>2011</u>
Furniture and fixtures	7 years	\$258,161	\$258,161
Office equipment	5 years	150,578	148,747
Computer equipment	3 years	143,643	126,724
Leasehold Improvements	7 years	46,551	46,551
		<u>598,933</u>	<u>580,183</u>
Less accumulated depreciation and amortization		<u>(439,955)</u>	<u>(383,753)</u>
Property and Equipment, Net		<u>\$158,978</u>	<u>\$196,430</u>

13. Insurance:

The Program is exposed to various risks of loss related to theft of, damage to, and destruction of assets; injuries to employees; and court challenges to fiduciary decisions. To cover these risks, the Program maintains commercial insurance and holds fidelity bonds on its employees. As required by State law, the Program is registered and insured through the State of Ohio Bureau of Workers' Compensation for injuries to employees. No insurance settlements exceeded coverages in the past three years, and there was no significant reduction in coverage amounts from the prior year.

NOTES TO THE FINANCIAL STATEMENTS, Continued

The Program is self-insured under a professionally administered plan for general health and hospitalization employee benefits. The Program maintains specific stop loss coverage per employee for annual medical benefits in the amount of \$250,000 for both 2012 and 2011. The Program also maintains lifetime maximum stop loss coverage per employee for medical benefits in the amount of \$2,500,000 for both 2012 and 2011. The reserve for future health claims was \$77,900 and \$74,900 as of December 31, 2012 and 2011 respectively.

14. Pension Plan:

All Board employees are required to participate in a contributory retirement plan administered by the Ohio Public Employees Retirement System (OPERS).

A. Plan Description

OPERS administers three separate pension plans: the Traditional Pension Plan – a cost-sharing, multi-employer defined benefit plan; the Member-Directed Plan – a defined contribution plan; and the Combined Plan – a cost-sharing, multi-employer defined benefit plan that has elements of both a defined benefit and defined contribution plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost-of-living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits.

In addition, OPERS maintains a cost-sharing, multi-employer defined benefit post-employment health care plan, which includes a medical plan, prescription drug program, and Medicare Part B premium reimbursement to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage, but they have access to a retiree medical account.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

The authority to establish and amend benefits for both the pension plans and the post-employment health care coverage is provided in Chapter 145 of the ORC. The ORC permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries.

NOTES TO THE FINANCIAL STATEMENTS, Continued

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing OPERS, 277 East Town Street, Columbus OH 43215-4642, or by calling 614-222-5601.

B. Funding Policy

The Ohio Revised Code provides statutory authority for member and employer pension contributions, as well as requiring public employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care benefits.

For 2012, member contribution rate was 10.0 percent. Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2012, the employer contribution rate for State and local employers was consistent across all three plans at 14.0 percent of covered payroll, the maximum contribution percentage currently permitted by the ORC.

OPERS' Post-Employment Health Care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. For 2012, the employer contribution allocated to the health care plan was 4.0 percent of covered payroll. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

C. Program Contributions

The rates stated above, are the contractually required contribution rates for OPERS. The Program's contributions to OPERS for the years ending December 31, 2012, 2011, and 2010, were \$183,400, \$181,600, and \$179,600 respectively, equal to the required contributions for each year. The portion of the employer contribution that was used to fund post-employment benefits for the years ending December 31, 2012, 2011, and 2010, was \$52,400, \$51,900, and \$65,200 respectively, equal to the required contributions for each year.

NOTES TO THE FINANCIAL STATEMENTS, Continued

D. OPERS Board of Trustees Adopt Changes to the Health Care Plan

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012 with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4 percent of the employer contributions toward the health care fund after the end of the transition period.

15. Litigation Settlement:

The Program was the lead plaintiff in a national class action lawsuit against Pilgrim Baxter & Associates (Pilgrim) that sought to recover funds lost due to Pilgrim's alleged breach of fiduciary duties. Pilgrim was sued in Federal court and charged with civil fraud by the U.S. Securities and Exchange Commission after revelations surfaced that fund executives had engaged in significant "market timing" activities. The Program offered the PBHG Growth Fund as an investment option to participants from July 1, 1997 through February 25, 2004.

During 2012, the Program received its pro rata distribution from this class action lawsuit settlement. Total proceeds were approximately \$1.14 million. For participants who invested in PBHG during the affected period and still had open accounts, a total of \$760,000 was allocated and invested among their accounts. This amount is included in the 2012 financial statements as transfers from other plans.

In early 2013, participants who had closed their accounts with the Program were issued checks totaling \$320,000. The remaining \$60,000 in lawsuit proceeds were used to offset for administrative expenses directly related to the settlement distribution.

16. Eliminations:

The Administration Fund recovers some customer service and administrative costs through charges made to the Program Fund. Charges of \$4,334,689 and \$4,049,763 were made during 2012 and 2011, respectively, for this purpose, including \$379,315 and \$355,890 payable to the Administrative Fund as of December 31, 2012 and 2011, respectively. These inter-fund charges and payables were eliminated in the Combining Schedule of Plan Net Assets and the Combining Schedule of Changes in Plan Net Assets.

NOTES TO THE FINANCIAL STATEMENTS, Continued

17. Change in Accounting Principles:

For the year ended December 31, 2012, the Program implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB Statement No. 62 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants (AICPA) Committee on Accounting Procedures

For the year ended December 31, 2012, the Program implemented the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB Statement No. 63 provides financial reporting guidance to the Program for deferred outflows of resources and deferred inflows of resources. The statement also identifies net position as the residual of all other elements presented in a balance sheet, amending the net asset reporting requirement by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure of the balance sheet and by renaming the measure to net position. The implementation of GASB Statement No. 63 did not require the Program to restate any prior year balances.

For the year ended December 31, 2012, the Program implemented the provisions of GASB Statement No. 65, *Items Previously Reported as Asset and Liabilities*. GASB Statement No. 65 reclassifies as deferred outflows of resources or deferred inflows of resources items that were previously reported as assets and liabilities. The implementation of GASB Statement No. 65 did not require the Program to restate prior year balances.

SUPPLEMENTAL COMBINING SCHEDULE OF PLAN NET POSITION AVAILABLE FOR BENEFITS

As of December 31, 2012
With Totals for 2011

	2012			2011
	PROGRAM FUND	ADMINIS- TRATION FUND	COMBINING ENTRIES	
Assets:				
Investments:				
Stable value option	\$4,457,831,460			\$4,292,993,836
Mutual funds	4,141,860,160			3,628,144,174
Collective trust funds	528,863,316			377,093,002
Purchased annuities	25,169,634			27,297,487
Total investments	<u>9,153,724,570</u>			<u>8,325,528,499</u>
Cash and cash equivalents		\$10,215,145		9,360,807
Contributions receivable and cash held for investment	6,670,842			10,438,966
Accounts and other receivables		1,694,209	(\$379,315)	1,142,329
Property and equipment, net		158,978		196,430
Total assets	<u>\$9,160,395,412</u>	<u>\$12,068,332</u>	<u>(\$379,315)</u>	<u>\$9,172,084,429</u>
Liabilities:				
Accounts payable	753,361	843,752	(379,315)	4,885,078
Accrued expenses		329,893		303,579
Total liabilities	<u>753,361</u>	<u>1,173,645</u>	<u>(379,315)</u>	<u>5,188,657</u>
Plan Net Position Available for Benefits	<u>\$9,159,642,051</u>	<u>\$10,894,687</u>	<u>\$0</u>	<u>\$9,170,536,738</u>
				<u>\$8,341,478,374</u>

**SUPPLEMENTAL COMBINING SCHEDULE OF CHANGES IN
PLAN NET POSITION AVAILABLE FOR BENEFITS**

**For the year ended December 31, 2012
With Totals for 2011**

	2012			2011
	PROGRAM FUND	ADMINIS- TRATION FUND	COMBINING ENTRIES	
Additions:				
Net Investment Income:				
Net gain (loss) on funds	\$666,840,490			(\$96,637,673)
Stable value income	135,048,588	16,496		144,322,845
Investment expenses	(12,592,814)			(11,461,842)
Net investment income	789,296,264	16,496		36,223,330
Employee contributions	426,982,639			447,896,090
Transfers from other plans	126,454,338			92,464,484
Recordkeeping income		10,148,892	(4,334,689)	5,516,931
Total additions	1,342,733,241	10,165,388	(4,334,689)	582,100,835
Deductions:				
Distributions to participants	277,630,284			261,600,043
Transfers to other plans	232,549,170			224,028,714
Administrative expenses	4,334,689	9,326,122	(4,334,689)	9,066,978
Total deductions	514,514,143	9,326,122	(4,334,689)	494,695,735
Change in Net Position	828,219,098	839,266		87,405,100
Plan Net Position Available for Benefits:				
Beginning of Year	8,331,422,953	10,055,421		8,254,073,274
End of Year	\$9,159,642,051	\$10,894,687	\$0	\$8,341,478,374

SUPPLEMENTAL SCHEDULE OF ADMINISTRATION FUND DEDUCTIONS

for the years ended December 31, 2012 and 2011

	2012	2011
Customer Service	\$6,014,681	\$5,749,030
Salaries and benefits:		
Salaries and wages	1,354,817	1,327,907
Insurance	233,772	234,245
Retirement contributions	183,399	181,701
Other benefits	22,030	21,545
	1,794,018	1,765,398
Administration:		
Postage and delivery	423,634	444,099
Participant statements	157,197	177,260
	580,831	621,359
Professional Services:		
Consulting	278,986	245,070
Information Technology	136,091	226,149
Auditing	40,020	41,146
	455,097	512,365
Rent Expense	139,443	139,813
Information Technology expense	136,663	69,868
Insurance	64,236	76,050
Depreciation and amortization	56,202	52,911
Office supplies:		
Office supplies	20,246	18,366
Printing	16,074	11,724
Telephone and fax	3,034	3,667
	39,354	33,757
Professional Expense	27,500	20,957
Miscellaneous	18,097	25,470
Total Administrative Fund Deductions	\$9,326,122	\$9,066,978

SUPPLEMENTAL SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS

for the years ended December 31, 2012 and 2011

	2012	2011
Cash and cash equivalents, beginning of year	\$9,360,807	\$8,751,390
Receipts:		
Investment redemptions	510,179,454	485,628,756
Employee contributions	430,750,763	447,233,514
Transfers from other plans	126,454,338	92,464,484
Recordkeeping income	5,634,707	5,520,588
Total cash receipts	1,073,019,262	1,030,847,342
Disbursements:		
Investment purchases	540,405,659	524,685,441
Distributions to participants	277,630,284	261,600,042
Transfers to other plans	232,549,170	224,028,714
Investment expenses	12,464,753	10,962,793
Administrative expenses	9,096,311	8,936,909
Purchase of property and equipment	18,747	24,026
Total cash disbursements	1,072,164,924	1,030,237,925
Cash and cash equivalents, end of year	\$10,215,145	\$9,360,807

SUPPLEMENTAL SCHEDULE OF INVESTMENT EXPENSES

for the years ended December 31, 2012 and 2011

	2012	2011
Stable Value - Book Value Guarantee Fees:	\$8,391,510	\$7,603,336
Stable Value - Management/Custodial Fees:		
JP Morgan Investment Advisors	1,169,075	1,040,152
Deutsche Asset Management	1,065,069	1,050,154
Nationwide Life Insurance Co.	808,525	792,231
Pyramis Global Advisors	646,734	608,936
State Street Bank and Trust	342,191	135,215
Earnest Partners	85,722	0
Payden & Rygel	42,969	0
Goode Investment Management	0	83,319
Total Stable Value Investment Expenses	12,551,795	11,313,343
Total Mutual Fund Redemption Fees	41,019	148,499
Total Investment Expenses	\$12,592,814	\$11,461,842

Investment manager, custodian, and book value guarantee fees are charged against the assets within the Stable Value Option portfolios.

Select mutual fund investments require participants to hold certain investments for specified periods, or the participant is assessed a redemption fee by the fund. Since 2006, the Program has collected and remitted redemption fees to the mutual funds to benefit the remaining long-term investors of the fund.



OHIO DEFERRED COMPENSATION

OHIO PUBLIC EMPLOYEES DEFERRED COMPENSATION PROGRAM

INVESTMENT SECTION

INVESTMENT SUMMARY

The Program is a self-directed plan, allowing participants to choose the investment options for their current contributions and account balances. The Board has adopted an investment policy that ensures that a sufficient number of suitable, diverse investment options are offered to participants. Independent professionals manage all investments, and the Program does not maintain any in-house investment staff, so the Program does not incur any direct investment expenses.

The following table shows the investment fee rates charged against each investment option as of December 31, 2012, as well as the median in a universe of institutional share class mutual funds for the same asset category (according to *Morningstar*). The performance returns reported to participants have been reduced by these investment expenses. The Stable Value Option fees are directly paid by the Program, so those fees are included in the financial statements and footnotes.

	Actual Investment Fees	Median Mutual Fund Fees
Templeton Foreign	0.92%	1.04%
Vanguard International Growth	0.34%	1.05%
Vanguard Total International Stock Index	0.13%	0.19%
Hartford Small Company	0.71%	1.13%
Vanguard Small-Cap Index	0.14%	0.14%
FPA Capital	0.84%	1.07%
Vanguard Capital Opportunity	0.41%	1.00%
Fidelity Growth Company	0.84%	0.90%
Janus Twenty	0.94%	0.90%
Fidelity Contrafund	0.81%	0.90%
Vanguard Institutional Index	0.04%	0.08%
Dodge & Cox: Stock	0.52%	0.84%
Dodge & Cox: Balanced	0.53%	0.85%
BlackRock LifePath Retirement	0.24%	0.97%
BlackRock LifePath 2015	0.24%	0.99%
BlackRock LifePath 2020	0.24%	1.07%
BlackRock LifePath 2025	0.24%	1.03%
BlackRock LifePath 2030	0.24%	1.13%
BlackRock LifePath 2035	0.24%	1.06%
BlackRock LifePath 2040	0.24%	1.15%
BlackRock LifePath 2045	0.24%	1.07%
BlackRock LifePath 2050	0.24%	1.11%
PIMCO Total Return	0.71%	0.56%
Vanguard Total Bond Market Index	0.07%	0.13%
Stable Value Option	0.39%	Not Available

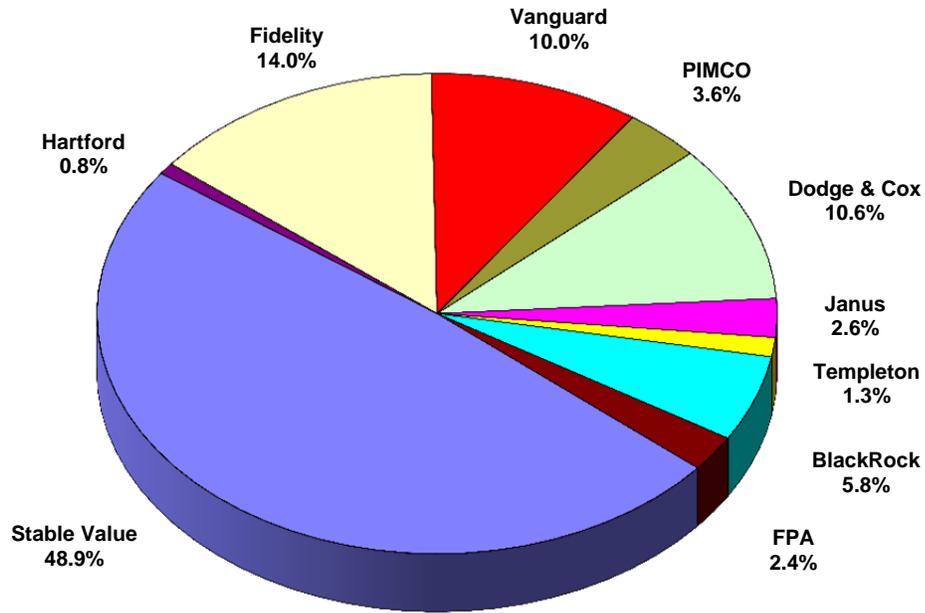
SCHEDULE OF PERFORMANCE VERSUS BENCHMARKS

	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>	<u>10 Year</u>
Templeton Foreign Fund	18.9%	4.2%	-1.7%	8.3%
Vanguard International Growth	20.2%	6.3%	-1.2%	9.8%
<i>Benchmark: MSCI All World ex-U.S. Index</i>	16.8%	3.9%	-2.9%	9.7%
Vanguard Total International Stock Index	18.3%	3.9%	-3.0%	9.4%
<i>Benchmark: MSCI All World ex-U.S. IMI Index</i>	17.0%	3.5%	-3.2%	9.4%
Hartford Small Company	15.6%	11.5%	1.3%	11.4%
<i>Benchmark: Russell 2000 Growth Index</i>	14.6%	12.8%	3.5%	9.8%
Vanguard Small-Cap Index	18.3%	13.8%	5.2%	11.0%
<i>Benchmark: MSCI U.S. Small Cap 1750 Index</i>	18.2%	13.7%	5.0%	10.9%
FPA Capital	9.7%	11.2%	6.6%	10.2%
<i>Benchmark: Russell 2000 Value Index</i>	18.0%	11.6%	3.5%	9.5%
Vanguard Capital Opportunity	18.4%	7.3%	2.4%	11.1%
<i>Benchmark: Russell Mid Cap Growth Index</i>	15.8%	12.9%	3.2%	10.3%
Fidelity Growth Company	18.5%	12.9%	3.7%	11.0%
Janus Twenty	22.3%	6.3%	0.0%	10.0%
<i>Benchmark: Russell 1000 Growth Index</i>	15.3%	11.4%	3.1%	7.5%
Fidelity Contrafund	16.3%	10.7%	2.0%	9.7%
Vanguard Institutional Index	16.0%	10.9%	1.7%	7.1%
<i>Benchmark: S&P 500 Index</i>	16.0%	10.9%	1.7%	7.1%
Dodge & Cox: Stock	22.0%	9.9%	-0.2%	7.3%
<i>Benchmark: Russell 1000 Value Index</i>	17.5%	10.9%	0.6%	7.4%
Dodge & Cox: Balanced	18.3%	9.3%	2.2%	6.8%
<i>Benchmark: Dodge & Cox Custom</i>	11.3%	9.3%	3.8%	6.6%
BlackRock LifePath Retirement	8.7%	7.6%	4.3%	n/a
<i>Benchmark: BlackRock Custom</i>	8.6%	7.8%	4.5%	n/a
BlackRock LifePath 2015	9.6%	7.8%	3.2%	n/a
<i>Benchmark: BlackRock Custom</i>	9.6%	8.0%	3.4%	n/a
BlackRock LifePath 2020	10.9%	8.1%	2.8%	n/a
<i>Benchmark: BlackRock Custom</i>	10.9%	8.3%	2.9%	n/a
BlackRock LifePath 2025	12.0%	8.3%	2.4%	n/a
<i>Benchmark: BlackRock Custom</i>	12.1%	8.5%	2.5%	n/a
BlackRock LifePath 2030	13.2%	8.6%	2.0%	n/a
<i>Benchmark: BlackRock Custom</i>	13.0%	8.6%	2.0%	n/a
BlackRock LifePath 2035	14.0%	8.7%	1.6%	n/a
<i>Benchmark: BlackRock Custom</i>	13.9%	8.7%	1.7%	n/a
BlackRock LifePath 2040	14.8%	8.8%	1.3%	n/a
<i>Benchmark: BlackRock Custom</i>	14.7%	8.8%	1.3%	n/a
BlackRock LifePath 2045	15.7%	8.9%	0.9%	n/a
<i>Benchmark: BlackRock Custom</i>	15.4%	8.9%	1.0%	n/a
BlackRock LifePath 2050	16.3%	9.0%	0.9%	n/a
<i>Benchmark: BlackRock Custom</i>	16.2%	9.0%	1.0%	n/a
PIMCO Total Return	10.1%	7.5%	8.1%	6.6%
<i>Benchmark: Barclays Capital Aggregate Bond Index</i>	4.2%	6.2%	5.9%	5.2%
Vanguard Total Bond Market Index	4.2%	6.2%	6.0%	5.2%
<i>Benchmark: Barclays Float Adjusted U.S. Agg. Index</i>	4.3%	6.3%	6.0%	5.2%
Stable Value Option	2.7%	3.1%	3.7%	4.3%
<i>Benchmark: IMoney Net + 150 bps</i>	1.5%	1.5%	2.0%	3.0%

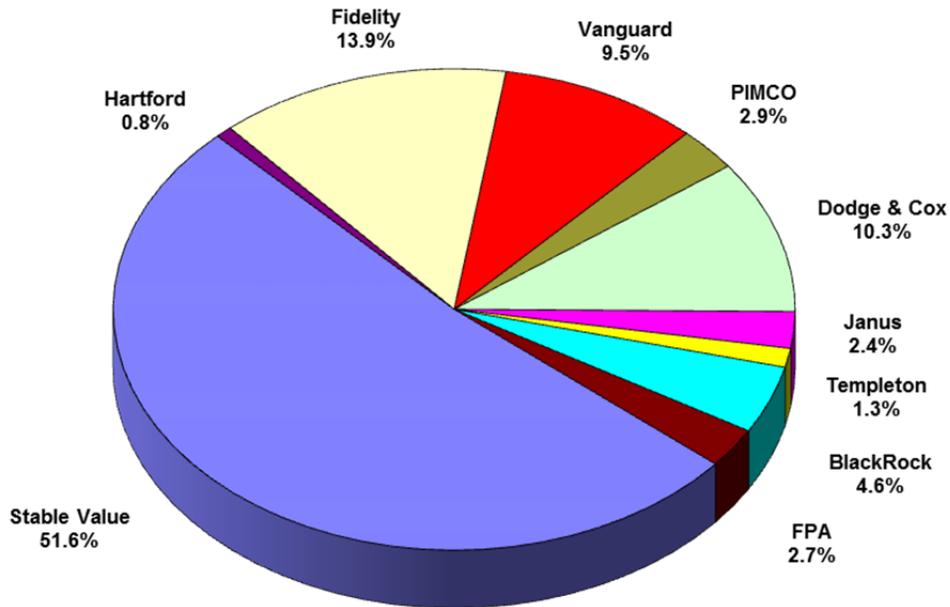
Investment returns are a time-weighted return based on the market rate of return. Returns are shown net of investment management fees. The 3-year, 5-year, and 10-year investment returns are annualized.

INVESTMENT MIX

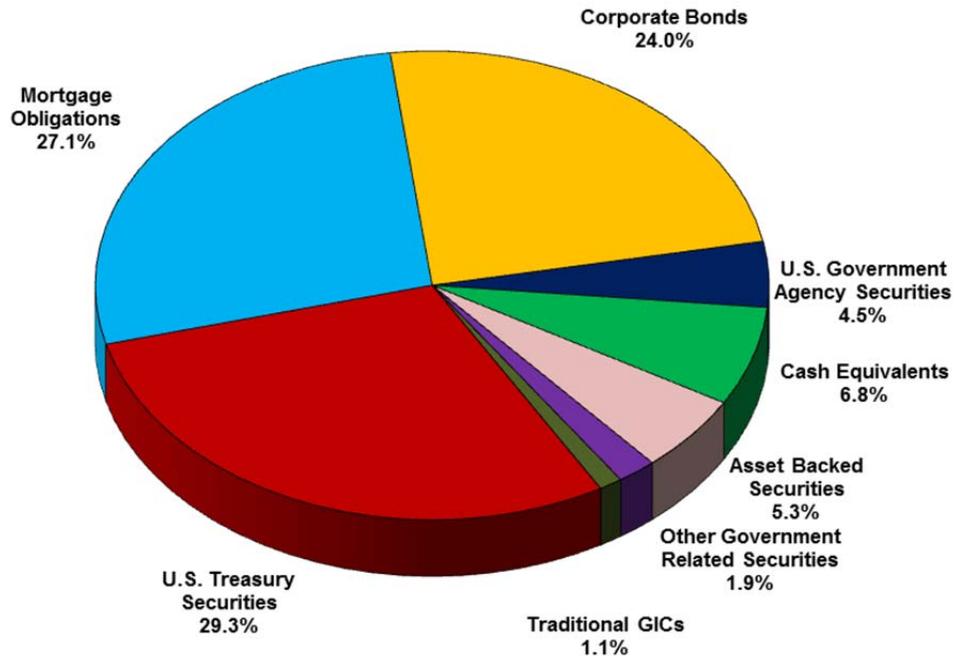
December 31, 2012



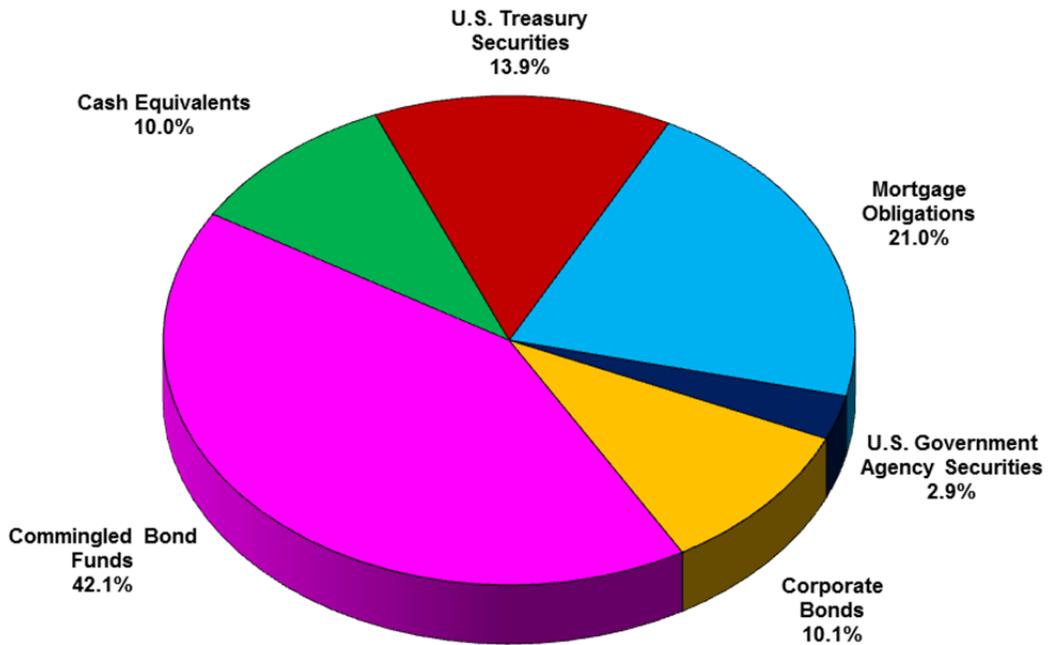
December 31, 2011



STABLE VALUE OPTION DIVERSIFICATION
December 31, 2012



December 31, 2011





OHIO DEFERRED COMPENSATION

OHIO PUBLIC EMPLOYEES DEFERRED COMPENSATION PROGRAM

STATISTICAL SECTION

STATISTICAL INFORMATION

The objective of the Statistical Section is to provide the financial statement users with historical perspective, context, and detail to assist in using the information in the financial statements and the notes to the financial statements to better understand and assess the Ohio Public Employees Deferred Compensation Program's economic condition. The schedules in the Statistical Section show financial trend information that assists users in understanding how the Ohio Public Employees Deferred Compensation Program's financial position has changed over time. The financial trend schedules presented are:

- Changes in Plan Net Position Available for Benefits
- Employee Participation and Deferral Trends
- Number of Employers Contributing
- Principle Contributing Employers
- Benefit Payments

CHANGES IN PLAN NET POSITION AVAILABLE FOR BENEFITS

Years ending December 31, 2003 – 2012
(In Millions)

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Additions:										
Net Investment Income:										
Net gain (loss) on funds	\$666.8	(\$96.6)	\$512.7	\$869.3	(\$1,594.5)	\$415.7	\$439.0	\$274.2	\$321.3	\$489.0
Stable value income	135.1	144.3	151.5	166.2	171.2	163.7	150.6	141.1	131.2	137.3
Investment expenses	(12.6)	(11.4)	(9.2)	(8.1)	(5.8)	(6.2)	(5.4)	(5.1)	(4.8)	(4.3)
Net investment income	<u>789.3</u>	<u>36.3</u>	<u>655.0</u>	<u>1,027.4</u>	<u>(1,429.1)</u>	<u>573.2</u>	<u>584.2</u>	<u>410.2</u>	<u>447.7</u>	<u>622.0</u>
Employee contributions	427.0	447.9	445.6	454.6	456.5	448.4	433.0	412.9	393.1	365.0
Transfers from other plans	126.5	92.5	69.0	52.3	54.4	50.9	43.1	52.1	38.4	28.4
Recordkeeping income	5.8	5.5	5.3	4.3	5.5	6.0	6.0	5.3	4.8	3.9
Total additions	<u>1,348.6</u>	<u>582.2</u>	<u>1,174.9</u>	<u>1,538.6</u>	<u>(912.7)</u>	<u>1,078.5</u>	<u>1,066.3</u>	<u>880.5</u>	<u>884.0</u>	<u>1,019.3</u>
Deductions:										
Distributions to participants	277.6	261.6	237.4	195.4	211.3	207.4	191.9	177.6	171.5	166.7
Transfers to other plans	232.6	224.0	161.5	108.1	154.9	170.9	140.1	111.6	85.1	65.2
Administrative expenses	9.3	9.1	8.7	8.4	8.6	8.1	7.7	7.3	6.9	6.6
Total deductions	<u>519.5</u>	<u>494.7</u>	<u>407.6</u>	<u>311.9</u>	<u>374.8</u>	<u>386.4</u>	<u>339.7</u>	<u>296.5</u>	<u>263.5</u>	<u>238.5</u>
Change in Net Position	<u>829.1</u>	<u>87.5</u>	<u>767.3</u>	<u>1,226.7</u>	<u>(1,287.5)</u>	<u>692.1</u>	<u>726.6</u>	<u>584.0</u>	<u>620.5</u>	<u>780.8</u>
Plan Net Position Available for Benefits:										
Beginning of Year	<u>8,341.5</u>	<u>8,254.0</u>	<u>7,486.7</u>	<u>6,260.0</u>	<u>7,547.5</u>	<u>6,855.4</u>	<u>6,128.8</u>	<u>5,544.8</u>	<u>4,924.3</u>	<u>4,143.5</u>
End of Year	<u>\$9,170.6</u>	<u>\$8,341.5</u>	<u>\$8,254.0</u>	<u>\$7,486.7</u>	<u>\$6,260.0</u>	<u>\$7,547.5</u>	<u>\$6,855.4</u>	<u>\$6,128.8</u>	<u>\$5,544.8</u>	<u>\$4,924.3</u>

EMPLOYEE PARTICIPATION

	<u>Eligible Employees</u>	<u>Total Participant Accounts</u>	<u>Participants Currently Contributing</u>	<u>Current Participation Rate</u>
2003	704,659	169,766	113,536	16.1%
2004	710,492	174,880	114,441	16.1%
2005	713,649	179,729	114,612	16.1%
2006	712,704	184,467	115,176	16.2%
2007	712,496	190,028	117,376	16.5%
2008	705,248	193,932	115,360	16.4%
2009	699,121	196,063	109,221	15.6%
2010	691,820	199,945	108,098	15.6%
2011	685,612	200,059	104,835	15.3%
2012	675,114	202,901	105,254	15.6%

DEFERRAL/ACCOUNT TRENDS

	<u>Total Annual Deferrals</u>	<u>Average Annual Deferral</u>	<u>Net Position Available for Benefits</u>	<u>Average Participant Account</u>
2003	\$365,012,189	\$3,215	\$4,924,324,467	\$29,007
2004	393,121,999	3,435	5,544,848,876	31,707
2005	412,865,430	3,602	6,128,790,623	34,100
2006	433,065,402	3,760	6,855,368,579	37,163
2007	448,422,325	3,820	7,547,492,540	39,718
2008	456,547,715	3,958	6,260,065,654	32,280
2009	454,645,326	4,163	7,486,734,879	38,185
2010	445,634,894	4,123	8,254,073,274	41,282
2011	447,896,090	4,272	8,341,478,374	41,695
2012	426,982,639	4,057	9,170,536,738	45,197

NUMBER OF EMPLOYERS CONTRIBUTING

	<u>State</u>	<u>County</u>	<u>City</u>	<u>Metro Housing</u>	<u>Village</u>	<u>Library</u>	<u>Medical Center</u>	<u>Education</u>	<u>Misc</u>	<u>Township</u>	<u>Total</u>
2003	1	88	244	46	167	179	30	408	121	213	1,497
2004	1	88	245	46	177	182	30	438	124	227	1,558
2005	1	88	245	46	182	184	27	478	127	232	1,610
2006	1	88	247	47	185	187	27	497	134	241	1,654
2007	1	88	246	49	193	185	26	519	136	246	1,689
2008	1	88	247	49	202	187	26	551	140	254	1,745
2009	1	88	247	49	203	187	25	569	147	248	1,764
2010	1	88	247	49	203	187	25	577	146	249	1,772
2011	1	88	241	50	207	180	24	586	146	243	1,766
2012	1	88	242	51	208	179	23	594	151	247	1,784

PRINCIPLE CONTRIBUTING EMPLOYERS AS OF DECEMBER 31, 2012

<u>Employer Name</u>	<u>Participant Accounts</u>	<u>Current Rank</u>	<u>2006 * Rank</u>	<u>Percentage of Participants</u>
State of Ohio	53,397	1	1	26.3%
City of Columbus	8,002	2	2	3.9%
City of Cleveland	6,825	3	3	3.4%
Cuyahoga County	5,670	4	4	2.8%
City of Cincinnati	4,566	5	5	2.3%
Franklin County	3,782	6	6	1.9%
Metrohealth Medical Center	3,171	7	7	1.6%
Montgomery County	2,599	8	8	1.3%
City of Dayton	1,984	9	10	1.0%
City of Toledo	1,955	10	9	1.0%
All Others	110,950			54.7%
Total Participation	202,901			100.0%

* GASB 44 was implemented in 2006 and the Program is working towards the ten-year reporting goal.

BENEFIT PAYMENTS

	<u>Participant Distributions</u>	<u>Beneficiary Distributions</u>	<u>Total Distributions</u>
2003	\$155,359,993	\$11,438,532	\$166,798,525
2004	157,739,777	13,624,557	171,364,334
2005	164,503,167	13,093,037	177,596,204
2006	177,620,756	14,275,742	191,896,498
2007	193,686,499	13,738,815	207,425,314
2008	196,754,025	14,585,231	211,339,256
2009	181,410,082	14,031,428	195,441,510
2010	219,563,337	17,840,136	237,403,473
2011	243,097,948	18,502,095	261,600,043
2012	257,556,646	20,073,638	277,630,284
	<u>Number of Participant Distributions</u>	<u>Number of Beneficiary Distributions</u>	<u>Number of Total Distributions</u>
2003	20,467	1,385	21,852
2004	20,583	1,435	22,018
2005	20,923	1,594	22,517
2006	21,689	1,577	23,266
2007	23,464	1,662	25,126
2008	23,031	1,756	24,787
2009	19,927	1,285	21,212
2010	25,716	2,168	27,884
2011	27,939	2,310	30,249
2012	29,581	2,525	32,106
	<u>Average Participant Distribution</u>	<u>Average Beneficiary Distribution</u>	<u>Average Distribution</u>
2003	\$7,591	\$8,259	\$7,633
2004	7,664	9,494	7,783
2005	7,862	8,214	7,887
2006	8,189	9,052	8,248
2007	8,255	8,266	8,255
2008	8,543	8,306	8,526
2009	9,104	10,919	9,214
2010	8,538	8,229	8,514
2011	8,701	8,010	8,648
2012	8,707	7,950	8,647

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Ohio Public Employees Deferred Compensation Board
Columbus, Ohio

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Ohio Public Employees Deferred Compensation Program (the Program), which comprise the statement of plan net position available for benefits as of December 31, 2012, and the related statement of changes in plan net position available for benefits for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 15, 2013, wherein we noted the Program adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*; GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*; and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Program's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Program's internal control. Accordingly, we do not express an opinion on the effectiveness of the Program's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

2525 north limestone street, ste. 103
springfield, oh 45503

www.cshco.com
p. 937.399.2000
f. 937.399.5433

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Program's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Program's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Clark, Schufer, Hackett & Co." The signature is written in a cursive style and is positioned above the typed name and date.

Springfield, Ohio
May 15, 2013



Dave Yost • Auditor of State

OHIO PUBLIC EMPLOYEES DEFERRED COMPENSATION PROGRAM

FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JUNE 20, 2013