



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

**Richard A. Curtis, Executive Director**

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

# Table of Contents

|   | Page |
|---|------|
| <b>Introductory Section</b>   |      |
| Certificate of Achievement.....   | 4    |
| Board of Trustees.....  | 5    |
| Organizational Chart .....  | 6    |
| Professional Consultants .....  | 7    |
| Legislative Summary .....   | 8    |
| Letter of Transmittal .....   | 9    |
| <b>Financial Section</b>  |      |
| Independent Auditors' Report.....   | 12   |
| Management's Discussion and Analysis.....   | 13   |
| Basic Financial Statements  |      |
| Combining Statement of Plan Net Assets.....   | 16   |
| Combining Statement of Changes in Plan Net Assets.....  | 17   |
| Notes to Financial Statements .....   | 18   |
| Required Supplementary Schedules  |      |
| Schedule of Employer Contributions .....  | 25   |
| Schedule of Funding Progress.....   | 25   |
| Notes to the Trend Data.....  | 25   |
| Notes to Required Supplementary Schedules .....   | 26   |
| Additional Information  |      |
| Schedule of Administrative Expenses.....  | 27   |
| Schedule of Investment Expenses.....  | 28   |
| Payments to Consultants.....  | 28   |
| Independent Auditors' Report on Compliance and on Internal Control.....                           | 29   |
| <b>Investment Section</b>   |      |
| Investment Distribution .....   | 32   |
| Ten-Year Investment Comparison .....  | 32   |
| Investment Review .....   | 33   |
| Schedule of Investment Results.....   | 34   |
| Investment Summary.....   | 35   |
| Largest Equity Holdings .....   | 35   |
| Largest Fixed-Income Holdings .....   | 35   |
| Investment Portfolio .....  | 36   |
| Summary Schedule of Investment Manager Fees.....  | 44   |
| Summary Schedule of Broker Fees .....   | 44   |
| Investment Objectives, Policies, and Guidelines.....  | 45   |
| <b>Actuarial Section</b>  |      |
| Actuary's Letter .....  | 49   |
| Summary of Assumptions .....  | 51   |
| Accrued Liabilities and Assets Allocated to Retirement, Survivor, and Disability Allowances ..... | 52   |
| Postemployment Health Care and Medicare Reimbursement .....                                       | 52   |
| Active Member Data .....  | 53   |
| Retiree and Beneficiary Data.....   | 53   |
| Analysis of Financial Experience.....   | 54   |
| Plan Summary.....   | 55   |
| <b>Statistical Section</b>  |      |
| Additions by Source.....  | 58   |
| Deductions by Type.....   | 58   |
| Average Monthly Benefit Amount by Type .....  | 59   |
| Number of Benefit Recipients by Type .....  | 59   |
| Benefit Expenses by Type .....  | 59   |
| <b>Map</b> .....  | 60   |



# Introductory Section

---

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## Highway Patrol Retirement System, Ohio

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

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



*Carla E. Perry*

President

*Jeffrey R. Emer*

Executive Director

---

## Highway Patrol Retirement System Board of Trustees



Staff Lieutenant John Allard  
*Elected Member/ Chair*



Major John Born  
*Elected Member/ Vice Chair*



Staff Lieutenant Cory Davies  
*Elected Member*



Sergeant Walter Davis  
*Elected Member*



Trooper Dennis Gorski  
*Elected Member*



Larry Davis  
*Retired Member Representative*



R. Dean Huffman  
*Retired Member Representative*



Colonel Paul McClellan  
*Ex-Officio Member*



Kenneth C. Boyer  
*Treasurer of State's Investment Designee*



Dan Lohmeyer  
*General Assembly's Investment Expert Appointee*



Joseph H. Thomas  
*Governor's Investment Expert Appointee*

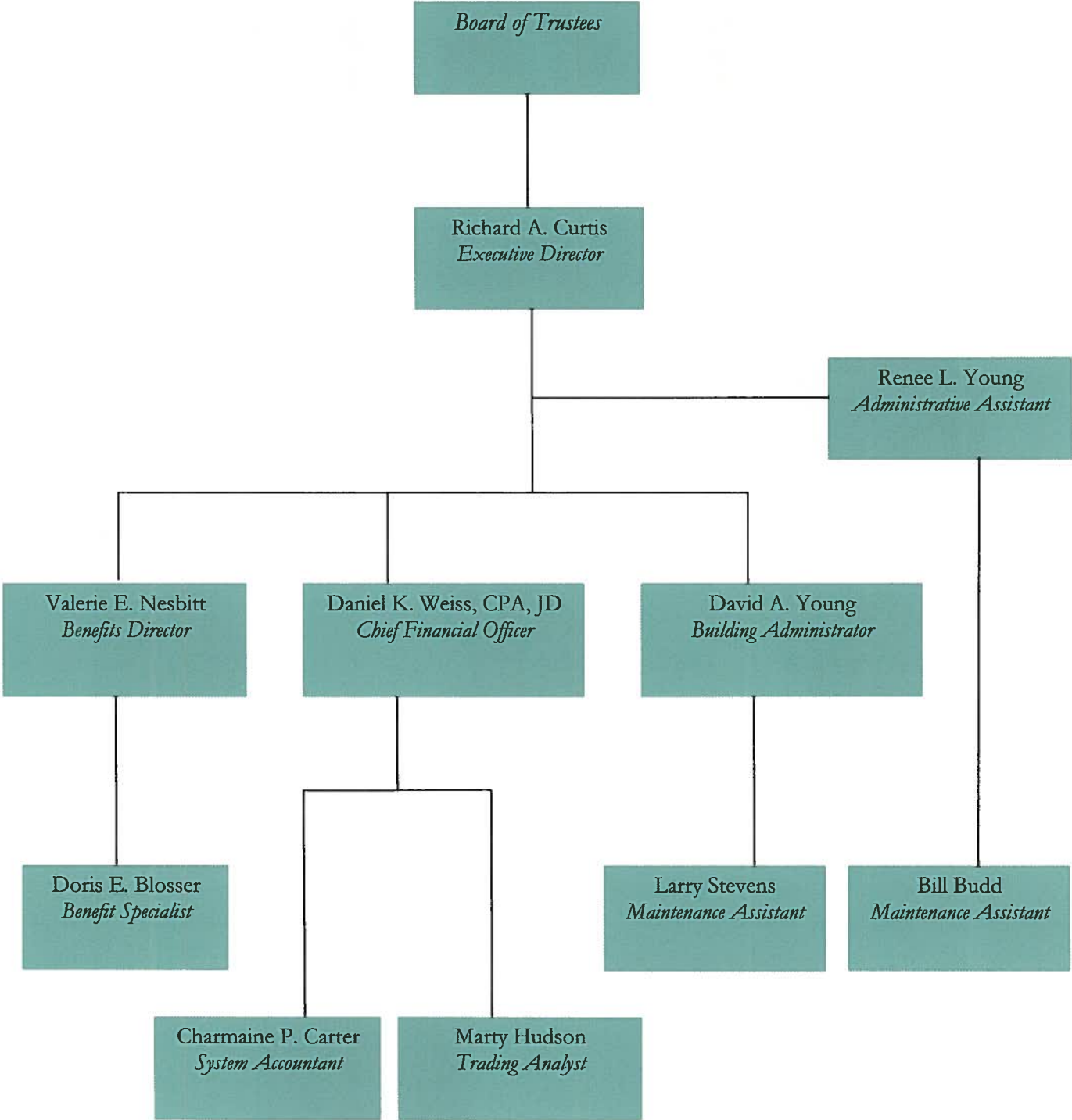


Richard A. Curtis  
*Executive Director*



Cheryl Pokorny  
*Assistant Attorney General, Legal Counsel*

# Organizational Chart



## Professional Consultants

### Medical Advisor

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

### Independent Auditor

Kennedy, Cottrell + Associates  
Columbus, Ohio

### Actuary

Gabriel, Roeder, Smith & Company  
Southfield, Michigan

### Investment Consultant

Callan Associates Inc.  
Chicago, Illinois

## Investment Managers

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

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

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

Fidelity Management Trust Company  
Boston, Massachusetts  
*Real Estate*

INTECH  
Palm Beach Gardens, Florida  
*Large Cap Growth Equity*

JPMorgan Fleming Asset Management  
New York, New York  
*International Equity*

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

Munder Capital Management  
Birmingham, Michigan  
*Fixed Income*

Oak Associates  
Akron, Ohio  
*Large Cap Growth Equity*

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

BlackRock  
New York, New York  
*Real Estate*

State Street Global Advisors  
Boston, Massachusetts  
*Large Cap Indexed*

Timbervest  
Atlanta, Georgia  
*Timberland Real Estate*

Wells Capital Management  
Los Angeles, CA  
*Fixed Income*

Western Asset  
Pasadena, California  
*Fixed Income*

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

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

See page 44

---

## Legislative Summary

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

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

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

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



6161 BUSCH BOULEVARD  
SUITE 119  
COLUMBUS, OHIO 43229



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

May 31, 2006

## Letter of Transmittal

Members of the Board of Trustees:

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

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

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

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

### Major Initiatives and Changes Enacted

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

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

### Investments

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

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

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

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

### Internal Controls

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

### Funding

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

### Certificate of Achievement for Excellence in Financial Reporting

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

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

### Professional Services

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

### Acknowledgments

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

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

Respectfully Submitted,



Richard A. Curtis, Executive Director



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



# Financial Section



## INDEPENDENT AUDITOR'S REPORT

The Retirement Board  
Ohio State Highway Patrol Retirement System

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

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

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

In accordance with Government Auditing Standards, we have also issued our report dated May 23, 2006 on our consideration of the Ohio State Highway Patrol Retirement System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

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

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

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

*Kennedy, Cottrell + Associates LLC*

Kennedy, Cottrell + Associates  
May 23, 2006

**certified public accountants**  
**business and government consultants**

the arena district • 383 north front street • columbus ohio 43215  
614.358.4682 tele • 614.888.8634 fac • [www.kca-cpa.com](http://www.kca-cpa.com)

# Management's Discussion and Analysis

## Financial Highlights

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

## Overview of the Financial Statements

HPRS's financial statements consist of these components:

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

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

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

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

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

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

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

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

## Other Information

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

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

## HPRS Activities

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

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

|   | 2005            | 2004             | \$ Change         | % Change       |
|---|-----------------|------------------|-------------------|----------------|
| Net                                       |                 |                  |                   |                |
| Appreciation in Fair Value of Investments | \$38,315        | \$61,335         | (\$23,020)        | (37.5%)        |
| Interest and Dividend Income              | 11,419          | 16,705           | (5,286)           | (31.6)         |
| Real Estate Operating Income, Net         | 186             | 192              | (6)               | (3.1)          |
| Investment Expenses                       | (3,312)         | (3,465)          | 153               | (4.4)          |
| Security Lending Activity, Net            | 281             | 193              | 88                | 45.6           |
| Employer Contributions                    | 21,474          | 20,073           | 1,401             | 7.0            |
| Member Contributions                      | 8,582           | 8,193            | 389               | 4.7            |
| Transfers from Other Ohio Systems         | 1181            | 856              | 325               | 38.0           |
| <b>Total Additions</b>                    | <b>\$78,126</b> | <b>\$104,082</b> | <b>(\$25,956)</b> | <b>(24.9%)</b> |

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

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

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

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

**Changes in Net Assets**

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

**Changes in Net Assets** (In 000's)

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

**Capital Assets**

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

**Total Assets**

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

**Assets** (In 000's)

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

**Total Liabilities**

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

**Liabilities** (In 000's)

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

**Summary**

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

**Requests for Information**

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

## Combining Statement of Plan Net Assets

December 31, 2005

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

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



## Combining Statement of Changes in Plan Net Assets

Year Ending December 31, 2005

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

See accompanying *Notes to Financial Statements*.

## Notes to Financial Statements

Year Ending December 31, 2005

### Plan Description

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

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

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

#### Pension Benefits

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

#### Current members

|           |       |
|-----------|-------|
| Vested    | 283   |
| Nonvested | 1,279 |

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

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

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

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

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

The allocation of the employer contribution rate to basic retirement benefits has been established as the rate necessary to cover normal cost, plus the amortization of the unfunded actuarially accrued liabilities based on a thirty-four (34) year amortization schedule. The contribution rate allocated to health care benefits is sufficient to cover normal costs, and to provide level cost financing of the unfunded actuarially accrued liabilities. The adequacy of the employer contribution rate is determined using the entry age normal cost method.

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

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

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

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

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

**Summary of Significant Accounting Policies**

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

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

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

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

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

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

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

**Prior Period Restatement** - Prior period adjustments are the net effect of changes resulting from the correction of an error. Because these amounts are the product of errors from a prior period, they are not properly included as part of the results of operations of the current period; rather they are reported as a direct adjustment to beginning net assets to restate that amount to what it would have been had the error not occurred.

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

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

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

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

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

**Deposits and Investment Risk Disclosures**

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

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

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

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

Total Investments at Fair Value, December 31, 2005

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

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

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

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

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

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

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

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

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

Effective Duration of Fixed Income Investments

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

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

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

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

International Equity Securities, December 31, 2005

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

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

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

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

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

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

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

**Property and Equipment**

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

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

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

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

|                                    |           |
|------------------------------------|-----------|
| Cost, 12/31/04                     | \$154,080 |
| + Additions                        | 11,750    |
| - Retirements                      | ---       |
| Cost, 12/31/05                     | \$165,830 |
| Accumulated Depreciation, 12/31/04 | \$123,357 |
| + Depreciation                     | 11,299    |
| - Retirements                      | ---       |
| Accumulated Depreciation, 12/31/05 | \$134,656 |
| Book Value, 12/31/05               | \$31,174  |

### Pension Benefits for Employees

The employees of HPRS are members of the Ohio Public Employee Retirement System (OPERS), which administers three separate pension plans as described below:

1. The Traditional Pension Plan — a cost sharing, multiple-employer defined benefit pension plan.
2. The Member-Directed Plan — a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings.
3. The Combined Plan — a cost sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, employer contributions are invested by OPERS to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-6701 or 800-222-7377.

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

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

### Other Postemployment Benefits for Employees

As described above, Ohio Public Employees Retirement System (OPERS) administers three separate pension plans — the Traditional Pension Plan, the Member-Directed Plan, and the Combined Plan. OPERS provides retirement, disability, survivor, cost-of-living adjustments, death benefits, and postemployment health care coverage to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including postemployment health care coverage.

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

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

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

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

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

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

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

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

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

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

### **Risk Management**

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

### **Contingent Liabilities**

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



## Required Supplementary Schedules

### Schedule of Employer Contributions

Years Ending December 31, 2000-2005

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

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

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

### Schedule of Funding Progress

Years Ending December 31, 1999-2004

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

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

▲ Plan amendment.

► Assumption or method change.

### Notes to the Trend Data

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

Additional information from the latest actuarial valuation is as follows:

|                               |  |
|-------------------------------|--|
| Valuation Date                | December 31, 2004  |
| Actuarial Cost Method         | Entry Age  |
| Amortization Method           | Level Percent Open   |
| Remaining Amortization Period | 30 years for retirement allowances in determining the Annual Required Contribution |
| Asset Valuation Method        | 4 year smoothed market, 20% Corridor   |

#### Actuarial assumptions:

|   |  |
|---|--|
| Investment Rate of Return               | 8.0%   |
| Projected Salary Increases              | 4.3 – 7.7%, including wage inflation of 4.0% |
| Cost-of-living adjustments for retirees | 3% CPI increases for years after age 53      |

## Notes to Required Supplementary Schedules

### Description of Schedule of Funding Progress

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

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

### Actuarial Assumptions and Methods

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

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

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

Other actuarial assumptions and methods are as follows:

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

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

#### Actuarial Value of Pension Benefits Payable

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

#### Current Members

|   |              |
|---|--------------|
| Accumulated member contributions<br>Including allocated investment income | \$77,100,466 |
|---|--------------|

## Additional Information

### Schedule of Administrative Expenses

Year Ending December 31, 2005

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

Above amounts do not include investment department administrative expenses.

---

## Schedule of Investment Expenses

Year Ending December 31, 2005

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

## Payments to Consultants

Year Ending December 31, 2005

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



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

The Retirement Board  
Ohio State Highway Patrol Retirement System

We have audited the combining statement of plan net assets of the Ohio State Highway Patrol Retirement System (HPRS), as of December 31, 2005, and the related combining statement of changes in plan net assets for the year then ended, and have issued our report thereon dated May 23, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered HPRS' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

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

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

*Kennedy, Cottrell + Associates LLC*

Kennedy, Cottrell + Associates  
May 23, 2006

*certified public accountants  
business and government consultants*

*the arena district • 383 north front street • columbus ohio 43215  
614.358.4682 tele • 614.888.8634 fac • www.kca-cpa.com*

---

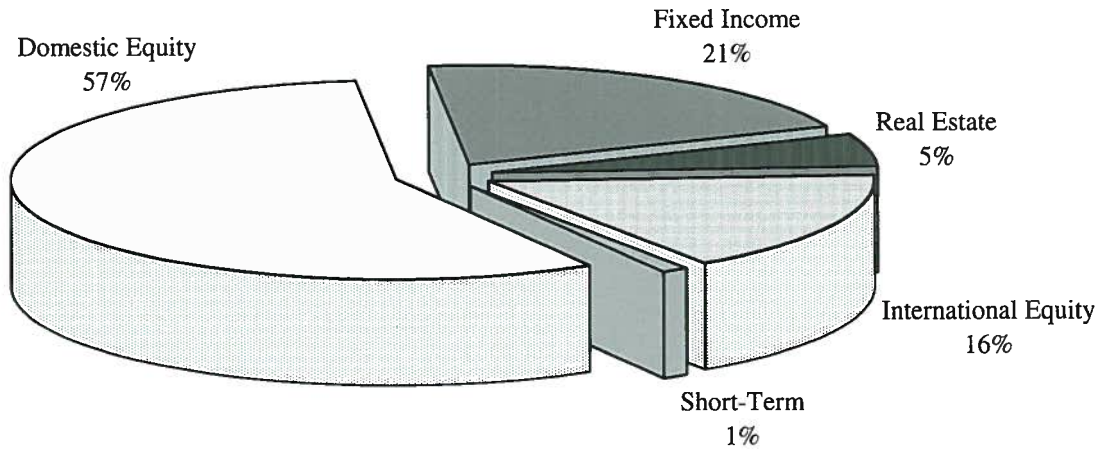
[this page intentionally left blank]



# Investment Section

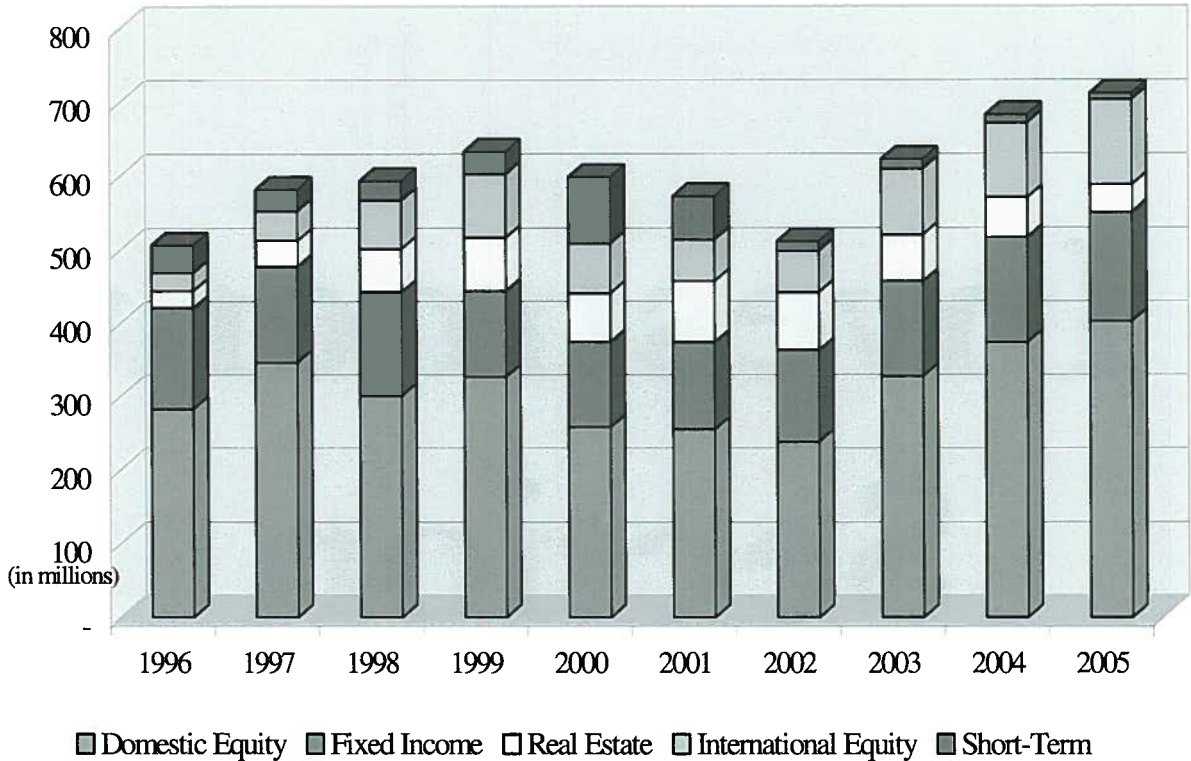
## Investment Distribution

at Fair Value, December 31, 2005



## Ten-Year Investment Comparison

at Fair Value, December 31, 2005





# Investment Review

Year Ending December 31, 2005

## General Market & Economic Conditions

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

*Source: Callan Associates*

## Investment Operations

Given the outstanding performance achieved by most public pension funds in 2004 -- the HPRS investment return was over 12% -- many market analysts predicted that 2005 would return to more normal levels. For the HPRS, that would be about 8%. That was the case with the HPRS achieving a 7.6% return, calculated using time-weighted rates of return based upon market values. Across the HPRS portfolio, managers in all asset classes recorded strong performance. According to Callan Associates, the HPRS investment consultant, the HPRS return in 2005 was median level for all public pension funds. Over the next two years, the negative effects of 2000-2002 will drop out of the 5-year numbers and the HPRS performance will return to more normal and expected levels.

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

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

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

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

*Summary by Richard A. Curtis, Executive Director*

## Schedule of Investment Results

Year Ending December 31, 2005

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

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

All returns are calculated using time-weighted rates of return based upon market values.

*Source: Callan Associates*

## Investment Summary

December 31, 2005

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

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

### Largest Equity Holdings (by Fair Value)

December 31, 2005

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

### Largest Fixed-Income Holdings (by Fair Value)

December 31, 2005

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

# Investment Portfolio

December 31, 2005

## Fixed Income

|   | <u>Coupon %</u> | <u>Maturity</u> | <u>Par Value</u>    | <u>Fair Value</u>   |
|---|-----------------|-----------------|---------------------|---------------------|
| US Treasury Bond                                | 7.500           | 11/15/16        | \$1,500,000         | \$1,884,135         |
| US Treasury Bond                                | 6.250           | 05/15/30        | 1,500,000           | 1,862,925           |
| US Treasury Bond                                | 8.000           | 11/15/21        | 2,500,000           | 3,444,249           |
| US Treasury Note                                | 2.000           | 05/15/06        | 1,500,000           | 1,487,340           |
| US Treasury Note                                | 4.000           | 11/15/12        | 100,000             | 97,848              |
| US Treasury Note                                | 4.250           | 08/15/15        | 965,000             | 952,523             |
| US Treasury Note                                | 4.375           | 08/15/12        | 100,000             | 99,988              |
| <b>Total US Government Obligations</b>          |                 |                 | <b>\$8,165,000</b>  | <b>\$9,829,008</b>  |
| Govt National Mtg Assoc 02-9                    | 5.881           | 03/16/24        | \$605,960           | \$615,795           |
| GNMA Pool #423876                               | 7.500           | 07/15/26        | 56,576              | 59,646              |
| GNMA Pool #423906                               | 7.500           | 07/15/26        | 57,870              | 61,011              |
| GNMA Pool #575876                               | 6.500           | 12/15/31        | 253,753             | 265,223             |
| GNMA Pool #781598                               | 5.000           | 05/15/33        | 980,811             | 969,267             |
| <b>Total US Government Guaranteed Mortgages</b> |                 |                 | <b>\$1,954,970</b>  | <b>\$1,970,942</b>  |
| Federal Home Loan Bank                          | 5.800           | 09/02/08        | \$1,500,000         | \$1,537,500         |
| Federal Home Loan Mortgage                      | 4.750           | 12/08/10        | 1,500,000           | 1,497,660           |
| Federal Home Loan Mortgage                      | 5.300           | 05/12/20        | 1,500,000           | 1,461,555           |
| Federal Home Loan Mortgage                      | 5.125           | 07/15/12        | 250,000             | 254,533             |
| Federal Home Loan Mortgage                      | 6.250           | 03/05/12        | 1,500,000           | 1,522,965           |
| Federal Home Loan Mortgage                      | 6.875           | 09/15/10        | 1,000,000           | 1,088,440           |
| Federal National Mortgage                       | 4.300           | 02/17/10        | 975,000             | 959,156             |
| Federal National Mortgage Assn                  | 4.375           | 09/07/07        | 250,000             | 248,125             |
| Federal National Mortgage Assn                  | 5.500           | 03/15/11        | 1,000,000           | 1,033,750           |
| Federal National Mortgage Assn                  | 7.125           | 01/15/30        | 825,000             | 1,076,881           |
| FHLMC Gold Pool #C00492                         | 7.500           | 01/01/27        | \$38,049            | 40,040              |
| FHLMC Gold Pool #E00476                         | 6.500           | 03/01/12        | 127,674             | 131,135             |
| FNMA DUS Pool #385278                           | 6.110           | 07/01/12        | 965,896             | 1,014,751           |
| FNMA Pool #313708                               | 7.500           | 08/01/12        | 127,087             | 133,650             |
| FNMA Pool #323406                               | 5.978           | 11/01/08        | 493,672             | 503,077             |
| FNMA Pool #525908                               | 7.000           | 12/01/29        | 12,278              | 12,824              |
| FNMA Pool #535466                               | 7.000           | 08/01/30        | 14,492              | 15,128              |
| FNMA Pool #735417                               | 6.500           | 03/01/35        | 898,827             | 923,751             |
| FNMA Pool #767413                               | 5.500           | 01/01/34        | 1,123,834           | 1,113,911           |
| FNMA Pool #779668                               | 5.500           | 07/01/34        | 1,116,118           | 1,106,262           |
| FNMA Pool #788908                               | 6.000           | 08/01/34        | 1,533,360           | 1,547,865           |
| FNMA Pool #796023                               | 6.000           | 09/01/34        | 918,882             | 927,575             |
| FHLMC 1531-M                                    | 6.000           | 06/15/08        | 321,604             | 323,421             |
| FHLMC 1617-PJ                                   | 6.200           | 01/15/23        | 77,901              | 77,807              |
| FHLMC 1669-G                                    | 6.500           | 02/15/23        | 12,436              | 12,413              |
| FHLMC 2123-PE                                   | 6.000           | 12/15/27        | 168,815             | 170,410             |
| FHLMC 2587-WB                                   | 5.000           | 11/15/16        | 1,300,000           | 1,290,068           |
| FHLMC 2700-PG                                   | 4.500           | 05/15/32        | 800,000             | 755,928             |
| FHLMC 2802-NC                                   | 5.000           | 05/15/28        | 500,000             | 497,215             |
| FHLMC 2836-QD                                   | 5.000           | 09/15/27        | 1,000,000           | 991,470             |
| FNMA 1993-208J                                  | 6.250           | 02/25/23        | 140,608             | 140,301             |
| FNMA 1993-223VD                                 | 6.150           | 08/25/06        | 14,646              | 14,636              |
| FNMA 2002-70 PL                                 | 5.000           | 04/25/15        | 474,358             | 473,633             |
| FNMA Grantor Trust 2002-M2                      | 4.717           | 08/25/12        | 1,500,000           | 1,475,235           |
| FNMA Series 2003-32 CL KB                       | 5.000           | 03/25/17        | 1,000,000           | 995,770             |
| <b>Total U.S. Government Agency Obligations</b> |                 |                 | <b>\$24,980,537</b> | <b>\$25,368,841</b> |

**Fixed Income** (continued)

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

## Domestic Equity

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

**Domestic Equity** (continued)

|                                      | <u>Shares</u> | <u>Fair Value</u> |                                     | <u>Shares</u> | <u>Fair Value</u> |
|--------------------------------------|---------------|-------------------|-------------------------------------|---------------|-------------------|
| Caremark Rx Inc                      | 7,000         | \$362,530         | Danaher Corp                        | 2,700         | \$150,600         |
| Carlisle Cos Inc                     | 900           | 62,235            | Darden Restaurants Inc              | 10,400        | 404,350           |
| Carmax Inc                           | 200           | 5,536             | Del Monte Foods Co                  | 85,800        | 894,890           |
| Cash America International Inc       | 31,500        | 730,485           | Dell Inc                            | 1,000         | 29,950            |
| Caterpillar Inc                      | 1,000         | 57,770            | Denbury Resources Inc               | 18,500        | 421,430           |
| Cb Richard Ellis Group Inc Class A   | 1,100         | 64,735            | DEX Media Inc                       | 37,500        | 1,015,870         |
| Cce Spinco Inc                       | 325           | 4,258             | Diamond Offshore Drilling Inc       | 4,600         | 319,970           |
| Celgene Corp                         | 6,600         | 427,680           | Dicks Sporting Goods Inc            | 7,800         | 259,270           |
| CenturyTel Inc                       | 16,000        | 530,560           | Diebold Inc                         | 18,100        | 687,800           |
| Ceridian Corp                        | 3,400         | 84,490            | Direct General Corp                 | 35,600        | 601,640           |
| Cerner Corp                          | 2,100         | 190,911           | Discovery Holding Co                | 5,900         | 89,380            |
| Certegy Inc                          | 1,100         | 44,616            | Donnelley R R & Sons Co             | 21,300        | 728,670           |
| Charles River Laboratories           | 4,900         | 207,613           | Dover Corp                          | 29,400        | 1,190,400         |
| Check Free Corp                      | 6,800         | 312,120           | Dow Chemical Co                     | 27,400        | 1,200,660         |
| Checkpoint Systems Inc               | 27,400        | 675,410           | Dow Jones & Co Inc                  | 27,800        | 986,620           |
| Cheesecake Factory Inc               | 6,000         | 224,340           | Dress Barn Inc                      | 19,000        | 733,590           |
| Chesapeake Energy Corp               | 58,900        | 1,868,897         | DuPont, E I de Nemours & Co         | 47,700        | 2,027,250         |
| Chevron Corp                         | 37,400        | 2,123,198         | Duke Energy Corp                    | 22,100        | 606,640           |
| Chicago Mercantile Exch Holdings Inc | 500           | 183,745           | Dun & Bradstreet Corp               | 600           | 40,170            |
| Chicos FAS Inc                       | 12,400        | 544,732           | Dycom Industries Inc                | 30,800        | 677,600           |
| Chiron Corp                          | 5,000         | 222,200           | EOG Resources Inc                   | 6,800         | 498,910           |
| Church and Dwight Inc                | 4,900         | 161,847           | East West Bancorp Inc               | 14,100        | 514,500           |
| Cimarex Energy Co                    | 4,313         | 185,502           | Eaton Vance Corp                    | 1,500         | 41,040            |
| CINRAM Ltd                           | 62,100        | 1,462,455         | Ecolab Inc                          | 1,300         | 47,151            |
| Cintas Corp                          | 13,280        | 546,206           | Edwards A G Inc                     | 23,800        | 1,115,260         |
| Cisco Systems Inc                    | 4,200         | 71,904            | Edwards Lifesciences Corp           | 5,900         | 245,490           |
| Citigroup Inc                        | 53,100        | 2,576,943         | Elan Corp plc (ADR)                 | 56,200        | 782,860           |
| Citizens Communications Co           | 83,700        | 1,023,651         | Eli Lilly & Co                      | 30,300        | 1,714,670         |
| Citrix Systems Inc                   | 4,500         | 129,285           | EMCOR Group Inc                     | 14,100        | 952,170           |
| Claire's Stores Inc                  | 800           | 23,376            | Emerson Electric Co                 | 4,200         | 313,740           |
| Clear Channel Communications Inc     | 2,100         | 66,045            | Encore Capital Group Inc            | 14,500        | 251,575           |
| Coach Inc                            | 800           | 26,672            | Endo Pharmaceuticals Holdings Inc   | 5,200         | 157,352           |
| Coca Cola Co                         | 12,900        | 519,999           | Energen Corp                        | 11,600        | 421,312           |
| Cognizant Technology Solutions       | 2,700         | 135,729           | Energizer Holdings Inc              | 5,800         | 288,782           |
| COGNOS Inc                           | 6,200         | 215,202           | Energy East Corp                    | 19,600        | 446,880           |
| Colgate Palmolive Co                 | 28,100        | 1,541,285         | Engelhard Corp                      | 23,000        | 693,450           |
| Comcast Corp Class A                 | 51,000        | 1,321,920         | ENSCO International Inc             | 24,900        | 1,104,315         |
| Commerce Bancorp Inc NJ              | 5,800         | 199,578           | Equifax Inc                         | 10,800        | 410,616           |
| Community Health Systems Inc         | 6,300         | 241,542           | Equitable Resources Inc             | 400           | 14,676            |
| Computer Sciences Corp               | 17,700        | 896,328           | Everest RE Group Ltd                | 10,000        | 1,003,500         |
| ConocoPhillips                       | 12,700        | 738,886           | Expedia Inc                         | 5,300         | 126,988           |
| Cooper Cameron Corp                  | 2,700         | 111,780           | Express Scripts Inc Class A         | 6,900         | 578,220           |
| Corinthian Colleges Inc              | 57,300        | 674,421           | Exxon Mobil Corp                    | 46,850        | 2,631,565         |
| Corning Inc                          | 14,100        | 277,206           | Fair Isaac Corp                     | 6,100         | 269,437           |
| Corporate Executive Board Co         | 200           | 17,940            | Family Dollar Stores Inc            | 47,500        | 1,177,525         |
| Corrections Corp of America          | 11,700        | 526,149           | Federal Realty Inv Trust            | 1,400         | 84,910            |
| Corus Bankshares Inc                 | 14,800        | 832,796           | Federated Investors Inc             | 1,700         | 62,968            |
| Covance Inc                          | 6,500         | 315,575           | First Data Corp                     | 2,700         | 116,127           |
| Coventry Health Care Inc             | 1,950         | 111,072           | First Energy Corp                   | 7,550         | 369,875           |
| Crown Castle International Corp      | 6,100         | 164,151           | Fiserv Inc                          | 3,400         | 147,118           |
| Cullen Frost Bankers Inc             | 10,400        | 558,272           | Fisher Scientific International Inc | 200           | 12,372            |
| Cytec Corp                           | 16,600        | 468,618           | Flagstar Bancorp Inc                | 38,300        | 551,520           |
| DTE Energy Co                        | 6,950         | 300,171           | Fleetwood Enterprises Inc           | 70,400        | 869,440           |
| DaVita Inc                           | 9,100         | 460,824           | Florida Rock Industries Inc         | 1,400         | 68,684            |

## Domestic Equity (continued)

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



**Domestic Equity** (continued)

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

**Domestic Equity** (continued)

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

**Domestic Equity** (continued)

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

## Summary Schedule of Investment Manager Fees

Year Ending December 31, 2005

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

## Summary Schedule of Broker Fees

Year Ending December 31, 2005

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

# Investment Objectives, Policies, and Guidelines

## Objectives

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

## Policies

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

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

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

## Investment Guidelines for Specific Asset Classes

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

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

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

#### Asset Allocation

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

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

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

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

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

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

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

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

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

The real estate portfolio will be constructed and managed to –

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

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

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

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

### **Performance**

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

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

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

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

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

### **Investment Responsibilities**

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

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

### **Annual Review**

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

Revised, June 16, 2005

Revised, June 26, 2003

Revised, November 15, 2001

Revised, June 22, 1999

Revised, March 13, 1997

Adopted and approved, September 7, 1994

Revised, June 29, 1994

Revised, September 5, 1990

Revised, June 1, 1988

Adopted and approved, June 11, 1986



# **Actuarial Section**



June 7, 2006

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

Dear Board Members:

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

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

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

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

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

Actuarial Section

Summary of Assumptions

Funding Method, Asset Valuation Method, Interest Rate

Payroll Growth

Probabilities of Age & Service Retirement

Probabilities of Separation from Active Employment Before Age & Service Retirement

Health Care and Medicare

Short-Term Solvency Test

Recent Experience in the Health Care Fund

Membership Data

Analysis of Financial Experience

Supplementary Schedules

Schedule of Funding Progress

Schedule of Employer Contributions

Notes to Trend Data

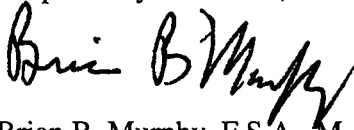
Assets are valued on a market related basis that recognizes each year's difference between actual and assumed investment return over a closed four-year period.

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

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

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

Respectfully submitted,



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



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

BBM:mdd:lr

## Summary of Assumptions

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

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

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

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

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

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

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

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

### Other Assumptions.

#### Probabilities of Age & Service Retirement

*Percentage of Eligible Members  
Retiring Within Next Year*

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

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

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

#### Probabilities of Separation from Active Employment before Age & Service Retirement

*Percentage of Active Members Separating Within Next Year*

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

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

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

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

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

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

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

▲ Plan Amendment

▶ Assumption or method change

## Postemployment Health Care and Medicare Reimbursement

| Year | Covered<br>Lives | Medical     | Prescriptions | Med B     | Dental    | Vision   | Member<br>Premiums/<br>Adjustments | Net Paid<br>By HPRS | Per<br>Covered<br>Life | Payroll      | % of<br>Payroll |
|------|------------------|-------------|---------------|-----------|-----------|----------|------------------------------------|---------------------|------------------------|--------------|-----------------|
| 1999 | 1,772            | \$3,315,914 | \$1,364,990   | \$197,606 | --        | --       | \$619,894                          | \$5,498,404         | \$3,103                | \$66,017,381 | 8.              |
| 2000 | 1,848            | 3,190,885   | 1,684,300     | 203,157   | --        | --       | (358,082)                          | 4,720,260           | 2,554                  | 69,028,285   | 6.              |
| 2001 | 1,900            | 3,730,167   | 1,960,825     | 231,046   | --        | --       | 138,317                            | 6,060,355           | 3,190                  | 76,344,002   | 7.              |
| 2002 | 1,943            | 4,147,534   | 2,431,297     | 260,772   | \$194,893 | \$80,909 | (200,021)                          | 6,915,384           | 3,559                  | 78,997,065   | 8.              |
| 2003 | 1,912            | 4,256,046   | 2,681,414     | 290,506   | 209,429   | 82,097   | (507,642)                          | 7,011,850           | 3,667                  | 81,737,962   | 8.              |
| 2004 | 1,928            | 4,074,972   | 2,710,367     | 347,585   | 230,994   | 84,136   | (641,707)                          | 6,806,347           | 3,530                  | 81,757,707   | 8.              |

## Active Member Data

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

## Retiree and Beneficiary Data

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

## Analysis of Financial Experience

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

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

# Plan Summary

## Purpose

The Highway Patrol Retirement System (HPRS) was created by the Ohio General Assembly in 1941 for the purpose of providing retirement and survivor benefits for its participants and beneficiaries.

## Administration

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

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

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

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

## Employer Contributions

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

## Member Contributions

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

## Service Credit

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

## Retirement

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

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

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

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

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

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

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

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

### **Payment Plans**

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

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

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

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

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

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

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

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

### **Survivor Benefits**

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

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

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

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

### **Health Care**

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

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

### **Medicare**

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

### **Cost of Living**

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

### **Death After Retirement**

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





# Statistical Section

## Additions by Source

### Pension Benefits

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

### Other Postemployment Benefits

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

## Deductions by Type

### Pension Benefits

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

### Other Postemployment Benefits

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

## Average Monthly Benefit Amount by Type

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

■ 2004 is the latest actuarial evaluation.

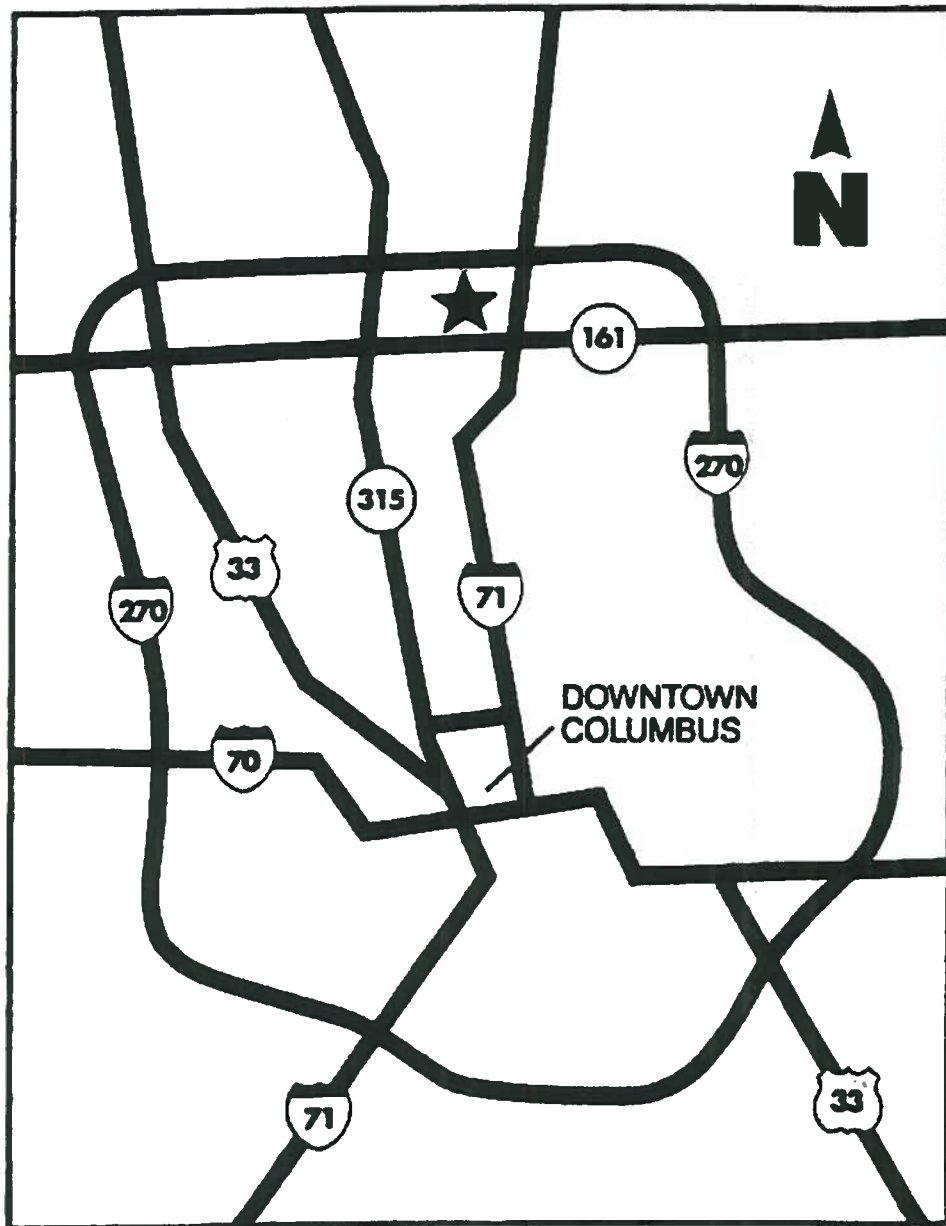
## Number of Benefit Recipients by Type

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

## Benefit Expenses by Type

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

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



Highway Patrol Retirement System  
6161 Busch Boulevard, Suite 119  
Columbus, Ohio 43229-2553  
Telephone 614-431-0781  
Fax 614-431-9204  
e-mail [system@ohprs.org](mailto:system@ohprs.org)  
[www.ohprs.org](http://www.ohprs.org)

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

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