COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Year Ended December 31, 1995

The Police and Firemen's

Disability and Pension Fund of Ohio

COMPREHENSIVE ANNUAL FINANCIAL REPORT

POLICE AND FIREMEN'S DISABILITY AND PENSION FUND OF OHIO

FOR THE YEAR ENDED DECEMBER 31, 1995

PREPARED THROUGH THE COMBINED EFFORTS OF THE PFDPF STAFF

140 East Town Street / Columbus, Ohio 43215 / (614) 228-2975

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BOARD OF TRUSTEES

PROFESSIONAL CONSULTANTS

Actuary:

Watson Wyatt Worldwide

Auditors:

Deloitte & Touche LLP

Legal Counsel:

Attorney General Betty Montgomery

Investment Consultants:

Callan Associates Inc.

The Townsend Group

Investment Managers:

Equity

Atalanta/Sosnoff Capital Corporation

Bankers Trust Company

Bond Procope Capital Management

Capital Guardian Trust Company

Fleet Financial Advisors, Inc.

Gelfand Partners Asset Management

Invesco Trust Company

Lakefront Capital Investors, Inc.

Lombard Odier International, Ltd.

Nicholas Applegate Capital Management

Oppenheimer Capital

Scudder, Stevens & Clark, Inc.

Smith Barney Capital Management

Society Asset Management

Value Line Asset Management

Venture Capital

Alpha Capital Partners

Blue Chip Venture Partners

Brantley Venture Partners

Cardinal Development Capital Fund

Chemicals & Materials Enterprise

Morgenthaler Ventures

North Coast Fund

Northwest Ohio Venture Fund

Primus Venture Partners

Real Estate

Cabot Partners

Copley Real Estate Advisors

Equitable Real Estate Investment Management

Lowe Enterprises Investment Management

MIG Realty Advisors

The RREEF Funds

Schroder Real Estate Associates

TA Associates Realty

Tiger Real Estate Partners

Westmark Realty Advisors

Yarmouth Capital Partners

ORGANIZATIONAL CHART

ADMINISTRATIVE STAFF

EXECUTIVE DIRECTOR
Henry E. Helling, III

E. William Butler
Deputy Executive Director

Milford Blanton
Director of MIS

Theodore G. Hall
Director of Investments

David J. Nesbitt
Director of Member Services

Thomas R. Severns
Director of Finance

Debbie D. Young
Director of Benefit Services

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Police and Firemen's Disability and Pension Fund of Ohio

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 1994

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.

President

Executive Director

PLAN SUMMARY

PURPOSE

The Police and Firemen's Disability and Pension Fund of Ohio (the Fund) was established by the Ohio General Assembly to provide disability benefits and pensions to members of the Fund and their surviving spouses, children, and dependent parents.

ADMINISTRATION

The administration, control, and management of the Fund are vested in the Police and Firemen's Disability and Pension Board of Ohio which is comprised of nine members as follows:

- Three representatives of police departments
- Three representatives of fire departments
- One municipal fiscal officer
- The Auditor of State
- The Attorney General

The representatives of police and fire departments are elected for four-year terms by the members with one being a retired member or surviving spouse, alternating between the police and fire. The municipal fiscal officer is appointed by the Governor.

The Auditor of State and Attorney General serve by virtue of their office and are also members of other state retirement boards.

The Board appoints an executive director as the chief administrative officer of the Fund. The executive director oversees the daily activity of the staff.

MEMBERSHIP

Membership in the Fund is mandatory under Ohio law for all full-time police officers employed by Ohio municipalities. Full-time fire fighters employed by townships, municipalities, township joint fire districts or other political subdivisions must become members of the Fund if satisfactory completion of a fire fighter training course approved under Section 3303.07 or conducted under Section 3737.33 of the Ohio Revised Code is required for employment.

CONTRIBUTIONS

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

BENEFITS

A. Service Retirement

Upon attaining a qualifying age with sufficient service credit, a member of the Fund may retire and receive a lifetime monthly cash pension.

1. Normal Pension

(a) Eligibility: Age 48 and 25 years of service.

(b) Benefit: An annual pension equal to a percentage of the average annual salary. The percentage equals 2.5% for each of the first 20 years of service, 2% for each of the next five years of service, and 1.5% for each year of service in excess of 25 years, to a maximum of 72% of the average annual salary. Average annual salary means one-third of the total salary during the three years of highest earnings.

2. Age Commuted

(a) Eligibility: Age 62 and 15 years of service

(b) Benefit: The same formula applies as for the normal service pension.

3. Age/Service Commuted

(a) Eligibility: Age 48 and 15 years of service.

(b) Benefit: Commencing at age 48 or 25 years elapsing from full-time hire date, whichever is later; an annual pension equal to 1.5% of the average annual salary multiplied by the number of complete years of service.

B. Disability Retirement

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

Disability retirement benefits are classified as either service-incurred (on-duty) or non-service-incurred (off-duty), and differ in eligibility requirements and benefit formulas.

1. Permanent and Total Disability (On-Duty)

(a) Eligibility: No age or service requirement.

(b) Benefit: An annual pension equal to 72% of the annual earnings during the last year of active service.

2. Partial disability (On-Duty)

(a) Eligibility: No age or service requirement.

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

3. Ordinary Disability (Off-Duty)

(a) Eligibility: Any age and five years of service.

(b) Benefit: An annual pension fixed by the Board not to exceed the accrued normal service pension, or 60% of the average annual salary, whichever is less.

C. Rights upon separation from service

1. Deferred Pension

If a member meets the service credit requirement for any service retirement pension but leaves service before attaining the required age, a pension becomes payable upon attainment of the qualifying age.

2. Refund of contributions

Upon separation from service, a member can receive the contributions made to the plan by himself or, on his behalf, by his employer.

D. Flat Survivor Benefits

1. Eligibility: Upon death of any member of the Fund, active or retired.

2. Benefit:

(a) Surviving Spouse's Benefit–An annual amount equal to $4,920. Terminates upon remarriage or death.

(b) Surviving Child–An annual amount equal to $1,416, payable until such child attains age 18 or marries, whichever occurs first. The payment can continue to an unmarried full-time student until age 22. A dependent disabled child is entitled to a benefit regardless of age at time of member's death until marriage, death, or recovery.

(c) Dependent Parents–If there be no surviving spouse or children, an annual amount of $1,896 is payable to one dependent parent or $948 each to two dependent parents for life or until dependency ceases or remarriage.

E. Lump Sum Death Benefit

On the death of a retired member of the Fund, a lump sum payment of one thousand dollars ($1,000) is paid to the member's surviving spouse, or the estate if there be no surviving spouse.

F. Annuities

Effective February 28, 1980 for those retiring on either service pensions or disability benefits, optional annuity plans could be chosen. Members could elect actuarially reduced benefits under life annuity certain and continuous or joint and survivor annuity plans.

Effective for one year beginning September 26, 1984, any member who retired before February 28, 1980 could cancel his single life annuity plan and elect a joint and survivor annuity plan continuing a portion of his reduced benefit to his surviving spouse as survivor annuitant.

Effective April 25, 1984, Pre-retirement Survivor Annuity was added to the plan.

1. Pre-retirement Survivor Annuity

(a) Eligibility: Upon death before retirement but after having satisfied the requirements for normal service retirement.

(b) Benefit: The surviving spouse or contingent dependent beneficiary will receive the equivalent of a 50% joint and survivor annuity calculated under the fiction that the decedent had retired effective the day following his death.

2. Single Life Annuity

For unmarried members, this is the normal annuity plan. Married members may elect this plan only if the spouse acknowledges the selection.

3. Joint and Survivor Annuity

For married members, this is the normal annuity plan at the 50% continuation level. Any percent between 1% and 100% of the members reduced pension may be continued to the surviving nominated beneficiary. This plan automatically terminates upon death of the beneficiary or it may be cancelled upon divorce with the approval of the designated beneficiary.

4. Life Annuity Certain and Continuous

The minimum guarantee is 5 years and the maximum is 20 years.

G. Group Health Insurance and Medicare

Commencing January 1, 1974, the Board may contract for group health insurance on the basis of part or all of the cost of the premium for the coverage to be paid by the Fund. Medical expense benefits are not a vested right and are subject to change at any time upon action of the Board of Trustees.

Effective January 1, 1977, the Fund will pay the premium for supplemental Medicare (Part B).

H. Tiered Retirement Plan: COLA or Terminal Pay

Members retiring after July 24, 1986 who had 15 or more years of service as of January 1, 1989, are allowed to select between two different pension calculation plans. Under the terminal pay method, a pension is calculated using terminal payments such as accrued sick leave and vacation compensation to increase the average annual salary. Under the COLA method, no terminal payments are added, but the pension is subject to contingent annual 3% increases equal to the base pension after one year on the roll. The 3% COLA is paid only if the annual increase in the Consumer Price Index, plus unused prior net accumulations, equal or exceed 3%. The COLA method is the automatic calculation method for an active member with fewer than 15 years of service as of January 1, 1989.

I. Post-retirement Cost-of-Living Allowance (COLA)

Members who retired prior to July 25, 1986 or their surviving beneficiaries under optional plans, are entitled to contingent cost-of-living increases based on changes in the Consumer Price Index. The annual increase is paid on July 1st of each year whenever the index plus unused prior net accumulations equal or exceed 3% and the member's annual single life annuity equivalent is less than a certain amount. The qualifying amount was $21,500 per year in 1995. The "Cap" increases by $500 per year. The annual COLA increase is $360 under a Single Life Annuity Plan with proportional reductions for optional payment plans.

J. Re-employed Retirants' Defined Contribution Plan Benefit

Effective June 30, 1991, every person who is retired under an Ohio Public pension plan and who is employed in a Fund-covered position must contribute to the Fund at the same rate as other police officer or fire fighters. The employer pays the normal rate as well. When the re-employed retirant terminates employment he or she has the option of receiving either a lump sum payment or a lifetime annuity paid monthly.

The lump sum payment is an amount equal to twice his contributions plus interest. The lifetime monthly cash payment is based on the value of the lump sum option. If the monthly annuity would be less than $25, then only the lump sum option is available.

LETTER OF TRANSMITTAL

The Police and Firemen's Disability and Pension Fund
140 East Town / Columbus, Ohio 43215-5125 / (614) 228-2975

June 26, 1996

Dear Chairman and Members of the Board of Trustees:

We are pleased to submit to you the Comprehensive Annual Financial Report (CAFR) of the Police and Firemen's Disability and Pension Fund of Ohio (the Fund) for the year ended December 31, 1995. This CAFR was prepared to aid interested parties in assessing the Fund's status at December 31, 1995, and its results for the year then ended. The report is divided into five sections: an Introductory Section which contains this Letter of Transmittal, along with the identification of the administrative organization and consulting services utilized by the Fund and a plan summary of the Fund; a Financial Section which includes the Independent Auditors' Report and the financial statements; an Actuarial Section which includes significant data pertaining to the Fund; and an Investment Section which contains the investment report, portfolio summary, and the investment policy and guidelines. The Investment Section is not required but has been included for purposes of added analysis.

Accounting System and Internal Controls

The financial statements were prepared in accordance with generally accepted accounting principles applicable to governmental units, including the pronouncements of the Governmental Accounting Standards Board (GASB).

The principles promulgated by Statement No. 6 of the National Council On Governmental Accounting (predecessor to GASB) are used in the Fund's accounting and subsequent reporting of financial activities. The accrual basis of accounting is used to record all financial transactions. Gains and losses on sales and exchanges of investments are recognized on the transaction date. Interest, dividends, net realized gains and other investment income are recognized on the accrual basis and included in investment income, net of investment related expenses. Investments in corporate and government bonds and obligations are reported at amortized cost with discounts or premiums amortized using the interest method. All other investments are carried at cost, subject to adjustment for market declines determined to be other than temporary. Income on venture capital is recognized once distributions received are in excess of the Fund's capital contributions. Depreciation on buildings is provided using the straight-line method over 40 years, the estimated useful life of the property. All other assets are carried at cost.

Management is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Fund are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management. Management believes its internal control structure meets these objectives.

Plan History and Overview

The Police and Firemen's Disability and Pension Fund (the Fund) was created by the Ohio General Assembly in 1965, replacing 454 separate local police and firemen's relief and pension funds in Ohio. The statewide Fund began operating January 1, 1967. On that date the local pension funds transferred their assets and liabilities to the Fund. Assets transferred to the Fund were approximately $75 million. The Fund's actuary computed the liabilities accrued up to 1966 at approximately $490 million. Unfunded accrued liabilities totaling over $209 million as of December 31, 1995 are being paid by employers over a 67-year period which began in 1969. Under the terms of a statute enacted by the Ohio Legislature in 1993, the Fund's Board of Trustees may enter into agreements with municipal corporations permitting them to pay off these liabilities at a discounted amount determined by the Board. Since 1993 36 employers have paid a total of $118,064,834, reducing their liabilities by $181,638,206.

The Fund provides pension, disability and health care to qualified participants, survivor and death benefits and health care to qualified spouses, children and dependent parents. Please refer to the plan summary at the beginning of this introductory section for further information on plan benefits.

The table below is a tabulation of current participating employers at December 31, 1995. The statistical section beginning on page 66 provides more detail of the aforementioned participating employers.

Participating Employers

	Police	Fire
Municipalities	244	193
Townships	–	78
Villages	315	28
Total	**559**	**299**

Economic Conditions and Outlook

The US economic recovery neared its fourth anniversary in 1995. The Gross Domestic Product (GDP) grew 1.3% (vs. 4.1% in 1994). After a year of progressively more restrictive monetary policy, in the first quarter the economy began to show signs of slowing. The Federal Reserve Board reversed its course and reduced the Federal Funds Rate by 25 basis points in both July and December, and their actions were reflected in a steady decline in the cost of credit throughout the year. Inflation, as measured by the Consumer Price Index (CPI), appeared to be increasing early in 1995, but fell back and actually registered only a 2.5% increase for the year. Stock market performance, as measured by the S&P 500, was a spectacular 37.5%, more than triple its historical long term average. The bond market too reversed 1994's performance, as the Lehman Aggregate Index had a return of 18.5% in 1995 (vs. a –2.9% return for 1994). The Fund's 1995 total return for the overall investment portfolio was 25.1%.

Despite federal government shutdowns, harsh winter weather, and a major strike at General Motors, the GDP rose another 2.34% in the first quarter of 1996. Through May the S&P 500 has risen another 10%, and a backup in interest rates should help keep economic growth from getting out of hand.

Major Initiatives

The highlight of 1995 for the staff of the Police and Firemen's Disability and Pension Fund was the move in June to our new offices. Having outgrown its old facilities, the Fund purchased a ten-story office building located one block west of the old building. Three floors are occupied by the Fund, while the remainder of the building is leased.

Coinciding with the move was a reorganization of Fund operations. In order to better serve the membership, functions relating to active members were assigned to a Member Services Department (formerly the Benefits Department), while functions relating to retired members were assigned to the Benefit Services Department (formerly the Medical Benefits Department). A number of functions formerly performed by the Finance Department were transferred to Member Services and Benefit Services.

Recognizing the critical role state-of-the-art computer and information systems play in meeting the needs of the Fund's members, in 1995 the Fund's Board of Trustees approved a comprehensive plan to replace and upgrade the Fund's current systems, which will allow the Fund to take full advantage of computing technology advancements while expanding and improving services to its members.

This plan resulted from a user requirements study conducted in 1994. 1995 activities included a reorganization of the MIS Department by its new director, establishment of a local area network (LAN) at the new offices, procurement of new personal computers and office automation software for virtually all Fund staff, and training in the use of the new hardware and software. Phase I of the Member Information System project, consisting of object and database design, was completed, as was Phase II, security administration and record tracking. Phase III, user requirements definition, was started.

In 1996 the focus will be on reengineering all computer processes with minimal dependencies on the old systems. A financial system software package will be integrated along with new system software for the Member Services and Benefit Services departments. Completion of the entire project is expected in the second quarter of 1997.

Financial Overview

The Fund receives virtually all of its funds from the following sources: member contributions, employer contributions, retiree medical benefit contributions, state subsidies and reimbursements, and investment earnings. Revenues from all sources totaled $771,100,078 in 1995, compared to $610,309,199 in 1994. The increase in revenues is primarily due to increased investment income along with increased employer and employee contributions. The Fund's total rate of return on its investment portfolio increased from (1.75%) in 1994 to 25.1% in 1995. A summary of revenues for 1995 and 1994 is as follows:

REVENUES BY SOURCE	1995 Amount	1995 Percent	1994 Amount	1994 Percent	INCREASE (DECREASE)
Contributions:					
Employers	$223,206,380	30%	$213,918,612	35%	$ 9,287,768
Employees	109,000,755	14%	103,553,011	17%	5,447,744
Medical Benefits	4,965,059	1%	4,897,139	1%	67,920
State of Ohio-Subsidies	4,182,724	1%	4,405,120	1%	(222,396)
State of Ohio-Death Benefit Fund	14,385,716	1%	15,913,409	2%	(1,527,693)
	355,740,634	47%	342,687,291	56%	13,053,343
Net Investment Income	405,458,383	52%	254,446,930	42%	151,011,453
Interest on Local Funds Receivable	8,926,285	1%	12,067,479	2%	(3,141,194)
Other Income	984,775	0%	1,107,499	0%	(122,723)
Total	**$771,110,077**	**100%**	**$610,309,199**	**100%**	**$160,800,879**

Expenses:

Benefit payments are the primary expense of the Fund. Total expenses for the Fund were $429,623,067 in 1995, compared to $407,783,848 in 1994. The increase in total expenses is primarily due to an increase in benefit payments offset by a reduction in the write-downs of long-term local funds receivable. The Fund allowed cities to pay off their unfunded accrued employers' liabilities from 1993 through 1995 under a program authorized by the Ohio Legislature. A summary of expenses for 1995 and 1994 is as follows:

EXPENSES BY TYPE	1995 Amount	1995 Percent	1994 Amount	1994 Percent	INCREASE (DECREASE)
Benefits:					
Retirement	$207,355,087	48%	$191,306,643	47%	$ 16,048,444
Disability	86,763,675	20%	80,672,276	20%	6,091,399
Health Care	70,170,717	16%	63,698,537	15%	6,472,180
Survivor	30,768,653	7%	29,533,073	7%	1,235,580
Death Benefit Fund	14,385,716	4%	15,913,409	4%	(1,527,693)
	409,443,848	95%	381,123,938	93%	28,319,910
Loss on Write-down of Long term Local Funds Receivable	167,105	0%	11,455,963	3%	(11,288,858)
Administrative Expenses	14,066,160	4%	10,442,185	3%	3,649,172
Refund of Employee Contributions	5,553,638	1%	3,831,328	1%	1,722,310
Other Expenses	392,317	0%	930,434	0%	(563,315)
Total	**$429,623,068**	**100%**	**$407,783,848**	**100%**	**$ 21,839,220**

Funding Practices and Actuarial Overview

Funds are derived from the excess of revenues over expenses, and are accumulated by the Fund in order to meet current and future benefit obligations to retirees and beneficiaries. Net income for the year ended December 31, 1995, increased the fund balance by approximately $341.5 million. This increase is approximately $139 million more than the total fund balance increase recognized in the prior year.

The actuarial valuation for funding purposes dated January 1, 1995, the most recent actuarial valuation, reported an unfunded actuarial accrued liability of $3,131.9 million, which represents the difference between the actuarial accrued liability for benefits to be paid members and retirees ($7,757.4 million) and total valuation assets ($4,625.5 million). The unfunded actuarial accrued liability is being amortized in an orderly fashion over future years. The January 1, 1995 pension benefit obligation was $5,853.2 million.

Investment Policy

The Fund invests all available funds in order to maximize both current income yield and long-term appreciation. For the year ended December 31, 1995, the investment portfolio provided 52% of the Fund's total revenues while employee and employer contributions provided 14% and 30%, respectively. All other sources provided the remaining 4%.

The primary objective of the Fund's investment policy is to assure that the Fund meets its responsibilities for providing retirement and other benefits. The portfolio is diversified to provide adequate cash flow, and to provide the highest possible total return on the Fund's assets with the least exposure to risk. A summary of investment activity for 1995 follows:

	December 31, 1994		Purchases and Accretions	Sales, Re-demptions and Accruals	December 31, 1995		% of Total Market Value
	Carrying Value	Market Value			Carrying Value	Market Value	
Canadian bonds and obligations	$ 66,269,937	$ 63,334,058	$ 40,758,254	$ 12,821,212	$ 94,206,979	$ 102,898,115	1.83%
Government bonds and obligations	1,165,403,741	1,091,114,548	412,612,815	695,511,507	882,505,049	943,869,929	16.80%
Corporate bonds and obligations	955,992,242	930,094,996	210,323,644	211,094,972	955,220,914	996,254,025	17.73%
Domestic common stocks	1,121,544,162	1,218,977,417	1,279,148,661	1,114,781,168	1,285,911,654	1,647,283,656	29.31%
Domestic pooled common stocks	339,960,060	468,738,271	–	20,722,599	319,237,461	589,325,934	10.49%
Foreign securities	150,000,000	143,530,348	1,173,343,514	892,990,596	430,352,918	452,381,860	8.05%
Commercial paper	413,995,280	413,995,280	5,662,963,709	5,734,187,000	342,771,989	342,771,989	6.10%
Real estate, net of accumulated depreciation	248,050,675	228,292,210	220,669,410	19,114,632	449,605,453	446,734,097	7.95%
Mortgage notes receivable	15,249,000	15,249,000	–	2,904,000	12,345,000	12,345,000	0.22%
Commercial mortgage funds	20,022,477	20,022,477	49,921,184	2,587,712	67,355,949	67,850,456	1.21%
Venture capital	7,580,389	12,722,805	6,318,743	336,862	13,562,270	17,617,954	0.31%
	$4,504,067,963	**$4,606,071,410**	**$9,056,059,934**	**$8,707,052,260**	**$4,853,075,637**	**$5,619,333,015**	**100%**

Details of portfolio composition, rates of return, analysis of significant economic conditions, and additional information concerning the Fund's investment policy are provided on page 57 through 66 of this comprehensive annual financial report.

Material Plan Amendments

There are no material plan amendments in 1995.

Independent Auditors

The financial statements of the Fund for the year ended December 31, 1995, were audited by Deloitte & Touche LLP, independent certified public accountants, whose opinion thereon is included at the beginning of the Financial Section of this report.

Notes to the Financial Statements

The notes to the financial statements which follow the financial statements contain additional information and are an integral part of such statements.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Fund for its Comprehensive Annual Financial Report for the fiscal year ended December 31, 1994. The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such reports 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 our current report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to the GFOA.

Acknowledgments

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

This report is being mailed to all employer members of the Fund and other interested parties.

Respectfully submitted,

HENRY E. HELLING, III
Executive Director

THOMAS R. SEVERNS
Director of Finance

FINANCIAL SECTION

Independent Auditors' Report

Balance Sheets

Statements of Revenues, Expenses and Changes in Fund Balance

Statements of Cash Flows

Notes to Financial Statements

Required Supplemental Schedules:
- Analysis of Funding Progress
- Revenues by Source
- Expenses by Type
- Administrative Expenses
- Refunds of Employee Contributions

Supplemental Schedules:
- Fund Balance Accounts
- Cash Receipts, Cash Disbursements and Changes in Cash Balance
- Investment Management Fees

INDEPENDENT AUDITORS' REPORT

Deloitte &
Touche LLP

155 East Broad Street
Columbus, Ohio 43215-3611
Telephone: (614) 221-1000
Facsimile: (614) 229-4647

To the Board of Trustees of the Police
and Firemen's Disability and Pension Fund of Ohio:

We have audited the accompanying balance sheets of the Police and Firemen's Disability and Pension Fund of Ohio (the Fund) as of December 31, 1995 and 1994, and the related statements of revenues, expenses and changes in fund balance and of cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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 audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Fund at December 31, 1995 and 1994, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying financial information listed as supplemental schedules in the foregoing table of contents, which is also the responsibility of the management of the Fund, is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Fund. Such additional information has been subjected to the auditing procedures applied in our audits of the basic 1995 and 1994 financial statements and, in our opinion, is fairly presented in all material respects when considered in relation to the basic 1995 and 1994 financial statements taken as a whole. The schedules as of and for the years ended December 31, 1987, 1988, 1989 and 1990 were subjected to auditing procedures by other auditors whose report dated June 7, 1991 stated that such schedules were fairly stated in all material respects when considered in relation to the basic financial statements.

Deloitte & Touche LLP

June 26, 1996

Deloitte Touche
Tohmatsu
International

BALANCE SHEETS

DECEMBER 31, 1995 and 1994

Assets:

	1995	1994
Cash (note 5)	$ 32,910,302	$ 4,981,090
Receivables:		
Employers' contributions	69,152,659	68,132,908
Employees' contributions	10,755,075	9,438,754
Accrued investment income	64,960,806	60,892,601
Investment sale proceeds	5,458,551	14,091,688
Total receivables	150,327,091	152,555,951
Collateral held under security lending program (note 5)	815,042,481	902,400,358
Investments at cost (market value $5,619,333,015 and $4,607,387,130 in 1995 and 1994, respectively) (notes 5, 6, 8 and 12)	4,853,075,637	4,504,067,963
Local funds receivable (note 7)	209,135,978	213,301,582
Property and equipment, net of accumulated depreciation of $1,831,502 and $2,875,813 in 1995 and 1994 respectively	3,597,209	2,989,283
Other assets	1,998,445	974,498
Deposits with deferred compensation plan (note 9)	602,800	490,429
Total assets	6,066,689,943	5,781,761,154

Liabilities:

	1995	1994
Health care benefits payable (note 2)	10,373,369	9,455,036
Investment commitments payable	21,706,404	29,795,219
Accounts payable and accrued expenses	2,208,375	1,563,302
Notes payable (note 8)	30,573,125	2,180,701
Other liabilities	14,413,604	5,593,333
Obligations under securities lending program (note 5)	815,042,481	902,400,358
Deferred compensation plan payable (note 9)	602,800	490,429
Total liabilities	894,920,158	951,478,378
Net assets available for benefits	**$5,171,769,785**	**$4,830,282,776**

Fund balance (note 3):

	1995	1994
Pension benefit obligation:		
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	2,997,100,000	2,834,500,000
Current employees:		
Accumulated employee contribution	770,200,000	715,100,000
Employers financed portion	2,085,900,000	1,981,000,000
Total pension benefit obligation	5,853,200,000	5,530,600,000
Unfunded pension benefit obligation	(681,430,215)	(700,317,224)
Total fund balance	**$5,171,769,785**	**$4,830,282,776**

See accompanying notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE

YEARS ENDED DECEMBER 31, 1995 and 1994

	1995	1994
Operating revenue:		
Contributions:		
Employers (note 4)	$ 223,206,380	$ 213,918,612
Employees (note 4)	109,000,755	103,553,011
Medical Benefits	4,965,059	4,897,139
State of Ohio-subsidies (note 4)	4,182,724	4,405,120
State of Ohio-Death Benefit Fund	14,385,716	15,913,409
	355,740,634	342,687,291
Net investment income (notes 5 and 6)	405,458,383	254,446,930
Interest on local funds receivable	8,926,285	12,067,479
Other income	984,775	1,107,499
Total operating revenues	771,110,077	610,309,199
Operating expenses:		
Benefits (note 3):		
Retirement	207,355,087	191,306,643
Disability	86,763,675	80,672,276
Health care	70,170,717	63,698,537
Survivor	30,768,653	29,533,073
Death Benefit Fund	14,385,716	15,913,409
	409,443,848	381,123,938
Loss on write-downs of long term local funds receivable (note 2)	167,105	11,455,963
Administrative expenses, including depreciation on operating properties (note 10)	14,066,160	10,442,185
Refund of employee contributions (note 4)	5,553,638	3,831,328
Other expenses	392,317	930,434
Total operating expenses	429,623,068	407,783,848
Net operating income	341,487,009	202,525,351
Fund balance, beginning of year	4,830,282,776	4,627,757,425
Fund balance, end of year	**$5,171,769,785**	**$4,830,282,776**

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 1995 and 1994

	1995	1994
Reconciliation of net operating income to net cash provided by operating activities:		
Net operating income	$ 341,487,009	$ 202,525,351
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Investment income	(405,458,383)	(254,446,930)
Depreciation on property and equipment	572,119	435,135
Local funds receivable principal payments	3,998,498	118,270,993
Loss on write-downs of long term local funds receivable	167,106	11,455,963
Change in assets and liabilities:		
Increase in receivables	(2,336,072)	(6,959,338)
(Increase) decrease in other assets	(1,023,947)	864,348
(Increase) decrease in health care benefits payable	918,333	(1,897,722)
Increase in accounts payable and accrued expenses	645,073	68,095
Increase in other liabilities	8,820,271	954,036
Increase in note payable	28,392,424	—
Total adjustments	(365,304,578)	(131,255,420)
Net cash provided by (used in) operating activities:	(23,817,569)	71,269,931
Cash flows from capital and related financing activities:		
Purchase of property and equipment	(1,180,045)	(101,425)
Cash flows from investing activities:		
Purchase of investments	(8,154,668,882)	(7,254,035,128)
Proceeds from sale and maturities of investments	7,997,856,752	6,950,564,857
Net investment income	204,516,762	213,273,861
Depreciation on investment in real estate	5,222,194	2,977,096
Net cash provided by (used in) investing activities	52,926,826	(87,219,314)
Net increase (decrease) in cash and cash equivalents	27,929,212	(16,050,808)
Cash and cash equivalents at beginning of year	4,981,090	21,031,898
Cash and cash equivalents year to date	**$ 32,910,302**	**$ 4,981,090**
Noncash Transaction		
Change in collateral and related obligations related to securities lending program	$ (87,357,877)	$ 70,467,461

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1995 AND 1994

1. DESCRIPTION OF THE SYSTEM

(a) Organization

The Police and Firemen's Disability and Pension Fund of Ohio (the Fund) is a cost-sharing multiple-employer public employee retirement system established by Chapter 742 of the Ohio Revised code (ORC) in 1967 to consolidate the various local police and firemen's relief and pension funds into one statewide plan. The Fund administers pension, disability and health care to qualified participants, and survivor and death benefits and health care to qualified spouses, children and dependent parents.

Employer and employee membership data as of January 1, 1995, date of the most recent actuarial valuation, follows:

Employee Members	**Police**	**Fire**	**Total**
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	10,747	8,775	19,522
Current employees:			
Vested	5,164	3,828	8,992
Nonvested	8,908	6,683	15,591
	14,072	10,511	24,583
Employer Members			
Municipalities	244	193	
Townships	–	78	
Villages	315	28	
Total	**559**	**299**	

(b) Benefits

Members are eligible for normal retirement benefits at age 48 with 25 years of service credit or at age 62 with 15 years of service credit. The normal retirement benefit is equal to 2.5% of annual earnings for each of the first 20 years of service, 2.0% for each of the next 5 years of service, and 1.5% for each year of service thereafter. However, this normal retirement benefit is not to exceed 72% of the member's average and annual earnings for the three consecutive years during which the total earnings were greatest or the member's recalculated average annual salary for any three years during which earnings were the greatest. Retirement with reduced benefits is available upon reaching age 48 with 15 years of service credit or 25 years from the date the member became a qualified employee.

In addition to retirement benefits, the Fund also provides disability, survivor and medical benefits. Disability benefits are available to all members and vary by length of service and type of disability. Survivor benefits are specified dollar amounts paid to eligible survivors upon the death of an active member or retiree. The Fund provides medical benefits to eligible benefit recipients and their eligible dependents. The medical benefits are not guaranteed and are subject to change at any time upon action of the Board of Trustees. Coverage includes a comprehensive medical expense benefit plan along with a prescription drug program for retail and mail order prescriptions.

An eligible spouse or dependent of a member whose death resulted from injury or disease sustained while on active duty as a police officer or fire fighter is entitled to receive the member's full monthly salary, which will be reduced at the member's retirement eligibility date. The payment will be terminated at the spouse's remarriage or the dependent's attainment of age 18 (or 22 if attending school). These death benefit payments are in addition to any optional payment plan benefits elected by the member. Funding for death benefits is received from the State of Ohio, as the ORC requires the State to finance 100% of death benefit payments.

(c) The Financial Reporting Entity

The Police and Firemen's Disability and Pension Fund is a public employee retirement system governed by a Board of Trustees consisting of nine members. Six members are elected by the employee groups they represent. The Auditor of State, the Attorney General and a municipal fiscal officer appointed by the Governor are statutory members. The Fund is not included in the State of Ohio reporting entity because it is legally separate, a voting majority of the governing board is not appointed by the State, and it is not fiscally dependent on the State. As required by generally accepted accounting principles, these statements present the Fund (the primary government) and its component units. The component units discussed in the following two paragraphs are included in the Fund's reporting entity because of the significance of their operational or financial relationships with the Fund.

The Ohio Police and Firemen's Trusts (the Trusts) were created to provide the Fund with a medium for the acquisition of real estate investments. Although the Trusts are legally separate from the Fund, management of the Fund is responsible for the operations of the Trusts, and the Fund is the beneficiary and sole participant in the Trusts. Therefore the Trusts are reported as if they were part of the primary government.

The Death Benefit Fund was created to finance certain death benefit payments. Although the State of Ohio is responsible for financing the cost of these benefits, the fund is responsible for the organization and administration of the Death Benefit Fund, including determination of benefit eligibility, the amount of the benefit, and payment of the benefit. Therefore the Death Benefit Fund is reported as if it were part of the primary government.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

The Fund's financial statements have been prepared using the accrual basis of accounting. The following are the significant accounting policies followed by the Fund.

(b) Investments

Income on all investments is recognized on the accrual basis. Gains and losses on sales and exchanges of investments are recognized on the transaction date. Interest, dividends, net realized gains and other investment income is included in investment income, net of depreciation on investment in real estate and unrealized losses. All investment transactions are recorded on a trade date basis.

Investments in corporate and government bonds and obligations are reported at amortized cost with discounts or premiums amortized using the interest method.

Investments in common and preferred stocks are carried at cost, subject to adjustment for market declines determined to be other than temporary. Sixteen advisers manage the Fund's stock portfolio. Gains and losses on sale of stocks are recognized on the transaction date based upon first in, first out (FIFO) cost of the shares managed by each adviser.

Investments in commercial paper are carried at amortized cost, which approximates market value.

Investments in venture capital limited partnerships and real estate are accounted for at cost, subject to adjustment for market declines determined to be other than temporary. Income on venture capital is recognized once distributions received are in excess of the Fund's capital contributions. Depreciation on buildings owned through real estate investments is provided using the straight-line method over 40 years, the estimated useful life of the property.

Investments in assets held under the deferred compensation program (note 9) are carried at market.

(c) Federal Income Tax Status

The Fund was determined to be exempt from Federal income taxes under Section 501(a) of the Internal Revenue Code.

(d) Health Care Benefits Payable

The Fund provides a postretirement health care program which is self-insured and is administered by an insurance carrier. Amounts accrued for health care claims payable and for incurred but not reported health care claims are based upon estimates furnished by the insurance carrier and management. Such estimates have been developed from prior claims experience. The liability at December 31, 1995 is not discounted.

A summary of changes in self-insurance claims for the year ended December 31, 1995 follows:

Claims liability at December 31, 1994	$ 9,455,036
Incurred claims	70,170,717
Claims paid	(69,252,384)
Claims liability at December 31, 1995	$10,373,369

(e) Property and Equipment

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

The range of estimated useful lives is as follows:

Buildings	40 years
Furniture, fixtures and equipment	3 to 10 years

(f) Cash and Cash Equivalents

The Fund considers all highly liquid investments with a maturity of three months or less when purchased, to be cash equivalents, excluding commercial paper which is classified as an investment.

(g) Loss on Write-downs of Long Term Local Funds Receivable

In 1993 the Ohio Legislature authorized the Fund's Board of Trustees to enter into agreements with municipal corporations permitting them to pay off the remaining balance of their "Employers' Accrued Liability" (see Note 7) at a discounted amount to be determined by the Board. The Board adopted 65 percent as the discounted amount it would accept for payments received by October 15 , 1995. Early payoff under this option is no longer available after that date.

Because of a preliminary ruling by the Internal Revenue Service that interest on debt issued by cities to provide funds for paying off this obligation would not be considered tax exempt, only a limited number of cities have entered into payoff agreements.

On the Fund's 1994 and 1995 Statement of Revenues, Expenses and Changes in Fund Balance and Statement of Cash Flows, the amount shown as "Loss on Write-downs of Long Term Local Funds Receivable" represents the amount of the known discounts agreed to as of April 30, 1995 and December 31, 1995.

(h) GASB Statements 25 and 26

In November 1994 the Governmental Accounting Standards Board (GASB) issued Statements 25 and 26, effective for periods beginning after June 15, 1996, with early implementation encouraged. For 1995, the Fund has elected to defer implementation of these statements, which require plan investments to be recorded at fair value and be split between pension and health care. They also require a change in financial statement format.

(i) Reclassifications

Certain 1994 balances have been reclassified to conform with the 1995 presentation.

3. FUNDING STATUS AND PROGRESS

The amount shown as "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date.

The measure is called the "actuarial present value of credited projected benefits" and is intended to help users assess the funding status of the Fund on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and allow for comparisons among public employee retirement systems. The measure is independent of the actuarial funding method used to determine contributions to the Fund.

The pension benefit obligation was determined as part of the January 1, 1995 actuarial valuation, the date of the most recent actuarial valuation. The calculation excludes the present value of credited projected benefits for death benefits and a 1972 statutory benefit increase and health care benefits. The cost of death benefits and the 1972 statutory benefit increase are fully funded by State of Ohio appropriations. Health care benefits are funded on a pay-as-you-go basis from the Health Care Stabilization Fund (see note 14). The pension benefit obligation of the Fund as a whole is presented separately for police and fire fighters due to different actuarial assumptions for each group. Significant actuarial assumptions used in the 1995 and 1994 valuations are as follows:

(a) 8.25% rate of return on investments, compounded annually.

(b) Future salary increases based on inflationary increase of 4% per year, and an age-graded promotional increase of 1.0 to 3.0% per year.

(c) Pre-retirement mortality is based on the 1951 Group Annuity Mortality Table as projected to 1980 using Scale C, with a one-year set-forward in age. The projected values are multiplied by 0.5.

(d) For service retirees and survivors, mortality is based on the 1951 Group Annuity Mortality Table projected to 1980 using Scale C, with a one-year set-forward.

For disability retirees, mortality is based on the 1951 Group Annuity Mortality Table projected to 1980 using Scale C and includes loads for disability.

(e) Rates of retirement are based on experience for the period 1990-1993.

(f) Rates of withdrawal from active service for reasons other than death and rates of disability have been developed based on actual plan experience.

(g) Assets are valued for actuarial purposes at cost, except common and preferred stocks are included in valuation assets with a value equal to that developed under the 4-year Market Adjustment Method, with an initial value equal to market value.

At January 1, 1995, the unfunded pension benefit obligation was computed to be approximately $1,207,483 as follows:

January 1, 1995 Analysis of unfunded pension benefit obligation (in thousands):

	Police	Fire	Total
Pension benefit obligation:			
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	$1,665,700	$1,331,400	$2,997,100
Current employees:			
Accumulated employee contributions	437,900	332,300	770,200
Employer-financed vested	880,700	628,500	1,509,200
Employer-financed nonvested	322,500	254,200	576,700
	1,641,100	1,215,000	2,856,100
Total pension benefit obligation	**$3,306,800**	**$2,546,400**	5,853,200
Net assets available for pension benefits, at cost (market value $4,749,036) (excluding Health Care Stabilization Fund of $184,566)			4,645,717
Unfunded pension benefit obligation at January 1, 1995			**$1,207,483**

The actuarial effect of 1995 membership changes on the pension benefit obligation has not been determined and is therefore not reflected in the December 31, 1995 balance sheet value of the unfunded pension benefit obligation.

At January 1, 1994, the unfunded pension benefit obligation was computed to be approximately $1,070,788 as follows:

January 1, 1994 Analysis of unfunded pension benefit obligation (in thousands):

	Police	Fire	Total
Pension benefit obligation:			
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	$1,560,600	$1,273,900	$2,834,500
Current employees:			
Accumulated employee contributions	409,300	305,800	715,100
Employer-financed vested	836,200	593,500	1,429,700
Employer-financed nonvested	309,400	241,900	551,300
	1,554,900	1,141,200	2,696,100
Total pension benefit obligation	**$3,115,500**	**$2,415,100**	5,530,600
Net assets available for pension benefits, at cost (market value $4,866,714) (excluding Health Care Stabilization Fund of $167,945)			4,459,812
Unfunded pension benefit obligation at January 1, 1994			**$1,070,788**

The actuarial effect of 1994 membership changes and plan amendments on the pension benefit obligation had not been determined and is therefore not reflected in the December 31, 1994 balance sheet value for the unfunded pension benefit obligation. These changes and amendments have been reflected in the 1995 valuation.

4. CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE

The ORC requires contributions by active members and their employers. The contribution requirement was not actuarially determined but rather established by law under the ORC. Contribution rates are, however, subject to annual review by the Ohio Retirement Study Commission. Additionally, an actuary is used to determine the actuarial implications of the requirement. The adequacy of contribution rates is determined annually using the entry age normal with frozen initial liability actuarial cost method. Contribution rates as required by the ORC and as calculated by the Fund's actuary are as follows:

	Police	Fire
	(% of active member payroll)	
Rates established by the ORC at December 31, 1995:		
Employer	19.50	24.00
Member	10.00	10 00
Total actual rate	**29.50**	**34.00**
Actuarially determined rate as of January 1, 1995	**36.26**	**33.55**

The Fund's actuary allocated 6.50% of the current actuarial contribution rate to health care and the remaining to basic retirement benefits. Funding for health care benefits is on a pay-as-you-go basis. Significant actuarial assumptions used to determine the adequacy of contribution rates were the same as those used to compute the standardized measure of the pension benefit obligation. There were no material changes in the current year in actuarial assumptions, actuarial funding method or benefit provisions.

Contributions as a percentage of active member payroll required and made for 1995 represented 29.50% for police and 34.00% for fire fighters. Employer and member contributions were approximately $116,282,000 and $62,706,000 respectively for police and $106,924,000 and $46,295,000 respectively for fire fighters for the year ended December 31, 1995.

Contributions as a percentage of active member payroll required and made for 1994 represented 29.50% for police and 34.00% for fire fighters. Employer and member contributions were approximately $111,191,000 and $59,655,000 respectively for police and $102,727,000 and $43,898,000 respectively for fire fighters for the year ended December 31, 1994.

Member contributions may be refunded, without interest, to a member who withdraws from the Fund. Accumulated employer contributions for the withdrawn member remain in the Fund and are used to finance current and future benefit payments of remaining members.

In accordance with the ORC, the State of Ohio is required to contribute additional amounts to finance the cost of State-legislated benefit improvements. Total amounts contributed by the State for the years ended December 31, 1995 and 1994 were $4,182,724 and $4,405,120 respectively.

5. DEPOSITS AND INVESTMENTS

(a) Deposits

The Fund's deposits are categorized based on the following criteria: Category 1 includes deposits insured or collateralized with securities held by the Fund or by its agent in the Fund's name. Category 2 includes deposits collateralized with securities held by the pledging financial institution's trust department or agent in the Fund's name. Category 3 includes uncollateralized deposits. This category also includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Fund's name.

The carrying amount of the Fund's cash deposits at December 31, 1995 was $32,910,302 and the depository balance was $33,923,727. Of this total, $1,495,378 was covered by federal depository insurance and $4,525,888 was covered by collateral held in the name of the Fund's legally-designated custodian, the Treasurer of the State of Ohio (Category 1). The remaining depository balance of $27,902,461 consisting of amounts held by the OP & F Trusts, was uninsured and uncollateralized (Category 3). Deposits with the Ohio Public Employees Deferred Compensation Program are recorded as other assets and due to their nature are not required to be categorized.

(b) Investments

The Fund is authorized to invest in bonds, notes, certificates of indebtedness, mortgage notes, real estate, stock shares, debentures, and other obligations or securities as set forth in the ORC.

The Fund's investments are categorized to give an indication of the level of collateral risk assumed by the Fund as of December 31, 1995 and 1994. Category 1 includes investments that are insured or registered or for which the securities are held by the Fund or its agent in the Fund's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Fund's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Fund's name.

All investments of the Fund met the criteria of Category 1 at December 31, 1995 and 1994, except for the investments in domestic pooled common stocks, real estate, mortgage notes receivable and venture capital which, by their nature, are not required to be categorized.

A summary of investments for each year follows:

	December 31, 1994		Purchases	Sales, Re-	December 31, 1995		% of
	Carrying Value	Market Value	and Accretions	demptions and Accruals	Carrying Value	Market Value	Total Market Value
Canadian bonds and obligations	$ 66,269,937	$ 63,334,058	$ 40,758,254	$ 12,821,212	$ 94,206,979	$ 102,898,115	1.83%
Government bonds and obligations	1,165,403,741	1,091,114,548	412,612,815	695,511,507	882,505,049	943,869,929	16.80%
Corporate bonds and obligations	955,992,242	930,094,996	210,323,644	211,094,972	955,220,914	996,254,025	17.73%
Domestic common stocks	1,121,544,162	1,218,977,417	1,279,148,661	1,114,781,168	1,285,911,655	1,647,283,656	29.31%
Domestic pooled common stocks	339,960,060	468,738,271	–	20,722,599	319,237,461	589,325,934	10.49%
Foreign securities	150,000,000	143,530,348	1,173,343,514	892,990,596	430,352,918	452,381,860	8.05%
Commercial paper	413,995,280	413,995,280	5,662,963,709	5,734,187,000	342,771,989	342,771,989	6.10%
Real estate, net of accumulated depreciation (note 6)	248,050,675	228,292,210	220,669,410	19,114,632	449,605,453	446,734,097	7.95%
Mortgage notes receivable	15,249,000	15,249,000	–	2,904,000	12,345,000	12,345,000	0.22%
Commercial mortgage funds	20,022,477	20,022,477	49,921,184	2,587,712	67,355,949	67,850,456	1.21%
Venture capital	7,580,389	12,722,805	6,318,743	336,862	13,562,270	17,617,954	0.31%
	$4,504,067,963	**$4,606,071,410**	**$9,056,059,934**	**$8,707,052,260**	**$4,853,075,637**	**$5,619,333,015**	**100%**

	Year ended December 31, 1994						
	1993 Carrying Value	1993 Market Value	Purchases and Accretions	Sales, Redemptions and Accruals	1994 Carrying Value	1994 Market Value	% of Total Market Value
Canadian bonds and obligations	$ 53,507,365	$ 55,693,574	$ 34,848,282	$ 22,085,710	$ 66,269,937	$ 63,334,058	1.37%
Government bonds and obligations	1,265,698,800	1,326,793,939	639,748,398	740,043,457	1,165,403,741	1,091,114,548	23.68%
Corporate bonds and obligations	897,484,682	950,612,442	198,395,732	139,888,172	955,992,242	930,094,996	20.19%
Common stocks	1,284,053,979	1,620,250,036	966,912,504	1,129,422,321	1,121,544,162	1,218,977,417	26.46%
Pooled common stocks	–	–	371,803,461	31,843,401	339,960,060	468,738,271	10.17%
Foreign securities	–	–	150,000,000	–	150,000,000	143,530,348	3.12%
Commercial paper	450,832,952	450,832,952	5,204,905,328	5,241,743,000	413,995,280	413,995,280	9.01%
Real estate, net of accumulated depreciation (note 6)	194,240,713	167,358,607	66,424,716	12,614,754	248,050,675	228,292,210	4.95%
Mortgage notes receivable	15,237,000	15,237,000	284,236	272,236	15,249,000	15,249,000	0.33%
Commercial mortgage funds	3,102,141	3,102,141	17,032,572	112,236	20,022,477	20,022,477	0.43%
Venture capital	6,442,175	7,621,102	2,827,500	1,689,286	7,580,389	12,722,805	0.28%
	$4,170,599,807	**$4,597,501,793**	**$7,653,182,729**	**$7,319,714,573**	**$4,504,067,963**	**$4,606,071,410**	**100.00%**

Market values of bonds and stocks are based primarily on quotations from national security exchanges. Real estate market values are based upon external or management appraisals. Mortgage notes receivable and venture capital do not have quoted market prices and are therefore shown at cost.

In accordance with the Fund's policy (see note 2) venture capital limited partnerships are accounted for at cost.

The Fund participates in a security lending program, administered by the custodial agent bank, whereby certain securities are transferred to an independent broker/dealer (borrower) in exchange for collateral equal to no less than 102% of the market value of the loaned securities. The Fund has minimized its exposure to credit risk due to borrower default by having the custodial agent bank determine daily that required collateral meets 100% of the market value of securities on loan. The Fund has not experienced any losses due to credit or market risk on security lending activity since implementation of the program. Securities loaned to brokers/dealers at December 31, 1995 and 1994 totaled $815,042,481 and $902,400,358 respectively. Security lending income totaled $1,248,083 and $1,261,056 for the years ended December 31, 1995 and 1994 respectively.

6. INVESTMENT IN REAL ESTATE

The Fund's investment in real estate as of each December 31 consists of:

	1995	1994
Land	$ 83,154,409	$ 53,689,405
Buildings	300,127,897	140,821,955
Capital improvements	32,659,989	17,541,895
	415,942,295	212,053,255
Accumulated depreciation	27,118,743	21,896,549
Net book value	388,823,552	190,156,706
Commingled fund limited partnerships	60,781,901	57,893,969
Total	**$449,605,453**	**$248,050,675**

Real estate rental income was approximately $26,799,153 and $16,720,358 in 1995 and 1994, respectively, net of depreciation of approximately $5,222, 194 and $2,977,096. Real estate income is included in net investment income.

The following is a schedule by years of minimum future rentals on noncancelable operating leases related to the Fund's investment in real estate as of December 31, 1995:

Year ending December 31,	
1996	$ 42,305,600
1997	35,484,738
1998	30,249,125
1999	26,368,673
2000	23,523,880
Thereafter	124,505,404
Total minimum future rentals	**$282,437,420**

7. LOCAL FUNDS RECEIVABLE

Local governments are required by state statute to pay the unfunded portion of the actuarially determined liability of the local police and firemen's relief and pension funds that were merged to form the Fund in 1967. The ORC names this obligation of local governments the "Employers' Accrued Liability". Interest on the outstanding balance is being accrued at a rate of 4.25%, compounded semiannually. Local governments began repayment in 1969 and payments are required to be made until 2035. Between 1969 and 1973, payments of principal and interest were received at incremental semiannual rates ranging from 1% to 2% of the original receivable balance. Between 1973 and 2035, semiannual payments of principal and interest are required to be made by the local governments at a rate of 2.5% of the original receivable balance. The balance due at December 31, 1995 includes $1,260,758 due from local governments which had previously underpaid their semiannual payment and from local governments which joined the Fund subsequent to 1967 according to a 20-year payment plan.

In 1993 the Ohio Legislature authorized the Fund's Board of Trustees to enter into agreements with municipal corporations permitting the cities to pay off the remaining balance of their "Employers' Accrued Liability" at a discounted amount to be determined by the Board. The Board adopted 65 percent as the discounted amount it would accept for payments received by October 15, 1995.

On the Fund's 1994 Balance Sheet the amount shown as "Local funds receivable" has been adjusted to reflect this receivable net of discounts agreed to as of April 30, 1995.

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

Year ending December 31,	
1996	$ 11,347,177
1997	10,925,075
1998	10,924,258
1999	10,923,419
2000	10,922,551
Later years	373,769,006
Total projected payments	428,811,486
Less interest portion	219,675,508
Balance due at December 31, 1995	**$209,135,978**

8. MORTGAGE NOTE PAYABLE

In 1995, the Fund assumed two mortgage notes payable of $15,840,000 and $14,729,395. These notes are secured by Vista Ridge Village and Belmont/Carlton Apartments respectively. The former note bears an interest of 7.8% per annum and the latter accrues interest at 7.9% per annum. Aggregate and annual payments of principal on the mortgage loans are as follows:

Year ending December 31,	
1996	$ 437,003
1997	473,305
1998	511,006
1999	575,066
2000	576,220
Thereafter	27,996,795
Total payments	**$30,569,395**

9. DEFERRED COMPENSATION

All Fund employees may elect to participate in the Ohio Public Employees' Deferred Compensation Program, a deferred compensation plan created in accordance with Internal Revenue Code Section 457. Participating employees defer a designated amount of their salary until some future date, and such compensation is not available to the participant prior to termination, retirement, death, or some unforseeable emergency.

The compensation so deferred, any property and rights purchased with the deferrals, and any income attributable to the deferrals, property or rights are, until paid or made available to the participant or a participant's beneficiary, solely the property of the Fund subject only to the claims of the Fund's general creditors. The rights of a plan participant are equal to those of a general creditor of the Fund to the amount equal to the fair market value of the participant's account. The total market value of the accounts of participating Fund employees was approximately $602,800 and $490,000 as of December 31, 1995 and 1994 respectively. These amounts are reported on the Fund's balance sheet as an asset, "deposits with deferred compensation plan," with a corresponding liability "deferred compensation plan payable."

It is the opinion of the Fund's legal counsel that the Fund has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent adviser. The Fund believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

10. DEFINED BENEFIT PENSION PLAN

The Fund contributes to the Public Employees Retirement System of Ohio, (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 145 of the Ohio Revised Code. PERS issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to PERS, 277 East Town Street, Columbus, Ohio 43215-4642.

Plan members are required to contribute 8.5% of their annual covered salary, while employers are required to contribute 13.55%. The Fund's contributions to PERS for the years ending December 31, 1995, 1994, and 1993 were $603,732, $535,374, and $483,336, respectively, equal to the required contributions for each year.

11. OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in note 10, PERS provides postemployment health care benefits to all employees who retire with 10 or more years of qualifying Ohio service credit. The plan has 365,383 active contributing participants as of December 31, 1994.

The Fund and all employees are required to contribute to PERS as in note 10. A portion of each employer's contribution is set aside for advanced funding of postemployment health care. Of the 13.55% of employee payroll contributed by the Fund, 5.11% or approximately $128,966 was the portion used to fund health care. Statutory rates equal the actuarially determined contribution requirements.

The actuarial present value of accrued other postemployment benefits was determined based on the entry age normal method of funding. Significant actuarial assumptions used in the December 31, 1994 actuarial valuation (most recent valuation available) were (a) a 7.75% rate of return on investments, (b) investments valued at cost or amortized cost, adjusted to reflect 25% of unrealized appreciation or depreciation on investment assets, (c) no change in the number of active employees, (d) base pay rate increases of 5.25% and annual pay increases over and above the 5.25% base increase ranging from 0% to 5.1% and (d) health care cost increases of 5.25% annually.

The total Ohio PERS actuarial present value of accrued other postemployment benefits as of December 31, 1994 (most recent valuation available) was $7.95 billion; the net assets available for these benefits at that date were $6.84 billion.

12. COMMITMENTS AND CONTINGENCIES

The Fund holds a mortgage note receivable secured by a deed of trust on a shopping center located at 1700 McHenry Avenue, Modesto, California (the "Shopping Center"). Effective March 1, 1995, the borrower defaulted on all interest payments. The mortgage note receivable matured on July 16, 1995, at which time the Fund elected not to take title to the note. Currently, the Fund is in the process of negotiating with the borrower to extend the note to the year 2001 and recover past due accrued interest. The mortgage note receivable is personally guaranteed by the managing general partner of the borrowing entity.

The detail of the mortgage note receivable at December 31, is as follows (in thousands):

	1995	1994
Receivable from borrower	$15,000	$15,000
Capitalized acquisition fee	126	126
Deferred interest	305	299
Unrealized loss	(2,996)	(176)
Total	**$12,435**	**$15,249**

The Fund is a defendant in a number of lawsuits pertaining to matters which are incidental to performing routine business functions. Fund management is of the opinion that ultimate settlement of such claims will not result in a material adverse effect on the Fund's financial position as of December 31, 1995.

The Fund is committed to make additional capital contributions of $15,953,756 to existing venture capital investments and $70,540,000 towards purchases of additional real estate.

13. HISTORICAL TREND INFORMATION

Historical trend information designed to provide information about the Fund's progress made in accumulating sufficient assets to pay benefits when due, is presented in the required supplemental schedules which immediately follow the notes to financial statements.

14. MEDICAL BENEFIT FUNDING

Since July 1, 1992 most retirees have been required to contribute a portion of the cost of their health care coverage. These contributions, which vary in amount depending on the type and amount of the retirant's pension, are credited to a Health Care Stabilization Fund created in 1992. This fund, which received an initial allocation of $150,000,000, is also credited with a portion of employer contributions equal to 6.5% of payroll, and 8.25% effective annual interest, and is charged with all health care expenses. The fund's assets at December 31, 1995 and 1994 were $203,467,204 and $184,565,586 respectively.

15. DERIVATIVES

The Fund invested in Planned Amortization Class and Sequential Pay Real Estate Mortgage Investment Conduit bonds issued by GNMA, FHLMC and FNMA. Planned Amortization Class bonds are retired according to a payment schedule so as to have a stable average life and yield even if expected prepayment rates change within a specified broad range of prepayment possibilities. Sequential Pay bonds begin to pay principal when classes with an earlier priority have paid to a zero balance. Such bonds enjoy uninterrupted payment of principal until paid to a zero balance. In terms of credit risk the United States government explicitly backs GNMA mortgage securities programs and implicitly backs FHLMC and FNMA mortgage securities programs. The Fund has not violated any legal, regulatory, or contractual provisions by such participation and there is no undue credit, market or legal risk. These securities were purchased in order to enhance the Fund's overall total rate of return.

The Fund also has invested in one commingled EAFE (Europe, Australia, Far East) and two commingled S&P 500 index funds. Those funds to a minor extent utilized futures contracts to maintain a fully invested posture, and also utilized certain derivative money market instruments in their short term investment funds. The Fund's indirect exposure represented less than 1% of the total portfolio market value at year end. The Fund has not violated any legal, regulatory, or contractual provisions by such participation and there is no undue credit, market or legal risk.

REQUIRED SUPPLEMENTAL SCHEDULES

ANALYSIS OF FUNDING PROGRESS (IN THOUSANDS)

As of January 1,	Net assets available for benefits (2)(4)	Pension benefit obligation	Percentage funded (3)	Unfunded pension benefit obligation (3)	Covered payroll (1)(3)	Unfunded pension benefit obligation as a percentage of covered payroll (3)
1988	$2,852,301	$3,381,200	84.4%	$ 528,899	$651,435	81.2%
1989	3,074,215	3,769,400	81.6	695,185	692,029	100.5
1990	3,374,331	4,079,200	82.7	704,869	732,417	96.2
1991	3,579,044	4,426,700	80.9	847,656	778,097	108.9
1992	3,924,473	4,764,700	82.4	840,227	822,958	102.1
1993	4,137,708	5,132,800	80.6	995,092	871,352	114.2
1994	4,459,812	5,530,600	80.6	1,070,788	922,988	116.0
1995	4,645,717	5,853,200	79.4	1,207,483	984,134	122.7

(1) Equal to annual average salary multiplied by the number of members at the valuation date.

(2) The local funds receivable is included in this amount. This receivable is considered an asset for financial reporting purposes, but not considered available for actuarially determined funding status.

(3) Analysis of the dollar amounts of net assets available for benefits, pension benefit obligation for active and inactive accounts, and unfunded pension benefit obligation in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the pension benefit obligation for active and inactive accounts provides one indication of the Fund's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the Fund is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the Fund is. Trends in unfunded pension benefit obligation and valuation payroll are both affected by inflation. Expressing the unfunded pension benefit obligation as a percentage of valuation payroll approximately adjusts for the effects of inflation and aids analysis of the Fund's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the Fund is. The actuarial assumptions for investment return, and post-retirement mortality are revised periodically based on the Fund's experience.

(4) For 1993-1995, net assets available for benefits is net of the balance of the Health Care Stabilization Fund established in 1992.

REVENUES BY SOURCE

Year ended December 31,	Employer contributions (1)	Employee contributions (1)	Medical Benefit contributions (2)	State of Ohio subsidies	Net investment income (3)
1986	$136,668,444	$ 57,475,708	–	$6,813,000	$127,412,987
1987	139,543,550	63,363,415	–	6,635,000	174,772,550
1988	149,640,020	70,671,103	–	6,470,000	207,473,616
1989	159,472,669	77,657,290	–	5,857,000	299,006,174
1990	168,224,004	82,529,663	–	5,674,000	215,178,390
1991	178,858,413	87,786,090	–	5,429,000	368,882,582
1992	189,566,606	91,957,848	$2,400,094	4,927,194	403,209,178
1993	200,703,066	97,158,960	5,048,847	4,645,952	422,969,125
1994	213,918,612	103,553,011	4,897,139	4,405,120	254,446,930
1995	223,206,380	109,000,755	4,965,059	4,182,724	405,458,383

Note: For the year of 1986, revenues are shown on the basis of cash and investment receipts and disbursements, while 1987 through 1995 revenues are shown on the accrual basis.

(1) The contribution requirement for the years presented was not actuarially determined but rather established by law under the Ohio Revised Code. Contributions actually made are in accordance with the legal requirement.

See accompanying independent auditors' report.

EXPENSES BY TYPE

Year ended December 31,	Retirement, disability and survivor benefits	Health care benefits	Refund of employee contributions
1986	$153,415,851	$31,379,158	$3,121,542
1987	164,367,103	39,465,273	2,915,311
1988	180,575,729	43,703,422	3,528,968
1989	200,702,890	47,818,789	3,906,362
1990	219,768,664	52,979,696	3,768,579
1991	239,464,824	61,748,019	2,540,360
1992	260,762,112	67,419,506	3,723,998
1993	281,418,240	63,135,402	5,007,473
1994	301,511,992	63,698,537	3,831,328
1995	324,887,415	70,170,717	5,553,638

Note: For the year of 1986, expenses are shown on the basis of cash and investment receipts and disbursements, while 1987 through 1995 expenses are shown on the accrual basis.

See accompanying independent auditors' report.

Interest on local funds receivable	Other income	State contribution to Death Benefit Fund	Total	Employer contributions as a percentage of covered payroll
$20,393,099	$ 242,446	$ 6,666,157	$ 355,671,841	22.0
17,508,079	643,607	6,720,685	409,186,886	21.4
19,902,971	1,435,015	6,796,504	462,389,229	21.4
17,257,042	325,775	9,368,095	568,944,045	21.4
16,391,934	1,190,386	10,378,929	499,567,306	21.4
17,148,388	49,579	10,177,185	668,331,237	21.2
17,411,423	139,736	11,013,727	720,625,806	21.4
16,026,269	728,798	13,158,544	760,439,561	21.4
12,067,479	1,107,499	15,913,409	610,309,199	21.5
8,926,285	984,775	14,385,716	771,110,077	21.3

(2) Member contributions for health care coverage commenced July 1, 1992.

(3) For years 1986 through 1987 net realized gain on sale of investments is excluded.

Administrative expenses	Other expense	Death Benefit Fund Benefits	Loss on write-down of local funds receivable	Total
$ 2,974,357	$ 430,866	$ 6,001,201	–	$197,322,975
3,903,646	592,220	6,720,685	–	217,964,238
5,341,465	529,537	6,796,504	–	240,475,625
6,601,071	431,049	9,368,095	–	268,828,256
7,602,060	355,696	10,378,929	–	294,853,624
8,200,798	771,421	10,177,185	–	322,902,607
8,475,243	1,088,276	11,013,727	–	352,482,862
9,063,687	1,545,134	13,158,544	$51,969,625	425,298,105
10,442,185	930,434	15,913,409	11,455,963	407,783,848
14,066,160	392,317	14,385,716	167,105	429,623,068

ADMINISTRATIVE EXPENSES

YEARS ENDED DECEMBER 31, 1995 AND 1994

	1995	1994
Personnel Services:		
Administrative salaries	$ 3,154,357	$ 2,637,069
Employee benefits	421,523	402,708
Employer contributions-PERS	400,143	329,257
	3,976,023	3,369,034
Professional services	8,036,138	5,664,422
Other services and charges:		
Equipment–rental and maintenance	155,900	135,203
Travel expenses	62,568	44,709
Postage	235,487	189,727
Printing	70,340	67,003
Insurance–administrative	78,252	85,103
Office supplies and maintenance	172,828	134,300
Utilities	140,468	146,387
Ohio Retirement Study Commission	33,551	31,288
Dues and subscriptions	32,735	28,108
Depreciation expenses	572,119	435,135
Miscellaneous expenses	71,950	111,766
Rent	427,801	–
	2,053,999	1,408,729
Total administrative expenses	**$14,066,160**	**$10,442,185**

See accompanying independent auditors' report.

REFUNDS OF EMPLOYEE CONTRIBUTIONS

Year Ended December 31,	Police	Fire	Total
1986	$2,293,032	$ 929,257	$3,222,289
1987	2,307,728	607,583	2,915,311
1088	2,562,415	966,553	3,528,968
1989	2,802,932	1,103,430	3,906,362
1990	2,750,115	1,018,464	3,768,579
1991	1,904,000	636,360	2,540,360
1992	2,670,680	1,053,318	3,723,998
1993	3,752,052	1,255,421	5,007,473
1994	2,900,754	930,574	3,831,328
1995	3,694,184	1,859,454	5,553,638

Note: For the year of 1986, refunds are shown on the basis of cash disbursements, while 1987 through 1995 refunds are shown on the accrual basis.

See accompanying independent auditors' report.

SUPPLEMENTAL SCHEDULES

FUND BALANCE ACCOUNTS

YEAR ENDED DECEMBER 31, 1995

SCHEDULE 1

Description of Accounts (Funds)

Chapter 742 of the Ohio Revised Code requires the establishment and maintenance of specific funds. These funds are classified as accounts for financial reporting purposes and are noted as follows:

(A) Members' Contribution Funds

The Policemen's and Firemen's Contribution Funds accumulate the contributions deducted from the salaries of members. Upon retirement, a member's accumulated contributions are transferred to the Policemen's or Firemen's Pension Reserve Fund.

(B) Employers' Contribution Funds

The Policemen and Firemen Employers' Contribution Funds are the depositories for employer contributions. Based on actuarial valuations, amounts are transferred from this fund to the Policemen's and Firemen's Pension Reserve Fund.

(C) Pension Reserve Funds

The Policemen's and Firemen's Pension Reserve Funds are the funds from which all retirement, disability, health care and survivor benefits are paid. Amounts are transferred into the Pension Reserve Funds from the Contribution Funds and the Employers' Contribution Funds.

	Members' Contribution Funds		Employer's Contribution Funds	
	Police	**Fire Fighters**	**Police**	**Fire Fighters**
Fund balance at beginning of year	$443,639,781	$335,261,994	$1,000,641,614	$682,083,021
Changes for the year:				
Contributions:				
Employers	–	–	116,282,557	106,923,823
Employees	62,706,122	46,294,633	–	–
Medical benefits	–	–	–	–
State of Ohio subsidies	–	–	–	–
Death benefit fund	–	–	–	–
Investment income	–	–	–	–
Interest on local funds' receivable	–	–	4,416,891	4,509,394
Other income	–	–	–	–
Benefits:				
Retirement	–	–	–	–
Disability	–	–	–	–
Health care	–	–	–	–
Survivor	–	–	–	–
Death benefit fund	–	–	–	–
Loss on write-downs of long-term local funds receivable	–	–	(110,838)	(56,267)
Administrative expenses	–	–	–	–
Refund of employee contributions	(3,694,184)	(1,859,454)	–	–
Other expenses	–	–	–	–
Transfers	(34,244,382)	(23,671,102)	(326,185,160)	(229,662,737)
Net Changes	24,767,556	20,764,077	(205,596,550)	(118,285,787)
Fund balance at end of year	$468,407,337	$356,026,071	$795,045,064	$563,797,234

See accompanying independent auditors' report.

(D) Guarantee Fund

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

(E) Expense Fund

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

(F) Death Benefit Fund

The Death Benefit Fund is used to record the death benefit contributions from the State of Ohio and the death benefit payments made to a spouse or dependent of a member whose death resulted from injury or illness sustained while on active duty as a policeman or fireman..

Annuitant & Pension Reserve Funds		Guarantee Fund	Expense Fund	Death Benefit Fund	Totals	
Police	Fire Fighters				1995	1994
$1,290,400,000	$1,078,256,366	–	–	–	$4,830,282,776	$4,627,757,425
–	–	–	–	–	223,206,380	213,918,612
–	–	–	–	–	109,000,755	103,553,011
–	–	4,965,059	–	–	4,965,059	4,897,139
–	–	4,182,724	–	–	4,182,724	4,405,120
–	–	–	–	14,385,716	14,385,716	15,913,409
–	–	405,458,383	–	–	405,458,383	254,446,930
–	–	–	–	–	8,926,285	12,067,479
–	–	984,775	–	–	984,775	1,107,499
(109,445,801)	(97,909,286)	–	–	–	(207,355,087)	(191,306,643)
(51,337,834)	(35,425,841)	–	–	–	(86,763,675)	(80,672,276)
(37,258,230)	(32,912,487)	–	–	–	(70,170,717)	(63,698,537)
(17,400,526)	(13,368,127)	–	–	–	(30,768,653)	(29,533,073)
–	–	–	–	(14,385,716)	(14,385,716)	(15,913,409)
–	–	–	–	–	(167,105)	(11,455,963)
–	–	–	(14,066,160)	–	(14,066,160)	(10,442,185)
–	–	–	–	–	(5,553,638)	(3,831,328)
–	–	(392,317)	–	–	(392,317)	(930,434)
585,063,721	429,832,124	(415,198,624)	14,066,160	–	–	–
369,621,330	250,216,383	0	0	0	341,487,009	202,525,351
$1,660,021,330	$1,328,472,749	$ 0	$ 0	$ 0	$5,171,769,785	$4,830,282,776

CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN CASH BALANCE

YEARS ENDED DECEMBER 31, 1995 AND 1994

SCHEDULE 2

	1995	1994
Cash receipts:		
Investment sales and maturities	$7,994,359,498	$6,966,576,992
Contributions:		
Employer	220,751,478	210,058,286
Employee	107,690,937	100,452,189
Medical Benefits	4,964,537	4,896,404
State of Ohio-subsidies	4,182,724	5,605,120
State of Ohio-Death Benefit Fund	23,676,960	16,037,077
	361,266,636	337,049,076
Net investment income	223,316,731	218,368,168
Local fund's receipts	12,924,908	130,339,822
Other income	1,898,053	1,437,728
Total cash receipts	8,593,765,826	7,653,771,786
Cash Disbursements:		
Investment purchases	8,137,907,112	7,273,025,590
Benefits:		
Retirement	207,289,315	191,001,222
Disability	86,742,429	80,695,529
Health care	69,252,384	65,596,259
Survivor	30,761,841	29,543,875
Death Benefit Fund	14,400,148	15,942,069
	408,446,117	382,778,954
Administrative expenses	11,670,324	8,845,826
Refund of employee contributions	4,759,504	3,440,600
Other expenses	3,053,557	1,731,624
Total cash disbursements	8,565,836,614	7,669,822,594
Excess (deficiency) of cash receipts over cash disbursements	27,929,212	(16,050,808)
Cash balance, beginning of year	4,981,090	21,031,898
Cash balance, end of year	**$ 32,910,302**	**$ 4,981,090**

See accompanying independent auditors' report.

INVESTMENT MANAGEMENT FEES

YEAR ENDED DECEMBER 31, 1995

SCHEDULE 3

INVESTMENT MANAGER	MANAGEMENT FEES
Oppenheimer Capital	$ 979,177
Nicholas Applegate Capital Management	739,398
Equitable Real Estate Investment Management	633,039
Atalanta/Sosnoff Capital Corporation	614,803
Invesco Trust Company	605,400
Fleet Financial Advisors, Inc.	420,869
Bankers Trust Company	391,478
Schroder Real Estate Associates	372,891
Value Line Asset Management	331,886
The RREEF Funds	297,000
Loomis, Sayles and Company	262,987
Bond, Procope Capital Mgt.	259,880
Gelfand Partners Asset Management	226,913
Capital Guardian Trust Co.	180,433
Smith Barney Capital Management	158,039
Scudder, Stevens & Clark, Inc.	136,731
Lombard Odier International, Ltd.	121,102
Lowe Enterprises	113,470
Cabot Partners	86,125
Lakefront Capital Investors, Inc.	56,087

See accompanying independent auditors' report.

ACTUARIAL SECTION

Actuary's Certification Letter

Summary of Actuarial Assumptions and Methods

ACTUARY'S CERTIFICATION LETTER

Watson Wyatt
Worldwide

The Wyatt Company

Suite 1400
1801 East Ninth Street
Cleveland, OH 44114-3149

Telephone 216 696 6250
Fax 216 687 0675

June 6, 1996

Board of Trustees
The Police and Firemen's Disability
and Pension Fund of Ohio
140 East Town Street
Columbus, Ohio 43215

Gentlemen:

Watson Wyatt Worldwide, as Actuary, prepares an actuarial valuation of The Police and Firemen's Disability and Pension Fund of Ohio on an annual basis. The purpose of the valuation is to determine contribution rates for disability and retirement benefits based on sound actuarial principles. For retiree health care benefits, the valuation reports on the adequacy of a 6.5% contribution rate with respect to maintaining the Health Care Stabilization Fund at a reasonable value. The actuarially determined contribution rates for pension and disability benefits, in conjunction with the 6.5% assumed health care rate, are to be used to access the adequacy of contribution rates provided under Sections 742.33 and 742.34 of the Revised Code. The most recent actuarial valuation was as of January 1, 1995.

The actuarial valuations are based upon census data and audited financial information submitted by the Fund. Watson Wyatt Worldwide checks the data for reasonability. Information suspected of being in error is submitted to the Fund for correction.

The actuarial assumptions used in the valuation are recommended by Watson Wyatt and approved by the Board. The decrement assumptions reflect actual Fund experience as measured in the quinquennial evaluations. The 1995 valuation reflects rates of mortality, termination from employment and remarriage of surviving spouses as developed in the quinquennial evaluation covering the period 1987 through 1991. The rates of disablement and the distribution of disabilities by type are based on experience for 1992 and 1993. The rates of retirement are based on experience during the period 1990 through 1993. The assumed mortality for future disabilities represents a two-year age setback in the 1987-1991 experience rates for disabled lives.

The interest rate and salary scale assumptions reflect both recent salary increases and Fund rates of return along with expected returns and salary increases over a long period in the future. The 1995 valuation is based on the same assumptions as used in the 1994 valuation.

For most asset classes the actuarial value of assets used in the valuation is the cost value as presented in the audited Financial Statements reduced by (1) the value of the employer accrued liability, (2) the member contributions which have yet to be refunded to members who terminated with less than 15 years of service, (3) Total Liabilities and (4) the reported value of the Health care Stabilization Fund. In addition, the actuarial value of stocks is determined under the 4-Year Market Adjustment method, under which realized and unrealized gains or losses are recognized in the assets over 4-year periods.

The benefit provisions valued in the valuation report reflect the status of the Revised Code as of the valuation date.

The financial objective of The Police and Firemen's Disability and Pension Fund of Ohio is to collect employers' and members' contributions which, when expressed as percentages of the payroll for active members, separately for police and firemen, are close in value to the actuarially determined contributions. The actuarially determined contributions, in turn, are such that together with existing assets, including expected payments on the cities' initial unfunded liability and expected future investment earnings, they will fully provide for all expected pension, disability, and death benefit payments for current members if such contributions are made over the future working lifetime of the active members.

Under current law, the actuarially determined contributions plus 6.5% Health Care Stabilization Fund allocation are to be compared to the statutory contributions to determine if the statutory contributions are adequate. Based upon the results of the 1995 valuation and the 15-year forecast prepared in 1994 by the Wyatt, it is our opinion that the current statutory rates are adequate for 1995.

Under current law the Ohio Retirement Study Commission is to review the actuarial report and make recommendations to the General Assembly concerning proper financing of the Fund. This policy of actuarial contribution rate determination, review, and, if necessary, legislative change in the statutory rates should ensure that the financial condition of the Fund remains sound.

Respectfully Submitted,

WATSON WYATT WORLDWIDE

Wayne E. Dydo

Wayne E. Dydo
Fellow – Society of Actuaries

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SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

A. INTEREST

A rate of $8^1/_4$% per annum, compounded annually.

B. RATES AND OTHER ASSUMPTIONS AMONG ACTIVE MEMBERS

1. Before Retirement:

(a) Mortality:

Mortality is based on the 1951 Group Annuity Mortality Table projected to 1980 using Scale C, with a one-year set-forward in age. The projected values are multiplied by 0.5 at all ages to obtain the assumed mortality rates. The following rates at selected ages are illustrative:

	Rate of Mortality	
Age	**Police**	**Fire**
25	.000307	.000307
30	.000406	.000406
35	.000569	.000569
40	.000845	.000845
45	.001568	.001568
50	.002773	.002773
55	.004377	.004377

(b) Termination:

The rates of termination are based upon the results of the 1987-1991 Quinquennial Evaluation. The following rates at selected ages are illustrative:

	Rate of Termination	
Age	**Police**	**Fire**
25	.047001	.016655
30	.031525	.015071
35	.022161	.012432
40	.014759	.007482
45	.009658	.004385
50	.012847	.004884

Note: The present values of future benefits for active members resulting from the use of these withdrawal rates are actuarially adjusted to include provision for prospective terminated employees eligible for vested termination benefits arising from the vesting provisions of the 1971 Amended Substitute Senate Bill No. 137.

(c) Disability:

The rates of disability are based upon the disability experience for 1992 and 1993. The following rates at selected ages are illustrative:

	Rate of Disability	
Age	**Police**	**Fire**
25	.001175	.000236
30	.002370	.001254
35	.005326	.002934
40	.011544	.007136
45	.021970	.015119
50	.033918	.028520
55	.051672	.046271

Note: The present values of future benefits for active members resulting from the use of these disability rates reflect the fact that the occurrence of disability by type approximates the following

	Police	**Fire**
On duty permanent and total	22%	27%
On duty partial	75	70
Off duty ordinary	3	3

(d) Salary Increase Rate:

The per annum rates of future salary increase can be divided into two component parts: (i) inflationary increase of 4% per year and (ii) age-graded promotional increases as follows:

Age(s)	**Promotional Increase**	**Total Increase**
under 30	3.00%	7.00%
30-34	1.75%	5.75%
over 34	1.00%	5.00%

(e) Retirement:

The rates of retirement are based upon the experience during the periods 1989 through 1993. These rates are applicable after the member has satisfied the conditions for retirement. The rates are as follows:

Police		Fire	
Age(s)	Rate	Age(s)	Rate
48	0.35	48	0.35
49-53	0.25	49-59	0.25
54-60	0.20	60-64	0.35
61-64	0.25	65	1.00
65	1.00		

2. After Retirement:

(a) On Service Retirement Pension:

The mortality, after retirement of active members expected to go on service retirement, is based on the 1951 Group Annuity Mortality Table as Projected to 1980 using Scale C, with a one-year set-forward in age. The following probabilities at selected ages are illustrative:

Age	Probability of Mortality
55	.008753
60	.013012
65	.020979
70	.033316
75	.056741
80	.099390
85	.158333
90	.236172
95	.316061

(b) On Disability Retirement Pension:

The mortality, after retirement of active members expected to go on disability retirement, is based on the results of the 1987-1991 Quinquennial Evaluation. The rates are based on the 1951 Group Annuity Mortality Table projected to 1980 using Scale C and include loads for disability. These rates are then set-back by two years in age to reflect the greater percentage of partial disabilities. The following probabilities at selected ages are illustrative:

Age	Probability of Mortality
35	.008424
45	.009636
55	.016736
65	.035482
75	.060183
85	.136516
95	.265027

C. PROBABILITIES OF MORTALITY AMONG PENSIONERS

1. Nondisabled Pensioners:

The mortality among all nondisabled retirants is equal to the 1951 Group Annuity Mortality Table rates projected to 1980 using Scale C, with a one-year set-forward in age. The following probabilities at selected ages are illustrative:

Age	Probability of Mortality
35	.001138
40	.001691
45	.003136
50	.005545
55	.008753
60	.013012
65	.020979
70	.033316
75	.056741
80	.099390
85	.158333
90	.236172
95	.316061

2. Disabled Pensioners:

The mortality among all disabled retirants is based on the 1951 Group Annuity Mortality Table projected to 1980 using Scale C and includes loads for disability. The following probabilities at selected ages are illustrative:

Age	Probability of Mortality
35	.008560
40	.009043
45	.010262
50	.012495
55	.018051
60	.022001
65	.038838
70	.050322
75	.071826
80	.111137
85	.168254
90	.222882
95	.297806

D. PROBABILITIES AMONG SURVIVORS

1. Probabilities of Mortality Among Surviving Spouses:

The mortality among all present surviving spouses is based on the Projected Annuity Mortality Table rates, decreased by 15% at all ages. The following probabilities at selected ages are illustrative:

Age	Probability of Mortality
35	.001326
40	.001938
45	.002950
50	.004471
55	.006775
60	.010464
65	.016448
70	.026121
75	.042560
80	.067465
85	.102527
90	.151530
95	.219657

2. Probability of Remarriage Among Surviving Spouses:

The probabilities of remarriage of surviving spouses are based upon the results of the 1987-1991 Quinquennial Evaluation. The following probabilities at selected ages are illustrative:

Age	Probability of Remarriage
35	.030686
40	.025594
45	.017015
50	.008101
55	.006225
60	.005491
65	.002442
70	.001092
75	.000491

3. Dependent Children:

No specific allowance has been made, in the valuation of this benefit, for the probability of mortality prior to age 18, or the probability of disability at age 18 and thereafter. In valuing the benefit beyond age 18, it is assumed that $^1/_3$ of the dependent children will be students and eligible for payments to age 22.

4. Dependent Parents:

Costs based upon allowance for mortality (the Projected Annuity Mortality Table rates), but no specific allowance for change in dependency status.

E. COLA ANNUITIES

It has been assumed that, where an election is possible, all members will elect the COLA annuity. It has also been assumed that the Consumer Price Index will increase each year at a rate equal to or greater than 3%.

F. EXPENSE LOADING

The net costs were loaded by $^3/_4$ of 1% to allow for future administrative expenses of the Fund.

G. ACTUARIAL COST METHOD

The "frozen initial liability" method has been used in developing the required contributions to the Fund. Under this approach, the present value of future benefits is reduced by valuation assets and the present value of the employer accrued liability. This net amount is then expressed as a percentage of the present value of active member future compensation and that percentage is applied to current payroll to determine the actual contribution.

The employer accrued liability was determined for each separate police and firemen's fund as of April 1, 1966. Each employer with an existing liability is presently making payments at the rate of 5% of the original liability (adjusted for any excess payments) pursuant to the schedule set forth in Section 742.30 of the Ohio Revised Code.

The assumptions used for the actuarial valuation were adopted by the Board of Trustees after consulting with the actuary. Differences between assumed and actual experience (actuarial gains and losses) become part of unfunded actuarial accrued liabilities. When these differences between assumed and actual experience have been observed to be sizeable and persistent a change is made to the actuarial assumption.

H. VALUATION ASSETS

Valuation assets equal the net cost (book) value of all Fund assets, except common and preferred stocks are included in valuation assets with a value equal to that developed under the 4-year Market Adjustment Method, with an initial value equal to market value. Under this method realized and unrealized gains are recognized in the assets over a 4-year period: valuation assets equal market value less 75% of the previous year's realized and unrealized gains, 50% of the second previous year's realized and unrealized gains, and 25% of the third previous year's realized and unrealized gains. Full implementation of the phase-in is to occur on January 1, 1996. The balance in the Health Care Stabilization Fund is excluded from total assets to arrive at valuation assets for pension and disability benefits. Contributions due to be refunded to terminated members are also excluded from valuation assets.

I. CHANGES IN ACTUARIAL ASSUMPTIONS

The original actuarial assumptions have been modified thirteen times since their adoption in 1966. The changes were as follows.

(1) 1970 valuation:

- The interest rate was increased from $4^1/_4$% to $4^5/_8$%.

(2) 1972 valuation:

- The interest rate was increased from $4^5/_8$% to $4^3/_4$%.
- A loading was adopted to provide for the cost of 1972 Senate Bill No. 137 that, among other things, provided for special service retirement for late hires, vesting of service pension after 15 years of service under a $1^1/_2$% formula, and vesting of service pension after 25 years of service under the 2% formula.

(3) 1974 valuation:

- The interest rate was further increased from $4^3/_4$% to 5%.
- Adjustments were made in six assumption areas as a result of the findings in our first quinquennial evaluation; those adjustments were as follows:
  - (a) The termination rates for active members were increased by approximately two-thirds of the former rates;
  - (b) the mortality rates for active members eliminated the original accidental loading of .001;
  - (c) the disability rates for active members were increased by 25% for ages above 40, grading down to a reduction of rates by 50% for ages below 30;

(d) the mortality rates for retirants were increased by 50% (instead of the former 10% load) of the standard tables rates before age 65, grading down to a decrease of 20% after age 85;

(e) the mortality rates for widows were reduced by 15% at all ages; and

(f) the remarriage rates for widows were increased by 300% at ages prior to 45, grading down to an increase of 50% after age 60.

(4) 1979 valuation:

- The interest rate was increased from 5% to 6%.
- The salary scale was increased from 3% to $4^1/_2$%.
- The projected final salary was increased by 4% to allow for the sick pay allowance.
- The assumed retirement age was increased from 56 to 57 years for police and decreased from 58 to 57 years for firemen.
- Adjustments were made in four other assumption areas as a result of the findings in our second quinquennial evaluation; those adjustments were as follows:

(a) the termination rates for active members were decreased by approximately 20%;

(b) the disability rates for active members were increased by over 200%;

(c) the assumption that all disabilities are on-duty-permanent and total was changed to provide for 35% of-duty-partial and 5% off-duty-ordinary;

(d) the remarriage rates for widows were decreased by approximately 40%.

5. 1980 valuation:

- The interest rate was further increased from 6% to $6^3/_8$%.

(6) 1983 valuation:

- The interest rate was increased from $6^3/_8$% to $7^1/_2$%.
- The salary scale was increased from $4^1/_2$% to $5^1/_2$%.
- The terminal pay adjustment was increased from 4% to 13%.
- The assumed retirement age was decreased from 57 to 55 for both police and firemen.
- As a result of the third quinquennial evaluation, the mortality rates for active firemen were decreased by 33%.

(7) 1986 valuation:

- The interest rate was increased from $7^1/_2$% to $7^3/_4$%.

(8) 1987 valuation:

- The 13% terminal pay adjustment was replaced with the assumption that all active members would retire under the COLA annuity.
- In valuing the COLA annuity, it is assumed that each year the change in the Consumer Price Index will be at least 3%.

(9) 1988 valuation:

- A decrease in the termination rates to the graduated 1982-86 experience rates.
- An increase in the disability rates to the graduated 1982-86 experience rates.
- A change in the service retirement assumption from a fixed age of 55 or, if later, after satisfying the conditions for retirement, to rates based upon the 1982-86 experience. The rates are applicable for ages 48 through 65.
- A change in the post retirement mortality probabilities for retired members to separate sets of probabilities for nondisabled retirees and disabled retirees.
- A decrease in the probabilities of remarriage among surviving spouses to the graduated 1982-86 experience rates.

(10) 1989 valuation:

- The interest rate increased from $7^3/_4$% to $8^1/_4$%.
- The salary scale increased from $5^1/_2$% to $5^3/_4$%.
- New retirement rates have been developed for ages 48 through 52 to account for the effect of increased retirement of those ages.
- The assumption as to the occurrence of disability by type has been changed to reflect recent experience, which shows more partial and fewer permanent and total disabilities.

(11) 1992 valuation:

- The method of determining the value of Fund assets was changed. Assets are valued at an amount not less than 85% of market value nor more than 115% of market value.

(12) 1993 valuation:

Adjustments were made in four areas as a result of the findings of the Fund's fourth quinquennial evaluation, which covered the years 1987 through 1991:

(a) A change in the termination rates to the graduated 1987-91 experience rates. In general the rates decreased.

(b) A change in the 5.75% salary scale to an age-graded salary increase assumption.

(c) Changes in the pre- and post-retirement mortality probabilities for active members, service retirees and disability retirees. All of these probabilities are to be based on the 1951 Group Annuity Mortality Table projected to 1980.

(d) A decrease in the probabilities of remarriage among surviving spouses to the graduated 1987-91 experience rates.

The method of determining the value of Fund assets was changed. For stocks, the value is that amount determined under the 4-year Market Adjustment Method, with an initial value equal to market value, less $2,696,000 of contributions that have yet to be refunded to employees with less than 15 years of service.

The valuation recognized the establishment of the Health Care Stabilization Fund which was created in 1992. Initially $150,000,000 was allocated for future health care expenses. The fund is credited with retiree health care contributions, a portion of employer contributions equal to 6.5% of payroll, and 8.25% effective annual interest, and charged for all medical expense payments, including Medicare reimbursements. The fund value is excluded from valuation assets.

(13) 1994 valuation:

- A change in the retirement rates to reflect experience for the period 1990-1993.
- A change in the rates of disability incidence to reflect the results of the 1987-1991 Quinquennial Report and the 1992-93 experience study.
- A change in the assumed distribution of disability to reflect a higher proportion of partial disabilities.
- A change in the post-disability mortality assumption for active members.

ACTIVE MEMBER VALUATION DATA

1985 TO 1994

Actuarial Valuation as of Jan. 1	Number of Employers		Number of Active Members		Average Annual Salary		Percentage of Average Annual Salary Increases		Annual Payroll (millions)
	Police	Fire	Police	Fire	Police	Fire	Police	Fire	
1986			12,614	9,226	$26,987	$26,973	6.7%	6.1%	$589.3
1987			12,652	9,231	28,443	28,418	5.4	5.4	622.2
1988	523	278	12,862	9,292	29,391	29,424	3.3	3.5	651.4
1989	520	288	12,993	9,374	30,853	31,060	5.0	5.6	692.0
1990	526	292	13,088	9,698	32,351	31,863	3.5	2.6	732.4
1991	533	297	13,273	9,801	33,910	33,467	4.8	5.0	778.1
1992	533	297	13,325	9,996	35,305	35,266	4.1	5.4	823.0
1993	545	288	13,540	10,149	36,783	36,783	4.2	4.3	871.3
1994	552	293	13,851	10,340	38,017	38,338	3.4	4.2	923.0
1995	559	299	14,072	10,511	39,951	40,143	5.1	4.7	984.1

Information concerning employer numbers is not readily available for years before 1988.

SUMMARY OF UNFUNDED ACCRUED LIABILITIES

Each time a new benefit is added which applies to service already rendered, an "unfunded accrued liability" is created. The "unfunded accrued liability" was developed for funding requirement determinations. The value differs from the unfunded Pension Benefit Obligation reported in the financial statements because different actuarial cost methods were used for the two purposes. Laws governing the Fund require that "unfunded accrued liability" 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 is decreasing. This environment results in employee pay increasing in dollar amounts and retirement benefits increasing in dollar amounts resulting in unfunded accrued liabilities increasing in dollar amounts, all at a time when the actual substance of these items may be decreasing. Looking at just the dollar amounts of unfunded accrued liabilities can be misleading. Unfunded accrued liabilities' dollars divided by active employee payroll dollars provides an index which clarifies 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.

SUMMARY OF ASSETS AND ACTUARIAL ACCRUED LIABILITIES

($ Amounts in Thousands)

	Valuation Year	Actuarial Accrued Liabilities (AAL)	(A) Valuation Assets	Unfunded Actuarial Accrued Liabilities (UAAL)	Ratio of Assets to AAL	(B) Active Member Payroll	UAAL as a % of Active Member Payroll
Police							
	1986	$2,073,500	$1,061,400	$1,012,100	51%	$340.4	297%
	1987	2,400,100	1,246,100	1,154,000	52	359.9	321
	1988	2,607,400	1,341,700	1,265,700	51	378.0	335
	1989	2,810,100	1,499,800	1,310,300	53	400.8	327
	1990	3,038,600	1,648,500	1,390,100	54	423.4	328
	1991	3,264,700	1,769,000	1,495,700	54	450.1	332
	1992	3,493,000	2,056,600*	1,436,400	59	470.4	305
	1993	3,806,500	2,252,113*	1,554,387	59	498.0	312
	1994	4,088,300	2,432,000*	1,656,343	59	526.6	315
	1995	4,348,200	2,571,300*	1,776,900	59	562.2	316
Fire							
	1986	$1,763,300	$ 838,600	$ 924,700	48%	$248.9	372%
	1987	2,008,400	985,100	1,023,300	49	262.3	390
	1988	2,200,700	1,094,400	1,106,300	50	273.4	405
	1989	2,365,400	1,159,300	1,206,100	49	291.2	414
	1990	2,535,000	1,313,000	1,222,000	52	309.0	395
	1991	2,678,600	1,401,200	1,277,400	52	328.0	389
	1992	2,882,700	1,621,900*	1,260,800	56	352.5	358
	1993	3,019,700	1,775,354*	1,244,346	59	373.3	333
	1994	3,227,800	1,925,800*	1,301,947	60	396.4	328
	1995	3,409,200	2,054,200*	1,355,000	60	421.9	321

*includes market adjustment

(A) Valuation assets are based upon the following:

For 1993 through 1995–net assets available for benefits as provided in the December 31, 1992, 1993 and 1994 audited financial statements, adjusted to value assets to an amount determined using the 4-Year Market Adjustment Method, with an initial value equal to market value, less the local funds receivable, contributions which had yet to be refunded to employees who terminated with less than 15 years of service, and the value of the Health Care Stabilization Fund.

For 1992–net assets available for benefits as provided in the December 31, 1991 audited financial statements, adjusted to value assets at an amount not less than 85% of market value nor more than 115% of market value, less the local funds receivable and contributions which had yet to be refunded to employees who terminated with less than 15 years of service.

For 1988 through 1991–net assets available for benefits as provided in the December 31, 1987, 1988, 1989 and 1990, respectively, audited financial statements, less the local funds receivable and contributions which had yet to be refunded to employees who terminated with less than 15 years of service.

For 1986 and 1987–cost value of assets as reported by the Fund, less amounts reserved to the Death Benefit Fund, less contributions which had yet to be refunded to the employees who terminated with less than 15 years of service and plus member contributions which had not been deposited as of the reporting date.

(B) Equal to average salary multiplied by the number of members at the valuation date.

SHORT-TERM SOLVENCY TEST

The Fund's financing objective is to pay for the benefits through contributions that remain approximately level from year to year as a percent 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 valuation assets are compared with: 1) Active member contributions on deposit; 2) The liabilities for future benefits to present retired lives; 3) The liabilities for service already rendered by active members. In a system that has been following the discipline of level percent of payroll financing, the liabilities for active member contributions on deposit (liability 1) and the liabilities for future benefits to present retired lives (liability 2) will be fully covered by present assets (except in rare circumstances). In addition, the liabilities for service already rendered by active members (liability 3) will be partially covered by the remainder of present assets. Generally, if the system has been using level cost financing, the funded portion of liability 3 will increase over time. Liability 3 being fully funded is very rare.

COMPUTED ACCRUED LIABILITIES

($ Amounts in Thousands)

	Valuation Year	(1) Active Member Contributions	(2) Retirants and Beneficiaries	(3) Active Members (Employer Financed Portion)	Valuation Assets	Portion of Accrued Liabilities Covered by Reported Assets (1)	(2)	(3)
Police								
	1986	$207,400	$ 623,400	$1,242,700	$1,061,400	100%	100%	19%
	1987	231,300	702,200	1,466,600	1,246,100	100	100	21
	1988	252,600	773,900	1,580,900	1,341,700	100	100	20
	1989	278,500	907,300	1,624,300	1,499,800	100	100	19
	1990	301,000	1,042,400	1,699,300	1,648,500	100	100	18
	1991	325,600	1,159,100	1,785,200	1,769,000	100	100	16
	1992	349,700	1,287,200	1,856,100	2,056,600*	100	100	23
	1993	379,000	1,423,800	2,003,700	2,252,113*	100	100	22
	1994	409,300	1,557,200	2,121,800	2,243,000*	100	100	22
	1995	437,900	1,659,400	2,250,900	2,571,300*	100	100	21
Fire								
	1986	$150,100	$ 598,200	$1,015,000	$ 838,600	100%	100%	9%
	1987	168,000	660,700	1,179,700	985,100	100	100	13
	1988	184,000	717,200	1,299,500	1,094,400	100	100	15
	1989	199,200	844,300	1,321,900	1,159,300	100	100	9
	1990	217,300	935,600	1,384,600	1,313,000	100	100	12
	1991	237,500	1,001,900	1,443,400	1,401,200	100	100	11
	1992	258,800	1,081,900	1,541,900	1,621,900*	100	100	18
	1993	281,300	1,175,100	1,563,300	1,775,354*	100	100	20
	1944	305,800	1,271,900	1,650,100	1,925,800*	100	100	21
	1995	332,300	1,328,200	1,748,800	2,054,200*	100	100	22

*includes market adjustment

Note: For the year 1986, the active member contributions on deposit are as reported by the Fund in its annual report which was prepared on the basis of cash receipts and disbursements. For 1987 through 1995, the member contributions on deposit are as reported in the Fund's audited financial statements, which were prepared on the accrual basis.

TABLE OF RECOMMENDED CONTRIBUTION RATES VS. ACTUAL CONTRIBUTION RATES

Year	Police (% of active member payroll)		Fire (% of active member payroll)	
	Recommended	Actual	Recommended	Actual
1986	27.80	29.00	31.25	33.50
1987	31.12	29.00	34.11	33.50
1988	32.38	29.50	34.02	34.00
1989	34.49	29.50	37.82	34.00
1990	34.28	29.50	35.60	34.00
1991	36.05	29.50	36.41	34.00
1992	33.78	29.50	34.18	34.00
1993	33.16	29.50	32.13	34.00
1994	34.78	29.50	32.62	34.00
1995	36.26	29.50	33.55	34.00

RETIRANTS AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS

Year	Police		Fire	
at Jan. 1	Additions	Deletions	Additions	Deletions
1986	697	360	574	313
1987	589	351	426	277
1988	612	499	476	417
1989	587	360	507	292
1990	579	304	413	240
1991	675	373	466	289
1992	813	397	566	362
1993	671	342	504	320
1994	665	332	517	304
1995	677	379	464	301

STATISTICAL SECTION

Schedules:

Benefit Expenses by Type
Retired Membership by Type of Benefits
Average Monthly Benefit Payments
Participating Employers

STATISTICAL SCHEDULES

BENEFIT EXPENSES BY TYPE

1986 TO 1995

SCHEDULE 1

Year ended December 31,	Retirement	Disability	Survivor	Subtotal	Health Care	Death Benefit Fund Benefits	Total Benefits
1986	$ 99,341,813	$34,185,020	$19,889,018	$153,415,851	$31,379,158	$ 6,001,201	$190,796,210
1987	105,307,595	38,247,807	20,811,701	164,367,103	39,465,273	6,720,685	210,553,061
1988	113,022,120	43,739,268	23,814,341	180,575,729	43,703,422	6,796,504	231,075,655
1989	125,271,895	49,481,413	25,949,582	200,802,890	47,818,789	9,368,095	257,989,774
1990	137,176,452	55,855,530	26,736,682	229,768,664	52,979,696	10,378,929	293,127,289
1991	150,003,030	62,137,040	27,324,754	239,464,824	61,748,019	10,177,185	311,390,028
1992	163,441,985	69,277,993	28,042,134	260,762,112	67,419,506	11,013,727	339,195,345
1993	177,838,542	74,969,707	28,609,991	291,418,240	63,135,402	13,158,544	367,712,186
1994	191,306,643	80,672,276	29,533,073	301,511,992	63,698,537	15,913,409	381,123,938
1995	207,355,087	86,763,675	30,768,653	324,887,415	70,170,717	14,385,716	409,443,848

Note: For 1986, expenses are shown on the basis of cash and investment receipts and disbursements, while 1987 through 1995 expenses are shown on the accrual basis.

RETIRED MEMBERSHIP BY TYPE OF BENEFITS

1986 TO 1995

SCHEDULE 2

Year	Service		Disability		Survivors		Combined Total Beneficiaries
	Police	Firemen	Police	Firemen	Police	Firemen	
1986	3,674	3,677	1,499	1,209	2,958	2,297	15,314
1987	3,687	3,703	1,534	1,216	2,949	2,289	15,378
1988	3,784	3,830	1,741	1,352	3,046	2,321	16,074
1989	4,020	4,009	1,893	1,426	2,856	2,182	16,386
1990	4,219	4,103	2,024	1,490	2,547	2,038	16,421
1991	4,469	4,265	2,188	1,587	2,698	2,159	17,366
1992	4,606	4,367	2,320	1,641	2,743	2,199	17,876
1993	4,762	4,484	2,430	1,682	2,756	2,203	18,317
1994	4,928	4,561	2,532	1,726	2,788	2,223	18,758
1995	5,174	4,674	2,630	1,784	2,847	2,257	19,366

Note: For years 1986 through 1988, survivors who received payments under two different benefit types (e.g. Statutory plus Joint and Survivor) were counted twice.

AVERAGE MONTHLY BENEFIT PAYMENTS

FOR POLICE OFFICERS AND FIRE FIGHTERS PLACED ON RETIREMENT ROLLS, 1986-1995

SCHEDULE 3

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Service										
Normal	$1,864	$1,928	$2,022	$1988	$2,062	$2,145	$2,195	$2,379	$2,386	$2,447
Age commuted	1,394	1,514	1,585	392	0	0	0	433	0	0
Service Commuted	300	337	394	412	705	389	570	0	508	664
Age/Service	1,035	920	886	1,258	1,322	1,211	2,281	0	1,610	627
Pre-1947	0	35	947	0	35	35	0	0	0	0
Subtotals	1,801	1,840	1,960	1,946	2,036	2,102	2,177	2,359	2,375	2,400
Disability										
Permanent & Total	$1,806	$1,855	$1,963	$2,106	$2,073	$2,201	$2,277	$2,318	$2,228	$1,929
P&T Presumptive	1,778	1,823	2,038	2,065	2,072	2,339	2,314	2,363	2,149	2,589
Partial	1,265	1,273	1,337	1,450	1,579	1,741	1,830	1,776	1,814	1,830
Partial Presumptive	1,413	1,376	1,398	1,546	1,741	1,753	1,728	1,848	2,020	2,043
Off-duty	586	437	1,354	713	593	1,162	1,267	1,009	1,258	1,534
Pre-1947	0	0	0	0	0	0	0	0	0	0
Subtotals	1,483	1,538	1,617	1,679	1,782	1,884	1,946	1,908	1,911	1,977
Service and Disability										
Totals	$1,682	$1,719	$1,817	$1,853	$1,945	$2,025	$2,094	$2,191	$2,218	$2,273

PARTICIPATING EMPLOYERS

AS OF DECEMBER 31, 1995

SCHEDULE 4

Villages	Municipalities	Townships (County)
Aberdeen	Akron	Allen (Union)
Ada	Alliance	Anderson (Hamilton)
Addyston	Amherst	Ashtabula (Ashtabula)
Adelphi	Ashland	Austintown (Mahoning)
Adena	Ashtabula	Batavia (Clermont)
Alexandria	Athens	Bath (Summit)
Amberley	Aurora	Bazetta (Trumbull)
Amelia	Avon	Bazetta Cortland Joint EMS (Trumbull)
Andover	Avon Lake	Beavercreek (Greene)
Ansonia	Barberton	Bloom (Fairfield)
Antwerp	Bay Village	Boardman (Mahoning)
Apple Creek	Beachwood	Brookfield (Trumbull)
Arcanum	Beavercreek	Butler (Montgomery)
Archbold	Bedford	Canton (Stark)
Arlington Heights	Bedford Heights	Cardinal Joint Fire Dis.
Ashley	Bellaire	Carlisle (Lorain)
Ashville	Bellbrook	Champion (Trumbull)
Attica	Bellefontaine	Clearcreek (Warren)
Bainbridge	Bellevue	Clinton (Franklin)
Barnesville	Belpre	Colerain (Hamilton)
Batavia	Berea	Concord (Delaware)
Beach City	Bexley	concord (Lake)
Beaver	Blue Ash	Copley (Summit)
Beaverdam	Bowling Green	Cortland East Bazetta Fire (Trumbull)
Bellville	Brecksville	Coventry (Summit)
Bentleyville	Broadview Heights	Crosby (Hamilton)
Berlin Heights	Brook Park	Cumberland Trail Fire District (Belmont)
Bethel	Brooklyn	Delhi (Hamilton)
Bethesda	Brookville	Franklin (Franklin)
Beverly	Brunswick	Franklin (Summit)
Blanchester	Bryan	Green (Hamilton)
Bloomville	Bucyrus	Hamilton (Warren)
Bluffton	Cambridge	Hamilton (Hamilton)
Boston Heights	Campbell	Harrison (Montgomery)
Botkins	Canfield	Harrison (Pickaway)
Bradford	Canton	Holmes (Holmes)
Bratenhal	Celina	Howland (Trumbull)
Bremen	Centerville	Jackson (Franklin)
Brewster	Cheviot	Jackson (Stark)
Bridgeport	Chillicothe	Jefferson (Franklin)
Brooklyn Heights	Cincinnati	Jefferson (Madison)
Buckeye Lake	Circleville	Jerome (Union)
Burton	Cleveland	Leroy (Lake)
Byesville	Cleveland Heights	Liberty (Butler)
Cadiz	Clyde	Liberty (Delaware)
Caldwell	Columbus	Liberty (Trumbull)
Camden	Conneaut	Mad River (Montgomery)
Canal Fulton	Cortland	Maderia-Indian Hill Joint District (Hamilton)
Carey	Coshocton	Madison (Franklin)
Carlisle	Cuyahoga Falls	Madison (Montgomery)
Carroll Corp	Dayton	Madison (Richland)
Carrollton	Deer Park	Madison Fire (Lake)
Castalia	Defiance	Mantua-Shalersville (Portage)
Cedarville	Delaware	Margaretta (Erie)
Chagrin Falls	Delphos	Marion (Marion)
Chardon	Dover	Miami (Clermont)

PARTICIPATING EMPLOYERS (continued)

Villages	Municipalites	Townships (County)
Chauncey	Dublin	Miami (Montgomery)
Chesapeake	East Cleveland	Mifflin (Franklin)
Cleves	East Liverpool	Mifflin (Richland)
Coal Grove	East Palestine	Moorefield (Clark)
Coalton	Eastlake	Northfield Center (Summit)
Coldwater	Eaton	Norwich (Franklin)
Columbiana	Elyria	Olmsted (Cuyahoga)
Columbus Grove	Englewood	Orange (Delaware)
Contenental	Euclid	Painesville (Lake)
Corning	Fairborn	Perkins (Erie)
Covington	Fairfield	Perry (Franklin)
Crestline	Fairlawn	Perry (Lake)
Creston	Fairview Park	Perry (Stark)
Cridersville	Findlay	Pierce (Clermont)
Crooksville	Forest Park	Plain (Franklin)
Cuyahoga Heights	Fostoria	Plain (Stark)
Dalton	Franklin	Pleasant (Franklin)
Danville	Fremont	Pleasant Valley Fire Dist. (Madison)
Delta	Gahanna	Prairie (Franklin)
Dennison	Galion	Randolph (Montgomery)
Deshler	Gallipolis	Ravenna (Portage)
Doylestown	Garfield Heights	Saybrook (Ashtabula)
Dresden	Geneva	Scioto (Pickaway)
East Canton	Girard	Shawnee (Allen)
Edgerton	Grandview Heights	Springfield (Lucas)
Edon	Green	Springfield (Richland)
Elmore	Greenfield	Springfield (Summit)
Elmwood Place	Greenville	Sugarcreek (Greene)
Evendale	Grove City	Sycamore (Wyandotte)
Fairfax	Hamilton	Sylvania (Lucas)
Fairport Harbor	Harrison	Tate (Clermont)
Fayette	Heath	Tri-Township Fire (Delaware)
Felicity	Highland Heights	Truro (Franklin)
Forest	Hilliard	Union (Butler)
Fort Loramie	Hillsboro	Union (Clermont)
Fort Recovery	Hubbard	Violet (Fairfield)
Fort Shawnee	Huber Heights	Washington (Clermont)
Frazeysburg	Huron	Washington (Franklin)
Fredericktown	Independence	Washington (Montgomery)
Galena	Indian Hill	West Licking Joint Fire (Licking)
Garrettsville	Ironton	Whitewater (Hamilton)
Gates Mills	Jackson	Wooster (Wayne)
Genoa	Kent	Xenia (Greene)
Georgetown	Kenton	
Germantown	Kettering	
Gibsonburg	Kirtland	
Glendale	Lakewood	
Glouster	Lancaster	
Golf Manor	Lebanon	
Grafton	Lima	
Grand Repaids	Logan	
Grand River	London	
Granville	Lorain	
Green Springs	Louisville	
Greenhills	Loveland	
Greenwich	Lyndhurst	

PARTICIPATING EMPLOYERS (continued)

Villages	Municipalities
Groveport	Macedonia
Hanging Rock	Madeira
Hartville	Mansfield
Hebron	Maple Heights
Hicksville	Marietta
Higginsport	Marion
Highland Hills	Martins Ferry
Hiram	Marysville
Holgate	Mason
Holland	Massillon
Hudson	Maumee
Hunting Valley	Mayfield Heights
Indian Springs	Medina
Jackson Center	Mentor
Jamestown	Mentor-on-the-Lake
Jefferson	Miamisburg
Johnstown	Middleburg Heights
Kirkersville	Middletown
Kirtland Hills	Milford
Lagrange	Mingo Junction
Lakemore	Montgomery
Lakeview	Moraine
Laurelville	Mount Healthy
Leesburg	Mount Vernon
Leetonia	Munroe Falls
Leipsic	Napoleon
Lewisburg	Nelsonville
Lexington	New Lexington
Liberty Center	New Philadelphia
Lincoln Heights	Newark
Linndale	Niles
Lisbon	North Canton
Lithopolis	North College Hill
Lockland	North Olmsted
Lodi	North Ridgeville
Lordstown	North Royalton
Loudonville	Northwood
Lowellville	Norton
Lynchburg	Norwalk
Madison	Norwood
Magnolia	Oakwood
Malvern	Oberlin
Manchester	Olmsted Falls
Mantua	Oregon
Marblehead	Orrville
Mariemont	Oxford
Mayfield	Painesville
McArthur	Parma
McClure	Parma Heights
McComb	Pepper Pike
McConnellsville	Perrysburg
McDonald	Piqua
Mechanicsburg	Port Clinton
Mendon	Portsmouth
Middlefield	Ravenna
Middleport	Reading
Midvale	Reynoldsburg
Milan	Richmond Heights
Millersburg	Rittman

PARTICIPATING EMPLOYERS (continued)

Villages

Minerva
Minerva Park
Minster
Mogadore
Monroe
Monroeville
Montpelier
Moreland Hills
Morrow
Moscow
Mount Eaton
Mount Gilead
Mount Orab
Mount Sterling
Navarre
New Albany
New Boston
New Bremen
New Concord
New Lebanon
New London
New Madison
New Miami
New Paris
New Richmond
New Vienna
New Washington
New Waterford
Newburgh Heights
Newcomerstown
Newton Falls
Newtown
North Baltimore
North Hampton
North Kingsville
North Randall
Northfield
Oak Harbor
Oak Hill
Oakwood (Cuyahoga)
Oakwood (Paulding)
Obetz
Ontario
Orange
Orwell
Ottawa
Ottawa Hills
Ottoville
Owensville
Pandora
Pataskala
Paulding
Payne
Peebles
Pemberville
Peninsula
Perry
Pickerington

Municipalities

Riverside
Rocky River
Rossford
Salem
Sandusky
Seven Hills
Shaker Heights
Sharonville
Sheffield Lake
Shelby
Sidney
Silverton
Solon
South Euclid
Springdale
Springfield
St. Bernard
St. Clairsville
St. Marys
Steubenville
Stow
Streetsboro
Strongsville
Struthers
Sylvania
Tallmadge
Tiffin
Tipp City
Toledo
Toronto
Trenton
Trotwood
Troy
Twinsburg
Uhrichsville
Union
University Heights
Upper Arlington
Upper Sandusky
Urbana
Vandalia
Vanwert
Vermilion
Wadsworth
Wapakoneta
Warren
Warrensville Heights
Washington Court House
Wauseon
Waverly
Wellston
Wellsville
West Carrollton
Westerville
Westlake
Whitehall
Wickliffe
Willard

PARTICIPATING EMPLOYERS (continued)

Villages

Piketon
Pioneer
Plain City
Pleasant Hill
Plymouth
Poland
Pomeroy
Powell
Powhattan Point
Put-in-Bay
Reminderville
Richfield
Richwood
Rio Grande
Ripley
Riverside
Roaming Shores
Rockford
Roseville
Russellville
Sabina
Salineville
Sardinia
Seaman
Sebring
Seville
Shadyside
Shawnee
Shawnee Hills
Sheffield
Sherwood
Shreve
Silver Lake
Smithville
Somerset
South Bloomfield
South Charleston
South Lebanon Village
South Point
South Russell
South Vienna
South Zanesville
Spencer
Spencerville
Springboro
St. Henry
St. Paris
Strasburg
Straton
Stryker
Sugarcreek
Sunbury
Swanton
Sycamore
Terrace Park
Tiltonsville
Union City
Utica

Municipalities

Willoughby
Willoughby Hills
Willowick
Wilmington
Wooster
Worthington
Wyoming
Xenia
Youngstown
Zanesville

PARTICIPATING EMPLOYERS (continued)

Villages

Valley View
Valleyview
Versailles
Waite Hill
Walbridge
Walton Hills
Waterville
Waynesville
Wellington
West Alexandria
West Jefferson
West Lafayette
West Liberty
West Millgrove
West Milton
West Union
West Unity
Weston
Whitehouse
Wilkesville
Williamsburg
Winchester
Windham
Wintersville
Woodlawn
Woodmere
Woodsfield
Woodville
Yellow springs
Yorkville

INVESTMENT SECTION

Investment Report

Investment Portfolio Summary

Investment Policy and Guidelines

INVESTMENT REPORT

1995 began with more of the same from the Federal Reserve Board. In February, in response to an apparently strong economy the Fed raised both the federal funds rate and the discount rate by 50 basis points to 6% and 5.25%, respectively. As it turned out, this would be the Fed's seventh and final tightening move since February of 1994. After a year of a progressively more restrictive monetary policy, the economy began to show signs of slowing. First quarter GDP growth fell to a 0.6% rate. The unemployment rate rose slightly in the first quarter before leveling off and ending the year at 5.6%. Growth in non-farm payroll employment averaged 150,000 less per month than in 1994. Also, consumer confidence, while still at a high level, was basically flat throughout the year. Second quarter GDP growth of 0.5% confirmed a marked deceleration in the economy. Meanwhile, inflation, as measured by the CPI, appeared to be moving higher early in the year, but fell back and actually registered only a 2.5% increase for all of 1995. Out of concern over a future economic slow down and diminished expectations of future inflation, the Federal Reserve Board quickly reversed course in July and lowered the federal funds rate by 25 basis points. Continued low inflation and very modest growth allowed the Fed to ease again in December, dropping the federal funds rate to 5.5% at year-end. For all of 1995, GDP ended up rising by only 1.3%.

What a difference a year can make! Returns generated by the capital markets last year were dramatically different than in 1994. The Fed's "about face" to an easing mode certainly helped the markets. Stock market performance, as measured by the S&P 500, was a spectacular 37.5%, more than triple its historical long term average. The Dow Jones Industrial Average dominated by large capitalization stocks returned 36.9%, while the Russell 2000, a good small cap proxy, lagged with a very respectable 28.4% return. Beyond modest economic growth, low inflation and falling interest rates, stocks were also boosted by the continued healthy growth of corporate profits. This same environment combined with expectations for a credible federal balanced budget agreement and enormous bets placed by hedge funds in the yen/carry trade (borrowing in yen and investing in US Treasuries) fueled a surprisingly strong bond market rally in 1995. This rally flattened the yield curve by 130 basis points, as long-term rates tumbled faster than short-term rates. The 30 year US Treasury bond yield plummeted from 7.88% at the beginning of the year, to 5.95% by year end. This strong move resulted in an excellent return for the Lehman Aggregate Index of 18.5% for the year. International equities, represented by the EAFE index, registered an 11.2% return when adjusted for conversion to U.S. dollars. Finally, the real estate market continued to recover as shown by the NCREIF return of 7.7%.

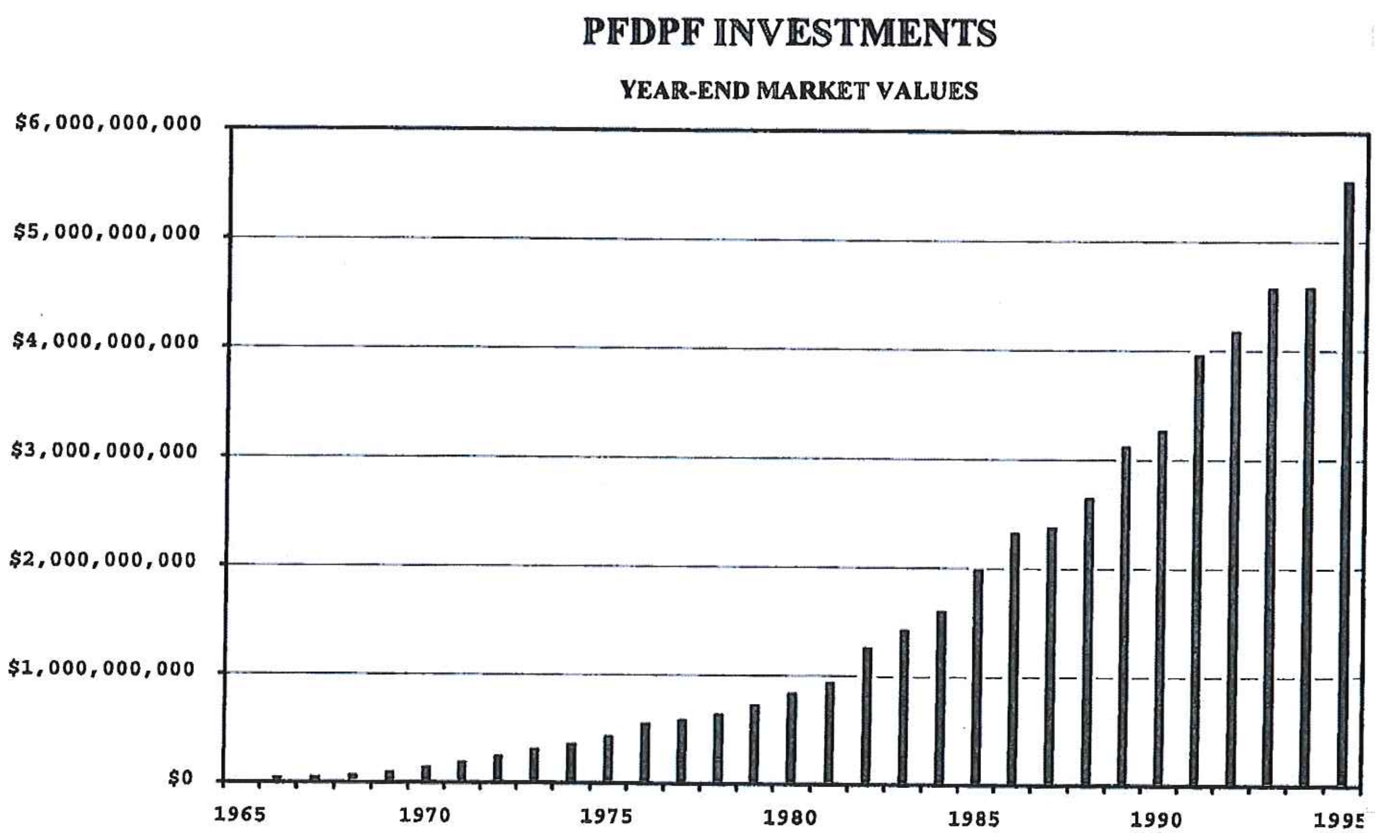
The securities markets gave a tremendous boost to the growth of the Fund's investment assets in 1995. The book value of our portfolio grew from nearly \$4.50 billion in 1994 to over \$4.85 billion in 1995, a 7.7% increase. Meanwhile, the market value of the investment portfolio rocketed upward almost 22% to nearly \$5.62 billion from \$4.61 billion a year earlier. The 1995 total return for the overall investment portfolio was 25.10%, which by far outpaced the median return of the Callan Associates Public Plan Database, ranking in its top third. Over the past five years, the annualized total portfolio return of 12.52%, while considerable, ranked as a median performer in the Callan universe. Despite having to cope with the withdrawal of sizable cash flows to fund other asset classes, the fixed income portfolio was able to generate a respectable return of 18.23% in 1995. In addition, over the past five years, the bond portfolio has generated an annualized return of 10.08%, which places it comfortably ahead of both the Callan fixed income median and our benchmark. Also, our composite equity portfolio return of 33.69% beat Callan's equity database median, but lagged the impressive return of the S&P 500 last year. For the past five years our annualized equity return of 16.89% beat the S&P 500 but fell short of Callan's equity median. Our international equity portfolio, which was largely funded over the second half of the year, performed reasonably well at 10.94%. Also, our real estate portfolio had a total return last year of 13.15% which easily exceeded the NCREIF index and ranked it well above the median of Callan's real estate database. It also outperformed two customized property type weighted and location weighted indices which had respective returns of 8.5% and 7.9%.

The most significant changes in investments last year involved our continued shift into international equities and real estate at the expense of fixed income. By mid-year, we had finished funding our small to mid capitalization domestic equity advisors, and were bringing our active international equity managers on-line. The small cap funding was accomplished by withdrawing assets from two of our large cap growth managers, which also helped bring our balance between growth and value styles more into line. We spent the latter half of the year shifting assets to our two active EAFE managers and our European and Pacific Basin specialists. Additionally, the Board terminated a large cap value manager and reduced costs by consolidating the portfolio into that of another manager with the same style. The Board also allocated an additional \$25 million to our "Ohio equity portfolio". Also in 1995, the fund increased its real estate portfolio by \$200 million through the acquisition of eight properties, consisting of two office buildings, two multi-family, three industrial warehouses and one retail property. We also began to fund our commitments to three commercial mortgage funds over the course of the year. Finally, the Board made investments in two more venture capital funds.

In January of this year, the Federal Reserve Board lowered the federal funds rate and the discount rate by 25 basis points to 5.25% and 5%, respectively. In spite of several federal government shutdowns, harsh winter weather and a major strike at General Motors, first quarter GDP still rose 2.3%. This growth, as well as huge cash flows funneling into equity mutual funds, has pushed the S&P 500 up by 10% and small cap indices by even more. However, higher grain and oil prices and tightened labor markets have raised fears of an increase in future inflation. Also, the high profile strike at GM and talk of boosting the minimum wage have raised the specter that labor costs might finally start to rise at a faster rate. Furthermore, the breakdown in the federal budget negotiations and concern that the Federal Reserve Board may raise rates in the near future to maintain price stability have caused the bond market to tumble so far this year. The 30 year US Treasury bond yield briefly spiked about 7.00%, but has fallen back below that level recently. The GM strike resulted in a huge inventory liquidation in the first quarter. Efforts to rebuild this inventory should add to GDP growth in at least the second quarter. However, the backup in interest rates should help keep economic growth from getting out of hand and reduce any pressure on the Fed to raise rates. The EAFE index is off to a positive but slow start as most of the major foreign economies remain somewhat fragile. Lastly, real estate should continue to improve and contribute a solid, steady return to the investment portfolio again in 1996.

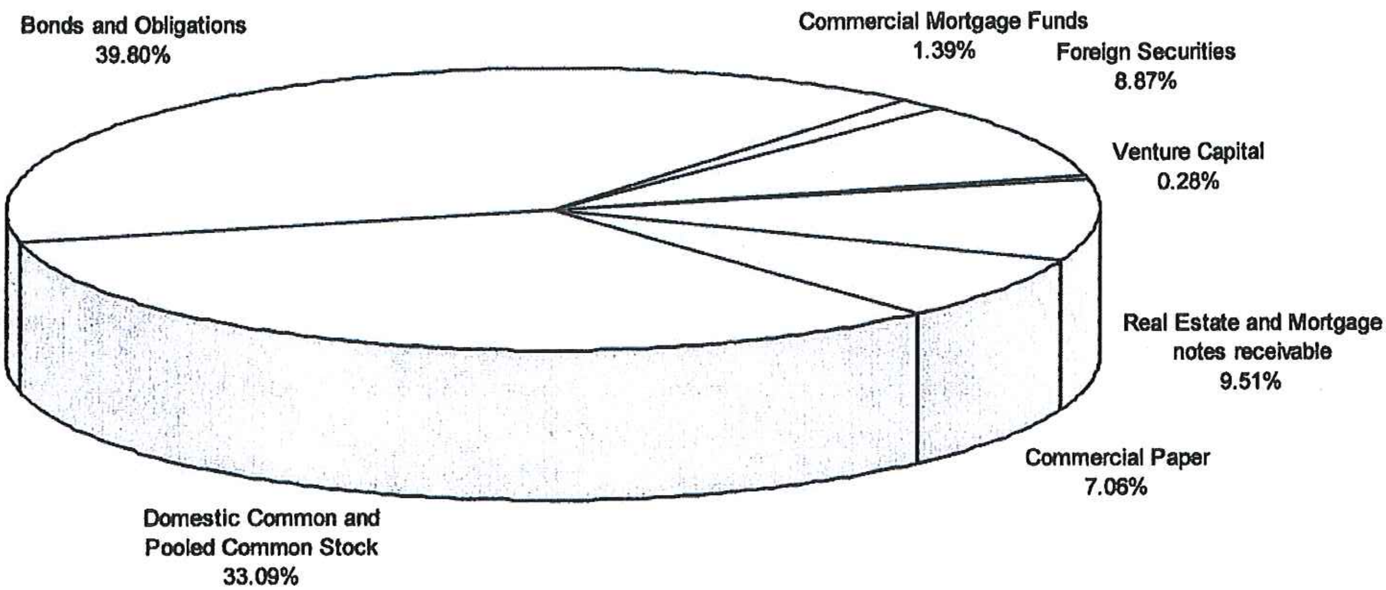
In January of 1996, the Board adopted a new and expanded Investment Policy and Guidelines Statement. Also over the last several months, the Board has conducted and just completed a search for the Fund's first external fixed income manager. Our internal fixed income management will continue to stick to its high quality, controlled duration disciplines that have provided us with very good returns over a number of years. The Board has also approved several property sales this year which are designed to help reposition the real estate portfolio in institutional quality assets. Potentially the most interesting and valuable development of 1996 may come in the form of new legislation. A pending bill before the state legislature would move the Ohio pension systems from the current legal list environment to the "prudent person" standard. The latitude allowed by such a move would go a long way toward finally letting us assemble a more efficient portfolio from the global investment markets. Finally, as always, we will continue to seek to achieve at least an 8.25% return over time, which is our actuarial assumption rate.

30-year Growth of the Fund–1965 to 1995



INVESTMENT PORTFOLIO SUMMARY

DECEMBER 31, 1995



Type	% of Book Value	Book Value	% of Market Value	Market Value
Canadian bonds and obligations	1.94%	$ 94,206,979	1.83%	$ 102,898,115
Government bonds and obligations	18.18	882,505,049	16.80	943,869,929
Corporate bonds and obligations	19.68	955,220,914	17.73	996,254,025
Domestic common stocks	26.51	1,285,911,654	29.31	1,647,283,656
Domestic pooled common stocks	6.58	319,237,461	10.49	589,325,934
Foreign securities	8.87	430,352,918	8.05	452,381,860
Commercial paper	7.06	342,771,989	6.10	342,771,989
Real estate	9.26	449,605,453	7.95	446,734,097
Mortgage notes receivable	0.25	12,345,000	0.22	12,345,000
Commercial mortgage funds	1.39	67,355,949	1.21	67,850,456
Venture capital	0.28	13,562,270	0.31	17,617,954
Total All Investments	**100%**	**$4,853,075,637**	**100%**	**$5,619,333,015**

TEN LARGEST BONDS AND OBLIGATIONS (BY BOOK VALUE)

	Coupon	Maturity	Par Value	Book Value	Market Value
US Treasury	9.250	02/15/16	$213,730,000	$257,621,037	$293,711,827
US Treasury	11.625	11/15/04	56,740,000	78,866,263	80,349,174
Mid States Trust II A-4 04/01/03	9.625	10/01/03	57,675,000	59,144,888	65,778,338
Lehman Brothers Inc.	9.500	06/15/97	43,545,000	45,139,665	45,707,009
Bear Stearns Co.	9.125	04/15/98	38,425,000	40,605,649	41,326,088
US Treasury	7.500	10/31/99	35,750,000	37,442,038	38,380,986
GMAC	8.900	03/13/96	36,200,000	36,209,217	36,421,906
Hydro-Quebec	9.400	02/01/21	32,275,000	35,543,814	40,954,716
US Treasury	6.375	08/15/02	29,850,000	30,455,463	31,337,843
International Lease Finance Corp	8.730	08/09/96	30,000,000	29,993,583	30,548,700

TEN LARGEST COMMON STOCKS (BY COST)

	Shares	Cost	Market Value
Citicorp	494,650	$21,123,576	$33,265,213
American Express	623,300	17,605,064	25,789,038
McDonnell Douglas	210,000	17,313,970	19,320,000
Federal Home Loan Mortgage Corp.	270,000	15,423,415	22,545,000
Intel	263,350	13,635,599	14,945,113
Monsanto	190,000	12,922,213	23,275,000
American International	181,501	12,821,496	16,788,843
E.I. Dupont Nemours	190,000	12,606,030	13,276,250
Columbia HCA Healthcare	303,950	12,277,268	15,425,463
General Motors	285,000	12,261,812	15,069,375

TEN LARGEST REAL ESTATE HOLDINGS (BY BOOK VALUE)

	Book Value	Market Value
Belmont Carlton Apartments	$35,693,897	$36,000,000
Park Central	33,023,741	35,200,000
Vista Ridge Shopping Center	31,768,344	30,329,000
San Mateo Apartments	25,276,249	25,500,000
Skyview Plaza	21,209,961	20,526,476
Great Southwest Industrial	21,209,959	21,654,000
Inland Empire Industrial	20,979,668	21,040,255
Memphis Industrial Properties	20,559,169	20,886,791
MIG Residential Group Trust	18,940,908	20,607,771
Aurora Corporate Plaza	18,776,819	18,572,580

Space and cost restrictions make it impractical to print the entire investment portfolio in this report. However, a portfolio listing is available for review at the Fund's office or the listing will be mailed upon request.

INVESTMENT POLICY AND GUIDELINES

I. INTRODUCTION

The purpose of this Statement of Investment Policy and Guidelines is to define the framework for investing the assets of The Police and Firemen's Disability and Pension Fund of Ohio (the Fund). This Statement is intended to provide general principles for establishing the goals of the Fund, the allocation of assets and the employment of outside asset management. The Statutory authority of the Board is set forth in Section 742.11 to 742.11.2 of the Ohio Revised Code and these policies are established and adopted as required under that authority.

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

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

In order to achieve these objectives, the Board of Trustees will conduct itself in accordance with Sec. 742.11 of the Ohio Revised Code: "The Board and other Fiduciaries shall discharge their duties with respect to the funds solely in the interest of the participants and beneficiaries." These duties shall be carried out "with care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and like aims." All aspects of this statement should be interpreted in a manner consistent with the Fund's objectives. The Board shall adopt in regular meetings, policies, objectives or criteria for the operation of the investment program at least annually.

II. DEFINITION OF RESPONSIBILITIES

A. Board of Trustees' Responsibilities

- Establish the strategic investment policy for the Fund (asset allocation) and periodically review policy in light of any changes in actuarial variables and market conditions.
- Select qualified consultants and investment managers to advise on and manage the Fund's assets.
- Monitor and review the performance of selected managers to determine achievement of goals and compliance with policy guidelines.
- Monitor the costs of the investment operations on a quarterly basis.

B. Staff Responsibilities

- Manage the Fund assets under its care, custody and/or control in accordance with the Investment Policy Statement objectives and guidelines set forth herein.
- Monitor both internally & externally managed assets to insure compliance with the guidelines set forth in this policy statement.
- Promptly vote all proxies and related actions in a manner consistent with the long-term interests and objectives of the Plan set forth herein. Maintain detailed records of said voting of proxies and related actions and comply with all regulatory obligations related thereto.
- Report to the Board monthly regarding the status of the portfolio including derivative usage, and quarterly regarding its performance for various time periods.
- Report on the costs of the investment operations on a quarterly basis.

C. Investment Consultants' Responsibilities

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

D. Investment Managers' Responsibilities

- Manage the Fund assets under its care, custody and/or control in accordance with the Investment Policy Statement objectives and guidelines set forth herein.
- Exercise full investment discretion over the assets in their care within the guidelines set forth in this policy statement.
- Promptly inform the Board and staff in writing regarding all changes of a material nature pertaining to the firm's organization and professional staff.
- If directed, promptly vote all proxies and related actions in a manner consistent with the long-term interests and objectives of the Fund set forth herein. Each manager designated to vote shall keep detailed records of said voting of proxies and related actions and will comply with all regulatory

obligations related thereto.

- Report to the Board quarterly regarding the status of the portfolio and its performance for various time periods. Meet with the Board at least annually to report on their performance and compliance with goals and objectives.
- Acknowledge and agree in writing to their fiduciary responsibility to fully comply with the entire Investment Policy Statement set forth herein, and as modified in the future.

III. ASSET ALLOCATION

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

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

The asset allocation must be consistent with the investment standards specified in Section 742.11 of the Ohio Revised Code.

Based on an asset allocation and liability study, dated September, 1993, which analyzed the expected returns of various asset classes, projected liabilities and the risks associated with alternative asset mix strategies, the Board has established the following asset allocation:

Asset Class	Target Allocation (%)	Range (%)
Large Cap Equity	31	±4
Mid/Small Cap Equity	10	±2
International Equity	10	±2
Domestic Fixed Income	37	±4
Real Estate	9	±2
Commercial Mortgages	2	–
Venture Capital	1	–
Cash Equivalents	0	–
Total	**100%**	

The study has shown that this asset mix offers the best combination of meeting longer term goals under both good and bad market conditions.

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

Section 742.11(d) of the Ohio Revised Code limits the Fund's investment in domestic Common and Preferred stock, American Depository Receipts, Equity related Derivative Instruments and Commingled Stock Investment Funds to 50% of the value of all funds described in Section 742.38 of the Ohio Revised Code. Therefore the combined value of Large Cap and Mid/Small Cap Equity shall not exceed 50% of the Fund's total asset value.

IV. PERFORMANCE EXPECTATIONS

The most important expectation is the achievement of results consistent with this Policy Statement and the analysis set forth in the asset allocation study of September 1993. A long term 4% annualized real rate of return (net of inflation as measured by the Consumer Price Index) is a reasonable expectation in light of this policy. Long term is defined as a market cycle (generally 3-5 years).

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

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

V. INVESTMENT IMPLEMENTATION

The implementation of an investment portfolio designed to achieve the above objectives must be consistent with governing statutes as specified in Section 742.11 to 742.11.2.

An Investment committee composed of all 9 Board members shall be responsible for working closely with the Investment Staff in conjunction with the advisors, and shall make recommendations to the Board on investment matters.

Where appropriate, the Fund will invest assets through the use of Qualified Pension Asset Managers. The allocations to these managers will be made in accordance with the results of the Asset Allocation process and established procedures.

The Board, in conjunction with the Consultant, will establish specific search procedures, including the specification of minimum criteria for the selection of new qualified investment managers, to implement the strategic asset allocation plan. Among the criteria that will be used for screening purposes will be assets managed, manager style, track record, staff, communication, fees, risk/reward statistics, etc. All managers, with the exception of emerging management firms that may warrant specialized criteria, must meet the criteria established by the Board. The general investment manager search procedures shall include, but not be limited to, the following:

- Establish specific criteria
- Screen appropriate universes
- Develop list of initial candidates

- Conduct quality control
- Develop list of semi-finalists
- Select finalists for interviews
- Select new managers

The Board shall give equal consideration to minority owned and controlled firms and firms owned and controlled by women which otherwise meet the criteria established by the Board. Ohio based firms shall also be given consideration, providing that specified criteria are met.

VI. SPECIFIC GUIDELINES

A. Large Capitalization Specialist Managers

The Board of Trustees has determined that diversification of the equity asset base into large capitalized companies (over $5 billion) will offer the opportunity for enhanced returns, while lessening overall risk due to the broader diversification benefits of additional asset classes.

Assets eligible to be managed in this class of investments will be found in the Ohio Revised Code Sec. 742.11. The following objectives and guidelines shall apply:

- Eligible equity purchases include all stocks in the S&P 500 Index, S&P 400 Mid Cap Index, listed on the New York or American Stock Exchanges or stocks issued or guaranteed by a corporation created or existing under the laws of the United States or any state, district, or territory thereof, subjects to the provisions of Sec. 742.11 regarding over-the-counter stocks.
- The main focus of investing will be on companies with a market capitalization in excess of $5 billion.
- All investments in non-dividend paying stocks shall be brought to the attention of the Director of Investments.
- No single holding shall account for more than 5% of the entire portfolio at market, or 5% of the outstanding common stock of any one corporation.
- Specialist manager shall be subject to all other investment provisions listed under Sec. 742.11 of the Amended Substitute Senate Bill Number 43 that are not specifically mentioned above.
- Trading recommendations shall be submitted by the various investment managers to the Director of Investments and staff who shall be responsible for all trading activity of the portfolio. In no event shall a manager/advisor execute a trade involving a total loss in excess of five hundred thousand dollars without notification to the Board of Trustees.
- Cash equivalent positions shall be limited to a maximum of 5% unless otherwise approved by the Board of Trustees.
- Derivatives whose underlying asset is allowed by statute may be used in the management of the portfolio.

B. Small/Mid Capitalization Specialist Managers

The Board of Trustees has determined that diversification of the equity asset base into small capitalized (under $1.0 billion) and mid-range capitalized ($1.0 billion-$5.0 billion) companies will offer the opportunity for enhanced returns, while lessening overall risk due to the broader diversification benefits of additional asset classes. The structure of this asset class shall consist of several complementary style managers with a demonstrated 'growth' and 'value' style of investing.

The following objectives and guidelines shall apply to the asset class:

- The guidelines which apply to the large cap specialist managers shall also apply to the small/mid cap managers except that:
  - The main focus of investing will be on companies with market capitalization in the range of $100 million to $5 billion.
  - Trading shall be left to the discretion of the investment manager.

Investment Objectives

- Total return of the managed large cap portfolio should exceed the return of the S&P 500 Index over a three year period on an annualized basis.
- Total return of each manager's portfolio should rank above median when compared to their peer groups (growth, value) over a three year period on an annualized basis.

'Growth' Manager A

- Total return of the portfolio should exceed the return of a blended index consisting of 80% Russell 2000 Index and 20% S&P 400 Mid Cap Index over a three year period on an annualized basis.
- Total return should rank above median in a universe of small cap, growth managers over a three year period on an annualized basis.

'Growth' Manager B

- Total return of the portfolio should exceed the return of a blended index consisting of 50% russell 2000 Index and 50% S&P 400 Mid Cap Index over a three year period on an annualized basis.
- Total return should rank above median in a universe of small cap, growth managers over a three year period on an annualized basis.

'Value' Manager A

- Total return of the portfolio should exceed the return of a blended index consisting of 80% Russell 2000 Index and 20% S&P 400 Mid Cap Index over a three year period on an annualized basis.
- Total return should rank above median in a universe of small cap, growth managers over a three year period on an annualized basis.

'Value' Manager B

- Total return of the portfolio should exceed the return of a blended index consisting of 25% Russell 2000 Index and 75% S&P 400 Mid Cap Index over a three year period on an annualized basis.
- Total return should rank above median in a universe of small cap, growth managers over a three year period on an annualized basis.

C. International

The Fund will allocate a portion of the investment portfolio to international securities in accordance with allowable limits. This is intended to enhance the overall return of the portfolio while lowering risk through increased diversification. The structure of the international equity allocation will be diversified among three approaches: passive, active and regional. Trading shall be left to the discretion of the investment manager.

Passive International Equity Investments

The passive component has a target allocation of one-third of the International allocation. This is an index fund portfolio intended to provide diversification to the Fund's U.S. investments through holdings in non-U.S. equities and is to be constructed so as to track the MSCI-EAFE Index. Non-U.S. equity securities in EAFE countries are authorized. The portfolio will be fully-invested at all times and cash at no time should exceed 2% of the total market value of the account. The holding of cash is permitted to facilitate transactions and is not to be used as a market timing instrument. Lastly, currency hedging is not permitted in the account. The manager will have the MSCI-EAFE Index as a benchmark.

Active International Equity Investment

The active component also has a target allocation of one-third of the International allocation and will be equally divided among two managers. These will be discretionary portfolios intended to provide diversification to the Fund's U.S. investments as well as the Fund's passive EAFE Index manager.

For each active manager, the use of American Depository Receipts (ADRSs) and Global Depository Receipts (GDRs) will be limited to 20% of the portfolio.

While the geographic and economic sector diversification will be left to the manager's discretion, the portfolio shall be appropriately diversified as consistent with the manager's stated investment approach.

The investment managers may enter into forward exchange or futures contracts on currency provided that use of such contracts is designed for defensive purposes.

One manager will undertake a "core" investment, limiting the manager to investing between 0-15% of their portfolio in emerging markets with the remainder invested in the EAFE markets. Emerging markets represent those markets not contained in the MSCI-**World** Index. This manager is meant to be one which invests mainly in EAFE, but is allowed to opportunistically invest in emerging markets. Given the "core" mandate, the portfolio should be broadly diversified. Since the focus of the manager's portfolio is EAFE, the manager will be given an EAFE benchmark.

The second manager will be given a "core plus" mandate enabling this manager to invest 10-30% of the portfolio in emerging markets, with the remainder in the EAFE markets. This manager is meant to invest more systematically in emerging markets, maintaining a target allocation of 20% of the portfolio to these markets. Accordingly, this manager will be given a benchmark consisting of 80% MSCI-EAFE/20% MSCI-Emerging Markets Free.

Regional Component

The regional allocation will comprise the final one-third of the International allocation and will be split equally between Europe including the U.K. and Pacific Basin including Japan. These discretionary portfolios will serve to provide diversification to the Fund's U.S. investments as well as the passive EAFE Index manager and the two active international equity managers. The Europe manager will be measured against the MSCI-Europe Index; the Pacific Basin manager will be measured against a customized Pacific Basin Index.

For each active manager, the use of American Depository Receipts (ADRs) and Global Depository Receipts (GDRs) will be limited to 20% of the portfolio.

The geographic and economic sector diversification, together with the number of issues held, will be left to the manager's discretion. The portfolio shall be appropriately diversified as consistent with the manager's stated investment approach.

The investment managers may enter into forward exchange or futures contracts on currency provided that use of such contracts is designed for defensive purposes.

D. Fixed Income

It shall be the responsibility of the Investment Staff to give careful consideration to the needs of the system in recommendation for bond investments, emphasizing relative value, quality and marketability.

The portfolio shall be actively managed in an effort to outperform the Lehman Aggregate Index over a market cycle. The effective duration of the portfolio shall not deviate beyond + or – 25% from that of the benchmark.

In order to qualify for inclusion in the fixed income portfolio, securities shall be rated "A–" or better by two standard rating services at the time of purchase.

No more than 10 percent of the fixed income portfolio may be invested in the securities of any one issuer, and no more than 5 percent in any one issue, with the exception of United States Government or Agency securities.

Derivatives whose underlying asset is allowed by statute may be used in the management of the portfolio.

Cash equivalents positions shall be included in the calculation of the portfolio's effective duration.

E. Real Estate

The Fund has adopted Strategic and Investment Plans that provide for the completion of the Fund's allocation to real estate.

The Fund's policy is a "managed opportunistic" investment strategy. This strategy has been adopted to take advantage of recovering real estate markets and the attractive potential returns available from real estate investments in such markets. Other investment objectives of the Fund include providing an inflation hedge and returns that negatively correlate with stock and bond returns. The Fund is primarily interested in investing in core properties (i.e., operating and substantially leased office, retail, industrial and apartment properties located in major metropolitan markets or key distribution centers exhibiting strong and diversified economic bases). The Fund will, however, consider "opportunistic" investments that provide greater lease-up risk (e.g., 65% occupancy), so long as the investment otherwise possesses core attributes and satisfactory protections (e.g., a purchase price at a significant discount to replacement costs). The Fund will also consider investment opportunities from markets that have experienced economic downturns and are currently exhibiting signs of market recovery and good potential appreciation and income returns.

The Fund will consider investments in specialized investments (i.e., developmental properties, investments in land and other non-traditional property type investments). Specialized investments typically exhibit more risk than core investments and may require specialized acquisition or asset management skills to mitigate the high risk associated with the investments.

The minimal acceptable projected or benchmark return for new core and specialized investments are real rates of return (i.e., inflation adjusted) net of fees of five percent (5%) and six percent (6%), respectively, or ten percent (10%) and eleven percent (11%) on an nominal basis before fees. Core investments are to comprise a minimum of eighty percent (80%) of the Fund's portfolio and specialized investments are to comprise a maximum of twenty percent (20%) of the portfolio.

The Fund's preferred investment vehicle is a separate account because it affords the Fund the most control over its investments. Commingled fund investments will be made to a lesser degree to provide diversification and interests in larger property investments.

The Fund employs a number of risk management strategies to minimize portfolio return volatility. These strategies include diversifying the real estate portfolio by advisor, property type, location and economy. The Fund further monitors closely the performance of its advisors in commingled fund investments. Also, leverage will be utilized only if acceptable debt service coverage, loan to value and other protections can be provided. The maximum debt to equity ratio for the portfolio is 1:1 and 2:1 for an individual asset.

F. Commercial Mortgages

The Board of Trustees has determined that inclusions of Commercial Mortgage Investments secured by real estate, will enhance the risk/return characteristics of the fund. Therefore, the allocation to this asset class shall be targeted at 2% of the fund's total investable assets.

Commercial Mortgage investments provide for fixed income payments derived from underlying property cash flows. Flexibility in investing in commercial mortgage backed securities or whole loans shall be provided. Risk shall be controlled through diversification strategies and the retention of qualified managers with acceptable loan underwriting and/or commercial mortgage acquisition experience.

The benchmark return for the commercial mortgage portfolio, consistent with investment risk, is a real rate of return of four percent, net of investment management fees, over rolling ten year periods.

The policies and guidelines set forth in the Fund's "Commercial Mortgage Strategic and Investment Plan" are incorporated herein by reference.

G. Venture Capital Investments

The venture capital class of investments is designed to provide an attractive risk adjusted rate of return to benefit the Fund. By its very nature, it possesses a long term investment horizon, illiquidity and a high degree of risk.

For these reasons, this asset class is limited to 1% of the overall fund and expected returns must exceed those of other asset classes. The Fund seeks a target return of 10% in excess of inflation over the long term.

To assist in diversifying the risks of this asset class, the Fund shall invest only in eligible venture capital partnerships or funds and shall avoid individual direct company investments. The Ohio Revised Code 742.11(d) (5) states eligibility as, "Venture Capital firms having an office within this state, provided that, as a condition of the Board making an investment in a venture capital firm, the firm must agree to use its best efforts to make investments, in an aggregate amount at least equal to the investment to be made by the Board in that venture capital firm, in small businesses having their principal offices within this state and having either more than one-half of their assets within this state or more than one-half of their employees employed within this state."

H. Cash Equivalents

To provide effective cash management when investing cash balances, emphasis shall be placed on the protection of principal through the purchase of higher quality money market instruments, while at the same time attempting to achieve the highest available return.

Short-term investments may be made in commercial paper which shall, at the time of purchase be rated within the two highest classifications established by two standard rating services. Treasury obligations, certificates of deposits, banker's acceptances, or repurchase agreements may be purchased with the responsibility resting on the Investment Staff regarding the selection of the specific type of investment at any given point in time. These obligations shall mature within 270 days of the date of purchase.

VII. PROXY VOTING

The Fund's board of Trustees believes that common stock proxies are valuable and should be voted in the long term interests and objectives of the Plan set forth herein. Each manager, staff or individual that exercises a proxy vote shall keep detailed records of said voting of proxies and related actions and will comply with all regulatory obligations related thereto and the policies set forth in the Board's "Proxy Voting Policy Statement."

Common stock proxies may be executed by the Executive Director, the Deputy Executive Director, the Director of Investments or outside money managers.

The internal staff shall provide a semi-annual summary report of proxy voting actions to the Board of Trustees.

VIII. SECURITIES LENDING

The investment objective for the securities lending program is to generate incremental income within a high quality investment program that safeguards the return of principal, maintains adequate daily liquidity, ensures diversification and tightly controls exposure to fluctuating interest rates.

The program may be operated by a bank trustee or a third party lending agent. Marking to market shall be performed daily and a minimum of 102% collateral shall be diligently maintained.

Securities lending reports shall be provided periodically by the agent to the Board detailing investment instruments utilized and the appropriate breakdown of revenues.

IX. INVESTMENT MONITORING

The Board shall review at least semi-annually the performance of the Fund as a whole, each of the components of asset allocation and the individual managers. The Fund as a whole shall be evaluated relative to the strategic long term objectives defined under "asset allocation."

Each Qualified Pension Asset Manager's performance shall be evaluated relative to an appropriate market index and a relevant peer group of managers as indicted below. They are expected to rank above median versus their respective peer groups over a minimum three year period and equal or exceed their respective market index.

Benchmark Comparisons

	Index	Peer Groups
Large Cap Managers	S&P 500	Growth Value
Small/Mid-Cap Managers	*Blend-* {S&P 400 Mid Cap {Russell 2000	Small Cap/ Mid Cap
International	MSCI-EAFE MSCI-Europe MSCI-Pacific Basin Custom Index	Non-U.S. Regional-Europe Regional-Pacific Basin
Domestic Fixed Income	Lehman Aggregate	All F/I
Real Estate	NCREIF	Real Estate

The performance of the investment managers will be monitored on an ongoing basis and it is the Board's discretion to take corrective action by replacing a manager if they deem it appropriate at any time. Performance factors which may lead to terminating a manager relationship include:

- Managers that consistently perform below the median (50th percentile) of their peer group over a trailing three year period.
- Managers that have not demonstrated added value, as measured by Alpha, (Measure of a manager's contribution to performance due to security selection) for a three year period.

Major organizational changes also warrant immediate review of the manager, including:

– Change in professionals
– Significant account losses
– Significant growth of new business
– Change in ownership

X. COMMUNICATIONS

Each manager will provide hard copy reports at least quarterly, including performance measurement, asset inventories, transaction summaries, market commentary or anything else deemed significant at the time of reporting.

Each manager is expected to meet with the Fund's Board at least annually, unless notified otherwise.

XI. REVIEW PROCEDURES

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

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