

Comprehensive Annual Financial Report



A Component Unit of the State of Ohio
Year Ending December 31, 2007



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Year Ending December 31, 2007

Richard A. Curtis, Executive Director

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Columbus, Ohio 43229-2553

Table of Contents

	Page
Introductory Section	
Certificate of Achievement.....	4
Board of Trustees.....	5
Organizational Chart.....	6
Professional Consultants.....	7
Legislative Summary.....	8
Letter of Transmittal.....	9
Financial Section	
Independent Auditors' Report.....	12
Management's Discussion and Analysis.....	13
Basic Financial Statements	
Combining Statement of Plan Net Assets.....	16
Combining Statement of Changes in Plan Net Assets.....	17
Notes to Financial Statements.....	18
Required Supplementary Schedules	
Schedule of Employer Contributions.....	24
Schedule of Funding Progress - Pension.....	24
Schedule of Funding Progress - OPEB.....	24
Notes to the Trend Data.....	24
Notes to Required Supplementary Schedules.....	25
Supplementary Information	
Schedule of Administrative Expenses.....	26
Schedule of Investment Expenses.....	27
Payments to Consultants.....	27
Independent Auditors' Report on Internal Control and Compliance.....	28
Investment Section	
Investment Distribution.....	30
Ten-Year Investment Comparison.....	30
Report on Investment Activity.....	31
Schedule of Investment Results.....	32
Investment Summary.....	33
Largest Equity Holdings.....	33
Investment Portfolio.....	34
Summary Schedule of Investment Manager Fees.....	41
Summary Schedule of Broker Fees.....	42
Investment Objectives, Policies, and Guidelines.....	43
Actuarial Section	
Actuary's Letter.....	47
Summary of Assumptions.....	49
Accrued Liabilities and Assets Allocated to Retirement, Survivor, and Disability Allowances.....	50
Postemployment Health Care and Medicare Reimbursement.....	50
Active Member Data.....	51
Retiree and Beneficiary Data.....	51
Analysis of Financial Experience.....	52
Plan Summary.....	53
Statistical Section	
Changes in Net Assets, 1998-2007.....	57
Benefit Deductions from Net Assets by Type, 1998-2007.....	58
Principal Participating Employer, 1998 & 2007.....	58
Retired Members by Type of Benefit, December 31, 2007.....	59
Average Benefit Payments, 1998-2007.....	60
Map	61



Introductory Section

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Highway Patrol Retirement System Ohio

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2006

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.



Charles S. Cox

President

Jeffrey R. Emer

Executive Director

Highway Patrol Retirement System Board of Trustees



Staff Lieutenant John Allard
Active Representative/Chair



Major John Born
Active Representative/Vice Chair



Staff Lieutenant Cory Davies
Active Representative



Staff Lieutenant Carl Roark
Active Representative



Sergeant Rudy Zupanc
Active Representative



Darryl Anderson
Retired Representative



Larry Davis
Retired Representative



Colonel Richard H. Collins
Statutory Representative



Kenneth C. Boyer
Treasurer of State's Investment Expert



Dan Lohmeyer
General Assembly's Investment Expert



Joseph H. Thomas
Governor's Investment Expert

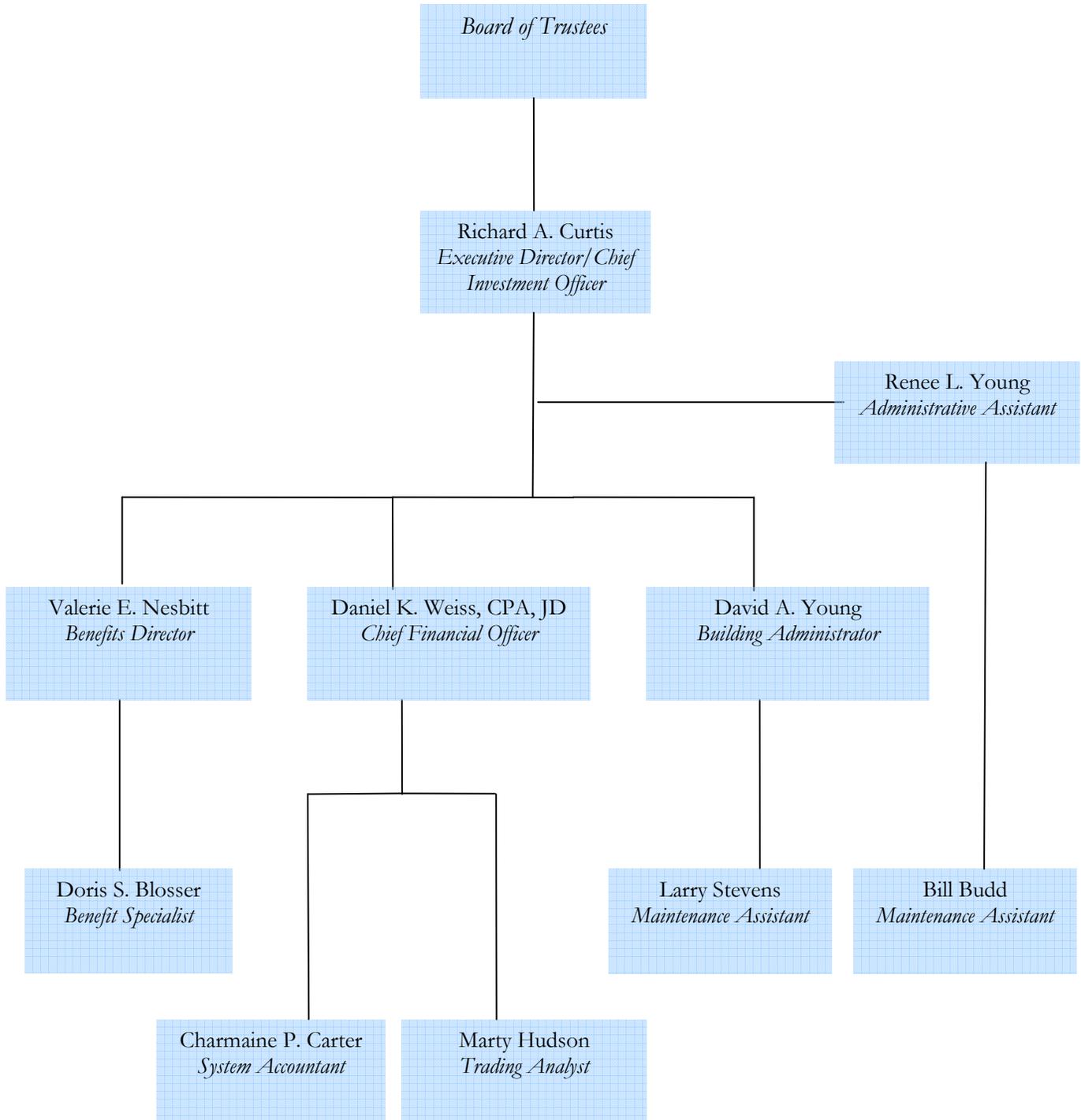


Richard A. Curtis
Executive Director/Chief Investment Officer



Jason E. Boyd
Assistant Attorney General, Legal Advisor

Organizational Chart



Professional Consultants

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

Independent Auditor
Kennedy, Cottrell, Richards
Columbus, Ohio

Actuary
Gabriel, Roeder, Smith & Company
Southfield, Michigan

Investment Consultant
Hartland & Co.
Cleveland, Ohio

Investment Managers

Brandywine Asset Management Philadelphia, Pennsylvania <i>Small/Mid Cap Value Equity</i>	Julius Baer Investment Management LLC New York, New York <i>International Equity</i>	Protégé Partners, LLC New York, New York <i>Fund of Hedge Funds</i>
Credit Suisse Alternative Investments New York, New York <i>Private Equity</i>	Kayne Anderson Capital Advisors, LP Los Angeles, California <i>Energy Private Equity</i>	Sankaty Advisors, LLC Boston, Massachusetts <i>Fund of Hedge Funds</i>
DePrince, Race & Zollo, Inc. Winter Park, Florida <i>Large Cap Value Equity</i>	Lehman Brothers Alternative Investment Management LLC New York, New York <i>Fund of Hedge Funds</i>	Seix Investment Advisors, LLC Upper Saddle River, New Jersey <i>Fund of Hedge Funds</i>
Dimensional Fund Advisors Austin, Texas <i>Small Cap Blend Equity</i>	LSV Asset Management Chicago, Illinois <i>Large Cap Value Equity</i>	State Street Global Advisors Boston, Massachusetts <i>Large Cap Indexed</i>
Eubel, Brady & Suttman Dayton, Ohio <i>Small/Mid Cap Value Equity</i>	MacKay Shields Investment Management LLC New York, New York <i>Large Cap Value Equity</i>	Timbervest Atlanta, Georgia <i>Timberland Real Estate</i>
Evanston Capital Management LLC Evanston, Illinois <i>Fund of Hedge Funds</i>	Manning & Napier Fund, Inc. Dublin, Ohio <i>International Equity</i>	Wellington Management Boston, Massachusetts <i>Large Cap Growth Equity</i>
Feingold O'Keeffe Capital Boston, Massachusetts <i>Fund of Hedge Funds</i>	Mellon Capital Management Pittsburgh, Pennsylvania <i>Global Tactical Asset Allocation</i>	Wells Capital Management Los Angeles, California <i>Fixed Income</i>
Pyramis Global Advisors Boston, Massachusetts <i>Real Estate</i>	PanAgora Boston, Massachusetts <i>Global Tactical Asset Allocation</i>	Western Asset Pasadena, California <i>Fixed Income</i>
Fred Alger Management, Inc. Jersey City, New Jersey <i>Small Cap Growth Equity</i>	Pantheon Ventures, Inc. San Francisco, California <i>Private Equity</i>	Westfield Capital Management Boston, Massachusetts <i>Small/Mid Cap Growth Equity</i>
INTECH Palm Beach Gardens, Florida <i>Large Cap Growth Equity</i>	PIMCO Newport Beach, California <i>Global Tactical Asset Allocation</i>	World Asset Management Birmingham, Michigan <i>Small-Mid Cap Indexed & International Equity</i>
JPMorgan Fleming Asset Management New York, New York <i>Fixed Income</i>		

See Investment Section, pages 41-42, for payments to investment managers and brokers.

Legislative Summary

During 2007, neither the United States Congress nor the Ohio Legislature passed any significant bills impacting the Highway Patrol Retirement System. At the state level, a vigorous discussion took place about divesting pension funds from selected non-U.S. companies doing business in Iran and Sudan. According to current U.S. law, certain types of goods and services cannot be provided to or traded with several countries determined to be terrorist-sponsoring by the State Department. HPRS has always been in compliance with these standards. The Ohio House envisioned legislation that would go much farther. A proposed bill would have required the Ohio pension funds to sell holdings in any non-U.S. company doing any type of business in either Iran or Sudan. After several productive meetings, the concept was modified to include only non-U.S. companies providing a narrow range of goods and services, such as oil industry equipment and certain electronic equipment.

Since the Ohio pension funds have a legal obligation to invest only for the benefit of members, the House was persuaded to hold the systems harmless for any breach of fiduciary responsibility in carrying out any provisions of this bill. After considerable discussion, the systems agreed

to voluntarily attempt to reduce holdings in targeted companies. No bill was ever introduced or passed in the House.

HPRS only invests in non-U.S. companies through commingled funds, rather than through direct purchases of securities. Since the voluntary agreement to divest applies only to direct investments, HPRS has no obligation to modify its investments.

During 2006, the Ohio Legislature passed enabling legislation to authorize HPRS to establish a Medical Savings Account plan for active duty members. This program would permit active members to save pre-tax money for health care needs after retirement. Shortly after passage of this bill, the Internal Revenue Service put a hold on issuing the necessary authorization for such a program. The IRS is in the process of studying and modifying its regulations in this area. It is not clear when the appropriate authorization will be issued, so the MSA plan is on hold until that time.



Highway Patrol Retirement System

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June 23, 2008

Letter of Transmittal

Members of the Board of Trustees:

It is our privilege to submit to you the *Comprehensive Annual Financial Report* for the Highway Patrol Retirement System (HPRS) for the fiscal year ending December 31, 2007. Responsibility rests with the management of the system for both the accuracy of the data and the completeness and fairness of the presentation. We believe this report reflects a careful stewardship of the system's assets and dedicated service to our members and our retirees.

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

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

Major Initiatives and Changes Enacted

A major initiative started in 2006 was the establishment of a medical savings account program for active members. With health care costs increasing at three to five times the rate of inflation, the HPRS Board recognized that the ability to provide health care coverage to retirees at a reasonable cost was being threatened. The Board was very concerned that in the later years of a retiree's life, the monthly pension check might not cover the health care cost. As a result, the Board acted to establish a separate post-retirement funding option for retirees.

A medical saving account, as defined under Internal Revenue Code section 401(h), permits an active member to contribute funds, tax-deferred, into an account that may only be used for medical expenses after retirement. Under

existing rules, these funds may be withdrawn after retirement, tax-free, for payment of co-pays, deductibles, and other out-of-pocket medical expenses. The HPRS is currently waiting for a private letter ruling from the Internal Revenue Service to begin the implementation of this program.

During 2007, the HPRS administrative office has continued to use technology and automation to improve security and efficiency. Original member records, in paper form, are being imaged to provide for data integrity, backup redundancy, and ease of access. A redesigned website is under development that will allow for secure and convenient member access to personal account records. In multiple ways, HPRS is moving toward a "paperless office."

Investments

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

In the fall of 2007, an Asset-Liability Study by Hartland & Co. modified the asset allocation that was implemented on January 1, 2005.

Investment returns for the Highway Patrol Retirement System in 2007 were 7.5%, with a three-year annualized return of 9.4%, and a five-year annualized return of 12.8%. Because current fund expenditures exceed current fund income, the total investment portfolio increased to \$839.5 million (including cash, but excluding collateral on loaned securities) at December 31, 2007, representing only a 5.7% increase from 2006.

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

Internal Controls

The management of HPRS has implemented and is responsible for a system of internal accounting controls,

designed to assure the safeguarding of assets and the reliability of financial records. The internal accounting controls in place are adequate to meet the purpose for which they were intended. The financial statements, supporting schedules, and statistical tables are fairly presented in all material respects.

Funding

The goal of the Board has been to limit the period of unfunded pension liability to no more than thirty years. Unfunded actuarially accrued pension liabilities are currently amortized over a twenty-eight year period from December 31, 2006 and the system has pension assets equal to 80.9% of pension liabilities, up from 76.5% at December 31, 2005.

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a *Certificate of Achievement for Excellence in Financial Reporting* to the Highway Patrol Retirement System for its comprehensive annual financial report for the fiscal year ended December 31, 2006. In order to be awarded a *Certificate of Achievement*, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

Professional Services

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

Acknowledgments

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

Upon publication of this report, HPRS will notify interested parties of its availability at www.ohprs.org, including all State Highway Patrol facilities, professional consultants, investment managers, and the Ohio Retirement Study Council.

Respectfully Submitted,



Richard A. Curtis, Executive Director



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



Financial Section

INDEPENDENT AUDITOR'S REPORT

The Retirement Board
Ohio State Highway Patrol Retirement System

We have audited the accompanying combining statement of plan net assets of the Ohio State Highway Patrol Retirement System (HPRS), a component unit of the State of Ohio, as of December 31, 2007, and the related combining statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of HPRS' management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As described in the notes to the financial statements, during the year, HPRS implemented GASB Statement No. 50, *Pension Disclosures— an amendment of GASB Statements No. 25 and No. 27*.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of HPRS as of December 31, 2007, and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2008 on our consideration of HPRS' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 13-15 and Required Supplementary Information on pages 24-25 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

We conducted our audit to form an opinion on the financial statements that collectively comprise the HPRS' basic financial statements. The Supplementary Information on pages 26-27 is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

The introductory section on pages 3-10, the investment section on pages 29-45, the actuarial section on pages 46-55, and the statistical section on pages 56-61 have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.



Kennedy Cottrell Richards LLC
June 23, 2008

Accountants & Consultants for Business & Government

Management's Discussion and Analysis

Financial Highlights

- At December 31, 2007, the assets of HPRS exceeded liabilities by \$833,704,076. All of the net assets are held in trust for pension and health benefits, and are available to meet HPRS's ongoing obligation to plan participants and their beneficiaries.
- During 2007, HPRS's total net assets increased by \$39,276,819, or 4.9%, with 156.8% of this increase attributable to investment activity.
- HPRS's funding objective is to meet long-term benefit obligations through contributions and investment income. At December 31, 2006, the date of the latest actuarial valuation, HPRS funds totaled 80.9% of projected obligations.
- Revenues (Additions to Plan Net Assets) for the year were \$95,438,768, which includes member and employer contributions of \$33,134,590 and investment income of \$61,587,161.
- Expenses (Deductions in Plan Net Assets) increased 11.9% over the prior year. Of this amount, pension benefits increased by 10.7%, health care expenses increased by 29.7%, and administrative expenses increased by 5.6%.

Overview of the Financial Statements

HPRS's financial statements consist of these components:

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

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

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

The *Combining Statement of Changes in Plan Net Assets* provides a summary of current year additions and deductions to the plan. At December 31, 2006, the date of the latest actuarial valuation, HPRS's current funding ratio was 80.9%. This means that HPRS's fund had approximately \$0.81 available for each \$1.00 of projected pension liability.

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

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

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

The *Notes to the Financial Statements* provide additional information that is essential to a full understanding of the data provided in the financial statements (see *Notes to the Financial Statements* on pages 18-23 of this report).

Other Information

In addition to the financial statements and accompanying notes, this report presents certain required supplementary information concerning HPRS's progress in funding its obligations to provide pension benefits to members (see *Required Supplementary Schedules* on pages 24-25 of this report).

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

HPRS Activities

Revenues - Additions to Plan Net Assets. Employer and member contributions, as well as income from investments, provide reserves needed to finance retirement benefits. In 2007, total contributions, plus investment gains in a favorable market, resulted in positive additions of \$95.4 million. Employer and member contributions increased by 8.5% and 3.4%, respectively, primarily because of an increase in the employer contribution rate and an increase in overall payroll.

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

	<u>2007</u>	<u>2006</u>	<u>\$ Change</u>	<u>% Change</u>
Net Appreciation in Fair Value of Investments	\$53,547	\$94,578	(\$41,031)	(43.4%)
Interest and Dividend Income	12,793	9,988	2,805	28.1
Real Estate Operating Income, Net	49	144	(95)	(65.8)
Investment Expenses	(5,107)	(3,638)	(1,469)	40.4
Security Lending Activity, Net	305	253	52	20.5
Employer Contributions	24,233	22,329	1,904	8.5
Member Contributions	8,902	8,610	292	3.4
Transfers from Other Ohio Systems	717	648	69	10.7
Total Additions	\$95,439	\$132,912	(\$37,473)	(28.2%)

The investment section of this report summarizes the result of investment activity for the year ending December 31, 2007.

Expenses - Deductions from Plan Net Assets. HPRS was created to provide retirement, disability, and survivor benefits to qualified members and their beneficiaries. The cost of these programs includes benefit payments as designated by the plan, refunded contributions, and the administrative costs of the system. In 2007, total deductions from plan net assets increased 11.9%. This included a 10.7% increase in pension benefits, largely attributable to an increase in the number of benefit recipients and cost of living adjustments. Health care expenses increased by 29.7% and administrative expenses increased by 5.6%. Refunds of member contributions decreased by 66.9% and transfers of contributions to other Ohio retirement systems decreased by 63.9%

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

	<u>2007</u>	<u>2006</u>	<u>\$ Change</u>	<u>% Change</u>
Pension Benefits	\$44,676	\$40,343	\$4,333	10.7%
Refunds of Member Contributions	99	299	(200)	(66.9%)
Health Care	10,354	7,981	2,373	29.7%
Administrative Expenses	703	666	37	5.6%
Transfers to Other Ohio Systems	330	915	(585)	(63.9%)
Total Deductions	\$56,162	\$50,204	\$5,958	11.9%

Changes in Net Assets

In 2007, *Net Assets Held in Trust for Pension and Postemployment Health Care Benefits* increased by \$39,276,819, or 4.9%. Investment income attributable to the appreciation in fair values of investments equaled \$61,374,599, or 156.3% of the increase in net assets. All of the net assets are available to meet HPRS's ongoing obligation to plan participants and their beneficiaries.

Changes in Net Assets (In 000's)

	<u>2007</u>	<u>2006</u>
Beginning Balance	\$794,427	\$711,719
Ending Balance	833,704	794,427
Total Change	<u>\$39,277</u>	<u>\$82,708</u>
% Change	4.9%	11.6%

Capital Assets

As of December 31, 2007, HPRS's investment in capital assets totaled \$10,091 (net of accumulated depreciation), a decrease of \$8,020, or 44.4% from December 31, 2006. This investment in capital assets includes office equipment, software, and furniture for administrative use. The decrease in HPRS's net investment in capital assets for the current year was wholly attributable to the depreciation of existing assets.

Total Assets

In 2007, total assets decreased by \$97,234, or 0.01%. The decrease in total assets was largely attributable to a decrease in securities lending activity at the end of 2007.

Assets (In 000's)

	<u>2007</u>	<u>2006</u>	<u>\$ Change</u>	<u>% Change</u>
Cash, Short-Term Investments	\$12,226	\$44,851	(\$32,625)	(72.7%)
Receivables	3,362	3,767	(\$405)	(10.8%)
Investments, at Fair Value	827,238	749,584	\$77,654	10.4%
Collateral on Loaned Securities	94,655	139,368	(\$44,713)	(32.1%)
Other Assets	10	18	(\$8)	(44.4%)
Total Assets	<u>\$937,491</u>	<u>\$937,588</u>	<u>(\$97)</u>	<u>0.0%</u>

Total Liabilities

Total liabilities decreased by \$39,374,053, or 27.5%, primarily as a result of a decrease in securities lending activity at the end of 2007. The decrease in total liabilities attributable to a lower level of securities lending activity was \$44,713,181. Without this decrease, total liabilities would have increased by \$5,339,128, or 3.7%.

	<u>2007</u>	<u>2006</u>	<u>\$ Change</u>	<u>% Change</u>
Current Liabilities	\$98,155	\$141,831	(\$43,676)	(30.8%)
Long-term Liabilities	5,631	1,329	\$4,302	323.7%
Total Liabilities	<u>\$103,786</u>	<u>\$143,160</u>	<u>(\$39,374)</u>	<u>(27.5%)</u>

Summary

Despite three consecutive years of negative investment returns from 2000 through 2002, HPRS rebounded from 2003 through 2007 to show strong gains in the securities markets for five consecutive years. Both management and HPRS's actuary concur that HPRS remains in a financial position to meet its obligations to the plan participants and beneficiaries. The current financial position of HPRS is the result of a very strong and successful investment program, risk management, and strategic planning.

Requests for Information

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

Combining Statement of Plan Net Assets

December 31, 2007

	Pension	Postemployment Health Care	Total
Assets			
Cash and Short-Term Investments	\$10,535,148	\$1,690,433	\$12,225,581
Receivables			
Accrued Investment Income	555,024	89,058	644,082
Employer Contributions Receivable	1,272,973	272,780	1,545,753
Member Contributions Receivable	1,086,633	--	1,086,633
Tenant Rent Receivable	73,750	11,834	85,584
Total Receivables	2,988,380	373,672	3,362,052
Investments, at Fair Value			
Domestic Equity	312,792,610	50,189,610	362,982,220
International Equity	135,225,401	21,697,796	156,923,197
Fixed Income	109,527,407	17,574,385	127,101,792
Real Estate	44,041,206	7,066,698	51,107,904
Private Equity	6,936,686	1,113,036	8,049,722
Hedge Funds	49,023,101	7,866,076	56,889,177
Global Tactical Asset Allocation	55,309,568	8,874,780	64,184,348
Total Investments	712,855,979	114,382,381	827,238,360
Collateral on Loaned Securities	81,566,564	13,087,886	94,654,450
Property and Equipment, Net	8,696	1,395	10,091
Total Other Assets	8,696	1,395	10,091
Total Assets	807,954,767	129,535,767	937,490,534
Liabilities			
Accrued Health Care Benefits	--	1,205,547	1,205,547
Accounts Payable	1,148,430	184,273	1,332,703
Other Liabilities	611,251	98,079	709,330
Accrued Payroll and Withholdings	218,270	35,023	253,293
Obligations Under Securities Lending	81,566,564	13,087,886	94,654,450
DROP Liabilities	5,631,135	--	5,631,135
Total Liabilities	89,175,650	14,610,808	103,786,458
Net Assets Held in Trust for Pension and Postemployment Health Care Benefits	\$718,779,117	\$114,924,959	\$833,704,076

See accompanying *Notes to Financial Statements*, pages 18-23. A *Schedule of Funding Progress* is presented on page 24.

Combining Statement of Changes in Plan Net Assets

Year Ending December 31, 2007

	Pension	Postemployment Health Care	Total
Additions			
Contributions			
Employer	\$19,956,700	\$4,276,436	\$24,233,136
Member	8,901,454	---	8,901,454
Transfers from Other Systems	717,017	---	717,017
Total Contributions	<u>29,575,171</u>	<u>4,276,436</u>	<u>33,851,607</u>
Investment Activity			
Net Appreciation in Fair Value of Investments	43,404,671	10,142,333	53,547,004
Interest and Dividend Income	11,023,895	1,768,856	12,792,751
Real Estate Operating Income, Net	42,418	6,806	49,224
	<u>54,470,984</u>	<u>11,917,995</u>	<u>66,388,979</u>
Less: Investment Expenses	4,400,505	706,090	5,106,595
Net Income from Investment Activity	<u>50,070,479</u>	<u>11,211,905</u>	<u>61,282,384</u>
Income from Security Lending Activity			
Gross Income	5,810,213	932,286	6,742,499
Less: Borrower Rebates	5,448,545	874,255	6,322,800
Less: Management Fees	99,032	15,890	114,922
Net Income from Security Lending Activity	<u>262,636</u>	<u>42,141</u>	<u>304,777</u>
Total Net Investment Income	<u>50,333,115</u>	<u>11,254,046</u>	<u>61,587,161</u>
Total Additions	<u>79,908,286</u>	<u>15,530,482</u>	<u>95,438,768</u>
Deductions			
Pension Benefits	44,676,510	---	44,676,510
Refunds of Member Contributions	98,628	---	98,628
Health Care Expenses	---	10,354,006	10,354,006
Administrative Expenses	605,165	97,101	702,266
Transfers to Other Systems	330,539	---	330,539
Total Deductions	<u>45,710,842</u>	<u>10,451,107</u>	<u>56,161,949</u>
Net Increase	34,197,444	5,079,375	39,276,819
Net Assets Held in Trust for Pension and Postemployment Health Care Benefits			
Balance, December 31, 2006	<u>684,581,673</u>	<u>109,845,584</u>	<u>794,427,257</u>
Balance, December 31, 2007	<u>\$718,779,117</u>	<u>\$114,924,959</u>	<u>\$833,704,076</u>

See accompanying *Notes to Financial Statements*, pages 18-23. A *Schedule of Funding Progress* is presented on page 24.

Notes to Financial Statements

Year Ending December 31, 2007

Plan Description

Organization - The Highway Patrol Retirement System (HPRS) is a single-employer retirement system for employees of the Ohio State Highway Patrol, including troopers with arrest authority, trooper cadets in training while at the Highway Patrol Training Academy, and members of the radio division who were hired prior to November 2, 1989. HPRS was created by Ohio Revised Code Chapter 5505 and is administered by a Board of Trustees comprised of five active members, two retired members, three appointed members, and one ex-officio member. The Board appoints an executive director, actuary, investment consultant, and employees.

HPRS administers both a defined benefit pension plan and a postemployment health care plan, which is considered to be an "other postemployment benefit," or OPEB. Financial information for pensions and OPEB are presented separately in the combining financial statements. HPRS, a separate financial reporting entity in accordance with criteria established by Governmental Accounting Standards Board Statement No. 14, is a component unit of the State of Ohio.

Membership - HPRS membership consisted of the following at December 31, 2006 (the latest available actuarial data):

Pension & OPEB Benefits

Retirees & beneficiaries receiving benefits	1,337
Terminated members not yet receiving Benefits	9

Active members

Vested	545
Nonvested	1,047

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

In 2007, the member and employer contribution rates were 10.0% and 25.5% of payroll, respectively.

Pursuant to the December 31, 2006 actuarial valuation, the Board of HPRS allocated the employer contribution rate to pension benefits and OPEB as follows:

<u>Pension</u>	<u>OPEB</u>	<u>Total</u>
21.00%	4.50%	25.5%

The allocation of the employer contribution rate to pension benefits has been established as the rate necessary to cover normal cost, plus the amortization of the unfunded actuarially accrued liabilities based on a twenty-eight (28) year amortization schedule.

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

A member with credited service in Ohio Public Employees Retirement System (OPERS), School Employees Retirement System (SERS), State Teachers Retirement System (STRS), or Cincinnati Retirement System (CRS) may transfer that service credit to HPRS. Similarly, a member with credited service in HPRS may transfer that service to OPERS, SERS, STRS, or CRS.

Benefits - Members are eligible for pension and health care benefits upon reaching both an age and a service requirement with the Ohio State Highway Patrol. The pension benefit is a percentage of the member's final average salary, which is defined as the average of the member's three highest salaried years. For a minimum of 15 years of service, but less than 20, the percentage is determined by multiplying 1.5% times the number of years of service credit, with benefits commencing at age 55. For 20 or more years of service, the percentage is determined by multiplying 2.5% times the first 20 years of service, plus 2.25% for the next 5 years of service, plus 2.0% for each year in excess of 25 years of service. A member's pension may not exceed 79.25% of the final average salary. Early retirement with reduced benefits is available upon reaching age 48 with 20 years of service credit. Early retirement with normal benefits is available upon reaching age 48 with 25 years of service credit. In addition to pension and health care benefits, HPRS also provides for disability and survivor benefits.

In 2006, HPRS implemented a Deferred Retirement Option Plan ("DROP"). Generally, a member who is eligible to retire with an unreduced pension benefit may enter the DROP. The member will continue to work in the existing assignment as determined by the employer and

receive the appropriate compensation for that rank. A DROP member is considered retired; however, instead of receiving a monthly pension benefit, the member “accrues” that benefit in a tax-deferred account until employment is terminated with the State Highway Patrol. Also, upon entering the DROP plan, a member ceases to accumulate additional pension service credit. At December 31, 2007, DROP had 92 participants and HPRS had recorded a liability of \$5,631,135.

Funded Status and Funding Progress - Pension – The funded status of the pension plan at the most recent actuarial valuation, December 31, 2006, is as follows:

Actuarially Accrued Liability	\$807,760,712
Valuation Assets	653,493,046
Unfunded Actuarially Accrued Liability	<u>\$154,267,666</u>
Assets as a % of AAL	80.9%
Active Member Payroll	\$85,878,329
UAAL as a % of Active Member Payroll	179.6%

A schedule of funding progress for the pension plan is presented as required supplementary information following the notes to the financial statements, including six years of data.

Funded Status and Funding Progress - OPEB -- The funded status of the OPEB plan at the most recent actuarial valuation, December 31, 2006, is as follows:

Actuarially Accrued Liability	\$294,078,575
Valuation Assets	104,857,212
Unfunded Actuarially Accrued Liability	<u>\$189,221,363</u>
Assets as a % of AAL	35.7%
Active Member Payroll	\$85,878,329
UAAL as a % of Active Member Payroll	220.3%

A schedule of funding progress for the OPEB plan is presented as required supplementary information following the notes to the financial statements, including two years of data.

Actuarial Assumptions and Methods

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

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

Other actuarial assumptions and methods are as follows:

- projected investment return of 8.0% for pension assets and 6.5% for OPEB assets, compounded annually, net of administration expenses,
- projected salary increases of 4.0%, compounded annually, attributable to inflation,
- additional projected salary increases ranging from 0.3% to 10.0% per year, depending on service, attributable to seniority and merit,
- postemployment mortality life expectancies of members based on 105% of the RP-2000 Combined Healthy Male and Female Tables,
- probabilities of early withdrawal from active service have been developed on the basis of actual plan experience,
- for disability retirement, impaired longevity is recognized by basing benefit values on the RP-2000 Combined Healthy Male and Female Tables, set forward 10 years,
- fifty percent of disability retirements are assumed to be duty-related and fifty percent are assumed to be non-duty-related,
- projected health care cost increases of 4.0%, compounded annually, attributable to inflation,
- OPEB recipients are eligible for Medicare at age 65, or immediately if retired for disability,
- employer contributions are assumed to be received in equal installments throughout the year, and
- maximum contribution rates have not been considered in the projection of actuarially accrued liabilities for pension or OPEB benefits.

Summary of Significant Accounting Policies

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

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

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

During 2007, HPRS implemented GASB Statement No. 50, *Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27*. This statement provides for disclosures of pension information in notes to financial statements and required supplementary information (RSI) that are more consistent with those for other postemployment benefits (OPEB).

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

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

Securities traded on a national exchange are valued at the last reported sales price at the current exchange rate. Fair values of real estate and private equity investments are based on information provided by the fund’s managers or by independent appraisal.

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

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

In general, costs of member health care benefits are recognized as claims are incurred and premiums are paid. Health care benefit expenses in 2007 of \$10,354,006 are shown on the accompanying *Combining Statement of Changes in Plan Net Assets*.

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

Deposits and Investment Risk Disclosures

Deposits – HPRS cash balances represent an operating cash account held by US Bank, and investment cash on deposit with the State Highway Patrol Federal Credit Union, KeyBank, and US Bank as the investment custodian. Cash balances are either interest-bearing or invested in highly-liquid debt instruments with an original maturity of three months or less. At December 31, 2007, the carrying value of all HPRS’s book deposits was \$12,225,581 (including money market funds of \$4,078,733), as compared to bank balances of \$11,555,169. The difference in the carrying amount and the bank balances is caused by outstanding warrants and deposits in transit.

Investments – Ohio Revised Code Section 5505.06 grants “full power” to the Retirement Board to invest the system’s assets pursuant to a prudent person standard. This standard provides that “the board and other fiduciaries shall discharge their duties with respect to the funds solely in the interest of the participants and beneficiaries; for the exclusive purpose of providing benefits to participants and their beneficiaries and defraying reasonable expenses of administering the system; with care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims; and by diversifying the investments of the system so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so.”

Investments at December 31, 2007

Domestic Equity	\$362,982,220
Fixed Income Funds	127,101,792
Real Estate	51,107,904
International Equity	156,923,197
Private Equity	8,049,722
Hedge Funds	56,889,177
Global Tactical Asset Allocation	64,184,348
Total Investments	<u>\$827,238,360</u>
Collateral on Loaned Securities	<u>\$94,654,450</u>

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

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

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

Quality Ratings at December 31, 2007

AAA	\$78,335,578
AA+	14,163,892
AA	3,961,429
A	4,939,150
BBB	5,691,385
BB+	12,287,145
BB	309,376
B+	7,413,837
Total Credit Risk Debt Securities	<u>\$127,101,792</u>

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

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

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

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

Investment Maturities at December 31, 2007

<1 Year	\$4,618,768
1-5 Years	63,963,265
>5-10 Years	48,966,915
>10 Years	9,552,844
Totals	<u>\$127,101,792</u>

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of a failure of a depository institution or counterparty to a transaction, HPRS will be unable to recover the value of deposits, investments, or collateral securities in the possession of an outside party. At December 31, 2007, all of the fixed income investments of HPRS were held in commingled funds.

The Federal Deposit Insurance Corporation (FDIC) insured \$240,137 of HPRS bank balances. The remaining bank balances are collateralized with securities held in the names of US Bank and KeyBank N.A., as required by state statute. HPRS does not have a policy to limit custodial credit risk.

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

International Equity Securities, December 31, 2007

<u>Currency</u>	<u>Allocation</u>	<u>Fair Value</u>
Australian dollar	2.83%	\$4,431,965
Brazilian real	0.84	1,320,024
Canadian dollar	3.07	4,825,214
Czech koruna	0.79	1,237,547
Danish krone	0.33	512,484
European Union euro	18.15	28,477,403
Hong Kong dollar	1.73	2,714,620
Hungarian forint	1.04	1,627,879
Indonesian rupiah	0.02	38,393
Japanese yen	5.70	8,948,691
Malaysian ringgit	0.00	119
Mexican peso	0.11	176,360
New Zealand dollar	0.06	101,777
Norwegian krone	0.69	1,087,703
Polish zloty	1.08	1,696,813
Romanian new leu	0.14	213,072
South African rand	0.05	83,977
Swedish krona	0.75	1,172,442
Swiss franc	3.44	5,396,093
Turkish new lira	0.02	27,494
British pound	<u>5.30</u>	<u>8,309,988</u>
Total Held in Foreign Currencies	46.14%	72,400,058
Held in U.S. dollars	<u>53.86</u>	<u>84,523,139</u>
Total	100.00%	\$156,923,197

Securities Lending -- Under the HPRS securities lending program, administered by US Bank, securities are loaned to investment brokers/dealers (borrowers). In return, HPRS receives cash collateral and agrees to return the collateral for the same securities in the future. The cash collateral from securities loaned is reinvested in short-term securities and repurchase agreements ("repo's"). Securities loaned are collateralized at a minimum of 102 percent of the fair value of loaned securities. Collateral is marked-to-market daily. If the fair value of the collateral held falls below 102 percent of the fair value of securities loaned, additional collateral is provided by the borrowers. The maturity of the repo's is always identical to the maturity of the securities loaned. Further, there is always a positive spread between the cost of funds raised from securities loaned and the income earned from the associated repo's. At year-end, HPRS had no credit risk exposure to borrowers because the fair value of collateral that HPRS

held exceeded the fair value of securities loaned. Either HPRS or the borrowers can terminate all loans on demand. The custodial bank and its affiliates are prohibited from borrowing HPRS securities. HPRS cannot pledge or sell collateral securities received unless the borrower defaults.

As of December 31, 2007, the fair values of loaned securities and associated collateral were \$90,179,952 and \$94,654,450, respectively.

Total net proceeds from securities lending was \$304,777 in 2007.

Derivatives – Derivatives are instruments on which the fair values are derived from the value of some other asset or index. At December 31, 2007, HPRS held shares in commingled funds that had only incidental investments in derivatives.

Property and Equipment

Capital Assets – An item of property or equipment in excess of \$5,000 is capitalized at cost when acquired. An improvement in excess of \$5,000 that extends the useful life of an asset is capitalized. An expenditure for maintenance or repair of an asset is expensed as incurred. Depreciation is computed using the straight-line method over the following range of useful lives of the assets:

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

The following is a summary of equipment, at cost, less accumulated depreciation, at December 31, 2007:

Cost, 12/31/06	\$165,830
+ Additions	---
- Retirements	---
Cost, 12/31/07	\$165,830
Accumulated Depreciation, 12/31/06	\$147,719
+ Depreciation	8,020
- Retirements	---
Accumulated Depreciation, 12/31/07	\$155,739
Book Value, 12/31/07	\$10,091

Pension Benefits for Employees

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

1. The Traditional Pension Plan — a cost sharing, multiple-employer defined benefit pension plan.
2. The Member-Directed Plan — a defined contribution plan in which the member invests both member and

employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings.

3. The Combined Plan — a cost sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, employer contributions are invested by OPERS to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which are self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

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

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

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2007, member and employer contribution rates were consistent across all three plans. The 2007 member contribution rate was 9.5% of covered payroll. The 2007 employer contribution rate was 13.85% of covered payroll. HPRS employer contributions to OPERS for the years ending December 31, 2007, 2006, and 2005 were \$88,304, \$79,423, and \$72,998, respectively, which were equal to the required contributions for each year.

Other Postemployment Benefits for Employees

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

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to eligible members and beneficiaries. In order to qualify for postemployment health care coverage, Age & Service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS is considered to be an Other Postemployment Benefit (OPEB) as described in GASB Statement 12.

The Ohio Revised Code provides the statutory authority for public employers to fund post retirement health care through contributions to OPERS. Accordingly, a portion of employer contributions is set aside for funding these benefits – 5.0% of covered payroll for January 1 through June 30, 2007 and 6.0% for July 1 through December 31, 2007 -- a total of \$35,067 for HPRS employees.

The assumptions and calculations below are based on OPERS' latest actuarial review performed as of December 31, 2006:

- **Funding Method** — The individual entry age actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarially accrued liability.
- **Assets Valuation Method** — All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used, under which assets are annually adjusted to reflect 25% of unrealized market appreciation (or depreciation), not to exceed a 12% corridor.
- **Investment Return** — The investment assumption rate is 6.5%.
- **Active Employee Total Payroll** — An annual increase of 4.0%, compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases above the 4.0% base increase are assumed to range from 0.5% to 6.3%.

- **Health Care** — Health care costs are assumed to increase at the projected wage inflation rate, plus an additional factor ranging from 0.5% to 5.0% for the next 8 years. In subsequent years (9 and beyond), health care costs are assumed to increase at 4.0% (the projected wage inflation rate).

Other Postemployment Benefits are advance-funded on an actuarially determined basis. At December 31, 2007, the number of active contributing participants in the Traditional Pension and Combined Plans totaled 374,979. At December 31, 2006, the actuarial value of OPERS' net assets available for OPEB was \$12.0 billion, at which time there were 362,130 active contributing participants. The actuarially accrued liability and the unfunded actuarially accrued liability on that date were \$30.7 billion and \$18.7 billion, respectively.

In 2004, in response to skyrocketing health care costs, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. Additionally, member and employer contribution rates have been increased, effective at the beginning of 2006, 2007, and 2008, to allow for supplementary funding of the health care plan.

Risk Management

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

Contingent Liabilities

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

Required Supplementary Schedules

Schedule of Employer Contributions

Years Ending December 31, 2002-2007

<u>Year</u>	<u>Pension</u>		<u>OPEB</u>	
	Annual Required <u>Contribution</u>	<u>% Contributed</u>	Annual Required <u>Contribution</u>	<u>% Contributed</u>
2002	14,923,893	100	--	--
2003	16,361,339	100	--	--
2004	17,205,610	100	--	--
2005	18,467,789	100	--	--
2006	19,263,941	98.45	15,962,073	21.2
2007	19,956,700	92.11	18,303,145	25.0

Schedule of Funding Progress – Pension

Years Ending December 31, 2001-2006

<u>Valuation Year</u>	Actuarially Accrued <u>Liab. (AAL)</u>	Valuation <u>Assets</u>	Unfunded Actuarially Accrued <u>Liab. (UAAL)</u>	Assets as a <u>% of AAL</u>	Active Member <u>Payroll</u>	UAAL as a % of Active <u>Member Payroll</u>
2001	636,715,458	551,279,438	85,436,020	86.6	76,344,002	111.9
2002 ►	663,069,805	527,604,456	135,465,349	79.6	78,997,065	171.5
2003	702,799,017	545,981,513	156,817,504	77.7	81,737,962	191.9
2004 ▲	734,464,371	569,858,387	164,605,984	77.6	81,757,707	201.3
2005 ►	773,856,164	591,922,200	181,933,964	76.5	83,408,155	218.1
2006 ▲	807,760,712	653,493,046	154,267,666	80.9	85,878,329	179.6

▲ Plan amendment ► Assumption or method change.

Schedule of Funding Progress – OPEB

Years Ending December 31, 2005-2006

<u>Valuation Year</u>	Actuarially Accrued <u>Liab. (AAL)</u>	Valuation <u>Assets</u>	Unfunded Actuarially Accrued <u>Liab. (UAAL)</u>	Assets as a <u>% of AAL</u>	Active Member <u>Payroll</u>	UAAL as a % of Active <u>Member Payroll</u>
2005 ►	281,094,482	95,889,279	185,205,203	34.1	83,408,155	222.0
2006 ►	294,078,575	104,857,212	189,221,363	35.7	85,878,329	220.3

See *Notes to Required Supplementary Schedules*, page 25.

Notes to the Trend Data

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

Valuation Date	December 31, 2006
Actuarial Cost Method	Entry Age
Amortization Method	Level Percent Open
Remaining Amortization Period	28 years for retirement allowances and 30 years for retiree health benefits in determining the Annual Required Contribution
Asset Valuation Method	4 year smoothed market, 20% Corridor
<u>Actuarial Assumptions</u>	
Investment Rate of Return	8.0% for pension, 6.5% for OPEB
Projected Salary Increases	4.3 – 14.0%, including wage inflation of 4.0%
Cost-of-living adjustments for retirees	3.0% increases for years after age 53
Health Trend	Intermediate Trend

Notes to Required Supplementary Schedules

Description of Schedule of Funding Progress

An unfunded actuarially accrued liability exists when (1) actual financial experiences are less favorable than assumed financial experiences and (2) additional benefit obligations are applied to past service. Section 5505.121 of the Ohio Revised Code requires that an unfunded liability be systematically financed over a period of no more than thirty years.

In an inflationary economy, the value of a dollar decreases over time. While member payroll and unfunded actuarially accrued liabilities may be increasing in dollar amounts, the relative percentages of these factors may be declining. To account for this inconsistency, it is useful to measure the quotient of unfunded actuarially accrued liabilities divided by active member payroll. A smaller ratio indicates greater system strength. A declining ratio over time indicates an improving financial position.

Supplementary Information

Schedule of Administrative Expenses

Year Ending December 31, 2007

Personnel	<u>\$326,500</u>
Professional and Technical Services	
Computer services	37,057
Actuary	72,400
Education	34,387
Medical Consulting	2,438
Audit	16,000
Legal	7,386
Miscellaneous services by others	14,185
Medical services	4,532
Total Professional and Technical Services	<u>188,385</u>
Communications	
Printing	9,758
Postage	25,304
Telephone	8,571
Total Communications	<u>43,633</u>
Other Expenses	
Office Rent	65,923
Depreciation	8,020
Insurance	20,681
Equipment repairs and maintenance	3,560
Supplies	4,338
Miscellaneous	11,148
Ohio Retirement Study Council	3,063
Travel	19,546
Membership and subscriptions	2,013
New equipment	5,456
Total Other Expenses	<u>143,748</u>
Total Administrative Expenses	<u><u>\$702,266</u></u>

Above amounts do not include investment-related administrative expenses.

Schedule of Investment Expenses

Year Ending December 31, 2007

Personnel	<u>\$313,695</u>
Professional Services	
Investment services	4,519,182
Monitor services	<u>224,812</u>
Total Professional Services	<u>4,743,994</u>
Other Expenses	
Computer Services	37,058
Memberships and subscriptions	3,019
Printing and supplies	<u>8,829</u>
Total Other Expenses	<u>48,906</u>
Total Investment Expenses	<u>\$5,106,595</u>

Payments to Consultants

Year Ending December 31, 2007

<u>Consultant</u>	<u>Fee</u>	<u>Service</u>
Gabriel, Roeder, Smith & Co.	\$72,400	Actuarial
Kennedy, Cottrell + Associates	15,825	Auditing
Hartland & Co.	224,892	Investment
Earl N. Metz, M.D.	<u>2,438</u>	Medical
Total	<u>\$315,555</u>	

See Investment Section, pages 41-42, for payments to investment managers and brokers.

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

The Retirement Board
Ohio State Highway Patrol Retirement System

We have audited the combining statement of plan net assets of the Ohio State Highway Patrol Retirement System (HPRS), as of December 31, 2007, and the related combining statement of changes in plan net assets for the year then ended, and have issued our report thereon dated June 23, 2008, wherein we noted that HPRS implemented GASB Statement No. 50, *Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the U.S. Comptroller General.

Internal Control over Financial Reporting

In planning and performing our audit, we considered HPRS' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of HPRS' internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain additional matters that we reported to management of HPRS in a separate letter dated June 23, 2008.

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



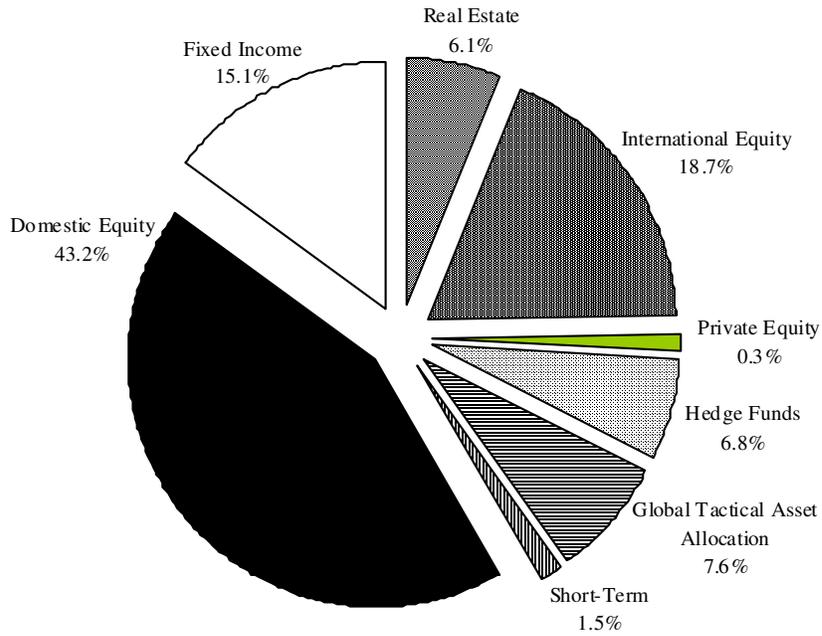
Kennedy Cottrell Richards LLC
June 23, 2008



Investment Section

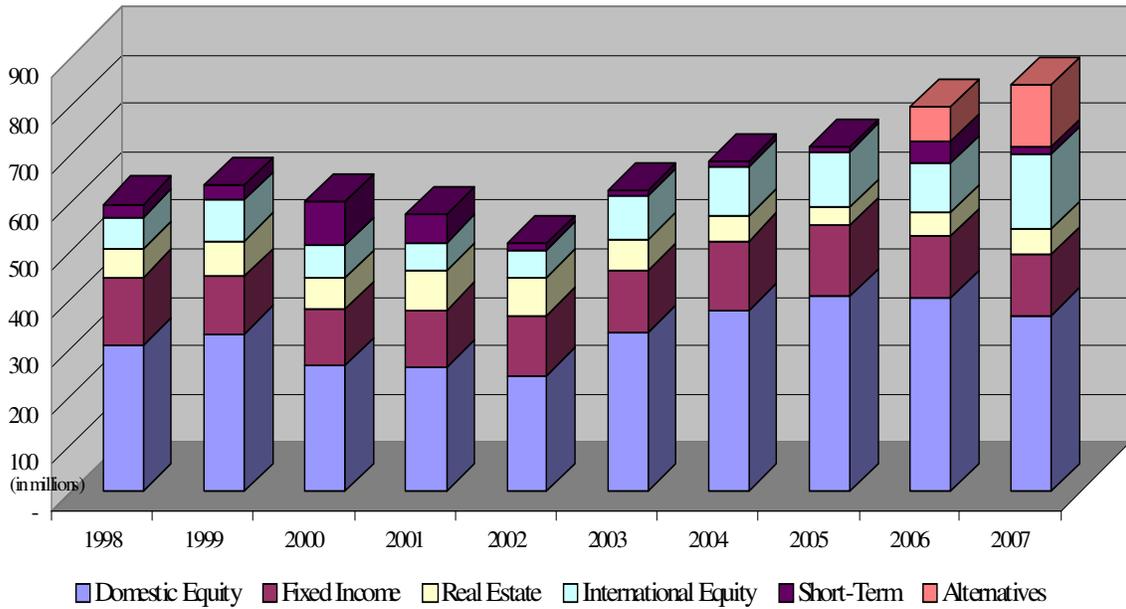
Investment Distribution

at Fair Value, December 31, 2007



Ten-Year Investment Comparison

at Fair Value, December 31, 2007



Report on Investment Activity

Year Ending December 31, 2007

General Market & Economic Conditions

2007 was the fifth straight year of positive returns for the S&P 500 Index (+5.5%). In fact, the Index hit an all-time high in October (in the middle of the market correction that began in July). Even though the stock markets have doubled since their 2002 lows when the tech bubble was bursting, it was another bubble that wreaked havoc on the markets in 2007. This time, a bubble in the housing market that started with the low interest rates and teaser mortgages allowed for a dramatic increase in home ownership and housing prices. The double-digit increase in median home prices of 2005 was clearly not sustainable and home prices actually dropped in 2007.

During the year, large cap stocks performed better than small caps as the Dow Jones Industrial Average gained 8.9% while the Russell 2000 Index lost 1.6%. The NASDAQ Composite Index added 11% and growth stocks markedly outpaced value stocks. The best performing style was large growth (+11.8%) and the worst performing style was small value (-9.8%) for the year. The sell-off was most acutely felt by Financials (-18.6%), which had their worst year since 1990. Financials were dragged down by significant subprime and/or credit related write-downs taken by industry bellwethers such as Merrill Lynch (\$22.4 billion), Citigroup (\$19.9b) Morgan Stanley (\$9.4b) and Bank of America (\$3.0b). On the other hand, Energy (+33.8%) was the best performing sector as oil rose by nearly 60%.

On the surface, the MSCI EAFE Index was up over 11% for 2007 and has bested the S&P 500 Index for 6 straight years, but when you drill into the currency effect you get a somewhat different story. The dollar weakened against all major currencies, including the euro (-10.3%), the yen (-5.3%), and the pound (1.8%). When measured in local currency, the EAFE Index produced a return of only 4.0%, which was less than that of the S&P 500 at 5.5%.

Emerging markets equities registered impressive gains for the fifth consecutive year as strong commodity demand and robust economies, particularly China and India, tempered concerns about deteriorating global credit markets and slowing growth in the U.S. The MSCI Emerging Markets Index rose 39% in 2007. The BRIC countries saw significant advances in 2007 with Brazil (+80%), India (+73%), China (+66%) and Russia (+25%) all advancing significantly.

The softness in the U.S. housing market, as well as concerns about the strength of the U.S. economy, led to a dramatic correction in the REIT market as the NAREIT dropped 15.7% for the year. The biggest decline came in the residential sector (-25.2%). Elsewhere within alternative strategies, hedge funds outperformed traditional equities for the year with the HFR Fund of Funds Index advancing 9.9% (compared to the S&P 500's gain of 5.5%).

2007 was Ben Bernanke's first full year as Chairman of the Federal Reserve and what a full year it was. By the time Bernanke came into office, the Fed was well on its way of tightening liquidity by increasing the Federal Funds Rate from 1.00% up to 5.25% in 2006. That tightening led to higher reset interest rates on adjustable rate mortgages, which led to increased mortgage loan defaults, which led to a seizure in derivative and credit markets as investors rushed out of everything but treasuries. Those calling for lower interest rates got what they were looking for when the Fed lowered rates 50 basis points (0.50%) in September and 25 basis points (0.25%) in both October and December (down to 4.25%).

The Lehman Aggregate Index, a combination of treasury, corporate and securitized debt, returned 7% in 2007. Investment-grade corporate bond spreads widened to 181 basis points over Treasuries while high-yield spreads moved to 559 basis points over Treasuries from historically narrow levels. High yield securities were hit the hardest by the sell-off and were the worst performing component of the fixed income market for the year. Treasury Inflation Protected Securities, or TIPS, on the other hand, performed best for the quarter and the year as investors were attracted to the inflation protection and benefited from the longer duration characteristic.

Source: Hartland & Co.

Investment Operations

During 2006, several changes to the investment portfolio were commenced. These changes continued into 2007 and were mostly completed by mid-year. The central theme of these changes was to mitigate risk through the use of non-correlated investments.

Hartland & Co. offered advice based on their experience with various alternative investment styles and managers. New investment opportunities were funded from more traditional asset classes. This created more balance and opportunity for better returns when financial markets rapidly swing from positive to negative returns.

Careful attention was given to matching expected returns to liabilities. This process insures that funds will be available to meet future obligations and that only the appropriate level of risk is taken to achieve those returns.

Several of the investment opportunities initiated during 2006-2007 have extended investment periods. It is typical of these investments to have drawdown periods for several years before returns are realized. By carefully matching these investment vehicles with others that provided immediate positive returns, HPRS was able to mitigate the negative impact of what is typically called the "J-Curve."

During 2007, HPRS continually monitored existing investment managers for performance and stability. In some cases, funds were transferred from manager to manager to improve performance. In other cases, managers were terminated and replaced with more productive investment opportunities. Care was given to balance active and passive investment techniques to capitalize on performance and to minimize fees.

Because of the continuing market decline, some new investment opportunities were considered and implemented, especially in the distressed debt area. These investments are intended to provide liquidity to lenders, and ultimately to borrowers, and to provide substantial returns to the HPRS.

The last half of 2007 was particularly difficult for institutional investors. The financial markets reclaimed most of the gains achieved during the first half of the year and funds like HPRS struggled to meet their actuarial rates of return. These types of financial market conditions are expected to continue through the next three years.

The following *Schedule of Investment Results* presents HPRS investment returns as calculated by Hartland & Co. using time-weighted rates of return based upon market values.

Report by Richard A. Curtis, Executive Director/Chief Investment Officer

Schedule of Investment Results

Year Ending December 31, 2007

	<u>2007</u>	<u>2006</u>	<u>3-Year</u>	<u>5-Year</u>
Domestic Equity	4.3%	15.2%	8.4%	14.8%
S&P 500	5.5	15.8	8.6	12.8
Russell 2500	1.4	16.2	8.4	17.0
International Equity	17.4	24.2	18.0	20.4
MSCI ACWI ex US	17.1	27.2	20.4	24.5
Fixed Income	5.9	5.5	5.1	5.4
Lehman Brothers Aggregate	7.0	4.3	4.6	4.4
Real Estate	9.9	11.4	12.0	10.2
NCREIF	16.3	16.6	17.6	15.2
Alternatives [▲]	8.7	--	--	--
HFRI Fund of Funds Composite	9.9	10.4	9.3	9.3
CPI + 5%	9.8	7.7	8.7	8.3
Total Fund	7.5	13.9	9.4	12.8
Absolute Objective	8.0	8.0	8.0	8.0
Relative/Composite Benchmark [▶]	8.5	14.7	10.4	13.4

▲ Includes Private Equity, Hedge Funds, and Global Tactical Asset Allocation

▶ Relative/Composite Benchmarks:

2007: 30% S&P 500, 15% Russell 2500, 15% MSCI ACWI ex US, 20% Lehman Brothers Aggregate, 5% NCREIF, 5% HFRI Fund of Funds, and 10% CPI+5%.

2006: 32% S&P 500, 16% Russell 2500, 15% MSCI EAFE, 25% Lehman Brothers Aggregate, and 12% NCREIF.

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

Source: Hartland & Co.

Investment Summary

December 31, 2007

<u>Portfolio Type</u>	<u>Fair Value</u>	<u>% of Total Fair Value</u>	<u>Policy %</u>
Domestic Equity	\$362,982,220	43.2	45.0
International Equity	156,923,197	18.7	15.0
Fixed Income	127,101,792	15.1	20.0
Real Estate	51,107,904	6.1	5.0
Alternatives [▲]	129,123,247	15.4	15.0
Short-Term	12,225,581	1.5	0.0
Total	<u>\$839,463,941</u>	<u>100.0</u>	<u>100.0</u>

▲ Includes Private Equity, Hedge Funds, and Global Tactical Asset Allocation

A complete list of portfolio holdings begins on page 34.

Largest Equity Holdings (by Fair Value)

December 31, 2007

	<u>Shares</u>	<u>Fair Value</u>
Exxon Mobil Corp	37,400	\$3,504,006
General Electric Co	92,600	3,432,682
Microsoft Inc	75,800	2,698,480
Merck & Co Inc	36,600	2,126,826
ConocoPhillips	23,800	2,101,540
Johnson & Johnson	27,500	1,834,250
International Business Machines	16,800	1,816,080
Owens-Illinois Inc	35,400	1,752,300
Annaly Capital Management Inc	96,200	1,748,916
Walmart Stores Inc	33,900	1,611,267

Investment Portfolio

December 31, 2007

Domestic Equity Securities

	<u>Shares</u>	<u>Fair Value</u>		<u>Shares</u>	<u>Fair Value</u>
3M Co	2,100	\$177,072	Arrow Electrics Inc	4,500	\$176,760
A A R Corp	10,400	395,512	Arthrocare Corp	2,810	135,021
AGL Resources Inc	13,100	493,084	Ashland Inc	15,800	749,394
AK Steel Holding Corp	8,000	369,920	Assurant Inc	5,200	347,880
Ansys Inc	5,550	230,103	Astoria Financial Corp	17,200	400,244
ATMI Inc	9,700	312,825	AT&T Inc	38,000	1,579,280
ATP Oil & Gas Corp	11,600	586,264	Atheros Communications Inc	5,380	164,305
Abbott Labs	17,600	988,240	Atmel Corp	66,600	287,712
ACI Worldwide Inc	21,500	409,360	Automatic Data Processing Inc	9,300	414,129
Acme Packet Inc	9,250	116,458	Autozone Inc	1,200	143,892
Acorda Therapeutics Inc	6,180	135,713	Avery Dennison Corp	8,700	462,318
Actuant Corp	18,520	629,865	Avis Budget Group Inc	2,400	31,200
Adams Respiratory Therapeutics Inc	4,070	243,142	Avnet Inc	7,200	251,784
Advance America Cash Advance Centers	40,200	408,432	Avon Products Inc	1,100	43,483
AECOM Technology Corp	6,390	182,562	BB & T Corp	10,900	334,303
Aetna Inc	2,100	121,233	BE Aerospace Inc	4,320	228,528
Affiliated Managers Group Inc	5,700	669,522	BMC Software Inc	10,400	370,656
AFLAC Inc	400	25,052	Baker Hughes Inc	600	48,660
Air Products & Chemicals Inc	1,000	98,630	Ball Corp	3,000	135,000
Aircastle Ltd	13,400	352,822	Bally Technologies Inc	4,070	202,360
Airtran Holdings Inc	11,130	79,691	Bank of America Corp	33,582	1,385,593
Albemarle Corp	200	8,250	Barnes & Noble Inc	10,300	354,835
Alberto Culver Co	100	2,454	Baxter International Inc	12,500	725,625
Alcoa Inc	26,400	964,920	Bearingpoint Inc	87,500	247,625
Alexion Pharmaceuticals Inc	8,300	622,749	BEBE Stores Inc	8,820	113,425
Allegheny Energy Inc	1,400	89,054	Beckman Coulter Inc	1,300	94,640
Allegheny Technologies Inc	600	51,840	Becton Dickinson & Co	600	50,148
Allergan Inc	80	5,139	Bemis company Inc	15,800	432,604
Alliance Data Systems Corp	300	22,497	Big Lots Inc	500	7,995
Alliant Techsystems Inc	1,700	193,392	Biomarin Pharmaceutical Inc	4,270	151,158
Allscripts Healthcare Solutions Inc	4,740	92,051	Black & Decker Corp	9,150	637,298
Allstate Corp	7,700	402,171	Block, H R Inc	20,200	375,114
Altria Group Inc	1,000	75,580	Boeing Co	5,400	472,284
Amazon Company Inc	9,000	833,760	Borders Group Inc	12,700	135,255
AMCOL International Corp	8,300	299,049	Borg Warner Inc	21,700	1,050,497
American International Group Inc	17,200	1,002,760	Borland Software Corp	31,400	94,514
Ametek Inc	13,650	639,366	Boston Private Financial Holdings	5,230	141,628
Amgen Inc	6,900	320,436	Brinker International Inc	6,400	125,184
Amylin Pharmaceuticals Inc	600	22,200	Bristol-Myers Squibb Co	49,400	1,310,088
Analog Devices Inc	26,800	849,560	Brocade Communications Systems	58,600	430,124
Angiotech Pharmaceuticals Inc	40,200	139,896	Brown forman Corp Class B	1,700	125,987
Anheuser-Busch Compaines Inc	800	41,872	Brunswick Corp	18,200	310,310
Annaly Capital Management Inc	96,200	1,748,916	Bucyrus International Inc	2,210	219,652
AnnTaylor Stores Inc	3,370	86,137	Build A Bear Workshop Inc	10,400	145,080
Anworth Mortgage Asset Corp	45,800	378,308	CEC Entertainment, Inc	11,650	302,434
Apache Corp	2,500	268,850	CONSOL Energy Inc	9,600	686,592
Apollo Group Inc Class A	4,000	280,600	CSX Corp	6,600	290,268
Apple Inc	6,100	1,208,288	CVS/Caremark Corp	7,478	297,251
Aqua America Inc	23,200	491,840	Cablevision Systems NY Group Class A	6,900	169,050
Arch Cap Group Ltd	8,300	583,905	Cabot Corp	12,300	410,082
Arch Chemicals Inc	10,400	382,200	Cadence Design Systems Inc	2,400	40,824
Archer Daniels Midland Co	6,100	283,223	Cal Dive International Inc	7,640	101,154

Domestic Equity Securities (continued)

	<u>Shares</u>	<u>Fair Value</u>		<u>Shares</u>	<u>Fair Value</u>
Cameron International Corp	1,800	\$86,634	Convergys Corp	13,300	\$218,918
Campbell Soup Co	20,300	725,319	Corinthian College Inc	50,400	776,160
Cardinal Health Inc	1,100	63,525	Corning Inc	500	11,995
Career Education Corp	1,700	42,738	Corrections Corp of America	22,900	675,779
Carlisle Cos Inc	1,000	37,030	Corus Bankshares Inc	14,800	157,916
Carrizo Oil & Gas Inc	2,380	130,305	Covance Inc	1,400	121,268
Carters Inc	5,260	101,781	Coventry Health Care Inc	1,600	94,800
Cash America International Inc	17,500	565,250	Crane Co	4,300	184,470
Caterpillar Inc	9,400	682,064	Crocs Inc	5,700	209,817
CBRE Realty Finance Inc	17,400	92,916	Crown Holdins Inc	21,700	556,605
CBS Corp	9,600	261,600	Cubist Pharmaceuticals Inc	3,780	77,528
Celanese Corp	5,800	245,456	Cullen Frost Bankers Inc	7,800	395,148
Celgene Corp	4,400	203,324	Cummins Inc	1,600	203,792
Central European Distributon Corp	2,040	118,483	Cypress Semiconductor Corp	1,900	68,457
Century Aluminum Co	4,600	248,124	DTE Energy Co	4,000	175,840
CenturyTel Inc	9,500	393,870	Darden Restaurants Inc	4,300	119,153
Charles River Laboratories	700	46,060	DeVry Inc	2,600	135,096
Chemtura Corp	30,400	237,120	DealerTrack Holdings Inc	4,210	140,909
Cheniere Energy Inc	1,300	42,432	Deckers Outdoor Corp	1,250	193,825
Chesapeake Energy Corp	10,700	419,440	Deere & Co	200	18,624
Chevron Corp	17,000	1,586,610	Deerfield Captial Co	20,800	166,400
Chubb Corp	8,500	463,930	Del Monte Foods Co	46,800	442,728
Church and Dwight Inc	15,200	821,864	Dell Inc	1,600	39,216
Church and Dwight Inc	5,100	274,023	Delta Air Lines Inc	2,800	41,692
Cimarex Energy Co	6,713	285,504	Denbury Resources Inc	27,600	821,100
Cisco Systems Inc	48,100	1,302,067	DENTSPLY International Inc	1,900	85,538
Citigroup Inc	37,400	1,101,056	DexCom Inc	11,810	104,282
Citizens Communications Co	48,500	617,405	Del Monte Foods Co	1,100	156,200
CLARCOR Inc	4,370	165,929	Dicks Sporting Goods Inc	10,200	283,152
Clear Channel Communications Inc	600	20,712	Diebold Inc	13,200	382,536
Cleveland Cliffs Inc	500	50,400	Digital River Inc	2,250	74,408
Clorox Co	12,900	840,693	DIRECTV Group Inc	6,600	152,592
CME Group Inc	400	274,400	Discovery Holdings Co	12,600	316,764
Coach Inc	7,200	220,176	Disney, Walt Co	160	5,165
Coca Cola Co	12,900	791,673	Dollar Tree Stores, Inc	7,100	184,032
Coca-Cola Enterprises Inc	5,700	148,371	Domtar Corp	9,600	73,824
Cohen & Steers Inc	3,310	99,201	Donnelley R R & Sons Co	34,300	1,294,482
Colgate Palmolive Co	6,200	483,352	Dover Corp	18,300	843,447
Colonial BancGroup Inc	24,900	337,146	Dow Chemical	13,100	516,402
Comcast Corp Class A	2,250	41,085	Dreamworks Animation SKG Inc	14,000	357,560
Comerica Inc	6,400	278,592	Dresser-Rand Group Inc	6,700	261,635
Commerce Group Inc	5,700	205,086	Dril-Quip, Inc	3,120	173,659
CommScope Inc	4,500	221,445	DSW Inc	1,810	33,956
Computer Sciences Corp	5,100	252,297	Dun & Bradstreet Corp	800	70,904
Compuware Corp	1,300	11,544	Dycom Industries Inc	8,400	223,860
Comtech Telecommunications Corp	20,300	1,096,403	Dynegy Inc Class A	1,900	13,566
Comverse Technology Inc	15,000	258,750	EMC Corp	15,700	290,921
Conway Inc	3,800	157,852	East West Bancorp Inc	13,600	329,528
ConAgra Foods Inc	31,400	747,006	Eaton Corp	4,200	407,190
Concho Resources Inc	7,640	157,460	Eaton Vance Corp	2,700	122,607
Concur Technologies Inc	3,460	125,287	EchoStar Communications Class A	7,900	297,988
CONMED Corp	31,900	737,209	Eli Lilly & Co	9,200	491,188
ConocoPhillips	23,800	2,101,540	Endo Pharmaceuticals Holdings Inc	1,500	40,005
Constellation energy Group, Inc	5,600	574,168	Energen Corp	9,200	590,916

Domestic Equity Securities (continued)

	<u>Shares</u>	<u>Fair Value</u>		<u>Shares</u>	<u>Fair Value</u>
Energizer Holdings Inc	3,000	\$336,390	Greenhill & Co Inc	2,640	\$175,507
Equitable Resources Inc	800	42,624	GSI Commerce Inc	8,130	158,535
Esterline Technologies Corp	17,870	924,773	Guess? Inc	3,600	136,404
Exelon Corp	1,500	122,460	Hain Celestial Group Inc	6,530	208,960
Expedia Inc	19,900	629,238	Hanesbrands Inc	12,100	328,757
Express Scripts Inc Class A	3,000	219,000	Harman International Industries Inc	1,500	110,565
Exxon Mobil Corp	37,400	3,504,006	Harrah's Entertainment Inc	5,600	497,000
FTI Consulting Inc	3,850	237,314	Harris Corp	400	25,072
F5 Networks Inc	10,300	293,756	Harsco Corp	3,100	198,617
FactSet Research Systems	600	33,420	Hartford Financial Services Group Inc	1,700	148,223
Family Dollar Stores Inc	6,200	119,226	Hasbro Inc	300	7,674
Federated Investors, Inc Class B	6,500	267,540	Health Net Inc	12,900	623,070
Fidelity National Information Services	1,700	70,703	Heartland Payment Systems Inc	5,040	135,072
First Energy Corp	7,050	509,997	Heinz H J Co	800	37,344
First Horizon National Corp	11,800	214,170	Hertz Global Holdings Inc	2,300	36,547
First Mercury Financial Corp	7,870	192,028	Hewitt Associates Inc Class A	3,500	134,015
First Midwest Bancorp Inc	3,460	105,876	Hewlett-Packard Co	24,200	1,221,616
First Solar Inc	800	213,712	Hexcel Corp	700	16,996
FirsFed Financial Corp	2,010	71,998	Health Inc	5,000	67,000
Flagstar Bancorp Inc	34,600	241,162	Holly Corp	800	40,712
Flowserve Corp	1,400	134,680	Hologic Inc	2,970	203,861
Fluor Corp	1,600	233,152	Home Depot Inc	35,500	956,370
FMC Technologies Inc	1,700	96,390	Honeywell International Inc	15,900	978,963
Foot Locker Inc	45,600	622,896	Hospira Inc	1,800	76,752
Forest City Enterprises Inc Class A	600	26,664	Hospitality Properties Trust	5,500	177,210
Forest Laboratories Inc	8,300	302,535	Hunt J B Transportation Services Inc	12,700	349,885
Forest Oil Corp	6,641	337,628	Huntsman Corp	15,600	400,920
FormFactor Inc	3,170	104,927	ITT Educational Services Inc	4,100	349,607
Foundry Networks Inc	27,940	489,509	Iconix Brand Group Inc	8,240	161,998
Franklin Resources Inc	200	22,886	Idearc Inc	17,800	312,568
Frontier Oil Corp	700	28,406	IDEX Corp	18,900	682,857
Fuller, H B Co	18,800	422,060	IDEXX Laboratories Inc	2,500	146,575
GameStop Corp Class A	4,700	291,917	Illinois Tool Works Inc	5,200	278,408
Gap Inc	30,900	657,552	Illumina Inc	3,250	192,595
Gardner Denver Inc	14,600	481,800	Intel Corp	15,200	405,232
Gemstar TV Guide International Inc	88,900	423,164	InterMune Inc	3,910	52,120
Gen Probe Inc	11,700	736,281	IntercontinentalExchange Inc	3,300	635,250
General Cable Corp	100	7,328	InterNAP Network Services Corp	6,700	55,811
General Electric Co	92,600	3,432,682	International Business Machines Corp	16,800	1,816,080
General Motors Corp	10,600	263,834	International Paper Co	29,400	951,972
Genesis Lease Ltd	14,900	279,524	Intersil Corp	4,600	112,608
Genworth Financial Inc Class A	12,900	328,305	Intuitive Surgical Inc	600	193,800
Geo Group Inc	7,490	209,720	Inverness Medical Innovations Inc	2,820	158,428
GFI Group Inc	800	76,576	Investment Technology Group Inc	9,300	442,587
Gilead Sciences Inc	1,400	64,414	Invitrogen Corp	7,300	681,893
Global Industries Ltd	7,900	169,218	ITC Holdings Corp	4,000	225,680
Goldman Sachs Group Inc	2,300	494,615	J P Morgan Chase & Co	26,700	1,165,455
Goodrich Corp	3,600	254,196	Jacobs Engineering Group Inc	1,500	143,415
Goodyear Tire & Rubber Co	10,900	307,598	Jarden Corp	38,100	899,541
Google Inc Class A	1,300	898,924	Johnson & Johnson	27,500	1,834,250
Graco Inc	11,600	432,216	Johnson Controls Inc	6,200	223,448
Grainger, WW Inc	2,100	183,792	Jones Apparel Group Inc	23,900	382,161
Grant Prideco Inc	15,600	865,956	Juniper Networks Inc	2,700	89,640

Domestic Equity Securities (continued)

	<u>Shares</u>	<u>Fair Value</u>		<u>Shares</u>	<u>Fair Value</u>
KB Home	9,200	\$198,720	Midas Inc	11,500	\$168,590
KLA Tencor Corp	400	19,264	Mirant Corp	9,200	358,616
Kellogg Co	700	36,701	Molex Inc	24,800	677,040
Kennametal Inc	1,000	37,860	MoneyGram International Inc	11,500	176,755
KeyCorp	10,500	246,225	Monsanto Co	1,300	145,197
Kimberly Clark Corp	6,700	464,578	Morgan Stanley	5,400	286,794
Kinetic Concepts Inc	10,900	583,804	MSC Industrial Direct Co Inc Class A	2,500	101,175
Kraft Foods Inc Class A	27,400	894,062	Mueller Water Products Inc Co Class B	29,554	294,653
Kroger CO	13,100	349,901	Murphy Oil Corp	10,100	856,884
L-3 Communications Holdings Inc	400	42,376	Mylan Labs Inc	13,000	182,780
Laboratory Corp of America Holdings	200	15,106	NBTY Inc	1,500	41,100
Lauder, Estee Class A	1,800	78,498	NCI Buildings Systems Inc	9,900	285,021
Leap Wireless International Inc	1,300	60,632	NCR Corp	1,100	27,610
Leggett & Platt Inc	22,100	385,424	Nstar	4,700	170,234
Lennox International Corp	5,900	244,378	NACCO Industries Inc Class A	1,600	159,504
Liberty Global Inc Class A	15,100	591,769	Nalco Holding Co	8,900	215,202
Life Time Fitness Inc	3,620	179,842	Nash-Finch Co	15,800	557,424
Limited Brands	33,300	630,369	National Oilwell Varco Inc	7,900	580,334
Linear Technology Corp	3,500	111,405	NAVTEQ Corp	2,600	196,560
LKQ Corp	10,320	216,926	Neehah Paper Inc	10,400	303,160
Lockheed Martin Corp	5,900	621,034	Ness Technologies Inc	28,900	266,747
Loews Corp	2,700	230,310	NEuStar Inc Class A	17,170	492,436
Lubrizol Corp	300	16,248	News Corp Inc Class	700	14,343
MBIA Inc	5,400	100,602	Nike Inc Class B	5,100	327,624
MEMC Electronic Materials Inc	1,200	106,188	NiSource Inc	25,300	477,917
MGM Mirage	6,900	579,738	Norfolk Southern Corp	7,200	363,168
Mair Holdings Inc	19,380	89,729	Northern Trush Corp	2,300	176,134
Manitowoc Co Inc	9,600	468,768	Northrop Grumman Corp	7,600	597,664
Manpower Inc	1,000	56,900	Northwest Airlines	2,000	29,020
Marathon Oil Corp	22,000	1,338,920	Novatel Wireless Inc	6,820	110,484
Mariner Energy Inc	7,010	160,389	NRG Energy Inc	26,300	1,139,842
Marshall & Ilsley Corp	17,900	473,992	Nuance Communications Inc	34,000	635,120
Martin Marietta Materials Inc	4,700	623,220	Nucor Inc	3,900	230,958
Masco Inc	34,900	754,189	NutriSystem Inc	6,800	183,464
Massey Energy Co	16,600	593,450	ON Semiconductor Corp	17,420	154,690
MasterCard Inc	3,500	753,200	Occidental Petroleum Corp	14,600	1,124,054
Mattel Inc	14,200	270,368	Oceaneering International Inc	400	26,940
Maxim Integrated Products Inc	32,300	855,304	OfficeMax Inc	28,700	592,942
McAfee Inc	2,600	97,500	Omnivision Technologies Inc	17,300	270,745
McCormick & Co Inc	13,000	492,830	Omnicom Group Inc	17,000	387,770
McCormick & Schmick's Seafood	5,390	64,303	Omniture Inc	3,510	116,848
McDermott International Inc	100	5,903	Omrix Biopharmaceuticals Inc	4,720	163,973
McDonalds Corp	600	35,346	Onyx Pharmaceuticals Inc	2,820	156,848
McKesson Corp	300	19,653	Openwave Systems Inc	20,300	52,780
Medco Health Solutions Inc	9,600	973,440	Oracle Corp	8,862	200,104
Mediacom Communications Corp	9,300	42,687	Oshkosh Corp	2,300	108,698
Medtronic Inc	1,800	90,486	OSI Pharmaceuticals Inc	21,500	1,042,965
Merck & Co Inc	36,600	2,126,826	Overseas Shipholding Group Inc	2,700	200,961
Mercury General Corp	14,800	737,188	Owens-Illinois Inc	35,400	1,752,300
Meredith Corp	12,500	687,250	PPG Industries Inc	10,900	765,507
Merrill Lynch & Co Inc	8,500	456,280	PPL Corp	9,400	489,646
MetroPCS Communications Inc	600	11,670	PACCAR Inc	3,200	174,336
Mettler-Toledo International Inc	2,000	227,600	Packaging Corporation of America	6,600	186,120
Microsoft Inc	75,800	2,698,480	Pall Corp	4,200	169,344

Domestic Equity Securities (continued)

	<u>Shares</u>	<u>Fair Value</u>		<u>Shares</u>	<u>Fair Value</u>
Parexel International Corp	4,600	\$222,180	Savient Pharmaceuticals Inc	7,530	\$172,964
Parker-Hannifin Corp	4,950	372,785	SBA Communications Corp	5,860	198,302
Paychex Inc	10,400	376,688	Schawk Inc	6,700	103,984
Pediatrix Medical Group Inc	8,000	545,200	Schein, Henry Inc	700	42,980
Penn National Gaming Inc	4,900	291,795	Schering Plough Corp	33,300	887,112
Pentair Inc	16,200	563,922	Scientific Games Corp	600	19,950
Pepco Holdings Inc	20,100	589,533	Sherwin Williams Co	7,400	429,496
Pepsi Bottling Group Inc	600	23,676	SI International Inc	4,380	120,319
PepsiCo Inc	12,900	979,110	Sierra Health Services Inc	4,000	167,840
Perkin Elmer Inc	2,500	65,050	Signature Bank	4,420	149,175
PetSmart Inc	21,400	503,542	Silgan Holdings Inc	19,260	1,000,364
Pfizer Inc	55,600	1,263,788	Silicon Laboratories Inc	10,700	400,501
Pharmaceutical Product Development	400	16,148	SiRF tEchnology Holdings Inc	4,540	114,090
PharmaNet Development Group Inc	29,700	1,164,537	SLM Corp	1,700	34,238
Pharmion Corp	11,000	691,460	Smith International Inc	3,700	273,245
Phillips-Van Heusen Corp	3,780	139,331	Solera Holdings Inc	8,870	219,799
Polaris Industries Inc	5,700	272,289	Sonoco Products Co	14,600	477,128
Polo Ralph Lauren Corp	2,000	123,580	Sonus Networks Inc	23,030	134,265
Polycom Inc	24,880	691,166	South Financial Group Inc	21,100	329,793
Precision Castparts Corp	9,000	1,248,300	Southern Copper Corp	4,000	420,520
Priceline Company Inc	1,820	209,045	Stericycle Inc	2,800	166,320
Pride International Inc	500	16,950	Stone Energy Corp	3,900	182,949
Procter & Gamble Co	21,292	1,563,259	Stryker Corp	8,300	620,176
Progenics Pharmaceuticals Inc	5,230	94,506	Sunoco Inc	12,300	891,012
Protective Life Corp	11,200	459,424	SunPower Corp	200	26,078
Prudential Financial Inc	6,500	604,760	Sunstone Hotel Investments Inc	8,600	157,294
Psychiatric Solutions Inc	3,550	115,375	SunTrust Banks Inc	9,500	593,655
Puget Energy Inc	5,600	153,608	Superior Energy Services Inc	4,000	137,680
Qualcomm Inc	600	23,610	Symantec Corp	7,700	124,278
Quanta Services Inc	1,500	39,360	Synaptics Inc	3,790	155,996
Quest Diagnostics Inc	2,800	148,120	Synchronoss Technologies Inc	4,230	149,911
Questar Corp	200	10,820	TCF Financial Corp	14,200	254,606
R H Donnelley Corp	15,881	579,339	T-3 Energy Services Inc	1,930	90,729
RTI International Metals Inc	1,380	95,123	Taleo Corp	3,400	101,252
RadioShack Corp	7,700	129,822	Target Corp	200	10,000
Range Resources Corp	11,000	564,960	TECO Energy Inc	17,000	292,570
Raytheon Co	200	12,140	Telephone & Data Systems Inc	1,200	75,120
RBC Bearings Inc	4,700	204,262	TeleTech Holdings Inc	5,200	110,604
Red Hat Inc	23,000	479,320	Tellabs Inc	14,600	95,484
Regal Entertainment Group	1,800	32,526	Tenneco Inc	5,180	135,043
Reliance Steel & Aluminum Co	300	16,260	Teradata Corp	900	24,669
Reliant Energy Inc	30,000	787,200	Terexa Corp	700	45,899
Rent-A-Center Inc	25,300	367,356	Tesoro Corp	9,900	472,230
Republic Services Inc	1,100	34,485	Tessera Technologies Inc	4,760	198,016
ResMed Inc	11,200	588,336	Texas Instruments Inc	3,600	120,240
Respironics Inc	17,500	1,145,900	Textron Inc	1,500	106,950
RITE Aid Corp	74,800	208,692	The Hershey Co	18,000	709,200
Rockwell Automation Inc	1,600	110,336	The Mosaic Co	2,100	198,114
Rohm & Haas Co	19,500	1,034,865	Thermo Fisher Scientific Inc	700	40,376
Roper Industries Inc	300	18,762	Thomas & Betts Corp	7,500	367,800
RPM International Inc	23,600	479,080	Thoratec Corp	7,290	132,605
SCANA Corp	12,400	522,660	Tibco Software Inc	10,530	84,977
SPX Corp	5,900	606,815	Tidewater Inc	1,100	60,346
Santarus Inc	95,400	262,350	Tiffany & Co	1,600	73,648

Domestic Equity Securities (continued)

	<u>Shares</u>	<u>Fair Value</u>		<u>Shares</u>	<u>Fair Value</u>
Time Warner Cable Inc Class A	1,000	\$27,600	Wintrust Financial Corp	1,900	\$62,947
Time Warner Inc	24,500	404,495	Wright Express Corp	4,650	165,029
Time Warner Telecom Inc	3,420	69,392	Wrigley, Wm Jr Co	5,300	310,315
Timken Co	13,300	436,905	Wyeth	17,100	755,649
Torchmark Corp	10,500	635,565	XTO Energy Inc	1,350	69,336
Toro Co	2,200	119,768	Xerium Technologies Inc	32,600	169,520
Transatlantic Holdings Inc	200	14,534	Xerox Corp	18,200	294,658
Travelers Companies Inc	10,200	548,760	YRC Worldwide Inc	4,400	75,196
Trimble Navigation Limited New	4,100	123,984	Zenith National Insurance Corp	12,150	543,470
URS Corp	3,450	187,439	Zimmer Holdings Inc	4,300	284,445
U S Bancorp	13,800	438,012	Zoltek Companies Inc	3,670	157,333
UST Inc	300	16,440	Total Domestic Equity Securities	6,414,334	\$211,261,236
Union Pacific Corp	1,300	163,306			
UnionBanCal Corp	3,300	161,403	Domestic Equity Commingled Funds		<u>Fair Value</u>
Unit Corp	900	41,625	DFA Small Cap Subtrust		\$14,638,751
United Health Group Inc	4,320	251,424	SSGA S&P 500 Flagship Fund		60,493,706
United Online Inc	36,400	430,248	World Asset Mgmt Russell 2000		12,364,997
United Parcel Service Inc Class B	8,600	608,192	World Asset Mgmt Russell Mid-Cap		34,223,530
United States Steel Corp	2,300	278,093	Wellington Mgmt Diversified Growth		30,000,000
United Technologies Corp	1,000	76,540	Total Domestic Equity Commingled Funds		\$151,720,984
United Therapeutics Corp	1,900	185,535			
Universal Health Services Inc Class B	200	10,240	Total Domestic Equity		\$362,982,220
Urban Outfitters Inc	18,300	498,858			
Valero Energy Corp	10,800	756,324	International Equity Securities	<u>Shares</u>	<u>Fair Value</u>
Valspar Corp	18,100	407,974	Accenture Ltd	5,400	\$194,562
Varian Semiconductor Equipment	2,600	96,200	Allied World Assurance Holdings	8,100	406,377
Ventana Medical Systems Inc	6,300	549,549	Amdocs Limited	17,600	606,672
Verifone Holdings Inc	4,130	96,023	Central European Media Ent A	100	11,598
VeriSign Inc	1,700	63,937	COGNOS Inc	18,500	1,065,045
Verizon Communications Inc	24,400	1,066,036	Cooper Industries Ltd	2,000	105,760
Virgin Media Inc	23,272	398,882	Elan Corp plc (ADR)	59,500	1,307,810
Vishay Intertechnology Inc	1,000	11,410	Embraer Empresa Brasileira DE (ADR)	8,800	401,192
Vmware Inc Class A	300	25,497	Everest RE Group Ltd	9,100	913,640
Volcano Corp	15,200	190,152	Foster Wheeler Ltd	2,000	310,040
Vulcan Materials Co	3,117	246,524	Frontline Ltd	400	19,200
WABCO Holdings Inc	400	20,036	Garmin Ltd	1,300	126,100
Wachovia Corp	9,100	346,073	Ingersol Rand Co	9,300	432,171
Walmart Stores Inc	33,900	1,611,267	JA Solar Holdings Co (ADR)	2,380	166,148
Walgreen Co	800	30,464	Kinross Gold Corp	7,700	141,680
Walter Industries Inc	8,300	298,219	MellanoX Technologies Ltd (ADR)	8,810	160,518
Washington Federal Inc	34,712	732,770	MF Global Ltd	22,600	711,222
Washington Mutual Inc	6,200	84,382	Nice Systems Ltd Sponsored (ADR)	5,350	183,612
Waste Management Inc	31,700	1,035,639	Noble Corp	2,700	152,577
Waters Corp	1,600	126,512	Orient-Express Hotel Ltd	1,990	114,465
Watson Pharmaceuticals Inc	5,900	160,126	Petrobank Energy & Resources	3,540	207,212
WellCare Health Plans Inc	800	33,928	Renaissance RE Holdings Ltd	9,500	572,280
Wells Fargo & Co	24,800	748,712	Sappi Limited (ADR)	15,300	220,626
WESCO International Inc	11,100	440,004	Satyam Computer (ADR)	10,600	283,232
Western Digital Corp	8,700	262,827	Schlumberger Ltd	18,800	1,849,356
Whirlpool Corp	2,100	171,423	Seagate Technology	12,800	326,400
Whiting Petroleum Corp	7,100	409,386	Syneron Medical Ltd	30,700	410,459
Wiley, John & Sons Inc	200	8,568			
Wilmington Trust Corp	16,200	570,240			
Windstream Corp	47,000	611,940			

International Equity Securities (continued)

	<u>Shares</u>	<u>Fair Value</u>
Taiwan Semiconductor Mfg (ADR)	75,928	\$756,243
Thompson Creek Metals Co Inc	8,060	137,907
Transocean Inc	3,623	518,632
Uranium One Inc	10,880	96,589
Vistaprint Ltd	3,130	134,121
Warner Chilcott Ltd Class A	2,900	51,417
Weatherford Intl Ltd	1,800	123,480
XL Capital Ltd	3,000	150,930
Total International Equity Securities	404,191	\$13,369,273

International Equity Commingled Funds

	<u>Fair Value</u>
World Asset Mgmt Foreign Equity Fund	\$48,658,954
Julius Baer Int'l Equity II Group Trust Fund	62,224,530
Manning & Napier Overseas Series	30,509,376
World Asset Mgmt Russell 2000 (ADR's)	452,539
World Asset Mgmt Russell Mid-Cap (ADR's)	1,708,525
Total Int'l Equity Commingled Funds	\$143,553,924

Total International Equity	\$156,923,197
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Fixed Income Commingled Funds

	<u>Fair Value</u>
JP Morgan Investment Management	\$43,180,077
Wells Capital Management	50,056,841
Western Asset - High Yield Portfolio	7,413,837
Western Asset - Strategic Emerging Markets LLC	12,287,145
Western Asset - Strategic Non-Hedge LLC	14,163,892
Total Fixed Income Commingled Funds	\$127,101,792

Real Estate

	<u>Fair Value</u>
Timbervest	\$38,325,735
Fidelity Management Trust Company (FREG I)	2,218,523
Fidelity Management Trust Company (FREG II)	3,157,663
World Asset Mgmt Russell 2000 (REIT's)	1,039,955
6161 Busch Blvd, Columbus, OH 43229	1,776,028
6500 Busch Blvd, Columbus, OH 43229	2,650,000
Total Real Estate	\$51,107,904

Private Equity

	<u>Fair Value</u>
Kayne Anderson Energy Fund IV	\$287,685
Pantheon USA Fund VII, LP	2,609,456
CSFB Private Equity Opportunities Fund LP	5,152,581
Total Private Equity	\$8,049,722

Fund of Hedge Funds

	<u>Fair Value</u>
Evanston Capital Weatherlow Offshore Fund II	\$18,331,293
Feingold O'Keeffe Distressed Loan Fund	4,000,000
Lehman Bros Offshore Diversified Arbitrage Fund II	16,010,696
Protégé Partners, LP	8,326,458
Protégé Opportunistic Fund, LP	2,175,315
Sankaty Propsect Harbor Credit Partners, LP	4,000,000
Seix Credit Opportunities Fund, LLC	4,045,415
Total Funds of Hedge Funds	\$56,889,177

Global Tactical Asset Allocation

	<u>Fair Value</u>
Mellon Capital EB Global Alpha II Fund	\$19,531,444
PanAgora Portable Alpha Fund	23,268,618
PIMCO Funds StockPLUS, LP Fund A	21,384,286
Total GTAA	\$64,184,348

Total Investments, at Fair Value	\$827,238,360
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Summary Schedule of Investment Manager Fees

Year Ending December 31, 2007

<u>Manager</u>	<u>Assets Managed, 12/31/07</u>	<u>Fees</u>
Brandywine Asset Management	\$37,278,251	\$274,548
Credit Suisse Alternative Investments	5,152,581	196,875
DePrince, Race & Zollo, Inc.	41,316,423	304,320
Dimensional Fund Advisors	14,638,751	14,847
Eubel, Brady & Suttman	---	56,294
Evanston Capital Management LLC	18,331,293	447,098
Feingold O'Keefe Capital	4,000,000	---
Fidelity Management Trust Company	5,376,186	25,728
Fred Alger Management, Inc.	14,813,033	44,361
HPRS Internal Staff (real estate)	4,590,000	---
INTECH	59,245,312	401,051
JPMorgan Fleming Asset Management	43,180,077	116,282
Julius Baer Investment Management LLC	62,224,530	407,192
Kayne Anderson Capital Advisors, LP	287,685	47,864
Lehman Brothers Alternative Investment Management LLC	16,010,696	159,404
LSV Asset Management	43,943,496	40,234
MacKay Shields Investment Management LLC	---	85,139
Manning & Napier Fund, Inc.	30,509,377	225,644
Mellon Capital Management	19,531,444	155,049
PanAgora	23,268,618	165,987
Pantheon Ventures, Inc.	2,609,456	132,280
PIMCO	21,384,286	176,990
Protégé Partners, LLC	10,501,773	33,699
Sankaty Advisors, LLC	4,000,000	---
Seix Investment Advisors, LLC	4,045,415	16,354
State Street Global Advisors	60,493,706	33,985
Timbervest	38,325,735	258,166
Wellington Management	30,000,000	---
Wells Capital Management	50,056,841	129,828
Western Asset	33,864,874	148,789
Westfield Capital Management	28,033,993	265,943
World Asset Management	100,224,528	85,733
Total	<u>\$827,238,360</u>	<u>\$4,449,683</u>

Summary Schedule of Broker Fees

Year Ending December 31, 2007

<u>Brokers</u>	<u>Fees</u>	<u>Shares</u>	<u>Average Cost</u>
Abel Noser	9,387	626,081	0.015
Broadcort Capital Corp	14,314	1,101,101	0.013
Capital Institutional Services	32,323	2,037,715	0.016
Deutsche Bank Securities, Inc	10,161	449,520	0.023
Donaldson & Co	41,732	3,233,466	0.013
Guzman & Co	13,151	575,192	0.023
Instinet	15,049	763,300	0.020
Jefferies & Co	12,119	689,664	0.018
Merrill Lynch	7,130	617,336	0.012
Morgan Stanley & Co	6,683	409,350	0.016
Robert W. Baird & Co Inc	11,892	792,785	0.015
Rosenblatt Securities Inc	14,064	622,726	0.023
UBS Securities LLC	14,750	688,177	0.021
Weeden & Co	23,378	1,352,056	0.017
Other	15,744	809,106	0.028
Total	<u>\$241,877</u>	<u>14,767,575</u>	<u>\$0.016</u>

Investment Objectives, Policies, and Guidelines

Objectives

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

Policies

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

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

Investment Guidelines for Specific Asset Classes

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

1. U.S. equities will represent from 40 to 50 percent of the market value of total fund assets with a targeted average of 45 percent. The term "equities" includes common stock, convertible bonds, and convertible stock.

2. Non-U.S. equities will represent from 10 to 20 percent of the market value of total fund assets with a targeted average of 15 percent.
3. U.S. fixed income obligations, including cash, will represent from 15 to 25 percent of the market value of total fund assets with a targeted average of 20 percent. Intermediate-term bonds may include contractual payments, preferred stocks, and bonds with a maturity date greater than one year and less than or equal to ten years. Long-term bonds have a maturity date greater than ten years.
4. Investments in alternatives will represent from 15 to 25 percent of the market value of total fund assets with a targeted average of 20 percent. The term "alternatives" includes real estate, hedge funds, private equity, and Global Tactical Asset Allocation.

Asset Allocation

As the result of an asset allocation study, the following was adopted as part of the system's overall Investment Policy in December 2006:

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

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

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

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

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

in a combination of U.S. government bonds, U.S. agency bonds, and domestic corporate bonds.

Equities. Equities may include common stock, preferred stock, and securities convertible into common stock.

International Securities. The fund may invest in both equity and fixed income securities issued by sovereign governments and corporations.

Alternative Investments. The fund may invest in alternatives with individual fund managers or with fund of funds managers.

Real Estate. The fund may invest in improved or unimproved real property, mortgage collective investment funds (Real Estate Investment Trusts or Real Estate Funds), notes secured by real property, mortgage-backed bonds, and pass-through securities backed by mortgages.

The real estate portfolio will be constructed and managed to –

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

Performance

Comparative performance measurement of the total fund and its components will be conducted at least quarterly to insure that fund managers are providing added value to the general market values. Large capitalization equity returns are expected to exceed the S&P 500 benchmark (generally accepted as the "market") by 1% annually over a market cycle (generally three to five years). In addition, equity managers will be expected to exceed the median of their peer group as measured by style and capitalization. Small/mid capitalization managers are expected to exceed the Russell 2500 benchmark by 1% annually over a market cycle. Fixed income returns are expected to exceed the Lehman Brothers Aggregate Index.

International managers will be measured against the MSCI ACWI ex-US Index. Real estate managers will be compared to the NCREIF Index. Hedge Fund managers will be benchmarked to the HFRI Fund of Funds Index.

Private equity and GTAA managers will be measured against the Consumer Price Index, plus 5%.

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

- A minimum return target of 8 percent, representing the fund's actuarial assumption, and also representing the long-term inflation rate of 3 percent plus a risk premium of 5 percent.
- A composite reference benchmark composed of 30 percent S&P 500 Index, 15 percent Russell 2500 Index, 15 percent MSCI ACWI ex-US Index, 20 percent Lehman Brothers Aggregate Index, 5 percent NCREIF Index, 5 percent HFRI Fund of Funds Index, and 10 percent CPI+5%..

Investment Responsibilities

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

- establish performance goals,
- identify and review appropriate investment policy and guidelines,
- retain outside investment and actuarial counsel, and

- review the results of the fund on a regular basis and implement necessary changes in the investment policies, objectives, asset allocation, and investment managers.

Annual Review

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

Revised, October 25, 2007

Revised, June 16, 2005

Revised, June 26, 2003

Revised, November 15, 2001

Revised, June 22, 1999

Revised, March 13, 1997

Adopted and approved, September 7, 1994

Revised, June 29, 1994

Revised, September 5, 1990

Revised, June 1, 1988

Adopted and approved, June 11, 1986



Actuarial Section

June 26, 2008

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

Dear Board Members:

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

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

The financial objective is addressed within the annual actuarial valuation. The valuation process develops contribution rates that are sufficient to fund the plan's current cost (i.e., the costs assigned by the valuation method to the year of service about to be rendered), as well as to fund unfunded actuarial accrued liabilities as a level percent of active member payroll over a finite period. The most recent valuations were completed based upon population data, asset data, and plan provisions as of December 31, 2006.

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

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

Actuarial Section

Summary of Assumptions

Funding Method, Asset Valuation Method, Interest Rate

Payroll Growth

Probabilities of Age & Service Retirement

Probabilities of Separation from Active Employment Before Age & Service Retirement

Health Care and Medicare

Short-Term Solvency Test

Recent Experience in the Health Care Fund

Membership Data

Analysis of Financial Experience

Supplementary Schedules
Schedule of Funding Progress
Schedule of Employer Contributions
Notes to Trend Data

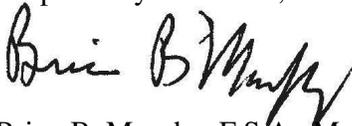
Assets are valued on a market related basis that recognizes each year's difference between actual and assumed investment return over a closed four-year period.

Actuarial valuations are based upon assumptions regarding future activity in specific risk areas including the rates of investment return and payroll growth, eligibility for the various classes of benefits, and longevity among retired lives. These assumptions are adopted by the Board after considering the advice of the actuary and other professionals. The assumptions and the methods comply with the requirements of Statements 25 and 43 of the Governmental Accounting Standards Board. Each actuarial valuation takes into account all prior differences between actual and assumed experience in each risk area and adjusts the contribution rates as needed. The assumptions used in the December 31, 2006 valuation were based upon a study of experience during the years 2000 through 2004.

Investment return during 2006 was greater than assumed, and the pension amortization period as of December 31, 2006 decreased to 28 years. The comparable figure from the 2005 valuation is 35 years. The Retiree Health Plan continues to be cause for concern. Based upon the present contribution rate allocation, the Plan is expected to remain solvent until 2024. Benefit payouts and available resources need to be brought in line before that time if the Plan is to continue to provide benefits similar to those currently provided.

Based upon the results of the December 31, 2006 valuations, we are pleased to report to the Board that the Highway Patrol Retirement System of Ohio is meeting its basic financial objective with respect to pensions and continues to operate in accordance with actuarial principles of level percent of payroll financing. Continued cost containment efforts can have a positive effect on the Retiree Health Plan, but we believe that additional contribution income is needed.

Respectfully submitted,



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



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

BBM:dks

Gabriel Roeder Smith & Company

Summary of Assumptions

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

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

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

Interest Rate. The investment return rates used in making valuations are 8.0% for pension assets and 6.5% for OPEB assets, compounded annually (net of administration expenses).

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

<u>Service Years</u>	<u>Merit & Seniority</u>	<u>Base (Economic)</u>	<u>Total</u>
1-2	10.0%	4.0%	14.0%
3-5	3.0	4.0	7.0
6-10	1.0	4.0	5.0
11 +	0.3	4.0	4.3

Other Assumptions. Each retiree is assumed to have a surviving spouse.

Beginning in 2008, health care costs are assumed to increase annually by 4.0%, plus an additional declining percentage ranging from 6.0-1.0% through 2013.

Each benefit recipient is assumed to be eligible for Medicare at age 65.

Postemployment mortality is based on 105% of the RP-2000 Combined Healthy Male and Female Tables.

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

Probabilities of Separation from Active Employment before Age & Service Retirement

Percentage of Active Members Separating Within Next Year

<u>Sample Age</u>	<u>Disability</u>	<u>Death</u>		
		<u>Men</u>	<u>Women</u>	<u>Other</u>
20	0.08%	0.02%	0.01%	2.57%
25	0.08	0.02	0.01	2.24
30	0.23	0.02	0.01	1.91
35	0.42	0.04	0.02	1.56
40	0.70	0.05	0.04	0.84
45	0.85	0.08	0.06	0.41
50	1.13	0.11	0.08	0.15
55	1.32	0.18	0.14	0.00

Probabilities of Age & Service Retirement

Percentage of Eligible Members Retiring Within Next Year

<u>Retirement Ages</u>	<u>Unreduced Benefit</u>	<u>Reduced Benefit</u>
48	40%	7%
49	35	7
50	25	7
51	30	7
52	30	--
53	30	--
54	40	--
55	25	--
56	25	--
57	25	--
58	30	--
59	35	--
60+	100	--

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

A short-term solvency test is one means of checking a system’s progress under its funding program. In a short-term solvency test, the plan’s current assets (cash and investments) are compared with (1) active member contributions on deposit, (2) the liability for future benefits to current retired lives, and (3) the liability for

service already rendered by active members. In a system that has been following the discipline of level percent financing, the liability for active member contributions on deposit (column 1 below) and the liability for future benefits to current retired lives (column 2 below) will be fully covered by current assets, except in rare

circumstances. In addition, the liability for service already rendered by active members (column 3 below) will be partially covered by the remainder of current assets. Generally, if the system has been using level cost financing, the funded portion of column 3 will increase over time.

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

Year	(1)	(2)	(3)	Valuation Assets	Percentage of Accrued Liabilities Covered by Reported Assets		
	Active Member Contributions	Retirees, Beneficiaries & Vested Deferreds	Active Members (Employer Financed Portion)		(1)	(2)	(3)
2001	\$63,969,216	\$374,228,361	\$198,517,881	\$551,279,438	100	100	57
2002▶	68,794,904	391,098,788	203,176,113	527,604,456	100	100	33
2003	73,358,075	412,818,959	216,621,983	545,981,513	100	100	28
2004▲	77,100,466	445,084,791	212,279,114	569,858,387	100	100	22
2005▶	77,779,569	463,476,318	232,600,277	591,922,200	100	100	22
2006▲	82,720,940	482,998,754	242,041,018	653,493,046	100	100	36

▲ Plan Amendment

▶ Assumption or method change

Postemployment Health Care and Medicare Reimbursement

Year	Covered Lives	Medical	Prescriptions	Med B	Dental	Vision	Member Premiums/ Adjustments	Net Paid By HPRS	Per Covered Life	Payroll	% of Payroll
2001	1,900	\$3,730,167	\$1,960,825	\$231,046	--	--	\$138,317	\$6,060,355	\$3,190	\$76,344,002	7.9
2002	1,943	4,147,534	2,431,297	260,772	\$194,893	\$80,909	(200,021)	6,915,384	3,559	78,997,065	8.8
2003	1,912	4,256,046	2,681,414	290,506	209,429	82,097	(507,642)	7,011,850	3,667	81,737,962	8.6
2004	1,928	4,074,972	2,710,367	347,585	230,994	84,136	(641,707)	6,806,347	3,530	81,757,707	8.3
2005	1,958	6,015,277	2,980,755	422,045	364,139	124,658	(552,570)	9,354,304	4,777	83,408,155	11.2
2006◀	2,078	4,999,822	2,832,743	503,034	408,667	127,266	(198,141)	8,673,391	4,174	85,878,328	10.1

(Prior to 2002, Dental and Vision were combined with Medical)

◀ Member Premiums/Adjustments include claims incurred in 2006, expected to be paid in 2007, totaling \$372,507 and member premiums of \$570,648.

Active Member Data

<u>Year Ending December 31</u>	<u>Active Members</u>	<u>Annual Payroll</u>	<u>Average Annual Salary</u>	<u>% Increase in Average Pay</u>
2001	1,520	\$76,344,002	\$50,226	8.3
2002	1,548	78,997,065	51,032	1.6
2003	1,542	81,737,962	53,008	3.9
2004	1,562	81,757,707	52,342	(1.3)
2005	1,573	83,408,155	53,025	1.3
2006	1,592	85,878,329	53,944	1.7

Retiree and Beneficiary Data

<u>Year Ending December 31</u>	<u>Added to Rolls</u>		<u>Removed from Rolls</u>		<u>Rolls at End of Year</u>		<u>% Increase In Annual Allowances</u>	<u>Average Annual Allowance</u>
	<u>Number</u>	<u>Annual Allowances</u>	<u>Number</u>	<u>Annual Allowances</u>	<u>Number</u>	<u>Annual Allowances</u>		
2001	53	\$2,177,124	20	\$258,996	1,207	\$29,523,696	6.9	\$24,460
2002	55	2,211,612	31	498,012	1,231	31,237,296	5.8	25,376
2003	48	2,356,620	26	352,128	1,253	33,241,788	6.4	26,532
2004	58	3,448,140	29	409,836	1,282	36,280,092	9.1	28,296
2005	45	2,335,992	26	483,312	1,301	38,132,772	5.1	29,316
2006	70	2,589,840	34	620,952	1,337	40,101,660	5.2	29,988

Analysis of Financial Experience

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

<u>Type of Activity</u>	Gain (or Loss) for Year	
	<u>2006</u>	<u>2005</u>
Age & Service Retirements. If members retire at older ages or with lower final average pay than assumed, there is a gain. If younger ages or higher average pays, a loss.	\$809,589	\$573,112
Disability Retirements. If disability claims are less than assumed, there is a gain. If more claims, a loss.	(218,643)	511,784
Death-in-Service Benefits. If survivor claims are less than assumed, there is a gain. If more claims, a loss.	20,027	(75,140)
Withdrawal From Employment. If more liabilities are released by withdrawals than assumed, there is a gain. If smaller releases, a loss.	(161,554)	218,425
Pay Increases. If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	6,152,934	10,088,099
Contribution Income. If more contributions are received than expected, there is a gain. If less, a loss.	0	0
Investment Income. If there is greater investment income than assumed, there is a gain. If less income, a loss.	27,841,080	(12,724,444)
Other. Miscellaneous gains and losses resulting from data adjustments, timing of financial transactions, valuation methods, and other events.	(2,533,870)	(5,551,189)
Gain (or Loss) During Year From Financial Experience	\$31,909,563	(\$6,959,353)
Non-Recurring Items. Adjustments for benefit and assumption changes.	0	7,114,727
Composite Gain (or Loss) During Year	<u>\$31,909,563</u>	<u>\$155,374</u>

Plan Summary

Purpose

The Highway Patrol Retirement System (HPRS) was created by the Ohio General Assembly in 1941 in order to provide for retirement and survivor benefits for members and beneficiaries.

Administration

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

The appointed members are investment experts designated by the Governor, the Treasurer of State, and the legislature. The active members are elected to four-year terms by members of the plan. Any contributing member is eligible to become an active member candidate, and each contributing member is eligible to vote in the active member election process. Any retiree who is an Ohio resident and who has not served as a statutory or active member of the Board during the past three years is eligible to become a retired member candidate. Each retiree is eligible to vote in the retired member election process.

The Superintendent of the State Highway Patrol serves by virtue of the office held. The Attorney General of the State of Ohio is the legal advisor to the Board.

A chairperson and vice chairperson are elected by the Board annually. All regular Board meetings are considered to be public meetings. The members of the Board are reimbursed for actual and necessary expenses. While the Board members serve without compensation, they are not expected to suffer any loss because of absence from regular employment while engaged in official Board duties.

Employer Contributions

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

Member Contributions

Each member of HPRS, through payroll deduction, must contribute the legally-established contribution rate as a percentage of regular salary. Individual member accounts are maintained by HPRS and the amount contributed is refundable in lieu of the payment of a pension benefit upon termination of employment.

Service Credit

Prior to retirement, the following types of additional service credit may be purchased: (1) prior refunded State Highway Patrol service, (2) military service pursuant to the Ohio Revised Code, (3) prior refunded full-time service as a contributing member of the Ohio Police & Fire Pension Fund, the State Teachers Retirement System of Ohio, the School Employees Retirement System of Ohio, the Ohio Public Employees Retirement System, or the Cincinnati Retirement System. Military service and prior refunded full-time service in the Ohio Police & Fire Pension Fund may be used to meet the minimum service requirement in order to qualify for unreduced pension benefits. In the case of prior service credit that was not refunded, service credit may be transferred directly from another Ohio retirement system to HPRS.

Retirement

Age and Service Retirement. Upon retirement from active service, a member is eligible to receive a pension by achieving a minimum age and service requirement, as follows:

Age	Service Credit
52	20 years
48	25 years

For a twenty-year pension, benefits are calculated as 2.5 percent of final average salary times the number of years of service. For a pension based on greater than twenty but less than twenty-five years, benefits are calculated as 2.5 percent of final average salary times the first twenty years of service, plus 2.25 percent of final average salary times the number of years of service in excess of twenty. For a pension based on twenty-five years, benefits are calculated as 2.5 percent of final average salary times the first twenty years of service, 2.25 percent of final average salary times the next five years of service, and 2.0 percent of final average salary in excess of twenty-five years. The maximum allowed pension factor of 79.25 percent of final average salary would be earned with thirty-four years of service credit.

The final average salary, which includes base pay, longevity, hazard duty, shift differential, and professional achievement pay, is calculated as the average of a member's three highest years of salary.

Benefit payments become effective the day following the last day of employment and are payable monthly throughout the retiree's lifetime.

Deferred Retirement. A member who has met a service requirement, but not the requisite age, may retire and defer the receipt of benefits until the age requirement is met.

Reduced Retirement. A member who has accumulated at least twenty but less than twenty-five years of service credit may retire and receive a reduced lifetime pension based on the following schedule:

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

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

Resignation or Discharge. A member who voluntarily resigns or is discharged from the State Highway Patrol for a reason other than “dishonesty, cowardice, intemperate habits, or conviction of a felony” will receive a lifetime pension benefit, beginning at age 55, calculated as 1.5 percent of final average salary times the number of years of service.

Disability Retirement. A member who retires as the result of a disability incurred in the line of duty receives a pension of at least 61.25 percent of final average salary. A member who retires as the result of a disability that was not incurred in the line of duty receives a pension of at least 50 percent of final average salary.

Deferred Retirement Option Plan (DROP). A member who is eligible to retire with an unreduced pension benefit may enter the DROP. The member will continue to work in the existing assignment as determined by the employer and receive the appropriate compensation for that rank. A DROP member is considered retired; however, instead of receiving a monthly pension benefit, the member begins to accumulate funds in a tax-deferred account. The DROP account is funded by both the monthly pension benefit and the member’s continuing active contributions, as well as interest that accrues on these amounts.

A member may participate in DROP until age 60, but for no more than eight years. The minimum participation period is two years for members who enter the DROP at age 52 or more and three years for members who enter the DROP before age 52. A member who terminates employment earlier than the minimum participation period will forfeit any accrued interest.

When a DROP member terminates employment with the State Highway Patrol, the member will begin to receive the monthly pension benefit that had previously been funding the DROP account. In addition, after the minimum participation period, the proceeds of the DROP account may, at the member’s option, be rolled over into a qualified plan or paid to the member in a lump sum, an annuity, or a combination of these distribution types.

Payment Plans

Each retirement applicant must select a benefit payment plan. Regardless of the plan selected, a survivor benefit is paid to an eligible survivor of a deceased active member or retiree. The plan options are as follows:

Plan 1 - Single Life Annuity. This plan pays the highest monthly benefit, calculated as a percentage of final average salary, and is limited to the lifetime of the retiree. A member who receives a disability retirement may only receive a single life annuity.

Plan 2 - Joint and Survivor Annuity. This plan pays a reduced monthly benefit for a member’s lifetime and provides for a monthly benefit to a surviving beneficiary.

Plan 3 - Life Annuity Certain and Continuous. This plan is an annuity, payable for a guaranteed minimum period. If a retiree dies before the end of the period, the pension benefit is paid to the designated beneficiary for the remainder of the specified period.

Partial Lump Sum (PLUS) Distribution. In addition to selecting one of the three retirement payment plans, a retiree may elect to receive a lump sum cash payment, either as a taxable distribution, or as a rollover to a tax-qualified plan. Following this payment, a retiree will receive a reduced monthly benefit for life. To be eligible for a PLUS distribution, a retiree must have attained age 51 with at least 25 years of total service, or age 52 with at least 20 years of total service. The lump sum amount may not be less than six times the monthly single life pension and not more than sixty times the monthly single life pension.

Survivor Benefits

A surviving spouse of a deceased retiree, or of an active member who was eligible to receive a retirement pension at the time of death, receives a monthly benefit equal to one-half the deceased member’s monthly pension benefit (minimum, \$900). A surviving spouse of an active member who was not eligible for a retirement benefit at the time of death receives a monthly survivor benefit of \$900.

Each surviving dependent child receives \$150 monthly until age 18. This benefit continues until age 23 if the child is a full-time student.

Health Care

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

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

Medicare

Benefit recipients who submit proof of Medicare Part B coverage are reimbursed for the basic Part B premium.

Cost of Living

At age 53 and thereafter, each retiree receives an annual cost of living adjustment (COLA) equal to 3.0%. Each survivor benefit recipient is eligible for a COLA increase after receiving benefits for twelve months. Each disability benefit recipient is eligible for a COLA increase after receiving benefits for sixty months, or at age 53, whichever occurs first.

Death After Retirement

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



Statistical Section

Changes in Net Assets – Pension, 1998-2007

Additions	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Employer Contributions	\$19,956,700	\$19,263,941	\$18,467,789	\$17,205,609	\$16,361,339	\$14,923,893	\$13,901,313	\$13,228,166	\$13,590,916	\$13,125,225
Member Contributions	8,901,454	8,610,088	8,582,130	8,192,944	8,136,974	7,563,173	7,042,044	6,954,301	6,708,497	6,573,762
Transfers from Other Systems	717,017	648,282	1,180,951	856,496	763,419	999,176	999,380	925,998	418,603	474,362
Investment Income, net of expenses	50,333,115	85,692,657	37,890,851	62,907,281	105,112,725	(42,921,956)	(17,920,157)	(14,120,288)	33,612,434	13,029,413
Total Additions	\$79,908,286	\$114,214,968	\$66,121,721	\$89,162,330	\$130,374,457	\$(19,435,714)	\$4,022,580	\$6,988,177	\$54,330,450	\$33,202,762
Deductions										
Benefits Paid Directly to Participants	44,676,510	40,343,244	37,716,268	35,187,531	33,074,853	31,325,089	29,457,281	27,042,946	24,324,038	21,539,636
Refunds of Member Contributions	98,628	299,128	495,640	155,989	386,931	266,137	306,452	363,067	529,654	164,054
Administrative Expenses	605,165	572,616	561,817	518,834	559,052	462,200	524,922	549,168	449,167	648,144
Transfers to Other Systems	330,539	914,950	403,975	602,345	789,387	1,054,264	448,381	904,972	196,414	281,606
Total Deductions	\$45,710,842	\$42,129,938	\$39,177,700	\$36,464,699	\$34,810,223	\$33,107,690	\$30,737,036	\$28,860,153	\$25,499,273	\$22,633,440
Change in Pension Net Assets	\$34,197,444	\$72,085,030	\$26,944,021	\$52,697,631	\$95,564,234	\$(52,543,404)	\$(26,714,456)	\$(21,871,976)	\$28,831,177	\$10,569,322

Changes in Net Assets – OPEB, 1998-2007

Additions	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Employer Contributions	\$4,276,436	\$3,064,718	\$3,006,385	\$2,867,602	\$3,395,749	\$3,780,715	\$3,521,665	\$3,351,135	\$2,787,880	\$2,692,111
Investment Income, net of expenses	11,254,046	15,632,184	8,998,070	12,051,961	18,885,722	(6,673,383)	(2,900,183)	(3,114,980)	6,878,890	1,396,472
Total Additions	\$15,530,482	\$18,696,902	\$12,004,455	\$14,919,563	\$22,281,471	\$(2,892,668)	\$621,482	\$236,155	\$9,666,770	\$4,088,583
Deductions										
Health Care Expenses	10,354,006	7,980,823	8,932,259	6,948,650	7,181,129	7,025,043	6,179,096	4,720,260	5,498,402	3,128,888
Administrative Expenses	97,101	92,761	92,344	86,031	93,769	78,635	90,422	95,423	78,854	114,378
Total Deductions	\$10,451,107	\$8,073,584	\$9,024,603	\$7,034,681	\$7,274,898	\$7,103,678	\$6,269,518	\$4,815,683	\$5,577,256	\$3,243,266
Change in OPEB Net Assets	\$5,079,375	\$10,623,318	\$2,979,852	\$7,884,882	\$15,006,573	\$(9,996,346)	\$(5,648,036)	\$(4,579,528)	\$4,089,514	\$845,317

Benefit Deductions from Net Assets by Type – Pension, 1998-2007

Type of Benefit	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Age & Service	\$16,838,694	\$15,064,493	\$17,904,543	\$14,041,248	\$13,526,379	\$12,874,767	\$12,362,626	\$11,350,168	\$10,508,139	\$9,501,116
Early	19,997,110	17,533,382	15,729,197	14,183,148	12,901,479	11,972,979	11,120,366	10,330,228	9,275,973	7,957,647
Reduced	1,693,050	1,659,235	86,287	1,573,077	1,504,785	1,422,072	1,342,338	1,278,883	1,139,917	1,038,714
Disability	2,761,851	2,534,672	2,305,544	2,051,805	1,875,919	1,828,394	1,605,426	1,407,201	1,089,813	855,775
Survivor	3,320,805	3,486,462	1,615,697	3,258,253	3,186,291	3,141,877	2,961,525	2,620,466	2,288,195	2,177,384
Death Benefits	65,000	65,000	75,000	80,000	80,000	85,000	65,000	56,000	22,000	9,000
Total Pension Benefits	\$44,676,510	\$40,343,244	\$37,716,268	\$35,187,531	\$33,074,853	\$31,325,089	\$29,457,281	\$27,042,946	\$24,324,038	\$21,539,636

Benefit Deductions from Net Assets by Type – OPEB, 1998-2007

Type of Benefit	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Medical	\$6,580,455	\$4,999,823	\$6,015,277	\$4,413,042	\$4,667,790	\$4,688,375	\$4,568,057	\$3,394,042	\$4,275,700	\$2,147,334
Prescriptions	3,513,662	2,832,743	2,980,755	2,710,367	2,681,414	2,431,297	1,960,825	1,684,300	1,364,990	1,122,248
Medicare-B reimbursement	572,127	503,034	422,045	347,585	290,506	260,772	231,046	203,157	197,606	171,223
Dental	464,402	408,667	364,139	230,994	209,429	194,893	--	--	--	--
Vision	130,029	127,266	124,658	84,136	82,097	80,909	--	--	--	--
Total	\$11,260,674	\$8,871,533	\$9,906,874	\$7,786,124	\$7,931,236	\$7,656,246	\$6,759,928	\$5,281,499	\$5,838,296	\$3,440,805
Member Premiums/Adjustments	(906,669)	(890,710)	(552,570)	(489,889)	(459,601)	(370,431)	(349,786)	(358,082)	(339,894)	(311,917)
Net Paid by HPRS	\$10,354,006	\$7,980,823	\$9,354,304	\$7,296,235	\$7,471,635	\$7,285,815	\$6,410,142	\$4,923,417	\$5,498,402	\$3,128,888

(Prior to 2002, Dental & Vision were combined with Medical)

Principal Participating Employer, 2007 & 1998

<u>Participating Government</u>	<u>2007</u>		<u>1998</u>	
	<u>Covered Employees</u>	<u>Percentage of Total System</u>	<u>Covered Employees</u>	<u>Percentage of Total System</u>
State Highway Patrol	1,595	100%	1,446	100%

Retired Members by Type of Benefit, December 31, 2007

<u>Monthly Benefit</u>	<u>Number of Retired Members</u>	<u>Type of Retirement</u>						<u>Retirement Option</u>							
		<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>Unmodified</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>
Deferred	5														
\$1 - 250	37					36	1	37							
251-500															
501 - 750	4				1		3	4							
751 - 1000	36					31	5	36							
1001 - 1250	141			11	1	127	2	140	1						
1251 - 1500	116	5	3	26	8	70	4	116							
1501 - 1750	113	75	2	15	9	11	1	113							
1751 - 2000	51	23	1	15	7	4	1	50	1						
2001 - 2250	51	23	2	11	14	1		50	1						
2251 - 2500	78	25	30	3	20			76		2					
2501 - 2750	145	21	108	1	15			140		4	1				
2751 - 3000	136	47	74	2	13			130	1	1	2				2
3001 - 3250	138	46	83	1	8			136		2					
3251 - 3500	133	54	76	1	2			130		1	2				
Over 3,500	294	139	152		3			283	1	4	5			1	
Total	1,478	458	531	86	101	280	17	1441	5	14	10	0	0	1	2

Notes

Type of retirement:

- 1 – Normal age and service
- 2 – Early
- 3 – Reduced
- 4 – Disability
- 5 – Survivor
- 6 – Alternate payee (Division of Property Order)

Retirement Option

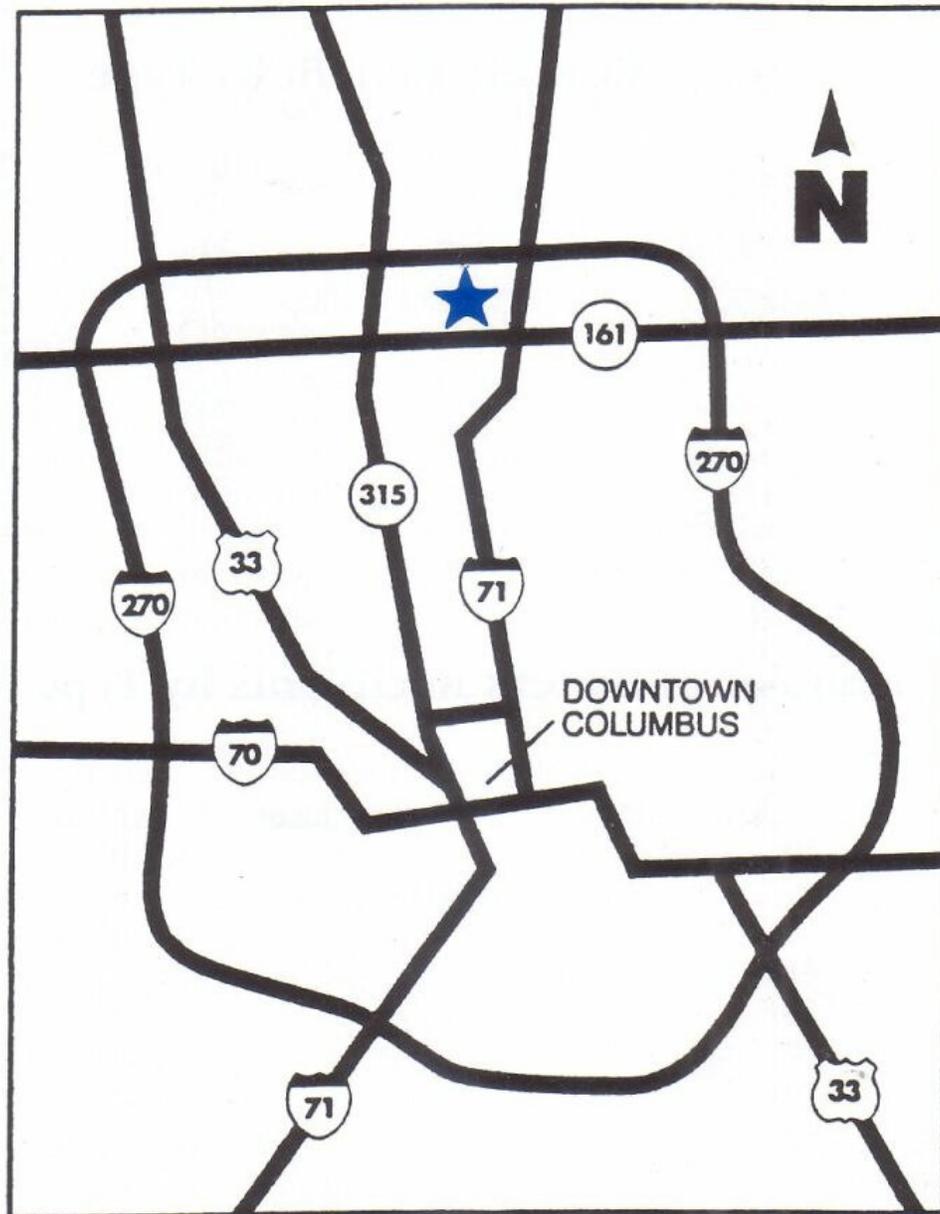
Under the unmodified plan, a surviving spouse receives a 50% continuance (minimum, \$900 monthly)

Under the following options, a surviving spouse qualifies for the above-noted 50% continuance; however, the member's lifetime benefit is reduced:

- Option 1 – Beneficiary receives 0 to <25% of member's reduced monthly benefit
- Option 2 – Beneficiary receives 25 to <50% of member's reduced monthly benefit
- Option 3 – Beneficiary receives 50% or more of member's reduced monthly benefit
- Option 4 – Beneficiary receives 100% of member's remaining reduced monthly benefit for 5 years after benefit begins
- Option 5 – Beneficiary receives 100% of member's remaining reduced monthly benefit for >5 to 10 years after benefit begins
- Option 6 – Beneficiary receives 100% of member's remaining reduced monthly benefit for >10 to 15 years after benefit begins
- Option 7 – Beneficiary receives 100% of member's remaining reduced monthly benefit for >15 years after benefit begins

Average Benefit Payments, 1998-2007

Retirement During		<u>Years of Credited Service</u>		
		<u>20 to <25</u>	<u>25 to <30</u>	<u>30+</u>
2007	Average Monthly Benefit	\$2,089	\$3,245	\$5,619
	Average Final Average Salary	\$4,359	\$5,138	\$7,523
	Number of Retirees	5	17	2
2006	Average Monthly Benefit	\$2,681	\$3,571	\$6,850
	Average Final Average Salary	\$4,838	\$5,575	\$8,852
	Number of Retirees	13	24	1
2005	Average Monthly Benefit	\$2,601	\$3,238	\$5,064
	Average Final Average Salary	\$4,807	\$4,995	\$6,721
	Number of Retirees	4	26	4
2004	Average Monthly Benefit	\$2,267	\$3,327	\$5,386
	Average Final Average Salary	\$4,781	\$5,113	\$7,109
	Number of Retirees	3	36	5
2003	Average Monthly Benefit	\$2,116	\$3,322	\$3,685
	Average Final Average Salary	\$4,313	\$5,206	\$5,015
	Number of Retirees	6	28	5
2002	Average Monthly Benefit	\$2,151	\$2,937	\$3,223
	Average Final Average Salary	\$4,348	\$4,726	\$4,651
	Number of Retirees	5	21	12
2001	Average Monthly Benefit	\$2,228	\$3,100	\$3,900
	Average Final Average Salary	\$4,164	\$4,653	\$5,211
	Number of Retirees	13	13	12
2000	Average Monthly Benefit	\$2,171	\$3,004	\$3,857
	Average Final Average Salary	\$4,127	\$4,620	\$5,128
	Number of Retirees	11	29	11
1999	Average Monthly Benefit	\$2,015	\$2,570	\$3,384
	Average Final Average Salary	\$3,758	\$4,045	\$4,583
	Number of Retirees	17	44	11
1998	Average Monthly Benefit	\$1,988	\$2,512	\$2,907
	Average Final Average Salary	\$3,757	\$3,991	\$4,154
	Number of Retirees	10	61	16



Highway Patrol Retirement System
6161 Busch Boulevard, Suite 119
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Telephone 614-431-0781
Fax 614-431-9204
e-mail system@ohprs.org
www.ohprs.org

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

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