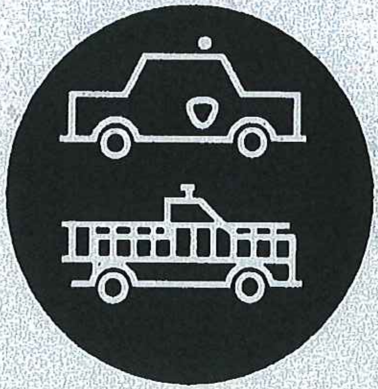

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Year Ended December 31, 1997

The Police and Firemen's

Disability and Pension Fund of Ohio

POLICE AND FIREMEN'S

DISABILITY AND PENSION FUND OF OHIO

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 1997

PREPARED THROUGH THE COMBINED EFFORTS OF

THE PFDPF STAFF

140 East Town Street / Columbus, Ohio 43215-5164 / (614) 228-2975

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Police and Firemen's Disability and Pension Fund of Ohio

For its Comprehensive Annual Financial Report for the Fiscal Year Ended December 31, 1996

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.

Linda K. Savitsky
President

Jeffrey L. Esser
Executive Director

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INTRODUCTORY SECTION:

BOARD OF TRUSTEES

ADMINISTRATIVE STAFF

Allen J. Proctor
Executive Director

Kay Penn
Acting Director of Member Services

E. William Butler
Chief Operating Officer

Michael Sawczyn
Chief Information Officer

Theodore G. Hall
Chief Investment Officer

Thomas R. Severns
Director of Finance

Michael Heys
Director of Human Resources

Debbie D. Young
Director of Benefit Services

PROFESSIONAL CONSULTANTS

Actuaries:
Watson Wyatt Worldwide

Independent Accountants:
Deloitte & Touche LLP

Legal Counsel:
Attorney General Betty Montgomery

Investment Consultants and Managers:
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The Police and Firemen's Disability and Pension Fund
140 East Town Street / Columbus, Ohio 43215-5164 / Tel. (614) 228-2975

June 22, 1998

Dear Chairman and Members of the Board of Trustees:

We are pleased to submit to you the Comprehensive Annual Financial Report (CAFR) of the Police and Firemen's Disability and Pension Fund of Ohio (the Fund) for the year ended December 31, 1997. This CAFR was prepared to aid interested parties in assessing the Fund's status at December 31, 1997, and its results for the year then ended. The report is divided into five sections: the Introductory Section contains this Letter of Transmittal, along with the identification of the administrative organization of the Fund; the Financial Section includes the Independent Auditors' Report and the financial statements; the Investment Section contains the investment report, portfolio summary, and the investment policy and guidelines; the Actuarial Section includes significant actuarial data pertaining to the Fund and the certification letter of Watson-Wyatt; the Statistical Section includes historical data reporting progress of the Fund.

Accounting System and Internal Controls

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

Effective January 1, 1997 the Fund implemented GASB Statements 25 and 26. These statements establish formats for financial statements which report separately plan net assets and changes in plan net assets for pension and health care benefits, require that investments of the Fund be reported at fair value, eliminate calculation of a pension benefit obligation, and require that certain supplemental information be reported. Additional information on the Fund's accounting policies are contained in Note 3 of the Notes to the Financial Statements in the Financial Section.

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

Plan History and Overview

The Police and Firemen's Disability and Pension Fund (the Fund) of Ohio is a cost-sharing multiple employer public employee retirement system and was created by the Ohio General Assembly in 1965, replacing 454 separate local police and firemen's relief and pension funds in Ohio. The statewide Fund began operating January 1, 1967. On that date the local pension funds transferred their assets and liabilities to the Fund. Assets transferred to the Fund were approximately \$75 million. The Fund's actuary computed the liabilities accrued up to 1966 at approximately \$490 million. Unfunded accrued liabilities totaling nearly \$205 million as of December 31, 1997 are being paid by employers over a 67-year period which began in 1969.

The Fund provides pension, disability and health care to qualified participants, survivor and death benefits and health care to qualified spouses, children and dependent parents. Please refer to the Plan Summary in the Actuarial Section for further information on plan benefits.

Membership in the Fund is mandatory under Ohio law for all full-time police officers employed by Ohio municipalities. Full-time fire fighters employed by townships, municipalities, township joint fire districts or other political subdivisions must become members of the Fund if satisfactory completion of a fire fighter training course approved under Section 3303.07 or conducted under Section 3737.33 of the Ohio Revised Code is required for employment. The following is a tabulation of current participating employers at December 31, 1997.

Participating Employers

	Police	Fire
Municipalities	242	195
Townships	-	88
Villages	340	33
Total	582	316

Major Initiatives

Enactment of Senate Bill 82 by the Ohio Legislature replaced a "legal list" of allowable investments for the Fund with a "prudent person" standard, providing the Board of Trustees with much greater flexibility in selecting Fund investment vehicles. After several months of intense review and work with its investment consultant, Wilshire Associates, the Fund adopted a new asset allocation plan that sets percentage targets for the Fund's different asset classes. This task is made all the more difficult by the fact that the Fund must strike a balance between the risk it will take and the return it requires. Typically, the higher the return, the higher the risk. The new goals are: domestic equities, 41%; international equities, 10%; domestic fixed income, 35%; real estate, 8%; alternative investments, 1%; emerging markets equity, 5%. The changes represent a realization by the Fund of the importance of diversifying the investments of the Fund into the best investments available. The Fund will review the allocation plan in one year to revisit all asset classes. Conducting another review so soon will put the Fund in a position to react swiftly to attractive new asset classes and be poised to make the best possible investment decisions

The Board also initiated two new programs that will allow them to increase their ability to monitor investment activity. The Plexus Group began providing analysis of equity transaction costs that will allow the Fund to better understand the impact of trading costs on a money manager's investment returns. This will also help the Board and staff in their review of the Fund's brokerage relationships. The other program, conducted by Standard and Poor's, provides for better monitoring and reporting of our domestic money managers' adherence to their investment guidelines.

In another effort aimed at further improving the disability determination process, the Board created a Disability Evaluation Panel. Use of the panel for initial determinations will expand the time and thoroughness of review substantially beyond what was previously possible in the time available at monthly Board meetings and improve the accuracy of initial determinations and reduce the need for appeals. The panel thoroughly reviews initial applications for disability benefits and prepares written recommendations for Board action. The panel is composed of three Trustees who are the voting members, one physician specializing in Psychiatry, one physician specializing in Internal Medicine, one physician specializing in Physical or Rehabilitation Medicine, and one physician serving as an alternate member specializing in Occupational Medicine.

In November 1997 the Board of Trustees initiated its Governance Project, which is focused on the development of policies for the governance and control of the Board and the Fund. The multi-year project, which will develop policies and procedures in eight broad areas, will be completed in early 1999. The eight areas in the order they will be tackled are operations and administration; fiduciary duties, ethics, and Board and staff conduct; retiree healthcare; communications and public relations; consultant relations and obligations; Board and staff education and travel; Board operations; and retirement benefit design. Although there are procedures and plans already in place in a number of these areas, the Board decided to take a broad approach to the issue and develop policies for all areas and operations so that there will be no question of what the Fund does or how it operates in any given situation. The Board intends for these policies to be the road map for the guidance of the Fund

Four HMOs were added to the Fund's medical expense benefit program during the annual open enrollment period. Benefit recipients and dependents will receive enhanced benefits through these plans such as dental, vision, speech, and hearing coverage. In addition, the Fund will realize a cost savings in premiums when individuals enroll in these plans.

Responding to Board concerns about the length of time it has been taking to convert interim payments to full pension amounts, the Fund's Member Services Department has focused on improving service in this important area. The result of this effort has been a near doubling of the conversion rate. In 1996, 626 service pensions and disability benefits were processed whereas 1188 were processed in 1997, an increase of 90 percent.

As a result of recommendations made by three national consulting firms which conducted in-depth studies of Fund operations relating to Internal Controls, Member Services and M.I.S. in late 1997, Fund staff has begun work on 42 individual projects. Upon completion, the collective efforts of these projects will result in tightened controls, improved operations and enhanced service at the Fund. Over three-fourths of these projects should be completed by July, 1998. The remaining projects are full-time efforts that will likely take up to a year to complete.

Financial Overview

The Fund receives virtually all of its funds from the following sources: member contributions, employer contributions, retiree medical benefit contributions, state subsidies and reimbursements, and investment earnings. Additions to net assets totaled $1,507,603,550 in 1997. Comparisons to prior year investment income amounts are not meaningful due to the change in the method of accounting for investment income noted above. Contribution income increased 11% from 1996.

1997 ADDITIONS TO PLAN NET ASSETS	Amount	Percent
Net Investment and Securities Lending Income	$1,118,944,933	74%
Contributions	378,201,674	25%
Interest on Local Funds Receivable	8,705,935	1%
Other	1,751,008	0%
Total	**$1,507,603,550**	**100%**

Benefit payments are the primary deductions from net plan assets. Total deductions for the Fund were $464,239,922 in 1997. Benefit payments increased 7.0% from 1996.

1997 DEDUCTIONS FROM PLAN NET ASSETS	Amount	Percent
Benefits	$449,956,880	97%
Administrative Expenses	8,272,485	2%
Refund of Employee Contributions	5,655,445	1%
Other	381,672	0%
Total	**$464,239,222**	**100%**

Funding Practices and Actuarial Overview

Funds are derived from the excess of additions over deductions, and are accumulated by the Fund in order to meet current and future benefit obligations to retirees and beneficiaries. The excess of additions over deductions for the year ended December 31, 1997, increased the fund balance by approximately $1.04 billion. This is in addition to an increase in Fund net assets at January 1, 1997 resulting from implementation of GASB Statement 25 of approximately $1.06 billion.

The actuarial valuation for funding purposes dated January 1, 1997 is the first valuation to use the entry age normal actuarial cost (EANC) method, as required in legislation passed by the Ohio General Assembly. All prior valuations used the aggregate actuarial cost method. The current valuation reflects an unfunded accrued liability for pension benefits of $1,470,441,000. Since this is the first valuation under the EANC method, there are no prior year values for normal cost, liability and the amortization period.

Investment Policy

The Fund invests all available funds in order to maximize both current income yield and long-term appreciation. For the year ended December 31, 1997, the investment portfolio provided 74% of the Fund's total additions to plan net assets, while contributions contributions provided 25%, respectively. All other sources provided the remaining 1%.

The primary objective of the Fund's investment policy is to assure that the Fund meets its responsibilities for providing retirement and other benefits. The portfolio is diversified to provide adequate cash flow, and to provide the highest possible total return on the Fund's assets with the least exposure to risk. The Fund's total rate of return on its investment portfolio increased from 13.56% in 1996 to 17.15% in 1997, well in excess of the actuarial assumption of 8.25%.

Details of portfolio composition, rates of return, analysis of significant economic conditions, and additional information concerning the Fund's investment policy are provided in the Investment Section.

Material Plan Amendments

There were no material plan amendments in 1997.

Independent Audit

The financial statements of the Fund for the year ended December 31, 1997, were audited by Deloitte & Touche LLP, independent certified public accountants, whose opinion thereon is included in the Financial Section.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Fund for its Comprehensive Annual Financial Report for the fiscal year ended December 31, 1996. The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to the GFOA.

Acknowledgments

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

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

Respectfully submitted,

Allen J. Proctor   Thomas R. Severns

ALLEN J. PROCTOR
Executive Director

THOMAS R. SEVERNS
Director of Finance

FINANCIAL SECTION

Combining Statement of Plan Net Assets

Combining Statement of Changes in Plan Net Assets

Independent Auditor's Report

Notes to the Combining Financial Statements

Required Supplementary Information:

1. Schedule of Funding Progress
2. Schedule of Employer Contributions
3. Notes to Required Supplemental Schedules

Additional Information:

1. Administrative Expenses
2. Investment Expenses

COMBINING STATEMENT OF PLAN NET ASSETS

AS OF DECEMBER 31, 1997

	Pensions	Postemployment Healthcare	Death Benefit Fund	Total
Assets				
Cash and Short-term Investments	$ 229,530,360	$ 7,548,476	$9,689,038	$ 246,767,874
Receivables:				
Employers' Contributions	56,382,817	24,546,851		80,929,668
Employees' Contributions	9,889,234	-		9,889,234
Accrued Investment Income	41,336,996	1,359,434		42,696,430
Investment Sales Proceeds	27,694,273	910,771		28,605,044
Local Funds Receivable	204,605,177	—		204,605,177
Total Receivables	339,908,497	26,817,056	—	366,725,553
Investments, at fair value:				
Bonds	1,240,504,872	40,796,006		1,281,300,878
Mortgage & Asset Backed Securities	1,329,984,376	43,738,683		1,373,723,059
Stocks	3,020,894,299	99,346,986		3,120,241,285
Real Estate	624,724,610	20,545,077		645,269,687
Commercial Mortgage Funds	110,799,904	3,643,834		114,443,738
Venture Capital	28,632,935	941,640		29,574,575
International Securities	606,864,539	19,957,720		626,822,259
Mortgage Note Receivables	12,143,637	399,363		12,543,000
Total Investments	6,974,549,172	229,369,309	—	7,203,918,481
Collateral on Loaned Securities	747,512,638	24,583,160	—	772,095,798
Fixed Assets:				
Furniture and Equipment	3,658,079	120,302		3,778,381
Accumulated Depreciation	(2,235,487)	(73,518)		(2,309,005)
Total Fixed Assets	1,422,592	46,784	—	1,469,376
Prepaid Expenses and Other	1,273,669	41,887		1,315,556
TOTAL ASSETS	8,294,196,928	288,406,672	9,689,038	8,592,292,638
Liabilities				
Medical Benefits Payable	—	10,046,045		10,046,045
Investment Commitments Payable	125,554,984	4,129,078		129,684,062
Accrued Administrative Expenses	1,931,491	63,520		1,995,011
Liabilities for Death Benefit Fund Benefits			9,689,038	9,689,038
Other Liabilities	4,963,305	163,226		5,126,531
Obligations Under Securities Lending	747,512,638	24,583,160		772,095,798
TOTAL LIABILITIES	879,962,418	38,985,029	9,689,038	928,636,485
Net assets held in trust for pension and postemployment healthcare benefits	**$7,414,234,510**	**$249,421,643**	**$ —**	**$7,663,656,153**

(A schedule of funding progress is presented on page 17.)

See Notes to Combining Financial Statements

COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS

YEAR ENDED DECEMBER 31, 1997

	Pensions	Postemployment Healthcare	Total
Additions:			
Contributions:			
Members	$ 121,104,430	$ —	$ 121,104,430
Employers	172,867,701	75,277,682	248,145,383
State of Ohio - Subsidies	3,699,963	—	3,699,963
Medical Benefits	—	5,251,898	5,251,898
Total Contributions	297,672,094	80,529,580	378,201,674
Investment Income:			
Net Appreciation of Fair Value of Investments	866,717,626	16,293,681	883,011,307
Bond Interest	166,026,589	3,121,182	169,147,771
Dividends	25,123,582	472,306	25,595,888
Real Estate Operating Income, net	43,609,761	819,833	44,429,594
Foreign Securities	6,693,200	125,827	6,819,027
Other	189,741	3,567	193,308
Less Investment Expenses	(12,007,936)	(225,741)	(12,233,677)
Net Investment Income	1,096,352,563	20,610,655	1,116,963,218
From Securities Lending Activities:			
Securities Lending Income	68,493,570	1,309,150	69,802,720
Securities Lending Expense:			
Borrower Rebates	(65,271,354)	(1,247,562)	(66,518,916)
Management Fees	(1,277,668)	(24,421)	(1,302,089)
Total Securities Lending Expense	(66,549,022)	(1,271,983)	(67,821,005)
Net Income from Securities Lending	1,944,548	37,167	1,981,715
Interest on Local Funds Receivable	8,705,935		8,705,935
Other Income	771,656	979,352	1,751,008
TOTAL ADDITIONS	1,405,446,796	102,156,754	1,507,603,550
Deductions:			
Benefits:			
Retirement	244,008,943		244,008,943
Disability	97,064,363		97,064,363
Health Care	-	76,459,832	76,459,832
Survivor	32,423,743		32,423,743
Contribution Refunds	5,655,445		5,655,445
Administrative Expenses	5,196,405	3,048,819	8,245,224
Other Expenses	381,672		381,672
TOTAL DEDUCTIONS	384,730,571	79,508,651	464,239,222
Net Increase	1,020,716,225	22,648,103	1,043,364,328
Net assets held in trust for pension and postemployment healthcare benefits:			
Balance, Beginning of year (as restated)	6,393,518,285	226,773,540	6,620,291,825
Balance, End of year	$7,414,234,510	$249,421,643	$7,663,656,153

See Notes to Combining Financial Statements

INDEPENDENT AUDITOR'S REPORT

Deloitte & Touche LLP

155 East Broad Street
Columbus, Ohio 43215-3611

Telephone: (614) 221-1000
Facsimile: (614) 229-4647

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

We have audited the accompanying combining statement of plan net assets of the Police and Firemen's Disability and Pension Fund of Ohio (the Fund) as of December 31, 1997 and the related combining statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, such financial statements present fairly, in all material respects, the plan net assets of the Fund as of December 31, 1997, and the changes in its plan net assets for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 1 to the financial statements, in 1997, the Fund changed its method of accounting to conform with Government Accounting Standards Board Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and Government Accounting Standards Board Statement No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans.*

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Fund taken as a whole. The accompanying financial information listed as supplemental schedules in the foregoing table of contents, which is also the responsibility of the management of the Fund, is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Fund. Such additional information has been subjected to the auditing procedures applied in our audit of the basic financial statements for the year ended December 31, 1997, and, in our opinion, is fairly stated in all material respects when considered in relation to the basic 1997 financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated June 19, 1998, on our consideration of the Fund's internal control structure and on its compliance with laws and regulations.

Deloitte & Touche LLP

DELOITTE & TOUCHE LLP

June 22, 1998

Deloitte Touche
Tohmatsu
International

NOTES TO COMBINING FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 1997

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following are the significant accounting policies followed by the Police and Firemen's Disability and Pension Fund of Ohio (the Fund).

Basis of Accounting—The Fund's financial statements have been prepared using the accrual basis of accounting. Revenues are recognized when earned and measurable, and expenses are recorded when a liability is incurred.

Investments—Investment purchases and sales are recorded on a trade date basis. Dividend income is recognized on the ex-dividend date, while interest and rental income is recognized when earned.

Investments are reported at fair value. Short term investments are valued at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal payments discounted at prevailing interest rates for similar instruments. The fair value of real estate is based on independent appraisals and internal valuations. Investments that do not have an established market are reported at estimated fair value. Venture capital limited partnership interest is based on values established by valuation committees.

Net appreciation (depreciation) is determined by calculating the change in the fair value of investments between the end of the year and the beginning of the year, less the cost of investments purchased, plus sales of investments at fair value. Investment expense consists of those administrative expenses directly related to the Fund's investment operations and a proportional amount of all other administrative expenses allocated based on the ratio of the Fund's investment staff to total Fund staff.

The Fund has no individual investment that exceeds 5% of net assets available for benefits.

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

Property and Equipment—Property and equipment are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. The range of estimated useful lives is as follows:

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

Contributions and Benefits—Member and employer contributions are recorded in the period the related member salaries are earned. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

New Accounting Pronouncements—The Fund has implemented Governmental Accounting Standards Board Statements No. 25 and 26 for the year ended December 31, 1997. Statement No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans," and Statement No. 26, "Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Plans," require, among other things, that investments be carried at fair value and that statements of net plan assets and changes therein be included; additional financial statement disclosures regarding healthcare benefits be included; and the elimination of disclosures regarding the pension benefit obligation. Plan assets not readily identifiable as pension or other postemployment healthcare are proportionately allocated.

The Fund adopted Statement's No. 25 and 26 in 1997 and has applied the provisions of these statements retroactively to January 1, 1997. The impact of the adoption of these statements was an increase in net assets of $1,063,228,204 at January 1, 1997 from the amount previously reported.

2. DESCRIPTION OF THE SYSTEM

Organization—The Police and Firemen's Disability and Pension Fund (the Fund) is a cost-sharing multiple-employer public employee retirement system established by Chapter 742 of the Ohio Revised Code (ORC)) in 1967 to consolidate the various local police and firemen's relief and pension funds into one statewide plan. The Fund is administered by a nine member Board of Trustees consisting of five active members, one retired member two ex-officio members (the State Auditor and Attorney General), and a municipal finance officer appointed by the Governor. The Fund administers pension, disability and health care benefits to qualified participants, and survivor, death and health care benefits to qualified spouses, children and dependent parents.

The Fund is a separate financial reporting entity in accordance with criteria established by Governmental Accounting Standards Board Statement No. 14 because it is legally separate, a voting majority of the governing board is not appointed by the State, and it is fiscally independent of other state and local governments.

Plan Membership—Employer and employee membership data as of January 1, 1997, date of the most recent actuarial valuation, follows:

Employee Members	**Police**	**Fire**	**Total**
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	11,478	9,261	20,739
Current employees:			
Vested	5,253	4,064	9,317
Nonvested	9,598	6,908	16,506
	14,851	10,972	25,823

Employer Members		
Municipalities	242	195
Townships	—	88
Villages	340	33
Total	582	316

Benefits—Plan benefits are established under Chapter 742 of the ORC. Members are eligible for normal retirement benefits at age 48 with 25 years of service credit or at age 62 with 15 years of service credit. The normal retirement benefit is equal to 2.5% of annual earnings for each of the first 20 years of service, 2.0% for each of the next 5 years of service, and 1.5% for each year of service thereafter. However, this normal retirement benefit is not to exceed 72% of the member's average and annual earnings for the three consecutive years during which the total earnings were greatest or the member's recalculated average annual salary for any three years during which earnings were the greatest. Retirement with reduced benefits is available upon reaching age 48 with 15 years of service credit or 25 years from the date the member became a qualified employee.

In addition to retirement benefits, the Fund also provides disability, survivor and death benefits. Disability benefits are available to all members and vary by length of service and type of disability. Survivor benefits are specified dollar amounts paid to eligible survivors upon the death of an active member or retiree. A death benefit of $1,000 is payable to the surviving spouse or estate of each deceased retired member.

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

The Fund provides comprehensive health care benefits to eligible benefit recipients and their eligible dependents. The medical benefits are not guaranteed and are subject to change at any time upon action of the Board of Trustees. Coverage includes hospitalization, physicians' fees, prescription drugs and reimbursement of Medicare Part B premiums. Most benefit recipients pay a portion of the health care cost through a monthly contribution.

Under Ohio law, medical costs paid from the funds of the plan are included in the employer contribution rates, currently 19.5% and 24% of salaries for police and fire fighter employers respectively. The Board of Trustees allocates employer contributions equal to 6.5% of salaries to the Health Care Stabilization Fund within the Pension Reserve Fund.

Refunds—Upon termination of employment members may withdraw accumulated contributions to the Fund. Acceptance of a refund cancels the member's rights and benefits in the Fund. Employer contributions to the Fund are not refundable.

3. CONTRIBUTIONS AND RESERVES

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

	Police	**Fire**
	(% of active member payroll)	
Rates established by the ORC at December 31, 1997:		
Employer	19.50	24.00
Member	10.00	10.00
Total statutory rate	**29.50**	**34.00**

6.50% of the 19.5% and 24% employer rates is allocated to the Health Care Stabilization Fund.

Prior to 1997 the aggregate cost actuarial method was used to determine the adequacy of contribution rates. House Bill No. 721 required that the January 1, 1997 and future actuarial valuations be based on the entry age normal actuarial cost method. Senate Bill 82 established the length of the amortization period for unfunded pension liability as the primary measure of the Fund's financial status, with a period of 30 years or less being considered satisfactory. This 30-year target is to be attained by the year 2007 and maintained thereafter. As of January 1, 1997 the amortization period the under current statutory rates is 43.49 years.

Contributions as a percentage of active member payroll required and made for 1997 represented 29.50% for police and 34.00% for fire fighters. Employer and member contributions were approximately $129,146,253 and $66,265,514, respectively, for police and $118,999,129 and $49,588,000, respectively, for fire fighters for the year ended December 31, 1997.

In accordance with the ORC, the State of Ohio is required to contribute additional amounts to finance the cost of certain State-legislated benefit improvements. The total amount contributed by the State for the year ended December 31, 1997 was $3,699,963.

Local Funds Receivable—Local governments are required by state statute to pay the unfunded portion of the actuarially determined liability of the local police and firemen's relief and pension funds that were merged to form the Fund in 1967. The ORC names this obligation of local governments the "Employers' Accrued Liability". Interest on the outstanding balance is being accrued at a rate of 4.25%, compounded semiannually. Local governments began repayment in 1969 and payments are required to be made until 2035. Between 1969 and 1973, payments of principal and interest were received at incremental semiannual rates ranging from 1% to 2% of the original receivable balance. Between 1973 and 2035, semiannual payments of principal and interest are required to be made by the local governments at a rate of 2.5% of the original receivable balance. The balance due at December 31, 1997 includes $1,223,671 due from local governments which had previously underpaid their semiannual payment and from local governments which joined the Fund subsequent to 1967 according to a 20-year payment plan.

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

Year ending December 31,	
1998	$ 11,185,575
1999	10,937,240
2000	10,936,927
2001	10,936,615
2002	10,935,917
Thereafter	352,974,109
Total projected payments	407,906,383
Less interest portion	203,301,206
Balance due at December 31, 1997	$204,605,177

Reserves—As required by the ORC, the following funds have been established for the reserves held for current and future benefits:

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

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

The Policemen's and Firemen's Pension Reserve Funds are the funds from which all retirement, disability, health care and survivor benefits are paid. Included in these Funds is the Health Care Stabilization Fund from which payments for health care benefits are made. Amounts are transferred into the Pension Reserve Funds from the Contribution Funds and the Guarantee Fund Funds.

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

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

At December 31, 1997, net assets available for benefits for the various funds were as follows:

Members' Contribution Funds	$ 930,776,060
Employers' Contribution Funds	1,508,520,707
Pension Reserve Funds	5,224,359,384
Total	$7,663,656,151

4. CASH AND INVESTMENTS

Cash Deposits—The carrying amount of the Fund's cash deposits at December 31, 1997 was $27,167,093 and the depository balance was $28,668,036. Of the depository balance, $1,312,098 was covered by federal depository insurance and $2,175,753 was covered by collateral held in the name of the Fund's legally-designated custodian, the Treasurer of the State of Ohio (Category 1 as defined by the Governmental Accounting Standards Board). The remaining depository balance of $25,180,186 was uninsured and uncollateralized and were held in the name of the Fund's pledging financial institution, as required by the Ohio Revised Code (Category 3). Deposits with the Ohio Public Employees Deferred Compensation Program are recorded as other assets and due to their nature are not required to be categorized.

Investments—Section 742.11 of the Ohio Revised Code grants the Board of Trustees full power to invest the assets of the Fund. This statute requires that investments be made with care, skill, prudence and diligence under the circumstances then prevailing that a prudent and informed person would use.

Statement No. 3 of the Governmental Accounting Standards Board requires the Fund to categorize its investments to give an indication of the level of collateral risk assumed by the Fund as of December 31, 1997. Category 1 includes investments that are insured or registered or for which the securities are held by the Fund or its agent in the Fund's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Fund's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Fund's name.

All investments subject to categorization met the criteria of Category 1 at December 31, 1997 and are held in the name of the fund or its nominee by the Treasurer of State of Ohio as custodian. Investments in domestic pooled common stocks, real estate, mortgage notes receivable, commercial mortgage funds and venture capital, by their nature, are not required to be categorized.

A summary of short-term securities and investments at fair market value at December 31, 1997 is as follows:

Category	Fair Value
Commercial paper	$ 219,600,782
U.S. government bonds	817,652,871
Corporate bonds and obligations	1,812,245,262
Canadian bonds and obligations	25,125,804
Domestic stocks	2,351,078,521
Domestic pooled stocks	769,162,764
Foreign securities	626,822,259
Real estate	645,269,687
Mortgage notes receivable	12,543,000
Commercial mortgage funds	114,443,738
Venture capital	29,574,575
	$7,423,519,263

Securities Lending—The Fund participates in a domestic security lending program as authorized by the Ohio Revised Code and administered by a custodial agent whereby certain securities (domestic equities and fixed income securities) are loaned to independent broker/dealers (borrower) in exchange for collateral (cash or U.S. government securities) equal to no less than 102% of the market value of the loaned securities. The Fund has minimized its exposure to credit risk due to borrower default by having the custodial agent bank determine daily that required collateral meets 102% of the market value of securities on loan. The Fund has not experienced any losses due to credit or market risk on security lending activity since implementation of the program. Securities loaned to brokers/ dealers at December 31, 1997 totaled $758,070,368 and the associated collateral at that date was $772,095,798. Maturities of investments made with cash collateral generally match the maturities of securities loans. Security lending income totaled $1,981,715 for the year ended December 31, 1997.

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

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

5. MORTGAGE NOTES PAYABLE

In 1997, the Fund assumed three mortgage notes payable of $13,500,000; $14,264,000 and $10,331,384. These loans are secured by real properties and bear per annum interest of 7.16%, 7.90% and 7.69% respectively. A mortgage loan in the amount of $15,395,000 assumed in 1995 and secured by a deed of trust for the Vista Ridge building bears interest of 7.8%.

Aggregate and annual payments of principal on the mortgage loans are as follows:

Year ending December 31,

1998	$660,981
1999	715,192
2000	14,273,037
2001	835,649
2002	10,370,169
Thereafter	26,635,356
Total payments	$53,490,384

6. DEFERRED COMPENSATION

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

The compensation so deferred, any property and rights purchased with the deferrals, and any income attributable to the deferrals, property or rights are, until paid or made available to the participant or a participant's beneficiary, solely the property of the Fund subject only to the claims of the Fund's general creditors. The rights of a plan participant are equal to those of a general creditor of the Fund to the amount equal to the fair market value of the participant's account. The total fair market value of the accounts of participating Fund employees was approximately $968,193 as of December 31, 1997. This amount is reported on the Fund's combining statement of net plan assets as an Other Asset with a corresponding Other Liability to Fund employees.

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

7. DEFINED BENEFIT PENSION PLAN

The Fund contributes to the Public Employees Retirement System of Ohio, (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions and contribution requirements are established by the Ohio State Legislature and are codified in Chapter 145 of the Ohio Revised Code. PERS issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to PERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085 or 1-800-222-7377.

Plan members are required to contribute 8.5% of their annual covered salary, while employers are required to contribute 13.55%. The Fund's contributions to PERS for the years ending December 31, 1997, 1996, and 1995 were $826,492, $734,710, and $603,732, respectively, equal to the required contributions for each year.

8. OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in note 10, PERS provides postemployment health care benefits to age and service retirants who retire with 10 or more years of qualifying Ohio service credit and to primary survivor recipients of such retirants. Health care coverage for disability retirants is also available. As of December 31, 1997 the number of benefit recipients eligible for postemployment healthcare benefits was 113,906.

The Fund and all employees are required by Chapter 145 of the ORC to contribute to PERS. A portion of each employer's contribution is set aside to fund postemployment health care benefits. Such contributions, along with investment income on allocated assets and periodic adjustments in health care provisions are expected to sustain the program indefinitely. Of the 13.55% of employee payroll contributed by the Fund, 5.11% or approximately $191,536 was the portion used to fund health care expenses.

9. COMMITMENTS AND CONTINGENCIES

The Fund holds a mortgage note receivable secured by a deed of trust on a shopping center located at 1700 McHenry Avenue, Modesto, California. The mortgage loan receivable was to mature on July 16, 1995. The loan was extended until March 1, 1996. A five year extension of the mortgage loan was signed and took effect on June 1, 1996. For the year ended December 31, 1997, the borrower made interest payments of $1,293,000 which is included in the net investment income on Combining Statement of Changes in Plan Net Assets.

The detail of the mortgage note receivable at December 31, 1997 is as follows:

Receivable from borrower	$15,000,000
Capitalized acquisition fee	126,000
Deferred interest	305,000
Capitalized legal costs	54,000
Unrealized loss	(2,942,000)
Total	$12,543,000

The Fund is a defendant in a number of lawsuits pertaining to matters which are incidental to performing routine business functions. Fund management is of the opinion that ultimate settlement of such claims will not result in a material adverse effect on the Fund's financial position as of December 31, 1997.

The Fund is committed to make additional capital contributions of $20,735,152 to existing venture capital investments, $38,101,055 towards purchases of additional real estate, and $5,307,823 to additional commercial mortgage obligations.

10. STATE OF OHIO DEATH BENEFIT FUND

Pursuant to Section 742.63 of the Ohio Revised Code, the Board of Trustee of the Police and Firemen's Disability and Pension Fund administers the State of Ohio Death Benefit Fund. This program was established by the State of Ohio to provide monthly benefit payments to surviving family members of Ohio fire fighters and law enforcement officers who have been killed in the line of duty or die of a duty-related accident or illness. Funds are disbursed to the Fund each State fiscal year (July 1-June 30) and are paid monthly by the Fund to eligible recipients. The unused balance at June 30 is returned to the State. The Death Benefit Fund is considered to be an agency fund administered by the Police and Firemen's Disability and Pension Fund, and accordingly its assets of $9,689,038, and the related liability for unpaid benefits are included in the accompanying Combining Statement of Plan Net Assets as of December 31, 1997.

REQUIRED SUPPLEMENTARY INFORMATION

1. SCHEDULE OF FUNDING PROGRESS

As of January 1, 1997
(Data for earlier periods is not available because a different funding method - aggregate cost - was used.)

Valuation Year	Valuation Assets	Actuarial Accrued Liabilities (AAL)	Unfunded Actuarial Accrued Liabilities (UAAL)	Ratio of Assets to AAL	Active Member Payroll	UAAL as % of Active Member Payroll
1997	$5,554,114,000	$7,024,555,000	$1,470,441,000	79.1%	$1,119,922,000	131.3%

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

2. SCHEDULE OF CONTRIBUTIONS FROM EMPLOYERS AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Actuarially Required Contributions	Percentage Contributed
1992	$ 136,997,451	100%
1993	144,525,505	100%
1994	153,437,994	100%
1995	159,669,716	100%
1996	168,505,254	100%
1997	175,170,513	100.8%

Contributions include funding from the State of Ohio to finance the cost of certain benefit improvements. Amounts do not include contributions for postemployment healthcare benefits

3. NOTES TO THE REQUIRED SUPPLEMENTARY SCHEDULES

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

Valuation date	January 1, 1997
Actuarial cost method	Entry Age
Amortization method	Level percent closed
Remaining amortization period	43.49 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.25%
Projected salary increases	5.0-7.0%
Cost-of-living adjustments	3.0%

1. ADMINISTRATIVE EXPENSES

For The Year Ended December 31, 1997

Personal Services:	
Salaries and Wages	$ 3,937,026
Retirement Contributions	507,889
Employee Benefits	638,918
	5,083,833
Supplies:	
Office Supplies	218,813
Printing and Publications	168,856
Dues and Subscriptions	32,491
	420,160
Other Services and Charges:	
Professional Services:	
Auditing	64,480
Actuarial	218,970
Medical	203,762
Legal	121,960
Investment	10,377,701
Treasurer of State Charges	11,919
Employee Training	121,326
Temporary Employees	47,337
Other Professional Services	1,427,488
Communications:	
Telephone	125,435
Postage	221,263
Transportation and Travel	85,093
Miscellaneous:	
Rent	994,850
Equipment and Maintenance	198,838
Retirement Study Council	23,240
Insurance—Administrative	79,719
Depreciation Expenses	651,527
	14,974,908
TOTAL ADMINISTRATIVE EXPENSES	**$20,478,901**

*Includes investment related administrative expenses.

2. INVESTMENT EXPENSES

For The Year Ended December 31, 1997

Investment Manager Fees	$ 9,855,858
Custodial Fees	521,843
Investment Consultant Fees	424,583
Direct Investment Department Expense	1,080,868
Allocation of Administrative Expense*	350,525
TOTAL INVESTMENT EXPENSES	**$12,233,677**

*A portion of the non-Investment Department administrative expenses of the Fund is allocated to Investment Expense based on the ratio of the Fund's investment staff to total Fund staff.

INVESTMENT SECTION

1. INVESTMENT REPORT

SIGNIFICANT DEVELOPMENTS IN 1997

On March 7, 1997, a new statute went into effect allowing Ohio's five statewide retirement systems to make investment decisions according to the "prudent expert" standard. While this freedom was a welcome change from decades under a legal list environment, the very same bill also posed a new funding challenge for this pension fund.

New asset classes such as high yield and alternative investments opened up to us. More leeway was immediately provided in selecting investments within our existing asset classes. However, we are also being required to reduce the amortization period of our unfunded liability to 30 years by the year 2007. As one might suspect, this requires the Fund to earn a higher rate of return on its investments. Of course, to achieve a higher return, we also subject ourselves to higher risk.

The Board of Trustees, staff and consultant immediately commenced an asset allocation study to search for ways to add more return potential to the portfolio while continuing to limit risk to an acceptable level. After extensive review, their decision was to add a 5% emerging markets allocation to the mix, primarily at the expense of a reduced fixed income weighting. High yield and alternative investments were also considered, but the Board decided that, for the time being, the staff and Investment Committee should monitor these classes for possible inclusion in the future.

The new asset allocation targets adopted by the Board are as follows:

Asset Class	Target Allocation (%)	Range (%)
Domestic Equity	41	+/-4
International Equity	10	+/-2
Domestic Fixed Income	35	+/-4
Real Estate	8	+/-2
Emerging Markets	5	-
Alternative Investments	1	-
Cash Equivalents	0	-
Total	100%	

The new statute also required that standards be implemented to safeguard the Fund's assets. To address this responsibility, the Board implemented several programs in 1997:

- Adopted Investment Manager Guidelines which are specific to each U.S. equity and fixed income manager and for each international equity manager. These guidelines clearly spell out risk based limitations, types of investments that may be purchased, those that may not be purchased, typical portfolio characteristics and an expected return relative to an agreed upon benchmark for each manager.
- Hired Standard and Poor's to monitor the Fund's domestic equity and fixed income managers' compliance with their guidelines and to report any violations to the Board.
- Hired The Plexus Group to measure and report on transaction costs and assist with portfolio transition planning.
- Adopted an Investment Manager Search Policy which established a set of criteria for the review of prospective managers, spelled out the responsibilities of the Board, the Investment Committee, the staff and the consultant and established search procedures.
- Adopted an Investment Manager Monitoring and Evaluation Policy which established a process, spelled out the responsibilities of the Board, the Investment Committee, the staff and the consultant and details the criteria used for a regular review of the Fund's existing managers.
- Adopted Strategic and Investment Plans for real estate that provide for the completion of the Fund's allocation to real estate while meeting return objectives and managing risk.
- Adopted a Broker Policy which details criteria used to review and rate both existing and prospective brokers, and spells out a selection process.

Another challenge for the Fund occurred when the Treasurer of State moved the custody of our domestic assets from Key Corp. to Star Bank. This major change has monopolized the attention of the investment and accounting staffs for many months starting in August 1997 and continuing into 1998.

ECONOMIC ENVIRONMENT

1997 was a year that saw the undermining of old assumptions and a willingness to adopt a new view of the relationship between GDP, the unemployment rate, inflation and bond yields. Under the old view, it was assumed that a GDP growth rate above 2.25 - 2.50% would spark higher inflation. It was also assumed that an unemployment rate below 5% would boost inflation as employers were forced to raise wages to attract scarce workers. Neither assumption proved to be valid in 1997. Real GDP rose a strong 3.7% year over year, and the unemployment rate dropped below 5% in the second half of the year, ending at a rate of 4.7%. However, inflation, as measured by the CPI, was only 1.7% for the year. Wage costs were contained by an increase in productivity and a sense of job insecurity caused by continued corporate restructuring. Goods inflation was kept in check by global competition and a severe economic downturn in Asia which started in the fall of 1997.

At the beginning of the year, the Federal Reserve Board believed in the old view with regard to growth, unemployment, and inflation. The fast GDP growth rate of the first quarter led the Fed to tighten the funds rate by 25 basis points to 5.5% in late March. Growth moderated in the second and third quarters, but remained above 3%. Growth accelerated in the fourth quarter to 4.5%, but the Fed stayed on the sidelines. The Fed did not tighten again after March because inflation continued to fall, and Chairman Greenspan and other members of the Fed indicated that a surge in productivity was enabling a fast growing economy with low unemployment to sustain low inflation. Greenspan outlined this view in his July Humphrey-Hawkins testimony before Congress. Also, the Fed did not tighten at the end of the year because the collapse in Asian economies created the possibility of slower US growth and even lower inflation.

TOTAL FUND

Our investment portfolio benefited handsomely from this strong growth, low inflation environment. Boosted mainly by the strength of the US stock market, the Fund experienced another year of tremendous growth. The total market value of the portfolio grew by roughly $1 billion during 1997, ending the year above the $7.3 billion mark. The total portfolio return of 17.2% for the year fell slightly below our Policy Benchmark return of 17.3%. This was largely due to the poor relative performance of our active equity managers. However, the portfolio's three year and five year returns of 18.6% and 12.8%, respectively, both comfortably exceeded our policy returns for the same periods.

EQUITIES

The US stock market was the main beneficiary of this economic nirvana in 1997. The S&P 500 responded accordingly with another spectacular yearly return of 33.3%. The S&P is also demonstrative of larger cap companies outperforming the stocks of smaller companies. Small caps earned very good returns in 1997, but fell far short of the S&P. The Russell 2000 index returned 22.4%. Our domestic equity composite return was 29.0%, a full 2.3% below the Wilshire 5000 for the year. As mentioned earlier, most of our active equity managers, particularly large cap, failed to beat their benchmarks for the year. Unfortunately, this is also indicative of their long term relative performance as well, as our equity composite's annualized return trailed that of the Wilshire 5000 by roughly 100 basis points for both three and five year periods.

This relatively poor long term performance and a desire to simplify our US equity structure led the Board to make several changes in this class already in 1998. The Investment Committee conducted an evaluation of all of the Fund's domestic equity managers and recommended that the Board terminate the services of all five of the our domestic large cap managers. The Board immediately commenced searches for a large cap growth manager, a large cap value manager and a passive S&P 500 manager. (We also included passive EAFE in our search because we expected to hire a single provider for all passive mandates.)

International equity markets were dominated by the collapse of Asian stock markets during the second half of the year. Japan's market fell nearly -24%, while emerging Asian markets as a group fell over -50%. Fortunately, European developed markets turned in an excellent return for the year of almost 24%. The offsetting returns of these two regions resulted in the MSCI EAFE index producing only a 1.8% return in 1997. Another factor hurting the returns to US investors overseas was the continued strength of the dollar. Our international equity composite experienced the same countervailing forces as solid returns from our European manager were negated by the weak absolute returns of our Pacific Basin manager. Still, the composite produced a 3.2% return which outpaced EAFE. While we don't yet have five years experience in the international markets, our three year annualized return easily exceeded that of EAFE.

While our asset allocation contains a 5% target for emerging markets, we have yet to make any explicit commitment to these developing markets. However, the Investment Committee will soon begin to review our overall international equity structure and will determine a course of action to pursue investments in emerging markets.

FIXED INCOME

1997 was a reasonably good year for bonds, especially long bonds. Long bond yields, which rose during the first quarter in anticipation of the March Fed tightening, followed inflation downward for the rest of the year. The 5.5% federal funds rate limited the drop in short yields as investors were reluctant to buy short Treasuries at yields below this rate. As a result, the yield curve flattened, as the yield on the two- year Treasury dropped only 23 basis points for the year while the yield on the thirty-year Treasury dropped 72 basis points. This flattening also occurred because investors demanded a lower yield premium to extend out the curve in such a low inflation environment. The end result was a strong year for the bond market with the Lehman Aggregate Index returning a healthy 9.7%. As reported, our 1997 fixed income composite return of 9.1% fell below its benchmark. However, our bond portfolio continues to maintain a positive relative performance record versus the Aggregate for three and five year time frames.

Although yields will probably not fall as much in 1998 as they did in 1997, inflation is likely to turn in another reasonably tame performance this year. This in turn will allow bond yields to remain at relatively low levels. Thus, in 1998 the bond market should produce modest returns of about 6-7%.

REAL ESTATE

1997 closed with the overall real estate market indicators continuing to reflect a general improvement in the real estate market. Vacancy rates declined in most markets while rents continued to trend higher. Cap rates were generally down, driven by strong investor demand. In 1997, the Fund sold six properties, acquired one office portfolio, began the development of two industrial buildings on an existing property and committed to invest in one opportunistic fund. The portfolio continues to be well diversified by property type as well as by geographic location. On a one quarter lagged basis our real estate portfolio return for the year was 14.9% (the true calendar year return has subsequently been reported to be 20.6% consisting of 10.5% income and 10.1% appreciation). The real estate portfolio's performance easily surpassed that of the NCREIF Index for one, three and five year periods.

The Fund's current approach is a "managed opportunistic" investment strategy. We adopted this strategy to take advantage of the remaining imbalances in some real estate markets and hope to generate attractive returns provided by selected investments in such markets. The Fund is also considering investments in core-plus and/or value-added opportunities, such as properties that require specialized acquisition and asset-management skills to mitigate the higher risk associated with the investments.

VENTURE CAPITAL

In 1997 our small allocation to venture capital provided an excellent return of 30.6%, but fell well short of the impressive 38.3% return of its benchmark (S&P 500 + 5%). The three year return suffered from a poor 1995 while the five year return easily bested its benchmark. These returns were earned from the fourteen different venture partnerships in which we have invested over the past fifteen years. These investments were made under the narrow allowances of prior Ohio law which in effect required these partnerships to make significant investments in Ohio companies.

The adoption of "prudent expert" has opened up a new world to us in the broader area of alternative investments. At the moment, staff does not have the resources to adequately assess and monitor new alternative investments. Our challenges will be to determine the requirements for establishing a meaningful allocation and to educate ourselves on the variety of investments available in this asset class. While we build this foundation, the staff will continue to review any new offerings from partnerships in which the Fund currently has investments.

1998 DEVELOPMENTS

As mentioned above, the Board and staff have remained quite active thus far in 1998. As summarized below, our domestic equity re-structuring has required a great deal of time and effort, but has not been the only issue occupying our agenda this year. To date in 1998 we have:

- Evaluated all domestic equity managers according to the new Investment Manager Monitoring and Evaluation Policy.
- Terminated the services of all five of the Fund's domestic large cap equity managers.
- Commenced searches for a large cap growth manager, a large cap value manager and a passive S&P 500 and passive EAFE manager. In keeping with the Investment Manager Search Policy, these searches were conducted via an open, advertised RFP process.
- Hired Boston Partners to manage our large-cap value portfolio, American Express Asset Management to manage our large-cap growth portfolio and State Street Global Advisors to manage our passive S&P 500 and EAFE portfolios.
- Evaluated all separate account real estate managers according to the new Investment Manager Monitoring and Evaluation Policy.
- Terminated one separate account real estate advisor and re-distributed the properties among existing advisors.
- Divested our interest in a residential property fund.
- Adopted a Real Estate Properties Disposition Policy which will expedite sales by granting limited approval authority to staff when sales proposals are in line with their disposition plan at the time of the property's purchase or as approved in the annual Real Estate Investment Management Plan.
- Adopted a Proxy Voting Policy which spells out the criteria used to evaluate and vote on all proxy issues expected during the coming year.
- Hired a Senior Investment Officer to oversee equity investment, public and private.

CHALLENGES AHEAD

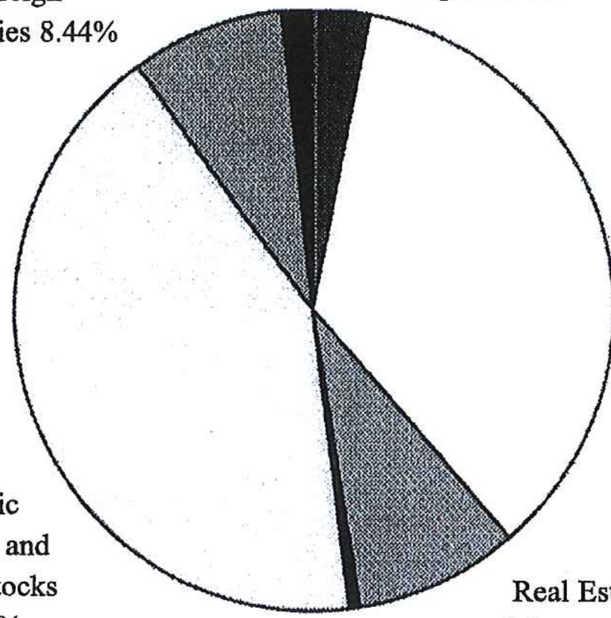
In the past, we pledged our efforts to earn at least an 8.25% return over time, which is our actuarial assumption rate. Given our new accelerated funding requirements, we will strive to better that return by exploring new investment ideas and by improving the efficiency of and reducing the costs of our operations. As we look ahead, we intend to tackle a number of issues related to these goals.

- Review the structure of our international equity portfolio and determine a strategy for our expansion into emerging markets. Given the recent turmoil and declines in Asian markets, we are hopeful our entry will prove to be fortuitous over time.
- Evaluate all international equity managers according to the Investment Manager Monitoring and Evaluation Policy.
- Conduct international manager searches as needed based on our emerging market investment strategy and based on decisions regarding the structure of our international portfolio and concerning the status of our current managers.

- Implement a successful and cost effective transition of our active large cap and passive portfolios.
- Review the current structure of our fixed income portfolio and determine if any changes are warranted This is likely to include an evaluation of the use of high yield and emerging market debt.
- Evaluate alternative investments to determine the requirements for implementing a meaningful allocation.
- Revisit the asset allocation work conducted in 1997 to determine if any adjustments should be made to accommodate new asset classes and recent developments concerning our benefits structure.
- Hire a Compliance Officer and additional staff to oversee all guideline and compliance issues and assist in the development of a broad based risk management policy.
- Prepare for another custody transition due to the Treasurer of State's selection of State Street to replace Morgan Stanley Trust Company as the custodian of our international assets.
- Begin the process to select a new investment accounting package. A new package is needed which has the functionality for handling international issues and for assisting with performance measurement.

2. INVESTMENT PORTFOLIO SUMMARY

DECEMBER 31, 1997



Type	% of Market Value	Market Value
Commercial paper	2.96%	$ 219,600,782
U.S. government bonds	11.02%	817,652,871
Corporate bonds and obligations	24.41%	1,812,245,262
Canadian bonds and obligations	0.34%	25,125,804
Domestic stocks	31.67%	2,351,078,521
Domestic pooled stocks	10.36%	769,162,764
Foreign securities	8.44%	626,822,259
Real estate	8.69%	645,269,687
Mortgage notes receivable	0.17%	12,543,000
Commercial mortgage funds	1.54%	114,443,738
Venture capital	0.40%	29,574,575
Total All Investments	**100.00%**	**$7,423,519,263**

TEN LARGEST COMMON STOCKS (BY MARKET VALUE)

	Shares	Market Value
Travelers Group Inc. (The)	645,000	$34,749,375
Citicorp	243,370	30,771,094
Federal Home Loan Mtg. Corp.	700,000	29,356,250
American Express	314,831	28,098,667
Caterpillar Inc.	561,960	27,255,060
Time Warner Inc.	439,000	27,218,000
Tenet Healthcare Corp.	800,000	26,500,000
Wells Fargo Corp.	75,635	25,673,355
AMR Corp.	182,800	23,489,800
Allied Signal Inc.	600,000	23,287,500

TEN LARGEST BONDS AND OBLIGATIONS (BY MARKET VALUE)

	Par Value	Market Value
Mid States TR II A-4 04/01/03	$57,675,000	$62,271,005
MIC Financing Trust 1 144A	57,230,000	60,931,636
Socgen Real Estate Co L.L.C.	60,000,000	60,306,600
Nationwide CSN Trust	50,000,000	58,875,500
Sun Life Capital Trust I	51,500,000	56,234,395
ICIFC 97-3 A2	40,634,000	40,932,254
Green Tree GT 97-B A1	40,681,669	40,872,385
BNP U.S. Funding L.L.C.	40,000,000	40,518,400
US Treasury Bonds 10.375% 11/15/12	30,265,000	40,232,475
US Treasury Notes 6.000% 6/30/99	36,965,000	37,149,825

TEN LARGEST REAL ESTATE HOLDINGS (BY MARKET VALUE)

	Market Value
Park Central Office Building	$56,900,000
Indianapolis Office Portfolio	50,597,099
Belmont Carlton Apartments	42,000,000
Vista Ridge Shopping Center	42,000,000
Bernard 78	30,000,000
Aurora Corporate Plaza	28,500,000
Harbour Town of Boca	27,100,000
San Mateo Apartments	26,000,000
Commodore/Pencader Industrial Bldg.	25,970,000
Great Southwest Industrial	23,450,000

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

3. SCHEDULE OF INVESTMENT RESULTS

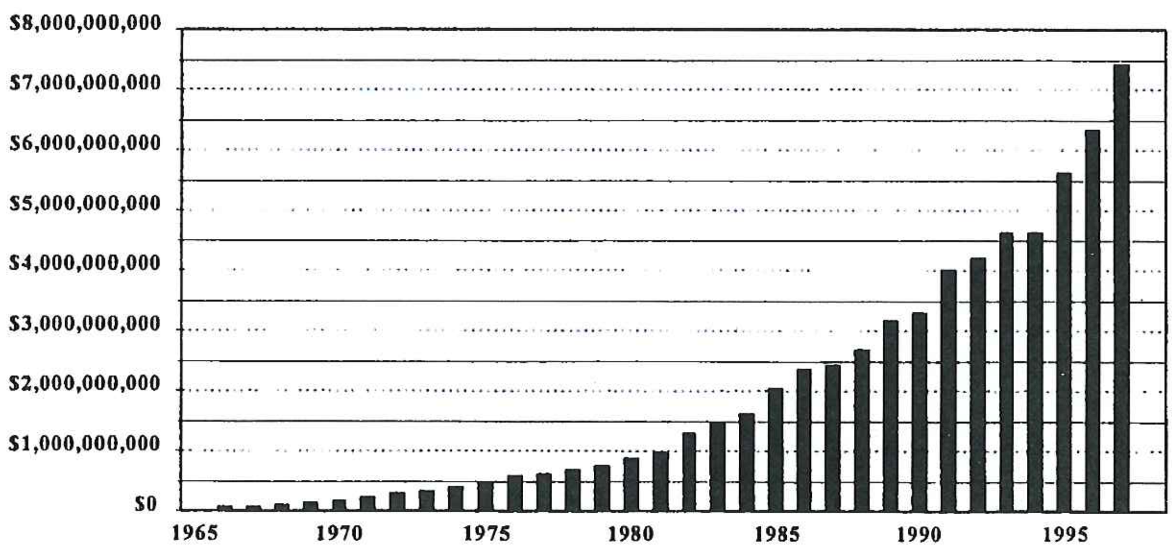
	Annualized Rates of Return		
	1-Year	*3-Year*	*5-Year*
U.S. Equity	28.95%	28.36%	18.32%
Wilshire 5000	31.28%	29.50%	19.29%
International Equity	3.16%	9.05%	NA
MSCI EAFE	1.77%	6.28%	NA
Fixed Income	9.10%	10.38%	7.67%
Lehman Aggregate	9.68%	10.42%	7.49%
Real Estate	14.91%	11.90%	6.24%
NCREIF	10.90%	9.30%	6.10%
Venture Capital	30.62%	12.19%	31.34%
S&P 500 + 5%	38.25%	36.12%	25.23%
Total Portfolio	17.15%	18.61%	12.78%
*Policy Index	17.28%	17.29%	12.43%

*Policy Benchmark—41% of Wilshire 5000, 35% of Lehman Aggregate, 10% of MSCI EAFE Index, 8% of Wilshire Real Estate Fund, 5% IFC Emerging Markets, 1% S&P 500 + 5%.

32 year Growth of the Fund—1965 to 1997

PFDPF INVESTMENTS

YEAR-END MARKET VALUES



4. INVESTMENT CONSULTANTS AND MONEY MANAGERS

Investment Consultants

Wilshire Associates, Inc.

The Townsend Group

Investment Manager - Fixed Income

Brinson Partners, Inc.

Investment Managers - Equity

Atlanta/Sosnoff Capital Corporation

Bankers Trust Company

Bond Procope Capital Management

Capital Guardian Trust Company

Fleet Financial Advisors, Inc.

Gelfand Partners Asset Management

Invesco Trust Company

Lakefront Capital Investors, Inc.

Lombard Odier International Portfolio Management, Ltd.

Nicholas-Applegate Capital Management

Opperheimer Capital

Scudder, Stevens & Clark, Inc.

Smith Barney Capital Management

Society Asset Management

Value Line Asset Management

Investment Managers - Real Estate

AEW Capital Management

Cabot Partners

DLJ Real Estate Capital Partners, Inc.

Equitable Real Estate Investment Management

Lowe Enterprises

MIG Realty Advisors

The RREEF Funds

Schroder Real Estate Associates

Schroder Mortgage Associates

TA Associates Realty

Westbrook Partners, LLC

Westmark Realty Advisors

Yarmouth Capital Partners

Investment Managers - Venture Capital

Alpha Capital Partners

Blue Chip Venture Partners

Brantley Venture Partners

Cardinal Development Capital Fund

Chemicals & Materials Enterprise

Morgenthaler Ventures

North Coast Fund, L.P.

Northwest Ohio Venture Fund

Primus Venture Partners

5. SCHEDULE OF BROKERS' FEES

For the Year Ending December 31, 1997

Broker Name	Fees Paid ($)	Units Traded	Average Cost Per Unit
Merrill Lynch & Co.	$ 623,618	29,956,752	$0.021
UBS Securities	273,094	13,062,240	0.021
SBC Warburg	241,801	19,620,856	0.012
Lehman Brothers	239,417	7,029,372	0.034
Capital Institutional Services	212,463	3,661,238	0.058
Salomon Smith Barney	203,798	6,558,233	0.031
Barclays Bank	199,606	13,929,824	0.014
Morgan Stanley & Co.	167,402	11,004,180	0.015
Instinet	160,994	4,020,643	0.040
Fleming	136,190	23,596,424	0.006
BBN-James Capel Sec.	133,536	6,226,248	0.021
ING Baring	127,305	16,417,760	0.008
McDonald & Co. Securities	123,085	2,439,139	0.050
Goldman Sachs & Co.	121,233	4,684,016	0.026
J P Morgan	115,868	1,453,124	0.080
Kleinwort Benson	105,473	4,439,564	0.024
Paine Webber	101,724	1,711,240	0.059
Everen Securities	101,495	2,029,899	0.050
Prudential Securities	92,005	1,693,400	0.054
First Boston Corp.	80,334	1,803,376	0.045
Standard & Poors Securities, Inc.	77,500	1,537,500	0.050
Bear Stearns Securities	77,241	1,475,670	0.052
Hoare Govett	76,924	3,390,020	0.023
Jones & Associates	75,912	1,463,933	0.052
Factset Data Systems	73,098	1,460,324	0.050
Credit Lyonnais	71,803	4,617,780	0.016
Bridge Co.	64,608	1,216,030	0.053
Boston Institutional Service	63,900	1,929,628	0.033
Henderson & Crosthwaite	63,266	1,278,000	0.050
Daiwa Sec	63,180	1,709,200	0.037
BankAmerica	61,468	15,308	4.015
SG Cowen Securities Group	56,518	1,109,205	0.051
Lewco	54,714	963,100	0.057
Gordon Haskett	54,575	1,091,500	0.050
Deutsche Bank	53,321	1,278,400	0.042
Robert Fleming	51,620	124,304	0.415
Donaldson Lufkin & Jenrette	46,696	776,484	0.060
Raymond James & Associates	39,566	747,600	0.053
Dain Bosworth	38,052	759,800	0.050
Autranet, Inc.	37,731	629,925	0.060
Schroder Wertheim	37,624	877,430	0.043
Bolden Asset Management	35,325	706,500	0.050
Westlb Sec. Pac.	35,315	322,836	0.109
Sutro & Co.	33,400	668,000	0.050
Robert Baird	32,532	542,200	0.060
Roney & Co.	32,327	628,800	0.051
Peregrine Bkr	32,010	2,113,614	0.015
Morgan Grenfell	30,992	7,445,484	0.004
Carr, W I	30,595	2,825,400	0.011
Carnegie Fondkomm	30,353	189,612	0.160
Labouchere	29,812	88,185	0.338
Deutsche Morgan Gren	28,558	137,396	0.208
Cheuvreux de Virieu	28,464	113,940	0.250
Gruntal & Co.	27,830	556,600	0.050
Weeden	27,705	431,900	0.064
Enskilda Sec	25,654	226,239	0.113
CCF Elysees	25,466	170,208	0.150
Alex Brown	24,288	403,860	0.060
Jefferies & Co.	22,443	435,750	0.052
Kim Eng Sec	21,606	1,662,000	0.013
Were, J B	21,372	992,775	0.022
The Chicago Corp.	20,514	386,400	0.053
Other Brokers*	1,082,460	51,378,342	0.021
Total Fees and Commissions	**$6,478,779**	**276,214,710**	**$0.023**

*Brokers paid less than $20,000 and fees for certain international equity purchases for which broker names were not readily determinable.

6. INVESTMENT POLICY AND GUIDELINES

I. INTRODUCTION

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

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

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

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

II. DEFINITION OF RESPONSIBILITIES

A. Board of Trustees' Responsibilities

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

B. Staff Responsibilities

- Manage the Fund assets under its care, custody and/or control in accordance with the Investment Policy Statement objects and guidelines set forth herein.
- Monitor both internally & externally managed assets to insure compliance with the guidelines set forth in this policy statement and manager guidelines.
- Promptly vote all proxies and related actions in a manner consistent with the long-term interests and objectives of the Plan set forth herein. Maintain detailed records of said voting of proxies and related actions and comply with all regulatory objections related thereto.
- Report to the Board quarterly regarding the status of the portfolio and its performance for various time periods. Meet with the Board at least annually to report on their performance and compliance with goals and objectives.
- Acknowledge and agree in writing to their fiduciary responsibility to fully comply with the entire Investment Policy Statement set forth herein, and as modified in the future.

C. Investment Consultants' Responsibilities

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

D. Investment Managers' Responsibilities

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

and will comply with all regulatory obligations related thereto.

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

III. ASSET ALLOCATION

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

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

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

Based on an asset allocation and liability study, which analyzed the expected returns of various asset classes, projected liabilities and the risks associated with alternative asset mix strategies, the Board in August 1997 established the following asset allocation:

Asset Class	Target Allocation (%)	Range (%)
Domestic Equity	41	±4
International Equity	10	±2
Domestic Fixed Income	35	±4
Real Estate	8	±2
Emerging Markets	5	—
Alternative Investments	1	—
Cash Equivalents	0	—
Total	**100%**	

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

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

IV. PERFORMANCE EXPECTATIONS

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

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

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

V. INVESTMENT IMPLEMENTATION

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

An Investment Committee composed of 3 Board members shall be responsible for working closely with the Investment Staff in conjunction with the advisors, and shall make recommendations to the Board on investment matters.

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

The Board, in conjunction with the Consultant, has established specific search procedures detailed in Section XI of this policy and will include the specification of minimum criteria for the selection of new qualified investment managers, to implement the strategic asset allocation plan.

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

VI. SPECIFIC GUIDELINES

A. Large Capitalization Specialist Managers

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

Assets eligible to be managed in this class of investments wil be found in the managers' individual investment guidelines. Generally the following objectives and guidelines shall apply

- The main focus of investing will be on companies with a market capitalization in excess of $5 billion.
- No single holding shall account for more than 5% of the entire portfolio at market, or 5% of the outstanding common stock of any one corporation.

- Trading recommendations shall be submitted by the various investment managers to the Chief Investment Officer and staff who shall be responsible for all trading activity of the portfolio. In no event shall a manager/advisor execute a trade involving a total loss in excess of five hundred thousand dollars without notification to the Board of Trustees.
- Cash equivalent positions shall be limited to a maximum of 5% unless otherwise approved by the Board of Trustees.

B. Small/Mid Capitalization Specialist Managers

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

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

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

Investment Objectives

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

'Growth' Manager A

- Total return of the portfolio should exceed the return of the Russell 2000 Growth Index by 150 basis points over a three to five year period on an annualized basis.
- Total return should rank above median in a universe of small cap, growth managers over a three to five year period on an annualized basis.

'Growth' Manager B

- Total return of the portfolio should exceed the return of a blended index consisting of 50% Russell 2000 Growth Index and 50% S&P 400 Growth Index by 150 basis points over a three year period on an annualized basis.
- Total return should rank above median in a universe of small cap, growth managers over a three year period on an annualized basis.

'Value' Manager A

- Total return of the portfolio should exceed the return of the Russell 2000 Index by 200 basis points over a three to five year period on an annualized basis.
- Total return should rank above median in a universe of small cap, growth managers over a three year period on an annualized basis.

'Value' Manager B

- Total return of the portfolio should exceed the return of a blended index consisting of 25% Russell 2000 Index and 75% S&P 400 Mid Cap Index by 100 basis points over a three to five year period on an annualized basis.
- Total return should rank above median in a universe of small cap, growth managers over a three to five year period on an annualized basis.

C. International

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

Passive International Equity Investments

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

Active International Equity Investment

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

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

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

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

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

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

Regional Component

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

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

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

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

D. Fixed Income

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

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

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

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

Cash equivalents positions shall be included in the calculation of the portfolios' effective durations.

E. Real Estate

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

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

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

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

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

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

F. Commercial Mortgages

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

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

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

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

G. Venture Capital Investments

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

For these reasons, this asset class is limited to 1% of the overall fund and expected returns must exceed those of other asset classes. The Fund seeks a target return of the S&P 500 + 5% over the long term.

To assist in diversifying the risks of this asset class, the Fund shall invest only in eligible venture capital partnerships or funds and shall avoid individual direct company investments.

H. Cash Equivalents

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

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

VII. PROXY VOTING

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

Common stock proxies may be executed by the Chief Investment Officer, Senior Investment Officer–Equities, or outside money managers.

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

VIII. SECURITIES LENDING

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

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

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

IX. INVESTMENT MONITORING AND EVALUATION POLICY

The purpose of the PFDPF Investment Manager Monitoring and Evaluation Policy is to establish the process and discipline for managing the investment manager relationship. The policy states the process, responsibilities and important factors for consideration in the monitoring and evaluation process.

The successful monitoring and evaluation of managers depends on synthesizing a multi-faceted array of investment factors, including historical data and forward looking characteristics that are often linked. The process must also examine the investment manager's business capabilities and ability to attract and retain investment and support professionals. The Policy seeks to examine all material information about PFDPF's investment managers that may materially impact the relationship and investment objectives of the Board.

PFDPF will consider, but not be limited, to the following factors in monitoring and evaluating its investment managers:

A. Stability and experience of firm in the investment product;

1. Stability of the firm, as measured by the quality of the organizational structure of the firm; the existence of, or potential for, significant developments in the firm; and the expected financial stability of the firm.
2. Experience of the firm in providing investment management services to similar institutional investors, as measured by the firm's history of providing such services.
3. Ownership of the firm, as measured by the depth and structure of the incentive programs and the ownership type for key investment professionals in the subject product.
4. Firm commitment to improvement as measured by whether or not there is a clear business plan/strategy, reinvestment in the firm with an overall commitment for enhancements/improvements.
5. Adverse organizational issues, as measured by the existence of litigation or other investigations; and the existence of financial problems.

B. Quality, stability, depth and experience of investment professionals;

1. Experience of portfolio manager(s) in providing similar services to similar institutional investors, as measured by the length of time the portfolio manager(s) has served as a portfolio manager to such investors; demonstrated expertise in providing such services to other such investors.
2. Stability of the firm's professional base, as measured by personnel turnover.
3. Depth of personnel, as measured by the firm's account/portfolio manager and account/investment management personnel ratios; and back-up procedures for providing services to PFDPF in the absence of the portfolio manager(s).

C. Client service and relationships;

1. Assets under management, as measured by the amount in the subject product as well as the experience of managing other similar asset class products.
2. The similarity of a firm's clients to PFDPF, as measured by the amount of institutional tax-exempt assets under management and the size of the individual accounts currently under management.
3. Stability of the firm's client base, as measured by the number of accounts gained or lost.
4. Procedures for client contact, timely reporting, compliance monitoring, reconciliation process with PFDPF's custodian and responsiveness to reporting data and formatting requirements.

D. Investment philosophy and process;

1. Defined philosophy and process implementation, as measured by whether the philosophy is effectively communicated and what the process is and why it works. It should be identified as to whether the process is based on sound research and whether or not they are focusing on temporary or permanent inefficiencies in the market.
2. Portfolio construction process, as measured by whether or not the manager is benchmark oriented such that there are distinct portfolio objectives and on-going monitoring relative to these objectives. It should be identified as to whether the process contains risk controls, and if so, are they part of a disciplined process and who is performing the monitoring.
3. Research, as measured by whether there are appropriate resources given the product style, whether the research performed is qualitative or quantitative, and whether or not there are separate research departments by product type or one fully integrated research staff.
4. Sources of information, as measured by whether the data used in the process is collected and/or assimilated by outside organizations or generated internally and how the information is processed and interpreted.

E. Investment performance and risk control;

1. The investment manager's alpha for active managers and tracking error for passive managers relative to the target benchmark. Active managers will also be expected to rank in the top half of managers with similar objectives over a 3 to 5 year period, if available. Additional focus will be placed on return/risk ratios and information ratios which incorporate both absolute and manager specific risk.

F. Investment fees;

1. Investment management fees shall be competitive and of an appropriate structure for the product type and assets under management.

It is important that the roles of the participants in the implementation of this Policy be clear and delineated. The following is intended as a guide to reflect the overall framework for the participants in the process. Participant responsibilities may vary from time to time.

Board — Responsible for the overall management of the Fund and investment manager relationship. Staff and consultant will provide the Board with periodic updates on the investment structure, overall investment manager performance and compliance with guidelines.

Investment Committee — Responsible for the overall management of the Fund's investment program. This shall include ongoing review of the asset allocation plan, investment structure, investment performance and other related issues. The Committee shall be responsible for recommending investment policies and procedures and shall assign investment managers to a monitoring category (except that only the Board may assign category 4, termination).

Staff — Responsible for the day-to-day management of this Policy and the investment manager relationship, including investment reporting and investment guideline compliance. Staff will report all material manager issues to the consultant for review and the Board for its consideration.

Investment Consultant — Responsible for assisting the staff and Board in establishing strategic investment policy and strategy. The consultant will monitor the consistency of investment manager mandates with the investment objectives, investment manager guidelines and will prepare quarterly performance measurement reports. The consultant will report all material investment manager issues to the staff and Board.

Investment Manager — Responsible for managing the investment portfolio within the objectives and guidelines established by the Board. The investment manager is responsible for self-monitoring of the portfolio and notifying the staff when there are any deviations from the guidelines and when modifications to the guidelines may be appropriate The investment manager is responsible for the quality and timeliness of its reporting, including the reconciliation of its portfolio with PFDPF's custodian.

The investment manager's performance, risk and portfolio characteristics will be monitored on a monthly/quarterly basis or more frequently, and will be evaluated relative to the Board approved investment manager guidelines and objectives.

The Board seeks long term and successful relationships with its investment managers. The monitoring process is intended to ensure the success of the relationship. All investment managers will be assigned, as noted above, to one of the following categories which will be reviewed and approved by the Board at least annually:

1. Retain the investment manager with no material changes in the relationship;
2. Retain the investment manager with issues of a non-material nature to be noted and monitored on a regular basis;
3. Retain the investment manager and place on probation with specific material issues identified and a plan and time period developed to resolve issue; and
4. Terminate the investment manager relationship and redeploy the assets.

Where potentially material and adverse issues arise in PFDPF's current investment manager relationships, the Board will review the issues and may re-assign the manager to another category.

The Board will review the adverse material issues and circumstances prior to terminating an investment manager. The major issues to consider will include:

Longer term prospects of the investment manager in correcting the issue;
Potential changes in the relationship;
The cost of termination;
Replacement alternatives; and
How the investment manager's assets will be redeployed.

The staff will meet with those investment managers whose performance falls below the 70th percentile relative to their peers for all of the following: current quarter; year-to-date; and trailing one year time periods. The staff will also meet with investment managers for non-performance issues that are material to the relationship, including but not limited to: firm or investment product stability, key professional turnover, client service and investment reporting.

X. COMMUNICATIONS

Each manager will provide hard copy reports at least quarterly, including performance measurement, asset inventories, transaction summaries, market commentary or anything else deemed significant at the time of reporting. Each manager is expected to meet with the Fund's Board at least annually, unless notified otherwise.

XI. INVESTMENT MANAGER SEARCH POLICY

The selection of investment managers will be conducted only under a Request for Proposal (RFP) process that will consider the following issues:

A. The investment strategy for the manager search will be considered within the strategic asset allocation plan, investment structure and other applicable investment policies and procedures approved by the Board.

B. The RFP minimum criteria will be consistent with the search investment strategy and will be established by the Investment Committee, with the assistance of staff and the investment consultant. The selection criteria may include such items as:

1. Stability and experience of firm in the investment product;
   a. Stability of the firm, as measured by the quality of the organizational structure of the firm; the existence of, or potential for, significant developments in the firm; and the expected financial stability of the firm.
   b. Experience of the firm in providing investment management services to similar institutional investors, as measured by the firm's history of providing such services.
   c. Ownership of the firm, as measured by the depth and structure of the incentive programs and the ownership type for key investment professionals in the subject product.
   d. Firm commitment to improvement as measured by whether or not there is a clear business plan/strategy, reinvestment in the firm with an overall commitment for enhancements/improvements.
   e. Adverse organizational issues, as measured by the existence of litigation or other investigations; and the existence of financial problems.
2. Quality, stability, depth and experience of investment professionals;
   a. Experience of portfolio manager(s) in providing similar services to similar institutional investors, as measured by the length of time the portfolio manager(s) has served as a portfolio manager to such investors; demonstrated expertise in providing such services to other such investors.
   b. Stability of the firm's professional base, as measured by personnel turnover.
   c. Depth of personnel, as measured by the firm's account/portfolio manager and account/investment management personnel ratios; and back-up procedures for providing services to PFDPF in the absence of the portfolio manager(s).
3. Client service and relationships;
   a. Assets under management, as measured by the amount in the subject product as well as the experience of managing other similar asset class products.
   b. The similarity of a firm's clients to PFDPF, as measured by the amount of institutional tax-exempt assets under management and the size of the individual accounts currently under management.
   c. Stability of the firm's client base, as measured by the number of accounts gained or lost.
   d. Procedures for client contact, timely reporting, compliance monitoring, reconciliation process with PFDPF's custodian and responsiveness to reporting data and formatting requirements.
4. Investment philosophy and process;
   a. Defined philosophy and process implementation, as measured by whether the philosophy is effectively communicated and what the process is and why it works. It should be identified as to whether the process is based on sound research and whether or not they are focusing on temporary or permanent inefficiencies in the market.
   b. Portfolio construction process, as measured by whether or not the manager is benchmark oriented such that there are distinct portfolio objectives and on-going monitoring relative to these objectives. It should be identified as to whether the process contains risk controls, and if so, are they part of a disciplined process and who is performing the monitoring.
   c. Research, as measured by whether there are appropriate resources given the product style, whether the research performed is qualitative or quantitative, and whether or not there are separate research departments by product type or one fully integrated research staff.

d. of information, as measured by whether the data used in the process is collected and/or assimilated by outside organizations or generated internally and how the information is processed and interpreted.

5. Investment performance and risk control;

   a. The investment manager's alpha for active managers and tracking error for passive managers relative to the target benchmark. Active managers will also be expected to rank in the top half of managers with similar objectives over a 3 to 5 year period, if available. Additional focus will be placed on return/risk ratios and information ratios which incorporate both absolute and manager specific risk.

6. Investment fees;

   a. The total cost of performing investment advisory services as measured by the Fee Proposal based on a total account size. The managers in the search will be evaluated relative to each other as well as to a representative peer universe.

C. The search may be on a closed or open manager universe basis. Closed universe searches shall be used only in circumstances where an expedited process is required to avoid material harm to the Fund.

D. RFPs will be sent to managers identified as likely to meet the stated qualifications and to those requesting the RFP in an open universe search. An advertisement will be placed in an investment industry or national business publication in open universe searches. In closed universe searches, the Investment Committee shall approve all potential candidates with the assistance of the staff and consultant.

E. Staff, with the assistance of the Board's investment consultant, will review all timely submitted RFPs to ensure that all search criteria have been met.

F. Staff, with the assistance of the Board's investment consultant, will evaluate all RFPs having met established criteria and produce a written report summarizing the findings and manager rankings to the Investment Committee. The staff and consultant may produce separate reports to the Investment Committee where there may be material differences in findings or manager rankings.

G. The Investment Committee will consider the staff and consultant report as well as other material information when determining the list of managers for finalist interviews.

H. The staff and/or investment consultant may conduct a due diligence visit with the finalists prior to the finalist interviews.

I. The Investment Committee will interview and evaluate the finalists with the assistance of staff and the investment consultant.

J. Only the Investment Committee has authority to recommend managers to the Board for final consideration. The recommendations may also include information on the amount and timing of funding, investment guidelines and fees.

K. The Board will approve or fail to approve the manager recommendations of the Investment Committee. The Board may approve, fail to approve or modify the amount and/or timing of funding, investment guidelines and fees of the approved managers.

XII. REVIEW PROCEDURES

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

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

ACTUARIAL SECTION

1. REPORT OF ACTUARY

Watson Wyatt
Worldwide

Watson Wyatt & Compa

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Cleveland, OH 44114-3149

Telephone 216 696 6250
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June 3, 1998

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

Members of the Board:

In order to assist the Board in its financial objective of ensuring the long-term solvency of The Police and Firemen's Disability and Pension Fund of Ohio, Watson Wyatt Worldwide, as Actuary, prepares an actuarial valuation of the Fund on an annual basis. The actuarial valuation develops the normal cost and unfunded actuarial accrual liability under the Entry Age Normal actuarial cost method. The period required to amortize the unfunded actuarial accrued liability, via a level percentage of expected future annual Member payroll, is determined assuming a constant active Member population and a 4% annual payroll growth. The report also comments on the expected period of time over which the Health Care Stabilization Fund will retain a positive balance assuming a 6.5% of payroll annual contribution rate.

The 1997 valuation develops an amortization period of 43.49 years and shows that the Health Care Stabilization Fund is expected to be maintained through the year 2013. Because this is the first valuation using the Entry Age Normal actuarial cost method, trend information with respect to the amortization period is not available.

Section 742.16 of the Revised Code, as amended by Senate Bill No. 82, requires the Board of Trustees to establish as one financial goal of the Fund that the annual actuarial valuation shall produce an amortization period of not more than 30 years, beginning in 2007 and pursuant to a plan established by the Board.

Section H of the 1997 valuation report discusses the adequacy of the current statutory contribution rates in light of the requirements of Senate Bill 82. Therein we conclude that if the Fund is able to earn approximately an 8.8% average rate of return over the next 10 years, then the Senate Bill 82 funding requirements should be met. And, since 8.8% is a reasonable expected rate, given the asset mix of the investment portfolio, we conclude that the statutory rates are adequate for 1997 and that the Fund is on track to meet the requirements of Senate Bill 82. Thus, there is no need for a specific plan to be prepared by the Board in order to ensure the satisfaction of Senate Bill 82.

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

The actuarial assumptions used in the valuation are recommended by Watson Wyatt and approved by the Board. The decrement assumptions reflect actual Fund experience as measured in the quinquennial evaluations and interim studies. In general, the decrement assumptions used for the 1997 valuation are based on Fund experience during the period beginning in 1987 and ending in 1993. The interest rate and salary scale assumptions reflect both recent Fund rates of return and salary increases and expected returns and salary increases over the next 30 years. The 1997 assumptions are the same as those used in the 1996 valuation and, along with actuarial cost and asset valuation methods, meet the parameters presented in Government Accounting Standards Board Statement No. 25.

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

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

Under current law the Ohio Retirement Study Council is to annually review the actuarial report and make recommendations to the General Assembly concerning proper financing of the Fund. The policy of annual reporting, review, and, if necessary, legislative change in the statutory rates should ensure that the financial condition of the Fund remains sound.

Respectfully Submitted,

WATSON WYATT WORLDWIDE

Wayne E Dydo

Wayne E. Dydo
Fellow - Society of Actuaries

Peter N. Dorsey

Peter N. Dorsey
Associate - Society of Actuaries

2. SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

A. INTEREST

A rate of 8 1/4% per annum, compounded annually. Adopted by the Board of Trustees in 1989.

B. RATES AND OTHER ASSUMPTIONS AMONG ACTIVE MEMBERS

1. Before Retirement:

(a) Mortality:

Mortality is based on the 1951 Group Annuity Mortality Table projected to 1980 using Scale C, with a one-year set-forward in age. The projected values are multiplied by 0.5 at all ages to obtain the assumed mortality rates. Adopted in 1993. The following rates at selected ages are illustrative:

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

(b) Termination:

The rates of termination are based upon the results of the 1987-1991 Quinquennial Evaluation. Adopted in 1993. The following rates at selected ages are illustrative:

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

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

(c) Disability:

The rates of disability are based upon the disability experience for 1992 and 1993. Adopted in 1994. The following rates at selected ages are illustrative:

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

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

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

(d) Salary Increase Rate:

The per annum rates of future salary increase can be divided into two component parts: (i) inflationary increase of 4% per year and (ii) age-graded promotional increases. Adopted in 1993.

Age(s)	Promotional Increase	Total Increase
Under 30	3.00%	7.00%
30 - 40	1.75%	5.75%
Over 34	1.00%	5.00%

(e) Retirement:

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

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

2. After Retirement:

(a) On Service Retirement Pension:

The mortality, after retirement of active members expected to go on service retirement, is based on the 1951 Group Annuity Mortality Table as Projected to 1980 using Scale C, with a one-year set-forward in age. Adopted in 1993. The following probabilities at selected ages are illustrative:

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

(b) On Disability Retirement Pension:

The mortality, after retirement of active members expected to go on disability retirement, is based on the results of the 1987-1991 Quinquennial Evaluation. The rates are based on the 1951 Group Annuity Mortality Table projected to 1980 using Scale C and include loads for disability. These rates are then set-back by two years in age to reflect the greater percentage of partial disabilities. Adopted in 1994. The following probabilities at selected ages are illustrative:

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

C. PROBABILITIES OF MORTALITY AMONG PENSIONERS

1. Nondisabled Pensioners:

The mortality among all nondisabled retirants is equal to the 1951 Group Annuity Mortality Table rates projected to 1980 using Scale C, with a one-year set-forward in age. Adopted in 1993. The following probabilities at selected ages are illustrative:

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

2. Disabled Pensioners:

The mortality among all disabled retirants is based on the 1951 Group Annuity Mortality Table projected to 1980 using Scale C and includes loads for disability. Adopted in 1993. The following probabilities at selected ages are illustrative:

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

D. PROBABILITIES AMONG SURVIVORS

1. Probabilities of Mortality Among Surviving Spouses:

The mortality among all present surviving spouses is based on the Projected Annuity Mortality Table rates, decreased by 15% at all ages. Adopted in 1974. The following probabilities at selected ages are illustrative:

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

2. Probability of Remarriage Among Surviving Spouses:

The probabilities of remarriage of surviving spouses are based upon the results of the 1987-1991 Quinquennial Evaluation. Adopted in 1993. The following probabilities at selected ages are illustrative:

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

3. Dependent Children:

No specific allowance has been made, in the valuation of this benefit, for the probability of mortality prior to age 18, or the probability of disability at age 18 and thereafter. In valuing the benefit beyond age 18, it is assumed that 1/3 of the dependent children will be students and eligible for payments to age 22. Adopted in 1966.

4. Dependent Parents:

Costs based upon allowance for mortality (the Projected Annuity Mortality Table rates), but no specific allowance for change in dependency status. Adopted in 1966.

E. COLA ANNUITIES

It has been assumed that, where an election is possible, all members will elect the COLA annuity. It has also been assumed that the Consumer Price Index will increase each year at a rate equal to or greater than 3%. Adopted in 1987.

F. EXPENSE LOADING

The net costs were loaded by 3/4 of 1% to allow for future administrative expenses of the Fund. Adopted in 1966.

G. ACTUARIAL COST METHOD

The Entry Age Normal cost method has been used to develop the normal cost and actuarial accrued liability. For each active member the actuarial present value of future benefits associated with a decrement is allocated as a level percentage of payroll between entry age and the decrement age. The portion of actuarial present value of future benefits allocated to a given year is the normal cost for that year. The actuarial accrued liability equals the actuarial present value of future benefits less the present value of future normal costs. Entry age equals current age less credited service. For non-active members, actuarial accrued value equals the actuarial present value of future benefits. Adopted in 1997.

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

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

H. VALUATION ASSETS

Valuation assets equal the net cost (book) value of all Fund assets, except common and preferred stocks are included in valuation assets with a value equal to that developed under the 4-year Market Adjustment Method, with an initial value equal to market value. Under this method realized and unrealized gains are recognized in the assets over a 4-year period: valuation assets equal market value less 75% of the previous year's realized and unrealized gains, 50% of the second previous year's realized and unrealized gains, and 25% of the third previous year's realized and unrealized gains. Future payments on the Employer Accrued Liability are capitalized a the valuation interest rate and the result is added to valuation assets. The balance in the Health Care Stabilization Fund is excluded from total assets to arrive at valuation assets for pension and disability benefits. Contributions due to be refunded to terminated members are also excluded from valuation assets. Adopted in 1993.

3. ACTIVE MEMBER VALUATION DATA

1988 TO 1997

Actuarial Valuation as of Jan. 1	Number of Employer		Number of Active Members		Average Annual Salary		Percentage of Average Annual Salary Increases		Annual Payroll (Millions)
	Police	Fire	Police	Fire	Police	Fire	Police	Fire	
1988	523	278	12,862	9,292	$29,391	$29,424	3.3%	3.5%	$651.4
1989	520	288	12,993	9,374	30,853	31,060	5.0%	5.6%	692.0
1990	526	292	13,088	9,698	32,351	31,863	3.5%	2.6%	732.4
1991	533	297	13,273	9,801	33,910	33,467	4.8%	5.0%	778.1
1992	533	297	13,325	9,996	35,305	35,266	4.1%	5.4%	823.0
1993	545	288	13,540	10,149	36,783	36,783	4.2%	4.3%	871.3
1994	552	293	13,851	10,340	38,017	38,338	3.4%	4.2%	923.0
1995	559	299	14,072	10,511	39,951	40,143	5.1%	4.7%	984.1
1996	574	310	14,558	10,728	41,017	41,528	2.7%	3.5%	1,042.6
1997	582	316	14,851	10,972	42,049	42,509	2.5%	2.4%	1,090.8

4. RETIRANTS AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS

Year	Police		Fire	
at Jan. 1	Additions	Deletions	Additions	Deletions
1988	612	499	476	417
1989	587	360	507	292
1990	579	304	413	240
1991	675	373	466	289
1992	813	397	566	362
1993	671	342	504	320
1994	665	332	517	304
1995	677	379	464	301
1996	821	391	580	366
1997	760	400	666	358

5. SHORT-TERM SOLVENCY TEST

A short-term solvency test is one means of checking a system's progress under its funding program. In a short-term solvency test, the plan's valuation assets are compared with: 1) Active member contributions on deposit; 2) The liabilities for future benefits to present retired lives; 3) The liabilities for service already rendered by active members. In a system that has been following the discipline of level percent of payroll financing, the liabilities for active member contributions on deposit (liability 1) and the liabilities for future benefits to present retired lives (liability 2) will be fully covered by present assets (except in rare circumstances). In addition, the liabilities for service already rendered by active members (liability 3) will be partially covered by the remainder of present assets. Generally, if the system has been using level cost financing, the funded portion of liability 3 will increase over time. Liability 3 being fully funded is very rare. Because the Fund changed its actuarial cost method from the aggregate method to the entry age normal method effective January 1, 1997, comparable solvency test data is not available for years prior to that date.

Accrued Liabilities ($ Amounts in Thousands)

	Valuation Year	(1) Active Member Contributions	(2) Retirants and Beneficiaries	(3) Active Members (Employer Financed Portion)	Valuation Assets	Portion of Accrued Liabilities Covered by Reported Assets (1)	(2)	(3)
Police								
	1997	$498,283	$1,964,911	$1,520,487	$3,065,410	100%	100%	40%
Fire								
	1997	$380,192	$1,537,474	$1,123,208	$2,488,704	100%	100%	51%

6. PLAN SUMMARY

PURPOSE

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

ADMINISTRATION

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

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

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

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

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

MEMBERSHIP

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

CONTRIBUTIONS

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

BENEFITS

A. Service Retirement

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

1. Normal Pension

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

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

2. Age Commuted

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

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

3. Age/Service Commuted

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

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

B. Disability Retirement

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

Disability retirement benefits are classified as either service-incurred (on-duty) or non-service-incurred (off-duty), and differ in eligibility requirements and benefit formulas. Annual medical evaluations are required for disability benefit recipients who would not have met the age and service requirements for normal service retirement.

1. Permanent and Total Disability (On-Duty)

(a) Eligibility: No age or service requirement.

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

2. Partial disability (On-Duty)

(a) Eligibility: No age or service requirement.

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

3. Ordinary Disability (Off-Duty)

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

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

C. Rights upon separation from service

1. Deferred Pension

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

2. Refund of contributions

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

D. FLAT SURVIVOR BENEFITS

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

2. Benefit:

(a) Surviving Spouse's Benefit–An annual amount equal to $4,920. Terminates upon remarriage before age 55 or death.

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

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

E. Lump Sum Death Benefit

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

F. Annuities

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

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

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

1. Pre-retirement Survivor Annuity

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

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

2. Single Life Annuity

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

3. Joint and Survivor Annuity

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

4. Life Annuity Certain and Continuous

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

G. Group Health Insurance and Medicare

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

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

H. Tiered Retirement Plan: COLA or Terminal Pay

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

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

Members who retired prior to July 25, 1986 or their surviving beneficiaries under optional plans, are entitled to contingent cost-of-living increases based on changes in the Consumer Price Index. The annual increase is paid on July 1st of each year whenever the index plus unused prior net accumulations equal or exceed 3% and the member's annual single life annuity equivalent is less than a certain amount. The qualifying amount was $22,500 per year in 1997. The "Cap" increases by $500 per year. The annual COLA increase is $360 under a Single Life Annuity Plan with proportional reductions for optional payment plans.

J. Re-employed Retirants' Defined Contribution Plan Benefit

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

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

STATISTICAL SECTION

1. **Revenues by Source**

2. **Expenses by Type**

3. **Benefit Expenses by Type**

4. **Retired Membership by Type of Benefits**

5. **Average Monthly Benefit Payments**

6. **Death Benefit Fund**

1. REVENUES BY SOURCE

Year	Member Contributions and Purchases	Employer Contributions	Employer Contributions as a percentage of Covered Payroll	Investment and Securities Lending Income*	Other Revenues	Total
1992	$ 91,957,848	$189,566,606	20.6%	$ 403,209,178	$24,878,447	$ 709,612,079
1993	97,158,960	200,703,066	20.7%	422,969,125	26,449,866	747,281,017
1994	103,553,011	213,918,612	20.7%	254,446,930	38,390,646	610,309,199
1995	109,000,755	223,206,380	20.5%	405,458,383	19,058,843	756,724,361
1996	115,314,953	236,214,576	20.5%	457,910,608	19,930,072	829,370,209
1997	121,104,430	248,145,383	20.5%	1,118,944,933	19,408,804	1,507,603,550

*Effective January 1, 1997, net investment income includes the net appreciation in fair value of investments, which can create significant fluctuations. Also, for 1997 investment income is net of direct investment administrative expenses.

2. EXPENSES BY TYPE

Year	Benefit Payments	Administrative Expenses**	Refund of Employee Contributions	Other Expenses	Total
1992	$328,181,618	$ 8,475,243	$3,723,998	$ 1,088,276	$341,469,135
1993	344,553,642	9,063,687	5,007,473	53,514,759	412,139,561
1994	365,210,529	10,442,185	3,831,328	12,386,397	391,870,439
1995	395,058,132	14,066,160	5,553,638	559,422	415,237,352
1996	420,382,559	17,778,992	5,602,382	312,441	444,076,374
1997	449,956,881	8,245,224	5,655,445	381,672	464,239,222

** For 1997 administrative expenses are net of direct investment expenses

3. BENEFIT EXPENSES BY TYPE

Year	Retirement	Disability	Survivor	Health Care	Total Benefits
1992	$163,441,985	$69,277,993	$28,042,134	$67,419,506	$328,181,618
1993	177,838,542	74,969,707	28,609,991	63,135,402	354,553,642
1994	191,306,643	80,672,276	29,533,073	63,698,537	365,210,529
1995	207,355,087	86,763,675	30,768,653	70,170,717	395,058,132
1996	225,448,375	91,638,835	31,621,014	71,674,335	420,382,559
1997	244,008,943	97,064,363	32,423,743	76,459,832	449,956,881

4. RETIRED MEMBERSHIP BY TYPE OF BENEFITS

Year	Service Police	Service Firemen	Disability Police	Disability Firemen	Survivors Police	Survivors Firemen	Combined Total Beneficiaries
1992	4,606	4,367	2,320	1,641	2,743	2,199	17,876
1993	4,762	4,484	2,430	1,682	2,756	2,203	18,317
1994	4,928	4,561	2,523	1,726	2,788	2,223	18,749
1995	5,174	4,674	2,630	1,784	2,847	2,257	19,366
1996	5,399	4,765	2,686	1,823	2,885	2,286	19,844
1997	5,602	4,858	2,739	1,861	2,898	2,306	20,264

5. AVERAGE MONTHLY BENEFIT PAYMENTS

FOR MEMBERS PLACED ON RETIREMENT ROLLS

SERVICE RETIREMENT

Year	Normal	Service Commuted	Age Commuted	Age/ Service	Average
1992	$2,195	$570	$ 0	2,281	$2,177
1993	2,379	0	433	0	2,359
1994	2,386	508	0	1,610	2,375
1995	2,447	664	0	627	2,400
1996	2,508	614	0	1,314	2,495
1997	2,624	564	1,311	0	2,607

DISABILITY RETIREMENT

Year	Permanent and Total	P&T Presumptive	Partial	Partial Presumptive	Off Duty	Average
1992	$2,277	$2,314	$1,830	$1,728	$1,267	$1,946
1993	2,318	2,363	1,776	1,848	1,009	1,908
1994	2,228	2,149	1,814	2,020	1,258	1,911
1995	1,929	2,589	1,830	2,043	1,534	1,977
1996	2,549	2,467	1,974	2,143	1,442	2,080
1997	2,454	2,633	1,853	2,129	1,220	1,942

6. DEATH BENEFIT FUND

Pursuant to Section 742.63 of the Ohio Revised Code, the Board of Trustees of the Police and Firemen's Disability and Pension Fund administers the State of Ohio Death Benefit Fund (DBF). This program was established by the State of Ohio to provide monthly benefit payments to surviving family members of Ohio fire fighters and law enforcement officers who have been killed in the line of duty or die of a duty-related accident or illness. Funds are disbursed to the Fund each State fiscal year (July 1-June 30) and are paid monthly by the Fund to eligible recipients. The unused balance at June 30 is returned to the State. The assets and liabilities of the DBF are included in the Fund's combining statement of plan net assets as of December 31, 1997 as an agency fund. The following is a schedule of DBF financial activity for 1997:

Balance January 1, 1997	$11,585,278
less: Survivor Benefits Paid January 1 to June 30, 1997	(7,333,946)
Balance returned to State of Ohio	$ 4,251,332
State Funding Received July 1997	$17,500,000
less: Survivor Benefits Paid July 1-December 31, 1997	(7,810,962)
Balance December 31, 1997	$ 9,689,038

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