

COMPREHENSIVE

**ANNUAL
FINANCIAL
REPORT**

**POLICE AND FIREMEN'S
DISABILITY AND
PENSION FUND
OF OHIO**

FOR THE YEAR

ENDED DECEMBER 31, 1989

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PENSION FUND
OF OHIO**

FOR THE YEAR

ENDED DECEMBER 31, 1989

**PREPARED BY THE ACCOUNTING DEPARTMENT
JOHN N. BABEL, ASSISTANT DIRECTOR, FINANCE**

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BOARD OF TRUSTEES

ELECTED MEMBERS:



Robert M. Shields
Chairman
Columbus Fire Department
Term expires June 6, 1994



Virgil F. McDaniel, Jr.
Dayton Police Department
Term expires June 7, 1993



William R. Bennett
Cincinnati Police Department
Term expires June 2, 1991



Lawrence P. Miller
Stow Police Department
Term expires June 2, 1991



Elmer J. Khal
Cleveland Fire Department
Term expires June 1, 1992



Joseph S. Voss
Cincinnati Fire Department
(Retired)
Term expires June 2, 1991

STATUTORY MEMBERS:



Hugh J. Dorrian
Columbus City Auditor



Thomas E. Ferguson
Auditor of State



Anthony J. Celebrezze, Jr.
Attorney General

ADMINISTRATION



Henry E. Helling, III
Executive Director



John N. Babel
Assistant Director, Finance



Ronald J. Corn
Deputy Director
(through June 30, 1990)



Theodore G. Hall
Assistant Director, Investments



David J. Nesbitt
Assistant Director, Benefits

PROFESSIONAL CONSULTANTS

Actuary:

The Wyatt Company

Auditor:

KPMG Peat Marwick

Legal Counsel:

Attorney General Anthony J. Celebrezze, Jr.

Investments:

Atalanta/Sosnoff Capital Corporation
(Equity)

Loomis, Sayles, and Company (Equity)
Oppenheimer Capital Corporation (Equity)
Value Line Asset Management (Equity)
Duff and Phelps Asset Management
(Ohio Equity)
Society National Bank—Cleveland
(Ohio Equity)

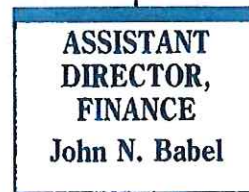
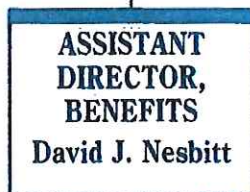
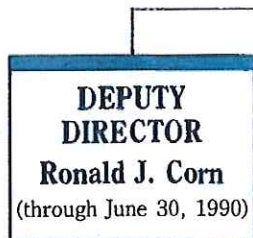
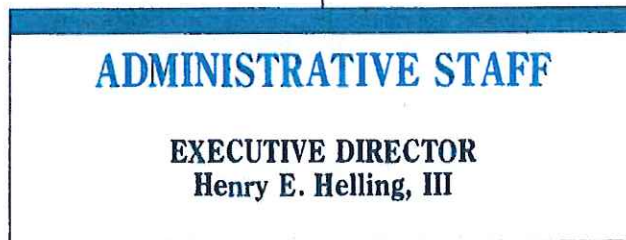
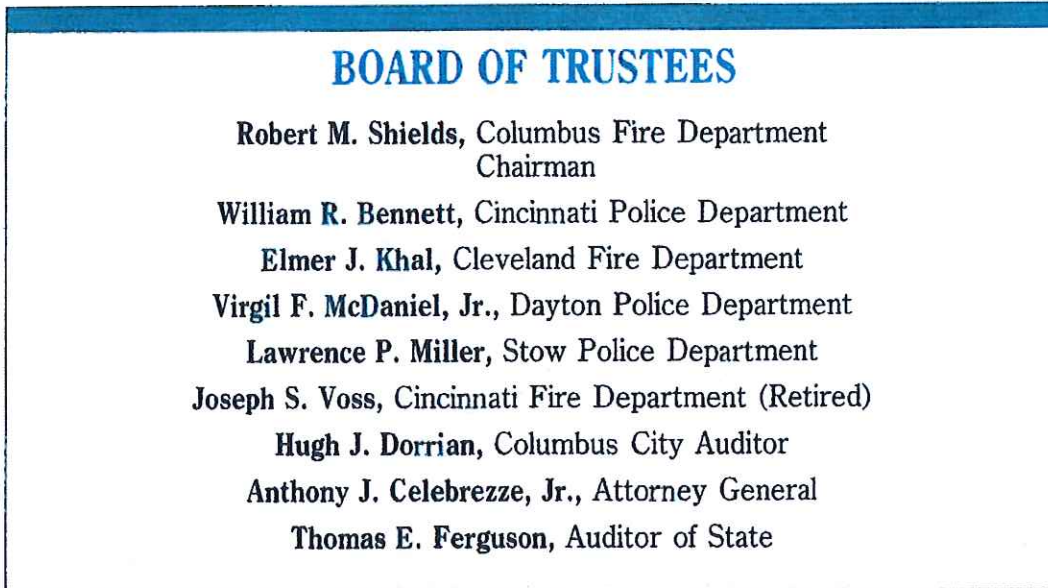
Axe Core Investors (Index Fund)
Bankers Trust Company (Index Fund)
Copley Real Estate Advisors (Real Estate)
Schroder Real Estate Associates
(Real Estate)

T.A. Associates Realty (Real Estate)
Trident/Meyer (Real Estate)
Townsend Group (Real Estate Consultants)
Cardinal Financial Management Corp.
(Venture Capital)
Primus Venture Partners (Venture Capital)

Others:

AGS Information Services, Inc.
Health Research Institute
Michael J. Zettler and Associates, Inc.

ORGANIZATIONAL CHART



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, 1988

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 (CAFR's) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

PLAN SUMMARY

PURPOSE

The Police and Firemen's Disability and Pension Fund of Ohio 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 and fire fighters employed by Ohio municipalities and full-time fire fighters employed by townships.

CONTRIBUTIONS

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

BENEFITS

1. Service Retirement

- (a) Eligibility: Age 48 and 25 years of service.
- (b) Benefit: An annual pension equal to a percentage of the average annual salary, where 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 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 during which the total earnings were greatest.

2. Special Service Retirement for Late Hires

- (a) Eligibility: Age 62 and 15 years of service.
- (b) Benefit: The same as the Service Retirement Benefit.

3. 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.

4. Partial Disability (On-duty)

- (a) Eligibility: No age or service requirement.
- (b) Benefit: An annual pension to be fixed by the Board of Trustees, but not to exceed 60% of the average annual salary; provided that if the member has 25 or more years of service the annual disability pension is equal to the accrued Service Retirement Benefit.

5. Cardiovascular and Respiratory Disease

- (a) Eligibility: No age or service requirement.
- (b) Benefit: An annual pension in an amount determined in accordance with the benefit provisions of Item 3 or Item 4 above, as the case may be.

6. Ordinary Disability (Off-duty)

- (a) Eligibility: Any age and five years of service.
- (b) Benefit: An annual pension to be fixed by the Board, but not to exceed the accrued Service Retirement Benefit, or 60% of the average annual salary, whichever is smaller.

7. Termination of Service Prior to Retirement

One of the following benefits is payable depending upon the particular circumstances:

(a) Refund if less than 15 years

- (1) Eligibility: No age or service requirement.
- (2) Benefit: A lump-sum amount equal to the sum of the contributions made by the member to the Fund.

(b) Greater than 15 years, but fewer than 25 years

- (1) Eligibility: 15 years of service.
- (2) 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.

(c) 25+ Years of Service

- (1) Eligibility: 25 years of service.
- (2) Benefit: Commencing at age 48, the accrued Service Retirement Benefit.

8. Flat Death Benefits

(a) Eligibility: Upon death of any member of the Fund, active or retired.

(b) Benefit:

- (1) Surviving Spouse's Benefit—An annual amount equal to \$4,920.
- (2) Surviving Children—An annual amount equal to \$1,416, payable until such child attains age 18 or marries, whichever occurs first. (Similar payments made, regardless of age, to disabled children.) An annual amount equal to \$1,416 will continue beyond age 18 up to age 22 while the child is a student and unmarried.
- (3) Dependent Parents—An annual amount of \$1,896 to one dependent parent or \$948 each to two dependent parents, during their lifetime or until dependency ceases or until remarriage, provided that deceased member leaves no surviving spouse or surviving children.
- (4) Lump Sum Death Benefit—On the death of a member of the Fund, who at the time of death is receiving a retirement pension or disability benefits, a lump sum payment of one thousand dollars (\$1,000.00) shall be paid to the member's surviving spouse. If there is no surviving spouse, the payment shall be made to the member's estate.

9. Pre-retirement Survivor or 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 50% of the benefit that the deceased member would have been entitled to had he retired effective the day following his death under the 50% Joint & Survivor annuity form.

10. 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.

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

11. COLA or Terminal Pay

Members retiring after July 24, 1986, and who have 15 or more years of service as of January 1, 1989, are allowed to select between (1) a pension calculated on the basis of average salary which is increased to reflect terminal pay adjustments, or (2) a pension based on average salary excluding the terminal pay adjustment, but increasing by 3% of the initial pension each retirement anniversary after July 1, 1988. The 3% addition is paid only if the annual increase in the Consumer Price Index, plus unused prior increases, equals or exceeds 3%. This additive 3% COLA annuity without terminal pay adjustment is the automatic form for an active member with less than 15 years of service as of January 1, 1989.

12. Additional COLA

Members and/or their unmarried beneficiaries retired prior to July 24, 1986, are entitled to a cost of living adjustment if the last annual increase in the Consumer Price Index plus unused prior increases equals or exceeds 3% and the members' benefits are less than a certain amount. That qualifying amount was \$18,000 per year in 1988 and increases by \$500 per year each calendar year. The COLA is an increase of \$360 under a Single Life Annuity basis in annual benefits.

13. Optional Forms of Payment

Effective February 28, 1980, retiring members may elect to have actuarially reduced benefits payable under certain and continuous and joint and survivor annuity forms. The maximum certain period is 20 years, and the maximum continuation percentage under the joint and survivor form is limited to 100%.

Effective for one year beginning September 26, 1984, members who retired before February 28, 1980, could make a one-time election to have their benefits reduced and paid under the joint and survivor annuity form with the surviving spouse as survivor annuitant.

LETTER OF TRANSMITTAL

The Police and Firemen's Disability and Pension Fund

230 East Town Street / Columbus, Ohio 43215-4650 / (614) 228-3781

June 30, 1990

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, 1989. This CAFR was prepared to aid interested parties in assessing the Fund's status at December 31, 1989, and its results for the year then ended. The report is divided into five sections: an Introductory Section which contains this Letter of Transmittal, along with the identification of the administrative organization and consulting services utilized by the Fund; a Financial Section which includes the Independent Auditors' Report and the financial statements, and a plan summary of the Fund; an Actuarial Section which includes the Actuary's Certification Letter and results of the annual actuarial valuation; a Statistical Section which includes significant data pertaining to the Fund; the last section is an Investment Section which contains the investment report, portfolio summary, and the investment policy and guidelines. The Investment Section is not required but has been included for purposes of added analysis.

Accounting System and Internal Controls

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

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

Management is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Fund are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of

financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management. Management believes its internal control structure meets these objectives.

Plan History and Overview

The Police and Firemen's Disability and Pension Fund (the Fund) was created by the Ohio General Assembly in 1965, replacing 454 separate local police and firemen's relief and pension funds in Ohio. The statewide Fund began operating January 1, 1967. On that date the local pension funds transferred their assets and liabilities to the Fund. Assets transferred to the Fund were approximately \$75 million. The fund actuary computed the liabilities accrued up to 1966 at approximately \$490 million. Unfunded accrued liabilities totaling over \$415 million are being paid by the employers over a 67-year period which began in 1969.

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

The table below is a tabulation of current participating employers. The statistical section beginning on page 67 provides more detail of the aforementioned participating employers.

Participating Employers

| | <u>Police</u> | <u>Fire</u> |
|----------------|---------------|-------------|
| Municipalities | 239 | 186 |
| Townships | — | 78 |
| Villages | <u>281</u> | <u>24</u> |
| Total | <u>520</u> | <u>288</u> |

Economic Conditions and Outlook

The local and national economies remained relatively stable throughout 1989, and is expected to do so in the early 1990's. The Fund's three main sources of revenues are relatively free from small changes in the economy as employee and employer contribution rates are established by law and may be adjusted if necessary to fund possible future funding shortages. Additionally, the Funds investment strategies are such that ensure flexible maneuvering/diversibility of funds to maximize investment earnings. Please refer to the Investment section of the Comprehensive Annual Financial Report for further discussion regarding our investment strategies and outlook.

Additionally, there were no major changes in the available benefit packages offered to the members that would significantly impact funding requirements. However, Amended Substitute House Bill No. 377, effective November 2, 1989, provides a \$1,000 lump sum payment on the death of a person who at the time of death is receiving a retirement or disability pension from the Fund. This will not effect future funding requirements as by law,

the State of Ohio is to finance all death benefit payments.

Financial Overview

Revenues:

The Fund receives virtually all of its funds from the following sources: Member contributions, Employer contributions, State Subsidies and reimbursements, and Investment earnings. Revenues from all sources totaled \$568,944,045 in 1989, as compared to \$462,389,229 in 1988. A summary of revenues for 1989 and 1988 is as follows:

| REVENUES BY SOURCE | 1989 | | 1988 | | INCREASE (DECREASE) |
|-------------------------------------|----------------------|-------------|----------------------|-------------|------------------------|
| | Amount | Percent | Amount | Percent | |
| Contributions: | | | | | |
| Employers | \$159,472,669 | 28% | \$149,640,020 | 32% | \$9,832,649 |
| Employees | 77,657,290 | 14 | 70,671,103 | 15 | 6,986,187 |
| State of Ohio—Subsidies | 5,857,000 | 1 | 6,470,000 | 2 | (613,000) |
| State of Ohio—Death Benefit Fund | 9,368,095 | 2 | 6,796,504 | 2 | 2,571,591 |
| | 252,355,054 | 45 | 233,577,627 | 51 | 18,777,427 |
| Net Investment Income | 299,006,174 | 52 | 207,473,616 | 45 | 91,532,558 |
| Interest on Local Fund's Receivable | 17,257,042 | 3 | 19,902,971 | 4 | (2,645,929) |
| Other Income | 325,775 | 0 | 1,435,015 | 0 | (1,109,240) |
| Total | \$568,944,045 | 100% | \$462,389,229 | 100% | \$106,554,816 |

The increase in revenues resulted from a rise in average member salary, an increase effective October 1, 1988, in the employee contribution rate from 9.5% to 10.0%, improved investment yields and a higher average investment balance.

Expenses:

Benefit payments are the primary expense of the Fund. Total expenses for the Fund were \$268,828,256 in 1989, as compared to \$240,475,625 in 1988. A summary of expenses for 1989 and 1988 is as follows:

| EXPENSES BY TYPE | 1989 | | 1988 | | INCREASE (DECREASE) |
|----------------------------------|----------------------|-------------|----------------------|-------------|------------------------|
| | Amount | Percent | Amount | Percent | |
| Benefits: | | | | | |
| Retirement | \$126,558,091 | 47% | \$113,022,120 | 47% | \$13,535,971 |
| Disability | 49,754,448 | 19 | 43,739,268 | 18 | 6,015,180 |
| Health Care | 45,172,283 | 17 | 43,703,422 | 18 | 1,468,861 |
| Survivor | 27,036,857 | 10 | 23,814,341 | 10 | 3,222,516 |
| Death Benefit Fund | 9,368,095 | 3 | 6,796,504 | 3 | 2,571,591 |
| | 257,889,774 | 96 | 231,075,655 | 96 | 26,814,119 |
| Administrative Expenses | 6,601,071 | 2 | 5,341,465 | 2 | 1,259,606 |
| Refund of Employee Contributions | 3,906,362 | 2 | 3,528,968 | 2 | 377,394 |
| Other Expenses | 431,049 | 0 | 529,537 | 0 | (98,488) |
| Total | \$268,828,256 | 100% | \$240,475,625 | 100% | \$28,352,631 |

The increase in the number of benefit recipients, the average benefit paid, health care expenses and yearly cost of living increases account for nearly all of the Fund's incurred expenses.

Funding Practices and Actuarial Overview

Funds are derived from the excess of revenues over expenses, and are accumulated by the Fund in order to meet current and future benefit obligations to retirees and beneficiaries. Net income for the year ended December 31, 1989, increased the fund balance by approximately \$300.1 million. This increase is approximately \$78.2 million greater than the total fund balance increase recognized in the prior year.

The actuarial valuation for funding purposes dated January 1, 1989, date of the most recent actuarial valuation, reported an unfunded actuarial accrued liability of \$2,516 million. This balance represents the difference between the actuarial accrued liability for benefits to be paid members and retirees (\$5,175 million) and total valuation assets (\$2,659 million). The unfunded actuarial accrued liability is being amortized in an orderly fashion over future years.

Investments 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, 1989, the investment portfolio provided 52.5% of the Fund's total revenues while employee and employer contributions provided 13.7% and 28%, respectively. All other sources provided the remaining 5.8%.

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. Details of portfolio composition, rates of return, analysis of significant economic conditions, and additional information concerning the Fund's investment policy is provided on pages 79 and 80 of the comprehensive annual financial report.

Material Plan Amendments

The Fund was amended effective September 9, 1988. The amendment changed certain benefit provisions which included providing normal retirement benefits to members who retired at age 48 through 51 with 25 years of service credit. Prior to 1989, reduced benefits were paid to these members. Other changes which became effective under the plan amendment included establishing a cost-of-living increase for certain former members of the Fund who retired before July 24, 1986, increasing benefits for surviving dependents of retired members, and increasing the minimum benefit for retirees receiving benefits based on service or permanent and total disability. There were no material plan amendments in 1989.

Independent Auditors

The financial statements of the Fund for the year ended December 31, 1989 were audited by KPMG Peat Marwick, independent Certified Public Accountants, whose opinion thereon is included at the beginning of the Financial Section of this report.

Notes to the Combined Financial Statements

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

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Fund for its Comprehensive Annual Financial Report for the fiscal years ended December 31, 1988.

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.

Acknowledgements

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

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

Respectfully submitted,



HENRY E. HELLING, III
Executive Director



JOHN N. BABEL
Assistant Director, Finance

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FINANCIAL SECTION

Independent Auditors' Report

Balance Sheets

Statements of Revenues, Expenses and Changes in Fund Balances

Statements of Changes in Financial Position

Notes to Financial Statements

Required Supplemental Schedules:

Analysis of Funding Progress

Revenues by Source

Expenses by Type

Administrative Expenses

Refunds of Employee Contributions

Supplemental Schedules:

Fund Balance Accounts

Cash Receipts, Cash Disbursements and Changes in Cash Balance

Management Fees and Commissions

Detailed Listing of Investment Portfolio

Auditor of State's Letter

INDEPENDENT AUDITORS' REPORT

KPMG Peat Marwick

Certified Public Accountants

Two Nationwide Plaza
Columbus, OH 43215

Telephone 614 249 2300

Telecopier 614 249 2348

Members of the Board
The Police and Firemen's Disability
and Pension Fund of Ohio:

We have audited the accompanying financial statements of The Police and Firemen's Disability and Pension Fund of Ohio (the Fund) as of and for the years ended December 31, 1989 and 1988 as listed in the table of contents. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund at December 31, 1989 and 1988, and the results of its operations and the changes in its financial position for the years then ended in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the Fund's basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

June 8, 1990

KPMG Peat Marwick

BALANCE SHEETS

DECEMBER 31, 1989 AND 1988

| | <u>1989</u> | <u>1988</u> |
|---|-------------------------|----------------------|
| Assets: | | |
| Cash (note 5) | \$ 11,763,112 | 12,243,520 |
| Receivables: | | |
| Employers' contributions | 53,501,146 | 44,656,623 |
| Employees' contributions | 7,471,001 | 6,069,066 |
| Accrued investment income | 36,066,191 | 26,132,289 |
| Investment sale proceeds | <u>18,365,711</u> | <u>3,086,067</u> |
| Total receivables | 115,404,049 | 79,944,045 |
| Investments, at cost (market value \$3,149,840,081 and \$2,677,964,296 in 1989 and 1988, respectively) (notes 5, 6 and 8) | 2,861,093,339 | 2,587,336,295 |
| Local funds' receivable (note 7) | 411,190,543 | 414,400,057 |
| Property and equipment, net of accumulated depreciation of \$882,180 and \$663,761 in 1989 and 1988, respectively | 2,115,530 | 1,682,260 |
| Other assets (note 9) | <u>4,893,947</u> | <u>727,887</u> |
| Total assets | <u>3,406,460,520</u> | <u>3,096,334,064</u> |
| Liabilities: | | |
| Health care benefits payable | 11,337,564 | 10,879,619 |
| Investment commitments payable | 15,278,901 | 6,753,932 |
| Accounts payable and accrued expenses | 1,562,623 | 1,399,815 |
| Note payable (note 8) | 2,200,000 | 2,200,000 |
| Other liabilities (note 9) | <u>1,750,719</u> | <u>885,774</u> |
| Total liabilities | 32,129,807 | 22,119,140 |
| Commitments and contingencies (note 11) | | |
| Net assets available for benefits | <u>\$ 3,374,330,713</u> | <u>3,074,214,924</u> |
| Fund balance (note 3): | | |
| Pension benefit obligation: | | |
| Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits | \$ 1,756,800,000 | 1,496,900,000 |
| Current employees: | | |
| Accumulated employee contributions | 477,700,000 | 436,478,801 |
| Employer financed portion | <u>1,534,900,000</u> | <u>1,447,821,199</u> |
| Total pension benefit obligation | 3,769,400,000 | 3,381,200,000 |
| Unfunded pension benefit obligation | <u>(395,069,287)</u> | <u>(306,985,076)</u> |
| Total fund balance | <u>\$ 3,374,330,713</u> | <u>3,074,214,924</u> |

See accompanying notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE

YEARS ENDED DECEMBER 31, 1989 and 1988

| | <u>1989</u> | <u>1988</u> |
|---|-------------------------|----------------------|
| Operating revenues: | | |
| Contributions: | | |
| Employers (note 4) | \$ 159,472,669 | 149,640,020 |
| Employees (note 4) | 77,657,290 | 70,671,103 |
| State of Ohio—subsidies (note 4) | 5,857,000 | 6,470,000 |
| State of Ohio—Death Benefit Fund | <u>9,368,095</u> | <u>6,796,504</u> |
| | 252,355,054 | 233,577,627 |
| Net investment income (note 5) | 299,006,174 | 207,473,616 |
| Interest on local funds' receivable | 17,257,042 | 19,902,971 |
| Other income | <u>325,775</u> | <u>1,435,015</u> |
| Total operating revenues | <u>568,944,045</u> | <u>462,389,229</u> |
| Operating expenses: | | |
| Benefits (note 3): | | |
| Retirement | 126,558,091 | 113,022,120 |
| Disability | 49,754,448 | 43,739,268 |
| Health care | 45,172,283 | 43,703,422 |
| Survivor | 27,036,857 | 23,814,341 |
| Death Benefit Fund | <u>9,368,095</u> | <u>6,796,504</u> |
| | 257,889,774 | 231,075,655 |
| Administrative expenses, including depreciation on operating properties | 6,601,071 | 5,341,465 |
| Refund of employee contributions (note 4) | 3,906,362 | 3,528,968 |
| Other expenses | <u>431,049</u> | <u>529,537</u> |
| Total operating expenses | <u>268,828,256</u> | <u>240,475,625</u> |
| Net operating income | 300,115,789 | 221,913,604 |
| Fund balance, beginning of year | 3,074,214,924 | 2,852,301,320 |
| Fund balance, end of year | <u>\$ 3,374,330,713</u> | <u>3,074,214,924</u> |

See accompanying notes to financial statements.

STATEMENTS OF CHANGES IN FINANCIAL POSITION

YEARS ENDED DECEMBER 31, 1989 AND 1988

| | <u>1989</u> | <u>1988</u> |
|--|-------------------------|----------------------|
| Resources provided: | | |
| From operations: | | |
| Net operating income | \$ 300,115,789 | 221,913,604 |
| Items which do not use (provide) working capital: | | |
| Net gain due to accretion of discount and investment sales | (134,891,761) | (70,881,535) |
| Unrealized loss on investments | — | 3,643,482 |
| Depreciation on investment in real estate | 2,763,876 | 2,205,067 |
| Depreciation on property and equipment | <u>218,419</u> | <u>175,812</u> |
| Total resources provided from operations | 168,206,323 | 157,056,430 |
| Proceeds from investment sales and maturities | 6,082,486,738 | 8,756,651,081 |
| Local funds' receivable principal payments | 3,209,514 | 2,386,352 |
| Additions to local funds' receivable | — | (1,733,151) |
| Increase in other liabilities | 864,945 | 173,910 |
| Total resources provided | <u>\$ 6,254,767,520</u> | <u>8,914,534,622</u> |
| Resources used: | | |
| Investment purchases | 6,224,115,897 | 8,915,726,753 |
| Additions to property and equipment | 651,689 | 488,400 |
| Increase in other assets | 4,166,060 | 176,752 |
| Increase (decrease) in working capital | <u>25,833,874</u> | <u>(1,857,283)</u> |
| Total resources used | <u>\$ 6,254,767,520</u> | <u>8,914,534,622</u> |
| Changes in components of working capital: | | |
| Increase (decrease) in current assets: | | |
| Cash | (480,408) | (4,538,425) |
| Receivables | <u>35,460,004</u> | <u>6,740,781</u> |
| | 34,979,596 | 2,202,356 |
| Increase (decrease) in current liabilities: | | |
| Health care benefits payable | 457,945 | 1,781,755 |
| Investment commitments payable | 8,524,969 | 2,137,261 |
| Accounts payable and accrued expenses | <u>162,808</u> | <u>140,623</u> |
| | 9,145,722 | 4,059,639 |
| Increase (decrease) in working capital | <u>\$ 25,833,874</u> | <u>(1,857,283)</u> |

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1989 AND 1988

1. DESCRIPTION OF THE SYSTEM

(a) Organization

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

Employer and employer membership data as of January 1, 1989, date of the most recent actuarial valuation, follows:

| Employee Members | Police | Firemen | Total |
|--|---------------|--------------|---------------|
| Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them | <u>8,672</u> | <u>7,583</u> | <u>16,255</u> |
| Current employees: | | | |
| Vested | 5,271 | 3,671 | 8,942 |
| Nonvested | <u>7,722</u> | <u>5,703</u> | <u>13,425</u> |
| | <u>12,993</u> | <u>9,374</u> | <u>22,367</u> |
| Employer Members | | | |
| Municipalities | 239 | 186 | |
| Townships | — | 78 | |
| Villages | <u>281</u> | <u>24</u> | |
| Total | <u>520</u> | <u>288</u> | |

(b) Benefits

Members are eligible for normal retirement benefits at age 48 with 25 years of service credit or at age 62 with 15 years of service credit. The normal retirement benefit is equal to 2.5% of annual earnings for each of the first 20 years of service, 2.0% for each of the next 5 years of service, and 1.5% for each year of service thereafter. However, this normal retirement benefit is not to exceed 72% of the member's average 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.

The Fund was amended in 1989 to permit members to have benefits calculated on the basis of the member's "recalculated average annual salary," rather than his average annual salary. The effect of this change on the funding status of the Fund has not been actuarially determined.

The Fund was amended during 1988 to change certain benefit provisions. Changes included providing normal retirement benefits to members who retired at age 48 through 51 with 25 years of service credit. Prior to 1988, reduced benefits were paid to these members. The effect of 1988 benefit provision changes on the funding status of the Fund had not been actuarially determined for 1988, but has been reflected in the 1989 evaluation.

In addition to retirement benefits, the Fund also provides disability, survivor and health care 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. All benefit recipients are eligible to receive health care benefits. Health care coverage includes 100% of qualifying hospital expenses and 80% of other qualifying medical expenses, such as doctor fees and medical prescriptions.

An eligible spouse or dependent of a member whose death resulted from injury or disease sustained while on active duty as a policeman or fireman is entitled to a death benefit. The death benefit payment is equal to a one time lump sum payment of \$1,000 plus 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 dependant's attainment of age 18 (or 22 if attending school). The death benefit payments are in addition to any optional payment plan benefits elected by the member. Funding for death benefits is received from the State of Ohio, as the ORC requires the State to finance 100% of death benefit payments.

(c) The Reporting Entity

The accompanying financial statements include all the organizations, activities and functions over which the Fund exercises oversight responsibility. Determination of oversight responsibility includes consideration of such factors as financial interdependency, selection of governing authority, designation of management, ability to significantly

influence operations and accountability for fiscal matters.

Responsibility for the organization and administration of the Fund is invested in the Board of Trustees. The Board consists of nine members. Six are elected by the employee groups they represent. The Auditor of State, the Attorney General and Columbus City Auditor are statutory members. The State of Ohio issues its own financial statements and does not exercise oversight responsibility over the Fund, which is a separate legal entity. The Fund, therefore, operates independently from the State of Ohio. Accordingly the Fund is not considered part of the State of Ohio's financial reporting entity.

The OP & F (Ohio Police and Firemen's) Trust and the OP & F Schroder Trust (the Trusts) were created to provide the Fund with a medium for the acquisition of real estate investments. Management of the Fund is responsible for the operations of the Trusts. Additionally, the Fund is the beneficiary and sole participant in the Trusts. The Fund, therefore, exercises oversight responsibility of the Trusts and the Trusts' financial transactions have been included in the Fund's financial statements.

The Death Benefit Fund was created to finance all death benefit payments. Although the State of Ohio is responsible for financing the cost of death benefits, the Fund is responsible for the organization and administration of the Death Benefit Fund. The Fund, therefore, acts as an agent and exercises oversight responsibility. All activity of the Death Benefit Fund has been included in the Fund's financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

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

(b) Investments

Income on all investments is recognized on the accrual basis. Gains and losses on sales and exchanges of investments are recognized on the transaction date. Interest, dividends, net realized gains and other investment income is included in investment income, net of investment related expenses, realized and unrealized losses.

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

Investments in common and preferred stocks are

carried at cost, subject to adjustment for market declines determined to be other than temporary. Six nondiscretionary advisers manage the Fund's stock portfolio. Gains and losses on sale of stocks are recognized on the transaction date based upon FIFO cost of the shares managed by each adviser.

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

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

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

(c) Federal Income Tax Status

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

(d) Health Care Benefits Payable

The health care program is self-insured and is administered by an insurance carrier. Amounts accrued for health care claims payable and for incurred but not reported health care claims are based upon estimates furnished by the insurance carrier and management. Such estimates have been developed from prior claims experience.

(e) Property and Equipment

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

The range of estimated useful lives is as follows:

| | |
|-----------------------------------|---------------|
| Buildings | 40 years |
| Furniture, fixtures and equipment | 5 to 10 years |

(f) Reclassifications

Certain 1988 balances have been reclassified to conform with 1989 presentation.

3. FUNDING STATUS AND PROGRESS

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

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

The pension benefit obligation was determined as part of the January 1, 1989 actuarial valuation, the date of the most recent actuarial valuation. The calculation excludes the present value of credited projected benefits for death benefits, a 1972 statutory benefit increase and health care benefits. The cost of death benefits and the 1972 statutory benefit increase are fully funded by State of Ohio appropriations. Health care benefits are funded on a pay-as-you-go basis. Significant actuarial assumptions used in the valuation are as follows:

- (a) 8.25% (7.75% for January 1, 1988) rate of return on investments, compounded annually.
- (b) 5.75% (5.50% for January 1, 1988) projected salary increase, compounded annually. Increase is attributable to inflation and promotional raises.
- (c) Pre-retirement mortality is based on the 1951 Group Annuity Table as projected to 1965. To

reflect actual fund experience, these rates have been decreased by 33% for Firemen.

- (d) Benefit recipient mortality is based upon the following:
 - The 1951 Group Annuity Table as projected to 1965 for service retirees and survivor benefit recipients.
 - The 1956 Railroad Retirement Board Disability Annuitants Ultimate Mortality Table for members receiving disability benefits. These rates have been actuarially adjusted to reflect actual plan experience.
- (e) Rates of retirement for ages 53 through 65 are based upon the experience during the period of 1982 to 1986. The rates of retirement for ages 48 through 52 are based upon experience for the 1989 valuation. The rates are applicable after the member has satisfied the conditions for retirement.
- (f) Rates of withdrawal from active service for reasons other than death, and rates of disability have been developed based on actual plan experience.

At January 1, 1989, the unfunded pension benefit obligation was computed to be approximately \$695,185,000 as follows (in thousands):

| | <u>Police</u> | <u>Firemen</u> | <u>Total</u> |
|---|----------------------------|-------------------------|--------------------------|
| Pension benefit obligation: | | | |
| Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits | \$ 911,500 | 845,300 | 1,756,800 |
| Current employees: | | | |
| Accumulated employee contributions | 278,500 | 199,200 | 477,700 |
| Employer-financed vested | 644,200 | 482,000 | 1,126,200 |
| Employer-financed nonvested | 223,200 | 185,500 | 408,700 |
| | <u>1,145,900</u> | <u>866,700</u> | <u>2,012,600</u> |
| Total pension benefit obligation | <u>\$ 2,057,400</u> | <u>1,712,000</u> | 3,769,400 |
| Net assets available for benefits, at cost (market value \$3,164,823) | | | <u>3,074,215</u> |
| Unfunded pension benefit obligation at January 1, 1989 | | | <u>\$ 695,185</u> |

The actuarial effect of 1989 membership changes, plan amendments and changes in actuarial assumptions on the pension benefit obligation have

not been determined and are therefore not reflected in the December 31, 1989 balance sheet value for the unfunded pension benefit obligation.

At January 1, 1988, the unfunded pension benefit obligation was computed to be approximately

\$528,899,000 as follows (in thousands):

| | <u>Police</u> | <u>Firemen</u> | <u>Total</u> |
|---|----------------------------|-------------------------|--------------------------|
| Pension benefit obligation: | | | |
| Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits | \$ 777,900 | 719,000 | 1,496,900 |
| Current employees: | | | |
| Accumulated employee contributions | 252,584 | 183,895 | 436,479 |
| Employer-financed vested | 549,400 | 433,600 | 983,000 |
| Employer-financed nonvested | <u>258,016</u> | <u>206,805</u> | <u>464,821</u> |
| | 1,060,000 | 824,300 | 1,884,300 |
| Total pension benefit obligation | <u>\$ 1,837,900</u> | <u>1,543,300</u> | 3,381,200 |
| Net assets available for benefits, at cost (market value \$2,877,849) | | | <u>2,852,301</u> |
| Unfunded pension benefit obligation at January 1, 1988 | | | <u>\$ 528,899</u> |

The actuarial effect of 1988 membership changes on the pension benefit obligation had not been determined and are therefore not reflected in the December 31, 1988 balance sheet value for the unfunded pension benefit obligation.

4. CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE

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

| | <u>Police</u> | <u>Firemen</u> |
|---|------------------------------|----------------|
| | (% of active member payroll) | |
| Rates established by the ORC at December 31, 1989 and 1988: | | |
| Employer | 19.50 | 24.00 |
| Member | <u>10.00</u> | <u>10.00</u> |
| Total actual rate | <u>29.50</u> | <u>34.00</u> |
| Actuarially determined rate as of January 1, 1989 | <u>34.49</u> | <u>37.82</u> |

The Fund's actuary allocated 6.90% (5.99% in 1988) of the current actuarial contribution rate to health care and the remaining to basic retirement benefits. Funding for health care benefits is on a pay-as-you-go basis. Significant actuarial assumptions used to determine the adequacy of contribution rates were the same as those used to compute the standardized measure of the pension benefit obligation. There were no material changes in the current year in actuarial funding method or benefit provisions.

Contributions as a percentage of active member payroll required and made for 1989 represented 29.50% for Police and 34.00% for Fire. Contributions were approximately \$128,618,006 for Police and \$108,512,000 for Fire for the year ended December 31, 1989.

Contributions as a percentage of active member payroll required and made for 1988 represented 29.13% for Police and 33.13% for Fire. Contributions were approximately \$119,500,000 for Police and \$100,811,000 for Fire for the year ended December 31, 1988. These amounts differ from the actual rate stated above due to an increase in the member contribution rate from 9.50% to 10.00%, effective October 1, 1988.

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

In accordance with the ORC, the State of Ohio is required to contribute \$1,200,000 annually to the Fund. The State also contributes additional amounts to finance the cost of State-legislated benefit

improvements. Total amounts contributed by the State for the year ended December 31, 1989 was \$5,857,000, exclusive of the death benefit contributions.

5. DEPOSITS AND INVESTMENTS

(a) Deposits

The Fund's deposits are categorized in the following table based on the following criteria: Category 1 includes deposits insured or collateralized with securities held by the Fund or by its agent in the Fund's name. Category 2 includes deposits collateralized with securities held by the pledging financial institution's trust department or agents in

the Fund's name. Category 3 includes uncollateralized deposits. This category also includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Fund's name. Category 2 is omitted from the table since there were no deposits which met the criteria of Category 2 at December 31, 1989 or 1988. The deposits with the Ohio Public Employees Deferred Compensation Program are recorded as other assets and are not required to be categorized due to their nature.

A summary of deposits as of each December 31 follows:

| | 1989 | | | 1988 | | |
|---|-------------------|-------------------|-------------------|----------------|-------------------|-------------------|
| | CATEGORY | | | CATEGORY | | |
| | 1 | 3 | TOTAL | 1 | 3 | TOTAL |
| Deposits: | | | | | | |
| Cash | <u>\$ 397,354</u> | <u>11,094,631</u> | 11,491,985 | <u>329,209</u> | <u>11,264,530</u> | 11,593,739 |
| Reconciling items (net) | | | <u>271,127</u> | | | <u>649,781</u> |
| Carrying Value | | | <u>11,763,112</u> | | | <u>12,243,520</u> |
| Deposits with the Ohio Public Employees Deferred Compensation Program (note 9) | | | <u>\$ 277,882</u> | | | <u>\$ 247,166</u> |

(b) Investments

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

The Fund's investments are categorized to give an indication of the level of risk assumed by the Fund as of December 31, 1989. 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 broker or dealer, or by its trust department or agent but not in the Fund's name.

All investments of the Fund meet the criteria of Category 1, except for the investments in real estate, mortgage notes receivable and venture capital which, by their nature, are not required to be categorized.

A summary of investments as of each December 31 follows:

| | 1989 | | 1988 | |
|---|-------------------------|----------------------|----------------------|----------------------|
| | CARRYING VALUE | MARKET VALUE | CARRYING VALUE | MARKET VALUE |
| Corporate and government bonds and obligations | \$ 1,699,759,948 | 1,746,148,310 | 1,504,846,871 | 1,485,446,122 |
| Common and preferred stock | 821,890,455 | 1,044,082,820 | 597,751,632 | 690,048,262 |
| Commercial paper | 130,761,649 | 130,761,649 | 339,520,148 | 339,520,148 |
| Real estate, net of accumulated depreciation (note 6) | 184,834,774 | 205,000,789 | 122,490,886 | 140,223,006 |
| Mortgage notes receivable | 12,708,484 | 12,708,484 | 11,058,077 | 11,058,077 |
| Venture capital | 11,138,029 | 11,138,029 | 11,668,681 | 11,668,681 |
| | <u>\$ 2,861,093,339</u> | <u>3,149,840,081</u> | <u>2,587,336,295</u> | <u>2,677,964,296</u> |

Market values of bonds and stocks are based primarily on quotations from national security exchanges. Real estate market values are based upon external or management appraisals. Mortgage notes receivable and venture capital do not have quoted market prices and are therefore shown at cost. In addition, the carrying and market values of venture capital as of December 31, 1988 reflect writedowns for unrealized losses of \$1,711,312, and the carrying value of real estate reflects writedowns for unrealized losses of \$1,932,170, representing market declines determined to be other than temporary and are included in the determination of net investment income for 1988. There were no such writedowns in 1989.

6. INVESTMENT IN REAL ESTATE

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

| | 1989 | 1988 |
|----------------------------------|-----------------------|--------------------|
| Land | \$ 32,863,434 | 20,787,564 |
| Buildings | 108,535,509 | 84,500,662 |
| Capital improvements | <u>8,529,185</u> | <u>6,240,689</u> |
| | 149,928,128 | 111,528,915 |
| Less accumulated depreciation | <u>7,329,312</u> | <u>4,565,436</u> |
| | 142,598,816 | 106,963,479 |
| Real estate limited partnerships | <u>42,235,958</u> | <u>15,527,407</u> |
| | <u>\$ 184,834,774</u> | <u>122,490,886</u> |

Real estate rental income was approximately \$6,912,000 and \$5,020,000 in 1989 and 1988, respectively, net of depreciation of approximately \$2,764,000 and \$2,205,000. Real estate income is included in net investment income.

The following is a schedule by years of minimum future rentals on noncancelable operating leases related to the Fund's investment in real estate as of December 31, 1989:

| | |
|------------------------------|----------------------|
| Year ending December 31, | |
| 1990 | \$ 13,108,057 |
| 1991 | 10,604,488 |
| 1992 | 6,574,459 |
| 1993 | 3,789,390 |
| 1994 | 2,660,207 |
| Later years | <u>7,978,966</u> |
| Total minimum future rentals | <u>\$ 44,715,567</u> |

7. LOCAL FUNDS' RECEIVABLE

Local governments are required by state statute to pay the unfunded portion of the actuarially determined liability of the local police and firemen's relief and pension funds that were merged to form the Fund in 1967. The ORC names this obligation of local governments the "Employers' Accrued Liability". Interest on the outstanding balance is being accrued at a rate of 4.25%, compounded semiannually. Local governments began repayment in 1969 and payments are required to be made until 2035. Between 1969 and 1973, payments of principal and interest were received at incremental semiannual rates ranging from 1% to 2% of the original receivable balance. Between 1973 and 2035, semiannual payments of principal and interest are required to be made by the local governments at a rate of 2.5% of the original receivable balance. The balance due at December 31, 1989 includes \$1,712,933 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, | |
| 1990 | \$ 20,601,823 |
| 1991 | 20,590,410 |
| 1992 | 20,504,859 |
| 1993 | 20,456,945 |
| 1994 | 20,453,993 |
| Later years | <u>819,288,305</u> |
| Total projected payments | 921,896,335 |
| Less interest portion | <u>(510,705,792)</u> |
| Balance due at December 31, 1989 | <u>\$411,190,543</u> |

8. NOTE PAYABLE

The \$2,200,000 note payable, secured by a real estate office building held for investment with a net book value of approximately \$5,829,000, bears interest at the fixed rate of 9.13% per annum and is payable in monthly installments of \$16,738 for interest only. The outstanding principal and any accrued interest are due October 1, 1991. The Fund assumed the note during 1987 in connection with the acquisition of the real estate building which secures the note.

9. DEFERRED COMPENSATION

Employees of the Fund may elect to participate in the Ohio Public Employees Deferred Compensation Program (Program). Under the Program, employees may elect to defer a portion of their pay until a later date, usually after retirement. The deferred pay and any income earned thereon is not subject to income taxes until actually received by the employee.

The market value of deposits with the Program was approximately \$278,000 and \$247,000 as of December 31, 1989 and 1988, respectively. Under the terms of the Program agreement, these monies are subject to the claims of the Fund's general creditors. Accordingly, this amount is reflected as an asset in "other assets" along with a corresponding liability in "other liabilities" to the employees participating in the Program. Participating employees' rights under the Plan are equal to those of general creditors of the Fund in an amount equal to the fair market value of the deferred account for each participant.

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

10. DEFINED BENEFIT PENSION PLAN

All full-time employees of the Fund are eligible to

participate in the Public Employees Retirement System of Ohio (PERS), a cost-sharing multiple-employer public employee retirement system. The payroll for employees covered by PERS for the year ended December 31, 1989 was approximately \$1,207,000; the Fund's total payroll was approximately \$1,243,000.

Employees are eligible for retirement benefits at age 60 with 5 or more years of service credit or at any age with 30 or more years of service. The benefit is based on 2.1% of final average salary multiplied by the years of service credit. Persons retiring before age 65 with less than 30 years of service credit receive a percentage reduction in benefit amounts. PERS also provides disability and survivor benefits.

The Fund and covered employees are required by State statute to contribute 13.95% and 8.5%, respectively, of covered employee payroll to PERS. These rates are the actuarially determined contribution requirement for PERS. The Fund's and employees' contributions for the year ended December 31, 1989 were approximately \$168,000 and \$103,000, respectively; these contributions represented 13.95% and 8.5% of covered employee payroll, respectively.

PERS does not make separate measurements of assets and pension benefit obligations for individual employers. The pension benefit obligation at December 31, 1989 for PERS as a whole, determined through an actuarial valuation performed as of January 1, 1989, date of the most recent actuarial valuation, was \$15.7 billion. PERS' net assets available for benefits on that date, at market value were \$13.3 billion. The Fund's 1989 actuarially determined contribution requirement represented .029% of total contributions required of all participating entities.

Historical trend information showing PERS' progress in accumulating sufficient assets to pay benefits when due is presented in PERS' December 31, 1989 comprehensive annual financial report for only three years.

11. COMMITMENTS AND CONTINGENCIES

The property securing a mortgage note receivable is first encumbered by a mortgage senior to the Fund's investment. The balance of the first mortgage was approximately \$4,376,000 at December 31, 1989. In event of default on the first mortgage, management of the Fund intends to guarantee payment. The Fund's estimated value of the security was approximately \$18,250,000 and the outstanding balance of the Fund's mortgage note receivable was \$12,708,484 at December 31, 1989. Management of the Fund is of the opinion that ultimate payment of the first mortgage will be made by the debtor.

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, 1989.

12. SUBSEQUENT EVENTS

In February 1990, the Fund purchased 100% interest in a shopping center in Orlando, Florida, for a purchase price of \$26,110,000.

The Fund has made a commitment to purchase another shopping center for \$7,900,000.

13. HISTORICAL TREND INFORMATION

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

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REQUIRED SUPPLEMENTAL SCHEDULES

REQUIRED SUPPLEMENTARY INFORMATION ANALYSIS OF FUNDING PROGRESS (IN THOUSANDS)

| <u>As of January 1,</u> | <u>Net assets available for benefits (2)</u> | <u>Pension benefit obligation</u> | <u>Percentage funded (3)</u> | <u>Unfunded pension benefit obligation (3)</u> | <u>Valuation payroll (1)</u> | <u>Unfunded pension benefit obligation as a percentage of covered payroll (3)</u> |
|-----------------------------|--|---|----------------------------------|--|----------------------------------|---|
| 1987 | \$ 2,661,079 | \$ 2,930,400 | 90.8 | \$ 269,321 | \$ 622,187 | 43.3 |
| 1988 | 2,852,301 | 3,381,200 | 84.4 | 528,899 | 651,435 | 81.2 |
| 1989 | 3,074,215 | 3,769,400 | 81.6 | 695,185 | 692,029 | 100.5 |

Note: Historical trend information is not available for years prior to 1987. Analysis of funding progress is presented for 1987 through 1989 in the accompanying schedule.

- (1) Equal to annual average salary multiplied by the number of members at the valuation date.
- (2) The local funds' receivable is included in this amount. This receivable is considered an asset for financial reporting purposes, but not considered available for actuarially determined funding status.
- (3) Analysis of the dollar amounts of net assets available for benefits, pension benefit obligation for active and inactive accounts, and unfunded pension benefit obligation in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the pension benefit obligation for active and inactive accounts provides one indication of the Fund's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the Fund is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the Fund is. Trends in unfunded pension benefit obligation and valuation payroll are both affected by inflation. Expressing the unfunded pension benefit obligation as a percentage of valuation payroll approximately adjusts for the effects of inflation and aids analysis of the Fund's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the Fund is. The actuarial assumptions for investment return, and post-retirement mortality are revised periodically based on the Fund's experience.

See accompanying independent auditors' report.

REQUIRED SUPPLEMENTARY INFORMATION REVENUES BY SOURCE

| Year ended December 31, | Employer contributions (2) | Employee contributions (2) | State of Ohio subsidies | Net investment income (1) |
|----------------------------|-------------------------------|-------------------------------|-------------------------------|---------------------------------|
| 1980 | \$ 80,919,872 | \$ 40,644,834 | \$ 10,035,389 | \$ 61,726,085 |
| 1981 | 83,362,974 | 41,455,835 | 9,792,950 | 79,530,675 |
| 1982 | 96,899,403 | 45,060,474 | 8,148,412 | 97,830,576 |
| 1983 | 103,330,679 | 46,261,767 | 7,916,482 | 99,834,810 |
| 1984 | 121,422,906 | 49,202,608 | 7,501,100 | 102,961,755 |
| 1985 | 128,531,626 | 52,592,700 | 7,271,000 | 116,299,670 |
| 1986 | 136,668,444 | 57,475,708 | 6,813,000 | 127,412,987 |
| 1987 | 139,543,550 | 63,363,415 | 6,635,000 | 174,772,550 |
| 1988 | 149,640,020 | 70,671,103 | 6,470,000 | 207,473,616 |
| 1989 | 159,472,669 | 77,657,290 | 5,857,000 | 299,006,174 |

Note: For years 1980 through 1986, revenues are shown on the basis of cash and investment receipts and disbursements, while 1987 through 1989 revenues are shown on the accrual basis.

(1) For years 1979 through 1986 net realized gain on sale of investments is excluded.

REQUIRED SUPPLEMENTARY INFORMATION EXPENSES BY TYPE

| Year ended December 31, | Retirement, disability and survivor benefits | Health care benefits | Refund of employee contributions |
|----------------------------|--|-------------------------|--|
| 1980 | \$ 75,677,741 | \$ 12,055,295 | \$ 2,643,267 |
| 1981 | 87,168,453 | 10,870,137 | 2,776,852 |
| 1982 | 103,721,534 | 17,947,422 | 2,336,090 |
| 1983 | 113,944,003 | 22,837,676 | 2,329,264 |
| 1984 | 125,282,722 | 23,533,863 | 3,174,704 |
| 1985 | 137,391,797 | 27,055,162 | 3,654,760 |
| 1986 | 153,415,851 | 31,379,158 | 3,121,542 |
| 1987 | 164,367,103 | 39,465,273 | 2,915,311 |
| 1988 | 180,575,729 | 43,703,422 | 3,528,968 |
| 1989 | 203,349,396 | 45,172,283 | 3,906,362 |

Note: For years 1980 through 1986, expenses are shown on the basis of cash and investment receipts and disbursements, while 1987

through 1989 expenses are shown on the accrual basis.

See accompanying independent auditors' report.

| <u>Interest on local funds' receivable</u> | <u>Other income</u> | <u>State contribution to death benefit fund</u> | <u>Total</u> | <u>Employer contributions as a percentage of covered payroll</u> |
|--|---------------------|---|----------------|--|
| \$ 20,117,737 | \$ 143,722 | \$ 1,720,797 | \$ 215,308,436 | 16.9 |
| 20,750,375 | 243,649 | 1,987,337 | 237,123,795 | 17.1 |
| 20,750,973 | 312,219 | 2,799,623 | 271,801,680 | 18.3 |
| 20,465,903 | 357,192 | 2,418,758 | 280,585,591 | 19.0 |
| 20,399,728 | 299,806 | 2,343,132 | 304,131,035 | 21.0 |
| 20,432,283 | 236,843 | 6,484,686 | 331,848,808 | 20.8 |
| 20,393,099 | 242,446 | 6,666,157 | 355,671,841 | 22.0 |
| 17,508,079 | 643,607 | 6,720,685 | 409,186,886 | 21.4 |
| 19,902,971 | 1,435,015 | 6,796,504 | 462,389,229 | 21.4 |
| 17,257,042 | 325,775 | 9,368,095 | 568,944,045 | 22.3 |

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

| <u>Administrative expenses</u> | <u>Other expense</u> | <u>Death benefit fund benefits</u> | <u>Total</u> |
|--------------------------------|----------------------|------------------------------------|---------------|
| \$ 1,080,170 | \$ 857,426 | \$ 1,581,153 | \$ 93,895,052 |
| 1,329,517 | 397,531 | 1,962,970 | 104,505,460 |
| 1,448,166 | 156,884 | 2,191,632 | 127,801,728 |
| 1,715,696 | 174,762 | 2,332,109 | 143,333,510 |
| 2,423,594 | 419,296 | 3,066,383 | 157,900,562 |
| 2,572,055 | 192,936 | 5,988,102 | 176,854,812 |
| 2,974,357 | 430,866 | 6,001,201 | 197,322,975 |
| 3,903,646 | 592,220 | 6,720,685 | 217,964,238 |
| 5,341,465 | 529,537 | 6,796,504 | 240,475,625 |
| 6,601,071 | 431,049 | 9,368,095 | 268,828,256 |

REQUIRED SUPPLEMENTARY INFORMATION ADMINISTRATIVE EXPENSES

YEARS ENDED DECEMBER 31, 1989 AND 1988

| | <u>1989</u> | <u>1988</u> |
|--------------------------------------|----------------------------|-------------------------|
| Personal Services: | | |
| Administrative salaries | \$ 1,243,491 | 1,119,114 |
| Employee benefits | 249,758 | 260,242 |
| Employer contributions—PERS | <u>174,790</u> | <u>148,732</u> |
| | <u>1,668,039</u> | <u>1,528,088</u> |
| | | |
| Professional services | <u>3,796,341</u> | <u>2,605,397</u> |
| | | |
| Other services and charges: | | |
| Equipment—rental and maintenance | 107,875 | 265,423 |
| Travel expenses | 167,534 | 142,743 |
| Postage | 123,580 | 132,836 |
| Printing | 114,874 | 102,519 |
| Insurance—administrative | 66,942 | 81,367 |
| Office supplies and maintenance | 150,656 | 57,431 |
| Utilities—telephone | 49,852 | 53,979 |
| Ohio Retirement Study Commission | 31,680 | 22,875 |
| Dues and subscriptions | 24,433 | 14,195 |
| Depreciation expenses | 218,419 | 175,812 |
| Miscellaneous expenses | <u>80,846</u> | <u>158,800</u> |
| | <u>1,136,691</u> | <u>1,207,980</u> |
| Total administrative expenses | <u>\$ 6,601,071</u> | <u>5,341,465</u> |

See accompanying independent auditors' report.

REQUIRED SUPPLEMENTARY INFORMATION REFUNDS OF EMPLOYEE CONTRIBUTIONS

| <u>Year Ended December 31,</u> | <u>(1) Police</u> | <u>(1) Fire</u> | <u>Total</u> |
|------------------------------------|-----------------------|---------------------|--------------|
| 1980 | | | 2,736,341 |
| 1981 | | | 2,891,218 |
| 1982 | | | 2,381,605 |
| 1983 | | | 2,378,717 |
| 1984 | 2,813,925 | 532,959 | 3,346,884 |
| 1985 | 2,945,944 | 844,632 | 3,790,576 |
| 1986 | 2,293,032 | 929,257 | 3,222,289 |
| 1987 | 2,307,728 | 607,583 | 2,915,311 |
| 1988 | 2,562,415 | 966,553 | 3,528,968 |
| 1989 | 2,802,932 | 1,103,430 | 3,906,362 |

Note: For years 1980 through 1986, refunds are shown on the basis of cash and investment receipts and disbursements, while 1987 through 1989 refunds are shown on the accrual basis.

(1) The breakdown between Police and Firemen is not available for years prior to 1984.

See accompanying independent auditors' report.

SUPPLEMENTAL SCHEDULES

FUND BALANCE ACCOUNTS

YEAR ENDED DECEMBER 31, 1989

SCHEDULE 1

Description of Accounts (Funds)

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

(A) Contribution Funds

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

(B) Employers' Contribution Funds

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

(C) Pension Reserve Funds

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

| | Contribution Fund | | Employer's Contribution Fund | |
|-------------------------------------|-----------------------|--------------------|------------------------------|--------------------|
| | Police | Firemen | Police | Firemen |
| Fund balance at beginning of year | \$ 279,041,882 | 200,011,479 | 659,183,945 | 439,077,618 |
| Changes for the year: | | | | |
| Contributions: | | | | |
| Employers | -- | -- | 83,821,155 | 75,651,514 |
| Employees | 44,797,121 | 32,860,169 | -- | -- |
| State of Ohio subsidies | -- | -- | -- | -- |
| Death benefit fund | -- | -- | -- | -- |
| Investment income | -- | -- | -- | -- |
| Interest on local funds' receivable | -- | -- | 8,989,930 | 8,267,112 |
| Other income | -- | -- | -- | -- |
| Benefits: | | | | |
| Retirement | -- | -- | -- | -- |
| Disability | -- | -- | -- | -- |
| Health care | -- | -- | -- | -- |
| Survivor | -- | -- | -- | -- |
| Death benefit fund | -- | -- | -- | -- |
| Administrative expenses | -- | -- | -- | -- |
| Refund of employee contributions | (2,802,932) | (1,103,430) | -- | -- |
| Other expenses | -- | -- | -- | -- |
| Transfers | (17,430,117) | (13,027,317) | (103,390,019) | (76,418,709) |
| Net changes | <u>24,564,072</u> | <u>18,729,422</u> | <u>(10,578,934)</u> | <u>7,499,917</u> |
| Fund balance at end of year | <u>\$ 303,605,954</u> | <u>218,740,901</u> | <u>648,605,011</u> | <u>446,577,535</u> |

See accompanying independent auditors' report.

(D) Guarantee Fund

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

(E) Expense Fund

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

(F) Death Benefit Fund

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

| Pension Reserve Fund | | Guarantee Fund | Expense Fund | Death Benefit Fund | Totals | |
|----------------------|--------------------|----------------------|------------------|--------------------|----------------------|----------------------|
| Police | Firemen | | | | 1989 | 1988 |
| 777,900,000 | 719,000,000 | -- | -- | -- | 3,074,214,924 | 2,852,301,320 |
| -- | -- | -- | -- | -- | 159,472,669 | 149,640,020 |
| -- | -- | -- | -- | -- | 77,657,290 | 70,671,103 |
| -- | -- | 5,857,000 | -- | -- | 5,857,000 | 6,470,000 |
| -- | -- | -- | -- | 9,368,095 | 9,368,095 | 6,796,504 |
| -- | -- | 299,006,174 | -- | -- | 299,006,174 | 207,473,616 |
| -- | -- | -- | -- | -- | 17,257,042 | 19,902,971 |
| -- | -- | 325,775 | -- | -- | 325,775 | 1,435,015 |
| (62,193,035) | (64,365,056) | -- | -- | -- | (126,558,091) | (113,022,120) |
| (28,137,676) | (21,616,772) | -- | -- | -- | (49,754,448) | (43,739,268) |
| (23,426,346) | (21,745,937) | -- | -- | -- | (45,172,283) | (43,703,422) |
| (15,125,981) | (11,910,876) | -- | -- | -- | (27,036,857) | (23,814,341) |
| -- | -- | -- | -- | (9,368,095) | (9,368,095) | (6,796,504) |
| -- | -- | -- | (6,601,071) | -- | (6,601,071) | (5,165,653) |
| -- | -- | -- | -- | -- | (3,906,362) | (3,528,968) |
| -- | -- | (431,049) | -- | -- | (431,049) | (705,349) |
| <u>262,483,718</u> | <u>245,939,273</u> | <u>(304,757,900)</u> | <u>6,601,071</u> | -- | <u>300,115,789</u> | <u>221,913,604</u> |
| <u>133,600,680</u> | <u>126,300,632</u> | -- | -- | -- | <u>3,374,330,713</u> | <u>3,074,214,924</u> |
| <u>911,500,680</u> | <u>845,300,632</u> | -- | -- | -- | | |

CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN CASH BALANCE

YEARS ENDED DECEMBER 31, 1989 AND 1988

SCHEDULE 2

| | <u>1989</u> | <u>1988</u> |
|--|----------------------|----------------------|
| Cash receipts: | | |
| Investment sales and maturities | \$ 6,088,384,274 | \$ 8,788,745,966 |
| Contributions: | | |
| Employer | 150,530,548 | 145,358,260 |
| Employee | 76,255,355 | 70,169,689 |
| State of Ohio—subsidies | 5,857,000 | 6,470,000 |
| State of Ohio—Death Benefit Fund | <u>5,330,617</u> | <u>6,601,863</u> |
| | <u>237,973,520</u> | <u>228,599,812</u> |
| Net investment income | 149,427,865 | 145,567,005 |
| Local fund's receipts | 20,466,556 | 20,409,080 |
| Other income | <u>10,242,444</u> | <u>725,718</u> |
| Total cash receipts | <u>6,506,494,659</u> | <u>9,184,047,581</u> |
| Cash Disbursements: | | |
| Investment purchases | <u>6,236,297,581</u> | <u>8,950,442,482</u> |
| Benefits: | | |
| Retirement | 126,962,101 | 112,958,091 |
| Disability | 49,730,246 | 43,714,482 |
| Health care | 44,715,650 | 41,918,668 |
| Survivor | 27,002,283 | 23,799,883 |
| Death Benefit Fund | <u>9,366,783</u> | <u>6,796,504</u> |
| | <u>257,777,063</u> | <u>229,187,628</u> |
| Administrative expenses | 6,366,341 | 5,115,275 |
| Refund of employee contributions | 4,168,535 | 3,057,855 |
| Other expenses | <u>2,365,547</u> | <u>782,766</u> |
| Total cash disbursements | <u>6,506,975,067</u> | <u>9,188,586,006</u> |
| Deficiency of cash receipts over cash disbursements | (480,408) | (4,538,425) |
| Cash balance, beginning of year | <u>12,243,520</u> | <u>16,781,945</u> |
| Cash balance, end of year | <u>\$ 11,763,112</u> | <u>\$ 12,243,520</u> |

See accompanying independent auditors' report.

MANAGEMENT FEES AND COMMISSIONS

YEAR ENDED DECEMBER 31, 1989

SCHEDULE 3

| Individual or Firm Name | Official Plan Position/Nature of Services | Salary or Allowance Paid | Fees and Commissions Paid |
|--------------------------------------|---|--------------------------------|---------------------------------|
| Administrative Officials: | | | |
| Henry E. Helling, III | Executive Director | \$72,383 | |
| Ronald J. Corn | Deputy Director | 65,845 | |
| David J. Nesbitt | Asst. Director, Benefits | 62,023 | |
| Theodore G. Hall | Asst. Director, Investments | 58,023 | |
| John N. Babel | Asst. Director, Finance | 51,246 | |
| Investment Management Fees: | | | |
| Atalanta/Sosnoff Capital Corp. | Investment Advisory Managers | | \$375,409 |
| Axe Core Investors, Inc. | Investment Advisory Managers | | 34,047 |
| Bankers Trust Co. | Investment Advisory Managers | | 567,300 |
| Duff and Phelps Asset Management | Investment Advisory Managers | | 58,258 |
| Loomis, Sayles, and Company Meyer | Investment Advisory Managers | | 432,402 |
| Oppenheimer Capital Corp. | Investment Advisory Managers | | 569,360 |
| Schroder Real Estate Assoc. | Investment Advisory Managers | | 435,852 |
| Society National Bank - Cleveland | Investment Advisory Managers | | 591,954 |
| Value Line Asset Management | Investment Advisory Managers | | 77,802 |
| | Investment Advisory Managers | | 356,684 |
| Other Professional Fees: | | | |
| Attorney General of Ohio | Legal Services | | 164,505 |
| Health Research Institute | Management Consulting Services | | 52,099 |
| KPMG Peat Marwick | Audit & Accounting Services | | 142,000 |
| The Townsend Group | Investment Services | | 199,711 |
| The Wyatt Co. | Actuarial Services | | 69,595 |
| Mike Zettler & Assoc., Inc. | Programming Services | | 268,446 |

See accompanying independent auditors' report.

DETAILED LISTING OF INVESTMENT PORTFOLIO

DECEMBER 31, 1989

SCHEDULE 4

BONDS

| ISSUER | COUPON | MATURITY | PAR VALUE | BOOK VALUE | MARKET VALUE |
|-----------------------------|--------|----------|--------------|---------------|-----------------|
| FNMA | 12.35 | 12/10/13 | \$ 3,000,000 | \$ 3,684,820 | \$ 3,390,000 |
| Tennessee Valley Authority | 8.75 | 10/01/19 | 3,060,000 | 2,965,411 | 2,961,499 |
| Manitoba (Prov. of) | 14.75 | 03/15/97 | 8,500,000 | 8,683,187 | 10,312,115 |
| American Housing TR-1 CL-3 | 7.625 | 08/25/18 | 8,855,105 | 7,660,727 | 8,002,801 |
| BSIT 88-7 CL-2 | 9.25 | 12/01/18 | 15,100,000 | 14,815,289 | 15,052,888 |
| BSIT 89-1 CL-Y3 | 9.97 | 01/01/15 | 2,757,000 | 2,754,435 | 2,860,388 |
| BSIT 89-3 CL-Y4 | 0 | 01/01/17 | 28,777,000 | 10,597,952 | 12,086,340 |
| Community Prog. Ser. 87 A-3 | 4.5 | 04/01/02 | 13,700,000 | 9,401,096 | 10,326,375 |
| FHLMC Series F-3 | 12.25 | 03/15/95 | 9,139,817 | 9,560,488 | 9,706,029 |
| FNMA Gtd Remic 88-23C | 9.75 | 09/25/18 | 5,000,000 | 4,856,416 | 5,109,400 |
| FNMA Remic 89-8 CL 8D | 9.5 | 07/25/03 | 4,500,000 | 4,438,500 | 4,632,030 |
| FNMA Remic 89-11 C-Y2 | 0 | 06/25/07 | 20,402,000 | 12,324,994 | 13,873,360 |
| FNMA 89-34 Y3 | 9.85 | 11/25/02 | 6,300,000 | 6,466,766 | 6,481,125 |
| FNMA Trust 27 | 0 | 02/01/17 | 52,538,306 | 27,601,526 | 29,897,448 |
| FNMA Trust 28 | 0 | 02/01/17 | 42,720,243 | 21,700,853 | 24,310,382 |
| FNMA Strip TR34 CL1 | 0 | 05/01/18 | 34,676,496 | 17,999,419 | 20,199,059 |
| FNMA Trust 35 | 0 | 09/01/17 | 6,471,380 | 3,464,870 | 3,761,489 |
| MLT #12 Class F | 8.45 | 09/01/17 | 15,000,000 | 14,214,156 | 13,589,100 |
| Merrill Lynch Great Western | 11.35 | 04/01/05 | 1,472,890 | 1,444,360 | 1,487,383 |
| Mid-State TR II CL A-3 | 9.35 | 04/01/98 | 45,000,000 | 44,723,602 | 45,603,000 |
| Mid-State TR II A-4 | 9.625 | 10/01/03 | 25,075,000 | 24,551,580 | 25,482,469 |
| Rural Housing TR 87-1 2-C | 6.83 | 04/01/26 | 13,370,000 | 10,413,726 | 11,376,934 |
| First Union Real Estate Eq | 10.25 | 07/31/09 | 250,000 | 250,000 | 260,000 |
| Sudbury Holdings Inc. | 7.5 | 04/15/11 | 200,000 | 200,000 | 112,000 |
| Telxon Inc. | 7.5 | 06/01/12 | 100,000 | 100,000 | 54,000 |
| Associates Corp. N.A. | 12.5 | 09/15/94 | 7,000,000 | 7,664,259 | 7,965,860 |
| Associates Corp. N.A. | 12.4 | 10/01/95 | 1,000,000 | 1,187,449 | 1,156,250 |
| Associates Corp. N.A. | 7.625 | 04/15/98 | 16,700,000 | 16,693,023 | 16,350,970 |
| Associates Corp. N.A. | 8.75 | 02/15/91 | 10,000,000 | 9,968,940 | 10,035,000 |
| Associates Corp. N.A. | 8.375 | 01/15/98 | 7,000,000 | 6,946,891 | 6,955,200 |
| Bank of New England | 9.625 | 02/15/91 | 4,750,000 | 4,712,409 | 4,755,225 |
| Bank of New England | 9.75 | 02/23/91 | 22,950,000 | 22,807,148 | 23,005,080 |
| Beneficial Corp. | 12.75 | 08/15/94 | 6,450,000 | 6,455,142 | 7,347,969 |
| D.C.S. Capital Corp. | 12.375 | 10/15/96 | 5,000,000 | 4,987,645 | 5,612,500 |
| First Chicago Corp. | 8.5 | 06/01/98 | 20,000,000 | 20,035,622 | 19,952,600 |
| First Chicago | 10.2 | 03/06/91 | 10,000,000 | 10,000,000 | 10,185,300 |
| First Chicago | 9.5 | 08/30/91 | 12,000,000 | 12,015,978 | 12,141,840 |
| First Chicago | 10.25 | 03/08/91 | 7,750,000 | 7,714,586 | 7,883,223 |
| G.E. Capital Corp. | 8.25 | 05/01/18 | 6,380,000 | 6,287,930 | 6,363,157 |
| GMAC | 8.65 | 11/01/93 | 4,775,000 | 4,775,779 | 4,758,288 |
| GMAC | 8.55 | 12/07/92 | 15,350,000 | 15,313,952 | 15,254,063 |
| GMAC | 9 | 10/15/91 | 2,000,000 | 2,016,252 | 2,011,560 |
| GMAC | 7.125 | 01/15/92 | 3,100,000 | 3,022,605 | 3,010,658 |
| GMAC | 8.5 | 02/01/93 | 3,150,000 | 3,158,035 | 3,125,588 |
| GMAC | 8.625 | 06/15/99 | 9,500,000 | 9,560,621 | 9,490,500 |
| GMAC | 8.5 | 02/25/93 | 12,500,000 | 12,493,821 | 12,410,000 |
| GMAC | 8.625 | 08/06/91 | 2,200,000 | 2,211,987 | 2,199,560 |

DETAILED LISTING OF INVESTMENT PORTFOLIO (continued)

| ISSUER | COUPON | MATURITY | PAR VALUE | BOOK VALUE | MARKET VALUE |
|--------------------------------|--------|----------|------------|------------|--------------|
| GMAC | 9.6 | 01/25/94 | 1,500,000 | 1,495,130 | 1,535,400 |
| GMAC | 9.5 | 01/27/94 | 15,000,000 | 15,240,053 | 15,313,500 |
| GMAC | 8.7 | 06/16/92 | 5,000,000 | 4,958,740 | 4,996,300 |
| GMAC | 8.375 | 08/05/92 | 8,750,000 | 8,757,526 | 8,673,438 |
| GMAC | 8.5 | 07/11/91 | 3,000,000 | 3,004,179 | 2,996,100 |
| Great Western Bank | 9.8 | 12/01/93 | 5,000,000 | 5,125,562 | 5,071,500 |
| Great Western Bank | 9.8 | 02/15/94 | 3,000,000 | 3,092,265 | 3,040,500 |
| Great Western Bank | 10.15 | 03/15/92 | 4,070,000 | 4,059,812 | 4,164,017 |
| Household Finance Corp. | 9.5 | 12/15/93 | 4,500,000 | 4,444,822 | 4,598,100 |
| ITT Financial Corp. | 12.75 | 08/15/94 | 12,650,000 | 13,122,624 | 13,750,424 |
| ITT Financial Corp. | 8.75 | 03/01/06 | 11,000,000 | 11,333,022 | 10,967,770 |
| ITT Financial | 8.5 | 01/15/98 | 3,000,000 | 2,980,486 | 2,985,000 |
| ITT Financial | 8.35 | 11/01/04 | 15,000,000 | 14,760,727 | 14,752,800 |
| International Lease Finance | 9.8 | 07/28/95 | 2,500,000 | 2,538,677 | 2,589,000 |
| International Lease Finance | 9.55 | 02/23/93 | 2,000,000 | 2,047,015 | 2,031,900 |
| International Lease Finance | 8.6 | 03/04/92 | 10,000,000 | 10,000,000 | 9,955,500 |
| McDonnell Douglas Finance | 9.7 | 01/15/92 | 7,500,000 | 7,373,760 | 7,623,750 |
| Merrill Lynch & Co. | 0 | 02/21/06 | 2,600,000 | 720,857 | 724,880 |
| Merrill Lynch | 10.625 | 03/30/91 | 13,980,000 | 13,980,000 | 14,275,118 |
| National Cr. Card TR. 89-1 | 9.7 | 02/17/92 | 23,475,000 | 23,232,625 | 23,901,071 |
| Shearson Lehman American Exp. | 12.5 | 10/15/94 | 18,915,000 | 20,238,967 | 20,892,563 |
| Shearson Lehman Bros. Inc. | 11.625 | 05/15/05 | 6,400,000 | 7,372,718 | 7,259,392 |
| Shearson Lehman Brothers | 7.875 | 08/15/93 | 11,250,000 | 10,648,142 | 10,717,650 |
| Shearson Lehman Hutton | 10.75 | 04/29/96 | 3,360,000 | 3,506,470 | 3,522,960 |
| American Medical International | 9.75 | 02/01/93 | 5,300,000 | 5,389,705 | 4,751,238 |
| Chrysler Building of N.Y. | 9.125 | 05/01/99 | 15,000,000 | 14,950,833 | 15,169,500 |
| Dayton-Hudson Corp. | 9.25 | 11/15/16 | 1,850,000 | 1,841,304 | 1,750,359 |
| General Motors Corp. | 8.125 | 04/15/16 | 4,800,000 | 3,987,697 | 4,260,864 |
| HCA Corp. Sub. Disc. 15.75% | 0 | 07/01/03 | 800 | 420 | 532 |
| Interco Sub. Disc. Deb. | 0 | 12/15/03 | 400 | 122 | 205 |
| Interco Sr. Sub. Pik. Deb. | 0 | 12/15/03 | 800 | 396 | 179 |
| Kroger Co. Sub. Deb. Disc. | 15.5 | 10/15/08 | 600 | 103 | 373 |
| Transamerica Corp. | 9.375 | 11/15/92 | 7,000,000 | 7,000,000 | 7,096,250 |
| Union Carbide Corp. | 13.25 | 01/31/93 | 48,600 | 33,942 | 48,843 |
| Union Carbide Corp. | 14.25 | 01/31/96 | 48,600 | 28,910 | 50,362 |
| Union Carbide Corp. | 15 | 01/31/06 | 60,700 | 30,566 | 69,805 |
| Xerox Corp. | 13.25 | 09/01/14 | 6,500,000 | 8,244,126 | 7,664,215 |
| FHLMC #140540 | 5.25 | 04/01/02 | 16,343,118 | 14,283,924 | 14,647,519 |
| FHLMC #181186 | 8 | 10/01/08 | 913,037 | 618,351 | 860,830 |
| FHLMC #181734 | 7.5 | 05/01/09 | 1,868,851 | 1,121,766 | 1,726,351 |
| FHLMC #185130 | 9.75 | 10/01/09 | 1,469,758 | 1,250,608 | 1,475,270 |
| FHLMC #185228 | 11.5 | 08/01/13 | 639,853 | 607,425 | 676,248 |
| FHLMC #185711 | 12 | 09/01/13 | 401,101 | 383,132 | 428,676 |
| FHLMC #185839 | 12 | 08/01/13 | 286,797 | 271,049 | 306,514 |
| FHLMC #186256 | 12 | 10/01/13 | 375,047 | 290,041 | 400,831 |
| FHLMC #186808 | 13 | 10/01/13 | 19,270 | 18,176 | 21,028 |
| FHLMC #187000 | 13 | 12/01/13 | 182,983 | 171,384 | 199,680 |
| FHLMC #189847 | 9.75 | 12/01/09 | 1,752,545 | 1,448,685 | 1,759,117 |
| FHLMC #170164 | 9 | 05/01/16 | 646,777 | 635,069 | 630,206 |
| FHLMC #230013 | 7.25 | 08/01/98 | 3,272,430 | 3,070,356 | 3,064,827 |
| FHLMC #251021 | 12 | 08/01/99 | 616,401 | 728,409 | 658,779 |
| FHLMC #252397 | 7.25 | 07/01/03 | 1,389,237 | 1,321,009 | 1,331,501 |

DETAILED LISTING OF INVESTMENT PORTFOLIO (continued)

| ISSUER | COUPON | MATURITY | PAR VALUE | BOOK VALUE | MARKET VALUE |
|---------------------------|--------|----------|-------------------------------|-------------------------------|-------------------------------|
| FHLMC #252548 | 7 | 09/01/02 | 983,503 | 917,734 | 939,245 |
| FHLMC #254617 | 9.75 | 01/01/11 | 1,010,163 | 898,078 | 1,013,951 |
| FHLMC #212242 | 7.5 | 07/01/01 | 6,992,333 | 6,322,707 | 6,548,740 |
| FHLMC #300846 | 7 | 06/01/02 | 1,163,135 | 1,127,619 | 1,120,971 |
| FNMA #281 | 9.5 | 12/01/10 | 1,670,489 | 1,567,952 | 1,672,059 |
| FNMA/GL #2494 | 8 | 01/01/08 | 15,917,362 | 14,960,940 | 15,017,076 |
| FNMA #7726 | 4 | 06/01/01 | 7,766,326 | 6,649,242 | 6,642,616 |
| FNMA/GL #8245 | 8 | 02/01/08 | 7,457,622 | 7,093,188 | 7,066,097 |
| FNMA/GL #8300 | 7.5 | 07/01/07 | 22,812,349 | 20,714,165 | 21,108,495 |
| FNMA/GL #44046 | 7.5 | 02/01/14 | 10,639,698 | 9,688,326 | 9,891,621 |
| FNMA/GL #44048 | 7 | 12/01/05 | 17,154,711 | 15,238,037 | 15,599,465 |
| FNMA/GL #57839 | 7.25 | 07/01/07 | 8,642,726 | 7,827,339 | 7,908,095 |
| GNMA #228868 | 8 | 04/15/17 | 1,784,850 | 1,521,445 | 1,682,221 |
| Mid-Penn Telephone Co. | 9.5 | 05/01/00 | 620,000 | 620,000 | 631,625 |
| Western Reserve Telephone | 9.375 | 05/15/00 | 563,000 | 563,000 | 572,149 |
| U.S. Treasury | 8.125 | 08/15/19 | 41,000,000 | 42,293,755 | 41,678,960 |
| U.S. Treasury | 11.625 | 01/15/92 | 39,980,000 | 43,002,412 | 42,659,859 |
| U.S. Treasury | 7.375 | 05/15/96 | 269,130,000 | 253,542,905 | 260,550,136 |
| U.S. Treasury | 7.25 | 11/15/96 | 341,820,000 | 315,229,130 | 328,147,200 |
| U.S. Treasury | 8.625 | 08/15/97 | 119,900,000 | 123,356,919 | 123,946,625 |
| U.S. Treasury | 8.875 | 11/15/97 | 95,560,000 | 96,389,233 | 100,128,724 |
| Pacific Gas & Electric | 12.75 | 11/01/17 | 4,000,000 | 5,294,032 | 4,825,240 |
| Virginia Electric & Power | 13.3 | 07/01/94 | 8,000,000 | 8,275,857 | 8,510,400 |
| Total | | | <u>\$1,844,326,209</u> | <u>\$1,699,759,949</u> | <u>\$1,746,148,310</u> |

DETAILED LISTING OF INVESTMENT PORTFOLIO (continued)

COMMON STOCKS

| | SHARES | COST | MARKET VALUE |
|-------------------------------|---------|--------------|-----------------|
| Abbott Labs | 86,600 | \$ 4,039,515 | \$ 5,888,800 |
| Acme Cleveland | 35,000 | 461,220 | 380,625 |
| Action Auto Rental, Inc. | 85,800 | 1,608,750 | 729,300 |
| Aetna Life & Casualty | 7,800 | 409,906 | 440,700 |
| Agency Rent A Car, Inc. | 15,000 | 169,375 | 174,375 |
| Ahmanson (H H) & Co. | 8,800 | 185,240 | 167,200 |
| Air Products & Chemical | 163,800 | 7,517,742 | 7,862,400 |
| Alaska Air Group, Inc. | 400 | 8,820 | 8,250 |
| Albertson's, Inc. | 90,900 | 3,249,008 | 5,044,950 |
| Alco Standard Corp. | 7,700 | 228,498 | 265,650 |
| Alexander & Alexander | 9,100 | 231,732 | 278,688 |
| Allied-Signal, Inc. | 18,249 | 656,763 | 636,434 |
| Alltel Corp. | 51,075 | 819,886 | 1,985,541 |
| Aluminum Co. of America | 23,000 | 1,297,280 | 1,725,000 |
| Amax, Inc. | 22,800 | 377,380 | 524,400 |
| Amcast Industrial | 30,000 | 364,165 | 371,250 |
| Amerada Hess Corp. | 8,000 | 285,763 | 390,000 |
| Amdahl Corp. | 34,400 | 636,075 | 494,500 |
| American Brands, Inc. | 17,900 | 803,032 | 1,270,900 |
| American Cyanamid Co. | 76,900 | 4,022,943 | 4,123,763 |
| American Electric Power | 147,300 | 4,358,965 | 4,860,900 |
| American Express | 284,400 | 6,422,949 | 9,918,450 |
| American Family Corp. | 210,200 | 3,482,596 | 3,783,600 |
| American General Corp. | 39,700 | 1,458,809 | 1,240,625 |
| American Greetings Corp. | 60,000 | 1,853,021 | 2,115,000 |
| American Home Products | 95,100 | 6,726,798 | 10,223,250 |
| American Information Tech. | 32,400 | 1,287,006 | 2,203,200 |
| American International | 153,600 | 10,547,906 | 15,897,600 |
| American Medical Ent. | 1,007 | 22,320 | 7,175 |
| American Steel & Wire | 10,000 | 71,250 | 77,500 |
| America Stores Co. | 2,000 | 100,700 | 113,000 |
| American Tel & Tel Co. | 149,800 | 3,639,030 | 6,815,900 |
| Ameritrust Corp. | 45,000 | 1,009,265 | 1,125,000 |
| Amp, Inc. | 36,800 | 1,315,947 | 1,637,600 |
| Amoco Corp. | 111,500 | 4,661,966 | 6,090,688 |
| Anheuser Busch Cos. Com. Inc. | 313,256 | 10,524,684 | 12,060,356 |
| Apache Corp. | 8,300 | 102,090 | 152,513 |
| Archer Daniels Midland | 210,486 | 3,462,860 | 4,867,489 |
| Arkla, Inc. | 45,200 | 997,669 | 1,231,700 |
| Armstrong World Industries | 4,300 | 181,864 | 160,175 |
| Asarco, Inc. | 8,200 | 226,935 | 244,975 |
| Ashland Oil | 109,600 | 3,851,043 | 4,384,000 |
| Atek Metals Center, Inc. | 19,000 | 145,250 | 83,125 |
| Atlantic Richfield Co. | 92,900 | 7,183,378 | 10,346,738 |
| Audio Video Affiliates | 19,932 | 161,625 | 72,254 |
| Automatic Data Process | 148,000 | 6,683,923 | 7,252,000 |
| Avery International | 8,800 | 227,040 | 284,900 |
| Avnet, Inc. | 50,000 | 1,547,520 | 1,550,000 |

DETAILED LISTING OF INVESTMENT PORTFOLIO (continued)

| | SHARES | COST | MARKET VALUE |
|------------------------------|---------|-----------|-----------------|
| Avon Products | 22,800 | 604,741 | 840,750 |
| Bairnco Corp. | 170,000 | 4,071,010 | 3,038,750 |
| Baker Hughes, Inc. | 19,100 | 348,255 | 487,050 |
| Baldwin Piano & Organ | 22,000 | 306,000 | 220,000 |
| Bally Mfg. Corp. | 20,900 | 511,186 | 316,113 |
| Baltimore Gas & Electric | 4,800 | 102,840 | 165,600 |
| Banc One Corp. | 43,600 | 1,470,990 | 1,411,550 |
| Bandag, Inc. | 39,500 | 3,111,126 | 3,327,875 |
| Bank of Boston | 5,900 | 183,195 | 112,100 |
| BankAmerica Corp. | 36,900 | 808,370 | 987,075 |
| Bankers Trust Corp. | 3,200 | 105,560 | 132,400 |
| Bard (C.R.), Inc. | 9,400 | 230,770 | 207,975 |
| Barnett Banks, Inc. | 4,275 | 103,503 | 154,434 |
| Barry (R.G.) | 13,000 | 74,340 | 139,750 |
| Bausch & Lomb | 58,200 | 3,405,004 | 3,783,000 |
| Baxter Int'l. Inc. Com. | 27,918 | 410,068 | 697,950 |
| Bearings Inc. Com. New | 15,750 | 252,298 | 439,031 |
| Beckman Instruments Inc. New | 3,852 | 50,465 | 68,373 |
| Becton, Dickinson | 28,300 | 1,646,453 | 1,751,063 |
| Bell Atlantic Corp. | 26,500 | 1,675,784 | 2,948,125 |
| Bellsouth Corp. | 85,450 | 2,591,138 | 4,945,419 |
| Beneficial Corp. | 4,300 | 269,778 | 210,700 |
| Bergen Brunswig Corp. | 40,000 | 1,026,120 | 975,000 |
| Bethlehem Steel | 14,300 | 293,878 | 264,550 |
| Black & Decker | 26,100 | 513,476 | 508,950 |
| Block (H & R) | 5,800 | 183,570 | 208,800 |
| Bob Evans Com. | 14,000 | 195,750 | 196,000 |
| Boeing Co. | 98,375 | 4,473,071 | 5,841,016 |
| Boise Cascade Corp. | 18,166 | 581,134 | 806,116 |
| Bolar Pharmaceutical Co. | 50,000 | 1,455,445 | 912,500 |
| Borden, Inc. | 67,000 | 1,788,275 | 2,303,125 |
| Bowater, Inc. | 15,500 | 569,538 | 428,188 |
| Bristol Myers Squibb Co. | 260,480 | 8,107,404 | 14,586,880 |
| Broad, Inc. Com. | 2,200 | 15,307 | 25,850 |
| Brown Forman | 3,600 | 226,919 | 317,700 |
| Browning & Ferris Industries | 249,000 | 6,538,329 | 9,648,750 |
| Brunswick Corp. | 9,800 | 138,163 | 138,425 |
| Brush Wellman, Inc. | 38,400 | 983,737 | 801,600 |
| Burlington Northern | 146,500 | 3,392,249 | 4,614,750 |
| CBS, Inc. | 3,100 | 383,322 | 582,800 |
| Cigna Corp. | 10,700 | 587,333 | 636,650 |
| CPC International, Inc. | 16,600 | 819,201 | 1,224,250 |
| CSX Corp. Com. | 5,700 | 135,233 | 204,488 |
| Campbell Soup Co. | 27,400 | 1,055,719 | 1,606,325 |
| Capital Cities/ABC, Inc. | 9,900 | 4,456,123 | 5,584,838 |
| Capital Holding Corp. | 4,000 | 101,400 | 208,000 |
| Carolina Power & Light | 5,200 | 239,808 | 241,150 |
| Caterpillar, Inc. | 20,700 | 827,538 | 1,198,013 |
| Centerior Energy Corp. | 42,200 | 729,664 | 870,375 |
| Centex Corp. | 27,000 | 1,064,257 | 833,625 |
| Central & Southwest Co. | 86,200 | 3,064,844 | 3,458,775 |
| Champton International | 6,800 | 180,865 | 217,600 |
| Charter One Financial | 20,000 | 229,125 | 355,000 |

DETAILED LISTING OF INVESTMENT PORTFOLIO (continued)

| | SHARES | COST | MARKET VALUE |
|-------------------------------|---------|-----------|-----------------|
| Chase Manhattan Corp. | 6,200 | 197,652 | 215,450 |
| Chemed Corp. | 16,000 | 567,768 | 568,000 |
| Chevron Corp. | 95,000 | 4,297,372 | 6,436,250 |
| Chrysler Corp. | 22,700 | 750,260 | 431,300 |
| Chubb Corp. | 12,250 | 1,012,490 | 1,166,813 |
| Cincinnati Financial | 3,150 | 204,250 | 250,425 |
| Cincinnati Microwave | 27,090 | 145,895 | 213,334 |
| Cincinnati Milacron | 15,000 | 286,200 | 262,500 |
| Circuit City Stores | 4,200 | 54,994 | 91,350 |
| Citicorp | 75,200 | 1,988,240 | 2,171,400 |
| Clevetrust Realty SBI | 30,000 | 215,000 | 127,500 |
| Clorox Co. | 5,800 | 101,428 | 243,600 |
| Coast Savings Financial, Inc. | 180,000 | 2,919,476 | 2,115,000 |
| Coastal Corp. | 4,500 | 158,850 | 223,313 |
| Coca Cola Co. | 101,200 | 4,397,587 | 7,817,700 |
| Colgate Palmolive Co. | 2,990 | 74,032 | 189,865 |
| Columbia Gas Systems | 3,100 | 153,106 | 161,200 |
| Comair Holdings | 10,000 | 109,250 | 133,750 |
| Comcast Class A | 7,900 | 112,080 | 132,325 |
| Comdisco, Inc. | 100,000 | 2,929,449 | 2,475,000 |
| Commercial Intertec Co. | 12,000 | 180,167 | 270,000 |
| Commonwealth Edison | 156,500 | 5,460,334 | 5,888,313 |
| Community Psych Center | 82,100 | 2,029,816 | 2,442,475 |
| Computer Assoc. Int'l. | 2,600 | 54,828 | 32,500 |
| Conagra Inc. | 9,900 | 105,518 | 282,150 |
| Consolidated Edison | 70,600 | 1,367,641 | 2,056,225 |
| Consolidated Freightway | 10,350 | 261,617 | 274,275 |
| Consolidated Natural Gas | 6,100 | 176,024 | 307,288 |
| Consolidated Stores | 50,000 | 414,455 | 193,750 |
| Contel Corp. | 29,400 | 523,450 | 1,003,275 |
| Control Data Corp. | 24,100 | 577,366 | 436,813 |
| Cooper Industries, Inc. | 108,000 | 3,446,223 | 4,320,000 |
| Cooper Tire & Rubber | 20,000 | 155,038 | 647,500 |
| Corning, Inc. | 43,700 | 1,728,828 | 1,879,100 |
| Corroon & Black Corp. | 6,600 | 231,766 | 238,425 |
| Dana Corp. | 12,000 | 400,123 | 415,500 |
| Dayton Hudson | 67,203 | 3,886,404 | 4,275,791 |
| Deere & Co. | 10,900 | 317,172 | 670,350 |
| Delta Airlines | 10,300 | 475,297 | 702,975 |
| Deluxe Corp. | 17,300 | 570,628 | 594,688 |
| Detroit Edison Co. | 6,100 | 102,023 | 154,788 |
| Diebold, Inc. | 10,600 | 433,471 | 408,100 |
| Dillard Dept. Stores A | 58,400 | 2,912,202 | 4,146,400 |
| Walt Disney Co. | 126,200 | 9,865,096 | 14,134,400 |
| Dominion Resources, Inc. | 5,400 | 186,885 | 256,500 |
| Donnelley R. R. & Sons | 3,800 | 104,215 | 194,750 |
| Dover Corp. | 19,700 | 576,799 | 709,200 |
| Dow Chemical Co. | 135,300 | 8,013,525 | 9,657,038 |
| Dow Chemical Co. RTS | 1,820 | 9,844 | 15,015 |
| Dow Jones & Co. | 6,500 | 221,525 | 216,125 |
| Dow Jones & Co. Class B | 2,050 | 57,807 | 68,163 |
| Dresser Industries Inc. | 22,900 | 466,802 | 1,027,638 |
| Dreyfus Corp. | 22,900 | 523,426 | 815,813 |

DETAILED LISTING OF INVESTMENT PORTFOLIO (continued)

| | SHARES | COST | MARKET VALUE |
|--------------------------------|---------|------------|-----------------|
| E.I. Dupont De Nemours | 90,300 | 7,296,171 | 11,106,900 |
| Duke Power Co. | 30,900 | 1,310,967 | 1,734,263 |
| Dun & Bradstreet | 28,565 | 1,299,565 | 1,313,990 |
| E. G. & G., Inc. | 2,700 | 105,773 | 91,800 |
| Essef Corp. | 25,000 | 300,000 | 212,500 |
| E Systems | 1,400 | 42,098 | 43,225 |
| Eagle Picher Industries | 15,000 | 419,015 | 138,750 |
| Eastern Enterprises | 6,500 | 154,700 | 226,688 |
| Eastman Kodak Co. | 55,300 | 1,921,579 | 2,274,213 |
| Eaton Corp. | 67,950 | 3,453,458 | 3,873,150 |
| Echlin, Inc. | 8,200 | 196,185 | 128,125 |
| A. G. Edwards, Inc. | 9,790 | 244,506 | 222,723 |
| Emerson Electric | 27,700 | 681,676 | 1,080,300 |
| Englehard Corp. | 11,550 | 235,984 | 222,338 |
| Enron Corp. | 16,300 | 762,395 | 939,288 |
| Enserch Corp. | 23,100 | 578,361 | 615,038 |
| Entergy Corp. Com. | 11,300 | 125,229 | 262,725 |
| Equifax, Inc. | 140,000 | 2,549,396 | 2,240,000 |
| Equitable Resources | 12,900 | 415,093 | 535,350 |
| Ethyl Corp. | 87,100 | 1,979,964 | 2,395,250 |
| Exxon Corp. | 274,900 | 9,278,735 | 13,745,000 |
| FPL Group, Inc. | 4,500 | 109,013 | 163,688 |
| Fabri Centers of America | 20,000 | 229,930 | 275,000 |
| Fed. Home Loan Mtg. Ptc. Pfd. | 72,000 | 4,679,149 | 4,833,000 |
| Federal National Mortg. Assoc. | 180,600 | 4,853,285 | 6,117,825 |
| Ferro Corp. | 22,500 | 256,014 | 579,375 |
| First Fid Bancorp New Com. | 3,800 | 153,140 | 88,350 |
| First Interstate Bancorp | 43,100 | 2,681,340 | 1,804,813 |
| First Union Corp. | 7,400 | 163,170 | 152,625 |
| First Union Real Estate | 45,000 | 856,196 | 736,875 |
| Fleet Norstar Fin. Group | 6,000 | 156,300 | 156,750 |
| Fleetwood Enterprises | 32,300 | 866,228 | 775,200 |
| Fleming Companies, Inc. | 6,000 | 226,050 | 180,750 |
| Flightsafety International | 80,000 | 2,965,590 | 3,830,000 |
| Florida Progress Corp. | 13,400 | 377,618 | 536,000 |
| Fluor Corp. | 11,000 | 198,449 | 404,250 |
| Food Lion Class B | 75,000 | 911,298 | 843,750 |
| Ford Motor Co. | 245,700 | 10,631,364 | 10,718,663 |
| Freeport McMoran | 23,925 | 592,866 | 765,600 |
| GTE Corp. Com. | 154,500 | 6,808,115 | 10,815,000 |
| Gannett Co. | 30,300 | 1,075,995 | 1,318,050 |
| Gap (The), Inc. | 88,100 | 3,951,685 | 4,526,138 |
| Gencorp | 33,074 | 616,375 | 396,888 |
| General Cinema Corp. | 6,400 | 98,720 | 164,800 |
| General Dynamics | 1,800 | 103,590 | 80,775 |
| General Electric | 428,600 | 18,829,324 | 27,644,700 |
| General Instrument | 73,674 | 2,713,980 | 2,928,542 |
| General Mills, Inc. | 39,400 | 2,142,864 | 2,851,575 |
| General Motors Corp. | 84,800 | 2,972,191 | 3,582,800 |
| General RE Corp. | 188,500 | 11,079,082 | 16,423,063 |
| General Signal Corp. | 2,300 | 99,498 | 110,975 |
| Genuine Parts Co. | 24,100 | 915,559 | 1,012,200 |
| Georgia Pacific | 39,400 | 1,769,397 | 1,910,900 |

DETAILED LISTING OF INVESTMENT PORTFOLIO (continued)

| | SHARES | COST | MARKET VALUE |
|------------------------------|---------|------------|-----------------|
| Gerber Products | 84,800 | 2,570,113 | 4,028,000 |
| Giant Food, Inc. | 5,800 | 168,855 | 165,300 |
| Gibson Greetings | 16,000 | 268,925 | 414,000 |
| Gillette Co. | 96,744 | 3,805,943 | 4,752,549 |
| Golden West Financial | 10,000 | 231,500 | 268,750 |
| Goodrich (B.F.) | 12,000 | 489,434 | 498,000 |
| Goodyear Tire & Rubber | 7,372 | 205,552 | 320,682 |
| W. R. Grace & Co. | 28,100 | 586,232 | 920,275 |
| Grainger (W.W.), Inc. | 5,300 | 168,757 | 341,850 |
| Great Atlantic & Pacific Tea | 41,300 | 2,524,410 | 2,431,538 |
| Great Lakes Chemical | 46,000 | 2,023,251 | 2,173,500 |
| Great Northern Nekoosa | 21,200 | 745,260 | 1,303,800 |
| Great Western Financial | 7,500 | 123,150 | 131,250 |
| Halliburton Co. | 26,100 | 794,656 | 1,115,775 |
| Handleman Co. | 118,850 | 2,295,382 | 2,495,850 |
| Hanna (M.A.) Co. | 19,500 | 281,570 | 526,500 |
| Harris Corp. | 41,600 | 1,482,602 | 1,378,000 |
| Hasbro, Inc. | 95,500 | 2,115,360 | 1,790,625 |
| Health Care REIT | 16,000 | 240,560 | 234,000 |
| Hecla Mining Co. | 5,500 | 98,588 | 77,000 |
| Heinz H J | 118,800 | 2,910,648 | 4,158,000 |
| Helmrich & Payne, Inc. | 11,900 | 290,854 | 409,063 |
| Hercules, Inc. | 22,100 | 1,133,375 | 861,900 |
| Hershey Foods Corp. | 7,500 | 101,500 | 269,063 |
| Hewlett Packard | 130,200 | 6,297,905 | 6,151,950 |
| Hillenbrand, Ind. Inc. | 60,000 | 2,416,175 | 2,625,000 |
| Hilton Hotels Corp. | 28,200 | 2,638,405 | 2,326,500 |
| Homestake Mining Co. | 29,500 | 380,719 | 564,188 |
| Honeywell, Inc. | 42,500 | 3,515,893 | 3,686,875 |
| Household International | 3,300 | 150,660 | 171,188 |
| Houston Industries | 38,000 | 1,140,898 | 1,330,000 |
| Huffy Corp. | 30,000 | 253,220 | 570,000 |
| Humana, Inc. | 94,700 | 3,256,195 | 4,166,800 |
| Huntington Bancshares | 6,000 | 114,000 | 120,000 |
| ITT Corp. | 35,800 | 1,752,074 | 2,107,725 |
| Illinois Tool Works | 93,000 | 3,814,742 | 4,173,375 |
| Ingersoll Rand | 97,500 | 3,224,045 | 4,899,375 |
| Inland Steel Industries | 4,600 | 201,480 | 155,250 |
| Interco, Inc. | 6,100 | 9,569 | 3,428 |
| Interlake Corp. | 4,700 | 57,413 | 64,038 |
| Intl. Business Machines | 137,200 | 16,874,100 | 12,913,950 |
| Intl. Flavors & Fragrances | 6,700 | 210,633 | 453,925 |
| International Paper Co. | 116,000 | 5,868,670 | 6,554,000 |
| Interpublic Group Co. | 136,300 | 3,466,711 | 4,446,788 |
| Invacare Corp. | 30,000 | 216,775 | 330,000 |
| James River Corp. of VA | 154,750 | 4,039,455 | 4,391,031 |
| Jefferson Pilot Corp. | 3,750 | 104,625 | 159,375 |
| Johnson & Johnson | 210,700 | 7,268,228 | 12,510,313 |
| Johnson Controls, Inc., | 4,300 | 154,840 | 138,675 |
| K Mart | 120,050 | 3,968,636 | 4,201,750 |
| Kaufman & Broad Home Inc. | 1,613 | 17,524 | 21,977 |
| Keithley Instruments | 25,750 | 319,500 | 312,219 |
| Kellogg Co. | 27,500 | 1,277,194 | 1,859,688 |

DETAILED LISTING OF INVESTMENT PORTFOLIO (continued)

| | SHARES | COST | MARKET VALUE |
|--------------------------------|---------|-----------|--------------|
| Kellwood Co. | 147,150 | 4,141,267 | 3,274,088 |
| Kerr McGee Corp. | 15,900 | 532,127 | 806,925 |
| Keystone International | 28,256 | 376,962 | 600,440 |
| Kimberly Clark Corp. | 8,800 | 460,140 | 646,800 |
| Knight Ridder Inc. | 85,700 | 4,493,642 | 5,002,738 |
| Kroger Co. | 11,200 | 37,175 | 165,200 |
| Krug International Corp. | 20,000 | 125,780 | 72,500 |
| LDI Corp. | 16,800 | 245,500 | 260,400 |
| Lamson & Sessions | 15,000 | 151,775 | 142,500 |
| Lancaster Colony Corp. | 30,800 | 495,195 | 770,000 |
| Lilly Eli & Co. | 83,700 | 4,049,272 | 5,733,450 |
| Limited, Inc. | 168,700 | 5,234,083 | 5,904,500 |
| Lincoln National Corp. | 86,500 | 4,000,590 | 5,265,688 |
| Litton Industries, Inc. | 3,696 | 322,864 | 285,516 |
| Liz Claiborne | 105,500 | 2,527,530 | 2,532,000 |
| Lockheed Corp. | 31,200 | 1,542,034 | 1,216,800 |
| Loctite Corp. | 25,800 | 1,195,128 | 1,206,150 |
| Loews Corp. | 112,000 | 9,012,269 | 13,916,000 |
| Long Island Lighting | 26,800 | 236,243 | 542,700 |
| Lotus Dev. Corp. | 15,000 | 347,598 | 465,000 |
| Louisiana Land & Exploration | 4,800 | 157,440 | 212,400 |
| Lubrizol Corp. | 12,000 | 350,263 | 450,000 |
| M/A Com., Inc. | 16,500 | 281,970 | 78,375 |
| MCA, Inc. | 4,400 | 177,020 | 273,900 |
| Manufacturers Hanover | 21,900 | 682,543 | 725,438 |
| Mapco, Inc. | 14,000 | 385,106 | 560,000 |
| Marion Merrell Dow, Inc. | 1,820 | 32,789 | 49,140 |
| Marriott Corp. | 26,100 | 856,419 | 871,088 |
| Marsh & McLennan | 81,200 | 4,501,363 | 6,333,600 |
| Martin Marietta Corp. | 17,250 | 635,964 | 765,469 |
| Masco Corp. | 12,600 | 274,436 | 307,125 |
| Mattel, Inc. | 23,100 | 334,193 | 456,225 |
| Maxus Energy Corp. | 19,158 | 175,148 | 210,738 |
| May Department Stores | 132,200 | 5,109,463 | 6,329,075 |
| Maytag Co. | 31,000 | 712,203 | 604,500 |
| McCormick & Co. Inc. Com. Vtg. | 18,000 | 779,198 | 704,250 |
| McDonald & Co. Investments | 50,000 | 525,000 | 306,250 |
| McDonalds Corp. | 341,150 | 8,045,336 | 11,769,675 |
| McDonnell Douglas Corp. | 1,500 | 105,525 | 91,875 |
| McGraw Hill & Co. | 19,100 | 1,047,325 | 1,083,925 |
| McKesson Corp. | 4,300 | 152,790 | 153,188 |
| Mead Corp. | 34,100 | 871,401 | 1,253,175 |
| Measurex Corp. | 14,600 | 445,140 | 366,825 |
| Medex, Inc. | 15,000 | 131,875 | 127,500 |
| Medtronic, Inc. | 37,400 | 2,216,285 | 2,454,375 |
| Mellon Bank Corp. Com. | 73,300 | 2,270,986 | 2,098,213 |
| Melville Corp. | 126,800 | 3,573,920 | 5,658,450 |
| Mercantile Stores | 3,250 | 129,540 | 127,156 |
| Merck & Co. | 226,400 | 8,388,271 | 17,546,000 |
| Merrill Lynch & Co. | 7,500 | 227,473 | 196,875 |
| Minnesota Mining & Mfg. | 83,800 | 5,106,711 | 6,672,575 |
| Mr. Gasket Co. | 55,000 | 407,518 | 130,625 |
| Mobil Corp. | 127,600 | 5,004,334 | 7,990,950 |

DETAILED LISTING OF INVESTMENT PORTFOLIO (continued)

| | SHARES | COST | MARKET VALUE |
|-------------------------------|---------|-----------|-----------------|
| Monsanto Co. | 23,100 | 1,893,272 | 2,665,163 |
| Morgan (J.P.) & Co. | 45,900 | 1,586,157 | 2,019,600 |
| Mortgage & Realty Trust | 600 | 11,993 | 8,325 |
| Morton Intl. Inc. Ind. Com. | 6,400 | 257,540 | 229,600 |
| Motorola, Inc. | 118,200 | 6,395,125 | 6,899,925 |
| Multicolor Corp. | 13,000 | 111,250 | 162,500 |
| Murphy Oil | 75,000 | 2,982,011 | 3,103,125 |
| NCNB Corp. | 63,000 | 3,144,710 | 2,913,750 |
| NCR Corp. | 26,900 | 1,061,649 | 1,583,738 |
| NBD Bancorp, Inc. | 6,150 | 153,705 | 196,800 |
| Nacco Industries, Inc. | 3,000 | 98,000 | 166,500 |
| National City Corp. | 100,500 | 3,620,126 | 3,932,063 |
| National Ed. Corp. | 3,753 | 32,004 | 25,802 |
| National Medical Enter. | 8,500 | 272,912 | 329,375 |
| National Services, Ind., Inc. | 9,100 | 233,497 | 253,663 |
| New York Times (A) | 6,000 | 157,062 | 159,000 |
| Newell Co. | 11,400 | 226,290 | 252,225 |
| Newmont Mining Co. | 200 | 2,813 | 9,500 |
| Niagra Mohawk Power Co. | 142,600 | 1,802,672 | 2,049,875 |
| Nicor, Inc. | 1,600 | 67,880 | 73,600 |
| Nike, Inc. | 3,900 | 239,850 | 207,675 |
| Nordstrom, Inc. | 5,600 | 124,040 | 208,600 |
| Norfolk Southern Corp. | 46,400 | 1,328,293 | 1,879,200 |
| Northern States Power | 3,300 | 130,515 | 131,175 |
| Northrop Corp. | 9,300 | 339,431 | 162,750 |
| Norton Co. | 4,300 | 229,728 | 253,163 |
| Norwest Corp. | 9,600 | 158,640 | 216,000 |
| Nucor Corp. | 20,200 | 763,636 | 1,217,050 |
| Nynex Corp. | 74,600 | 5,044,343 | 6,816,575 |
| OHM Corp. | 10,000 | 121,575 | 107,500 |
| Occidental Petroleum Corp. | 19,834 | 575,382 | 587,582 |
| Ogden Corp. | 137,500 | 4,008,302 | 4,382,813 |
| Ogden Projects Inc. Com. | 3,626 | 91,443 | 92,010 |
| Oglebay Norton | 8,000 | 215,750 | 284,000 |
| Ohio Edison Co. | 36,900 | 762,840 | 876,375 |
| Omnicare, Inc. | 55,000 | 468,945 | 467,500 |
| Oracle Systems | 10,200 | 242,250 | 238,425 |
| Oryx Energy Co. | 18,600 | 494,265 | 825,375 |
| Outboard Marine | 5,100 | 226,568 | 132,600 |
| PHM Corp. | 10,000 | 167,662 | 111,250 |
| PNC Financial Corp. | 3,500 | 157,100 | 145,688 |
| PPG Industries | 88,700 | 3,559,810 | 3,525,825 |
| Paccar, Inc. | 5,000 | 101,250 | 213,750 |
| Pacific Enterprises | 5,200 | 224,280 | 262,600 |
| Pacific Gas & Electric | 16,700 | 302,360 | 367,400 |
| Pacific Telesis | 80,700 | 1,844,898 | 4,065,263 |
| Pacificorp | 5,300 | 188,102 | 242,475 |
| Pall Corp. | 67,200 | 2,335,604 | 2,301,600 |
| Panhandle Eastern | 12,418 | 255,134 | 370,988 |
| Paramount Communications Inc. | 46,300 | 1,272,425 | 2,338,150 |
| Park-Ohio Industries | 13,000 | 98,350 | 76,375 |
| Parker Hannifin | 34,300 | 961,348 | 866,075 |
| Penney (J.C.) | 68,100 | 4,040,792 | 4,954,275 |

DETAILED LISTING OF INVESTMENT PORTFOLIO (continued)

| | SHARES | COST | MARKET VALUE |
|-----------------------------|---------|-----------|-----------------|
| Pennzoil Co. | 8,300 | 433,753 | 735,588 |
| Pepsico, Inc. | 133,200 | 5,215,743 | 8,524,800 |
| Perkin Elmer Corp. | 9,300 | 237,118 | 210,413 |
| Petrie Stores Corp. | 60,000 | 1,848,006 | 1,282,500 |
| Pfizer, Inc. | 82,300 | 4,405,388 | 5,719,850 |
| Philadelphia Electric | 6,500 | 100,588 | 150,313 |
| Philip Morris Cos., Inc. | 517,300 | 7,670,293 | 21,532,613 |
| Philips Industries | 41,300 | 765,425 | 965,388 |
| Phillips Petroleum Co. | 8,400 | 98,744 | 212,100 |
| Pioneer Standard Electric | 55,000 | 403,125 | 440,000 |
| Pitney Bowes | 6,900 | 131,445 | 327,750 |
| Polaroid Corp. | 18,890 | 529,412 | 864,218 |
| Premark Intl. | 5,800 | 230,840 | 178,350 |
| Premier Ind. Corp. No Par | 20,000 | 440,782 | 755,000 |
| Prime Motor Inns | 9,300 | 287,017 | 220,875 |
| Primerica Corp. Del | 14,600 | 369,704 | 416,100 |
| Proctor & Gamble | 138,800 | 6,143,456 | 9,750,700 |
| Progressive Corp. Ohio | 138,000 | 4,364,970 | 5,313,000 |
| Public Service Enterprise | 6,900 | 134,435 | 201,825 |
| Quaker Oats Co. | 4,600 | 100,568 | 265,650 |
| Quantum Chemical Corp. | 10,726 | 227,449 | 319,099 |
| Rax Restaurants | 19,000 | 117,500 | 38,000 |
| RPM, Inc. | 38,000 | 448,250 | 722,000 |
| Ralston Purina | 3,100 | 131,285 | 257,300 |
| Raytheon Co. | 3,200 | 143,632 | 222,400 |
| Reynolds & Reynolds Class A | 22,000 | 620,350 | 530,750 |
| Reynolds Metals Co. | 5,000 | 82,438 | 268,125 |
| Rite Aid Corp. | 118,300 | 3,707,029 | 3,948,263 |
| Roadway Services | 29,900 | 1,076,988 | 1,263,275 |
| Robbins & Myers, Inc. | 10,000 | 107,830 | 162,500 |
| Rockwell International | 51,400 | 895,633 | 1,220,750 |
| Rohm & Haas | 4,900 | 97,200 | 170,275 |
| Rowan Cos., Inc. | 56,900 | 483,543 | 640,125 |
| Rubbermaid, Inc. | 106,400 | 3,172,778 | 3,910,200 |
| Ryder Systems | 14,200 | 399,834 | 289,325 |
| Ryland Group | 2,800 | 55,790 | 52,850 |
| SCE Corp. | 46,800 | 1,306,886 | 1,842,750 |
| Safeco Corp. | 33,600 | 1,111,216 | 1,297,800 |
| Safety-Kleen Corp. | 38,000 | 1,195,700 | 1,159,000 |
| St. Paul Companies | 30,900 | 1,339,796 | 1,826,963 |
| Salomon, Inc. | 155,600 | 3,957,081 | 3,637,150 |
| Santa Fe Southern Pacific | 8,500 | 156,613 | 157,250 |
| Sara Lee Corp. Com. | 232,600 | 4,757,844 | 7,792,100 |
| Schering Plough Corp. | 41,800 | 2,897,081 | 3,573,900 |
| Scott Paper Co. | 8,400 | 235,825 | 404,250 |
| E. W. Scripps Co. | 5,000 | 80,000 | 120,000 |
| Sears Roebuck & Co. | 46,500 | 1,742,970 | 1,772,813 |
| Security Pacific Corp. | 27,700 | 1,066,785 | 1,125,313 |
| Service Corp. Intl. | 11,700 | 241,652 | 182,813 |
| Shawmut National Corp. | 8,300 | 233,853 | 168,075 |
| Sherwin Williams | 56,800 | 1,650,419 | 1,952,500 |
| Smithkline Beecham PLC | 100,000 | 4,426,221 | 4,312,500 |
| J. M. Smucker Co. | 5,000 | 227,250 | 364,375 |

DETAILED LISTING OF INVESTMENT PORTFOLIO (continued)

| | SHARES | COST | MARKET VALUE |
|---------------------------------|---------|-----------|--------------|
| Snap On Tools | 5,400 | 104,423 | 175,500 |
| Society Corp. | 10,000 | 287,750 | 341,250 |
| Sonat, Inc. | 7,900 | 279,858 | 385,125 |
| Southern Co. | 53,600 | 1,146,863 | 1,561,100 |
| Southland Corp. Pfd. Exchg. 15% | 1 | 5 | 2 |
| Southwest Airlines | 13,600 | 308,488 | 326,400 |
| Southwestern Bell Corp. | 131,600 | 5,491,409 | 8,405,950 |
| Sovran Financial Corp. | 4,600 | 157,205 | 174,800 |
| Square D | 9,600 | 388,478 | 512,400 |
| Standard Products | 15,000 | 431,575 | 331,875 |
| Stanley Works | 7,500 | 214,125 | 292,500 |
| State Street Boston | 43,000 | 1,650,253 | 1,687,750 |
| Stride Rite | 175,000 | 3,167,997 | 5,053,125 |
| Sun, Inc. | 31,900 | 1,146,791 | 1,303,913 |
| Sundstrand Corp. | 71,600 | 4,776,888 | 4,645,050 |
| Sun Trust Banks, Inc. | 6,600 | 153,780 | 150,975 |
| Super Value Stores, Inc. | 47,800 | 1,162,416 | 1,386,200 |
| Syntex Corp. | 4,800 | 179,520 | 240,000 |
| Sysco Corp. | 134,800 | 2,409,024 | 4,263,050 |
| TJX Cos. Inc. New Com. | 223,600 | 4,012,402 | 3,437,850 |
| TRW, Inc. | 117,800 | 5,419,629 | 5,816,375 |
| Tandy Corp. | 125,000 | 5,262,006 | 4,890,625 |
| Tektronix, Inc. | 3,400 | 99,620 | 60,775 |
| Teledyne, Inc. | 15,000 | 591,050 | 596,250 |
| Teledyne, Inc. | 12,000 | 4,085,280 | 4,119,000 |
| Telxon Corp. | 17,000 | 205,458 | 136,000 |
| Temple Inland, Inc. | 3,800 | 225,815 | 264,100 |
| Tenneco, Inc. | 75,600 | 4,527,194 | 4,706,100 |
| Texaco, Inc. | 41,000 | 1,472,407 | 2,413,875 |
| Texas Instruments | 18,600 | 565,408 | 667,275 |
| Texas Utilities Co. | 186,800 | 6,066,933 | 6,561,350 |
| Textron, Inc. | 27,200 | 724,786 | 669,800 |
| Thor Industries | 20,000 | 321,345 | 205,000 |
| Time Warner, Inc. Com. | 45,700 | 4,791,765 | 5,512,563 |
| Times Mirror Co. | 14,150 | 398,809 | 505,863 |
| Timken Co. | 11,000 | 288,903 | 305,250 |
| Todd Shipyards Corp. | 400 | 12,020 | 1,600 |
| Torchmark Corp. | 46,800 | 2,178,926 | 2,609,100 |
| Transamerica Corp. | 3,300 | 95,260 | 146,025 |
| Transco Energy Co. | 16,100 | 678,193 | 774,813 |
| Tranzonic Co. | 7,000 | 32,981 | 89,250 |
| Tranzonic Co. Class B | 3,500 | 16,064 | 44,625 |
| Travelers Corp. | 3,200 | 143,520 | 118,000 |
| Tredegar Industries Inc. | 6,390 | 79,608 | 101,441 |
| Tribune Co. New | 4,200 | 120,068 | 198,975 |
| Trinova Corp. | 29,700 | 828,877 | 727,650 |
| Trustcorp, Inc. | 5,000 | 108,750 | 125,625 |
| Tyco Laboratories | 64,600 | 2,961,925 | 3,254,225 |
| UAL Corp. | 1,400 | 160,545 | 239,750 |
| USX Corp. | 155,133 | 4,951,511 | 5,546,005 |
| UST, Inc. | 69,600 | 1,452,396 | 2,131,500 |
| USG Corp. Com. Par \$.10 | 18,200 | 42,943 | 81,900 |
| Union Camp Corp. | 4,350 | 100,340 | 160,406 |

DETAILED LISTING OF INVESTMENT PORTFOLIO (continued)

| | SHARES | COST | MARKET VALUE |
|--------------------------------|--------------------------|-----------------------------|-------------------------------|
| Union Carbide Corp. | 8,438 | 210,911 | 196,184 |
| Union Pacific Corp. | 13,480 | 778,394 | 1,032,905 |
| Unisys Corp. | 45,000 | 972,666 | 663,750 |
| U.S. Bancorp | 45,000 | 1,378,625 | 1,406,250 |
| U.S. Air Group | 22,200 | 961,663 | 740,925 |
| U.S. Shoe | 17,000 | 321,200 | 342,125 |
| U.S. West, Inc. | 18,900 | 846,490 | 1,514,363 |
| United Technologies | 89,900 | 4,424,836 | 4,877,075 |
| United Telecommunications Inc. | 296,200 | 7,404,748 | 11,255,600 |
| Unocal Corp. | 163,400 | 4,533,507 | 4,861,150 |
| Upjohn Co. | 175,600 | 4,964,312 | 6,760,600 |
| U.S. Life Corp. | 5,300 | 230,025 | 238,500 |
| V F Corp | 32,698 | 758,476 | 1,042,249 |
| Van Dorn Co. | 60,800 | 1,029,940 | 896,800 |
| Wal-Mart Stores | 204,700 | 5,443,965 | 9,185,913 |
| Walgreen Co. | 92,400 | 3,556,050 | 4,319,700 |
| Wang Labs (B) | 43,500 | 468,804 | 222,938 |
| Warner Communications | 13,856 | 663,182 | 883,320 |
| Warner Lambert Co. | 57,000 | 4,570,471 | 6,583,500 |
| Washington Post B | 5,000 | 1,096,786 | 1,407,500 |
| Waste Management, Inc. | 293,000 | 6,152,950 | 10,255,000 |
| Wells Fargo Corp. | 15,700 | 978,310 | 1,163,763 |
| Wendy's International | 60,500 | 794,624 | 279,813 |
| Westinghouse Electric | 29,000 | 961,786 | 2,146,000 |
| Westvaco Corp. | 145,100 | 4,354,541 | 4,389,275 |
| Weyerhaeuser Co. | 58,100 | 1,877,828 | 1,605,013 |
| Whirlpool Corp. | 4,400 | 106,722 | 145,200 |
| Whitman Corp. Com. | 6,200 | 93,993 | 178,250 |
| Whittaker Corp. Com. \$.01 | 2,600 | 14,182 | 20,150 |
| Winn Dixie Stores, Inc. | 2,900 | 102,515 | 188,500 |
| Witco Corp. | 8,100 | 241,897 | 311,850 |
| Woolworth Corp. Com. | 54,800 | 2,859,582 | 3,500,350 |
| Worthington Industries | 41,600 | 765,880 | 956,800 |
| Wrigley, Wm. Jr. | 21,600 | 462,343 | 1,158,300 |
| Xerox Corp. | 9,425 | 568,351 | 539,581 |
| Xidex Corp. Warrants | 14,482 | 56,188 | 188,266 |
| Yellow Freight Sys. Inc. Del. | 11,200 | 344,400 | 299,600 |
| Zenith Radio | 800 | 16,640 | 10,300 |
| Total | <u><u>23,989,511</u></u> | <u><u>\$821,890,455</u></u> | <u><u>\$1,044,239,845</u></u> |

DETAILED LISTING OF INVESTMENT PORTFOLIO (continued)

COMMERCIAL PAPER

| SECURITY NAME | MATURITY | BOOK VALUE | MARKET VALUE |
|--------------------------|----------|-------------------------|-------------------------|
| Bear Stearns & Co. | 01/04/90 | \$ 2,498,134.00 | 2,498,134.00 |
| Bear Stearns & Co. | 01/04/90 | 5,595,831.35 | 5,595,831.35 |
| Brunswick Corp. | 01/08/90 | 5,988,608.28 | 5,988,608.28 |
| Diamond Shamrock R & M | 01/16/90 | 7,710,607.97 | 7,710,607.97 |
| Diamond Shamrock R & M | 01/03/90 | 10,894,490.49 | 10,894,490.49 |
| Diamond Shamrock R & M | 01/10/90 | 3,392,219.72 | 3,392,219.72 |
| Ford Motor Credit | 01/03/90 | 5,497,226.03 | 5,497,226.03 |
| Goldman Sachs & Co. | 01/02/90 | 9,997,412.22 | 9,997,412.22 |
| GTE Corp. | 01/05/90 | 9,989,910.47 | 9,989,910.47 |
| Hewlett Packard | 01/02/90 | 9,997,472.67 | 9,997,472.67 |
| John Deere & Co. | 01/17/90 | 4,979,747.41 | 4,979,747.41 |
| Macy's Real Estate Cap. | 01/12/90 | 2,692,806.08 | 2,692,806.08 |
| Marriott Corp. | 01/05/90 | 4,195,324.90 | 4,195,324.90 |
| Marriott Corp. | 01/19/90 | 2,986,113.11 | 2,986,113.11 |
| McDonnell Douglas Corp. | 01/05/90 | 2,297,744.93 | 2,297,744.93 |
| McDonnell Douglas Corp. | 01/03/90 | 4,997,514.07 | 4,997,514.07 |
| Merrill Lynch & Co. | 01/08/90 | 4,991,601.38 | 4,991,601.38 |
| Merrill Lynch & Co. | 01/09/90 | 6,347,763.64 | 6,347,763.64 |
| Phillip Morris Cr. Corp. | 01/12/90 | 3,989,204.96 | 3,989,204.96 |
| Shearson Lehman Hutton | 01/02/90 | 7,997,942.33 | 7,997,942.33 |
| Shearson Lehman Hutton | 01/04/90 | 9,992,607.42 | 9,992,607.42 |
| U.S. Leasing | 01/05/90 | 3,731,365.48 | 3,731,365.48 |
| | | <u>\$130,761,648.91</u> | <u>\$130,761,648.91</u> |
| Total | | | |

DETAILED LISTING OF INVESTMENT PORTFOLIO (continued)

VENTURE CAPITAL

| NAME | COST | MARKET VALUE |
|---------------------------|----------------------|----------------------|
| Cardinal Development Cap. | \$ 2,910,193 | \$ 2,910,193 |
| Primus Capital Fund | 1,227,835 | 1,227,835 |
| Primus Capital Fund II | <u>7,000,000</u> | <u>7,000,000</u> |
| Total | <u>\$ 11,138,028</u> | <u>\$ 11,138,028</u> |

REAL ESTATE

| PROPERTY | BOOK VALUE | MARKET VALUE |
|-----------------------------|----------------------|----------------------|
| Maricopa Business Ctr. | \$ 5,308,791 | \$ 7,450,000 |
| Northwest Sq. Shopping | 9,945,986 | 13,300,000 |
| Century Commerce Ctr. | 3,795,432 | 5,200,000 |
| Cedarbrook Business Pk. | 7,663,967 | 8,900,000 |
| Park Place Office Bldg. | 9,378,393 | 8,000,000 |
| Laurel Square Shopping Ctr. | 5,230,404 | 5,300,000 |
| Fullerton Industrial | 9,205,064 | 14,100,000 |
| Tri-view/Tri-County | 10,408,915 | 12,600,000 |
| Westmont Industrial | 16,076,735 | 17,100,000 |
| Executive Ctr. | 5,731,896 | 5,400,000 |
| Cablevision Building | 9,698,234 | 10,850,000 |
| Mill River | 5,524,986 | 6,300,000 |
| Sunrise Plaza | 23,426,856 | 25,000,000 |
| Torrence Business Park | 19,621,107 | 19,899,703 |
| Town Street Building | 1,582,050 | 1,582,050 |
| Schroder Real Estate Fund A | 12,000,000 | 12,514,201 |
| Advent Realty Ltd. Ptrshp. | 8,334,000 | 8,837,938 |
| Copley Instit. Inv. Fund II | 4,500,000 | 4,833,192 |
| MIG Residential Grp. Trust | <u>17,401,958</u> | <u>17,833,705</u> |
| Total | <u>\$184,834,774</u> | <u>\$205,000,789</u> |

MORTGAGE NOTES RECEIVABLE

| | BOOK VALUE | MARKET VALUE |
|----------------|----------------------|----------------------|
| Village Square | <u>\$ 12,708,484</u> | <u>\$ 12,708,484</u> |

See accompanying independent auditors' report.

AUDITOR OF STATE'S LETTER



THOMAS E. FERGUSON

AUDITOR OF STATE
COLUMBUS, OHIO 43266-0040
(614) 466-4514

Members of the Board
The Police and Firemen's Disability
and Pension Fund of Ohio

We have reviewed the report of examination of The Police and Firemen's Disability and Pension Fund of Ohio as of December 31, 1989 and 1988 prepared by KPMG Peat Marwick, Certified Public Accountants. Based upon this review, we have accepted this report in lieu of the examination required by Section 117.10 of the Revised Code. The Auditor of State has not examined the accompanying financial statements and, accordingly, is unable to express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria as reflected by the Ohio Constitution; the Revised Code; policies, procedures and guidelines of the Auditor of State; and local resolutions/ordinances.

A handwritten signature in cursive script that reads "Thomas E. Ferguson".

THOMAS E. FERGUSON
Auditor of State

June 26, 1990

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ACTUARIAL SECTION

Actuary's Certification Letter

Summary of Methods and Assumptions

ACTUARY'S CERTIFICATION LETTER

THE *Wyatt* COMPANY

ACTUARIAL SERVICES
COMPENSATION PROGRAMS
ADMINISTRATIVE SYSTEMS
INTERNATIONAL SERVICES
ORGANIZATION SURVEYS

1400 OHIO SAVINGS PLAZA
CLEVELAND, OHIO 44114
(216) 696-6250

EMPLOYEE BENEFITS
EMPLOYEE COMMUNICATIONS
RISK MANAGEMENT
INSURANCE CONSULTING
HEALTH CARE CONSULTING

June 8, 1990

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

Gentlemen:

The Wyatt Company prepares an actuarial valuation of The Police and Firemen's Disability and Pension Fund of Ohio on an annual basis. The purpose of the valuation is to determine contribution rates (1) for disability and retirement benefits based on sound actuarial principles and (2) for retiree health care benefits based on a pay-as-you-go funding arrangement which can be used to assess the adequacy of contribution rates provided under Section 742.33 and 742.34 of the Revised Code. The most recent actuarial valuation was as of January 1, 1989.

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

The actuarial assumptions used in the valuation are recommended by the Actuary and approved by the Board. The decrement assumptions reflect actual Fund experience as measured in the quinquennial evaluations. The 1989 valuation uses new retirement decrement assumptions to reflect the availability of unreduced benefits at age 48, after 25 years of service. The interest rate and salary scale assumptions reflect both recent salary increases and Fund rates of return along with expected returns and salary increases over a long period in the future. The 1989 valuation is based on an 8.25% interest rate and a 5.75% salary scale, compared to 7.75% and 5.5%, respectively, for the 1988 valuation. The actuarial value of assets used in the valuation is the cost value as presented in the audited Financial Statements reduced by (1) the value of the employer accrued liability, (2) the member contributions which have yet to be refunded to members who terminated with less than 15 years of service and (3) Total Liabilities.

The benefit provisions valued in the valuation report reflect the status of the Revised Code as of the valuation date. Benefit changes during 1988 have been reflected in the 1989 valuation report.

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

Under current law, the actuarially determined contributions are to be compared to the statutory contributions to determine if the statutory contributions are adequate. The Ohio Retirement Study Commission is, by law, charged with this responsibility. This policy of determination, review, and, if necessary, legislative change in the rates should assure that the financial condition of the Fund remains sound.

Respectfully submitted,

THE WYATT COMPANY



Wayne E. Dydo
Fellow—Society of Actuaries

WED:dld

SUMMARY OF ACTUARIAL ASSUMPTIONS AND ACTUARIAL COST METHOD

A. INTEREST

A rate of 8¼% per annum, compounded annually.

B. RATES AND OTHER ASSUMPTIONS AMONG ACTIVE MEMBERS

1. Before Retirement:

(a) Mortality:

The 1951 Group Annuity Table as Projected to 1965 decreased by 33% for Firemen. The following rates at selected ages are illustrative:

| Age | Rate of Mortality | |
|-----|-------------------|---------|
| | Police | Firemen |
| 25 | .000706 | .000473 |
| 30 | .000923 | .000618 |
| 35 | .001280 | .000858 |
| 40 | .001863 | .001248 |
| 45 | .003336 | .002235 |
| 50 | .006032 | .004041 |
| 55 | .009724 | .006515 |

(b) Termination:

The following rates at selected ages are illustrative:

| Age | Rate of Termination | |
|-----|---------------------|---------|
| | Police | Firemen |
| 25 | .062525 | .023466 |
| 30 | .044587 | .016902 |
| 35 | .030568 | .011926 |
| 40 | .020499 | .007473 |
| 45 | .015876 | .005010 |
| 50 | .018613 | .004047 |

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 results of the 1982-1986 Quinquennial Evaluation. The following rates at selected ages are illustrative:

| Age | Rate of Disability | |
|-----|--------------------|---------|
| | Police | Firemen |
| 25 | .000904 | .000000 |
| 30 | .001823 | .001090 |
| 35 | .004097 | .002551 |
| 40 | .008880 | .006205 |
| 45 | .016900 | .013147 |
| 50 | .026091 | .024800 |
| 55 | .039748 | .040236 |

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

| | |
|-----------------------------|-----|
| On duty permanent and total | 40% |
| On duty partial | 57 |
| Off duty ordinary | 3 |

(d) Salary Increase Rate:

A rate of future salary increase of 5¾% per annum, compounded annually, has been employed. This rate can be divided into two component parts:

- (i) promotional increase of ¾ of 1% per year, and
- (ii) inflationary increase of 5% per year.

(e) Retirement:

The rates of retirement are based upon the experience during the periods 1982 through 1986. These rates are applicable after the member has satisfied the conditions for retirement. The rates are as follows:

| Age(s) | Police | Firemen |
|--------|--------|---------|
| 48-52 | .25 | .25 |
| 53-59 | .25 | .30 |
| 60-64 | .30 | .40 |
| 65 | 1.00 | 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 Table as Projected to 1965. The following probabilities at selected ages are illustrative:

| <u>Age</u> | <u>Probability of Mortality</u> |
|------------|---------------------------------|
| 55 | .009724 |
| 60 | .014492 |
| 65 | .022750 |
| 70 | .036619 |
| 75 | .060259 |
| 80 | .100853 |
| 85 | .155717 |
| 90 | .222882 |
| 95 | .297806 |

(b) On Disability Retirement Pension:

The mortality, after retirement of active members expected to go on disability retirement, is based on 70% of the 1956 Railroad Retirement Board Disability Annuitants Ultimate Mortality Table for ages 20 through 69, 80% for ages 70 through 85, 90% for ages 86 through 89 and 100% for ages 90 and above. The following probabilities at selected ages are illustrative:

| <u>Age</u> | <u>Probability of Mortality</u> |
|------------|---------------------------------|
| 35 | .01712 |
| 45 | .02126 |
| 55 | .02700 |
| 65 | .04209 |
| 75 | .07710 |
| 85 | .17018 |
| 95 | .39621 |

C. PROBABILITIES OF MORTALITY AMONG PENSIONERS

1. Nondisabled Pensioners:

The mortality among all nondisabled retirants is equal to the 1951 Group Annuity Table as Projected to 1965 probabilities. The following probabilities at selected ages are illustrative:

| <u>Age</u> | <u>Probability of Mortality</u> |
|------------|---------------------------------|
| 35 | .001280 |
| 40 | .001863 |
| 45 | .003336 |
| 50 | .006032 |
| 55 | .009724 |
| 60 | .014492 |
| 65 | .022750 |
| 70 | .036619 |
| 75 | .060259 |
| 80 | .100853 |
| 85 | .155717 |
| 90 | .222882 |
| 95 | .297806 |

2. Disabled Pensioners:

The mortality among all disabled retirants is based on 70% of the 1956 Railroad Retirement Board Disability Annuitants Ultimate Mortality Table for ages 20 through 69, 80% for ages 70 through 85, 90% for ages 86 through 89 and 100% for ages 90 and above. The following probabilities at selected ages are illustrative:

| <u>Age</u> | <u>Probability of Mortality</u> |
|------------|---------------------------------|
| 35 | .017122 |
| 40 | .019040 |
| 45 | .021259 |
| 50 | .023912 |
| 55 | .026999 |
| 60 | .032704 |
| 65 | .042091 |
| 70 | .061088 |
| 75 | .077104 |
| 80 | .101904 |
| 85 | .170181 |
| 90 | .280990 |
| 95 | .396210 |

D. PROBABILITIES AMONG SURVIVORS

1. Probabilities of Mortality Among Surviving Spouses:

The mortality among all present surviving spouses is based on the 1951 Group Annuity Table as Projected to 1965 rates, decreased by 15% at all ages. The following probabilities at selected ages are illustrative:

| <u>Age</u> | <u>Probability of Mortality</u> |
|------------|---------------------------------|
| 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 1982-1986 Quinquennial Evaluation. The following probabilities at selected ages are illustrative:

| <u>Age</u> | <u>Probability of Remarriage</u> |
|------------|----------------------------------|
| 35 | .066173 |
| 40 | .033604 |
| 45 | .018466 |
| 50 | .014738 |
| 55 | .009249 |
| 60 | .005891 |
| 65 | .005065 |
| 70 | .002751 |
| 75 | .001206 |

3. Dependent Children:

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

4. Dependent Parents:

Costs based upon allowance for mortality (the 1951 Group Annuity Table as projected to 1965), but no specific allowance for change in dependency status.

E. COLA ANNUITIES

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

F. EXPENSE LOADING

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

G. ACTUARIAL COST METHOD

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

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

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

H. CHANGES IN ACTUARIAL ASSUMPTIONS

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

(1) 1970 evaluation:

- The interest rate was increased from 4 1/4% to 4 5/8%

(2) 1972 evaluation:

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

• (3) **1974 evaluation:**

- The interest rate was further increased from 4¾% to 5%.
- Adjustments were made in six assumption areas as a result of the findings in our first quinquennial evaluation; those adjustments were as follows:
 - (a) the termination rates for active members were increased by approximately two-thirds of the former rates;
 - (b) the mortality rates for active members eliminated the original accidental loading of .001;
 - (c) the disability rates for active members were increased by 25% for ages above 40, grading down to a reduction of rates by 50% for ages below 30;
 - (d) the mortality rates for retirants were increased by 50% (instead of the former 10% load) of the standard tables rates before age 65, grading down to a decrease of 20% after age 85;
 - (e) the mortality rates for widows were reduced by 15% at all ages; and
 - (f) the remarriage rates for widows were increased by 300% at ages prior to 45, grading down to an increase of 50% after age 60.

(4) **1979 evaluation:**

- The interest rate was increased from 5% to 6%.
- The salary scale was increased from 3% to 4½%.
- The projected final salary was increased by 4% to allow for the sick pay allowance.
- The assumed retirement age was increased from 56 to 57 years for police and decreased from 58 to 57 years for firemen.
- Adjustments were made in four other assumption areas as a result of the findings in our second quinquennial evaluation; those adjustments were as follows:
 - (a) the termination rates for active members were decreased by approximately 20%;
 - (b) the disability rates for active members were increased by over 200%;
 - (c) the assumption that all disabilities are on-duty-permanent and total was changed to provide for 35% on-duty-partial and 5% off-duty-ordinary;
 - (d) the remarriage rates for widows were decreased by approximately 40%.

(5) **1980 evaluation:**

- The interest rate was further increased from 6% to 6¾%.

(6) **1983 evaluation:**

- The interest rate was increased from 6¾% to 7½%.

- The salary scale was increased from 4½% to 5½%.
- The terminal pay adjustment was increased from 4% to 13%.
- The assumed retirement age was decreased from 57 to 55 for both police and firemen.
- As a result of the third quinquennial evaluation, the mortality rates for active firemen were decreased by 33%.

(7) **1986 evaluation:**

- The interest rate was increased from 7½% to 7¾%.

(8) **1987 evaluation:**

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

(9) **1988 evaluation:**

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

(10) **1989 evaluation:**

- The interest rate increased from 7¾% to 8¼%.
- The salary scale increased from 5½% to 5¾%.
- New retirement rates have been developed for ages 48 through 52 to account for the effect of increased retirement of those ages.
- The assumption as to the occurrence of disability by type has been changed to reflect recent experience, which shows more partial and fewer permanent and total disabilities.

ACTIVE MEMBER VALUATION DATA 1980 TO 1989

| Actuarial Valuation as of Jan. 1 | Number of Active Members | | Average Annual Salary | | Percentage of Average Annual Salary Increases | | Annual Payroll (millions) |
|--|-----------------------------|---------|--------------------------|---------|---|---------|---------------------------------|
| | Police | Firemen | Police | Firemen | Police | Firemen | |
| 1980 | 12,485 | 9,478 | 18,320 | 18,120 | 8.0 | 8.0 | 400.5 |
| 1981 | 12,834 | 9,039 | 19,921 | 20,377 | 8.7 | 12.5 | 439.8 |
| 1982 | 12,955 | 9,201 | 21,448 | 21,468 | 7.7 | 5.4 | 475.4 |
| 1983 | 12,834 | 9,172 | 23,143 | 23,324 | 7.9 | 8.6 | 510.9 |
| 1984 | 12,796 | 9,040 | 24,273 | 24,442 | 4.9 | 4.8 | 531.6 |
| 1985 | 12,656 | 9,008 | 25,290 | 25,421 | 4.2 | 4.0 | 549.1 |
| 1986 | 12,614 | 9,226 | 26,987 | 26,973 | 6.7 | 6.1 | 589.3 |
| 1987 | 12,652 | 9,231 | 28,443 | 28,418 | 5.4 | 5.4 | 622.2 |
| 1988 | 12,862 | 9,292 | 29,391 | 29,424 | 3.3 | 3.5 | 651.4 |
| 1989 | 12,993 | 9,374 | 30,853 | 31,060 | 5.0 | 5.6 | 692.0 |

* This information for annual salaries, broken down between Police and Firemen, is not available prior to 1979.

SUMMARY OF UNFUNDED ACCRUED LIABILITIES

Each time a new benefit is added which applies to service already rendered, an "unfunded accrued liability" is created. The "unfunded accrued liability" was developed for funding requirement determinations. The value differs from the unfunded Pension Benefit Obligation reported in the financial statements because different actuarial cost methods were used for the two purposes. Laws governing the Fund require that "unfunded accrued liability" be financed systematically over a period of future years. Also, if actual financial experiences are less favorable than assumed financial experiences, the difference is added to unfunded accrued liabilities.

In an inflationary economy, the value of the dollar is decreasing. This environment results in employee pay increasing in dollar amounts and retirement

benefits increasing in dollar amounts resulting in unfunded accrued liabilities increasing in dollar amounts, all at a time when the actual substance of these items may be decreasing. Looking at just the dollar amounts of unfunded accrued liabilities can be misleading. Unfunded accrued liabilities' dollars divided by active employee payroll dollars provides an index which clarifies understanding. The smaller the ratio of unfunded liabilities to active member payroll, the stronger the system. Observation of this relative index over a period of years will give an indication of whether the system is becoming financially stronger or weaker.

SUMMARY OF ASSETS AND ACTUARIAL ACCRUED LIABILITIES

(\$ Amounts in Thousands)

| | Valuation Year | Actuarial Accrued Liabilities (AAL) | (A) Valuation Assets | Unfunded Actuarial Accrued Liabilities (UAAL) | Ratio of Assets to AAL | (B) Active Member Payroll | UAAL as a % of Active Member Payroll |
|---------------|-------------------|--|----------------------------|---|------------------------------|------------------------------------|---|
| Police | | | | | | | |
| | 1980 | 1,298,600 | 465,500 | 833,100 | 36% | 228.7 | 364% |
| | 1981 | 1,455,100 | 523,500 | 931,600 | 36 | 255.7 | 364 |
| | 1982 | 1,631,500 | 589,300 | 1,042,200 | 36 | 277.9 | 375 |
| | 1983 | 1,736,600 | 679,300 | 1,057,300 | 39 | 297.0 | 356 |
| | 1984 | 1,851,000 | 811,300 | 1,039,700 | 44 | 310.6 | 335 |
| | 1985 | 2,000,100 | 915,700 | 1,084,400 | 46 | 320.1 | 339 |
| | 1986 | 2,073,500 | 1,061,400 | 1,012,100 | 51 | 340.4 | 297 |
| | 1987 | 2,400,100 | 1,246,100 | 1,154,000 | 52 | 359.9 | 321 |
| | 1988 | 2,607,400 | 1,341,700 | 1,265,700 | 51 | 378.0 | 335 |
| | 1989 | 2,810,100 | 1,499,800 | 1,310,300 | 53 | 400.8 | 327 |
| Fire | | | | | | | |
| | 1980 | 1,115,300 | 340,100 | 775,200 | 30% | 171.8 | 451% |
| | 1981 | 1,233,300 | 388,600 | 844,700 | 32 | 184.1 | 459 |
| | 1982 | 1,375,100 | 446,500 | 928,600 | 32 | 197.5 | 470 |
| | 1983 | 1,487,500 | 527,900 | 959,600 | 35 | 213.9 | 449 |
| | 1984 | 1,577,700 | 643,400 | 934,300 | 41 | 221.0 | 423 |
| | 1985 | 1,680,500 | 725,500 | 955,000 | 43 | 229.0 | 417 |
| | 1986 | 1,763,300 | 838,600 | 924,700 | 48 | 248.9 | 372 |
| | 1987 | 2,008,400 | 985,100 | 1,023,300 | 49 | 262.3 | 390 |
| | 1988 | 2,200,700 | 1,094,400 | 1,106,300 | 50 | 273.4 | 405 |
| | 1989 | 2,365,400 | 1,159,300 | 1,206,100 | 49 | 291.2 | 414 |

(A) Valuation assets are based upon the following:

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

For 1980 through 1987—cost value of assets as reported by the Fund, less amounts reserved to the Death Benefit Fund, less contributions which had yet to be refunded to the employees who terminated with less than 15 years of service and plus member contributions which had not been deposited as of the reporting date.

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

SHORT-TERM SOLVENCY TEST

The Fund's financing objective is to pay for the benefits through contributions that remain approximately level from year to year as a percent of member payroll. If the contributions to the system are level in concept and soundly executed, the system will pay all promised benefits when due—the ultimate test of financial soundness.

A short-term solvency test is one means of checking a system's progress under its funding program. In a short-term solvency test, the plan's valuation assets are compared with: 1) Active member contributions on deposit; 2) The liabilities for future benefits to

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

COMPUTED ACCRUED LIABILITIES

(\$ Amounts in Thousands)

| Valuation Year | (1) Active Member Contributions | (2) Retirants and Beneficiaries | (3) Active Members (Employer Financed Portion) | Valuation Assets | Portion of Accrued Liabilities Covered by Reported Assets | | |
|----------------|------------------------------------|------------------------------------|---|------------------|---|------|-----|
| | | | | | (1) | (2) | (3) |
| Police | | | | | | | |
| 1980 | 108,500 | 339,300 | 850,800 | 465,500 | 100% | 100% | 2% |
| 1981 | 123,700 | 378,600 | 952,800 | 523,500 | 100 | 100 | 2 |
| 1982 | 138,500 | 457,400 | 1,035,600 | 589,300 | 100 | 99 | 0 |
| 1983 | 156,000 | 458,100 | 1,122,500 | 679,300 | 100 | 100 | 6 |
| 1984 | 173,900 | 498,800 | 1,178,300 | 811,300 | 100 | 100 | 12 |
| 1985 | 190,700 | 563,700 | 1,245,700 | 915,700 | 100 | 100 | 13 |
| 1986 | 207,400 | 623,400 | 1,242,700 | 1,061,400 | 100 | 100 | 19 |
| 1987 | 231,300 | 702,200 | 1,466,600 | 1,246,100 | 100 | 100 | 21 |
| 1988 | 252,600 | 773,900 | 1,580,900 | 1,341,700 | 100 | 100 | 20 |
| 1989 | 278,500 | 907,300 | 1,624,300 | 1,499,800 | 100 | 100 | 19 |
| Fire | | | | | | | |
| 1980 | 84,100 | 290,200 | 741,000 | 340,100 | 100% | 88% | 0% |
| 1981 | 94,500 | 336,000 | 802,800 | 388,600 | 100 | 88 | 0 |
| 1982 | 103,100 | 425,200 | 846,800 | 446,500 | 100 | 81 | 0 |
| 1983 | 114,200 | 439,300 | 934,000 | 527,900 | 100 | 94 | 0 |
| 1984 | 126,000 | 497,600 | 954,100 | 643,400 | 100 | 100 | 2 |
| 1985 | 137,800 | 546,300 | 996,400 | 725,500 | 100 | 100 | 4 |
| 1986 | 150,100 | 598,200 | 1,015,000 | 838,600 | 100 | 100 | 9 |
| 1987 | 168,000 | 660,700 | 1,179,700 | 985,100 | 100 | 100 | 13 |
| 1988 | 184,000 | 717,200 | 1,299,500 | 1,094,400 | 100 | 100 | 15 |
| 1989 | 199,200 | 844,300 | 1,321,900 | 1,159,300 | 100 | 100 | 9 |

Note: For the years 1980 through 1986, the active member contributions on deposit are as reported by the Fund in its annual reports which were prepared on the basis of cash receipts and disbursements. For 1987

through 1989, the member contributions on deposit are as reported in the Fund's audited financial statements, which were prepared on the accrual basis.

TABLE OF RECOMMENDED CONTRIBUTION RATES VS. ACTUAL CONTRIBUTION RATES

| Year | Police | | Firemen | |
|------|------------------------------|--------|------------------------------|--------|
| | (% of active member payroll) | | (% of active member payroll) | |
| | Recommended | Actual | Recommended | Actual |
| 1979 | 27.03 | 27.03 | 28.74 | 28.74 |
| 1980 | 24.16 | 24.16 | 28.33 | 28.33 |
| 1981 | 25.73 | 25.73 | 30.85 | 30.85 |
| 1982 | 26.61 | 26.61 | 32.38 | 32.38 |
| 1983 | 28.37 | 28.37 | 33.49 | 33.49 |
| 1984 | 30.85 | 28.37 | 36.13 | 33.49 |
| 1985 | 29.46 | 29.46 | 34.02 | 34.02 |
| 1986 | 27.80 | 29.00 | 31.25 | 33.50 |
| 1987 | 31.12 | 29.00 | 34.11 | 33.50 |
| 1988 | 32.38 | 29.50 | 34.02 | 34.00 |
| 1989 | 34.49 | 29.50 | 37.82 | 34.00 |

RETIRANTS AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS

| Year at Jan. 1 | Police | | Firemen | |
|-------------------|-----------|-----------|-----------|-----------|
| | Additions | Deletions | Additions | Deletions |
| 1986 | 697 | 360 | 574 | 313 |
| 1987 | 589 | 351 | 426 | 277 |
| 1988 | 612 | 499 | 476 | 417 |
| 1989 | 587 | 360 | 507 | 292 |

Note: Information for retirants and beneficiaries added and deleted is not readily available before 1986.

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STATISTICAL SECTION

Schedules:

- Benefit Expenses by Type
- Retired Members by Type of Benefits
- Mean Monthly Payments
- Participating Employers

STATISTICAL SCHEDULES

BENEFIT EXPENSES BY TYPE

1980 TO 1989

SCHEDULE 1

| Year ended December 31, | (1) Retirement | (1) Disability | (1) Survivor | Subtotal | Health Care | Death Benefit Fund Benefits | Total Benefits |
|----------------------------|-------------------|-------------------|-----------------|-------------|----------------|--------------------------------------|-------------------|
| 1980 | — | — | — | 75,677,741 | 12,055,295 | 1,581,153 | 89,314,189 |
| 1981 | — | — | — | 87,168,453 | 10,870,137 | 1,962,970 | 100,001,560 |
| 1982 | — | — | — | 103,721,534 | 17,947,422 | 2,191,632 | 123,860,588 |
| 1983 | — | — | — | 116,944,003 | 22,837,676 | 2,332,109 | 142,113,788 |
| 1984 | — | — | — | 125,282,722 | 23,533,863 | 3,066,383 | 151,882,968 |
| 1985 | — | — | — | 137,391,797 | 27,055,162 | 5,988,102 | 170,435,061 |
| 1986 | 99,341,813 | 34,185,020 | 19,889,018 | 153,415,851 | 31,379,158 | 6,001,201 | 190,796,210 |
| 1987 | 105,307,595 | 38,247,807 | 20,811,701 | 164,367,103 | 39,465,273 | 6,720,685 | 210,553,061 |
| 1988 | 113,022,120 | 43,739,268 | 23,814,341 | 180,575,729 | 43,703,422 | 6,796,504 | 231,075,655 |
| 1989 | 126,558,091 | 49,754,448 | 27,036,857 | 203,349,396 | 45,172,283 | 9,368,095 | 257,889,774 |

Note: For years 1980 through 1986, expenses are shown on the basis of cash and investment receipts and disbursements, while 1987 through 1989 expenses are shown on the accrual basis.

(1) The breakdown between retirement, disability and survivor benefits is not available for years prior to 1986.

RETIRED MEMBERSHIP BY TYPE OF BENEFITS

1980 TO 1989

SCHEDULE 2

| Year | Service | | Disability | | Survivors | | Combined Total Beneficiaries |
|------|---------|---------|------------|---------|-----------|---------|------------------------------------|
| | Police | Firemen | Police | Firemen | Police | Firemen | |
| 1980 | 3,030 | 2,744 | 1,064 | 951 | 2,700 | 2,256 | 12,745 |
| 1981 | 3,181 | 2,983 | 1,124 | 1,001 | 2,762 | 2,248 | 13,299 |
| 1982 | 3,311 | 3,158 | 1,160 | 1,033 | 2,677 | 2,192 | 13,531 |
| 1983 | 3,385 | 3,343 | 1,234 | 1,101 | 2,786 | 2,235 | 14,084 |
| 1984 | 3,519 | 3,488 | 1,296 | 1,134 | 2,812 | 2,233 | 14,482 |
| 1985 | 3,654 | 3,649 | 1,398 | 1,173 | 2,894 | 2,265 | 15,033 |
| 1986 | 3,674 | 3,677 | 1,499 | 1,209 | 2,958 | 2,297 | 15,314 |
| 1987 | 3,687 | 3,703 | 1,534 | 1,216 | 2,949 | 2,289 | 15,378 |
| 1988 | 3,784 | 3,830 | 1,741 | 1,352 | 3,046 | 2,321 | 16,074 |
| 1989 | 4,020 | 4,009 | 1,893 | 1,426 | 2,856 | 2,182 | 16,386 |

MEAN MONTHLY PAYMENTS

FOR POLICE OFFICERS AND FIRE FIGHTERS
PLACED ON RETIREMENT ROLLS BETWEEN 1984-1989

SCHEDULE 3

| | <u>1984</u> | <u>1985</u> | <u>1986</u> | <u>1987</u> | <u>1988</u> | <u>1989</u> |
|-------------------------------|-------------|--------------|-------------|-------------|-------------|-------------|
| Service | | | | | | |
| Normal | * | 1,771 | 1,864 | 1,928 | 2,022 | 1,988 |
| Age Commuted | * | 1,420 | 1,394 | 1,514 | 1,585 | 392 |
| Service Commuted | * | 221 | 300 | 337 | 394 | 412 |
| Age/Service | * | 723 | 1,035 | 920 | 886 | 1,258 |
| Pre-1947 | * | <u>1,739</u> | <u>0</u> | <u>35</u> | <u>947</u> | <u>0</u> |
| Subtotals | | 1,619 | 1,716 | 1,840 | 1,960 | 1,946 |
| Disability | | | | | | |
| Permanent & Total (P&T) | * | 1,768 | 1,806 | 1,855 | 1,963 | 2,106 |
| P&T Presumptive | * | 1,737 | 1,778 | 1,823 | 2,038 | 2,065 |
| Partial | * | 1,247 | 1,265 | 1,273 | 1,337 | 1,450 |
| Partial Presumptive | * | 1,462 | 1,413 | 1,376 | 1,398 | 1,546 |
| Off-duty | * | 897 | 586 | 437 | 1,354 | 713 |
| Pre-1947 | * | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Subtotals | | 1,444 | 1,460 | 1,538 | 1,617 | 1,679 |
| Service and Disability | | | | | | |
| Totals | | 1,538 | 1,624 | 1,682 | 1,817 | 1,853 |

*This statistical information was not broken down prior to 1985 and only total average service and disability amounts were recorded.

PARTICIPATING EMPLOYERS

SCHEDULE 4

| Villages | Cities | Townships (County-Zip Code) |
|-------------------|-------------------|-----------------------------|
| Aberdeen | Akron | Anderson |
| Ada | Alliance | Ashtabula |
| Addyston | Amherst | Austintown |
| Adelphi | Ashland | Bainbridge |
| Alexandria | Ashtabula | Bath |
| Alger | Athens | Bazetta |
| Amberly | Aurora | Bazetta Cortland Joint EMS |
| Amelia | Avon | Beavercreek |
| Andover | Avon Lake | Boardman |
| Ansonia | Barberton | Brookfield |
| Antwerp | Bay Village | Butler |
| Arcanum | Beachwood | Carlisle |
| Archbold | Beavercreek | Champion |
| Arlington Heights | Bedford | Clearcreek |
| Ashley | Bedford Heights | Clinton |
| Ashville | Bellaire | Colerain |
| Baltimore | Bellbrook | Concord |
| Barnesville | Bellefontaine | Copley |
| Batavia | Bellevue | Cortland East Bazetta Fire |
| Beaver | Belpre | Coventry |
| Bellville | Berea | Crosby |
| Bentleyville | Bexley | Delhi |
| Berlin Heights | Blue Ash | Franklin (Franklin—43223) |
| Bethel | Bowling Green | Franklin (Summit—44319) |
| Bethesda | Brecksville | Green (Hamilton—45239) |
| Beverly | Broadview Heights | Green (Summit—44232) |
| Blanchester | Brook Park | Hamilton |
| Bloomville | Brooklyn | Howland |
| Bluffton | Brunswick | Jackson (Franklin—43123) |
| Boston Heights | Bryan | Jackson (Stark—44720) |
| Botkins | Bucyrus | Jefferson (Franklin—43004) |
| Bradford | Cambridge | Jefferson (Madison—43162) |
| Bradner | Campbell | Liberty (Summit—44087) |
| Bratenahl | Canfield | Liberty (Mahoning—44505) |
| Brewster | Canton | Mad River |
| Bridgeport | Celina | Madison Fire |
| Brooklyn Heights | Centerville | Madison (Franklin—43125) |
| Brookville | Cheviot | Madison (Montgomery—45426) |
| Buckeye Lake | Chillicothe | Madison (Richland—44905) |
| Burton | Cincinnati | Mantua-Shalersville |
| Byesville | Circleville | Margaretta |
| Cadiz | Cleveland | Marion |
| Caldwell | Cleveland Heights | Miami (Greene—45387) |
| Canal Fulton | Clyde | Miami (Montgomery—45342) |
| Coalton | Columbus | Mifflin (Franklin—43230) |
| Carey | Conneaut | Mifflin (Richland—44903) |
| Carlisle | Cortland | North Hampton |
| Carrollton | Coshocton | Norwich |
| Castalia | Crestline | Olmstead |
| Cedarville | Cuyahoga Falls | Painesville |
| | | Perkins |

PARTICIPATING EMPLOYERS (continued)

| Villages | Cities | Townships (County-Zip Code) |
|------------------|-------------------|-------------------------------|
| Chagrin Falls | Dayton | Perry (Franklin—43017) |
| Chardon | Deer Park | Perry (Lake—44081) |
| Chauncey | Defiance | Perry (Stark—44646) |
| Chesapeake | Delaware | Plain (Franklin—43054) |
| Cleves | Delphos | Plain (Stark—44721) |
| Coldwater | Dover | Pleasant |
| Columbiana | Dublin | Prairie |
| Columbus Grove | East Cleveland | Randolph |
| Corning | East Liverpool | Richland |
| Covington | East Palestine | Saybrook |
| Creston | Eastlake | Scioto |
| Cridersville | Eaton | Sharon |
| Crooksville | Elyria | Shawnee |
| Cuyahoga Heights | Englewood | Springfield |
| Danville | Euclid | Sugarcreek |
| Delta | Fairborn | Sylvania |
| Dennison | Fairfield | Tri-Township Fire |
| Deshler | Fairlawn | Truro |
| Dillonvale | Fairview Park | Union |
| Doylestown | Findlay | Violet |
| East Canton | Forest Park | Warren |
| Edgerton | Fostoria | Washington (Franklin—43002) |
| Edon | Franklin | Washington (Montgomery—45458) |
| Elmore | Fremont | West Licking Joint Fire |
| Elmwood Place | Gahanna | Whitewater |
| Evendale | Galion | Wooster |
| Fairfax | Gallipolis | Xenia |
| Fairport Harbor | Garfield Heights | |
| Farmersville | Geneva | |
| Fayette | Germantown | |
| Felicity | Girard | |
| Forest | Grandview Heights | |
| Fort Loramie | Greenfield | |
| Fort Recovery | Greenville | |
| Fort Shawnee | Grove City | |
| Fredericktown | Hamilton | |
| Galena | Harrison | |
| Garrettsville | Heath | |
| Gates Mills | Highland Heights | |
| Genoa | Hilliard | |
| Georgetown | Hillsboro | |
| Gibsonburg | Hubbard | |
| Glendale | Huber Heights | |
| Glouster | Huron | |
| Golf Manor | Indian Hill | |
| Grafton | Independence | |
| Grand River | Ironton | |
| Granville | Jackson | |
| Green Springs | Kent | |
| Greenhills | Kenton | |
| Greenwich | Kettering | |
| Groveport | Kirtland | |
| Hamden | Lakewood | |
| Hanging Rock | Lancaster | |

PARTICIPATING EMPLOYERS (continued)

| Villages | Cities | Townships (County-Zip Code) |
|-----------------|--------------------|-----------------------------|
| Hartville | Lebanon | |
| Hebron | Lima | |
| Hicksville | Lincoln Heights | |
| Higginsport | Logan | |
| Hiram | London | |
| Holgate | Lorain | |
| Holland | Louisville | |
| Hudson | Loveland | |
| Hunting Valley | Lyndhurst | |
| Jackson Center | Macedonia | |
| Jamestown | Madeira | |
| Jefferson | Mansfield | |
| Johnstown | Maple Heights | |
| Kingston | Marietta | |
| Kirtland Hills | Marion | |
| Lagrange | Martins Ferry | |
| Lakemore | Marysville | |
| Leetonia | Mason | |
| Leipsic | Massillon | |
| Lewisburg | Maumee | |
| Lexington | Mayfield Heights | |
| Linndale | Medina | |
| Lisbon | Mentor | |
| Lockland | Mentor-on-the-Lake | |
| Lodi | Miamisburg | |
| Lordstown | Middleburg Heights | |
| Loudonville | Middletown | |
| Lowellville | Milford | |
| Madison | Mingo Junction | |
| Manchester | Montgomery | |
| Mantua | Moraine | |
| Mariemont | Mount Healthy | |
| Mayfield | Mount Vernon | |
| McArthur | Napoleon | |
| McClure | Nelsonville | |
| McComb | New Lexington | |
| McConnellsville | New Philadelphia | |
| McDonald | Newark | |
| Mechanicsburg | Newton Falls | |
| Mendon | Niles | |
| Middlefield | North College Hill | |
| Milan | North Canton | |
| Millersburg | North Olmsted | |
| Minerva | North Ridgeville | |
| Minerva Park | North Royalton | |
| Minster | Northwood | |
| Mogadore | Norton | |
| Monroeville | Norwalk | |
| Montpelier | Norwood | |
| Moreland Hills | Oakwood | |
| Morrow | Oberlin | |
| Mount Eaton | Olmsted Falls | |
| Mount Gilead | Oregon | |
| Mount Orab | Orrville | |

PARTICIPATING EMPLOYERS (continued)

| Villages | Cities | Townships (County-Zip Code) |
|------------------|--------------------|-----------------------------|
| Mount Sterling | Oxford | |
| Munroe Falls | Painesville | |
| Navarre | Parma | |
| New Albany | Parma Heights | |
| New Boston | Pepper Pike | |
| New Bremen | Perrysburg | |
| New Concord | Piqua | |
| New Lebanon | Port Clinton | |
| New London | Portsmouth | |
| New Madison | Ravenna | |
| New Miami | Reading | |
| New Richmond | Reynoldsburg | |
| New Vienna | Richmond Heights | |
| New Washington | Rittman | |
| Newburgh Heights | Rocky River | |
| Newcomerstown | Rossford | |
| Newton | Salem | |
| Northfield | Sandusky | |
| North Baltimore | Sebring | |
| North Bend | Seven Hills | |
| North Kingsville | Shaker Heights | |
| North Randall | Sharonville | |
| Oak Harbor | Sheffield Lake | |
| Oak Hill | Shelby | |
| Oakwood | Sidney | |
| Oakwood | Silverton | |
| Obetz | Solon | |
| Ontario | South Euclid | |
| Orange | Springdale | |
| Orwell | Springfield | |
| Ottawa | St. Bernard | |
| Ottawa Hills | St. Clairsville | |
| Ottoville | St. Marys | |
| Owensville | Steubenville | |
| Pandora | Stow | |
| Pataskala | Streetsboro | |
| Paulding | Strongsville | |
| Payne | Struthers | |
| Pemberville | Sylvania | |
| Peninsula | Tallmadge | |
| Pickerington | Tiffin | |
| Piketon | Tipp City | |
| Pioneer | Toledo | |
| Plain City | Toronto | |
| Pleasant Hill | Trenton | |
| Plymouth | Trotwood | |
| Poland | Troy | |
| Pomeroy | Twinsburg | |
| Powell | Uhrichsville | |
| Powhattan Point | University Heights | |
| Proctorville | Upper Arlington | |
| Reminderville | Upper Sandusky | |
| Richfield | Urbana | |
| Richwood | Vandalia | |

PARTICIPATING EMPLOYERS (continued)

| Villages | Cities | Townships (County-Zip Code) |
|-----------------------|------------------------|-----------------------------|
| Rio Grande | Vanwert | |
| Ripley | Vermilion | |
| Riverside | Wadsworth | |
| Rockford | Wapakoneta | |
| Roseville | Warren | |
| Russellville | Warrensville Heights | |
| Sabina | Washington Court House | |
| Sardinia | Wauseon | |
| Seaman | Waverly | |
| Seville | Wellston | |
| Shadyside | Wellsville | |
| Shawnee | West Carrollton | |
| Shawnee Hills | Westerville | |
| Sherwood | Westlake | |
| Shreve | Whitehall | |
| Silver Lake | Wickliffe | |
| Smithville | Willard | |
| Somerset | Willoughby | |
| South Bloomfield | Willoughby Hills | |
| South Lebanon Village | Willowick | |
| South Point | Wilmington | |
| South Russell | Wooster | |
| South Zanesville | Worthington | |
| Spencer | Wyoming | |
| Spencerville | Xenia | |
| Springboro | Youngstown | |
| St. Henry | Zanesville | |
| St. Paris | | |
| Strasburg | | |
| Stryker | | |
| Sugarcreek | | |
| Sunbury | | |
| Swanton | | |
| Sycamore | | |
| Terrace Park | | |
| Union | | |
| Union City | | |
| Utica | | |
| Valley View | | |
| Versailles | | |
| Waite Hill | | |
| Walbridge | | |
| Walton Hills | | |
| Waterville | | |
| Wayne | | |
| Waynesfield | | |
| Waynesville | | |
| Wellington | | |
| West Alexandria | | |
| West Jefferson | | |
| West Lafayette | | |
| West Liberty | | |
| West Milton | | |
| West Salem | | |

PARTICIPATING EMPLOYERS (continued)

| Villages | Cities | Townships (County-Zip Code) |
|----------------|--------|-----------------------------|
| West Union | | |
| West Unity | | |
| Weston | | |
| Wilkesville | | |
| Williamsburg | | |
| Winchester | | |
| Windham | | |
| Whitehouse | | |
| Wintersville | | |
| Woodlawn | | |
| Woodmere | | |
| Woodsfield | | |
| Woodville | | |
| Yellow Springs | | |
| Yorkville | | |

INVESTMENT SECTION

Investment Report

Investment Portfolio Summary

Investment Policy

INVESTMENT REPORT

As we entered 1989, investors were most concerned about the possibility of an overheated economy and an accompanying acceleration in inflation. Strong economic growth potential was evidenced by rising employment and growing consumer confidence. Soon after the year began, the Federal Reserve Board pushed short-term interest rates higher to help cool off the economy and head off inflationary pressures. As we approached mid-year, the economy began to show some signs of weakness, especially in the manufacturing sector. In turn, the Fed responded by gradually easing monetary policy. As the economy continued to slow over the remainder of the year, the nation's central bank pushed the federal funds rate down to the 8.00—8.25% range by year-end. All in all, real GNP slowed last year to a 3.0% growth pace. Meanwhile, inflation as measured by the CPI moved higher to a 4.8% rate.

The capital markets turned in a very good year from the standpoint of performance. Stocks were helped by continued economic growth, strong earnings growth early in the year, and declining interest rates over the latter half of 1989. Bonds benefited directly from the Fed's interest rate easing moves, a stronger dollar, slowing economic growth, and moderating inflation fears. Meanwhile, the markets had to struggle with the political turmoil in China and Eastern Europe, and every growing S & L crisis, and the collapse of both LBO activity and the junk bond market. Through all this, the stock market as measured by the S&P 500 turned in an excellent performance with a return of 31.7%. Bonds also had a good year as evidenced by the positive 14.4% return of the Salomon Brothers Broad Investment Grade Index.

The strong performance of the securities markets contributed tremendously to the growth of the fund's investment assets in 1989. The book value of our assets grew to \$2.86 billion from nearly \$2.59 last year, over a 10.5% increase. The market value of our investment portfolio jumped more than 17.5% growing to nearly \$3.15 billion from \$2.68 billion at the prior year-end. Also showing strong growth during the year was the fund's net investment income which leaped to over \$300 million. Finally, the 1989 book yield of our investment portfolio was 7.14%.

Significant changes within the portfolio included an increased commitment to stocks and real estate, a decrease in our cash equivalent holdings, and the continued growth of our bond portfolio. The growth in our equity holdings was attributable to strong stock market performance, a desire on the part of our advisors to be more fully invested and a larger commitment to our index fund component. The real estate growth reflects the addition of some new properties and the continued funding of several specialty real estate commingled funds. The growth of our bond portfolio was generally due to the solid performance of the fixed-income market last year.

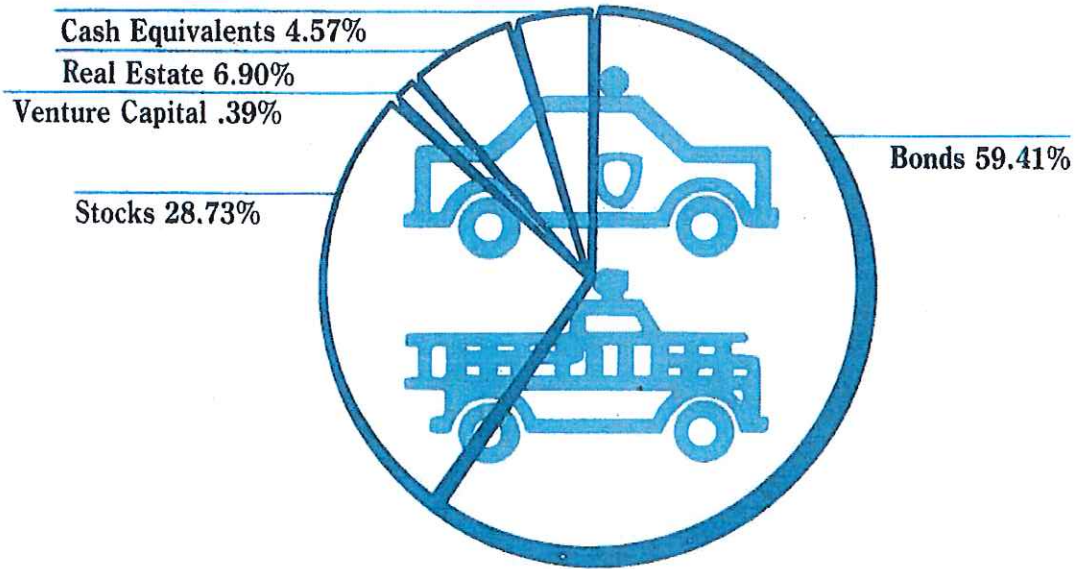
One of our major initiatives last year involved our equity advisor structure. In order to achieve a better balance among our active managers, \$75 million was withdrawn from our largest manager and distributed among our other active managers. An additional \$75 million was withdrawn from this same active advisor and was placed in our index funds, thus raising our passive component to roughly 33% of our equity commitment. We continued our efforts to diversify the portfolio by increasing our real estate exposure toward our target of 10% of assets. Within the real estate sector we added two new properties and began funding a commitment to an apartment fund in order to further diversify our holdings. In bonds we continued to apply our conservative, intermediate duration, value-added approach. Our focus on high quality helped us avoid the huge losses associated with the junk bond debacle that began last year.

Coming into 1990, most investors were worried that last year's slowing trend might finally bring the long awaited recession. However, what appears to be happening is the continuation of a very muddled, slow growth economy in which perceptions will swing back and forth between weakness and strength. Given the fact that the Federal Reserve Board seems to be maintaining a very patient and stable monetary policy, I would expect another year of subdued growth and the continued avoidance of the onset of recession. Bond market rates have already surged early this year due to renewed inflation fears and strong competition from higher rates overseas. I am hopeful that this inflation threat is transitory in nature and will recede as the lingering effects of December's cold weather on food and energy prices diminishes over time. As inflation concerns abate and the economy remains sluggish I would expect to see the bond market improve later this year. Even though the stock market has climbed to new highs early this year, it should be very difficult to even approach the very good returns of 1989. Stocks should suffer from higher rates, poor corporate earnings and sluggish economic growth. If and when interest rates do decline, we should see a positive reaction in stock market performance.

Over the remainder of 1990, we will continue to add to our real estate holdings through selective acquisitions of retail and industrial properties in underrepresented regions of the country. Our equity advisors will continue to search for undervalued securities while adjusting their stock exposure to their market outlook. In bonds, we will maintain our high quality, controlled duration disciplines which have served us well in recent years. We are also exploring the possibility of conducting an asset/liability study and are looking into alternative asset allocation possibilities to determine the best strategy to employ in order to meet our funding requirements. Finally, we will continue to strive to achieve at least an 8.25% return, which is our actuarial assumption rate.

INVESTMENT PORTFOLIO SUMMARY

DECEMBER 31, 1989



| Type | % of Book Value | Book Value | % of Market Value | Market Value |
|---------------------------------|-----------------|------------------------|-------------------|----------------------|
| Bonds | 59.41% | \$1,699,759,948 | 55.44% | \$1,746,148,310 |
| Stocks | 28.73 | 821,890,455 | 33.15 | 1,044,082,820 |
| Cash Equivalents | 4.57 | 130,761,649 | 4.15 | 130,761,649 |
| Real Estate and Mtg. Notes Rec. | 6.90 | 197,543,258 | 6.91 | 217,709,273 |
| Venture Capital | .39 | 11,138,029 | .35 | 11,138,029 |
| Total All Investments | 100.00% | \$2,861,093,339 | 100.00% | 3,149,840,081 |

INVESTMENT POLICY AND GUIDELINES

“The Board and other Fiduciaries shall discharge their duties with respect to these funds solely in the interest of the participants and beneficiaries.” These duties shall be carried out “with care,” skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and like aims.”

“The Board shall adopt in regular meeting, policies, objectives or criteria for the operation of the investment program” at least annually. “The Board shall give equal consideration to minority owned and controlled firms and firms owned and controlled by women and joint venture involving minority owned and controlled firms and firms owned and controlled by women which otherwise meet the criteria established by the Board.”

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.

INVESTMENT GOALS

The Board shall seek to maximize total return on investments while preserving the principal, and to that end, will strive for a minimum rate of 8.25 percent, which is the actuarial interest rate of the fund (as of Dec. 31, 1989), to meet that protection requirement.

INVESTMENT COMMITTEE

An Investment Committee shall be appointed by the Chairman of the Board, to work with the Investment Staff in conjunction with the Advisors, and make recommendations to the Board on investment matters.

INVESTMENT GUIDELINES STATUTORY INVESTMENT STANDARDS

Section 742.11 of the Ohio Revised Code sets forth specific investment standards and these standards are incorporated in all policies and guidelines of the Board.

FIXED INCOME INVESTMENTS

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

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

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

Five or more years of call protection shall be considered desirable.

Fixed income securities rated lower than ‘A’ by a national rating service may be exchanged for securities of similar rating.

SHORT-TERM INVESTMENTS

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 acceptance, or repurchase agreements may be purchased with the responsibility resting with the investment staff regarding the selection of the specific type of investment at any given point in time.

Only certificates of deposit issued by the largest 25 U.S. Banks (or holding companies), the ten largest banks (or holding companies) in Ohio, and the ten largest savings and loans (or holding companies) in Ohio may be purchased.

Only Bankers Acceptance issued by the 25 largest U.S. Banks may be purchased.

Only Commercial Paper instruments which mature within 180 days may be purchased.

REAL ESTATE

The Board policy regarding investments in Real Estate will be made for the purpose of portfolio diversification and to act as an inflation hedge. These investments should provide results which, commensurate with risk, will be competitive with and in most cases be in excess of other investment vehicles.

The Board may hire real estate advisors to assist in the investment of the real estate portion of the portfolio.

Real Estate equity should provide more cash flow than common stocks, concentration on properties which will provide cash flow increases over time and also aim at capitalizing on income increases by realizing capital appreciation. The opportunity for increasing income will include cash-on-cash initial investments where it is felt adequate management of property can upgrade the potential through short leases, percent of sales; cost of living clauses and other management techniques.

ELIGIBLE PROPERTIES

- 1) Office Buildings
- 2) Industrial Properties
- 3) Shopping Centers
- 4) Hotels—to a limited extent

In all cases, liability shall be limited to the amount of the investment.

Real Estate shall be limited to 10 percent of the total portfolio. Emphasis shall be put on a broad diversification as to types of properties and location. When properties located within Ohio offer quality, return and safety comparable to properties outside Ohio, the Ohio investment will be given preference.

The Investment Committee of the Board shall make recommendations to the Board, and approval of real estate investments shall be made prior to funding.

COMMON AND PREFERRED STOCKS AND CONVERTIBLES

Section 742.11 (C) (5) limits the Fund's investment in common and preferred stocks to 35 percent of the value of all funds described in Section 742.38 of the Ohio Revised Code.

Trading recommendations shall be submitted by the various equity advisors to the Investment Manager and Staff who shall be responsible for all trading activity of the portfolio. The Manager shall execute no trading recommendations involving a total loss in excess of five hundred thousand dollars without prior agreement by the Trustees.

OHIO DEBT AND EQUITY INVESTMENTS

The fund may invest 5 percent of its funds in debt or equity interest in any corporation, proprietorship, partnership, or other entity not otherwise meeting the investment requirements of Section 742.38 of the Ohio Revised Code, as provided in Section 742.11 (E) (2).



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The **Police**
and
Firemen's disability and pension fund

230 East Town Street
Columbus, Ohio 43215

