Comprehensive Annual Financial Report

A Component Unit of the State of Ohio

Year Ending December 31, 2006

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Year Ending December 31, 2006

Richard A. Curtis, Executive Director

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

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

Highway Patrol Retirement System, Ohio

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2005

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

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

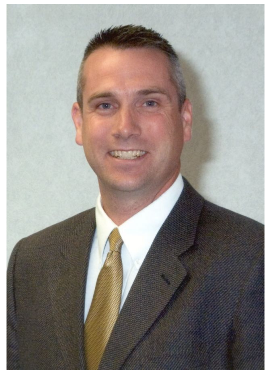
President

Executive Director

Highway Patrol Retirement System
Board of Trustees

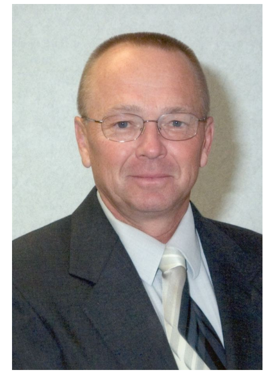
Staff Lieutenant John Allard
Elected Member/ Chair

Major John Born
Elected Member/ Vice Chair

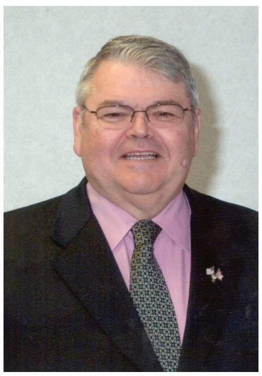


Staff Lieutenant Cory Davies
Elected Member

Sergeant Walter Davis
Elected Member



Trooper Dennis Gorski
Elected Member



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Retired Member Representative

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Ex-Officio Member

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

Dan Lohmeyer
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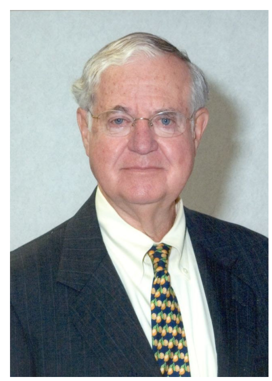
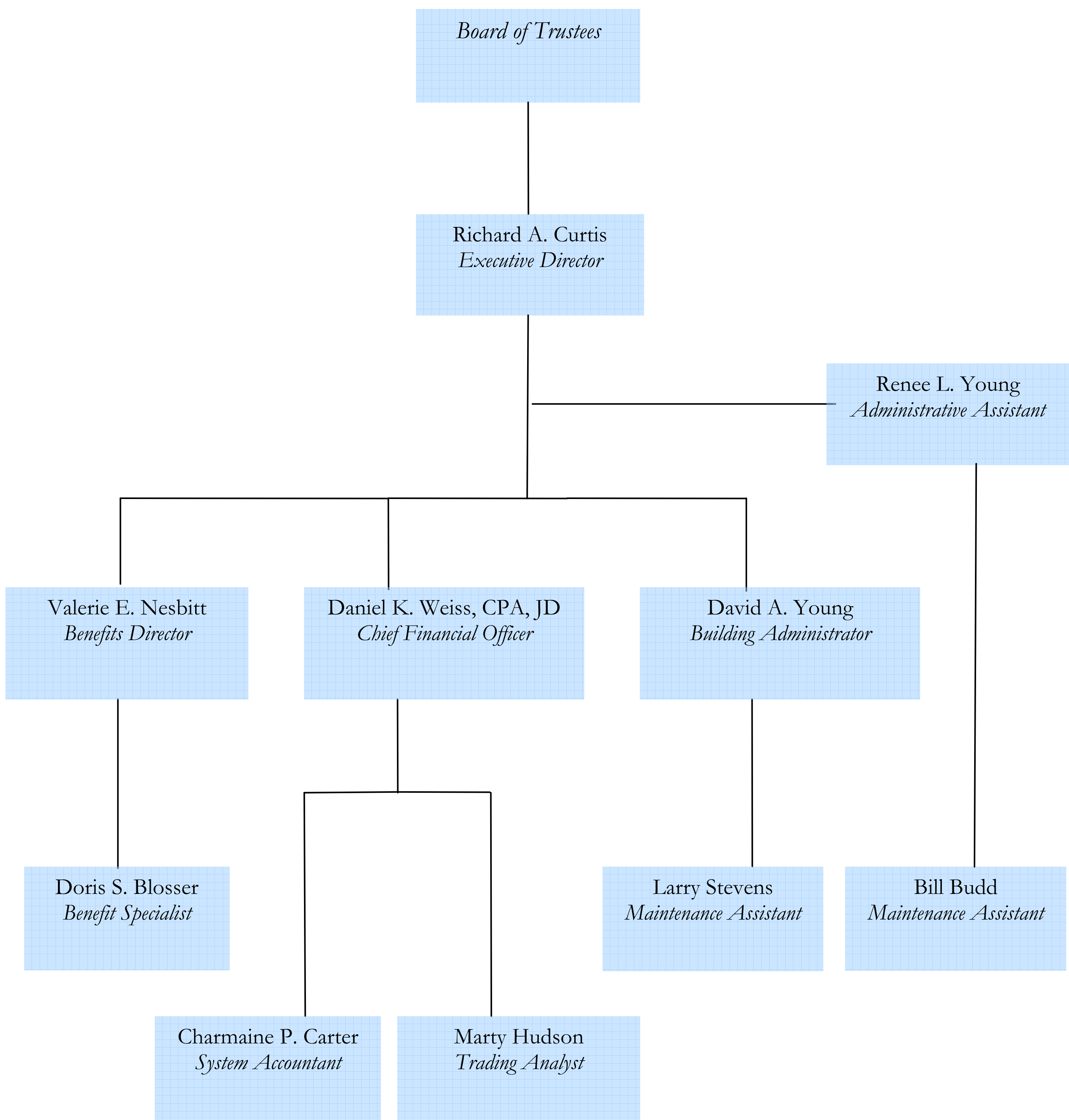


Joseph H. Thomas
Governor's Investment Expert Appointee

Richard A. Curtis
Executive Director

Organizational Chart



Professional Consultants

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

Independent Auditor
Kennedy, Cottrell, Richards
Columbus, Ohio

Actuary
Gabriel, Roeder, Smith & Company
Southfield, Michigan

Investment Consultant
Hartland & Co.
Cleveland, Ohio

Investment Managers

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

Credit Suisse Alternative Investments
New York, New York
Private Equity

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

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

Evanston Capital Management LLC
Evanston, Illinois
Fund of Hedge Funds

Fidelity Management Trust Company
Boston, Massachusetts
Real Estate

INTECH
Palm Beach Gardens, Florida
Large Cap Growth Equity

JPMorgan Fleming Asset Management
New York, New York
Fixed Income

Julius Baer Investment Management LLC
New York, New York
International Equity

Lehman Brothers Alternative Investment Management LLC
New York, New York
Fund of Hedge Funds

MacKay Shields Investment Management LLC
New York, New York
Large Cap Value Equity

Manning & Napier Fund, Inc.
Dublin, Ohio
International Equity

Munder Capital Management
Birmingham, Michigan
Fixed Income

PanAgora
Boston, MA
Global Tactical Asset Allocation

Pantheon Ventures, Inc.
San Francisco, CA
Private Equity

PIMCO
Newport Beach, CA
Global Tactical Asset Allocation

State Street Global Advisors
Boston, Massachusetts
Large Cap Indexed

Timbervest
Atlanta, Georgia
Timberland Real Estate

Wells Capital Management
Los Angeles, CA
Fixed Income

Western Asset
Pasadena, California
Fixed Income

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

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

(See page 41)

Legislative Summary

During 2006, the United States Congress and the Ohio Legislature were concentrating on matters other than pension funds. In 2005, a bill was introduced into the Ohio House that would create medical savings accounts for active members. This legislation finally passed in 2006. Essentially, this bill permits active members to contribute into tax deferred accounts, with the funds earmarked for post-retirement medical expenses. These contributions generate interest and may be withdrawn after retirement for medical expenses (e.g., co-pays, deductibles, and non-covered portions of health care expense). These funds are not taxable when withdrawn.

There was little discussion at the federal level about Social Security. Good economic returns have extended the life of that fund beyond popular estimates. The greater concern is the Medicare Fund. That fund runs out of money in about 2017 and, unless some changes in the national health care delivery system are made, that date may be sooner.

There is interest at both the federal and state levels to address some form of access to universal health care coverage. The debate, however, is whether that should be done through the private sector or through a government-managed plan. There are several preliminary legislative steps that could and should be taken before determining that question and it appears that both political parties are making preparations to enter the discussion. The complicating factor is that the presidential election of 2008 will likely delay these important discussions.

Highway Patrol Retirement System
6161 Busch Blvd. · Suite 119 · Columbus, OH 43229-2553 · 614.431.0781
fax 614.431.9204 · www.ohprs.org

June 19, 2007

Letter of Transmittal

Members of the Board of Trustees:

It is our privilege to submit to you the *Comprehensive Annual Financial Report* for the Highway Patrol Retirement System (HPRS) for the fiscal year ending December 31, 2006. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, rests with the management of the system. We believe this report reflects a careful stewardship of the system's assets and dedicated service to our members and our retirees.

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

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

Major Initiatives and Changes Enacted

During 2006, two significant programs were implemented. The first program is a Deferred Retirement Option Plan (DROP). Under this plan, an active member may retire according to HPRS, while continuing to work for the State Highway Patrol. Pension benefit payments accumulate in a special DROP account that is provided for in the Internal Revenue Code. Also flowing into this account is the monthly contribution the active member would have made to HPRS -- currently 10% of salary. The employer contributions associated with the continued employment flow into HPRS. The DROP account is credited with an annual rate of interest established by the Board. When a member ceases work with the State Highway Patrol, the DROP account may be distributed according to existing IRS Code at that time.

In practice, this program permits an active member to establish a second tax-deferred retirement account and the member has the flexibility to distribute the DROP account differently from the fixed distribution of the HPRS retirement account. This program permits the employer to retain experienced and trained employees, delaying the recruiting and basic training costs associated with hiring replacements for retirees. This program reduces the health care expense of HPRS because, while continuing to work for the employer during the DROP participation period, the member receives health care from the employer.

On the effective date of the bill authorizing the DROP, about 80 active members qualified for participation. The percentage of eligible HPRS members who immediately entered the DROP was about 80% -- slightly higher than the national average of 70%. As additional active members became qualified through age and years of service during the second half of 2006, the number of participants increased.

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

A medical saving account, as defined under the Internal Revenue Code, permits an active member to contribute funds, tax-deferred, into an account that may only be used for medical expenses after retirement. Under existing rules, these funds may be withdrawn after retirement, tax-free, for payment of health care expenses. This program allows each active member to establish a supplemental account, separate from monthly pension benefits, which can be used to pay for co-pays, deductibles, and non-covered medical expenses in retirement.

Investments

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

Investment returns for the Highway Patrol Retirement System in 2006 were 13.9%, with a three-year annualized return of 10.8%, and a five-year annualized return of 9.1%. Because current fund expenditures exceed current fund income, the total investment portfolio increased to $794.4 million (excluding collateral on loaned securities) at December 31, 2006, representing only an 11.8% increase from 2005. A new asset allocation was implemented on January 1, 2005.

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

Internal Controls

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

Funding

The goal of the Board has been to limit the period of unfunded pension liability to no more than thirty years. Unfunded actuarially accrued pension liabilities are currently amortized over a thirty-five year period from December 31, 2005 and the system has pension assets equal to 76.5% of pension liabilities, down slightly from 77.6% at December 31, 2004.

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a *Certificate of Achievement for Excellence in Financial Reporting* to the Highway Patrol Retirement System for its comprehensive annual financial report for the fiscal year ended December 31, 2005. In order to be awarded a *Certificate of Achievement*, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

Professional Services

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

Acknowledgments

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

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

Respectfully Submitted,

Richard A. Curtis

Richard A. Curtis, Executive Director

Daniel K. Weiss

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

Financial Section

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Columbus, Ohio 43215

Kennedy Cottrell Richards

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Fax: 614.888.8634
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INDEPENDENT AUDITOR'S REPORT

The Retirement Board
Ohio State Highway Patrol Retirement System

We have audited the accompanying combining statement of plan net assets of the Ohio State Highway Patrol Retirement System (HPRS), a component unit of the State of Ohio, as of December 31, 2006, and the related combining statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of HPRS' management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As described in the notes to the financial statements, during the year, HPRS implemented GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.*

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of HPRS as of December 31, 2006, and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standard*s, we have also issued our report dated June 19, 2007 on our consideration of HPRS' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

The introductory section on pages 3-10, the investment section on pages 29-44, the actuarial section on pages 45-54, and the statistical section on pages 55-60 have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Kennedy Cottrell Richards LLC

Kennedy Cottrell Richards LLC
June 19, 2007

Management's Discussion and Analysis

Financial Highlights

• At December 31, 2006, the assets of HPRS exceeded liabilities by $794,427,257. All of the net assets are held in trust for pension and health benefits, and are available to meet HPRS's ongoing obligation to plan participants and their beneficiaries.

• During 2006, HPRS's total net assets increased by $82,708,348, or 11.6%, with 122.5% of this increase attributable to investment activity.

• HPRS's funding objective is to meet long-term benefit obligations through contributions and investment income. At December 31, 2005, the date of the latest actuarial valuation, HPRS funds totaled 76.5% of projected obligations.

• Revenues (Additions to Plan Net Assets) for the year were $132,911,870, which includes member and employer contributions of $30,938,747 and investment income of $101,324,841.

• Expenses (Deductions in Plan Net Assets) increased 4.2% over the prior year. Of this amount, pension benefits increased by 7.0%, health care expenses decreased by 10.7%, and administrative expenses increased by 1.8%.

Overview of the Financial Statements

HPRS's financial statements consist of these components:

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

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

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

The *Combining Statement of Changes in Plan Net Assets* provides a summary of current year additions and deductions to the plan. At December 31, 2005, the date of the latest actuarial valuation, HPRS's current funding ratio was 76.5%. This means that HPRS's fund had approximately $0.77 available for each $1.00 of projected pension liability.

The *Combining Statement of Plan Net Assets* and the *Combining Statement of Changes in Plan Net Assets* report information about HPRS's activities and financial position. These statements reflect the full accrual basis of accounting, which is similar to the accounting method used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. All investment gains and losses are shown at trade date rather than settlement date. Investments are shown at fair value, reflecting both realized and unrealized gains and losses. Each capital asset is depreciated over its expected useful life.

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

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

Other Information

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

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

HPRS Activities

Revenues - Additions to Plan Net Assets. Employer and member contributions, as well as income from investments, provide reserves needed to finance retirement benefits. In 2006, total contributions, plus investment gains in a favorable market, resulted in positive additions of $132.9 million. Employer and member contributions increased by 4.0% and 0.3%, respectively, primarily because of an increase in the employer contribution rate and an increase in overall payroll.

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

	2006	2005	$ Change	% Change
Net Appreciation in Fair Value of Investments	$94,578	$38,315	$56,263	146.8%
Interest and Dividend Income	9,988	11,419	(1,431)	(12.5)
Real Estate Operating Income, Net	144	186	(42)	(22.4)
Investment Expenses	(3,638)	(3,312)	(326)	9.8
Security Lending Activity, Net	253	281	(28)	(10.0)
Employer Contributions	22,329	21,474	855	4.0
Member Contributions	8,610	8,582	28	0.3
Transfers from Other Ohio Systems	648	1181	(533)	(45.1)
Total Additions	$132,912	$78,126	$54,786	70.1%

The investment section of this report summarizes the result of investment activity for the year ending December 31, 2006.

Expenses - Deductions from Plan Net Assets. HPRS was created to provide retirement, disability, and survivor benefits to qualified members and their beneficiaries. The cost of these programs includes benefit payments as designated by the plan, refunded contributions, and the administrative costs of the system. In 2006, total deductions from plan net assets increased 4.2%. This included a 7.0% increase in pension benefits, largely attributable to an increase in the number of benefit recipients and cost of living adjustments. Health care expenses decreased by 10.7% and administrative expenses increased by 1.7%. Refunds of member contributions decreased by 39.7%, offset by an increase in transfers of contributions to other Ohio retirement systems of 126.5%

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

	2006	2005	$ Change	% Change
Pension Benefits	$40,343	$37,716	$2,627	7.0%
Refunds of Member Contributions	299	496	(197)	(39.7)
Health Care	7,981	8,932	(951)	(10.7)
Administrative Expenses	666	654	12	1.7
Transfers to Other Ohio Systems	915	404	511	126.5
Total Deductions	$50,204	$48,202	$2,002	4.2%

Changes in Net Assets

In 2006, *Net Assets Held in Trust for Pension and Postemployment Health Care Benefits* increased by $82,708,348, or 11.6%. Investment income attributable to the appreciation in fair values of investments equaled $94,578,362, or 114.4% of the increase in net assets. All of the net assets are available to meet HPRS's ongoing obligation to plan participants and their beneficiaries.

Changes in Net Assets (In 000's)

	2006	2005
Beginning Balance	$711,719	$684,569
Prior Period Restatement	---	(2,773)
Ending Balance	794,427	711,719
Total Change	$82,708	$29,923
% Change	11.6%	4.4%

Capital Assets

As of December 31, 2006, HPRS's investment in capital assets totaled $18,111 (net of accumulated depreciation), a decrease of $13,063, or 41.9% from December 31, 2005. This investment in capital assets includes office equipment, software, and furniture for administrative use. The decrease in HPRS's net investment in capital assets for the current year was wholly attributable to the depreciation of existing assets.

Total Assets

In 2006, total assets increased by $36,544,623, or 4.1%. The increase in total assets was largely attributable to investment gains.

Assets (In 000's)

	2006	2005	$ Change	% Change
Cash & Short-Term Investments	$44,851	$8,573	$36,278	423.2%
Receivables	3,767	3,553	214	6.0
Investments, at Fair Value	749,584	702,260	47,324	6.7
Collateral on Loaned Securities	139,368	186,626	(47,258)	(25.3)
Other Assets	18	31	(13)	(41.6)
Total Assets	$937,588	$901,043	$36,545	4.1%

Total Liabilities

Total liabilities decreased by $46,163,725, or 24.4%, primarily as a result of a decrease in securities lending activity at the end of 2006. The decrease in total liabilities attributable to a lower level of securities lending activity was $47,257,695. Without this decrease, total liabilities would have increased by $1,093,970, or 0.6%.

Liabilities (In 000's)

	2005	2005	$ Change	% Change
Current Liabilities	$143,160	$189,324	($46,164)	(24.4%)
Total Liabilities	$143,160	$189,324	($46,164)	(24.4%)

Summary

Despite three consecutive years of negative investment returns from 2000 through 2002, HPRS rebounded from 2003 through 2006 to show strong gains in the securities markets. Both management and HPRS's actuary concur that HPRS remains in a financial position to meet its obligations to the plan participants and beneficiaries. The current financial position of HPRS is the result of a very strong and successful investment program, risk management, and strategic planning.

Requests for Information

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

Combining Statement of Plan Net Assets

December 31, 2006

	Pension	Postemployment Health Care	Total
Assets			
Cash and Short-Term Investments	$38,598,034	$6,252,744	$44,850,778
Receivables			
Accrued Investment Income	1,090,496	176,657	1,267,153
Employer Contributions Receivable	1,112,612	177,006	1,289,618
Member Contributions Receivable	1,077,006	---	1,077,006
Tenant Rent Receivable	114,759	18,591	133,350
Total Receivables	3,394,873	372,254	3,767,127
Investments, at Fair Value			
Domestic Equity	343,488,630	55,643,930	399,132,560
Fixed Income	110,006,768	17,820,703	127,827,471
Real Estate	41,082,578	6,655,231	47,737,809
International Equity	88,042,894	14,262,634	102,305,528
Private Equity	1,990,989	322,533	2,313,522
Hedge Funds	25,817,635	4,182,365	30,000,000
Global Tactical Asset Allocation	34,653,491	5,613,741	40,267,232
Total Investments	645,082,985	104,501,137	749,584,122
Collateral on Loaned Securities	119,938,089	19,429,541	139,367,630
Property and Equipment, Net	15,586	2,525	18,111
Total Other Assets	15,586	2,525	18,111
Total Assets	807,029,567	130,558,201	937,587,768
Liabilities			
Accrued Health Care Benefits	---	876,496	876,496
Accounts Payable	1,173,863	190,161	1,364,024
Other Liabilities	35,367	5,729	41,096
Accrued Payroll and Withholdings	1,300,575	210,689	1,511,264
Obligations Under Securities Lending	119,938,089	19,429,542	139,367,631
Total Liabilities	122,447,894	20,712,617	143,160,511
Net Assets Held in Trust for Pension and Postemployment Health Care Benefits	$684,581,673	$109,845,584	$794,427,257

(Separate *Schedules of Funding Progress* are presented on page 24.)
See accompanying *Notes to Financial Statements*.

Combining Statement of Changes in Plan Net Assets

Year Ending December 31, 2006

	Pension	Postemployment Health Care	Total
Additions			
Contributions			
Employer	$19,263,941	$3,064,718	$22,328,659
Member	8,610,088	---	8,610,088
Transfers from Other Systems	648,282	---	648,282
Total Contributions	28,522,311	3,064,718	31,587,029
Investment Activity			
Net Appreciation in Fair Value of Investments	79,886,718	14,691,644	94,578,362
Interest and Dividend Income	8,595,073	1,392,371	9,987,444
Real Estate Operating Income, Net	124,209	20,121	144,330
	88,606,000	16,104,136	104,710,136
Less: Investment Expenses	3,130,888	507,193	3,638,081
Net Income from Investment Activity	85,475,112	15,596,943	101,072,055
Income from Security Lending Activity			
Gross Income	7,595,228	1,230,400	8,825,628
Less: Borrower Rebates	7,285,202	1,180,177	8,465,379
Less: Management Fees	92,481	14,982	107,463
Net Income from Security Lending Activity	217,545	35,241	252,786
Total Net Investment Income	85,692,657	15,632,184	101,324,841
Total Additions	114,214,968	18,696,902	132,911,870
Deductions			
Pension Benefits	40,343,244	---	40,343,244
Refunds of Member Contributions	299,128	---	299,128
Health Care Expenses	---	7,980,823	7,980,823
Administrative Expenses	572,616	92,761	665,377
Transfers to Other Systems	914,950	---	914,950
Total Deductions	42,129,938	8,073,584	50,203,522
Net Increase	72,085,030	10,623,318	82,708,348
Net Assets Held in Trust for Pension and Postemployment Health Care Benefits			
Balance, December 31, 2005	$612,496,643	$99,222,266	$711,718,909
Balance, December 31, 2006	$684,581,673	$109,845,584	$794,427,257

See accompanying *Notes to Financial Statements*.

Notes to Financial Statements

Year Ending December 31, 2006

Plan Description

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

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

Membership - HPRS membership consisted of the following at December 31, 2005 (the latest available actuarial data):

Pension & Health Care Benefits	
Retirees & beneficiaries receiving benefits	1,301
Terminated members not yet receiving benefits	11
Active members	
Vested	285
Nonvested	1,288

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

In 2006, active members and the Ohio State Highway Patrol were required to contribute the following percentages of active member payroll:

Member	10.0%
Employer	25.5%

Pursuant to the December 31, 2005 actuarial valuation, the Board of HPRS allocated the employer contribution rate to pension benefits and health care benefits as follows:

Pension	Health Care	Total
22.00%	3.50%	25.5%

The allocation of the employer contribution rate to pension benefits has been established as the rate necessary to cover normal cost, plus the amortization of the unfunded actuarially accrued liabilities based on a thirty-five (35) year amortization schedule.

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

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

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

In addition to pension and health care benefits, HPRS also provides for disability and survivor benefits.

Effective June 17, 2006, HPRS implemented a Deferred Retirement Option Plan ("DROP"), authorized by Senate Bill No. 206 of the 126th General Assembly. Generally, a member who is eligible to retire with an unreduced pension benefit may enter the DROP. The member will continue to work in the existing assignment as determined by the employer and receive the appropriate compensation for that rank. A DROP member is considered retired; however, instead of receiving a monthly pension benefit, the member "accrues" that benefit in a tax-deferred account until employment is terminated with the State Highway Patrol. Also, upon entering the DROP plan, a member ceases to accumulate additional pension service credit. At December 31, 2006, DROP had 62 members and the HPRS had recorded a liability of $1,328,604.

Summary of Significant Accounting Policies

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

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

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

During 2006, HPRS implemented GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.* This statement establishes uniform financial reporting standards for Other Postemployment Benefit Plans and supersedes the interim guidance included in Statement No. 26.

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

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

Short-term investments are reported at cost, which approximates fair value. Securities traded on a national exchange are valued at the last reported sales price at the current exchange rate. Fair values of real estate investments are based on information provided by the fund's managers or by independent appraisal.

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

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

In general, costs of member health care benefits are recognized as claims are incurred and premiums are paid. Health care benefit expenses in 2006 of $7,980,823 are shown on the accompanying *Combining Statement of Changes in Plan Net Assets.*

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

Deposits and Investment Risk Disclosures

Deposits – HPRS cash balances represent an operating cash account held by US Bank, and investment cash on deposit with the State Highway Patrol Federal Credit Union, KeyBank, and US Bank as the investment custodian. Cash balances are either interest-bearing or invested in highly-liquid debt instruments with an original maturity of three months or less. At December 31, 2006, the carrying value of all HPRS's book deposits was $44,850,778 (including money market funds of $40,556,869), as compared to bank balances of $44,816,905. The difference in the carrying amount and the bank balances is caused by outstanding warrants and deposits in transit.

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

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

Total Investments at Fair Value, December 31, 2006	
Domestic Equity	$399,132,560
U.S. Government Obligations	1,030,040
Fixed Income Funds	126,797,431
Real Estate	47,737,809
International Equity	102,305,528
Private Equity	2,313,522
Hedge Funds	30,000,000
Global Tactical Asset Allocation	40,267,232
Total Investments	$749,584,122
Collateral on Loaned Securities	$139,367,630

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

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

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

Quality Rating	Total
AAA	$75,136,059
AA+	11,976,104
AA	3,090,484
A	3,903,838
BBB	4,358,291
BB+	13,930,199
BB	275,082
B	14,127,374
Total Credit Risk Debt Securities	$126,797,431
U.S. Government Obligations and Guaranteed Securities	$1,030,040
Total Debt Securities	$127,827,471

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

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

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

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

Effective Duration of Fixed Income Investments

	Investment Maturities				
	<1 Year	1-5 Years	>5-10 Years	>10 Years	Totals
U.S. Government Obligations			$1,030,040		$1,030,040
Commingled Funds	$5,842,076	$46,026,844	48,556,573	$26,371,938	126,797,431
Totals	$5,842,076	$46,026,844	$49,586,613	$26,371,938	$127,827,471

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of a failure of a depository institution or counterparty to a transaction, HPRS will be unable to recover the value of deposits, investments, or collateral securities in the possession of an outside party. At December 31, 2006, all debt securities were registered in the name of HPRS and held in the custody of US Bank.

The Federal Deposit Insurance Corporation (FDIC) insured $239,246 of HPRS bank balances. The remaining bank balances are collateralized with securities held in the names of US Bank and KeyBank N.A., as required by state statute. HPRS does not have a policy to limit custodial credit risk.

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

International Equity Securities, December 31, 2006

Currency	Allocation	Fair Value
Australian Dollar	1.19%	$1,221,640
British Pound	7.53	7,706,543
Canadian Dollar	0.26	261,808
Czech Koruna	0.38	390,249
Danish Krone	0.07	74,199
Euro	17.03	17,419,830
Hong Kong Dollar	0.73	750,442
Hungarian Forint	0.70	720,547
Japanese Yen	2.10	2,150,625
Malaysian Ringgit	0.01	12,160
Mexican Peso	0.11	113,346
Norweigian Krone	0.61	620,896
Philippines Peso	0.12	122,600
Polish Zloty	1.23	1,260,572
Romanian New Leu	0.01	12,015
Swedish Krona	0.78	795,399
Swiss Franc	3.33	3,403,809
Thailand Baht	0.05	50,362
Turkish New Lira	0.14	145,769
Total Held in Foreign Currency	36.39%	$37,232,811
Held in U.S. Dollars	63.61	65,072,717
Total	**100.00%**	**$102,305,528**

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

As of December 31, 2006, the fair values of loaned securities and associated collateral (repo agreements and short-term investments) were $133,306,631 and $139,367,630, respectively.

Total net proceeds from securities lending was $252,786 in 2006.

Derivatives – Derivatives are instruments on which the fair values are derived from the value of some other asset or index. At December 31, 2006, HPRS held shares in commingled funds that invested in derivatives in the form of mortgages and asset-backed securities.

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

The fair value of mortgage and asset-backed securities held by HPRS in commingled funds at December 31, 2006 was $21,233,016 and $646,699, respectively.

Property and Equipment

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

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

The following is a summary of equipment, at cost, less accumulated depreciation, at December 31, 2006:

Cost, 12/31/05	$165,830
+ Additions	---
- Retirements	---
Cost, 12/31/06	$165,830
Accumulated Depreciation, 12/31/05	$134,657
+ Depreciation	13,062
- Retirements	---
Accumulated Depreciation, 12/31/06	$147,719
Book Value, 12/31/06	$18,111

Pension Benefits for Employees

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

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

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

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

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2006, member and employer contribution rates were consistent across all three plans. The 2006 member contribution rate was 9.0% of covered payroll. The 2006 employer contribution rate was 13.70% of covered payroll. HPRS employer contributions to OPERS for the years ending December 31, 2006, 2005, and 2004 were $79,423, $72,998, and $70,264, respectively, which were equal to the required contributions for each year.

Other Postemployment Benefits for Employees

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

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

The Ohio Revised Code provides the statutory authority for public employers to fund post retirement health care through contributions to OPERS. Accordingly, a portion of employer contributions are set aside for funding these benefits. The 2006 employer contribution rate was 13.70% of covered payroll, of which 4.50% was used to fund health care for the year – a total of $26,088 for HPRS employees.

The assumptions and calculations below are based on OPERS' latest actuarial review performed as of December 31, 2005:

- Funding Method — The individual entry age actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarially accrued liability.
- Assets Valuation Method — All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used under which assets are annually adjusted to reflect 25% of unrealized market appreciation (or depreciation), not to exceed a 12% corridor.
- Investment Return — The investment assumption rate is 6.50%.
- Active Employee Total Payroll — An annual increase of 4.00%, compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases above the 4.00% base increase are assumed to range from 0.50% to 6.30%.
- Health Care — Health care costs are assumed to increase at the projected wage inflation rate, plus an additional factor ranging from 0.5% to 6% for the next 9 years. In subsequent years (10 and beyond), health care costs are assumed to increase at 4% (the projected wage inflation rate).

OPEB are advance-funded on an actuarially determined basis. At December 31, 2006, the number of active contributing participants in the Traditional Pension and Combined Plans totaled 369,214. At December 31, 2005, the actuarial value of OPERS' net assets available for OPEB was $11.1 billion, at which time there were 358,804 active contributing participants. The actuarially accrued liability and the unfunded actuarially accrued liability on that date were $29.5 billion and $18.7 billion, respectively.

In 2004, in response to skyrocketing health care costs, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. In 2005, OPERS took additional actions to improve the solvency of the health care fund, including the creation of a separate investment pool for health care assets, the OPERS Post Employment Health Care Plan, in accordance with Internal Revenue Code 401(h). Additionally, member and employer contribution rates were increased in two steps, effective January 1, 2006 and January 1, 2007, to allow for supplementary funding of the health care plan.

Risk Management

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

Contingent Liabilities

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

Required Supplementary Schedules

Schedule of Employer Contributions

Years Ending December 31, 2001-2006

	Pension		**OPEB**	
Year	Annual Required Contribution	% Contributed	Annual Required Contribution	% Contributed
2001	$13,901,313	100	--	--
2002	14,923,893	100	--	--
2003	16,361,339	100	--	--
2004	17,205,610	100	--	--
2005	18,467,789	100	--	--
2006	19,263,941	98.45	15,962,073	21.2

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

Schedule of Funding Progress – Pension

Years Ending December 31, 2000-2005

Valuation Year	Actuarially Accrued Liab. (AAL)	Valuation Assets	Unfunded Actuarially Accrued Liab. (UAAL)	Assets as a % of AAL	Active Member Payroll	UAAL as a % of Active Member Payroll
2000 ►	594,222,603	570,039,631	24,182,972	95.9	69,028,285	35.0
2001	636,715,458	551,279,438	85,436,020	86.6	76,344,002	111.9
2002 ►	663,069,805	527,604,456	135,465,349	79.6	78,997,065	171.5
2003	702,799,017	545,981,513	156,817,504	77.7	81,737,962	191.9
2004 ▲	734,464,371	569,858,387	164,605,984	77.6	81,757,707	201.3
2005 ►	773,856,164	591,922,200	181,933,964	76.5	83,408,155	218.1

▲ Plan amendment ► Assumption or method change.

Schedule of Funding Progress – OPEB

Year Ending December 31, 2005

Valuation Year	Actuarially Accrued Liab. (AAL)	Valuation Assets	Unfunded Actuarially Accrued Liab. (UAAL)	Assets as a % of AAL	Active Member Payroll	UAAL as a % of Active Member Payroll
2005 ►	281,094,482	95,889,279	185,205,203	34.1	83,408,155	222.0

Notes to the Trend Data

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

Valuation Date	December 31, 2005
Actuarial Cost Method	Entry Age
Amortization Method	Level Percent Open
Remaining Amortization Period	30 years for retirement allowances and health benefits in determining the Annual Required Contribution
Asset Valuation Method	4 year smoothed market, 20% Corridor

<u>Actuarial assumptions:</u>

Investment Rate of Return	8.0% for pension, 6.5% for OPEB
Projected Salary Increases	4.3 – 14.0%, including wage inflation of 4.0%
Cost-of-living adjustments for retirees	3.0% CPI increases for years after age 53

Notes to Required Supplementary Schedules

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

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

Actuarial Assumptions and Methods
The information presented in the required supplementary schedules was determined as part of the actuarial valuation at December 31, 2005.

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

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

Other actuarial assumptions and methods are as follows:

- projected investment return of 8.0% for pension assets and 6.5% for OPEB assets, compounded annually, net of administration expenses,
- projected salary increases of 4.0%, compounded annually, attributable to inflation,
- additional projected salary increases ranging from 0.3% to 10.0% per year, depending on service, attributable to seniority and merit,
- postemployment mortality life expectancies of members based on 105% of the RP-2000 Combined Healthy Male and Female Tables,
- probabilities of early withdrawal from active service have been developed on the basis of actual plan experience,
- for disability retirement, impaired longevity is recognized by basing benefit values on the RP-2000 Combined Healthy Male and Female Tables, set forward 10 years,
- fifty percent of disability retirements are assumed to be duty-related and fifty percent are assumed to be non-duty-related,
- projected health care premium increases of 4.0%, compounded annually, attributable to inflation,
- health care benefit recipients are eligible for Medicare at age 65, or immediately, if retired for disability, and
- employer contributions are assumed to be received in equal installments throughout the year.

The following employer, member, and retiree data is from the latest actuarial valuation, dated December 31, 2005:

<u>Actuarial Value of Pension Benefits Payable</u>	
Retirees & beneficiaries currently receiving benefits & terminated members not yet receiving benefits	$463,476,318
<u>Current Members</u>	
Accumulated member contributions Including allocated investment income	$77,779,569

Additional Information

Schedule of Administrative Expenses

Year Ending December 31, 2006

Personnel	$291,457
Professional and Technical Services	
Computer services	36,832
Actuary	74,250
Education	36,582
Medical Consulting	5,694
Audit	16,058
Legal	4,803
Miscellaneous services by others	4,678
Medical services	17,868
Total Professional and Technical Services	196,765
Communications	
Printing	8,586
Postage	22,725
Telephone	9,752
Total Communications	41,063
Other Expenses	
Office Rent	65,923
Depreciation	13,062
Insurance	22,111
Equipment repairs and maintenance	3,942
Supplies	4,696
Miscellaneous	17,267
Retirement study commission	2,612
Membership and subscriptions	2,488
New equipment	3,991
Total Other Expenses	136,092
Total Administrative Expenses	$665,377

Above amounts do not include investment department administrative expenses.

Schedule of Investment Expenses

Year Ending December 31, 2006

Personnel	$280,028
Professional Services	
Investment services	3,102,554
Monitor services	204,206
Total Professional Services	3,306,760
Other Expenses	
Due Diligence	2,962
Computer Services	36,832
Memberships and subscriptions	3,731
Printing and supplies	7,768
Total Other Expenses	51,293
Total Investment Expenses	$3,638,081

Payments to Consultants

Year Ending December 31, 2006

Consultant	Fee	Service
Gabriel, Roeder, Smith & Co.	$74,250	Actuarial
Kennedy, Cottrell + Associates	15,375	Auditing
Callan Associates	85,009	Investment
Hartland & Co.	109,269	Investment
Global Trading Analytics	10,000	Investment

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

The Retirement Board
Ohio State Highway Patrol Retirement System

We have audited the combining statement of plan net assets of the Ohio State Highway Patrol Retirement System (HPRS), as of December 31, 2006, and the related combining statement of changes in plan net assets for the year then ended, and have issued our report thereon dated June 19, 2007, wherein we noted that HPRS implemented GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.* We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the U.S. Comptroller General.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

We noted certain additional matters that we reported to management of HPRS in a separate letter dated June 19, 2007.

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

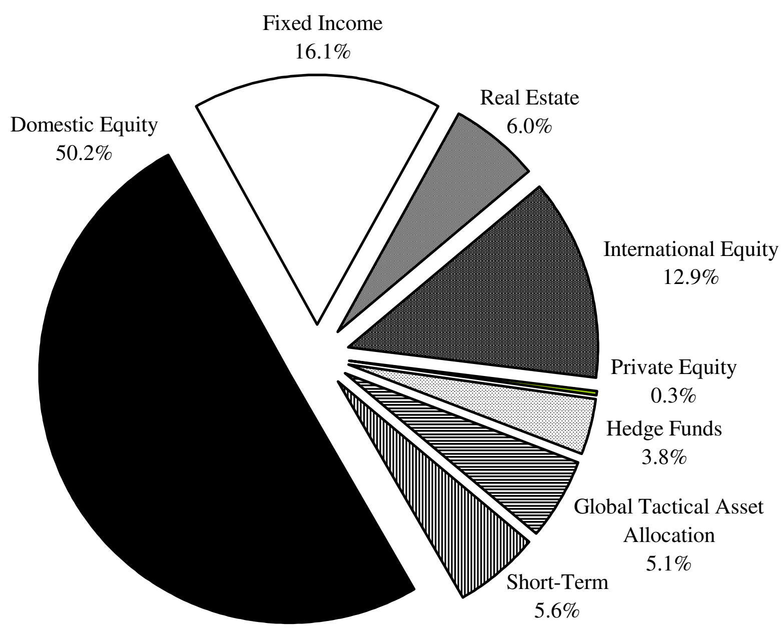
Kennedy Cottrell Richards LLC

Kennedy Cottrell Richards LLC
June 19, 2007

Investment Section

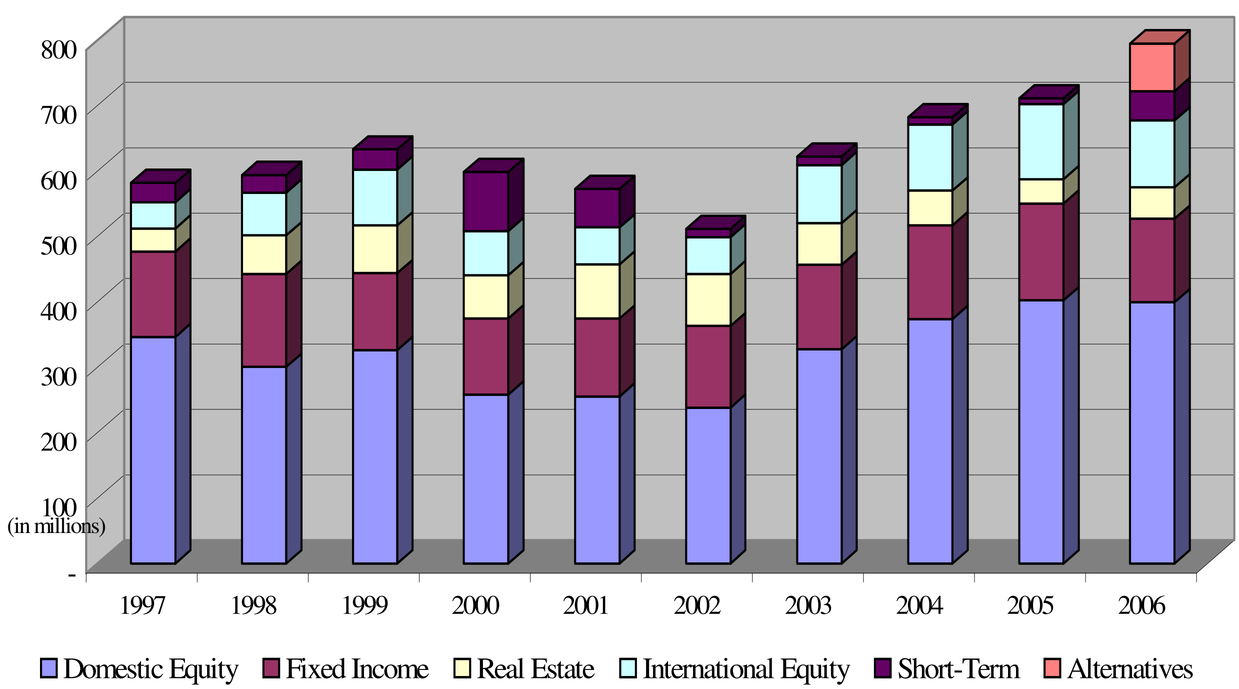
Investment Distribution

at Fair Value, December 31, 2006



Ten-Year Investment Comparison

at Fair Value, December 31, 2006



Investment Review

Year Ending December 31, 2006

General Market & Economic Conditions

If 2005 was characterized as a year in which Santa Claus never came to the U.S. stock market, then it could be said that 2006 was a year in which visions of sugar plums danced in investors' heads. To be accurate, it was a year of two-halves -- the first half being relatively range-bound, with the S&P 500 up 2.7% through June 30th, while showing impressive strength in the second half with the S&P 500 advancing 12.7%. When all was said and done, the S&P climbed 15.8% in 2006 -- its strongest annual gain since 2003.

Small-cap stocks outperformed large-cap stocks, with the Russell 2000 Index advancing 18.4% in 2006, making it seven years of the last eight in which small-caps outpaced their large-cap brethren. Value stocks continued their impressive streak of out-performance, as well; for the year, value stocks trumped growth stocks by more than a 2:1 margin (Russell 1000 Value: +22.2%; Russell 1000 Growth: +9.1%). One has to go back as far as the dot-com bubble to find the last year in which growth stocks led value stocks.

Equally impressive is the winning streak of international stocks; 2006 marked the fifth consecutive year in which international stocks out-performed domestic equities, and they did so by an impressive margin. For the year, the MSCI EAFE increased 26.9%, and the emerging markets did even better, surging 32.6% on the back of a 34.5% gain in 2005. China's stock market zoomed 82.9% in 2006, whereas Japan's market was one of the world's laggards, rising a rather anemic 6.3%.

Against the backdrop of strong global stock markets was a significant increase in merger and acquisition activity, as well as a spate of publicly-traded companies electing to go private. Much of this activity was triggered by relatively cheap financing and low interest rates that remained relatively contained for much of 2006.

Short-term interest rates rose steadily in the first half of 2006, but in August, the Federal Reserve officially waived the "all clear" signal and ended its tightening campaign that began 17 rate hikes two years earlier. For the full year, 3-month Treasuries climbed 0.92% to just over 5%. Meanwhile, 10-year Treasuries nudged up a much more modest 0.32% to 4.68%, leaving the yield curve inverted.

Source: Hartland & Co.

Investment Operations

The year 2006 could best be described as "moving day" for the HPRS investment portfolio. Many changes were implemented and significant improvement was noted in the overall return.

During the last half of 2005, HPRS worked with its investment consultant to develop contingent plans for the portfolio for the next three to five year period. Using capital market expectations offered by five noted economists, HPRS projected that domestic equity returns would approximate high bond yields (7-8%), international equity would be slightly higher, domestic bonds would match low CD returns, and real estate returns would be below expectations. Factoring all of that information in and applying it to the existing portfolio rendered a gross projected return of 7.5%. Since the actuarial rate of return is set at 8%, some action was required.

HPRS engaged the system actuary to review the actuarial rate of return and impacting factors, such as mortality tables and wage inflation rates. The actuary recommended to the Board that the 8% expected rate of return be retained, as it was found to be appropriate and mainstream for public pension funds. The actuary also noted that the factors used in calculating long-term solvency were consistent with accepted actuary practices. The mortality tables were appropriate and verified by the five-year look-back review and wage inflation rates were conservatively set.

Using all of this information, HPRS determined that significant changes needed to be made in the structure of the investment portfolio. From the beginning, the goal was to increase the return to at least 8%, net of fees, and to reduce volatility, as the system was entering a period of fluctuating markets. Working with Callan Associates, the system investment consultant, requests for proposals were issued for funds of private equity managers, funds of hedge fund managers, and global tactical asset allocators. These alternative investment strategies were selected because they provide enhanced returns and are non-correlated to existing investment strategies.

The use of fund of funds strategies was selected for two reasons. First, this is the first venture into these asset classes for HPRS and the fund of funds manager provides a level of expertise not present within HPRS. Second, selecting the right fund of funds gave HPRS access to the best in class of hedge fund and private equity managers, otherwise unavailable to HPRS.

Throughout 2006, screening and selection proceeded and new asset managers were added to the portfolio. Funds were transitioned from existing managers to the new managers. In some cases, existing managers were terminated and, in other cases, the portfolios of existing managers were reduced.

In July 2006, Hartland & Company became the new investment consultant to HPRS and continued to implement the new strategies.

By the end of 2006, all of the new managers were on-board, but because of the nature of some of the investment strategies, not all managers were fully funded. The expected gross return of this new allocation is 9.3%, while the standard deviation of the portfolio (the typical measurement of risk) was reduced from 12.2% to 8.4%. In summary, HPRS expects to achieve the actuarial rate of return of 8% in future periods, while reducing the volatility of the portfolio by nearly 4%.

During 2006, HPRS achieved a total return of about 14%, but most of that excess return should be attributed to an unexpected surge in the equity market, both domestic and international. It should be noted, however, that the changes made to the portfolio in 2006 performed as expected during these volatile market times.

Summary by Richard A. Curtis, Executive Director

Schedule of Investment Results

Year Ending December 31, 2006

	2006	2005	3-Year	5-Year
Domestic Equity	**15.2%**	**6.5%**	**10.8%**	**9.1%**
S&P 500	15.8	4.9	10.4	6.2
Russell 2500	16.2	8.1	14.1	12.2
International Equity	**24.2**	**13.6**	**17.8**	**12.2**
MSCI EAFE Index	26.9	13.5	20.4	15.4
Fixed Income	**5.5**	**4.1**	**4.9**	**6.3**
Lehman Brothers Aggregate	4.3	2.4	3.7	5.1
Real Estate	**11.4**	**15.0**	**12.0**	**9.5**
NCREIF Index	16.6	20.1	17.0	13.3
Total Fund	**13.9**	**7.4**	**10.8**	**9.1**
Absolute Objective	8.0	8.0	8.0	8.0
Relative/Composite Benchmark ►	14.7	7.9	11.7	9.4

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

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

Source: Hartland & Co.

Investment Summary

December 31, 2006

Portfolio Type	Fair Value	% of Total Fair Value	Policy %
Domestic Equity	$399,132,560	50.2	44.0
Fixed Income	127,827,471	16.1	22.0
Real Estate	47,737,809	6.0	9.0
International Equity	102,305,528	12.9	15.0
Alternatives ☼	72,580,754	9.2	10.0
Short-Term	44,850,778	5.6	0.0
Total	$794,434,900	100.0	100.0

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

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

Largest Equity Holdings (by Fair Value)

December 31, 2006

	Shares	Fair Value
General Electric Co	93,600	$3,482,856
Johnson & Johnson	39,000	2,574,780
Chevron Corp	32,500	2,389,725
Citigroup Inc	41,700	2,322,690
Exxon Mobil Corp	28,950	2,218,439
ConocoPhillips	29,800	2,144,110
Home Depot Inc	47,600	1,911,616
Pfizer Inc	72,100	1,867,390
Bank of America Corp	34,782	1,857,011
Kimberly Clark Corp	26,600	1,807,470

Investment Portfolio

December 31, 2006

Domestic Equity Securities

	Shares	Fair Value
3M Co	14,500	$1,129,985
A A R Corp	15,500	452,445
A E S Corp	16,900	372,476
A M R Corp DelL	6,000	181,380
A T M I Inc	9,700	296,141
Abbott Labs	32,600	1,587,946
Accredited Home Lenders	24,120	659,682
Actuant Corp	4,100	195,365
Acxiom Corp	3,400	87,210
Adobe System Inc	2,660	109,379
Advance America Cash Advance Centers	26,400	386,760
Advanced Medical Optics Inc	200	7,040
Advanced Micro Devices Inc	38,800	789,580
Affiliated Managers Group Inc	7,800	820,014
AFLAC Inc	6,500	299,000
AGCO Corp	600	18,564
Agere Systems Inc	11,500	220,455
Agilent Technologies Inc	500	17,425
Air Products & Chemicals Inc	1,500	105,420
Akamai Technologies Inc	17,100	908,352
Alberto Culver Co	1,500	32,175
Akamai Technologies Inc	3,400	67,762
Alamosa Holdings Inc	3,200	59,552
Alcoa Inc	60,000	1,774,200
Allergan Inc	3,600	388,656
Allete Inc	2,100	92,400
Alliance Data Systems Corp	12,600	448,560
Alliance Gaming Corp	20,000	260,400
Alliant Techsystems Inc	300	22,851
Allstate Corp	14,450	781,312
Alltel Corp	21,000	1,325,100
Altria Group Inc	14,500	1,083,440
Ambac Financial Group Inc	900	80,163
American Eagle Outfitters Inc	37,245	1,162,416
American Express Co	1,100	66,737
American International Group Inc	3,500	250,810
American Power Conversion Corp	30,000	917,700
American Standard Cos	15,050	690,043
American Tower Corp	9,100	339,248
Americredit Corp	24,350	612,890
AmerisourceBergen Corp	500	22,480
Ametek Inc	17,550	558,792
Amgen Inc	300	20,493
Amphenol Corp Class A	3,700	229,696
Amylin Pharmaceuticals Inc	500	18,035
Analog Devices Inc	18,400	604,808
Angiotech Pharmaceuticals Inc	59,500	487,305
Anheuser-Busch Companies Inc	4,800	236,160
Annaly Capital Management Inc	110,200	1,532,882
AnnTaylor Stores Inc	7,300	239,732
Apple Inc	2,400	203,616
Applera Corp/Applied BioSystems Grp	11,300	414,597

	Shares	Fair Value
Aqua America Inc	26,600	$605,948
Aramark Corp Class B	14,300	478,335
Arch Cap Group Ltd	10,100	682,861
Arch Chemicals Inc	17,400	579,594
Ashford Hospitality Trust Inc	22,000	273,900
Astoria Financial Corp	19,900	600,184
AT&T Inc	26,500	947,375
Atmel Corp	61,900	374,495
Automatic Data Processing Inc	8,200	403,850
Autozone Inc	800	92,448
Avery Dennison Corp	9,000	611,370
Avon Products Inc	4,400	145,376
BEA Systems Inc	31,800	400,044
BJs Wholesale Club	17,100	531,981
BMC Software Inc	9,700	312,340
Baker Hughes Inc	3,600	268,776
Ball Corp	9,300	405,480
Bank New York Inc	30,200	1,188,974
Bank of America Corp	34,782	1,857,011
Bard, C R Inc	2,400	199,128
Barnes & Noble Inc	12,100	480,491
Barr Pharmaceuticals Inc	19,700	987,364
Baxter International Inc	7,400	343,286
Bearingpoint Inc	67,800	533,586
Beazer Homes USA Inc	11,600	545,316
Becton Dickinson & Co	3,700	259,555
Berkley, W R Corp	2,050	70,746
Blackrock Inc	2,000	303,800
Block, H R Inc	29,500	679,680
Boeing Co	6,200	550,808
Borders Group Inc	14,100	315,135
Borg Warner Inc	13,100	773,162
Borland Software Corp	38,200	207,808
Bowater Inc	28,700	645,750
Brinker International Inc	750	22,620
Bristol-Myers Squibb Co	4,500	118,440
Brown & Brow Inc	7,500	211,575
Brown Forman Corp Class B	8,000	529,920
Brunswick Corp	17,400	555,060
Burlington Northern Santa Fe Corp	3,400	250,954
C D W Corp	200	14,064
CEC Entertainment, Inc	21,950	883,488
C. H. Robinson Worldwide, Inc	13,500	552,015
CONSOL Energy Inc	27,700	890,001
CSX Corp	8,600	296,098
CVS Corp	25,400	785,114
Cablevision Systems NY Group Class A	41,400	1,179,072
Cameron International Corp	2,000	106,100
Campbell Soup Co	10,500	408,345
Capital Leasing Funding Inc	51,630	598,908
Capital Source Inc	6,600	180,246
Cardinal Health Inc	8,400	541,212

Domestic Equity Securities (continued)

	Shares	Fair Value
Caremark Rx, Inc	2,900	$165,619
Carlisle Cos Inc	3,300	259,050
Carmax Inc	4,500	241,335
Carpenter Technology Corp	600	61,512
Cash America International Inc	18,500	867,650
Caterpillar Inc	2,100	128,793
CB Richard Ellis Group Inc Class A	16,200	537,840
CBOT Holdings Inc Class A	700	106,029
Celgene Corp	11,800	678,854
CenturyTel Inc	11,500	502,090
Cephalon, Inc	3,100	218,271
Ceridian Corp	1,500	41,970
Charles River Laboratories	8,100	350,325
Check Free Corp	9,300	373,488
Checkpoint Systems Inc	6,000	121,200
CHEMTURA Corp	95,600	920,628
Chesapeake Energy Corp	23,300	676,865
Chevron Corp	32,500	2,389,725
Chicago Mercantile Exchange Holdings	1,800	917,550
Church and Dwight Inc	1,800	76,770
Cimarex Energy Co	8,113	296,125
Cincinnati Financial Corp	10,870	492,520
Cintas Corp	13,280	527,349
Circuit City Stores, Inc	9,600	182,208
Cisco Systems Inc	12,300	336,159
Citigroup Inc	41,700	2,322,690
Citizens Communications Co	54,400	781,728
Citrix Systems Inc	1,600	43,280
Claires Stores Inc	1,100	36,454
Coca Cola Co	28,700	1,384,775
Cognizant Technology Solutions Corp	4,700	362,652
Colgate Palmolive Co	16,200	1,056,888
Comcast Corp Class A	25,600	1,083,648
Commerce Bancorp Inc NJ	2,200	77,594
Computer Sciences Corp	8,400	448,308
Comtech Telecommunications Corp	27,200	1,035,504
Comverse Technology Inc	11,200	236,432
ConAgra Foods Inc	22,000	594,000
CONMED Corp	38,800	897,056
ConocoPhillips	29,800	2,144,110
Consolidated Edison Inc	6,000	288,420
Constellation Brands Inc	800	23,216
Constellation Energy Group, Inc	700	48,209
Continental Airlines Inc Class B	8,900	367,125
Convergys Corp	800	19,024
Copart Inc	2,700	81,000
Corinthian College Inc	68,100	928,203
Corporate Executive Board Co	3,900	342,030
Corrections Corp of America	17,450	789,264
Corus Bankshares Inc	12,200	281,454
Costco Wholesale Corp	4,100	216,767
Covance Inc	5,400	318,114
Covanta Holding Corp	6,800	149,872
Crown Castle International Corp	18,700	604,010

	Shares	Fair Value
Crown Holdings Inc	20,600	$430,952
Cullen Frost Bankers Inc	11,100	619,602
Cummins Inc	2,200	259,996
Cytyc Corp	16,000	452,800
DPL Inc	600	16,668
DST Systems Inc	4,200	263,046
DaVita Inc	200	11,376
Danaher Corp	3,100	224,564
Darden Restaurants Inc	900	36,153
Deerfield Triarc Capital Group	25,300	428,329
Del Monte Foods Co	56,900	627,607
DENTSPLY International Inc	4,400	131,340
Developers Diversified Realty Corp	1,800	113,310
Diamond Offshore Drilling Inc	6,000	479,640
Dicks Sporting Goods Inc	10,500	514,395
Diebold Inc	3,100	144,460
Direct General Corp	25,400	524,256
DIRECTV Group Inc	27,600	688,344
Discovery Holding Co	200	3,218
Disney, Walt Co	18,260	625,770
Dollar Tree Stores, Inc	1,500	45,150
Dominion Resources, Inc	7,200	603,648
Donaldson Co., Inc	600	20,826
Donnelley R R & Sons Co	48,200	1,713,028
Dover Corp	7,900	387,258
Dow Chemical Co	23,900	953,610
Dow Jones & Co Inc	36,900	1,402,200
DreamWorks Animation SKG Inc	9,100	268,359
DuPont, E I de Nemours & Co	27,200	1,324,912
Duke Energy Corp	16,800	557,928
Dun & Bradstreet Corp	1,000	82,790
Dycom Industries Inc	22,000	464,640
East West Bancorp Inc	16,400	580,888
Eaton Vance Corp	800	26,408
EchoStar Communications	4,000	152,120
Ecolab Inc	10,600	479,120
Edwards A G Inc	10,200	645,558
Edwards Lifesciences Corp	1,400	65,856
eFunds Corp	18,800	517,000
El Paso Corp	800	12,224
Electronic Data Systems Corp	2,900	79,895
Eli Lilly & Co	19,400	1,010,740
EMDEON Corp	12,700	157,353
Emerson Electric Co	17,600	775,984
Energen Corp	11,200	525,728
Energizer Holdings Inc	5,000	354,950
Energy East Corp	14,900	369,520
ENSCO International Inc	4,800	240,288
Essex Property Trust Inc	1,100	142,175
Estee Lauder Companies Inc	2,300	93,886
Esterline Technologies Corp	6,600	265,518
Exelon Corp	7,400	457,986
Expedia Inc	31,200	654,576
Expeditors International of Washington	12,800	518,400

Domestic Equity Securities (continued)

	Shares	Fair Value
Express Scripts Inc Class A	4,100	$293,560
Exxon Mobil Corp	28,950	2,218,439
FactSet Research Systems	2,100	118,608
Family Dollar Stores Inc	8,700	255,171
Fastenal Co	300	10,764
Fed Ex Corp	5,600	608,272
Federal Realty Inv. Trust	400	34,000
Federated Dept Stores Inc	2,300	87,699
Federated Investors Inc Class B	29,900	1,010,022
Fidelity National Information Services	1,000	40,090
First Data Corp	5,900	150,568
First Energy Corp	7,050	425,115
First Horizon National Corp	16,200	676,836
First Marblehead Corp	5,100	278,715
Fiserv Inc	200	10,484
Flagstar Bancorp Inc	40,000	593,600
Fleetwood Enterprises Inc	13,500	106,785
FMC Technologies Inc	3,600	221,868
Foot Locker Inc	46,200	1,013,166
Forest City Enterprises Inc Class A	8,400	490,560
Forest laboratories Inc	8,200	414,920
Foundry Networks Inc	51,000	763,980
Franklin Resources Inc	3,200	352,544
Freddie Mac	2,600	176,540
Frontier Oil Corp	2,600	74,724
Fuller H B Co	22,900	591,278
GameStop Corp Class A	2,800	154,308
Gannett inc	8,500	513,910
Gap Inc	80,800	1,575,600
Gardner Denver Inc	4,100	152,971
Gemstar TV Guide International Inc	107,700	431,877
Genentech Inc	800	64,904
General Communication Inc Class A	37,946	596,891
General Electric Co	93,600	3,482,856
General Mills Inc	15,400	887,040
Genworth Financial Inc Class A	25,800	882,618
Gilead Sciences Inc	5,500	357,115
Global Payments Inc	1,000	46,300
Goldman Sachs Group Inc	8,450	1,684,508
Goodrich Corp	24,600	1,120,530
Google Inc Class A	2,100	967,008
Graco Inc	100	3,962
Grainger, WW Inc	7,000	489,580
Grant Prideco Inc	8,400	334,068
HCC Insurance Holdings Inc	600	19,254
Hanesbrands Inc	12,500	295,250
Hansen Natural Corp	3,500	117,880
Harley-Davidson Inc	4,100	288,927
Harman International Industries Inc	300	29,973
Harrah's Entertainment Inc	400	33,088
Harsco Corp	300	22,830
Hartford Financial Services Group Inc	7,100	662,501
Hasbro Inc	32,400	882,900
Health Net Inc	10,100	491,466

	Shares	Fair Value
Heinz H J Co	11,200	$504,112
Hewlett-Packard Co	17,500	720,825
Hexcel Corp	16,000	278,560
Highland Hospitality Corp	26,000	370,500
Hillenbrand Industries Inc	3,200	182,176
Hilton Hotels Corp	3,600	125,640
Holly Corp	4,200	215,880
Home Depot Inc	47,600	1,911,616
Honeywell International Inc	20,200	913,848
Houston Exploration Co	6,200	321,036
Hudson City Bancorp Inc	34,700	481,636
Humana Inc	6,000	331,860
Hunt J B Transportation Services Inc	30,400	631,408
Huntington Bancshares Inc	47,500	1,128,125
Huntsman Corp	23,200	440,104
IMS Health Inc	2,900	79,692
ITT Corp	300	17,046
ITT Educational Services Inc	6,700	444,679
IAC Interactivecorp	500	18,580
Idearc Inc	28,600	819,390
IDEX Corp	10,500	497,805
IDEXX Laboratories Inc	3,700	293,410
Illinois Tool Works Inc	400	18,476
ImClone Systems Inc	300	8,028
Integrated Device Technology Inc	10,500	162,540
Intel Corp	69,600	1,409,400
IntercontinentalExchange Inc	1,800	194,220
International Business Machines Corp	10,300	1,000,645
International Game Technology	22,300	1,030,260
International Paper Co	30,700	1,046,870
International Flavors & Fragrances	10,600	521,096
Intuit Inc	12,500	381,375
Investment Technology Group Inc	10,900	467,392
Investors Financial Services Corp	200	8,534
Invitrogen Corp	6,200	350,858
Iron Mountain Inc	1,200	49,608
ITLA Capital Corp	16,100	932,351
J P Morgan Chase & Co	23,244	1,122,685
Jarden Corp	34,900	1,214,171
Jefferies Group Inc	9,000	241,380
Johnson & Johnson	39,000	2,574,780
Johnson Controls Inc	4,800	412,416
Jones Lang LaSalle Inc	4,300	396,331
Kellogg Co	4,200	210,252
Kilroy Realty Corp	1,100	85,800
Kimberly Clark Corp	26,600	1,807,470
Kinder Morgan Inc	1,800	190,350
Kinetic Concepts Inc	15,700	620,935
Kohl's Corp	6,300	431,109
Kroger Co	31,350	723,245
Laboratory Corp of America Holdings	9,700	712,659
Lam Research Corp	4,700	237,914
Lamar Advertising Co Class A	4,000	261,560
Las Vegas Sands Corp	3,300	295,284

Domestic Equity Securities (continued)

	Shares	Fair Value
Leap Wireless International Inc	2,000	$118,940
Leen Enterprises Inc	10,490	325,819
Legg Mason Inc	800	76,040
Leggett & Platt Inc	2,400	57,360
Leucadia National Corp	24,000	676,800
Levitt Corp	21,900	268,056
Lexmark International Inc	3,500	256,200
Liberty Global Inc Class A	6,600	192,390
Liberty Media Corp	7,800	168,246
Limited Brands	26,000	752,440
Lincoln Electric Holdings Inc	3,000	181,260
Linear Technology Corp	18,500	560,920
Lockheed Martin Corp	6,100	561,627
Lowe's Cos Inc	16,100	501,515
Lubrizol Corp	13,500	676,755
Lyondell Chemical Co	16,800	429,576
MBIA Inc	18,000	1,315,080
MCG Capital Corp	21,800	442,976
MGIC Investment Corp	14,500	906,830
MGM Mirage	1,200	68,820
Mair Holdings Inc	24,380	174,805
Manitowoc Co Inc	4,500	267,435
Manor Care Inc	17,800	835,176
Manpower Inc	5,500	412,115
Marathon Oil Corp	6,800	629,000
Markel Corp	200	96,020
Marriott International Inc Class A	2,700	128,844
Martin Marietta Materials Inc	3,700	384,467
Massey Energy Co	13,300	308,959
MasterCard Inc	700	68,943
McGraw-Hill Cos Inc	7,400	503,348
McAfee Inc	600	17,028
McCormick & Co Inc	10,200	393,312
McKesson Corp	4,600	233,220
MeadWestvaco Corp	19,900	598,194
Medco Health Solutions Inc	11,100	593,184
Mediacom Communications Corp	90,991	731,568
Medtronic Inc	3,500	187,285
Mellon Financial Corp	2,200	92,730
Merck & Co Inc	26,500	1,155,400
Mercury General Corp	18,300	964,959
Meredith Corp	10,600	597,310
Merrill Lynch & Co Inc	14,100	1,312,710
Mettler-Toledo International Inc	2,500	197,125
MGI Pharma Inc	32,400	596,484
Micron Technology Inc	3,000	41,880
Microsoft Inc	32,900	982,394
Midas Inc	14,000	322,000
Molex Inc	14,300	452,309
Molson Coors Brewing Co Class B	14,100	1,077,804
MoneyGram International Inc	3,800	119,168
Monsanto Co	2,300	120,819
Monster Worldwide Inc	7,700	359,128
Moody's Corp	8,600	593,916

	Shares	Fair Value
Morgan Stanley	14,000	$1,140,020
Motorola Inc	45,850	942,676
Mueller Water Products Inc Co Class B	13,054	194,505
Murphy Oil Corp	15,200	772,920
Mylan Labs Inc	4,200	83,832
NCI Buildings Systems Inc	12,000	621,000
NCR Corp	2,600	111,176
NII Holdings Inc	200	12,888
NSTAR	5,700	195,852
NACCO Industries Inc Class A	2,900	396,140
Nash-Finch Co	20,400	556,920
Neehah Paper Inc	15,200	536,864
Network Appliance Inc	5,600	219,968
New York Community Bancorp Inc	62,100	999,810
Newell Rubbermaid Inc	5,400	156,330
Newmont Mining Corp	400	18,060
News Corp Inc Class A	27,800	597,144
NiSource Inc	23,800	573,580
Nike Inc Class B	300	29,709
Norfolk Southern Corp	3,700	186,073
Northern Trust Corp	29,000	1,760,010
Northrop Grumman Corp	25,200	1,706,040
Northstar Realty Finance Corp	23,300	386,081
Novellus Systems Inc	600	20,652
NRG Energy Inc	8,900	498,489
NTL Inc	26,472	668,153
NutriSystem Inc	3,700	234,543
Nuveen Investments Inc	5,700	295,716
NVIDIA Corp	5,700	210,957
NVR Inc	690	445,050
NYSE Group Inc	500	48,600
Oceaneering International Inc	3,200	127,040
Office Depot Inc	7,700	293,909
OmniVision Technologies Inc	42,000	573,300
Omnicare Inc	21,700	838,271
Omnicom Group Inc	4,300	449,522
Openwave Systems Inc	24,700	227,981
Oracle Corp	23,862	408,995
Oshkosh Truck Corp	4,900	237,258
OSI Pharmaceuticals Inc	21,500	752,070
Owens-Illinois Inc	49,500	913,275
P F Chang's China Bistro Inc	13,400	514,292
PMI Group Inc	18,400	867,928
PNC Financial Services Corp Inc	12,350	914,394
PPG Industires Inc	1,600	102,736
PACCAR Inc	1,000	64,900
Packaging Corporation of America	25,700	567,970
Pactiv Corp	12,400	442,556
Parker-Hannifin Corp	3,900	299,832
Paychex Inc	6,600	260,964
Pediatrix Medical Group Inc	7,700	376,530
Penney J C Co Inc	3,600	278,496
Pentair Inc	33,400	1,048,760
People's Bank Bridgeport, Conn	5,000	223,100

Domestic Equity Securities (continued)

	Shares	Fair Value
Pepsi Bottling Group Inc	7,200	$222,552
PepsiCo Inc	13,900	869,445
Petrohawk Energy Corp	33,020	379,730
PetSmart Inc	16,600	479,076
Pfizer Inc	72,100	1,867,390
Pharmaceutical Product Development	5,600	180,432
PharmaNet Development Group Inc	45,600	1,006,392
Philadelphia Consolidated Holding Corp	2,700	120,312
Pitney Bowes Inc	400	18,476
Polaris Industries Inc	15,300	716,499
Polo Ralph Lauren Corp	400	31,064
Polycom Inc	16,500	510,015
Precision Castparts Corp	1,200	93,936
Principal Financial Group Inc	200	11,740
Procter & Gamble Co	25,592	1,644,798
Progressive Corp	6,800	164,696
Prudential Financial Inc	7,950	682,587
Public Storage Inc	646	62,985
Qlogic Corp	17,400	381,408
Quest Diagnostics Inc	12,900	683,700
R H Donnelley Corp	18,181	1,140,494
RailAmerica Inc	41,000	659,280
Raytheon Co	4,900	258,720
Red Hat Inc	15,800	363,400
Reliant Energy Inc	96,800	1,375,528
Rent-A-Center Inc	27,500	811,525
Republic Services Inc	1,700	69,139
ResMed Inc	1,600	78,752
Respironics Inc	20,200	762,550
Rite Aid Corp	46,000	250,240
RLI Corp	7,800	440,076
Robert Half International Inc	900	33,408
Rock-Tenn Co	7,500	203,325
Rockwell Automation Inc	400	24,432
Rockwell Collins Inc	2,000	126,580
Rohm & Haas Co	1,100	56,232
Ross Stores Inc	5,600	164,080
Rowan Cos Inc	26,400	876,480
RPM International Inc	30,500	637,145
Russ Berrie & Co Inc	5,000	77,250
SCANA Corp	7,600	308,712
SEI Investments Co	3,800	226,328
SPX Corp	8,200	501,512
Sabre Holdings Corp Class A	25,400	810,006
Sally Beauty Holdings Inc	1,500	11,700
SanDisk Corp	500	21,515
Santarus Inc	114,100	893,403
SBA Communications Corp	400	11,000
Schawk Inc	24,800	484,592
Schein, Henry Inc	4,200	205,716
Schering Plough Corp	6,000	141,840
Schwab Charles Corp	900	17,406
SeaBright Insurance Holdings Inc	20,000	360,200
ServiceMaster Co	43,700	572,907

	Shares	Fair Value
Sherwin Williams Co	18,900	$1,201,662
Sierra Health Services Inc	2,600	93,704
Sigma-Aldrich Corp	1,200	93,264
Silgan Holdings Inc	19,300	847,656
Silicon Laboratories Inc	9,500	329,175
Simon Property Group Inc	200	20,258
SL Green Realty Corp	4,900	650,622
SLM Corp	3,000	146,310
Snap-on Inc	400	19,056
Sotheby's	15,800	490,116
South Financial Group	28,300	752,497
Southwest Airlines Co	16,600	254,312
Sprint Nextel Corp	36,000	680,040
SRA International Inc Class A	15,600	417,144
Starbucks Corp	12,900	456,918
State Street Corp	5,900	397,896
Station Casinos Inc	3,900	318,513
Stericycle Inc	2,400	181,200
Stone Energy Corp	4,700	166,145
Strategic Hotels & Resorts Inc	21,900	477,201
Stryker Corp	700	38,577
Sunoco Inc	2,900	180,844
SunTrust Banks Inc	14,700	1,241,415
Symantec Corp	2,200	45,870
Symbol Technologies Inc	5,100	76,194
Synovus Financial Corp	600	18,498
SYSCO Corp	4,800	176,448
TJX Companies Inc	13,100	373,612
T Rowe Price Group Inc	5,700	249,489
TXU Corp	2,000	108,420
Taubman Centers Inc	800	40,688
TECO Energy Inc	21,100	363,553
Tektronix Inc	2,200	64,174
Telephone & Data Special	7,200	357,120
Telephone & Data Systems Inc	10,200	554,166
Tellabs Inc	20,800	213,408
Terex Corp	1,400	90,412
TETRA Technologies Inc	3,400	86,972
Texas Instruments Inc	20,900	601,920
Textron Inc	1,200	112,524
The Brink's Co	3,100	198,152
The Hershey Co	23,100	1,150,380
The Timken Co	17,100	498,978
The Topps Co	42,400	377,360
The Toro Co	1,100	51,293
Thermo Fisher Scientific Inc	9,100	412,139
Thomas & Betts Corp	2,600	122,928
Thomas Properties Group Inc	35,000	560,350
Thor Industries Inc	1,000	43,990
Timberland Co Class A	19,390	612,336
Time Warner Inc	28,000	609,840
Titanium Metals Corp	3,000	88,530
Torchmark Corp	8,200	522,832
Tower Group Inc	23,800	739,466

Domestic Equity Securities (continued)

	Shares	Fair Value
Transaction Systems Architects Inc	21,600	$703,512
Tribune Co	17,800	547,884
Trimble Navigation Limited New	2,600	131,898
US Airways Group Inc	1,400	75,390
U S Bancorp	35,200	1,273,888
UST Inc	18,900	1,099,980
Union Pacific Corp	4,200	386,484
United Dominion Realty Trust Inc	6,700	212,993
United Health Group Inc	3,920	210,622
United Online Inc	44,200	586,976
United Parcel Service Inc Class B	18,000	1,349,640
United Technologies Corp	4,100	256,332
Universal Health Services Inc Class B	1,200	66,516
Univision Communications Inc	14,100	499,422
Valero Energy Corp	9,000	460,440
Valspar Crop	17,600	486,464
Varian Medical Systems Inc	900	42,813
Varian Semiconductor Equipment	16,800	764,736
VAC Antech Inc	9,700	312,243
Ventana Medical Systems Inc	12,400	533,572
Ventas Inc	1,500	63,480
Verizon Communications Inc	36,500	1,359,260
Volcano Corp	8,500	139,315
Wachovia Corp	14,526	827,256
Walgreen Co	500	22,945
Walter Industries Inc	7,900	213,695
Warner Music Group Corp	5,000	114,750
Washington Federal Inc	35,212	828,538
Washington Mutual Inc	39,600	1,801,604
Waste Connections Inc	6,150	255,533
Waste Management Inc	16,800	617,736
Waters Corp	400	19,588
Weingarten Realty Investors	400	18,444
WellCare Health Plans Inc	3,800	261,820
WellPoint Inc	1,486	116,933
Wells Fargo & Co	30,500	1,084,580
Wendy's International Inc	5,500	181,995
WESCO International Inc	1,800	105,858
Western Digital Corp	300	6,138
Western Union Co	7,600	170,392
Whiting Petroleum Corp	8,600	400,760
Wilmington Trust Corp	16,200	683,154
Windstream Corp	41,500	590,130
Wyeth	33,700	1,716,004
Wynn Resorts Limited	3,100	290,935
Xerium Technologies Inc	53,800	526,702
YRC Worldwide Inc	7,700	290,521
Yum! Brands Inc	700	41,160
Zenith National Insurance Corp	13,450	630,940
Zimmer Holdings Inc	1,000	78,380
Total Domestic Equity Securities	8,266,502	$272,607,876

Domestic Equity Commingled Funds

	Fair Value
S&P 500 Flagship Fund	$61,406,332
Russell 1000 Growth SL Fund	3,293,562
Russell 2500	48,088,518
Russell 2500 Growth	13,736,273
Total Domestic Equity Commingled Funds	$126,524,685

Total Domestic Equity	**$399,132,560**

International Equity Securities

	Shares	Fair Value
Amdocs Limited	21,400	$829,250
Cinram International Income Fund	46,800	924,300
COGNOS Inc	18,500	785,510
Denbury Resources Inc	11,500	319,585
Elan Corp plc (ADR)	63,500	936,625
Everest RE Group Ltd	8,000	784,880
Goldcorp Inc	6,600	187,704
Kinross Gold Corp	12,700	150,876
Nokia Corp	113,700	2,310,384
OMI Corp	30,000	635,100
Renaissance RE Holdings Ltd	14,000	840,000
Sappi Limited (ADR)	35,800	600,366
Satyam Computer (ADR)	13,300	319,333
SINA Corp	9,600	275,520
Syneron Medical Ltd	18,000	488,340
Teva Pharmaceutical Industries (ADR)	19,700	612,276
Tim Horton's Inc	3,927	113,726
Transocean Inc	9,850	796,767
Total International Equity Securities	456,877	$11,910,541

International Equity Commingled Funds

	Fair Value
World Asset Mgmt Foreign Equity Fund	$40,444,069
Julius Baer Int'l Equity II Group Trust Fund	23,944,322
Manning & Napier Fund, Inc./Overseas Series	25,883,317
Russell 2500	123,278
Total Int'l Equity Commingled Funds	$90,394,986

Total International Equity	**$102,305,528**

Fixed Income Commingled Funds

	Fair Value
JP Morgan Investment Management	$40,229,885
Wells Capital Management	46,533,869
Western Asset - US Treasury N/B Bond	1,030,040
Western Asset - High Yield Portfolio	14,127,374
Western Asset - Strategic Emerging Markets LLC	13,930,200
Western Asset - Strategic Non-Hedge LLC	11,976,103
Total Fixed Income Commingled Funds	**$127,827,471**

Real Estate

	Fair Value
Timbervest	$31,767,388
Fidelity Real Estate (FREG I)	3,129,888
Fidelity Real Estate (FREG II)	2,510,842
Russell 2500	3,929,691
6161 Busch Blvd	3,400,000
6500 Busch Blvd	3,000,000
Total Real Estate	**$47,737,809**

Private Equity

	Fair Value
Pantheon USA Fund VII, L.P.	$352,371
CSFB Private Equity Opportunities Fund L.P.	1,961,151
Total Private Equity	**$2,313,522**

Global Tactical Asset Allocation

	Fair Value
PanAgora Portable Alpha Fund	$20,590,159
PIMCO Funds StockPLUS, L.P. Fund A	19,677,073
Total GTAA	**$40,267,232**

Fund of Hedge Funds

	Fair Value
Evanston Capital/Weatherlow Offshore Fund II	$15,000,000
Lehman Bros Offshore Diversified Arbitrage Fund II	15,000,000
Total Funds of Hedge Funds	**$30,000,000**

Total Investments, at Fair Value	**$749,584,122**

Summary Schedule of Investment Manager Fees

Year Ending December 31, 2006

Manager	Assets Managed, 12/31/06	Fees
Brandywine Asset Management	$50,186,270	$324,443
Credit Suisse Alternative Investments	1,961,151	28,125
DePrince, Race & Zollo, Inc.	59,957,787	339,518
Eubel, Brady & Suttman	17,484,767	83,675
Evanston Capital Management LLC	15,000,000	--
Fidelity Management Trust Company	5,640,730	19,930
HPRS Internal Staff (real estate)	6,400,000	--
INTECH	84,083,796	397,000
JPMorgan Fleming Asset Management	40,229,885	427,361
Julius Baer Investment Management LLC	23,944,322	156,341
Lehman Brothers Alternative Investment Management LLC	15,000,000	--
MacKay Shields Investment Management LLC	47,970,270	226,262
Manning & Napier Fund, Inc.	25,883,317	--
Munder Capital Management	--	103,347
PanAgora	20,590,159	19,574
Pantheon Ventures, Inc.	352,371	18,750
PIMCO	19,677,073	14,552
State Street Global Advisors	64,699,894	33,786
Timbervest	31,767,388	215,498
Wells Capital Management	46,533,869	122,964
Western Asset	41,063,717	138,200
Westfield Capital Management	24,835,528	233,667
World Asset Management	106,321,828	91,147
Total	$749,584,122	$2,994,140

Summary Schedule of Broker Fees

Year Ending December 31, 2006

Brokers	Fees	Shares	Average Cost
Abel Noser	$12,632	672,729	$0.019
Broadcort Cap Corp	14,405	1,133,632	0.013
Capital Institutional Services	58,783	3,820,637	0.015
Citigroup Global Markets Inc	10,654	528,155	0.020
Deutsche Bank Securities Inc	11,467	583,195	0.020
Donaldson & Co	51,722	3,877,609	0.013
Goldman Sachs	8,369	421,735	0.020
Guzman & Co	6,831	349,800	0.020
Instinet	24,905	1,236,999	0.020
Jefferies & Co	8,138	527,560	0.015
Morgan Stanley & Co	12,803	829,700	0.015
Rosenblatt Securities Inc	8,687	425,850	0.020
UBS Securities LLC	6,554	333,200	0.020
Weeden & Co	8,255	401,700	0.021
Other	11,155	879,660	0.013
Total	$255,360	16,022,161	$0.016

Investment Objectives, Policies, and Guidelines

Objectives

1. The purpose of this Investment Policy statement is to comply with the directive of Ohio Revised Code Section 5505.06, wherein the Board of Trustees is to adopt public "policies, objectives or criteria for the operation of the investment program." As such, this statement is intended to provide general guidelines within which the Board may take full advantage of its investment authority pursuant to ORC Section 5505.06, while complying with its fiduciary responsibility. This statement is not intended to restrict the Board from consideration of all lawful and legal investment opportunities.

2. The primary objective of the Highway Patrol Retirement System is to provide eligible members with scheduled pension benefits. Although the fund is not governed by the Employees Retirement Income Security Act of 1974 (ERISA), the basic provisions contained in that Act are recognized and will serve as guidance to the management of this fund. In particular, the *prudent person* guidelines are to be followed with regard to the investment management of the fund. These guidelines require that the Board and other system fiduciaries exercise the care, skill, prudence, and diligence – under the circumstances then prevailing – that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims.

3. A secondary objective of the fund is to maintain a sufficient degree of liquidity in order to meet unanticipated demands and changing environments.

4. Consistent with prudent standards for preservation of capital and maintenance of liquidity, the goal of the fund is to earn the highest possible rate of return consistent with the fund's tolerance for risk as determined periodically by the Board in its role as a fiduciary. This objective should ensure adequate funds to meet scheduled benefits while maintaining level contributions.

5. In meeting these objectives, the Board will give consideration to investments that enhance the welfare of the State of Ohio, and Ohio citizens, where such investments offer safety and quality of return comparable to other investments currently available. Equal consideration will be given to investments otherwise qualifying under this section that involve minority-owned and controlled firms, or firms owned and controlled by women, either alone or in joint venture with other firms.

Policies

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

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

2. Asset classes and ranges considered appropriate for investment of fund assets are to be determined by the Board in accordance with these investment guidelines.

3. Assignment of responsibilities for each asset category (components of each asset category) may be assigned to one or more management firms that may be "specialty" managers (i.e., managing only one type of asset class).

4. The Board shall, at least annually, establish a policy with the goal to increase utilization of Ohio-qualified investment managers, when an Ohio-qualified investment manager offers quality, services, and safety comparable to other investment managers otherwise available.

5. The Board shall, at least annually, establish a policy with the goal to increase utilization of Ohio-qualified agents for the execution of domestic equity and fixed income trades on behalf of the retirement system, when an Ohio-qualified agent offers quality, services, and safety comparable to other agents otherwise available.

Investment Guidelines for Specific Asset Classes

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

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

2. Non-U.S. equities will represent from 10 to 20 percent of the market value of total fund assets with a targeted average of 15 percent.

3. Real estate may represent 7 to 11 percent of total fund assets with a targeted average of 9 percent.

4. U.S. fixed income obligations, including cash, will represent from 19 to 25 percent of the market value of total fund assets with a targeted average of 22 percent. Intermediate-term bonds may include contractual payments, preferred stocks, and bonds with a maturity date greater than one year and less than or equal to ten years. Long-term bonds have a maturity date greater than ten years.

5. Investments in hedge funds or funds of hedge funds may represent up to 5 percent of the total value of the investment fund.

6. Investments in private equity funds or funds of private equity funds may represent up to 5 percent of the total value of the investment fund.

Asset Allocation

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

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

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

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

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

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

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

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

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

The real estate portfolio will be constructed and managed to –

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

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

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

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

Performance

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

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

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

- A minimum return target of 8 percent, representing the fund's actuarial assumption, and also representing the long-term inflation rate of 3 percent plus a risk premium of 5 percent.
- A composite reference fund comprised of 32 percent S&P 500 Index, 16 percent Russell 2500 Index, 25 percent Lehman Brothers Aggregate Index, 15 percent MSCI EAFE Index, and 12 percent NCREIF Index. Results of each asset class will also be compared to the relevant market index.

Investment Responsibilities

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

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

Annual Review

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

Revised, June 16, 2005
Revised, June 26, 2003
Revised, November 15, 2001
Revised, June 22, 1999
Revised, March 13, 1997
Adopted and approved, September 7, 1994
Revised, June 29, 1994
Revised, September 5, 1990
Revised, June 1, 1988
Adopted and approved, June 11, 1986

Actuarial Section

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June 6, 2007

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

Dear Board Members:

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

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

The financial objective is addressed within the annual actuarial valuation. The valuation process develops contribution rates that are sufficient to fund the plan's current cost (i.e., the costs assigned by the valuation method to the year of service about to be rendered), as well as to fund unfunded actuarial accrued liabilities as a level percent of active member payroll over a finite period. The most recent valuations were completed based upon population data, asset data, and plan provisions as of December 31, 2005.

The plan administrative staff provides the actuary with data for the actuarial valuation. The actuary relies on the data after reviewing it for internal and year-to-year consistency. The actuary summarizes and tabulates population data in order to analyze longer term trends. The plan's external auditor also audits the actuarial data annually. The actuary prepared or assisted in preparing the following supporting schedules for the Comprehensive Annual Financial Report:

- Actuarial Section
  - Summary of Assumptions
    - Funding Method, Asset Valuation Method, Interest Rate
    - Payroll Growth
    - Probabilities of Age & Service Retirement
    - Probabilities of Separation from Active Employment Before Age & Service Retirement
    - Health Care and Medicare
  - Short-Term Solvency Test
  - Recent Experience in the Health Care Fund
  - Membership Data
  - Analysis of Financial Experience

The Retirement Board
June 6, 2007
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Supplementary Schedules

Schedule of Funding Progress

Schedule of Employer Contributions

Notes to Trend Data

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

Actuarial valuations are based upon assumptions regarding future activity in specific risk areas including the rates of investment return and payroll growth, eligibility for the various classes of benefits, and longevity among retired lives. These assumptions are adopted by the Board after considering the advice of the actuary and other professionals. The assumptions and the methods comply with the requirements of Statement 25 of the Governmental Accounting Standards Board. Each actuarial valuation takes into account all prior differences between actual and assumed experience in each risk area and adjusts the contribution rates as needed. The assumptions used in the December 31, 2005 valuation were based upon a study of experience during the years 2000 through 2004.

Investment return during 2005 was less than assumed, and the pension amortization period as of December 31, 2005 increased to 35 years. The comparable figure from the 2004 valuation, after adjusting for assumption changes, is 32 years. The Retiree Health Plan continues to be cause for concern. Based upon the present contribution rate allocation, the Plan is expected to remain solvent until 2020. Benefit payouts and available resources need to be brought in line before that time if the Plan is to continue to provide benefits similar to those currently provided.

Based upon the results of the December 31, 2005 valuations, we are pleased to report to the Board that the Highway Patrol Retirement System of Ohio is meeting its basic financial objective with respect to pensions and continues to operate in accordance with actuarial principles of level percent of payroll financing. Continued cost containment efforts can have a positive effect on the Retiree Health Plan, but we believe that additional contribution income is needed.

Respectfully submitted,

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

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

BBM:mdd:vmb

Gabriel Roeder Smith & Company

Summary of Assumptions

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

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

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

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

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

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

Health Care. Premiums are assumed to increase annually by 4.0%, plus an additional percentage ranging from 1.0-7.0% through 2013. All retirees are assumed to receive a joint and survivor pension benefit.

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

Other Assumptions.

Probabilities of Age & Service Retirement

Percentage of Eligible Members Retiring Within Next Year

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

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

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

Probabilities of Separation from Active Employment before Age & Service Retirement

Percentage of Active Members Separating Within Next Year

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

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

A short-term solvency test is one means of checking a system's progress under its funding program. In a short-term solvency test, the plan's present assets (cash and investments) are compared with (1) active member contributions on deposit, (2) the liabilities for future benefits to present retired lives, and (3) the liabilities for service already rendered by active members. In a system that has been following the discipline of level percent financing, the liabilities for active member contributions on deposit (1) and the liabilities for future benefits to present retired lives (2) will be fully covered by present assets, except in rare circumstances. In addition, the liabilities for service already rendered by active members will be partially covered by the remainder of present assets. Generally, if the system has been using level cost financing, the funded portion of column 3 will increase over time.

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

Year	(1) Active Member Contributions	(2) Retirees, Beneficiaries & Vested Deferreds	(3) Active Members (Employer Financed Portion)	Valuation Assets	Percentage of Accrued Liabilities Covered by Reported Assets (1)	(2)	(3)
2000►	59,455,707	358,422,165	176,344,731	570,039,631	100	100	86
2001	63,969,216	374,228,361	198,517,881	551,279,438	100	100	57
2002►	68,794,904	391,098,788	203,176,113	527,604,456	100	100	33
2003	73,358,075	412,818,959	216,621,983	545,981,513	100	100	28
2004▲	77,100,466	445,084,791	212,279,114	569,858,387	100	100	22
2005►	77,779,569	463,476,318	232,600,277	591,922,200	100	100	22

▲ Plan Amendment

► Assumption or method change

Postemployment Health Care and Medicare Reimbursement

Year	Covered Lives	Medical	Prescriptions	Med B	Dental	Vision	Member Premiums/ Adjustments	Net Paid By HPRS	Per Covered Life	Payroll	% of Payroll
2000	1,848	3,190,885	1,684,300	203,157	--	--	(358,082)	4,720,260	2,554	69,028,285	6.8
2001	1,900	3,730,167	1,960,825	231,046	--	--	138,317	6,060,355	3,190	76,344,002	7.9
2002	1,943	4,147,534	2,431,297	260,772	$194,893	$80,909	(200,021)	6,915,384	3,559	78,997,065	8.8
2003	1,912	4,256,046	2,681,414	290,506	209,429	82,097	(507,642)	7,011,850	3,667	81,737,962	8.6
2004	1,928	4,074,972	2,710,367	347,585	230,994	84,136	(641,707)	6,806,347	3,530	81,757,707	8.3
2005	1,958	6,015,277	2,980,755	422,045	364,139	124,658	(552,570)	9,354,304	4,777	83,408,155	11.2

Active Member Data

Year Ending December 31	Active Members	Annual Payroll	Average Annual Salary	% Increase in Average Pay
2000	1,489	69,028,285	46,359	1.5
2001	1,520	76,344,002	50,226	8.3
2002	1,548	78,997,065	51,032	1.6
2003	1,542	81,737,962	53,008	3.9
2004	1,562	81,757,707	52,342	(1.3)
2005	1,573	83,408,155	53,025	1.3

Retiree and Beneficiary Data

	Added to Rolls		Removed from Rolls		Rolls at End of Year			
Year Ending December 31	Number	Annual Allowances	Number	Annual Allowances	Number	Annual Allowances	% Increase In Annual Allowances	Average Annual Allowance
2000	78	2,640,298	27	516,382	1,174	27,605,568	8.3	23,514
2001	53	2,177,124	20	258,996	1,207	29,523,696	6.9	24,460
2002	55	2,211,612	31	498,012	1,231	31,237,296	5.8	25,376
2003	48	2,356,620	26	352,128	1,253	33,241,788	6.4	26,532
2004	58	3,448,140	29	409,836	1,282	36,280,092	9.1	28,296
2005	45	2,335,992	26	483,312	1,301	38,132,772	5.1	29,316

Analysis of Financial Experience

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

Type of Activity	Gain (or Loss) for Year 2005	Gain (or Loss) for Year 2004
Age & Service Retirements. If members retire at older ages or with lower final average pay than assumed, there is a gain. If younger ages or higher average pays, a loss.	$573,112	$143,945
Disability Retirements. If disability claims are less than assumed, there is a gain. If more claims, a loss.	511,784	530,593
Death-in-Service Benefits. If survivor claims are less than assumed, there is a gain. If more claims, a loss.	(75,140)	(63,567)
Withdrawal From Employment. If more liabilities are released by withdrawals than assumed, there is a gain. If smaller releases, a loss.	218,425	72,037
Pay Increases. If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	10,088,099	10,509,323
Contribution Income. If more contributions are received than expected, there is a gain. If less, a loss.	0	0
Investment Income. If there is greater investment income than assumed, there is a gain. If less income, a loss.	(12,724,444)	(9,723,198)
Other. Miscellaneous gains and losses resulting from data adjustments, timing of financial transactions, valuation methods, and other events.	(5,551,189)	(7,585,111)
Gain (or Loss) During Year From Financial Experience	($6,959,353)	($6,115,978)
Non-Recurring Items. Adjustments for benefit and assumption changes.	7,114,727	3,403,007
Composite Gain (or Loss) During Year	$155,374	($2,712,971)

Plan Summary

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

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

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

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

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

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

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

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

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

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

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

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

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

Resignation or Discharge. A member who voluntarily resigns or is discharged from the State Highway Patrol for any reason other than dishonesty, cowardice, intemperate habits, or conviction of a felony, and who has accumulated at least 15 but less than 20 years of total service credit, receives a pension equal to one and one-half percent of the final average salary, multiplied by the number of years of service. This pension becomes payable at age 55.

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

Payment Plans

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

Each member may select from the following retirement payment plans:

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

Under the single life annuity plan, a surviving spouse receives a monthly benefit equal to the greater of $900 or one-half of the deceased member's monthly benefit.

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

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

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

Survivor Benefits

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

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

The surviving spouse of a deceased retiree, or of an active member who was eligible to receive a retirement pension at the time of death, receives a monthly benefit equal to the greater of $900 or one-half the deceased member's monthly pension benefit.

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

Health Care

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

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

Medicare

Benefit recipients who submit proof of Medicare Part B coverage are reimbursed for the basic Part B premium, up to $88.50 monthly.

Cost of Living

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

Death After Retirement

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

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Statistical Section

Changes in Net Assets – Pension, 1997-2006

Additions	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**	**1999**	**1998**	**1997**
Employer Contributions	$19,263,941	$18,467,789	$17,205,609	$16,361,339	$14,923,893	$13,901,313	$13,228,166	$13,590,916	$13,125,225	$12,262,534
Member Contributions	8,610,088	8,582,130	8,192,944	8,136,974	7,563,173	7,042,044	6,954,301	6,708,497	6,573,762	6,146,774
Transfers from Other Systems	648,282	1,180,951	856,496	763,419	999,176	999,380	925,998	418,603	474,362	298,691
Investment Income, net of expenses	85,692,657	37,890,851	62,907,281	105,112,725	(42,921,956)	(17,920,157)	(14,120,288)	33,612,434	13,029,413	66,159,004
Total Additions	$114,214,968	$66,121,721	$89,162,330	$130,374,457	$(19,435,714)	$4,022,580	$6,988,177	$54,330,450	$33,202,762	$84,867,003
Deductions										
Benefits Paid Directly to Participants	40,343,244	37,716,268	35,187,531	33,074,853	31,325,089	29,457,281	27,042,946	24,324,038	21,539,636	18,683,246
Refunds of Member Contributions	299,128	495,640	155,989	386,931	266,137	306,452	363,067	529,654	164,054	231,705
Administrative Expenses	572,616	561,817	518,834	559,052	462,200	524,922	549,168	449,167	648,144	704,542
Transfers to Other Systems	914,950	403,975	602,345	789,387	1,054,264	448,381	904,972	196,414	281,606	98,810
Total Deductions	$42,129,938	$39,177,700	$36,464,699	$34,810,223	$33,107,690	$30,737,036	$28,860,153	$25,499,273	$22,633,440	$19,718,303
Change in Pension Net Assets	$72,085,030	$26,944,021	$52,697,631	$95,564,234	$(52,543,404)	$(26,714,456)	$(21,871,976)	$28,831,177	$10,569,322	$65,148,700

Changes in Net Assets – OPEB, 1997-2006

Additions	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**	**1999**	**1998**	**1997**
Employer Contributions	$3,064,718	$3,006,385	$2,867,602	$3,395,749	$3,780,715	$3,521,665	$3,351,135	$2,787,880	$2,692,111	$2,548,781
Investment Income, net of expenses	15,632,184	8,998,070	12,051,961	18,885,722	(6,673,383)	(2,900,183)	(3,114,980)	6,878,890	1,396,472	11,536,686
Total Additions	$18,696,902	$12,004,455	$14,919,563	$22,281,471	$(2,892,668)	$621,482	$236,155	$9,666,770	$4,088,583	$14,085,467
Deductions										
Health Care Expenses	7,980,823	8,932,259	6,948,650	7,181,129	7,025,043	6,179,096	4,720,260	5,498,402	3,128,888	2,499,178
Administrative Expenses	92,761	92,344	86,031	93,769	78,635	90,422	95,423	78,854	114,378	122,856
Total Deductions	$8,073,584	$9,024,603	$7,034,681	$7,274,898	$7,103,678	$6,269,518	$4,815,683	$5,577,256	$3,243,266	$2,622,034
Change in OPEB Net Assets	$10,623,318	$2,979,852	$7,884,882	$15,006,573	$(9,996,346)	$(5,648,036)	$(4,579,528)	$4,089,514	$845,317	$11,463,433

Benefit and Refund Deductions from Net Assets by Type – Pension, 1997-2006

Type of Benefit	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Age & Service	$15,564,940	$17,896,089	$13,986,153	$13,512,215	$12,875,628	$12,362,262	$11,350,168	$10,508,139	$9,501,116	$8,641,141
Early	17,533,382	15,729,197	14,183,148	12,901,479	11,972,979	11,120,366	10,330,228	9,275,973	7,957,647	6,180,637
Reduced	1,659,235	86,287	1,573,077	1,504,785	1,422,072	1,342,338	1,278,883	1,139,917	1,038,714	1,009,144
Disability	2,534,672	2,305,544	2,051,805	1,875,919	1,828,394	1,605,426	1,407,201	1,089,813	855,775	785,875
Survivor	3,486,462	1,615,697	3,258,253	3,186,291	3,141,877	2,961,525	2,620,466	2,288,195	2,177,384	2,050,451
Death Benefits	65,000	75,000	80,000	80,000	85,000	65,000	56,000	22,000	9,000	16,000
Total Pension Benefits	$40,843,691	$37,707,814	$35,132,436	$33,060,690	$31,325,949	$29,456,917	$27,042,946	$24,324,038	$21,539,636	$18,683,247
Member Refunds	$299,128	$495,640	$155,989	$386,931	$266,137	$306,452	$363,067	$529,654	$164,054	$231,705

Benefit and Refund Deductions from Net Assets by Type – OPEB, 1997-2006

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Medical	$4,999,823	$6,015,277	$4,413,042	$4,667,790	$4,688,375	$4,568,057	$3,394,042	$4,275,700	$2,147,334	$1,623,640
Prescriptions	2,832,743	2,980,755	2,710,367	2,681,414	2,431,297	1,960,825	1,684,300	1,364,990	1,122,248	849,321
Medicare-B reimbursement	503,034	422,045	347,585	290,506	260,772	231,046	203,157	197,606	171,223	166,743
Dental	408,667	364,139	230,994	209,429	194,893	--	--	--	--	--
Vision	127,266	124,658	84,136	82,097	80,909	--	--	--	--	--
Total	$8,871,533	$9,906,874	$7,786,124	$7,931,236	$7,656,246	$6,759,928	$5,281,499	$5,838,296	$3,440,805	$2,639,704
Member Premiums/Adjustments	(890,710)	(552,570)	(489,889)	(459,601)	(370,431)	(349,786)	(358,082)	(339,894)	(311,917)	(140,526)
Net Paid by HPRS	$7,980,823	$9,354,304	$7,296,235	$7,471,635	$7,285,815	$6,410,142	$4,923,417	$5,498,402	$3,128,888	$2,499,178

(Dental & Vision combined with Medical prior to 2002)

Principal Participating Employer, 2006 & 1997

	2006		1997	
Participating Government	Covered Employees	Percentage of Total System	Covered Employees	Percentage of Total System
State Highway Patrol	1,568	100%	1,445	100%

Retired Members by Type of Benefit, December 31, 2006

Monthly Benefit	Number of Retired Members	Type of Retirement						Option Selected							
		1	2	3	4	5	6	Unmodified	1	2	3	4	5	6	7
Deferred	9														
$1 - 250	37					37		36	1						
251-500															
501 - 750	2						2	2							
751 - 1000	37					32	5	37							
1001 - 1250	149			18	1	129	1	148	1						
1251 - 1500	109	7		21	8	72	1	109							
1501 - 1750	120	82	4	14	9	10	1	120							
1751 - 2000	49	23	2	13	8	2	1	48	1						
2001 - 2250	53	22	5	13	13			52	1						
2251 - 2500	94	26	45	1	22			91		3					
2501 - 2750	143	26	104		13			137		3	2				1
2751 - 3000	149	59	72	3	15			147			1				1
3001 - 3250	128	42	80		6			126		2					
3251 - 3500	112	41	69	1	1			108		2	2				
Over 3,500	250	125	123		2			241	1	2	5			1	
Total	1,441	453	504	84	98	282	11	1402	5	12	10	0	0	1	2

Notes

Type of retirement:

1 - Normal retirement for age and service

2 - Early retirement

3 - Reduced retirement

4 - Disability

5 - Survivor benefit

6 - Alternate payee (division of property order)

Option selected:

Unmodified plan: survivor receives 50% continuance (min. $900 monthly)

The following options reduce the retired member's monthly benefit:

Option 1 - Beneficiary receives 0 to <25% of member's reduced monthly benefit

Option 2 - Beneficiary receives 25 to <50% of member's reduced monthly benefit

Option 3 - Beneficiary receives 50% or more of member's reduced monthly benefit

Option 4 - Beneficiary receives 100% of member's remaining reduced monthly benefit for 5 years after benefit begins

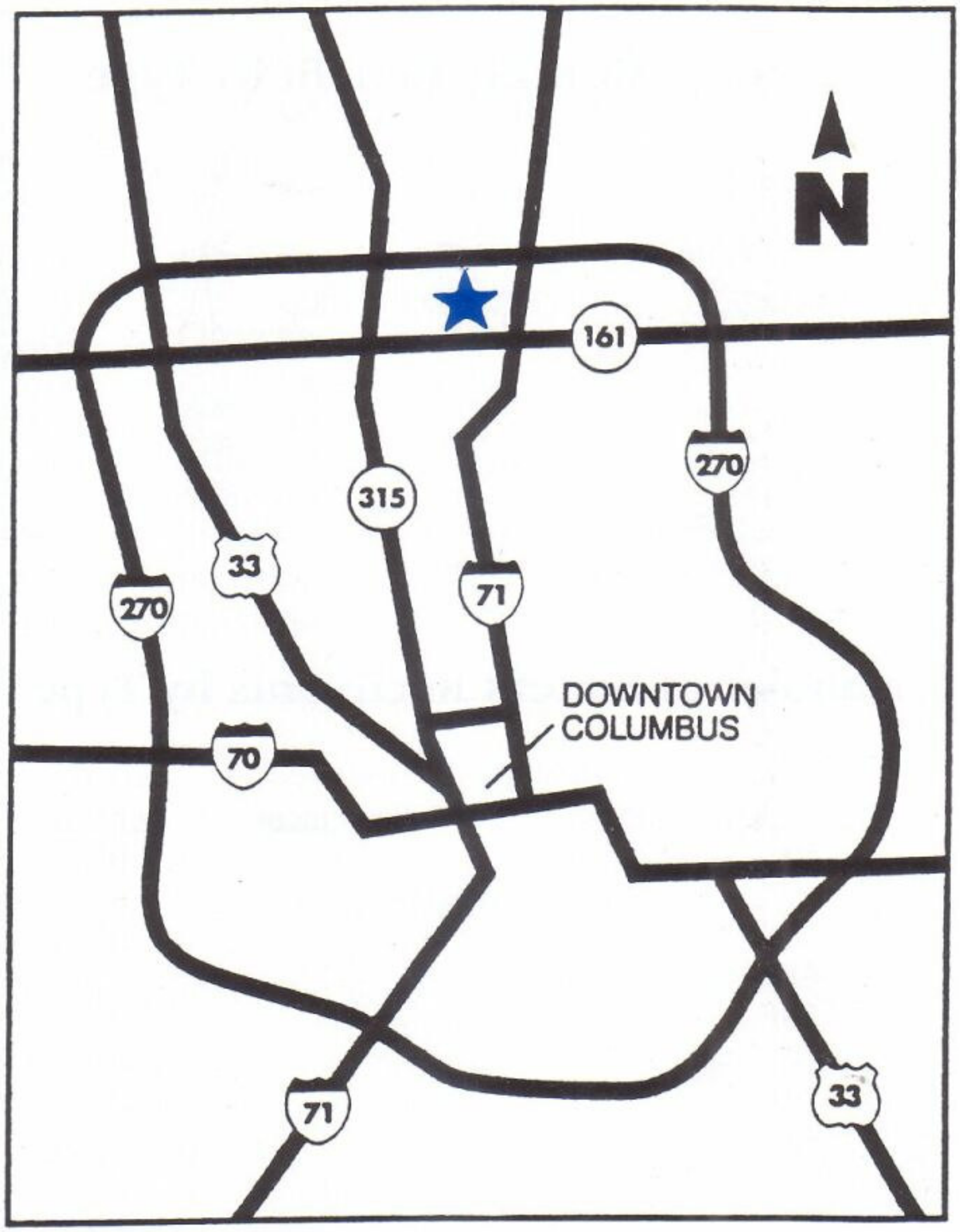
Option 5 - Beneficiary receives 100% of member's remaining reduced monthly benefit for >5 to 10 years after benefit begins

Option 6 - Beneficiary receives 100% of member's remaining reduced monthly benefit for >10 to 15 years after benefit begins

Option 7 - Beneficiary receives 100% of member's remaining reduced monthly benefit for >15 years after benefit begins

Average Benefit Payments, 1997-2006

Retirement During		Years of Credited Service		
		20 to <25	**25 to <30**	**30+**
2006	Average Monthly Benefit	$2,444	$3,448	$6,850
	Average Final Average Salary	$4,349	$5,542	$8,852
	Number of Retirees	7	30	1
2005	Average Monthly Benefit	$2,601	$3,238	$5,064
	Average Final Average Salary	$4,807	$4,995	$6,721
	Number of Retirees	4	26	4
2004	Average Monthly Benefit	$2,267	$3,327	$5,386
	Average Final Average Salary	$4,781	$5,113	$7,109
	Number of Retirees	3	36	5
2003	Average Monthly Benefit	$2,116	$3,322	$3,685
	Average Final Average Salary	$4,313	$5,206	$5,015
	Number of Retirees	6	28	5
2002	Average Monthly Benefit	$2,151	$2,937	$3,223
	Average Final Average Salary	$4,348	$4,726	$4,651
	Number of Retirees	5	21	12
2001	Average Monthly Benefit	$2,228	$3,100	$3,900
	Average Final Average Salary	$4,164	$4,653	$5,211
	Number of Retirees	13	13	12
2000	Average Monthly Benefit	$2,171	$3,004	$3,857
	Average Final Average Salary	$4,127	$4,620	$5,128
	Number of Retirees	11	29	11
1999	Average Monthly Benefit	$2,015	$2,570	$3,384
	Average Final Average Salary	$3,758	$4,045	$4,583
	Number of Retirees	17	44	11
1998	Average Monthly Benefit	$1,988	$2,512	$2,907
	Average Final Average Salary	$3,757	$3,991	$4,154
	Number of Retirees	10	61	16
1997	Average Monthly Benefit	$2,001	$2,451	$3,047
	Average Final Average Salary	$3,554	$4,065	$4,532
	Number of Retirees	4	42	25



Highway Patrol Retirement System
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Office Hours: 8:00 am to 4:30 pm

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

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