OHIO DEFERRED COMPENSATION

OHIO PUBLIC EMPLOYEES DEFERRED COMPENSATION PROGRAM

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

**For the year ended December 31, 2006**

Mary Taylor, CPA
Auditor of State

Members of the Board
Ohio Public Employees Deferred Compensation Program
250 Civic Center Drive, Suite 350
Columbus, Ohio 43215

We have reviewed the *Independent Auditor's Report* of the Ohio Public Employees Deferred Compensation Program, Franklin County, prepared by Clark, Schaefer, Hackett & Co., for the audit period January 1, 2006 through December 31, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Ohio Public Employees Deferred Compensation Program is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

July 24, 2007

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# OHIO PUBLIC EMPLOYEES
# DEFERRED COMPENSATION PROGRAM
# Comprehensive Annual Financial Report
# For the year ended December 31, 2006

R. Keith Overly, Executive Director
Paul D. Miller, Assistant Director-Finance

250 Civic Center Drive, Suite 350, Columbus, Ohio 43215-5450

# TABLE OF CONTENTS

**INTRODUCTORY SECTION** .......... **3**

CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FICNANCIAL REPORTING .......... 4
ORGANIZATION CHART .......... 5
TRANSMITTAL LETTER .......... 6
PLAN SUMMARY .......... 10

**FINANCIAL SECTION** .......... **16**

INDEPENDENT AUDITORS' REPORT .......... 17
MANAGEMENT'S DISCUSSION AND ANALYSIS .......... 18
STATEMENTS OF PLAN NET ASSETS .......... 20
STATEMENTS OF CHANGES IN PLAN NET ASSETS .......... 21
NOTES TO THE FINANCIAL STATEMENTS .......... 22
SUPPLEMENTAL COMBINING SCHEDULE OF PLAN NET ASSETS .......... 37
SUPPLEMENTAL COMBINING SCHEDULE OF CHANGES IN PLAN NET ASSETS .......... 38
SUPPLEMENTAL SCHEDULE OF ADMINISTRATION FUND DEDUCTIONS .......... 39
SUPPLEMENTAL SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS .......... 40

**INVESTMENT SECTION** .......... **41**

SCHEDULE OF INVESTMENT PERFORMANCE .......... 42
INVESTMENT MIX .......... 43
STABLE VALUE OPTION DIVERSIFICATION .......... 44

**STATISTICAL SECTION** .......... **45**

STATISTICAL INFORMATION .......... 46
CHANGES IN NET ASSETS .......... 47
EMPLOYEE PARTICIPATION .......... 48
DEFERRAL/ACCOUNT TRENDS .......... 48
NUMBER OF EMPLOYERS CONTRIBUTING .......... 49
PRINCIPLE CONTRIBUTING EMPLOYERS .......... 49
BENEFIT PAYMENTS .......... 50

OHIO DEFERRED COMPENSATION

OHIO PUBLIC EMPLOYEES DEFERRED COMPENSATION PROGRAM

# INTRODUCTORY SECTION

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## Ohio Public Employees Deferred Compensation Program

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.

President

Executive Director

# ORGANIZATION CHART
## AS OF 12/31/06

### DEFERRED COMPENSATION BOARD

**Charlie R. Adkins,** State College and University Employees
**Ronald C. Alexander,** State Employees
**Sharon M. Downs,** Retired Group
**Carol Nolan Drake,** Director of Administrative Services
**Jay Hottinger,** Ohio Senate
**John W. Maurer,** Retired Group
**Cinthia Sledz,** Miscellaneous Employees
**Robert C. Smith,** Investment Expert, Appointed by Governor
**Dan Stewart,** Ohio House of Representatives
**Ken Thomas,** Municipal Employees
**James R. Tilling,** Investment Expert, Appointed by General Assembly
**Warren W. Tyler,** Investment Expert, Appointed by Treasurer of State
**Helen Youngblood,** County Employees

**EXECUTIVE DIRECTOR**
**R. Keith Overly**

**ASSISTANT DIRECTOR**
**ADMINISTRATION**
**Richard T. Wissler**

**ASSISTANT DIRECTOR**
**FINANCE**
**Paul D. Miller**

## Advisors To The Board

**Independent Public Accountants**
Clark, Schaefer, Hackett & Co.

**Legal Counsel**
Jim Petro, Attorney General

**Consultant**
Ennis Knupp & Associates

OHIO DEFERRED COMPENSATION

OHIO PUBLIC EMPLOYEES DEFERRED COMPENSATION PROGRAM

June 11, 2007

Dear Chair and Members of the Board:

We are pleased to submit to you the Comprehensive Annual Financial Report for the Ohio Public Employees Deferred Compensation Program (the Program) for the year ended December 31, 2006. The Comprehensive Annual Financial Report was prepared to assist the user in understanding the functions of the Program and how participants use the Program to supplement their retirement income.

The Comprehensive Annual Financial Report (CAFR) consists of four sections:

(1) an Introductory Section which contains this Letter of Transmittal, along with a list of the administrative organization and consulting services utilized by the Program, and a summary of plan provisions;

(2) a Financial Section which includes the Independent Auditors' Report, Management's Discussion and Analysis, financial statements and supplemental information. Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complement this letter of transmittal and should be read in conjunction with it;

(3) an Investment Section which includes investment values and performance; and

(4) a Statistical Section which includes selected financial and demographic information, generally presented on a multi-year basis.

The Ohio Revised Code created the Deferred Compensation Board (the Board) to administer the Program for all eligible employees. However, the State created the Program as a legal entity separate from the State, and does not appoint a voting majority of the Program's governing Board. The Program is self-funded and governed by its own Board. The State does not approve the Program's budget or set Program rates or charges. The Program provides services to over 184,000 participants from 1,654 Ohio state and local governments, and is therefore not part of the State of Ohio reporting entity. A complete listing of participating employers is available upon request.

**Plan History and Overview**

The Ohio Public Employees Deferred Compensation Program first received deferrals in 1976 pursuant to Internal Revenue Code (IRC) Section 457 and Ohio Revised Code Section 148. Any public employee who is eligible to participate in one of the state's statutory retirement systems is eligible to contribute, on a pre-tax basis, a portion of their annual includable compensation. Funds may be withdrawn at retirement, death, or termination of employment, or due to certain qualifying unforeseeable emergencies. Participation is strictly voluntary and the Program is intended to supplement retirement benefits from the statutory retirement systems.

**Economic Conditions and Outlook**

In 2006, the first of the “baby boomers” reached age 60, and the impact of their pending retirement is being carefully watched. Employers may be affected by larger numbers of their employees retiring, and these retirees will need sufficient retirement income to live on. These two conditions could affect the Program. A large turnover will require greater service efforts for both the retiring employees and newly hired replacement employees. Also, the retired employees will have access to their retirement funds, which could reduce Program assets. To date, there has not been a significant increase in the number of Program participants in payout status, and the dollar amount of participant benefit distributions has not increased significantly. Instead, the Program expects that participants will leave most of their retirement funds invested and only withdraw funds as needed.

Equity markets produced strong, positive returns for the fourth straight year following three negative years of performance. Participants have responded to the positive market cycle by increasing their rate of deferral, and allocating more funds from stable value into the other Program investment options. The 2006 average annual deferral increased to $3,760, a 4.4% increase compared to the prior year, and total employee contributions in 2006 rose 4.9% over the prior year. More participants have terminated accounts, and benefit distributions increased by 8.1%. Based upon these trends, total year-end net assets available for benefits grew 11.9% over the prior year, and at $6.855 billion represents the highest year-end total for the Program.

**Major Initiatives**

During 2006, the Program made significant changes to its investment line-up to provide participants with quality, low-cost, diversified, long-term investment products.

- Two index mutual funds were added to the line-up to expand the range of passive investment options (international, small-cap, large-cap, and bonds).
- One large-cap fund that had been closed to new investments was re-opened, while five other large-cap options were closed-out and their assets transferred to other existing large-cap options, reducing the menu of large-cap options from eleven choices down to six.
- The four lifecycle options were moved from mutual funds to collective trust funds, which reduced the annualized expense ratio from 0.85% to 0.50%.
- The small-cap growth option was replaced with a stronger performing fund.
- A sixth manager was added to the stable value portfolio to provide additional diversification with an active core-plus portfolio.

## Financial Information and the Internal Control Structure

Program management is responsible for the information in this report and for establishing and maintaining a system of internal controls sufficient to provide integrity to all financial information and to permit reporting in conformity with accounting principles generally accepted in the United States of America.  We believe that the information presented in this CAFR is accurately and fairly presented in all material respects.

The net assets available for benefits and changes in net assets available for benefits of the Program are included as a Pension Fund in the Financial Section of this presentation.  All financial activity is reported on the accrual basis of accounting.  Additions are recorded in the period in which they are earned, and deductions are recorded in the period in which the liability is incurred.

Excess Administration Fund cash is held in money market accounts.  Cash is held for capital acquisitions and is used to supplement monthly operations, if administrative expenses exceed revenues during a given month.  Management seeks to maintain sufficient cash reserves to cover three to twelve months of operating expenses.

## Program Additions

Additions to Program assets come from investment income earned on participant accounts, employee contributions, transfers from other plans, and recordkeeping reimbursements.  Net investment income of $584 million was the largest asset addition in 2006 compared to $410 million in 2005.  Employee contributions were $433 million in 2006 versus $413 million in 2005.  The number of participants actively deferring remained relatively unchanged, but the average deferral amount rose 4.4% as participants chose to save more into their retirement accounts.  Transfers from other qualified pre-tax retirement plans into the Program decreased 17.3% between 2006 and 2005.

## Program Deductions

During 2006, the amount of participant benefit distributions increased by 8.1% over the prior year.  This increase is attributable to more retired participants accessing their accounts (5.3% more participants in payout status over last year) and higher account balances due to greater investment earnings.  Transfers to other eligible retirement plans and to defined benefit plans to purchases of service credit increased 25.6 % in 2006.  This increase in transfers is due to greater competition to manage employees' retirement assets.  Administrative expenses rose by 4.7% over the prior year.

## Investments

The Program is a self-directed plan, so participants choose the investment options for their current deferrals and balances.  The stable value investment option accounts for 44.7% of all invested funds, with the remainder invested in 20 mutual or commingled fund options.  Investment performance results are reported to participants quarterly via the Program's newsletter and web site.  A listing of investment options and their performance returns is included in the Investment Section of this report.

**Independent Auditors**

The financial statements of the Program for the years ended December 31, 2006 and 2005 were audited by Clark, Schaefer, Hackett & Co. under contract with the Auditor of State of Ohio.

**Certificate of Achievement**

The Government Finance Officers Association of the United States and Canada (GFOA) most recently awarded a Certificate of Achievement for Excellence in Financial Reporting to the Ohio Public Employees Deferred Compensation Program for the fiscal year ended December 31, 2005.  The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting.  In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards.  Such reports must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.  A Certificate of Achievement is valid for a period of one year only.  We believe our current report continues to conform to Certificate of Achievement program requirements, and we are submitting it to the GFOA to determine its eligibility for another Certificate of Achievement.

**Acknowledgments**

The preparation of this report reflects the combined efforts of the Program's staff under the direction of the Board.  Its purpose is to provide complete and reliable information as a basis for making decisions, and as a means for determining responsible stewardship over the assets contributed by participants.

Respectfully submitted,

| | |
|---|---|
| R. Keith Overly | Paul D. Miller, CPA |
| Executive Director | Assistant Director-Finance |

# PLAN SUMMARY

The Ohio Public Employees Deferred Compensation Plan (the Plan) is established pursuant to Ohio Revised Code Section 148 and will at all times comply with the current Internal Revenue Code and Internal Revenue Service Regulations. The Plan is effective as to each eligible employee (i.e. public employees as defined in Section 148.01(A)(1) of the Ohio Revised Code) upon the date he or she becomes an active participant by executing a participation agreement with the employer.

This Plan summary includes all Plan revisions approved by the Board that were effective as of December 31, 2006. Participants should refer to the Plan Document for complete Plan information.

**Delegation by Employer -** The participating employers have delegated their powers, duties, and responsibilities under the Plan to the Ohio Public Employees Deferred Compensation Board.

**Commencement of Participation -** Each eligible employee shall be permitted to participate under this Plan. An eligible employee shall elect to participate and become an active participant by executing a participation agreement with their employer. A participation agreement shall specify:

a. The amount of the active participant's compensation which the employer and the participant agree to defer, subject to limitations;

b. The date as of which reduction and deferral of compensation pursuant to the participation agreement shall begin, which date shall be as early as administratively practicable but no earlier than the first day of the first calendar month following the execution of the participation agreement; and

c. The investment option(s) selected by the participant.

**Maximum and Minimum Deferrals** - Normally, the maximum amount which may be deferred by an active participant in the Plan in any Plan year shall not exceed the lesser of (A) $15,000 for the year 2006, and then indexed as allowed by law in future years or (B) 100% of an active participant's includable compensation (as defined by the Internal Revenue Code). In addition for the year 2006, participants who have attained age 50 may defer an additional $5,000, which amount may increase in future years as indexed as allowed by law.

Under certain circumstances, participants may defer up to two times the normal annual deferral limit during each of the last three years prior to normal retirement age, if less than the maximum was contributed during earlier years.

The limitations on the maximum amount of deferral above shall be reduced by any amount excluded from the participant's gross income for the Plan year under another Section 457 plan maintained by any employer.

The minimum deferral amount per pay shall be: (a) weekly pay $7.00, (b) bi-weekly pay $15.00, (c) semi-monthly pay $15.00 or (d) monthly pay $30.00. A minimum allocation to any investment option shall be $10.00 per pay, or the full deferral if it is less than $10.00.

**Amendments of Participation Agreements** - The election of an eligible employee to participate under the Plan is irrevocable as to all amounts actually deferred under the participation agreement. The participant may, by amendment of the participation agreement or other forms authorized by the administrator, do any of the following: (a) change the specification of any investment option as to the amounts to be deferred in the future; (b) terminate the election to be an active participant; or (c) change the amount of compensation to be deferred. An amendment or termination shall be effective as early as administratively practicable, but not earlier than the first day of the following calendar month.

**Exchanges** - A participant (or beneficiary, if the participant has died) may make exchanges between investment options. Any such exchange shall be effective at the price next computed following receipt of the exchange request and shall be subject to such restrictions as are established by the Plan administrator. Unlimited exchanges are currently permitted, however exchanges in excess of 15 per year may be assessed a service charge determined by the Plan administrator. Participants who complete four exchanges in any 45 day period will lose their electronic trading privileges, and be restricted to one mail-in exchange every five days for the following twelve-month period.

**Maintenance of Accounts** - The Plan administrator shall establish an account for each participant to which shall be credited or charged, as the case may be, amounts deferred under the Plan and any increase or decrease of the account value of the investment options specified in the participation agreement or any amendment thereto. All investment options offered under this Plan must be offered by persons, companies or entities authorized and duly licensed by the State of Ohio and appropriate federal agencies regulating such investments to do business in the State of Ohio. The Plan and the employer shall not be responsible for any decrease in value of a participant's account resulting from capital or market changes or any other changes occurring in the investment option or the participant's account. The Plan administrator may from time to time assess reasonable service charges against all or any portion of the deferred amounts or accounts to defray costs associated with the implementation and administration of the Plan.

**Crediting of Accounts** - Each participant's account shall be credited with amounts authorized for deferral and received by the Plan administrator.

**Report** - A report of the total amount credited to a participant's account, in such form as the Plan administrator determines, shall be furnished to the participant not more than 60 days after the end of each calendar quarter. All reports to a participant shall be based on the net fair market value of the investment options as of the date of the report, to the extent such values are available to the Plan administrator.

**Assets Held in Trust** - Plan assets are not the property of participating employees. All Plan assets and income shall be held by the Board in trust on behalf of the employer for the exclusive benefit of participants and their beneficiaries. All assets, whenever contributed to the Plan, are assigned to the trust established by the Board.

**Rollovers** - Any participant who has separated from service with an employer with which the participant maintained an account under an eligible retirement plan may, upon proper written request, rollover the account value from that account to their Ohio Public Employees Deferred Compensation Plan account.

Any participant who has separated from service with an employer with which the participant maintained an account with the Ohio Public Employees Deferred Compensation Plan may, upon proper written request, rollover the account value from that account directly to another eligible retirement plan.

**Service Credit Purchase** - Any participant may use all or a portion of their account balance as a direct trustee-to-trustee transfer to a governmental defined benefit system, which permits the purchase of permissive service credit or the repayment of service credits.

**In-Service Transfers** – If an employer offers multiple IRC 457 deferred compensation plans, which meet certain conditions, the Plan will allow participants to move their account balances between plans as an in-service transfer, prior to severance from employment.

**Election of Benefit Payment Date** (a) Participant - Upon severance from employment, a participant may elect a date to begin receiving benefit payments from the Plan. Benefit payments may begin after verification of severance, receipt of final deferral, and completion of the Benefit Payment Election Form. Payments must begin no later than December 31 of the year in which the participant attains age 70 ½, or if the participant has not had a severance from employment as of such date, then no later than December 31 of the year in which the participant has a severance from employment.

(b) Beneficiary - If a participant or spousal beneficiary dies before their account has been exhausted, then the remaining account balance shall be paid to their designated beneficiary. The beneficiary shall have the right to elect a benefit option, subject to the following limitations. (1) If a participant dies on or after the required minimum distribution date, payments shall continue to be paid to the beneficiary at least as rapidly as they were being paid to the participant. (2) If a participant dies before the required minimum distribution date, the beneficiary may elect a payment option subject to the following requirements: (a) if the beneficiary is the participant's surviving spouse, distribution may be delayed until December 31 of the year in which the participant would have attained age 70 ½, or (b) if the beneficiary is someone other than the surviving spouse, distribution of the account must begin by December 31 of the year following the participant's death, or (c) if the beneficiary is not a person, such as a trust or estate, the entire account must be distributed by the end of the calendar year which contains the fifth anniversary of the participant's death. (3) If a spousal beneficiary dies after the participant, but before the full account value is distributed, any remaining account value will be paid to the spousal beneficiary's designated beneficiaries in a lump-sum payment.

**Election of Benefit Payment Options** - All distributions are subject to the requirements for IRC Sections 457(d) and 401(a)(9) and the regulations there under. The Plan administrator will annually determine if the participant's or beneficiary's annual distributions meet their minimum distribution requirements and adjust the amount, if necessary, to comply with these provisions.

Initial benefit payment elections and subsequent changes will be effective only if made on forms provided or in the manner prescribed by the Plan administrator and received by the date determined by the Plan administrator. Purchased annuity benefit payments options may not be changed, once payments have begun. No benefit payment option shall be available which is not provided for on the benefit payment election form provided by the Plan administrator or is not permitted by the Plan document. Benefit payments are taxable income to participants and beneficiaries in the year of distribution and are subject to the applicable tax withholding rules.

**Require Elections for Benefit Payment Date and Option** (a) Participant-If a participant does not elect a benefit payment date, benefit payments shall begin by December 31 of the year the participant attains age 70 ½. Benefits shall be paid for a fixed time period over the maximum number of years allowed by the required minimum distribution tables.

(b) Beneficiary-If a spousal beneficiary of a participant who dies before the required minimum distribution date does not elect a benefit payment date, benefit payments shall begin by December 31 of the year the participant would have attained age 70 ½. If a non-spousal beneficiary of a participant does not elect a benefit payment date, benefit payments shall begin by December 31 of the year following the participant's death. Benefits shall be paid for a fixed time period for the maximum number of years allowed by the required minimum distribution tables.

**Emergency Withdrawals** - A participant may request an unforeseeable emergency withdrawal by submitting that request in writing on the approved form to the Plan administrator's staff. If the request is denied, a request for review of the staff determination may be made in writing. If this review fails to confirm a claim of unforeseeable emergency, an appeal may be made in writing to the Board's Unforeseeable Emergency Appeals Committee. The decision of the Appeals Committee may be appealed to the Ohio Public Employees Deferred Compensation Board. The decision of the Board shall be final and not subject to further appeal. If at any time a request for withdrawal is approved, the Plan administrator may thereupon distribute so much of the participant's account as is necessary to provide the amount approved to meet the unforeseeable emergency.

**Acceleration** - If upon a participant's separation from service and the Board's receipt of the last deferral, the participant's account value is less than $2,000, the Plan administrator may accelerate the payment of benefits otherwise due in the future and pay to such participant the full account value in a lump sum less the required tax withholding.

**Qualified Domestic Relations Order** - The Plan administrator shall comply with the provisions of a domestic relations order which the Plan administrator determines to constitute a Qualified Domestic Relations Order, as defined by the Internal Revenue Code. The Plan permits distributions at any time to an alternative payee under a Qualified Domestic Relations Order.

**Small Balance Distribution** - A participant may elect a small balance distribution if their account value is $5,000 or less, the full value of the account is to be distributed, the participant has not deferred into the Plan for two years, the participant agrees not to recommence deferrals to the Plan for one year, and there has been no prior distribution under this Plan provision.

**Benefit Payment Options** - The following benefit payment options are available under the Plan. Definitions of each are provided on the benefit payment election form.

1. Payments of an annual percent.
2. Payments of a dollar amount
3. Systematic withdrawals for a fixed time period
4. Partial lump sum and remainder paid as in items 1 through 5 above
5. Lump sum payout

**Designation of Beneficiaries** - At any time after commencing participation in the Plan, a participant or spousal beneficiary may designate a beneficiary or joint annuitant for any benefits which the participant or spousal beneficiary is entitled to receive under the Plan and which are unpaid at the time of their death, on a form filed with and accepted by the Plan administrator. If a participant or spousal beneficiary dies without having a proper beneficiary form completed and on file, the benefits payable on or after the date of death shall be paid to the fiduciary of the probate estate; provided, however, that if the Plan administrator does not receive notice that a fiduciary has been appointed and qualified within 90 days after the death, payment may be made to those persons entitled to receive the property under intestacy laws of the jurisdiction of their residence at the time of their death.

If a non-spousal beneficiary dies while receiving Plan benefits, any remaining benefits which the non-spousal beneficiary is entitled to receive under the Plan and which are unpaid at the time of their death shall be paid in a lump sum amount determined under each applicable investment option to the fiduciary of the beneficiary's probate estate;

provided, however, that if the Plan administrator does not receive notice that a fiduciary has been appointed and qualified within 90 days after the death of the beneficiary, payment shall be made to those persons entitled to receive the beneficiary's property under the intestacy laws of the jurisdiction of their residence at the time of their death.

If a trust is named as beneficiary, satisfactory evidence must be furnished to the Plan that the trust is the only beneficiary qualified to receive payment. The Plan will be fully discharged of liability for any action taken by the trustee and for all amounts paid to the trustee. In all dealings with the trust, the Plan will be fully protected against the claims of every other person. The Plan will not recognize a change in the trust as beneficiary unless the change is documented on forms provided by the Plan administrator.

**Designation Forms** - A participant may change any beneficiary or joint annuitant at any time by filing with the Plan administrator a dated change of beneficiary form or joint annuitant form. These designations shall be on forms provided by the Plan administrator and shall be effective on the date filed with and accepted by the Plan administrator. Any change of joint annuitant must be made prior to commencement of annuity payments.

OHIO DEFERRED COMPENSATION

OHIO PUBLIC EMPLOYEES DEFERRED COMPENSATION PROGRAM

# FINANCIAL SECTION

Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS
www.cshco.com

Independent Auditor's Report

Ohio Public Employees Deferred Compensation Board
Columbus, Ohio

We have audited the accompanying statements of plan net assets of the Ohio Public Employees Deferred Compensation Program (the Program) as December 31, 2006 and 2005, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Program's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Ohio Public Employees Deferred Compensation Program as of December 31, 2006 and 2005, and the changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 11, 2007, on our consideration of the Program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 18 and 19 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Program's basic financial statements. The supplementary information on pages 37 to 40, the introductory section on pages 4 to 15, the investment section on pages 42 to 44, and the statistical section on pages 46 to 50 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all materially respects in relation to the basic financial statements taken as a whole. The introductory section, the investment section, and the statistical section 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.

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
June 11, 2007

# MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the Ohio Public Employees Deferred Compensation Program offers this narrative overview of the financial statements contained in this Comprehensive Annual Financial Report. The financial statements consist of the Statements of Plan Net Assets and the Statements of Changes in Plan Net Assets. All assets and liabilities associated with the Program's operations are included on the Statement of Plan Net Assets. The Program's revenues and expenses are reported on the Statement of Changes in Plan Net Assets. Additional information is presented in the Notes to the Financial Statements and the Supplemental Information Schedules.

## PROGRAM ADDITIONS

Total Program additions can vary widely depending on investment performance. Positive market performance over the past three years has added considerable assets to the Program. Employee contributions continue to increase as more employees join the Program and the average annual deferral increases. Transfers from other qualified retirement plans declined in 2006, while recordkeeping income increased over the prior periods.

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Net investment income | $584,154,863 | $410,166,051 | $447,612,396 |
| Employee contributions | 433,065,402 | 412,865,430 | 393,121,999 |
| Transfer from other plans | 43,108,569 | 52,121,717 | 38,399,284 |
| Recordkeeping income | 5,967,009 | 5,335,698 | 4,758,707 |
| Total Additions | $1,066,295,843 | $880,488,896 | $883,892,386 |

## PROGRAM DEDUCTIONS

Total Program deductions increased each year, due primarily to greater transfers out of the Program. Pension portability has encouraged continued savings, by allowing participants to transfer their funds to other qualified retirement plans, instead of taking distributions at termination. Benefit distributions continue to be the largest annual Program deduction, but transfers to other plans are approaching the amount of benefit distributions.

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Distributions to participants | $191,896,498 | $177,596,204 | $171,364,334 |
| Transfers to other plans | 140,074,062 | 111,539,683 | 85,004,571 |
| Other deductions | 7,747,327 | 7,411,262 | 6,999,072 |
| Total Deductions | $339,717,887 | $296,547,149 | $263,367,977 |

## NET PROGRAM ASSETS

Net assets available for Program benefits at December 31, 2006 increased 11.9% over the previous year-end due to positive investment performance, and employee contributions exceeding benefit distributions and transfers. Total net assets available for Program benefits at December 31, 2005 increased 10.5% over 2004, due to positive investment performance, and employee contributions exceeding benefit distributions and transfers to other plans. Program liabilities are generally unpaid operating expenses at year-end and settlement payments due for investments purchased on the final business day of the year.

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Total Assets | $6,857,570,709 | $6,129,596,026 | $5,546,695,510 |
| Total Liabilities | 2,202,130 | 805,403 | 1,846,634 |
| Net Assets Available for Benefits | $6,855,368,579 | $6,128,790,623 | $5,544,848,876 |
| Change in Net Assets from prior year | $726,577,956 | $583,941,747 | $620,524,409 |

## PROGRAM ACTIONS

During 2005, the Program contracted with Deutsche Asset Management to perform comprehensive management of the Program’s stable value investment option. Deutsche’s services include review and input into portfolio duration, allocation, and cash flows, as well as managing the guarantee agreements covering the stable value portfolios.

During 2006, the Program made significant changes to its investment line-up to focus on providing participants with quality, low-cost, diversified, long-term investment products. Several investment options were added, deleted, or changed to attain the improved investment line-up.

During 2006, the Program adopted a fund reserve policy, which seeks to hold three to twelve months of operating expenses in reserve. Due to positive reserve funding, the $2 quarterly administrative fee to participants was suspended beginning with the fourth quarter of 2006.

# STATEMENTS OF PLAN NET ASSETS

## As of December 31, 2006 and 2005

| | 2006 | 2005 |
|---|---|---|
| **Assets:** | | |
| Investments: | | |
| Mutual funds | $3,647,751,184 | $3,192,942,118 |
| Stable value option | 3,037,129,458 | 2,875,818,643 |
| Collective trust funds | 113,695,537 | 0 |
| Purchased annuities | 43,130,943 | 47,049,097 |
| Total investments | 6,841,707,122 | 6,115,809,858 |
| Cash and cash equivalents | 7,637,627 | 5,228,103 |
| Contributions receivable and cash held for investment | 6,831,426 | 6,662,622 |
| Accounts and other receivables | 1,316,662 | 1,773,112 |
| Property and equipment, net | 77,872 | 122,331 |
| Total assets | 6,857,570,709 | 6,129,596,026 |
| **Liabilities:** | | |
| Accounts payable | 1,997,100 | 619,447 |
| Accrued expenses | 205,030 | 185,956 |
| Total liabilities | 2,202,130 | 805,403 |
| **Net Assets Held in Trust** | $6,855,368,579 | $6,128,790,623 |

*The accompanying notes are an integral part of the financial statements.*

# STATEMENTS OF CHANGES IN PLAN NET ASSETS

## For the years ended December 31, 2006 and 2005

| | 2006 | 2005 |
|---|---|---|
| **Additions:** | | |
| Net Investment Income: | | |
| Net gain on funds | $438,978,600 | $274,214,202 |
| Stable value income | 150,598,097 | 141,107,908 |
| Investment expenses | (5,421,834) | (5,156,059) |
| Net investment income | 584,154,863 | 410,166,051 |
| Employee contributions | 433,065,402 | 412,865,430 |
| Transfers from other plans | 43,108,569 | 52,121,717 |
| Recordkeeping income | 5,967,009 | 5,335,698 |
| Total additions | 1,066,295,843 | 880,488,896 |
| **Deductions:** | | |
| Distributions to participants | 191,896,498 | 177,596,204 |
| Transfers to other plans | 140,074,062 | 111,539,683 |
| Administrative expenses | 7,688,266 | 7,345,423 |
| Life insurance premiums | 59,061 | 65,839 |
| Total deductions | 339,717,887 | 296,547,149 |
| Increase in plan net assets | 726,577,956 | 583,941,747 |
| Plan net assets - beginning of year | 6,128,790,623 | 5,544,848,876 |
| **Plan net assets - end of year** | $6,855,368,579 | $6,128,790,623 |

*The accompanying notes are an integral part of the financial statements.*

# NOTES TO THE FINANCIAL STATEMENTS

## 1. General Description of the Program:

The following description of the Ohio Public Employees Deferred Compensation Program (the Program) is provided for general information only. Participants should refer to the Plan Document for complete information.

The Program is a voluntary defined contribution pension plan established pursuant to Ohio Revised Code (the Code) Section 148. Under the Program provisions, any public employee within Ohio (as defined in Section 148.01(A)(1) of the Code) is eligible to contribute into the Program, through payroll deductions, any amount up to the maximum permitted under Section 457 of the Internal Revenue Code. Amounts contributed by employees are deferred for federal and state income tax purposes until such amounts are distributed by the Program. As of December 31, 2006 and 2005, there were 1,654 and 1,610 respectively, state and local governments actively participating in the Program.

Plan assets are not the property of the participating employees. All Plan assets and income are held by the Board in Trust on behalf of the employers for the exclusive benefit of participants and their beneficiaries. All assets, whenever contributed to the Plan, are assigned to the Trust established by the Board.

As of December 31, 2006, Program participants have the following investment options:

- A stable value option administered by the Program. Funds are managed and invested by Deutsche Asset Management (Deutsche), Goode Investment Management, Inc. (Goode), JP Morgan Investment Advisors (JP Morgan), Nationwide Life Insurance Company (Nationwide), Pyramis Global Advisors Trust Company (Pyramis), and State Street Bank and Trust (State Street).

- Mutual funds managed by Dodge & Cox Funds (Dodge & Cox), Fidelity Investment Company (Fidelity), First Pacific Advisors (FPA), Hartford Investor Services Company (Hartford), Janus Equity Funds (Janus), PIMCO Funds (PIMCO), Franklin Templeton Funds (Templeton), and The Vanguard Group, Inc. (Vanguard).

- Collective trust funds managed by Barclays Global Investors, N.A. (Barclays).

- Universal life and whole life insurance contracts underwritten by Ohio National Life Insurance Company (Ohio National). Effective January 1, 1989, these life insurance contracts were no longer offered as new investment options available to participants.

Participants may withdraw the value of their deferred account upon termination of employment, retirement, disability or unforeseeable financial emergency. Participants may select various payout options including lump-sum payments or payments over various periods. If a purchased annuity option is selected, the payments may be actuarially determined.

At termination of employment or retirement, participants investing in universal and whole life insurance contracts may continue to make premium payments directly to the insurance carrier, or they may receive the cash surrender value of the contract less any applicable surrender charges. In the case of the death of a participant, the face value of the insurance contract is payable to their beneficiary as taxable ordinary income.

## 2. Summary of Significant Accounting Policies:

### Organization:

The Ohio Revised Code Section 148.02 created the Deferred Compensation Board for the purpose of administering the Program for all eligible employees. However, under the criteria set forth in the Statement of Governmental Accounting Standards No. 14, the Program is not considered a component unit of the State of Ohio:

- The Program is a separate legal entity.
- The State does not appoint a voting majority of the Program's Board.
- The State does not approve the Program budget or set Program rates or charges.
- The Program provides services to Ohio local governments as well as to the State.

The Deferred Compensation Board is comprised of the members of the Ohio Public Employees Retirement System (OPERS) Board, a member of the Senate, and a member of the House of Representatives. The two members from the Ohio General Assembly must be of different political parties and are appointed by their respective leadership. Seven members of the OPERS Board are elected by the groups they represent: retired employees (2), state employees, municipal employees, county employees, non-teaching employees of state colleges and universities, and miscellaneous employees. The four statutory Board members are the Director of Administrative Services and investment experts appointed by the Governor, Treasurer of State, and Ohio General Assembly.

### Basis of Accounting and Measurement Focus:

The activities of the Program are accounted for as a Pension Fund, and follow the accrual basis of accounting and reporting for defined contribution plans recommended by the Governmental Accounting Standards Board. The Program is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the Program's operations are included on the statement of plan net assets. Activities of the Program are accounted for in two funds which are combined for the purpose of financial reporting:

**Program Fund:** The Program Fund reflects all employee contributions, earnings or losses on investments and distributions to participants.

**Administration Fund:** The Administration Fund is used to account for customer service and administrative costs incurred by the Board. The Administration Fund recovers the costs of its operations through fees charged to the Program Fund and from recordkeeping reimbursements from certain investment providers.

**Stable Value Option:**

The Program administers the Stable Value Option, which is the stable value investment option offered to participants. As of December 31, 2006, the Program has stable value funds invested in six different portfolios. The Program determines the quarterly interest rate credited to participants by calculating the net weighted average return of the portfolios. The Program is also responsible for calculating daily account balances, disbursing funds for benefit payments and processing investment exchanges.

The investment pools of the Stable Value Option include separate portfolios managed by Deutsche, Goode, JP Morgan, Nationwide, Pyramis, and State Street. Investment guidelines, including asset class, credit rating, portfolio diversification and duration are specified by the Program. The Deutsche portfolio maintains a cash reserve account to buffer the invested pools from daily cash outflows from the Stable Value Option.

Funds invested in the portfolios are covered by separate guarantee agreements with independent banks and insurance companies. These agreements provide the formulas for determining the quarterly interest rate earned by each portfolio, and provide for benefit withdrawals at the guaranteed value. Prior to July 2005, the agreement with Nationwide included an accumulation account guarantee for funds invested in the Nationwide separate account.

During 2006**,** the Program allocated $400 million from the Nationwide portfolio to fund the Pyramis portfolio. The Pyramis portfolio is an active core plus investment strategy, which provides additional asset and risk diversification to the Stable Value Option. Also during 2006, the Program changed the name of the stable value investment option from the Guaranteed Return Option (GRO) to the Stable Value Option; to use the more commonly recognized name for this retirement savings account.

During 2005, the Program contracted with Deutsche to perform comprehensive management of the Program’s stable value investment option. Deutsche’s services include review and input into portfolio duration, allocation, and cash flows, as well as managing the guarantee agreements covering the stable value portfolios.

**Investments Valuation:**

Investments of the Stable Value Option are valued at contract value, which represents contributions received, plus the interest credited, less applicable charges and amounts withdrawn.

Mutual fund investments are valued at the share prices of mutual funds as reported by the fund providers, which represent contributions received, plus appreciation (depreciation) of the underlying portfolio, less applicable charges and amounts withdrawn.

Collective trust fund investments are valued at the unit prices of the collective trust funds as reported by the fund providers, which represent contributions received, plus appreciation (depreciation) of the underlying portfolio, less applicable charges and amounts withdrawn.

Assets held for purchased annuities are valued at amounts reported by Nationwide, which are actuarially determined. These amounts represent the reserves established by Nationwide and are based on actuarial assumptions as to anticipated mortality, withdrawals and investment yield. Nationwide periodically adjusts and updates these assumptions.

**Life Insurance Contracts:**

As previously disclosed, universal and whole life insurance options are no longer available as new investment options. The policy cash value before surrender charges or other assessments was $1,324,070 and $1,378,706 at December 31, 2006 and 2005, respectively. Premiums paid for these policies are expensed when made. The amount of life insurance in force was $16,607,485 and $17,112,250 at December 31, 2006 and 2005, respectively.

**Stable Value Income:**

Stable value income was recorded as earned for each of the investment components of the Stable Value Option. The gross interest rates for each portfolio were adjusted quarterly and ranged from 4.48% to 5.16% during 2006, and from 3.95% to 5.79% during 2005.

The assets held for purchased annuities were credited interest based upon reserve assumptions used by Nationwide at the participant’s annuitization date. These annuitization rates ranged from 2.7% to 5.2% during 2006, and from 0.0% to 4.7% during 2005.

**Net Gain or Loss on Invested Funds:**

Mutual and collective trust fund investment income or loss consists of dividends and capital gains paid, and appreciation or depreciation on the funds.

**Historical Trend Information:**

Unaudited historical trend information designed to provide information about the Program's progress is presented in the accompanying Statistical Section of this presentation.

**Property and Equipment:**

Property and equipment of the Board are stated at cost less accumulated depreciation. Depreciation on property and equipment is calculated using the straight-line method over the estimated useful lives of the assets.

**Board Employees' Deferred Compensation Benefits:**

All employees of the Board are eligible to participate in the Program which it administers. The Deferred Compensation Board Employees' assets in the Program were valued at fair value and are included as plan net assets.

**Reclassifications:**

Certain prior year amounts may have been reclassified to conform to the current year's presentation.

**3. Tax Status:**

The Program is an eligible deferred compensation program as defined by Section 457 of the Internal Revenue Code. Accordingly, any amount of compensation deferred under the Program and any income attributable to the amounts so deferred shall be included in the taxable income of the participant only for the taxable year in which such compensation or other income is paid or otherwise made available to the participant or his beneficiary.

**4. Employee Contributions:**

Participant contributions receivable and held for investment represent amounts withheld from participants but not remitted to the investment providers at year end. The Program maintains a bank account for the purpose of consolidating the deposit of all participant contributions. Contributions are subsequently remitted to the investment providers as designated by the participants. Funds deposited but not remitted to the investment providers were $1,602,392 and $2,013,837 at December 31, 2006 and 2005, respectively.

**5. Cash:**

The Board's policy is to invest excess Administrative Fund cash in bank checking and money market accounts, certificates of deposit, a statewide investment pool managed by the Treasurer of the State of Ohio, or issues of the U.S. Government and its agencies, all with maturities of two years or less.

During the year ended December 31, 2005, the Program implemented GASB Statement No. 40, Deposits and Investment Risk Disclosures, effective January 1, 2005. This statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk.

At December 31, 2006 and 2005, the bank cash balances were $5,600,964 and $8,013,272, respectively. The bank balances are insured up to $100,000 by the Federal Deposit Insurance Corporation. The remaining bank deposits are covered by collateral held in the name of the Program's pledging financial institution, as required by state statue.

## 6. Program Investments:

A summary of Program investments is as follows:

| | December 31, 2006 | |
|---|---|---|
| | **Carrying Value** | **Fair Value** |
| Mutual Funds | $3,647,751,184 | $3,647,751,184 |
| Stable Value Option | 3,037,129,458 | 3,023,054,355 |
| Collective Trust Funds | 113,695,537 | 113,695,537 |
| Purchased Annuities | 43,130,943 | 43,130,943 |
| Total Investments | $6,841,707,122 | $6,827,632,019 |

| | December 31, 2005 | |
|---|---|---|
| | **Carrying Value** | **Fair Value** |
| Mutual Funds | $3,192,942,118 | $3,192,942,118 |
| Stable Value Option | 2,875,818,643 | 2,870,442,344 |
| Purchased Annuities | 47,049,097 | 47,049,097 |
| Total Investments | $6,115,809,858 | $6,110,433,559 |

In October 2006, investments in the Barclays mutual funds were moved into Barclays collective trust funds. At the same time, the Barclays name was removed from the investment option name within the Program. This change to a private-label name was intended to give participants access to the same quality professional managers, but at a lower cost. The annual investment expense ratio on these four life cycle options decreased from 0.85% to 0.50%, effectively increasing the net return to these investors.

**Stable Value Option:**

At December 31, 2006, investments in the JP Morgan and Nationwide portfolios are held in custody for the Program. The quoted market prices of these investments have been used for disclosure purposes. Funds invested by Deutsche, Pyramis, State Street and Goode are in commingled passive bond index funds and are disclosed at fair value. Prior to June 2005, a money market account was maintained at JP Morgan to fund daily cash requirements.

The investments of the Stable Value Option portfolio are governed by an investment policy enacted by the Deferred Compensation Board. That policy permits investments in U.S. Government, U.S. Government Agency, mortgage backed, asset backed, and corporate debt securities.

The Program has entered into liquidity guarantee agreements with banks and insurance companies to fund any withdrawals for benefit payments at book value. The Stable Value Option book value represents participant contributions plus earnings based on guaranteed rates of return. As of December 31, 2006, the carrying value of Stable Value Option assets exceeded the fair market value by $14,075,103 or 0.5%. The Program expects carrying and fair values of the Stable Value Option assets to converge, through amortization of these differences in future crediting rates. A summary of the fair value of investments in the Stable Value Option by investment manager at December 31, 2006 and 2005 is as follows:

| | 2006 | 2005 |
|---|---|---|
| Deutsche Asset Management | $1,050,951,413 | $983,766,800 |
| Nationwide Life Insurance Co. | 548,053,660 | 906,040,690 |
| State Street Bank and Trust | 540,056,847 | 516,899,996 |
| JP Morgan Investment Advisors | 426,663,447 | 409,732,072 |
| Pyramis Global Advisors | 401,074,002 | 0 |
| Goode Investment Management | 56,254,986 | 54,002,786 |
| Total Fair Value | 3,023,054,355 | 2,870,442,344 |
| Total Carrying Value | 3,037,129,458 | 2,875,818,643 |
| Difference | ($14,075,103) | ($5,376,299) |

*Credit Risk* – The Program's investment policy requires the average quality of the Stable Value Option structure to be A-/A3 or better and restricts the amount of investments in securities rated below BBB/Baa3 to ten percent or less of assets. In addition, no holding may be rated lower than B/B2 and no more than one percent of Stable Value Option assets will be invested in any single high yield (below BBB) issuer.

## NOTES TO THE FINANCIAL STATEMENTS, Continued

As of December 31, 2006, the overall average credit quality of the Stable Value Option portfolio was AA+. The quality ratings of the Stable Value Option investments in fixed-income securities as determined by Standard & Poor's and/or Moody's (nationally recognized statistical rating organizations) as of December 31, 2006 are shown in the table below. Investments in U.S. government securities or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk.

| Credit Rating | Fair Value | Percentage of Portfolio |
|---|---|---|
| AAA | $710,696,186 | 23.51% |
| AA | 1,946,985,170 | 64.40% |
| A/A-1 | 109,534,738 | 3.62% |
| BBB | 71,793,558 | 2.37% |
| BB | 37,658,408 | 1.25% |
| B | 12,748,865 | 0.42% |
| Subtotal | 2,889,416,925 | 95.58% |
| U.S. Government Securities | 133,637,430 | 4.42% |
| Total Stable Value Investments | $3,023,054,355 | 100.00% |

*Interest Rate Risk* – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investments. The segmented time distribution reflects fixed-income maturities over different time intervals. The longer the maturity, the more the value of the investment will fluctuate with interest rate changes. The following shows the maturity of the Stable Value Option investments segmented by time period.

| Investment | Less than 1 Year | 1-5 Years | 6-10 Years | More than 10 Years | Total |
|---|---|---|---|---|---|
| U.S. Government Securities | $2,616,348 | $67,956,888 | $53,888,130 | $9,176,064 | $133,637,430 |
| U.S. Government Agency Securities | 6,334,450 | 28,845,734 | 26,506,496 | 2,097,382 | 63,784,062 |
| Corporate Bonds | 29,653,726 | 120,664,638 | 30,505,260 | 1,527,778 | 182,351,402 |
| Passive Bond Index Funds | 0 | 1,994,604,241 | 26,497,186 | 1,174,370 | 2,022,275,797 |
| Mortgage Obligations | 25,151,123 | 356,005,853 | 150,714,695 | 23,006,951 | 554,878,622 |
| Guaranteed Investments Contracts | 11,153,085 | 0 | 0 | 0 | 11,153,085 |
| Money Market Mutual Funds | 54,973,957 | 0 | 0 | 0 | 54,973,957 |
| Total Stable Value Investments | $129,882,689 | $2,568,077,354 | $288,111,767 | $36,982,545 | $3,023,054,355 |

The Stable Value Option investments include collateralized mortgage obligations (CMO) and asset-backed securities (ABS). These types of securities are purchased for their predictable cash flow characteristics and for favorable yields compared to similar investments. However, these investment vehicles are based on cash flows from interest and principal payments from the underlying investments that are sensitive to prepayments which may result from a decline in interest rates. At December 31, 2006 the Program had investments in CMO and ABS totaling $340 million and $46 million, respectively.

*Concentration of Credit Risk* – The Program's investment policy precludes investments in any one corporate issuer from exceeding five percent and restricts total investment in any single industry group to no more than twenty percent of the Stable Value Option's assets.

## Purchased Annuities:

Assets held for purchased annuities are valued at amounts reported by Nationwide, which are actuarially determined. Investments in purchased annuities were $43,130,943 and $47,049,097 at December 31, 2006 and 2005, respectively.

## Collective Trust Funds:

Shares of collective trust funds are priced at the net asset value as calculated by the fund provider. A summary of year-end investments as of December 31, 2006 is as follows:

**Collective Trust Funds - 2006**

| | Fair Value | Share Price | Shares Outstanding (1,000's) |
|---|---|---|---|
| **Barclays Global Investors:** | | | |
| LifePath 2010 | 24,293,842 | 10.70 | 2,270 |
| LifePath 2020 | 46,020,789 | 10.79 | 4,265 |
| LifePath 2030 | 29,856,530 | 10.86 | 2,749 |
| LifePath 2040 | 13,524,376 | 11.01 | 1,228 |
| **Total Barclays Global Investors** | 113,695,537 | | |

## Mutual Funds:

Shares of mutual funds are priced at the net asset value as calculated by the fund provider. A summary of year-end investments as of December 31, 2006 and 2005 is as follows:

| | Mutual Funds - 2006 | | | Mutual Funds - 2005 | | |
|---|---|---|---|---|---|---|
| | Fair Value | Share Price | Shares Outstanding (1,000's) | Fair Value | Share Price | Shares Outstanding (1,000's) |
| **Dodge & Cox:** | | | | | | |
| Stock | 875,207,527 | 153.46 | 5,703 | 395,053,643 | 137.22 | 2,879 |
| Balanced | 404,046,788 | 87.08 | 4,640 | 298,299,182 | 81.34 | 3,667 |
| **Total Dodge & Cox Funds** | 1,279,254,315 | | | 693,352,825 | | |
| **Fidelity:** | | | | | | |
| Contrafund | $636,905,604 | $65.20 | 9,768 | $589,268,681 | $64.76 | 9,099 |
| Growth Company | 366,100,409 | 69.71 | 5,252 | 243,784,572 | 63.63 | 3,831 |
| Magellan | 217,963,984 | 89.52 | 2,435 | 231,793,959 | 106.44 | 2,178 |
| Equity Income | 0 | | | 257,098,186 | 52.78 | 4,871 |
| **Total Fidelity Funds** | 1,220,969,997 | | | 1,321,945,398 | | |
| **Vanguard:** | | | | | | |
| Capital Opportunity | 224,066,901 | 84.75 | 2,644 | 162,733,414 | 76.31 | 2,133 |
| Institutional Index | 174,969,534 | 114.01 | 1,535 | 149,857,011 | 114.01 | 1,314 |
| International Growth | 146,023,976 | 66.81 | 2,186 | 65,389,485 | 66.81 | 979 |
| Small-Cap Index | 34,601,093 | 28.54 | 1,212 | 9,439,303 | 28.54 | 331 |
| Total International Stock Index | 23,631,413 | 17.67 | 1,337 | 0 | | |
| Total Bond Market Index | 2,563,756 | 28.54 | 90 | 0 | | |
| **Total Vanguard Funds** | 605,856,673 | | | 387,419,213 | | |
| **Janus:** | | | | | | |
| Janus Twenty | 190,460,757 | 54.62 | 3,487 | 153,045,488 | 48.92 | 3,128 |
| Janus Fund | 0 | | | 44,233,810 | 25.53 | 1,733 |
| **Total Janus Funds** | 190,460,757 | | | 197,279,298 | | |
| **FPA Capital Fund** | 152,547,694 | 41.44 | 3,681 | 171,292,505 | 39.98 | 4,284 |
| **Templeton Foreign Fund** | 107,297,535 | 13.64 | 7,866 | 82,001,576 | 12.68 | 6,467 |
| **PIMCO Total Return** | 65,725,518 | 10.38 | 6,332 | 61,252,873 | 10.50 | 5,834 |
| **Hartford Small Company** | 25,638,695 | 19.07 | 1,344 | 0 | | |
| **AIM Constellation Fund** | 0 | | | 101,288,644 | 26.95 | 3,758 |
| **American Century** | | | | | | |
| Income & Growth Fund | 0 | | | 56,009,227 | 30.33 | 1,847 |
| Growth Fund | 0 | | | 26,417,718 | 20.58 | 1,284 |
| **Total American Century** | 0 | | | 82,426,945 | | |
| **Barclays Global Investors:** | | | | | | |
| LifePath 2010 | 0 | | | 16,708,852 | 12.93 | 1,292 |
| LifePath 2020 | 0 | | | 28,255,978 | 15.85 | 1,783 |
| LifePath 2030 | 0 | | | 17,200,106 | 15.39 | 1,118 |
| LifePath 2040 | 0 | | | 5,297,521 | 18.18 | 291 |
| **Total Barclays Global Investors** | 0 | | | 67,462,457 | | |
| **MFS New Discovery Fund** | 0 | | | 27,220,384 | 17.65 | 1,542 |
| **Total Mutual Funds** | $3,647,751,184 | | | $3,192,942,118 | | |

**7. Investment Expenses:**

Investment manager, custodian, and book value guarantee fees are charged against assets within the Stable Value Option portfolios. Participants who do not retain mutual fund investments for their required holding period are assessed redemption fees by the fund. Beginning in 2006, redemption fees were collected by the Program and remitted back into the mutual fund to benefit the remaining investors. During 2006, pooled investment income exceeded management expenses within the State Street stable value portfolio. Fees associated with the Program investment options are summarized as follows:

| | 2006 | 2005 |
|---|---|---|
| Stable Value - Book Value Guarantee Fees: | $2,538,562 | $2,572,159 |
| Stable Value - Management/Custodial Fees: | | |
| Nationwide Life Insurance Co. | 953,606 | 878,238 |
| JP Morgan Investment Advisors | 861,034 | 832,523 |
| Deutsche Asset Management | 815,230 | 694,049 |
| Pyramis Global Advisors | 126,223 | 0 |
| Goode Investment Management | 86,164 | 117,811 |
| State Street Bank and Trust | (26,752) | 61,279 |
| Total Stable Value Investment Expenses | 5,354,067 | 5,156,059 |
| Total Mutual Fund Redemption Fees | 67,767 | 0 |
| Total Investment Expenses | $5,421,834 | $5,156,059 |

**8. Recordkeeping Income:**

The Program is compensated by certain investment providers for performing recordkeeping responsibilities. Beginning in 2003, the Program charged a 0.10% annualized fee on all investment balances in the Stable Value Option, which effectively reduces the net crediting rate earned by Stable Value Option investors. Beginning in 2006, the Program charged a 0.15% annualized fee on all investment balances in the Barclays collective trust fund options. Total recordkeeping revenues collected by the Program were $8,932,968 and $8,122,959 for the years ended December 31, 2006 and 2005, respectively.

The Administration Fund also recovered some administrative costs through charges made to the Program Fund. The Program charges a $2.00 per quarter fee to each participant account, which provided revenues of $947,246 and $1,242,412 for the years ended December 31, 2006 and 2005, respectively. The quarterly fee has been selectively suspended, whenever the Program does not need the administrative revenue. Due to positive reserve funding, the $2.00 quarterly administrative fee to participants was suspended beginning with the fourth quarter of 2006.

**9. Vacation and Sick Leave:**

As of December 31, 2006 and 2005, the Program had accrued $196,146 and $177,625 respectively, for unused vacation and sick leave for full-time employees of the Board. At termination or retirement, employees are entitled to full compensation for all unused vacation time. With two years or more of employment prior to termination, employees are entitled to 50% payment of unused sick leave at termination.

**10. Leases:**

The Board entered into a ten-year lease agreement for administrative office space beginning in 2002. The lease has early termination options after the seventh and ninth lease years, upon payment of an early termination penalty. Base rental expense for this operating lease was $105,157 and $103,128 for 2006 and 2005 respectively. Allocated building operating expenses and real estate taxes under this lease were $85,735 and $82,256 during 2006 and 2005 respectively.

Future scheduled minimum lease payments (base rental expense) under the office space operating lease at December 31, 2006 are as follows:

| **Year Ending December 31:** | **Amount:** |
|---|---|
| 2007 | 107,186 |
| 2008 | 109,214 |
| 2009 | 111,243 |
| 2010 | 113,272 |
| 2011 | 115,301 |
| 2012 | 19,273 |

**11. Property and Equipment:**

Property and equipment at December 31 are summarized as follows:

| | **Estimated Useful Life** | **2006** | **2005** |
|---|---|---|---|
| Computer equipment | 3 years | $272,949 | $272,949 |
| Furniture and fixtures | 7 years | 120,219 | 120,219 |
| Office equipment | 5 years | 98,572 | 98,572 |
| | | 491,740 | 491,740 |
| Less accumulated depreciation and amortization | | (413,868) | (369,409) |
| | | $77,872 | $122,331 |

**12. Insurance:**

The Program is exposed to various risks of loss related to theft of, damage to, and destruction of assets; injuries to employees; and court challenges to fiduciary decisions. To cover these risks, the Program maintains commercial insurance and holds fidelity bonds on its employees. As required by state law, the Program is registered and insured through the state of Ohio Bureau of Workers' Compensation for injuries to employees. No insurance settlements exceeded coverages in the past three years.

The Program is self-insured under a professionally administered plan for general health and hospitalization employee benefits. The Program maintains specific stop loss coverage per employee for annual medical benefits in the amount of $250,000 for both 2006 and 2005. The Program also maintains lifetime maximum stop loss coverage per employee for medical benefits in the amount of $2,500,000 for both 2006 and 2005. The outstanding claims liability was $19,900 and $2,700 as of December 31, 2006 and 2005 respectively.

**13. Pension Plan:**

All Board employees are required to participate in a contributory retirement plan administered by the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans: the Traditional Pension Plan - a cost-sharing multi-employer defined benefit plan: the Member -Directed Plan - a defined contribution plan; and the Combined Plan - a cost-sharing multiple-employer defined benefit plan that has elements of both a defined benefit and defined contribution plan.

OPERS provides retirement, disability, survivor and post-retirement health care benefits to qualifying members of both the Traditional and Combined Plans; however, health care benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

Employees covered by OPERS are required by Ohio statute to contribute 9.0% of their 2006 salary to the plan. The Board is required by the same statute to contribute 13.7% of covered payroll; 9.2% is the portion used to fund pension obligations, with the remaining used to fund the health care program for retirees. The required employer contributions for the current year and the two preceding years are as follows:

| Year Ended December 31 | Annual Required Contributions | Percentage Contributed |
|---|---|---|
| 2006 | $149,400 | 100% |
| 2005 | $141,700 | 100% |
| 2004 | $134,600 | 100% |

Beginning in 2006, the employee contribution rate increased from 8.5% to 9.0% of salary and the employer contribution rate increased from 13.55% to 13.70%. These increases were mandated by OPERS to provide additional funding for post-employment health care costs.

Historical trend information showing the progress of OPERS in accumulating sufficient assets to pay benefits when due is presented in the OPERS *Comprehensive Annual Financial Report.* OPERS issues a publicly available financial report for the plans. The report may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642.

In addition to retirement benefits, OPERS provides postemployment health care benefits. OPERS currently provides postemployment health care benefits to retirees with ten or more years of qualifying service credit and to primary survivors of those retirees. These benefits are advance-funded on an actuarially determined basis and are financed through employer contributions and investment earnings. OPERS determines the amount, if any, of the associated health care costs that will be absorbed by OPERS. Under Ohio Revised Code, funding for medical costs paid from the funds of OPERS is included in the employer contribution rate. For the fiscal year ended December 31, 2006, OPERS allocated 4.5% of the employer contribution rate to fund the health care program for retirees. Due to the continuing rise in health care costs, OPERS will offer a new health care choice plan to all persons newly hired under OPERS after January 1, 2003. This plan will offer a broad range of health care options with graded scale of costs dependent on the number of years of eligible service.

The actuarial value of assets available for health care benefits at December 31, 2005 was $11.1 billion. There were 355,000 active contributing participants eligible for postemployment benefits at that date.

### 14. Eliminations:

The Administration Fund recovers some customer service and administrative costs through charges made to the Program Fund. Charges of $3,913,205 and $4,029,673 were made during 2006 and 2005, respectively, for this purpose, including $506,563, and $243,960 payable to the Administrative Fund as of December 31, 2006 and 2005, respectively. These inter-fund charges and payables have been eliminated in the Combining Schedule of Plan Net Assets and the Combining Schedule of Changes in Plan Net Assets.

## NOTES TO THE FINANCIAL STATEMENTS, Continued

### 15. Pending Litigation:

The Program has been named lead plaintiff in a national class action lawsuit against Pilgrim Baxter & Associates (Pilgrim) that seeks to recover funds lost due to Pilgrim's alleged breach of fiduciary duties. Pilgrim has been sued in federal court and charged with civil fraud by the U.S. Securities and Exchange Commission after revelations surfaced that fund executives had engaged in significant "market timing" activities. The Program had offered the PBHG Growth Fund as a mutual fund investment option to participants from July 1, 1997 through February 25, 2004. Any recovery from this action will be distributed to participants or increase participant's account values. Program management is of the opinion that ultimate settlement of such lawsuit will not result in a material impact on the Program's financial position.

# SUPPLEMENTAL COMBINING SCHEDULE OF PLAN NET ASSETS

**As of December 31, 2006**
**With Totals for 2005**

| | 2006 | | | | |
|---|---|---|---|---|---|
| | PROGRAM FUND | ADMINIS-TRATION FUND | COMBINING ENTRIES | TOTAL | 2005 |
| **Assets:** | | | | | |
| Investments: | | | | | |
| Mutual funds | $3,647,751,184 | | | $3,647,751,184 | $3,192,942,118 |
| Stable value option | 3,037,129,458 | | | 3,037,129,458 | 2,875,818,643 |
| Collective trust funds | 113,695,537 | | | 113,695,537 | 0 |
| Purchased annuities | 43,130,943 | | | 43,130,943 | 47,049,097 |
| Total investments | 6,841,707,122 | | | 6,841,707,122 | 6,115,809,858 |
| Cash and cash equivalents | | $7,637,627 | | 7,637,627 | 5,228,103 |
| Contributions receivable and cash held for investment | 6,831,426 | | | 6,831,426 | 6,662,622 |
| Accounts and other receivables | | 1,823,225 | ($506,563) | 1,316,662 | 1,773,112 |
| Property and equipment, net | | 77,872 | | 77,872 | 122,331 |
| Total assets | $6,848,538,548 | $9,538,724 | ($506,563) | $6,857,570,709 | $6,129,596,026 |
| **Liabilities:** | | | | | |
| Accounts payable | 2,113,026 | 390,637 | (506,563) | 1,997,100 | 619,447 |
| Accrued expenses | | 205,030 | | 205,030 | 185,956 |
| Total liabilities | 2,113,026 | 595,667 | (506,563) | 2,202,130 | 805,403 |
| **Net Plan Assets Held in Trust** | $6,846,425,522 | $8,943,057 | $0 | $6,855,368,579 | $6,128,790,623 |

# SUPPLEMENTAL COMBINING SCHEDULE OF CHANGES IN PLAN NET ASSETS

## For the year ended December 31, 2006
## With Totals for 2005

| | 2006 | | | | |
|---|---|---|---|---|---|
| | PROGRAM FUND | ADMINIS-TRATION FUND | COMBINING ENTRIES | TOTAL | 2005 |
| **Additions:** | | | | | |
| Net Investment Income: | | | | | |
| Net gain on funds | $438,978,600 | | | $438,978,600 | $274,214,202 |
| Stable value income | 150,199,966 | $398,131 | | 150,598,097 | 141,107,908 |
| Investment expenses | (5,421,834) | | | (5,421,834) | (5,156,059) |
| Net investment income | 583,756,732 | 398,131 | | 584,154,863 | 410,166,051 |
| Employee contributions | 433,065,402 | | | 433,065,402 | 412,865,430 |
| Transfers from other plans | 43,108,569 | | | 43,108,569 | 52,121,717 |
| Recordkeeping income | | 9,880,214 | ($3,913,205) | 5,967,009 | 5,335,698 |
| Total additions | 1,059,930,703 | 10,278,345 | (3,913,205) | 1,066,295,843 | 880,488,896 |
| **Deductions:** | | | | | |
| Distributions to participants | 191,896,498 | | | 191,896,498 | 177,596,204 |
| Transfers to other plans | 140,074,062 | | | 140,074,062 | 111,539,683 |
| Administrative expenses | 3,913,205 | 7,688,266 | (3,913,205) | 7,688,266 | 7,345,423 |
| Life insurance premiums | 59,061 | | | 59,061 | 65,839 |
| Total deductions | 335,942,826 | 7,688,266 | (3,913,205) | 339,717,887 | 296,547,149 |
| Increase in plan net assets | 723,987,877 | 2,590,079 | | 726,577,956 | 583,941,747 |
| Plan net assets - beginning of year | 6,122,437,645 | 6,352,978 | | 6,128,790,623 | 5,544,848,876 |
| **Plan net assets - end of year** | $6,846,425,522 | $8,943,057 | $0 | $6,855,368,579 | $6,128,790,623 |

## SUPPLEMENTAL SCHEDULE OF ADMINISTRATION FUND DEDUCTIONS

**for the years ended December 31, 2006 and 2005**

| | 2006 | 2005 |
|---|---|---|
| Customer Service | $4,858,637 | $4,678,298 |
| Salaries and benefits: | | |
| Salaries and wages | 1,109,936 | 1,066,363 |
| Insurance | 171,749 | 111,106 |
| Retirement contributions | 149,544 | 141,719 |
| Other benefits | 21,303 | 19,932 |
| | 1,452,532 | 1,339,120 |
| Administration: | | |
| Postage and delivery | 458,057 | 380,107 |
| Participant statements | 175,277 | 175,697 |
| | 633,334 | 555,804 |
| Professional Services: | | |
| Consulting | 266,049 | 295,964 |
| Auditing | 41,895 | 41,761 |
| Data Processing | 0 | 1,933 |
| | 307,944 | 339,658 |
| Rents | 190,892 | 185,384 |
| Insurance | 88,008 | 64,217 |
| Depreciation and amortization | 44,459 | 42,806 |
| Data processing expense | 40,305 | 56,834 |
| Office supplies: | | |
| Office supplies | 17,680 | 12,394 |
| Printing | 13,624 | 11,420 |
| Telephone and fax | 5,359 | 4,686 |
| | 36,663 | 28,500 |
| Professional Expense | 23,312 | 29,788 |
| Miscellaneous | 12,180 | 25,014 |
| Total Administrative Fund Deductions | $7,688,266 | $7,345,423 |

## SUPPLEMENTAL SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS

**for the years ended December 31, 2006 and 2005**

| | 2006 | 2005 |
|---|---|---|
| Cash and cash equivalents, beginning or year | $5,228,103 | $3,645,201 |
| **Receipts:** | | |
| Employee contributions | 432,896,598 | 411,826,576 |
| Investment withdrawals | 331,970,560 | 289,135,887 |
| Transfers from other plans | 43,108,569 | 52,121,717 |
| Recordkeeping income | 6,147,929 | 5,227,196 |
| Total cash receipts | 814,123,656 | 758,311,376 |
| **Disbursements:** | | |
| Investment purchases | 466,876,944 | 454,330,341 |
| Distributions to participants | 191,896,498 | 177,596,204 |
| Transfers to other plans | 140,074,062 | 111,539,683 |
| Administrative expenses | 7,651,610 | 7,606,718 |
| Investment expenses | 5,155,957 | 5,522,440 |
| Purchase of property and equipment | 0 | 67,249 |
| Life insurance premiums | 59,061 | 65,839 |
| Total cash disbursements | 811,714,132 | 756,728,474 |
| Cash and cash equivalents, end of year | $7,637,627 | $5,228,103 |

OHIO DEFERRED COMPENSATION

OHIO PUBLIC EMPLOYEES DEFERRED COMPENSATION PROGRAM

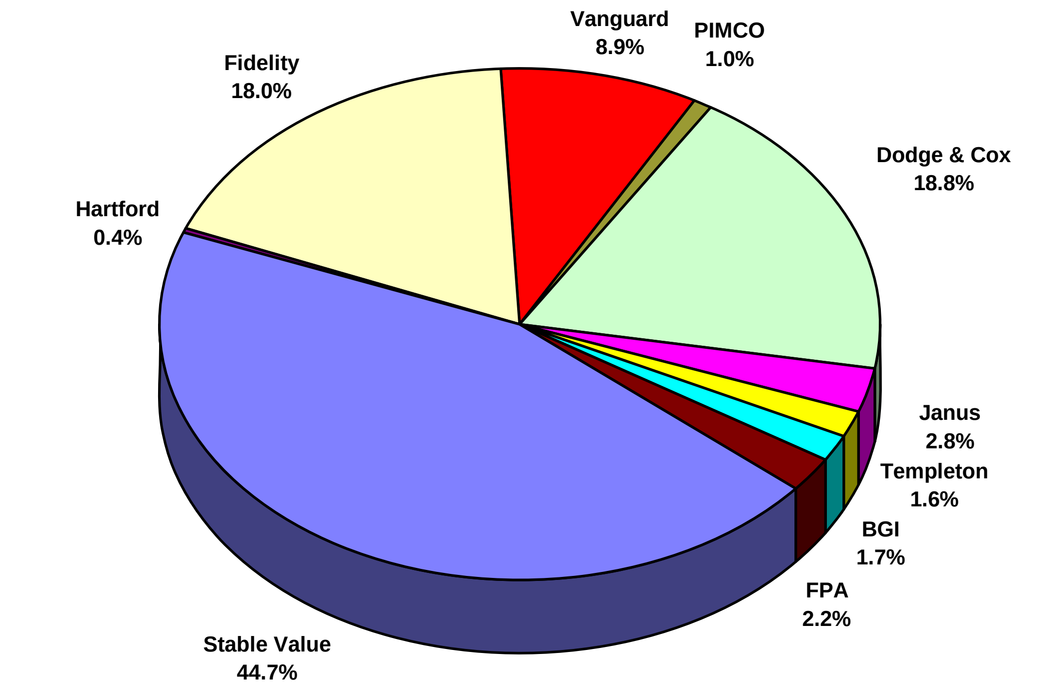
# INVESTMENT SECTION

# SCHEDULE OF INVESTMENT PERFORMANCE VERSUS BENCHMARKS

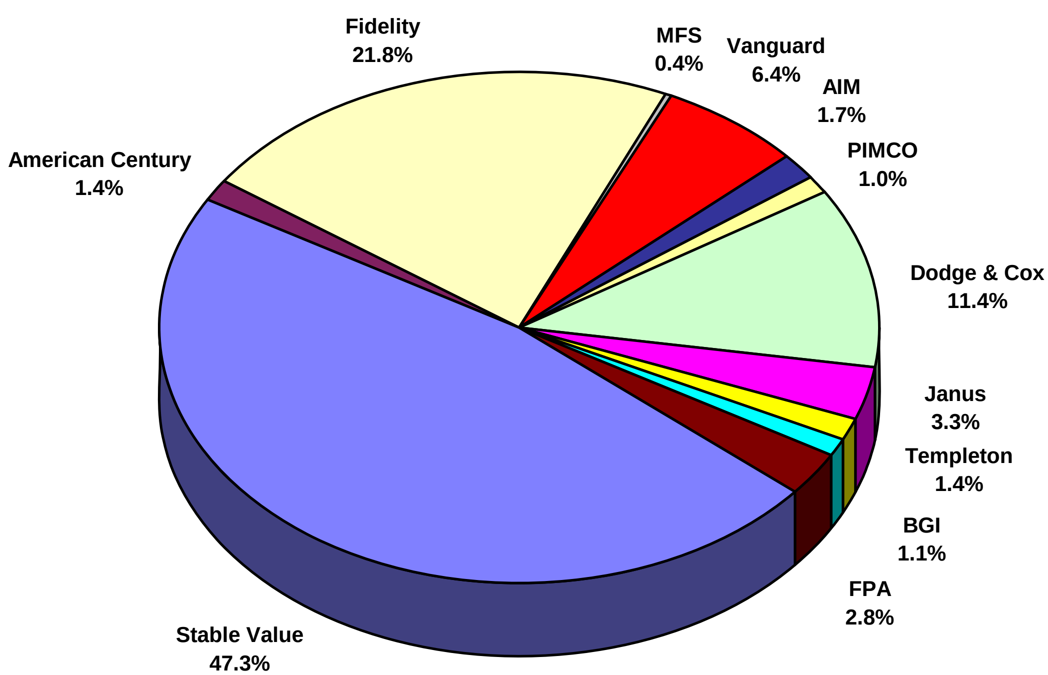
| | Average Annualized Returns | | | |
|---|---|---|---|---|
| | **1 Year** | **3 Year** | **5 Year** | **10 Year** |
| **Templeton Foreign Fund** | **19.9%** | **16.2%** | **13.3%** | **8.9%** |
| **Vanguard Total International Stock Index** | **26.6%** | **20.9%** | **16.1%** | **7.8%** |
| **Vanguard International Growth** | **26.1%** | **20.1%** | **13.9%** | **8.1%** |
| *Benchmark: MSCI EAFE Index* | *26.3%* | *19.9%* | *15.0%* | *7.7%* |
| **Hartford Small Company** | **14.4%** | **15.8%** | **11.1%** | **10.6%** |
| *Benchmark: Russell 2000 Growth Index* | *13.3%* | *10.5%* | *6.9%* | *4.9%* |
| **Vanguard Small-Cap Index** | **15.8%** | **14.4%** | **11.8%** | **10.2%** |
| *Benchmark: Vanguard Small Cap Custom* | *15.8%* | *14.3%* | *11.9%* | *9.7%* |
| **FPA Capital** | **5.4%** | **11.4%** | **13.0%** | **12.7%** |
| *Benchmark: Russell 2000 Value Index* | *23.5%* | *16.5%* | *15.4%* | *13.3%* |
| **Vanguard Capital Opportunity** | **16.9%** | **15.5%** | **10.6%** | **15.6%** |
| *Benchmark: Russell MidCap Growth Index* | *10.7%* | *12.7%* | *8.2%* | *8.6%* |
| **Fidelity Growth Company** | **9.6%** | **11.7%** | **5.6%** | **9.6%** |
| **Janus Twenty** | **12.3%** | **15.0%** | **7.7%** | **9.9%** |
| *Benchmark: Russell 1000 Growth Index* | *9.1%* | *6.9%* | *2.7%* | *5.4%* |
| **Fidelity Contrafund** | **11.5%** | **14.3%** | **11.5%** | **11.0%** |
| **Fidelity Magellan** | **7.2%** | **7.0%** | **3.2%** | **7.0%** |
| **Vanguard Institutional Index** | **15.8%** | **10.4%** | **6.2%** | **8.5%** |
| *Benchmark: S&P 500 Index* | *15.8%* | *10.4%* | *6.2%* | *8.4%* |
| **Dodge & Cox: Stock** | **18.5%** | **15.6%** | **12.8%** | **14.2%** |
| *Benchmark: Russell 1000 Value Index* | *22.2%* | *15.1%* | *10.9%* | *11.0%* |
| **Dodge & Cox: Balanced** | **13.9%** | **11.2%** | **10.7%** | **11.8%** |
| *Benchmark: Dodge & Cox Custom* | *11.1%* | *7.8%* | *6.0%* | *7.9%* |
| **Barclays Global Investors Lifepath 2010** | **10.8%** | **8.4%** | **6.5%** | **7.4%** |
| *Benchamrk: Barclays Custom* | *11.0%* | *8.3%* | *7.0%* | *7.8%* |
| **Barclays Global Investors Lifepath 2020** | **13.7%** | **10.3%** | **7.4%** | **7.8%** |
| *Benchamrk: Barclays Custom* | *13.9%* | *10.1%* | *7.7%* | *8.2%* |
| **Barclays Global Investors Lifepath 2030** | **16.0%** | **11.8%** | **7.9%** | **8.2%** |
| *Benchamrk: Barclays Custom* | *16.2%* | *11.4%* | *8.3%* | *8.4%* |
| **Barclays Global Investors Lifepath 2040** | **17.7%** | **12.9%** | **8.3%** | **8.5%** |
| *Benchamrk: Barclays Custom* | *18.1%* | *12.5%* | *8.6%* | *8.7%* |
| **PIMCO Total Return** | **3.7%** | **3.8%** | **5.4%** | **6.5%** |
| **Vanguard Total Bond Market Index** | **4.4%** | **3.7%** | **4.7%** | **5.9%** |
| *Benchmark: Lehman Brothers Aggregate* | *4.3%* | *3.7%* | *5.1%* | *6.2%* |
| **Stable Value Option** | **4.9%** | **4.8%** | **5.1%** | **5.8%** |
| *Benchmark: IMoney Net + 150 bps* | *6.0%* | *4.1%* | *3.4%* | *5.0%* |

# INVESTMENT MIX

## December 31, 2006

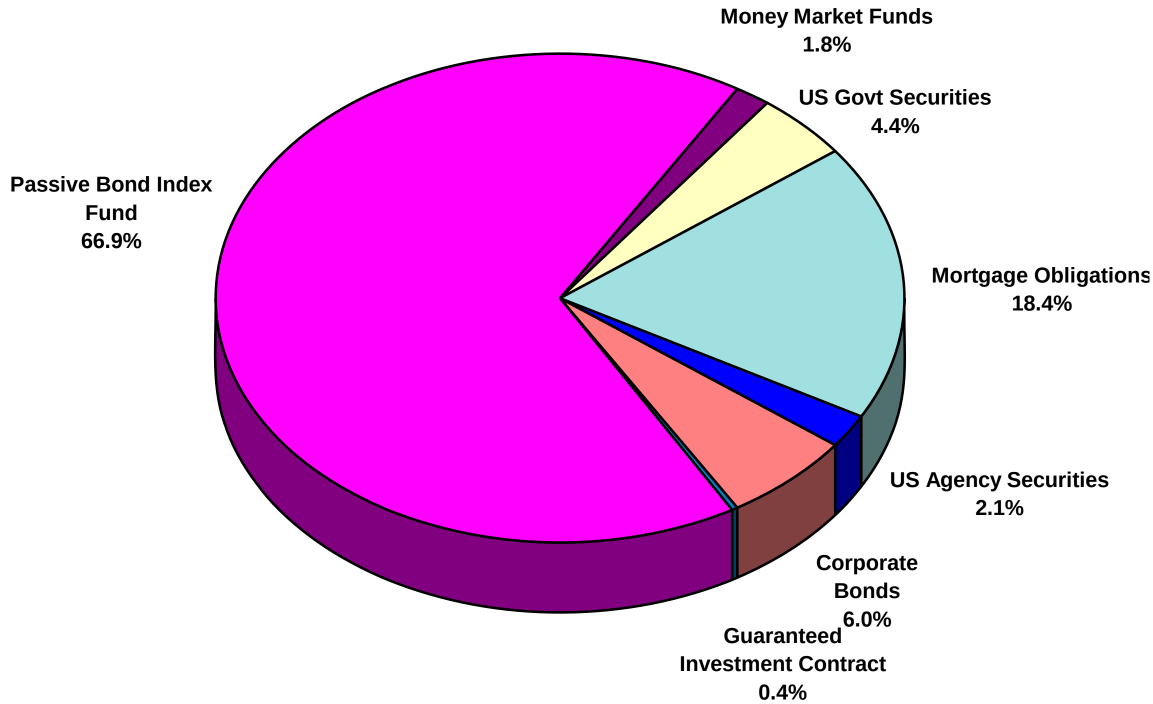



## December 31, 2005

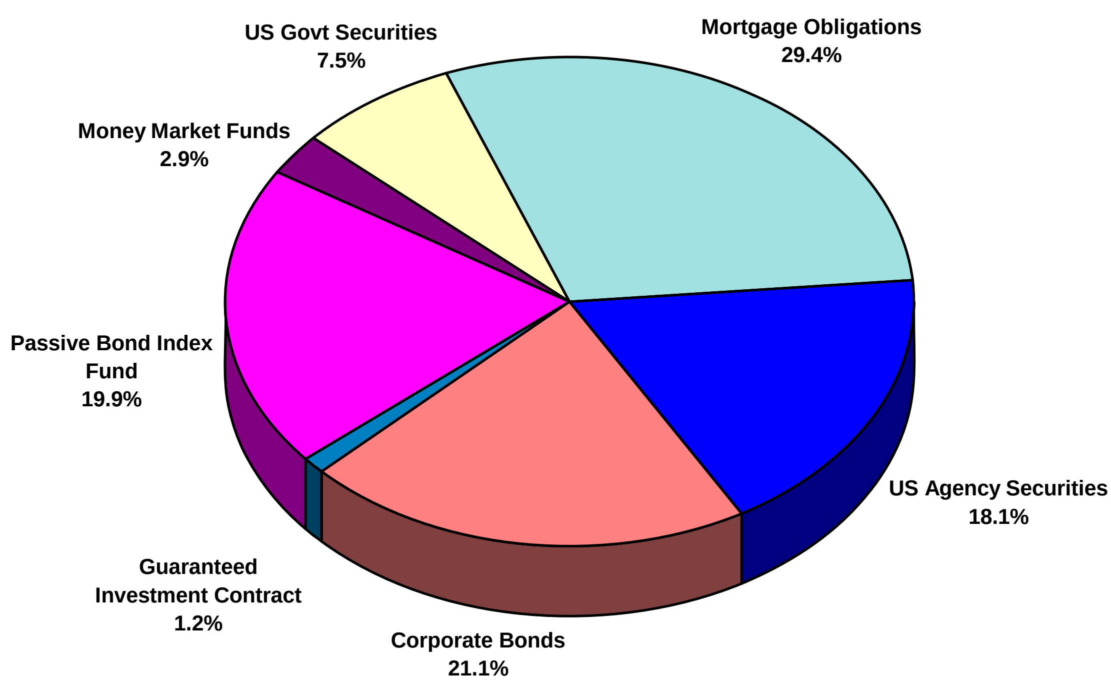


# STABLE VALUE OPTION DIVERSIFICATION

## December 31, 2006




## December 31, 2005



OHIO DEFERRED COMPENSATION

OHIO PUBLIC EMPLOYEES DEFERRED COMPENSATION PROGRAM

# STATISTICAL SECTION

# STATISTICAL INFORMATION

The Ohio Public Employees Deferred Compensation Program is implementing GASB Statement 44, *Economic Condition Reporting: The Statistical Section*, issued in May 2004. The statistical section has been a required part of comprehensive annual financial reports. Before GASB 44, entities supplied information in statistical sections differently from others, thereby lessening the usefulness and comparability of the statistical information. GASB 44 Statement 44 improves the understandability and usefulness of the statistical section by addressing the comparability problems that have developed and by adding information to help users understand the Ohio Public Employees Deferred Compensation Program.

The objective of GASB 44 is to provide the financial statement users with historical perspective, context, and detail to assist in using the information in the financial statements and the notes to the financial statements to better understand and assess the Ohio Public Employees Deferred Compensation Program's economic condition. The schedules on pages 47-50 show financial trend information that assists users in understanding how the Ohio Public Employees Deferred Compensation Program's financial position has changed over time. The financial trend schedules presented are:

- Changes in Net Assets
- Employee Participation and Deferral Trends
- Number of Employers Contributing
- Principle Contributing Employers
- Benefit Payments

# CHANGES IN NET ASSETS

## Years ending December 31, 1997 – 2006
## (In Millions)

| | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 | 1998 | 1997 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Additions:** | | | | | | | | | | |
| Net Investment Income: | | | | | | | | | | |
| Net gain on funds | $439.0 | $274.2 | $321.3 | $489.0 | ($409.5) | ($401.1) | ($373.7) | $604.8 | $371.8 | $219.8 |
| Stable value income | 150.6 | 141.1 | 131.2 | 137.3 | 141.3 | 135.8 | 127.1 | 124.0 | 123.4 | 123.5 |
| Investment expenses | (5.4) | (5.1) | (4.8) | (4.3) | (3.3) | (2.9) | (2.5) | (2.6) | (2.4) | (2.9) |
| Net investment income | 584.2 | 410.2 | 447.6 | 622.0 | (271.4) | (268.1) | (249.2) | 726.2 | 492.8 | 340.4 |
| Employee contributions | 433.0 | 412.9 | 393.1 | 365.0 | 356.9 | 323.9 | 314.4 | 305.3 | 295.4 | 268.8 |
| Transfers from other plans | 43.1 | 52.1 | 38.4 | 28.4 | 25.7 | 6.6 | 2.2 | 4.4 | 2.0 | 2.0 |
| Recordkeeping income | 6.0 | 5.3 | 4.8 | 3.9 | 4.1 | 3.3 | 3.9 | 3.2 | 2.3 | 1.3 |
| Total additions | 1,066.3 | 880.5 | 883.9 | 1,019.4 | 115.2 | 65.7 | 71.3 | 1,039.0 | 792.4 | 612.6 |
| **Deductions:** | | | | | | | | | | |
| Distributions to participants | 191.9 | 177.6 | 171.4 | 166.8 | 192.6 | 185.1 | 175.0 | 152.7 | 136.7 | 116.6 |
| Transfers to other plans | 140.0 | 111.5 | 85.0 | 65.1 | 112.0 | 0.4 | 0.9 | 0.7 | 0.5 | 0.6 |
| Administrative expenses | 7.7 | 7.3 | 6.9 | 6.6 | 5.9 | 5.5 | 5.2 | 5.4 | 5.3 | 5.2 |
| Life insurance premiums | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 | 0.1 | 0.1 | 0.1 | 0.2 |
| Total deductions | 339.7 | 296.5 | 263.4 | 238.5 | 310.6 | 191.3 | 181.1 | 158.9 | 142.7 | 122.6 |
| **Increase (Decrease) in Net Plan Assets** | 726.6 | 584.0 | 620.5 | 780.8 | (195.4) | (125.6) | (109.8) | 880.1 | 649.7 | 490.0 |
| Net plan assets - beginning of year | 6,128.8 | 5,544.8 | 4,924.3 | 4,143.4 | 4,338.8 | 4,464.5 | 4,574.3 | 3,694.2 | 3,044.5 | 2,554.5 |
| Net plan assets - end of year | $6,855.4 | $6,128.8 | $5,544.8 | $4,924.3 | $4,143.4 | $4,338.8 | $4,464.5 | $4,574.3 | $3,694.2 | $3,044.5 |

# EMPLOYEE PARTICIPATION

| | Eligible Employees | Total Participant Accounts | Participants Currently Contributing | Current Contribution Rate |
|---|---|---|---|---|
| 1997 | 668,901 | 142,823 | 105,587 | 15.8% |
| 1998 | 680,137 | 147,451 | 108,784 | 16.0% |
| 1999 | 698,845 | 150,412 | 109,217 | 15.6% |
| 2000 | 705,023 | 156,798 | 112,795 | 16.0% |
| 2001 | 720,831 | 159,066 | 111,832 | 15.5% |
| 2002 | 719,880 | 165,993 | 113,521 | 15.8% |
| 2003 | 687,669 | 169,766 | 113,536 | 16.5% |
| 2004 | 712,246 | 174,880 | 114,441 | 16.1% |
| 2005 | 716,975 | 179,729 | 114,612 | 16.0% |
| 2006 | 716,096 | 184,467 | 115,176 | 16.1% |

# DEFERRAL/ACCOUNT TRENDS

| | Total Annual Deferrals | Average Annual Deferral | Net Assets Available for Benefits | Average Participant Account |
|---|---|---|---|---|
| 1997 | $268,826,344 | $2,546 | $3,044,513,643 | $21,317 |
| 1998 | 295,353,085 | 2,715 | 3,694,176,461 | 25,054 |
| 1999 | 305,282,184 | 2,795 | 4,574,291,046 | 30,412 |
| 2000 | 314,399,046 | 2,787 | 4,464,472,365 | 28,473 |
| 2001 | 323,887,138 | 2,896 | 4,338,942,270 | 27,278 |
| 2002 | 356,857,437 | 3,144 | 4,143,485,226 | 24,962 |
| 2003 | 365,012,189 | 3,215 | 4,924,324,467 | 29,007 |
| 2004 | 393,121,999 | 3,435 | 5,544,848,876 | 31,707 |
| 2005 | 412,865,430 | 3,602 | 6,122,790,623 | 34,067 |
| 2006 | 433,065,402 | 3,760 | 6,855,368,579 | 37,163 |

# NUMBER OF EMPLOYERS CONTRIBUTING

| | State | County | City | Metro Housing | Village | Library | Medical Center | Education | Misc | Township | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1997 | 1 | 88 | 221 | 36 | 129 | 137 | 33 | 236 | 95 | 151 | 1,127 |
| 1998 | 1 | 88 | 224 | 39 | 137 | 145 | 33 | 251 | 101 | 161 | 1,180 |
| 1999 | 1 | 88 | 226 | 41 | 140 | 150 | 33 | 265 | 103 | 170 | 1,217 |
| 2000 | 1 | 88 | 231 | 43 | 152 | 158 | 33 | 272 | 106 | 188 | 1,272 |
| 2001 | 1 | 88 | 237 | 45 | 156 | 169 | 34 | 297 | 116 | 207 | 1,350 |
| 2002 | 1 | 88 | 241 | 45 | 165 | 176 | 30 | 362 | 112 | 208 | 1,428 |
| 2003 | 1 | 88 | 244 | 46 | 167 | 179 | 30 | 408 | 121 | 213 | 1,497 |
| 2004 | 1 | 88 | 245 | 46 | 177 | 182 | 30 | 438 | 124 | 227 | 1,558 |
| 2005 | 1 | 88 | 245 | 46 | 182 | 184 | 27 | 478 | 127 | 232 | 1,610 |
| 2006 | 1 | 88 | 247 | 47 | 185 | 187 | 27 | 497 | 134 | 241 | 1,654 |

# PRINCIPLE CONTRIBUTING EMPLOYERS AS OF DECEMBER 31, 2006

| Employer Name | Participant Accounts | Rank | Percentage of Participants |
|---|---|---|---|
| State of Ohio | 51,561 | 1 | 27.95% |
| City of Columbus | 8,361 | 2 | 4.53% |
| City of Cleveland | 7,418 | 3 | 4.02% |
| Cuyahoga County | 6,245 | 4 | 3.39% |
| City of Cincinnati | 5,472 | 5 | 2.97% |
| Franklin County | 3,361 | 6 | 1.82% |
| Metrohealth Medical Center | 2,665 | 7 | 1.44% |
| Montgomery County | 2,569 | 8 | 1.39% |
| City of Toledo | 2,120 | 9 | 1.15% |
| City of Dayton | 2,094 | 10 | 1.14% |
| All Others | 92,601 | | 50.20% |
| Total Participation | 184,467 | | 100.00% |

# BENEFIT PAYMENTS

| | Participant Distributions | Beneficiary Distributions | Total Distributions |
|---|---|---|---|
| 1997 | $107,866,162 | $8,707,776 | $116,573,938 |
| 1998 | 127,035,195 | 9,688,393 | 136,723,588 |
| 1999 | 141,399,482 | 11,273,620 | 152,673,102 |
| 2000 | 162,249,966 | 12,729,919 | 174,979,885 |
| 2001 | 171,595,144 | 13,530,997 | 185,126,141 |
| 2002 | 179,769,461 | 12,882,416 | 192,651,877 |
| 2003 | 155,359,993 | 11,438,532 | 166,798,525 |
| 2004 | 157,739,777 | 13,624,557 | 171,364,334 |
| 2005 | 164,503,167 | 13,093,037 | 177,596,204 |
| 2006 | 177,620,756 | 14,275,742 | 191,896,498 |

| | Number of Participant Distributions | Number of Beneficiary Distributions | Number of Total Distributions |
|---|---|---|---|
| 1997 | 15,720 | 1,078 | 16,798 |
| 1998 | 18,482 | 1,237 | 19,719 |
| 1999 | 18,381 | 1,297 | 19,678 |
| 2000 | 20,006 | 1,426 | 21,432 |
| 2001 | 21,427 | 1,453 | 22,880 |
| 2002 | 21,959 | 1,488 | 23,447 |
| 2003 | 20,467 | 1,385 | 21,852 |
| 2004 | 20,583 | 1,435 | 22,018 |
| 2005 | 20,923 | 1,594 | 22,517 |
| 2006 | 21,689 | 1,577 | 23,266 |

| | Average Participant Distribution | Average Beneficiary Distribution | Average Total Distribution |
|---|---|---|---|
| 1997 | $6,862 | $8,078 | $6,940 |
| 1998 | 6,873 | 7,832 | 6,934 |
| 1999 | 7,693 | 8,692 | 7,759 |
| 2000 | 8,110 | 8,927 | 8,164 |
| 2001 | 8,008 | 9,312 | 8,091 |
| 2002 | 8,187 | 8,658 | 8,216 |
| 2003 | 7,591 | 8,259 | 7,633 |
| 2004 | 7,664 | 9,494 | 7,783 |
| 2005 | 7,862 | 8,214 | 7,887 |
| 2006 | 8,189 | 9,052 | 8,248 |

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**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***

Ohio Public Employees Deferred Compensation Board
Columbus, Ohio

We have audited the financial statements of the Ohio Public Employees Deferred Compensation Program (the Program), as of and for the year ended December 31, 2006, and have issued our report thereon dated June 11, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United Sates of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

## Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Program'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 Program's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Program'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 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 the Program'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*.

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

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
June 11, 2007

Mary Taylor, CPA
Auditor of State

**OHIO PUBLIC EMPLOYEES DEFERRED COMPENSATION PROGRAM**

**FRANKLIN COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

Susan Babbitt

**CLERK OF THE BUREAU**

**CERTIFIED**
**AUGUST 7, 2007**

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