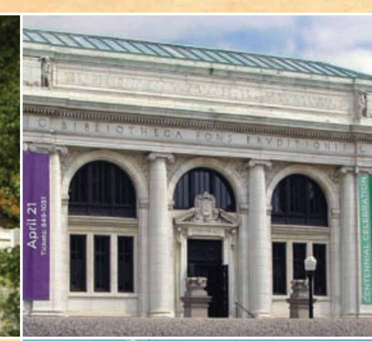
OPERS

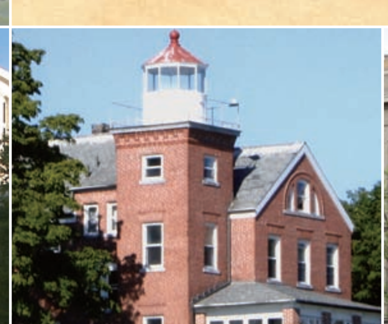
277 East Town Street
Columbus, Ohio 43215-4642
1-800-222-PERS (7377)
www.opers.org



OPERS will achieve its vision by acting in the best interest of its participants, maintaining the financial security of the trust fund, and providing exceptional service to our members, benefit recipients and employers.






Ohio Public Employees Retirement System

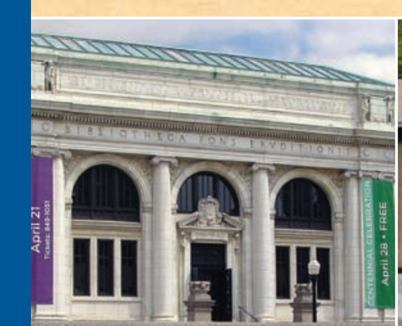
The Comprehensive Annual Financial Report 2006

OPERS

Ohio Public Employees Retirement System

The Comprehensive Annual Financial Report

For the years ended December 31, 2006 and 2005





Planning Now to Preserve Financial Futures



Mary Taylor, CPA
Auditor of State

Members of the Retirement Board
Ohio Public Employees Retirement System
277 East Town Street
Columbus, Ohio 43215-4642

We have reviewed the *Independent Auditors' Report* of the Ohio Public Employees Retirement System, Franklin County, prepared by Clifton Gunderson LLP, 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 Retirement System is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

June 12, 2007

88 E. Broad St. / Fifth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us

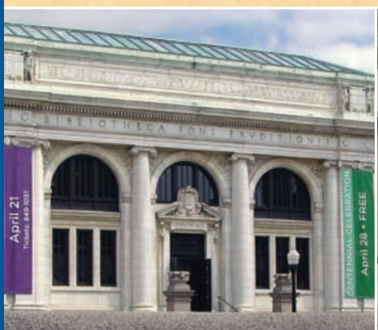
OPERS

Ohio Public Employees Retirement System

The Comprehensive
Annual Financial Report

For the years ended December 31, 2006 and 2005

Prepared by OPERS' Finance Division staff





Planning Now to Preserve Financial Futures



Contents

2

Introductory Section (unaudited)

20

Financial Section

72

Investment Section (unaudited)

106

Actuarial Section (unaudited)

116

Statistical Section (unaudited)

146

Plan Statement

OPERS

Introductory Section

WILLIAMS COUNTY COURTHOUSE
Williams County, Ohio

For more than 115 years, the Williams County Courthouse has served as a distinctive and functioning landmark due to outstanding construction and ongoing preservation efforts. Begun in 1889, the courthouse was constructed at a cost of $185,000 (including furniture). Officials first began using the structure in July 1891.

During the original construction of the 160 foot high building, stonecutters were brought in from Scotland to carve the stone work on the tower. The tower itself is 26 feet square, with three-foot thick walls; supporting clocks and a 3,000-pound bell that was first hung in 1891. In a forward-looking measure, the windows of the building were designed with a curve to allow more light into the offices.

Ongoing preservation has maintained this structure, in 1901 coal heat was installed; in 1957 significant renovations occurred and in 1961 an elevator was installed. In 1976, as part of the nation's bicentennial, the clocks were restored. Funds for the restoration were generated by selling the courthouse clock's time—proving the adage, time is money. For a dollar a minute, individuals could buy time—by the end of the "time" sale, almost $12,000 had been generated.

Today, the building is still functional and beautiful. In fact, the offices of the county auditor, probate judge, treasurer, clerk of courts and recorder occupy the original places as they did more than 100 years ago. In 1973, the Williams County courthouse was entered into the National Register of Historic Places.

Retirement Board members, as of January 2007

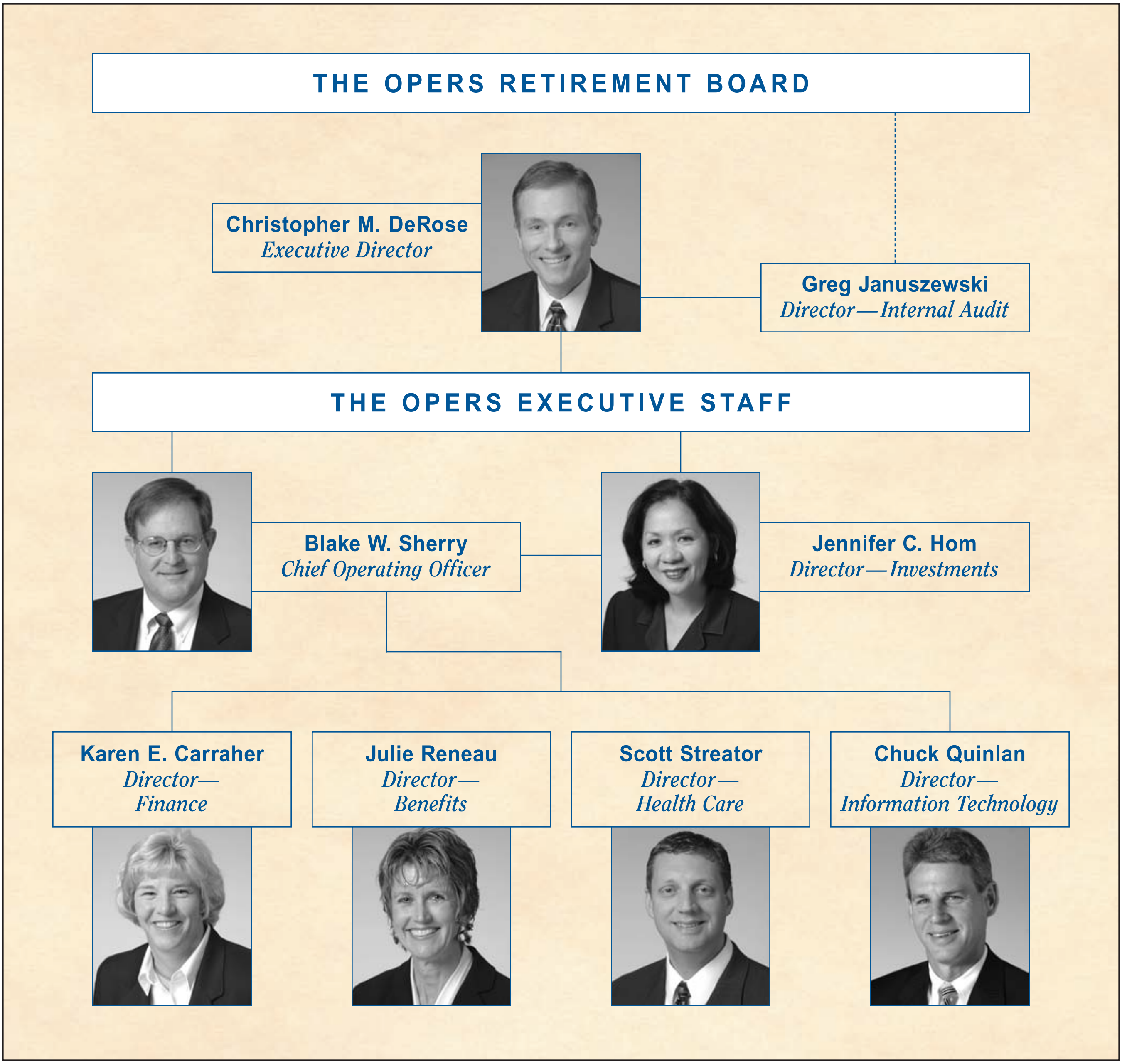
Front row, left to right, seated: Hugh Quill, Director of the Ohio Department of Administrative Services; Cinthia Sledz, vice-chair, representing miscellaneous employees; Robert C. Smith, gubernatorial-appointed investment expert.

Second row, left to right, standing: Ronald C. Alexander, representing state employees; Kim Russell, representing college/university employees; Ken Thomas, chair, representing municipal employees; James Tilling, general assembly appointed investment expert; Helen Youngblood, representing county employees; John Maurer, representing retirees; Sharon M. Downs, representing retirees; Warren W. Tyler, Treasurer-appointed investment expert.

The Retirement Board is the governing body of the Ohio Public Employees Retirement System (referred to as OPERS or the System). The Retirement Board is ultimately responsible for the administration and management of all OPERS activities including oversight of investment activities.

In 2004, the Retirement Board was reorganized and expanded to 11 members to ensure representation of all stakeholders. With its expansion, seven of the 11 members are elected by the groups they represent: college/university employees, state employees, miscellaneous employees, county employees, municipal employees and two members representing retirees. Three individuals with investment expertise are appointed by Ohio's Governor, Treasurer, and jointly by the Ohio Senate and House. The Retirement Board is completed with the Director of the Ohio Department of Administrative Services.

The Retirement Board appoints the Executive Director, an actuary and other advisors necessary for the transaction of business. The Retirement Board meets monthly and receives no compensation, but is reimbursed for necessary expenses. By law, the state Treasurer is custodian of OPERS' funds.



AUDITORS

Clifton Gunderson
Toledo, Ohio
(under contract with the Auditor of State)

ADVISORS

Actuary—Gabriel, Roeder, Smith & Company
Southfield, Michigan

Investment Policy Advisors to the Retirement Board—EnnisKnupp + Associates
Chicago, Illinois

See page 70 for a list of investment consultants and page 85 for a list of external asset managers.

OPERS Ohio Public Employees Retirement System

277 East Town Street Columbus, Ohio 43215-4642 1-800-222-7377 www.opers.org

April 25, 2007

Dear Chairman and Members of the Retirement Board:

It is our privilege to submit to you the *Comprehensive Annual Financial Report* (Annual Report) for the Ohio Public Employees Retirement System (OPERS or System) for the fiscal years ending December 31, 2006 and 2005. As captured by the cover images and echoed throughout this document, the main theme of OPERS for 2006 can be best summarized as *Planning Now to Preserve Financial Futures.*

Like the preserved structures shown in this report, OPERS has been built to last on a solid foundation. However, equally analogous, the reason the structures survived to be enjoyed by future generations was the careful stewardship provided by those who inherited the structure. New generations were responsible for anticipating preservation challenges, planning for those challenges, preserving each structure's visible façade and strengthening the infrastructure that, although rarely seen, is the core of its strength. Where possible, those who inherited the structure not only preserved, but enhanced the structure—without eroding the original vision.

At OPERS, we believe our efforts over the past year reflect the same stability and vision. We inherited a strong foundation that, with careful stewardship will be preserved and, where possible, enhanced. OPERS was established and exists solely for the purpose of providing retirement, disability and survivor benefits to Ohio's public employees. Additionally, although neither mandated nor guaranteed, OPERS is committed to providing access to and financial assistance with affordable, meaningful health care. This vision requires ongoing monitoring of the marketplace, the membership and the benefits offered—coupled with diligent planning and constant positioning so that vision can be accomplished. In all activities, OPERS strives to be neither reactive nor static. We strive to provide thoughtful solutions to challenges and potential barriers to our accomplishing the overriding goal of keeping the promise of providing a secure financial future for our members. The structure that is OPERS is not only surviving—it is thriving.

As always, the responsibility for the accuracy of the data presented here, as well as the completeness and fairness of the presentation, rests with OPERS management.

A Structure Worthy of Preservation Efforts: Historical Overview

From its inception on January 1, 1935, OPERS began providing for the financial futures of members by providing retirement benefits for employees of the state of Ohio. From 1935 to the present, the System has, overall, experienced strong growth which has enabled the System to provide benefit and service enhancements for members and retirees. During its more than 70 years of service, the System has expanded to include employees of counties, municipalities, health departments and park and conservancy districts, elected officials and eligible law enforcement. Survivor benefits became part of the OPERS benefit structure in 1951 and, although not mandated, a subsidy for health care benefits was provided for retirees beginning in the 1970s. Legislation enacted in 2000 enhanced benefits for active members and retirees and required two new retirement plans to be established. In response, the Member-Directed Plan and the Combined Plan were implemented in 2003. In 2004, the Retirement Board enacted the Health Care Preservation Plan, a plan design change that links the subsidy for health care to years of service and allows future increases in deductibles and cost sharing, changes eligibility for health care benefits and introduces wellness and prevention programs.

Why the Structure Exists: Our Vision

To realize our stated vision—to be a top-tier retirement fund providing quality retirement, disability, survivor, and health care benefits and services—OPERS must anticipate challenges and proactively manage those challenges so that the financial future of OPERS members is assured. OPERS is the prudent steward of the funds paid by Ohio's public employees and their employers into the System during employees' working years. OPERS, in turn, pays benefits to these members throughout their retirement, and to qualified beneficiaries after the member's death.

Readers of this document can find additional information on available benefits by reviewing the Plan Statement section starting on page 146.

Currently, OPERS serves more than 728,000 members, and provides more than 156,000 retirees and surviving beneficiaries with monthly benefits. In addition, the System currently works with more than 3,200 public employers. As of December 31, 2006, OPERS managed an asset base of almost $78.4 billion, an increase of $8.7 billion, or 12.5%, from the $69.7 billion asset base reported at year-end 2005.

Employer Composition and Membership Information

For actuarial purposes, participating employers are divided into state, local government and law enforcement divisions. A complete description of the OPERS membership is contained in the Plan Statement section of this document, beginning on page 146.

ANNUAL REPORT ORGANIZATION

This Annual Report is divided into six sections, listed as each appears in this document:

- ***Introductory Section***—with the Letter of Transmittal, organizational chart, and recognition awards garnered in 2006;
- ***Financial Section***—with the Independent Auditor's Report, Management's Discussion and Analysis, the financial statements of the System, Required Supplementary Information and Additional Information;
- ***Investment Section***—with a report on investment activity, investment policies, investment results, and various investment schedules;
- ***Actuarial Section***—with the Actuary's Certification Letter, and the most recent results of the annual actuarial valuation;
- ***Statistical Section***—with significant data pertaining to the System, and the
- ***Plan Statement***—with complete membership information and details about the retirement plans offered through OPERS.

ADDING TO THE STRUCTURE: 2006 ACCOMPLISHMENTS AND INITIATIVES

The specific 2006 goals that guided the System in developing strategies to preserve the financial future were:

- Improving the System's funded status for pensions
- Extending the solvency period of the Health Care Fund, and
- Enhancing member services and options

The goal of preserving benefits can only be accomplished if the funded status of the System is preserved and strengthened. Simply put, the funded status measures OPERS' progress toward accumulating the funds necessary to meet future pension obligations. As of the date of OPERS' most current valuation (December 31, 2005), OPERS' funded status was 89.1%—a significant improvement over the prior year's funded status (December 31, 2004), which was 87.6%. Additionally, preliminary estimates indicate the funded status, after the December 31, 2006 valuation is completed, will increase to 93%.

The System's funded status is enhanced by generating investment income and by controlling expenses. In 2006, OPERS experienced significant success in both areas.

Specifically, OPERS experienced its fourth consecutive year of positive investment returns. The Pension Fund had a 15.1% return, while the Health Care Fund had a 12.8% return. In total, the OPERS total investment portfolio returned 14.7% for the year. Investment income added $10 billion to assets in 2006. Investment results are detailed in the Investment Section, beginning on page 72 of this Annual Report.

With respect to expense control, OPERS consistently seeks opportunities to improve its funded status, as incremental improvements can increase exponentially over the System's infinite time horizon. The bulk of OPERS' expense control occurs on several fronts—controlling the administrative budget used to administer the plan, controlling health care expense (details about which can be found later in this report), and ensuring that the cost of pension service credit is appropriately priced so that no group is subsidizing another group. OPERS made significant changes in these areas this year, such as:

- Evaluating the methods used to cost out the purchase of service credit,
- Evaluating the assumptions and methodologies for estimating the future funding needs,
- Increasing the contribution rates,
- Adjusting the contribution rate across groups to provide for equity based on the benefits to which each group is eligible,
- Evaluating the organization's operating expenditures, and
- Methodically investing in developing an infrastructure that minimizes the staff required to service the growing baby boom population.

OPERS' management and staff have been innovative and proactive in delivering incremental savings to the System without eroding the overall strength of the structure.

IMPROVING THE INFRASTRUCTURE: LEGISLATION TO POSITION OPERS FOR THE FUTURE

OPERS has a tradition of working diligently and collaboratively with federal and state legislators to ensure that the position of the System has been heard at both the federal and state levels.

After years of advocacy, Ohio House Bill 272 was approved and became law in 2007. The law contains a number of provisions which will improve the System's funded status, while enhancing retiree options.

Specifically, the law:

- Requires monthly remittance of employer contributions,
- Allows participants in any of OPERS' retirement plans to contribute voluntarily to a retiree medical account,
- Enhances the Additional Annuity program by providing more competitive interest compounding and payroll deductions, and
- Eases administrative requirements so the surviving spouse of a member in the law enforcement division killed in the line of duty can receive survivor benefits regardless of the member's length of service.

ONGOING PRESERVATION EFFORTS: FUNDING AND PROVIDING THE HEALTH CARE BENEFIT

Historically, OPERS has taken a proactive approach to funding health care benefits. These efforts have yielded impressive results. Since 1974, when OPERS first offered health care benefits, the System has conscientiously worked to pre-fund the benefit. As discussed later, OPERS is one of only a few systems that set aside funds to pay for this intended benefit. In 2005, OPERS' Health Care fund assets were segregated from the pension portfolio for investment purposes. These assets are invested in a separate mix of investments designed to facilitate steady growth and minimize volatility. The OPERS Health Care fund now stands at $12.8 billion.

Continuing to provide health care benefits, and generating the funding necessary for those benefits, was a major initiative in 2006. We envision this initiative to require significant effort in the future. The Retirement Board recognizes that providing health care benefits is an important element in planning for any retiree's future. However, factors beyond the control of any system, such as skyrocketing health care costs, increased longevity and the retirement of the baby-boomers, have placed significant strains on health care funds. Similar to managing pensions, OPERS' plan to manage the health care fund so that the benefit can be preserved into the future involves a multi-faceted approach aimed at controlling expenditures through active management, evaluating plan design to preserve intergenerational equity, implementing a wellness program, and maximizing revenue through investment returns and System funding. Interdepartmental efforts, proactive planning, active management of the health care program and strong investment returns have yielded a net increase of $992 million to the $12.8 billion retiree Health Care Fund.

OPERS evaluates the progress of the health care plan using a measure referred to as the solvency period. Simply put, the solvency period measures how long the current health care funds will last given the expected level of expenditures. In 2005, the health care fund had an expected solvency period of 17 years. In 2006, the solvency period improved to 18 years. Preliminary estimates for 2007 indicate the solvency period may increase to 22 years.

One of the specific initiatives completed in 2006 was the implementation of changes to the Health Care Preservation Plan (HCPP). Meeting the HCPP target implementation date of 2007 required intensive, interdepartmental efforts, and member education throughout 2006. The first incremental increase in retirement contributions became effective in 2006 for public employers and members; the technology infrastructure was established and tested in 2005 and 2006. With ongoing communications, including training, call centers, and printed and electronic communications, members and employers were introduced to the health care plan changes so that when the changes became effective in 2007, all constituencies were knowledgeable.

HEALTH CARE PLANNING CONTINUES

Clearly, progress has been made regarding health care solvency. However, more needs to be done for OPERS to continually maintain the Retirement Board-established target solvency period of a rolling 15-25 years. OPERS' advocacy efforts were instrumental in ensuring that public pension systems could be enrolled in the Medicare D subsidy program—projected savings to the System's health care plan were estimated at $50 million for 2006. Cost saving measures being contemplated to improve the health care fund's solvency include: ongoing work with physicians and retirees to encourage the choice of generic drugs and lower-cost pharmaceuticals; implementation of wellness programs beginning while a member is still working; and further plan design changes.

The positive impact of the planning centered on health care benefits has already become manifest. In 2006, OPERS realized a 6.8% increase in costs for total health care, which is on par with the national average increase of 6.8%-7.0%. However, OPERS received rebates from pharmaceutical companies and a federal subsidy for participating in the Medicare Part D program. Factoring in these revenue components, the net health care expenses decreased by 5.7% from 2005 to 2006.

FINANCING STRUCTURAL ENHANCEMENTS: INCREMENTAL RATE INCREASE

As part of the HCPP, and to help defray the cost of providing a health care benefit, incremental increases in the retirement contribution rates became effective January 1, 2006. Prior to this increase, the contribution rates had not changed in 27 years, and OPERS was the only statewide pension system in Ohio with a contribution rate less than the statutory maximum. Beginning in 2006, member contribution rates increased by 0.5%—and will continue at that rate per year for three years. Similarly, employer contribution rates will increase on an incremental basis up to the statutory maximum of 14% in 2008. The contribution rate for employers in the law enforcement division will increase incrementally up to the statutory maximum of 18.1% in 2011.

MONITORING THE STRUCTURE'S STRENGTH: GASB AND OTHER POST-EMPLOYMENT BENEFITS

The Government Accounting Standards Board (GASB) issued new accounting rules for reporting health care benefits or other post-employment benefits (OPEB). The new OPEB standards became effective for OPERS as of year-end 2006.

The GASB standards require OPERS to calculate and disclose the estimated liability for all current and future retirees for the entire amount of health care subsidy OPERS will provide. This essentially requires health care benefits to be measured in the same manner pensions are measured. As stated previously, post-employment health care benefits are neither mandated nor guaranteed, yet OPERS has managed to continue to provide an excellent plan—a goal that remains a priority within prudent financial standards.

As noted previously, OPERS uses a measure of solvency period to track the progress of the health care fund. As required by the GASB, the new accounting requirement will be used for reporting in our financial statements. At the same time, however, OPERS will continue to use solvency as an internal measure.

As retirement systems implement the new accounting requirement, there will be liabilities of varying sizes reported, based on the size of the plan and the specific benefits offered and assumptions used. It is important to note that the new accounting standard does not require health care liabilities to be funded, however, OPERS has chosen to set aside funds. As of December 31, 2005 (the date of the last actuarial valuation), OPERS had assets of $11.1 billion and had a positive funded ratio of 35%. While OPERS may not strive to be 100% funded, our strategy is to make incremental changes in the health care plan that are not too dramatic, and implement these changes in a manner designed to allow individuals time to plan and make decisions accordingly. OPERS' goal is to make these changes in a manner such that we will always have 15-25 years of health care liabilities pre-funded.

A SOLID FOUNDATION IS ENHANCED: OVERVIEW OF 2006 FINANCIAL RESULTS

OPERS completed the year 2006 with a strong financial performance. OPERS' total net assets for the year ended December 31, 2006 were $78.4 billion, which is a $8.7 billion increase over the prior year.

The collection of employer and employee contributions, as well as income from investments, provide the reserves needed to finance retirement benefits. As mentioned previously, investments in 2006 returned 14.7%, and added $10.0 billion to assets—the fourth consecutive year of positive returns since the market decline of 2000-2002. Complete information about OPERS' investment returns, activities and policies governing those activities are more fully explained in the Investment Section, beginning on page 72.

Expenses for fiscal year 2006 totaled $4.44 billion, an increase of 8.0% over 2005. The increase is primarily due to an increase in the number of benefit recipients. The number of benefit recipients increased 3.3%, or to 156,747, from the 151,758 figure for 2005. In addition, as anticipated and discussed previously, retiree health care expenses increased from $1.15 billion in 2005 to $1.23 billion in 2006, a 6.8% increase. This increase is attributed to health care inflation and an increase in the number of covered lives.

The $1.23 billion in expense is stated gross and not offset by amounts collected from the Medicare Part D program or from pharmaceutical rebates and other contract performance guarantees. These amounts are reflected as revenue, rather than a reduction of the expense.

OPERS' 2006 administrative expenses, including investment expenses totaling $89.9 million, reflect an increase of $5.1 million, or 6.0%, when compared to fiscal year 2005 expenses. Administrative expenses are detailed in the Financial Section on page 69.

For a complete analysis of the additions and deductions to the Plan Net Assets, please see Management's Discussion and Analysis beginning on page 22.

FINANCING THE STRUCTURE: FUNDING AND RESERVES

Funds are accumulated by the System in order to meet current and future benefit obligations to retirees and beneficiaries. The higher the level of funding, the larger the accumulation of assets, hence, the greater the investment income potential. Continuous improvement of the System's funded status is sought through the accumulation of adequate reserves, higher investment earnings and effective cost-containment programs.

OPERS actuarial policy requires that investment income gains and losses be recognized (smoothed) over a four-year period. According to the latest actuarial valuation dated December 31, 2005, the actuarial value of pension liabilities exceeds the actuarial value of pension assets by $6.7 billion. This actuarial valuation is an improvement over the 2004 actuarial valuation and reflects the strong investment returns OPERS has achieved.

In 2006, the actuary completed a required five-year experience study designed to evaluate projections based on actual data. While the outcome of the experience study resulted in a decrease in the System's funded status, preliminary analysis of 2006 results indicates that the funded status is likely to improve to 93% funded, a significant increase from the System's 89% funded status at the last actuarial review.

Similarly, based on the last actuarial valuation dated December 31, 2005, OPERS' unfunded actuarial liability of $6.7 billion will be funded, or amortized, in 21 years under current accounting assumptions, which is within the required 30-year limit stipulated in state statute. Preliminary estimates of the December 31, 2006 valuation indicate the liability will be funded in approximately 12 years. The Management's Discussion and Analysis, starting on page 22, has a more in-depth discussion of OPERS' funded status. Also see pages 63-66 for complete information for OPERS' Schedules of Funding Progress and Schedules of Employer Contributions.

PROVIDING FOR STRUCTURAL STABILITY AND GROWTH: INVESTMENTS

The Retirement Board has recommended, implemented and directs adherence to an asset allocation strategy that has helped OPERS weather market downturns and positively position the System to take advantage of strong markets. Simply put, the OPERS asset allocation strategy requires a prudent diversification of investments enabling OPERS to reduce overall risk, while targeting an adequate rate of return for the fund over the long term. A summary of the Asset Allocation Strategy can be found on page 95 of this report.

Investments in 2006 returned 14.7%, and added $10.0 billion to assets. The entire OPERS fund is divided into a pension fund (defined benefit), a health care fund, and a defined contribution fund.

At the end of 2006, the Defined Benefit Fund totaled $64.9 billion, with an absolute return of 15.1%. The Health Care Fund totaled $12.8 billion, and experienced a return of 12.8%. Both funds significantly outperformed benchmark funds.

The annualized rate of return for the total plan (Defined Benefit, Health Care, and Defined Contribution plans combined) over the past three years was 12.1%, and 10.2% over the past five years.

Please see the Investment Section, starting on page 72, for a more comprehensive discussion of OPERS' investment program.

Supporting Infrastructure: Internal Controls, Accounting System and Reports

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

The accrual basis of accounting is used in recording financial transactions. Expenses are recorded when the liability is incurred, and revenues are recorded in the accounting period in which they are earned and become measurable. Interest earned is accrued on a monthly basis. Accounts receivable at year end, in addition to accrued interest receivable, reflect accrued member and employer charges and investment proceeds due on sales that have not yet settled. Investments are recorded at fair value. Fixed assets are listed at cost less accumulated depreciation. Under our cash management program, receipts are immediately deposited and are recorded as undistributed deposits until they are allocated to member contributions, employer receivables, employer contributions, and investment income.

Expert Advice to Sustain and Focus: Professional Services

Professional services are provided to the OPERS by consultants appointed by the Retirement Board.

Actuarial services are provided by Gabriel, Roeder, Smith & Company; Southfield, Michigan. The investment advisor, for all the plans, to the Retirement Board is EnnisKnupp+Associates; Chicago, Illinois. The financial records of the System were audited by Clifton Gunderson, Certified Public Accountants; Toledo, Ohio, under contract with the Auditor of the state of Ohio. In addition, both the Real Estate and Private Equity portfolios within the Investment Division have retained the services of consultants Pacific Corporate Group, Hamilton Lane, and The Townsend Group.

PLANNING FOR THE FUTURE: PROGRESS WITH STABILITY

Preserving the System into the future requires proactive, innovative planning now. OPERS has been the beneficiary of systematic innovation for decades and, as a result, OPERS' financial stability has been preserved and strengthened throughout its history. With planning and proactive preservation measures, a well-built structure can survive a challenging environment—but it cannot survive ongoing neglect that would erode the infrastructure and ultimately the foundation until it exists no more. Similarly, the individuals who lead OPERS are constantly and meticulously planning so that futures are preserved and OPERS is positively positioned to address challenges so that it can continue to fulfill its mandate. As with any organization, the accomplishments OPERS reports are possible only through the ongoing efforts of management, staff and the Retirement Board's oversight. At OPERS, it's recognized that our employees are the critical difference in generating the results reported here—and they are the critical element in OPERS attaining the aggressive goals established for the future.

In 2006, the Retirement Board and staff welcomed a new executive director, Chris DeRose. It's important to note the smooth working relationship within the Leadership Team, the efforts of interim executive director Blake Sherry and the ongoing efforts of the Retirement Board allowed the OPERS transitions to be transparent to the many constituents OPERS serves. Working together, all involved delivered their utmost for the ultimate benefit of our members and retirees. Not only did the System survive, it thrived. And, most importantly, the System continued to evolve as a preeminent, forward-looking pension system that continues to plan for the future—this structure is sound and preservation efforts are in place to maintain the System well into the future.

AWARDS

Our vision and commitment to our members can only be accomplished by vigilant adherence to the highest possible fiscal standards. In 2006, OPERS was honored to have been recognized for its achievements:

2006 Certificate of Achievement

For the twenty-third consecutive year, the Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Ohio Public Employees Retirement System for its Annual Report for the fiscal year ended December 31, 2005. This annual recognition is awarded to government agencies with annual reports that meet or exceed generally accepted accounting principles and applicable legal requirements.

2006 Distinguished Budget Presentation Award

OPERS was again recognized with GFOA's Distinguished Budget Presentation Award in 2006. This annual award recognizes significant achievement in creating a budget that meets the highest principles of governmental budgeting.

ACKNOWLEDGMENTS

The preparation of this report reflects the combined efforts of the System's staff under the direction of the Retirement Board. Our sincere appreciation is extended to all who assisted in and contributed toward the completion of this document.

The purpose of this report is to provide complete and reliable information as a basis for making management decisions as a means for determining compliance with the legal provisions, and as a means for determining responsible stewardship over the assets held in trust for the members of this System. We sincerely hope we have accomplished those goals.

Respectfully submitted,

CHRISTOPER M. DEROSE*	BLAKE W. SHERRY	KAREN E. CARRAHER, CPA
Executive Director	*Chief Operating Officer*	*Director—Finance*

*This Annual Report reflects the activities of 2006, a year when three individuals led OPERS: Laurie Fiori Hacking, executive director from January–February; Blake W. Sherry, interim executive director, March–October and, effective October 31, 2006, Christopher M. DeRose became executive director. Both Mr. DeRose and Mr. Sherry have reviewed and approved this document.

KAREN E. CARRAHER, CPA
Director—Finance

CHRISTOPHER M. DEROSE
Executive Director

BLAKE W. SHERRY
Chief Operating Officer

FIDUCIARY RESPONSIBILITIES

The Retirement Board and executive management of OPERS are fiduciaries of the pension trust funds. Fiduciaries are charged with the responsibility of assuring that the assets of OPERS are used exclusively for the benefit of plan participants and their beneficiaries.

REQUEST FOR INFORMATION

This financial report is designed to provide the Retirement Board, our membership, taxpayers, investment managers, and creditors with an overview of OPERS' finances and accountability for the money received. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Ohio Public Employees
Retirement System
Director—Finance
277 East Town Street
Columbus, Ohio 43215-4642

CERTIFICATE OF ACHIEVEMENT IN FINANCIAL REPORTING

DISTINGUISHED BUDGET PRESENTATION AWARD

This page left blank intentionally.

OPERS

Financial Section

OHIO'S COVERED BRIDGES

Most of America's covered bridges were built between 1825 and 1875. By the 1870s, most bridges were covered at the time of construction so that a bridge's trusses and decks were protected from snow and rain. From a preservation standpoint, it was discovered that an uncovered bridge lasted approximately 20 years, but a covered bridge would last approximately 100 years—clearly a better investment.

Over time, the covered bridge in America incorporated more elaborate designs—covered bridges became a thing of beauty as well as practicality when windows, decorative floors and interior whitewashing were used. Many of the historic covered bridges found in Ohio have distinctive features to render them unique.

The covered bridge is no longer in vogue due to improved construction techniques. Ohio ranks second (first place to Pennsylvania) in all states for the number of preserved covered bridges located here. At one time, Ohio had approximately 3,500 covered bridges; covered bridges were a common site on the state's pastoral landscape. Today, residents of and visitors to Ohio can see more than 100 covered bridges. To celebrate this unique structure, Ashtabula County hosts an annual Covered Bridge festival with tours of the 16 bridges still found, many preserved for ongoing use, within the county.

Pictured here is the Conneaut Scenic Run Bridge, Ashtabula County, Ohio.

Photo courtesy of Ohio Department of Natural Resources.

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditors' Report

The Retirement Board
The Ohio Public Employees Retirement System and
The Honorable Betty Montgomery
Auditor of State

We have audited the accompanying combining statement of fiduciary net assets of the Ohio Public Employees Retirement System (OPERS) as of December 31, 2006, and the related combining statement of changes in fiduciary net assets for the year then ended. These financial statements are the responsibility of OPERS' management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of OPERS as of December 31, 2005 were audited by other auditor's whose report dated April 25, 2006 expressed an unqualified opinion.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of OPERS' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

In accordance with *Government Audit Standards*, we have also issued a report dated April 25, 2007, on our consideration of OPERS' internal control over financial reporting and on our test 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 on 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 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.

Offices in 15 states and Washington, DC

Member of HLB International

The management's discussion and analysis on pages 22 through 35 and the schedules of funding progress and employer contributions and related notes on pages 63 through 68 are not a required part of the combining financial statements, but are 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 audits were made for the purpose of forming an opinion on the combining financial statements taken as a whole. The supplementary information included on pages 69 through 70 is for the purpose of additional analysis and is not a required part of the combining financial statements, and, in our opinion, is fairly stated in all material respects in relation to the combining financial statements taken as a whole. The supplemental information for 2005 was subjected to the auditing procedures applied in the basic financial statements by other auditors whose report dated April 25, 2006 expressed an unqualified opinion on such information, in all material respects, in relation to the basic financial statements taken as a whole.

The introduction section on pages 2 through 17, the investments section on pages 72 through 104, the actuarial section on pages 106 through 114, the statistical section on pages 116 through 143 and the Plan Statement on pages 146 through 153 have not been subjected to the auditing procedures applied in the audit of combining financial statements, and accordingly, we express no opinion on them.

Clifton Gunderson LLP

Toledo, Ohio
April 25, 2007

The management of the Ohio Public Employees Retirement System (OPERS) offers readers of the System's financial statements this narrative overview of the financial activities of OPERS for the years ended December 31, 2006 and 2005. This narrative is intended to supplement the System's financial statements. Readers are encouraged to consider the information presented here in conjunction with the financial statements that begin on page 36.

Overview of the Financial Statements

The following discussion and analysis are intended to serve as an introduction to OPERS' financial statements. The basic financial statements include:

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

As mandated, this *Comprehensive Annual Financial Report* (Annual Report) also contains the following schedules, referred to as Required Supplementary Information:

1. Schedules of Funding Progress
2. Schedules of Employer Contributions
3. Notes to the Required Supplementary Information

Expenses associated with administering the System are presented immediately following the Notes to the Required Supplementary Information in the following Additional Information schedules:

1. Administrative Expenses
2. Schedule of Investment Expenses
3. Schedule of Payments to Consultants
4. Schedule of External Asset Managers' Fees

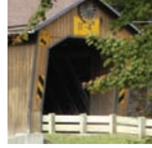
The financial statements contained in this Annual Report disclose financial data for each of the benefit plans described below. These plans are established as separate legal entities in accordance with Internal Revenue Service regulations and Ohio law.

The Traditional Plan

The Traditional Plan is a defined benefit plan in which a member's retirement benefits are calculated on a formula that considers years of service and final average salary.

The Combined Plan

The Combined Plan is a defined benefit plan with elements of a defined contribution plan. Under the Combined Plan, members earn a formula benefit similar to, but at a factor less than, the Traditional Plan benefit level. This defined benefit is funded by employer contributions and associated investment earnings. Additionally, member contributions are deposited into a defined contribution account in which the member self-directs the investment. Upon retirement or termination, the member may choose a defined contribution retirement distribution that is equal in amount to the member's contributions to the plan and investment earnings on those contributions.



The Member-Directed Plan

The Member-Directed Plan is a defined contribution plan in which members self-direct the investment of both member and employer contributions. The retirement distribution under this plan is equal to the sum of member and vested employer contributions, plus investment earnings on those contributions. Employer contributions and associated investment earnings vest over a five-year period at a rate of 20% per year.

Post-employment Health Care Plan

Post-employment Health Care Plan is a legal plan established under Section 401(h) of the Internal Revenue Code. This plan holds the portions of employer contributions made to the Traditional and Combined Plans that are set aside for funding retiree health care. The health care portion of the employer contribution rate is the same for the Traditional and Combined Plans, and the same benefits are provided to participants in both plans.

Voluntary Employees' Beneficiary Association (VEBA)

Voluntary Employees' Beneficiary Association (VEBA) is established under Section 501(c) of the Internal Revenue Code, and functions in a manner similar to a Retiree Medical Account (RMA). The VEBA holds the portion of employer contributions made to the Member-Directed Plan that is set aside for funding retiree health care. Contributions and interest vest over a 10-year period and may only be used for eligible health care expenses.

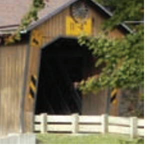
Financial activity for each of these plans is reported in the basic combining financial statements described below:

The Statement of Fiduciary Net Assets

The Statement of Fiduciary Net Assets is a point-in-time snapshot of plan fund balances at fiscal year end. It reports the assets available to pay future benefits to retirees, and any liabilities that are owed as of the statement date. The resulting Net Asset Value (Assets – Liabilities = Net Assets) represents the value of assets held in trust for pension and post-employment health care benefits. (See Combining Statements of Fiduciary Net Assets for years ended December 31, 2006 and 2005 on pages 36-37 of this report.)

The Statement of Changes in Fiduciary Net Assets

The Statement of Changes in Fiduciary Net Assets displays the effect of financial transactions that occurred during the fiscal year, where Additions – Deductions = Net Increase (or Net Decrease) in Net Assets. This net increase (or net decrease) in net assets reflects the change in the value of Fiduciary Net Assets that occurred between the current and prior year. (See Combining Statements of Changes in Fiduciary Net Assets for years ended December 31, 2006 and 2005 on pages 38-39 of this report.)



The Notes to the Combining Statements

The Notes to the Combining Financial Statements are an integral part of the financial statements and provide additional information that is essential for a comprehensive understanding of the data provided in the financial statements. These notes describe the accounting and administrative policies under which OPERS operates, and provide additional levels of detail for selected financial statement items. (See Notes to the Combining Financial Statements, December 31, 2006 and 2005 on pages 40-62 of this report.)

The financial statements described above are prepared in compliance with Governmental Accounting Standards Board (GASB) pronouncements.

Because of the long-term nature of most pension plans, financial statements alone cannot provide sufficient information to properly reflect the ongoing plan perspective. Therefore, in addition to the financial statements explained above, this report includes two additional Required Supplementary Information schedules and required notes. Each schedule includes historical trend information.

The Schedule of Funding Progress

The Schedule of Funding Progress (page 63) includes actuarial information about the status of the defined benefit plans from an ongoing, long-term perspective, and the progress made in accumulating sufficient assets to pay pension benefits under these plans when due. Valuation Assets in excess of Actuarial Accrued Liabilities indicate that sufficient assets exist to fund the future defined pension benefits of the current members and benefit recipients. Actuarial Accrued Liabilities in excess of Valuation Assets reflect an Unfunded Actuarial Accrued Liability (UAAL). The UAAL represents the value, in current dollars, that would need to be accumulated to fund the pensions of all active and retired members as of the date represented in the schedule. For OPERS, the UAAL is being systematically funded over 21 years.

Similarly, the Schedule of Funding Progress for the Post-employment Health Care Plan (page 64) includes actuarial information about the status of the health care funding from an ongoing, long-term perspective, and the progress made in accumulating sufficient assets to pay future health care benefits. However, unlike pensions, health care benefits are not a statutorily-guaranteed benefit and, thus, it is likely that OPERS will continue to make changes to future health care benefits. Actuarial Accrued Liabilities are determined based on the current plan and do not reflect potential changes until approved by the Retirement Board.

The Schedules of Employer Contributions

The Schedules of Employer Contributions (page 65) present historical trend information regarding the value of total annual contributions required to be paid by employers for the employees participating in each defined benefit plan, and the actual performance of employers in meeting this requirement.

Similarly, the Schedule of Contributions from Employers and Other Contributing Entities—Health Plan (page 66) presents information regarding the value of total annual contributions required to fund the health care benefit and the total portion of the employers' contributions applied toward this funding. This schedule is a new requirement in accordance with GASB 43 and, thus, no historical information is available.

The Notes to Required Supplementary Information Schedules

The Notes to Required Supplementary Information Schedules (pages 67-68) provide background information, a summary of the actuarial assumptions, and explanatory detail to help in understanding the required supplementary schedules.

The following schedules are provided as Additional Information regarding the expenses associated with administering the system.

The Administrative Expense Schedule

The Administrative Expense Schedule displays the total operating costs of managing the System, by major categories of expense (page 69).

The Schedule of Investment Expenses

The Schedule of Investment Expenses summarizes the costs incurred by the Investment Division in managing the investment assets of the System (page 70). These costs are reported as Investment Administrative Expenses in the Combining Statements of Changes in Fiduciary Net Assets, and are reflected as a reduction in Net Investment Income.

The Schedule of Payments to Consultants

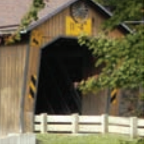
The Schedule of Payments to Consultants represents payments made to investment consultants for market analyses, performance statistics, etc. These payments are included in the Schedule of Investment Expenses, and provide a more detailed listing of the major investment service providers utilized by the System on page 70.

The Schedule of External Asset Managers' Fees

The Schedule of External Asset Managers' Fees reports fees paid to external portfolio managers based on the value of assets managed (page 70). These External Asset Management Fees are not accounted for in OPERS administrative expenses, but are netted against investment income in the Combining Statements of Changes in Fiduciary Net Assets.

FINANCIAL HIGHLIGHTS

- The OPERS investment portfolio reported a total return of 14.7% for the year ended December 31, 2006, as compared to 9.0% in 2005.
- Plan net assets increased by $8.7 billion in 2006, or 12.5 % over 2005 values, primarily due to investment returns. Plan net assets increased by $4.4 billion, or 6.7%, during 2005 also due to a strong investment market yielding favorable returns.
- The year ended December 31, 2006 closed four consecutive years of investment returns in excess of the actuarial assumed return of 8% following three straight years of market declines (2000-2002). Returns in excess of the actuarial assumption create an environment in



which OPERS' actuarial accrued liabilities can be paid down at an accelerated rate. As of December 31, 2005, the date of the most recent actuarial valuation, OPERS' actuarial accrued liabilities for its two defined benefit plans exceeded its actuarial value of assets for an unfunded actuarial liability of $6.7 billion. This represents a reduction of nearly $0.5 billion from the unfunded actuarial liability of $7.2 billion at December 31, 2004.

- OPERS' funding objective is to meet long-term benefit obligations and, to the extent possible, fund health care benefits. As of December 31, 2005, the date of the latest actuarial valuation, OPERS' funded ratio was 89.1%. In general, this means that for each dollar's worth of future pension liability, OPERS has accumulated nearly $0.89 to meet that obligation. The latest actuarial report indicates that if future activity proceeds according to assumptions, OPERS will accumulate sufficient assets to pay all pension liabilities for active members and retirees within 21 years. This represents an improvement in the funding status of the pension liability over that of the preceding year. As of December 31, 2004, OPERS' funded ratio was 87.6%, with a funding year requirement of 27 years.
- Fiscal year 2006 marked the first year of reporting OPERS' long-term health care obligation and the corresponding assets set aside to pay that obligation in accordance with the new accounting standard, GASB 43. As such, as of December 31, 2005, the date of the latest actuarial valuation, OPERS' liability for health care benefits was $31.3 billion and the System had accumulated assets for that obligation of $11.1 billion. Thus, OPERS had an unfunded actuarial liability of $20.2 billion. Although the funded ratio was only 35%, OPERS is one of only a handful of retirement systems around the country that pre-funds any portion of health care, as the accounting requirements do not mandate pre-funding health care benefits.
- Revenues (additions to plan net assets) for the year 2006 were $13.2 billion, which include member and employer contributions of $2.9 billion, net gains from investment activities of $10.0 billion, and other income totaling nearly $275.0 million. Other income is comprised of vendor performance guarantees and rebates, Medicare Part D reimbursements, litigation settlements, inter-plan activity, and miscellaneous other income. Inter-plan activity represents transactions between plans that are additions to plan assets. Additions to plan net assets for the year 2005 totaled $8.5 billion, comprised of $2.6 billion in contribution revenues, and $5.9 billion in net income from investment activities and other income.
- Expenses (deductions to plan net assets) increased from $4.1 billion during 2005 to $4.4 billion in 2006, or about 8.0%. The increase relates primarily to pension benefits and health care payments which comprise $4.1 billion of the 2006 expenditures. Refunds of member contributions, including interest and additional payments on withdrawal where required by statute, increased by $14.9 million or 6.8% from 2005 to 2006. Administrative expenses increased by 5.7% over the prior year, but represent less than 1.5% of the total expenses. The remaining expenses are comprised of inter-plan activity transactions representing deductions to plan assets.

Analysis of Financial Activities

OPERS' funding objective is to meet long-term benefit obligations with investment income and contributions. Accordingly, the collection of employer and member contributions and the income generated from investment activities provide the reserves needed to finance future retirement and health care benefits. The discussion below provides an analysis of the current year's financial activities in relation to the current member population and relevant economic conditions. Where appropriate, comparative data from the prior year is also presented. (Please refer to Table 3 for relevant membership statistics.)

Additions to Fiduciary Net Assets (Revenues) (refer to table 2)

As noted, the reserves needed to finance retirement benefits are accumulated primarily through the collection of member and employer contributions, and through investment income (net of investment expense). Revenues for the year ended December 31, 2006, totaled $13.2 billion, of which $10.0 billion, or 76.2% resulted from net earnings on investments. For 2005, net investment income in the amount of $5.7 billion accounted for 67.4% of the $8.5 billion in total revenues. Similarly, in 2004, net investment income was $7.2 billion and represented 72.5% of the $9.9 billion in total revenues.

Net Assets (as of December 31, 2005, 2004 and 2003) **Table 1**

	2006	2005	2004	Amount Increase/ (Decrease) from 2005 to 2006	Percent Increase/ (Decrease) from 2005 to 2006
Current and other assets	$1,427,899,707	$840,574,773	$769,538,137	$587,324,934	69.9%
Cash and investments at fair value	90,592,897,799	80,279,862,945	73,568,348,371	10,313,034,854	12.8
Capital assets	120,156,097	120,588,673	120,989,855	(432,576)	(0.4)
Total assets	92,140,953,603	81,241,026,391	74,458,876,363	10,899,927,212	13.4
Total liabilities	13,779,685,826	11,590,719,815	9,210,425,507	2,188,966,011	18.9
Net assets, end of year	**$78,361,267,777**	**$69,650,306,576**	**$65,248,450,856**	**$8,710,961,201**	**12.5%**
Net assets, beginning of year	69,650,306,576	65,248,450,856	59,097,674,984	4,401,855,720	6.7
Net increase in net assets	8,710,961,201	4,401,855,720	6,150,775,872	4,309,105,481	97.9

Revenues for 2006 increased by $4.6 billion, or 54.4%, from the prior year, primarily due to the higher investment returns in 2006. It's important, however, to put this increase in the proper perspective. In 2006, OPERS earned a 14.7% investment return. In 2005, OPERS earned a 9.0% return despite a weakened investment market. Although a strong return, the 2005 investment activity represented a $1.5 billion reduction in net investment income as compared to 2004 in which OPERS earned a 12.5% investment return. In the four years since the market declines of 2000-2002, OPERS has earned $15.8 billion in net investment income, averaging over 75% of total revenues during this four-year period. In each of these years, market returns have exceeded the long-term actuarial assumption rate of 8%. The Investment section of this report summarizes the results of investment activity for the year ended December 31, 2006.

Member and employer contributions for 2006 increased by nearly $193 million over 2005, or 7.3%. This increase reflects both a change in the contribution rates, and an increase in the average salary of contributing members. The contributing member population itself remained at a level consistent with 2005. Effective January 1, 2006, OPERS implemented the first of a multi-year contribution rate increase designed to gradually increase the contribution rates up to the statutory maximum. While not guaranteed, it is anticipated that these incremental increases in retirement contribution rates will be used to fund the cost of providing health care benefits.

Beginning in 2006, member contribution rates increased by 0.5%, and will continue increasing at this rate for the next two years. Employer contribution rates will also increase over the three-year period 2006–2008 up to the statutory maximum of 14% for state and local employers. The contribution rates for law enforcement and public safety employers will increase incrementally up to the statutory maximum of 18.1% in 2011. These rate increases represent the first change in contribution rates in over 27 years, and account for nearly 3% of the increase in contribution revenue. The remaining portion of the increase reflects the growth in the average salary of contributing members. The CPI salary trend for the Midwest reflected an average 2.8% growth in wages, ranging from a high of 3.3% to a low of 2.6%.

ADDITIONS TO FIDUCIARY NET ASSETS (REVENUES) (for the years ended December 31, 2006, 2005 and 2004) TABLE 2

	2006	2005	2004	Amount Increase/ (Decrease) from 2005 to 2006	Percent Increase/ (Decrease) from 2005 to 2006
Member contributions	$1,171,079,333	$1,055,269,202	$1,038,288,958	$115,810,131	11.0%
Employer contributions	1,680,656,436	1,603,068,520	1,551,642,001	77,587,916	4.8
Contract and other receipts	209,213,722	116,390,325	135,096,875	92,823,397	79.8
Medicare Part D reimbursements	58,987,181	0	0	58,987,181	100.0
Other miscellaneous income	1,528,452	980,539	(107,798)	547,913	55.9
Interplan activity	5,286,335	2,457,816	3,510,475	2,828,519	115.1
Net income from investing activities	10,028,554,662	5,740,076,574	7,192,406,571	4,288,478,088	74.7
Total additions	**$13,155,306,121**	**$8,518,242,976**	**$9,920,837,082**	**$4,637,063,145**	**54.4%**

Member and employer contributions for 2005 increased by $68.4 million over 2004, or 2.6%. This increase results from a 1.7% growth in the population of actively contributing members, and a slight reduction in the average salary these members earn. (See Table 3 for membership information.)

Member contributions also include amounts paid by retirees for their share in the cost of providing health care coverage for their spouse and dependents. In 2006, these contributions totaled nearly $72 million, compared to $63 million in 2005, or a 13% increase. This increase reflects both the rising cost of health care benefits and the increase in the retiree population. The number of retirees increased 3.3% over 2005, with a corresponding increase in the number of recipients eligible for health care coverage.

Contract and other receivables in 2006 totaled approximately $209 million and reflected a 79.8% increase over the prior year. About 42% of this reflects negotiated vendor agreements focused on cost containment. In 2006, OPERS recognized over $87 million in formulary rebates and performance guarantees compared to $4 million in 2005. The increase in vendor receipts represents a change in accounting practice and system improvements that permit a more accurate accrual of revenues pending receipt at year end. Nearly half of this total represents rebates and performance guarantees accruing to health care claims activity that occurred in 2005 or prior, payment for which was received in 2006. Beginning in 2006, this revenue is recognized when it can be reasonably estimated. The remaining 56%, or approximately $122 million, of contract and other receivables represents receivables for the purchase of service credit and other similar arrangements.

Fiscal year 2006 marked the first year the new Medicare law permitted a federal subsidy for employers that offer a high-quality prescription drug program for retirees and their dependents. This federal subsidy is intended to stem the erosion of employer-sponsored retiree drug coverage. The subsidy, which reflects a reimbursement of approximately 28% of eligible retiree prescription drug costs, represented approximately $59 million in 2006 for OPERS.

Other income (loss) results from the gain or loss on disposal of OPERS' fixed assets, gifts and bequests, the cancellation of prior year's warrants, and litigation settlements. This activity represents significantly less than 1% of the System's revenue, totaling $1.5 million in 2006 and less than $1.0 million in 2005. The small loss in 2004 ($107,798) reflects the write-off of various fixed assets. Interplan activity reflects transfers between the plans to settle up for activity occurring between the plans. This activity includes members changing from one plan to another, in addition to the repayment of initial plan start-up costs. Interplan activity income in 2006 resulted in a net inflow of $5.3 million. Since this represents one plan paying another plan, there is a corresponding interplan expense activity of the same amount in 2006. (Refer also to the Deductions from Fiduciary Net Assets discussion below.) Similarly, interplan activity in 2005 totaled $2.5 million and $3.5 million in 2004.

MEMBERSHIP (as of December 31, 2006, 2005 and 2004) **TABLE 3**

	2006	2005	2004
Active contributing	381,464	381,413	375,076
Inactive	346,697	327,864	313,248
Benefit recipients	156,747	151,758	146,966
Total membership	**884,908**	**861,035**	**835,290**

DEDUCTIONS FROM FIDUCIARY NET ASSETS (EXPENSES) (REFER TO TABLE 4)

OPERS was created to provide retirement, survivor, and disability benefits to qualified members and their beneficiaries. The cost of such programs includes recurring benefit payments, elective refunds of contributions to employees who terminate employment with a participating employer, and the cost of administering the System.

Expenses for the year ended December 31, 2006 totaled $4.4 billion, an increase of 8.0% over 2005. Expenses for 2005 also increased by 9.2% when compared to 2004, from $3.8 billion in 2004 to $4.1 billion in 2005. Approximately 93% of the expenses reported in each of these years relate to pension and post-employment health care benefits paid on behalf of current retirees and their beneficiaries.

Pension benefits increased by $227.8 million over the 2005 level, or 8.5%. This increase reflects a net growth of 3.3% in the number of retirees receiving benefits, and the changing demographics of the retiree population. Defined benefit pension payments are based on a formula determined by the years of contributing service and the average of the three highest years of earnable salary (or final average salary). The final average of salaries for new retirees in 2006 is comparable to those who retired in 2005, representing a less than 1% increase. However, as the number of new retirees increases as a percentage of the total retiree population, the cost of these pension payments will continue to rise as the percentage of recent retirees with higher final average salaries exceeds the population of benefit recipients who retired years ago when salaries were significantly lower than those paid for comparable positions today. Pension benefits for 2005 reflect similar increases, rising $225.0 million, or 9.2% over 2004 levels.

The increase in health care benefits also reflects the expanding retiree population and the nation-wide trend in health care inflation that continues to be well in excess of general inflation. However, the expenses incurred by OPERS in 2006 also reflect the impacts of aggressive cost

DEDUCTIONS IN FIDUCIARY NET ASSETS (EXPENSES) (for the years ended December 31, 2006, 2005 and 2004) TABLE 4

	2006	2005	2004	Amount Increase/ (Decrease) from 2005 to 2006	Percent Increase/ (Decrease) from 2005 to 2006
Benefits	$4,138,742,001	$3,832,028,461	$3,495,081,502	$306,713,540	8.0%
Refunds	235,163,810	220,236,000	209,777,972	14,927,810	6.8
Administrative expenses	65,152,774	61,664,979	61,691,260	3,487,795	5.7
Interplan activity	5,286,335	2,457,816	3,510,475	2,828,519	115.1
Total deductions	**$4,444,344,920**	**$4,116,387,256**	**$3,770,061,209**	**$327,957,664**	**8.0%**

containment efforts. Health care expenses rose from $1.15 billion in 2005 to $1.23 billion in 2006, or a modest 6.8%. These expenses are comprised of medical and prescription drug costs, as well as reimbursements to retirees for Medicare Part B premiums. Retirees must enroll in Medicare Part B when they become eligible, and OPERS reimburses them the cost of the basic premium. During 2006, Medicare Part B reimbursements represented $92.3 million of the total health care expenses, rising 15.2% over 2005 levels. Medicare B reimbursements in 2005 totaled $80.1 million or 19.0% higher than 2004 levels. These trends are indicative of the aging retiree population and increases in federal Medicare premium costs paid by retirees.

As noted previously, in 2006 OPERS received $59 million of subsidy for its prescription drug program. This subsidy is included in income rather than netted against the corresponding expense.

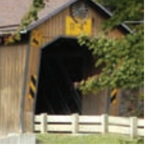
Refunds of member accounts are at the discretion of the member, and vary from year to year. In 2006, member-elected refunds totaled $235 million, an increase of 6.8% over the 2005 value of $220 million. Similarly, refunds in 2005 represented a 5.0% increase over the 2004 refunds of $210 million. OPERS has consistently managed its administrative expense budget with no material variances between planned and actual expenditures in 2006, 2005 or 2004. Administrative expenses (including investment administrative expenses) for 2006 totaled $89.9 million, up approximately 6.0% from 2005 expenditures of $84.8 million, and up 6.9% from the 2004 expenditures of $84.1 million.

RESERVES (REFER TO TABLES 5 AND 6)

OPERS' reserves are established from member and employer contributions and the accumulation of investment and other income, net of deductions for benefit payments, refunds of member accounts, and administrative expenses. Chapter 145 of the Ohio Revised Code (ORC) requires that the reserves be maintained in separate funds defined by statute. Table 5 displays the statutory funds that OPERS maintains.

RESERVES (as of December 31, 2006, 2005 and 2004) **TABLE 5**

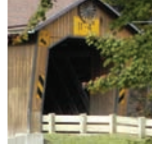
	2006	2005	2004
Employees' Savings Fund	$10,374,480,725	$9,810,364,125	$9,339,927,737
Employers' Accumulation Fund—Pension/Health Care	38,641,822,117	33,061,020,982	30,921,433,439
Annuity and Pension Reserve Fund	27,770,522,547	25,377,301,101	23,663,435,434
Survivors' Benefit Fund	1,313,109,826	1,209,472,794	1,171,933,656
Defined Contribution Fund—Retirement/Health Care	165,336,652	102,223,154	62,970,790
Income Fund	95,995,910	87,484,700	84,749,285
Expense Fund	0	2,439,720	4,000,515
Total fund balance	**$78,361,267,777**	**$69,650,306,576**	**$65,248,450,856**



RESERVES BY PLAN (for the years ended December 31, 2006 and 2005) TABLE 6

	Traditional Plan	Post-employment Health Care	Combined Plan	Member-Directed Plan	Voluntary Employees' Beneficiary Association	2006
Employees' Savings Fund	$10,374,152,385		$328,340			$10,374,480,725
Employers' Accumulation Fund—Pension/Health Care	25,743,571,669	$12,838,059,079	60,191,369			38,641,822,117
Annuity and Pension Reserve Fund	27,770,523,103		(556)			27,770,522,547
Survivors' Benefit Fund	1,313,109,826					1,313,109,826
Defined Contribution Fund—Retirement/Health Care			53,479,881	$86,524,882	$25,331,889	165,336,652
Income Fund	95,995,910					95,995,910
Expense Fund						
Total fund balance	**$65,297,352,893**	**$12,838,059,079**	**$113,999,034**	**$86,524,882**	**$25,331,889**	**$78,361,267,777**

	Traditional Plan	Post-employment Health Care	Combined Plan	Member-Directed Plan	Voluntary Employees' Beneficiary Association	2005
Employees' Savings Fund	$9,810,182,770		$181,355			$9,810,364,125
Employers' Accumulation Fund—Pension/Health Care	21,175,333,656	$11,845,713,012	39,974,314			33,061,020,982
Annuity and Pension Reserve Fund	25,377,301,101					25,377,301,101
Survivors' Benefit Fund	1,209,472,794					1,209,472,794
Defined Contribution Fund—Retirement/Health Care			32,343,938	$54,502,026	$15,377,190	102,223,154
Income Fund	87,484,700					87,484,700
Expense Fund	2,439,720					2,439,720
Total fund balance	**$57,662,214,741**	**$11,845,713,012**	**$72,499,607**	**$54,502,026**	**$15,377,190**	**$69,650,306,576**



These statutory funds are further subdivided to accumulate reserves by benefit plan. Table 6 displays the values in the statutory funds that comprise the net asset values held in trust for each benefit plan included in the financial statements for 2006 and 2005. The discussion below presents those statutory requirements that govern the transactions recorded in each fund.

OPERS is required to fully fund the Annuity and Pension Reserve Fund and the Survivors' Benefit Fund each year. These two funds hold reserves set aside to pay formula-based defined benefits to retired members and their survivors. This requirement ensures that priority is first given to setting aside funds necessary to pay non-health care pension and survivor benefits to those who have already retired, and to their beneficiaries. Once these pension obligations have been met, reserves are accumulated to fund the future pension benefits of active members.

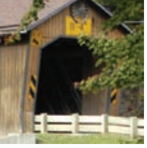
The Employees' Savings Fund and Employers' Accumulation Fund hold the reserves accumulated from member and employer contributions for those members participating in a defined benefit plan, who have not yet retired. The Defined Contribution Fund reflects the balances accumulated from member and employer contributions and investment earnings for the defined contribution plans. This balance includes the portion of the employer contribution set aside for the VEBA.

As of December 31, 2005, the date of the latest actuarial valuation, OPERS had not only accumulated sufficient assets to fund 100% of the benefits for retirees and their beneficiaries, but had also provided nearly 80% of the reserves necessary to fund pensions for active members, based on service credit earned through year-end 2005. As of year-end 2004 OPERS had accumulated 78% of the reserves needed to fund pensions for active members. Changes in the funding status of a retirement system provide insights into the progress the System is making in building the reserves necessary to meet future pension and health care obligations.

FUNDING STATUS

As previously noted, OPERS' net investment income for the year ended December 31, 2006 totaled $10.0 billion, a total return of 14.7%. Net investment income for the defined benefit plans comprises $8.5 billion of this total, with a return of 15.1%. This gain continues a four-year period in which investment income has exceeded the actuarial funding requirement of 8.0%. As with all mature retirement systems, OPERS' primary means of funding benefit payments in the future will be through investment income. Ultimately, investment income will provide 80-90% of the funds necessary to pay retirement benefits. Therefore, the long-term rate of investment return is critical to the funding status of the System.

To fully understand the funding status of a retirement system, it is often advisable to view actuarial data in conjunction with financial data. The actuarial value of assets used to calculate funded status is not based on year-end fair value (market value) as of the valuation date. Market gains and losses for actuarial funding purposes are smoothed over a rolling four-year period. This smoothing of actuarial gains and loss mitigates the need to constantly increase or lower contribution rates because volatile market conditions can be recognized (smoothed in) over several years.



The reality of actuarial smoothing techniques is that the fair value (market value) of assets may be different from funding value (actuarial value) of assets at a given point in time. This means that in periods of extended market decline the fair value of assets will usually be less than the funding, or actuarial value of assets. This was the case with OPERS during the extended down market from 2000 to 2002. At December 31, 2005, the date of our latest actuarial evaluation, the actuarial value of net assets set aside to pay defined benefit pension benefits (non-health care assets) was $54.5 billion. The fair value of these assets at December 31, 2005, included in the Traditional and Combined Plans on the financial statements of OPERS was $57.7 billion. Therefore when viewing actuarial funding status, the market value of assets would provide a superior funding position to the actuarial value of assets as of December 31, 2005. This was also true in 2004. However, as a point of comparison, at the end of 2002 the actuarial value of pension assets exceeded the market value of pension assets making OPERS appear better funded than actual market values would have indicated.

The long-term rate of investment return is critical to the funding status of the System.

In order to ensure that the funding value of assets and the market value of assets remain within a logical proximity of each other, the OPERS Retirement Board instituted a policy that prohibits the actuarial funding value from varying by more than 12% from the market value of assets. This policy, instituted in 2001, is known as the Market Value Corridor and ensures that the funding value of assets is neither lower than 88% nor higher than 112% of market value. The unfunded actuarial accrued liability (the amount by which the actuarial value of liabilities exceeds the actuarial value of assets) at year-end 2005 makes the System appear less well funded than it actually is.

It is important to understand how these smoothing techniques affect funded status when reviewing the actuarial related data contained within this Annual Report. Based upon our latest actuarial valuation for the year ended December 31, 2005, the System's actuarial value of liabilities for defined pension benefits exceeded its actuarial value of assets by $6.7 billion. Actuarial projections indicate that the $6.7 billion in unfunded liabilities will be amortized and funded over a 21-year period, which is within generally acceptable funding guidelines. By comparison, the 2004 actuarial valuation reflected an unfunded actuarial liability of $7.2 billion and a 27-year funding period.

OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Beginning in fiscal year 2006, the Governmental Accounting Standards Board requires retirement systems to estimate their liability for health care benefits similar to the manner in which pension liabilities are estimated. However, unlike pensions, the health care benefits OPERS provides (with the exception of Medicare B reimbursement) are not a guaranteed benefit. For 2005, OPERS has estimated a liability for future health care to be $31.3 billion. OPERS is one of a relatively few retirement systems that has systematically set aside assets to fund health care. As of December 31, 2005, OPERS has $11.1 billion in assets as stated on a funding basis or 35.4% to pay for these future benefits, leaving an unfunded liability of $20.2 billion. Similar to pensions, the $11.8 billion market value of health care assets exceeds the actuarial value of assets of $11.1 billion.

FINANCIAL ANALYSIS SUMMARY

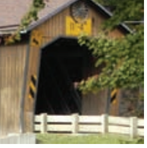
Net asset reserves may serve over time as a useful indication of OPERS' financial position. Please refer to Table 1. At the close of calendar years 2006 and 2005, the net assets of OPERS totaled $78.4 billion and $69.7 billion respectively. These net assets are available to meet OPERS' ongoing obligations to plan participants and their beneficiaries, and to the extent possible, OPERS' post-employment health care benefits.

The market turnaround that began in 2003 and continued through 2006 greatly boosted OPERS' funding position. However, in spite of the investment gains recorded, rising health care costs continue to impact OPERS' ability to fund retirement health care. As previously discussed, member and employer contribution rates will continue to increase to the maximum levels allowed under state law over the next several years. If favorable investment returns continue, it is anticipated that these contribution rate increases will permit the percentage of employer contributions used to fund post-employment health care benefits to be increased. However, OPERS' first priority remains to be in the position of adequately funding pension benefits.

CAPITAL ASSETS

As of December 31, 2006, OPERS' investment in capital assets totaled $120.2 million (net of accumulated depreciation and amortization). This investment in capital assets includes equipment, furniture, the home office complex and construction in progress.

OPERS invested $7.8 million in capital assets during 2006, compared to an investment of $8.7 million in 2005. The most significant project included in these capital expenditures is the renovation of the original office building, at $2.7 million. This renovation project was substantially completed by the end of 2006, at a cost of approximately $5.7 million. The majority of the remaining capital expenditures relate to the development of information technology systems necessary to support ongoing operations.



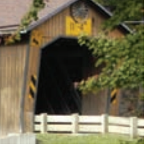
COMBINING STATEMENTS OF FIDUCIARY NET ASSETS (as of December 31, 2006 and 2005)

	2006				
	Traditional Plan	Post-employment Health Care	Combined Plan	Member-Directed Plan	Voluntary Employees' Beneficiary Association
Assets:					
Cash and short-term investments	$1,070,224,554	$322,120,585	$1,375,582	$1,644,348	$453,541
Receivables:					
Members' and employers' contributions	243,356,453	82,850,806	4,081,362	3,735,104	1,310,673
Retirement incentive plan	9,297,501	762,533	0	0	0
Contract and other receivables	0	34,882,853	0	0	0
Investment sales proceeds	437,013,525	80,471,902	508,274	141,400	177,319
Accrued interest and dividends	207,812,005	67,341,496	264,222	100,587	84,320
Due from other plans	39,858,341	0	0	0	0
Total receivables	937,337,825	266,309,590	4,853,858	3,977,091	1,572,312
Investments, at fair value:					
Global Bonds	15,378,955,989	6,116,700,706	31,651,869	28,925,599	3,754,876
Equities	29,564,298,523	4,388,937,986	67,570,979	58,702,156	11,995,795
Real Estate	3,669,667,684	0	3,466,141	0	1,488,978
Private Equity	1,331,840,179	0	1,257,974	0	540,398
International Securities	13,774,386,824	1,973,897,814	23,570,815	15,636,163	5,588,995
Total investments	63,719,149,199	12,479,536,506	127,517,778	103,263,918	23,369,042
Collateral on loaned securities	10,710,884,709	2,015,624,266	10,888,345	3,077,000	3,768,426
Capital assets:					
Land	3,069,419	665,394	0	0	0
Building and building improvements	91,064,352	19,679,465	0	0	0
Furniture and equipment	40,107,800	11,420,812	2,109,036	1,606,366	621,749
Total capital assets	134,241,571	31,765,671	2,109,036	1,606,366	621,749
Accumulated depreciation	(39,513,397)	(7,340,277)	(1,671,182)	(1,272,872)	(390,568)
Net capital assets	94,728,174	24,425,394	437,854	333,494	231,181
Prepaid expenses and other assets	213,849,031	0	0	0	0
TOTAL ASSETS	**76,746,173,492**	**15,108,016,341**	**145,073,417**	**112,295,851**	**29,394,502**
Liabilities:					
Undistributed deposits	1,929,191	0	0	0	0
Medical benefits payable	0	145,895,911	0	0	0
Investment commitments payable	725,040,155	108,410,835	1,626,857	1,394,809	294,187
Accounts payable and other liabilities	10,966,544	26,250	0	0	0
Due to other plans	0	0	18,559,181	21,299,160	0
Obligations under securities lending	10,710,884,709	2,015,624,266	10,888,345	3,077,000	3,768,426
TOTAL LIABILITIES	**11,448,820,599**	**2,269,957,262**	**31,074,383**	**25,770,969**	**4,062,613**
Net assets held in trust for pension and post-employment health care benefits	**$65,297,352,893**	**$12,838,059,079**	**$113,999,034**	**$86,524,882**	**$25,331,889**

See Notes to Combining Financial Statements, beginning on page 40. An unaudited Schedule of Funding Progress is presented beginning on page 63.

Combining Statements of Fiduciary Net Assets (continued)

	2005					
2006 Total All Plans	Traditional Plan	Post-employment Health Care	Combined Plan	Member-Directed Plan	Voluntary Employees' Beneficiary Association	2005 Total All Plans
$1,395,818,610	$714,335,617	$250,418,690	$267,450	$738,324	$222,160	$965,982,241
335,334,398	223,411,815	67,383,947	3,576,622	2,917,211	1,245,074	298,534,669
10,060,034	23,031,233	1,805,631	0	0	0	24,836,864
34,882,853	0	0	0	0	0	0
518,312,420	30,682,024	7,776,993	49,058	41,675	9,035	38,558,785
275,602,630	191,522,071	51,057,887	153,683	38,512	56,398	242,828,551
39,858,341	36,893,598	0	0	0	0	36,893,598
1,214,050,676	505,540,741	128,024,458	3,779,363	2,997,398	1,310,507	641,652,467
21,559,989,039	14,089,967,109	4,226,384,980	23,782,234	20,644,266	2,612,212	18,363,390,801
34,091,505,439	25,769,926,706	4,623,642,722	44,764,035	40,175,180	7,588,508	30,486,097,151
3,674,622,803	4,126,830,146	505,301,728	2,740,315	0	1,215,234	4,636,087,423
1,333,638,551	737,301,616	0	489,586	0	217,114	738,008,316
15,793,080,611	11,694,519,347	2,281,196,185	14,040,415	9,116,753	3,443,702	14,002,316,402
76,452,836,443	56,418,544,924	11,636,525,615	85,816,585	69,936,199	15,076,770	68,225,900,093
12,744,242,746	9,324,745,071	1,749,802,181	7,667,367	3,738,615	2,027,377	11,087,980,611
3,734,813	3,069,419	665,394	0	0	0	3,734,813
110,743,817	88,216,497	19,096,169	0	0	0	107,312,666
55,865,763	37,879,555	9,411,311	2,115,479	1,674,531	416,390	51,497,266
170,344,393	129,165,471	29,172,874	2,115,479	1,674,531	416,390	162,544,745
(50,188,296)	(33,189,160)	(6,266,653)	(1,257,428)	(995,331)	(247,500)	(41,956,072)
120,156,097	95,976,311	22,906,221	858,051	679,200	168,890	120,588,673
213,849,031	198,922,306	0	0	0	0	198,922,306
92,140,953,603	**67,258,064,970**	**13,787,677,165**	**98,388,816**	**78,089,736**	**18,805,704**	**81,241,026,391**
1,929,191	2,354,294	0	0	0	0	2,354,294
145,895,911	0	138,450,016	0	0	0	138,450,016
836,766,843	258,012,233	53,711,956	1,121,710	1,380,789	75,977	314,302,665
10,992,794	10,738,631	0	0	0	0	10,738,631
39,858,341	0	0	17,100,132	18,468,306	1,325,160	36,893,598
12,744,242,746	9,324,745,071	1,749,802,181	7,667,367	3,738,615	2,027,377	11,087,980,611
13,779,685,826	**9,595,850,229**	**1,941,964,153**	**25,889,209**	**23,587,710**	**3,428,514**	**11,590,719,815**
$78,361,267,777	**$57,662,214,741**	**$11,845,713,012**	**$72,499,607**	**$54,502,026**	**$15,377,190**	**$69,650,306,576**



COMBINING STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS (for the years ended December 31, 2006 and 2005)

2006

	Traditional Plan	Post-employment Health Care	Combined Plan	Member-Directed Plan	Voluntary Employees' Beneficiary Association
Additions:					
Members' contributions	$1,065,862,778	$71,718,182	$17,367,629	$16,130,744	$0
Employers' contributions	1,098,969,833	539,496,748	17,703,681	16,370,002	8,116,172
Contract and other receipts	116,104,645	92,540,351	413,705	155,021	0
Medicare Part D reimbursements	0	58,987,181	0	0	0
Other income, net	221,669	1,306,783	0	0	0
Interplan activity	4,520,387	0	420,198	345,750	0
Total non-investment income	**2,285,679,312**	**764,049,245**	**35,905,213**	**33,001,517**	**8,116,172**
Income from investing activities:					
Net Appreciation in fair value	5,715,524,973	1,048,846,038	10,833,636	9,180,809	2,010,876
Bond interest	955,280,926	179,769,220	1,493,804	1,058,868	336,094
Dividends	564,064,821	106,148,349	858,743	590,259	198,453
Real estate operating income, net	468,776,390	0	386,802	0	164,928
International income	763,344,058	143,649,645	629,859	0	268,566
Other investment income	169,343,537	2,829,179	144,707	7,467	59,579
External asset management fees	(110,641,497)	(10,797,650)	(231,640)	(212,876)	(38,927)
Net investment income	8,525,693,208	1,470,444,781	14,115,911	10,624,527	2,999,569
From securities lending activity:					
Security lending income	501,542,742	94,382,644	509,852	144,082	176,459
Security lending expenses	(476,803,625)	(89,727,122)	(484,703)	(136,975)	(167,755)
Net security lending income	24,739,117	4,655,522	25,149	7,107	8,704
Investment administrative expenses	(20,496,402)	(4,040,472)	(99,190)	(102,468)	(20,401)
Net income from investing activity	**8,529,935,923**	**1,471,059,831**	**14,041,870**	**10,529,166**	**2,987,872**
TOTAL ADDITIONS	**10,815,615,235**	**2,235,109,076**	**49,947,083**	**43,530,683**	**11,104,044**
Deductions:					
Benefits	2,906,857,436	1,231,870,038	552	1,125	12,850
Refunds of contributions	228,061,794	0	1,910,107	5,191,909	0
Administrative expenses	44,854,241	10,892,971	4,510,803	3,882,917	1,011,842
Interplan activity	703,612	0	2,026,194	2,431,876	124,653
TOTAL DEDUCTIONS	**3,180,477,083**	**1,242,763,009**	**8,447,656**	**11,507,827**	**1,149,345**
Net increase (decrease)	7,635,138,152	992,346,067	41,499,427	32,022,856	9,954,699
Net assets held in trust for pension and post-employment health care benefits					
Balance, beginning of year	57,662,214,741	11,845,713,012	72,499,607	54,502,026	15,377,190
Balance, end of year	**$65,297,352,893**	**$12,838,059,079**	**$113,999,034**	**$86,524,882**	**$25,331,889**

See Notes to Combining Financial Statements, beginning on page 40. An unaudited Schedule of Funding Progress is presented beginning on page 63.

COMBINING STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS (CONTINUED)

	2005					
2006 Total All Plans	Traditional Plan	Post-employment Health Care	Combined Plan	Member-Directed Plan	Voluntary Employees' Beneficiary Association	2005 Total All Plans
$1,171,079,333	$965,977,835	$63,408,347	$13,720,773	$12,162,247	$0	$1,055,269,202
1,680,656,436	1,109,948,503	457,805,155	15,637,593	12,424,689	7,252,580	1,603,068,520
209,213,722	109,034,750	6,754,443	257,733	343,399	0	116,390,325
58,987,181	0	0	0	0	0	0
1,528,452	432,175	548,364	0	0	0	980,539
5,286,335	1,593,458	0	425,831	355,531	82,996	2,457,816
3,126,751,459	**2,186,986,721**	**528,516,309**	**30,041,930**	**25,285,866**	**7,335,576**	**2,778,166,402**
6,786,396,332	1,511,086,799	382,822,937	2,408,241	2,339,126	325,775	1,898,982,878
1,137,938,912	740,647,020	124,871,047	518,992	168,903	159,676	866,365,638
671,860,625	474,658,829	99,647,424	814,338	820,295	102,332	576,043,218
469,328,120	648,411,391	0	354,320	0	139,791	648,905,502
907,892,128	1,342,128,203	262,947,660	1,441,940	1,047,300	289,349	1,607,854,452
172,384,469	220,291,371	6,773,879	120,377	0	47,493	227,233,120
(121,922,590)	(79,532,403)	(7,188,895)	(155,388)	(200,690)	(8,328)	(87,085,704)
10,023,877,996	4,857,691,210	869,874,052	5,502,820	4,174,934	1,056,088	5,738,299,104
596,755,779	246,542,442	34,774,894	184,988	74,300	53,162	281,629,786
(567,320,180)	(224,685,380)	(31,691,948)	(168,588)	(67,713)	(48,449)	(256,662,078)
29,435,599	21,857,062	3,082,946	16,400	6,587	4,713	24,967,708
(24,758,933)	(18,912,015)	(4,056,337)	(99,140)	(103,338)	(19,408)	(23,190,238)
10,028,554,662	**4,860,636,257**	**868,900,661**	**5,420,080**	**4,078,183**	**1,041,393**	**5,740,076,574**
13,155,306,121	**7,047,622,978**	**1,397,416,970**	**35,462,010**	**29,364,049**	**8,376,969**	**8,518,242,976**
4,138,742,001	2,679,084,743	1,152,941,961	0	0	1,757	3,832,028,461
235,163,810	215,398,602	0	1,390,162	3,447,236	0	220,236,000
65,152,774	44,375,744	7,875,355	4,432,803	4,128,233	852,844	61,664,979
5,286,335	864,358	0	602,893	866,427	124,138	2,457,816
4,444,344,920	**2,939,723,447**	**1,160,817,316**	**6,425,858**	**8,441,896**	**978,739**	**4,116,387,256**
8,710,961,201	4,107,899,531	236,599,654	29,036,152	20,922,153	7,398,230	4,401,855,720
69,650,306,576	53,554,315,210	11,609,113,358	43,463,455	33,579,873	7,978,960	65,248,450,856
$78,361,267,777	**$57,662,214,741**	**$11,845,713,012**	**$72,499,607**	**$54,502,026**	**$15,377,190**	**$69,650,306,576**

1. Description of OPERS

a. Organization—The Ohio Public Employees Retirement System (OPERS, or the System) is a cost-sharing multiple-employer public employee retirement system comprised of three separate pension plans: the Traditional Plan—a defined benefit plan; the Combined Plan—a combination defined benefit/defined contribution plan; and the Member-Directed Plan—a defined contribution plan. All public employees in Ohio except those covered by one of the other state or local retirement systems in Ohio, are members of OPERS. New public employees (those who establish membership in OPERS on or after January 1, 2003) have 180 days from the commencement of employment to select membership in one of the three plans. Contributions to OPERS are effective with the first day of the employee's employment. Contributions made prior to the employee's plan selection are maintained in the Traditional Plan and later transferred, as appropriate.

OPERS maintains two health care related plans: a cost-sharing multiple employer health care plan and a Voluntary Employees' Beneficiary Association (VEBA). The cost-sharing plan provides health care coverage to Traditional and Combined Plan retirees and their beneficiaries. This plan is reported as an Other Post-employment Benefit Plan (OPEB) based on the criteria established by the Government Accounting Standards Board (GASB). Periodically, OPERS alters the health care plan design to protect the ongoing solvency of the plan, but generally, 10 or more years of service is required to qualify for benefits under this plan. The VEBA plan provides Member-Directed Plan participants with a medical spending account option.

OPERS is administered in accordance with Chapter 145 of the Ohio Revised Code (ORC). The accompanying financial statements comply with the provisions of GASB Statement No. 14, *The Financial Reporting Entity,* and with the provisions of GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units,* which subsequently amended portions of Statement No. 14. These statements require that financial statements of the reporting entity include all of the organizations, activities, functions and component units for which the reporting entity is financially accountable. Financial accountability is defined as the appointment of a voting majority of the component unit's board of directors and either (1) the reporting entity's ability to impose its will over the component unit, or (2) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the reporting entity. OPERS does not have financial accountability over any entities.

OPERS is not part of the state of Ohio financial reporting entity, nor is OPERS a component unit of the state of Ohio. Responsibility for the organization is vested in the System's Retirement Board, and there is no financial interdependency with the state of Ohio. The Retirement Board is the governing body of OPERS, with responsibility for administration and management. New legislation enacted in 2004 changed the composition of the Retirement Board and increased the number of Retirement Board members. Seven members are elected by the group they represent: the retirees (two representatives); employees of the state, employees of counties, employees of municipalities, non-teaching employees of state colleges and universities and miscellaneous employees. The remaining four members are appointed or designated by position. The governor, general assembly and treasurer of state each appoint a representative. The director of the Ohio Department of Administrative Services completes the Retirement Board.

The Retirement Board appoints the executive director, an actuary, and other consultants necessary for the transaction of business. The Retirement Board meets monthly and receives no compensation, but is reimbursed for necessary expenses.

Employer, employee and retiree data as of December 31, 2006 and 2005 follows:

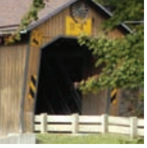
EMPLOYER, EMPLOYEE AND RETIREE DATA (as of December 31, 2006 and 2005)

Year	2006	2005
Employer Units		
State group	276	277
Local government group	3,187	3,188
Law enforcement and public safety group	244	247
Employees, members and retirees—pension		
Retirees and beneficiaries currently receiving defined benefits	156,745	151,758
Retirees and beneficiaries currently receiving defined contribution benefits	2	N/A
Terminated employees not yet receiving benefits	104,531	97,668
Employees, members and retirees—post-employment health care		
Retirees and beneficiaries currently receiving benefits—OPEB	200,494	194,773
Retirees and beneficiaries currently receiving benefits—VEBA	293	185
Terminated employees not yet receiving benefits	12,753	11,427
Active Employees		
State group	122,049	120,878
Local government group	251,156	252,333
Law enforcement and public safety group	8,259	8,202

All public employees, except those covered by another state retirement system in Ohio or the Cincinnati Retirement System, are required to become contributing members of OPERS when they begin public employment unless they are exempted or excluded as defined by the ORC. For actuarial purposes, employees who have earned sufficient service credit (five years or 60 contributing months) are entitled to a future benefit from OPERS.

b. Benefits—All benefits of the System, and any benefit increases are established by the legislature pursuant to ORC Chapter 145.The Retirement Board, pursuant to Chapter 145 of the ORC, has elected to maintain funds to provide health care benefits to Traditional and Combined plan retirees and survivors of members. Health care benefits do not vest and are not a required benefit under ORC 145. As a result they may be reduced or eliminated at the discretion of the Retirement Board.

- ***Age-and-Service Defined Benefits***—Benefits in the Traditional Plan for state and local members are calculated on the basis of age, final average salary, and service credit. Members are eligible for retirement benefits at age 60 with five years or 60 contributing



months of service credit, at age 55 with 25 or more years of service credit, or at any age with 30 or more years of service credit. The annual benefit is based on 2.2% of final average salary multiplied by the actual years of service for the first 30 years of service credit and 2.5% for years of service in excess of 30 years. Members retiring before age 65 with less than 30 years of service credit receive a percentage reduction in benefit amounts. The base amount of a member's pension benefit is locked in upon receipt of the initial benefit payment.

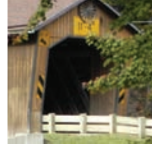
The defined benefit element is calculated on the basis of age, final average salary and years of service.

Effective January 1, 2001, HB 416 divided the OPERS law enforcement program into two separate divisions: Law Enforcement and Public Safety. Both groups of members, as defined in ORC Chapter 145, are eligible for special retirement options under the Traditional Plan and are not eligible to participate in the Member-Directed or Combined Plans. Law enforcement officers may file an application for retirement benefits at age 48, or older with 25 or more years of credited service. Those members classified within the public safety group are eligible for retirement at age 52 with 25 or more years of credited service. Annual benefits under both divisions are calculated by multiplying 2.5% of final average salary by the actual years of service for the first 25 years of service credit and 2.1% of final average salary for each year of service over 25 years. These options also permit early retirement under qualifying circumstances as early as age 48.

Prior to 2000, payments to OPERS' benefit recipients were limited under Section 415(b) of the Internal Revenue Code (IRC). OPERS entered into a Qualified Excess Benefit Arrangement (QEBA) with the Internal Revenue Service to allow OPERS benefit recipients to receive their full statutory benefit even when the benefit exceeds IRC 415(b) limitations. Monthly QEBA payments start when the total amount of benefits received by the recipients exceed the IRC limit. The portion of the benefit in excess of the 415(b) limit is paid out of the QEBA and taxed as normal payroll.

Benefits in the Combined Plan consist of both an age-and-service formula benefit (defined benefit) and a defined contribution element. The defined benefit element is calculated on the basis of age, final average salary and years of service. Members are eligible for retirement benefits at age 60 with five years, or 60 contributing months of service credit, at age 55 with 25 or more years of service credit, or at any age with 30 or more years of service credit. The annual benefit is based on 1.0% of final average salary multiplied by the years of service in the Combined Plan rather than the 2.2% used in the Traditional Plan. Persons retiring before age 65 with less than 30 years of service credit receive a percentage reduction in benefit. The defined contribution portion of the benefit is based on accumulated member contributions plus or minus any investment gains or losses on those contributions.

- ***Defined Contribution Benefits***—Member-Directed and Combined Plan members who have met the retirement eligibility requirements may apply for retirement benefits. A variety of payout options are available to members eligible for these benefits. The amount available for defined contribution benefits in the Combined Plan consists of the members' contributions plus-or-minus the investment gains-or-losses resulting from the members' investment selections. Combined Plan members wishing to receive benefits must meet the requirements for both types—the defined benefit and defined contribution



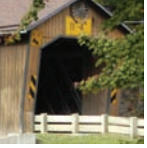
plans. Member-Directed participants must have attained the age of 55, have money on deposit in the defined contribution plan and terminated public service to apply for retirement benefits. The amount available for defined contribution benefits in the Member-Directed Plan consists of the members' contributions; vested employer contributions and gains or losses resulting from the members' investment selections. Employer contributions and associated investment earnings vest over a five-year period at a rate of 20% a year.

- ***Early Retirement Incentive Plan***—Employers under OPERS may establish an early retirement incentive plan utilizing the purchase of service credit. To be eligible, employees must be able to retire under existing plan provisions after the purchase of the additional credit. Electing employers must contribute all such additional costs as are actuarially determined to fund the benefit. Such a plan, if adopted by an employer, must be offered to a minimum of 5% of covered employees and provide for the purchase of up to five years service credit, limited to a maximum of 20% of total service credit.

- ***Disability Benefits***—OPERS administers two disability plans for participants in the Traditional and Combined Plans. Members on the rolls as of July 29, 1992, could elect, by April 7, 1993, coverage under either the original plan or the revised plan. All members who entered the System after July 29, 1992, are automatically covered under the revised plan. Under the original plan, a member who becomes disabled before age 60, and has completed 60 contributing months, is eligible for a disability benefit. Benefits are funded by the employee and employer contributions and terminate if the member is able to return to work. The revised plan differs in that a member who becomes disabled at any age with 60 contributing months will be eligible for disability benefits until a determined age. After the disability benefit ends, the member has an opportunity to apply for a service retirement benefit, or a refund of contributions, which are not reduced by the amount of disability benefits received. Law enforcement officers are immediately eligible for disability benefits if disabled by an on-duty illness or injury. Members of the Member-Directed Plan are not eligible for disability benefits.

- ***Survivor Benefits***—Dependents of deceased members who participated in either the Traditional or the Combined Plans may qualify for survivor benefits if the deceased employee had at least 18 months of service credit with the plan and at least three months of credit within the two and one-half years immediately preceding death. ORC Chapter 145 specifies the dependents and the conditions under which they qualify for survivor benefits.

- ***Health Care Benefits***—The ORC permits, but does not require, OPERS to offer post-employment health care benefits (OPEB). The ORC allows a portion of the employers' contributions to be used to fund health care benefits. OPERS maintains a Health Care Fund to provide benefits to the retirees and beneficiaries of the Traditional and Combined plans. The System currently provides comprehensive health care benefits to retirees with 10 or more years of qualifying service credit in either the Traditional or Combined plans and offers coverage to their dependents on a premium deduction basis. Coverage includes hospitalization, medical expenses, prescription drugs, and reimbursement of monthly Medicare premiums. The System determines the amount, if any, of the associated health care costs that will be absorbed by the System and attempts to control costs by utilizing managed care, HMOs, case management, disease management, and other programs.



Participants in the Member-Directed plan are not eligible for health care benefits under the OPEB plan. A portion of employer contributions is placed in a Voluntary Employees' Beneficiary Association (VEBA, Retiree Medical Account or RMA) on behalf of members in the Member-Directed Plan. Terminated members and retirees may be reimbursed for qualified medical expenses from their RMA funds.

- ***Other Benefits***—Once a benefit recipient retiring under the Traditional Plan has received benefits for 12 months, an annual 3% cost-of-living adjustment is provided on the member's base benefit. Members retiring under the Combined Plan receive a 3% cost-of-living adjustment with relation to the defined benefit portion of their benefit. A death benefit of $500-$2,500, determined by number of years of service credit of the retiree, is paid to the beneficiary of a deceased retiree or disability benefit recipient under the Traditional and Combined Plans. Death benefits are not available to beneficiaries of Member-Directed Plan participants.

- ***Money Purchase Annuity***—OPERS' age-and-service retirees who become re-employed in an OPERS-covered position must contribute to the System. All re-employed retirees are required to contribute toward a money purchase annuity. The money purchase annuity calculation is based on the accumulated contributions of the retiree for the period of re-employment, and an amount of the employer contributions determined by the Retirement Board. Upon termination of service, the member can elect to receive a lump sum payout or a monthly annuity.

- ***Refunds***—Members who have terminated service in OPERS-covered employment may file an application for refund of their account. The law requires a three-month waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's rights and benefits in OPERS.

  Refunds processed for Traditional Plan members include the member's accumulated contributions, interest and any qualifying employer funds. A Combined Plan member's refund may consist of qualifying employer funds plus the value of their account in the defined contribution plan, which consists of member contributions adjusted by the gains or losses incurred based on their investment selections. Refunds paid to members in the Member-Directed plan include member contributions and vested employer contributions adjusted by the gains or losses incurred based on their investment selections.

c. Contributions—OPERS' funding policy provides for periodic employee and employer contributions to all three plans (Traditional, Combined and Member-Directed Plans) at Retirement Board-established rates. The rates established for member and employer contributions were approved based upon the recommendations of the System's actuary. All contribution rates were within the limits authorized by the Ohio Revised Code.

Member and employer contribution rates, as a percent of covered payroll, were the same across all three plans for the year ended December 31, 2006. Within the Traditional Plan, member and employer contributions (employer contributions only for the Combined Plan) and an actuarially determined rate of interest return are adequate to accumulate sufficient assets to pay defined benefits when due. Employee contributions within the Combined Plan are not used to fund the defined benefit retirement allowance. Employer contribution rates as a level percent of payroll dollars are determined using the entry age normal actuarial funding method. This formula determines the amount of contributions necessary to fund: (1) the current service cost, which represents the estimated amount necessary to pay for

defined benefits earned by the employees during the current service year; and (2) the prior service cost for service earned prior to the current year and subsequent benefit increases. These contributions represent the amount necessary to fund accrued liabilities for retirement allowances and survivor benefits over a period of time. The annual employer contributions as a percent of covered payroll reported for the Traditional Plan for 2006 and 2005 were $1,092,998,460 and $1,106,755,953, respectively. Employer contributions for the Combined Plan for 2006 and 2005 were $17,689,419 and $15,632,184, respectively. Employers satisfied 100% of the contributions requirements.

The following table displays the employee and employer contribution rates as a percent of covered payroll for each division for 2006, 2005, and 2004. Based upon the recommendation of the System's actuary, a portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care benefits. For 2006 and 2005, the employer contribution set aside for post-employment health care for members of the Traditional and Combined Pension Plans was 4.5% and 4.0%, respectively, of covered payroll. The employer contribution as a percent of covered payroll deposited to the VEBA for participants in the Member-Directed Plan for 2006 and 2005 was 4.5% and 4.81%, respectively, for state employers, and 4.5% and 5.05%, respectively, for local employers.

RETIREMENT BOARD-APPROVED CONTRIBUTION RATES—ALL PLANS

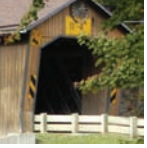
	Employee Rate			Employer Rate		
	2006	2005	2004	2006	2005	2004
State group	9.0%	8.5%	8.5%	13.54%	13.31%	13.31%
Local government group	9.0	8.5	8.5	13.70	13.55	13.55
Law enforcement group	10.1	10.1	10.1	16.93	16.70	16.70
Public safety group	9.0	9.0	9.0	16.93	16.70	16.70

The rates above fall within the ranges set by the Ohio Revised Code.

ORC Chapter 145 assigns authority to the Retirement Board to amend the funding policy. As of December 31, 2006, the Retirement Board adopted the contribution rates that were recommended by the actuary.

As of December 31, 2005, the date of the last actuarial study, and December 31, 2004, the necessary funding period for all divisions in the Traditional and Combined Plans was 21 and 27 years, respectively.

d. **Commitments and Contingencies**—OPERS has committed to fund various private equity investments totaling approximately $1.3 billion at December 31, 2006, and $738.0 million at December 31, 2005. The expected funding dates for these commitments extend through 2015. OPERS is a party in various lawsuits relating to plan benefits. While the final outcome cannot be determined at this time, management is of the opinion that the liability, if any, for these legal actions will not have a material adverse effect on OPERS' financial position.



2. Summary of Significant Accounting Policies

The following are the significant accounting policies followed by OPERS for all of its pension and health care plans:

a. **Basis of Accounting**—The financial statements are prepared using the accrual basis of accounting under which deductions are recorded when the liability is incurred. Pension benefit payments are due the first day of the month following the retirement of a member, and the first of each month thereafter. Refunds, for any member who makes a written application to withdraw their contributions, are due three months days after the member's termination of OPERS-covered employment. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Additions consist of contributions (member and employer), health care reimbursements and other contract receipts, interplan activities, net investment income, and other miscellaneous income. Contributions are recorded in the period the related salaries are earned and become measurable. Member and employer contributions are recognized when due, pursuant to formal commitments, as well as statutory or contractual requirements. Accordingly, both member and employer contributions for the years ended December 31, 2006 and 2005 include year-end accruals based upon estimates derived from subsequent payment activity and historical payment patterns. Member and employer contributions, which are based on members' salaries, are due 30 days after the month in which salaries are earned. Health care reimbursements are recognized when they become measurable and due OPERS based on contractual requirements. Therefore, health care reimbursements contain estimates based on information received for health care vendors and other sources. Plan changes, settlement activity and other inter-plan activity are recorded as an addition or deduction, based on the nature of the transaction, when the transactions occur. Investment purchases and sales are recorded as of their trade date.

   The accounting and reporting policies of OPERS conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to government organizations. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

   GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* and Statement No. 26, *Financial Reporting for Post-employment Health Care Plans Administered by Defined Benefit Pension Plans,* require that the three pension plans (Traditional, Member-Directed and Combined) and the two health care funds (Post-employment Health Care and VEBA) be shown separately in the Combined Financial Statements as they are legally separate plans. To meet this requirement, plan assets and liabilities, where possible, were specifically identified to a plan or health care fund. Assets and liabilities that were not specifically identifiable to a plan or health care fund were allocated based on calculation and projection formulas that take into account daily investment return, daily plan cash inflows and outflows, and analysis and allocation of administrative expenses.

GASB Statement No. 43, *Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans (OPEB),* establishes standards that pension systems must use when reporting post-employment benefits, other than pension benefits (such as post-employment health care). GASB Statement No. 43 was implemented for the year ended December 31, 2006.

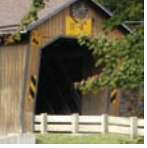
GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits other than Pensions,* established the standards that employers must use when reporting participation in retirement systems that administer post-employment benefit plans. Among these standards are requirements for displaying a plan's: funded status of their OPEB, OPEB liabilities, and for determining the adequacy of employers' contributions in meeting the funding objectives. GASB Statement No. 45 was early implemented for the year ended December 31, 2006.

b. **Investments**—OPERS is authorized by ORC Section 145.11 to invest under a prudent person standard and does so through an investment policy established by the Retirement Board. The prudent person standard requires the Retirement Board, "To discharge their duties with respect to the funds solely in the interest of the participants and beneficiaries and defraying reasonable expenses of administering the System; with care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims; and by diversifying the investments of the system so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so."

Member-Directed Plan participants self-direct the investment of both member and employer contributions. Contributions must be invested with an investment manager approved by the OPERS Retirement Board. Similarly, participants in the Combined Plan direct the investment of member contributions. The investment assets for all other plans are invested under the direction of OPERS' investment staff in conformance with Retirement Board policies.

Plan investments are reported at fair value. Fair value is the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale. All investments, with the exception of real estate and private equity, are valued based on closing market prices or broker quotes. Securities not having a quoted market price have been valued based on yields currently available on comparable securities of issuers with similar credit ratings. The fair value of real estate investments is based on estimated current values and independent appraisals. Private equities are valued based on the most current net asset values and activities through year end.

Net appreciation (depreciation) in the fair value of investment assets is determined by calculating the change in the fair value of investments between the end of the year and the beginning of the year, less purchases of investments at cost, plus sales of investments at fair value. Commissions paid to brokers are considered a part of the investment asset cost and are, therefore, not reported as expenses of the System. Brokerage commissions for 2006 and 2005 were $24,334,321 and $22,056,453, respectively. Investment administrative expenses consist of custodial banking fees and those expenses directly related to OPERS' internal investment operations, and include a proportional amount of overhead that is allocated based on either the ratio of OPERS' investment department square footage to total office square footage or investment personnel to total OPERS' personnel, as appropriate.



c. **Capital Assets**—Capital assets are recorded at cost. OPERS has adopted a capitalization threshold that is used to identify whether assets purchased by the System are classified as capital assets or operating expenses. Building enhancements, furniture and equipment with a cost equal to or greater than $5,000 and computer software purchases of $25,000 or more are recorded as capital assets and depreciated based on the useful life of the asset.

Depreciation is computed using the straight-line method over the estimated useful lives of the related assets according to the following schedule:

STRAIGHT-LINE METHOD OF COMPUTING DEPRECIATION

	Years
Buildings and building improvements	50
Furniture and equipment	3-10

The table below is a schedule of the capital asset account balances as of December 31, 2005, and changes to those account balances during the year ended December 31, 2006.

CAPITAL ASSET ACCOUNT BALANCES

	Land	Building and Building Improvements	Furniture, Fixtures and Equipment	Total Capital Assets
Cost:				
Balances, December 31, 2005	$3,734,813	$107,312,666	$51,497,266	$162,544,745
Additions	0	3,431,151	5,923,494	9,354,645
Write-offs	0	0	(1,554,997)	(1,554,997)
Balances, December 31, 2006	3,734,813	110,743,817	55,865,763	170,344,393
Accumulated Depreciation:				
Balances, December 31, 2005	0	8,976,360	32,979,712	41,956,072
Depreciation expense	0	2,140,443	7,559,565	9,700,008
Write-offs	0	0	(1,467,784)	(1,467,784)
Balances, December 31, 2006	0	11,116,803	39,071,493	50,188,296
Net capital assets, December 31, 2006	$3,734,813	$99,627,014	$16,794,270	$120,156,097

d. Undistributed Deposits—Cash receipts are recorded as undistributed deposits until they are allocated to employers' receivables, members' contributions, or investment income.

e. Federal Income Tax Status—OPERS is a qualified plan under Section 401(a) of the Internal Revenue Code and is exempt from federal income taxes under Section 501(a).

f. Funds—In accordance with the ORC and Internal Revenue Service (IRS) regulations, various funds have been established to account for the reserves held for future and current benefit payments. Statutory and IRS mandated funds within each of the three pension plans are as follows:

TRADITIONAL PLAN

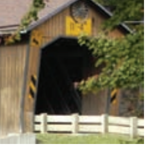
- ***The Employees' Savings Fund***—represents members' contributions held in trust pending their refund or transfer to a benefit disbursement fund. Upon an employee's refund or retirement, such employee's account is credited with an amount of interest (statutory interest) on the employee's contributions based on a Retirement Board-approved rate of 1-4%. Employees eligible for a refund also receive additional funds from the Employers' Accumulation Fund, if qualified. The ORC Chapter 145 requires statutory interest to be compounded annually.

- ***The Employers' Accumulation Fund***—is used to accumulate employers' contributions to be used in providing the reserves required for transfer to the Annuity and Pension Reserve Fund as members retire or become eligible for disability benefits, and to the Survivors' Benefit Fund for benefits due dependents of deceased members.

- ***The Employers' Accumulation Health Care Fund***—is used to accumulate employers' contributions to be used in providing the reserves required for transfer to the Annuity and Pension Reserve and Survivors' Benefit Funds for health care benefits paid for retirees and dependents of deceased members.

- ***The Annuity and Pension Reserve Fund***—is the fund from which annuity, disability, and health care benefits that do not exceed the IRC 415(b) limitations are paid. This reserve was fully funded according to the latest actuarial study dated December 31, 2005, and accordingly, there are sufficient assets available in this fund to pay the vested pension benefits of all retirees and beneficiaries as of the valuation date.

- ***The Survivors' Benefit Fund***—is the fund from which benefits due dependents of deceased members of the System that do not exceed the IRC 415(b) limitations are paid. This fund also was fully funded with relation to vested pension benefits as of December 31, 2005.



- ***Qualified Excess Benefit Arrangement (QEBA)***—is the fund from which annuity, disability and survivors' benefits are paid when the recipient exceeds the IRC 415(b) limits. This reserve is funded by employer contributions on an as-needed basis; therefore, it is fully funded.
- ***The Income Fund***—is the fund credited with all investment earnings and miscellaneous income. Annually the balance in this fund is transferred to other funds to aid in the funding of future benefit payments and administrative expenses.
- ***The Expense Fund***—provides for the payment of administrative expenses with the necessary monies allocated to it from the Income Fund.

MEMBER-DIRECTED PLAN

- ***The Defined Contribution Fund***—represents members' and employers' contributions held in trust pending their refund or commencement of benefit payments. Members self-direct the investment of these funds. Employer funds vest with the member over a five-year period at a rate of 20% per year.
- ***The Income Fund***—is the fund credited with all investment earnings and miscellaneous income. The balance in this fund is used to fund the gains or losses incurred by participants and to fund administrative expenses of the Member-Directed Plan.
- ***The Expense Fund***—provides for the payment of administrative expenses with the necessary monies allocated to it from the Income Fund.
- ***The Voluntary Employees' Beneficiary Association (VEBA) Fund***—is the fund used to accumulate employer contributions in a retiree medical account. The effective date of the VEBA program coincides with the effective date of the Member-Directed Plan. Accordingly, since January 1, 2003, a portion of employer contributions made on behalf of members electing to participate in the Member-Directed Plan has been deposited to the VEBA. Upon termination Member-Directed participants can use vested VEBA funds for reimbursements of qualified medical expenses. VEBA funds vest with the member over a 10-year period.

COMBINED PLAN

- ***The Defined Contribution Fund***—represents members' contributions held in trust pending their refund or commencement of benefit payments. Members self-direct the investment of these funds.
- ***The Employees' Savings Fund***—represents members' deposits for the purchase of service credit held in trust pending their refund or transfer to the Annuity and Pension Reserve or Survivors' Benefit Funds. Upon an employee's refund or retirement, such employee's accounts are credited with an amount of interest (statutory interest) on the employee's deposits based on a rate of 1%.

- ***The Employers' Accumulation Fund***—is used to accumulate employers' contributions to be used in providing the reserves required for transfer to the Annuity and Pension Reserve Fund as members retire. Disability and survivor benefits are provided by fund transfers to the Traditional Plan.
- ***The Employers' Accumulation Health Care Fund***—is used to accumulate employers' contributions to be used in providing health care benefits to retirees and dependents of deceased members.
- ***The Annuity and Pension Reserve Fund***—is the fund from which retirement allowances and health-care benefits are paid.
- ***Qualified Excess Benefit Arrangement (QEBA)***—is the fund from which annuity benefits exceeding the IRC 415(b) limits are paid for the defined benefit portion of the Combined Plan. As of December 31, 2006, there were no benefits being paid out of the fund to Combined Plan participants.
- ***The Income Fund***—is the fund credited with all investment earnings and miscellaneous income. The balance in this fund is transferred to other funds to the credit of the member account and to aid in the funding of future benefit payments and administrative expenses.
- ***The Expense Fund***—provides for the payment of administrative expenses with the necessary monies allocated to it from the Income Fund.

The statutory funds defined by ORC 145 and the IRC required funds are not mutually exclusive. The Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets are presented based on IRC requirements. The following schedule provides the values of the statutory funds and how they are distributed among the various retirement and health care plans administered by the System. The rows represent the statutory funds required by the ORC. In total, these funds will equal the fiduciary net assets of the System. To support the fiduciary net assets for each plan included in the statements, the schedule has been expanded to include the value of the statutory funds as they relate to each plan.

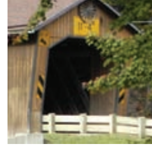
Statutory and IRC Fund balances at December 31, 2006 and 2005 are as follows:

Statutory and IRC Fund Balances (as of December 31, 2006 and 2005)

For Year Ended December 31, 2006	Traditional Plan	Post-employment Health Care	Combined Plan	Member-Directed Plan	VEBA	Total
Employees' Savings Fund	$10,374,152,385	$0	$328,340	$0	$0	$10,374,480,725
Employers' Accumulation Fund	25,743,571,669	12,838,059,079	60,191,369	0	0	38,641,822,117
Annuity and Pension Reserve Fund	27,770,523,103	0	(556)	0	0	27,770,522,547
Survivors' Benefit Fund	1,313,109,826	0	0	0	0	1,313,109,826
Defined Contribution Fund	0	0	53,479,881	86,524,882	25,331,889	165,336,652
Income Fund	95,995,910	0	0	0	0	95,995,910
Expense Fund	0	0	0	0	0	0
Total	**$65,297,352,893**	**$12,838,059,079**	**$113,999,034**	**$86,524,882**	**$25,331,889**	**$78,361,267,777**

For Year Ended December 31, 2005	Traditional Plan	Post-employment Health Care	Combined Plan	Member-Directed Plan	VEBA	Total
Employees' Savings Fund	$9,810,182,770	$0	$181,355	$0	$0	$9,810,364,125
Employers' Accumulation Fund	21,175,333,656	11,845,713,012	39,974,314	0	0	33,061,020,982
Annuity and Pension Reserve Fund	25,377,301,101	0	0	0	0	25,377,301,101
Survivors' Benefit Fund	1,209,472,794	0	0	0	0	1,209,472,794
Defined Contribution Fund	0	0	32,343,938	54,502,026	15,377,190	102,223,154
Income Fund	87,484,700	0	0	0	0	87,484,700
Expense Fund	2,439,720	0	0	0	0	2,439,720
Total	**$57,662,214,741**	**$11,845,713,012**	**$72,499,607**	**$54,502,026**	**$15,377,190**	**$69,650,306,576**

g. **Risk Management**—OPERS 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 OPERS maintains commercial insurance and holds fidelity bonds on employees. There were no reductions in coverage nor have there been any settlements exceeding insurance coverage for the past three years. As required by state law, OPERS is registered and insured through the state of Ohio Bureau of Workers' Compensation for injuries to employees. OPERS is self-insured for employee health care coverage. The only outstanding liabilities at the end of 2006 and 2005 were related to the employee health care coverage (see Note 8).



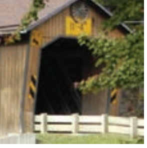
3. Cash and Investments

A summary of cash and short-term securities and investments held at December 31, 2006 and 2005 is as follows:

Summary of Cash and Short-term Securities and Investments (held at December 31, 2006 and 2005)

	2006 Fair Value	2005 Fair Value
Cash and Short-term Investments:		
Cash	$37,448,520	$24,935,192
Short-term Securities:		
Commercial Paper	128,715,745	167,901,582
U.S. Treasury Obligations	15,044,581	99,032
Agency Discount Notes	274,116	395,178
Repurchase Agreements	775,000,000	450,000,000
Money Market Bonds	149,983,237	140,029,077
Short-term Investment Funds (STIF)	289,352,411	182,622,180
Total Short-term Securities	$1,358,370,090	$941,047,049
Total Cash and Short-term Investments	**$1,395,818,610**	**$965,982,241**
Investments:		
Global Bonds:		
Corporate Bonds	$5,963,781,951	$5,795,257,289
Government and Agencies	6,520,570,781	4,951,260,534
Mortgage Backed	7,541,565,474	6,877,339,556
Non-U.S. Fixed Income	1,534,070,833	739,533,422
Total Global Bonds	$21,559,989,039	$18,363,390,801
Equities	$34,091,505,439	$30,486,097,151
Real Estate	3,674,622,803	4,636,087,423
Private Equity	1,333,638,551	738,008,316
International Securities	15,793,080,611	14,002,316,402
Total Investments Before Collateral	**$76,452,836,443**	**$68,225,900,093**
Collateral on Loaned Securities:		
Cash	$12,744,242,746	$11,087,980,611
Total Collateral on Loaned Securities	**$12,744,242,746**	**$11,087,980,611**
Total Investments	**$89,197,079,189**	**$79,313,880,704**

a. **Custodial Credit Risk, Deposits**—Custodial credit risk for deposits is risk that, in the event of the failure of a depository financial institution, OPERS will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. All non-investment related bank balances at year end were insured or collateralized with securities held by OPERS' pledging financial institution. Deposits held in the investment related bank account were neither insured nor collateralized for amounts in excess of $100,000. As of December 31, 2006, deposits totaling $39,270,751 were neither insured nor collateralized. OPERS has no formal policy specific to custodial credit risk. These assets are under the custody of the treasurer of the state of Ohio.



b. **Custodial Credit Risk, Investments**—The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, OPERS will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Since the treasurer of the state of Ohio, as custodian, holds all investments in the name of OPERS or its nominee, OPERS' investments are not exposed to custodial credit risk.

c. **Credit Risk**—Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

OPERS' risk management policy over credit risk includes limiting non-investment grade securities to 15% of total global bond assets. Limitations on the holding of non-investment grade securities are included in portfolio guidelines to ensure compliance with this constraint.

The following table presents the quality ratings of OPERS' global bond assets, including short-term investments as of December 31, 2006.

AVERAGE CREDIT QUALITY AND EXPOSURE LEVELS OF NON-GOVERNMENT GUARANTEED SECURITIES

Fixed Income Security Type	Fair Value	Percent of All Fixed Income Assets	Rating Dispersion Detail
Commercial Paper	$78,723,162		AA
	49,992,583		A
Total Commercial Paper	**$128,715,745**	**0.6%**	
Repurchase Agreements	325,000,000		AA
	450,000,000		A
Total Repurchase Agreements	**$775,000,000**	**3.4%**	
Money Markets/STIF	**$289,352,411**	**1.3%**	AAA
Corporate Bonds—Short Term	100,000,000		AA
	49,983,237		A
Total Corporate Bonds—Short Term	**$149,983,237**	**0.6%**	
Corporate Bonds	340,611,848		AAA
	666,933,407		AA
	1,425,692,611		A
	1,485,155,396		BBB
	162,774,630		BB
	490,842,535		B
	170,330,051		CCC
	141,902,182		Not Rated
Total Corporate Bonds	**$4,884,242,660**	**21.3%**	

CONTINUED ON PAGE 55

CONTINUED FROM PAGE 54

AVERAGE CREDIT QUALITY AND EXPOSURE LEVELS OF NON-GOVERNMENT GUARANTEED SECURITIES

	Fair Value	Percent of All Fixed Income Assets	Rating Dispersion Detail
Asset Backed Securities	$360,175,069 197,779,927 91,811,543 51,957,168 461,937 1,874,463 247,732,134		AAA AA A BBB BB B Not Rated
Total Asset Backed Securities Total	**$951,792,241**	**4.1%**	
Collateralized Mortgage Obligations	3,195,453,622 40,011,970 9,384,996 41,738,184 181,121,304		AAA AA A BBB Not Rated
Total Collateralized Mortgage Obligations	**$3,467,710,076**	**15.1%**	
Agency Mortgages	**$3,949,139,592**	**17.2%**	AAA
Foreign Government Issues	56,110,866 83,302,148 280,188,931 347,469,972 221,111,828 113,145,440 9,764,287 6,468,061 416,509,300		AAA AA A BBB BB B CCC D Not Rated
Total Foreign Government Issues	**$1,534,070,833**	**6.7%**	
Pooled Investments	**$252,462,856**	**1.1%**	**Not Rated**
Agency Bonds	**$1,272,374,356**	**5.6%**	**AAA**
Total Non-government Guaranteed	**$17,654,844,008**	**77.0%**	
U.S. Treasuries	**$5,248,196,425**	**22.9%**	**AAA**
U.S. Treasury and Agency Discount Notes	**$15,318,697**	**0.1%**	**AAA**
Total Global Bonds and Short-term Securities	**$22,918,359,129**	**100.0%**	

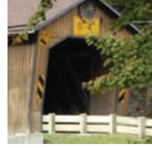
d. **Concentration of Credit Risk**—Concentration of credit risk is the risk of loss that may be attributed to the magnitude of a government's investment in a single issuer. OPERS' portfolio has no single issuer exposure that comprises 5% of the overall portfolio and, therefore, there is no concentration of credit risk.

e. **Interest Rate Risk**—Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. OPERS monitors the interest rate risk inherent in its portfolio by measuring the weighted average duration of its portfolio. Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price. The effective duration measures the sensitivity of the market price to parallel shifts in the yield curve. The OPERS *Interest Rate Risk Policy* states the average effective duration of all Defined Benefit assets must be within 20% of the average effective duration of the benchmark (60% Lehman Universal Index; 40% Lehman Long Government/Credit Index).

The following table lists the effective duration of OPERS' global bond assets, including short-term investments, at December 31, 2006.

Fixed Income Security Type	Fair Value at December 31, 2006	Percent of All Fixed Income Assets	Weighted Average Duration to Maturity (years)
U.S. Treasury Notes	$2,263,058,791	9.9%	3.8
U.S. Bonds	372,594,130	1.6	11.2
U.S. Strips	266,413,181	1.2	15.9
U.S. Treasury Inflation Protected	2,346,130,323	10.2	5.7
Federal Agency Securities	1,272,374,356	5.6	2.4
Mortgages	3,949,139,592	17.2	3.4
Collateralized Mortgage Obligations	3,467,710,076	15.1	3.5
Asset Backed Securities	951,792,241	4.1	2.1
Corporate Bonds	4,884,242,660	21.3	5.6
Pooled Investments	252,462,856	1.1	0.0
Non-U.S. Issues	1,534,070,833	6.7	7.3
Total long term	**$21,559,989,039**	**94.0%**	
Commercial Paper	128,715,745	0.6	0.0
Repurchase Agreement	775,000,000	3.4	0.0
Short-term Investments	149,983,237	0.6	0.2
Money Market/STIF	289,352,411	1.3	0.0
U.S. Treasury and Agency Discount Notes	15,318,697	0.1	0.3
Total short term	**$1,358,370,090**	**6.0**	
Total long term and short term	**$22,918,359,129**	**100.0%**	

f. **Foreign Currency Risk**—Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. OPERS currency risk exposures, or exchange rate risk, primarily reside within OPERS' international equity investment holdings.

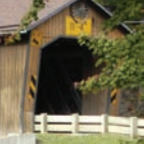


OPERS' implementation policy is to allow OPERS' external managers to decide what action to take regarding their respective portfolio's foreign currency exposures using currency forward contracts.

OPERS' exposure to foreign currency risk in U.S. dollars as of December 31, 2006 is as follows:

EXPOSURE TO FOREIGN CURRENCY RISK IN U.S. DOLLARS (as of December 31, 2006)

Currency	Cash	Forwards	Fixed Income	International Equities	Real Estate	Private Equities
Argentine Peso	$1,384,275	$(4,839,184)	$38,701,688			
Australian Dollar	2,346,497	12,555,417		$198,147,420		
Brazilian Real	338,626		42,947,364	67,881,369	$38,272,644	$15,292,006
British Pound Sterling	1,682,911	(35,736,096)		1,292,357,410		
Canadian Dollar	1,750,917	17,328,586		170,984,629		
Columbian Peso	97,260		22,716,362			
Czech Koruna	153,326			4,047,673		
Danish Krone	12,259			25,152,364		
Egyptian Pound	951,258		6,059,122	6,875,882		
Euro Currency	10,338,291	6,286,824	7,078,481	1,966,614,278	20,596,444	151,210,896
Hong Kong Dollar	3,904,822	(8,254,578)		333,777,626		
Hungarian Forint	138,363		1,895,883	12,244,654		
Indian Rupee	196,206			24,227,362		
Indonesian Rupiah	(139,607)		10,447,711	9,506,911		
Israeli Shekel	200,563	2,224,474	3,404,644	11,563,550		
Japanese Yen	5,693,126	(13,860,922)		1,549,215,279		
Kuwaiti Dinar	3					
Malaysian Ringgit	562,663			29,638,007		
Mexican Peso	1,949,615	4,973,889	44,075,812	26,207,258		
New Zealand Dollar	258,915			20,749,274		
Norwegian Krone	424,280			35,277,212		
Philippine Peso	4,686			4,973,923		
Polish Zolty	19,475	1,717,177		8,437,145		
Singapore Dollar	742,985			92,401,612		
South African Rand	1,480,127	6,040,661		64,113,203		
South Korean Won	(2,266,347)			257,225,648		
Sri Lanka Rupee				3,769,015		
Swedish Krona	854,091			115,639,059		
Swiss Franc	4,235,365			453,134,381		
Taiwan Dollar	6,576,967			191,541,406		
Thailand Baht	74,105		1,997,390	32,308,706		
Turkish Lira	185,056	1,459,413	35,322,775	33,564,010		
Uruguay Peso			5,232,614			
Total	**$44,151,079**	**$(10,104,339)**	**$219,879,846**	**$7,041,576,266**	**$58,869,088**	**$166,502,902**



g. Securities Lending—OPERS maintains a securities lending program. OPERS uses its own discretion to determine the type and amount of securities lent under the program. Under this program securities are loaned to brokers. In return, OPERS receives cash collateral and agrees to return the collateral for the same securities in the future. Cash collateral from securities loaned is, simultaneous to the loan, reinvested in repurchase agreements (repos) and short-term securities. Securities loaned are collateralized at a minimum of 102% of the market value of loaned U.S. securities and 105% of the market value of loaned international securities. Collateral is marked-to-market daily. OPERS does not have the ability to pledge or sell collateral securities absent a broker default. If the market value of the collateral held falls below the required levels, additional collateral is provided. There is always a positive spread between the cost of funds raised from a securities loan and the income earned from the associated repurchase. At year end, OPERS had no credit risk exposure to borrowers because the fair value of collateral OPERS held exceeded the fair value of securities loaned.

As of December 31, 2006, the fair value of securities on loan was $12,413,233,712. Associated collateral totaling $12,744,242,746 was comprised of cash.

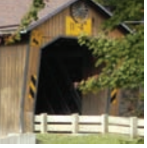
As of December 31, 2005, the fair value of securities on loan was $10,778,303,085. Associated collateral totaling $11,087,980,611 was comprised of cash.

Net security lending income is composed of three components: gross income, broker rebates, and agent fees. Gross income is equal to earnings on cash collateral received in a security lending transaction. A broker rebate is the cost of using that cash collateral. Agent fees represent the fees paid to the agent for administering the lending program. Net security lending income is equal to gross income less broker rebates and agent fees. Security lending income for 2006 and 2005 was recorded on a cash basis, which approximated accrual basis.

h. Derivatives—Derivatives are generally defined as contracts whose value depends on, or is derived from, the value of an underlying asset, reference rate or index. OPERS has classified the following as derivatives:

- ***Forward-Currency Contracts***—OPERS enters into various forward-currency contracts to manage exposure to changes in foreign-currency exchange rates on its foreign portfolio holdings. The System may also enter into forward-currency exchange contracts to provide a quantity of foreign currency needed at a future time at the current exchange rates, if rates are expected to change dramatically. A forward-exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. Risk associated with such contracts includes movement in the value of foreign currency relative to the U.S. dollar and the ability of the counterparty to perform. The contracts are valued at forward-exchange rates, and the changes in value of open contracts are recognized as net appreciation/depreciation in the statement of changes in fiduciary net assets. The realized gain or loss on forward-currency contracts represents the difference between the value of the original contracts and the closing value of such contracts and is included as net appreciation/depreciation in the statement of changes in fiduciary net assets.

This page intentionally left blank



4. Leases

OPERS leases equipment with lease terms of one year or less. Total lease expense was $527,668 and $324,224 for the years ended December 31, 2006 and 2005, respectively.

5. Vacation and Sick Leave

As of December 31, 2006 and 2005, $5,377,150 and $4,738,683, respectively, were accrued for unused vacation and sick leave for OPERS' employees. Employees who resign or retire are entitled to full compensation for all earned unused vacation. Unused sick leave pay is lost upon termination. However, employees who retire with more than 10 years of service are entitled to receive payment for a percentage of unused sick leave.

6. Deferred Compensation Plan

OPERS does not sponsor a deferred compensation program. OPERS employees are eligible to participate in the deferred compensation plan sponsored by the state of Ohio. The state-sponsored plan was created in accordance with Internal Revenue Code (IRC) Section 457. The plan, available to all OPERS employees, permits them to defer a portion of their salary until future years. Deferred compensation assets are not available to employees until termination, retirement, death, or unforeseeable emergency.

IRC Section 457 requires that the amount of compensation assets deferred under a plan, all property and rights, and all income attributable to those amounts, property, or rights be held in trust for the benefit of the participants. This insulates IRC Section 457 benefits from the claims of an employer's general creditors. Accordingly, OPERS does not include the deferred compensation assets or liabilities of the Ohio Deferred Compensation Plan in its financial statements.

7. Schedule of Required Contributions

All employees of the OPERS are eligible for membership in the benefit plans of the System. The annual required pension and health care contributions for OPERS' employees for the year ended December 31, 2006, 2005 and 2004 are as follows:

Annual Required Pension and Health Care Contributions

	Pension		Health Care	
Year Ended	Annual Required Contribution	Percent Contributed	Annual Required Contribution	Percent Contributed
2006	$3,263,993	100%	$1,596,518	100%
2005	3,134,980	100	1,313,080	100
2004	3,041,453	100	1,273,907	100

8. SELF-INSURED EMPLOYEE HEALTH CARE

OPERS is self-insured under a professionally administered plan for general health and hospitalization employee benefits. OPERS maintained specific stop-loss coverage per employee for medical benefits in the amount of $250,000 for both 2006 and 2005. OPERS also maintained lifetime maximum stop-loss coverage per employee for medical benefits in the amount of $2,500,000 for both 2006 and 2005.

The summary of changes in incurred, but unreported, claims for the years ended December 31, 2006 and 2005 follows:

GENERAL HEALTH INSURANCE

	2006	2005
Balance January 1	$45,437	$35,604
Claims Incurred	5,173,077	4,338,852
Claims Paid	(5,180,294)	(4,329,019)
Balance December 31	**$38,220**	**$45,437**

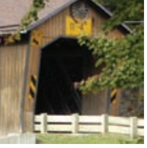
9. FUNDED STATUS AND FUNDING PROGRESS—HEALTH CARE PLAN

The funded status of the Health Care plan as of the most recent actuarial valuation date is as follows (dollar amounts in millions):

FUNDED STATUS OF THE HEALTH CARE PLAN

Valuation Year	Actuarial Accrued Liabilities (AAL)	Valuation Assets	Unfunded Actuarial Accrued Liabilities (UAAL)	Ratio of Assets to AAL	Active Member Payroll	UAAL as of % of Active Member Payroll
2005	$31,307	$11,070	$20,237	35%	$11,806	171%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. A Schedule of Funding Progress is presented on page 63 of the Required Supplementary Information section of this document.



The accompanying schedules of employer contributions present trend information about the amounts contributed to the plan by employers in comparison to the Actuarial Required Contribution rate (ARC). The ARC is actuarially determined using the parameters of GASB Statement 43 and the assumptions adopted by the Retirement Board. The ARC represents a projected rate (cost) required on an ongoing basis to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Several of the key methods and assumptions used in the latest health care actuarial valuation are presented below.

KEY METHODS AND ASSUMPTIONS USED IN HEALTH CARE ACTUARIAL VALUATION

Valuation date	December 31, 2005
Actuarial cost method	Individual entry age
Amortization method	Level percentage of pay, open
Amortization period	30 years
Asset valuation method	4-year, smoothed market, 12% corridor
Actuarial assumptions:	
Investment rate of return	6.5%
Projected salary increases	4.5%-10.3% (includes wage inflation at 4.0%)
Health care cost trend rate	10% initial, 4.0% ultimate

SCHEDULE OF FUNDING PROGRESS* ($ in millions) TRADITIONAL AND COMBINED PENSION PLANS

Valuation Year	Actuarial Accrued Liabilities (AAL)	Valuation Assets	Unfunded Actuarial Accrued Liabilities (UAAL)	Ratio of Assets to AAL	Active Member Payroll	UAAL as a % of Active Member Payroll
2005	$61,146	$54,473	$6,673	89%	$11,807	57%
2004	57,604	50,452	7,152	88	11,454	62
2003	54,774	46,746	8,028	85	11,165	72
2002	50,872	43,706	7,166	86	11,207	64
2001#	47,492	48,748	(1,256)**	103	10,782	(12)
2000	46,347	46,844	(497)**	101	10,192	(5)
1999	43,070	43,060	10	100	9,477	0
1998	37,714	38,360	(646)**	102	9,017	(7)
1997	34,971	33,846	1,125	97	8,640	13
1996	32,631	30,534	2,097	94	8,340	25

*The amounts reported on this schedule do not include assets or liabilities for post-employment health care benefits.

**Valuation assets were in excess of AAL.

Revised Actuarial Assumptions.

SCHEDULE OF FUNDING PROGRESS* ($ in millions) TRADITIONAL PLAN

Valuation Year	Actuarial Accrued Liabilities (AAL)	Valuation Assets	Unfunded Actuarial Accrued Liabilities (UAAL)	Ratio of Assets to AAL	Active Member Payroll	UAAL as a % of Active Member Payroll
2005	$61,099	$54,433	$6,666	89%	$11,633	57%
2004	57,573	50,430	7,143	88	11,313	63
2003	54,756	46,737	8,019	85	11,056	73
2002	50,872	43,706	7,166	86	11,207	64
2001#	47,492	48,748	(1,256)**	103	10,782	(12)
2000	46,347	46,844	(497)**	101	10,192	(5)
1999	43,070	43,060	10	100	9,477	0
1998	37,714	38,360	(646)**	102	9,017	(7)
1997	34,971	33,846	1,125	97	8,640	13
1996	32,631	30,534	2,097	94	8,340	25

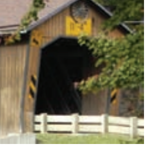
*The amounts reported on this schedule do not include assets or liabilities for post-employment health care benefits.

**Valuation assets were in excess of AAL.

Revised Actuarial Assumptions.

See *Notes to Required Supplementary Schedules* on page 67.

See accompanying independent auditor's report on pages 20-21.



SCHEDULE OF FUNDING PROGRESS* ($ in millions) COMBINED PLAN**

Valuation Year	Actuarial Accrued Liabilities (AAL)	Valuation Assets	Unfunded Actuarial Accrued Liabilities (UAAL)	Ratio of Assets to AAL	Active Member Payroll	UAAL as a % of Active Member Payroll
2005	$47	$40	$7	85%	$174	4%
2004	31	22	9	71	141	6
2003	18	9	9	50	109	8

*The amounts reported on this schedule do not include assets or liabilities for post-employment health care benefits.
**Plan inception January 1, 2003.

SCHEDULE OF FUNDING PROGRESS ($ in millions) POST-EMPLOYMENT HEALTH CARE PLAN

Valuation Year	Actuarial Accrued Liabilities (AAL)	Valuation Assets	Unfunded Actuarial Accrued Liabilities (UAAL)	Ratio of Assets to AAL	Active Member Payroll	UAAL as a % of Active Member Payroll
2005	$31,307	$11,070	$20,237	35%	$11,806	171%
2004***	29,479	10,816	18,663	37	11,454	163

***GASB 43 was implemented in 2006. Three years of actuarial data is not available.

See *Notes to Required Supplementary Schedules* on page 67.

See accompanying independent auditor's report on pages 20-21.

SCHEDULE OF EMPLOYER CONTRIBUTIONS TRADITIONAL AND COMBINED PLANS*

Year Ended December 31	Annual Required Contributions	% Contributed
2006	$1,167,967,572	100%
2005	1,173,042,820	100
2004	1,126,112,957	100
2003	1,035,046,330	100
2002	1,109,983,204	100
2001	977,289,238	100

SCHEDULE OF EMPLOYER CONTRIBUTIONS TRADITIONAL PLAN*

Year Ended December 31	Annual Required Contributions	% Contributed
2006	$1,150,268,928	100%
2005	1,157,407,447	100
2004	1,113,946,023	100
2003	1,026,594,837	100
2002	1,109,983,205	100
2001	977,289,237	100

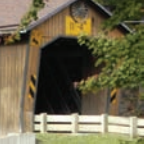
SCHEDULE OF EMPLOYER CONTRIBUTIONS COMBINED PLAN*

Year Ended December 31	Annual Required Contributions	% Contributed
2006	$17,698,644	100%
2005	15,635,373	100
2004	12,166,934	100
2003	8,451,494	100

*The Retirement Board has approved all contribution rates as recommended by the actuary. Annual Required Contributions also includes funds deposited for purchase of service credit, employer-paid early retirement incentive programs, interest and penalties. Employer-paid interest and penalties are included with Employers' Contributions in the Combining Statements of Changes in Fiduciary Net Assets on page 38. Deposits for purchased service credit and early retirement incentive programs are included in the Contract and Other Receipts line of the statement.

See *Notes to Required Supplementary Schedules* on page 67.

See accompanying independent auditor's report on pages 20-21.



SCHEDULE OF CONTRIBUTIONS FROM EMPLOYERS AND OTHER CONTRIBUTING ENTITIES HEALTH PLAN

Year Ended December 31	Annual Required Contributions	% Contributed by Employers	Federal Subsidy	Total % Contributed
2006**	$1,990,561,830	27.06%	$58,987,181	30.01%

** GASB 43 was implemented in 2006. The % Contributed by Employers displays the percentage of the Annual Required Contributions that was billed to employers (and paid) for 2006.

See *Notes to Required Supplementary Schedules* on page 67.

See accompanying independent auditor's report on pages 20-21.

DESCRIPTION OF SCHEDULE OF FUNDING PROGRESS

Each time a new benefit is added which applies to service already rendered, an unfunded actuarial accrued liability is created. Laws governing OPERS require that these additional liabilities be financed systematically over a period of future years. Also, if actual financial experiences are less favorable than assumed financial experiences, the difference is added to unfunded actuarial accrued liability.

In an inflationary economy, the value of the dollar is decreasing. This environment results in employee pay increasing in dollar amount, with a corresponding increase in unfunded actuarial accrued liabilities—all at a time when the actual value of these items, in real terms, may be decreasing. Looking at just the dollar amounts of unfunded actuarial accrued liabilities can be misleading. Unfunded actuarial accrued liabilities divided by active employee payroll provides an index that adjusts for the effects of inflation. The smaller the ratio of unfunded actuarial accrued liabilities to active member payroll, the stronger the system. Observation of this relative index over a period of years will give an indication of whether the system is becoming financially stronger or weaker.

ACTUARIAL ASSUMPTIONS AND METHODS

Defined Benefit Pension Plans:

- ***Funding Method***—An entry age normal actuarial cost method of valuation is used in determining benefit liabilities and normal cost. Differences between assumed and actual experience (the actuarial gains and losses) become part of unfunded actuarial accrued liabilities. Unfunded actuarial accrued liabilities for pension benefits are amortized over a period of time to produce payments that are level percents of payroll contributions based on an open amortization period.

  As of December 31, 2005, the date of the last actuarial study, the funding period was 21 years.

  As of December 31, 2004, the funding period was 27 years.

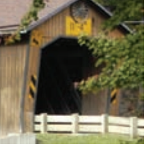
- ***Asset Valuation Method***—For actuarial purposes, assets are valued utilizing a method which recognizes book value plus or minus realized and unrealized investment gains and losses amortized on a straight-line basis over a four-year period.

- ***Significant Actuarial Assumptions***—Assumptions employed by the actuary for funding purposes as of December 31, 2005, the date of the latest actuarial study, and 2004 include:

  - ***Investment Return***—An investment return rate of 8% compounded annually, for all members, retirees, and beneficiaries was assumed for the years 2005 and 2004.

  - ***Salary Scale***—The active member payroll was assumed to increase 4% annually, which is the portion of the individual pay increase assumption attributable to inflation and overall productivity. Also assumed were additional projected salary increases ranging from 0.50% to 6.30% per year depending on age, attributable to seniority and merit.

  - ***Benefit Payments***—Benefit payments are assumed to increase by 3% of the original retirement benefit per year after retirement.



- ***Multiple Decrement Tables:***
  - ***Mortality***—For retirees, 90% of the rates in the 1971 *Group Annuity Mortality Male and Female Tables,* projected to 1984 were used to project mortality. The mortality rates for disability allowances were 300% of the rates in the 1983 *Group Annuity Mortality Table for Males,* and 400% of the rates in the 1983 *Group Annuity Mortality Table for Females.*
  - ***Disability***—Projections for active employees are based on OPERS' experience.
  - ***Withdrawal***—Projections for active employees are based on OPERS' experience.

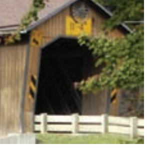
Post-employment Health Care Benefits:

- ***Funding Method***—An individual entry age actuarial cost method of valuation is used in determining benefit liabilities and normal cost. Differences between assumed and actual experience (the actuarial gains and losses) become part of unfunded actuarial accrued liabilities. Unfunded actuarial accrued liabilities for post employment health care benefits are amortized over a period of time to produce payments that are level percents of payroll contributions based on an open amortization period.
- ***Asset Valuation Method***—For actuarial purposes, assets are valued utilizing a method which recognizes book value plus or minus realized and unrealized investment gains and losses amortized on a straight-line basis over a four-year period.
- ***Significant Actuarial Assumptions***—Assumptions employed by the actuary for funding purposes as of December 31, 2005, the date of the latest actuarial study include:
  - ***Investment Return***—An investment return rate of 6.5% compounded annually, for all members, retirees, and beneficiaries.
  - ***Salary Scale***—As of December 31, 2005, the date of the latest actuarial valuation, the active member payroll was assumed to increase 4% annually, which is the portion of the individual pay increase assumption attributable to inflation and overall productivity. Also assumed were additional projected salary increases ranging from 0.50% to 6.30% per year depending on age, attributable to seniority and merit.
  - ***Benefit Payments***—Health-care expenses are assumed to increase at the projected wage inflation rate plus an additional factor ranging from 0.5% to 6% for the next nine years. In subsequent years, (10 and beyond) health care costs were assumed to increase at 4% (the projected wage inflation rate).
- ***Multiple Decrement Tables:***
  - ***Mortality***—For retirees, 90% of the rates in the 1971 *Group Annuity Mortality Male and Female Tables,* projected to 1984 were used to project mortality. The mortality rates for disability allowances were 300% of the rates in the 1983 *Group Annuity Mortality Table for Males,* and 400% of the rates in the 1983 *Group Annuity Mortality Table for Females.*

ADMINISTRATIVE EXPENSES* (for the years ended December 31, 2006 and 2005)

	2006	2005
Personnel Expenses:		
Wages and salaries	$37,012,786	$34,008,850
Retirement contributions—OPERS	4,860,511	4,448,060
Retirement contributions—Medicare	470,670	427,639
Employee insurance	5,036,195	4,384,449
Other personnel expense	420,080	434,442
Purchased Services and Supplies:		
Professional expenses:		
Audit services	252,589	196,586
Actuarial services	555,834	584,410
Consulting services	3,544,238	3,715,624
Investment and financial services	4,958,408	5,335,716
Legal and investigation services	1,201,856	897,652
Medical examinations	2,455,501	2,217,493
Retirement Study Council	251,853	293,781
Communications	2,842,768	2,473,337
Information technology	4,127,636	3,567,414
Office supplies and equipment	710,838	710,937
Training and travel expenses	1,624,509	1,794,820
Custodial and banking fees	5,410,821	5,596,365
Other miscellaneous	98,685	129,021
Facility expenses	4,312,771	4,408,109
Subtotal Operating Expenses	**80,148,549**	**75,624,705**
Depreciation Expense:		
Building depreciation	2,140,443	2,141,932
Furniture and equipment depreciation	7,622,715	7,088,580
Subtotal Depreciation	**9,763,158**	**9,230,512**
Total Administrative Expenses	**89,911,707**	**84,855,217**
Investment expenses	(24,758,933)	(23,190,238)
Net Administrative Expenses	**65,152,774**	**61,664,979**

*Includes investment-related administrative expenses.



SCHEDULE OF INVESTMENT EXPENSES (for the years ended December 31, 2006 and 2005)

	2006	2005
Investment services	$11,907,788	$11,722,956
Investment staff expense	10,425,078	9,181,780
Investment legal services*	778,903	446,280
Allocation of administrative expenses	1,647,164	1,839,222
(See Note 2b to Financial Statements)		
Total Investment Expenses*	**$24,758,933**	**$23,190,238**

*Excludes fees and commissions, please see Schedule of U.S. Stock Brokerage Commissions Paid presented on page 81.

SCHEDULE OF PAYMENTS TO CONSULTANTS

OPERS paid the following investment consultants during 2006:	
Cost Effective Measurement Inc.	$18,600
Ennis, Knupp & Associates	630,016
Glass Lewis & Company LLC	242,724
Hamilton Land Advisors LLC	273,438
Macroeconomic Advisors LLC	28,700
Pacific Corporate Group	137,500
Strategic Capital Management AG	25,000
The Townsend Group	346,283
Total	**$1,702,261**

SCHEDULE OF EXTERNAL ASSET MANAGERS' FEES (for the years ended December 31, 2006 and 2005)

	2006	2005
Global Bonds	$10,004,697	$6,389,230
Equities	15,118,529	9,262,310
International Securities	43,147,051	30,267,095
Real Estate	24,120,511	23,755,653
Private Equity	29,205,726	17,323,380
Other	326,076	88,036
Total Fees	**$121,922,590**	**$87,085,704**

Investment Section

SOUTH BASS ISLAND LIGHTHOUSE

The Lake Erie island of South Bass was first explored by Europeans during the 1600s. For the next 200-or-so years, nautical traffic was negligible—until the development of the area's natural resources triggered significant growth. By 1859, an estimated 15,000 people visited South Bass Island.

Due to the waterway congestion that developed in and around the island between 1859 and 1890—by then South Bass Island was not only a commercial destination, it was a resort destination—the U.S. Lighthouse Board approved the construction of a lighthouse in 1893; the lighthouse was completed in 1897.

The South Bass Island lighthouse was constructed with a unique feature—it had significant living space for a lighthouse keeper and family—attached to the tower. The Queen Anne-style home was constructed with many modern amenities; the 60-foot tower was fitted with a frensel lens and operated daily from early March through late December. For almost 100 years, the lighthouse kept pleasure and commercial mariners from danger.

This facility was turned over to The Ohio State University in 1967. The University's board of trustees, noting the many research advantages of the site, accepted the property from the U.S. Secretary of Health, Education, and Welfare.

The National Register of Historic Places recognized the lighthouse as a Historic Property on April 5, 1990.

Dear Members, Beneficiaries and Members of the Retirement Board:

It is both an honor and a privilege to review and discuss the Investment Division's activities, accomplishments and results for the year ended December 31, 2006. The theme of *Planning Now to Preserve Financial Futures* provides an ideal context for the Investment Division's goal of investing to secure future financial benefits. Because OPERS is an institutional investor with a long time horizon, the Investment Division's goal is to consistently and proactively position OPERS to take advantage of market opportunities, while managing the risks inherent with all investment activities. This allows us to preserve the structural foundation of OPERS to support future growth.

OVERVIEW

OPERS' total fund is comprised of the Defined Benefit, Health Care and Defined Contribution Funds. The total fund investment return for 2006 was 14.7%, compared to the 9.0% garnered in 2005. This marked the fourth consecutive year of positive returns for OPERS. The 2006 actual return slightly exceeded the benchmark return of 14.6%, while the total fund's three-year return was 12.1%, exceeding the benchmark return of 11.7%. The five-year return was 10.2%, compared to the benchmark return of 9.8%.

The total fund ended the year with assets totaling $77.8 billion, an $8.6 billion increase over the previous year's total assets of $69.2 billion. These assets mark OPERS as the largest retirement system in Ohio, the tenth largest state public retirement system and the fourteenth largest pension fund in the U.S. as of December 31, 2006.

Let me review the total fund's return by the various sub funds:

The Defined Benefit Fund

The Defined Benefit Fund, which is comprised of the defined benefit portions of the Traditional and Combined Plans and the VEBA assets, had an overall investment return for 2006 of 15.1%. This return significantly exceeded the actuarial investment earnings assumption of 8.0%; however, this return was slightly below the portfolio benchmark of 15.2%. Over the past four years, the Defined Benefit portfolio has performed extremely well. To provide a historical perspective, the returns for 2005, 2004 and 2003 were 9.3%, 12.5% and 25.4%, respectively.

The OPERS Health Care Fund

The OPERS Health Care Fund had a return of 12.8% for 2006, exceeding both the actuarial investments earnings assumption of 6.5% and the benchmark return of 12.6%. The assets in this fund support the health care benefits for members of the Traditional and Combined Plans. Given that the expected time horizon for this pool of assets is between 15-25 years, this fund does not have as long of an investment period as the defined benefit assets. Consequently, the assets in this fund were separated from the pension fund assets beginning January 1, 2005. In 2005, the Health Care portfolio delivered a return of 8.0%, a performance that exceeded the portfolio benchmark return by 0.7%.

The Defined Contribution Fund

The Defined Contribution Fund includes assets from the defined contribution portion of the two plans, the Member-Directed Plan and the Combined Plan. This portfolio has grown to $175.9 million as of year-end 2006. Relatively small compared to the other funds, the Defined Contribution portfolio

was initiated on January 1, 2003. The 2006 return on the Defined Contribution composite portfolio was 13.0%, compared to 6.9% in 2005. The three-year average return on this portfolio is 9.9%. Participants in the Member-Directed and Combined Plans select the investment options and drive the returns, rather than Investment staff.

BUILDING BLOCKS: KEY ACCOMPLISHMENTS FOR 2006

While it is rewarding to report these results, perhaps it's even more rewarding, certainly as important, to discuss how the results were accomplished. The Investment Division constantly monitors the marketplace and peers to garner best practices, to position OPERS for future growth and to ensure the highest possible standards of fiduciary stewardship are in place.

The cornerstone goals of the Investment Division provide the framework against which all activities are measured:

- To generate target returns for the total fund, each asset class and portfolio,
- To maintain a competitive cost structure relative to our peers,
- To hire, develop and retain top-caliber investment professionals who are aligned with the organization's core values, and
- To develop innovative strategies to meet or exceed stated investment goals and objectives.

Broadly speaking, and as reflected in the returns generated, the Investment Division accomplished those goals throughout 2006. While the accomplishments of 2006 were noteworthy, it's important to recognize that some were the culmination of initiatives begun at the Retirement Board's direction as early as 2003; others are the building blocks that will usher the System into the coming years. Cited here are some of the most important initiatives completed in 2006 or currently being pursued to positively position the Investment Division for the future so that the future financial benefits of OPERS are secure:

- Successfully completed an investment policy review for the defined benefit fund, which resulted in the creation of a dedicated long duration fixed income portfolio designed to partially hedge the fund's long-term liabilities.
- Completed the two-year Health Care Fund transition to have a return-and-risk profile that is more reflective of the anticipated liabilities for the fund.
- The development of a Minority Manager program, which will be implemented by hiring an external manager of managers to focus on identifying and hiring the best-in-class minority managers.
- The successful implementation of the Private Equity Ohio/Midwest discretionary funds program that requires private equity managers to focus on prudent investment opportunities within the state and region.
- The continued enhancement of the Securities Lending program as a vehicle to add incremental returns within a low-risk framework.
- The development of a framework for assessing investment and operational risks associated with current and potential investment activities, including monitoring risk across funds, asset classes and strategies. This will allow OPERS to make decisions in a more quantifiable manner with respect to a defined risk budget.
- The development and continuing integration of the investment data warehouse into the daily internal reporting system. This system will improve and automate various reports for investment management, performance and compliance.

While we are very pleased with the current year's results, the Investment staff continues to initiate planning strategies designed to ensure OPERS' future benefits are provided. The 2006 outcomes were the direct result of the disciplined investment approach begun in 2000, and implemented throughout the ensuing years. By implementing and adhering to a diversified asset allocation strategy, OPERS was able to weather the market downturns of 2000-2002—yet was agile enough to reap the benefits of the market upturn that began in 2003.

A Traditional Structure, But Not Tradition-Bound

The Investment Division stringently adheres to the diversification strategies established by the Retirement Board. However, the investment policies, and the Retirement Board's directives, provide for ongoing research to continually identify capital market opportunities. With globalization, OPERS attempts to prudently take advantage of the structural changes occurring in the market so that emerging initiatives can be opportunistically employed without jeopardizing the overall structure. The ongoing planning and research has enabled the Investment Division to propose and initiate innovative strategies. Examples of this innovative approach include the derivatives strategy—the platform for the derivatives strategy was accomplished in 2006 and the strategy will be fully engaged in 2007. In addition, the Opportunistic asset class, initiated in 2005, allows OPERS to be agile enough to identify and take advantage of emerging prospects. We believe that ongoing research and proposal of innovative strategies will enhance our traditional structure, while further positioning OPERS for the future.

Structural Inspection: Performance Measures

As with all divisions within OPERS, the Investment Division has rigorous performance measures in place. Internally, and reporting to the Retirement Board, the investment program is measured by monitoring:

- ***Overall Investment Plan***—provides an annual roadmap of the specific performance expectations of the total funds, each asset class, each portfolio, and support functions within Investments. Results are reported quarterly, compared to the Plan, and the results shared with the Retirement Board.
- ***Returns Relative to the Investment Policy***—provide a comparison of the OPERS performance relative to the return of the policy portfolio, net of investment expenses, reported to the Retirement Board monthly.
- ***Returns Relative to the Actuarial Interest Rate Assumption***—provide a benchmark annualized rate of return against which portfolios are measured.
- ***Performance Relative to Peer Funds***—provides an additional portfolio measure, with a comparison of OPERS' investment returns to those achieved by other pension systems.

This ongoing monitoring provides for proactive maintenance of the structure—constant vigilance helps ensure that small cracks in the edifice are quickly addressed, ultimately preserving and stabilizing the structure.

Ongoing Preservation—Looking Toward the Future

With four years of extremely positive returns, it's a good time to construct reasonable expectations for the future. It's unrealistic to assume every year will have the positive markets experienced in the

past four years, but it is realistic to expect the Investment Division to perform positively against the measures listed above. Risk cannot be eliminated entirely; however, risk can be managed judiciously.

The Investment Division's strategic planning and diligent adherence to asset allocation and diversification anticipates that unexpected or uncontrollable conditions do occur and our disciplined program provides for containing the potential risk to the overall structure. To continue the preservation analogy: A structure that has replaced large plate-glass windows with individual panes has been preserved and enhanced. Preserved, because the ability to see the vistas beyond the structure remains intact. Enhanced, because the individual panes prevent an errant baseball or tree limb—while still uncontrollable and unpredictable—from damaging the entire, large window. The unforeseen would only harm a small part of the overall structure—the rest of the structure would stand, ultimately unscathed from the unexpected damage.

The structure that is OPERS was preserved, enhanced and strengthened by the cumulative efforts of all members of the Investment Division's staff, under the direction of the Retirement Board. This is my opportunity to thank all involved for the results reported here. The following pages of the Investment Section provide the detail information to support the information in this overview.

Sincerely,

JENNIFER C. HOM, CFA
Director—Investments

Board Investment and Fiduciary Duties

(A) The members of the public employees retirement board shall be the trustees of the funds created by section 145.23 of the Revised Code. The board shall have full power to invest the funds. The board and other fiduciaries shall discharge their duties with respect to the funds solely in the interest of the participants and beneficiaries; for the exclusive purpose of providing benefits to participants and their beneficiaries and defraying reasonable expenses of administering the public employees retirement system; with care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims; and by diversifying the investments of the system so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so.

(B) In exercising its fiduciary responsibility with respect to the investment of the funds, it shall be the intent of the board to give consideration to investments that enhance the general welfare of the state and its citizens where the investments offer quality, return, and safety comparable to other investments currently available to the board. In fulfilling this intent, equal consideration shall also be given to investments otherwise qualifying under this section that involve minority owned and controlled firms and firms owned and controlled by women either alone or in joint venture with other firms.

OPERS

ENNISKNUPP

March 29, 2007

Board of Trustees
Ohio Public Employees Retirement System
277 East Town Street
Columbus, OH 43215-4642

As independent investment advisor to the Board of Trustees of the Ohio Public Employees Retirement System ("OPERS"), we comment on the reporting of OPERS investment results, OPERS investment policy and the Board's oversight of System investments.

Investment Results. OPERS investment results, as presented in this report, fairly and accurately represent, in our opinion, the investment performance of OPERS assets. All measurements and comparisons have been made using standard performance evaluation methods, and results are presented in a manner consistent with the investment industry in general and public pension funds in particular. Rates of return were determined using a modified time weighted return calculation and are net of investment management fees.

Investment Policy. OPERS assets are managed under well-articulated policies, which, in our opinion, are appropriate to the circumstances of OPERS. Investment policy is progressive, yet prudent. The policies ensure diversification and exhibit attention to risk control generally. Throughout the year the Board, Executive Director and Director of Investments have taken appropriate measures to ensure that investments have conformed with the Board's policies.

Prudent Oversight. While delegating day-to-day investment management responsibility to its staff, the Board retains the responsibility to monitor all aspects of investment. In our opinion, the Board has established and executed an appropriately comprehensive process for overseeing the management of assets. Through regular reviews by the Board, quarterly performance appraisals by an independent firm, and the day-to-day oversight activities of the staff, the Board has achieved a high degree of awareness and critical oversight of OPERS investments.

Very truly yours,

Kristine L. Ford, CFA
Principal

Ennis Knupp + Associates
10 South Riverside Plaza, Suite 1600
Chicago, Illinois 60606-3709

vox 312 715 1700
fax 312 715 1952
www.ennisknupp.com

INTRODUCTION

OPERS' total investments portfolio, as reflected in the Combining Statements of Fiduciary Net Assets, pages 36-37, is comprised of defined benefit (DB), defined contribution (DC) and health care (HC) portfolio assets. The DB assets originate from member and employer contributions to the Traditional Plan and employer contributions to the Combined Plan, and VEBA. The management of these assets is the responsibility of OPERS' investment staff under the direction of the Retirement Board. DC assets originate from member contributions to the Combined Plan and both member and employer contributions to the Member-Directed Plan. The investment of DC assets is self-directed by members of the Combined and Member-Directed Plans, but is limited to investment vehicles approved by the Retirement Board. During 2005, the HC portfolio assets were segregated from the pension portfolio and invested with a more conservative asset-allocation strategy. The HC portfolio is comprised of the assets set aside to provide post-employment health care for the Traditional and Combined Plans.

THE INVESTMENTS SUMMARY

OPERS' Total Investments Summary (page 78), relates to the System-wide investments and includes DB portfolio, HC portfolio and DC portfolio assets. The balance of information in this Investment Section is organized as follows: OPERS' DB portfolio investments (pages 86-88) relates exclusively to the DB investments; OPERS' HC portfolio investments (pages 89-91) relates exclusively to the HC investments; OPERS' DC portfolio investments (pages 92-93) relates exclusively to the DC investments. The Investments Policies Summaries (pages 95-103) provides information on both system-wide and investment-specific policies.

A complete listing of assets held at December 31, 2006, is available from OPERS upon request. All returns presented throughout the Investments Section are net of external manager fees, overdraft charges, debit interest, registration expenses and stamp duties and taxes spent on foreign securities. In addition, the securities lending money market returns are net of custodial fees, transfer agent expenses and professional fees.

TOTAL INVESTMENTS SUMMARY (as of December 31, 2006 and 2005)

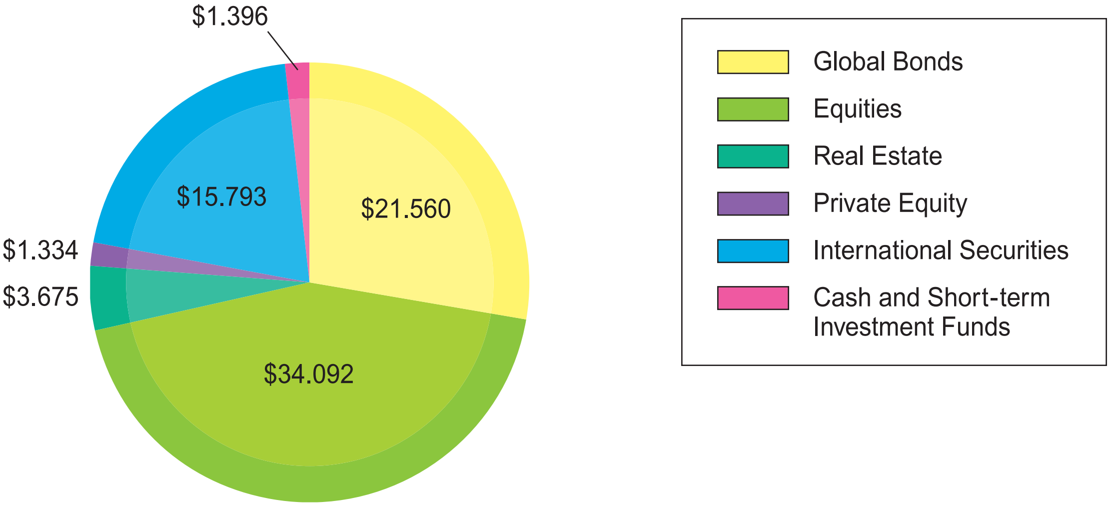
	2006		2005	
	Fair Value	% of Total Fair Value	Fair Value	% of Total Fair Value
Global Bonds:				
Government and Agencies	$6,520,570,781	8.38%	$4,951,260,534	7.16%
Non-U.S. Fixed Income	1,534,070,833	1.97	739,533,422	1.07
Corporate Bonds	5,963,781,951	7.66	5,795,257,289	8.38
Mortgage Backed	7,541,565,474	9.69	6,877,339,556	9.94
Total Global Bonds	$21,559,989,039	27.70%	$18,363,390,801	26.54%
Equities	34,091,505,439	43.79	30,486,097,151	44.06
Real Estate	3,674,622,803	4.72	4,636,087,423	6.70
Private Equity	1,333,638,551	1.71	738,008,316	1.07
International Securities	15,793,080,611	20.29	14,002,316,402	20.24
Total Long-term Investments	**$76,452,836,443**	**98.21%**	**$68,225,900,093**	**98.60%**
Cash and Short-term Investments:				
Cash	37,448,520	0.04	24,935,192	0.04
Commercial Paper	128,715,745	0.17	167,901,582	0.24
U.S. Treasury Bills	15,044,581	0.02	99,032	0.00
Agency Discount Notes	274,116	0.00	395,178	0.00
Short-term Investment Funds	289,352,411	0.37	182,622,180	0.26
Short-term Corporate Bonds	149,983,237	0.19	140,029,077	0.20
Repurchase Agreements	775,000,000	1.00	450,000,000	0.65
Total Cash and Short-term Investments	**$1,395,818,610**	**1.79%**	**$965,982,241**	**1.40%**
Total Cash and Investments	**$77,848,655,053**	**100.00%**	**$69,191,882,334**	**100.00%**

TOTAL INVESTMENTS SUMMARY BY PORTFOLIO* (as of December 31, 2006)

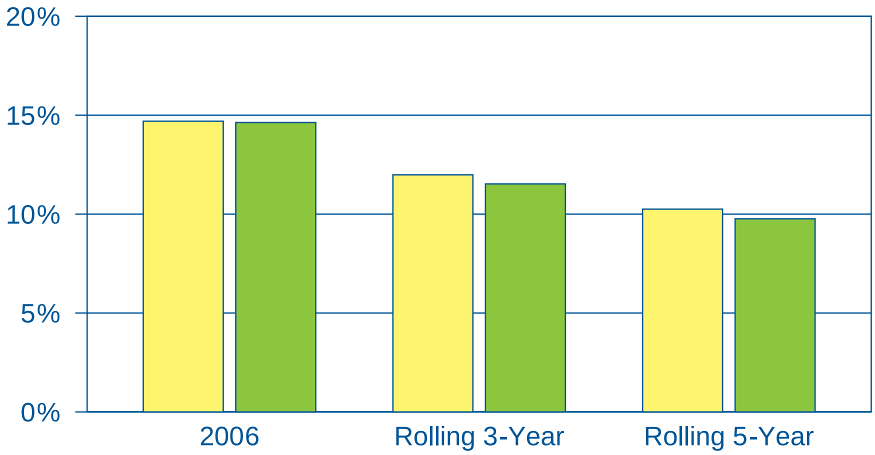
	Defined Benefit	Health Care	Defined Contribution	Total
Global Bonds	$15,393,918,748	$6,116,700,706	$49,369,585	$21,559,989,039
Equities	29,604,218,926	4,388,937,986	98,348,527	34,091,505,439
Real Estate	3,674,622,803	0	0	3,674,622,803
Private Equity	1,333,638,551	0	0	1,333,638,551
International Securities	13,792,986,253	1,973,897,814	26,196,544	15,793,080,611
Cash and Short-term Investments	1,071,733,879	322,120,585	1,964,146	1,395,818,610
Total	**$64,871,119,160**	**$12,801,657,091**	**$175,878,802**	**$77,848,655,053**

*Assets summarized on performance basis.

TOTAL INVESTMENT PORTFOLIO ASSET ALLOCATION (as of December 31, 2006) ($ in billions)



TOTAL INVESTMENT PORTFOLIO RETURNS—ANNUAL RATES OF RETURN*



	2006	Rolling 3-Year	Rolling 5-Year
OPERS Return	14.7%	12.1%	10.2%
Policy Benchmark Return	14.6%	11.7%	9.8%

*Annual rates of return—The OPERS return is the combined result of the returns generated by defined benefit, health care and defined contribution investments based on a combination of time-weighted calculations and market-value-weighted combinations. The policy benchmark is derived by a market-value-weighted combination of the defined benefit, health care and defined contribution investments policy benchmarks while all other returns throughout the remainder of this section are derived from a time-weighted calculation.

LARGEST EQUITY HOLDINGS (BY FAIR VALUE)* (as of December 31, 2006)

Description	Shares	Fair Value
Exxon Mobile Corporation	13,063,848	$1,001,082,672
General Electric Company	20,915,745	778,274,871
Citigroup Incorporated	11,198,825	623,774,553
Bank of America Corporation	10,956,625	584,974,209
Microsoft Corporation	19,060,934	569,159,489
Procter & Gamble Corporation	6,684,355	429,603,496
Altria Group Incorporated	4,800,712	411,997,104
Johnson & Johnson	6,176,900	407,798,938
Pfizer Incorporated	15,723,486	407,238,287
JPMorgan Chase and Company	7,926,035	382,827,491
Total	**116,507,465**	**$5,596,731,110**

LARGEST GLOBAL BOND HOLDINGS (BY FAIR VALUE)* (as of December 31, 2006)

Description	Coupon	Maturity	Rating	Par Value	Fair Value
U.S. Treasury Note	4.875%	05/15/09	AAA	$292,172,000	$292,948,082
U.S. Treasury Inflation Index Note	1.875	07/15/13	AAA	175,500,000	186,447,386
U.S. Treasury Inflation Index Bond	2.375	01/15/25	AAA	168,000,000	179,269,316
U.S. Treasury Note	4.625	11/15/16	AAA	174,760,000	173,695,056
Federal National Mortgage Association Pool 835751	4.500	08/01/35	AAA	184,777,066	173,156,041
U.S. Treasury Inflation Index Bond	3.875	04/15/29	AAA	110,060,000	170,387,036
Federal National Mortgage Association Pool 835760	4.500	09/01/35	AAA	178,541,635	167,312,770
U.S. Treasury Note	4.875	10/31/08	AAA	163,709,000	163,836,898
Federal National Mortgage Association	5.000	01/01/36	AAA	163,000,000	157,269,539
U.S. Treasury Inflation Index Note	2.000	01/15/16	AAA	160,000,000	157,241,255
Total				**$1,770,519,701**	**$1,821,563,379**

* A complete list of assets held at December 31, 2006, is available from OPERS upon request.

U.S. EQUITY (for the year ended December 31, 2006)

Brokerage Firm	U.S. Equity Commissions Paid	Shares Traded	Average Commission Per Share
Merrill Lynch	$2,054,312	179,015,198	$0.01
Lehman Brothers Inc	1,443,037	27,993,298	0.05
Goldman Sachs & Co	1,058,880	22,271,434	0.05
Banc of America Securities LLC	934,714	28,722,203	0.03
Citigroup Global Markets Inc	914,413	18,333,878	0.05
Morgan Stanley Co Inc	611,197	15,321,497	0.04
JP Morgan Securities Inc	499,853	15,799,948	0.03
Bear Stearns Securities Corp	489,914	12,710,303	0.04
Deutsche Bank Securities Inc	435,869	12,612,199	0.03
UBS Securities LLC	423,573	12,805,753	0.03
Credit Suisse First Boston Corp	409,850	18,303,020	0.02
Prudential Equity Group	293,542	6,540,326	0.04
Sanford C Bernstein Co LLC	285,671	8,321,243	0.03
A.G. Edwards Trust Co	247,863	5,556,665	0.04
Oppenheimer & Co	210,838	4,805,380	0.04
ISI Group Inc	155,927	3,516,151	0.04
Wachovia Capital Markets LLC	140,000	3,302,188	0.04
S.G. Cowen & Co	136,935	3,147,897	0.04
Stifel Nicolaus & Co Inc	131,061	2,946,947	0.04
Fox Pitt Kelton Inc	125,166	2,783,412	0.04
Robert W. Baird & Co	119,761	2,745,636	0.04
Stanford Group Co	117,778	2,617,294	0.05
Dowling & Partners	100,223	2,227,223	0.04
Jeffries & Co	98,338	3,856,291	0.03
Harris Nesbitt Corp	95,886	2,151,731	0.04
Leerink Swann & Co	93,301	2,080,581	0.04
Cantor Fitzgerald & Co	91,985	2,628,593	0.03
Soleil Securities	90,621	2,013,799	0.05
Kevin Dann Partners LLC	86,495	1,922,119	0.05
McDonald & Co Securities Inc	84,800	1,938,039	0.04
RBC Capital Markets	75,595	1,696,375	0.04
Miller Tabak & Co LLC	74,881	1,665,553	0.04
Keefe Bruyette & Woods Inc	71,284	1,600,742	0.04
Sandler Oneill & Partners LP	69,135	1,536,325	0.05
Midwest Research Securities	60,430	1,349,630	0.04
Howard Weil division of Legg Mason	55,054	1,223,423	0.05

CONTINUED ON PAGE 82

CONTINUED FROM PAGE 81

U.S. EQUITY (for the year ended December 31, 2006)

Brokerage Firm	U.S. Equity Commissions Paid	Shares Traded	Average Commission Per Share
Piper Jaffray	$52,901	1,368,676	$0.04
Longbow Securities LLC	52,407	1,174,591	0.04
William Blair & Co LLC	51,760	1,203,537	0.04
Morgan Keegan & Co Inc	51,091	1,135,356	0.05
D.A. Davidson & Co	50,621	1,124,602	0.05
Weeden & Co	41,962	1,524,037	0.03
Simmons & Co International	41,211	954,900	0.04
Thomas Weisel Partners	39,899	1,005,944	0.04
Liquidnet Inc	39,707	1,985,352	0.02
Green Street Advisors	37,076	874,700	0.04
Investment Technology Group Inc	36,755	2,537,583	0.01
Raymond James & Assoc Inc	35,586	817,301	0.04
Hoefer & Arnett	34,738	771,950	0.05
National Financial Services Corp	33,696	1,291,028	0.03
Instinet Clearing Services Inc	32,908	5,254,856	0.01
CIBC World Markets Corp	31,822	798,842	0.04
Pershing LLC	31,783	796,790	0.04
Punk Ziegel & Knoll	27,960	787,188	0.04
Williams Capital Group	23,189	515,300	0.05
ADP Clearing & Outsourcing Services Inc	22,981	787,051	0.03
Pacific American Securities LLC	21,664	708,297	0.03
Chapdelaine Corporate Securities & Co	21,363	534,085	0.04
Other commissions less than $20,000	372,433	15,965,532	0.02
Total U.S. Equity	**$13,573,693**	**481,979,792**	**$0.03**

NON-U.S. EQUITY (for the year ended December 31, 2006)

Brokerage Firm	Non-U.S. Equity Commissions Paid	Shares Traded	Average Commission Per Share
Merrill Lynch	$1,140,941	261,610,470	$0.00
UBS Securities LLC	728,614	51,063,537	0.01
Deutsche Bank Securities Inc	711,884	105,271,609	0.01
Credit Suisse First Boston Corp	706,002	156,590,626	0.00
Goldman Sachs & Co	652,923	78,209,389	0.01
Citigroup Global Markets Inc	642,211	142,854,111	0.00
JP Morgan Securities Inc	600,275	68,625,222	0.01
Morgan Stanley Co Inc	582,705	71,446,383	0.01
ABN Amro Securities LLC	492,538	156,337,477	0.00
Lehman Brothers Inc	445,782	33,700,476	0.01
Credit Lyonnais Securities	363,026	62,981,399	0.01
State Street Brokerage Services	316,020	43,516,441	0.01
Macquarie Securities	229,050	37,053,335	0.01
Warburg Dillion Read Securities Ltd	206,034	76,445,648	0.00
Brockhouse & Cooper Inc	203,643	13,005,521	0.02
Nomura Securities International Inc	197,052	29,967,480	0.01
BNP Paribas	175,064	67,473,912	0.00
Societe Gererale Securities Corp	173,839	7,552,228	0.02
Bear Stearns Securities Corp	128,221	12,495,668	0.01
Salomon Smith Barney Inc	127,856	7,216,798	0.02
Kleinwort Benson Securities Ltd	109,960	4,633,385	0.02
Pershing LLC	109,453	4,261,070	0.03
HSBC Securities	94,553	3,889,913	0.02
Daiwa	88,035	6,814,282	0.01
CLSA Securities Korea LtdKBC Financial	68,098	349,994	0.19
Products UK Ltd	67,915	2,608,354	0.03
SG Securities	66,386	29,580,196	0.00
Cazenove	64,998	7,480,439	0.01
Agora Corde Titul E Val MobUS Clearing	63,146	103,712,160	0.00
Institutional Trading	59,584	3,501,771	0.02
Tokyo-Mitsubishi Securities	55,730	2,894,885	0.02
Mizuho Securities	51,355	1,901,865	0.03
Credit Agricole Indosuez Cheuvreux	50,091	947,823	0.05
Deutsche Securities Ltd	47,732	7,528,164	0.01
Raymond James & Assoc Inc	44,710	1,120,467	0.04
ING Bank	44,161	418,356	0.11

CONTINUED ON PAGE 84

CONTINUED FROM PAGE 83

NON-U.S. EQUITY (for the year ended December 31, 2006)

Brokerage Firm	Non-U.S. Equity Commissions Paid	Shares Traded	Average Commission Per Share
Instinet Clearing Services Inc	$43,427	28,341,930	$0.00
Mainfirst Bank	39,572	369,123	0.11
Exane SA	32,200	445,439	0.07
Samsung Securities Co	31,951	207,816	0.15
Banco Santander Central Hispano	29,919	53,139,421	0.00
NCB Stockbrokers Ltd	27,729	1,313,156	0.02
CIBC World Markets Corp	25,883	589,100	0.04
RBC Dominion Markets	25,832	1,201,170	0.02
Hoare Govett Securities	25,804	850,147	0.03
Euroclear Bank	25,776	1,149,086	0.02
Liquidnet Inc	25,077	1,025,350	0.02
Sanford C Bernstein Co LLC	24,550	1,108,162	0.02
Nesbitt Burns	23,628	1,061,633	0.02
Fox Pitt Kelton Inc	22,364	393,227	0.06
Probursa Casa De Bolsa	21,608	5,198,633	0.00
Santander Investment Securities Inc	20,621	471,724	0.04
Other commissions less than $20,000	405,098	65,796,739	0.01
Total Non-U.S. Equity	**$10,760,628**	**1,827,722,710**	**$0.01**
Total U.S. Equity and Non-U.S. Equity	**$24,334,321**	**2,309,702,502**	**$0.01**

The brokerage commissions do not include commissions paid by external investment managers utilizing commingled fund structures. OPERS maintains a commission recapture program with several of its investment managers. Capital Institutional Services, Inc., Donaldson Co. and Frank Russell Securities, Inc. perform record-keeping services for the commission recapture program.

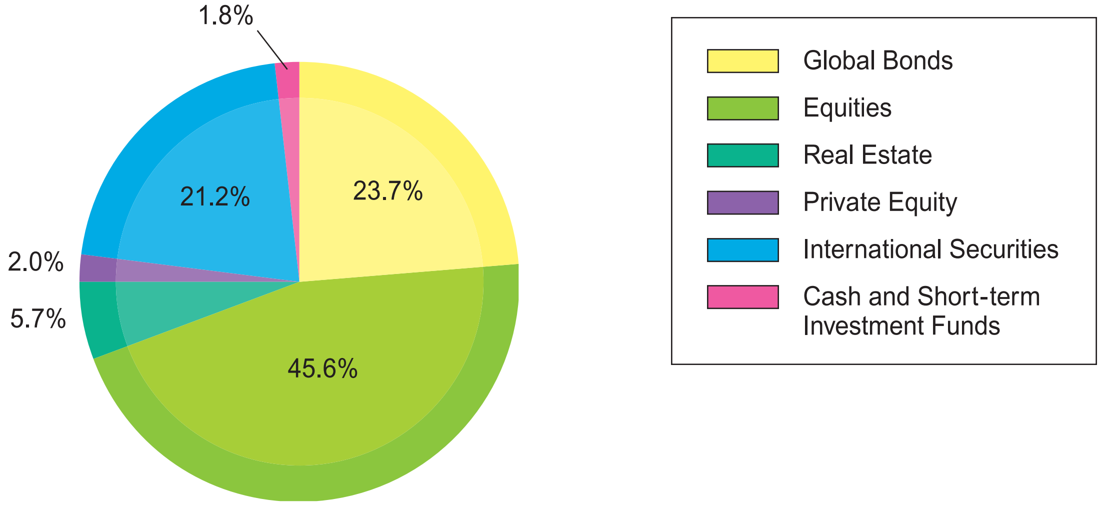
SCHEDULE OF FEES TO EXTERNAL ASSET MANAGERS (for the year ended December 31, 2006)

	Defined Benefit	Health Care	Defined Contribution	Total
Global Bonds	$8,409,529	$1,580,668	$14,500	$10,004,697
Equities	12,674,782	2,382,372	61,375	15,118,529
International Securities	36,294,655	6,821,999	30,397	43,147,051
Real Estate	24,120,511	0	0	24,120,511
Private Equity	29,205,726	0	0	29,205,726
Other	79,126	0	246,950	326,076
Total Fees	**$110,784,329**	**$10,785,039**	**$353,222**	**$121,922,590**

SCHEDULE OF EXTERNAL ASSET MANAGERS (for the year ended December 31, 2006)

U.S. Equity Managers	Non-U.S. Equity Managers	Global Bond Managers
Alliance Bernstein U.S. Large Cap	Acadian ACWIxU.S.	AFL-CIO Housing Investment Trust
Barclays R1000 Enhanced	Acadian Emerging Mkts	Capital Guardian Emerging Mkts
Barclays R1000 Index	Acadian Non-U.S. Small Cap	Clarion CMBS High Yield
Barclays R2000 Index	Alliance Bernstein Non-U.S. Core	Fidelity Core
Barclays R3000 Index	Barclays ACWIxU.S. Enhanced	Fort Washington High Yield
Pyramis Small Cap	Barclays ACWIxU.S. Index	Golden Tree Corporate High Yield
GMO U.S. Core	Barclays EAFE Index	Goldman Sachs Global High Yield
Goldman Sachs S&P 500 Enhanced	Baring Non-U.S.	Goode Stable Value
Invesco Small Cap	Boston Company Emerging Mkts	Invesco Stable Value
JP Morgan U.S. Large Cap	Brandes Non-U.S. Value	Post Advisory Group High Yield
Piedmont U.S. Large Cap	Goldman Sachs Non-U.S. Core	Shenkman Corporate High Yield
Wellington U.S. Large Cap	JP Morgan Fleming Non-U.S. Core	Smith Breeden Core
	Lazard Emerging Mkts	Stone Harbor Emerging Mkts
	LSV EAFE	
	QMA EAFE	
	T Rowe Price Emerging Mkts	
	TT Non-U.S. Core	
	Walter Scott Non-U.S. Core	

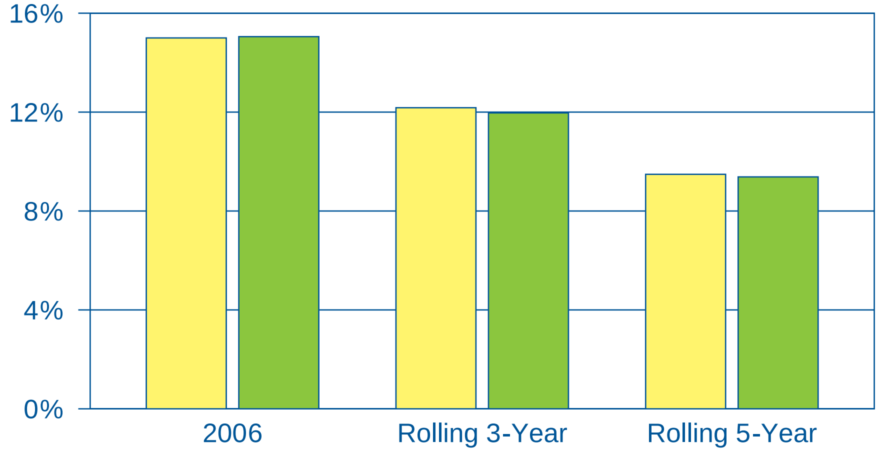
2006 DEFINED BENEFIT PORTFOLIO ASSET ALLOCATION (as of December 31, 2006)



INVESTMENTS RETURNS

The OPERS' DB portfolio returned 15.1% in 2006. The overall portfolio return is compared to a composite policy benchmark return that could be achieved by a portfolio that is passively invested in the broad market, with percentage weights allocated to each asset class as specified in the relevant defined benefit fund policies. The return of the policy benchmark for 2006 was 15.2%.

INVESTMENT RETURNS—ANNUAL RATES OF RETURN—DEFINED BENEFIT PORTFOLIO*



	2006	Rolling 3-Year	Rolling 5-Year
OPERS Defined Benefit Portfolio	15.1%	12.2%	9.6%
Policy Benchmark Return	15.2%	11.9%	9.3%

*Annual rates of return—The OPERS return is the combined result of the returns generated by defined benefit, health care and defined contribution investments based on a combination of time-weighted calculations and market-value-weighted combinations. The policy benchmark is derived by a market-value-weighted combination of the defined benefit, health care and defined contribution investments policy benchmarks while all other returns throughout the remainder of this section are derived from a time-weighted calculation.

Historical returns for the defined benefit investments underlying asset class composites and their respective benchmarks are shown below.

SCHEDULE OF INVESTMENT RESULTS—DEFINED BENEFIT PORTFOLIO [1] (for the year ended December 31, 2006)

	2006	Rolling 3-Year	Rolling 5-Year
Total Defined Benefit Portfolio	15.1%	12.2%	9.6%
Defined Benefit Portfolio Benchmark	15.2	11.9	9.3
U.S. Equity Composite	14.9	11.2	7.2
U.S. Equity Composite Benchmark	15.7	11.2	7.2
Global Bond Composite	5.3	4.8	5.9
Global Bond Composite Benchmark	5.0	4.2	5.6
Stable Value Composite	4.5	4.3	N/A
Stable Value Composite Benchmark	4.9	3.1	N/A
Non-U.S. Equity Composite	26.8	21.9	16.8
Non-U.S. Equity Composite Benchmark	26.7	21.3	16.4
Private Real Estate Composite	17.3	16.1	N/A
Private Real Estate Composite Benchmark	16.6	16.3	N/A
REITS Composite	37.1	27.1	N/A
REITS Composite Benchmark	35.9	27.8	N/A
Private Equity Composite	15.5	23.6	15.6
Private Equity Composite Benchmark	13.5	16.4	11.0
Cash Equivalents Composite	5.3	3.3	2.6
Cash Equivalents Composite Benchmark	4.9	3.1	2.4

FOOTNOTES FOR SCHEDULE OF INVESTMENT RESULTS—DEFINED BENEFIT PORTFOLIO

[1] Defined Benefit Portfolio Benchmark—The returns for this benchmark are derived from the asset class composite benchmark returns summarized in the table above, the historical asset class target allocations listed in the following table and the asset class composite benchmark indices listed in the table on the following page:

HISTORICAL ASSET CLASS TARGET ALLOCATIONS

Asset Class	2006	2005	2003-2004	2001-2002
U.S. Equity	45.6%	46.1%	46.0%	47.0%
Global Bonds	24.6	25.9	20.0	20.0
Stable Value				
Non-U.S. Equity	20.0	20.0	23.0	23.0
Private Real Estate	6.5			
REITS	1.0			
Real Estate		6.1	9.0	9.0
Private Equity	1.3	0.9	1.0	0.6
Cash Equivalents	1.0	1.0	1.0	0.4
Total	**100%**	**100%**	**100%**	**100%**

To arrive at customized benchmark performance, the asset allocation targets are multiplied by the performance of the corresponding asset class reference indexes. The asset class reference indices are specified by the Investment Policy, and are displayed below:

HISTORICAL ASSET CLASS COMPOSITE BENCHMARK INDEXES—DEFINED BENEFIT PORTFOLIO

Asset Class Composite Benchmarks	12/31/2006	1/1/02 through 12/31/2006	12/1/2001 through 12/31/2001	2/1/01 through 11/30/2001	10/1/98 through 1/31/2001
U.S. Equity	Russell 3000 [2]	Russell 3000	Russell 3000	S&P 1500/Russell 3000 Blend	S&P Supercomposite
Global Bonds	Lehman Universal [3]	Lehman Universal	Lehman Universal	Lehman Aggregate	SSB BIG Index
Stable Value	90-day U.S. Treasury Bill [4]	90-day U.S. Treasury Bill	90-day U.S. Treasury Bill	90-day U.S. Treasury Bill	90-day U.S. Treasury Bill
Non-U.S. Equity	MSCI ACWI Free x U.S. [5]	MSCI ACWI Free x U.S.	MSCI ACWI Free x U.S.	MSCI ACWI Free x U.S.	MSCI AWI Free x US
Private Real Estate	NCRIEF Property Index [6]	N/A	N/A	N/A	N/A
REITS	DJ Wilshire RESI (Full Cap) [7]	N/A	N/A	N/A	N/A
Real Estate	N/A	RE Custom Composite [8]	RE Custom Composite [8]	RE Custom Composite [8]	RE Custom Composite [8]
Private Equity	Russell 3000 + 3%	Russell 3000 + 3%	N/A [9]	N/A [9]	N/A [9]
Cash Equivalents	90-day U.S. Treasury Bill [4]	90-day U.S. Treasury Bill	90-day U.S. Treasury Bill	90-day U.S. Treasury Bill	90-day U.S. Treasury Bill

The footnotes below provide definitions for the 12/31/2006 asset class composite benchmark indexes.

[2] Russell 3000 Stock Index—A capitalization-weighted stock index consisting of the 3,000 largest publicly traded U.S. stocks by capitalization. This index is a broad measure of the performance of the aggregate domestic equity market.

[3] Lehman Universal Index—A market value weighted index consisting of the Lehman Brothers Corporate, Government and Mortgage-Backed Indices. This index is the broadest available measure of the aggregate U.S. fixed income market.

[4] 90-day U.S. Treasury Bill—The 90-day Treasury Bill return as measured by Lehman Brothers.

[5] MSCI All Country World Ex-U.S. Index (MSCI ACWIF x U.S.)—A capitalization-weighted index of stocks representing 47 developed and emerging country markets, excluding the U.S. market.

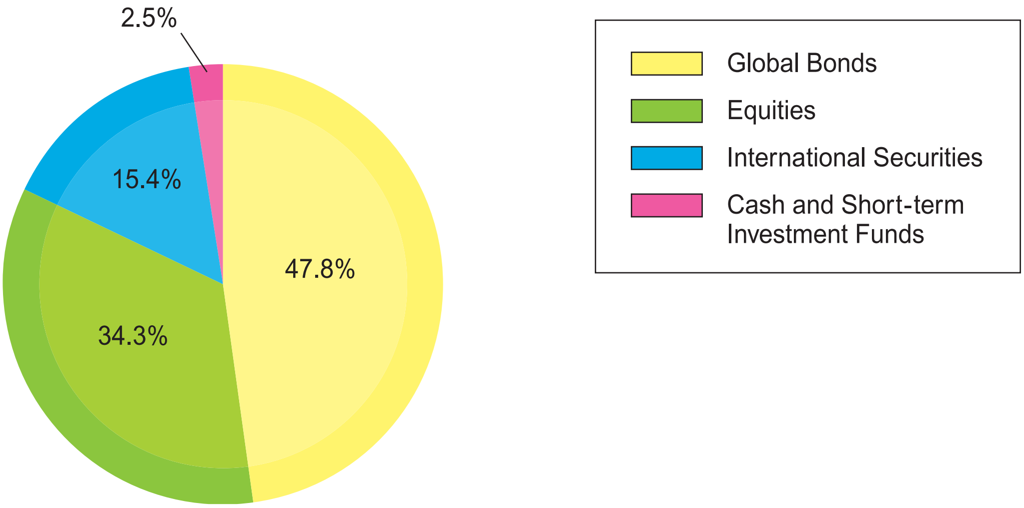
[6] NCRIEF Property—Prior to January 2006, NCREIF net 100 basis points annually.

[7] DJ Wilshire RESI (Full Cap) Index—Wilshire Real Estate Securities Index adjusted for representative fees.

[8] Custom Real Estate Index—60% NCREIF (appraisal-based valuations of privately-owned commercial real estate) adjusted for representative fees, plus 20% S&P REIT Index (publicly traded real estate investment trust securities), plus 20% Giliberto-Levy Commercial Mortgage Performance Index (a representative portfolio of institutional grade, fixed-rate/fixed-term, commercial mortgage whole loan), adjusted for representative fees. The Custom Real Estate Index was adjusted beginning 1/1/2003 to reflect 90% NCREIF adjusted for representative fees, plus 10% Wilshire Real Estate Securities Index adjusted for representative fees.

[9] Private Equity assets were held in other asset classes.

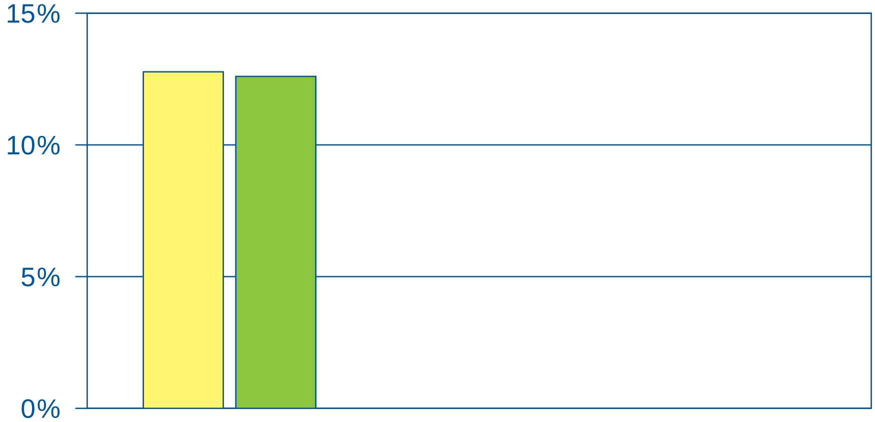
2006 HEALTH CARE PORTFOLIO ASSET ALLOCATION (as of December 31, 2006)



INVESTMENTS RETURNS

The OPERS health care portfolio returned 12.8% in 2006. The overall portfolio return is compared to a composite policy benchmark return that could be achieved by a portfolio that is passively invested in the broad market, with percentage weights allocated to each asset class as specified in the relevant health care fund policies. The return of the policy benchmark for 2006 was 12.6%.

INVESTMENTS RETURNS—ANNUAL RATES OF RETURN—HEALTH CARE PORTFOLIO* (for the year ended December 31, 2006)



	2006	Rolling 3-Year	Rolling 5-Year
OPERS Health Care Portfolio	12.8%	N/A	N/A
Policy Benchmark Return	12.6%	N/A	N/A

*Annual rates of return—The OPERS return is the combined result of the returns generated by defined benefit, health care and defined contribution investments based on a combination of time-weighted calculations and market-value-weighted combinations. The policy benchmark is derived by a market-value-weighted combination of the defined benefit, health care and defined contribution investments policy benchmarks while all other returns throughout the remainder of this section are derived from a time-weighted calculation.

Investment returns for the health care portfolio underlying asset class composites and their respective benchmarks are shown below.

Note: Calendar year 2005 marked the first year health care assets were separated from the defined benefit portfolio.

SCHEDULE OF INVESTMENT RESULTS—HEALTH CARE PORTFOLIO [1] (for the year ended December 31, 2006)

	2006	Rolling 3-Year	Rolling 5-Year
Total Health Care Portfolio	12.8%	N/A	N/A
Health Care Portfolio Benchmark	12.6	N/A	N/A
U.S. Equity Composite	14.9	N/A	N/A
U.S. Equity Composite Benchmark	15.7	N/A	N/A
Global Bond Composite	5.3	N/A	N/A
Global Bond Composite Benchmark	5.0	N/A	N/A
TIPS Portfolio	0.6	N/A	N/A
TIPS Portfolio Benchmark	0.4	N/A	N/A
Short Duration Composite	4.9	N/A	N/A
Short Duration Composite Benchmark	4.1	N/A	N/A
Non-U.S. Equity Composite	26.9	N/A	N/A
Non-U.S. Equity Composite Benchmark	26.7	N/A	N/A
REITS Composite	37.1	N/A	N/A
REITS Composite Benchmark	35.9	N/A	N/A
Cash Equivalents Composite	5.3	N/A	N/A
Cash Equivalents Composite Benchmark	4.9	N/A	N/A

FOOTNOTES FOR SCHEDULE OF INVESTMENT RESULTS—HEALTH CARE PORTFOLIO

[1] Health Care Portfolio Benchmark—The returns for this benchmark are derived from the asset class composite benchmark returns summarized in the table above, the historical asset class target allocations listed in the following table and the asset class composite benchmark indexes listed in the subsequent table.

HISTORICAL ASSET CLASS TARGET ALLOCATIONS—HEALTH CARE PORTFOLIO

Asset Class	2nd Half of 2006	1st Half of 2006	2nd Half of 2005	1st Half of 2005
U.S. Equity	32.5%	37.5%	42.5%	47.5%
Global Bonds	16.0	18.0	20.0	22.0
TIPS	17.5	12.5	7.5	2.5
Short Duration	13.2	9.5	5.8	2.0
Non-U.S. Equity	16.0	18.0	20.0	22.0
REITS	4.8	4.5	4.2	4.0
Cash Equivalents	N/A	N/A	N/A	N/A
Total	**100%**	**100%**	**100%**	**100%**

Historical Asset Class Composite Benchmark Indexes—Health Care Portfolio

Asset Class Composite Benchmarks	Asset Class Composite Benchmark Indices
U.S. Equity	Russell 3000 [2]
Global Bonds	Lehman Universal [3]
TIPS	Lehman U.S. TIPS [4]
Short Duration	Lehman Government 1-3 Year [5]
Non-U.S. Equity	MSCI ACWI Free x U.S. [6]
REITS	DJ Wilshire RESI (Full Cap) [7]
Cash Equivalents	90-day U.S. Treasury Bill [8]

The footnotes below provide definitions for the 12/31/2006 asset class composite benchmark indexes.

[2] Russell 3000 Stock Index—A capitalization-weighted stock index consisting of the 3,000 largest publicly traded U.S. stocks by capitalization. This index is a broad measure of the performance of the aggregate domestic equity market.

[3] Lehman Universal Index—A market value weighted index consisting of the Lehman Brothers Corporate, Government and Mortgage-Backed Indices. This index is the broadest available measure of the aggregate U.S. fixed income market.

[4] Lehman U.S. TIPS Index—This index consists of Inflation-Protection securities issued by the U.S. Treasury.

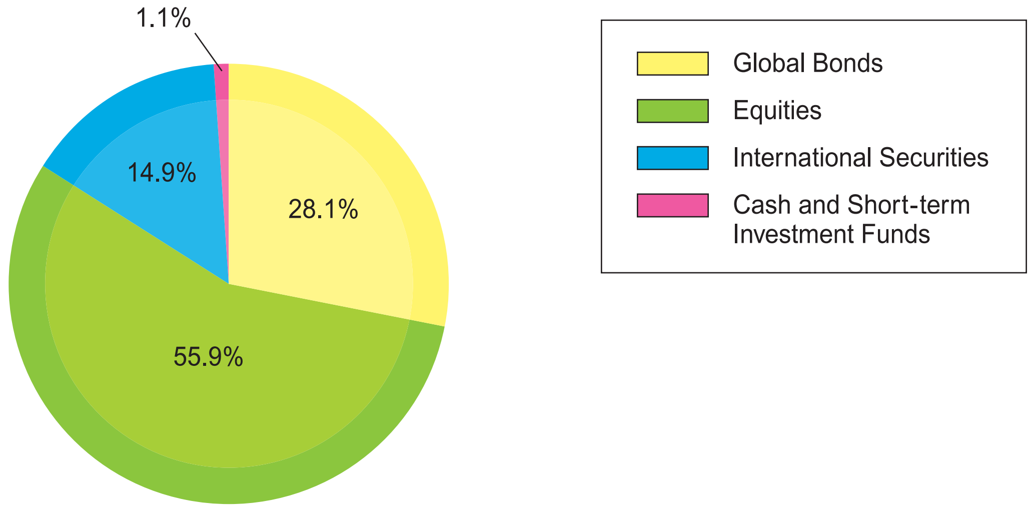
[5] Lehman Government 1-3 Year—Securities in the U.S. Government Index with a maturity from 1 up to (but not including) 3 years.

[6] MSCI All Country World Ex-U.S. Index (MSCI ACWIF x U.S.)—A capitalization-weighted index of stocks representing 47 developed and emerging country markets, excluding the U.S. market.

[7] DJ Wilshire RESI (Full Cap) Index—Wilshire Real Estate Securities Index adjusted for representative fees.

[8] 90-day U.S. Treasury Bill—The 90-day Treasury Bill return as measured by Lehman Brothers.

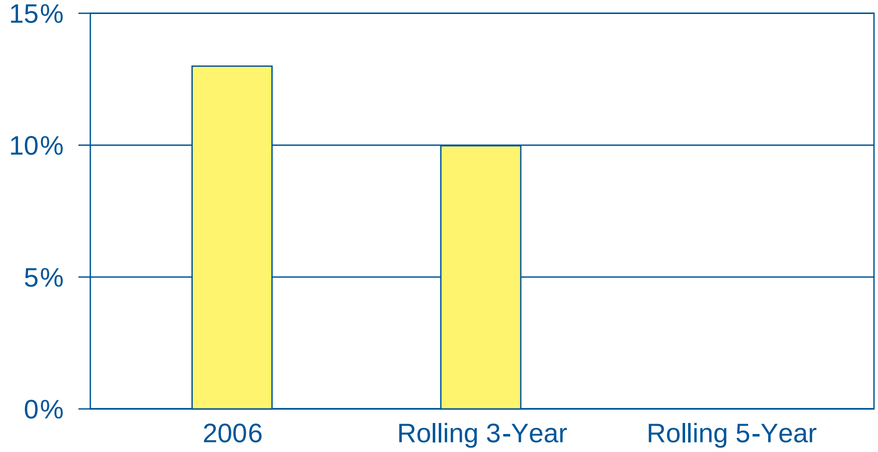
2006 DEFINED CONTRIBUTION PORTFOLIO ASSET ALLOCATION (as of December 31, 2006)



INVESTMENTS RETURNS

The OPERS defined contribution portfolio composite returned 13.0% in 2006. The portfolio composite is derived from the individual investment option returns and their actual year-end market values. Members may not invest in this portfolio composite but may invest in the individual investment options as they choose. The returns for the OPERS investment options and their respective indexes are shown on the following page.

INVESTMENTS RETURNS—ANNUAL RATES OF RETURN—DEFINED CONTRIBUTION PORTFOLIO*



	2006	Rolling 3-Year	Rolling 5-Year
OPERS Defined Contribution Portfolio	13.0%	9.9%	N/A

*Annual rates of return—The OPERS return is the combined result of the returns generated by defined benefit, health care and defined contribution investments based on a combination of time-weighted calculations and market-value-weighted combinations. The policy benchmark is derived by a market-value-weighted combination of the defined benefit, health care and defined contribution investments policy benchmarks while all other returns throughout the remainder of this section are derived from a time-weighted calculation.

Historical returns for the Defined Contribution investments underlying asset class composites and their respective benchmarks are shown below.

Note: The defined contribution options commenced January 1, 2003 and only three years of historical results are available.

SCHEDULE OF INVESTMENT RESULTS—DEFINED CONTRIBUTION PORTFOLIO (for the year ended December 31, 2006)

	2006	Rolling 3-Year	Rolling 5-Year
Total Defined Contribution Portfolio	13.0%	9.9%	N/A
Stable Value Portfolio	4.5	4.3	N/A
ML 3-Month Treasury Bill [1]	4.9	3.1	N/A
Bond Portfolio	4.8	4.3	N/A
Lehman Universal Index [2]	5.0	4.2	N/A
Stock Index Portfolio	15.7	11.2	N/A
Russel 3000 Stock Index [3]	15.7	11.2	N/A
Large Cap Portfolio	11.5	9.1	N/A
Russel 1000 Stock Index [4]	15.5	11.0	N/A
Small Cap Portfolio	14.9	11.8	N/A
Russel 2000 Stock Index [5]	18.4	13.6	N/A
Non-U.S. Equity Portfolio	25.3	19.4	N/A
MSCI ACWIF x U.S. [6]	26.7	21.3	N/A
Conservative Portfolio	8.3	6.7	N/A
Custom Conservative Index [7]	8.7	6.5	N/A
Moderate Portfolio	11.5	9.0	N/A
Custom Moderate Index [8]	12.5	9.3	N/A
Aggressive Portfolio	13.9	10.7	N/A
Custom Aggressive Index [9]	15.3	11.4	N/A

FOOTNOTES FOR SCHEDULE OF INVESTMENT RESULTS—DEFINED CONTRIBUTION PORTFOLIO

[1] ML 3-Month Treasury Bill—The 3-Month Treasury Bill return as measured by Merrill Lynch.

[2] Lehman Universal Index—A market value weighted index consisting of the Lehman Brothers Corporate, Government and Mortgage-Backed Indices. This index is the broadest available measure of the aggregate U.S. fixed income market.

[3] Russell 3000 Stock Index—A capitalization-weighted stock index consisting of the 3,000 largest publicly traded U.S. stocks by capitalization. This index is a broad measure of the performance of the aggregate domestic equity market.

[4] Russell 1000 Stock Index—A capitalization-weighted stock index consisting of the 1,000 largest companies in the Russell 3000 Index, which represents approximately 92% of the total market capitalization of the Russell 3000 Index.

[5] Russell 2000 Stock Index—A capitalization-weighted stock index consisting of the 2,000 smallest companies in the Russell 3000 Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index.

[6] MSCI All Country World Ex-U.S. Index (MSCI ACWIF x U.S.)—A capitalization-weighted index of stocks representing 47 developed and emerging country markets, excluding the U.S. market.

[7] Custom Conservative Index—35% ML 3-Month Treasury Bill, 35% LB Universal, 12% Russell 3000, 10% Russell 1000, 3% Russell 2000, 5% MSCI ACWI x U.S.

[8] Custom Moderate Index—20% ML 3-Month Treasury Bill, 20% LB Universal, 25% Russell 3000, 20% Russell 1000, 5% Russell 2000, 10% MSCI ACWI x U.S.

[9] Custom Aggressive Index—10% ML 3-Month Treasury Bill, 10% LB Universal, 30% Russell 3000, 25% Russell 1000, 10% Russell 2000, 15% MSCI ACWI x U.S.

The 10 largest direct investments in the state of Ohio, measured as the market value of our investment in the securities of firms headquartered in Ohio, totaled approximately $973 million at the end of the year. The 10 largest indirect investments, measured by the market value of our investment in the securities of 10 companies with the largest employment presence in the state, totaled approximately $681 million. Employment presence is measured by the number of persons employed at a business located in Ohio, as defined by the Office of Strategic Research, Ohio Department of Development. Firms with the largest employment presence in Ohio employed approximately 210,000 people in Ohio.

TOP OHIO HOLDINGS (for the year ended December 31, 2006)

Direct		Indirect		
Largest Firms Headquartered in Ohio	Fair Value	Firms With Largest Employment Presence	Ohio Employment Estimated Headcount	Fair Value
Procter & Gamble	$429,603,496	Wal-Mart	50,000	$223,375,993
FirstEnergy	98,257,251	Kroger	34,130	58,626,310
Cardinal Health	80,745,513	General Motors	19,300	29,303,274
Federated	78,799,396	General Electric	17,000	194,242,312
AEP	77,608,505	JP Morgan Chase	17,000	56,411,774
National City	60,508,798	Bob Evans Farms	15,000	2,557,295
Kroger	58,626,310	Sears	15,000	22,814,298
KeyCorp	34,857,181	Limited Brands	14,600	21,050,667
Eaton Corp	27,785,570	Nationwide	13,850	25,534,176
Fifth Third Bancorp	26,364,159	Ford	13,700	46,620,480
Total	**$973,156,179**	**Total**	**209,580**	**$680,536,579**

The investment powers and fiduciary responsibilities of Ohio Public Employees Retirement System Board of Trustees (OPERS Retirement Board) are governed by Section 145.11 of the Ohio Revised Code and the requirements of the OPERS Code of Ethics and Personal Trading Policy, and applicable state statutes. The OPERS Retirement Board discharges its duties solely in the interest of participants and beneficiaries, for the exclusive purpose of providing benefits and defraying reasonable expenses of administering OPERS, with care, skill, prudence, and diligence of a prudent person, by diversifying the investments.

The OPERS Retirement Board reviews all policies and approves changes or additions as appropriate. The investment staff fulfills the mandates and obligations described in the policies and recommends changes to the OPERS Retirement Board, as appropriate.

The OPERS Retirement Board's philosophy is that OPERS' assets should be managed in a fashion that reflects OPERS' unique liabilities, funding resources and portfolio size, by incorporating accepted investment theory and reliable, empirical evidence. The OPERS Retirement Board ensures adequate risk control of the defined benefit, health care and defined contribution portfolios through diversification, portfolio guidelines, risk budgeting, compliance and monitoring.

The purpose of OPERS' policies is to provide a broad strategic framework for managing portfolios. The approved OPERS Retirement Board policies are summarized below and posted on the OPERS Web site, www.opers.org, where they can be viewed in their entirety.

The following policy descriptions incorporate ongoing changes or additions, including changes that will take place in early 2007.

DEFINED BENEFIT POLICY

Investment Objective

The primary objective of the defined benefit portfolio is to secure statutory and ancillary benefits provided by OPERS, earning sufficient returns to improve benefits periodically and to keep OPERS' costs reasonable for employees and employers.

Asset Allocation

The approved OPERS Retirement Board asset allocation presented below establishes a framework for OPERS that has a high likelihood of realizing OPERS' investment objective.

DEFINED BENEFIT ASSET ALLOCATION

Asset Class	Target Allocation	Range
U.S. Equity	43%	+/– 4%
Opportunistic Fund	N/A	0 to 3
Non-U.S. Equity	20	+/– 4
Real Estate	8	+/– 4
Private Equity	5	+/– 4
Global Bonds	24	+/– 4
Cash	N/A	0 to 5
Total	**100%**	

Rebalancing

Staff manages conformance with the asset allocation policy through monthly review. The OPERS Retirement Board expects the Investment staff to ensure compliance with the target asset allocation percentages specified above at reasonable costs and in the best interest of OPERS.

The OPERS Retirement Board establishes the asset allocation targets and ranges and reviews them periodically. A comprehensive review of investment policy designed to assess the continuing appropriateness of investment policy is typically done every three to five years.

Performance Objectives

The defined benefit portfolio's performance objectives are to exceed the OPERS' performance benchmark, net of investment expenses over five-year periods, and exceed the actuarial interest rate (currently 8%) over a reasonable longer time horizon. The following tables list the performance benchmarks for each asset class.

DEFINED BENEFIT MARKET INDEXES

Asset Class	Market Index
U.S. Equity	Russell 3000 Stock Index
Opportunistic Fund	Customized Benchmark
Non-U.S. Equity	MSCI All Country World Free Index Ex-U.S.
Real Estate	Custom Real Estate Index
Private Equity	Russell 3000 Stock Index + 300 basis points
Global Bonds	Lehman U.S. Universal Index (60%) Lehman Long Government/Credit Index (40%)
Cash	91 Day Treasury Bill

HEALTH CARE POLICY

Investment Objective

The primary objective of the health care portfolio is to secure health care benefits for eligible members, which is provided as a discretionary benefit. The assets of the health care portfolio shall be invested with the objectives of a) preservation of capital, and b) maintaining a reasonable solvency period as defined by the OPERS Retirement Board from time to time.

Asset Allocation

The approved OPERS Retirement Board asset allocation presented below establishes a framework for OPERS that has a high likelihood of realizing OPERS' investment objective.

HEALTH CARE ASSET ALLOCATION

Asset Class	Target Allocation	Target Ranges
U.S. Equity	30%	+/– 3%
Non-U.S. Equity	15	+/– 3
REITS	5	+/– 3
Global Bonds	15	+/– 3
TIPS	20	+/– 3
Short-Duration Bonds	15	+/– 3
Cash	<1	N/A
Total	**100%**	

Rebalancing

Staff manages conformance with the asset allocation policy through monthly review. The OPERS Retirement Board expects the Investment staff to ensure compliance with the target asset allocation percentages specified above at reasonable costs and in the best interest of OPERS.

The OPERS Retirement Board establishes the asset allocation targets and ranges and reviews them periodically. The OPERS Retirement Board will review, at least annually, the investment policy and asset allocation target and ranges in conjunction with the actuarial assessment of the solvency of the fund.

Performance Objectives

The health care portfolio's performance objective is to exceed the OPERS' performance benchmark. The following tables list the performance benchmarks for each asset class.

HEALTH CARE MARKET INDEXES

Asset Class	Market Index
U.S. Equity	Russell 3000 Stock Index
Non-U.S. Equity	MSCI All Country World Free Index Ex-U.S.
Global Bonds	Lehman U.S. Universal Index
Short-Duration Bonds	Lehman 1-3 Year Government Bond Index
TIPS	Lehman U.S. TIPS Index
REITS	Wilshire Real Estate Securities Index

DEFINED CONTRIBUTION POLICY

Investment Objective

The defined contribution portfolio investment options are intended to be primary retirement savings vehicles for members. The long-term objectives of the defined contribution portfolios are to offer members and beneficiaries a diversified mix of investment options that span the risk-return spectrum, avoid excessive risk, provide long-term rates of return with low fees and allow meaningful, independent control.

Asset Allocation

The approved OPERS Retirement Board asset allocation for the OPERS pre-mix portfolios presented below establishes a framework for members using the defined contribution portfolio investment options that have a high likelihood of enabling members to realize their investment objectives.

DEFINED CONTRIBUTION ASSET ALLOCATION

	OPERS' Pre-Mix Portfolios					
	Conservative		Moderate		Aggressive	
OPERS' Funds	Target	Range	Target	Range	Target	Range
Stable Value	35%	+/– 2%	20%	+/– 1%	10%	+/– 1%
Bond	35	+/– 2	20	+/– 2	10	+/– 1
Stock Index	12	+/– 2	25	+/– 4	30	+/– 5
Large Cap	10	+/– 2	20	+/– 3	25	+/– 4
Small Cap	3	+/– 1	5	+/– 1	10	+/– 3
Non-U.S. Stock	5	+/– 1	10	+/– 2	15	+/– 3

Rebalancing

Ranges specified for the OPERS pre-mix portfolios are a function of the expected volatility of each asset class and the proportion of the total fund allocated to the asset class. Staff manages conformance of the OPERS pre-mix portfolios with the asset allocation policy through quarterly review.

Performance Objectives and Risk Management

The defined contribution portfolio investment options are expected to exceed the OPERS' performance benchmarks over five-year periods. The following tables list the performance benchmarks for each investment option.

DEFINED CONTRIBUTION MARKET INDEXES AND PEER UNIVERSES

Asset Class	Market Index	Peer Universe
Stable Value	Custom Stable Value Index	Stable Value
Bond	Lehman U.S. Universal	Core Bond
Stock Index	Russell 3000	Core Equity
Large Cap	Russell 3000	Large Cap Core
Small Cap	Russell 3000	Small Cap Core
Non-U.S. Stock	MSCI All-Country World Free Index Ex-U.S.	Core International

U.S. EQUITY POLICY

The U.S. Equity program is expected to outperform the Russell 3000 Index by at least 20 basis points annualized over a three-to-five year market cycle, net of fees, with a tracking error generally between 30 and 70 basis points.

The active component is expected to deliver excess returns primarily through an optimal mix of large cap exposure versus small cap exposure and traditional fundamental analysis versus quantitative approaches incorporating both internal and external money managers. The active component's tracking error will generally range between 100 and 300 basis points.

The index component is expected to bring the overall risk tolerances within the specified limits, as set by the risk budgeting process at the OPERS total fund level. The primary vehicle to achieve this objective is an internally managed Russell 3000 Index portfolio shown to deliver low tracking error and index-like returns. The projected tracking error ceiling is 15 basis points.

NON-U.S. EQUITY POLICY

The Non-U.S. Equity program is expected to outperform the Morgan Stanley Capital International All Country World Index Free excluding U.S. (ACWIxU.S.) by at least 75 basis points annualized over a three-to-five year market cycle, net of fees, with a tracking error generally within 300 basis points.

The Non-U.S. Equity program utilizes both index and active management styles and is managed 100% through external investment managers. The active managers are selected for their expertise and the ability to add alpha with an allocation set at 80% of the portfolio.

Active managers within the ACWIxU.S. category are permitted to invest in emerging markets on an opportunistic or tactical basis up to a prescribed limit. The Non-U.S. Equity program includes strategic allocations to small cap stocks and emerging markets with a target of 3% and 5% through dedicated active managers, respectively. The allocation to growth and value styles through dedicated active managers should be within a range of plus or minus 5% of their weights in the ACWIxU.S. benchmark.

GLOBAL BONDS POLICY

The Global Bonds program, which includes the Global Bonds Universal portfolio, the Long Duration portfolio, the Treasury Inflation Protected Securities (TIPS) portfolio, and the Short Duration portfolio, is expected to outperform their respective benchmarks by at least 15 to 32 basis points annualized over a three-to-five year market cycle, net of fees.

The Global Bonds program utilizes active and passive management strategies through internal and external managers. The internal core portfolio uses a risk-controlled active strategy focusing on investment grade securities. Currently, external managers are used for the high yield and emerging debt sectors, which require specialized expertise. The Long Duration, the TIPS, and the Short Duration portfolios are internally managed using risk controlled active strategies.

REAL ESTATE POLICY

The private market Real Estate program is expected to meet or exceed the National Council of Real Estate Investment Fiduciaries (NCREIF) Property Index (NPI) over rolling five-year periods, net of manager fees. Leverage will be limited to 40% loan to value of the aggregate private market Real Estate program and 70% loan to value for an individual, directly held investment.

The private market Real Estate program uses active management strategies through external managers with single manager exposure limited to 20% of the private market Real Estate program. At least 80% of the private market Real Estate investments will be in apartment, industrial, office and retail assets. Single direct investments are limited to the lesser of 5% of the private market Real Estate target allocation, or $300 million. Commingled fund commitments are limited to the lesser of 5% of the private market Real Estate target allocation, or $400 million.

The public market Real Estate program is expected to meet or exceed the Dow Jones Wilshire Real Estate Securities Index (WRESI) by 50 basis points annualized over rolling five-year periods, net of fees, with a tracking error generally within 200 basis points.

The public market Real Estate program may engage in active and passive management strategies through internal and external managers. Liquidity, diversification and single security risk are controlled at an aggregate level within a reasonable tolerance of the benchmark to minimize biases and unintended portfolio mismatches.

PRIVATE EQUITY POLICY

The Private Equity program is expected to outperform the Russell 3000 Index plus 300 basis points on a long-term, seven-to-ten year, rolling basis with an internal rate of return (IRR) cash flow method.

The Private Equity program exclusively uses active management strategies and is 100% externally managed. Partnership exposure is controlled by limiting the commitment size to the lesser of 25% or $200 million. Risk is also managed beyond manager and firm exposure through a combination of quantitative and qualitative constraints for liquidity, vintage, currency, industry, leverage and geography. Diversification will be achieved by investing in partnerships focused on corporate finance, venture capital and special situations. Partnerships that are selected are complementary in nature regarding fund size, sector and strategic focus.

CASH MANAGEMENT POLICY

The Cash Management program actively invests cash collateral to the respective benchmarks of each portfolio within established risk parameters. Interest rate, credit and liquidity risk are managed through a combination of quantitative and qualitative constraints.

OPPORTUNISTIC FUND POLICY

The Opportunistic program is expected to match or exceed the OPERS' total fund benchmark over the long term, with a 3% maximum allocation of total defined benefit assets.

The Opportunistic program will serve as an incubator of new investment ideas and strategies with each program limited to a maximum allocation of $100 million.

MEMBER-DIRECTED POLICY

The Member-Directed program, which includes Stable Value, Bond, Stock Index, Large Cap, Small Cap and the Non-U.S. Funds, is expected to outperform their respective benchmarks, net of expenses, over rolling three-year periods.

The Member-Directed program's underlying portfolios will manage risk by contractual provisions that limit the potential for market-timing cash flows at the direction of plan sponsors. Liquidity risk, single security risk, currency risk, country risk, credit risk and interest rate risk is diversified by assigning liquidity managers and utilizing multiple investment managers.

BROKERAGE POLICY

Transactions of publicly traded securities are conducted to obtain best execution with approved brokers who meet certain criteria. Best execution is the execution of particular investment decisions at the price and commission that provide the most favorable total cost or proceeds reasonably obtainable under the circumstances.

Staff approves and evaluates brokers based on quantitative criteria including, but not limited to, the firm's credit worthiness, history of research and execution, verification of the ability to trade, legal and regulatory history or issues and electronic communication protocol.

Staff will select the broker most capable of providing the brokerage services necessary to obtain best execution, which may include the nature and value of research provided, trading capabilities, commissions and/or fees both in aggregate and on a per share basis, use of technology and other special services, responsiveness, reliability, and integrity.

The OPERS Retirement Board shall give equal consideration to minority owned and controlled firms and firms owned and controlled by women, either alone or in joint venture with other firms. The goal is to increase the use of Ohio-qualified brokers for the execution of domestic equity and fixed income trades when an Ohio-qualified broker offers quality, services, and safety comparable to other agents otherwise available to OPERS.

DERIVATIVES POLICY

Derivatives may be used to facilitate cost-effective and timely investment and risk management as well as to provide for trading efficiency, enhance or manage the risk/return profile of individual securities or portfolios.

Of the market value of the asset class, the exposure of derivatives positions will not exceed 10% and currency hedges will not exceed 20%.

RESPONSIBLE CONTRACTOR POLICY

Independent contractors who provide building operations and construction services, valued at $25,000 or more, to real estate properties owned by OPERS will be selected based upon demonstrated ability to provide high quality services to OPERS properties, utilizing properly-trained and fairly-compensated employees, subject to OPERS' fiduciary principles of loyalty, care, skill, prudence, and diligence, as well as by their experience, reputation, responsiveness, fees, and dependability.

The OPERS Retirement Board believes that the utilization of such contractors adds value to the investments by ensuring that essential building operations services and construction services are provided by adequately trained, experienced, and motivated workers. OPERS supports a healthy and profitable business environment through market competition, small business development, and control of operating costs.

Staff reviews the real estate separate account external managers' annual reports, furnishes annual reports to the OPERS Retirement Board on each external manager's compliance and develops probation list procedures.

SOFT DOLLAR AND OTHER COMMISSION POLICY

Purchase and sale transactions involving internally and externally managed public market securities of OPERS that are paid for through commissions are monitored to minimize total transaction costs while maximizing the value of brokerage and investment research services received, referred to as best execution.

Amounts by which such brokerage commissions exceed the price of executing transactions are referred to as "soft dollars." Soft dollars used to purchase proprietary investment research services generated by a broker-dealer who executes a transaction are included in the cost of such transactions and are referred to as "bundled commission arrangements." Soft dollars used by an executing broker to purchase investment research services from a third party for OPERS are referred to as "other commission arrangements."

OPERS permits its internal portfolios and public market external investment managers to utilize soft dollar and other commission arrangements. When selecting broker-dealers for transactions involving its internally managed funds, staff will choose the firm most capable of providing the brokerage services necessary to obtain best execution. In an effort to increase the use of Ohio-qualified agents, staff will give equal consideration to minority owned and controlled firms and firms owned and controlled by women that offer quality, services, and safety comparable to other agents otherwise available to OPERS.

SECURITIES LENDING POLICY

The securities lending program actively lends securities through various programs to qualified borrowers in order to provide incremental income to the respective asset classes. Staff assesses the performance of the securities lending program on a quarterly basis.

Cash reinvestment risk, counterparty risk and liquidity risk is managed through a combination of quantitative and qualitative constraints. Excess collateral, marked to market daily, is held for each loan in the amount of 102% for domestic securities and 105% for international securities. The maximum percentage of assets that may be on loan is 50% of the total plan while the maximum amount that may be on loan with any one borrower is 10% of the total plan.

EXTERNAL PUBLIC MANAGER EVALUATION POLICY

Staff uses a comprehensive approach including qualitative and quantitative analysis to monitor, perform periodic reviews, execute the watchlist process, terminate when deemed appropriate, develop transition plans and execute transitions as required for OPERS external public investment managers. Staff will report to the OPERS Retirement Board on a quarterly basis summary information for each investment manager and indicate if a manager is in compliance with its investment guidelines.

Periodic reviews of manager cover: organization, structure, assets under management, personnel, investment philosophy and process, investment research, performance, client service, operations, transparency and other relevant factors.

EXTERNAL PUBLIC MANAGER SEARCH POLICY

External management may be used by OPERS to obtain alpha, diversify the returns of internally-managed portfolios, diversify the operational risk of having all assets managed by a single internal team, access strategies, styles, and/or market segments outside the expertise of internal staff and/or internally run portfolios and other rationale identified by staff.

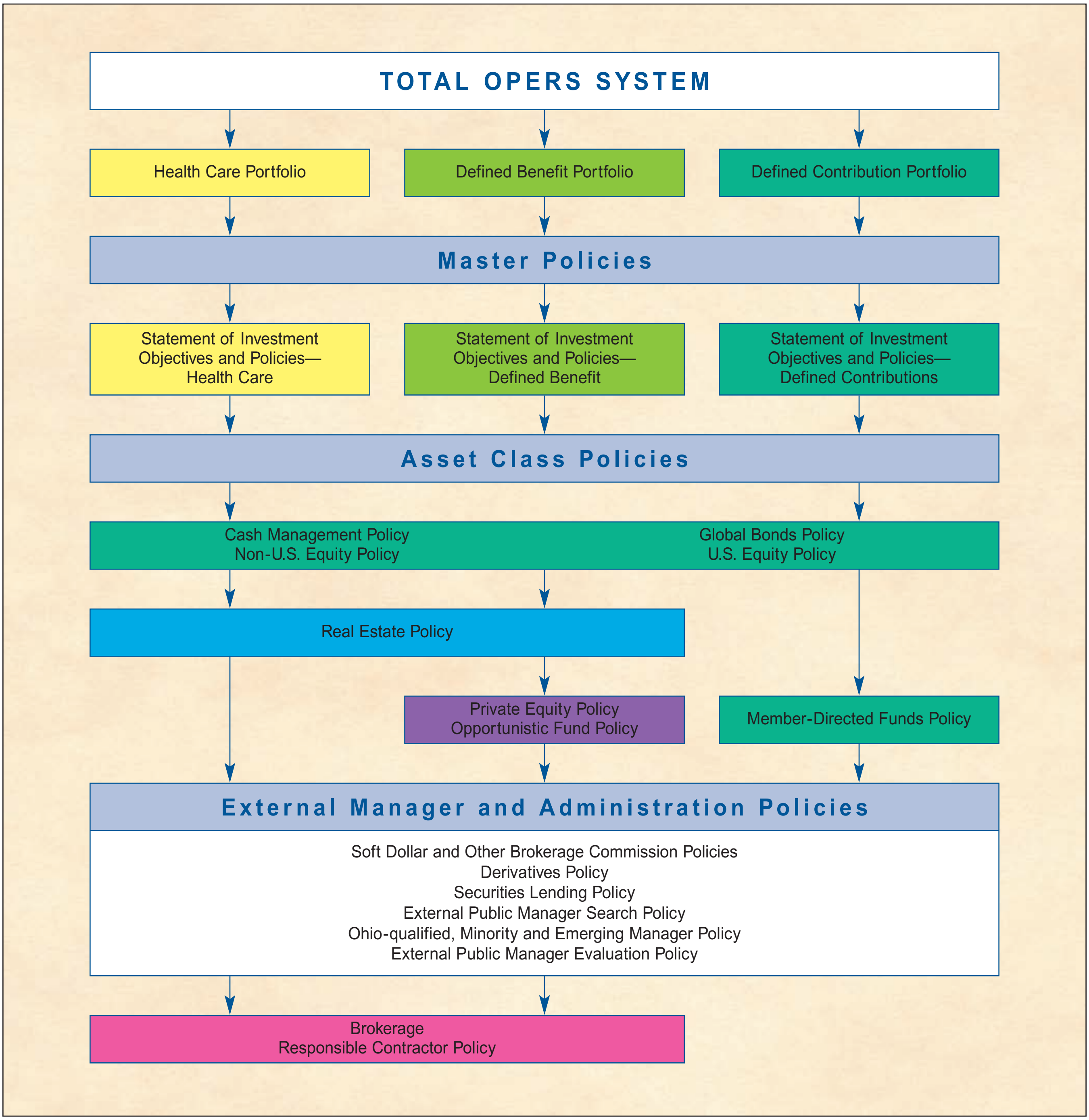
The identification of external managers is a continuous, dynamic investment process, which includes, but is not limited to, ongoing monitoring and awareness of potential managers and observations over time through different market environments. All search efforts must be consistent with fiduciary responsibility, incorporate prudence and best practices, and be open and fair to all qualified candidates.

OHIO-QUALIFIED MINORITY MANAGER POLICY

OPERS is supportive of economic growth in Ohio and recognizes the diversity of its stakeholders. The OPERS Retirement Board desires that staff identify, research and evaluate Ohio-qualified and minority managers in its efforts to fulfill its investment objectives. Opportunities will be evaluated on their merit, including risk-adjusted return expectations and consistency with the annual Investment plan. Efforts will be conducted in a manner consistent with fiduciary duty, demonstrate prudence and be consistent with best practices.

It is a goal of the OPERS Retirement Board to increase its utilization of Ohio and minority investment managers when these investment managers offer quality, services and safety comparable to other investment managers. The OPERS Retirement Board further adopts a goal of 1% (with a range of 0.5% to 2%) of externally managed public market assets invested with minority managers.

The following exhibit illustrates the structure and relationship of the 19 investment policies within the total OPERS system and its three investment portfolios.



Actuarial Section

COLUMBUS PUBLIC LIBRARY—MAIN
Franklin County, Ohio

Although the Columbus Public Library now encompasses 21 locations, the main building, pictured here, started with philanthropist Andrew Carnegie's initial donation of $200,000 in 1903; construction was completed in 1906. That initial donation was money well spent; during the ensuing 100 years, the Columbus public library system has been recognized as one of the best libraries in the nation and one of the most enduring institutions in Franklin County.

In 1872, Columbus-area library patrons went to the basement of city hall to the Public Library and Reading Room to borrow books. The tiny Reading Room was soon in need of more space, so Columbus officials approached Andrew Carnegie for a donation to construct a library in Columbus. Mr. Carnegie had strong opinions about the buildings he funded. The building had to be plain, dignified and pure in style with the words, My Treasures are Within, *front and center.*

Even though additions were built in 1951, 1959, 1968 and 1991, the Columbus Public Library's resulting structure, preserved over time, still honors that initial commitment to Mr. Carnegie.

GRS

Gabriel Roeder Smith & Company
Consultants & Actuaries

One Towne Square
Suite 800
Southfield, MI 48076-3723

248.799.9000 phone
248.799.9020 fax
www.gabrielroeder.com

December 19, 2006

The Retirement Board
Ohio Public Employees Retirement System
277 East Town Street
Columbus, Ohio 43215

Dear Board Members:

The basic financial objective of the Ohio Public Employees Retirement System (OPERS) is to establish and receive contributions which:

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

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

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

The actuary prepared the following supporting schedules for the Comprehensive Annual Financial Report:

Actuarial Section

Summary of Actuarial Assumptions
Individual Employee Pay Increases
Percent Separating Within Next Year
Percent of Eligible Active Members Retiring Next Year
Analysis of Financial Experience

Financial Section

Schedule of Funding Progress

The Retirement Board
December 19, 2006
Page 2

OPERS Staff prepared the schedules showing the trend of short-term solvency based upon material prepared by the actuary.

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

Actuarial valuations are based upon assumptions regarding future activity in specific risk areas including the rates of investment return and payroll growth, eligibility for the various classes of benefits, and longevity among retired lives. The Board adopts these assumptions after considering the advice of the actuary and other professionals. The assumptions comply with the requirements of Statement 25 of the Governmental Accounting Standards Board. Each actuarial valuation takes into account all prior differences between actual and assumed experience in each risk area and adjusts the contribution rates as needed. The December 31, 2005 valuations were based upon assumptions that were recommended in connection with a study of experience covering the 1996-2000 period.

Pension experience was favorable during 2005, with investment return of approximately 9% being a factor. The amortization period for unfunded liabilities remained below 30 years. The solvency period in the retiree health improved by one year since the prior valuation, due to the combined effects of favorable claims experience, plan changes, and a small investment gain.

Based upon the results of the December 31, 2005 valuations, we are pleased to report to the Board that with respect to pension benefits, the Public Employees Retirement System of Ohio is meeting its basic financial objective and continues in sound condition in accordance with actuarial principles of level percent of payroll financing. The Health Plan will need to be the subject of continuing review as envisioned in the Health Care Preservation Plan (HCPP), but it has improved since our previous measurement.

Respectfully submitted,

Norman L. Jones, F.S.A., M.A.A.A. Brian B. Murphy, F.S.A., M.A.A.A.

NLJ/BBM:vmb

Gabriel Roeder Smith & Company

The actuarial information presented in the 2006 *Comprehensive Annual Financial Report* is based on the System's most current actuarial valuation data of December 31, 2005.

The Retirement Board approved and adopted the following methods and assumptions in 2005 after consulting with the Actuary. These methods and assumptions apply to both the Traditional Plan and the Combined Plan.

Funding Method

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

Economic Assumptions

The following economic assumptions are used by the actuary:

- ***Investment Return***—8.00%, compounded annually, net after administrative expenses.
- ***Wage Inflation Rate***—4.00%, compounded annually. The wage inflation is defined to be the portion of total pay increases for an individual that are due to macroeconomic forces including productivity, price inflation, and labor market conditions. The wage inflation rate does not include pay changes related to individual merit and seniority effects.
- ***Assumed Real Rate of Return***—4%, compounded annually. The assumed real rate of return is defined as the investment return, or 8%, less the wage inflation rate, which is 4%.
- ***Active Member Population***—Assumes no change in the number of active employees. For purposes of financing the unfunded liabilities, total payroll is assumed to grow at the wage inflation rate—4.00% per year. For purposes of assumptions, the active member population consists of the sum of the Traditional and Combined Plan active members.
- ***Individual Employee Pay Increases***—An employee's pay is assumed to increase each year, in accordance with a table consisting of a percent increase for each age. The following table describes annual increase percents for sample ages.

INDIVIDUAL EMPLOYEE PAY INCREASES

Age	Merit and Seniority				Inflation	Increase Next Year			
	State	Local	Public Safety	Law		State	Local	Public Safety	Law
30	3.00%	3.00%	4.00%	4.00%	4.00%	7.00%	7.00%	8.00%	8.00%
40	1.80	1.80	0.85	0.85	4.00	5.80	5.80	4.85	4.85
50	1.20	1.20	0.50	0.50	4.00	5.20	5.20	4.50	4.50
60	0.70	0.70	0.50	0.50	4.00	4.70	4.70	4.50	4.50

- ***Turnover***—Probabilities of separation from employment before age and service retirement because of death, withdrawal or disability are:

PERCENT SEPARATING WITHIN NEXT YEAR

				Withdrawal					Disability					
		Death		State		Law Enforcement and Public Safety	Local		State		Law Enforcement and Public Safety	Local		
Sample Ages	Years of Service	Men	Women	Men	Women		Men	Women	Men	Women		Men	Women
N/A	0	N/A	N/A	38.00%	36.00%	15.00%	34.00%	32.00%	N/A	N/A	N/A	N/A	N/A
N/A	1	N/A	N/A	18.00	19.00	9.00	17.00	18.00	N/A	N/A	N/A	N/A	N/A
N/A	2	N/A	N/A	14.00	15.00	7.00	12.00	13.00	N/A	N/A	N/A	N/A	N/A
N/A	3	N/A	N/A	10.00	12.00	5.00	10.00	10.00	N/A	N/A	N/A	N/A	N/A
N/A	4	N/A	N/A	8.00	9.00	5.00	9.00	9.00	N/A	N/A	N/A	N/A	N/A
30	5 and over	0.04%	0.02%	5.20	7.00	2.90	5.40	6.90	0.13%	0.14%	0.37%	0.17%	0.13%
40	N/A	0.07	0.04	3.50	4.20	1.50	3.20	4.20	0.41	0.36	0.95	0.44	0.33
50	N/A	0.23	0.10	2.20	3.10	1.20	2.50	3.00	0.86	0.88	2.03	0.90	0.66
60	N/A	0.55	0.25	2.10	2.70	1.20	2.50	2.80	1.86	1.56	2.88	1.54	1.35

For withdrawal from service it was assumed that members terminating before age 35, members terminating with less than five years of service, and a percentage of all other members would withdraw their contributions and forfeit their entitlement to an employer financed benefit. The percentage is 100% at age 35 and is reduced for each year of age after 35, becoming 0% at age 55 (age 45 for law members).

For the purposes of death-in-service and disability benefits, it is assumed that Combined Plan members will take a benefit from the Traditional Plan, unless a lump sum distribution from the Combined Plan would have a greater value.

Assets Valuation Method

For actuarial purposes, the funding value of Defined Benefit assets recognizes assumed investment return fully each year. Differences between actual and assumed investment return are phased in over a closed four-year period. Funding value is not permitted to deviate from market value by more than 12%. Traditional and Combined Plan retiree health care funding value of assets are developed independently beginning with the December 31, 2004 valuation.

Valuation Data

The demographic and financial data used in the actuarial valuation were provided to the Actuary by the System's administrative staff. The Actuary examined the data for general reasonableness and year-to-year consistency, but did not audit the information.

Decrement Assumptions

The following tables of probabilities for the indicated risk areas are used by the Actuary.

- ***Mortality***—The tables used in evaluating age and service survivor benefit allowances to be paid were 90% of rates in the 1971 Group Annuity Mortality Male and Female tables, projected to 1984. The mortality rates for disability allowances were 300% of rates in the 1983 Group Annuity Mortality Table for Males, and 400% of rates in the 1983 Group Annuity Mortality Table for Females.
- ***Retirement***—Probabilities of age and service retirement applicable to members eligible to retire are:

PERCENT OF ELIGIBLE ACTIVE MEMBERS RETIRING WITHIN NEXT YEAR

With Unreduced Age-and-Service Retirement

Members may retire with no reduction in benefits if they have the following total years of service credit:

- State and Local—30 years;
- Public Safety—25 years;
- Law Enforcement—25 years.

However, Public Safety and Law Enforcement members must have attained the age of 52 and 48, respectively, to retire with a full benefit.

Retirement Age	State		Local		Public Safety	Law Enforcement
	Men	Women	Men	Women		
48–49	N/A	N/A	N/A	N/A	N/A	22%
50–51	40%	30%	35%	30%	N/A	22
52–54	40	30	35	30	22%	22
55	25	30	30	30	15	15
56–57	25	30	25	30	15	15
58	25	30	25	30	18	18
59	25	40	25	40	18	18
60	30	50	25	50	18	18
61	25	35	25	30	18	18
62	25	35	40	30	30	30
63	30	35	40	30	25	25
64	40	35	30	30	15	15
65	50	50	25	25	20	20
66	25	25	20	25	20	20
67–68	25	25	20	15	15	15
69	25	20	20	15	15	15
70–79	25	20	20	15	100	100
80	100	100	100	100	100	100

PERCENT OF ELIGIBLE ACTIVE MEMBERS RETIRING WITHIN NEXT YEAR

With Reduced Age-and-Service Retirement

Members who have attained the minimum age of 55 for State and Local or 48 for Public Safety, and have a minimum of 25 years of total service credit may retire with a reduced benefit.

Retirement Age	State		Local		Public Safety
	Men	Women	Men	Women	
48-49	N/A	N/A	N/A	N/A	3%
50-51	N/A	N/A	N/A	N/A	7
55-58	12%	14%	10%	12%	N/A
59	12	14	10	18	N/A
60	12	20	10	18	N/A
61	12	14	10	15	N/A
62-63	18	14	15	15	N/A
64	15	14	12	12	N/A

ACTUARIAL VALUATION DATA — TRADITIONAL PLAN

Valuation Year	Active Members				Retired Lives		
	Number	Annual Payroll ($ millions)	Average Pay	Percent Increase in Average Pay	Number*	Annual Allowance ($ millions)	Average Allowance
2005	353,708	$11,633	$32,890	1.99%	153,935	$2,645	$17,186
2004	350,835	11,313	32,246	2.08	149,296	2,443	16,365
2003	350,022	11,056	31,589	3.00	145,263	2,265	15,592
2002	365,424	11,207	30,668	2.49	141,019	2,080	14,750
2001	360,313	10,782	29,924	7.74	136,456	1,894	13,884
2000	366,975	10,192	27,773	5.66	132,603	1,753	13,220

*Retired lives number represents an individual count of retirees and beneficiaries.

ACTUARIAL VALUATION DATA — COMBINED PLAN

Valuation Year	Active Members				Retired Lives		
	Number	Annual Payroll ($ millions)	Average Pay	Percent Increase in Average Pay	Number*	Annual Allowance ($ millions)	Average Allowance
2005	5,096	$174	$34,144	7.99%	0	$0	$0
2004	4,452	141	31,618	3.68	0	0	0
2003	3,562	109	30,497	N/A	0	0	0

*Retired lives number represents an individual count of retirees and beneficiaries.

SCHEDULE OF RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS

Year Ended	Added to Rolls		Removed from Rolls		Rolls at End of Year		Percentage Increase in Annual Allowances	Average Annual Allowances
	Number	Annual Allowances	Number	Annual Allowances	Number*	Annual Allowances		
2006	9,808	$338,749,072	4,821	$106,707,100	156,745	$2,899,864,799	8.70%	$18,501
2005**	9,720	329,177,276	4,928	108,654,716	151,758	2,667,822,827	9.01	17,579
2004**	9,451	349,537,647	6,128	132,042,657	146,966	2,447,300,267	9.75	16,652
2003	9,162	277,517,938	5,184	100,844,152	143,643	2,229,805,277	8.61	15,523
2002	10,099	285,426,010	5,203	106,040,402	139,665	2,053,131,491	9.57	14,700
2001	8,403	323,457,399	5,062	99,438,913	134,769	1,873,745,883	13.58	13,903

*This number represents actual number of checks written at year end, excluding death benefits. One benefit allowance may be issued to multiple beneficiaries.
**Numbers have been restated to eliminate fixed sum death benefit payments.

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

A short-term solvency test is one means of checking a plan's progress under its funding program. In a short-term solvency test, the plan's present assets (cash and investments) are compared with: 1) active member contributions on deposit; 2) the liabilities for future benefits to present retired lives; 3) the liabilities for service already rendered by active members.

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

ACCRUED LIABILITIES* ($ in millions) — TRADITIONAL PLAN

Valuation Year	Aggregate Accrued Liabilities for			Valuation Assets	Portions of Accrued Liabilities Covered by Reported Assets		
	(1) Active Member Contributions	(2) Retirees and Beneficiaries	(3) Active Members (Employer-Financed Portion)		(1)	(2)	(3)
2005	$9,810	$27,925	$23,364	$54,433	100%	100%	71%
2004	9,340	25,697	22,536	50,430	100	100	68
2003	8,897	23,728	22,148	46,746	100	100	64
2002	8,514	21,205	21,153	43,706	100	100	66
2001	7,991	19,087	20,414	48,749	100	100	106
2000	7,448	18,017	20,882	46,844	100	100	102

*Does not include assets set aside to pay health care benefits.

ACCRUED LIABILITIES* ($ in millions) — COMBINED PLAN

Valuation Year	Aggregate Accrued Liabilities for			Valuation Assets	Portions of Accrued Liabilities Covered by Reported Assets		
	(1) Active Member Contributions	(2) Retirees and Beneficiaries	(3) Active Members (Employer-Financed Portion)		(1)	(2)	(3)
2005	$0	$0	$47	$40	N/A	N/A	85%
2004	0	0	31	22	N/A	N/A	71
2003	0	0	18	9	N/A	N/A	50

*Does not include assets set aside to pay health care benefits.

ANALYSIS OF FINANCIAL EXPERIENCE — TRADITIONAL PLAN

Type of Activity Gains and losses in accrued liabilities resulting from differences between assumed experience and actual experience	Gain (or Loss) for Year ($ in millions)			
	2005	2004	2003	2002
Age-and-Service Retirements If members retire at older ages than assumed, there is a gain. If younger ages, a loss.	$(26.7)	$23.7	$11.4	$(43.8)
Disability Retirements If disability claims are less than assumed, there is a gain. If more claims, a loss.	(25.6)	(9.8)	(30.4)	(26.4)
Death-In-Service Annuities If survivor claims are less than assumed, there is a gain. If more claims, a loss.	23.1	35.7	7.6	2.7
Other Separations If more liabilities are released by other separations than assumed, there is a gain. If smaller releases, a loss.	(112.1)	18.9	(122.2)	(190.5)
Pay Increases If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	302.3	733.1	301.4	53.7
Investment Return If there is greater investment return than assumed, there is a gain. If less return, a loss.	705.9	503.2	(33.1)	(8,869.3)
Gain (or Loss) During Year from Financial Experience	$866.9	$1,304.8	$134.7	($9,073.6)

ANALYSIS OF FINANCIAL EXPERIENCE — COMBINED PLAN

Type of Activity Gains and losses in accrued liabilities resulting from differences between assumed experience and actual experience	Gain (or Loss) for Year ($ in millions)			
	2005	2004	2003	2002
Age-and-Service Retirements If members retire at older ages than assumed, there is a gain. If younger ages, a loss.	$(.01)	N/A	N/A	N/A
Disability Retirements If disability claims are less than assumed, there is a gain. If more claims, a loss.	(.12)	N/A	N/A	N/A
Death-In-Service Annuities If survivor claims are less than assumed, there is a gain. If more claims, a loss.	(.03)	N/A	N/A	N/A
Other Separations If more liabilities are released by other separations than assumed, there is a gain. If smaller releases, a loss.	(1.30)	N/A	N/A	N/A
Pay Increases If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	(.66)	N/A	N/A	N/A
Investment Return If there is greater investment return than assumed, there is a gain. If less return, a loss.	(.05)	N/A	N/A	N/A
Gain (or Loss) During Year from Financial Experience	$(2.17)	N/A	N/A	N/A

ACTUAL VS. RECOMMENDED CONTRIBUTION RATES

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

OPERS

Statistical Section

THE MARBLEHEAD LIGHTHOUSE

Although Michigan has the distinction of being the state with the most lighthouses, Ohio holds the honor of having the oldest lighthouse in continuous operation on the Great Lakes. First shedding light in 1822, the Marblehead Lighthouse is a 50-foot tower made of native Ohio limestone. The tower has a 25-foot diameter base and walls that are five feet thick at the bottom, narrowing to a dainty 12-foot diameter and a thickness of two feet at the top.

After its first century of service, new technology and structural changes were made to the lighthouse in the early 1900s—another 15 feet were added to the tower's height and a clock-like mechanism was installed to rotate the lantern, creating the appearance of a brilliant flash of light every 10 seconds. In 1923, an electric light replaced the kerosene lantern. The United States Coast Guard assumed responsibility for the beacon in 1946, and in 1958 the beacon was automated.

In 1998, the Ohio Department of Natural Resources proudly accepted ownership of the Marblehead Lighthouse tower, while the U.S. Coast Guard continues to operate and maintain the lighthouse beacon. Today, Marblehead's beacon continues to shine and protect boaters with a 300 mm lens that projects a green signal, visible for eleven nautical miles.

Photo courtesy of Ohio Department of Natural Resources.

The objectives of the statistical section are to provide additional historical perspective, context, and relevant details to assist readers in using information in the financial statements, notes to the financial statements, and required supplementary information in order to understand and assess the System's overall financial condition. In support of these objectives, OPERS has implemented GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section.* This statement establishes standardized reporting requirements relative to the supplementary information provided in this section.

The schedules and graphs beginning on page 113 show financial trend information about the growth of OPERS' assets for the past 10 years. These schedules provide detailed information about the trends of key sources of additions and deductions to the System's assets, which assist in providing a context framing how OPERS' financial position has changed over time. The financial trend schedules presented are:

- Net Assets by Plan Type
- Changes in Net Assets, and
- Benefits and Refunds by type.

The schedules beginning on page 130 compare the pension assets accumulated to cover the projected pension liabilities that are ultimately due at retirement for each of the defined benefit plans and the corresponding funded ratio. The schedules and graph beginning on page 132 displays similar information for OPERS' health care assets and projected liabilities. The Health Care Solvency schedule shows the estimated number of years for which assets are available to cover the projected liabilities. OPERS' target is to maintain a rolling 15-25 years of available solvency.

The schedules beginning on page 133 show demographic and economic information and operating information. The demographic and economic information is designed to assist in understanding the environment in which OPERS operates. The operating information is intended to provide contextual information about OPERS' operations to assist in assessing the System's economic condition. The demographic and economic information and the operating information presented includes:

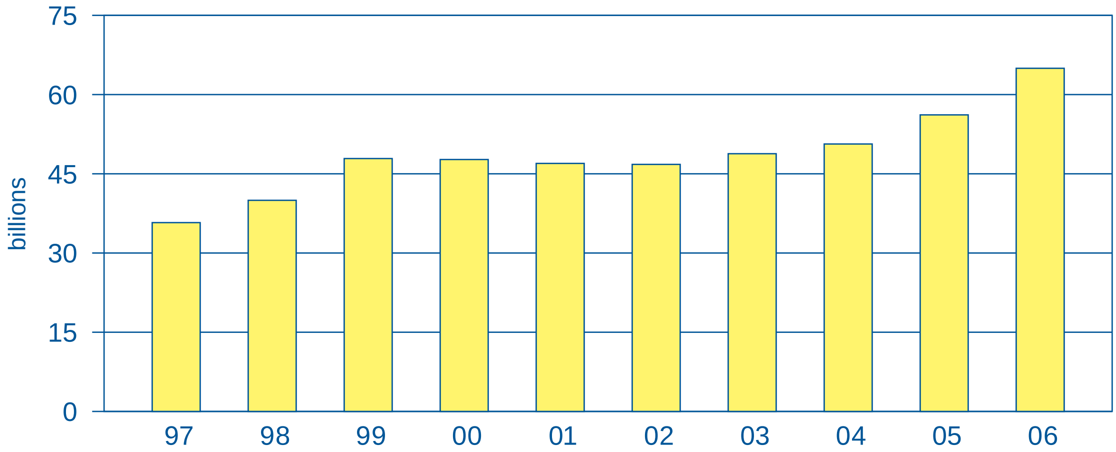
- Number of Benefit Recipients by Category,
- Schedule of Benefit Recipients by Benefit Type and Amount,
- Number of New Pension Benefit Recipients,
- Schedule of Average Benefit Payments,
- Member Count by Plan,
- OPERS' Financial Impact by County,
- Distribution of Benefit Recipients by Location,
- Contribution Rates,
- Number of Employer Units,
- Principal Participating Employers,

All non-accounting data is derived from OPERS internal sources.

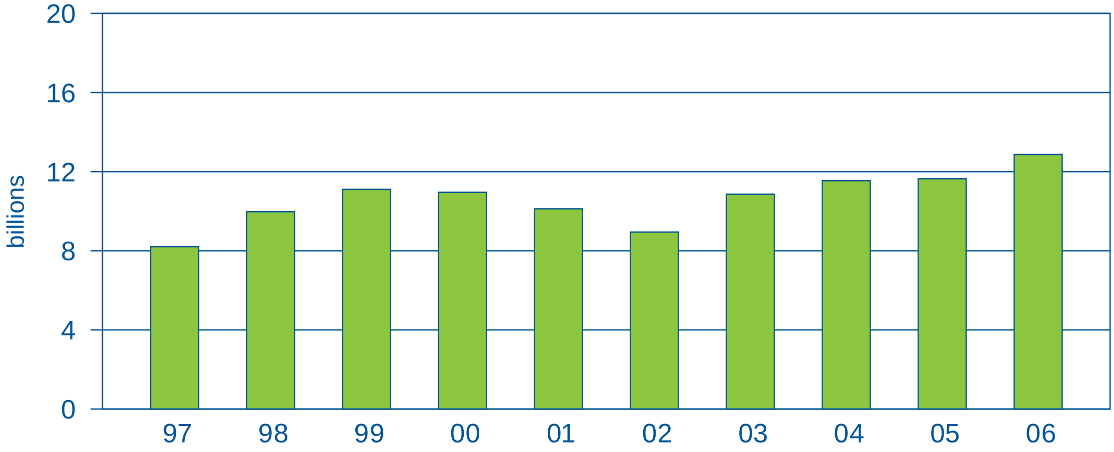
NET ASSETS BY PLAN (last ten years)

Year	Traditional Pension Plan	Post-Employment Health Care	Combined Plan	Member-Directed Plan	VEBA Plan	Total Net Assets
2006	$65,297,352,893	$12,838,059,079	$113,999,034	$86,524,882	$25,331,889	$78,361,267,777
2005	57,662,214,741	11,845,713,012	72,499,607	54,502,026	15,377,190	69,650,306,576
2004	53,554,315,210	11,609,113,358	43,463,455	33,579,873	7,978,960	65,248,450,856
2003	48,239,335,328	10,813,803,449	22,890,488	18,464,414	3,181,305	59,097,674,984
2002	39,100,014,979	8,886,282,086	N/A	N/A	N/A	47,986,297,065
2001	44,036,346,352	9,936,383,994	N/A	N/A	N/A	53,972,730,346
2000	46,261,950,182	10,965,429,369	N/A	N/A	N/A	57,227,379,551
1999	46,782,213,151	11,163,213,257	N/A	N/A	N/A	57,945,426,408
1998	41,443,240,834	10,011,840,228	N/A	N/A	N/A	51,455,081,062
1997	37,209,839,303	8,123,392,016	N/A	N/A	N/A	45,333,231,319

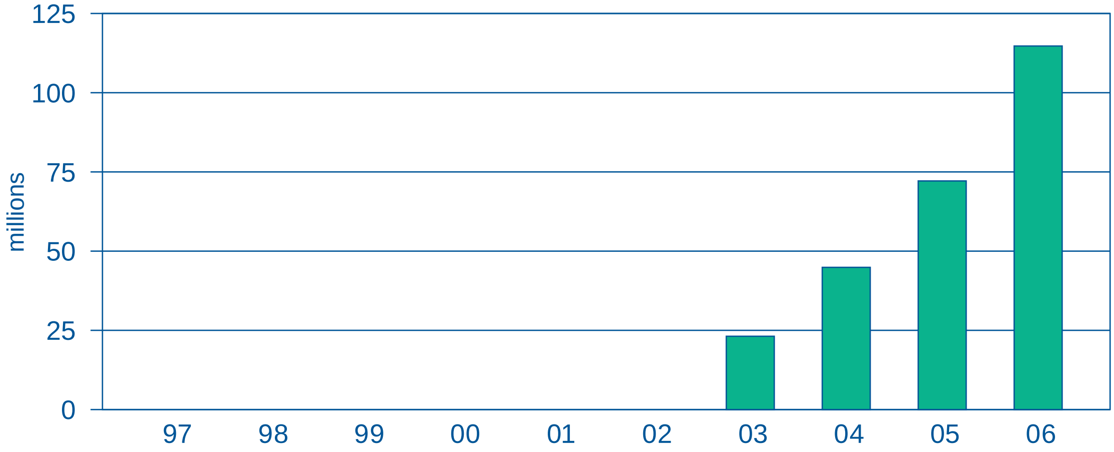
NET ASSETS BY PLAN — TRADITIONAL PENSION PLAN



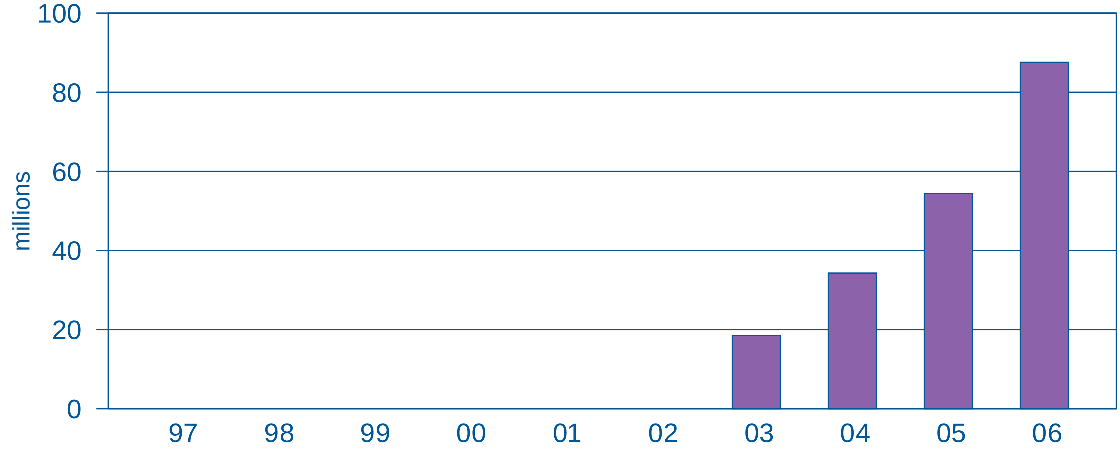
NET ASSETS BY PLAN — POST-EMPLOYMENT HEALTH CARE



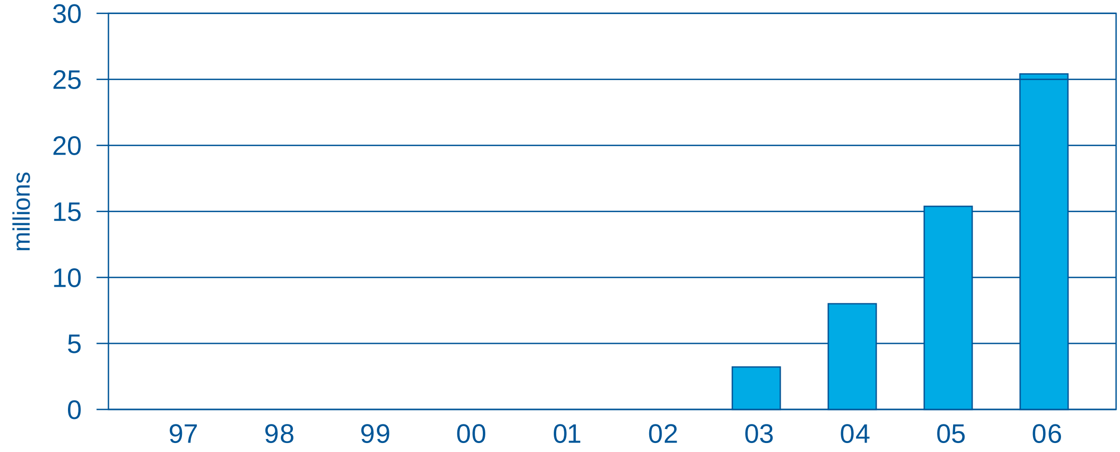
NET ASSETS BY PLAN — COMBINED PLAN



NET ASSETS BY PLAN — MEMBER-DIRECTED PLAN



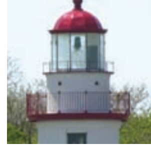
NET ASSETS BY PLAN — VEBA PLAN



CHANGES IN NET ASSETS (last ten fiscal years)

Year	2006	2005*	2004*	2003
Traditional Pension Plan				
Additions:				
Members' contributions	$1,065,862,778	$965,977,835	$958,095,802	$1,006,863,812
Employers' contributions	1,098,969,833	1,109,948,503	1,061,729,932	1,026,594,837
Contracts and other receipts	116,104,645	109,034,750	113,905,774	0
Net income (loss) from investing activity	8,529,935,923	4,860,636,257	5,886,688,477	9,603,775,739
Other income, net	221,669	432,175	(107,798)	411,093
Interplan activity	4,520,387	1,593,458	3,510,475	8,754,777
Total additions	10,815,615,235	7,047,622,978	8,023,822,662	11,646,400,258
Deductions:				
Pension benefits	2,906,857,436	2,679,084,743	2,454,131,826	2,236,477,663
Refunds	228,061,794	215,398,602	207,121,141	192,768,335
Administrative expenses	44,854,241	44,375,744	47,589,813	57,195,937
Interplan activity	703,612	864,358	0	20,637,974
Total deductions	3,180,477,083	2,939,723,447	2,708,842,780	2,507,079,909
Net increase (decrease)	7,635,138,152	4,107,899,531	5,314,979,882	9,139,320,349
Net assets held in trust, beginning of year	57,662,214,741	53,554,315,210	48,239,335,328	39,100,014,979
Net assets held in trust, end of year	$65,297,352,893	$57,662,214,741	$53,554,315,210	$48,239,335,328
Post-employment Health Care				
Additions:				
Members' contributions	$71,718,182	$63,408,347	$58,975,931	$0
Employers' contributions	539,496,748	457,805,155	461,834,411	579,904,361
Contracts and other receipts	92,540,351	6,754,443	20,851,612	0
Medicare Part D reimbursements	58,987,181	0	0	0
Investment income, net of expense	1,471,059,831	868,900,661	1,297,291,883	2,258,066,075
Other income, net	1,306,783	548,364	0	0
Total additions	2,235,109,076	1,397,416,970	1,838,953,837	2,837,970,436
Deductions:				
Health care benefits	1,231,870,038	1,152,941,961	1,040,949,675	907,769,092
Administrative expenses	10,892,971	7,875,355	2,694,253	2,679,981
Total deductions	1,242,763,009	1,160,817,316	1,043,643,928	910,449,073
Net increase (decrease)	992,346,067	236,599,654	795,309,909	1,927,521,363
Net assets held in trust, beginning of year	11,845,713,012	11,609,113,358	10,813,803,449	8,886,282,086
Net assets held in trust, end of year	$12,838,059,079	$11,845,713,012	$11,609,113,358	$10,813,803,449

*Additions restated to deliniate contracts and other receipts; years prior to 2004 are not restated.



Changes in Net Assets (continued)

2002	2001	2000	1999	1998	1997
$1,094,343,553	$931,050,640	$879,844,987	$839,186,449	$799,281,516	$773,100,594
1,109,983,205	977,289,237	718,807,713	935,429,954	886,684,170	811,485,028
0	0	0	0	0	0
(4,841,899,792)	(1,954,230,267)	(353,942,104)	5,211,527,606	4,094,859,358	4,659,970,627
623,421	664,919	884,651	1,785,346	237,360	754,023
0	0	0	0	0	0
(2,636,949,613)	(45,225,471)	1,245,595,247	6,987,929,355	5,781,062,404	6,245,310,272
2,060,130,216	1,880,704,941	1,656,264,159	1,505,940,162	1,402,239,075	1,304,604,400
187,051,815	262,681,258	81,830,345	120,631,961	125,609,907	139,624,174
52,199,729	36,992,160	27,763,712	22,384,915	19,811,891	18,179,286
0	0	0	0	0	0
2,299,381,760	2,180,378,359	1,765,858,216	1,648,957,038	1,547,660,873	1,462,407,860
(4,936,331,373)	(2,225,603,830)	(520,262,969)	5,338,972,317	4,233,401,531	4,782,902,412
44,036,346,352	46,261,950,182	46,782,213,151	41,443,240,834	37,209,839,303	32,426,936,891
$39,100,014,979	$44,036,346,352	$46,261,950,182	$46,782,213,151	$41,443,240,834	$37,209,839,303
$0	$0	$0	$0	$0	$0
573,038,298	431,103,750	452,867,242	392,459,727	379,761,098	422,152,429
0	0	0	0	0	0
0	0	0	0	0	0
(843,065,908)	(763,575,827)	(89,166,082)	1,284,270,009	1,951,002,761	761,890,450
0	0	0	0	0	0
(270,027,610)	(332,472,077)	363,701,160	1,676,729,736	2,330,763,859	1,184,042,879
776,006,852	693,484,110	559,606,294	523,599,349	440,596,663	389,845,273
4,067,446	3,089,188	1,878,754	1,757,358	1,718,984	1,928,432
780,074,298	696,573,298	561,485,048	525,356,707	442,315,647	391,773,705
(1,050,101,908)	(1,029,045,375)	(197,783,888)	1,151,373,029	1,888,448,212	792,269,174
9,936,383,994	10,965,429,369	11,163,213,257	10,011,840,228	8,123,392,016	7,331,122,842
$8,886,282,086	$9,936,383,994	$10,965,429,369	$11,163,213,257	$10,011,840,228	$8,123,392,016

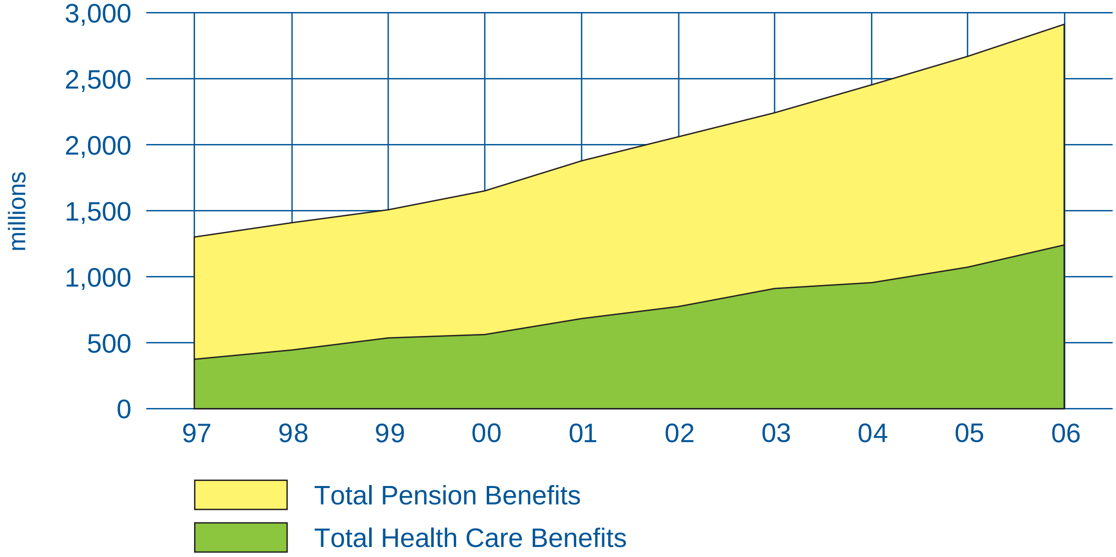
Changes in Net Assets (last four fiscal years*)

Year	2006	2005	2004	2003
Combined Plan				
Additions:				
Members' contributions	$17,367,629	$13,720,773	$11,104,158	$8,807,214
Employers' contributions	17,703,681	15,637,593	12,170,462	8,452,579
Contracts and other receipts	413,705	257,733	303,954	0
Investment income, net of expense	14,041,870	5,420,080	4,282,641	3,077,753
Interplan activity	420,198	425,831	0	10,300,381
Total additions	49,947,083	35,462,010	27,861,215	30,637,927
Deductions:				
Pension benefits	552	0	0	0
Refunds	1,910,107	1,390,162	601,042	49,490
Administrative expenses	4,510,803	4,432,803	5,032,027	4,480,051
Interplan activity	2,026,194	602,893	1,655,177	3,217,900
Total deductions	8,447,656	6,425,858	7,288,246	7,747,441
Net increase	41,499,427	29,036,152	20,572,969	22,890,486
Net assets held in trust, beginning of year	72,499,607	43,463,455	22,890,486	0
Net assets held in trust, end of year	$113,999,034	$72,499,607	$43,463,455	$22,890,486
Member-Directed Plan				
Additions:				
Members' contributions	$16,130,744	$12,162,247	$10,113,067	$7,723,797
Employers' contributions	16,370,002	12,424,689	10,051,013	7,464,773
Contracts and other receipts	155,021	343,399	353,535	0
Investment income, net of expense	10,529,166	4,078,183	3,423,731	2,753,472
Interplan activity	345,750	355,531	0	10,337,593
Total additions	43,530,683	29,364,049	23,623,346	28,279,635
Deductions:				
Pension benefits	1,125	0	0	0
Refunds	5,191,909	3,447,236	2,055,789	391,773
Administrative expenses	3,882,917	4,128,233	4,898,872	5,098,717
Interplan activity	2,431,876	866,427	1,553,226	4,324,731
Total deductions	11,507,827	8,441,896	8,507,887	9,815,221
Net increase	32,022,856	20,922,153	15,115,459	18,464,414
Net assets held in trust, beginning of year	54,502,026	33,579,873	18,464,414	0
Net assets held in trust, end of year	$86,524,882	$54,502,026	$33,579,873	$18,464,414
VEBA Plan				
Additions:				
Employers' contributions	$8,116,172	$7,252,580	$5,856,183	$4,362,121
Investment income, net of expense	2,987,872	1,041,393	719,839	413,434
Interplan activity	0	82,996	0	0
Total additions	11,104,044	8,376,969	6,576,022	4,775,555
Deductions:				
Benefits	12,850	1,757	0	0
Administrative expenses	1,011,842	852,844	1,476,295	382,104
Interplan activity	124,653	124,138	302,072	1,212,146
Total deductions	1,149,345	978,739	1,778,367	1,594,250
Net increase	9,954,699	7,398,230	4,797,655	3,181,305
Net assets held in trust, beginning of year	15,377,190	7,978,960	3,181,305	0
Net assets held in trust, end of year	$25,331,889	$15,377,190	$7,978,960	$3,181,305

*Plans commenced January 1, 2003.

This is the graphic representation of the Benefits by Type data detailed on the next page (page 124).

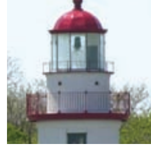
BENEFITS BY TYPE



BENEFITS BY TYPE (last ten years)

Year	2006	2005	2004	2003
Traditional Pension Plan				
Pension benefits:				
Annuities	$2,295,237,290	$2,107,916,570	$1,921,376,875	$1,746,038,446
Disabilities	454,254,591	418,066,051	384,376,167	352,768,476
Other systems	11,090,453	11,331,852	13,431,599	7,812,726
Survivors	138,952,075	134,275,593	127,926,096	123,185,630
Death	7,033,516	7,237,063	6,831,559	6,672,385
QEBA	289,511	257,614	189,530	0
Total pension benefits	**$2,906,857,436**	**$2,679,084,743**	**$2,454,131,826**	**$2,236,477,663**
Post-employment Health Care				
Health care benefits:				
Medicare Part B (statutorily required)	$92,268,184	$80,094,041	$67,295,184	$58,704,582
Medical	711,461,624	669,663,632	578,796,744	489,843,513
Prescription drug	428,140,230	403,184,288	394,857,747	359,220,997
Total health care benefits	**$1,231,870,038**	**$1,152,941,961**	**$1,040,949,675**	**$907,769,092**
Combined Plan*				
Pension benefits:				
Annuities and installment payments	552	0	0	0
Total pension benefits	**$552**	**$0**	**$0**	**$0**
Member-Directed Plan*				
Pension benefits:				
Annuities and installment payments	1,125	0	0	0
Total pension benefits	**$1,125**	**$0**	**$0**	**$0**
VEBA Plan*				
Health care benefits:				
Medical and prescription drug	12,850	0	0	0
Total health care benefits	**$12,850**	**$0**	**$0**	**$0**

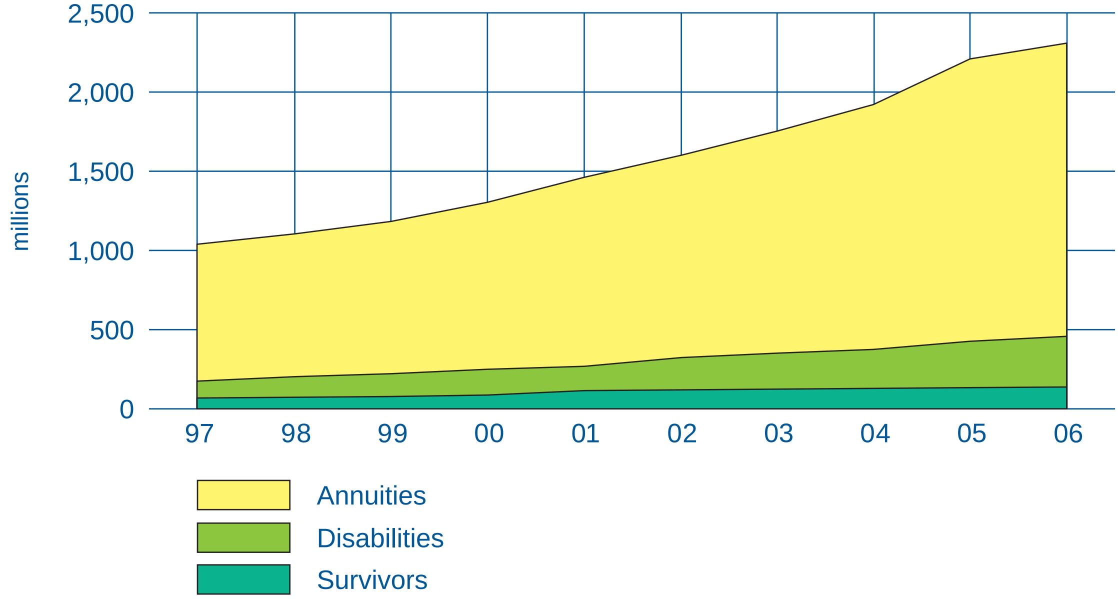
*Plan commenced January 1, 2003.



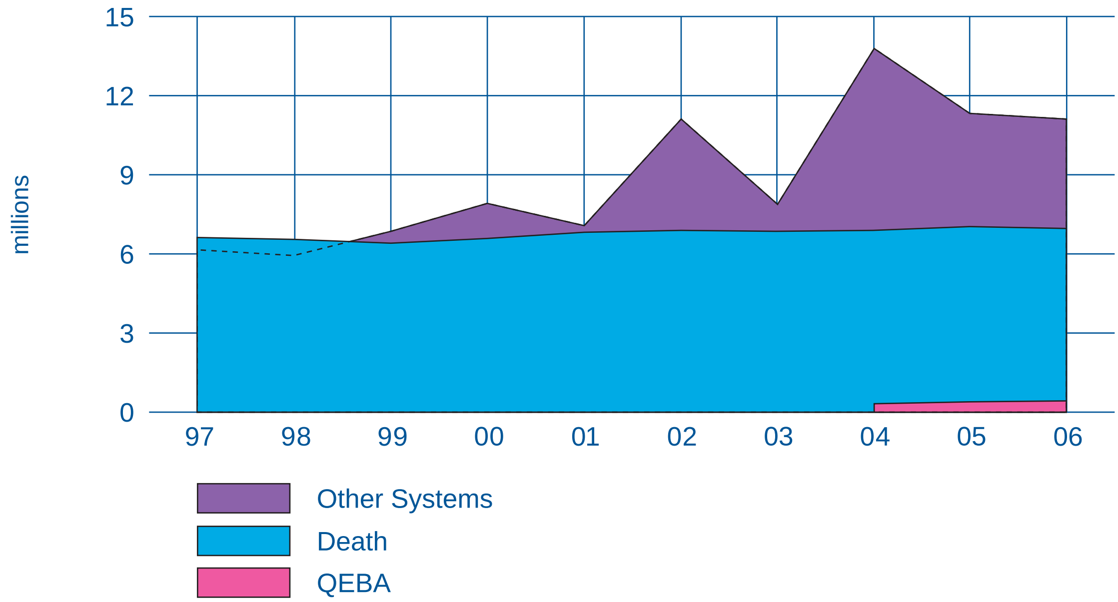
Benefits by Type (continued)

2002	2001	2000	1999	1998	1997
$1,603,187,593	$1,464,902,740	$1,300,982,670	$1,189,128,416	$1,109,378,935	$1,035,952,493
319,946,811	287,759,349	251,751,580	224,029,395	204,540,532	183,368,625
11,242,369	6,984,942	7,767,254	6,688,026	5,937,875	6,037,460
118,754,718	114,098,852	89,297,851	79,786,105	76,059,739	72,781,064
6,998,725	6,959,058	6,464,804	6,308,220	6,321,994	6,464,758
0	0	0	0	0	0
$2,060,130,216	**$1,880,704,941**	**$1,656,264,159**	**$1,505,940,162**	**$1,402,239,075**	**$1,304,604,400**
$53,572,102	$49,192,479	$44,470,799	$43,954,974	$42,076,921	$41,746,562
408,221,504	377,912,277	308,735,099	281,725,956	242,210,735	222,242,008
314,213,246	266,379,354	206,400,396	197,918,419	156,309,007	125,856,703
$776,006,852	**$693,484,110**	**$559,606,294**	**$523,599,349**	**$440,596,663**	**$389,845,273**
0	0	0	0	0	0
$0	**$0**	**$0**	**$0**	**$0**	**$0**
0	0	0	0	0	0
$0	**$0**	**$0**	**$0**	**$0**	**$0**
0	0	0	0	0	0
$0	**$0**	**$0**	**$0**	**$0**	**$0**

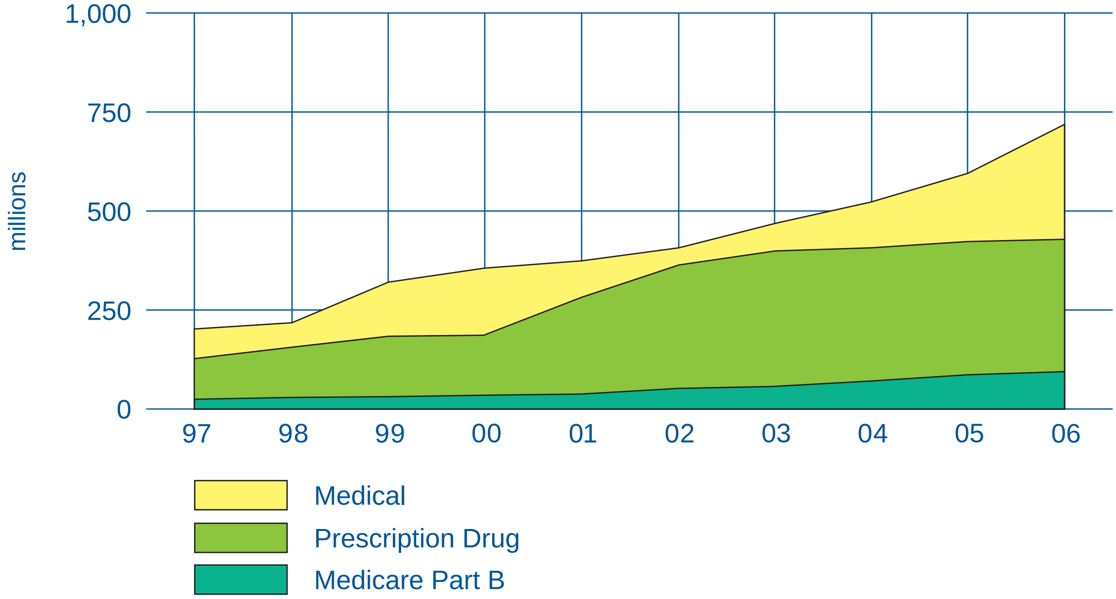
PENSION BENEFITS BY TYPE



PENSION BENEFITS BY TYPE (CONTINUED)



Health Care Benefits by Type

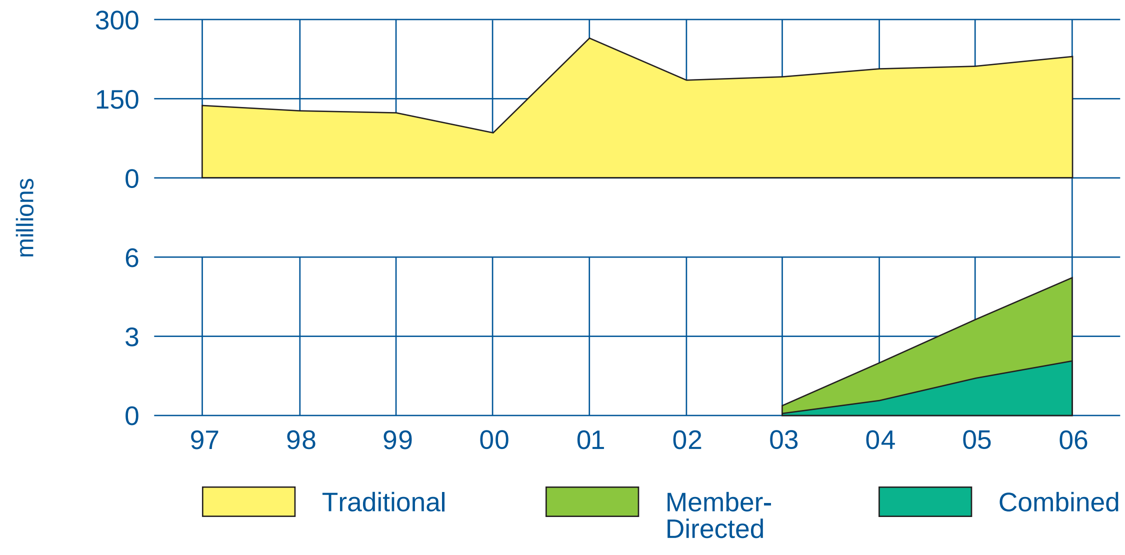


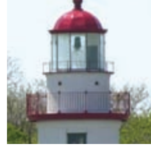
Refunds by Type (last ten years)

Year	2006	2005	2004	2003
Traditional Pension Plan				
Refunds:				
Separation	$200,138,152	$189,019,842	$177,227,660	$150,846,499
Beneficiaries	18,458,336	18,510,705	19,872,224	28,263,206
Other	9,465,306	7,868,055	10,021,257	13,658,630
Total refunds	**$228,061,794**	**$215,398,602**	**$207,121,141**	**$192,768,335**
Combined Plan*				
Refunds:				
Separation	$1,910,107	$1,346,396	$595,651	$47,738
Beneficiaries	0	39,498	2,642	0
Other	0	4,268	2,749	1,752
Total refunds	**$1,910,107**	**$1,390,162**	**$601,042**	**$49,490**
Member-Directed Plan*				
Refunds:				
Separation	$5,183,325	$3,351,568	$2,028,036	$389,565
Beneficiaries	8,584	88,410	10,316	0
Other	0	7,258	17,437	2,208
Total refunds	**$5,191,909**	**$3,447,236**	**$2,055,789**	**$391,773**

*Plans commenced January 1, 2003.

Refunds by Plan





REFUNDS BY TYPE (CONTINUED)

2002	2001	2000	1999	1998	1997
$159,348,529	$231,665,029	$69,381,933	$101,426,721	$116,866,392	$131,184,720
15,180,435	22,378,095	2,374,820	4,477,399	5,824,082	5,827,194
12,522,851	8,638,134	10,073,592	14,727,841	2,919,433	2,612,260
$187,051,815	**$262,681,258**	**$81,830,345**	**$120,631,961**	**$125,609,907**	**$139,624,174**
N/A	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**
N/A	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**

NUMBER OF REFUND PAYMENTS BY PLAN (last ten years)

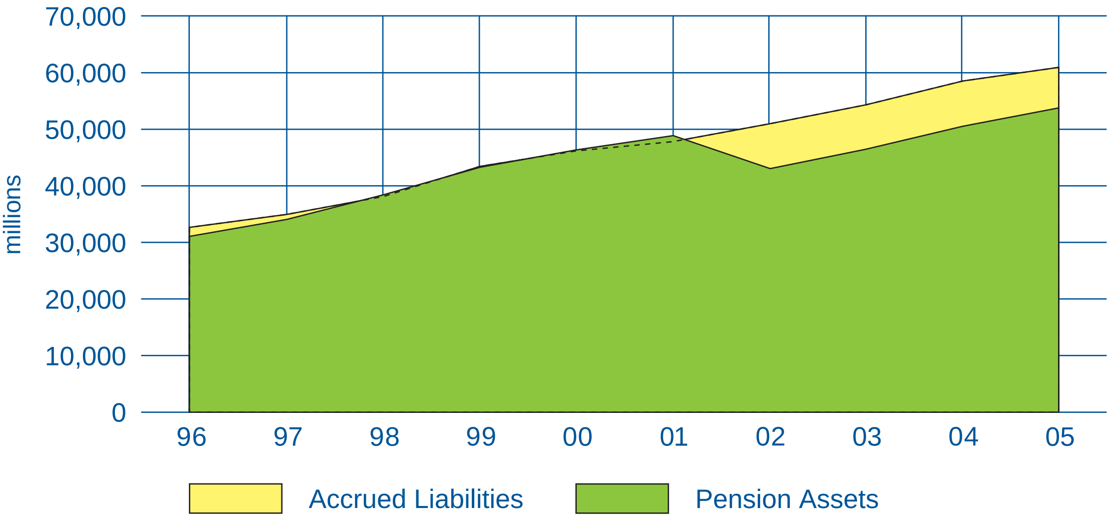
Year	Traditional Pension Plan	Combined Plan	Member-Directed Plan	Total
2006	26,276	383	937	27,596
2005	28,013	253	580	28,846
2004	37,728	151	436	38,315
2003	37,022	21	79	37,122
2002	32,186	N/A	N/A	32,186
2001	40,615	N/A	N/A	40,615
2000	31,157	N/A	N/A	31,157
1999	36,442	N/A	N/A	36,442
1998	38,299	N/A	N/A	38,299
1997	40,806	N/A	N/A	40,806

PENSION ASSETS VS PENSION LIABILITIES (last ten years, $ in millions) — TRADITIONAL PLAN

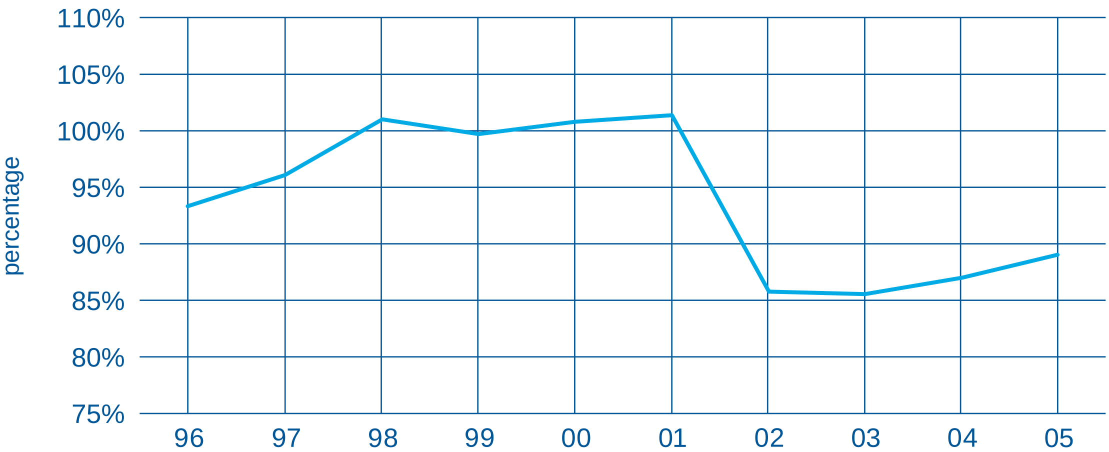
Year	2005	2004	2003	2002	2001*	2000*	1999	1998*	1997	1996
Pension assets	$54,433	$50,452	$46,746	$43,706	$48,748	$46,844	$43,060	$38,360	$33,846	$30,534
Accrued liabilities	61,099	57,604	54,774	50,872	47,492	46,347	43,070	37,714	34,971	32,631
Unfunded liabilities	(6,666)	(7,152)	(8,028)	(7,166)	1,256	497	(10)	646	(1,125)	(2,097)
Funded ratio	89.09%	87.58%	85.34%	85.91%	102.64%	101.07%	99.98%	101.71%	96.78%	93.57%

*Pension assets were in excess of accrued liabilities.

PENSION ASSETS VS PENSION LIABILITIES — TRADITIONAL PLAN



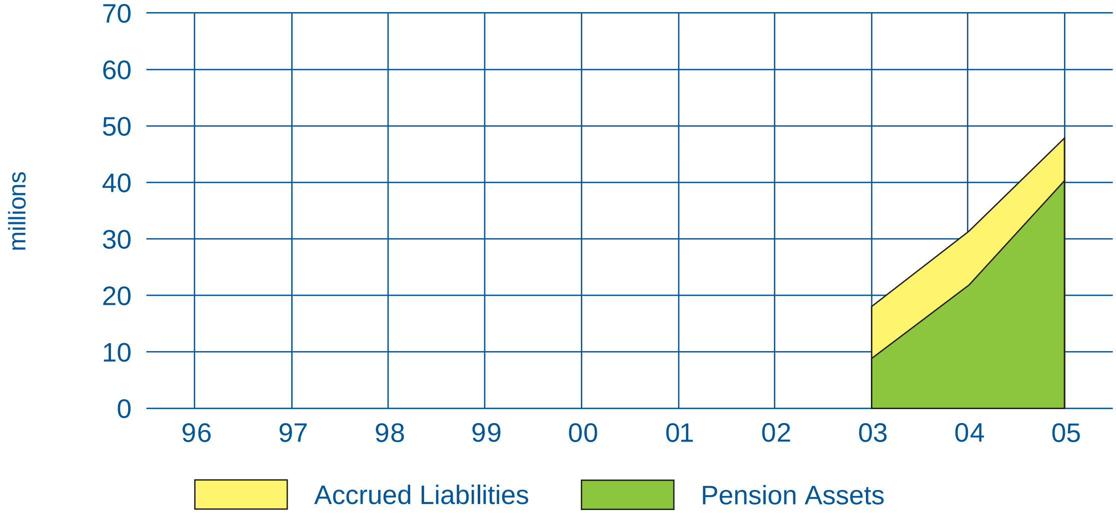
FUNDED RATIO — TRADITIONAL PLAN



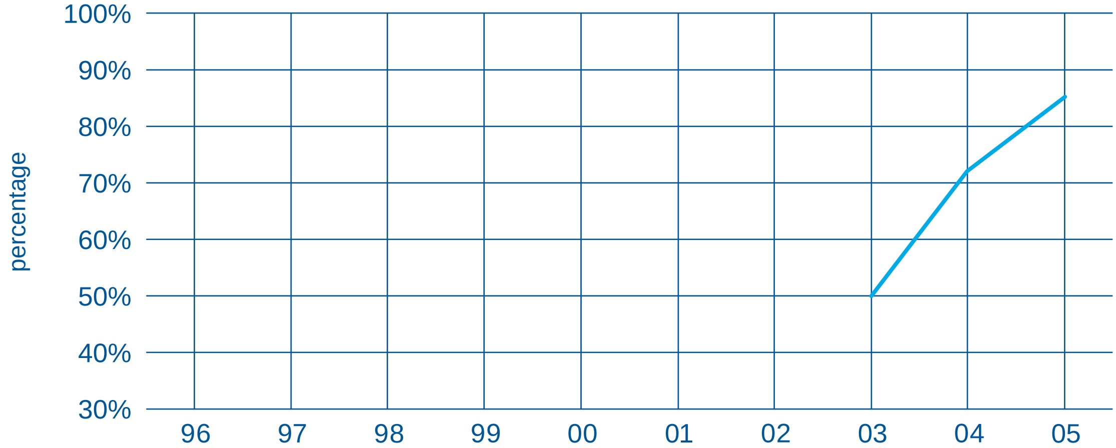
PENSION ASSETS VS PENSION LIABILITIES (last four years, $ in millions) — COMBINED PLAN

Year	2005	2004	2003
Pension assets	$40	$22	$9
Accrued liabilities	47	31	18
Unfunded liabilities	(7)	(9)	(9)
Funded ratio	85.11%	70.97%	50.00%

PENSION ASSETS VS PENSION LIABILITIES — COMBINED PLAN



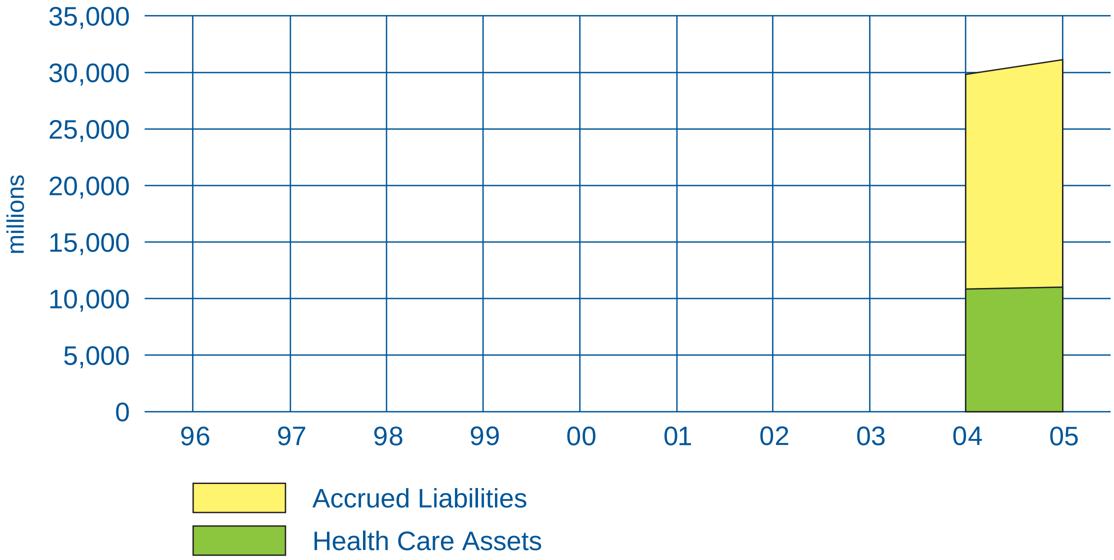
FUNDED RATIO — COMBINED PLAN



HEALTH CARE ASSETS VS LIABILITIES ($ in millions) — POST-EMPLOYMENT HEALTH CARE

Year	2005	2004
Health care assets	$11,070	$10,816
Accrued liabilities	31,307	29,479
Unfunded liabilities	(20,237)	(18,663)
Funded ratio	35.36%	36.69%

HEALTH CARE ASSETS VS LIABILITIES



HEALTH CARE SOLVENCY PERIOD

Year	Estimated Years of Solvency
2005	18
2004	17
2003	18
2002	14
2001*	21

*Data not available prior to 2001.

Number of Benefit Recipients by Category (last ten years) — Traditional Plan

Year End	Annuities	Disabilities	Survivors	Total
2006	122,021	21,563	13,161	156,745
2005	118,099	20,732	12,927	151,758
2004	114,698	19,758	12,510	146,966
2003	112,247	18,859	12,537	143,643
2002	109,565	17,809	12,291	139,665
2001	105,876	16,727	12,166	134,769
2000	103,680	15,811	11,937	131,428
1999	101,345	14,868	11,785	127,998
1998	99,619	14,146	11,653	125,418
1997	97,833	13,335	11,620	122,788

Post-employment Health Care

Year End	Total Covered Lives
2006	200,494
2005	194,773
2004	189,227
2003	179,182
2002	170,945
2001*	161,664

*Data not available prior to 2001.

Combined Plan

Year End	Total Benefit Recipients
2006	1

Member-Directed Plan

Year End	Total Benefit Recipients
2006	1

VEBA Plan

Year End	Total Covered Lives
2006	293
2005	185
2004	75
2003	9

SCHEDULE OF BENEFIT RECIPIENTS BY BENEFIT TYPE AND AMOUNT — TRADITIONAL PLAN ONLY*

As of December 2006

Amount of Monthly Benefit	Annuities	Disabilities	Survivors	Number of Recipients
$1-299	13,003	461	787	14,251
300-499	10,759	494	2,520	13,773
500-999	25,310	2,801	5,971	34,082
1,000-1,499	19,976	4,967	2,217	27,160
1,500-1,999	15,561	5,059	910	21,530
2,000 and over	37,412	7,781	756	45,949
Totals	**122,021**	**21,563**	**13,161**	**156,745**

*This schedule includes only the Traditional Pension Plan as a 100% defined benefit plan. The monthly benefit for Combined Plan and Member-Directed Plan participants is variable due to the inclusion of defined contribution accounts.

NUMBER OF NEW PENSION BENEFIT RECIPIENTS — TRADITIONAL PLAN

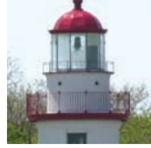
Year End	Annuities	Disabilities	Survivors	Total
2006	7,457	1,644	707	9,808
2005	7,257	1,734	729	9,720
2004	7,222	1,664	565	9,451
2003	6,559	1,833	770	9,162
2002	7,600	1,799	700	10,099
2001	5,999	1,650	754	8,403
2000	6,065	1,739	655	8,459
1999	5,387	1,474	652	7,513
1998	5,490	1,487	579	7,556
1997	5,371	1,470	616	7,457

NUMBER OF NEW PENSION BENEFIT RECIPIENTS — COMBINED PLAN

Year End	Annuities	Disabilities	Survivors	Total
2006	1	N/A	N/A	1

NUMBER OF NEW PENSION BENEFIT RECIPIENTS — MEMBER-DIRECTED PLAN

Year End	Annuities	Disabilities	Survivors	Total
2006	1	N/A	N/A	1



SCHEDULE OF AVERAGE BENEFIT PAYMENTS (last ten years**) — TRADITIONAL PLAN ONLY*

		Years Credited Service					
	Retirement Effective Dates	5 – 9	10 – 14	15 – 19	20 – 24	25 – 30	30+
2006	Average Monthly Benefit*	$731	$688	$1,015	$1,406	$1,994	$2,871
	Average Final Average Salary	$28,806	$30,409	$37,248	$40,359	$46,316	$52,998
	Number of Active Recipients	607	1,349	986	993	1,383	3,198
2005	Average Monthly Benefit*	$766	$723	$1,013	$1,407	$1,987	$2,891
	Average Final Average Salary	$28,702	$32,126	$36,360	$39,854	$46,151	$52,805
	Number of Active Recipients	645	1,317	987	954	1,319	3,442
2004	Average Monthly Benefit*	$784	$618	$985	$1,377	$1,889	$2,788
	Average Final Average Salary	$29,654	$27,902	$34,872	$38,429	$43,826	$50,600
	Number of Active Recipients	520	1,215	1,016	932	1,282	3,072
2003	Average Monthly Benefit*	$736	$658	$1,040	$1,386	$1,944	$2,885
	Average Final Average Salary	$25,541	$29,196	$35,115	$37,183	$42,518	$49,747
	Number of Active Recipients	642	1,254	1,037	944	1,230	3,131
2002	Average Monthly Benefit*	$703	$611	$965	$1,290	$1,855	$2,667
	Average Final Average Salary	$25,392	$27,426	$33,170	$34,733	$41,607	$46,883
	Number of Active Recipients	579	1,295	1,069	1,079	1,393	3,489
2001	Average Monthly Benefit*	$635	$621	$953	$1,286	$1,777	$2,554
	Average Final Average Salary	$24,281	$28,405	$32,628	$35,007	$39,560	$45,092
	Number of Active Recipients	470	1,079	890	929	1,098	2,561
2000	Average Monthly Benefit*	$529	$546	$860	$1,195	$1,674	$2,483
	Average Final Average Salary	$22,833	$25,995	$29,947	$32,448	$37,508	$44,155
	Number of Active Recipients	443	1,114	880	896	974	2,313
1999	Average Monthly Benefit*	$468	$545	$835	$1,135	$1,497	$2,316
	Average Final Average Salary	$22,725	$26,514	$29,828	$32,856	$35,701	$42,948
	Number of Active Recipients	446	1,095	846	897	960	2,079
1998	Average Monthly Benefit*	$385	$498	$781	$1,108	$1,434	$2,176
	Average Final Average Salary	$20,226	$24,160	$28,008	$31,530	$34,492	$40,098
	Number of Active Recipients	426	1,197	931	877	939	1,991
1997	Average Monthly Benefit*	$381	$513	$800	$1,090	$1,400	$2,234
	Average Final Average Salary	$21,967	$25,138	$28,674	$31,290	$33,908	$40,650
	Number of Active Recipients	415	1,091	908	846	908	2,037

*Average Monthly Benefit includes post retirement and yearly 3% cost-of-living increases for new benefit recipients each year.
**All years begin January 1 and end December 31.

MEMBER COUNT—PENSION PLANS — TRADITIONAL PLAN

Year End	Active	Inactive	Benefit Recipients	Total
2006	369,728	345,070	156,745	871,543
2005	371,148	326,528	151,758	849,434
2004	366,470	312,480	146,966	825,916
2003*	361,704	302,221	143,643	807,568
2002	402,041	255,528	139,665	797,234
2001	411,076	224,677	134,769	770,522
2000	399,919	220,189	131,428	751,536
1999	383,286	207,345	127,998	718,629
1998	371,563	192,273	125,418	689,254
1997	365,384	175,020	122,788	663,192

*Effective 2003, members actively contributing under more than one employer code are counted only once.

MEMBER COUNT—PENSION PLANS — COMBINED PLAN

Year End	Active	Inactive	Benefit Recipients	Total
2006	5,609	519	1	6,129
2005	5,026	414	0	5,440
2004	4,223	232	0	4,455
2003	3,590	92	0	3,682

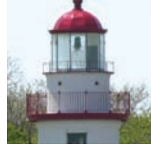
MEMBER COUNT—PENSION PLANS — MEMBER-DIRECTED PLAN

Year End	Active	Inactive	Benefit Recipients	Total
2006	6,127	1,108	1	7,236
2005	5,239	922	0	6,161
2004	4,383	536	0	4,919
2003	3,702	233	0	3,935

MEMBER COUNT—PENSION PLANS — TOTAL ALL PENSION PLANS*

Year End	Active	Inactive	Benefit Recipients	Total
2006	381,464	346,697	156,747	884,908
2005	381,413	327,864	151,758	861,035
2004	375,076	313,248	146,966	835,290
2003	368,996	302,546	143,643	815,185
2002	402,041	255,528	139,665	797,234
2001	411,076	224,677	134,769	770,522
2000	399,919	220,189	131,428	751,536
1999	383,286	207,345	127,998	718,629
1998	371,563	192,273	125,418	689,254
1997	365,384	175,020	122,788	663,192

*Prior to 2003, includes Traditional Pension Plan only. Effective 2003, includes the Traditional Pension Plan, the Combined Plan, and the Member-Directed Plan.



MEMBER COUNT—HEALTH CARE PLANS — POST-EMPLOYMENT HEALTH CARE

Year End	Active	Inactive	Benefit Recipients	Total
2006	N/A	N/A	200,494	200,494
2005	N/A	N/A	194,773	194,773
2004	N/A	N/A	189,227	189,227
2003	N/A	N/A	179,182	179,182
2002	N/A	N/A	170,945	170,945
2001*	N/A	N/A	161,664	161,664

*Data not available prior to 2001. Benefit Recipients is defined as the number of covered lives.

MEMBER COUNT—HEALTH CARE PLANS — VEBA PLAN

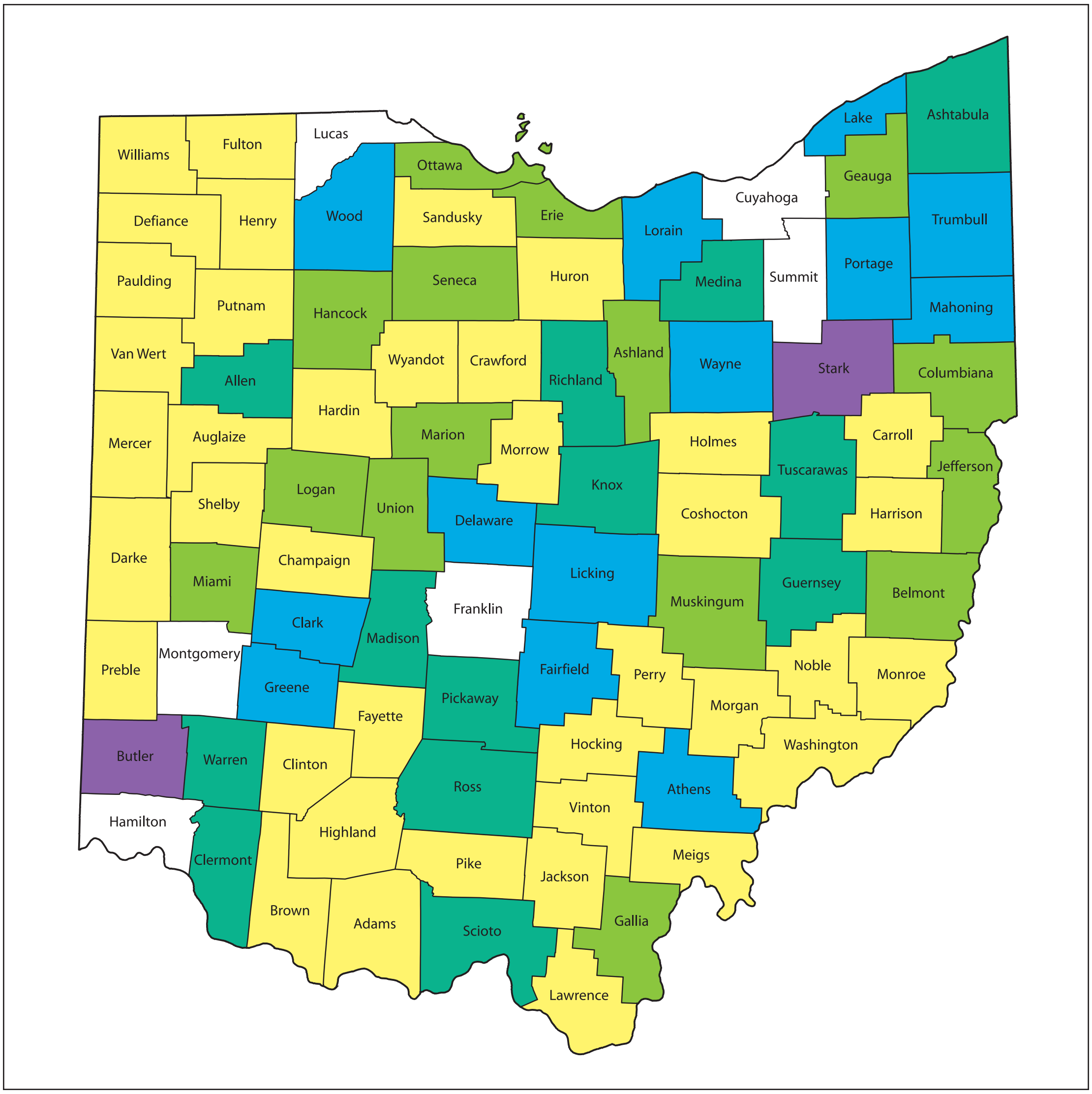
Year End	Active	Inactive	Benefit Recipients	Total
2006	5,742	1,122	293	7,157
2005	5,004	858	185	6,047
2004	4,282	506	75	4,863
2003	3,586	27	9	3,622

MEMBER COUNT—HEALTH CARE PLANS — TOTAL ALL HEALTH CARE PLANS*

Year End	Active	Inactive	Benefit Recipients	Total
2006	5,742	1,122	200,787	207,651
2005	5,004	858	194,958	200,820
2004	4,282	506	189,302	194,090
2003*	3,586	27	179,191	182,804
2002	N/A	N/A	170,945	170,945
2001	N/A	N/A	161,664	161,664

*Prior to 2003, includes the post-employment health care plan only. Effective 2003, includes the post-employment health care plan and the VEBA plan.

OPERS' FINANCIAL IMPACT, BY COUNTY

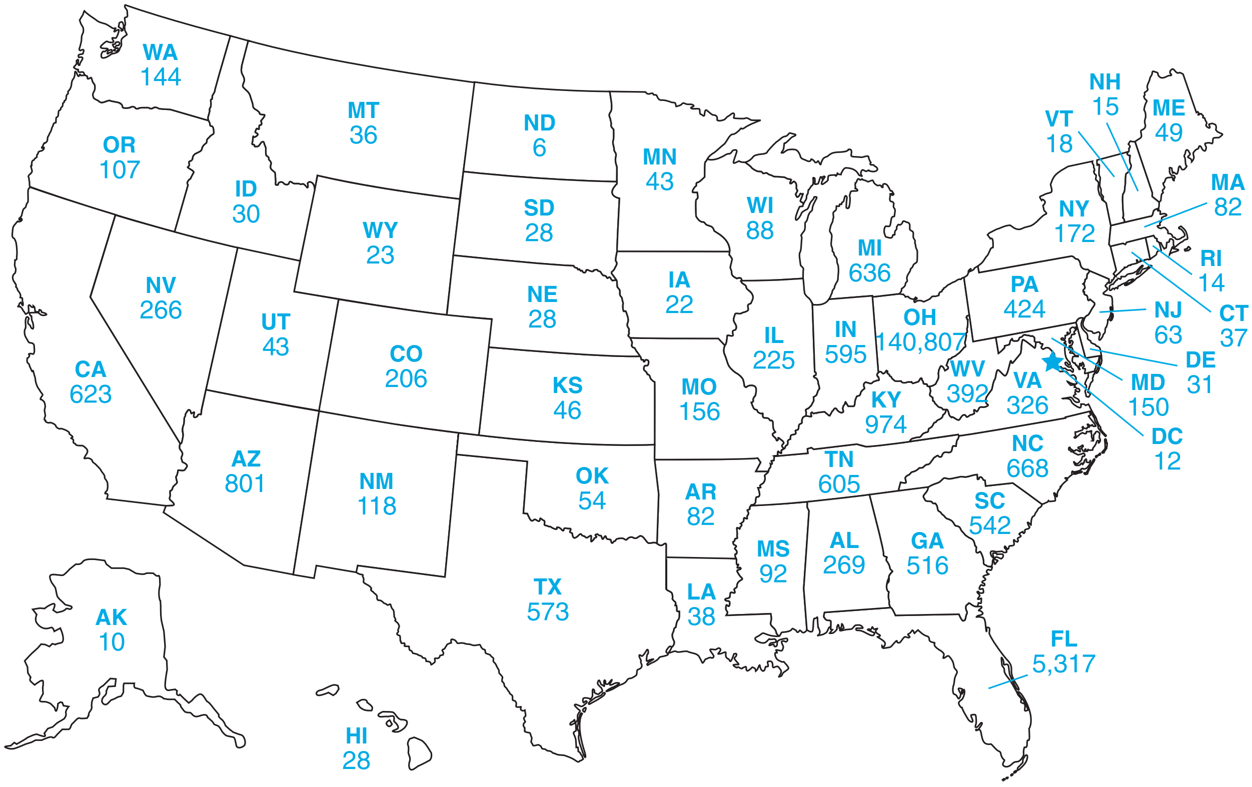


COLOR KEY

$0–$10 million	Yellow
$10–$15 million	Light green
$15–$25 million	Dark green
$25–$50 million	Blue
$50–$100 million	Purple
$100 million +	White

Of the 156,745 retirees and beneficiaries in the OPERS' system, 140,807, or 89.8%, remain Ohio residents. Pension benefit payments approaching $2.6 billion this year are distributed throughout Ohio, representing OPERS' impact on the state's economy.

OHIO PENSION BENEFIT RECIPIENTS



Recipients Outside United States

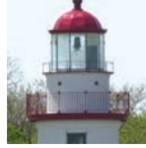
Australia	5
Austria	2
Belgium	1
Brazil	1
Canada	21
China	1
Costa Rica	3
Czech Republic	2
Egypt	2
England	7
France	3
Germany	6
Greece	2
Guam	1
Ireland	1
Israel	4
Italy	6
Latvia	1
Lebanon	1
Lithuania	1
Mexico	3
Netherlands	1
New Zealand	1
Norway	1
Philippines	4
Puerto Rico	9
Romania	1
Russia	1
Saipan MP	1
Scotland	1
Singapore	1
Slovak Republic	1
Slovenia	1
South America	1
South Korea	1
Spain	5
Thailand	1
Ukraine	1
United Kingdom	2
Virgin Islands	5
West Indies	2

CONTRIBUTION RATES — TRADITIONAL PLAN

	Year	Member Rates	Employer Rates: Current: Normal	Employer Rates: Current: Health	Employer Rates: Current: Survivor Benefits	Employer Rates: Unfunded Liability: Past Service	Employer Rates: Unfunded Liability: Health	Total Employer Rates	Total Aggregate Employer and Member Rates
State	2006	9.00%	5.26%	4.50%	0.41%	3.37%	0.00%	13.54%	22.54%
	2005	8.50	5.29	4.00	0.41	3.61	0.00	13.31	21.81
	2004	8.50	5.53	4.00	0.42	3.36	0.00	13.31	21.81
	2003	8.50	5.75	5.00	0.42	2.14	0.00	13.31	21.81
	2002	8.50	6.27	5.00	0.72	1.32	0.00	13.31	21.81
	2001	8.50	6.96	4.30	0.72	1.33	0.00	13.31	21.81
	2000*	8.50	4.90	4.30	0.51	0.94	0.00	10.65	19.15
	1999	8.50	5.62	4.20	0.59	2.90	0.00	13.31	21.81
	1998	8.50	5.62	4.20	0.59	2.90	0.00	13.31	21.81
	1997	8.50	5.62	3.31	0.59	2.81	0.98	13.31	21.81
Local	2006	9.00%	5.10%	4.50%	0.47%	3.63%	0.00%	13.70%	22.70%
	2005	8.50	5.19	4.00	0.47	3.89	0.00	13.55	22.05
	2004	8.50	5.45	4.00	0.47	3.63	0.00	13.55	22.05
	2003	8.50	5.66	5.00	0.48	2.41	0.00	13.55	22.05
	2002	8.50	6.26	5.00	0.72	1.57	0.00	13.55	22.05
	2001	8.50	6.96	4.30	0.72	1.57	0.00	13.55	22.05
	2000*	8.50	4.92	4.30	0.51	1.11	0.00	10.84	19.34
	1999	8.50	5.57	4.20	0.58	3.20	0.00	13.55	22.05
	1998	8.50	5.57	4.20	0.59	3.19	0.00	13.55	22.05
	1997	8.50	5.57	4.29	0.59	2.28	0.82	13.55	22.05
Law Enforcement	2006	10.10%	8.10%	4.50%	0.53%	3.80%	0.00%	16.93%	27.03%
	2005	10.10	8.11	4.00	0.54	4.05	0.00	16.70	26.80
	2004	10.10	8.23	4.00	0.54	3.93	0.00	16.70	26.80
	2003	10.10	8.34	5.00	0.54	2.82	0.00	16.70	26.80
	2002	10.10	10.02	5.00	0.85	0.83	0.00	16.70	26.80
	2001	10.10	10.62	4.30	0.88	0.90	0.00	16.70	26.80
	2000*	8.50	9.76	4.30	0.81	0.83	0.00	15.70	24.20
	1999	8.50	9.61	4.20	0.88	2.01	0.00	16.70	25.20
	1998	8.50	9.61	4.20	0.89	2.00	0.00	16.70	25.20
	1997	8.50	9.61	4.70	0.89	0.74	0.76	16.70	25.20
Public Safety	2006	9.00%	8.43%	4.50%	0.61%	3.39%	0.00%	16.93%	25.93%
	2005	9.00	8.11	4.00	0.54	4.05	0.00	16.70	25.70
	2004	9.00	8.23	4.00	0.54	3.93	0.00	16.70	25.70
	2003	9.00	8.34	5.00	0.54	2.82	0.00	16.70	25.70
	2002	9.00	10.01	5.00	0.98	0.71	0.00	16.70	25.70
	2001**	9.00	10.90	4.30	0.89	0.61	0.00	16.70	25.70

*One-time employer contribution rate rollback.

**HB 416 separated the Law Enforcement program into two divisions effective January 1, 2001.



CONTRIBUTION RATES — COMBINED PLAN

			Employer Rates				
	Year	Member Rates	Pension	Health	Mitigation Rate	Total Employer Rates	Total Rates
State	2006	9.00%	8.50%	4.50%	0.54%	13.54%	22.54%
	2005	8.50	9.31	4.00	0.00	13.31	21.81
	2004	8.50	9.31	4.00	0.00	13.31	21.81
	2003	8.50	8.31	5.05	0.00	13.31	21.81
Local	2006	9.00%	8.50%	4.50%	0.70%	13.70%	22.70%
	2005	8.50	9.55	4.00	0.00	13.55	22.05
	2004	8.50	9.55	4.00	0.00	13.55	22.05
	2003	8.50	8.55	5.00	0.00	13.55	22.05

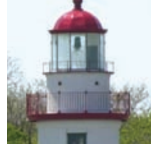
CONTRIBUTION RATES — MEMBER-DIRECTED PLAN

			Employer Rates				
	Year	Member Rates	Pension	VEBA	Mitigation Rate	Total Employer Rates	Total Rates
State	2006	9.00%	8.50%	4.50%	0.54%	13.54%	22.54%
	2005	8.50	8.50	4.81	0.00	13.31	21.81
	2004	8.50	8.50	4.81	0.00	13.31	21.81
	2003	8.50	8.50	4.81	0.00	0.00	21.81
Local	2006	9.00%	8.50%	4.50%	0.70%	13.70%	22.70%
	2005	8.50	8.50	5.05	0.00	13.55	22.05
	2004	8.50	8.50	5.05	0.00	13.55	22.05
	2003	8.50	8.50	5.05	0.00	13.55	22.05

NUMBER OF EMPLOYER UNITS — ALL PLANS*

Year	State	County	Law Enforcement	Municipalities	Villages	Miscellaneous	Libraries	Townships	Totals
2006	276	238	244	253	671	459	254	1,312	3,707
2005	277	239	247	255	671	454	257	1,312	3,712
2004	268	240	241	255	672	456	256	1,314	3,702
2003	268	239	247	255	673	450	257	1,313	3,702
2002	263	237	251	256	671	450	256	1,312	3,696
2001	266	239	255	258	665	442	256	1,309	3,690
2000	318	243	232	334	673	414	257	1,312	3,783
1999	332	247	233	337	673	406	257	1,312	3,797
1998	327	247	233	338	672	400	256	1,312	3,785
1997	292	236	226	338	666	379	256	1,312	3,705

*The number of employer units exceeds the number of reporting employers as some employers report multiple divisions or agencies. The number of employers reporting at December 31, 2006 was 3,263.



PRINCIPAL PARTICIPATING EMPLOYERS

Participating Government	2006			2005*		
	Covered Employees	Rank	Percentage of Total System	Covered Employees	Rank	Percentage of Total System
The Ohio State University	25,768	1	6.77%	23,696	1	6.21%
Cuyahoga County	9,881	2	2.60	10,062	2	2.64
City of Columbus	6,814	3	1.79	5,864	8	1.54
Ohio Department of Transportation	6,761	4	1.78	6,297	5	1.65
City of Cleveland	6,584	5	1.73	6,569	3	1.72
Metrohealth Medical Center	6,419	6	1.69	5,988	6	1.57
University of Cincinnati	6,109	7	1.61	5,083	9	1.33
Franklin County	6,074	8	1.60	6,551	4	1.72
Hamilton County	5,562	9	1.46	5,951	7	1.56
Ohio University	4,447	10	1.17	N/A	N/A	N/A
Montgomery County	N/A	N/A	N/A	4,896	10	1.28
All Other (see table below)	295,878	N/A	77.80	300,456	N/A	78.78
Total	380,297	N/A	100.00%	381,413	N/A	100.00%

*Information not available prior to 2005.

PRINCIPAL PARTICIPATING EMPLOYERS — ALL OTHER CATEGORIES

Participating Government	2006		2005	
	Number	Employees	Number	Employees
State	272	79,427	274	84,251
County	235	74,894	235	72,861
Municipalities	251	55,930	253	55,711
Miscellaneous	458	33,402	453	33,975
Libraries	254	14,691	257	15,405
Villages	671	14,500	671	15,222
Townships	1,312	14,241	1,312	15,108
Law Enforcement/Public Safety	244	8,793	247	7,923
Total	3,697	295,878	3,702	300,456

This page left blank intentionally.

OPERS

Plan Statement

Ohio Statehouse
Franklin County, Ohio

Originally constructed over a period of years and using the talents of seven architects, the Ohio Statehouse was designed to be a showcase of the American culture and heritage found uniquely in Ohio.

At the time of the organized restoration that began in 1993, the Statehouse—once a proud edifice—had fallen into significant disrepair. Originally designed to hold 53 rooms, the building had been subdivided into more than 300 rooms. To cool the building in summer months, 96 separate air-conditioning systems were required. Drop ceilings had been installed, and as many as seven floors had been created from the original three-floor structure. Safety was also an issue. The historic building had no sprinkler system and there were many instances where corridors terminated in dead-ends, potentially trapping people in the event of an emergency.

After the 1993 restoration project, the Ohio Statehouse, pictured here, now closely resembles the statehouse structure of the 1860s. In the Rotunda, visitors now can see a reproduction stained-glass Seal of Ohio skylight, which crowns this spectacularly restored space. Today, the Ohio Statehouse has once again become functional, beautiful and, perhaps most importantly, safe and welcoming for all Statehouse visitors.

The Ohio Public Employees Retirement System (OPERS or System) was created by the Ohio General Assembly to provide retirement, disability, and survivor benefit programs for the public employees of Ohio. This summary outlines the Ohio law that regulates OPERS; however, it cannot and does not change any of the provisions of the Ohio Revised Code (ORC).

All public employees, except those covered by another state retirement system in Ohio or by the Cincinnati Retirement System, are required to become contributing members of OPERS when they begin public employment, unless they are exempted or excluded.

The law provides for optional membership for elected public officials. Students, not already members, working for the public school, college, or university they are attending may be exempt from contributing to OPERS by filing a request for exemption within the first month of employment.

OPERS provides special retirement coverage for certain law enforcement officers whose primary duties are to preserve the peace, to protect life and property, and to enforce the laws of Ohio. These individuals, who must have a Peace Officer's Training School Certificate, are covered if they were hired on or after the dates of the enabling legislation. If they were employed before the legislation was enacted, coverage was optional. If they did not elect law enforcement coverage, they remained under the regular OPERS schedule of benefits.

PLAN TYPES

For more than 70 years OPERS has provided members with retirement benefits under a defined benefit plan, known as the Traditional Pension Plan.

In 2000, legislation required OPERS to establish one or more defined contribution plans to be offered to members in addition to the existing Traditional Pension Plan. OPERS began offering three retirement plans to its members on January 1, 2003. The plans include the Traditional Pension Plan, the Member-Directed Plan, and the Combined Plan. A brief overview of each plan is provided below.

OPERS began offering three retirement plans to its members on January 1, 2003.

The Traditional Pension Plan

The Traditional Pension Plan is a defined benefit plan under which a member's retirement benefit is based on a formula. The formula is determined by the years of contributing service and the average of the three highest years of earnable salary or final average salary (FAS). The OPERS investment professionals manage the investment of employee and employer contributions to ensure that funds are available to pay the formula benefit.

The Member-Directed Plan

The Member-Directed Plan is a defined contribution plan under which employee and employer contributions are deposited into a member's individual OPERS account and the member directs the investment by selecting from nine professionally managed OPERS investment options. The member's retirement distribution is based on employee and vested employer contributions, and the gains and losses on those contributions.

The Combined Plan

The Combined Plan is a retirement plan with both a defined benefit and a defined contribution component. Under the defined benefit portion of the Combined Plan, the member's retirement

benefit is determined by a reduced formula (similar to the Traditional Pension Plan). OPERS' investment professionals manage the investment of the employer contributions to ensure that funds are available to pay the reduced-formula benefit. Under the defined contribution portion of the Combined Plan, employee contributions are deposited into the member's individual account and the member directs the investment by selecting from nine professionally managed OPERS investment options. The defined contribution portion of the member's retirement distribution is based on employee contributions, and the gains and losses on those contributions.

CONTRIBUTIONS

Employers are required to make contributions to the System on the basis of a percentage of reportable payroll and at a rate based upon the recommendations of OPERS' actuary. Penalties and interest are added for late payments. The state contribution rate for 2006 is 13.54% and local employers contribute 13.70%. Employers in the law enforcement and public safety divisions contribute 16.93%.

The 2006 employee contribution rate for state and local members is 9.0% of earnable salary. Members in the public safety division contribute 9.0% and law enforcement division members pay 10.1% of earnable salary. Individual accounts for each member of OPERS are maintained and funds contributed by members of the Traditional Pension Plan are fully refundable at service termination or death. The refund value of contributions made by members of the Combined Plan and the Member-Directed Plan are subject to changes (gains or losses) that occur as a result of the member's selected investment options. Each year, by the end of April, members of the Traditional Pension Plan and the Combined Plan are sent a statement of their individual account and an estimate of their projected future retirement benefit, as of the previous December 31. Members in the Member-Directed Plan and the Combined Plan receive quarterly statements showing the value of contributions in their defined contribution account and the investment gains and losses on those contributions. A report disclosing the financial status of the System and describing major developments during the year at OPERS is sent along with the statement of account.

BENEFITS UNDER THE TRADITIONAL PENSION PLAN OR THE COMBINED PLAN

Age-and-Service Retirement

Members are eligible to retire at age 60 with at least five years of total service credit. They may retire with a reduced benefit as early as age 55 with 25 years of service. Members with 30 years of total service credit may retire at any age with no reduction in benefit. Service credit allowed under Chapter 145 of the ORC includes:

1. Service for the state of Ohio or an Ohio political subdivision for which contributions have been paid;
2. Certain military service which interrupted contributing public service;
3. Any out-of-public service period of three years or less during which the member was receiving an award under Workers' Compensation;
4. Previously unreported service in Ohio;

5. Service purchased by the member for:
   a. Other military service that is not being used for other retirement programs, except Social Security;
   b. Prisoner-of-war service;
   c. An authorized leave of absence which did not exceed one year;
   d. Comparable public service that is not being used for other retirement programs, except Social Security, performed outside Ohio or with the federal government or for which contributions were made to an Ohio municipal retirement system;
   e. Restoration of previously refunded service;
   f. Restoration of previously refunded service from the Ohio Police and Fire, Ohio State Highway Patrol, or City of Cincinnati Retirement System, not being used for any other retirement benefit;
   g. Service which was previously covered by a valid exemption under OPERS;
   h. The amount of 35% additional credit on completed terms of full-time contributing elective service, or board, commission, or other public body service by members who are appointed by the governor with the advice and consent of the Senate;

6) Service purchased by an employer under a retirement incentive plan.

A choice of several retirement plans is available. The choices include benefits payable throughout the member's lifetime (Single Life Benefit) or in a lesser amount during the individual's life but continuing after the member's death to a joint survivor. The joint survivor selections include: Life with 50% to Surviving Spouse, Life with Selected Percent to Survivor, Life with 100% to Survivor, or Life with Multiple Survivors.

A benefit payable under Life with 50% to Surviving Spouse, Life with Selected Percent to Survivor, Life with 100% to Survivor, or Life with Multiple Survivors is the actuarial equivalent of the Single Life Benefit, but the payment to the member is reduced because it is based on the combined life expectancies of the member and the beneficiaries. A sixth payment plan, Life with Fixed Period is also the actuarial equivalent of the Single Life Benefit, but the payment is calculated to provide for the fixed period of payment.

Life with Multiple Survivors is a new option available to members whose retirement is effective on or after November 1, 2006. The payment plan is a multiple joint survivorship annuity providing benefits to the member throughout their lifetime, with payments continuing to the member's surviving beneficiaries after the member's death. The member may designate from two-to-four beneficiaries, with each receiving at least 10% of the benefit (exceptions are court-ordered spousal benefits). Total allocations to all beneficiaries may not exceed 100% of the benefit.

Effective January 1, 2004, OPERS established a Partial Lump-Sum Option Payment (PLOP) for certain retirees and benefit recipients. The PLOP is an option at retirement and allows a recipient to receive a lump-sum benefit payment along with a reduced monthly retirement allowance. The PLOP cannot be less than six times or more than 36 times the monthly amount that would be payable to the member under the plan of payment selected, and cannot result in a monthly allowance that is less than 50% of that monthly amount. The total amount paid as a lump sum and a monthly benefit is the actuarial equivalent of the amount that would have been paid had the lump sum not been selected.

Benefit payments vary in amount depending on length of public service, final average salary (FAS), age, and plan of payment selection. FAS is determined by taking the average of the three highest years of earnable salary. The age-and-service formula benefit cannot exceed 100% of the FAS (law enforcement is 90%) or the limits under Internal Revenue Code Section 415.

Disability Benefits

OPERS' members are eligible for one of two disability programs: the original plan or the revised plan. Employees who had contributions on deposit with OPERS on July 29, 1992 had a one-time opportunity to select coverage under one of these programs. Employees hired after July 29, 1992 are covered only under the revised plan. There are a number of features common to both plans.

A member who has at least five years of contributing service credit and who becomes permanently disabled due to a mentally or physically disabling condition for the performance of duty may apply to OPERS for monthly disability benefits. Members in the law enforcement division do not need five years of service credit to apply for disability if the disabling condition was the result of an on-duty illness or injury.

Application must be made within two years from the date the member's contributing service ended, unless the Retirement Board determines that the member was physically or mentally incapacitated for duty and unable to make an application. The member must not be receiving an age-and-service retirement benefit or have received a refund of their accumulated contributions. If the Retirement Board approves the disability application and the member is otherwise eligible, the benefit is effective the first day of the month following the member's service termination. A disability benefit recipient may be required to undergo a medical examination at least once a year. A disability benefit terminates under either plan if the member is no longer disabled, returns to public service, chooses to begin receiving an age-and-service benefit, dies, or requests termination of benefit.

Members covered under the original plan must apply for disability benefits prior to turning age 60. Under the original plan, the amount of the disability allowance is based on the member's final average salary (FAS) and total service credit, plus the length of time between the effective date of disability and age 60. The disability benefit cannot exceed 75%, nor be less than 30% of the member's FAS. The disability benefit continues for the member's lifetime as long as the qualifying disability persists. The benefit is funded by the employee's accumulated contributions and reserves accumulated from employer contributions. The benefit is fully taxable until age 60, and then a specified dollar amount each month, representing the return of previously taxed contributions is tax-free. For a law enforcement member disabled due to an on-duty injury or illness, 30% of the benefit payment is excludable from taxable income.

Under the revised plan, the benefit is based on the member's FAS and years of service with OPERS with no early retirement reductions, and cannot be less than 45% or exceed 60% of FAS. The benefit is funded by reserves accumulated from employer contributions, and is fully taxable as long as it is received. For a law enforcement member disabled due to an on-duty injury or illness, 45% of the benefit payment is excludable from taxable income.

Benefits under the revised plan are payable until age 65 or for a definite period, whichever comes first. When the disability benefit ends, the member may apply for a service retirement benefit or a refund of their employee contribution account. The service retirement benefit amount is the greater of: a) 2.2% of FAS multiplied by the years of service (contributing and disability) not to exceed 45% of FAS; or b) the regular or law enforcement benefit calculation using only the member's years of contributing service.

Survivor Benefits

A member's beneficiary is determined by statutory automatic succession unless a specific designation is made in writing on a form provided by OPERS. Listed below is the order of automatic succession under Ohio law:

1. Spouse,
2. Children,
3. Dependent parents,
4. If none of the above, parents share equally in a refund of the account, and
5. If none of the foregoing, a refund of the account is paid to the estate.

Qualified beneficiaries will be eligible to receive monthly survivor benefits if, at the time of the member's death, at least one of the following qualifications was met:

1. The member had 18 months of Ohio service credit with three of those months within the two and one-half years immediately before death, or
2. The member was receiving a disability benefit from OPERS, or
3. The member was eligible for retirement but did not retire and continued to work.

At the member's death, if none of these qualifications were met a refund of the member's OPERS account value as defined by the Ohio Revised Code, may be made. The member's beneficiary may choose a refund of the member's account only if there are no children eligible for monthly benefits. If the member dies while receiving a disability benefit under the original plan and eligible survivors select a cash refund of the account, the amount is reduced by the amount of disability benefits that have already been paid. There is no reduction in amount if the member dies while receiving a benefit under the revised disability plan or while still working.

Qualified surviving spouses (with no children eligible for monthly benefits) may receive a benefit representing the greater of $250 a month or an annual benefit equal to 25% of the decedent's FAS. If the decedent had 20 or more years of service, the percent of FAS increases with each year of service over 20 up to a maximum of 60%. Benefits begin when a qualified surviving spouse reaches age 62, or at any age if the decedent had 10 or more years of Ohio service credit, qualifying children, or the spouse is adjudged physically or mentally incompetent. Benefits to a qualified survivor terminate when the survivor ceases to meet eligibility requirements.

If a deceased member was eligible for a service retirement benefit at time of death, a surviving spouse or other sole dependent beneficiary may elect to receive a monthly benefit calculated as though the member had retired and elected the Life with 100% to Survivor payment plan. This joint survivor option provides a monthly allowance that continues through the beneficiary's lifetime. The beneficiary also has the option of electing a PLOP.

A child of a deceased member may qualify for monthly benefits if the child has never been married and is under age 18, or 22 if a qualified student attending an accredited school. A child who is adjudged physically or mentally incompetent at the time of the member's death is eligible for benefits regardless of age. Benefits terminate upon the child's first marriage, adoption by someone other than a step-parent, abandonment, death, or during active military service.

A dependent parent is one who received at least one-half support from the member during the 12 months preceding the member's death. A dependent parent may receive survivor benefits if age 65 or older, or at any age if adjudged physically or mentally incompetent at the time of the member's death. Parent survivor benefit payments terminate upon the parent's death or remarriage.

Additional Benefits

- ***Health Care Coverage***—With two exceptions, OPERS-provided health care benefits are neither a guaranteed nor statutorily required benefit. Medicare Part B reimbursements (see below) and Medicare Part-A equivalent coverage for non-Medicare eligible retirees and their eligible dependents are provided by statute. Currently, members applying for age and service retirement who have 10 or more years of Ohio service credit have access to OPERS provided health care coverage on a subsidized basis. These 10 years may not include out-of-state and/or military service purchased after January 29, 1981, service granted under an early retirement incentive plan, or credit purchased after May 4, 1992 for exempt service. Access to health care coverage is also available for disability recipients and primary survivor recipients. Dependents of eligible recipients as defined by the health care plan may be covered through additional premiums. Qualified benefit recipients may also have access to alternative health care plans (HMOs) offered by OPERS.

  Members with less than 10 years of service credit at age-and-service retirement may obtain access to independent health care coverage offered by OPERS' health care administrators. This coverage is neither offered by OPERS nor is it the responsibility of the System. OPERS does not subsidize this insurance, nor does it pay premiums or claims, or withhold any premiums for this coverage.

OPERS-provided health care benefits are neither a guaranteed nor statutorily required benefit.

- ***Medicare Part B Reimbursement***—Recipients who are eligible for health care must enroll in Medicare B (medical) when they become eligible, even if they are covered by health care through their current employer. Proof of enrollment and confirmation that the retiree is not receiving reimbursement from another source must be submitted, and OPERS will then reimburse the recipient for the basic premium cost of the Medicare B premium as long as the recipient is enrolled in Medicare B. The amount is added to the monthly benefit.
- ***Cost-of-Living Adjustment***—When a benefit recipient has received benefits for 12 months, an annual 3% cost-of-living adjustment (COLA) is provided.
- ***Death Benefit***—Upon the death of an age-and-service or disability benefit recipient, a lump-sum death benefit is paid to the qualified beneficiary. The benefit ranges from $500 to $2,500 based on the recipient's years of service credit.
- ***Qualified Excess Benefit Arrangement (QEBA)***—Total benefit payments to an individual are subject to the limitations identified in Section 415(b) of the Internal Revenue Code. In 2003, OPERS implemented a Qualified Excess Benefit Arrangement that allows OPERS recipients to receive the amount of their calculated benefit that exceeds the IRS limits.

Refunds

A refund may be issued after three months have elapsed since the member terminated OPERS covered service. For members of the Traditional Pension Plan, the refund value is equal to their accumulated contributions plus interest. Members of the Combined Plan and the Member-Directed

Plan may refund their defined contribution account balances equal to their accumulated contributions net of investment gains or losses. Members of the Traditional Pension Plan and the Combined Plan may also qualify for an additional payment calculated on their eligible contributions. If the member has at least five but less than 10 years of service credit in the plan, the additional amount is 33% of the member's eligible contributions. Members with at least 10 years of service credit in the plan may receive an additional amount equal to 67% of eligible contributions.

Under the Traditional Pension Plan, full recovery of all employee contributions to OPERS is guaranteed. If the Traditional Pension Plan member is also a member of the State Teachers Retirement System of Ohio Defined Benefit Plan or the School Employees Retirement System of Ohio, an application for refund must be filed with all system(s) in order to receive a refund from OPERS. If the employee is eligible for a monthly retirement benefit and is legally married at the time the refund is filed, spousal consent is required.

Refunded service credit may be restored if the member returns to OPERS-covered employment for at least 18 months. The amount refunded, plus interest and additional payment (if applicable), must be repaid for service credit to be restored.

BENEFITS UNDER THE MEMBER-DIRECTED PLAN

Retirement

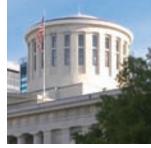
Members participating in the Member-Directed Plan are eligible to retire after they reach age 55. At the time these members file their applications for retirement, they may select one of several distribution options for payment of the vested portion of their individual OPERS accounts. Options include the purchase of a monthly annuity from OPERS (which includes joint and survivor options) partial lump-sum payments (subject to limitations), payments for a fixed period, payments of a specific monthly amount, or a combination of these options. Members also may defer payment of their individual OPERS account.

Disability and Survivor Benefits

Participants in the Member-Directed Plan are not eligible for disability or survivor benefits. In the event of disability or death, the vested portion of the participant's accounts is available for refund to the member or qualified beneficiaries.

Additional Benefit

- ***Health Care Coverage***–For members participating in the Member-Directed Plan, a portion of the employer contribution is credited to a Voluntary Employees' Beneficiary Association (VEBA) account in the member's name. Members become 30% vested in this account after three years of participation in the Member-Directed Plan. Vesting continues at a rate of 10% for each subsequent year of participation until the member is fully vested after ten years. Upon refund or retirement, vested contributions in the VEBA may be used for the payment of qualified health, dental, and vision care expenses.



Refunds

Members participating in the Member-Directed Plan may receive employee contributions net of investment gains or losses earned on those contributions. Depending on length of participation in the Member-Directed Plan, a member may also receive a portion of the employer contributions, plus any investment earnings, based on the following schedule:

Years of Participation	Percent Vested
1 year	20%
2 years	40%
3 years	60%
4 years	80%
5 or more years	100%

COVERAGE AND BENEFITS FOR RE-EMPLOYED RETIREES

After a member retires, re-employment in an OPERS-covered job, including service in an elected position, is permitted but may affect continuing receipt of an age-and-service retirement benefit. Contributions must begin from the first day of re-employment, however, members who are re-employed anytime within the first two months after their effective retirement benefit date will forfeit their retirement allowance during this two-month period. This prohibition applies even if salary is waived for the two-month forfeiture period. Forfeiture of the retirement allowance will interrupt the retiree's health care coverage. Contributions remitted during the two-month forfeiture period will also not be included in the calculation of a Money Purchase Plan annuity benefit.

An OPERS retiree or a retiree from another Ohio retirement system who returns to OPERS-covered employment as an elected official is treated as a re-employed retiree. However, if a member is covered for non-elected official service and is also an elected official contributing to Social Security for the elected position, the elected service has no effect on the OPERS retirement. Subsequent elected service will not be considered re-employment for OPERS purposes.

A retiree cannot continue to receive benefits and work as an independent contractor under a contract for any period of time for the employer from which they retired. This prohibition is applicable regardless of the number of hours or days actually worked. A retiree may be compensated under a contract for services as an independent contractor for another public employer. If this occurs within the first two months of retirement, he or she will forfeit their pension benefits for the entire period of service as an independent contractor.

Upon termination of re-employment, retirees under age 65 may receive a refund of their employee contributions made during the period of re-employment, plus interest. Retirees age 65 and older may receive an annuity benefit that is based on the amount of their employee contributions during the period of re-employment plus interest, and an amount from the employer's contribution as determined by the Retirement Board. Payment options are the same as those described under the Age-and-Service section described above.

From the Cover

KEY

1 Columbus Public Library

2 Conneaut Scenic Run Bridge

3 Wyandot County Courthouse

4 Marblehead Lighthouse

5 Ohio Statehouse

6 South Bass Lighthouse

7 Bucyrus Public Library

8 Williams County Courthouse

This Page is Intentionally Left Blank.

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on Audit of Financial Statements Performed in Accordance with Government Auditing Standards

The Retirement Board,
The Ohio Public Employees Retirement System and
The Honorable Mary Taylor, CPA
Auditor of State

We have audited the basic financial statements of The Ohio Public Employees Retirement System (System) as of and for the year ended December 31, 2006 and have issued our report thereon dated April 25, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered The Ohio Public Employees Retirement System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System'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 a 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 System'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 remote likelihood that a misstatement of the System's financial statements that is more than inconsequential will not be prevented or detected by the System'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 System'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 that we consider to be material weaknesses or significant deficiencies, as defined above. However, we noted other matters involving the internal control over financial reporting that we have reported to management in a separate letter dated April 25, 2007.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Ohio Public Employees Retirement System's basic 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 Audit Committee, the Retirement Board of The Ohio Public Employees Retirement System, Management, The Honorable Mary Taylor, CPA, Auditor of State and other oversight agencies and is not intended to be and should not be used by anyone other than these specified parties.

Clifton Gunderson LLP

Toledo, Ohio
April 25, 2007

Mary Taylor, CPA
Auditor of State

OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM

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
JUNE 26, 2007

88 E. Broad St. / Fourth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us