

**Oklahoma Firefighters Pension
and Retirement Plan**

Administered by

**Oklahoma Firefighters Pension
and Retirement System**

*The Auditors' Communication with
Those Charged with Governance*

June 30, 2015





October 7, 2015

To the Board of Trustees of
the Oklahoma Firefighters Pension and Retirement System

We have audited the financial statements of the Oklahoma Firefighters Pension and Retirement Plan, administered by the Oklahoma Firefighters Pension and Retirement System (collectively referred to as the "System") as of and for the year ended June 30, 2015, and have issued our report thereon dated October 7, 2015. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated April 10, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the System are described in Note 2 to the financial statements. The System adopted new accounting pronouncements during the year ended June 30, 2015, as noted below. The application of existing policies was not changed during the year ended June 30, 2015. We noted no transactions entered into by the System during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

In June 2012, the Governmental Accounting Standards Board issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* (GASB 68). The objective of GASB 68 is to improve accounting and financial reporting for pensions by state and local governments, and to improve information where support for pensions has been provided by other entities. This statement establishes standards for measuring and recognizing liabilities, deferred inflows and outflows of resources, and expenses. For defined benefit pensions, it identifies methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their present value and attribute that value to periods of employee service. The Plan adopted this statement effective July 1, 2014. The adoption had no significant impact on the Plan's financial statements.

Significant Audit Findings, Continued

Qualitative Aspects of Accounting Practices, Continued

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations* (GASB 69). GASB 69 establishes accounting and financial reporting standards related to governmental combinations and disposals of government operations. Generally, governmental combinations include mergers, acquisitions and transfers of operations. This statement improves financial reporting by providing guidance for business combinations in the governmental environment. The Plan adopted this statement July 1, 2014. Presently the Plan has no items to be reported, and the adoption had no significant impact on the financial statements of the Plan.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68* (GASB 71). GASB 71 amends GASB 68 by amending the transition provisions of GASB 68. At transition to GASB 68, employers that could not practically determine all of the deferred inflows and outflows related to pensions were provided guidance that no deferred inflows or outflows should be reported. GASB 71 amends this guidance to provide that a government recognize a beginning deferred outflow of resources for pension contributions made subsequent to the measurement date. GASB 71 will eliminate the source of a potential significant understatement of restated beginning net fiduciary position and expense in the first year of implementation of GASB 68. The Plan adopted this statement on July 1, 2014. The adoption had no significant impact on the Plan's financial statements.

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application* (GASB 72). GASB 72 addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GASB 72 provides guidance for determining a fair value measurement for financial reporting purposes. GASB 72 also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of GASB 72 will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. GASB 72 also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. GASB 72 is effective for financial statements for periods beginning after June 15, 2015. The Plan will adopt GASB 72 effective July 1, 2015, for the June 30, 2016, reporting year. GASB 72 will require additional and/or revised disclosures in the financial statements.

Significant Audit Findings, Continued

Qualitative Aspects of Accounting Practices, Continued

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimates of the market values of investments are based on the investment custodian. We evaluated the key factors and assumptions used to develop the estimates of investment market values in determining that they are reasonable in relation to the financial statements taken as a whole.

In addition, the computation of total and net pension liability also required significant estimates by management. We reviewed the actuarial information used to compute the pension liabilities.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such statements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Significant Audit Findings, Continued

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 7, 2015.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the System's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the System's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the management's discussion and analysis, the schedule of changes in the employer's net position liability, the schedule of employers' net pension liability, the schedule of contributions from employers and other contributing entities, and the schedule of investment returns, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Other Required Communications

We as independent auditors are required to:

- a. Communicate significant deficiencies and material weaknesses in internal control to the audit committee or its equivalent.
- b. Report directly to the audit committee (or equivalent) any fraud that causes a material misstatement of the financial statements and any fraud involving senior management. Fraud perpetrated by lower-level employees is also to be reported if it resulted in an individually significant misstatement.
- c. Report illegal acts that come to our attention (except those that are clearly inconsequential).

We have nothing to report.

Restriction on Use

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

Sincerely,

Finley + Cook, PLLC

**Oklahoma Firefighters Pension
and Retirement Plan**

Administered by

**Oklahoma Firefighters Pension
and Retirement System**

Financial Statements

June 30, 2015 and 2014

(With Independent Auditors' Report Thereon)



OKLAHOMA FIREFIGHTERS PENSION AND RETIREMENT PLAN
Administered by
OKLAHOMA FIREFIGHTERS PENSION AND RETIREMENT SYSTEM

FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
the Oklahoma Firefighters Pension and Retirement System

Report on the Financial Statements

We have audited the accompanying financial statements of the Oklahoma Firefighters Pension and Retirement Plan (the "Plan"), administered by the Oklahoma Firefighters Pension and Retirement System, which is a part of the State of Oklahoma financial reporting entity, which comprise the statements of fiduciary net position as of June 30, 2015 and 2014, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Plan's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

(Continued)

INDEPENDENT AUDITORS' REPORT, CONTINUED

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Plan as of June 30, 2015 and 2014, and the changes in fiduciary net position of the Plan for the years then ended in accordance with accounting principles generally accepted in the United States.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages I-1 through I-4 and the schedule of changes in employers' net pension liability, the schedule of employers' net pension liability, the schedule of contributions from employers and other contributing entities, and the schedule of investment returns on pages 42 through 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2015, on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plan's internal control over financial reporting and compliance.

Finley + Cook, PLLC

Shawnee, Oklahoma
October 7, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of the financial performance of the Oklahoma Firefighters Pension and Retirement Plan, administered by the Oklahoma Firefighters Pension and Retirement System (collectively referred to as the "System") provides an overview of the System's activities for the fiscal years ended June 30, 2015, 2014, and 2013. Please read it in conjunction with the System's financial statements, which begin on page 3.

Financial Highlights

	<u>2015</u>	<u>2014</u>	<u>2013</u>
• Net fiduciary position of the System	\$ 2,283,566,382	2,197,104,543	1,899,098,749
• Contributions:			
Insurance premium taxes	91,235,807	79,545,329	76,310,725
Participating municipalities	38,875,835	36,103,860	34,286,563
Plan members/employees	24,310,588	22,057,504	20,190,827
• Net investment income	116,617,766	335,602,149	230,064,460
• Benefits paid, including refunds	182,549,070	173,344,947	168,983,642
• Net increase in net fiduciary position	86,461,839	298,005,794	189,863,780

DISCUSSION OF THE BASIC FINANCIAL STATEMENTS

This following discussion and analysis is intended to serve as an introduction to the System's basic financial statements. The System's basic financial statements are comprised of 1) the statements of fiduciary net position, 2) the statements of changes in fiduciary net position, and 3) notes to the financial statements. This report also contains required supplementary information. The System is a component unit of the State of Oklahoma and together with other similar funds comprises the fiduciary pension trust funds of the State of Oklahoma. The financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. The System's statements offer short-term and long-term financial information about the activities and operations of the System. These statements are presented in a manner similar to those of a private business.

The statements of fiduciary net position represent the fair value of the System's assets as of the end of the fiscal year. The difference between assets and liabilities, called "fiduciary net position," represents the value of assets held in trust for future benefit payments. Over time, increases and decreases in the System's fiduciary net position can serve as an indicator of whether the financial position of the System is improving or declining.

The statements of changes in fiduciary net position present financial activities that caused a change in fiduciary net position during the year. These activities primarily consist of contributions to the System, unrealized and realized gains and losses on investments, other investment income, benefits paid, and investment and administrative expenses.

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

CONDENSED FINANCIAL INFORMATION COMPARING THE CURRENT YEAR TO PRIOR YEARS

The following table summarizes the fiduciary net position as of June 30:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Cash and cash equivalents	\$ 45,724,568	40,394,823	49,485,679
Receivables	29,730,394	89,140,129	22,603,035
Investments, at fair value	2,211,188,407	2,071,895,693	1,829,300,840
Securities lending short-term collateral	166,426,829	144,543,920	137,834,828
Capital assets, net	<u>24,151</u>	<u>29,223</u>	<u>35,994</u>
Total assets	<u>2,453,094,349</u>	<u>2,346,003,788</u>	<u>2,039,260,376</u>
 Liabilities	 <u>169,527,967</u>	 <u>148,899,245</u>	 <u>140,161,627</u>
Net fiduciary position	<u>\$ 2,283,566,382</u>	<u>2,197,104,543</u>	<u>1,899,098,749</u>

Investments are made in accordance with the investment policy approved by the Board of Trustees. A more detailed description of the types of investments held and the investment policy is presented in Note 4 to the financial statements.

The following table summarizes the changes in fiduciary net position between fiscal years 2015, 2014, and 2013:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Additions			
Contributions	\$ 154,422,230	137,706,693	130,788,115
Net investment income	<u>116,617,766</u>	<u>335,602,149</u>	<u>230,064,460</u>
Total additions	<u>271,039,996</u>	<u>473,308,842</u>	<u>360,852,575</u>
Deductions			
Benefits and refunds	182,549,070	173,344,947	168,983,642
Administrative expenses	<u>2,029,087</u>	<u>1,958,101</u>	<u>2,005,153</u>
Total deductions	<u>184,578,157</u>	<u>175,303,048</u>	<u>170,988,795</u>
Changes in net fiduciary position	86,461,839	298,005,794	189,863,780
Net fiduciary position, beginning of year	<u>2,197,104,543</u>	<u>1,899,098,749</u>	<u>1,709,234,969</u>
Net fiduciary position, end of year	<u>\$ 2,283,566,382</u>	<u>2,197,104,543</u>	<u>1,899,098,749</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

ANALYSIS OF THE OVERALL FIDUCIARY NET POSITION AND THE CHANGES IN FIDUCIARY NET POSITION

Funding for the System is derived primarily from contributions to the System from the participating municipalities and the System's members, as well as funds received from the State of Oklahoma Insurance Department for the System's share of insurance premium taxes.

The System had investment income of approximately \$117 million for 2015 compared to investment income of approximately \$336 million for 2014.

The investment income of the System decreased approximately \$219 million during the year ended June 30, 2015, compared to the year ended June 30, 2014, as a result of the decline in the market during this fiscal year. The investment income of the System increased approximately \$106 million during the year ended June 30, 2014, compared to the year ended June 30, 2013, as a result of the market increasing during the fiscal year. The investment income of the System increased approximately \$224 million during the year ended June 30, 2013, compared to the year ended June 30, 2012, as a result of the market recovering during this fiscal year.

As the System accounts for its investments at current market value, increases and decreases in the market value of stocks, bonds, and other assets have a direct effect and impact on the fiduciary net position and operating results of the System. The System's net return on its average assets for the years ended June 30 was as follows:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
System	6%	18%	14%

During the year ended June 30, 2015, 2014, and 2013, benefit payments increased by approximately 5%, 3%, and 6%, respectively, due to an increase in the number of retirees and court ordered benefit increases.

Administrative expenses increased slightly from fiscal year 2014 to 2015 and decreased slightly from fiscal year 2013 to 2014. The major components of administrative expenses are professional fees, payroll, and related expenses for the employees of the System, and miscellaneous office expenses.

The System has no debt or infrastructure assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

DESCRIPTION OF CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS THAT ARE EXPECTED TO HAVE A SIGNIFICANT EFFECT ON THE FIDUCIARY NET POSITION OR THE CHANGES IN FIDUCIARY NET POSITION

While the System is directly impacted by overall investment market changes, investments are made based on their expected long-term performance and the best interest of the members of the System. With approximately \$2.2 billion of assets invested in a wide range of diversity of investments, the System has the financial resources to maintain its current investment strategies while continuing to review for other investment options to benefit its members.

The System received insurance premium taxes of approximately \$91 million, \$80 million, and \$76 million, for the years ended June 30, 2015, 2014, and 2013, respectively. The System received 36% of the total taxes collected on insurance premiums during 2015 and from November 1, 2013, to June 30, 2014. From July 1, 2013, to October 31, 2013, the System received 34% of the taxes collected on insurance premiums.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the System's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Executive Director or Comptroller of the System, c/o Oklahoma Firefighters Pension and Retirement System, 4545 N. Lincoln Blvd., Suite 265, Oklahoma City, Oklahoma 73105-3414.

OKLAHOMA FIREFIGHTERS PENSION AND RETIREMENT PLAN
Administered by
OKLAHOMA FIREFIGHTERS PENSION AND RETIREMENT SYSTEM

STATEMENTS OF FIDUCIARY NET POSITION

<i>June 30,</i>	<i>2015</i>	<i>2014</i>
Assets		
Cash and cash equivalents	\$ 45,724,568	40,394,823
Receivables:		
Employees' contributions	343,610	392,386
Employer's contributions	535,720	612,066
Due from the State of Oklahoma Insurance Department	19,758,933	16,875,273
Accrued interest and dividends	3,474,219	3,017,728
Net receivable from brokers for security transactions	5,617,912	-
Receivable from partial liquidation of alternative investment	-	67,987,452
Other	-	255,224
Total receivables	<u>29,730,394</u>	<u>89,140,129</u>
Investments, at fair value:		
International government agencies	28,662,821	45,509,701
U.S. Treasury	31,650,172	12,662,086
International treasuries	55,141,124	82,647,856
Domestic corporate bonds	39,059,236	3,077,856
Domestic stocks	1,359,002,241	1,477,294,528
International stocks	105,391,186	114,982,941
Mortgage-backed securities	52,057,754	20,013,919
Municipal bonds	1,673,182	1,733,871
Alternative investments	538,550,691	313,972,935
Total investments, at fair value	<u>2,211,188,407</u>	<u>2,071,895,693</u>
Securities lending short-term collateral	166,426,829	144,543,920
Capital assets, net of accumulated depreciation	<u>24,151</u>	<u>29,223</u>
Total assets	<u>2,453,094,349</u>	<u>2,346,003,788</u>

(Continued)

See Independent Auditors' Report.
See accompanying notes to financial statements.

OKLAHOMA FIREFIGHTERS PENSION AND RETIREMENT PLAN
Administered by
OKLAHOMA FIREFIGHTERS PENSION AND RETIREMENT SYSTEM

STATEMENTS OF FIDUCIARY NET POSITION, CONTINUED

<i>June 30,</i>	<i>2015</i>	<i>2014</i>
Liabilities		
Accounts payable and accrued expenses	3,101,138	1,733,241
Securities lending collateral	166,426,829	144,543,920
Net due to brokers for security transactions	<u>-</u>	<u>2,622,084</u>
Total liabilities	<u>169,527,967</u>	<u>148,899,245</u>
Net fiduciary position restricted for pensions	<u>\$ 2,283,566,382</u>	<u>2,197,104,543</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

OKLAHOMA FIREFIGHTERS PENSION AND RETIREMENT PLAN
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STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION

<i>Years Ended June 30,</i>	<i>2015</i>	<i>2014</i>
Additions:		
Contributions:		
Insurance premium taxes	\$ 91,235,807	79,545,329
Participating municipalities	38,875,835	36,103,860
Plan members/employees	24,310,588	22,057,504
Total contributions	<u>154,422,230</u>	<u>137,706,693</u>
Investment income:		
From investment activities:		
Net appreciation in fair value of investments	105,723,134	320,907,226
Interest	9,371,701	7,437,951
Dividends	14,985,418	19,856,402
Total investment income	<u>130,080,253</u>	<u>348,201,579</u>
Less investment expense	<u>(14,381,570)</u>	<u>(13,363,548)</u>
Income from investment activities	<u>115,698,683</u>	<u>334,838,031</u>
From securities lending activities:		
Securities lending income	1,247,942	1,023,574
Securities lending expenses:		
Borrower rebates	(22,151)	(4,388)
Management fees	<u>(306,708)</u>	<u>(255,068)</u>
Income from securities lending activities	<u>919,083</u>	<u>764,118</u>
Net investment income	<u>116,617,766</u>	<u>335,602,149</u>
Total additions	<u>271,039,996</u>	<u>473,308,842</u>
Deductions:		
Pension benefit payments	180,925,199	171,897,210
Death benefit payments	931,667	875,000
Refunds to terminated participants	<u>692,204</u>	<u>572,737</u>
Total benefits and refunds	<u>182,549,070</u>	<u>173,344,947</u>
Administrative expenses	<u>2,029,087</u>	<u>1,958,101</u>
Total deductions	<u>184,578,157</u>	<u>175,303,048</u>
Changes in net fiduciary position	86,461,839	298,005,794
Net fiduciary position restricted for pensions:		
Beginning of year	<u>2,197,104,543</u>	<u>1,899,098,749</u>
End of year	<u>\$ 2,283,566,382</u>	<u>2,197,104,543</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

OKLAHOMA FIREFIGHTERS PENSION AND RETIREMENT PLAN
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OKLAHOMA FIREFIGHTERS PENSION AND RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

June 30, 2015 and 2014

(1) NATURE OF OPERATIONS AND DESCRIPTION OF THE SYSTEM

The Oklahoma Firefighters Pension and Retirement System (the "System") was established by legislative act and became effective on January 1, 1981. The System assumed responsibility for all previous existing municipal firefighters' pension plans in the state of Oklahoma. These municipalities transferred all existing pension assets and pension payment obligations to the System. The System recorded the investments at fair value as of the date of transfer. The System is administered by a 13-member board which acts as a fiduciary for investment of funds and the application of plan interpretations. At June 30, 2015, there were 471 cities, 24 fire protection districts, and 123 county fire departments participating in the System. For report purposes, the System is deemed to be the administrator of the Oklahoma Firefighters Pension and Retirement Plan (the "Plan"). The State of Oklahoma remits, through the Oklahoma Insurance Department, a portion of the insurance premium taxes collected by authority of the State of Oklahoma. As a result of these contributions, the State of Oklahoma is considered a non-employer contributing entity to the Plan.

The System is a part of the State of Oklahoma financial reporting entity, which is combined with other similar funds (multiple-employer, cost-sharing) to comprise the fiduciary pension trust funds of the State of Oklahoma.

The Oklahoma Firefighters Pension and Retirement System Board of Trustees (the "Board") is responsible for the operation, administration, and management of the System. The Board also determines the general investment policy of the System's assets. The Board is comprised of 13 members. Five members shall be the Board of Trustees of the Oklahoma State Firefighters Association, a 5-year term. One member shall be the President of the Professional Firefighters of Oklahoma or his designee. One member shall be the President of the Oklahoma State Retired Firefighters Association or his designee. One member shall be appointed by the Speaker of the House of Representatives, a 4-year term. One member shall be appointed by the President Pro Tempore of the Senate, a 4-year term. Two members shall be appointed by the President of the Oklahoma Municipal League, a 4-year term. One member shall be the State Insurance Commissioner or his designee. One member shall be the Director of the Office of Management and Enterprise Services or his designee.

See Independent Auditors' Report.

OKLAHOMA FIREFIGHTERS PENSION AND RETIREMENT PLAN
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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) NATURE OF OPERATIONS AND DESCRIPTION OF THE SYSTEM, CONTINUED

The Plan's participants at June 30 consisted of:

	<u>2015</u>	<u>2014</u>
Retirees and beneficiaries currently receiving benefits	10,241	10,020
Vested members with deferred benefits	1,413	1,390
Deferred Option Plan members	<u>75</u>	<u>77</u>
	<u>11,729</u>	<u>11,487</u>
Active plan members:		
Vested	5,032	4,946
Nonvested	<u>7,328</u>	<u>7,490</u>
Total active plan members	<u>12,360</u>	<u>12,436</u>
	<u>24,089</u>	<u>23,923</u>

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following are the significant accounting policies followed by the Plan.

Basis of Accounting

The financial statements are prepared using the accrual basis of accounting, under which expenses are recorded when the liability is incurred, revenues are recorded in the accounting period in which they are earned and become measurable, and investment purchases and sales are recorded as of their trade date. The financial statements are in conformity with provisions of Governmental Accounting Standards Board Statement No. 67, *Financial Reporting for Pension Plans—an Amendment of GASB Statement No. 25* (GASB 67).

The Plan is administered by the System, a part of the State of Oklahoma financial reporting entity, which together with other similar pension and retirement funds comprises the fiduciary pension trust funds of the State of Oklahoma. Administrative expenses are paid with funds provided by operations of the Plan.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Recent Accounting Pronouncements

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* (GASB 68). The objective of GASB 68 is to improve accounting and financial reporting for pensions by state and local governments, and to improve information where support for pensions has been provided by other entities. This statement establishes standards for measuring and recognizing liabilities, deferred inflows and outflows of resources, and expenses. For defined benefit pensions, it identifies methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their present value and attribute that value to periods of employee service. The Plan adopted this statement effective July 1, 2014. The adoption had no significant impact on the Plan's financial statements.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations* (GASB 69). GASB 69 establishes accounting and financial reporting standards related to governmental combinations and disposals of government operations. Generally, governmental combinations include mergers, acquisitions and transfers of operations. This statement improves financial reporting by providing guidance for business combinations in the governmental environment. The Plan adopted this statement July 1, 2014. Presently the Plan has no items to be reported, and the adoption had no significant impact on the financial statements of the Plan.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68* (GASB 71). GASB 71 amends GASB 68 by amending the transition provisions of GASB 68. At transition to GASB 68, employers that could not practically determine all of the deferred inflows and outflows related to pensions were provided guidance that no deferred inflows or outflows should be reported. GASB 71 amends this guidance to provide that a government recognize a beginning deferred outflow of resources for pension contributions made subsequent to the measurement date. GASB 71 will eliminate the source of a potential significant understatement of restated beginning net fiduciary position and expense in the first year of implementation of GASB 68. The Plan adopted this statement on July 1, 2014. The adoption had no significant impact on the Plan's financial statements.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Recent Accounting Pronouncements, Continued

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application* (GASB 72). GASB 72 addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GASB 72 provides guidance for determining a fair value measurement for financial reporting purposes. GASB 72 also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of GASB 72 will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. GASB 72 also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. GASB 72 is effective for financial statements for periods beginning after June 15, 2015. The Plan will adopt GASB 72 effective July 1, 2015, for the June 30, 2016, reporting year. GASB 72 will require additional and/or revised disclosures in the financial statements.

Use of Estimates

The preparation of the Plan's financial statements in conformity with accounting principles generally accepted in the United States requires the management of the Plan to make significant estimates and assumptions that affect the reported amounts of fiduciary net position restricted for pensions at the date of the financial statements and the actuarial information included in Exhibits I, II, and III, included in the required supplementary information as of the benefit information date, the changes in fiduciary net position during the reporting period, and when applicable, the disclosures of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Risks and Uncertainties

Contributions to the Plan and the actuarial information in Exhibits I, II, and III, included in the required supplementary information are reported based on certain assumptions pertaining to interest rates, inflation rates, and employee compensation and demographics. Due to the changing nature of these assumptions, it is at least reasonably possible that changes in these assumptions may occur in the near term and, due to uncertainties inherent in setting assumptions, that the effect of such changes could be material to the financial statements.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Plan Contributions

Contributions to the Plan are recognized when due pursuant to formal commitments, as well as statutory or contractual requirements.

Plan Benefit Payments and Refunds

Benefit payments and refunds of the Plan are recognized when due and payable in accordance with the terms of the Plan.

Receivables

At June 30, 2015 and 2014, the Plan had no long-term receivables. All the receivables reflected in the statements of fiduciary net position are expected to be received and available for use by the Plan in its operations. Also, no allowance for any uncollectible portions is considered necessary.

As noted on the statement of fiduciary net position, as of June 30, 2014, there was \$67,987,452 due from the partial liquidation of an alternative investment, Private Advisors Stable Value ERISA Fund, Ltd. Monies were withdrawn prior to June 30, 2014, and not received until July 2014.

Investments

Management of the Plan is authorized to invest in eligible investments as approved by the Board as set forth in the investment policy. The Board reviews and updates the plan investment policy at least annually, making changes as deemed necessary to achieve policy goals. An investment policy change can be made anytime the need should arise at the discretion of the Board.

Investment Allocation Policy—The Board's asset allocation policy will currently maintain approximately 62% of assets in equity instruments, both domestic and international; approximately 20% of assets in fixed income to include investment grade bonds, high yield and non-dollar denominated bonds, convertible bonds, and low volatility hedge fund strategies; and 18% of assets in real assets and other assets to include real estate, commodities, private equities, and other strategies.

Significant Investment Policy Changes Made During the Year—During the year ended June 30, 2015, the Board changed the investment allocation for two asset classes. Equity instruments changed from 65% to 62% and real assets changed from 15% to 18%.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Investments, Continued

Rates of Return

- *Money-Weighted Rate of Return*—For the years ended June 30, 2015 and 2014, the annual money-weighted rate of return on pension plan investments as defined by GASB 67, net of pension plan investment expense, was 5.78% and 17.89%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested, and is a computation required by GASB 67.
- *Net Return on Average Assets*—For the years ended June 30, 2015 and 2014, the net return on average assets approximated 6% and 18%, respectively. The net return on average assets represents actual returns utilized by the System.

Methods Used to Value Investments—Plan investments are reported at fair value. Short-term investments are considered cash equivalents and consist primarily of U.S. Treasury bills and investments in units of a commingled trust fund of the Plan's custodial agent, earning interest at variable rates, and are reported at cost, which approximates fair value. Debt and equity securities are reported at fair value, as determined by the Plan's custodial agent, using pricing services or prices quoted by independent brokers based on the latest reported sales prices at current exchange rates for securities traded on national or international exchanges. The fair values of the pro rata share of units owned by the Plan in equity index and commingled trust funds are determined by the respective fund trustee based on quoted sales prices of the underlying securities. The fair values of the real estate investments are determined from independent appraisals. The fair values of the limited partnerships are determined by managers of the partnerships based on the values of the underlying assets. Investments which do not have an established market are reported at estimated fair value.

Net investment income (loss) includes net appreciation (depreciation) in the fair value of investments, interest income, dividend income, foreign currency translation gains and losses, securities lending income and expenses, and investment expenses, which include investment management and custodial fees and all other significant investment related costs. Foreign currency translation gains and losses are reflected in the net appreciation (depreciation) in the fair value of investments. Interest and dividends earned in commingled funds are reflected as a component of net appreciation in the fair values of assets. The fair value of the limited partnerships is determined by managers of the partnerships based on the values of the underlying assets.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Investments, Continued

The Plan authorizes its international investment managers to enter into forward foreign exchange contracts to minimize the short-term impact of foreign currency fluctuations on the asset and liability positions of foreign investments. The gains and losses on these contracts are included in income in the period in which the exchange rates change.

The Plan may invest in various traditional financial instruments that fall under the broad definition of derivatives. The Plan's derivatives may include U.S. Treasury STRIPS, collateralized mortgage obligations, convertible stocks and bonds, and variable rate instruments. These investments are not speculative in nature and do not increase investment risk beyond allowable limits specified in the Plan's investment policy.

The Plan's investment policy provides for investments in any combination of stocks, bonds, fixed-income securities, and other investment securities, along with investments in commingled, mutual, and index funds. Investment securities and investment securities underlying commingled or mutual fund investments are exposed to various risks, such as interest rate, market, and credit risks. Due to the risks associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities may occur in the near term, and such change could materially affect the amounts reported in the statements of fiduciary net position.

The investment policy limits the concentration of each portfolio manager. Except as noted below, no single investment exceeds 5% or more of the Plan's fiduciary net position. In addition, the Plan has no investments in loans, real estate, or leases, except through the Plan's investment in certain alternative investments as described in Note 6.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Investments, Continued

The following tables present the individual securities exceeding the 5%⁽¹⁾ threshold at June 30:

<u>Type of Security</u>	<u>Name of Security</u>	<u>Shares Held</u>	<u>2015</u>	
			<u>Cost</u>	<u>Fair Value</u>
Alternative investment	JP Morgan-132302	46,533	\$ 74,492,461	121,307,197
Domestic stock	S&P 500 Equal Weight CTF	2,014,858	53,623,472	140,554,478
Domestic stock	SSGA SP500 Flagship Fund	295,598	83,505,578	139,171,630

<u>Type of Security</u>	<u>Name of Security</u>	<u>Shares Held</u>	<u>2014</u>	
			<u>Cost</u>	<u>Fair Value</u>
Domestic stock	SSGA S&P 500 Flagship Fund	295,703	\$ 83,535,402	129,580,515
Domestic stock	S&P 500 Equal Weight CTF	2,015,567	53,642,351	132,471,148

⁽¹⁾ While the individual investment may exceed 5% of the Plan's fiduciary net position, each investment is comprised of numerous individual securities. As such, no individual security exceeds the 5% threshold.

Capital Assets

Capital assets, which consist of furniture, fixtures, and equipment, are stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets (primarily 10 years).

Income Taxes

The Plan is exempt from federal and state income taxes.

Plan Termination

In the event the Plan terminates, the Oklahoma Statutes contain no provision for the order of distribution of the fiduciary net position of the Plan. Plan termination would take an act of the Oklahoma Legislature, at which time the order of distribution of the Plan's fiduciary net position would be addressed.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Administrative Items

Operating Lease

The Plan had an operating lease which ended June 30, 2015. The lease has been renewed for the period November 1, 2015, through October 31, 2016. The present lease requires monthly payments at approximately \$3,700. Total lease expense for each of the years ended 2015 and 2014 was approximately \$36,000.

Compensated Absences

Employees of the System earn annual vacation leave at the rate of 10 hours per month for up to 5 years of service, 12 hours per month for service of over 5 to 10 years, 13.3 hours per month for service of over 10 to 20 years, and 16.7 hours per month for over 20 years of service. Unused annual leave may be accumulated to a maximum of 480 hours. All accrued annual leave is payable upon termination, resignation, retirement, or death. As of June 30, 2015 and 2014, approximately \$139,000 and \$114,000, respectively, was included in accrued expenses as the accruals for compensated absences. A summary of changes in compensated absences as of June 30 is as follows:

	<u>2015</u>	<u>2014</u>
Balance at beginning of year	\$ 114,000	108,000
Additions	93,000	112,000
Deductions	<u>(68,000)</u>	<u>(106,000)</u>
Balance at end of year	<u>\$ 139,000</u>	<u>114,000</u>

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Administrative Items, Continued

Retirement Expense

The employees of the System are eligible to participate in the Oklahoma Public Employees Retirement Plan, which is administered by the Oklahoma Public Employees Retirement System (collectively referred to as OPERS). OPERS is a multiple-employer, cost-sharing public retirement defined benefit pension plan. OPERS provides retirement, disability, and death benefits to its plan members and beneficiaries. OPERS issues a publicly available financial report which includes financial statements and required supplementary information for OPERS. That report may be obtained by writing to the Oklahoma Public Employees Retirement System, 5801 N. Broadway Extension, Suite 200, Oklahoma City, OK 73118-7484.

Employees of the System are required to contribute 3.5% of their annual covered salary. The System is required to contribute at an actuarially determined rate, which was 16.5% of annual covered payroll as of June 30, 2015, 2014, and 2013. During 2015, 2014, and 2013, totals of \$165,607 and \$139,237, and \$137,893, respectively, were paid to OPERS. The System has contributed 100% of required contributions to OPERS for 2015, 2014, and 2013. The System's and the employees' portions of those amounts were as follows:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
System portion	\$ 128,638	107,529	106,548
Employee portion	<u>36,969</u>	<u>31,708</u>	<u>31,345</u>
	<u>\$ 165,607</u>	<u>139,237</u>	<u>137,893</u>

As noted earlier, the Plan adopted GASB 68 as of July 1, 2014, as it applies to its participation in OPERS. The effects upon the financial statements of the Plan as a result of the adoption of GASB 68 are considered immaterial.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Administrative Items, Continued

Risk Management

The Risk Management Division of the Department of Central Services (the "Division") is empowered by the authority of Title 74 O.S. Supp. 1993, Section 85.34 et seq. The Division is responsible for the acquisition and administration of all insurance purchased by the State of Oklahoma or administration of any self-insurance plans and programs adopted for use by the State of Oklahoma for certain organizations and bodies outside of state government, at the sole expense of such organizations and bodies.

The Division is authorized to settle claims of the State of Oklahoma and shall govern the dispensation and/or settlement of claims against a political subdivision. In no event shall self-insurance coverage provided by the State of Oklahoma, an agency, or other covered entity exceed the limitations on the maximum dollar amount of liability specified by the Oklahoma Government Tort Claims Act, as provided by Title 51 O.S. Supp. 1988, Section 154. The Division oversees the collection of liability claims owed to the State of Oklahoma incurred as the result of a loss through the wrongful or negligent act of a private person or other entity.

The Division is also charged with the responsibility to immediately notify the attorney general of any claims against the State of Oklahoma presented to the Division. The Division purchases insurance policies through third-party insurance carriers that ultimately inherit the risk of loss. The Division annually assesses each state agency, including the Plan, their pro rata share of the premiums purchased. The Plan has no obligations for any claims submitted to the Division against the Plan.

Reclassification of Prior Year Amounts

Certain amounts for 2014 have been reclassified to make them comparable with the 2015 presentation.

Date of Management's Review of Subsequent Events

Management has evaluated subsequent events through October 7, 2015, the date which the financial statements were available to be issued, and determined that no subsequent events have occurred that require adjustment to or disclosure in the financial statements.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) DESCRIPTION OF THE PLAN

The following brief description of the Plan is provided for general information purposes only. Participants should refer to Title 11 of the Oklahoma Statutes, Section 49-100.1 through 49-143.3, as amended, for more complete information.

General

The Plan is a multiple-employer, cost-sharing public employee retirement plan covering members who have actively participated in firefighting activities.

Contributions

Funding Policy—The contribution requirements of the Plan are at an established rate determined by Oklahoma statute and are not based on actuarial calculations.

Prior to November 1, 2013, participating paid firefighters contributed 8% of applicable earnings, while member cities contributed 13% of the members' applicable earnings. For the period beginning November 1, 2013, participating paid firefighters contributed 9% of applicable earnings, while member cities contributed 14% of the members' applicable earnings. In addition, the member cities contribute \$60 for each volunteer firefighter unless their annual income in the general fund is less than \$25,000, in which case they are exempt. Prior to November 1, 2013, the State of Oklahoma, a non-employer contributing entity, allocated 34% of insurance premium tax collected from various types of insurance policies to the Plan. For the period beginning November 1, 2013, and presently, the State of Oklahoma, a non-employer contributing entity, allocated 36% of insurance premium tax collected from various types of insurance policies to the Plan. The State of Oklahoma may also appropriate additional funds annually as needed to pay current costs and to amortize the unfunded actuarial present value of accumulated plan benefits. No such appropriations were received during the years ended June 30, 2015 or 2014.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) DESCRIPTION OF THE PLAN, CONTINUED

Benefits

In general, the Plan provides defined retirement benefits based on members' final average compensation, age, and term of service. In addition, the retirement program provides for benefits upon disability and to survivors upon death of eligible members. The Plan's benefits are established and amended by Oklahoma statute. Retirement provisions are as follows:

- *Normal Retirement*

Hired Prior to November 1, 2013

Normal retirement is attained upon completing 20 years of service. The normal retirement benefit is equal to 50% of the member's final average compensation. Final average compensation is defined as the monthly average of the highest 30 consecutive months of the last 60 months of participating service. For volunteer firefighters, the monthly pension benefit for normal retirement is \$150.60 per month.

Hired After November 1, 2013

Normal retirement is attained upon completing 22 years of service. The normal retirement benefit is equal to 55% of the member's final average compensation. Final average compensation is defined as the monthly average of the highest 30 consecutive months of the last 60 months of participating service. Also participants must be age 50 to begin receiving benefits. For volunteer firefighters, the monthly pension benefit for normal retirement is \$165.66 per month.

- All firefighters are eligible for immediate disability benefits. For paid firefighters, the disability in-the-line-of-duty benefit for firefighters with less than 20 years of service is equal to 50% of final average monthly compensation, based on the most recent 30 months of service. For firefighters with over 20 years of service, a disability in-the-line-of-duty is calculated based on 2.5% of final average monthly compensation, based on the most recent 30 months, per year of service, with a maximum of 30 years of service. For disabilities not-in-the-line-of-duty, the benefit is limited to only those with less than 20 years of service and is 50% of final average monthly compensation, based on the most recent 60-month salary as opposed to 30 months. For volunteer firefighters, the not-in-line-of-duty disability is also limited to only those with less than 20 years of service and is \$7.53 per year of service. For volunteer firefighters, the in-line-of-duty pension is \$150.60 with less than 20 years of service, or \$7.53 per year of service, with a maximum of 30 years.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) DESCRIPTION OF THE PLAN, CONTINUED

Benefits, Continued

- A \$5,000 lump sum death benefit is payable to the qualified spouse or designated recipient upon the participant's death. The \$5,000 death benefit does not apply to members electing the vested benefit. For the years ended June 30, 2015 and 2014, total death benefits of \$931,666 and \$875,000, respectively, were paid from the Plan.
- *Terminations*

Hired Prior to November 1, 2013

A member who terminates after 10 years of credited service is eligible for a vested severance benefit determined by the normal retirement formula, based on service and salary history to date of termination. The benefit is payable at age 50, or when the member would have completed 20 years of service, whichever is later, provided the member's contribution accumulation is not withdrawn. Members terminating with less than 10 years of credited service may elect to receive a refund of their contribution accumulation without interest.

Hired After November 1, 2013

A member who terminates after 11 years of credited service is eligible for a vested severance benefit determined by the normal retirement formula, based on service and salary history to date of termination. The benefit is payable at age 50, or when the member would have completed 22 years of service, whichever is later, provided the member's contribution accumulation is not withdrawn. Members terminating with less than 11 years of credited service may elect to receive a refund of their contribution accumulation without interest.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) DESCRIPTION OF THE PLAN, CONTINUED

Benefits, Continued

- Firefighters hired prior to November 1, 2013, with 20 or more years of service may elect to participate in the Oklahoma Firefighters Deferred Retirement Option Plan (the "Deferred Option Plan"). Firefighters hired after November 1, 2013, with 22 or more years or more of service may elect to participate in the Deferred Option Plan. Active participation (having benefit payments credited to the account) in the Deferred Option Plan shall not exceed 5 years. Under the Deferred Option Plan, retirement benefits are calculated based on compensation and service at the time of election. The retirement benefits plus half of the municipal contributions on behalf of the participant are deposited into a deferred retirement account. The Deferred Option Plan accounts are credited with interest at a rate of 2% below the rate of return on the investment portfolio of the Plan, with a guaranteed minimum interest rate equal to the assumed actuarial interest rate of 7.5%, as approved by the Board. The participant is no longer required to make contributions. Upon retirement, the firefighter receives his/her monthly retirement benefit as calculated at the time of election. The member can elect to either leave the account balance accumulated in the Deferred Option Plan account or they can elect to have the balance paid to them either as a lump sum or in specified monthly payments. If the member elects to leave their account balance in the Deferred Option Plan account, they will continue to earn interest on their balance at the rate described above; however, no more benefit payments will be credited to their account. The member can leave their account balance in the Deferred Option Plan account until the age of 70½. When the member reaches 70½ years of age, they must either begin receiving regular monthly payments, based on the annuity method, or a lump sum distribution. As of June 30, 2015, there were 1,254 members actively participating in the Deferred Option Plan.

The Deferred Option Plan was modified effective November 1, 2013, to limit post-retirement interest for new members to a rate of return on the portfolio, less a 1% administrative fee. In addition, the members participating must withdraw all money by the age of 70½.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) DESCRIPTION OF THE PLAN, CONTINUED

Benefits, Continued

- In the 2003 Legislative Session, Senate Bill 286 and House Bill 1464 created a “Back” DROP for members of the System effective July 1, 2003. The “Back” DROP is a modified deferred retirement option plan. The “Back” DROP allows the member flexibility by not having to commit to terminate employment within 5 years. Once a member has met their normal retirement period of 20 years for those hired prior to November 1, 2013, and 22 years for those hired after November 1, 2013, the member can choose, upon retirement, to be treated as if the member had entered into the Deferred Option Plan. A member, however, cannot receive credit to the Deferred Option Plan account based upon any years prior to when the member reached their normal retirement date. Once a member is ready to retire, the member can make the election to participate in the “Back” DROP and can receive a Deferred Option Plan benefit based upon up to 5 years of participation. The member’s regular retirement benefit will not take into account any years of service credited to the “Back” DROP. As of June 30, 2015, there were 1,050 members participating in the “Back” DROP.
- Firefighters with 20 years of service or who were receiving pension benefits as of May 26, 1983, are entitled to post-retirement adjustments equal to one-half the increase or decrease for top-step firefighters. Pensions will not be adjusted below the level at which the firefighter retired.

(4) CASH, CASH EQUIVALENTS, AND INVESTMENTS

At June 30, cash and cash equivalents were composed of the following:

	<u>2015</u>	<u>2014</u>
Cash on deposit with the State of Oklahoma	\$ 610,057	826,858
Cash on deposit with custodial agent:		
U.S. currency deposits	1,000,978	706,274
Foreign currency deposits	36,903	3,254,747
Short-term investments	<u>44,076,630</u>	<u>35,606,944</u>
 Total cash and cash equivalents	 <u>\$ 45,724,568</u>	 <u>40,394,823</u>

The Plan’s short-term investments are considered cash equivalents and consist primarily of temporary investments in U.S. Treasury bills and a commingled trust fund of the Plan’s custodial agent. The trust fund is composed of high-grade money market instruments with short maturities. Each participant in the trust fund shares the risk of loss in proportion to their respective investment in the fund.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(4) CASH, CASH EQUIVALENTS, AND INVESTMENTS, CONTINUED

Custodial Credit Risk

Custodial credit risk is the risk that in the event of the failure of a counterparty, the Plan will not be able to recover the value of its investments. Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. Investment securities are exposed to custodial credit risk if they are uninsured, are not registered in the name of the Plan, or are held by a counterparty or the counterparty's trust department but not in the name of the Plan. While the investment policy does not specifically address custodial credit risk of deposits, it does limit the amount of cash and short-term investments of each manager's portfolio. At June 30, 2015 and 2014, the carrying amounts of the Plan's cash and cash equivalents were \$45,724,568 and \$40,394,823, respectively, and the bank balances were \$47,833,953 and \$41,710,901, respectively. The difference in balances was primarily due to outstanding deposits and checks.

The bank balances of deposits were uninsured and uncollateralized in the amounts of approximately \$37,000 and \$3,255,000 of as of June 30, 2015 and 2014, respectively. The policy also provides that investment collateral be held by a third-party custodian with whom the Plan has a current custodial agreement in the Plan's name.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The investment policy states that while there are no percentage limits with regard to country weightings, the investment manager should use prudent investment judgment. Investments in cash and cash equivalents, foreign equities, and debt securities are shown by monetary unit to indicate possible foreign currency risk.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(4) CASH, CASH EQUIVALENTS, AND INVESTMENTS, CONTINUED

Foreign Currency Risk, Continued

The Plan's exposure to foreign currency risk at June 30 was as follows:

	2015				
	Cash and Cash Equivalents	Equities	Debt Securities	Total	Percentage
Australian dollar	\$ -	2,774,408	9,983,441	12,757,849	6.742%
Brazil real	-	3,133,536	6,659,424	9,792,960	5.175%
Canadian dollar	-	2,502,237	-	2,502,237	1.322%
Danish krone	-	9,191,865	-	9,191,865	4.857%
Euro currency	5,577	11,941,456	12,887,087	24,834,120	13.125%
Hong Kong dollar	-	18,617,403	-	18,617,403	9.838%
Hungarian forint	-	-	5,323,308	5,323,308	2.813%
Indonesian rupiah	-	-	6,235,832	6,235,832	3.295%
Japanese yen	3,179	10,528,027	-	10,531,206	5.565%
Malaysian ringgit	-	-	3,919,098	3,919,098	2.071%
Mexican peso	-	1,755,352	19,467,756	21,223,108	11.216%
New Taiwan dollar	28,145	-	-	28,145	0.015%
New Zealand dollar	-	-	4,563,064	4,563,064	2.411%
Polish zloty	-	-	2,981,276	2,981,276	1.575%
Pound sterling	-	18,212,354	-	18,212,354	9.624%
South African rand	-	1,538,847	5,788,445	7,327,292	3.872%
South Korean won	2	3,596,712	5,995,214	9,591,928	5.069%
Swedish krona	-	2,583,129	-	2,583,129	1.365%
Swiss franc	-	19,015,860	-	19,015,860	10.050%
	<u>\$ 36,903</u>	<u>105,391,186</u>	<u>83,803,945</u>	<u>189,232,034</u>	<u>100.000%</u>

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(4) CASH, CASH EQUIVALENTS, AND INVESTMENTS, CONTINUED

Foreign Currency Risk, Continued

	2014				
	<u>Cash and</u> <u>Cash Equivalents</u>	<u>Equities</u>	<u>Debt</u> <u>Securities</u>	<u>Total</u>	<u>Percentage</u>
Australian dollar	\$ -	-	17,471,905	17,471,905	7.091%
Brazil real	7,999	6,389,773	8,435,459	14,833,231	6.020%
Canadian dollar	7,999	3,396,884	-	3,404,883	1.382%
Danish krone	16,360	13,985,241	-	14,001,601	5.683%
Euro currency	2,903,156	21,845,664	21,141,672	45,890,492	18.624%
Hong Kong dollar	78,047	15,458,761	-	15,536,808	6.306%
Hungarian forint	-	-	6,526,893	6,526,893	2.649%
Indonesian rupiah	-	1,016,259	6,081,781	7,098,040	2.881%
Japanese yen	162,476	6,395,181	-	6,557,657	2.661%
Malaysian ringgit	-	-	3,466,785	3,466,785	1.407%
Mexican peso	-	2,111,597	25,608,009	27,719,606	11.250%
New Taiwan dollar	28,145	-	-	28,145	0.011%
New Zealand dollar	-	-	5,820,031	5,820,031	2.362%
Polish zloty	-	-	7,861,458	7,861,458	3.191%
Pound sterling	50,536	12,292,873	9,841,511	22,184,920	9.004%
Singapore dollar	-	1,436,526	-	1,436,526	0.583%
South African rand	-	1,707,589	5,809,778	7,517,367	3.051%
South Korean won	29	1,643,922	7,608,824	9,252,775	3.755%
Swedish krona	-	5,445,910	-	5,445,910	2.210%
Swiss franc	-	21,856,761	-	21,856,761	8.871%
Turkish lira	-	-	2,483,451	2,483,451	1.008%
	<u>\$ 3,254,747</u>	<u>114,982,941</u>	<u>128,157,557</u>	<u>246,395,245</u>	<u>100.000%</u>

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(4) CASH, CASH EQUIVALENTS, AND INVESTMENTS, CONTINUED

Credit Risk

Fixed-income securities are subject to credit risk. Credit quality rating is one method of assessing the ability of the issuer to meet its obligation. The investment policy for fixed-income investment managers requires the securities to be rated at least "investment grade" by at least two rating agencies. Exposure to credit risk as of June 30 was as follows:

<u>Investment Type</u>	Moody's Ratings (Unless Noted)	2015	
		<u>Fair Value</u>	<u>Fair Value as a Percentage of Total Fixed Maturity Fair Value</u>
International government agencies	Not rated	\$ 4,638,286	2.227%
	Aaa	2,981,276	1.432%
	A2	4,563,064	2.191%
	Ba1	5,640,244	2.708%
	Baa2	6,235,832	2.994%
	Baa3	4,604,119	2.211%
			<u>28,662,821</u>
U.S. Treasury	Not rated	<u>31,650,172</u>	<u>15.199%</u>
International treasuries	Not rated	1,416,215	0.680%
	Aaa	3,706,492	1.780%
	Aa1	6,276,949	3.014%
	Aa3	5,995,214	2.879%
	A3	19,467,756	9.348%
	Baa2	11,353,691	5.452%
	Ba1	4,012,752	1.927%
	Ba2	934,350	0.449%
	Ba3	192,973	0.093%
	B2	1,784,732	0.857%
		<u>55,141,124</u>	<u>26.479%</u>

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(4) CASH, CASH EQUIVALENTS, AND INVESTMENTS, CONTINUED

Credit Risk, Continued

<u>Investment Type</u>	Moody's Ratings (Unless Noted)	2015		
		<u>Fair Value</u>	Fair Value as a Percentage of Total Fixed Maturity <u>Fair Value</u>	
Domestic corporate bonds	Aaa	3,008,100	1.445%	
	Aa1	606,739	0.291%	
	Aa2	611,922	0.294%	
	Aa3	2,395,134	1.150%	
	A1	3,138,616	1.507%	
	A2	3,782,996	1.817%	
	A3	11,231,159	5.393%	
	Baa1	7,592,690	3.646%	
	Baa2	1,919,892	0.922%	
	Baa3	4,691,238	2.253%	
	Ba3	80,750	0.039%	
			<u>39,059,236</u>	<u>18.757%</u>
	Mortgage-backed securities	Not Rated	24,164,709	11.604%
Aaa		3,930,521	1.887%	
Aa1		2,002,100	0.961%	
Aa3		9,961,601	4.784%	
A2		7,765,965	3.729%	
A3		3,910,151	1.878%	
B3		75,861	0.036%	
Caa1		121,254	0.058%	
Caa2		125,592	0.062%	
		<u>52,057,754</u>	<u>24.999%</u>	
Municipal bonds	A2	<u>1,673,182</u>	<u>0.803%</u>	
		<u>\$ 208,244,289</u>	<u>100.000%</u>	

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(4) CASH, CASH EQUIVALENTS, AND INVESTMENTS, CONTINUED

Credit Risk, Continued

<u>Investment Type</u>	Moody's Ratings (Unless Noted)	2014	
		<u>Fair Value</u>	Fair Value as a Percentage of Total Fixed Maturity <u>Fair Value</u>
International government agencies	Not rated	\$ 5,950,236	3.592%
	A2	7,861,458	4.746%
	Aaa	5,820,031	3.514%
	Ba1	6,526,893	3.940%
	Baa2	13,269,301	8.011%
	Baa3	6,081,782	3.672%
			<u>45,509,701</u>
U.S. Treasury	Not rated	<u>12,662,086</u>	<u>7.644%</u>
International treasuries	A3	25,608,009	15.460%
	Aa1	18,786,532	11.341%
	Aa3	7,608,824	4.593%
	Aaa	8,526,884	5.148%
	B1	454,498	0.274%
	B2	1,214,985	0.733%
	Ba2	6,202,888	3.745%
	Baa1	5,809,778	3.507%
	Baa2	8,435,458	5.092%
		<u>82,647,856</u>	<u>49.893%</u>

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(4) CASH, CASH EQUIVALENTS, AND INVESTMENTS, CONTINUED

Credit Risk, Continued

<u>Investment Type</u>	Moody's Ratings (Unless Noted)	2014	
		<u>Fair Value</u>	Fair Value as a Percentage of Total Fixed Maturity <u>Fair Value</u>
Domestic corporate bonds	Not rated	271,149	0.164%
	B1	79,688	0.048%
	B3	89,518	0.054%
	Baa1	1,819,520	1.098%
	Baa2	530,286	0.320%
	Caa1	139,850	0.084%
	Caa2	147,845	0.089%
			<u>3,077,856</u>
Mortgage-backed securities	Not rated	5,943,755	3.588%
	A2	1,573,799	0.950%
	A3	1,792,273	1.082%
	Aa1	5,615,880	3.390%
	Aa3	4,286,612	2.588%
	Aaa	801,600	0.486%
			<u>20,013,919</u>
Municipal bonds	A2	<u>1,733,871</u>	<u>1.047%</u>
		<u>\$ 165,645,289</u>	<u>100.000%</u>

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(4) CASH, CASH EQUIVALENTS, AND INVESTMENTS, CONTINUED

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. While all investments are subject to market changes, securities invested in fixed-income index funds are more sensitive to market risk. The investment policy does not establish an overall duration period; however, it does establish benchmarks for each investment manager. As of June 30, the Plan had the following maturities:

	2015				
	<u>Investment Maturities at Fair Value (in Years)</u>				
	<u>Less than 1</u>	<u>1 or More, Less than 5</u>	<u>5 or More, Less than 10</u>	<u>More than 10</u>	<u>Total Fair Value</u>
Fixed-income securities:					
International government agencies	\$ -	-	23,022,577	5,640,244	28,662,821
U.S. Treasury	-	5,325,030	-	26,325,142	31,650,172
International treasuries	-	8,916,421	18,986,369	27,238,334	55,141,124
Domestic corporate bonds	611,922	20,039,514	15,861,014	2,546,786	39,059,236
Mortgage-backed securities	2,002,100	25,568,238	3,686,107	20,801,309	52,057,754
Municipal bonds	-	-	-	1,673,182	1,673,182
	<u>\$ 2,614,022</u>	<u>59,849,203</u>	<u>61,556,067</u>	<u>84,224,997</u>	<u>208,244,289</u>

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(4) CASH, CASH EQUIVALENTS, AND INVESTMENTS, CONTINUED

Interest Rate Risk, Continued

	2014				
	Investment Maturities at Fair Value (in Years)				
	<u>Less than 1</u>	<u>1 or More, Less than 5</u>	<u>5 or More, Less than 10</u>	<u>More than 10</u>	<u>Total Fair Value</u>
Fixed-income securities:					
International government agencies	\$ 2,483,451	5,671,332	19,448,639	17,906,279	45,509,701
U.S. Treasury	-	-	-	12,662,086	12,662,086
International treasuries	9,841,511	5,782,525	26,337,537	40,688,283	82,649,856
Domestic corporate bonds	-	2,349,806	-	728,050	3,077,856
Mortgage-backed securities	-	20,013,919	-	-	20,013,919
Municipal bonds	-	-	-	1,733,871	1,733,871
	<u>\$ 12,324,962</u>	<u>33,817,582</u>	<u>45,786,176</u>	<u>73,718,569</u>	<u>165,647,289</u>

Securities Lending

The Plan's investment policy provides for its participation in a securities lending program. The program is administered by the Plan's custodial agent. Certain securities of the Plan are loaned to participating brokers, who must provide collateral in the form of cash or U.S. Treasury or government agency securities. Under the program, the securities loaned are collateralized at a minimum of 105% of their fair values. The Plan does not have the ability to pledge or sell collateral securities without borrower default. The collateral is marked to market daily such that at the close of trading on any business day, the value of the collateral shall not be less than 100% of the fair value of the loaned securities. The Plan did not impose any restrictions regarding the amount of loans made, and the custodial agent indemnified the Plan by agreeing to purchase replacement securities or return cash collateral in the event of borrower default. There were no such failures during 2015 or 2014. The indemnification does not cover market losses associated with investing the security lending cash collateral. The loan premium paid by the borrower of the securities is apportioned between the Plan and its custodial agent in accordance with the securities lending agreement.

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(4) CASH, CASH EQUIVALENTS, AND INVESTMENTS, CONTINUED

Securities Lending, Continued

During the fiscal year, the Plan and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool. The average duration of such investment pool was 28 days and 37 days as of June 30, 2015 and 2014, respectively. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. As of June 30, 2015 and 2014, the Plan had no credit risk exposure to borrowers. The collateral held and the fair value of securities on loan for the Plan as of June 30 were as follows:

<u>Year Ended</u> <u>June 30</u>	<u>Collateral</u> <u>Held</u>	<u>Fair Value of</u> <u>Securities on</u> <u>Loan</u>	<u>% of Collateral</u> <u>Held to</u> <u>Securities on</u> <u>Loan</u>
2015	\$ <u>166,426,829</u>	<u>163,580,974</u>	<u>102%</u>
2014	\$ <u>144,543,920</u>	<u>141,573,999</u>	<u>102%</u>

(5) DERIVATIVES AND OTHER INSTRUMENTS

Derivative instruments are financial contracts whose values depend on the values of one or more underlying assets, reference rates, or financial indexes. They include futures contracts, swap contracts, options contracts, and forward foreign currency exchange. The Plan's derivatives policy notes that derivatives may be used for the purpose of reducing or controlling risk, reducing transaction costs, or shifting an asset mix. The investment policy also requires investment managers to follow certain controls and documentation and risk management procedures. The Plan uses forward foreign exchange contracts primarily to hedge foreign currency exposure. The tables below summarize the various contracts in the portfolio as of June 30, 2015 and 2014. Investments in limited partnerships (alternative investments) and commingled funds may include derivatives that are not shown in the derivative totals below. The Plan's investments in alternative investments are reflected at fair value and any exposure is limited to its investment in the partnership and any unfunded commitment. Commingled funds have been reviewed to ensure they are in compliance with the Plan's investment policy. The notional values associated with the warrants are generally not recorded in the financial statements. The Plan does not anticipate additional significant market risk from the derivatives.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(5) DERIVATIVES AND OTHER INSTRUMENTS, CONTINUED

Derivative instruments at June 30 were as follows:

<u>Foreign Currency Forward Contracts</u>	<u>Fair Value at June 30, 2015</u>	<u>Changes in Fair Value</u>	<u>Notional Amount</u>
Net receivable	\$ 593,021	5,087,938	46,321,351

<u>Foreign Currency Forward Contracts</u>	<u>Fair Value at June 30, 2014</u>	<u>Changes in Fair Value</u>	<u>Notional Amount</u>
Net payable	\$ (217,199)	(3,125,796)	65,438,461

At June 30, 2015 and 2014, the receivable/payable is net of gross receivables of \$828,125 and \$196,813, respectively, and liabilities of \$235,104 and \$414,012, respectively. The gross receivables for June 30, 2015 and 2014, were supported by collateral in investments valued at \$647,856 and \$142,725, respectively, with a credit risk rating principally of A for S&P and A2 for Moody's for both years. The majority of the contracts expire by September 2015.

<u>Other</u>	<u>Fair Value at June 30, 2015</u>	<u>Changes in Fair Value</u>	<u>Notional Amount</u>
Common stock—rights	\$ -	(43,605)	-

<u>Other</u>	<u>Fair Value at June 30, 2014</u>	<u>Changes in Fair Value</u>	<u>Notional Amount</u>
Common stock—rights	\$ -	54,393	-

Fair values of all the derivative instruments were determined from market quotes of the instruments or similar instruments.

The Plan invests in mortgage-backed securities, which are reported at fair value in the statements of fiduciary net position and are based on the cash flows from interest and principal payments of the underlying mortgages. As a result, they are sensitive to prepayments by mortgagees, which are likely in declining interest rate environments, thereby reducing the values of these securities. The Plan invests in mortgage-backed securities to diversify the portfolio and increase the return while minimizing the extent of risk. Details regarding interest rate risks for these investments are included under the interest rate risk disclosures.

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(6) ALTERNATIVE INVESTMENTS

The Plan invests in alternative investments such as limited partnerships, limited liability companies, and other entities. The alternative investments at June 30 are summarized in the following table:

<u>Investment</u>	<u>Purpose</u>	<u>Fair Value</u>	
		<u>2015</u>	<u>2014</u>
AG Net Lease Realty FD III	Seeks to invest in net leased corporate real estate properties in the United States and overseas, with an emphasis on providing sale-leaseback financing to financial sponsors and non-investment grade companies.	\$ 7,381,007	905,717
ASF VI LP	Invests in investment companies that are managed by external investment managers who invest in sale-leaseback opportunities.	16,778,634	5,783,063
Capital Dynamics Global Fund IV	Invest in real estate infrastructure and private debt secondaries.	22,038,469	-
Dune Real Estate Fund III	Executes opportunistic strategy, with a focus on distressed, deep value-add, and contrarian investing, primarily in the United States.	12,042,270	11,307,599
Garrison Fund	Invests in investment companies that are managed by external investment managers who invest in long/short investments.	40,075,428	39,098,251
Hall Capital III	Investments in income-producing properties in commercial real estate and oil and gas with low to moderate risk.	1,041,243	-

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(6) ALTERNATIVE INVESTMENTS, CONTINUED

<u>Investment</u>	<u>Purpose</u>	<u>Fair Value</u>	
		<u>2015</u>	<u>2014</u>
JPMorgan Chase Bank Strategic Property, Special Situation Property Funds	Invests in real estate investments owned directly or through partnership interests, and mortgage loans on income-producing property.	167,258,738	77,371,495
Landmark Real Estate VII	Direct and indirect investments in diversified real estate assets primarily through secondary market transactions.	1,931,780	-
Medley Fund	Invests in private equity funds, including buyout, growth equity, venture capital, and real estate in the United States, Europe, and Asia.	43,975,199	37,839,327
Mesirow Fund	Invests in investment companies that are managed by external investment managers who invest in long/short investments.	4,437,525	2,313,055
Pamona Capital Fund VIII	Invests in investment companies that are managed by external investment managers who invest in long/short investments.	18,071,934	11,565,931
Pequot Capital	Investment in a pooled investment of a privately held airline company in Brazil.	1,102,896	1,102,895

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(6) ALTERNATIVE INVESTMENTS, CONTINUED

<u>Investment</u>	<u>Purpose</u>	<u>Fair Value</u>	
		<u>2015</u>	<u>2014</u>
Permal Capital	Investments in public equity, fixed income, and alternative investment markets.	75,000,000	-
Portfolio Advisors Private Equity Fund III, IV, & V	Invests in investment companies that are managed by external investment managers who invest in real estate assets.	30,668,580	29,053,873
Private Advisors Stable Value ERISA Fund, Ltd.	Invests in investment companies that are managed by external investment managers who invest in low volatility hedge funds.	74,436,919	75,000,000
T.A. Realty Associates Fund VII & IX, L.P.	Invests in income-producing real estate properties.	<u>22,310,069</u>	<u>22,631,729</u>
		<u>\$ 538,550,691</u>	<u>313,972,935</u>

Each of the entities accounts for their investments at fair value. Investments made by several of the entities include investments of both domestic and foreign equity securities. As such, they may enter into forward contracts to purchase or sell securities at specified dates in the future at a guaranteed price in a foreign country to protect against fluctuation in exchange rates of foreign currency.

At June 30, 2015 and 2014, the Plan had unfunded commitments of approximately \$162,185,000 and \$384,086,000, respectively, to the various partnerships.

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(7) DEFERRED OPTION PLAN

As noted previously, the Plan has a Deferred Option Plan available to its members. A summary of the Deferred Option Plan for the years ended June 30 is as follows:

	<u>2015</u>	<u>2014</u>
Assets at beginning of year	\$ 349,598,354	317,042,636
Employer's contributions	398,845	428,856
Retirement benefit payments	(21,026,978)	(19,891,235)
Retirement benefits transferred from pension plan	3,124,938	3,002,057
Interest	<u>25,582,169</u>	<u>49,016,040</u>
Assets at end of year	<u>\$ 357,677,328</u>	<u>349,598,354</u>

The assets shown above are included in the fiduciary net position restricted for pensions as reflected on the statements of fiduciary net position.

(8) "BACK" DROP PLAN

As noted previously, the Plan has a "Back" DROP plan available to the members effective July 1, 2003. A summary of the "Back" DROP for the years ended June 30 is as follows:

	<u>2015</u>	<u>2014</u>
Assets at beginning of year	\$ 198,619,427	155,952,155
Employer's contributions	9,874,397	4,584,915
Retirement benefit payments	(15,690,407)	(13,002,735)
Retirement benefits transferred from pension plan	36,991,600	17,212,397
Interest	<u>34,682,502</u>	<u>33,872,695</u>
Assets at end of year	<u>\$ 264,477,519</u>	<u>198,619,427</u>

The assets shown are included in the fiduciary net position restricted for pensions as reflected on the statements of fiduciary net position.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(9) NET PENSION LIABILITY OF PARTICIPATING EMPLOYERS

The components of the net pension liability of the participating employers at June 30, 2015, were as follows:

Total pension liability	\$ 3,344,974,631
Fiduciary net position	<u>2,283,566,382</u>
Employers' net pension liability	<u>\$ 1,061,408,249</u>
Fiduciary net position as a percentage of total pension liability	<u>68.27%</u>

Actuarial Assumptions—The total pension liability was determined by an actuarial valuation as of July 1, 2015, using the following actuarial assumptions, applied to all prior periods included in the measurement:

Inflation:	3%
Salary increases:	3.5% to 9.0% average, including inflation
Investment rate of return:	7.5% net of pension plan investment expense

Mortality rates were based on the RP2000 combined healthy with blue collar adjustment as appropriate, with adjustments for generational mortality improvement using scale AA for healthy lives and no mortality improvement for disabled lives.

The actuarial assumptions used in the July 1, 2015, valuation were based on the results of an actuarial experience study for the period July 1, 2007, to June 30, 2012.

See Independent Auditors' Report.

OKLAHOMA FIREFIGHTERS PENSION AND RETIREMENT PLAN
Administered by
OKLAHOMA FIREFIGHTERS PENSION AND RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(9) NET PENSION LIABILITY OF PARTICIPATING EMPLOYERS, CONTINUED

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015, (see discussion of the pension plan's investment policy) are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income	5.13%
Domestic equity	8.02%
International equity	9.94%
Real estate	7.47%
Other assets	6.25%

Discount Rate—The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, determined by Oklahoma statutes. Projected cash flows also assume the State of Oklahoma will continue contributing 36% of the insurance premium, as established by Oklahoma statute. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate—The following presents the net pension liability of the employers calculated using the discount rate of 7.5%, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Employers' net pension liability	<u>\$ 1,378,127,473</u>	<u>1,061,408,249</u>	<u>795,774,620</u>

See Independent Auditors' Report.

OKLAHOMA FIREFIGHTERS PENSION AND RETIREMENT PLAN
Administered by
OKLAHOMA FIREFIGHTERS PENSION AND RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(10) CAPITAL ASSETS

The Plan has only one class of capital assets, consisting of furniture, fixtures, and equipment. A summary as of June 30 is as follows:

	<u>Balance at</u> <u>June 30, 2014</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at</u> <u>June 30, 2015</u>
Cost	\$ 263,709	-	-	263,709
Accumulated depreciation	<u>(234,486)</u>	<u>(5,072)</u>	<u>-</u>	<u>(239,558)</u>
Capital assets, net	<u>\$ 29,223</u>	<u>(5,072)</u>	<u>-</u>	<u>24,151</u>

	<u>Balance at</u> <u>June 30, 2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at</u> <u>June 30, 2014</u>
Cost	\$ 263,709	-	-	263,709
Accumulated depreciation	<u>(227,715)</u>	<u>(6,771)</u>	<u>-</u>	<u>(234,486)</u>
Capital assets, net	<u>\$ 35,994</u>	<u>(6,771)</u>	<u>-</u>	<u>29,223</u>

(11) PLAN TERMINATION AND STATE FUNDING

The Plan has not developed an allocation method if it were to terminate. The Oklahoma Legislature is required by statute to make such appropriation as necessary to assure that benefit payments are made.

A suggested minimum contribution from the State of Oklahoma is computed annually by an actuary hired by the Plan. However, funding by the State of Oklahoma to the Plan is based on statutorily determined amounts rather than the actuarial calculations of the amount required to fund the Plan.

(12) FEDERAL INCOME TAX STATUS

As an instrumentality of the State of Oklahoma, the Plan, as amended, is tax-exempt. It is not subject to the Employee Retirement Income Security Act of 1974, as amended. The Plan has received favorable determination from the Internal Revenue Service (IRS) regarding its tax-exempt status in a letter dated September 10, 2014.

See Independent Auditors' Report.

OKLAHOMA FIREFIGHTERS PENSION AND RETIREMENT PLAN
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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(13) HISTORICAL INFORMATION

Historical trend information designed to provide information about the Plan's progress made in accumulating sufficient assets to pay benefits when due is presented in Exhibits I, II, and III, and IV.

(14) LEGISLATIVE AMENDMENTS

The following is a summary of significant plan provision changes that were enacted by the Oklahoma Legislature during 2015 and 2014:

2015

- House Bill 2005—The bill prevents any volunteer firefighter who begins service on or after age 45 from becoming a participant in the Oklahoma Firefighters Pension and Retirement System.
- House Bill 1002—The bill directs the Oklahoma Firefighters Pension and Retirement System Board of Trustees to use IRS guidelines to determine if a potential rollover from another system may be rolled into the Oklahoma Firefighters Pension and Retirement System. The Board is required to use IRS guidelines to determine the taxable portion of a distribution from the System.

2014

- Senate Bill 2024—Effective May 12, 2014, this bill amends several sections of Oklahoma Statute 11. The bill clarifies the qualifications for municipal fire chiefs; changes the amortization period of the unfunded accrued liability over a period not to exceed 30 years beginning July 1, 2003, to July 1, 2014; extends the 2-year extension for "Back" DROP elections to those members who are not members of a collective bargaining organization; amends the statute for IRS compliance related to any age-adjusted dollar limits; prohibits any adjustment being made to reflect the probability of a member's death between annuity starting date and various ages under various scenarios; deletes obsolete language related to the taxability of death benefits; clarifies that the determination of final average salary is an annualized calculation; and amends the maximum age a firefighter may serve from 65 years of age to 67 years of age for new members whose first service begins on or after November 1, 2013.

See Independent Auditors' Report.

OKLAHOMA FIREFIGHTERS PENSION AND RETIREMENT PLAN
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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(15) CONTINGENCIES

The Plan is involved in legal proceedings in the normal course of operations, none of which, in the opinion of management, will have a material effect on the fiduciary net position or the changes in fiduciary net position of the Plan.

See Independent Auditors' Report.

**SUPPLEMENTARY INFORMATION
REQUIRED BY
GOVERNMENTAL ACCOUNTING STANDARDS BOARD
STATEMENT NO. 67**

OKLAHOMA FIREFIGHTERS PENSION AND RETIREMENT PLAN
Administered by
OKLAHOMA FIREFIGHTERS PENSION AND RETIREMENT SYSTEM

SCHEDULE OF CHANGES IN EMPLOYERS' NET PENSION LIABILITY

Last 7 Fiscal Years

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Total pension liability							
Service cost	\$ 61,193,365	58,783,664	57,488,513	54,696,025	70,123,461	69,644,470	66,553,103
Interest	239,652,841	229,050,716	228,870,184	218,071,803	246,566,910	240,500,067	229,496,030
Changes of benefit terms	-	-	-	-	-	-	-
Differences between expected and actual experience	1,225,109	29,064,592	(37,193,696)	12,685,216	(67,154,697)	(91,004,778)	(41,195,532)
Changes in assumptions	-	-	115,269,271	-	(486,119,709)	-	25,672,850
Benefit payments, including refunds of member contributions	<u>(182,549,070)</u>	<u>(173,344,947)</u>	<u>(168,983,642)</u>	<u>(159,361,349)</u>	<u>(152,471,822)</u>	<u>(144,815,793)</u>	<u>(146,645,856)</u>
Net change in total pension liability	119,522,245	143,554,025	195,450,630	126,091,695	(389,055,857)	74,323,966	133,880,595
Total pension liability—beginning	<u>3,225,452,386</u>	<u>3,081,898,361</u>	<u>2,886,447,731</u>	<u>2,760,356,036</u>	<u>3,149,411,893</u>	<u>3,075,087,927</u>	<u>2,941,207,332</u>
Total pension liability—ending (a)	<u>\$ 3,344,974,631</u>	<u>3,225,452,386</u>	<u>3,081,898,361</u>	<u>2,886,447,731</u>	<u>2,760,356,036</u>	<u>3,149,411,893</u>	<u>3,075,087,927</u>

Information to present a 10-year history is not readily available.

(Continued)

See Independent Auditors' Report.
 See accompanying notes to required supplementary information.

OKLAHOMA FIREFIGHTERS PENSION AND RETIREMENT PLAN
Administered by
OKLAHOMA FIREFIGHTERS PENSION AND RETIREMENT SYSTEM

SCHEDULE OF CHANGES IN EMPLOYERS' NET PENSION LIABILITY, CONTINUED

Last 7 Fiscal Years

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Plan fiduciary net position							
Contributions—							
employers/municipalities	\$ 38,875,835	36,103,860	34,286,563	32,816,159	31,910,497	32,063,103	31,387,215
Contributions—members	24,310,588	22,057,504	20,190,827	19,426,927	18,904,554	19,002,394	18,952,373
Contributions—State of Oklahoma, a non-employer contributing entity	91,235,807	79,545,329	76,310,725	68,245,816	59,876,295	54,159,341	53,989,458
Net investment income (loss)	116,617,766	335,602,149	230,064,460	5,734,519	307,628,153	131,133,694	(311,409,533)
Benefit payments, including refunds of member contributions	(182,549,070)	(173,344,947)	(168,983,642)	(159,361,349)	(152,471,822)	(144,815,793)	(146,645,856)
Administrative expense	(2,029,087)	(1,958,101)	(2,005,153)	(1,724,781)	(1,645,817)	(1,631,542)	(1,508,538)
Net change in plan fiduciary net position	86,461,839	298,005,794	189,863,780	(34,862,709)	264,201,860	89,911,197	(355,234,881)
Plan fiduciary net position—beginning	<u>2,197,104,543</u>	<u>1,899,098,749</u>	<u>1,709,234,969</u>	<u>1,744,097,678</u>	<u>1,479,895,818</u>	<u>1,389,984,621</u>	<u>1,745,219,502</u>
Plan fiduciary net position—ending (b)	<u>\$ 2,283,566,382</u>	<u>2,197,104,543</u>	<u>1,899,098,749</u>	<u>1,709,234,969</u>	<u>1,744,097,678</u>	<u>1,479,895,818</u>	<u>1,389,984,621</u>
Plan's net pension liability (a) - (b)	<u>\$ 1,061,408,249</u>	<u>1,028,347,843</u>	<u>1,182,799,612</u>	<u>1,177,212,762</u>	<u>1,016,258,358</u>	<u>1,669,516,075</u>	<u>1,685,103,306</u>

Information to present a 10-year history is not readily available.

See Independent Auditors' Report.
 See accompanying notes to required supplementary information.

OKLAHOMA FIREFIGHTERS PENSION AND RETIREMENT PLAN
Administered by
OKLAHOMA FIREFIGHTERS PENSION AND RETIREMENT SYSTEM

SCHEDULE OF EMPLOYERS' NET PENSION LIABILITY

Last 7 Fiscal Years

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Total pension liability	\$ 3,344,974,631	3,225,452,386	3,081,898,361	2,886,447,731	2,760,356,036	3,149,411,893	3,075,087,927
Plan fiduciary net position	<u>2,283,566,382</u>	<u>2,197,104,543</u>	<u>1,899,098,749</u>	<u>1,709,234,969</u>	<u>1,744,097,678</u>	<u>1,479,895,818</u>	<u>1,389,984,621</u>
Plan net pension liability	\$ <u>1,061,408,249</u>	<u>1,028,347,843</u>	<u>1,182,799,612</u>	<u>1,177,212,762</u>	<u>1,016,258,358</u>	<u>1,669,516,075</u>	<u>1,685,103,306</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>68.27%</u>	<u>68.12%</u>	<u>61.62%</u>	<u>59.22%</u>	<u>63.18%</u>	<u>46.99%</u>	<u>45.20%</u>
Covered-employee payroll	\$ <u>270,535,966</u>	<u>271,572,339</u>	<u>253,955,389</u>	<u>256,250,268</u>	<u>243,684,122</u>	<u>248,520,483</u>	<u>246,816,498</u>
Plan net pension liability as a percentage of covered-employee payroll	<u>392.34%</u>	<u>378.66%</u>	<u>465.75%</u>	<u>459.40%</u>	<u>417.04%</u>	<u>671.78%</u>	<u>682.74%</u>

Information to present a 10-year history is not readily available.

See Independent Auditors' Report.
 See accompanying notes to required supplementary information.

OKLAHOMA FIREFIGHTERS PENSION AND RETIREMENT PLAN
Administered by
OKLAHOMA FIREFIGHTERS PENSION AND RETIREMENT SYSTEM

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYERS AND OTHER CONTRIBUTING ENTITIES

Last 7 Fiscal Years

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Actuarially determined contribution	\$ <u>142,494,951</u>	<u>162,103,277</u>	<u>159,096,610</u>	<u>142,357,604</u>	<u>195,669,404</u>	<u>187,157,125</u>	<u>157,823,945</u>
Contributions in relation to the actuarially determined contribution:							
Employers/Municipalities	29,001,438	31,518,945	29,708,674	26,110,400	28,050,529	28,015,512	29,143,775
State of Oklahoma, a non-employer contributing entity	<u>91,235,807</u>	<u>79,545,329</u>	<u>76,310,725</u>	<u>68,245,816</u>	<u>59,876,295</u>	<u>54,159,341</u>	<u>53,989,458</u>
	<u>120,237,245</u>	<u>111,064,274</u>	<u>106,019,399</u>	<u>94,356,216</u>	<u>87,926,824</u>	<u>82,174,853</u>	<u>83,133,233</u>
Contribution deficiency	\$ <u>22,257,706</u>	<u>51,039,003</u>	<u>53,077,211</u>	<u>48,001,388</u>	<u>107,742,580</u>	<u>104,982,272</u>	<u>74,690,712</u>
Covered-employee payroll	\$ <u>270,535,966</u>	<u>271,572,339</u>	<u>253,955,389</u>	<u>256,250,268</u>	<u>243,684,122</u>	<u>248,520,483</u>	<u>246,816,498</u>
Contributions as a percentage of covered-employee payroll	<u>44.44%</u>	<u>40.90%</u>	<u>41.75%</u>	<u>36.82%</u>	<u>36.08%</u>	<u>33.07%</u>	<u>33.68%</u>

Information to present a 10-year history is not readily available.

See Independent Auditors' Report.
 See accompanying notes to required supplementary information.

OKLAHOMA FIREFIGHTERS PENSION AND RETIREMENT PLAN
Administered by
OKLAHOMA FIREFIGHTERS PENSION AND RETIREMENT SYSTEM

SCHEDULE OF INVESTMENT RETURNS

Last 3 Fiscal Years

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Annual money-weighted rate of return, net of investment expense, as defined by GASB 67	<u>5.78%</u>	<u>17.89%</u>	<u>14.28%</u>
Net return on average assets	<u>5.82%</u>	<u>17.89%</u>	<u>14.28%</u>

Information to present a 10-year history is not readily available.

See Independent Auditors' Report.
See accompanying notes to required supplementary information.

OKLAHOMA FIREFIGHTERS PENSION AND RETIREMENT PLAN
Administered by
OKLAHOMA FIREFIGHTERS PENSION AND RETIREMENT SYSTEM

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2015

The information presented in the required supplementary schedules was determined as part of an actuarial valuation by an independent enrolled actuary (Buck Consultants, LLC) at the dates indicated. Additional information as of the July 1, 2015, valuation follows:

Actuarial cost method:	Entry age
Amortization method:	Level dollar—closed
Remaining amortization:	29 years
Asset valuation method:	An expected actuarial value is determined equal to the prior year's actuarial value of assets plus cash flow (excluding realized and unrealized gains and losses) for the year ended on the valuation date and assuming a 7.5% interest return. Twenty percent (20%) of any (gain) loss is amortized over 5 years. The result is constrained to a value of 80% to 120% of the fair value at the valuation date.

Actuarial assumptions

Investment rate of return:	7.5%
Projected salary increases*:	3.5% to 9.0%
Cost-of-living adjustments (COLA):	Half of the dollar amount of a 3% assumed increase in base pay for firefighters with 20 years of service as of May 26, 1983. No COLA is assumed for members not eligible for this increase.

* Includes inflation at 3%.

See Independent Auditors' Report.



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

To the Board of Trustees of
the Oklahoma Firefighters Pension and Retirement System

We have audited, in accordance with the auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Oklahoma Firefighters Pension and Retirement Plan (the "Plan"), administered by the Oklahoma Firefighters Pension and Retirement System, which is a part of the State of Oklahoma financial reporting entity, which comprise the statement of fiduciary net position as of June 30, 2015, and the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 7, 2015. Our report includes an explanatory paragraph disclaiming an opinion on required supplementary information.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Plan's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we do not express an opinion on the effectiveness of the Plan's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

(Continued)

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

Internal Control Over Financial Reporting, Continued

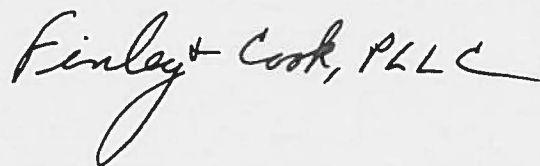
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Plan's financial statements are free from 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*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Plan's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plan's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Shawnee, Oklahoma
October 7, 2015