



Oklahoma Police Pension and Retirement System
A Component Unit of the State of Oklahoma

Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2012

Oklahoma Police Pension and Retirement System

MISSION

To provide secure retirement benefits for members and their beneficiaries.

VISION

To be the best State Retirement System in Oklahoma through outstanding communication, education, customer service and financial stability.

VALUES AND BEHAVIORS

*The Oklahoma Police Pension and Retirement System values its **members**, both active and retired, and the important contributions they make **protecting the citizens** of Oklahoma.*

*Expect the OPPRS **staff** to exhibit integrity, ethical conduct, professionalism and a **commitment to superior performance** through teamwork, communication, mutual respect and cooperation driven to produce results.*

*Effectively **communicate** new statute and rule changes to municipalities, members and staff. Use technology, such as the OPPRS website, to provide information in a timely manner.*

*Use every opportunity to continually **educate** members, municipalities, the OPPRS board and staff.*

*Utilize the most current **technology** to manage and operate the OPPRS.*

*Provide every member a forum for timely and fair **due process** regarding applications and appeals.*

*Strive to maintain **financial stability** by actively managing a broadly diversified investment portfolio designed to cover the current and future cost of benefits.*

GOALS

Provide exceptional communication and education to our membership.

Adopt new technology that can be effectively and efficiently utilized to manage the OPPRS.

Encourage teamwork and training to provide workflow continuity as staffing evolves.

Support the Oklahoma State Legislature regarding laws impacting the OPPRS and its members.



Oklahoma Police Pension and Retirement System

A Component Unit of the State of Oklahoma

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2012

Steven K. Snyder

Executive Director
Chief Investment Officer

Prepared by the Finance Department of the Oklahoma Police Pension and Retirement System

Deric Berousek
Chief Financial Officer

Judy Q. Cong
Comptroller

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Oklahoma City, OK 73116-7335
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Oklahoma Police Pension and Retirement System
2012 Comprehensive Annual Financial Report

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Introductory Section

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Introductory Section



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OKLAHOMA CITY, OK 73116-7335

TELEPHONE (405) 840-3555 · FAX (405) 840-8465 · 1-800-347-6552

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Letter of Transmittal

November 30, 2012

To the Board of Trustees and Members of the Oklahoma Police Pension and Retirement System:

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the Oklahoma Police Pension and Retirement System (OPPRS) for the fiscal year ended June 30, 2012. The objective of this report is to present a concise and complete picture of the Plan's financial, actuarial and investment results.

Responsibility for the accuracy of data, as well as the completeness and fairness of the presentation of this report, rests with the OPPRS management. Management relies on a comprehensive framework of internal controls to provide a reasonable, but not absolute, assurance that the financial statements are free of material misstatements. Management has established internal controls to protect the assets of OPPRS from loss, theft, or misuse, and continually reviews the control structure to ensure that the costs are reasonable in relation to the benefits provided.

The basic financial statements are prepared in accordance with generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board. Finley & Cook, PLLC, has audited the financial statements included in this report and issued an unqualified opinion on the financial statements for the year ended June 30, 2012. The Independent Auditors' Report is located at the front of the financial section within this report.

Management's Discussion and Analysis (MD&A) immediately follows the Independent Auditors' Report and provides a narrative introduction, overview and analysis of the basic financial statements. The MD&A compliments this letter of transmittal and should be read in conjunction with it.

Profile of the System

The Oklahoma Police Pension and Retirement System (the "System") was established by legislative act and became effective on January 1, 1981. The System is administrator of a multi-employer, cost-sharing defined benefit pension plan that provides participants with retirement, death, and disability benefits as well as a deferred option plan (the "Deferred Option"), as established by the State of Oklahoma. These plans are considered a single plan for financial reporting purposes. The System is component unit of the State of Oklahoma financial reporting entity, and is combined with other similar defined benefit pension trust funds to comprise the fiduciary-pension trust funds within the State's financial reports. The System covers substantially all police officers employed by the 133 participating municipalities and state agencies within the State of Oklahoma. The mission of the System is to provide secure retirement benefits for the members of the System and their beneficiaries.

The Oklahoma Police Pension and Retirement Board is comprised of thirteen (13) members. Seven Board members are elected by members of the System (six are active police officers, and one is a retired member). One Board member is appointed by the Governor, one by the Speaker of the House, one by the President Pro Tempore of the Senate and one by the President of the Oklahoma Municipal League. The two remaining Board members are the State Insurance Commissioner or the Commissioner's designee and the Director of State Finance or the Director's designee.

The Oklahoma Police Pension and Retirement 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.

Revenues and Funding

A pension plan is considered well funded when it has sufficient reserves to meet all expected future obligations to its plan members. A pension plan must also have revenue sources sufficient to keep pace with future obligations. The primary sources of revenue for the System are member contributions, employer contributions, dedicated revenue from the State of Oklahoma, and investment income. For fiscal year 2012, total contributions totaled \$81.1 million, a \$5.1 million increase over the prior year. Fiscal 2012 investment income was \$8.4 million, considerably less than fiscal 2011's total of \$282.3 million, but still positive for the year. Significant market challenges, both domestically and abroad, limited investment returns for the year.

The System's funded status decreased slightly for fiscal 2012 to 90.2% from 93% in the prior year. This modest decrease in the funded status of the plan is due primarily to the growth of the system's assets not being as strong as anticipated for the fiscal year. However, the plan remains well positioned to meet future liabilities while also providing capital to fund new investment opportunities that arise.

The System's primary expenses are the payment of member retirement benefits. These payments include normal retirement benefits, refunds, deferred option payments and death benefits. The System also incurs administrative expenses in the form of employee salaries and benefits, legal fees, investment fees, data processing fees, and medical and travel costs. For fiscal 2012, total expenses of the system were \$112.2 million, an increase of \$5.9 million from the prior fiscal year. This increase was primarily due to increased benefit and deferred option payments for the year.

Investments

In order to fulfill their fiduciary responsibilities, the Board retains investment managers to ensure that the assets of the system are being adequately invested at all times, and to assist with the development and implementation of a prudent asset allocation to maximize investment results while mitigating excessive risk. The Board utilizes an investment consultant firm to provide performance measurement of the portfolio, and this firm also compares the management of funds and the investment returns against other similar funds and trusts to ensure the effectiveness of implemented investment strategies.

The primary objective of the System's investment strategy is to obtain the highest maximum return on invested assets within an acceptable level of risk. The cornerstone of the investment strategy is to identify, locate and purchase investments that complement the existing portfolio of assets. New portfolio additions are generally anticipated to offer strong investment performance while improving the diversification of the portfolio. Likewise, investments that have underperformed their expectations, or that no longer fit within the allocation model, are sold as it is prudent to do so. Additionally, the Board periodically reviews the strategic asset allocation to ensure that expected return and risk (as measured by standard deviation) is consistent with the System's long-term objectives and tolerance for risk.

Legislation and Investment Outlook

The following Legislation passed during the 2nd Session of the 53rd Legislature (2012) amending statutes pertaining to the Oklahoma Police Pension and Retirement System:

- HB 2319** – An Act modifying provisions related to the Oklahoma Police Pension and Retirement System real property.
- SB 1214** – Makes technical corrections to bring the Oklahoma Police Pension and Retirement System into compliance with IRS Laws & Regulations.
- SB 1588** – Makes technical corrections to bring the Oklahoma Police Pension and Retirement System into compliance with IRS Laws & Regulations.

Although the investment landscape has been challenging over the last few years, the System has achieved a positive investment return for the 8 of the last 10 fiscal years. The System's largest losses came during the severe market conditions encountered in fiscal year's ended June 30, 2008 and 2009, where investment losses were -2.77% and -16.59%, respectively. While these losses were significant, the System weathered this correction much better than the market as a whole. Additionally, the System has experienced returns in excess of the actuarial discount rate of 7.5% in 6 of the last 10 years, a tremendous factor in helping the System achieve and maintain its current funded status. For fiscal year 2013, the System has been pursuing additional strategic allocations in real property and markets in emerging economies to improve diversification and take advantage of weakness being presented in these investment areas. The System's current investment strategies and allocations keep the portfolio well diversified, offering considerable up market participation while protecting the assets of the System during significant market corrections.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Oklahoma Police Pension and Retirement System for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2011.

To earn this certificate an entity must publish a comprehensive annual financial report that conforms to GFOA's program requirements and standards. The CAFR must be efficiently and effectively presented, and must satisfy all legal requirements as well as conform to generally accepted accounting principles.

The GFOA Certificate of Achievement only covers a one year period. The Oklahoma Police Pension and Retirement System received its first Certificate for the fiscal year ended June 30, 2011. We believe this report continues to meet GFOA's Certificate program requirements, and we are submitting it to them.

The preparation of this report would not have been possible without the efficient and dedicated service of the entire OPPRS staff. We would also like to credit the Board of Trustees for their unwavering efforts to maintain the highest level of professionalism in the financial management of the Oklahoma Police Pension and Retirement System.

Respectfully submitted,



Steven K. Snyder
Executive Director
Chief Investment Officer



Deric Berousek
Chief Financial Officer

OPPRS Board of Trustees



Tom Custer
Chairman
District 1



Randy Scott
Vice Chairman
District 6



Craig Akard
District 2



Rick Smith
District 3



Jimmy Keese
District 4



Ryan Perkins
District 5



W. B. Smith
District 7



Andy McPherson
Governor Appointee



Charles Kerr
Speaker of the House of
Representatives Appointee



Susan Knight
Senate President Pro
Tempore Appointee



Tony Davenport
Oklahoma Municipal
League Appointee

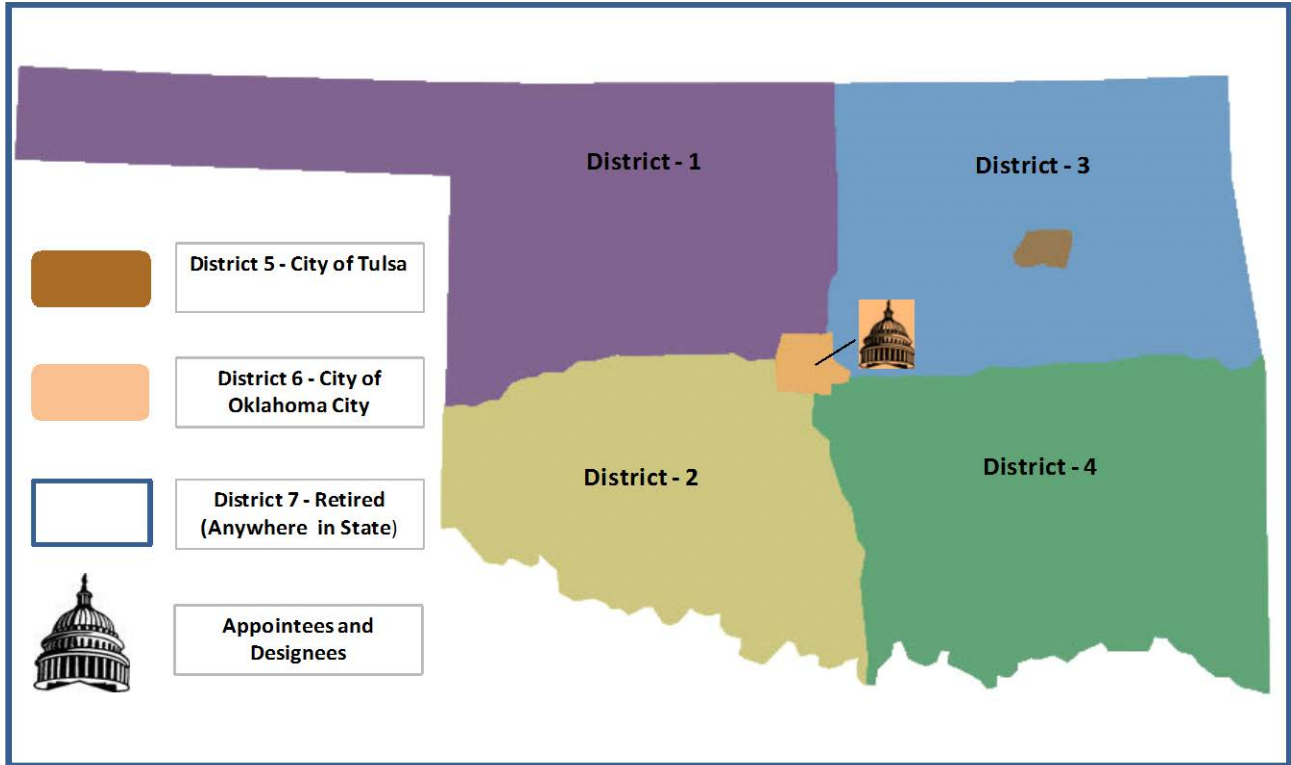


Frank Stone
Designee of the State
Insurance Commissioner



Brandy Manek
Designee-Director of the
Office of Management
and Enterprise Services

Oklahoma Police Pension Board - Districts, Appointees and Designees



District 1 Board Member- North of I-40 and west of I-35, excluding any area comprising Oklahoma City.

District 2 Board Member- South of I-40 and west I-35, excluding any area comprising Oklahoma City.

District 3 Board Member- North of I-40 and east of I-35, excluding any area comprising Oklahoma City or Tulsa.

District 4 Board Member- South of I-40 and east of I-35, excluding any area comprising Oklahoma City.

District 5 Board Member - Comprising the area within the City of Tulsa.

District 6 Board Member - Comprising the area within the City of Oklahoma City.

District 7 Board Member - The entire area of the State, but must be retired.

8th Member of the Board - Appointed by the Speaker of the House of Representatives.

9th Member of the Board - Appointed by the President Pro Tempore of the Senate.

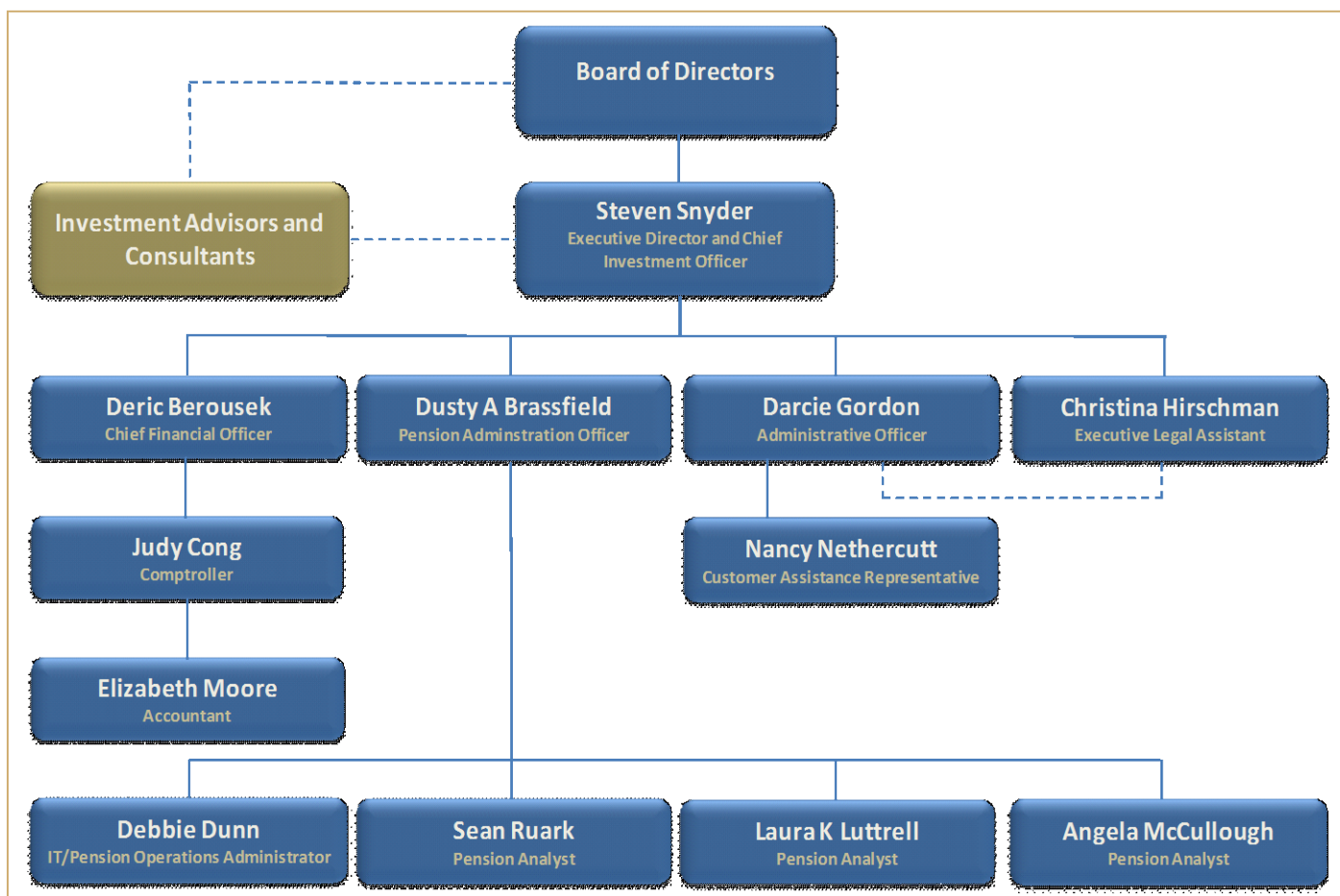
10th Member of the Board - Appointed by the Governor.

11th Member of the Board - Appointed by the President of the Oklahoma Municipal League.

12th Member of the Board - The State Insurance Commissioner or the Commissioner's designee.

13th Member of the Board - The Director of Management and Enterprise Services (formerly the Office of State Finance), or the Director's designee.

Organization of the Oklahoma Police Pension and Retirement System



Professional Advisors and Consultants*

Actuary

Buck Consultants, LLC
14911 Quorum Drive, Suite 200
Dallas, TX 75254

Property Management Services

Wiggin Properties, LLC
5801 N. Broadway, Suite 120
Oklahoma City, OK 73118

Investment Consultant

Asset Consulting Group, LLC
231 S. Bemiston, 14th Floor
St. Louis, MO 63105

Independent Auditor

Finley & Cook, PLLC
1421 E. 45th Street
Shawnee, OK 74804

Legal Services (Tax and Pensions)

Davis, Graham & Stubbs, LLC
1550 Seventeenth Street, Suite 500
Denver, CO

Master Trustee (Custodian)

Bank of New York Mellon
135 Santilli Highway, 026-0313
Everett, MA 02149

Legal Services (Litigation)

GableGotwals
One Leadership Square, 15th Floor
211 N. Robinson
Oklahoma City, OK 73102

* - The schedule of Investment Expenses and Professional Consultant Fees in the Other Supplementary Information Section and the Schedule of Investment Fees & Broker Commissions in the Investment Section contain additional information regarding professional advisors and consultants.

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Oklahoma Police Pension & Retirement System

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

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



Linda C. Davison

President

Jeffrey R. Emer

Executive Director

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Financial Section



INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of plan net assets of the Oklahoma Police Pension and Retirement Plan (the "Plan"), administered by the Oklahoma Police Pension and Retirement System, which is a part of the State of Oklahoma financial reporting entity, as of June 30, 2012 and 2011, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Plan as of June 30, 2012 and 2011, and the changes in the net assets of the Plan for the years then ended in conformity with accounting principles generally accepted in the United States.

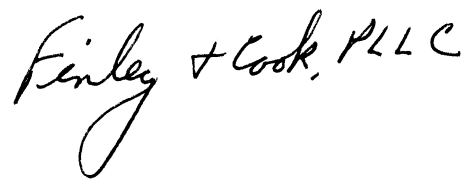
In accordance with *Government Auditing Standards*, we have also issued a report dated September 17, 2012, on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and 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* and should be considered in assessing the results of our audit.

(Continued)

INDEPENDENT AUDITORS' REPORT, CONTINUED

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages 17 through 21 and the schedule of funding progress, the schedule of contributions from the employer and other contributing entities, and notes to required supplemental information in Exhibit I, II, and III 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.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The introductory section, the investment section, the actuarial section, the statistical section, and Schedules I, II, and III are presented for purposes of additional analysis and are not a required part of the financial statements. The supplementary information in Schedules I, II, and III is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory, investment, actuarial, and statistical sections have not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

A handwritten signature in black ink that reads "Finley & Cook, PLLC". The signature is written in a cursive, flowing style.

Shawnee, Oklahoma
September 17, 2012

Management’s Discussion and Analysis

This discussion and analysis is presented by the management of the Oklahoma Police Pension and Retirement System, administrator of the Oklahoma Police Pension and Retirement Plan (collectively the “System” or “OPPRS”). This narrative and analysis offers a summary review of the System’s financial activity for the fiscal years ended June 30, 2012, 2011 and 2010. The letter of transmittal preceding this narrative and the System’s financial statements which follow should be referred to in conjunction with this analysis.

Financial Highlights

| | For the Fiscal Year Ended June 30, | | | % Change 2012 from 2011 | % Change 2011 from 2010 | % Change 2010 from 2009 |
|--|------------------------------------|--------------|--------------|----------------------------|----------------------------|----------------------------|
| | (amounts in thousands) | | | | | |
| | 2012 | 2011 | 2010 | | | |
| Net Assets of the System | \$ 1,777,980 | \$ 1,800,742 | \$ 1,548,827 | -1.3% | 16.3% | 9.0% |
| Contributions: | | | | | | |
| Participating Cities | 32,896 | 31,846 | 32,240 | 3.3% | -1.2% | 1.8% |
| Plan members | 20,113 | 19,489 | 19,626 | 3.2% | -0.7% | 2.5% |
| Insurance Premium Tax | 28,092 | 24,645 | 22,292 | 14.0% | 10.6% | -17.2% |
| Net Investment Income (loss) | 8,374 | 282,305 | 163,058 | -97.0% | 73.1% | N/M* |
| Benefits paid, including refunds and deferred option benefits | 110,285 | 104,658 | 108,147 | 5.4% | -3.2% | 21.4% |
| Change in Plan Net Assets | (22,762) | 251,915 | 127,361 | | | |
| Funded Ratio of the Plan | 90.2% | 93.0% | 74.9% | -3.0% | 24.2% | -1.8% |
| Total Plan Membership | 8,412 | 8,185 | 8,080 | 2.8% | 1.3% | 1.9% |

* - (N/M) Percentage change is not meaningful when prior period comparative amount is negative.

- System net assets decreased \$22.8 million, or 1.3%, to \$1.77 billion for fiscal year 2012, due to limited investment returns for the year. Strong investment returns in fiscal year 2011 increased net assets by \$252 million, or 16.3%, to \$1.80 billion. Solid investment performance in fiscal year 2010 increased net assets by 9.0% over the prior fiscal year.
- The System’s fiscal year 2012 funded ratio decreased 3.0% to 90.2% from 93% for fiscal year 2011. This change resulted primarily from the moderate investment performance for fiscal 2012. The System’s funded ratio increased 24.2% in fiscal year 2011 to 93% from 74.9% in fiscal year 2010 due primarily to legislation that was passed eliminating cost-of-living adjustments (COLA’s) unless they were financially funded in advance by the State legislature. Overall, with a funded ratio in excess of 90%, the plan remains well positioned for meeting future liabilities.
- The System saw its total membership grow by 227 in fiscal year 2012 after a net increase of 105 members in fiscal 2011. In fiscal year 2010 the System’s total membership grew by 149 members over fiscal year 2009. Fiscal 2012 contributions from participating employers and plan members increased a little over 3.0% for the year, in line with the 2.8% increase in membership. Improving State insurance premium tax collections for fiscal 2012 increased the System’s portion of this tax by 14% or \$3.45 million over fiscal 2011.

Oklahoma Police Pension and Retirement Plan

Administered by – Oklahoma Police Pension and Retirement System

Overview of the Financial Statements

This discussion and analysis introduces the System's basic financial statements. They are comprised of 1) *The Statement of Plan Net Assets*, 2) *The Statement of Changes in Plan Net Assets*, and 3) *Notes to the Financial Statements*. This report also includes required supplementary information and other supplemental schedules. The System is a defined benefit, cost-sharing, multi-employer pension plan and is a component unit of the State of Oklahoma. The System, combined with other similar plans, form the State of Oklahoma's fiduciary pension trust funds. The financial statements are presented using the flow of economic resources measurement focus and the accrual basis of accounting, similar in most regards to that of private business.

The System's *Statement of Plan Net Assets* presents the ending balance of assets and liabilities at a specific moment in time. Assets of the system include cash and cash equivalents, investments, receivables and capital assets. System liabilities are primarily accounts and benefits payable. The difference between assets and liabilities produce a "net asset" balance representing the fair value of assets held in trust to pay future benefits. Net assets shown increasing over time indicate improving financial conditions within the System, while a decrease in net assets represent a decline in financial condition.

The *Statement of Changes in Plan Net Assets* details the sources of income and uses of resources that affected the System's financial performance for a specified period or periods. The System's primary income sources are from city and member contributions, a dedicated portion of the State of Oklahoma Insurance Premium Tax, investment gains or losses and investment income. Retirement benefits, investment charges and administrative costs are the primary expenses of the System.

The *Notes to the Financial Statements* immediately following the System's financial statements should be considered an integral part of the financial statements. The notes cover significant details about the System's financial structure and activities, providing a more complete understanding of the System's financial results.

A *required supplementary information* section follows the notes. It includes the schedule of funding progress and the schedule of employer contributions. These schedules offer a useful means of assessing the long-term changes in the systems assets and liabilities, funded ratio, changes in unfunded actuarial accrued liabilities, and how effectively contributors to the System have matched their actuarially determined annual required contributions.

Other supplementary information contains several schedules that provide significant details regarding investment expenses, administrative expenses, and fees paid to consultants.

Oklahoma Police Pension and Retirement Plan

Administered by – Oklahoma Police Pension and Retirement System

Condensed Financial Analysis

Condensed financial information for the System is presented in the following tables. This information provides a summary of System's financial activity for the years ended June 30, 2012, 2011 and 2010.

Condensed Summary of Plan Net Assets

| | For the Fiscal Year Ended June 30, | | | % Change 2012 from 2011 | % Change 2011 from 2010 | % Change 2010 from 2009 |
|-------------------------------|------------------------------------|--------------------------------|--------------------|----------------------------|----------------------------|----------------------------|
| | 2012 | (amounts in thousands) 2011 | 2010 | | | |
| Cash and cash equivalents | \$ 47,146 | \$ 33,516 | \$ 22,931 | 40.7% | 46.2% | -4.5% |
| Receivables | 15,509 | 12,088 | 10,132 | 28.3% | 19.3% | -5.0% |
| Investments, at fair value | 1,726,208 | 1,771,589 | 1,526,032 | -2.6% | 16.1% | 9.1% |
| Securities lending collateral | 26,729 | 44,578 | 48,845 | -40.0% | -8.7% | 105.2% |
| Capital assets | 710 | 913 | 1,014 | -22.2% | -10.0% | 2.5% |
| Total Assets | 1,816,302 | 1,862,684 | 1,608,954 | -2.5% | 15.8% | 10.4% |
| Other liabilities | 11,593 | 17,364 | 11,282 | -33.2% | 53.9% | -9.4% |
| Securities lending collateral | 26,729 | 44,578 | 48,845 | -40.0% | -8.7% | 105.2% |
| Total Liabilities | 38,322 | 61,942 | 60,127 | -38.1% | 3.0% | 65.9% |
| Net Assets | \$ 1,777,980 | \$ 1,800,742 | \$1,548,827 | -1.3% | 16.3% | 8.0% |

Condensed Summary of Changes in Plan Net Assets

| | For the Fiscal Year Ended June 30, | | | % Change 2012 from 2011 | % Change 2011 from 2010 | % Change 2010 from 2009 |
|---|------------------------------------|--------------------------------|---------------------|----------------------------|----------------------------|----------------------------|
| | 2012 | (amounts in thousands) 2011 | 2010 | | | |
| Contributions | \$ 81,101 | \$ 75,980 | \$ 74,158 | 6.7% | 2.5% | -4.6% |
| Net investment income | 8,374 | 282,305 | 163,058 | -97.0% | 73.1% | N/M* |
| Total Additions | 89,475 | 358,285 | 237,216 | -75.0% | 51.0% | N/M* |
| Benefits and refunds paid | 91,261 | 88,960 | 84,219 | 2.6% | 5.6% | 3.5% |
| Deferred option benefits paid | 19,024 | 15,698 | 23,928 | 21.2% | -34.4% | 212.4% |
| Administrative expenses | 1,952 | 1,712 | 1,708 | 14.0% | 0.2% | -21.5% |
| Total Deductions | 112,237 | 106,370 | 109,855 | 5.5% | -3.2% | 20.4% |
| Total Changes in Plan Net Assets | (22,762) | 251,915 | 127,361 | -109.0% | 97.8% | N/M* |
| Beginning Net Assets | 1,800,742 | 1,548,827 | 1,421,466 | 16.3% | 9.0% | -17.3% |
| Ending Net Assets | \$ 1,777,980 | \$ 1,800,742 | \$ 1,548,827 | -1.3% | 16.3% | 9.0% |

* - (N/M) Percentage change is not meaningful when prior period comparative amount is negative.

Oklahoma Police Pension and Retirement Plan

Administered by – Oklahoma Police Pension and Retirement System

Analysis of Overall Financial Position and Results of Operations

For the fiscal year ended June 30, 2012, the System's Net Assets decreased \$22.8 million, or 1.3%, to \$1.78 billion, due primarily to a challenging investing environment that limited total investment returns. Contributions from participating employers and plan members registered moderate increases, mirroring a related increase in new plan members, while Insurance Premium tax collections from the State were up for the year on improving economic conditions. Although the System's investment portfolio is highly diversified, significant political and economic turmoil both domestically and internationally limited fiscal 2012 investment returns to \$8.4 million, down from the strong returns earned in fiscal 2011 and 2010. Members receiving benefits increased by 88 to 3,148 for fiscal year 2012, increasing benefit payments by 2.6% to \$91.3 million, an increase of \$2.3 million over fiscal year 2011. Payouts to deferred option participants for fiscal 2012 increased payments by \$3.3 million over fiscal 2011, a 21.2% increase for the year, as payments returned to a normal level after an abnormally low participation payout rate in fiscal 2011. Since deferred option payouts are individual elections, amounts paid out under this options can vary considerably from year-to-year.

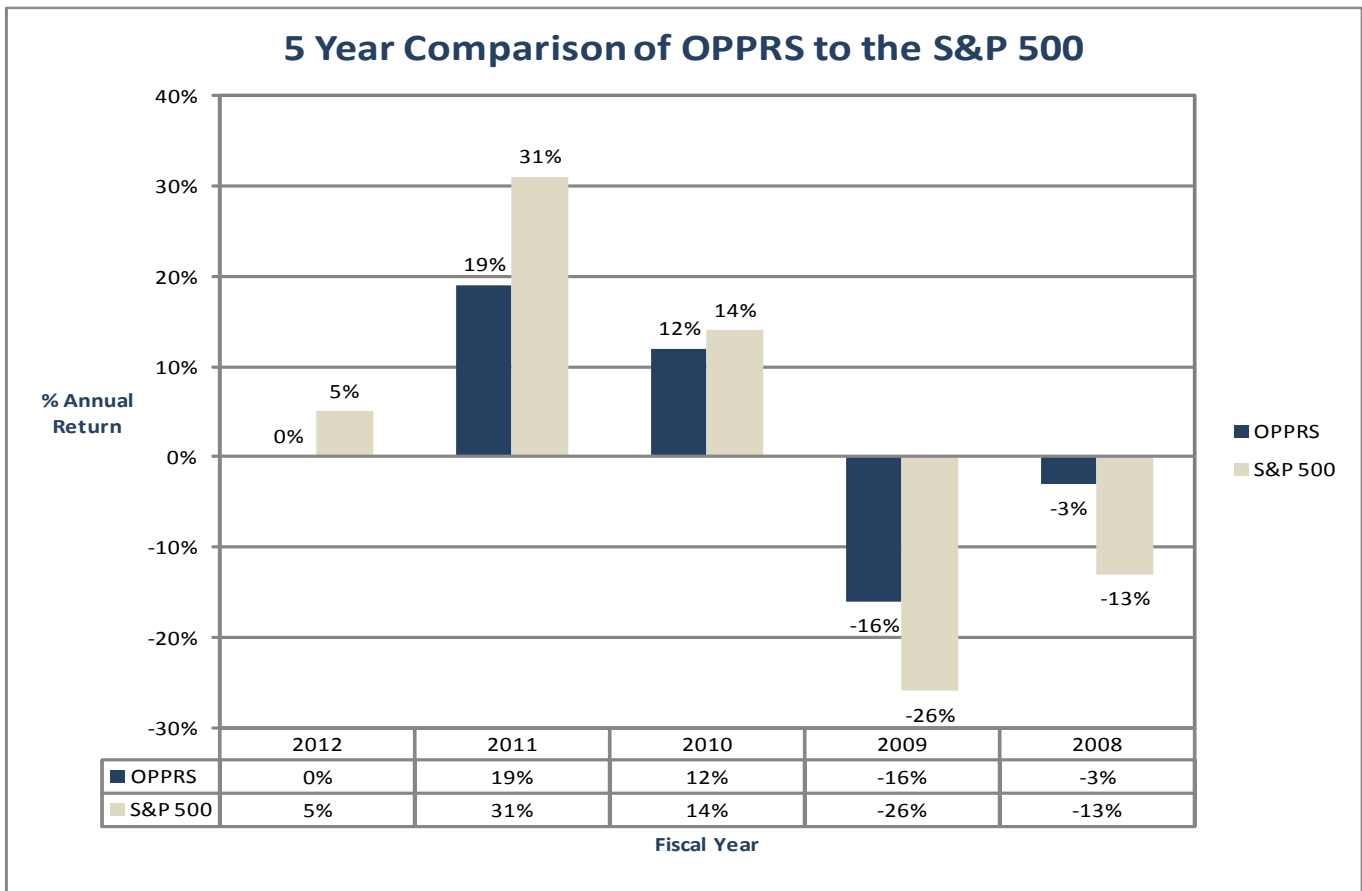
Fiscal year ended June 30, 2011 System Net Assets increased \$251.9 million, or 16.3%, over fiscal 2010, primarily through a net investment return of \$282.3 million for the year. Strong market returns contributed an extra \$119.2 million in net investment income, a 73.1% improvement over fiscal 2010. Contributions remained relatively consistent for fiscal 2011, increasing 2.5% over fiscal 2010 to \$76 million. Although regular benefit payments increased slightly in fiscal 2011, a large decrease in the amount of deferred options payouts for the year led to a 3.2% decrease in total benefit payments over fiscal 2010.

The System is funded by contributions from participating cities and their police officers, a dedicated percentage of the State of Oklahoma's insurance premium tax, and returns generated by investing the System's assets. In total, contributions increased during fiscal year 2012 compared to fiscal year 2011, due primarily to an increase in insurance premium tax collections of \$3.45 million, or 14%, to \$28.1 million. Contributions also increased during fiscal year 2011 compared to fiscal year 2010, due primarily to an increase in insurance premium tax collections of \$2.35 million, or 10.5%. Presently the System receives 14% of the State's total insurance premium tax collected. The System received \$28.1 million, \$24.7 million, and \$22.3 million for the fiscal years ended June 30, 2012, 2011 and 2010, respectively.

For fiscal year 2012, total benefit payments, including refunds and deferred option benefits, increased 5.4% to \$110.3 million, over fiscal year 2011. This was due primarily to an increase in the number of members retiring in fiscal 2012 and their election to take distributions from the deferred option plans. Reduced normal retirements and increased deferred option participation for fiscal year 2011 led to a 3.3% decrease in total benefit payments, to \$104.7 million, over fiscal year 2010.

Administrative expenses are composed primarily of payroll and related expenses for the employees of the System, legal and professional fees, data processing fees, medical and travel costs, and depreciation. Total administrative expenses for the year ended June 30, 2012, increased 14% over fiscal year 2011, due primarily to increased professional fees and the first full year of depreciation for the System's major software asset. Total administrative expenses for fiscal year ended June 30, 2011, increased .2% over the fiscal year 2010, essentially unchanged for the year.

The System's net yield on average assets was approximately 0% for the fiscal year ended June 30, 2012, due to challenging market and investment conditions. Since the System values its investments at fair value, increasing volatility in both local and global markets can have a significant impact on the net assets and operating results of the System. The System's net yield on average assets as compared to the S&P 500 stock index, an unmanaged pool of domestic equities, for the periods ended June 30 were as follows:



The System has experienced moderate total return performance over the last 5 years, with broad asset diversification policies providing solid up year returns while offering significant downside protection during challenging market conditions. Although the System is directly impacted by overall stock market changes, investments are made based on the expectation of long-term performance and in the best interest of the System’s members. With over \$1.77 billion of assets allocated across a highly diversified range of investments, the System has the financial resources to maintain its current investment strategies while continuing to review for suitable investments options that will benefit its members.

Other Matters

As a matter of policy, the System attempts to stay fully invested at all times. Consequently, the fair value of the System’s Net Assets could be affected should global stock and bond market volatility increase, or should such markets encounter an extended period of decline.

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, Chief Financial Officer or Comptroller, Oklahoma Police Pension and Retirement System, 1001 N.W. 63rd Street, Suite 305, Oklahoma City, OK 73116-7335. Additional information may also be obtained by visiting the System’s website located at www.OPPRS.ok.gov.

STATEMENTS OF PLAN NET ASSETS

| <i>June 30,</i> | <i>2012</i> | <i>2011</i> |
|--|-------------------------------|-------------------------|
| | <i>(Amounts in Thousands)</i> | |
| Assets | | |
| Cash and cash equivalents | \$ 47,146 | 33,516 |
| Receivables: | | |
| Interest and dividends receivable | 3,157 | 2,973 |
| Contributions receivable from cities | 1,529 | 1,472 |
| Contributions receivable from participants | 954 | 893 |
| Insurance premium tax receivable | 5,520 | 5,526 |
| Receivable from brokers | 4,349 | 1,221 |
| Other | - | 3 |
| Total receivables | <u>15,509</u> | <u>12,088</u> |
| Investments, at fair value: | | |
| U.S. government securities | 18,418 | 14,121 |
| Domestic corporate bonds | 240,035 | 229,068 |
| International corporate bonds | 104,480 | 101,435 |
| Domestic stocks | 441,609 | 533,850 |
| International stocks | 205,997 | 185,952 |
| Equity—real estate investment trusts | 7,508 | 5,231 |
| Alternative investments | 658,421 | 656,715 |
| Real estate fund | 46,040 | 41,517 |
| Real estate—Columbus Square | 3,700 | 3,700 |
| Total investments, at fair value | <u>1,726,208</u> | <u>1,771,589</u> |
| Securities lending collateral | 26,729 | 44,578 |
| Capital assets | 710 | 913 |
| Total assets | <u>1,816,302</u> | <u>1,862,684</u> |
| Liabilities | | |
| Payable to brokers | 3,599 | 4,974 |
| Accounts payable | 1,214 | 1,672 |
| Deferred option benefits payable | 6,780 | 10,718 |
| Securities lending collateral | 26,729 | 44,578 |
| Total liabilities | <u>38,322</u> | <u>61,942</u> |
| Net assets held in trust for pension benefits | <u>\$ 1,777,980</u> | <u>1,800,742</u> |

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

STATEMENTS OF CHANGES IN PLAN NET ASSETS

| <i>Years Ended June 30,</i> | <i>2012</i> | <i>2011</i> |
|--|-------------------------------|-------------------------|
| | <i>(Amounts in Thousands)</i> | |
| Additions | | |
| Contributions: | | |
| Cities | \$ 32,896 | 31,846 |
| Plan members | 20,113 | 19,489 |
| Insurance premium tax | <u>28,092</u> | <u>24,645</u> |
| Total contributions | <u>81,101</u> | <u>75,980</u> |
| Investment income: | | |
| From investing activities: | | |
| Net appreciation in fair value of investments | 1,676 | 276,186 |
| Interest | 7,547 | 7,365 |
| Dividends | 10,318 | 9,662 |
| Other | <u>590</u> | <u>732</u> |
| Total investment income | 20,131 | 293,945 |
| Less investment expense | <u>(11,811)</u> | <u>(11,700)</u> |
| Income from investing activities | <u>8,320</u> | <u>282,245</u> |
| From securities lending activities: | | |
| Securities lending income | 127 | 77 |
| Securities lending expenses: | | |
| Borrower rebates, net | (49) | 7 |
| Management fees | <u>(24)</u> | <u>(24)</u> |
| Income from securities lending activities | <u>54</u> | <u>60</u> |
| Net investment income | <u>8,374</u> | <u>282,305</u> |
| Total additions | <u>89,475</u> | <u>358,285</u> |
| Deductions | | |
| Benefits paid | 89,691 | 86,843 |
| Deferred option benefits | 19,024 | 15,698 |
| Refunds of contributions | 1,570 | 2,117 |
| Administrative expenses | <u>1,952</u> | <u>1,712</u> |
| Total deductions | <u>112,237</u> | <u>106,370</u> |
| Changes in net assets | (22,762) | 251,915 |
| Net assets held in trust for pension benefits: | | |
| Beginning of year | <u>1,800,742</u> | <u>1,548,827</u> |
| End of year | <u>\$ 1,777,980</u> | <u>1,800,742</u> |

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

(1) NATURE OF OPERATIONS

The Oklahoma Police Pension and Retirement System (the “System”) was established by legislative act and became effective on January 1, 1981. The System is the administrator of a multiple-employer, cost-sharing defined benefit pension plan that provides participants with retirement, death, and disability benefits and a deferred option plan (the “Deferred Option”), both established by the State of Oklahoma. These plans are considered a single plan for financial reporting purposes. The System is part of the State of Oklahoma financial reporting entity and is included in the State of Oklahoma’s financial reports as a pension trust fund. The System covers substantially all police officers employed by the 133 participating municipalities and state agencies within the state of Oklahoma.

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 Police Pension and Retirement 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 System’s participants at June 30 consisted of:

| | <u>2012</u> | <u>2011</u> |
|---|---------------------|---------------------|
| Retirees and beneficiaries currently receiving benefits | 3,148 | 3,060 |
| Vested members with deferred benefits | 126 | 124 |
| Deferred Option plan members | 37 | 50 |
| | <u>3,311</u> | <u>3,234</u> |
| Active plan members: | | |
| Vested | 2,364 | 2,411 |
| Nonvested | <u>2,737</u> | <u>2,540</u> |
| Total active plan members | <u>5,101</u> | <u>4,951</u> |
| Total members | <u><u>8,412</u></u> | <u><u>8,185</u></u> |
| Number of participating municipalities and state agencies | <u>133</u> | <u>130</u> |

The System administers the Oklahoma Police Pension and Retirement Plan (the “Plan”). For report purposes, the System is deemed to be the administrator of the Plan.

(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 Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, issued by the Governmental Accounting Standards Board (GASB 25) and Statement No. 50, *Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27* (GASB 50).

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 comprise the fiduciary-pension trust funds of the State of Oklahoma. Administrative expenses are paid with funds provided by operations of the Plan.

Recent Accounting Pronouncements

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB 62). The objective of GASB 62 is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedures.

The requirements in GASB 62 will improve financial reporting by contributing GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. GASB 62 is effective for financial statements for periods beginning after December 15, 2011, with earlier application encouraged. The provisions of GASB 62 are required to be applied retroactively for all periods presented.

(2) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

Recent Accounting Pronouncements, Continued

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63). The objective of GASB 63 is to provide guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The pronouncement will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged.

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65). The objective of GASB 65 is to establish accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets or liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans* (GASB 67). GASB 67 addresses reporting by pension plans that administer benefits for governments and outlines basic framework for the separately issued financial reports of defined benefit pension plans, and details note disclosure requirements for defined benefit and defined contribution pension plans. This statement is effective for financial statements for periods beginning after June 15, 2013.

Use of Estimates

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

(2) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

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 the uncertainties inherent in setting assumptions, that the effect of such changes could be material to the financial statements.

Investments

Management of the Plan is authorized to invest in eligible investments as approved by the Board as set forth in its investment policy.

Method Used to Value Investments—Plan investments are reported at fair value. Short-term investments include an investment fund composed of an investment in units of a commingled trust fund of the Plan’s custodial agent (which is valued at cost, which approximates fair value), commercial paper, treasury bills, and U.S. government agency securities. 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 value of the pro rata share of units owned by the Plan in equity index and commingled trust funds is determined by the respective fund trustee based on quoted sales prices of the underlying securities. The fair value of the real estate is determined from independent appraisals. 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, investment income from real estate, securities lending income and expenses, and investment expenses, which includes 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. Investment income from real estate includes the Plan’s share of income from operations, net appreciation in the fair value of the underlying real estate properties, and the Plan’s real estate investment management fees. The fair value of the limited partnerships is determined by managers of the partnerships based on the values of the underlying assets.

The Plan’s international investment managers enter into forward foreign exchange contracts to protect against fluctuation in exchange rates between the trade date and the settlement date of foreign investment transactions. The gains and losses on these contracts are included in income in the period in which the exchange rates change.

(2) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

Investments, Continued

The Plan may invest in various traditional financial instruments that fall under the broad definition of derivatives. The Plan's derivatives may include collateralized mortgage obligations, convertible stocks and bonds, and variable rate instruments. These investments 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 combinations 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 and 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 changes could materially affect the amounts reported in the statements of plan net assets.

The investment policy limits the concentration of each portfolio manager. Except as noted below, no single investment exceeds 5% of the Plan's net assets. At June 30, 2012 and 2011, the Plan did have more than 5% invested in U.S. government obligations; however, these obligations are backed by the full faith and credit of the United States.

The Plan invests in domestic equity index funds, domestic equity commingled trust funds, and international equity funds. The Plan shares the risk of loss in these funds with other participants in proportion to its respective investment. Because the Plan does not own any specific identifiable investment securities of these funds, the market risk associated with any derivative investments held in these funds is not apparent. The degree of market risk depends on the underlying portfolios of the funds, which were selected by the Plan in accordance with its investment policy guidelines, including risk assessment. The international funds invest primarily in equity securities of entities outside the United States and may enter into forward contracts to purchase or sell securities at specified dates in the future at a guaranteed price in a foreign currency to protect against fluctuations in exchange rates of foreign currency.

(2) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

Investments, Continued

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

| Classification of <u>Investment</u> | Name of <u>Investment</u> | Shares <u>Held</u> | 2012 | |
|--|---|-----------------------|-------------|-------------------|
| | | | <u>Cost</u> | <u>Fair Value</u> |
| Alternative investments | Newport Mesa, LLC | 154,310,122 | \$ 105,000 | 154,258 |
| Alternative investments | Grosvenor Long/Short Equity Fund, LP | 168,115,050 | 132,000 | 168,115 |
| Domestic stocks | Mellon Large Cap Stock Index Fund | 280,883 | 203,694 | 281,408 |
| International corporate bonds | Loomis Sayles World Bond | 6,878,068 | 71,252 | 91,135 |

| Classification of <u>Investment</u> | Name of <u>Investment</u> | Shares <u>Held</u> | 2011 | |
|--|---|-----------------------|-------------|-------------------|
| | | | <u>Cost</u> | <u>Fair Value</u> |
| Alternative investments | Newport Mesa, LLC | 159,104,517 | \$ 105,000 | 159,081 |
| Alternative investments | Grosvenor Long/Short Equity Fund, LP | 173,437,283 | 132,000 | 173,437 |
| Domestic stocks | Mellon Large Cap Stock Index Fund | 378,706 | 274,634 | 363,297 |
| International stocks | Mondrian International Equity Fund | 3,939,387 | 56,861 | 97,787 |

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

(2) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

Repurchase/Reverse Repurchase Agreement

The Plan has a master repurchase/reverse repurchase agreement. Under the agreement, the Plan may enter into a purchase/sale of a security with a simultaneous agreement to resell/repurchase the security at a specified future date and price. The Plan did not enter into any transactions under this agreement during fiscal year 2012 or 2011.

Capital Assets

Capital assets, which consist of internally generated software, are stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful life of the related asset (5 years). Depreciation of the new software began in fiscal year 2011 and amounted to approximately \$203,000 and \$101,000, for 2012 and 2011, respectively.

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 net assets of the Plan. Plan termination would take an act of the Oklahoma Legislature, at which time the order of distribution of net assets would be addressed.

(2) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

Administrative Items

Operating Leases

The Plan had an operating lease which ended June 30, 2012. The lease has been renewed for the period July 1, 2012, through June 30, 2013. Total lease expense was approximately \$90,000 for both 2012 and 2011.

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 5 to 10 years, 13.3 hours per month for service of 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 leave is payable upon termination, resignation, retirement, or death. As of June 30, 2012 and 2011, approximately \$127,000 and \$117,000, respectively, was included in accounts payable as the accrual for compensated absences.

The changes in the accrual for compensated absences for the years ended June 30 were as follows:

| | <u>2012</u> | <u>2011</u> |
|------------------------------|-------------------|-----------------|
| Balance at beginning of year | \$ 116,584 | 112,740 |
| Additions and transfers | 68,984 | 56,953 |
| Amount used | <u>(58,985)</u> | <u>(53,109)</u> |
| Balance at end of year | <u>\$ 126,583</u> | <u>116,584</u> |

(2) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

Administrative Items, Continued

Retirement Expense

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 (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 400, Oklahoma City, OK 73118.

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% and 15.5% of annual covered payroll as of June 30, 2012 and 2011, respectively. During 2012, 2011, and 2010, a total of \$140,200, \$127,493, and \$121,050, respectively, was paid to OPERS. The System's and employees' portions of those amounts were as follows:

| | <u>2012</u> | <u>2011</u> | <u>2010</u> |
|--------------------|-------------------|----------------|----------------|
| System's portion | \$ 115,665 | 103,855 | 99,784 |
| Employees' portion | <u>24,535</u> | <u>23,638</u> | <u>21,266</u> |
| | <u>\$ 140,200</u> | <u>127,493</u> | <u>121,050</u> |

(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 System, their pro rata share of the premiums purchased. The System has no obligations to any claims submitted against the System.

Date of Review of Subsequent Events

The Plan has evaluated subsequent events through September 17, 2012, 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 except as discussed in Note 16.

Reclassification of Prior Year Amounts

Certain amounts for 2011 have been reclassified to make them comparable with the 2012 presentation.

(3) **DESCRIPTION OF THE PLAN**

The following brief description of the Plan is provided for general information purposes only. Participants should refer to the Oklahoma Statutes for more complete information.

General

The Plan is a multiple-employer, cost-sharing defined benefit pension plan covering members who have actively participated in being a police officer for an Oklahoma municipality or state agency which is a member of the Plan.

Contributions

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

An eligible municipality may join the Plan on the first day of any month. Upon approval by the Board, its membership is irrevocable. All persons employed as police officers are required to participate in the Plan upon initial employment with the police department of the participating municipality. The Oklahoma Legislature has authority to establish and amend contribution amounts. Until July 1, 1991, each municipality contributed to the System 10% of the actual base salary of each participant employed by the municipality. Beginning July 1, 1991, municipality contributions increased by 1/2% per year and continued this increase until July 1, 1996, when the contribution level reached 13%, which it remains at currently. Each participant of the Plan contributes 8% of their actual paid base salary. Additional funds are provided to the Plan by the State of Oklahoma through an allocation of the tax on premiums collected by insurance companies operating in Oklahoma and by the net investment income generated on assets held by the Plan. The Plan is responsible for paying administrative costs. Administrative costs of the Plan are paid by using the earnings from the invested assets of the Plan.

(3) **DESCRIPTION OF THE PLAN, CONTINUED**

Funded Status and Funding Progress

2012

As of July 1, 2012, the most recent actuarial valuation date, the Plan was 90% funded. The actuarial accrued liability for benefits was \$2.0 billion, and the actuarial value of assets was \$1.8 billion, resulting in an unfunded actuarial accrued liability (UAAL) of \$200 million. The covered payroll (annual payroll of active employees covered by the Plan) was \$266 million, and the ratio of UAAL to covered payroll was 75.3%.

2011

As of July 1, 2011, the most recent actuarial valuation date, the Plan was 93% funded. The actuarial accrued liability for benefits was \$2.0 billion, and the actuarial value of assets was \$1.8 billion, resulting in an unfunded actuarial accrued liability (UAAL) of \$137 million. The covered payroll (annual payroll of active employees covered by the Plan) was \$258 million, and the ratio of UAAL to covered payroll was 53.3%.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

(3) **DESCRIPTION OF THE PLAN, CONTINUED**

Actuarial Methods and Assumptions

2012

In the July 1, 2012, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included (a) a 7.5% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 5% to 19% per year. Both (a) and (b) included an inflation component of 3%. The projection of benefits for financial accounting purposes also does not explicitly incorporate the potential effects of any limitation on the State of Oklahoma's contribution rate disclosed above under *Contributions*. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a 5-year period. The UAAL is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2012, was 6 years.

2011

In the July 1, 2011, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included (a) a 7.5% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 5% to 19% per year. Both (a) and (b) included an inflation component of 3%. The projection of benefits for financial accounting purposes also does not explicitly incorporate the potential effects of any limitation on the State of Oklahoma's contribution rate disclosed above under *Contributions*. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a 5-year period. The UAAL is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2011, was 7 years.

The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

(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. Retirement provisions are as follows:

- The normal retirement date under the Plan is the date upon which the participant completes 20 years of credited service, regardless of age. Participants become vested upon completing 10 years of credited service as a contributing participant of the Plan. No vesting occurs prior to completing 10 years of credited service. Participants' contributions are refundable, without interest, upon termination prior to normal retirement. Participants who have completed 10 years of credited service may elect a vested benefit in lieu of having their accumulated contributions refunded. If the vested benefit is elected, the participant is entitled to a monthly retirement benefit commencing on the date the participant reaches 50 years of age or the date the participant would have had 20 years of credited service had employment continued uninterrupted, whichever is later.
- Monthly retirement benefits are calculated at 2.5% of the final average salary (defined as the average paid base salary of the officer over the highest 30 consecutive months of the last 60 months of credited service) multiplied by the years of credited service, with a maximum of 30 years of credited service considered.
- Monthly benefits for participants due to permanent disability incurred in the line of duty are 2.5% of the participants' final average salary multiplied by 20 years. This disability benefit is reduced by stated percentages for partial disability based on the percentage of impairment. After 10 years of credited service, participants who retire due to disability incurred from any cause are eligible for a monthly benefit based on 2.5% of their final average salary multiplied by the years of service. This disability benefit is also reduced by stated percentages for partial disability based on the percentage of impairment. Effective July 1, 1998, once a disability benefit is granted to a participant, that participant is no longer allowed to apply for an increase in the dollar amount of the benefit at a subsequent date.
- Survivor's benefits are payable in full to the participant's beneficiary upon the death of a retired participant. The beneficiary of any active participant killed in the line of duty is entitled to a pension benefit. Effective July 1, 1999, a \$5,000 death benefit is also paid, in addition to any survivor's pension benefits under the Plan, to the participant's beneficiary or estate for active or retired members.

(3) **DESCRIPTION OF THE PLAN, CONTINUED**

Benefits, Continued

- The Deferred Option allows participants otherwise eligible for a normal retirement benefit to defer terminating employment and drawing retirement benefits for a period not to exceed 5 years. Under the Deferred Option, retirement benefits are calculated based on compensation and service at the time of election and a separate account is established for each participant. During the participation period, the employee's retirement benefit is credited to the participant's account along with a portion of the employer's contribution and interest. Interest is credited at a rate of 2% below the rate of return on the investment portfolio of the Plan, with a guaranteed minimum interest equal to the assumed actuarial interest of 7.5%. Employee contributions cease once participation in the Deferred Option is elected. At the conclusion of participation in the Deferred Option, the participant will receive the balance in the separate account under payment terms allowed by the Deferred Option and will then begin receiving retirement benefit payments as calculated at the time of election.
- In the 2003 Legislative Session, Senate Bill 688 and House Bill 1464 created a "Back" DROP for members of the System. The "Back" DROP is a modified deferred retirement option retirement 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, the member can choose, upon retirement, to be treated as if the member had entered into the "Back" DROP. A member, however, cannot receive credit to the "Back" DROP 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 "Back" DROP 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.
- In 2006, the Board approved a method of payment called the Deferred Option Payout Provision (the "Payout Provision"). The Payout Provision allows a retired member who has completed participation in the Deferred Option or the "Back" DROP the ability to leave their account balance in the Plan. The retired member's account balance will be commingled and reinvested with the total assets, and therefore the member will not be able to direct their personal investments. Written election must be made to the Board no more than 30 days following the termination of employment.

(3) **DESCRIPTION OF THE PLAN, CONTINUED**

Benefits, Continued

- Upon participating in the Payout Provision, a retired member shall not be guaranteed a minimum rate of return on their investment. A retired member shall earn interest on their account as follows:
 - a) The retired member shall earn two percentage points below the net annual rate of return of the investment portfolio of the System.
 - b) If the portfolio earns less than a 2% rate of return, but more than zero, the retired member shall earn zero percentage points.
 - c) If the portfolio earns less than zero percentage points, there shall be a deduction from the retired member's balance equal to the net annual rate of return of the investment portfolio of the System.

Interest as earned above shall be credited to the retired member's account.

The Oklahoma Legislature has the authority to grant percentage increases or special one-time payments to persons receiving benefits from the Plan. Additionally, certain retirees are entitled to receive a cost-of-living adjustment (COLA) when a COLA is granted to active police officers in the retiree's city. Participants eligible to receive both types of benefit increases are to receive the greater of the legislative increase or the benefit increase the participant would receive pursuant to the COLA provision.

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

Cash and Cash Equivalents

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

| | <u>2012</u> | <u>2011</u> |
|-------------------------------------|-------------------------------|-------------------|
| | <i>(Amounts in Thousands)</i> | |
| Short-term investments: | | |
| OK INVEST | \$ 30,954 | 11,401 |
| Domestic | <u>16,192</u> | <u>22,115</u> |
| Total short-term investments | <u>47,146</u> | <u>33,516</u> |
| Total cash and cash equivalents | <u>\$ 47,146</u> | <u>33,516</u> |

At June 30, 2012 and 2011, as a result of outstanding checks and deposits, the carrying amount of the Plan’s OK INVEST account totaled \$30,954,547 and \$11,400,877, respectively, and the bank balance totaled \$12,700,509 and \$13,437,875, respectively. The carrying amounts of the domestic short-term investment and cash on deposit with Mellon were the same as the bank balances at June 30, 2012 and 2011.

Included in cash and cash equivalents are investments included in the State of Oklahoma’s OK INVEST Portfolio. Because these investments are controlled by the State of Oklahoma and the balances change on a daily basis, they are considered cash equivalents. The balances are overnight funds consisting of U.S. agencies, mortgage-backed agencies, U.S. Treasury notes, municipal bonds, foreign bonds, tri-party repurchase agreements, certificates of deposit, commercial paper, and money market mutual funds. As of June 30, the investment balances were as follows:

| | <u>2012</u> | <u>2011</u> |
|---------------------------------|--------------------------|-----------------------|
| U.S. agencies | \$ 4,490,286 | 4,907,982 |
| Mortgage-backed agencies | 5,605,824 | 4,874,600 |
| U.S. Treasury notes | 164,038 | 193,876 |
| Municipal bonds | 227,808 | 267,844 |
| Foreign bonds | - | 124,890 |
| Tri-party repurchase agreements | - | 906,802 |
| Certificates of deposit | 410,220 | 634,499 |
| Commercial paper | 63,912 | 49,961 |
| Money market mutual funds | <u>1,738,421</u> | <u>1,477,421</u> |
| | <u>\$ 12,700,509</u> | <u>13,437,875</u> |

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

Cash and Cash Equivalents, Continued

The Plan's other short-term investments consist of temporary investments in commingled trust funds of the Plan's custodial agent, commercial paper, treasury bills, and U.S. government agency securities. The commingled trust funds are composed of high-grade money market instruments with short maturities. Each participant shares the risk of loss in proportion to their respective investment in the funds.

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, and 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 to no more than 5% of each manager's portfolio. At June 30, 2012 and 2011, approximately \$16,192,000 and \$22,115,000, respectively, of cash and cash equivalents was uninsured and uncollateralized. 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.

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

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 limits foreign equity investments to 10% of total net assets through its asset allocation policy. Investments in equities and fixed-income securities as of June 30 are shown by monetary unit to indicate possible foreign currency risk.

| | 2012 | | |
|---|-------------------------------|---------------------------|----------------|
| <u>Currency</u> | <u>Equities</u> | Corporate <u>Bonds</u> | <u>Total</u> |
| | <i>(Amounts in Thousands)</i> | | |
| Commingled funds: | | | |
| Barings Focused International Equity Fund | \$ 70,179 | - | 70,179 |
| Mondrian International Equity Fund | 87,153 | - | 87,153 |
| Vontobel Global Emerging Markets Fund | 48,665 | - | 48,665 |
| Loomis Sayles World Bond Fund | - | 91,135 | 91,135 |
| OCM International Convertible Fund | - | 13,345 | 13,345 |
| | <u>\$ 205,997</u> | <u>104,480</u> | <u>310,477</u> |
| | 2011 | | |
| <u>Currency</u> | <u>Equities</u> | Corporate <u>Bonds</u> | <u>Total</u> |
| | <i>(Amounts in Thousands)</i> | | |
| Commingled funds: | | | |
| Artio International Equity Group Trust Fund | \$ 88,165 | - | 88,165 |
| Mondrian International Equity Fund | 97,787 | - | 97,787 |
| Loomis Sayles World Bond Fund | - | 88,760 | 88,760 |
| OCM International Convertible Fund | - | 12,675 | 12,675 |
| | <u>\$ 185,952</u> | <u>101,435</u> | <u>287,387</u> |

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

Foreign Currency Risk, Continued

The Plan was exposed to foreign currency risk through investments in the following commingled funds:

- Barings Focused International Equity Fund—The fund seeks long-term capital growth by investing in a concentrated portfolio of equity securities from developed international markets combined with a limited number of equities from emerging markets.
- Mondrian International Equity Fund—The fund’s investment objective is long-term total return through a value-driven approach of equity selection. The fund pursues this strategy by investing primarily in non-U.S. and emerging market equity securities.
- Vontobel Global Emerging Markets Fund—The fund seeks capital appreciation by investing, under normal market conditions, at least 75% of its assets in the equity securities of companies located in developing or emerging markets.
- Loomis Sayles World Bond Fund—The fund normally invests at least 80% of its net assets in fixed-income securities. The fund focuses primarily on investment grade fixed-income securities worldwide, although it may invest up to 20% of its fair value in lower rated fixed-income securities. Securities held by the fund may be denominated in any currency, may be from issuers located in emerging markets, or may be fixed-income securities of any maturity.
- OCM (Oaktree Capital Management) International Convertible Fund—The fund seeks a high level of total return through a combination of current income and capital appreciation by investing primarily in convertible securities of issuers located outside the United States. Convertible securities may consist of bonds, debentures, notes, preferred stock, or other securities that can be converted to common stock or other equity securities.
- Artio International Equity Group Trust Fund—The fund seeks long-term growth of capital by investing in a diversified portfolio of international equities in developed and emerging markets.

(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 portfolio for domestic fixed-income securities requires the portfolio to maintain an average of A+ or higher. For international fixed-income securities, the investment policy requires the portfolio to invest in securities equal to or better than Moody's Baa3 or Standard & Poor's BBB. Exposure to credit risk as of June 30 was as follows:

| <u>Investment Type</u> | <u>Moody's Ratings</u> <u>(Unless Noted)</u> | <u>2012</u> | |
|--|---|--------------------------|---|
| | | <u>Fair Value</u> | <u>Fair Value as a Percent of Total Fixed Maturity Fair Value</u> |
| <i>(Amounts in Thousands)</i> | | | |
| U.S. government agency securities | Aaa | \$ 7,167 | 38.91% |
| U.S. Treasury securities | Aaa | 11,251 | 61.09% |
| Total U.S. government securities | | <u>\$ 18,418</u> | <u>100.00%</u> |
| Domestic corporate bonds | Aaa | \$ 58,755 | 24.48% |
| | A- (SP) | 465 | 0.19% |
| | Aa1 | 643 | 0.27% |
| | Aa2 | 4,020 | 1.67% |
| | Aa3 | 2,754 | 1.15% |
| | A1 | 5,468 | 2.28% |
| | A2 | 12,421 | 5.17% |
| | A3 | 11,967 | 4.99% |
| | Ba1 | 1,583 | 0.66% |
| | Baa1 | 15,063 | 6.28% |
| | Baa2 | 19,687 | 8.20% |
| | Baa3 | 8,320 | 3.47% |
| | Not Rated | <u>98,889</u> | <u>41.19%</u> |
| Total domestic corporate bonds | | <u>\$ 240,035</u> | <u>100.00%</u> |
| International corporate bonds | Not Rated | <u>\$ 104,480</u> | <u>100.00%</u> |
| Total international corporate bonds | | <u>\$ 104,480</u> | <u>100.00%</u> |

Oklahoma Police Pension and Retirement Plan

Administered by – Oklahoma Police Pension and Retirement System

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

Credit Risk, Continued

| <u>Investment Type</u> | <u>Moody's Ratings (Unless Noted)</u> | <u>2011</u> | |
|--|---|-------------------|---|
| | | <u>Fair Value</u> | <u>Fair Value as a Percent of Total Fixed Maturity Fair Value</u> |
| <i>(Amounts in Thousands)</i> | | | |
| U.S. government securities | UST ⁽²⁾ | \$ 14,121 | 100.00% |
| Total U.S. government securities | | \$ 14,121 | 100.00% |
| Domestic corporate bonds | AGY ⁽¹⁾ | \$ 50,515 | 22.04% |
| | Aaa | 12,490 | 5.45% |
| | A- (SP) | 472 | 0.21% |
| | Aa1 | 575 | 0.25% |
| | Aa2 | 3,660 | 1.60% |
| | Aa3 | 5,883 | 2.57% |
| | A1 | 5,060 | 2.21% |
| | A2 | 11,709 | 5.11% |
| | A3 | 11,351 | 4.96% |
| | B1 | 318 | 0.14% |
| | B3 | 576 | 0.25% |
| | Ba1 | 172 | 0.08% |
| | Ba2 | 359 | 0.16% |
| | Baa1 | 14,132 | 6.17% |
| | Baa2 | 11,950 | 5.22% |
| | Baa3 | 5,649 | 2.47% |
| | Caa1 | 161 | 0.07% |
| | Not Rated | 94,036 | 41.04% |
| Total domestic corporate bonds | | \$ 229,068 | 100.00% |
| International corporate bonds | Not Rated | \$ 101,435 | 100.00% |
| Total international corporate bonds | | \$ 101,435 | 100.00% |

⁽¹⁾ U.S. government agency securities

⁽²⁾ U.S. Treasury securities

(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 index funds are more sensitive to market risk. Although the investment policy does not specifically address the duration of fixed-income securities, the Plan does monitor interest rate risk by monitoring the performance of each investment manager. As of June 30, the Plan had the following investments with maturities.

| <u>Investment Type</u> | 2012 | | | | <u>Total Fair Value</u> |
|---|---|--------------------------------|-------------------|-------------------------------------|-------------------------|
| | <u>Investment Maturities at Fair Value (in Years)</u> | | | | |
| | <u>Less Than 5</u> | <u>5 or More, Less Than 10</u> | <u>10 or More</u> | <u>Investments with No Duration</u> | |
| | <i>(Amounts in Thousands)</i> | | | | |
| U.S. government securities: | | | | | |
| U.S. government agency | \$ 7,167 | - | - | - | 7,167 |
| U.S. treasury | - | 4,385 | 6,866 | - | 11,251 |
| Total U.S. government securities | <u>7,167</u> | <u>4,385</u> | <u>6,866</u> | <u>-</u> | <u>18,418</u> |
| Domestic corporate bonds: | | | | | |
| Asset-backed securities | - | - | 4 | - | 4 |
| CMBS | - | - | 10,949 | - | 10,949 |
| Corporates and other credit | 38,210 | 29,954 | 12,860 | - | 81,024 |
| U.S. government mortgages | 477 | 3,161 | 45,531 | - | 49,169 |
| Venture capital | - | - | - | 4,444 | 4,444 |
| U.S. fixed-income funds | - | - | - | 94,445 | 94,445 |
| Total domestic corporate bonds | <u>38,687</u> | <u>33,115</u> | <u>69,344</u> | <u>98,889</u> | <u>240,035</u> |
| International corporate bonds | - | - | - | 104,480 | 104,480 |
| | <u>\$ 45,854</u> | <u>37,500</u> | <u>76,210</u> | <u>203,369</u> | <u>362,933</u> |

As noted above, the Plan had approximately \$49,169,000 of investments in mortgages, of which \$34,446,000 represents FNMA loans and the remaining balance consists of FHLMC mortgages.

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

Interest Rate Risk, Continued

| <u>Investment Type</u> | 2011 | | | | <u>Total Fair Value</u> |
|---------------------------------------|---|--------------------------------|-------------------|-------------------------------------|-------------------------|
| | <u>Investment Maturities at Fair Value (in Years)</u> | | | | |
| | <u>Less Than 5</u> | <u>5 or More, Less Than 10</u> | <u>10 or More</u> | <u>Investments with No Duration</u> | |
| | <i>(Amounts in Thousands)</i> | | | | |
| U.S. government securities | \$ - | 11,299 | 2,822 | - | 14,121 |
| Domestic corporate bonds: | | | | | |
| Asset-backed securities | - | - | 14 | - | 14 |
| CMBS | - | - | 13,107 | - | 13,107 |
| CMO corporate | - | - | 1,162 | - | 1,162 |
| Corporates and other credit | 30,181 | 29,433 | 10,621 | - | 70,235 |
| U.S. equity funds | - | - | - | 78,311 | 78,311 |
| U.S. government mortgages | 80 | 4,368 | 46,066 | - | 50,514 |
| Venture capital | - | - | - | 5,136 | 5,136 |
| U.S. fixed-income funds | - | - | - | 10,589 | 10,589 |
| Total domestic corporate bonds | <u>30,261</u> | <u>33,801</u> | <u>70,970</u> | <u>94,036</u> | <u>229,068</u> |
| International corporate bonds | - | - | - | 101,435 | 101,435 |
| | <u>\$ 30,261</u> | <u>45,100</u> | <u>73,792</u> | <u>195,471</u> | <u>344,624</u> |

As noted above, the Plan had approximately \$50,514,000 of investments in mortgages, of which approximately \$32,583,000 represents FNMA loans and the remaining balance consists of FHLMC mortgages.

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

Securities Lending

The Plan’s investment policy allows the loan of securities through a lending agent to various institutions, with a simultaneous agreement to return the collateral for the same securities in the future, generally less than 30 days. There are no restrictions on the dollar amount of the loans that can be made. The collateral held and the fair value of the securities on loan for the Plan at June 30 were as follows:

| | 2012 | | |
|-----------------------|-------------------------------|---|--|
| | <u>Collateral Held</u> | <u>Fair Value of Securities on Loan</u> | <u>Percent of Collateral to Loan</u> |
| | <i>(Amounts in Thousands)</i> | | |
| U.S. issuers: | | | |
| Stocks | \$ 7,289 | 7,093 | 103% |
| Corporate bonds | 363 | 354 | 103% |
| Government securities | 19,077 | 18,693 | 102% |
| | \$ 26,729 | 26,140 | |
| | | | |
| | 2011 | | |
| | <u>Collateral Held</u> | <u>Fair Value of Securities on Loan</u> | <u>Percent of Collateral to Loan</u> |
| | <i>(Amounts in Thousands)</i> | | |
| U.S. issuers: | | | |
| Stocks | \$ 39,731 | 38,724 | 103% |
| Corporate bonds | 4,847 | 4,728 | 103% |
| | \$ 44,578 | 43,452 | |

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

Securities Lending, Continued

As the Plan does not have the ability to pledge or sell non-cash collateral without a borrower default, the non-cash collateral the Plan had received at June 30, 2012 and 2011, was not included in the accompanying statements of plan net assets. According to the securities lending agreement, if at the close of trading on any business day, the fair value of the collateral presently delivered by the borrower is less than 100% of the fair value of such loaned securities, the Plan shall demand the borrower deliver collateral equal to 102% for domestic securities and 105% for non-U.S. securities by the close of the next business day. At the maturity of the loans, the Plan receives a loan premium and the securities are returned. The Plan has no credit risk exposure to borrowers because the amount the Plan owes the borrowers exceeds the amount the borrowers owe the Plan. As of June 30, 2012 and 2011, the Plan had no losses on securities lending transactions resulting from default of a borrower or lending agent. Contracts with lending agents require them to indemnify the Plan if the borrowers fail to return the securities or otherwise fail to pay the Plan for income while the securities are on loan. The securities on loan are included in the respective investment categories in the accompanying statements of plan net assets. Cash collateral is invested in the lending agent's short-term investment pool and included as an asset in the accompanying statements of plan net assets, with an offsetting liability for the return of the collateral. The securities lending agreement sets forth credit quality standards, acceptable investments, diversification standards, and maturity and liquidity constraints for the investment fund.

The Plan's investment guidelines do not require a matching of investment maturities with loan maturities, but do establish minimum levels of liquidity and other restrictions designed to minimize the interest rate risk associated with not matching the maturities of the investments with the loans. The cash collateral investments had an average weighted maturity of 34 days and 47 days at June 30, 2012 and 2011, respectively.

Foreign Currency Transactions

The Plan has certain investment managers that trade on foreign exchanges. Foreign currency gains and losses are calculated at the transaction date using the current exchange rate, and assets are remeasured to U.S. dollars using the exchange rate as of each month end. During the years ended June 30, 2012 and 2011, there were no foreign currency gains and no remeasurement losses.

(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 investment policy notes that in order to achieve maximum returns, the Plan may diversify between various investments, including common stocks, bonds, real estate, private equity, venture equity and other hedge fund strategies, short-term cash instruments, and other investments deemed suitable. The investment policy also requires investment managers to follow certain controls and documentation and risk management procedures. The Plan did not have any direct derivative investments at June 30, 2012 or 2011. Investments in limited partnerships (alternative investments) and commingled funds may include derivatives. 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 Plan invests in mortgage-backed securities, which are reported at fair value in the statements of plan net assets and are based on the cash flows from interest and principal payments by 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.

(6) **INVESTMENT IN BUILDING**

The Plan owns a building (Columbus Square) originally purchased for approximately \$1.5 million, and it is held as a long-term investment. The building is accounted for at fair value based on periodic appraisals. Rental income and expenses associated with the building are reported currently. The Plan utilizes part of the building for its administrative offices and charges itself rent, which is reflected as administrative expense and other investment income. The fair value of the building at June 30, 2012 and 2011, was estimated at approximately \$3.7 million.

(7) **INVESTMENT IN ALTERNATIVE INVESTMENTS**

The Plan has also invested in alternative investments such as limited partnerships, limited liability companies, and real estate investment funds. The alternative investments at June 30 are summarized in the following table.

| <u>Investment</u> | <u>Purpose</u> | <u>Fair Market Value</u> | |
|---|---|--------------------------|-------------|
| | | <u>2012</u> | <u>2011</u> |
| <i>(Amounts in Thousands)</i> | | | |
| <i>Accel Europe, LP</i> | Invests in companies that are organized outside the United States. | \$ 4,755 | 5,293 |
| <i>Actis Global IV</i> | Invests in emerging markets, focusing primarily on the regions of Africa, China, India and Latin America. | 105 | - |
| <i>Arsenal Capital Partners, L.P.</i> | Invests in portfolio companies. | 3,025 | 4,440 |
| <i>Arsenal II</i> | Invests in manufacturing, specialty chemicals, and healthcare industry. | 18,864 | 15,524 |
| <i>Arsenal III</i> | Invests in specialized industries, healthcare and financial services sectors. | 1,222 | - |
| <i>Attalus Long/Short Equity Fund, LTD.</i> | Invests in other investment companies, also referred to as hedge funds, consisting of debt and equity securities as well as private equity. | 74,186 | 77,115 |
| <i>BBT Overseas Partners, LP</i> | Invests in equity securities and financial acquisitions. | 709 | 709 |
| <i>Calera Partners III, LP</i> | Invests in equity securities. | 4,649 | 5,440 |
| <i>Calera Partners IV, LP</i> | Invests in equity securities. | 6,138 | 6,312 |
| <i>FirstMark III, LP</i> | Invests in equity securities. | 5,108 | 7,396 |
| <i>FirstMark IV</i> | Invests in equity securities. | 9,154 | 4,520 |

(Continued)

Oklahoma Police Pension and Retirement Plan

Administered by – Oklahoma Police Pension and Retirement System

(7) INVESTMENT IN ALTERNATIVE INVESTMENTS, CONTINUED

| <u>Investment</u> | <u>Purpose</u> | <u>Fair Market Value</u> | |
|--|--|-------------------------------|-------------|
| | | <u>2012</u> | <u>2011</u> |
| | | <i>(Amounts in Thousands)</i> | |
| <i>FirstMark V</i> | Invests in equity securities. | 724 | - |
| <i>FMVP General Partners II, LLC</i> | Invests in the securities of technology and development stage companies. | 27 | 39 |
| <i>Grosvenor Long/Short Equity Fund, LP</i> | Invests in domestic and international securities. | 168,115 | 173,437 |
| <i>Hicks, Muse, Tate & Furst Equity Fund V, LP</i> | Invests in private equity securities and leveraged acquisitions. | 1,025 | 1,331 |
| <i>HM Capital Sector Performance</i> | Invests primarily in debt and equity securities. | 13,121 | 6,830 |
| <i>Knightsbridge Venture Capital VI</i> | Invests in early stage U.S. venture capital partnerships. | 10,589 | 9,195 |
| <i>Levine Leichtman Capital Partners III, LP</i> | Invests in securities of middle market companies. | 6,142 | 5,554 |
| <i>Levine Leichtman Capital Partners IV, LP</i> | Invests in public and private securities in companies conducting substantial operations. | 8,404 | 5,035 |
| <i>Lexington Capital Partners</i> | Invests in private equity. | 13,737 | 14,355 |
| <i>LightSpeed Venture Partners VI, LP</i> | Invests in securities issued primarily in start-ups, early stage ventures, and expansion stage companies focusing on technology. | 3,691 | 3,761 |

(Continued)

Oklahoma Police Pension and Retirement Plan

Administered by – Oklahoma Police Pension and Retirement System

(7) **INVESTMENT IN ALTERNATIVE INVESTMENTS, CONTINUED**

| <u>Investment</u> | <u>Purpose</u> | <u>Fair Market Value</u> | |
|---|---|-------------------------------|-------------|
| | | <u>2012</u> | <u>2011</u> |
| | | <i>(Amounts in Thousands)</i> | |
| <i>Marathon Fund IV, LP</i> | To acquire, manage, and resell controlling interests in middle market companies. | 84 | 412 |
| <i>Marathon Fund V, LP</i> | Invests in portfolio companies. | 11,296 | 12,814 |
| <i>Newport Mesa, LLC</i> | Invests in non-readily marketable investment vehicles. | 154,258 | 159,081 |
| <i>Newstone Capital</i> | Invests in leveraged buyouts, recapitalization, and later-stage growth financing. | 2,490 | 2,850 |
| <i>Newstone Capital II</i> | Invests in leveraged buyouts, recapitalization, and later-stage growth financing. | 2,514 | 1,401 |
| <i>Oaktree Opportunities Fund II, LP</i> | Invests in distressed debt. | 4 | 5 |
| <i>Oaktree Opportunities Fund III, LP</i> | Invests in entities experiencing financial difficulties. | 56 | 57 |
| <i>Oaktree Opportunities Fund IV, LP</i> | Invests in distressed debt. | 26 | 24 |
| <i>Oaktree Opportunities Fund V, LP</i> | Invests in distressed debt. | 614 | 982 |
| <i>Oaktree Opportunities Fund VI, LP</i> | Invests in distressed debt. | 2,042 | 2,976 |

(Continued)

Oklahoma Police Pension and Retirement Plan

Administered by – Oklahoma Police Pension and Retirement System

(7) INVESTMENT IN ALTERNATIVE INVESTMENTS, CONTINUED

| <u>Investment</u> | <u>Purpose</u> | <u>Fair Market Value</u> | |
|---|---|--------------------------|-------------|
| | | <u>2012</u> | <u>2011</u> |
| <i>Oaktree Opportunities Fund VII</i> | Invests in companies undergoing or having undergone reorganization or restructuring. | 4,564 | 5,903 |
| <i>Oaktree Opportunities Fund VIIb</i> | Invests in companies undergoing or having undergone reorganization or restructuring. | 4,600 | 7,794 |
| <i>Oaktree Opportunities Fund VIII, LP</i> | Invests in distressed debt. | 8,418 | 6,154 |
| <i>Peak Partners, LP</i> | Speculative trading of commodity futures contracts. Options on futures contracts and forward contracts. | 22,172 | 25,420 |
| <i>Siguler Guff Distressed Opportunities Fund, L.L.C.</i> | Invests in securities of companies undergoing distress, operating difficulties, and significant reconstructing. | 7,666 | 9,714 |
| <i>Siguler Guff Distressed Opportunities Fund II, LP</i> | Invests in securities of companies undergoing distress, operating difficulties, and significant reconstructing. | 11,157 | 14,147 |

(Continued)

(7) **INVESTMENT IN ALTERNATIVE INVESTMENTS, CONTINUED**

| <u>Investment</u> | <u>Purpose</u> | <u>Fair Market Value</u> | |
|---|--|--------------------------|-------------|
| | | <u>2012</u> | <u>2011</u> |
| <i>(Amounts in Thousands)</i> | | | |
| <i>Siguler Guff Distressed Opportunities Fund III, LP</i> | Invests in securities of companies undergoing distress, operating difficulties, and significant reconstructing. | 13,892 | 13,978 |
| <i>Siguler Guff Distressed Real Estate Opportunities Fund, LP</i> | Invests in equity interests in commercial properties, commercial mortgages, commercial mortgage-backed securities, debt and equity securities of real estate operating companies, and real estate investment trusts. | 4,103 | - |
| <i>Sun Capital</i> | Invests in privately negotiated subordinated debt and equity securities. | 9,288 | 6,423 |
| <i>TCW/Crescent Mezzanine Partners III, LP</i> | Invests in privately negotiated subordinated debt and equity securities. | 717 | 1,262 |
| <i>TCW/Crescent Mezzanine Partners IV, LP</i> | Invests in privately negotiated subordinated debt and equity securities. | 4,832 | 6,427 |
| <i>TCW/Crescent Mezzanine Partners V, LP</i> | Invests in privately negotiated subordinated debt and equity securities. | 6,990 | 5,324 |
| <i>Thompson Street Capital Partners</i> | Private investment in companies. | 9,283 | 8,294 |
| <i>Thompson Street Capital Partners III</i> | Private investment in companies. | 481 | - |

(Continued)

(7) **INVESTMENT IN ALTERNATIVE INVESTMENTS, CONTINUED**

| <u>Investment</u> | <u>Purpose</u> | <u>Fair Market Value</u> | |
|---|--|-------------------------------|----------------|
| | | <u>2012</u> | <u>2011</u> |
| | | <i>(Amounts in Thousands)</i> | |
| <i>Venture Lending & Leasing III, LLC</i> | Debt financing and direct investment in equity securities of venture capital-backed companies. | 392 | 491 |
| <i>Warburg Pincus</i> | Making private equity and related investments. | 14,560 | 11,864 |
| <i>Weathergage Venture Capital</i> | Invests in information technology and life science funds. | 5,803 | 4,338 |
| <i>Weathergage Venture Capital II</i> | Invests in information technology and life science funds. | 1,825 | 938 |
| <i>Weiss, Peck, & Greer Venture Associates V, LLC</i> | Invests in the securities of technology and development stage companies. | 804 | 1,356 |
| | | <u>\$ 658,421</u> | <u>656,715</u> |

As of June 30, 2012 and 2011, the Plan had a remaining commitment to fund approximately \$64 million and \$65 million, respectively, in various partnerships and limited liability companies.

Several of the limited partnerships invest in equity securities outside of the United States and may enter into forward contracts to purchase or sell securities at specified dates in the future at a guaranteed price in a foreign currency to protect against fluctuations in exchange rates of foreign currency. In addition, some of the partnerships may engage in hedging transactions involving derivative instruments as a part of their investment strategy.

(8) INVESTMENT IN REAL ESTATE FUND

The Plan’s investment in real estate fund consists of one commingled pension trust fund. The real estate investment fund at June 30 is summarized in the following table:

| <u>Investment</u> | <u>Purpose</u> | <u>Fair Value</u> | |
|--|--|-------------------|---------------|
| | | <u>2012</u> | <u>2011</u> |
| <i>(Amounts in Thousands)</i> | | | |
| JPMorgan Chase Bank Strategic Property Fund | The Fund owns and seeks improved real estate projects with stabilized occupancies in an effort to produce a relatively high level of current income combined with moderate appreciation potential. | \$ <u>46,040</u> | <u>41,517</u> |

The entity accounts for its investments at fair value. Fair values of real estate investments are determined by JPMorgan at each valuation date. As part of JPMorgan’s valuation process, independent appraisers value properties on an annual basis (at a minimum).

(9) CAPITAL ASSETS

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

| | <u>Balance at June 30, 2011</u> | <u>Additions</u> | <u>Disposals</u> | <u>Balance at June 30, 2012</u> |
|--------------------------|-------------------------------------|------------------|------------------|-------------------------------------|
| Cost | \$ 1,014,045 | - | - | 1,014,045 |
| Accumulated amortization | <u>(101,404)</u> | <u>(202,809)</u> | - | <u>(304,213)</u> |
| Capital assets, net | <u>\$ 912,641</u> | <u>(202,809)</u> | - | <u>709,832</u> |

| | <u>Balance at June 30, 2010</u> | <u>Additions</u> | <u>Disposals</u> | <u>Balance at June 30, 2011</u> |
|--------------------------|-------------------------------------|------------------|------------------|-------------------------------------|
| Cost | \$ 1,014,045 | - | - | 1,014,045 |
| Accumulated amortization | <u>-</u> | <u>(101,404)</u> | - | <u>(101,404)</u> |
| Capital assets, net | <u>\$ 1,014,045</u> | <u>(101,404)</u> | - | <u>912,641</u> |

Oklahoma Police Pension and Retirement Plan

Administered by – Oklahoma Police Pension and Retirement System

(10) DEFERRED OPTION BENEFITS PAYABLE

As noted previously, the Plan has Deferred Option, “Back” DROP, and Payout Provision benefits available to its members. A summary of the changes in the liability for the various options as of June 30 is as follows:

| | 2012 | | | |
|------------------------|----------------------------------|------------------------------|-----------------------------------|---------------|
| | <u>Deferred</u> <u>Option</u> | <u>"Back"</u> <u>DROP</u> | <u>Payout</u> <u>Provision</u> | <u>Total</u> |
| | <i>(Amounts in Thousands)</i> | | | |
| Beginning balance | \$ 6,517 | 1,879 | 2,322 | 10,718 |
| Employer contributions | 177 | 1,278 | - | 1,455 |
| Member contributions | - | 1,574 | - | 1,574 |
| Plan reassignments | (187) | (513) | 700 | - |
| Deferred benefits | 1,460 | 10,629 | - | 12,089 |
| Payments | (5,051) | (17,485) | (426) | (22,962) |
| Interest | <u>308</u> | <u>3,594</u> | <u>4</u> | <u>3,906</u> |
| Ending balance | <u>\$ 3,224</u> | <u>956</u> | <u>2,600</u> | <u>6,780</u> |
| | 2011 | | | |
| | <u>Deferred</u> <u>Option</u> | <u>"Back"</u> <u>DROP</u> | <u>Payout</u> <u>Provision</u> | <u>Total</u> |
| | <i>(Amounts in Thousands)</i> | | | |
| Beginning balance | \$ 6,226 | 1,689 | 1,999 | 9,914 |
| Employer contributions | 211 | 970 | - | 1,181 |
| Member contributions | - | 1,194 | - | 1,194 |
| Deferred benefits | 1,772 | 7,939 | - | 9,711 |
| Payments | (2,577) | (12,317) | - | (14,894) |
| Interest | <u>885</u> | <u>2,404</u> | <u>323</u> | <u>3,612</u> |
| Ending balance | <u>\$ 6,517</u> | <u>1,879</u> | <u>2,322</u> | <u>10,718</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 State of Oklahoma. 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 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. The Plan has been amended since receiving the determination letter. However, the Plan administrator believes that the Plan is designed and is currently being operated in substantial compliance with the applicable requirements of the Internal Revenue Code.

(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 and II.

(14) **LEGISLATIVE AMENDMENTS**

The following is a summary of significant plan provision changes that were enacted by the Oklahoma Legislature during 2012 and 2011:

2012

- Senate Bill 1214—Contained the required language necessary for the System to remain an IRS qualified plan.
- Senate Bill 1588—Specifies use of certain interest rates and mortality table to adjust certain benefits, not previously addressed with Senate Bill 1214.
- House Bill 2319—Allows the System to own and occupy necessary office space as the Board deems appropriate.

2011

- Senate Bill 347—Requires forfeiture of certain retirement benefits by officers or employees upon conviction of certain crimes.
- Senate Bill 1112—Contained the required language necessary for the System to remain an IRS qualified plan.
- House Bill 2132—Modifies the Oklahoma Pension Legislation Actuarial Analysis Act. All cost-of-living adjustments (COLA's) would become fiscal bills. The retirement systems will no longer have any COLA assumptions.

(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 net assets or changes in net assets of the Plan

(16) **SUBSEQUENT EVENTS**

Sale of Real Estate Investment—Columbus Square Office Building

Subsequent to June 30, 2012, the Plan entered into an agreement to sell its Columbus Square real estate investment to the Chesapeake Land Development Company, LLC, for \$10 million. This agreement is subject to a satisfactory due diligence review by the purchaser, and in the absence of any contradictory findings, is expected to be completed in October 2012.

**SUPPLEMENTARY INFORMATION REQUIRED BY
GOVERNMENTAL ACCOUNTING STANDARDS BOARD
STATEMENTS NO. 25 AND 50**

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

SCHEDULE OF FUNDING PROGRESS

(In Millions)

June 30, 2012

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) Entry Age | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll [(b-a)/c] ⁽¹⁾ |
|--------------------------|-------------------------------|---|---------------------------|----------------------|---------------------|--|
| June 30, 2003 | \$ 1,392 | 1,647 | 255 | 84.5% | 171 | 149.5% |
| June 30, 2004 | 1,400 | 1,727 | 327 | 81.1% | 176 | 186.4% |
| June 30, 2005 | 1,424 | 1,812 | 388 | 78.6% | 189 | 205.3% |
| June 30, 2006 | 1,490 | 1,910 | 420 | 78.0% | 204 | 205.6% |
| June 30, 2007 | 1,627 | 2,036 | 409 | 79.9% | 221 | 184.8% |
| June 30, 2008 | 1,752 | 2,132 | 380 | 82.2% | 240 | 158.5% |
| June 30, 2009 | 1,718 | 2,253 | 535 | 76.3% | 254 | 210.9% |
| June 30, 2010 | 1,754 | 2,341 | 587 | 74.9% | 250 | 235.3% |
| June 30, 2011 | 1,823 | 1,960 ⁽²⁾ | 137 | 93.0% ⁽²⁾ | 258 | 53.3% |
| June 30, 2012 | 1,834 | 2,034 | 200 | 90.2% | 266 | 75.3% |

(1) The amounts shown in the table above are rounded. The percentages shown are calculated on the actual amounts rather than on the rounded amounts.

(2) The decrease in the AAL and the corresponding increase in the funded ratio are the results of legislation which changed the actuarial assumptions to no longer include cost-of-living adjustments (COLA's).

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

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

**SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYER AND
OTHER CONTRIBUTING ENTITIES**

(In Thousands)

June 30, 2012

| Year Ended | Annual Required Contributions | Contributions by Source | | Total | Percentage Contributed |
|----------------------|----------------------------------|---------------------------|------------------------|---------------|---------------------------|
| | | Employer Contributions | State Contributions | | |
| June 30, 2003 | \$ 71,705 | 23,738 | 20,400 | 44,138 | 62% |
| June 30, 2004 | 63,511 | 23,915 | - | 23,915 | 38% |
| June 30, 2005 | 73,756 | 25,001 | 23,730 | 48,731 | 66% |
| June 30, 2006 | 85,391 | 26,490 | 23,584 | 50,074 | 59% |
| June 30, 2007 | 95,082 | 28,258 | 28,122 | 56,380 | 59% |
| June 30, 2008 | 100,561 | 30,061 | 26,020 | 56,081 | 56% |
| June 30, 2009 | 102,610 | 31,675 | 26,913 | 58,588 | 57% |
| June 30, 2010 | 132,456 | 32,240 | 22,292 | 54,532 | 41% |
| June 30, 2011 | 146,816 | 31,846 | 24,645 | 56,491 | 38% |
| June 30, 2012 | 64,746 | 32,896 | 28,092 | 60,988 | 94% |

See Independent Auditors' Report.

See accompanying notes to required supplementary information.

**OKLAHOMA POLICE PENSION AND RETIREMENT PLAN
Administered by
OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM****NOTES TO REQUIRED SUPPLEMENTARY INFORMATION****June 30, 2012**

The information presented in the required supplementary schedules was determined as part of an actuarial valuation by an independent enrolled actuary (Buck Consultants) at the dates indicated. Additional information as of the July 1, 2012, valuation follows:

Assumptions

| | |
|-------------------------|---------------------|
| Actuarial cost method: | Entry age |
| Amortization method: | Level dollar—closed |
| Remaining amortization: | 6 years |
| Asset valuation method: | 5-year smoothed |

Actuarial assumptions

| | |
|------------------------------|---|
| Investment rate of return: | 7.5% |
| Projected salary increases*: | 5% to 19% |
| Cost-of-living adjustments: | Police officers eligible to receive increased benefits according to repealed Section 50-120 of Title 11 of the Oklahoma Statutes pursuant to a court order receive an adjustment of 1/3 to 1/2 of the increase or decrease of any adjustment to the base salary of a regular police officer, based on an increase in base salary. |

* Includes inflation at 3%.

See Independent Auditors' Report.

SUPPLEMENTARY INFORMATION

OKLAHOMA POLICE PENSION AND RETIREMENT PLAN

Administered by

OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM**SCHEDULE OF INVESTMENT EXPENSES**

| <i>Years Ended June 30,</i> | <i>2012</i> | <i>2011</i> |
|----------------------------------|-------------------------------|---------------|
| | <i>(Amounts in Thousands)</i> | |
| Investment management fees: | | |
| Fixed income managers: | | |
| Global Fixed Income | \$ 1,147 | 1,111 |
| Low Volatility | 1,384 | 1,405 |
| Equity managers: | | |
| Domestic Equity | 3,256 | 3,262 |
| International Equity | 931 | 963 |
| Private Equity | 3,225 | 2,875 |
| Real estate: | <u>1,159</u> | <u>1,375</u> |
| Total investment management fees | 11,102 | 10,991 |
| Investment consultant fees | 607 | 608 |
| Investment custodial fees | <u>102</u> | <u>101</u> |
| Total investment expenses | <u>\$ 11,811</u> | <u>11,700</u> |

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

SCHEDULE OF ADMINISTRATIVE EXPENSES

| <i>Years Ended June 30,</i> | <i>2012</i> | <i>2011</i> |
|--|-------------------------------|--------------|
| | <i>(Amounts in Thousands)</i> | |
| Staff salaries | \$ 744 | 705 |
| FICA and retirement | 175 | 160 |
| Insurance | 100 | 96 |
| Total personnel services | <u>1,019</u> | <u>961</u> |
| Actuarial | 47 | 57 |
| Audit | 42 | 48 |
| Legal | 250 | 150 |
| Total professional/consultant services | <u>339</u> | <u>255</u> |
| Office space | 90 | 90 |
| Total rental | <u>90</u> | <u>90</u> |
| Travel | 88 | 65 |
| Maintenance | 39 | 97 |
| Depreciation | 203 | 101 |
| Computer/data | 21 | 20 |
| Other | 153 | 123 |
| Total miscellaneous | <u>504</u> | <u>406</u> |
| Total administrative expenses | <u>\$ 1,952</u> | <u>1,712</u> |

Schedule III

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

SCHEDULE OF PROFESSIONAL/CONSULTANT FEES

| <i>Years Ended June 30,</i> | <i>2012</i> | <i>2011</i> |
|---------------------------------------|-----------------------|-------------|
| <i>(Amounts in Thousands)</i> | | |
| <u>Professional/Consultant</u> | <u>Service</u> | |
| Buck Consultants | Actuarial | \$ 47 57 |
| Finley & Cook, PLLC | Audit | 42 48 |
| Davis, Graham, Stubbs, LLP | Legal | 207 138 |
| GableGotwals Counsel | Legal | 28 - |
| Nanette J. Patton | Legal | 15 12 |
| | | \$ 339 255 |

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Investment Section

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- 77 - Investment Portfolio by Type and Manager
- 78 - Schedule of Private Equity Managers
- 79 - Net Performance Summary
- 80 - Asset Allocation - Portfolio versus Policy Comparison
- 80 - Schedule of Investment Fees
- 81 - Schedule of Broker Commissions



Investment Section



ASSET CONSULTING GROUP

231 SOUTH BEMISTON AVENUE
 14TH FLOOR
 ST. LOUIS, MISSOURI 63105
 TEL 314.862.4848
 FAX 314.862.5967
 WWW.ACGNET.COM

REPORT ON INVESTMENT ACTIVITIES

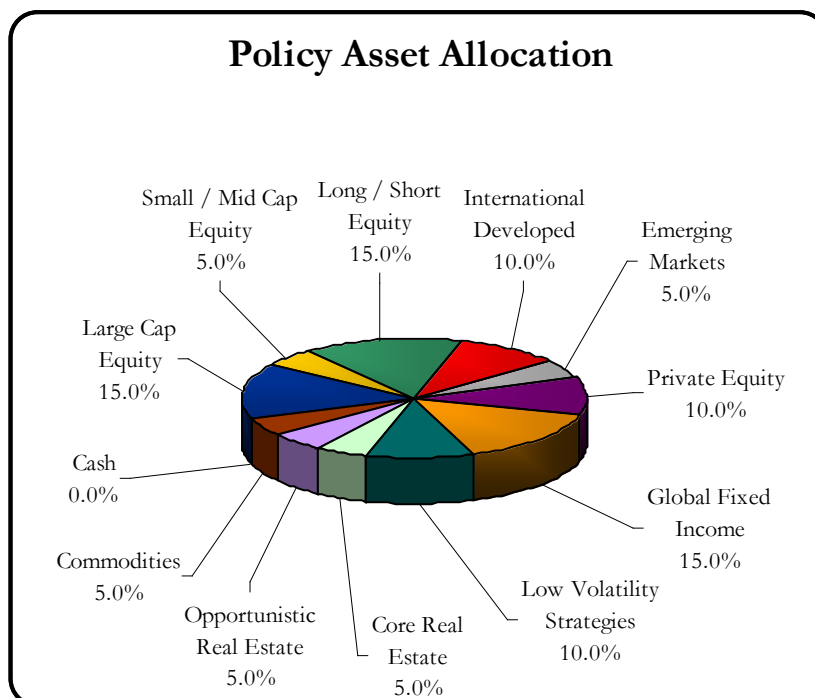
October 15, 2012

Mr. Steven K. Snyder
 Executive Director/Chief Investment Officer
 Oklahoma Police Pension and Retirement System
 1001 N.W. 63rd St., Suite 305
 Oklahoma City, OK 73116-7335

Dear Steve:

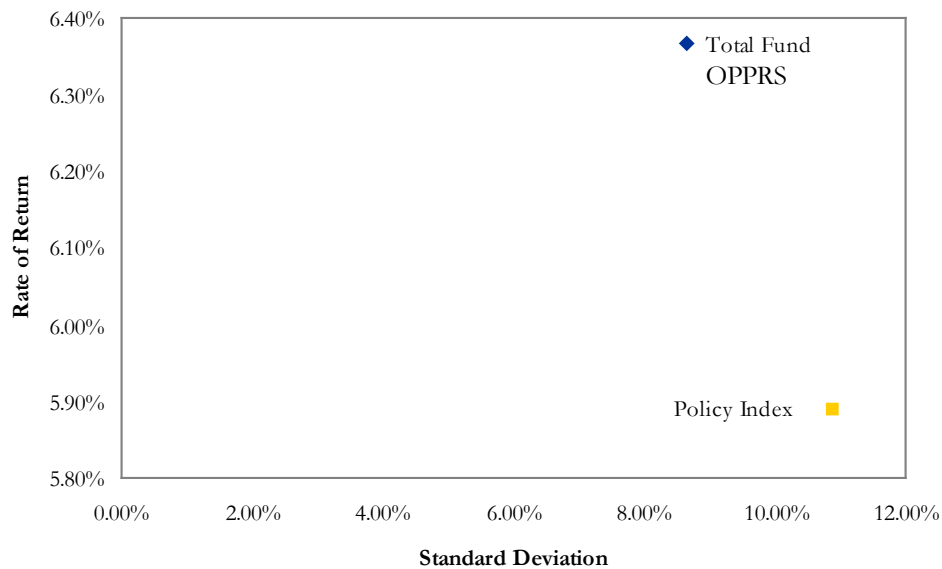
The investment policy of the Oklahoma Police Pension & Retirement System (OPPRS) has been developed from a comprehensive study and evaluation of many alternatives investigated. The OPPRS' Board periodically reviews the strategic asset allocation and makes modifications as appropriate to ensure that the expected return and risk (as measured by standard deviation) is consistent with the System's long-term objectives and tolerance for risk. The primary objective of this policy is to implement a plan of action which will result in the highest probability of maximum investment return from the System's assets available for investment within an acceptable level of risk in order to meet its long-term obligations. The portfolio is highly diversified across asset classes, strategies, styles, geographies, currencies, capitalizations, liquidity, type, number of instruments and other methods. As of June 30, 2012 the OPPRS targeted asset allocation consisted of:

Periods Ending June 30, 2012



While global markets have continued their recovery from the 2008/2009 recession, the pace has been uneven. The OPPRS' portfolio is structured to mitigate market volatility, provide downside protection and to aim for favorable risk-adjusted returns. For the fiscal year ending June 30, 2012, the OPPRS' portfolio generated a modestly positive gross investment return of 0.77% versus a policy benchmark return of 3.72%. Over the three year period ending June 30, 2012, the total portfolio has produced an annualized return of 10.04% relative to a return of 12.78% for its policy benchmark. Over the recent 10-year period ending June 30, 2012, the OPPRS' portfolio has generated an annualized return of 6.37% versus 5.88% for its benchmark, placing the portfolio in the 44th percentile among its peer group. In each of these time periods, the OPPRS' portfolio has achieved its results with a risk profile more conservative than that of its benchmark and median peer. The risk conscious approach adopted by OPPRS has resulted in a more favorable long-term risk-adjusted return than its median peer and benchmark as depicted below. The investment performance is calculated and presented in conformance with the Global Investment Performance Standards (GIPS) of the CFA Institute. In providing these results, we rely on the timeliness and accuracy of financial data provided by the OPPRS' custodian bank and its investment managers.

**Risk vs. Return (10-Year Annualized)
Periods Ending June 30, 2012**



**Statistics - 10 Years
Periods Ending June 30, 2012**

| | OPPRS | |
|---------------------------|------------|--------------|
| | Total Fund | Policy Index |
| Return | 6.37 | 5.89 |
| Standard Deviation | 8.63 | 10.90 |
| Sharpe Ratio | 0.54 | 0.39 |
| Beta | 0.76 | 1.00 |

The major asset category returns are also summarized as follows:

**Total Portfolio Rates of Return Summary & Universe Rankings
Periods Ending June 30, 2012**

| | 10 Years | (Rank) |
|--|-----------------|---------------|
| Total Fund | 6.4% | 44 |
| <i>Policy Index</i> ¹ | 5.9% | |
| <i>Median Total Fund (55-70% Equity)</i> | 6.3% | |
| Total Equity Composite | 5.3% | |
| <i>S&P 500</i> | 5.3% | |
| Int'l Equity Composite | 4.8% | |
| <i>MSCI EAFE</i> | 5.6% | |
| Global Bonds Composite | 6.7% | |
| <i>Barclays Capital Aggregate</i> | 5.6% | |
| Real Assets Composite | 5.0% | |
| <i>NFI ODCE</i> | 5.6% | |

¹The Policy Index is comprised of the following indices: 55% Russell 3000, 30% Barclays Capital Universal, and 10% MSCI EAFE, and 5% NFI ODCE (net) as of November 1, 2007. Prior to that the Policy Index was comprised of the following indices: 55% Russell 3000, 35% Barclays Capital Universal, and 10% MSCI EAFE as of June 1, 2007. Prior to that the Policy Index was comprised of the following indices: 55% Russell 3000, 35% Barclays Capital Aggregate, and 10% MSCI EAFE.

We meet formally with the Board on a monthly basis to assess the investment landscape and the unique considerations of OPPRS to report on current activity and make recommendations as appropriate to enhance or modify the investment strategy. We provide monthly reports and more comprehensive quarterly reports to inform the Board of progress towards meeting the long-term objectives of OPPRS and to highlight areas of interest, opportunity and/or for potential discussion. As education is a key component to our work with the Board, we provide education on an ongoing basis in the areas most relevant to the investment objectives and needs of OPPRS.

As always, I am available to you, your staff and your Board to discuss this information in further detail.

Sincerely,



George A. Tarlas, CFA
Managing Director

Schedule of Largest Assets Held For the Fiscal Year Ended June 30, 2012

The Plan's ten largest stock, fixed income and partnership holdings at June 30, 2012.

| Largest Stock Holdings (by Fair Value) | | |
|--|-------------|--------------|
| Security | Shares Held | Fair Value |
| STERICYCLE INC | 24,700 | \$ 2,264,249 |
| AFFILIATED MANAGERS GROUP INC | 19,951 | 2,183,637 |
| SBA COMMUNICATIONS CORP | 37,400 | 2,133,670 |
| DICK'S SPORTING GOODS INC | 40,805 | 1,958,640 |
| OCWEN FINANCIAL CORP | 99,805 | 1,874,338 |
| ARROW ELECTRONICS INC | 56,395 | 1,850,320 |
| PERRIGO CO | 15,600 | 1,839,708 |
| MANPOWER INC | 44,820 | 1,642,653 |
| ENERSYS | 46,420 | 1,627,949 |
| CYS INVTS INC | 114,237 | 1,573,043 |

| Largest Fixed Income Holdings (by Fair Value) | | |
|---|-----------|--------------|
| Security | Par Value | Fair Value |
| FNMA POOL #0AE0981 | 7,509,801 | \$ 7,901,513 |
| FEDERAL NATL MTG ASSN | 7,100,000 | 7,166,669 |
| U S TREASURY BOND | 5,060,000 | 6,865,813 |
| FNMA POOL #0AB2092 | 4,717,975 | 5,084,043 |
| FNMA POOL #0AH2366 | 4,805,134 | 5,082,582 |
| U S TREASURY NOTE | 3,985,000 | 4,385,692 |
| JP MORGAN CHASE COMMER LD11 A3 | 2,455,000 | 2,616,244 |
| FHLMC POOL #A9-1538 | 2,189,310 | 2,341,883 |
| FNMA POOL #0AH2659 | 2,061,531 | 2,180,564 |
| FNMA POOL #0735502 | 1,689,748 | 1,885,860 |

| Largest Limited Partnership Holdings (by Fair Value) | |
|--|---------------|
| Limited Partnership | Fair Value |
| Arsenal Capital Partners Fund II, L.P. | \$ 18,864,165 |
| Warburg Pincus | 14,560,257 |
| Siguler Guff Distressed Opportunity Fund, L.L.C. | 13,892,121 |
| Lexington Cap VI-B | 13,737,349 |
| Hick, Muse Sector Performance | 13,120,956 |
| Marathon Fund V, L.P. | 11,296,498 |
| Siguler Guff Distressed Opportunity Fund III, L.L.C. | 11,156,775 |
| KnightsBridge | 10,588,620 |
| Sun Capital Fund V | 9,287,830 |
| Thompson Street Capital Partners II GP, LP | 9,283,468 |

A complete list of portfolio holdings may be requested from the OPPRS Accounting Department at 1001 NW 63rd Street, Suite 305, Oklahoma City, OK, 73116-7335.

Portfolio by Investment Type and Manager For the Period Ended June 30, 2012

| Investment Managers by Investment Type | Investment Class | Market Value (000s) | % of Asset Class | % of Total Portfolio |
|---|------------------|---------------------|------------------|----------------------|
| International Equity | | | | |
| Baring Focused | Equity | \$ 70,179 | 6.2% | 4.0% |
| Mondrian International Equity Fund, LP | Equity | 87,153 | 7.7% | 4.9% |
| Vontobel Emerging Markets | Equity | 48,665 | 4.3% | 2.7% |
| Domestic Equity | | | | |
| Small/Mid Cap | | | | |
| Boston Partners - Value | Equity | 98,895 | 8.7% | 5.6% |
| William Blair- Growth | Equity | 72,481 | 6.4% | 4.1% |
| Large Cap | | | | |
| Mellon Capital | Equity | 281,408 | 24.8% | 15.9% |
| Long/Short Equity | | | | |
| Grosvenor | Equity | 168,115 | 14.8% | 9.5% |
| Attalus Capital | Equity | 74,186 | 6.5% | 4.2% |
| Private Equity | | | | |
| Various Managers * | Equity | 234,848 | 20.7% | 13.2% |
| Global Fixed Income | | | | |
| Agincourt- Core | Fixed Income | 162,483 | 31.2% | 9.2% |
| Oaktree Capital Management | Fixed Income | 112,235 | 21.5% | 6.3% |
| Loomis Sayles | Fixed Income | 91,134 | 17.5% | 5.1% |
| Overseas Cap | Fixed Income | 709 | 0.1% | 0.0% |
| Low Volatility Strategies | | | | |
| PAAMCO - Newport Mesa | Fixed Income | 154,258 | 29.6% | 8.7% |
| Real Assets | | | | |
| MLM Macro - Peak Partners L.P. | Commodities | 22,172 | 29.1% | 1.3% |
| JP Morgan Core | Real Estate | 46,040 | 60.4% | 2.6% |
| Columbus Square (Core) | Real Estate | 3,859 | 5.1% | 0.2% |
| Siguler Guff - Opportunistic | Real Estate | 4,103 | 5.4% | 0.2% |
| Cash and Cash Equivalents | | | | |
| OK Invest | Cash & Cash Eq. | 30,988 | 76.0% | 1.7% |
| Cash at BNY Mellon | Cash & Cash Eq. | 9,801 | 24.0% | 0.6% |
| Security Lending Liability | Cash & Cash Eq. | (358) | N/A | 0.0% |
| Total Investments and Cash and Cash Equivalents | | \$ 1,773,354 | | 100.0% |

(*) See the following page for a detailed listing of Private Equity Managers.

Private Equity by Strategy and Manager For the Period Ended June 30, 2012

| Investment Focus and Manager | Market Value |
|--|-----------------------|
| Private Equity Investment Focus - Buyout | |
| Arsenal Capital Partners Fund I L.P. | \$ 3,025,168 |
| Arsenal Capital Partners Fund II, L.P. | 18,864,165 |
| Arsenal Capital Partners Fund III, L.P. | 1,221,781 |
| Calera Capital Fund III | 4,619,018 |
| Calera Capital Fund IV | 6,137,679 |
| Hick, Muse Sector Performance | 13,120,956 |
| Hick, Muse, Tate & Furst Fund V, L.P. | 1,024,712 |
| Levine Leichtman Capital Partners III, L.P. | 6,142,388 |
| Levine Leichtman Capital Partners IV, L.P. | 8,403,640 |
| Marathon Fund IV, L.P. | 84,222 |
| Marathon Fund V, L.P. | 11,296,498 |
| Sun Capital Fund V | 9,287,830 |
| Thompson Street Capital Partners II GP, LP | 9,283,468 |
| Thompson Street Capital Partners III GP, LP | 481,020 |
| Subtotal - Buyout | <u>92,992,545</u> |
| Private Equity Investment Focus - Distressed | |
| Oaktree Opportunity Fund II | 384 |
| Oaktree Opportunity Fund III | 55,529 |
| Oaktree Opportunity Fund IV | 25,709 |
| Oaktree Opportunity Fund V | 614,517 |
| Oaktree Opportunity Fund VI | 2,041,950 |
| Oaktree Opportunity Fund VII | 4,564,557 |
| Oaktree Opportunity Fund VIIB | 4,600,125 |
| Oaktree Opportunity Fund VIII | 8,417,703 |
| Siguler Guff Distressed Opportunity Fund II, L.L.C. | 7,666,401 |
| Siguler Guff Distressed Opportunity Fund III, L.L.C. | 11,156,775 |
| Siguler Guff Distressed Opportunity Fund, L.L.C. | 13,892,121 |
| Subtotal - Distressed | <u>53,035,771</u> |
| Private Equity Investment Focus - Fund of Funds | |
| Lexington Cap VI-B | 13,737,349 |
| Subtotal - Fund of Funds | <u>13,737,349</u> |
| Private Equity Investment Focus - Mezzanine | |
| Newstone Capital Partners II, LP | 2,489,977 |
| Newstone Capital Partners, LP | 2,514,113 |
| TCW/Crescent Mezzanine III, L.P. | 717,171 |
| TCW/Crescent Mezzanine IV, L.P. | 4,832,215 |
| TCW/Crescent Mezzanine V, L.P. | 6,989,868 |
| Subtotal - Mezzanine | <u>17,543,344</u> |
| Private Equity Investment Focus - Venture Capital | |
| Accel Europe, L.P. | 4,754,877 |
| FirstMarkVenture Fund II | 27,184 |
| FirstMarkVenture Fund III | 5,108,225 |
| FirstMarkVenture Fund IV | 9,154,353 |
| FirstMarkVenture FundIV | 724,267 |
| KnightsBridge | 10,588,620 |
| Lightspeed Venture Partner Fund VI, L.P. | 3,691,231 |
| Venture Lending & Leasing III, LLC | 391,860 |
| Warburg Pincus | 14,560,257 |
| Weathergage Capital | 5,803,475 |
| Weathergage Capital II | 1,825,640 |
| Weiss, Peck & Greer Fund V, L.L.C. | 803,663 |
| Subtotal - Venture Capital | <u>57,433,652</u> |
| Private Equity Investment Focus - Other | |
| Actis 4 Global | 105,000 |
| Subtotal - Other | <u>105,000</u> |
| Total Private Equity Investments | <u>\$ 234,847,660</u> |

OPPRS Private Equity Investments

Private equity investments usually consist of a general partner as the active investor with a number of passive limited partners (like OPRRS) where all contribute to a combined fund and invest according to one of the following strategies:

Buyout - this strategy will invest capital in more mature businesses that have the potential for growth in value from efficiencies gained through structural, strategic management and operational improvements.

Distressed – under this strategy, the general partner will invest in the debt of companies that are struggling, with the intent of influencing the process by which the company restructures its debt, narrows its focus or implements a plan to turn around its operations. Distressed positions can involve debt, equity and lending investments.

Fund of Funds – this strategy combines many different investments approaches into a single investment.

Mezzanine – this strategy typically involves the partnership making either unsecured loans or purchasing preferred equity, often in smaller companies, where the unsecured risk is offset by higher returns.

Venture Capital – this strategy seeks to invest funds in early-stage, high-potential, high growth companies. This type of investment is usually through equity ownership in the developing company.

Net Performance Summary by Investment Manager For the Period Ended June 30, 2012

| Investment Managers by Investment Type | Investment Performance* | | | |
|--|-------------------------|--------------|---------------|--------------|
| | One Quarter | One Year | Three Years | Five Years |
| International Equity | | | | |
| Baring Focused | (3.05%) | N/A | N/A | N/A |
| Mondrian | (6.35%) | (10.87%) | 6.65% | (4.70%) |
| MSCI EAFE | (6.85%) | (13.39%) | 6.45% | (5.64%) |
| Vontobel Emerging Markets | (7.35%) | N/A | N/A | N/A |
| MSCI Emerging markets | (8.77%) | (15.68%) | 10.09% | 0.21% |
| Domestic Equity Managers | | | | |
| Small/Mid Cap | | | | |
| Boston Partners - Value | (3.50%) | 0.72% | 18.40% | 1.86% |
| Russell 2500 Value | (3.02%) | (1.49%) | 18.79% | (0.19%) |
| William Blair- Growth | (6.17%) | (4.95%) | N/A | N/A |
| Russell 2500 Growth | (5.37%) | (3.18%) | 19.38% | 2.35% |
| Large Core | | | | |
| Mellon Capital Passive (3) | (3.09%) | 4.44% | 16.69% | 0.43% |
| Russell 1000 | (3.12%) | 4.38% | 16.64% | 0.38% |
| Long/Short Equity | | | | |
| Grosvenor | (3.00%) | (2.28%) | 4.74% | (0.77%) |
| Attalus Capital | (3.10%) | (3.77%) | 1.46% | (1.02%) |
| 60% S&P 500/40% MSCI ACWI | (3.67%) | 1.18% | 14.23% | (1.03%) |
| HFRI FOF Strategic | (3.54%) | (6.27%) | 2.01% | (2.74%) |
| Private Equity | 5.92% | 9.43% | 14.79% | 6.94% |
| Global Fixed Income Managers | | | | |
| Agincourt- Core | 1.97% | 7.79% | 8.67% | 7.00% |
| Oaktree Capital Management | 0.56% | 5.13% | 13.61% | 6.86% |
| Barclays Capital Aggregate | 2.06% | 7.48% | 6.95% | 6.80% |
| Loomis Sayles | 1.22% | 3.03% | 8.95% | N/A |
| Citigroup World Gov't Bond | 0.92% | 2.67% | 5.35% | 7.31% |
| Low Volatility Strategies Managers | | | | |
| PAAMCO - Newport Mesa | (0.78%) | (3.01%) | 4.91% | 0.93% |
| HFRI FOF Conservative | (1.58%) | (3.04%) | 2.32% | (1.92%) |
| Real Assets | | | | |
| MLM Macro - Peak Partners L.P. (Commodities) | (5.79%) | (11.93%) | (7.87%) | 1.54% |
| Siguler Guff(Opportunistic) | 1.79% | N/A | N/A | N/A |
| JP Morgan (Core) | 2.48% | 11.97% | 7.89% | N/A |
| Columbus Square (Core) | 4.01% | 15.61% | 16.97% | 14.54% |
| NFI ODCE(net) | 2.53% | 13.57% | 3.17% | (1.33%) |
| Cash and Cash Equivalents | | | | |
| OK Invest | 0.78% | 3.29% | N/A | N/A |
| Cash at BNY Mellon | (0.30%) | 0.95% | 1.92% | 0.76% |
| Total Portfolio (1) | (1.27%) | 0.77% | 10.04% | 1.65% |
| Total Portfolio Net of Fees | (1.35%) | 0.48% | 9.77% | 1.43% |
| <i>Policy Index (2)</i> | <i>-1.75%</i> | <i>3.72%</i> | <i>12.78%</i> | <i>2.03%</i> |

Source: Asset Consulting Group, Report dated June 30, 2012. All returns based on investment industry standards for return calculations.

* - Returns are calculated using time-weighted return rates with trade date reporting, daily weighting of cash flows and accruals due.

(1) Total Fund includes \$709,117 for illiquid securities in terminated account with Overseas CAP Partners

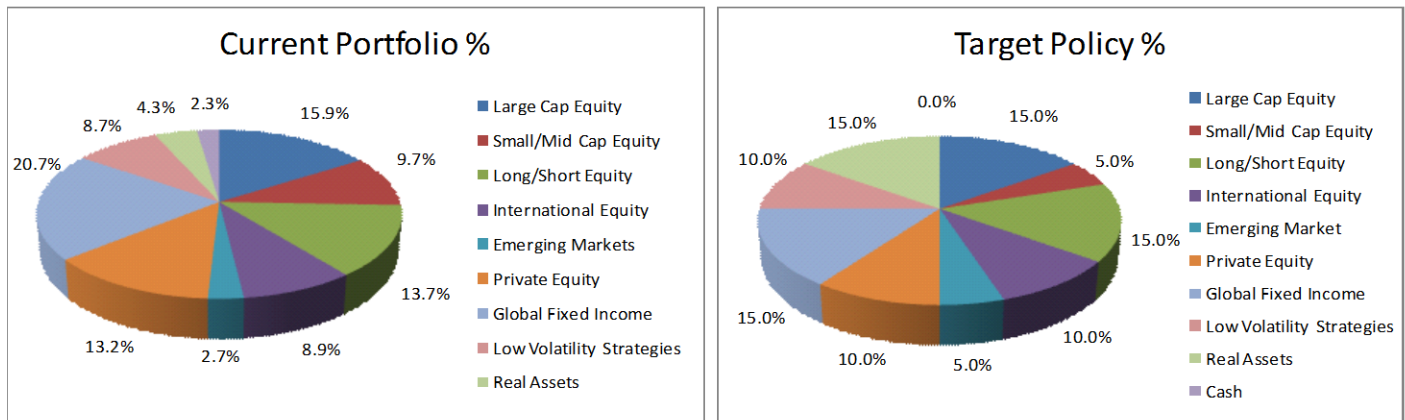
(2) The Policy Index is comprised of the following indices: 55% Russell 3000, 10% MSCI EAFE, 30% Barclays Capital Universal, and 5% NFI ODCE (net) as of November 2007. From June 1, 2007 to October 31, 2007 the Policy Index was comprised of the following indices:

55% Russell 3000, 35% Barclays Capital Universal, and 10% MSCI EAFE. Prior to that, the Policy Index was comprised of the following indices: 55% Russell 3000, 35% Barclays Capital Aggregate, and 10% MSCI EAFE.

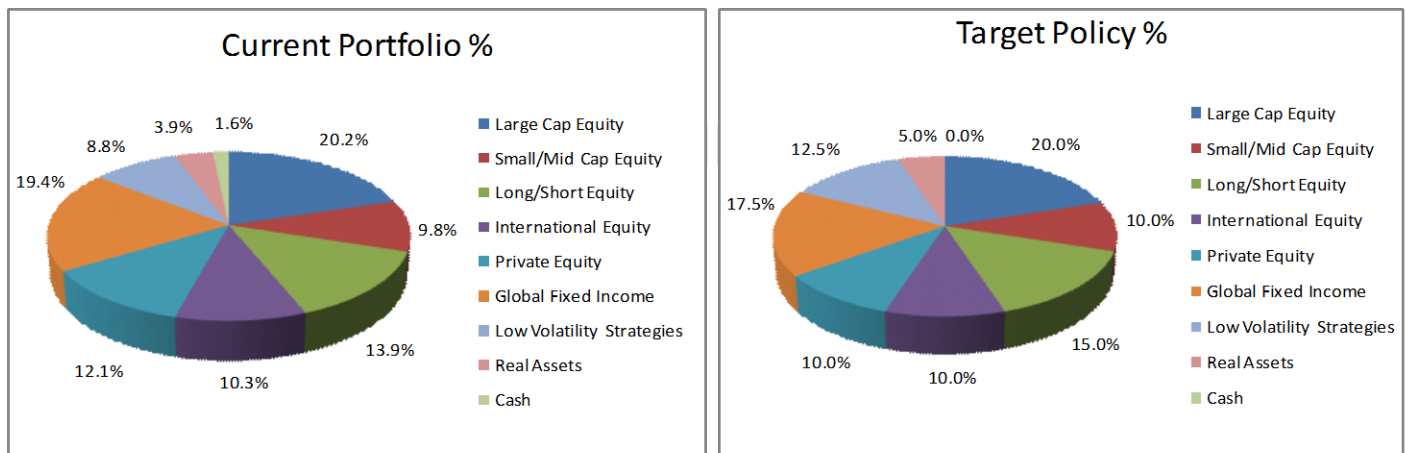
(3) Due to the contributions and withdrawals in this account, the returns may differ from the performance of the fund.

Current Portfolio versus Target Policy Allocation For the Fiscal Years Ended June 30, 2012 and June 30, 2011

Period Ending June 30, 2012



Period Ending June 30, 2011



Schedule of Investment Fees For the Fiscal Years Ended June 30, 2012 and 2011

| Investment Managers Fees | 2012 | 2011 |
|-------------------------------------|---------------|---------------|
| Domestic Equity | \$ 3,255,512 | \$ 3,261,778 |
| Private Equity | 3,225,350 | 2,875,352 |
| International Equity | 930,974 | 962,590 |
| Real Estate | 1,159,063 | 1,374,739 |
| Fixed Income-Low Volatility | 1,383,875 | 1,405,215 |
| Fixed Income | 1,147,483 | 1,110,889 |
| Subtotal - Investment Managers Fees | 11,102,257 | 10,990,563 |
| Custodian fee | 102,091 | 100,434 |
| Investment Consultant fee | 606,973 | 608,303 |
| Total Investment Management Fees | \$ 11,811,321 | \$ 11,699,300 |

Schedule of Broker Commissions

For the Fiscal Year Ended June 30, 2012

Schedule of Broker Commissions

| Broker Name\Location | Base Commission | Base amount Traded | Units Traded | Commission per Share |
|--|-----------------|--------------------|--------------|----------------------|
| ANCORA SECURITIES INC, JERSEY CITY | \$ 154 | \$ 74,980 | 3,858 | 0.0400000 |
| AQUA SECURITIES LP, NEW YORK | 727 | 970,224 | 36,343 | 0.0200000 |
| ASSENT LLC, HOBOKEN | 318 | 512,908 | 7,953 | 0.0400000 |
| AVONDALE PARTNERS LLC, NASHVILLE | 2,937 | 1,918,942 | 73,430 | 0.0400000 |
| BAIRD, ROBERT W & CO INC, MILWAUKEE | 7,632 | 7,700,079 | 225,394 | 0.0338616 |
| BARCLAYS CAPITAL LE, JERSEY CITY | 3,020 | 2,545,288 | 75,688 | 0.0399022 |
| BARRINGTON RESEARCH ASSOCIATES, BROOKLYN | 687 | 993,095 | 17,170 | 0.0400000 |
| BENCHMARK COMPANY LLC, BROOKLYN | 2,802 | 2,601,084 | 104,310 | 0.0268620 |
| BERNSTEIN SANFORD C & CO, NEW YORK | 679 | 823,676 | 16,967 | 0.0400000 |
| BLOOMBERG TRADEBOOK LLC, NEW YORK | 1,443 | 3,085,494 | 72,140 | 0.0200000 |
| BMO CAPITAL MARKETS CORP, NEW YORK | 759 | 487,686 | 18,984 | 0.0400000 |
| BNY CONVERGEX, NEW YORK | 15 | 42,844 | 1,020 | 0.0150000 |
| BUCKINGHAM RESEARCH GRP INC, BROOKLYN | 326 | 296,907 | 8,160 | 0.0400000 |
| CABRERA CAPITAL MARKETS, CHICAGO | 116 | 56,911 | 2,900 | 0.0400000 |
| CANACCORD GENUITY INC, JERSEY CITY | 1,572 | 1,735,374 | 39,303 | 0.0400000 |
| CANTOR FITZGERALD & CO INC, NEW YORK | 1,039 | 494,720 | 36,544 | 0.0284372 |
| CAPITAL ONE SOUTHCOAST INC, NEW ORLEANS | 356 | 323,858 | 8,900 | 0.0400000 |
| CITATION GROUP/BCC CLRG, NEW YORK | 1,706 | 1,172,238 | 65,035 | 0.0262351 |
| CITIGROUP GBL MKTS INC, NEW YORK | 3,676 | 2,563,886 | 101,540 | 0.0361976 |
| CLEARVIEW CORRESPONDENT SRVS, LLC, RICHMON | 1,280 | 501,444 | 32,000 | 0.0400000 |
| COWEN AND COMPANY LLC, NEW YORK | 2,007 | 1,153,814 | 50,187 | 0.0400000 |
| CRAIG HALLUM, MINNEAPOLIS | 1,223 | 615,081 | 30,566 | 0.0400000 |
| CREDIT SUISSE, NEW YORK (CSFBUS33XXX) | 7,700 | 10,627,652 | 281,077 | 0.0273959 |
| CSI US INSTITUTIONAL DESK, NEW YORK | 255 | 269,217 | 6,638 | 0.0383971 |
| CUTTONE & CO INC, JERSEY CITY | 546 | 438,067 | 29,219 | 0.0186800 |
| DAHLMAN ROSE & CO LLC, JERSEY CITY | 236 | 252,603 | 5,910 | 0.0400000 |
| DAVENPORT & CO OF VIRGINIA, RICHMOND | 439 | 449,605 | 10,983 | 0.0400000 |
| DAVIDSON(D A) & CO INC, NEW YORK | 32 | 36,227 | 800 | 0.0400000 |
| DEUTSCHE BK SECS INC, NY (NWSCUS33) | 4,897 | 4,480,934 | 129,677 | 0.0377661 |
| DOUGHERTY COMPANY, BROOKLYN | 602 | 1,059,794 | 15,053 | 0.0400000 |
| FIDELITY CAP MKTS (DIV OF NFSC), BOSTON | 160 | 219,435 | 8,015 | 0.0200000 |
| FIRST ANALYSIS SECS CORP, CHICAGO | 316 | 353,654 | 7,900 | 0.0400000 |
| FRIEDMAN BILLINGS, WASHINGTON DC | 5,776 | 2,758,527 | 185,925 | 0.0310688 |
| GOLDMAN SACHS & CO, NY | 3,006 | 2,139,018 | 80,821 | 0.0371876 |
| GOLDMAN SACHS EXECUTION & CLEARING, NY | 7,976 | 9,048,788 | 449,362 | 0.0177496 |
| GUGGENHEIM CAPITAL MKT LLC, JERSEY CITY | 401 | 253,261 | 10,037 | 0.0400000 |
| HEFLIN & CO LLC, JERSEY CITY | 1,558 | 497,836 | 77,900 | 0.0200000 |
| INVESTMENT TECHNOLOGY GROUP, NEW YORK | 4,390 | 5,736,104 | 279,352 | 0.0157148 |

Continued on the following page

Schedule of Broker Commissions (continued from previous page) For the Fiscal Year Ended June 30, 2012

| Schedule of Broker Commissions | | | | |
|--|-----------------|--------------------|--------------|----------------------|
| Broker Name\Location | Base Commission | Base amount Traded | Units Traded | Commission per Share |
| ISI GROUP INC, NY | \$ 1,280 | \$ 829,436 | 32,005 | 0.0400000 |
| J P MORGAN SECURITIES INC, BROOKLYN | 3,753 | 3,566,064 | 103,939 | 0.0361106 |
| JANNEY MONTGOMERY SCOTT, PHILADELPHIA | 277 | 490,172 | 6,922 | 0.0400000 |
| JEFFERIES & CO INC, NEW YORK | 590 | 611,499 | 14,744 | 0.0400000 |
| JONESTRADING INSTL SVCS LLC, WESTLAKE | 991 | 838,376 | 33,925 | 0.0292144 |
| KEEFE BRUYETTE AND WOODS, JERSEY CITY | 2,856 | 1,575,766 | 77,560 | 0.0368179 |
| KEYBANC CAPITAL MARKETS INC, NEW YORK | 885 | 533,814 | 22,131 | 0.0400000 |
| KNIGHT DIRECT LLC, JERSEY CITY | 1,940 | 1,207,765 | 84,560 | 0.0229419 |
| KNIGHT EQUITY MARKETS L.P., JERSEY CITY | 1,005 | 1,582,379 | 43,692 | 0.0229907 |
| LEERINK SWANN & CO, JERSEY CITY | 320 | 122,013 | 7,993 | 0.0400000 |
| LIQUIDNET INC, BROOKLYN | 17,348 | 25,111,542 | 848,598 | 0.0204430 |
| LONGBOW SECURITIES LLC, JERSEY CITY | 968 | 568,005 | 24,200 | 0.0400000 |
| MACQUARIE SECURITIES(USA)INC JERSEY CITY | 432 | 685,615 | 10,800 | 0.0400000 |
| MERRILL LYNCH PIERCE FENNER SMITH INC NY | 2,464 | 2,321,189 | 61,595 | 0.0400000 |
| MERRILL LYNCH PROFESSIONAL CLRG, PURCHAS | 2,142 | 1,402,475 | 53,550 | 0.0400000 |
| MORGAN STANLEY & CO INC, NY | 3,724 | 3,435,878 | 95,524 | 0.0389806 |
| NEEDHAM & CO, NEW YORK | 103 | 105,356 | 2,582 | 0.0400000 |
| NORTHLAND SECS INC, JERSEY CITY | 63 | 169,621 | 1,585 | 0.0400000 |
| OPPENHEIMER & CO INC, NEW YORK | 532 | 546,286 | 13,300 | 0.0400000 |
| PACIFIC CREST SEC, PORTLAND | 561 | 232,964 | 14,030 | 0.0400000 |
| PACIFIC CREST SECURITIES, PORTLAND | 76 | 34,913 | 1,900 | 0.0400000 |
| PIPELINE TRADING SYSTEMS LLC, NEW YORK | 1,327 | 1,688,073 | 66,755 | 0.0198742 |
| PIPER JAFFRAY & CO, MINNEAPOLIS | 907 | 1,018,460 | 35,214 | 0.0257699 |
| PULSE TRADING LLC, BOSTON | 943 | 1,229,200 | 68,025 | 0.0138658 |
| RAYMOND JAMES & ASSOC INC, ST PETERSBURG | 3,793 | 2,828,494 | 97,358 | 0.0389605 |
| RBC CAPITAL MARKETS LLC, NEW YORK | 849 | 908,472 | 47,306 | 0.0179514 |
| SARATOGA CAPITAL LLC, NEW YORK | 302 | 548,414 | 20,140 | 0.0150000 |
| SIDOTI & CO LLC, NEW YORK | 318 | 393,120 | 7,950 | 0.0400000 |
| STEPHENS INC, LITTLE ROCK | 1,878 | 2,009,271 | 46,962 | 0.0400000 |
| STERNE AGEE & LEACH INC | 1,336 | 1,009,853 | 33,400 | 0.0400000 |
| STIFEL NICOLAUS | 2,082 | 1,196,986 | 60,139 | 0.0346259 |
| SUNTRUST CAPITAL MARKETS INC, ATLANTA | 1,383 | 996,549 | 34,586 | 0.0400000 |
| TICONDEROGA SECURITIES LLC, NEW YORK | 212 | 280,132 | 10,605 | 0.0200000 |
| UBS SECURITIES LLC, STAMFORD | 7,456 | 7,930,647 | 255,019 | 0.0292379 |
| WEDBUSH MORGAN SECS INC, LOS ANGELES | 948 | 443,195 | 23,692 | 0.0400000 |
| WEEDEN & CO, NEW YORK | 3,455 | 7,230,075 | 198,054 | 0.0174424 |
| WELLS FARGO SECURITIES LLC, CHARLOTTE | 334 | 130,999 | 8,356 | 0.0400000 |
| WUNDERLICH SECURITIES INC, MEMPHIS | 653 | 365,626 | 16,327 | 0.0400000 |
| | \$ 143,255 | \$ 145,469,946 | 5,192,084 | 0.0275910 |

Actuarial Section

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- 88 - Summary of Actuarial Valuation Results
- 89 - Schedule of Active Member Data
- 89 - Schedule of Retirants Added\Deleted from Rolls
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Actuarial Section



A Xerox Company

October 26, 2012

Board of Trustees
Oklahoma Police Pension and Retirement System
1001 NW 63rd Street, Suite 305
Oklahoma City, OK 73116-7335

ACTUARIAL CERTIFICATION

Buck Consultants (Buck) performed an actuarial valuation of the Oklahoma Police Pension and Retirement System (OPPRS).

This letter with attachments represents Buck's certification of the funding status as required for the financial report for the fiscal year ended June 30, 2012. Buck prepared the supporting schedules in the Actuarial Section. Buck prepared the Schedules of Funding Progress and the Schedules of Employer Contributions of the Required Supplementary Information and the Notes to the Required Supplementary Information presented in the Financial Section. Buck also prepared the Schedule of Average Benefit Payments in the Statistical Section.

Buck relied upon the member data provided by the staff of OPPRS and assets provided by the independent auditor. The active member valuation data and retiree and beneficiary data exhibits following this certification provide a summary of the data. While we did not verify the data at their source, we did perform tests for internal consistency and reasonableness.

The actuarial assumptions used for these valuations are outlined in the "Summary of Actuarial Methods and Assumptions." The assumptions used to develop plan liabilities are based on an experience study that reviewed data from July 1, 2002 to June 30, 2007. The OPPRS Board of Trustees adopted these assumptions on June 18, 2008. In our opinion, these assumptions generate reasonable valuation results, and the assumptions individually and in the aggregate relate reasonably to the past and anticipated experience of the OPPRS. The actuarial assumptions and methods used to develop the Schedules of Funding Progress and the Schedules of Employer Contributions, noted above, meet the parameters set for the disclosures presented in the Financial Section by Government Accounting Standards Board (GASB) Statement No. 25.

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Most members contribute 8.00% of payroll and the municipalities contribute 13.00% of payroll. Additionally, OPPRS receives a portion of the insurance premium taxes collected by the State. The contribution from the State for the fiscal year ending June 30, 2012 was \$28,092,000. The actuarial valuation for funding purposes was completed using the entry age actuarial cost method, where the normal cost is expected to remain level as a percent of payroll. To the extent that an unfunded accrued liability exists, it is amortized as a level dollar amount.

The actuarial valuation is completed annually with the most recent valuation conducted as of June 30, 2012. There have been no changes in the actuarial assumptions, actuarial cost method or actuarial procedures from the prior valuation. The current actuarial assumptions are outlined in the "Summary of Actuarial Methods and Assumptions."

The June 30, 2012 actuarial valuation shows that there is an unfunded accrued liability for funding purposes of \$200.3 million. The funded ratio, the ratio of the actuarial value of assets to the accrued liability, is 90.2% as of June 30, 2012. The valuation shows that the total normal cost for funding purposes is \$56.2 million, the expected administrative expenses are \$3.0 million, and expected contributions are \$84.4 million. The total expected contribution exceeds the normal cost and expected administrative expenses by \$25.2 million which is sufficient to fully fund the accrued liability by June 30, 2022.

The funding objective established by OPPRS is to fund the sum of the normal cost and the amount necessary to amortize any unfunded accrued liability no later than June 30, 2018 (or 30 years from July 1, 1988). The total contribution to fund the normal cost and expected administrative expenses plus amortize the net liability balance by June 30, 2018 (or 30 years from July 1, 1988) is \$100.4 million. The current level of contribution to OPPRS is not sufficient to meet this funding objective. However, OPPRS is expected to have the unfunded accrued liability fully funded by June 30, 2022.



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A qualified actuary completed the valuation in accordance with accepted actuarial procedures as prescribed by the Actuarial Standards Board. The qualified actuary is a member of the American Academy of Actuaries and is experienced in performing actuarial valuations of public employee retirement systems. To the best of our knowledge, this report is complete and accurate and has been prepared in accordance with generally accepted actuarial principles and practice, and we are available to answer questions about it.

Respectfully Submitted,

Handwritten signature of David Kent in black ink.

David Kent, F.S.A., E.A., M.A.A.A.
Director, Retirement Actuary

Handwritten signature of Douglas J. Fiddler in black ink.

Douglas J. Fiddler, A.S.A., E.A., M.A.A.A.
Director, Retirement Actuary

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Summary of Actuarial Valuation Results

As of July 1, 2012

| | Actuarial Valuation as of | | % Change |
|--|---------------------------|------------------|-------------|
| | July 1, 2012 | July 1, 2011 | |
| Summary of Costs | | | |
| Required State Contributions for Current Year | \$ 44,891,731 | \$ 31,270,062 | 43.56 % |
| Actual State Contributions Received in Prior Year (1) | 28,092,000 | 24,645,000 | 13.99 |
| GASB Statement 25 Funded Status | | | |
| Actuarial Accrued Liability | \$ 2,034,485,171 | \$ 1,959,976,006 | 3.80 % |
| Actuarial Value of Assets | 1,834,170,000 | 1,822,702,000 | 0.63 |
| Unfunded Actuarial Accrued Liability | 200,315,171 | 137,274,006 | 45.92 |
| Funded Ratio | 90.2% | 93.0% | (3.06) |
| Market Value of Assets and Additional Liabilities | | | |
| Market Value of Assets | \$ 1,784,760,000 | \$ 1,811,460,000 | (1.47) % |
| Actuarial Present Value of Accumulated System Benefits (ASC 960) | 1,882,317,166 | 1,825,786,845 | 3.10 |
| Present Value of Projected System Benefits | 2,551,090,081 | 2,443,485,081 | 4.40 |
| Summary of Data | | | |
| Number of Members in Valuation | | | |
| Active Paid Members | 4,441 | 4368 | 1.67 % |
| Deferred Option Plan Members | 37 | 50 | (26.00) |
| Terminated Members with Refunds Due | 660 | 583 | 13.21 |
| Terminated Members with Deferred Benefits | 126 | 124 | 1.61 |
| Retired Members | 2,368 | 2292 | 3.32 |
| Beneficiaries | 642 | 631 | 1.74 |
| Disabled Members | 138 | 137 | 0.73 |
| Total | 8,412 | 8185 | 2.77 |
| Active Member Statistics | | | |
| Total Annual Compensation | \$ 263,529,629 | \$ 253,989,944 | 3.76 % |
| Average Compensation | \$ 59,340 | \$ 58,148 | 2.05 |
| Average Age | 39.6 | 39.6 | Unchanged |
| Average Service | 11.9 | 12.0 | (0.83) |

Schedule of Active Member Valuation Data

| Fiscal Year Ended June 30, | Number of Members | Annual Payroll | Average Annual Payroll | Percentage Change in Average Payroll |
|----------------------------|-------------------|----------------|------------------------|--------------------------------------|
| 2007 | 4,247 | \$ 220,884,875 | \$ 52,010 | 5.48% |
| 2008 | 4,453 | 239,804,959 | 53,852 | 3.54% |
| 2009 | 4,497 | 253,955,863 | 56,472 | 4.87% |
| 2010 | 4,305 | 249,582,676 | 57,975 | 2.66% |
| 2011 | 4,368 | 253,989,944 | 58,148 | 0.30% |
| 2012 | 4,441 | 263,529,629 | 59,340 | 2.05% |

Schedule of Retirants and Beneficiaries Added to and Removed from the Annuity Rolls

| Fiscal Year Ended June 30, | Added to Rolls | | Removed from Rolls | | Rolls at Year End | | Percentage Increase | Average Annual Benefits |
|----------------------------|---------------------|-----------------|--------------------|-----------------|---------------------|-----------------|---------------------|-------------------------|
| | Number of Additions | Annual Benefits | Number of Removals | Annual Benefits | Year End Roll Count | Annual Benefits | | |
| 2007 | 168 | \$ 5,568,818 | 66 | \$ 1,639,140 | 2,650 | \$ 72,584,233 | 5.7% | \$ 27,390 |
| 2008 | 138 | 6,784,790 | 69 | 1,740,133 | 2,719 | 77,628,890 | 7.0% | 28,551 |
| 2009 | 125 | 4,465,126 | 59 | 1,644,802 | 2,785 | 80,449,214 | 3.6% | 28,887 |
| 2010 | 259* | 8,245,373 | 51 | 1,619,770 | 2,993 | 87,074,817 | 8.2% | 29,093 |
| 2011 | 127 | 2,261,138 | 60 | 1,652,074 | 3,060 | 87,683,881 | 0.7% | 28,655 |
| 2012 | 139 | 4,587,513 | 51 | 1,073,612 | 3,148 | 91,197,782 | 4.0% | 28,970 |

* - Total headcount increased by 97 as a result of QDRO's (Domestic Relation Orders) being reported as a separate record.

Solvency Test

| Valuation Year | Aggregate Accrued Liabilities For | | | Valuation Assets | Portion of Accrued Liabilities Covered by Assets | | |
|----------------|------------------------------------|-----------------------------------|---|------------------|--|------|-------|
| | (1) Active Member Contributions | (2) Retirees and Beneficiaries | (3) Active Members (Employer Financed) | | (1) | (2) | (3) |
| 2007 | \$ 144,439,759 | \$ 971,452,387 | \$ 919,761,325 | \$ 1,627,476,000 | 100% | 100% | 55.6% |
| 2008 | 155,138,890 | 998,667,256 | 978,369,552 | 1,752,169,000 | 100% | 100% | 61.2% |
| 2009 | 166,887,749 | 1,045,725,635 | 1,040,520,391 | 1,717,566,000 | 100% | 100% | 48.5% |
| 2010 | 174,025,925 | 1,111,074,787 | 1,056,518,440 | 1,754,372,000 | 100% | 100% | 44.4% |
| 2011 | 184,781,373 | 944,081,922 | 831,112,711 | 1,822,702,000 | 100% | 100% | 83.5% |
| 2012 | 189,459,953 | 983,507,261 | 861,517,957 | 1,837,170,000 | 100% | 100% | 76.7% |

Analysis of Financial Experience

At of July 1, 2012

| | |
|--|----------------------|
| 1. Expected Actuarial Accrued Liability | |
| a. Actuarial Accrued Liability at July 1, 2011 | \$ 1,959,976,006 |
| b. Normal Cost for Plan Year Ended June 30, 2012 | 54,058,923 |
| c. Benefit Payments for Plan Year Ending June 30, 2012 | 114,223,000 |
| d. Interest on (a + b - c) to End of Year | 144,742,048 |
| e. Expected Actuarial Accrued Liability Before Changes (a + b - c + d) | 2,044,553,977 |
| f. Change in Actuarial Accrued Liability at July 1, 2012 due to changes in Actuarial Assumptions | - |
| g. Change in Actuarial Accrued Liability at July 1, 2012 due to changes in System Provisions | - |
| h. Expected Actuarial Accrued Liability at July 1, 2012 (e + f + g) | 2,044,553,977 |
| 2. Actuarial Accrued Liability at July 1, 2012 | 2,034,485,171 |
| 3. Actuarial Liability Gain/(Loss) (1h. - 2) | 10,068,806 |
| 4. Expected Actuarial Value of Assets | |
| a. Actuarial Value of Assets at July 1, 2011 | 1,822,702,000 |
| b. Contributions Made for Plan Year Ending June 30, 2012 | 81,101,000 |
| c. Benefit Payments and Expenses for Plan Year Ending June 30, 2012 | 116,175,000 |
| d. Interest on (a + b - c) to End of Year | 135,387,375 |
| e. Expected Actuarial Value of Assets at July 1, 2012 (a + b - c + d) | 1,923,015,375 |
| 5. Actuarial Value of Assets at July 1, 2012 | 1,834,170,000 |
| 6. Actuarial Asset Gain/(Loss) (5 - 4e.) | (88,845,375) |
| 7. Actuarial Gain/(Loss) (3 + 6) | (78,776,569) |

The actuarial gain/(loss) is comprised of both the liability gain/(loss) and the actuarial asset gain/(loss). Each of these represents the difference between the expected and actual values as of July 1, 2012.

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

A. Entry Age Actuarial Cost Method

The actuarial cost method is selected by the Board with the recommendation of the actuary. Liabilities and contributions shown in this report are computed using the Individual Entry Age method of funding. The System has used this cost method since at least 1990.

Sometimes called “funding method”, this is a particular technique used by actuaries for establishing the amount and incidence of the annual actuarial cost of pension plan benefits, or normal cost, and the related unfunded actuarial accrued liability. Ordinarily the annual contribution to the system is comprised of (1) the normal cost and (2) an amortization payment on the unfunded actuarial accrued liability.

Under the Entry Age Actuarial Cost Method, the **Normal Cost** is computed as the level percentage of pay which, if paid from the earliest time each Member would have been eligible to join the system if it then existed (thus, entry age) until his retirement or termination, would accumulate with interest at the rate assumed in the valuation to a fund sufficient to pay all benefits under the system.

The **Actuarial Accrued Liability** under this method at any point in time is the theoretical amount of the fund that would have accumulated had annual contributions equal to the normal cost been made in prior years (it does not represent the liability for benefits accrued to the valuation date.) The **Unfunded Actuarial Accrued Liability** is the excess of the actuarial accrued liability over the actuarial value of system assets on the valuation date.

Under this method experience gains or losses, i.e. decreases or increases in accrued liabilities attributable to deviations in experience from the actuarial assumptions, adjust the unfunded actuarial accrued liability.

B. Asset Valuation Method

The asset valuation method is selected by the Board with the recommendation of the actuary. The actuarial value of assets is based on a five-year moving average of expected and market values determined as follows:

- at the beginning of each plan year, a preliminary expected actuarial asset value is calculated as the sum of the previous year’s actuarial value increased with a year’s interest at the System valuation rate plus net cash flow adjusted for interest (at the same rate) to the end of the previous plan year;
- the expected actuarial asset value is set equal to the preliminary expected actuarial value plus the unrecognized investment gains and losses as of the beginning of the previous plan year;
- the difference between the expected actuarial asset value and the market value is the investment gain or loss for the previous plan year;
- the (final) actuarial asset value is the preliminary value plus 20% of the investment gains and losses for each of the five previous plan years, but in no case more than 120% of the market value or less than 80% of the market value.

- Deferred Option Plan assets are included in the actuarial value. For all periods following July 1, 2007, the Deferred Option Plan assets are subject to the same smoothing method stated above. Prior to July 1, 2007, they were included at market value but were not subject to the smoothing described above.

Besides the changes to the smoothing of Deferred Option Plan assets, the System has used this method since at least 1998.

C. Valuation Procedures

No actuarial accrued liability is held for non-vested, inactive Members who have a break in service, or for non-vested Members who have quit or been terminated, even if a break in service had not occurred as of the valuation date. The actuarial accrued liability does include a liability for non-vested terminations that have not taken a refund of their accumulated contribution balance.

The wages used in the projection of benefits and liabilities are based upon the prior year's actual earnings increased by the salary scale.

In computing accrued benefits, average earnings were determined using actual pay history.

No benefits are projected to be greater than the compensation limitation and dollar limitation required by the Internal Revenue Code Section 401 and 415 for governmental plans.

The calculations for the required state contribution are determined as of mid-year. This is a reasonable assumption since the employer contributions, employee contributions and State insurance premium tax allocations are made on a monthly basis throughout the year, and mid-year represents an average weighting of the contributions.

The contribution requirements are based on total annual compensation rather than total covered compensation of employees under assumed retirement age. This is a better reflection of the overall expectations for the System.

The Entry Age Normal Funding Method has been adjusted for those members granted prior service. The prior service is treated as occurring immediately before the membership date. Level pay is assumed during this period before actual membership. Entry Age costs are determined as if the member entered the System on the date the prior service is assumed to have begun. This treatment reflects the extra cost of prior service immediately in the accrued liability and preserves the relationship of normal cost to a year of service accrual.

D. Actuarial Assumptions

The actuarial assumptions are selected by the Board with the recommendation of the actuary. The most recent experience study considered actual System experience for the period July 1, 2002 through June 30, 2007.

Economic Assumptions

1. Investment Return - 7.5%, net of investment expenses, per annum, compound annually. The System has used this assumption since at least 1984.
2. Earnings Progression - Sample rates below:

| Years of Service | Inflation % | Merit % | Increase % |
|------------------|-------------|---------|------------|
| 1 | 3.0 | 16.00 | 19.00 |
| 2 | 3.0 | 12.00 | 15.00 |
| 3 | 3.0 | 6.75 | 9.75 |
| 4 | 3.0 | 6.25 | 9.25 |
| 5 | 3.0 | 5.75 | 8.75 |
| 6 | 3.0 | 5.50 | 8.50 |
| 7 | 3.0 | 5.00 | 8.00 |
| 8 | 3.0 | 4.25 | 7.25 |
| 9 | 3.0 | 4.10 | 7.10 |
| 10 | 3.0 | 3.90 | 6.90 |
| 15 | 3.0 | 2.90 | 5.90 |
| 20 | 3.0 | 2.00 | 5.00 |

Demographic Assumptions

1. Retirement Rates - See table below:

| Years of Service | Annual Rates of Retirement Per 100 Eligible Members |
|------------------|---|
| 20 | 25 |
| 21 | 10 |
| 22 | 10 |
| 23 | 15 |
| 24 | 20 |
| 25 | 30 |
| 26 | 15 |
| 27 | 15 |
| 28 | 15 |
| 29 | 25 |
| 30 | 100 |

2. Mortality Rates

- (a) Active employees (pre-retirement) RP-2000 Healthy Employees (Fully generational using Scale AA).
- (b) Active employees (post-retirement and nondisabled pensioners) RP-2000 Blue Collar Healthy Annuitant (Fully generational using Scale AA) with age set back one year.
- (c) Disabled pensioners RP-2000 Blue Collar Healthy Annuitant with age set forward 7 years.

3. Disability Rates - Graduated rates. See table below:

| Age Range | Annual Rate |
|-----------|-------------|
| 20-24 | .0002 |
| 25-29 | .0004 |
| 30-34 | .0008 |
| 35-39 | .0008 |
| 40-44 | .0012 |
| 45-49 | .0012 |
| 50-54 | .0012 |
| 55-59 | .0012 |

4. Withdrawal Rates - Graduated rates by years of service. See table below:

| Service Range | Annual Rate |
|---------------|-------------|
| 0 | .150 |
| 1 | .120 |
| 2 | .085 |
| 3 | .070 |
| 4 | .060 |
| 5-10 | .040 |
| 11-15 | .015 |
| 16-20 | .010 |
| Over 20 | .000 |

5. Marital Status

- (a) Percentage married - 85% of participants are assumed to be married.
- (b) Age difference - Males are assumed to be three (3) years older than females.

Other Assumptions

1. Assumed Age of Commencement for Deferred Benefits - Age 50, or the date at which the participant would have achieved twenty years of service, if later.
2. Provision for Expenses - Administrative Expenses, as budgeted by the Oklahoma Police Pension and Retirement System.
3. Percentage of Disability - Members becoming disabled have a 25%-49% impairment.
4. Duty-Related Death - All active pre-retirement deaths are duty-related.
5. Cost-of-Living Allowance - Police officers eligible to receive increased benefits according to repealed Section 50-120 of Title 11 of the Oklahoma Statutes pursuant to a court order receive an adjustment of 1/3 to 1/2 of the increase or decrease of any adjustment to the base salary of a regular police officer, based on an increase in base salary of 3%.
6. Deferred Option Plan - Members currently participating in the Deferred Option Plan (DOP) are assumed to remain in the DOP for the maximum of five years. Active members leaving active service are assumed to retroactively elect to join the DOP for the maximum allowable period. DOP account balances are assumed to accumulate at 7.75% (to reflect the interest rate guarantee prior to retirement) and members are assumed to elect a lump sum at retirement. All balances held in Deferred Option Payout Accounts are assumed to be paid immediately.

SUMMARY OF SYSTEM PROVISIONS

Effective Date and Plan Year - The System became effective January 1, 1981 and has been amended each year since then. The plan year is July 1 to June 30.

Administration - The System is administered by the Oklahoma Police Pension and Retirement Board consisting of thirteen Members. The Board shall be responsible for the policies and rules for the general administration of the System.

Type of Plan - A defined benefit plan.

Employers Included - An eligible employer may join the System on the first day of any month. An application of affiliation must be filed in the form of a resolution before the eligible municipality can become a participating municipality.

Eligibility - All persons employed full-time as officers working more than 25 hours per week or any person undergoing police training to become a permanent police officer with a police department of a participating municipality, with ages not less than twenty-one (21) nor more than forty-five (45) when accepted for membership.

Service Considered - Credited service consists of the period during which the Member participated in the System or predecessor municipal plan as an active employee, plus any service prior to the establishment of the municipal plan which was credited under the predecessor municipal systems or credited service granted by the State Board, plus any applicable military service.

Salary Considered - Base salary used in the determination of benefits does not include payment for accumulated sick and annual leave upon termination of employment or any uniform allowances.

Final average salary means the average paid base salary for normally scheduled hours of an officer over the highest 30 consecutive months of the last 60 months of credited service.

State Contributions - Insurance premium tax allocation. Historically, the System has received 14% of these collected taxes. For the fiscal years beginning July 1, 2004 and ending June 30, 2009, the System received 17% of these collected taxes. For the fiscal year beginning July 1, 2009 and each fiscal year thereafter, the System received 14% of these collected taxes. Beginning in fiscal year July 1, 2006, the System began receiving 26% of a special allocation established to refund the System for reduced allocations of insurance premium taxes resulting from increases in insurance premium tax credits. Beginning in fiscal year July 1, 2010, the amount of insurance premium tax apportioned to the System will be applied prior to the calculation of the Home Office Credit.

Municipality Contributions - Contribution is thirteen (13%) percent as of July 1, 1996.

Member Contributions - Eight (8%) percent of base salary. These contributions shall be "picked up" after December 31, 1988 pursuant to Section 414(h)(2) of the Internal Revenue Code.

Normal Retirement Benefit

Eligibility - 20 years of credited service.

Benefit - 2 1/2% of the final average salary multiplied by the years of credited service, with a maximum of 30 years of credited service considered.

Form of Benefit - The normal form of benefit is a Joint and 100% Survivor Annuity if the Member has been married 30 months prior to death.

Cost-of-Living Adjustments - Police officers eligible to receive increased benefits according to repealed Section 50-120 of Title 11 of the Oklahoma Statutes pursuant to a court order shall receive an adjustment of 1/3 to 1/2 of the increase or decrease of any adjustment to the base salary of a regular police officer.

Termination

Less Than 10 Years of Service - A refund of contributions without interest.

More than 10 Years of Service - If greater than 10 years of service, but not eligible for the Normal Retirement Benefit, the benefit is payable at the later of the date the Member would have had 20 years of service or attained age 50 in an amount equal to 2 1/2% of the final average salary multiplied by the years of credited service. The Member may elect a refund of contributions instead of the retirement benefit.

Disability Benefit (Duty)

Total Disability - Upon determination of total disability incurred as a result of the performance of duty, the normal disability benefit is 50% of final average salary.

Partial Disability - Upon determination of partial disability incurred as a result of the performance of duty, the normal disability is reduced according to the percentage of impairment, as outlined in the "American Medical Association's Guide to the Evaluation of Permanent Impairment." The following shows the percent of normal disability benefit payable as related to the percent of impairment.

| <u>% Impairment</u> | <u>% of Benefit</u> |
|---------------------|---------------------|
| 1% to 49% | 50% |
| 50% to 74% | 75% |
| 75% to 100% | 100% |

Disability Benefit (Non-Duty)

Upon determination of disability after 10 years of service due to causes other than duty, the benefit equals the accrued benefit of 2 1/2% of final average salary times years of credited service (maximum of 30 years) times:

- 100%, if permanent and total, or
- the following percentages, if partial disability.

| <u>% Impairment</u> | <u>% of Benefit</u> |
|---------------------|---------------------|
| 1% to 24% | 25% |
| 25% to 49% | 50% |
| 50% to 74% | 75% |
| 75% to 99% | 90% |

Death Benefits Payable to Beneficiaries

Prior to Retirement (Duty) - The greater of:

- 1) 2 1/2% of final average salary times years of credited service (maximum of 30 years), or
- 2) 50% of final average salary.

Prior to Retirement (Non-Duty) - After 10 years of service, a benefit equal to 2 1/2% of final average salary times years of credited service (maximum of 30 years). Prior to 10 years of service, a refund of the accumulated contributions made by the Member will be paid to the estate.

After Retirement - 100% of the Member’s retirement or deferred vested benefit, payable when the Member would have been eligible to receive it, payable to the beneficiary.

Death Benefit - The beneficiary shall receive a death benefit amount of \$5,000.

Beneficiary - Surviving spouses must be married to the member for 30 continuous months prior to the date of death (waived in the case of duty related death). If the beneficiary is a child, the benefits are payable to age 18, or 22 if a full-time student.

Deferred Option Plan

A Member who has 20 or more years of service and continues employment may elect to participate in the Deferred Option Plan (DOP). Participation in the DOP shall not exceed five years. The employees’ contributions cease upon entering the Plan, but the employer contributions are divided equally between the System and the DOP. The monthly retirement benefits that the employee is eligible to receive are paid into the DOP account.

A member is also allowed to retroactively elect to join the DOP as of a back-drop-date which is no earlier than the member's normal retirement date or five years before his termination date. The monthly retirement benefits and employee contributions that would have been payable had the member elected to join the DOP are credited to the member's DOP account with interest.

The retirement benefits are not recalculated for service and salary past the election date to join the DOP. However, the benefits may be increased by any applicable cost-of-living increases.

When the Member actually retires from active service, the DOP account balance may be paid in a lump sum, to an annuity provider, or transferred to a Deferred Option Payout Account. Monthly retirement benefits are then paid directly to the retired Member.

The original Plan became effective during the July 1, 1990 to June 30, 1991 Plan Year with the back-drop and Payout Account provisions added subsequently. The DOP account of an active member is guaranteed a minimum of the valuation interest rate for investment return, or 2% less than the fund rate of return, if greater. If the balance is transferred to a Payout Account upon retirement, the account is credited with interest at a rate of 2% below the total fund net earnings if the fund returns more than 2%. If the fund realizes negative returns, the account is reduced at a rate equal to the fund net earnings. Alternatively, if the fund realizes a positive return of less than 2%, the account is credited with a rate of zero.

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Statistical Section

Section Index

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- 106 – Schedule of Benefits & Refunds by Type
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Statistical Section

Oklahoma Police Pension and Retirement System Statistical Section

This section provides additional detailed information covering extended time spans to facilitate a better understanding of the System's results presented in the financial statements, notes to the financial statements and required supplementary information. Multi-year presentations of financial and operational results help to assess the economic condition and long-term economic stability of the Oklahoma Police Pension and Retirement System (OPPRS).

Financial Trends

Financial trend information helps determine whether or not the financial position of the System has improved or declined over time. Trend information also provides a long-term comparison of financial activity to assess the affect decisions and changes have had on the System's financial position. The following schedules present financial trend information:

Schedule of Changes in Net Assets
Schedule of Revenue by Source
Schedule of Benefit Payments and Refunds by Type

Schedule of Expenses by Type
*Funded Ratio (Chart)**

Revenue Capacity

Revenue capacity information helps assess the System's performance in generating its own-source revenue. As a pension plan, the System generates revenue primarily through investing available assets with the goal of generating investment income and positive investment returns. The following schedule presents revenue capacity information:

*Schedule of Rate of Return by Investment Type***

Operating and Demographic Information

Operating and demographic information helps to assess changes in the System's membership, resources and operating performance over time. This information provides a better understanding of the employers that participate in the System, the size and types of payments made to participants, and the changes to the size of the System's active and retired membership. The following schedules present operating and demographic information:

*Schedule of Retired Members by Type of Benefit **
Schedule of Principal Participating Employers
*Membership Statistics Data**

*Schedule of Average Benefit Payments**
Schedule of Participating Employers

Unless otherwise noted, information is derived from OPPER internal sources.

* - Based on schedules and data provided by actuarial consultant, Buck Consultants.

** - Based on data provided by investment consultant, Asset Consulting Group.

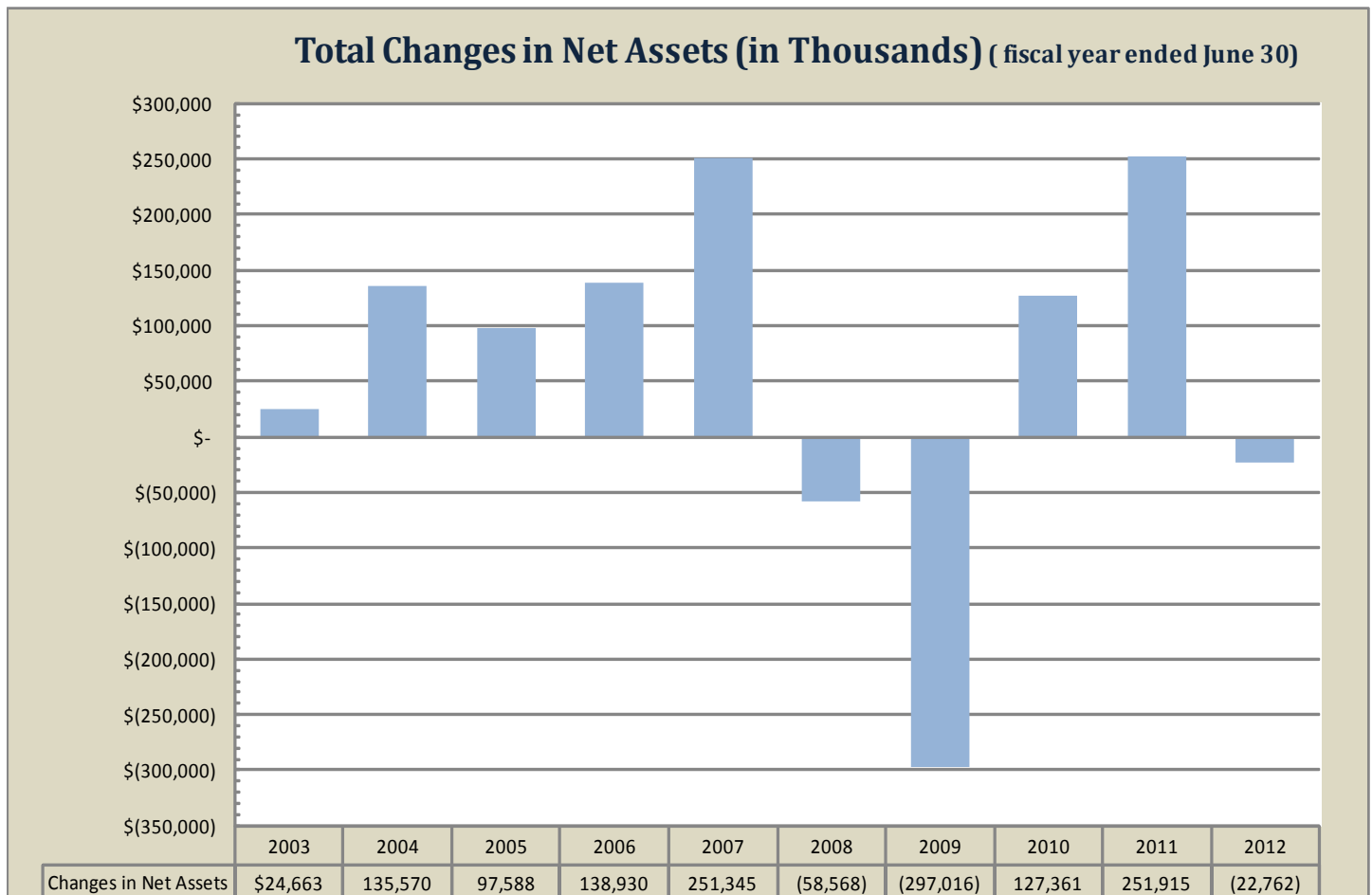
Schedule of Changes in Net Assets (In Thousands)

| Fiscal Year Ended June 30, | Additions | | | | Deductions | | | | Total Changes in Net Assets |
|----------------------------------|-------------------------|---------------------------|-----------------------------|------------------------------------|-----------------------------------|----------------------------------|----------------------------|----------------------------|-----------------------------------|
| | Member Contributions | Employer Contributions | Insurance Premium Tax | Net Investment Income (Loss) | Deferred Benefit Payments * | Deferred Option Payments** | Refund of Contributions | Administrative Expenses | |
| 2003 | \$ 12,879 | \$ 23,738 | \$ 20,400 | \$ 39,998 | \$ 55,239 | \$ 13,975 | \$ 1,208 | \$ 1,930 | \$ 24,663 |
| 2004 | 13,412 | 23,915 | 0 | 174,962 | 57,922 | 15,443 | 1,127 | 2,227 | 135,570 |
| 2005 | 14,234 | 25,001 | 23,730 | 113,964 | 62,501 | 13,060 | 1,708 | 2,072 | 97,588 |
| 2006 | 15,326 | 26,490 | 23,584 | 154,591 | 65,853 | 11,550 | 1,423 | 2,235 | 138,930 |
| 2007 | 16,718 | 28,258 | 28,122 | 267,160 | 71,480 | 13,609 | 1,374 | 2,450 | 251,345 |
| 2008 | 17,997 | 30,061 | 26,020 | (43,387) | 75,178 | 10,046 | 1,031 | 3,004 | (58,568) |
| 2009 | 19,139 | 31,675 | 26,913 | (283,519) | 80,238 | 7,660 | 1,150 | 2,176 | (297,016) |
| 2010 | 19,626 | 32,240 | 22,292 | 163,058 | 82,799 | 23,928 | 1,420 | 1,708 | 127,361 |
| 2011 | 19,489 | 31,846 | 24,645 | 282,305 | 86,843 | 15,698 | 2,117 | 1,712 | 251,915 |
| 2012 | 20,113 | 32,896 | 28,092 | 8,374 | 89,691 | 19,024 | 1,570 | 1,952 | (22,762) |

Total Cumulative Change in Net Assets for the Previous 10 Years \$ 649,026

* - Benefit Payments include survivor and death benefit payments.

** - Deferred Option Payments include the Deferred Option and back DROP plans.



Schedule of Revenue by Source (In Thousands)

| Fiscal Year Ended June 30, | Member Contributions | Employer Contributions | Insurance Premium Tax* | Net Investment Income (Loss)** | Total Revenue by Source |
|----------------------------|----------------------|------------------------|------------------------|--------------------------------|-------------------------|
| 2003 | \$ 12,879 | \$ 23,738 | \$ 20,400 | \$ 39,998 | \$ 97,015 |
| 2004 | 13,412 | 23,915 | 0 | 174,962 | 212,289 |
| 2005 | 14,234 | 25,001 | 23,730 | 113,964 | 176,929 |
| 2006 | 15,326 | 26,490 | 23,584 | 154,591 | 219,991 |
| 2007 | 16,718 | 28,258 | 28,122 | 267,160 | 340,258 |
| 2008 | 17,997 | 30,061 | 26,020 | (43,387) | 30,691 |
| 2009 | 19,139 | 31,675 | 26,913 | (283,519) | (205,792) |
| 2010 | 19,626 | 32,240 | 22,292 | 163,058 | 237,216 |
| 2011 | 19,489 | 31,846 | 24,645 | 282,305 | 358,285 |
| 2012 | 20,113 | 32,896 | 28,092 | 8,374 | 89,475 |

* - The Oklahoma Police Pension and Retirement System receives a portion of the Insurance Premium Tax that is assessed and collected by the State of Oklahoma.

** - Investment income includes both realized and unrealized gains and losses on investments, net of investment expenses.

Schedule of Expenses by Type (In Thousands)

| Fiscal Year Ended June 30, | Benefit Payments | Deferred Option Payments* | Refund of Contributions | Administrative Expenses | Total Expenses by Type |
|----------------------------|------------------|---------------------------|-------------------------|-------------------------|------------------------|
| 2003 | \$ 55,239 | \$ 13,975 | \$ 1,208 | \$ 1,930 | \$ 72,352 |
| 2004 | 57,922 | 15,443 | 1,127 | 2,227 | 76,719 |
| 2005 | 62,501 | 13,060 | 1,708 | 2,072 | 79,341 |
| 2006 | 65,853 | 11,550 | 1,423 | 2,235 | 81,061 |
| 2007 | 71,480 | 13,609 | 1,374 | 2,450 | 88,913 |
| 2008 | 75,178 | 10,046 | 1,031 | 3,004 | 89,259 |
| 2009 | 80,238 | 7,660 | 1,150 | 2,176 | 91,224 |
| 2010 | 82,799 | 23,928 | 1,420 | 1,708 | 109,855 |
| 2011 | 86,843 | 15,698 | 2,117 | 1,712 | 106,370 |
| 2012 | 89,691 | 19,024 | 1,570 | 1,952 | 112,237 |

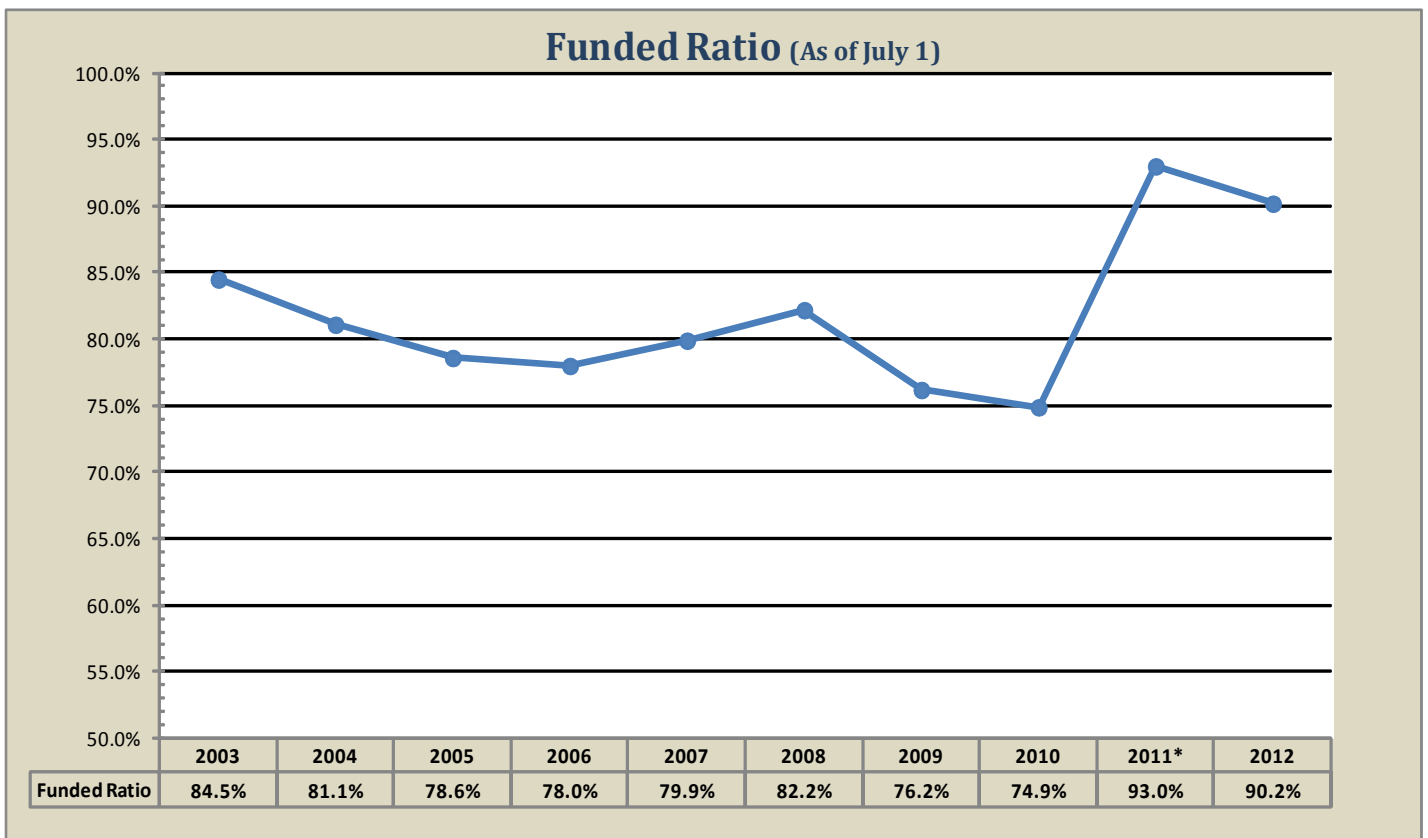
* - Deferred Option Payments may vary considerably from year-to-year based on the number of members electing this benefit.

Schedule of Benefit Payments and Refunds by Type (In Thousands)

| Fiscal Year Ended June 30, | Pension Benefits | Death Benefits | DROP, Back DROP Payout Provision | Refunds | Total |
|----------------------------|------------------|----------------|----------------------------------|----------|-----------|
| 2003 | \$ 55,039 | \$ 200 | \$ 12,947 | \$ 1,304 | \$ 69,490 |
| 2004 | 57,697 | 225 | 14,010 | 1,127 | 73,059 |
| 2005 | 62,283 | 219 | 15,032 | 1,708 | 79,242 |
| 2006 | 65,643 | 210 | 15,702 | 1,423 | 82,978 |
| 2007 | 71,240 | 240 | 17,123 | 1,374 | 89,977 |
| 2008 | 74,988 | 190 | 14,883 | 1,031 | 91,092 |
| 2009 | 79,988 | 250 | 13,161 | 1,150 | 94,549 |
| 2010 | 82,638 | 160 | 24,842 | 1,420 | 109,060 |
| 2011 | 86,638 | 205 | 14,894 | 2,117 | 103,854 |
| 2012 | 89,451 | 240 | 22,962 | 1,570 | 114,223 |

Note: This schedule represents actual payments. Due to the effect of accruals, financial statement expenses may not agree to these totals.

Funded Ratio (As of July 1)

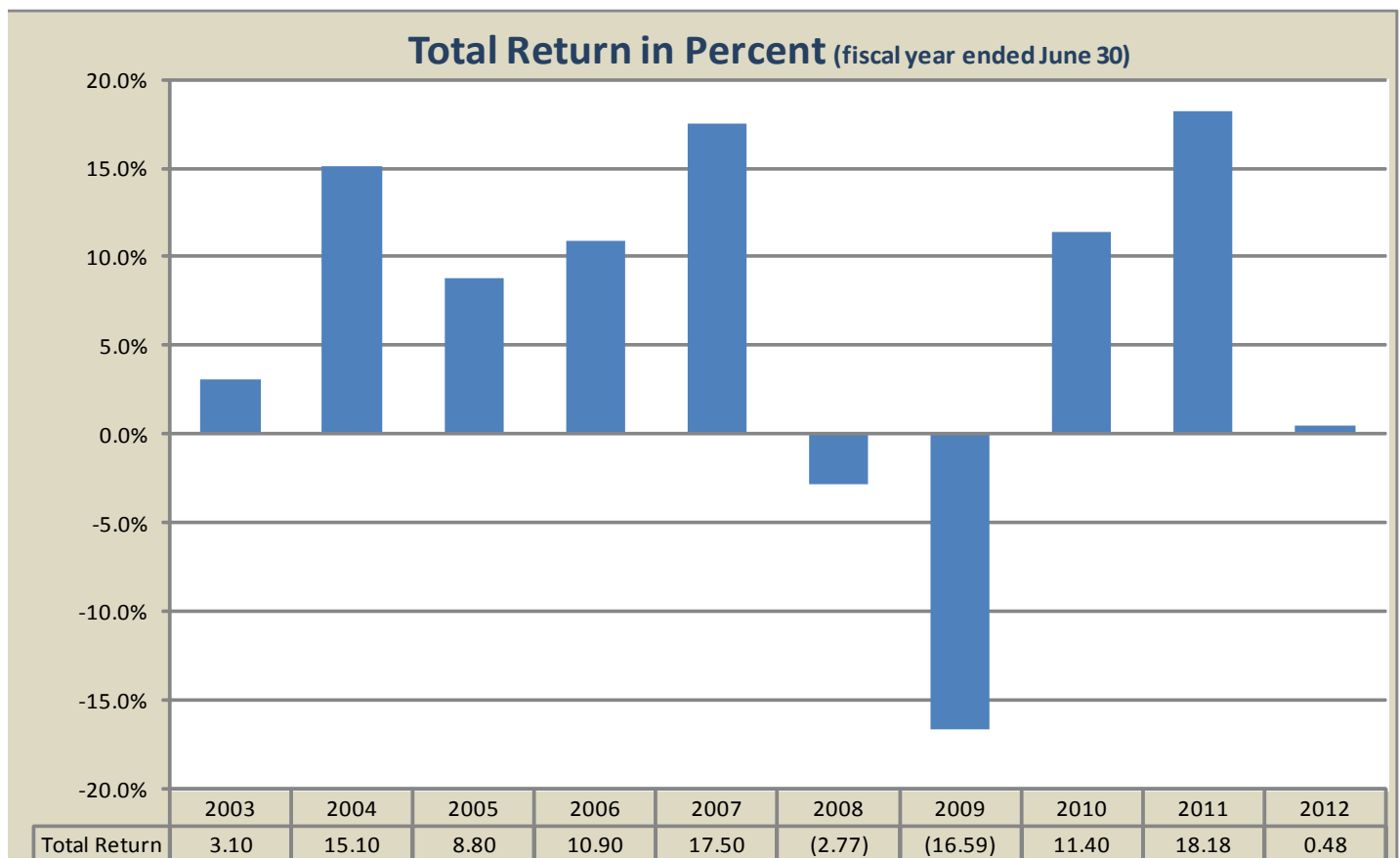


* - Beginning in 2011, funded ratio calculations do not include Cost-of-Living-Adjustments (COLA's) due to legislation requiring all ad-hoc COLA's be prefunded by the Oklahoma Legislature.

Schedule of Returns by Investment Type (in Percent)

| Fiscal Year Ended June 30, | U.S. Equity | International Equity | Private Equity | Fixed Income | Alternative Investments | Total Return (net of fees) |
|----------------------------|-------------|----------------------|----------------|--------------|-------------------------|----------------------------|
| 2003 | (0.94) % | (9.60) % | 39.00 % | 1.63 % | 1.70 % | 3.10 % |
| 2004 | 29.25 | (11.36) | 27.70 | (7.20) | 8.75 | 15.10 |
| 2005 | 7.98 | 19.16 | 14.60 | (1.26) | 1.31 | 8.80 |
| 2006 | 9.10 | 18.36 | 23.10 | 2.13 | 9.16 | 10.90 |
| 2007 | 9.08 | 32.34 | 16.50 | 9.74 | 14.94 | 17.50 |
| 2008 | (12.80) | (7.80) | 8.71 | 11.40 | 23.95 | (2.77) |
| 2009 | (17.06) | (32.27) | (3.36) | (22.09) | (15.55) | (16.59) |
| 2010 | 9.50 | 6.42 | 17.01 | 8.80 | (3.90) | 11.40 |
| 2011 | 21.40 | 27.64 | 18.14 | 9.00 | 3.61 | 18.18 |
| 2012 | (11.95) | 10.78 | 7.18 | 2.88 | 7.45 | 0.48 |

Total Annual Return (in Percent)



Schedule of Retired Members by Type of Benefit For the Fiscal Year Ended June 30, 2012

| Monthly Benefit Amount | Number of Retirees and Beneficiaries | Number of Retirees and Beneficiaries by Type of Retirement* | | | | | | |
|------------------------|--------------------------------------|---|-----|-----|-----|----|-------|----|
| | | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| \$ 0 - 1,000 | 209 | 14 | 47 | 78 | 41 | 7 | 17 | 5 |
| 1,001 - 1,500 | 305 | 53 | 40 | 16 | 27 | 7 | 154 | 8 |
| 1,501 - 2,000 | 523 | 81 | 17 | 5 | 20 | 9 | 379 | 12 |
| 2,001 - 2,500 | 674 | 96 | 4 | 3 | 7 | 3 | 548 | 13 |
| 2,501 - 3,000 | 651 | 102 | 0 | 1 | 7 | 1 | 535 | 5 |
| 3,001 - 3,500 | 429 | 85 | 0 | 0 | 6 | 2 | 333 | 3 |
| 3,501 - 4,000 | 214 | 31 | 0 | 0 | 1 | 0 | 179 | 3 |
| 4,001 - 4,500 | 67 | 11 | 0 | 0 | 0 | 0 | 56 | 0 |
| 4,501 - 5,000 | 28 | 5 | 0 | 0 | 0 | 0 | 23 | 0 |
| 5,001 - 5,500 | 14 | 1 | 0 | 0 | 0 | 0 | 13 | 0 |
| 5,501 - 6,000 | 15 | 2 | 0 | 0 | 0 | 0 | 13 | 0 |
| 6,001 - 6,500 | 7 | 1 | 0 | 0 | 0 | 0 | 6 | 0 |
| 6,501 - 7,000 | 2 | 0 | 0 | 0 | 0 | 0 | 2 | 0 |
| 7,001 - 7,500 | 2 | 0 | 0 | 1 | 0 | 0 | 1 | 0 |
| Totals: | 3,140 | 482 | 108 | 104 | 109 | 29 | 2,259 | 49 |

* Type of Retirement

- Type 1 - *CONTINUANCE* - benefits paid to the beneficiaries of a deceased retired member.
- Type 2 - *DEFERRED VESTED* - accrued benefits paid to members for completing at least 10 years of service, but less than 20.
- Type 3 - *QUALIFIED DOMESTIC RELATIONS ORDER* - court ordered assignment of member benefits to an alternate payee.
- Type 4 - *DUTY DISABILITY* - benefits paid to members disabled in the performance of their duty.
- Type 5 - *NON-DUTY DISABILITY* - benefits paid to members disabled outside the line of duty.
- Type 6 - *SERVICE* - normal retirement benefits paid to members completing at least 20 years of credited service.
- Type 7 - *SURVIVORSHIP* - benefits paid to beneficiaries of deceased active members.

Schedule of Average Benefit Payments

| Retirement Effective Dates (Note A) July 1, 2002 to June 30, 2012 | Years of Credited Service | | | | |
|--|---------------------------|----------|----------|----------|----------|
| | 10-15 | 15-20 | 20-25 | 25-30 | 30+ |
| Period 07/01/02 to 06/30/03 | | | | | |
| Average Monthly Benefit | \$ - | \$ 1,462 | \$ 1,980 | \$ 2,234 | \$ 3,331 |
| Average Final Average Salary | \$ - | \$ 3,261 | \$ 3,722 | \$ 3,435 | \$ 4,441 |
| Number of Retired Members | 0 | 2 | 64 | 19 | 7 |
| Period 07/01/03 to 06/30/04 | | | | | |
| Average Monthly Benefit | \$ 1,115 | \$ 1,485 | \$ 2,059 | \$ 2,927 | \$ 3,539 |
| Average Final Average Salary | \$ 3,345 | \$ 3,288 | \$ 3,830 | \$ 4,300 | \$ 4,718 |
| Number of Retired Members | 3 | 6 | 69 | 15 | 5 |
| Period 07/01/04 to 06/30/05 | | | | | |
| Average Monthly Benefit | \$ - | \$ 1,353 | \$ 2,183 | \$ 2,910 | \$ 3,564 |
| Average Final Average Salary | \$ - | \$ 3,423 | \$ 4,070 | \$ 4,335 | \$ 4,752 |
| Number of Retired Members | 0 | 3 | 83 | 15 | 6 |
| Period 07/01/05 to 06/30/06 | | | | | |
| Average Monthly Benefit | \$ 906 | \$ 1,316 | \$ 2,114 | \$ 2,779 | \$ 3,331 |
| Average Final Average Salary | \$ 2,643 | \$ 3,089 | \$ 3,985 | \$ 4,186 | \$ 4,442 |
| Number of Retired Members | 1 | 7 | 70 | 20 | 9 |
| Period 07/01/06 to 06/30/07 | | | | | |
| Average Monthly Benefit | \$ - | \$ 1,597 | \$ 2,093 | \$ 3,291 | \$ 3,581 |
| Average Final Average Salary | \$ - | \$ 3,597 | \$ 4,000 | \$ 4,917 | \$ 4,775 |
| Number of Retired Members | 0 | 5 | 83 | 23 | 6 |
| Period 07/01/07 to 06/30/08 | | | | | |
| Average Monthly Benefit | \$ - | \$ 1,754 | \$ 2,224 | \$ 3,427 | \$ 3,352 |
| Average Final Average Salary | \$ - | \$ 3,831 | \$ 4,199 | \$ 5,090 | \$ 4,469 |
| Number of Retired Members | 0 | 5 | 62 | 20 | 2 |
| Period 07/01/08 to 06/30/09 | | | | | |
| Average Monthly Benefit | \$ - | \$ 2,338 | \$ 2,347 | \$ 3,517 | \$ 4,071 |
| Average Final Average Salary | \$ - | \$ 5,025 | \$ 4,438 | \$ 5,223 | \$ 5,429 |
| Number of Retired Members | 0 | 3 | 53 | 14 | 8 |
| Period 07/01/09 to 06/30/10 | | | | | |
| Average Monthly Benefit | \$ - | \$ - | \$ 2,491 | \$ 3,513 | \$ 4,261 |
| Average Final Average Salary | \$ - | \$ - | \$ 4,718 | \$ 5,062 | \$ 5,682 |
| Number of Retired Members | 0 | 0 | 83 | 24 | 11 |
| Period 07/01/10 to 06/30/11 | | | | | |
| Average Monthly Benefit | \$ - | \$ - | \$ 2,752 | \$ 3,834 | \$ 4,265 |
| Average Final Average Salary | \$ - | \$ - | \$ 5,211 | \$ 5,558 | \$ 5,686 |
| Number of Retired Members | 0 | 0 | 66 | 13 | 7 |
| Period 07/01/11 to 06/30/12 | | | | | |
| Average Monthly Benefit | \$ - | \$ - | \$ 2,771 | \$ 3,584 | \$ 4,090 |
| Average Final Average Salary | \$ - | \$ - | \$ 5,232 | \$ 5,137 | \$ 5,454 |
| Number of Retired Members | 0 | 0 | 65 | 25 | 6 |

Note A - Schedule includes service retirements as of July 1, 2012 and does not include disability retirements. For participants in the Deferred Option Plan, the Retirement Effective Date is the date the member left active service and the final average salary is determined as of the date the member effectively entered the Deferred Option Plan.

Schedule of Principal Participating Employers Current Year and Nine Years Prior

| 10 Largest Participating Cities\Municipalities\Towns | Fiscal Year 2012 | | | Fiscal Year 2003 | | |
|--|--------------------|------|----------------------------------|--------------------|------|----------------------------------|
| | Covered Members | Rank | % of Total Covered Members | Covered Members | Rank | % of Total Covered Members |
| Oklahoma City | 1006 | 1 | 22.65% | 780 | 1 | 20.10% |
| Tulsa | 749 | 2 | 16.87% | 619 | 2 | 15.95% |
| Lawton | 175 | 3 | 3.94% | 118 | 3 | 3.04% |
| Norman | 159 | 4 | 3.58% | 117 | 4 | 3.02% |
| Broken Arrow | 120 | 5 | 2.70% | 88 | 6 | 2.27% |
| Edmond | 110 | 6 | 2.48% | 92 | 5 | 2.37% |
| Midwest City | 94 | 7 | 2.12% | 66 | 9 | 1.70% |
| Enid | 90 | 8 | 2.03% | 75 | 7 | 1.93% |
| Muskogee | 81 | 9 | 1.82% | 73 | 8 | 1.88% |
| Moore | 75 | 10 | 1.69% | 56 | 10 | 1.44% |
| Total-10 Largest Employers | 2659 | | 59.87% | 2084 | | 53.71% |
| All Other Cities\Towns | 1782 | | 40.13% | 1796 | | 46.29% |
| Total Covered Members | 4441 | | 100.00% | 3880 | | 100.00% |

This table presents the ten largest participating employers by number of covered employees in the System.

Schedule of Participating Employers

For the Fiscal Year Ended June 30, 2012

| Oklahoma State Agencies (3) | | |
|---|---------------------|----------------------------------|
| ABLE Commission | Bureau of Narcotics | OK State Bureau of Investigation |
| Oklahoma Cities, Municipalities and Towns (130) | | |
| Ada | Garber | Pauls Valley |
| Altus | Glenpool | Pawhuska |
| Alva | Grandfield | Perkins |
| Anadarko | Granite | Perry |
| Arapaho | Grove | Piedmont |
| Ardmore | Guthrie | Ponca City |
| Atoka | Guymon | Poteau |
| Bartlesville | Harrah | Prague |
| Bethany | Haskell | Pryor |
| Bixby | Henryetta | Purcell |
| Blackwell | Hinton | Ringling |
| Blair | Hobart | Sallisaw |
| Boynton | Hominy | Sand Springs |
| Bristow | Hugo | Sapulpa |
| Broken Arrow | Idabel | Sawyer |
| Catoosa | Jenks | Sayre |
| Chandler | Jones | Seminole |
| Checotah | Kingfisher | Shawnee |
| Chickasha | Krebs | Skiatook |
| Choctaw | Lawton | Spencer |
| Claremore | Lexington | Stigler |
| Cleveland | Lindsay | Stillwater |
| Clinton | Madill | Sulphur |
| Collinsville | Mangum | Tahlequah |
| Commerce | Mannford | Tecumseh |
| Coweta | Marlow | The Village |
| Cromwell | McAlester | Tishomingo |
| Cushing | Miami | Tonkawa |
| Davis | Midwest City | Tulsa |
| Del City | Moore | Tuttle |
| Dewey | Muskogee | Valley Brook |
| Disney | Mustang | Vinita |
| Drummond | Newcastle | Warner |
| Drumright | Newkirk | Warr Acres |
| Duncan | Nichols Hills | Watonga |
| Durant | Nicom Park | Waurika |
| Edmond | Noble | Weatherford |
| El Reno | Norman | Weleetka |
| Elk City | Nowata | Wetumka |
| Enid | Okeene | Wewoka |
| Eufaula | Oklahoma City | Wister |
| Forest Park | Okmulgee | Woodward |
| Fort Gibson | Owasso | Yukon |
| Frederick | | |

Membership Statistics Data

| Employer and Member Statistics | As of July 1, | 2012 | 2011 |
|--|----------------------|-------------|-------------|
| Participating Cities, Municipalities and Towns | | 133 | 130 |
| Active Members | | 4,441 | 4,368 |
| Deferred Option Members | | 37 | 50 |
| Terminated Members with Refund Due | | 660 | 583 |
| Terminated Members with Deferred Benefits | | 126 | 124 |
| Retired Members | | 2,368 | 2,292 |
| Beneficiaries Receiving Benefits | | 642 | 631 |
| Disabled Members Receiving Benefits | | 138 | 137 |

| Active Member Statistics | As of July 1, | 2012 | 2011 |
|-----------------------------------|----------------------|----------------|----------------|
| Total Annual Compensation (1) | | \$ 263,529,629 | \$ 253,989,944 |
| Average Compensation(1) | | \$ 59,340 | \$ 58,148 |
| Average Active Member Age | | 39.6 | 39.6 |
| Average Years of Credited Service | | 11.9 | 12.0 |

(1) - Compensation is projected one year based on salary increase assumptions.

| Fiscal Year 2012 Refund and Benefit Payment Statistics | Count of Payments Made | Average Amount |
|---|-------------------------------|-----------------------|
| Refunds to Terminated Members | 193 | \$ 8,137 |
| Regular Payments to Service Retirement Members | 37,154 | \$ 2,408 |
| Payment of Death Benefits to Beneficiaries | 48 | \$ 5,000 |
| Payments under the Deferred Option, Back DROP, or Payout Provision Plan | 89 | \$ 257,994 |

