

THE OKLAHOMA CITY EMPLOYEE RETIREMENT SYSTEM

A Pension Trust Fund of
Oklahoma City, Oklahoma

Board of Trustees

Susan McNitt, Chairman

Leroy Hansen, Vice-Chairman

Frances Kersey, Secretary

Rhnea Stewart, Treasurer (ex-officio)

Dianna Berry

Catherine O'Connor

Joan Thompson

W. B. Smith

Billie Smith

George Brooks

Mayor and City Council

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Brent Rinehart

Jerry W. Foshee

Ann Simank

Willa Johnson

Guy H. Liebmann

Comprehensive Annual Financial Report
for the Fiscal Year Ended June 30, 2002

OKLAHOMA CITY EMPLOYEE RETIREMENT SYSTEM

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OKLAHOMA CITY EMPLOYEE RETIREMENT SYSTEM

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Introductory Section



Oklahoma City Employee Retirement System

Board of Trustees

Susan McNitt
City Auditor
Chairman

Leroy Hansen
Retired
Vice Chair

Frances Kersey
City Clerk
Secretary

Rhnea Stewart
City Treasurer
Treasurer

Catherine O'Connor
Finance Director

Dianna Berry
Personnel Director

Joan Thompson
Solid Waste Manager

W.B. Smith
Legal Investigator

George Brooks
Unit Operations Manager

Billie Smith
Personnel Assistant

Staff

Rena Hutton
Administrator

Debbie Hayes
Analyst

November 14, 2002

The Board of Trustees
Oklahoma City Employee Retirement System
Oklahoma City, Oklahoma 73102

The Comprehensive Annual Financial Report (CAFR) of the Oklahoma City Employee Retirement System ("OCERS") for fiscal year ended June 30, 2002, is submitted herewith. The OCERS' management is responsible for both the accuracy of the data and the completeness of the presentation, including all disclosures. Management's narrative on the financial activities of the OCERS for the fiscal year ended June 30, 2002, is in the management's discussion and analysis (MD&A) section of this report, immediately following the report of independent accountants. To the best of my knowledge and belief the enclosed data is accurate in all material aspects and is reported in a manner designed to present fairly the financial position of the OCERS.

The CAFR is divided into five sections: an Introductory Section, which contains this transmittal letter along with the organizational structure, and the Chairman's Report; a Financial Section, which contains the Report of the Independent Accountants, the financial statements of the OCERS, related notes and required supplementary information; an Investment Section, which contains a report on investment activity, investment policies, investment results, and various investment schedules; an Actuarial Section, which contains the Actuary's Certification Letter, a summary of the results of the actuarial valuation, and actuarial procedures and assumptions; and a Statistical Section, which contains information regarding OCERS' membership. I trust that you and the members will find this CAFR helpful in understanding the Oklahoma City Employee Retirement System, a retirement system which continues to maintain a strong and positive financial future.

PROFILE OF THE OCERS

The Oklahoma City Employee Retirement System was created under the authority granted by Chapter 11 of the Oklahoma State Statutes on January 21, 1958, to provide pension and survivor benefits to all full-time civilian employees of The City of Oklahoma City (The City).

BENEFIT PROVISIONS

The benefit provisions of the OCERS are established by City Ordinance. The OCERS provides normal service retirement and early service retirement benefits for members who attain certain age and service requirements. Coverage for employment-connected (duty) disability benefits is immediate upon entry into the OCERS; while for non-duty-related injuries or illnesses, disability benefits are provided after attainment of fifteen years of service. Members are vested after five years of service and are eligible for benefits at their early or normal service retirement date. For additional information on benefit provisions see the Actuarial Section, Summary of Plan Provisions Evaluated or Considered.

FACTORS AFFECTING FINANCIAL CONDITION

These financial statements are prepared in accordance with generally accepted accounting principles. The accrual basis of accounting is used to record assets, liabilities, revenues, and expenses.

Internal Control

The OCERS' administration is responsible for establishing and maintaining an internal control structure designed to ensure that assets are protected from loss, theft, or misuse and to ensure that adequate accounting information is generated in order to prepare financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. Sufficient internal accounting controls exist to provide reasonable assurance regarding safekeeping of assets and fair presentation of the financial statements and supporting schedules.

Economic Condition and Outlook

An integral part of the overall investment policy is the strategic asset allocation policy. This is designed to provide an optimal mix of asset types with return expectations that reflect expected actuarial liabilities. This emphasizes a maximum diversification of the portfolio that protects the OCERS from declines that a particular asset type may experience in a given period. The Board of Trustees along with the investment advisor is involved in a thorough review of each investment manager and asset type to assure they are fulfilling their role in achieving total portfolio performance. It is important that each investment manager maintain their assigned investment style so the OCERS total portfolio is less likely to experience erratic market fluctuations. As the Board of Trustees looks forward, it does not appear that financial markets, in the near future, will be replicating the long period of above average returns experienced in the prior decade. The financial markets will continue to change and the OCERS will have to be as diligent and proactive as it has been in the past. The Board of Trustees continues to monitor the cost of benefits as well as the financial stability of the OCERS to ensure all benefits promised are paid to our members.

INVESTMENTS

As provided in the plan provisions, Section 40-95 of the Oklahoma City Municipal Code, the Board of Trustees is authorized to invest the plan assets and to take appropriate action regarding the investment, management, and custodianship of the plan assets. The investment responsibilities of the Board of Trustees include establishing reasonable investment objectives, developing investment policy guidelines, selecting investment managers, and evaluating performance results to assure adherence to guidelines and the achievement of objectives.

Primarily, an investment authority known as the “prudent person rule” governs the investments of the OCERS. The prudent person rule establishes a standard for all fiduciaries, which includes anyone who has authority with respect to the fund. The prudent person rule states that fiduciaries shall discharge their duties solely in the interest of the fund participants and beneficiaries and with the degree of diligence, care, and skill which prudent men and women would ordinarily exercise under similar circumstances in a like position.

The Board of Trustees recognizes that the objective of a sound and prudent policy is to produce investment results which will preserve the plan’s assets, as well as maximize its earnings consistent with its long-term needs. Furthermore, through diversification of plan assets over several investment classifications, the Board of Trustees recognizes the need to maintain a balanced investment approach to not only maximize investment results but also to reduce risk. For fiscal year 2002, investments provided a (9.1) percent rate of return (loss). The OCERS earned an annualized rate of return over the past three years of (0.1) percent and 6.3 percent over the last five years.

FUNDING

A pension plan is said to be “well-funded” when it has enough money in reserve to meet all expected future obligations to participants. The OCERS funding objective is to meet long-term benefit promises through contributions that remain approximately level as a percent of member payroll. The greater the level of funding, the larger the ratio of assets accumulated to fund the actuarial accrued liabilities and the greater the level of investment income potential. Also, a better level of funding gives the members a higher degree of assurance that their pension benefits are secure. As of December 31, 2001, the OCERS had an actuarial asset value of \$372,737,000 and funding in excess of the accrued liability of \$28,140,000.

The advantage of a well-funded plan is that assets are irrevocably committed to the payment of benefits. The City’s dedication to provide a financially sound plan for its members is illustrated in the “Solvency Test” found in the Actuarial Section of the CAFR. This illustration presents the accrued liabilities calculated according to the plan funding method and the historical progress made toward the funding of those liabilities. The “funded ratio” presents a positive indication of the financial strength of the OCERS.

CERTIFICATE OF ACHIEVEMENT

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 City Employee Retirement System for its CAFR for the fiscal year ended June 30, 2001. Fiscal year 2001 was the second year that the OCERS submitted and achieved this prestigious award. In order to be awarded a Certificate of Achievement, a report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. I believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements, and I am submitting it to the GFOA to determine its eligibility for another certificate.

PROFESSIONAL SERVICES

The Board of Trustees retains professional consultants and investment managers. These professionals have been chosen based on their ability to provide services that are essential to the effective and efficient operation of the OCERS. All of the professionals that provide service to the Board are listed in the Introductory Section and the Investment Section, Schedule of Fees and Commissions of the CAFR.

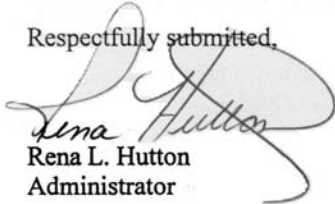
ACKNOWLEDGEMENT

The preparation of this report could not have been accomplished without the dedicated efforts of the City's Controller and her staff. I would like to express my appreciation to all who assisted and contributed to its preparation.

This report is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means for determining responsible stewardship of the assets contributed by the members and the City of Oklahoma City. It is independently audited by the accounting firm of PricewaterhouseCoopers LLP.

On behalf of the Board of Trustees, I would like to take this opportunity to express my gratitude to the City staff, OCERS advisors, and the many people who have worked so diligently to assure the successful operation of the Oklahoma City Employee Retirement System.

Respectfully submitted,



Rena L. Hutton
Administrator

Certificate of Achievement for Excellence in Financial Reporting

Presented to

The Oklahoma City Employee Retirement System

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2001

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.



Imelda Aruwa
President

Jeffrey L. Esser
Executive Director

The Board of Trustees is a policy making body and is responsible for the OCERS' proper operation. The OCERS is administered under its guidance and direction, subject to such rules, regulations, and ordinances as adopted.

The Board consists of one ex-officio member, the City Treasurer; three members appointed by City Council (Council); one member elected from the retired membership; three members elected from the active membership; and two members who serve by position, the City Clerk and the City Auditor. The Municipal Counselor's Office serves as the OCERS' legal advisor.

Susan J. McNitt, Chairman City Auditor	By Position
Frances Kersey, Secretary City Clerk	By Position
Rhnea Stewart, Treasurer City Treasurer	Ex Officio
Leroy Hansen, Vice-Chairman Retired	Elected by retired membership Term expires December 31, 2002
Dianna Berry Personnel Director	Appointed by the Council
Catherine O'Connor Assistant City Manager/Finance Director	Appointed by the Council
Joan Thompson Unit Operations Manager	Appointed by the Council
William B. Smith Legal Investigator	Elected by active membership Term expires June 30, 2003
Billie Smith Personnel Assistant	Elected by active membership Term expires June 30, 2005
George Brooks Unit Operations Manager	Elected by active membership Term expires June 30, 2004

Elected trustees from the active membership serve three-year terms. The elected trustee from the retiree membership serves a one-year term. Appointed trustees continue to serve until replaced by the Council. By position trustees continue to serve as long as they hold their position. There are no limitations on the number of terms an elected trustee may serve.

CONSULTING SERVICES

Legal Counsel

Municipal Counselor's Office
City of Oklahoma City
Amy Douglas

Davis Graham & Stubbs LLP
Cindy Birley
Denver, Colorado

Actuary

Gabriel, Roeder, Smith & Company
Louise M. Gates
Southfield, Michigan

Investment Advisor

Asset Consulting Group, Inc.
George Tarlas
Jason Pulos
St. Louis, Missouri

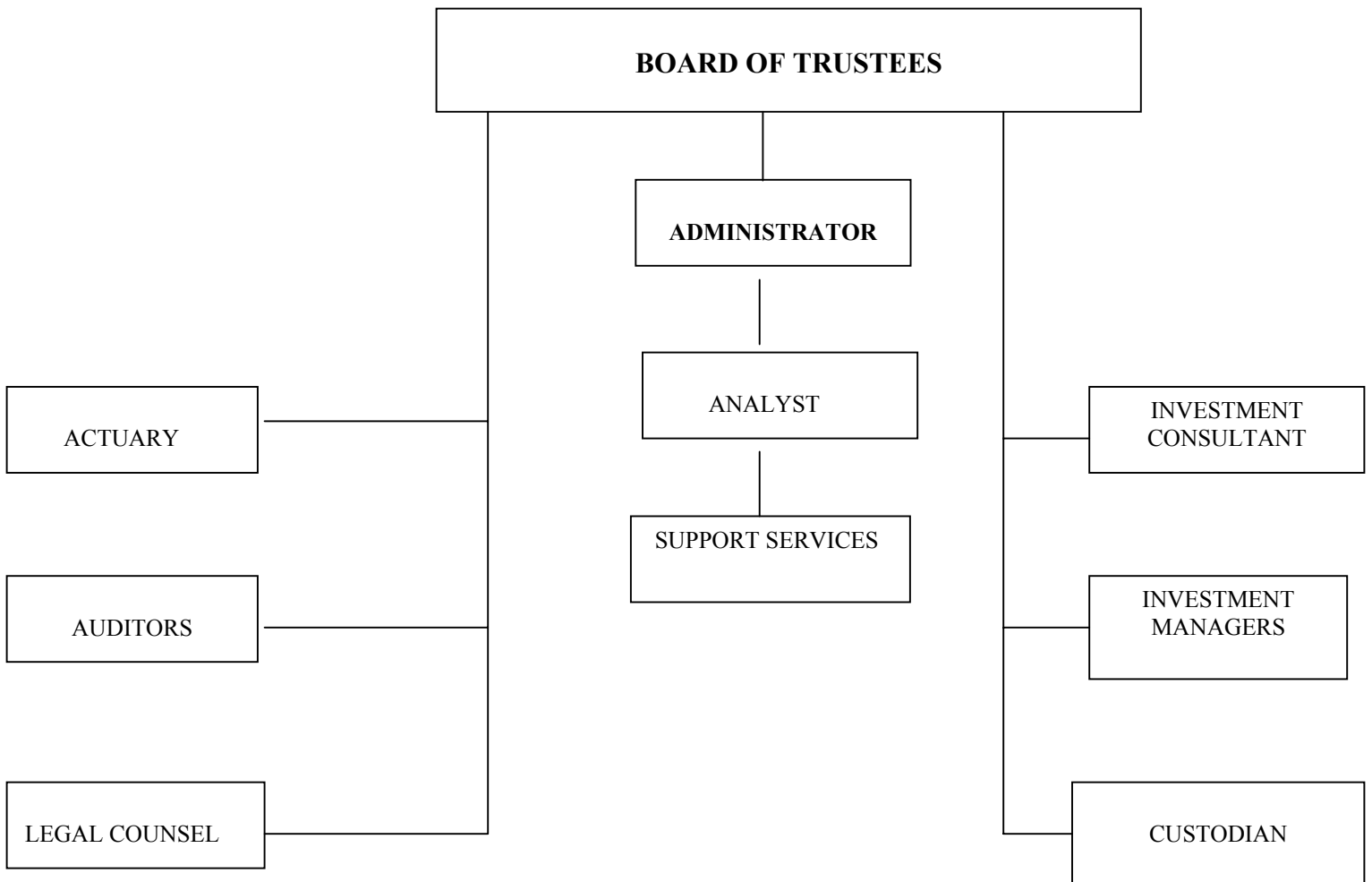
Medical Consultant

Independent Occupational Health Center
Dr. John Munneke, M.D.
Medical Director
Oklahoma City, Oklahoma

Independent Auditor

PricewaterhouseCoopers LLP
Tulsa, Oklahoma

See Investment Section for a list of investment professionals.





Oklahoma City Employee Retirement System

November 14, 2002

The Members of the Oklahoma City Employee Retirement System:

Susan J. McNitt
Chairman

Rena L. Hutton
Administrator

Address:
420 West Main
Suite 110
Oklahoma City, Oklahoma
73102

Phone:
(405) 297-3413
(405) 297-2408

Fax:
(405) 297-2216

The Comprehensive Annual Financial Report summarizes the Oklahoma City Employee Retirement System's (OCERS) financial position, funding activity and benefit payments during the past fiscal year. This report sets forth pertinent financial, investment, actuarial, and statistical data, and is available to all plan participants and the general public.

The Board realizes that proper, prudent, and faithful stewardship is necessary for the accumulation and preservation of assets needed to pay promised retirement benefits. Over the years, the Board has taken steps resulting in a positive financial position and a high level of security for the OCERS. The OCERS invests in various asset classes to provide a balanced investment approach, diversify plan assets and reduce risk. The recent and tragic acts of terrorism and unethical corporate governance have negatively impacted virtually every retirement fund in the nation. Through careful selection of our financial advisor and investment managers, the OCERS has achieved quality investment performance for its assets when compared to other public retirement systems.

The OCERS also continues to improve communication with our members by providing personalized retirement statements and personal interviews with the OCERS Administrator. Opportunities for improvements to the OCERS financial strength and membership benefits are continuously identified and evaluated by the Board.

On behalf of the Board and the OCERS' staff, I would like to take this opportunity to extend a special note of thanks to our membership for their support and constructive input during the past year. I would also like to thank the many dedicated consultants who provide valuable information to the Board. And finally, I would like to recognize the support provided by the Mayor, City Council and City management in helping the OCERS provide a financially secure retirement future for its members.

Sincerely,

A handwritten signature in cursive script that reads "Susan J. McNitt".

Susan J. McNitt, Chairman
Oklahoma City Employee Retirement System

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Financial Section



PricewaterhouseCoopers LLP
Suite 1850
6120 South Yale
Tulsa OK 74136
Telephone (918) 524 1200
Facsimile (918) 524 1300

**Report of Independent Accountants on Compliance
and on Internal Control Over Financial Reporting
Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

The Board of Trustees
Oklahoma City Employee Retirement System

We have audited the financial statements of the Oklahoma City Employee Retirement System (the "OCERS") as of and for the year ended June 30, 2002, and have issued our report thereon dated November 4, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the OCERS' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Trustees and OCERS management and is not intended to be and should not be used by anyone other than those specified parties.

November 4, 2002

MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the Oklahoma City Employee Retirement System (OCERS) annual financial report, the OCERS management provides narrative discussion and analysis of the financial activities of the OCERS for the fiscal year ended June 30, 2002. The financial performance of the OCERS is discussed and analyzed within the context of the accompanying financial statements and disclosure following this section. Introductory information is available in the transmittal letter which precedes Management's Discussion and Analysis. The OCERS is a pension trust of the City of Oklahoma City (City).

Financial Highlights

- OCERS net assets reported in the financial statements are \$338,631,372 for the fiscal year reported. This compares to the previous year when net assets reported were \$373,781,341. These assets are held in trust to pay pension benefits to employees.
- The actuarial value of assets as of the December 31, 2001, actuarial report is \$372,737,000 as compared to the December 31, 2000, value of \$350,398,000.
- The fair value of OCERS investments at June 30, 2002, is \$338,046,061 compared to \$372,671,369 at June 30, 2001.
- The OCERS funded ratio of the actuarial accrued liability at December 31, 2001, was 108.2% compared to 108.4% at December 31, 2000.

Overview of the Financial Statements

Management's Discussion and Analysis introduces the OCERS basic financial statements. The basic financial statements include: (1) statements of plan net assets, (2) statements of changes in plan net assets, and (3) notes to the financial statements. The OCERS also includes in this report additional information to supplement the basic financial statements.

Basic Financial Statements

The OCERS annual report includes two basic financial statements. These statements provide both long-term and short-term information about the overall status of the OCERS. Financial reporting for the OCERS uses a perspective similar to that found in the private sector with its basis in full accrual accounting.

The first of these basic statements is the *Statement of Plan Net Assets*. This statement presents information that includes all of the OCERS assets and liabilities, with the difference reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the OCERS as a whole is improving or deteriorating.

The second OCERS statement is the *Statement of Changes in Plan Net Assets* which reports how the OCERS net assets changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid.

The OCERS is a pension trust fund of the City. Pension trust resources are not available to fund City programs but are held in trust to pay retirement benefits to members.

Financial Analysis

The OCERS net assets at fiscal year end are \$338,631,372. This is a decrease of \$35,149,969 over last year's net assets at fiscal year-end of \$373,781,341. The table on the following page provides a summary of net assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS OKLAHOMA CITY EMPLOYEE RETIREMENT SYSTEM
June 30, 2002

Summary of Net Assets

	<u>2002</u>	<u>2001</u>	<u>2002-2001</u> <u>Amount</u> <u>of Change</u>	<u>2002-2001</u> <u>%</u> <u>Change</u>	<u>2000</u>	<u>2001-2000</u> <u>Amount</u> <u>of Change</u>	<u>2001-2000</u> <u>%</u> <u>Change</u>
Cash	\$453,314	\$463,256	(\$9,942)	(2.1)%	\$537,083	(\$73,827)	(13.7)%
Receivables	997,604	1,085,355	(87,751)	(8.1)	1,208,748	(123,393)	(10.2)
Investments	338,046,061	372,671,369	(34,625,308)	(9.3)	397,288,633	(24,617,264)	(6.2)
Invested securities lending collateral	<u>61,237,332</u>	<u>67,181,379</u>	<u>(5,944,047)</u>	<u>(8.8)</u>	<u>60,151,540</u>	<u>7,029,839</u>	<u>11.7</u>
Total assets	400,734,311	441,401,359	(40,667,048)	(9.2)	459,186,004	(17,784,645)	(3.9)
Liabilities	<u>(62,102,939)</u>	<u>(67,620,018)</u>	<u>5,517,079</u>	<u>8.2</u>	<u>(60,637,906)</u>	<u>(6,982,112)</u>	<u>(11.5)</u>
Net assets	<u>\$338,631,372</u>	<u>\$373,781,341</u>	<u>(\$35,149,969)</u>	<u>(9.4)</u>	<u>\$398,548,098</u>	<u>(\$24,766,757)</u>	<u>(6.2)</u>

The City Council approved a Request for Proposal, on November 24, 1998, to engage a consulting firm to conduct a comprehensive study of the City's International City/County Management Association (ICMA) 401(a) Money Purchase Plan and the OCERS. The purpose of the study was to evaluate the possibility of improving the City's retirement programs through enhancement of retirement benefits, plan restructuring, etc. At the conclusion of the study, the OCERS Board of Trustees proposed enhancements to the Oklahoma City Council. On February 6, 2001, the City Council approved substantial benefit enhancements to the OCERS effective March 2, 2001. Fiscal year 2002 is the first full year in which these benefit enhancements were in effect. They are described as follows:

- Changing the method of awarding cost-of-living adjustments to a maximum of 4% compounded annually.
- Providing a \$5,000 death benefit for retired members.
- Reducing the vesting period from 10 years to five years of service.
- Changing the methodology used for the calculation of average final compensation to the highest 36 months of the last 60 months of service.
- Increasing the benefit multiplier to 2% for all years of service up to a maximum of 50 years of service.
- Reducing normal retirement eligibility to 25 years of service regardless of age.
- Providing for the payment of interest on employee contributions refunded up to a maximum of 8% compounded annually.
- Providing upon retirement that members may elect to receive their benefit in both a partial lump sum up to \$30,000 and a reduced monthly annuity, or a monthly annuity.
- Reducing the employer contribution from 8.35% to 7%.

Market conditions had a significant impact on the OCERS performance through the 2002 and 2001 fiscal years as demonstrated in the table on the following page summarizing the OCERS changes in net assets. The financial position of the OCERS declined during each of these years. However, with the advice of OCERS actuaries, the OCERS Board adopted the "four year smoothed market" actuarial method many years ago. Market fluctuations are "smoothed" over time distributing volatile market shifts over the longer term consistent with the funding perspective of a retirement system. As noted, the funding status of the OCERS actuarial accrued liability did not change substantially from the actuarial studies December 31, 2000, to December 31, 2001. The changes reflected in the funding status of the OCERS actuarial accrued liability from the actuarial studies December 31, 1999, to December 31, 2000, are more significantly the consequence of benefit enhancements discussed above rather than the market volatility experienced in recent years.

MANAGEMENT'S DISCUSSION AND ANALYSIS OKLAHOMA CITY EMPLOYEE RETIREMENT SYSTEM
June 30, 2002

Summary of Changes in Net Assets							
	2002	2001	2002-2001 Amount of Change	2002-2001 %	2000	2001-2000 Amount of Change	2001-2000 %
Additions:							
Contributions	\$11,197,605	\$11,404,033	(\$206,428)	(1.8)%	\$11,498,169	(\$94,136)	(.8)%
Investment income (loss)	(34,256,097)	(26,040,010)	(8,216,087)	(31.6)	52,903,764	(78,943,774)	(149.2)
Net income from securities							
lending activities	194,332	83,328	111,004	133.2	82,307	1,021	1.2
Other	69,362	82,933	(13,571)	(16.4)	52,382	30,551	58.3
Total additions	<u>(22,794,798)</u>	<u>(14,469,716)</u>	<u>(8,325,082)</u>	<u>(57.5)</u>	<u>64,536,622</u>	<u>(79,006,338)</u>	<u>(122.4)</u>
Deductions:							
Benefits	11,047,907	8,667,071	2,380,836	27.5	7,527,183	1,139,888	15.1
Refunds of contributions	983,063	1,225,722	(242,659)	(19.8)	1,939,509	(713,787)	(36.8)
Administrative expenses	324,201	404,248	(80,047)	(19.8)	220,006	184,242	83.7
Total deductions	<u>12,355,171</u>	<u>10,297,041</u>	<u>2,058,130</u>	<u>20.0</u>	<u>9,686,698</u>	<u>610,343</u>	<u>6.3</u>
Change in net assets	(35,149,969)	(24,766,757)	(10,383,212)	(41.9)	54,849,924	(79,616,681)	(145.2)
Beginning net assets	<u>373,781,341</u>	<u>398,548,098</u>	<u>(24,766,757)</u>	<u>(6.2)</u>	<u>343,698,174</u>	<u>54,849,924</u>	<u>16.0</u>
Ending net assets	<u>\$338,631,372</u>	<u>\$373,781,341</u>	<u>(\$35,149,969)</u>	<u>(9.4)</u>	<u>\$398,548,098</u>	<u>(\$24,766,757)</u>	<u>(6.2)</u>

Economic Factors

During the fiscal years ending June 30, 2002 and 2001, OCERS investment income realized a net loss of \$34.3 million and \$26.0 million respectively. These losses are equivalent to 10.1% and 7.0% of the OCERS net assets at June 30, 2002 and 2001. These reductions were primarily the result of changes in the financial markets. The chart below shows the changes in some of the major indices.

Financial Market Summary

	June 30, 2002	June 30, 2001	2002-2001 Change	2002-2001 %	June 30, 2000	2001-2000 Change	2001-2000 %
S&P 500	989.81	1,224.42	(234.61)	(19.16)%	1,454.60	(230.18)	(15.82)%
S&P MidCap 400	489.52	519.12	(29.60)	(5.70)	481.77	37.35	7.75
S&P SmallCap 600	231.33	232.41	(1.08)	(0.46)	210.69	21.72	10.31
Dow Jones Industrial Average	9,243.30	10,502.40	(1,259.10)	(11.99)	10,447.89	54.51	.52
NASDAQ	1,463.21	2,160.54	(697.33)	(32.28)	3,966.11	(1,805.57)	(45.52)
10 Year Bond Yield	4.82%	5.39%	(0.57)%	(10.58)	6.02%	(0.63)%	(10.47)

While this decline in investment income is cause for concern, the decline can be attributed to overall market performance. Equity markets provided above average returns for a number of years. Diversification of investments is one of the primary means the OCERS uses to provide for moderating risk. The Investment Section of this report provides details on the types of investments, asset allocation, and investment approach that guide the OCERS investment decisions. The Investment Section also contains information on some of the specific investments held and their annual return over the last one, three, and five years.

Refer to Note I.D. for concerns regarding continued declines in market values subsequent to the December 31, 2001, actuarial valuation. The OCERS Board continues to monitor market performance relative to the responsibilities of the OCERS to pay benefits when due.

Contacting the OCERS Financial Management

This financial report is designed to provide a general overview of the OCERS finances, comply with finance-related laws and regulations, and demonstrate commitment to public accountability. If you have questions about this report or would like to request additional information, contact the City's Finance Department, Accounting Services Division, at 100 North Walker, Suite 300, Oklahoma City, Oklahoma 73102.

STATEMENTS OF PLAN NET ASSETS

OKLAHOMA CITY EMPLOYEE RETIREMENT SYSTEM

June 30, 2002

with comparative totals for June 30, 2001

	<u>2002</u>	<u>2001</u>
<u>ASSETS</u>		
Pooled cash and cash equivalents -----	\$46,956	\$76,580
Non-pooled cash and cash equivalents -----	406,358	386,676
Total cash -----	<u>453,314</u>	<u>463,256</u>
Receivables:		
Interest and dividends -----	718,260	822,124
Employer :		
Due from Oklahoma City -----	273,300	263,231
Other -----	6,044	-
Total receivables -----	<u>997,604</u>	<u>1,085,355</u>
Investments, at fair value		
Domestic common stock -----	59,412,202	73,574,000
Passive domestic stock fund -----	98,648,790	116,930,665
Government securities -----	57,313,168	59,658,120
Passive bond funds -----	88,537,205	90,400,312
International stock -----	13,994,804	13,342,417
Passive international stock funds -----	13,750,908	13,768,561
Treasury money market fund -----	4,881,192	3,836,182
Oklahoma City judgements -----	1,507,792	1,161,112
Total investments -----	<u>338,046,061</u>	<u>372,671,369</u>
Invested securities lending collateral -----	61,237,332	67,181,379
Total assets -----	<u>400,734,311</u>	<u>441,401,359</u>
<u>LIABILITIES</u>		
Accounts payable -----	779,322	351,202
Wages and benefits payable -----	69,508	73,435
Securities lending collateral -----	61,237,332	67,181,379
Compensated absences, current -----	11,302	5,064
Compensated absences, non-current -----	5,475	8,938
Total liabilities -----	<u>62,102,939</u>	<u>67,620,018</u>
Net assets held in trust for pension benefits (1) -----	<u>\$338,631,372</u>	<u>\$373,781,341</u>

(1) A schedule of funding progress is presented in the Required Supplementary Information section of this report.

See accompanying notes to financial statements.

**STATEMENTS OF CHANGES
IN PLAN NET ASSETS**
year ended June 30, 2002
with comparative totals for the year ended June 30, 2001

OKLAHOMA CITY EMPLOYEE RETIREMENT SYSTEM

	<u>2002</u>	<u>2001</u>
<u>ADDITIONS</u>		
Contributions:		
Employer -----	\$6,028,887	\$6,484,197
Plan members -----	5,168,718	4,919,836
Total contributions -----	<u>11,197,605</u>	<u>11,404,033</u>
Investment income:		
Net appreciation (depreciation) in fair value of investments -----	(36,693,231)	(30,738,217)
Interest -----	2,380,503	4,784,812
Dividends -----	873,094	758,228
	<u>(33,439,634)</u>	<u>(25,195,177)</u>
Less: investment expense -----	(816,463)	(844,833)
Net investment income (loss) -----	<u>(34,256,097)</u>	<u>(26,040,010)</u>
From securities lending activities:		
Securities lending income -----	1,510,878	2,862,504
Securities lending expenses:		
Borrower rebates -----	(1,257,046)	(2,712,934)
Management fees -----	(59,500)	(66,242)
Net income from securities lending activities -----	<u>194,332</u>	<u>83,328</u>
Other -----	69,362	82,933
Total additions -----	<u>(22,794,798)</u>	<u>(14,469,716)</u>
<u>DEDUCTIONS</u>		
Benefits -----	11,047,907	8,667,071
Refunds of contributions -----	983,063	1,225,722
Administrative expenses -----	324,201	404,248
Total deductions -----	<u>12,355,171</u>	<u>10,297,041</u>
Change in net assets -----	<u>(35,149,969)</u>	<u>(24,766,757)</u>
Net assets held in trust for pension benefits:		
Beginning of year -----	<u>373,781,341</u>	<u>398,548,098</u>
End of year -----	<u>\$338,631,372</u>	<u>\$373,781,341</u>

See accompanying notes to financial statements.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

I. A. INTRODUCTION

The accounting and reporting framework and the more significant accounting principles and practices are discussed in subsequent sections of this Note. The remainder of the Notes are organized to provide explanations, including required disclosures, of the Oklahoma City Employee Retirement System (OCERS) financial activities for the fiscal year ended June 30, 2002.

I. B. BASIS OF PRESENTATION

I. B. 1. RELATIONSHIP TO THE CITY OF OKLAHOMA CITY, OKLAHOMA

The OCERS was authorized and created by Oklahoma City (City) ordinance on January 21, 1958, to hold funds in trust for its members. The purpose of the OCERS is to provide retirement benefits and disability allowances for substantially all full-time, civilian employees of the City and public trusts included in the City's reporting entity. Assets are held separately from the City and may be used only for the payment of benefits to the members. OCERS administers a single employer defined benefit pension plan. See Note III. for description of the plan.

The OCERS Board of Trustees (Board) is comprised of ten members. Three are City employees or department heads appointed by the City Council from the various City departments. The City Clerk is a member and acts as the Clerk and Secretary of the Board. The City Auditor is a member by position. Three members are elected by ballot of active City employees. One member is elected by ballot of retired City employees. The City Treasurer serves as an ex officio member (non-voting) and acts as the Treasurer of the OCERS.

Method of Reporting in the City's Comprehensive Annual Financial Report (CAFR)

The OCERS is reported in the City's CAFR as a pension trust fund included in the City's primary government.

I. B. 2. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The financial statements of the OCERS are prepared in accordance with generally accepted accounting principles (GAAP). The OCERS applies all relevant Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The OCERS does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

Financial statements of the OCERS are prepared on the accrual basis. Revenues are recognized when earned and expenses are recorded when incurred regardless of the timing of related cash flows. All assets and liabilities (both current and non-current) are included in the statement of net assets. Plan member contributions to the OCERS are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the City has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

I. C. USE OF ESTIMATES

The preparation of the OCERS financial statements in conformity with generally accepted accounting principles requires the OCERS 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. The actuarial information included in the required supplementary information as of the benefit information date, the changes in OCERS net assets during the reporting period, and applicable disclosures of contingent assets and liabilities at the date of the financial statements could also be affected. Actual results could differ from reported estimates.

I. D. RISKS AND UNCERTAINTIES

Investments and investment securities underlying managed fund investments are exposed to various risks, such as interest rate, market, and credit risks. Due to the risks associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities may occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

Contributions to the OCERS and the actuarial information 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 effects of such changes could be material to the financial statements. Subsequent to the December 31, 2001, actuarial valuation date the market has significantly declined and has continued to demonstrate volatility.

I. E. ASSETS AND LIABILITIES

I. E. 1. CASH AND INVESTMENTS

The OCERS classifies only cash as cash equivalents in order to properly report investment activity.

Investments are reported at fair value which is determined using selected bases. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Market quotations are as of June 30, 2002. Managed funds not listed on an established market are reported at estimated fair value as determined by the fund manager based on quoted sales prices of the underlying securities. The carrying amount of cash deposits reasonably estimates fair value. The composition of OCERS investments with respective fair values and additional cash and investment information are presented in Note II. A. 1.

For the years ended June 30, 2002 and 2001, net realized gains (losses) were (\$12,594,778) and \$19,657,965, respectively. Net realized gains (losses) are calculated independently of the calculation of net appreciation (depreciation) and include investments sold in the current year that had been held for more than one year for which unrealized gains and losses were reported in net appreciation (depreciation) in prior years.

I. E. 2. CAPITAL ASSETS AND EMPLOYEE LIABILITIES

The OCERS owns no significant capital assets and has two employees. Therefore, reporting and disclosures related to capital assets, depreciation, and employment liabilities are not material.

II. DETAIL NOTES ON ASSETS

II. A. ASSETS

II. A. 1. DEPOSITS AND INVESTMENTS

Deposits

The OCERS pooled cash is insured or collateralized with securities held by the City or its agent in the City's name. It is OCERS policy for deposits to be 110% secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation insurance. OCERS non-pooled deposits with a bank balance of \$20,000 are insured or collateralized with securities held by the OCERS or by its agent in the OCERS or the City's name. The carrying amount of these deposits is \$406,358.

Investments

The OCERS directs investments activity within the framework of the adopted Statement of Investment Policy Objectives and Guidelines, as amended December 2000. The Board follows prudent standards for the preservation of capital, with the goal to achieve the highest possible rate of return consistent with the tolerance for risk determined by the Board in its role as fiduciary. The Prudent Person Rule governs the OCERS Board in its choice of investment alternatives as it may in its sole discretion elect from time to time. The primary investment focus of the Board is to invest in domestic and international common stock, government and corporate bonds, short-term fixed income securities maturing in one year or less, index funds, mutual funds, and City judgements up to 2% of the market value of OCERS assets or other alternatives as allowed by Oklahoma state law.

The OCERS contractually delegates investment management to investment managers. As required, OCERS investments are categorized to give an indication of the level of custodial risk assumed at year-end. Domestic and international common stocks and government securities are uninsured and unregistered, with securities held by the counterparty or its trust department or agent, held in the nominee's name (Investment Manager) for the benefit of the OCERS but not in its name. Other investment types are not subject to categorization. For additional disclosure of custodial risk, see the following Securities Lending Transactions Note.

The composition of the OCERS investments is as follows:

<u>Types of investments</u>	<u>2002</u>		<u>2001</u>	
	<u>Fair Value/ Carrying Amount</u>	<u>Cost</u>	<u>Fair Value/ Carrying Amount</u>	<u>Cost</u>
Domestic common stock	\$59,412,202	\$64,717,998	\$73,574,000	\$68,100,864
Passive domestic stock fund	98,648,790	95,563,124	116,930,665	92,030,567
Government securities	57,313,168	57,223,094	59,658,120	61,035,518
Passive bond funds	88,537,205	77,234,409	90,400,312	85,699,879
International stock	13,994,804	16,626,597	13,342,417	14,452,495
Passive international stock funds	13,750,908	13,858,546	13,768,561	15,822,989
Treasury money market fund	4,881,192	4,881,192	3,836,182	3,836,182
Oklahoma City judgements	<u>1,507,792</u>	<u>1,507,792</u>	<u>1,161,112</u>	<u>1,161,112</u>
Total investments	<u>\$338,046,061</u>	<u>\$331,612,752</u>	<u>\$372,671,369</u>	<u>\$342,139,606</u>

Securities Lending Transactions

City ordinance and the Board of Trustees permit the OCERS to lend securities with a simultaneous agreement to return collateral for the same securities in the future with agent indemnification in the event of borrower default. Securities lent may consist of both equity and fixed income securities. Collateral may consist of cash or securities issued or guaranteed by the U.S. government or its agencies. The OCERS may use or invest cash collateral at its own risk. However, collateral other than cash may not be pledged, sold, or otherwise transferred without borrower default. During fiscal year 2002, substantially all collateral consisted of cash. The OCERS securities custodial bank is the agent in lending the plan's securities for cash collateral of 102 percent. At year-end, the OCERS has no credit risk exposure to borrowers because the amounts the OCERS owes the borrowers exceed the amounts the borrowers owe the OCERS. The contract with the lending agent requires them to indemnify the OCERS if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the OCERS for income distributions by the securities' issuers while the securities are on loan.

All securities loans can be terminated on demand by either the OCERS or the borrower, although the average term of the loans is one day. The term to maturity of the securities loans is matched with the term to maturity of the investment of the cash collateral by investing in overnight repurchase agreements and master notes with overnight put provisions. The contract with the agent requires that the difference between the average weighted maturity of loan transactions and the average weighted maturity of permitted investments shall not exceed three days. Such matching existed at year-end.

(continued)

Net income produced from securities lending activities described above for fiscal year 2002 was \$72,775. The market value of securities on loan as of June 30 was \$59,102,937. The OCERS contractually delegates securities lending management. As required, OCERS investments are categorized to give an indication of the level of custodial risk assumed at year-end. Invested securities lending collateral of \$61,237,332 is uninsured and unregistered, with securities held by the counterparty or its trust department or agent, in the OCERS name. Underlying securities on loan are not subject to risk categorization since securities lending collateral is reported in the financial statements.

The OCERS also receives securities lending income as a participant in one of the managed (mutual) funds it holds as an investment. Within the fund, the OCERS does not own or hold specific identifiable securities that may be loaned or any corresponding collateral received as the result of transactions. The OCERS is not a direct party to the securities lending agreement. Risks, loaned securities, collateral, or other securities lending terms cannot be specifically assigned to the OCERS as a participant in the managed fund. Selection of and participation in the managed fund inclusive of securities lending activity was approved by the OCERS Board of Trustees. OCERS income received from securities lending activities of the fund was \$121,557 for fiscal year 2002.

Derivatives

The OCERS is permitted to own derivative investments. For the reported fiscal year, this option was exercised only in connection with managed (mutual) funds. Because the OCERS does not own any specific identifiable investment securities held by managed 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 OCERS in accordance with its investment policy guidelines including risk assessment. Derivative investments comprise approximately 0.4 percent of the OCERS portfolio.

II. A. 2. RECEIVABLES FROM THE CITY

<u>Amount</u>			<u>Description</u>
<u>Employee</u>	<u>Employer</u>	<u>Total</u>	
\$354	\$414	\$768	General Fund – Juvenile Justice
50,012	58,344	108,356	General Fund
1,561	1,821	3,382	Police Fund
471	549	1,020	Fire Fund
3,562	4,155	7,717	Emergency Management Fund
4,569	5,331	9,900	Airport Fund
5,553	6,478	12,031	Street and Alley Fund
2,427	2,834	5,261	Equipment Services Fund
521	608	1,129	Risk Management Fund
4,749	5,541	10,290	Information Technology Fund
216	252	468	Print Shop Fund
7,055	8,231	15,286	Solid Waste Management Fund
14,627	17,064	31,691	Water Fund
10,915	12,733	23,648	Wastewater Fund
100	116	216	Police/Fire Equipment Use Tax Fund
3,525	4,127	7,652	Grants Management Fund
454	530	984	Metropolitan Projects Tax Fund
2,550	2,976	5,526	Oklahoma City Public Property Authority – Hefner Golf Course
2,339	2,729	5,068	Oklahoma City Public Property Authority – Lincoln Golf Course
1,503	1,754	3,257	Oklahoma City Public Property Authority – Trospen Golf Course
2,257	2,633	4,890	Oklahoma City Public Property Authority – Earlywine Golf Course
704	822	1,526	Oklahoma City Public Property Authority – Stewart Golf Course
5,021	5,857	10,878	Oklahoma City Zoological Trust
769	897	1,666	Transportation Fund
<u>318</u>	<u>372</u>	<u>690</u>	City and Schools Sales Tax Fund
<u>\$126,132</u>	<u>\$147,168</u>	<u>\$273,300</u>	Totals

There are no receivables older than ninety days.

III. PLAN DESCRIPTION AND BENEFIT PROVISIONS

The OCERS is the administrator of a single employer defined benefit local government retirement plan for the City of Oklahoma City. See Note I. B. 1. Plan amendments and benefit provisions are established and amended by City Council action. Unless otherwise indicated, the information in this Note is provided as of the latest actuarial valuation, December 31, 2001. Actuarial valuations are performed annually.

Membership in the OCERS is as follows:

	<u>December 31, 2001</u>
Active employees - nonvested	806
Active employees - vested	1,648
Retirees and beneficiaries currently receiving benefits	962
Terminated plan members entitled to but not yet receiving benefits	49

Summary of Benefit Provisions:

The OCERS was established by City Council Ordinance in 1958 to hold funds in trust to provide pension, disability, and survivor benefits to its members. Participants vest with five years of service and are eligible for benefits as described in the following summary:

- 30 years credited service regardless of age, or age 60 with 10 years (Pre March 1967 hires), or
- 25 years credited service regardless of age, or age 65 with 5 years (Post March 1967 hires), or
- Age 55 with 5 years on a reduced basis, or
- 5 years service with benefits to begin at age 65 (60 with 10 years if Pre March 1967 hire)

Benefit provisions include both duty and non-duty disability retirement and death benefits. Average final compensation (AFC) determines the retirement benefit and is calculated as the highest 36 months of earned employee compensation (excluding compensation for unused vacation leave) during the last 60 months of service. Generally, the normal retirement benefit is 2% of AFC for each full year of service, plus 1/12 of 2% for each whole month of a partial year of service to a maximum of 100% of AFC. There are modifications to the normal retirement benefit for early and deferred retirement, duty and non-duty disability, and death benefits.

Post-Retirement Adjustments

Pensions may be adjusted annually for changes in the Consumer Price Index. The maximum adjustment is 4% compounded annually.

IV. CONTRIBUTION REQUIREMENTS, FUNDING POLICIES, AND RESERVES

Contribution requirements are actuarially determined and established by City Council ordinance. The employer contributes 7% and the employee contributes 6% of covered payroll. Administrative costs are funded with investment earnings.

There are no assets legally reserved for purposes other than the payment of plan member benefits. The OCERS held no individual investments (other than U.S. government and U.S. government guaranteed obligations) whose market value exceeds five percent or more of net assets available for benefits. There are no long-term contracts for contributions.

Annual Required Contributions

Actuarial assumptions and other information used to determine the annual required contributions (ARC) are located in the Required Supplementary Information and Supporting Schedules section of this report.

V. RELATED PARTY TRANSACTIONS

As of June 30, 2002 and 2001, the OCERS held judgements in the amounts of \$1,507,792 and \$1,161,112, respectively. The judgements earn 7.48 – 9.95% interest rates. State statutes permit the OCERS to purchase judgements rendered against the City throughout the year. In November of each year, the City (through the property tax levy process) pays the OCERS for the principal amount and earned interest for each purchased judgement.

The OCERS reimburses the City for the cost of providing financial and other services. Amounts charged are expensed during the period incurred. For fiscal years ending June 30, 2002 and 2001, the OCERS reported charges for City services of \$63,725 and \$65,986, respectively.

The City also reimburses the OCERS for the cost of providing services. OCERS staff provided administrative services for the City's deferred compensation and defined contribution plans. However, responsibilities are contractually limited and the OCERS does not hold or administer these plan assets in a trustee capacity. Revenue for services is reported during the period earned. For fiscal years ending June 30, 2002, and 2001, the OCERS reported income for services of \$25,361 and \$24,527, respectively.

Required Supplementary Information
and Supporting Schedules

Defined Benefit Pension Trust

SCHEDULE OF FUNDING PROGRESS (2)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) --entry age (b)	Unfunded AAL (UAAL) (b-a) (1)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
12/31/01	\$372,737,000	\$344,597,000	(\$28,140,000)	108%	\$83,862,000	(34)%
12/31/00	350,398,000	323,300,000	(27,098,000)	108	80,503,000	(34)
12/31/99	307,872,000	245,905,000	(61,967,000)	125	80,897,000	(77)
12/31/98	260,877,000	238,655,000	(22,222,000)	109	79,195,000	(28)
12/31/97	219,602,000	219,098,000	(504,000)	100	74,752,000	(1)
12/31/96	193,160,000	197,622,000	4,462,000	98	70,972,000	6

- (1) Brackets indicate funding in excess of actuarial accrued liability.
- (2) Amounts are reported in even thousands.

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year-ended	Employer's Contribution Rate (1)	Annual Required Contribution (1)	Percentage Contributed
2002	7.00%	\$6,028,887(2)	100%
2001	7.00	6,484,197	100
2000	8.35	6,690,670	100
1999	8.35	6,449,969	100
1998	8.35	6,207,634	100
1997	8.35	5,989,526	100

- (1) The annual required contribution as reported in the actuarial report is based on calendar years (December 31). The OCERS financial statements are based on June 30 fiscal year-ends, therefore, the amounts shown in the actuarial report will not tie to this schedule.
- (2) On February 6, 2001, the City Council approved a change in the employer's rate from 8.35% to 7.0% effective March 2, 2001.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Valuation date	12/31/01
Actuarial cost method	Individual entry age
Amortization method	Level percentage of payroll
Amortization period	30 years, open (1)
Actuarial asset valuation method	4 year smoothed market
Actuarial Assumptions	
Investment rate of return	8.0%
Post retirement benefit increases (maximum)	4.0%
Inflation	4.5%
Projected salary increases	5.0% to 8.8%

- (1) The employer contribution rate is established pursuant to local ordinance. The amortization period applicable to the surplus varies from year to year in accordance with the established rate. This period is used for financial reporting purposes only.

SCHEDULE OF ADMINISTRATIVE EXPENSES

Personal services:	
Staff salaries and benefits	\$140,717
Compensated absences	<u>2,775</u>
Total personal services	<u>143,492</u>
Professional services:	
Actuarial	39,951
Accounting	63,725
Audit	10,410
Medical exams	5,050
Bank fees	9,180
Legal fees	<u>36,586</u>
Total professional services	<u>164,902</u>
Training, education and travel	<u>8,635</u>
Miscellaneous:	
Supplies	2,701
Other	<u>4,471</u>
Total miscellaneous	<u>7,172</u>
Total administrative expenses	<u>\$324,201</u>

SCHEDULE OF INVESTMENT EXPENSES

Management fees	\$684,629
Custodial fees	69,892
Investment performance analysis	<u>61,942</u>
Total investment expenses	<u>\$816,463</u>
Securities lending management fees	<u>\$59,500</u>

SCHEDULE OF PAYMENTS TO CONSULTANTS

Gabriel, Roeder, Smith & Co.	\$39,951	Actuarial
Asset Consulting Group, Inc.	\$40,000	Consulting
Fiduciary Capital Advisors	\$21,942	Consulting
PricewaterhouseCoopers LLP	\$10,410	Auditing
Davis Graham & Stubbs LLP	\$36,586	Legal

For fees and commissions paid to investment professionals, see the Schedule of Fees and Commissions in the Investment Section of this report.

Investment Section



Asset Consulting Group, Inc.

7700 Bonhomme Ave.
Suite 650
St. Louis, MO 63105
314-862-4848
FAX 314-862-5967

September 26, 2002

Oklahoma City Employees Retirement System
Oklahoma City, Oklahoma

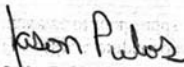
The investment performance returns as shown in the five year investment performance review are all calculated using information derived from monthly statements provided by the Fund's custodial institution. Monthly returns are calculated and linked to provide compounded, annual, and annualized rates of return for periods of one, three, and five years. An effort is made to follow AIMR (Association for Investment Management and Research) guidelines in the preparation of these numbers whenever possible. The returns as shown in this report are gross of transaction costs and investment manager fees, pursuant to AIMR Guidelines.

The investment performance of the Total Fund and its segments is compared to relevant benchmark returns and presented to the Board of Trustees on a monthly basis. For the Total Fund, the benchmark is an index which reflects the asset mix policy established by the Board of Trustees and is referred to as the Policy Portfolio. Comparisons to the Policy Portfolio, the median total fund universe, and the median return of a universe of total funds with similar asset allocation are presented to the Board of Trustees on a quarterly basis.

All of the above comparisons are included in the Statement of Investment Policy, Objectives, and Guidelines, and are also reported to the Board of Trustees on a quarterly basis. Investment objectives are spelled out for the Total Fund and each of the segments for one year time periods and longer (3-5 years), and include protecting the fund corpus, both nominally and in terms of inflation, achieving a return in excess of the risk free rate of return (90 day U.S. T-bills), achieving a return in excess of the median return of a universe of funds with similar asset mix, and achieving a return in excess of that of an unmanaged index return (constructed to reflect the asset mix of the Fund's assets). In addition, investment managers are monitored for adherence to style, both on a returns-based regression analysis as well as a holdings-based characteristic analysis versus the appropriate benchmarks specified in the Statement of Investment Policy, Objectives, and Guidelines. Current asset allocation ranges, and targets within those ranges, are measured against target ranges established in the Statement of Investment Policy, Objectives, and Guidelines on a monthly basis. The status of each is also presented on a monthly investment performance review submitted to the Board of Trustees.

The risk profile of the Total Fund and its segments is also measured quarterly for one, three, and five years, and includes the usual MPT statistics: alpha, beta, R^2 , and standard deviation. To further reduce risk, Fund assets are diversified by asset class, by security, by investment manager, and by investment manager style. The Fund may be invested no more than 60% in equity securities, including international.

Respectfully submitted,


Jason Pulos
Director, Consultant

Strategic Planning

Manager Selection

Performance Evaluation

Investment Perspective

INVESTMENT POLICY SUMMARY

Investment Purpose and Objective

The assets of the OCERS will be invested in a diversified portfolio to achieve attractive real rates of return and the highest possible rate of return consistent with the tolerance of risk as determined by the OCERS in its role as a fiduciary. The Prudent Person Rule shall govern the OCERS in its choice of investment alternatives as it may in its sole discretion elect from time to time. The primary investment focus is to invest in domestic and international common stocks, government and corporate bonds, short-term fixed income securities maturing in one year or less (cash equivalents), index funds, mutual funds, and judgements up to two percent of the market value of the assets or other alternatives as allowed by Oklahoma state law.

Investment Approach and Diversification

Although the assets are a balanced fund (comprised of stocks, bonds, and cash equivalents), the OCERS elected to utilize equity and fixed income specialists for each component of the assets. The OCERS, through its consultant, monitors the portfolio characteristics of the investment managers in order to ensure that their investment styles are diverse as well as complementary. Characteristics for fixed income managers are monitored for average years to maturity and duration. Characteristics for the equity managers shall include price to earnings ratio, dividend yield, beta, price to book values, return on equity, and 5 year trailing earnings growth. The investment managers should **not:**

1. Invest more than 5% of the assets under management in the securities of any one issuer based on cost, except securities of the U.S. government, measured at the time of investment.
2. Invest more than 50% of the assets under management in any one sector of the market based on cost, measured at the time of investment.

Investment Type and Quality

The types of investments authorized are as follows:

1. Domestic Common Stocks - Limit common stock purchases to those issues on which the investment manager's research or portfolio management personnel maintain current opinions. In evaluating the potential total return of a security considered for purchase, the research should consider both the perceived ability of the company to appreciate future growth in earnings as well as current dividend return.
2. Fixed Income Securities (maturity greater than one year) - Fixed income securities must be rated at least Single A by both Moody's and Standard and Poor's to qualify for purchase. Issues subsequently downgraded below a Single A rating must be sold within 60 days. Investment managers may appear before the OCERS to seek an exception to the sale of the issue within the 60-day provision.
3. Cash Equivalents – Include A1, P1 rated commercial paper, obligations of the U.S. government or its agencies maturing in one year or less, broker's or bank repurchase agreements-collateralized by the U.S. government/agency assets, money market mutual funds, or bank short-term investment funds.
4. International Investments and International Index Funds - Investment company shares, collective trust funds of banks or trust companies, and insurance company separate accounts shall have at least a five year history, \$50 million in assets under management, the same management for the previous five years, and the same investment philosophy/strategy for the previous five years. Should an international fund be utilized, the fund will strive to replicate Morgan Stanley Capital International/Europe, Australia, and Far East Index.
5. Domestic Index and Mutual Funds - Investment company shares, collective trust funds of bank or trust companies, and insurance company separate accounts shall have at least a five year history, \$50 million in assets under management, the same management for the previous five years, and the same investment philosophy/strategy for the previous five years. The domestic index fund(s) must strive to replicate the return of the Standard and Poor's 500 Stock Index or the Lehman Government/Credit Index.
6. Judgements - Judgements are purchased by the City Treasurer for the benefit of the OCERS. The interest rate is determined annually as the average U.S. Treasury Bill rate of the preceding calendar year as certified by the Administrator Director of the Courts of the State Treasurer on the first business day of January, plus four percentage points but not to exceed ten percent.

7. American Depository Receipts - American Depository Receipts (ADR's) will **not** be an allowable investment when the total assets have an allocated portion in international investments. In the absence of international investments, each manager will be limited to a maximum of 5% of their holdings for the purchase of ADR's.

Asset Allocation Ranges

The OCERS has adopted the asset allocation policy shown below. Target percentages have been determined for each asset class along with allocation ranges. Percentage allocations are intended to serve as guidelines. The OCERS is not required to remain strictly within the designated ranges when market conditions or an investment transition may require an interim investment strategy, and therefore a temporary imbalance in the asset mix.

	Minimum	Target	Maximum
Domestic Stocks	25.0%	52.5%	57.5%
International	5.0%	7.5%	12.5%
Fixed Income	30.0%	40.0%	70.0%

Rebalancing

It is the intent of OCERS to rebalance the assets back to target allocations when the allocations fall outside the minimum and maximum ranges by plus or minus five percent. The assets shall be rebalanced either by the direction of cash flow or the shifting of assets. Rebalancing will be accomplished, market conditions permitting, within 30 days of the receipt of the information reporting the imbalance.

Cash Reserve Policy

If the OCERS elects to reduce risk exposure by raising cash reserves it may, at its discretion, retain a manager to manage such cash reserves in a special cash reserve fund. The implementation of a cash reserve policy will not be based on interest rates or market forecasts, but will be driven by the current level of interest rates as reflected by the discount rate as determined by the Federal Reserve.

Performance Objectives

The OCERS total return will be expected to provide equal or superior results, using a three to five year moving average, relative to the following benchmarks:

1. An absolute return objective of the Consumer Price Index plus four percent compounded annually.
2. An absolute return equal to the actuary's assumed rate of interest.
3. A return exceeding the 90-Day U.S. Treasury Bill rate.
4. Domestic equity fund returns, which exceed the S&P 500 Stock Index, return by two percent per year and fixed income returns, which exceed the Lehman Brothers Government/Credit Index by one percent per year.
5. Stock and bond returns which fall into the top 25% of the Consultant's Universe or other representative universe approved by the OCERS of common stock and bond funds with some consistency.
6. Passive domestic returns which replicate the return of the Standard and Poor's 500 Stock Index, passive fixed returns which replicate the return of the Lehman Government/Credit Index, and passive international returns which replicate the return of the MSCI/EAFE International Index by one percent per year.
7. Active international equity returns, which exceed the MSCI/EAFE Index by one percent per year.

Manager Performance

Manager performance shall be monitored using a three to five year moving average and performance will be compared to:

1. An unmanaged market index fund.
2. A relative return target of the top 50% of the Consultant's manager universe.
3. An absolute return target of the Consumer Price Index plus 4% compounded annually.
4. Performance will be reviewed for periods of three months, one, three, and five years.

Manager Termination

Investment managers will be considered for termination if one or more of the following occur:

1. Major changes in professional personnel.
2. Major changes in the investment process.
3. There appears to be minimal probability of the manager achieving long-term investment objectives.
4. The trend of the manager's percentile ranking versus the Consultant's universe is down.
5. The trend of the manager's ranking versus his own peer group is down.

Proxy Voting Guidelines

The investment managers vote proxies. Routine matters that regularly appear on shareholder's ballots such as approval of outside accountants and re-election of directors will be voted with management. If proposals are in clear violation of investor interests, the proxy will be voted against management.

Securities Lending

The OCERS has authorized its custodian bank to lend securities on a fully collateralized basis in order to increase income. The OCERS may also authorize any of its investment managers to utilize securities lending, in an effort to reduce transaction costs. The securities lender is not permitted to use derivatives of any kind in its lending activities. The custodian bank may invest income derived from securities lending as detailed in any specific securities lending agreement.

INVESTMENT SUMMARY

<u>Type of Investments</u>	<u>Cost of Holdings</u>	<u>Money Market</u>	<u>Cost</u>	<u>Market Value</u>	<u>% of Total Market Value</u>
Domestic common stock:					
Active, Value	\$33,922,511	\$798,038	\$34,720,549	\$31,651,815	9.35%
Active, Mid Cap Growth	14,985,687	471,145	15,456,832	14,926,940	4.41
Active, Large Cap Growth	16,425,606	1,119,560	17,545,166	15,273,702	4.51
Passive, S&P 500	95,563,124	-	95,563,124	98,648,790	29.13
Government securities:					
Active	57,223,094	143,989	57,367,083	58,071,769	17.14
Passive	77,234,409	-	77,234,409	88,537,205	26.13
International stocks:					
Active	16,010,791	-	16,010,791	13,994,804	4.13
Passive	13,858,546	-	13,858,546	13,750,908	4.06
Other:					
Treasury money market fund	-	2,348,460	2,348,460	2,348,460	0.69
Oklahoma City judgements	<u>\$1,507,792</u>	<u>-</u>	<u>1,507,792</u>	<u>1,507,792</u>	<u>0.45</u>
Total	<u>\$326,731,560</u>	<u>\$4,881,192</u>	<u>\$331,612,752</u>	338,712,185	<u>100.00%</u>
Accrued interest and dividend income:					
Government securities				(614,612)	
Domestic common stock				(51,512)	
Total				<u>\$338,046,061</u>	

For purposes of portfolio evaluation by consultant and to follow the Investment Policy guidelines, the investment categorization on this schedule does not specifically tie to the Statement of Net Plan Assets since interest income, dividend income and money market positions are included as shown above. The Statement of Net Plan Assets reports only the position of securities for each category and/or investment style.

INVESTMENT RESULTS FOR PERIODS ENDING JUNE 30

	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>
Total Portfolio:			
OCERS Composite	(9.1)%	(0.1)%	6.3%
Median Total Fund	(4.9)	0.1	5.7
Median Total Fund (between 55-97% Equity)	(5.7)	0.2	5.7
Consumer Price Index (CPI)	1.0	2.6	2.3
Domestic Stocks:			
Passive Equity:			
State Street Global Advisors S & P 500 Flagship Fund	(18.0)%	(9.2)%	3.7%
Standard & Poor's 500 Index	(18.0)	(9.2)	3.7
Large Cap Value:			
Tom Johnson Investment Management	(20.6)%	(11.8)%	3.7%
Russell 1000 Value Index	(9.0)	(2.9)	6.5
Mid Cap Growth:			
Nicholas Applegate	(35.1)%	(12.2)%	1.0%
Russell Mid Cap Growth Index	(26.3)	(9.2)	2.3
Large Cap Growth:			
Janus (inception July 1, 1998)	(31.5)%	(14.5)%	-
Russell 1000 Growth	(26.5)	(16.2)	-
Domestic Bonds:			
Passive Fixed Income:			
State Street Global Advisors Passive Bond Market Securities Lending Index Fund	8.7%	7.8%	7.3%
Lehman Brothers Government/Credit Index	8.2	7.9	7.5
Active Fixed Income:			
Hoisington Investment Management Company (inception July 1, 1998)	8.8%	8.3%	-
Lehman Brothers Government/Credit Index	8.2	7.9	-
International Stocks:			
Passive International Equity:			
State Street Global Advisors MSCI Provisional Securities Lending Index Fund (inception November 2000)	(8.5)%	-	-
Morgan Stanley Capital International/Europe, Australia, and Far East	(9.2)	-	-
Active International Equity:			
Scudder (for the six months ended June 30, 2002)	(1.0)%	-	-
T Rowe Price (for the six months ended June 30, 2002)	(3.7)	-	-
Vanguard (for the six months ended June 30, 2002)	(3.9)	-	-
Templeton Foreign Equity Series (for the six months ended June 30, 2002)	1.2	-	-
Morgan Stanley Capital International/Europe, Australia, and Far East	(1.4)	-	-

Monthly returns are calculated and linked to provide compounded, annual, and annualized rates of return for periods of one, three, and five years. An effort is made to follow Association for Investment Management and Research guidelines in the preparation of these numbers whenever possible. The returns as shown in this report are net of transaction costs and investment manager fees.

ASSET ALLOCATION

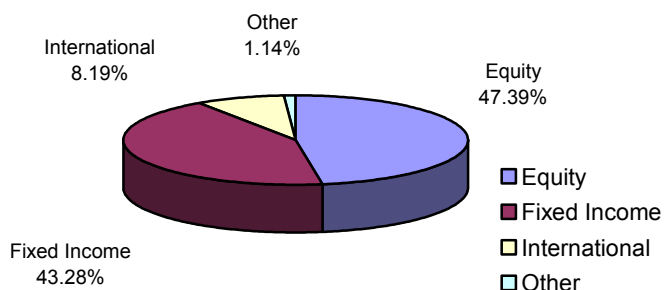
	<u>Market Value of Holdings</u>	<u>Money Market</u>	<u>Accrued Income</u>	<u>Market Value</u>	<u>% of Total Market Value</u>	<u>% of Model Portfolio</u>
Domestic common stock:						
Active, Value	\$30,812,032	\$798,038	\$41,745	\$31,651,815	9.35%	
Active, Mid Cap Growth	14,454,299	471,145	1,496	14,926,940	4.41	
Active, Large Cap Growth	14,145,871	1,119,560	8,271	15,273,702	4.51	
Passive, S&P 500	98,648,790	-	-	98,648,790	<u>29.12</u>	
					<u>47.39%</u>	52.50%
Government securities:						
Active	57,313,168	143,989	614,612	58,071,769	17.15%	
Passive	88,537,205	-	-	88,537,205	<u>26.13</u>	
					<u>43.28%</u>	40.00%
International stock:						
Active	13,994,804	-	-	13,994,804	4.13%	
Passive	13,750,908	-	-	13,750,908	<u>4.06</u>	
					<u>8.19%</u>	7.50%
Other:						
Treasury money market fund	-	2,348,460	-	2,348,460	0.69%	
Oklahoma City judgements	<u>1,507,792</u>	-	-	<u>1,507,792</u>	<u>0.45</u>	
					<u>1.14%</u>	
Total	<u>\$333,164,869</u>	<u>\$4,881,192</u>	<u>\$666,124</u>	338,712,185	<u>100.00%</u>	100.00%

Accrued interest and dividend income:

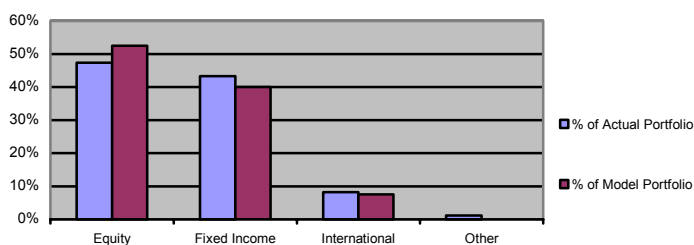
Government securities	(614,612)
Domestic common stock	(51,512)
Total	<u>\$338,046,061</u>

For purposes of portfolio evaluation by consultant and to follow the Investment Policy guidelines, the investment categorization on this schedule does not tie to the Statement of Net Plan Assets since accrued income and money market positions are included as shown above. The Statement of Net Plan Assets reports only the position of securities for each category and cash reported with the Treasury money market funds.

Asset Allocation by Class



Actual vs Model Portfolio



LARGEST HOLDINGS

10 Largest Stock Holdings (by market value)

<u>Shares</u>	<u>Stock</u>	<u>Market Value</u>
55,270	Pfizer Inc.	\$1,934,450
21,955	Federal National Mortgage Assoc.	1,619,181
29,580	Microsoft	1,618,026
52,800	Conoco	1,467,840
56,000	Sara Lee Corp.	1,155,840
52,670	Limited Brands	1,121,871
32,800	JP Morgan Chase and Co.	1,112,576
44,300	U.S. Bancorp	1,034,405
33,545	CVS Corp.	1,026,477
13,500	AmerisourceBergen Corp.	1,026,000

Largest Fixed Income Holdings (by market value)

<u>Par</u>	<u>Bonds</u>	<u>Rate</u>	<u>Maturity</u>	<u>Market Value</u>
\$16,000,000	United States Treasury Bond	6.625%	2/15/2027	\$17,964,960
61,780,000	United States Treasury Bond Stripped Principal	6.875	8/15/2025	15,676,675
8,871,000	United States Treasury Bond	6.125	11/15/2027	9,381,083
23,270,000	United States Treasury Bond Stripped Principal	8.000	11/15/2021	7,361,697
4,098,000	United States Treasury Bond	5.375	2/15/2031	4,013,499
2,673,000	United States Treasury Bond	6.375	8/15/2027	2,915,254

A complete list of portfolio holdings is available upon request.

SCHEDULE OF FEES AND COMMISSIONS

INVESTMENT MANAGEMENT FEES

	<u>Market Value of Holdings</u>	<u>Money Market</u>	<u>Accrued Income</u>	<u>Total Assets under Management</u>	<u>Fees</u>
<u>Equity Managers</u>					
Active:					
Tom Johnson Investment Advisors Oklahoma City, Oklahoma	\$30,812,032	\$798,038	\$41,745	\$31,651,815	\$120,944
Janus Denver, Colorado	14,145,871	1,119,560	8,271	15,273,702	126,146
Nicholas Applegate San Diego, California	15,059,296	471,145	1,496	15,531,937	118,022
Passive:					
State Street Global Advisors Boston, Massachusetts	98,648,790	-	-	98,648,790	48,325
<u>Fixed Income Managers</u>					
Active:					
Hoisington Investment Management Company Austin, Texas	57,313,168	143,989	614,612	58,071,769	210,590
Passive:					
State Street Global Advisors Boston, Massachusetts	88,537,205	-	-	88,537,205	49,031
<u>International Investment Managers</u>					
Active:					
Templeton (1)	3,539,130	-	-	3,539,130	-
T Rowe Price (1)	3,256,307	-	-	3,256,307	-
Scudder (1)	3,301,130	-	-	3,301,130	-
Vanguard (1)	3,293,240	-	-	3,293,240	-
Passive:					
State Street Global Advisors Boston, Massachusetts	13,750,908	-	-	13,750,908	11,571
<u>Other</u>					
One Group (1) Columbus, Ohio	-	2,348,460	-	2,348,460	-
City of Oklahoma City Judgements	<u>1,507,792</u>	-	-	<u>1,507,792</u>	-
Total	<u>\$333,164,869</u>	<u>\$4,881,192</u>	<u>\$666,124</u>	338,712,185	<u>\$684,629</u>
Accrued interest and dividend income:					
Government securities				(614,612)	
Domestic common stock				(51,512)	
Total				<u>\$338,046,061</u>	

OTHER INVESTMENT SERVICE FEES

Custodial Fees	\$69,892
Investment Consultant Fees	61,942
Securities Lending Management Fees	59,500

(1) Fees are netted with earnings for each respective fund.

SCHEDULE OF FEES AND COMMISSIONS

BROKER COMMISSION

<u>Broker</u>	<u>Shares</u>	<u>Commission Expense</u>	<u>Average Cost/Share</u>
Capital Institutional Services (1)	1,217,348	\$43,998	\$0.0361
Goldman, Sachs and Co.	183,850	7,013	0.0381
Instinet (1)	237,551	6,127	0.0258
Morgan Stanley Co.	127,595	5,215	0.0409
Credit Suisse First Boston	125,554	4,762	0.0379
Merrill Lynch, Pierce, Fenner and Smith	82,315	3,424	0.0416
Salamon Smith Barney, Inc.	92,465	3,310	0.0358
Prudential Bache	87,490	3,209	0.0367
Thomas Weisel Partners, LLC	83,965	3,011	0.0359
All others \$2,500 or less	<u>1,587,703</u>	<u>47,633</u>	0.0300
Totals	<u>3,825,836</u>	<u>\$127,702</u>	

(1) Commission Recapture Agreement

Actuarial Section



GABRIEL, ROEDER, SMITH & COMPANY
Consultants & Actuaries

One Towne Square • Suite 800 • Southfield, Michigan 48076 • 248-799-9000 • 800-521-0498 • fax 248-799-9020

October 8, 2002

The Board of Trustees
Oklahoma City Employees Retirement System
Oklahoma City, Oklahoma

Dear Board Members:

The basic financial objective of the Oklahoma City Employees Retirement System is to establish and receive contributions which, expressed as percents of active member payroll, will remain approximately level from generation to generation of Oklahoma citizens, and when combined with present assets and future investment return will be sufficient to meet the financial obligations of the system to present and future benefit recipients.

The financial objective is addressed within the actuarial valuation, which is performed annually. The valuation process develops contribution rates that are sufficient to fund the plan's current cost (i.e. the costs assigned by the valuation method to the year of service about to be rendered), as well as to fund unfunded accrued liabilities as a level percent of active member payroll over a finite period. The most recent valuation was completed based upon population data, asset data, and plan provisions as of December 31, 2001.

The Retirement System Manager provides the actuary with data for the actuarial valuation. The actuary relies on the data after reviewing it for internal and year to year consistency. The actuary summarizes and tabulates population data in order to analyze long term trends. The plan's external auditor also audits the actuarial data annually.

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

- Schedule of Funding Progress (Solvency Test)
- Summary of Benefit provisions
- Schedule of retirees and beneficiaries
- Schedule of Active and Inactive Member Valuation Data
- Summary of Actuarial Assumptions and Methods
- Derivation of Experience Gains (Losses)
- Retirees and beneficiaries added to and removed from rolls

October 8, 2002

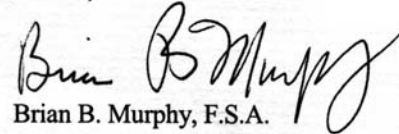
Assets are valued on a market related basis that recognizes a portion of each year's difference between actual and assumed investment income over a closed four year period.

Annual actuarial valuations are based upon assumptions regarding future activity in specific risk areas including the rate of investment return and payroll growth, eligibility for the various classes of benefits and longevity among retired lives. These assumptions are adopted by the Board after considering the advice of the actuary and other professionals. The assumptions and the methods comply with the requirements of Statement No. 25 of the Governmental Accounting Standards Board. The 3 schedules associated with Statement No. 25 are, the Schedule of Employer Contributions, Notes to Required Supplementary Information and the Schedule of Funding Progress. The Schedule of Employer Contributions was provided by the City. The Notes to Required Supplementary Information and the Schedule of Funding Progress were provided by the actuary based in part on information provided by the City. Each actuarial valuation takes into account all prior differences between actual and assumed experience in each risk area and adjusts the contribution rates as needed.

On the basis of the December 31, 2001 valuation and the benefits and contributions then in effect, it is our opinion that the retirement system is in sound condition in accordance with actuarial principles of level cost financing. The reserve strength of the system continues to be high.

Respectfully submitted,


Louise M. Gates, A.S.A.


Brian B. Murphy, F.S.A.

LMG/BBM:ct
Enclosures

GABRIEL, ROEDER, SMITH & COMPANY

Summary of Actuarial Assumptions and Methods

Actuarial Cost Method

The actuarial cost method is a procedure for allocating the actuarial present value of pension plan benefits and expenses to time periods. The method used for the valuation is known as the individual entry-age actuarial cost method and has the following characteristics.

- (i) The annual normal costs for each individual active member, payable from the date of employment to the date of retirement, are sufficient to accumulate the value of the member's pension at time of retirement.
- (ii) Each annual normal cost is a constant percentage of the member's year by year projected compensation.

The entry-age actuarial cost method allocates the actuarial present value of each member's projected benefits on a level basis over the member's compensation between the entry age of the member and the assumed exit ages.

The portion of the actuarial present value allocated to the valuation year is called the normal cost. The portion of the actuarial present value not provided for by the actuarial present value of future normal costs is called the actuarial accrued liability. Deducting accrued assets from the actuarial accrued liability determines the unfunded actuarial accrued liability. As of December 31, 2001, the funding value of assets was greater than the actuarial accrued liability.

Experience Gains and Losses

Experience gains and losses are the difference between actual experience and actuarial assumptions of anticipated experience during the period between two actuarial valuation dates. The recognition of gains and losses is based on the provisions of the retirement system ordinance.

Asset Valuation Method.

Valuation assets are equal to the reported market value of assets, except that all realized and unrealized gains and losses are spread over a 4 year period, with 25% recognition in the first year. Such spreading reduces the fluctuation in the City's computed contribution rate, which might otherwise be caused by market fluctuations.

Actuarial Assumptions Disclosure

The actuarial assumptions used in this valuation of the system were adopted by the Retirement Board based on recommendations made by the actuary. Except where noted, the assumptions used in this report were first used in the December 31, 1983 actuarial valuation of the plan.

Summary of Actuarial Assumptions and Methods

Investment Return (net of expenses)

Eight percent (8.0%) per year, compounded annually. This rate consists of 4.5% in recognition of long term price inflation and a 3.5% per year real rate of return over price inflation.

This assumption is used to equate the value of payments due at different points in time and was first used for the December 31, 2000 valuation.

Salary Increase Rates

These assumptions are used to project current salaries to those which will determine average final compensation. The table below summarizes these assumptions and was first used for the December 31, 2000 valuation.

Sample Ages	Annual Rate of Salary Increase			
	Inflation Component	Productivity	Merit and Longevity	Total
20	4.50%	0.50%	3.80%	8.80%
25	4.50	0.50	3.10	8.10
30	4.50	0.50	2.70	7.70
35	4.50	0.50	2.40	7.40
40	4.50	0.50	2.10	7.10
45	4.50	0.50	1.70	6.70
50	4.50	0.50	1.10	6.10
55	4.50	0.50	0.70	5.70
60	4.50	0.50	0.20	5.20
65	4.50	0.50	0.00	5.00

The salary increase assumptions will produce 5.0% percent annual increases in active member payroll (the inflation plus productivity rate) given a constant active member group size. This is the same payroll growth assumption used to amortize any unfunded actuarial accrued liability.

The real rate of return over assumed wage growth is 3.0%.

Summary of Actuarial Assumptions and Methods

Mortality Table

The 1971 Group Annuity mortality table projected to 1984. The mortality assumption is used to measure probabilities of death and probabilities of benefit payments being made. Sample values are shown below.

Sample Ages	Present Value of \$1 Monthly for Life		Future Life Expectancy (Years)	
	Men	Women	Men	Women
50	\$128.99	\$139.23	27.53	33.66
55	120.81	133.13	23.28	28.99
60	110.81	125.02	19.27	24.44
65	98.93	114.71	15.55	20.09
70	85.89	101.88	12.25	15.99
75	72.86	87.31	9.49	12.33
80	59.70	72.54	7.17	9.28

Rates of Retirement

Rates of retirement are used to measure the probabilities of an eligible member retiring during the next year, and are summarized below. These rates were first used for the December 31, 2000 valuation.

Age of Member	Percent of Eligible Members Retiring During Next Year	Years of Service	Percent Retiring
50	15%	25	25%
51	10	26	15
52	10	27	15
53	10	28	15
54	10	29	15
55	10	30	15
56	10	31	15
57	10	32	15
58	10	33	15
59	10	34	15
60	10	35	15
61	10	36	15
62	25	37	15
63	10	38	15
64	10	39	15
65	70	40	100
66	30		
67	40		
68	50		
69	90		
70	100		

The service based retirement rates were applied to those members first eligible to retire under "25 and out" (30 and out for pre 3/67 hires). The age based retirement rates were applied to members retiring under either 65/5 (60/10 for pre 3/67 hires) or the Plan's early retirement conditions.

The probability of retiring at age 70 was assumed to be 100% regardless of service.

Summary of Actuarial Assumptions and Methods

Rates of Separation from Active Membership. This assumption measures the probabilities of a member terminating employment. The rates do not apply to members who are eligible to retire.

Sample Ages	Years of Service	Probability of Termination During Year
Any	0	30.0%
	1	20.0
	2	15.0
	3	10.0
	4	7.0
25	Over 4	7.0
30		6.0
35		4.8
40		3.5
45		2.4
50		1.5
55		1.0
60		1.0

Rates of Disability. This assumption measures the probabilities of a member becoming disabled.

Sample Ages	% of Active Members Becoming Disabled During Next Year	
	Males	Females
25	0.09%	0.05%
30	0.10	0.07
35	0.14	0.13
40	0.21	0.19
45	0.32	0.28
50	0.52	0.45
55	0.92	0.76
60	1.53	1.10

Disabled life mortality is measured by the 1971 Group Annuity Mortality Table projected to 1984, as previously noted, with ages set forward by 10 years at time of disability. Rates of recovery from disability were assumed to be zero.

Forfeitures : Describes the practice of terminating members electing refunds of employee contributions in lieu of Plan benefits. The assumed rate of forfeiture is described below based on hire date.

Post 3/67 hires: The rate of forfeitures is graded from 0% to 100% based on age.

Pre 4/67 hires: The rate of forfeitures is 0%.

Active Member Group Size. The number of active members was assumed to remain constant.

Schedule of Active and Inactive Member Valuation Data

Valuation Date December 31	Number of Active Members	Inactive Members	Annual Payroll ⁽¹⁾	Active Member Averages			Percent Increase (Decrease) in Average Pay	Ratio of Active To Retired Members
				Age (2)	Service ⁽²⁾	Pay		
1983	2,823	23	\$49,422	38.0	6.7	\$17,507		3.6
1984	2,612	24	47,713	38.5	7.2	18,267	4.3%	3.3
1985	2,546	10	46,710	38.9	7.9	18,347	0.4	3.2
1986	2,568	29	49,255	39.1	8.0	19,180	4.5	3.1
1987 (3)	2,378	26	46,206	38.4	7.7	19,431	1.3	2.5
1988	2,376	26	49,024	38.9	8.1	20,633	6.2	2.5
1989	2,360	25	49,267	39.3	8.4	20,876	1.2	2.6
1990	2,424	25	55,094	39.6	8.7	22,729	8.9	2.7
1991	2,452	28	57,850	39.9	9.0	23,593	3.8	2.7
1992	2,496	26	61,028	40.4	9.3	24,450	3.6	2.8
1993	2,520	15	66,278	40.9	9.5	26,301	7.6	2.9
1994	2,492	14	70,151	41.6	10.0	28,150	7.0	2.8
1995	2,428	16	69,754	42.2	10.5	28,729	2.1	2.8
1996	2,401	17	70,972	42.8	10.9	29,559	2.9	2.7
1997	2,418	19	74,736	43.3	11.1	30,908	4.6	2.7
1998	2,405	25	79,195	43.7	11.6	32,929	6.5	2.7
1999	2,453	36	80,897	43.8	11.6	32,979	0.2	2.7
2000	2,454	41	80,503	44.0	11.6	32,805	(0.5)	2.7
2001	2,454	49	83,862	44.0	11.4	34,174	4.2	2.6

(1) Amounts shown are expressed in thousands of dollars.

(2) Amounts shown are expressed in years.

(3) Amounts reflect an early retirement incentive program.

**Schedule of
Retirees and Beneficiaries Added to and Removed From Rolls
Comparative Statement (1)**

Year Ended Dec. 31	Added to Rolls		Removed from Rolls		Rolls End of Year			Percent Increase in Annual Benefits	
	No.	Annual Benefits	Post-Retirement Increases	No.	Annual Benefits	No.	Average Annual Benefits		Annual Benefits
1999	-	-	-	-	-	901	\$8,291	\$7,470,215	- %
2000 (2)	61	\$671,144	\$1,400,404	52	\$353,440	910	10,097	9,188,323	23.0
2001	107	1,484,844	-	55	286,654	962	10,797	10,386,513	13.0

(1) *Information concerning retirees and beneficiaries added to and removed from rolls was not consistently available in 1999 and prior years. This information will be accumulated for subsequent years.*

(2) *Amounts reflect increases through 2001 in connection with purchasing power study.*

**Schedule of
Retirees and Beneficiaries as of the Valuation Date**

Valuation Date December 31	Number of Pension Recipients				Annual Pensions (1)	Percent of Payroll	Average Annual Pension	Percent Increase in Annual Pensions
	Service	Disability	Survivor	Total				
1983	536	56	181	773	\$2,444,561	4.9%	\$3,162	
1984	562	56	177	795	2,678,080	5.6	3,369	9.6%
1985	576	53	172	801	2,874,774	6.2	3,589	7.3
1986	538	50	180	768	3,199,673	6.5	4,166	11.3
1987 (2)	733	51	172	956	4,643,610	10.0	4,857	45.1
1988	708	49	182	939	4,678,818	9.5	4,983	0.8
1989	683	52	184	919	4,736,258	9.6	5,154	1.2
1990	667	52	185	904	4,866,789	8.8	5,384	2.8
1991	643	55	196	894	5,083,200	8.8	5,686	4.4
1992	635	49	203	887	5,275,616	8.6	5,948	3.8
1993	622	53	203	878	5,393,539	8.1	6,143	2.2
1994	621	51	204	876	5,759,562	8.2	6,575	6.8
1995	630	54	198	882	6,131,477	8.8	6,952	6.5
1996	634	55	195	884	6,507,720	9.2	7,361	6.1
1997	634	54	200	888	6,818,103	9.1	7,678	4.8
1998	633	56	202	891	7,134,692	9.0	8,008	4.6
1999	643	56	202	901	7,470,215	9.2	8,291	4.7
2000 (3)	646	61	203	910	9,188,323	11.4	10,097	23.0
2001	694	63	205	962	10,386,513	12.4	10,797	13.0

(1) The amounts shown are reported to the actuary by the City and reflect annual pension payments as of the indicated actuarial valuation date.

(2) Results reflect an early retirement incentive program.

(3) Results reflect a one-time increase resulting from purchasing power study.

Solvency Test - Schedule of Funding Progress
(Amounts in thousands)

Valuation Date	Present Values of Benefits Based on Accrued Service			Assets (2)	Portion of Liabilities Covered by Assets			
	(A)	(B)	(C)		(A)	(B)	(C)	Overall
	Member Contributions	Retirants and Beneficiaries	Active & Inactive Members (Employer Financed Portion) (1)					
12/31/83	\$11,768	\$25,525	\$ 34,944	\$ 36,775	100%	98%	0%	51%
12/31/84	12,773	24,101	36,746	43,504	100	100	18	59
12/31/85	14,320	27,158	37,258	56,062	100	100	39	71
12/31/86	15,793	30,716	39,153	60,982	100	100	37	71
12/31/87	15,343	51,345	32,055	76,318	100	100	30	77
12/31/88	16,841	51,144	37,857	81,514	100	100	36	77
12/31/89	17,852	51,518	37,965	89,190	100	100	52	83
12/31/90	19,885	51,738	43,434	95,145	100	100	54	83
12/31/91	21,724	58,201	51,491	107,544	100	100	54	82
12/31/92	24,039	59,294	56,040	122,638	100	100	70	88
12/31/93	26,732	59,703	60,919	141,078	100	100	90	96
12/31/94	29,028	63,894	67,915	151,580	100	100	86	94
12/31/95	31,423	67,408	71,283	168,203	100	100	97	99
12/31/96	33,507	72,225	75,504	185,368	100	100	105	102
12/31/97	35,654	76,275	106,486	219,602	100	100	101	101
12/31/98	37,900	82,258	118,497	260,877	100	100	119	109
12/31/99	39,866	85,724	120,316	307,872	100	100	152	125
12/31/00	41,550	100,936	180,814	350,398	100	100	115	108
12/31/01	42,226	116,552	185,817	372,737	100	100	115	108

(1) Beginning with the 12/31/97 valuation, the Employer Financed Portion (shown above) was calculated in accordance with Governmental Accounting Standards Board Statement No. 25, which replaces Statement No. 5 used in prior years. The Employer Financed Portion is calculated the same way as computed contribution rates.

(2) The funding value of assets (as of the actuarial valuation date) is the value used in the calculation of computed contribution rates pursuant to Governmental Accounting Standards Board Statement No. 25. This change was effective with the 12/31/97 valuation. Prior to 12/31/97, the cost value of assets was used in accordance with GASB Statement No. 5.

Analysis of Financial Experience
Derivation of Experience Gain (Loss)
For Valuation Years 1997-2001

Actual experience will never (except by coincidence) coincide exactly with assumed experience. It is hoped that gains and losses will cancel each other over a period of years, but sizable year to year fluctuations are common. Detail on the derivation of the experience gain (loss) is shown below, along with a year by year historic comparison. Dollar amounts are rounded to the nearest thousand.

	Valuation Year Ending December 31,				
	2001	2000	1999	1998	1997
(1) Unfunded Accrued Liability (UAL), beginning of year	\$(27,098)	\$(61,967)	\$(22,222)	\$ (504)	\$ 4,462
(2) Normal cost from last valuation	10,860	9,465	9,384	9,218	8,619
(3) Actual member and employer contributions	11,593	11,024	11,289	11,215	10,417
(4) Interest accrual on (1), (2) and (3)	(2,197)	(4,706)	(1,386)	233	590
(5) Expected UAL before changes: (1) + (2) – (3) + (4)	(30,028)	(68,232)	(25,513)	(2,268)	3,254
(6) Increase due to benefit changes	0	81,593	0	0	6,815
(7) Increase due to revised actuarial assumptions and method changes	(2,114)	(14,429)	0	0	0
(8) Expected UAL after changes: (5) + (6) + (7)	(32,142)	(1,068)	(25,513)	(2,268)	10,069
(9) Actual UAL, end of year	(28,140)	(27,098)	(61,967)	(22,222)	(504)
(10) Gain (loss) (8) – (9)	\$(4,002)	\$ 26,030	\$ 36,454	\$ 19,954	\$10,573

A detailed analysis of gain or loss by source, is not available for the years shown above.

Summary of Plan Provisions Evaluated or Considered

December 31, 2001

Regular Retirement (no reduction factor for age)

Eligibility - Pre 3-1-67 hires: Age 60 with 10 years of service; or, any age with 30 years of service.

Post 3-1-67 hires: Age 65 with 5 years of service; or, any age with 25 years of service.

Annual Amount - Normal retirement benefit: 2% of average final compensation for all years of service, plus 1/12 of 2% for each full month of service due to a partial year of service to a maximum of 100% of AFC.

Average Final Compensation (AFC) - Average earned compensation (excluding compensation for unused vacation and sick leave) during highest 36 months of service out of the last 60 consecutive months of service.

Early Retirement (reduction factor for age)

Eligibility - Age 55 with 5 years of service.

Annual Amount - Same as regular retirement amount but reduced 4% for each full year or portion of a year that payments commence prior to age 65 (age 60 if hired prior to 3-1-67).

Deferred Retirement (vested benefit)

Eligibility - 5 years of service. Benefit begins at age 65 (age 60 if hired prior to 3-1-67) or at age 55 on a reduced basis.

Annual Amount - Same as regular retirement based on service and average final compensation at time of termination.

Duty Disability Retirement

Eligibility - No age or service requirements.

Annual Amount - 40% of average final compensation, reduced if degree of disability is less than total disability.

Non-Duty Disability Retirement

Eligibility - Any age with 15 years of service.

Annual Amount - 2% of average final compensation for each full year of service, plus 1/12 of 2% for each full month of service due to a partial year of service to a maximum of 40% of AFC. Amount is reduced if degree of disability is less than total disability.

Summary of Plan Provisions Evaluated or Considered

December 31, 2001

Duty Death Before Retirement

Eligibility - No age or service requirements.

Annual Amount - 20% of average final compensation to eligible spouse. Payments cease upon death. If there is no eligible spouse, accumulated employee contributions are paid to designated beneficiary. For members eligible under age and service conditions, the benefit is the amount the spouse would have received as a joint annuitant under normal or early retirement conditions.

Non-Duty Death Before Retirement

Eligibility - Any age with 15 years of service.

Annual Amount - Same as duty death.

Post-Retirement Adjustments

Pensions may be adjusted annually (in January) for changes in the Consumer Price Index. Maximum adjustment is 4% per year compounded. The first adjustment is made one year following retirement for those age 65 (60 for pre 3-1-67 hires) or those awarded disability allowances. For all others, the first adjustment is made no earlier than 4 years following retirement.

Post-Retirement Death Benefit

Eligibility – Retiree currently collecting pension benefits from the System.

Amount – A one-time payment of \$5,000 payable upon the death of the retiree. This benefit is payable only upon the death of the retiree, and is payable to the designated beneficiary.

Member Contributions

6% of annual pay.

Employer Contributions

7% of annual payroll

Partial Lump Sum Payment Option

Members who are eligible for regular retirement may elect this optional form of payment, which allows for cash at retirement of up to \$30,000. Any remaining monthly retirement benefit is reduced actuarially to reflect the payment of cash at retirement.

This Summary of Plan provisions was used by the actuary in performing the December 31, 2001 actuarial valuation of the Plan. Actual Plan provisions are defined by the Plan document, and may differ from the summary of Plan provisions above.

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Statistical Section

Schedule of
Revenues by Source and Expenses by Type

Revenues By Source (1)						
<u>Fiscal Year</u>	<u>Net Investment Income</u>	<u>Employer Contributions</u>	<u>Employee Contributions</u>	<u>Employer Contributions as a Percent of Covered Payroll (1)</u>	<u>Other Revenues and Transfers</u>	<u>Total Revenues</u>
2002	\$(34,256,097)	\$6,028,887	\$5,168,718	7.00%	\$263,694	\$(22,794,798)
2001	(26,040,010)	6,484,197	4,919,836	7.00	166,261	(14,469,716)
2000	52,903,764	6,690,670	4,807,499	8.35	134,689	64,536,622
1999	41,805,633	6,449,969	4,630,133	8.35	284,197	53,169,932
1998	46,531,306	6,207,634	4,475,892	8.35	80,180	57,295,012
1997	34,687,616	5,989,526	4,304,926	8.35	158,846	45,140,914
1996	30,741,258	5,925,528	4,264,669	8.35	110,000	41,041,455
1995	27,026,847	5,945,314	4,278,010	8.35	110,000	37,360,171
1994	11,512,854	5,646,088	4,059,443	8.35	147,116	21,365,501
1993	12,415,660	5,225,724	3,757,984	8.35	310,342	21,709,710

(1) On February 6, 2001, the City Council approved a change in the employer's rate from 8.35% to 7.0% effective March 2, 2001.

Expenses By Type

<u>Fiscal Year</u>	<u>Benefits</u>	<u>Refunds</u>	<u>Administrative Expenses</u>	<u>Total Expenses</u>
2002	\$11,047,907	\$983,063	\$324,201	\$12,355,171
2001	8,667,071	1,225,722	404,248	10,297,041
2000	7,527,183	1,939,509	220,006	9,686,698
1999	7,140,119	1,119,420	202,978	8,462,517
1998	6,886,541	1,089,161	150,791	8,126,493
1997	6,594,531	1,278,692	148,721	8,021,944
1996	6,240,880	834,215	131,706	7,206,801
1995	5,791,498	1,042,202	107,536	6,941,236
1994	5,450,434	673,354	96,475	6,220,263
1993	5,292,843	755,998	24,109	6,072,950

(1) Contributions were made in accordance with provisions of the Plan.

Schedule of Benefit Expenses by Type

Calendar Year Ending (1)	Age & Service Benefits		Disability Benefits Retirants		Separation Refunds	Total
	Retirants	Survivors	Duty	Non-Duty		
2001	\$8,462,358	\$1,420,341	\$205,672	\$298,142	\$1,221,519	\$11,608,032
2000	7,323,362	1,399,723	196,191	291,567	1,723,960	10,934,803
1999	6,146,235	982,714	145,969	195,297	1,288,474	8,758,689
1998	5,761,286	893,581	179,558	179,558	1,123,040	8,137,023
1997	5,512,940	880,725	152,527	176,904	1,197,579	7,920,675
1996	5,307,890	776,608	154,526	179,223	1,028,401	7,446,648
1995	4,970,552	735,039	147,845	171,475	931,099	6,956,010
1994	4,583,775	698,746	132,510	174,939	826,629	6,416,599
1993	4,369,353	693,292	141,206	170,507	785,871	6,160,229
1992	4,268,048	639,427	112,955	178,166	673,169	5,871,765

(1) Calendar year has been used to correspond with the actuarial analysis. Therefore, amounts will not tie to the financial statements.

Schedule of Retired Members by Type of Benefit

Amount of Monthly Benefit	Number of Retirants	Type of Retirements (1)						Life	Death Benefit	Option Selected (2)		
		1	2	3	4	5	6			Opt. 1	Opt. 2	Opt. 3
Deferred	49	-	-	-	-	-	-	-	-	-	-	-
\$1-250	41	1	6	27	2	4	1	6	-	5	3	27
251-500	196	42	64	63	13	11	3	82	5	26	15	68
501-750	200	54	73	36	16	10	11	87	10	43	10	50
751-1,000	185	72	72	21	5	6	9	93	-	45	17	30
1,001-1,250	137	82	39	8	2	1	5	53	-	25	21	38
1,251-1,500	80	54	18	5	1	-	2	35	-	12	11	22
1,501-1,750	51	44	5	1	1	-	-	16	-	15	11	9
1,751-2,000	37	31	3	3	-	-	-	13	-	9	4	11
Over 2,000	35	33	1	-	1	-	-	16	-	4	3	12
Totals	962	413	281	164	41	32	31	401	15	184	95	267

(1) Type of Retirement

- 1 - Normal retirement for age and service
- 2 - Early retirement
- 3 - Survivor payments – death after retirement
- 4 - Survivor payments - death in service
- 5 - Duty disability retirement
- 6 - Non-duty disability retirement

(2) Option Selected

- Life - Single life
- Death Benefit - 20% of average final compensation
- Opt. 1 - 100% of retiree’s benefit payable to survivor
- Opt. 2 - 75% of retiree’s benefit payable to survivor
- Opt. 3 - 50% of retiree’s benefit payable to survivor

STATISTICAL SCHEDULES
Last ten calendar years

OKLAHOMA CITY EMPLOYEE RETIREMENT SYSTEM

Schedule of Average Benefit Payments

Retirement Effective Dates January 1, 1992 to December 31, 2001	Years of Credited Service						
	0-4	5-9	10-14	15-19	20-24	25-29	30+
Period 1/1/01 to 12/31/01:							
Average Monthly Benefit	\$ -	\$438	\$590	\$970	\$1,090	\$588	\$2,279
Final Average Salary	-	2,885	3,068	3,612	3,098	3,119	3,540
Number of Active Retirants	-	7	8	6	17	31	16
Period 1/1/00 to 12/31/00							
Average Monthly Benefit	\$ -	\$ -	\$500	\$714	\$1,022	\$1,078	\$1,435
Final Average Salary	-	-	2,576	2,638	2,901	3,029	2,978
Number of Active Retirants	-	-	6	8	10	8	13
Period 1/1/99 to 12/31/99							
Average Monthly Benefit	\$ -	\$257	\$493	\$755	\$1,008	\$936	\$1,516
Final Average Salary	-	1,877	2,947	2,829	2,980	2,363	3,043
Number of Active Retirants	-	1	5	12	8	4	11
Period 1/1/98 to 12/31/98							
Average Monthly Benefit	\$ -	\$ -	\$431	\$603	\$832	\$922	\$1,297
Final Average Salary	-	-	2,489	2,036	1,971	2,719	2,705
Number of Active Retirants	-	-	9	8	9	5	11
Period 1/1/97 to 12/31/97:							
Average Monthly Benefit	\$ -	\$ -	\$462	\$755	\$1,086	\$ -	\$1,444
Final Average Salary	-	-	2,334	2,499	3,307	-	2,863
Number of Active Retirants	-	-	15	10	4	-	10
Period 1/1/96 to 12/31/96:							
Average Monthly Benefit	\$ -	\$239	\$467	\$511	\$877	\$1,245	\$1,409
Final Average Salary	-	1,712	2,509	2,136	2,615	2,594	2,810
Number of Active Retirants	-	1	9	8	5	1	17
Period 1/1/95 to 12/31/95:							
Average Monthly Benefit	\$ -	\$309	\$470	\$555	\$1,033	\$1,345	\$1,152
Final Average Salary	-	1,718	2,391	2,064	2,724	3,316	2,231
Number of Active Retirants	-	1	11	11	6	5	10
Period 1/1/94 to 12/31/94:							
Average Monthly Benefit	\$ -	\$ -	\$453	\$502	\$793	\$920	\$1,302
Final Average Salary	-	-	2,263	1,886	2,501	2,381	2,718
Number of Active Retirants	-	-	7	6	10	4	12
Period 1/1/93 to 12/31/93:							
Average Monthly Benefit	\$108	\$314	\$327	\$557	\$730	\$1,120	\$1,659
Final Average Salary	1,805	1,526	1,780	2,141	1,929	2,487	3,200
Number of Active Retirants	1	2	9	5	6	2	1
Period 1/1/92 to 12/31/92:							
Average Monthly Benefit	\$ -	\$ -	\$337	\$498	\$668	\$1,209	\$1,384
Final Average Salary	-	-	1,646	1,917	2,018	2,651	2,899
Number of Active Retirants	-	-	5	7	4	2	6