Oklahoma City Employee Retirement System

A Pension Trust Fund of Oklahoma City, Oklahoma
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2005

THE OKLAHOMA CITY EMPLOYEE RETIREMENT SYSTEM

A Pension Trust Fund of Oklahoma City, Oklahoma

Comprehensive Annual Financial Report
for the Fiscal Year Ended June 30, 2005

Prepared by The Oklahoma City Finance Department, Accounting Services Division
Catharine A. Bush, Controller

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Introductory Section

Oklahoma City Employee Retirement System

November 16, 2005

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

I am pleased to present the Comprehensive Annual Financial Report (CAFR) of the Oklahoma City Employee Retirement System ("OCERS") for fiscal year ended June 30, 2005. During the past years, the OCERS has seen significant advances and celebrated numerous successes and the OCERS will continue to meet the challenges of tomorrow.

FINANCIAL INFORMATION

The OCERS' management is responsible for both the accuracy of the data and the completeness of the presentation of the financial statements, including all notes and disclosures. To the best of my knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to fairly present the financial position of the OCERS. The OCERS' management is also 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 (GAAP). 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.

Grant Thornton LLP, a firm of independent certified public accountants has audited the OCERS' financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of the OCERS for the fiscal year ended June 30, 2005, are free from material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the statements, assessing the accounting principles used, and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the OCERS' financial statements for the fiscal year ended June 30, 2005, are fairly presented in conformity with GAAP. The Report of Independent Auditors is presented as the first component of the Financial Section of this report.

GAAP requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The OCERS MD&A can be found immediately following the Report of Independent Auditors.

COMPREHENSIVE ANNUAL FINANCIAL REPORT

The CAFR is divided into five sections:

- The Introductory Section, which contains this letter of transmittal, Certificate of Excellence, Board of Trustees, along with the organizational structure, and the Chairman's Report;

- The Financial Section, which contains the Report of the Independent Auditors, Management's Discussion and Analysis (MD&A), the basic financial statements, related notes and required supplementary information regarding the funds administered by the OCERS;

- The Investment Section, which contains the report on investment activity, investment policy summary, investment results, asset allocation, and various investment schedules;

- The Actuarial Section, which contains the Actuary's Disclosure Certification, a summary of actuarial assumptions and methods and various schedules of plan membership details; and

- The Statistical Section, which contains statistical information regarding the membership of the OCERS and comparative information regarding plan income and expenses.

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 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 Summary of Benefit Provisions Evaluated or Considered in the Actuarial Section of the CAFR.

FUNDING

A pension plan is said to be "well-funded" when it has enough money in reserve to meet all expected future obligations to its members. 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. Also, a better level of funding gives the members a higher degree of assurance that their pension benefits are secure. As of December 31, 2004, the OCERS had an actuarial asset value of $381,495,000 and an actuarial accrued liability of $415,164,000, resulting in an unfunded actuarial accrued liability of $33,669,000.

The ratio of actuarial assets to actuarial accrued liabilities is 92%. The OCERS is considered "well-funded", even though not currently funded at a 100% level. The City's dedication to provide a financially sound plan for its members is illustrated in the "Solvency Test-Schedule of Funding Progress" 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.

FACTORS AFFECTING FINANCIAL CONDITION

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 earnings consistent with 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. 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. For fiscal year 2005, investments provided a 8.6 percent rate of return. The OCERS earned an annualized rate of return over the past three years of 9.9 percent and 2.5 percent over the last five years. 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.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Oklahoma City Employee Retirement System for its CAFR for the fiscal year ended June 30, 2004. Fiscal year 2004 was the fifth 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.

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.

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 Hutton

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, 2004

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.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

Nancy L. Zielke
President

Jeffrey R. 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 two ex-officio members, the City Treasurer and the City Clerk; two members from various City departments who are appointed by the City Council (Council); three members who have professional experience in investments and/or pension fund management who are appointed by Council ; one member elected from the retired membership; three members elected from the active membership; and two members who serve by position, the Finance Director and the City Auditor. The Municipal Counselor's Office serves as the OCERS' legal advisor.

W. B. Smith, Chairman Legal Investigator	Elected by active membership Term expires June 30, 2006
Frances Kersey, Secretary City Clerk	Ex-Officio
Rhnea Stewart, Treasurer City Treasurer	Ex-Officio
Mary Fawcett	Elected by retired membership Term expires December 31, 2005
Dianna Berry Personnel Director	Appointed by the Council
Catherine O'Connor Assistant City Manager/Finance Director	By Position
Paul Bronson Business Manager	Elected by active membership Term expires June 30, 2008
Jacqueline Ames Office Specialist I	Appointed by the Council
George Brooks Unit Operations Manager	Elected by active membership Term expires June 30, 2007
Susan McNitt City Auditor	By Position
Steve Shafer	Appointed by the Council
Ken Culver, Vice-Chairman	Appointed by the Council
Dennis Spencer	Appointed by the Council

Elected trustees from the active membership serve three-year terms. The elected trustee from the retiree membership serves a two-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

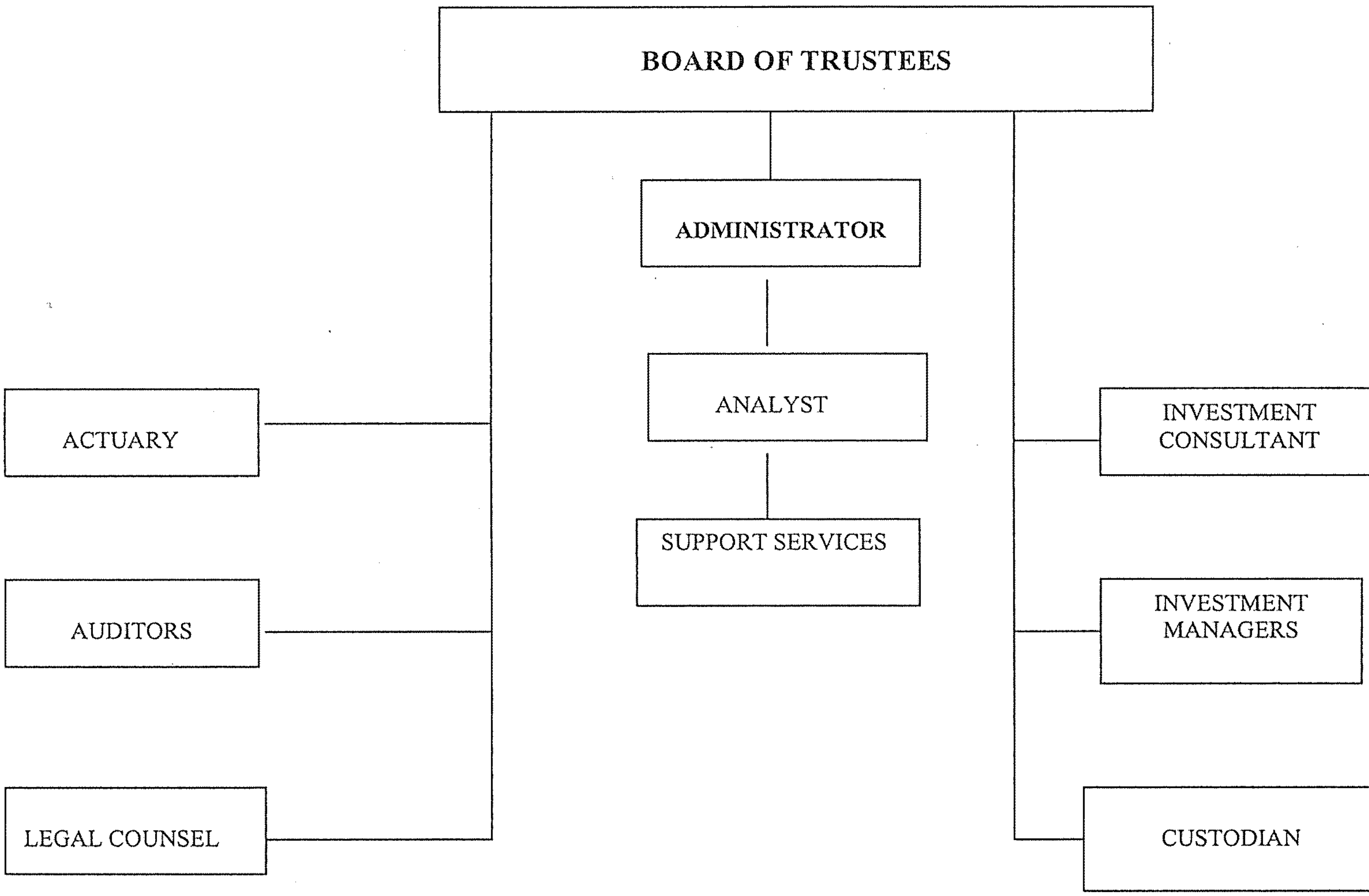
Actuary
Gabriel, Roeder, Smith & Company
Louise M. Gates
Southfield, Michigan

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

Medical Consultant
Independent Medical Examinations
Dr. John Munneke, M.D.
Medical Director
Oklahoma City, Oklahoma

Independent Auditor
Grant Thornton LLP
Dallas, Texas

See Investment Section for a list of investment professionals.


BOARD OF TRUSTEES
ADMINISTRATOR
ANALYST
SUPPORT SERVICES
ACTUARY
AUDITORS
LEGAL COUNSEL
INVESTMENT CONSULTANT
INVESTMENT MANAGERS
CUSTODIAN

Oklahoma City Employee Retirement System

William B. Smith
Chairman

Rena L. Hutton
Administrator

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420 West Main
Suite 343
Oklahoma City, Oklahoma
73102

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

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(405) 297-2216

November 16, 2005

The Members of the Oklahoma City Employee Retirement System:

The Comprehensive Annual Financial Report provides a comprehensive overview of 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. Through careful selection of our financial advisor and investment managers, the Board 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. Additionally, I would 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,

William WB Smith

William "W. B." Smith, Chairman
Oklahoma City Employee Retirement System

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Financial Section

Independent Auditor's Report

The Board of Trustees
Oklahoma City Employee Retirement System

We have audited the accompanying statements of plan net assets and the related statements of changes in plan assets of the Oklahoma City Employee Retirement System (the OCERS) as of and for the year ended June 30, 2005. These financial statements are the responsibility of the OCERS' management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the OCERS as of and for the year ended June 30, 2004 were audited by other auditors whose report, dated November 10, 2004, expressed an unqualified opinion on those financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the OCERS net assets held in trust as of June 30, 2005, and the respective changes in net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and other required supplementary information on pages 12 through 14 and 25, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. The supporting schedules on page 26, the investment section on pages 27 through 36, the actuarial section on pages 37 through 50, and the statistical section on pages 51 through 54 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly we express no opinion on this information.

Grant Thornton LLP

Dallas, Texas
November 16, 2005

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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, 2005. 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 (MD&A)*. The OCERS is a pension trust of the City of Oklahoma City (City).

Financial Highlights

- OCERS net assets reported in the financial statements are $436,848,474 for the fiscal year reported. This compares to the previous year when net assets reported were $407,403,960. These assets are held in trust to pay pension benefits to employees.
- The actuarial value of assets as of the December 31, 2004, actuarial report is $381,495,000 as compared to the December 31, 2003, value of $374,192,000.
- The fair value of OCERS investments at June 30, 2005, is $454,653,835 compared to $432,229,308 at June 30, 2004.
- The OCERS funded ratio of the actuarial accrued liability at December 31, 2004, was 92% compared to 96% at December 31, 2003.

Overview of the Financial Statements

Management's Discussion and Analysis introduces the OCERS basic financial statements. The basic financial statements include: (1) statement of plan net assets, (2) statement 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 *Statements of Plan Net Assets*. These statements present 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 statements are the *Statements of Changes in Plan Net Assets* which report 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 $436,848,474. This is an increase of $29,444,514 over last year's net assets at fiscal year-end of $407,403,960. The table on the following page provides a summary of net assets.

Summary of Net Assets

	2005	2004	2005-2004 Amount of Change	2005-2004 % Change	2003	2004-2003 Amount of Change	2004-2003 % Change
Cash	$26,193	$50,236	($24,043)	(47.86)%	$355,304	($305,068)	(85.86)%
Receivables	1,200,165	641,069	559,096	87.21	771,201	(130,132)	(16.87)
Investments	454,653,835	432,229,308	22,424,527	5.19	389,376,714	42,852,594	11.01
Invested securities lending collateral	33,101,390	24,951,760	8,149,630	32.66	5,984,945	18,966,815	(316.91)
Total assets	488,981,583	457,872,373	31,109,210	6.79	396,488,164	61,384,209	15.48
Liabilities	(52,133,109)	(50,468,413)	(1,664,696)	3.30	(37,241,470)	(13,226,943)	35.52
Net assets	$436,848,474	$407,403,960	$29,444,514	7.23	$359,246,694	$48,157,266	13.41

Market conditions had a significant impact on the OCERS performance through the 2005, 2004, and 2003 fiscal years as demonstrated in the table below summarizing the OCERS changes in net assets. The financial position of the OCERS rebounded in 2005, 2004, and 2003. These changes track with the economic and market changes over these periods. 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. The actuarial funding status as of December 31, 2004, reflects benefit enhancements and the "smoothing" of market fluctuations over the last four years. Note on page 14 that the market substantially improved during the 2004 fiscal year. However, previous years included in the four year span used for actuarial asset valuation purposes for fiscal year 2004 include several years of declining markets. Markets moderated in fiscal year 2005. For more information, see the *Investment Section* of this report.

During the 2005 fiscal year, the OCERS implemented a new pension information system. The cost of the system implementation was $555,361 which contributed significantly to the increase in administrative expenses. For more information, see the *Schedule of Administrative Expenses* later in this report.

Summary of Changes in Net Assets

	2005	2004	2005-2004 Amount of Change	2005-2004 % Change	2003	2004-2003 Amount of Change	2004-2003 % Change
Additions:							
Contributions	$12,041,588	$11,134,292	$907,296	8.15%	$11,519,151	($384,859)	(3.34)%
Investment income (loss)	33,413,551	51,221,881	(17,808,330)	(34.77)	22,101,375	29,120,506	131.76
Net income from securities lending activities	79,982	72,095	7,887	10.94	60,677	11,418	18.82
Other	109,003	68,258	40,745	59.69	60,218	8,040	13.35
Total additions	45,644,124	62,496,526	(16,852,402)	(26.97)	33,741,421	28,755,105	85.22
Deductions:							
Benefits	14,296,241	12,898,654	1,397,587	10.84	11,822,181	1,076,473	9.11
Refunds of contributions	994,191	1,229,398	(235,207)	(19.13)	1,018,628	210,770	20.69
Administrative expenses	909,178	211,208	697,970	330.47	285,290	(74,082)	(25.97)
Total deductions	16,199,610	14,339,260	1,860,350	12.97	13,126,099	1,213,161	9.24
Change in net assets	29,444,514	48,157,266	(18,712,752)	(38.86)	20,615,322	27,541,944	133.60
Beginning net assets	407,403,960	359,246,694	48,157,266	13.41	338,631,372	20,615,322	6.09
Ending net assets	$436,848,474	$407,403,960	$29,444,514	7.23	$359,246,694	$48,157,266	13.41

Economic Factors

In fiscal year 2005, net investment income was $33.4 million, equivalent to 7.7% of OCERS net assets at June 30, 2005.

During the fiscal years ending June 30, 2004 and 2003, OCERS recognized net investment income of $51.2 million and $22.1 million, respectively. Net investment income was equivalent to 12.6% and 6.2% of the OCERS net assets at June 30, 2004 and 2003. These were primarily the result of the fluctuations prevalent in the financial markets. The chart on the following page shows the changes in some of the major indices.

	2005	2004
ADDITIONS:		
Contributions:		
Employer	$6,484,268	$5,995,471
Plan members	5,557,320	5,138,821
Total contributions	12,041,588	11,134,292
Investment income:		
Net appreciation in fair value of investments	31,542,956	49,960,238
Interest	2,441,747	1,800,198
Dividends	518,041	401,136
	34,502,744	52,161,572
Less: investment expense	(1,089,193)	(939,691)
Net investment income	33,413,551	51,221,881
From securities lending activities:		
Securities lending income	773,687	270,658
Securities lending expenses:		
Borrower rebates	(650,716)	(177,493)
Management fees	(42,989)	(21,070)
Net income from securities lending activities	79,982	72,095
Other	109,003	68,258
Total additions	**45,644,124**	**62,496,526**
DEDUCTIONS:		
Benefits	14,296,241	12,898,654
Refunds of contributions	994,191	1,229,398
Administrative expenses	909,178	211,208
Total deductions	**16,199,610**	**14,339,260**
Change in net assets	**29,444,514**	**48,157,266**
Net assets held in trust for pension benefits:		
Beginning of year	**407,403,960**	**359,246,694**
End of year	**$436,848,474**	**$407,403,960**

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, 2005.

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 thirteen members. The City Council appoints two City employees or department heads from the various City departments. The City Council also appoints three members who have demonstrated professional experience relating to pension fund investment and management practices. The City Clerk serves as an ex-officio member (non-voting) and acts as the Clerk and Secretary of the Board. The City Auditor and Finance Director are members 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

Financial statements of the OCERS are prepared on the accrual basis in accordance with generally accepted accounting principles. 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

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.

I. E. ASSETS AND LIABILITIES

I. E. 1. CASH AND INVESTMENTS

The OCERS Board has formally adopted investment policies. Provisions of the policies, the composition of OCERS investments with respective fair values, and additional cash and investment information are discussed in Note II. A. 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, 2005. 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.

For the years ended June 30, 2005 and 2004, net realized gains were $14,791,995 and $16,959,151, 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. Compensated absences balances changed from 2004 to 2005 by accruals of $6,884 and usages of $5,236.

I. E. 3. TAX STATUS

The Internal Revenue Service has determined and informed the OCERS by a letter dated September 18, 2002, that the OCERS is designed in accordance with applicable sections of the Code. The OCERS Board of Trustees believes that the OCERS is designed and is currently being operated in compliance with the applicable requirements of the Code.

II. DETAIL NOTES ON ASSETS

II. A. DEPOSITS AND INVESTMENTS

Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the OCERS deposits may not be returned or the OCERS will not be able to recover collateral securities in the possession of an outside party. The OCERS policy does not formally address **custodial credit risk** for deposits. However, investment policy restricts uninvested cash to minimal balances generally covered by the Federal Deposit Insurance Corporation (FDIC).

The OCERS cash is insured or collateralized with securities held by the OCERS, or its agent in the OCERS name.

Investments

OCERS investment policies provide for investment managers who have full discretion of assets allocated to them subject to the overall investment guidelines set out in the policy. Manager performance is reviewed by a consultant who provides reports to the governing board. Any changes in the investment management firm must be reported as they occur. Overall investment guidelines provide for diversification and allow investment in domestic and international common stocks, fixed income securities, cash equivalents, index funds, collective trust funds, mutual funds, and City judgements. **Custodial credit risk** policy provides for the engagement of a custodian who accepts possession of securities for safekeeping; collects and disburses income; collects principal of sold, matured, or called items; and provides periodic accounting to the pension board. The OCERS holds $281,132,934 in common stock or stock funds. Of this amount $150,472,236 is held by the investment counterparty, not in the name of the OCERS or the City. The OCERS participates in securities lending. See subsequent securities lending disclosure for policy discussion. Securities lending short-term collateral of $33,101,390 is held by the investment counterparty, in the name of the OCERS.

OCERS investments for June 30, 2005, and 2004 are as follows:

	2005			
Types of investments	Fair Value/ Carrying Amount	Cost	Ratings (1)	Effective Duration (2)
Common stock:				
Domestic	$46,177,142	$34,224,975	NA	NA
International (4)	898,667	886,496	NA	NA
Government securities:				
U.S. Treasury notes	22,741,929	22,642,384		7.96
U.S. Treasury strips	1,228,220	981,965		7.96
U.S. Treasury bonds	6,696,305	6,337,076		7.96
Federal agency notes	2,267,345	2,266,329	AAA	3.49
Corporate obligations:				
Domestic	21,485,411	21,168,983	AA	6.23
International (4)	2,162,017	2,058,550	BBB	2.06
Treasury money market fund (2)	6,010,357	6,010,357	AAA	.01
Oklahoma City judgements	1,332,788	1,332,788	NA	NA
Mutual funds:				
Equity (4)	239,807,936	195,888,157	NA	NA
Bond	76,154,882	58,039,650	AA	4.16
Bond	2,335,807	1,984,927	BB	4.5
Residential mortgage-backed securities (3)	18,561,521	18,515,200	AAA	1.96
Commercial mortgage-backed securities (3)	6,793,508	6,810,596	AAA	3.68
Subtotal	454,653,835	379,148,433		
Securities lending money market	33,101,390	33,101,390	AAA	
Total investments	$487,755,225	$412,249,823		

Notes applicable to this table are shown following the fiscal year 2004 schedule on the following page.

Investments in foreign bonds and equities for fiscal year 2005 are shown by monetary unit to indicate possible foreign currency risk as shown in the following table:

International securities:	
Euro	$2,032,156
Russian rouble	1,680,501
Peruvian Nuevo sol	326,764
Bulgarian lev	373,445
Brazilian real	1,680,501
Other	910,498
International mutual funds and similar securities	87,728,325

(continued)

Investments, continued

	2004			
Types of investments	Fair Value/ Carrying Amount	Cost	Ratings (1)	Effective Duration (2)
Common stock:				
Domestic	$48,071,086	$37,402,807	NA	NA
International (4)	466,929	429,801	NA	NA
Government securities:				
U.S. Treasury notes	9,517,548	9,479,212		3.64
U.S. Treasury strips	964,327	985,496		3.64
U.S. Treasury bonds	10,223,526	10,264,613		3.64
Federal agency notes	3,469,307	3,477,432	AAA	1.26
Corporate obligations:				
Domestic	16,752,488	16,920,238	BBB	5.33
Treasury money market fund (2)	15,477,415	15,477,415	AAA	1.8
Securities lending short-term collateral investments:				
Repurchase agreements	23,451,760	23,451,760	NA	NA
Master notes	1,500,000	1,500,000	NA	NA
Oklahoma City judgements	1,885,885	1,885,885	NA	NA
Mutual funds:				
Equity (4)	206,071,454	173,615,917	NA	NA
Bond	86,142,539	70,827,183	AA	4.66
Residential mortgage-backed securities (3)	26,082,144	25,841,688	AAA	3.87
Commercial mortgage-backed securities (3)	7,104,660	7,100,057	AAA	2.96
Total investments	$457,181,068	$398,659,504		

(1) Ratings are provided where applicable to indicate associated **Credit Risk**. NA indicates not applicable.
(2) **Interest Rate Risk** is estimated using effective duration for investment types listed except for treasury money market which uses weighted average months to maturity.
(3) These include investments highly sensitive to interest rate changes. Applicable contractual terms include residential and commercial mortgage-backed securities.
(4) **Foreign Currency Risk** is the risk that changes in exchange rates will adversely affect the fair value of an investment.

Investments in foreign equities for fiscal year 2004 are shown by monetary unit to indicate possible foreign currency risk as shown in the following table:

International securities	
Euro	$64,203
Russian rouble	596,960
Peruvian Nuevo sol	191,880
Panamanian balboa	127,920
Columbian peso	149,240
Bulgarian lev	298,480
Brazilian real	703,560
Other	166,685
International mutual funds and similar securities	43,822,575

Assets allocation guidelines are as follows:

	Minimum	OCERS Target	Maximum
Equities	35%	50%	65%
International	5	10	15
Fixed income (1)	25	40	55

(1) Fixed income includes cash.

OCERS policy provides risk parameters for various portfolio compositions. These address **credit risk, concentration of credit risk, interest rate risk,** and **foreign currency risk** applicable to the portfolio. OCERS contractually delegates portfolio management to investment managers based on these prescribed portfolio structures. Domestic equity securities (common stock or equivalent) must be traded on a major U.S. exchange and may include issues convertible to common stocks. International equity securities are non-U.S. issues whose principal markets are outside the U.S. In general, cash may not exceed more than 10% of any equity manager's portfolio. Portfolio parameters are as follows:

Large cap domestic portfolio investment in equity securities may not exceed 10% of an individual equity, 10% of the market value of the individual portfolio, or 10% of any company's outstanding equity.

Small cap portfolio investment in equity securities may not exceed 5% of an individual equity, 10% of the market value of the individual portfolio, or 5% of any company's outstanding equity.

International portfolio investment policy designates that no single stock may exceed 5% of the market value of the individual portfolio or 5% of any company's outstanding equity. Cash assets may be invested in short-term fixed income investments denominated in U.S. dollars or other foreign currencies. Fixed income should not exceed 10% of the individual portfolio.

Core fixed income investment may include any amount of U.S. government or U.S. government agencies obligations. Corporate bonds are diversified by industry and no more than 5% of any issuer. Mortgages and mortgage-backed securities are permitted. Bonds must have a minimum quality rating of BBB with overall portfolio average credit quality of AA or higher. International bonds may not exceed 20% of an individual portfolio and no more than 5% may be invested in one country. Convertible securities or preferred stock may not exceed 5% of the portfolio. Average option adjusted duration of the portfolio shall approximate the option adjusted duration of the relevant benchmark designated as the Lehman Brothers Aggregate Bond Index.

Core plus fixed income investment is structured to include 80-100% domestic securities and 0-20% high yield, emerging market, non-dollar securities which may include below investment grade corporate bonds. Other provisions are similar to the core fixed income portfolio with exceptions for bonds limited to 2% and neither cash or structured notes, as individual investment types, may exceed 5% of the total portfolio. Derivatives may be used on a limited basis to eliminate undesirable risk. No more than 5% of the portfolio will be invested in original futures margin and option premiums. Swap contracts may be executed with counterparties whose credit rating is A2/A or better. Average option adjusted duration of the portfolio shall approximate the option adjusted duration of the relevant benchmark designated as the Lehman Brothers Aggregate Bond Index, within a band of plus or minus 20%. On an ongoing basis, cash should not exceed 5% of the portfolio.

OCERS investment policy is more restrictive than the requirements of Oklahoma law found in Title 60 of the Oklahoma Statutes and the standards of the Oklahoma Uniform Prudent Investor Act. These statutes restrict public trust investing to the Prudent Investor Rule defined by Title 60 Oklahoma Statutes to consider the purposes, terms, distribution requirements, and other circumstances of the trust and to exercise reasonable care, skill, and caution. Investment decisions must be evaluated not in isolation, but in the context of the trust portfolio as a whole and as a part of the overall investment strategy having risk and return objectives reasonably suited to the trust.

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 2005, 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. **Custodial credit risk** for securities lending transactions is included in the previous discussion of OCERS policy.

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 money market, 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. Net income produced from securities lending activities described above for fiscal year 2005 was $52,731. The OCERS contractually delegates securities lending management. The market value of securities on loan as of June 30, 2005, was $32,447,268, comprised of: $657,359 of corporate obligations, $5,328,560 of common stock, and $26,461,349 of U. S. government securities.

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 $27,251 for fiscal year 2005.

Derivatives

The OCERS is permitted to own derivative investments. However, OCERS investment policy restricts derivative investing with investment policy guidelines. Derivative investments comprise less than one percent of the OCERS portfolio.

II. B. RECEIVABLES FROM THE CITY

Amount		2005	2004	
Employee	Employer	Total	Total	Description
$83,985	$98,055	$182,040	$62,188	General Fund
239	315	554	202	Parking Fund
2,111	2,463	4,574	1,659	Police Fund
474	553	1,027	279	Fire Fund
6,244	7,284	13,528	4,962	Emergency Management Fund
8,178	9,541	17,719	6,075	Airports Fund
8,707	10,158	18,865	6,931	Street and Alley Fund
3,408	3,976	7,384	2,398	Fleet Services Fund
726	847	1,573	650	Risk Management Fund
9,286	10,833	20,119	6,483	Information Technology Fund
349	407	756	260	Print Shop Fund
1,165	1,359	2,524	836	Maps Operations Fund
8,278	9,658	17,936	6,387	Solid Waste Management Fund
47,549	55,278	102,827	35,213	Water Utilities Fund
5,781	6,745	12,526	4,164	Stormwater Drainage Fund
193	225	418	141	Police/Fire Equipment Use Tax Fund
4,786	5,584	10,370	3,984	Grants Management Fund
270	279	549	317	OCERS
1,132	1,321	2,453	2,302	Oklahoma City Public Property Authority – Hefner Golf Course
1,031	1,203	2,234	2,904	Oklahoma City Public Property Authority – Lincoln Golf Course
468	546	1,014	882	Oklahoma City Public Property Authority – Trosper Golf Course
800	934	1,734	13,653	Oklahoma City Public Property Authority – Earlywine Golf Course
365	428	793	1,634	Oklahoma City Public Property Authority – Stewart Golf Course
88	102	190	63	Asset Forfeiture Fund
1,597	1,863	3,460	784	Transportation Fund
874	1,019	1,893	585	City and Schools Sales Tax Fund
$198,084	$230,976	$429,060	$165,936	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, 2004. Actuarial valuations are performed annually.

Membership in the OCERS is as follows:

	December 31, 2004	December 31, 2003
Active employees - nonvested	630	638
Active employees - vested	1,672	1,652
Retirees and beneficiaries currently receiving benefits	1,046	1,006
Terminated plan members entitled to but not yet receiving benefits	54	61

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 and sick leave and amounts elected to be deferred under Section 125 of the Internal Revenue Code) 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.

The OCERS actuary reported that the total computed required contribution for the period July 1, 2004 through June 30, 2005 is 15.49 percent of covered payroll. However, pursuant to the retirement system ordinance, the total contribution rate for this period is 13 percent. This rate consists of 6 percent from member contributions and 7 percent from the City. This produces a difference of 2.49 percent of covered payroll. As of December 31, 2004, the OCERS actuarial accrued liability exceeds the actuarial value of plan assets and additional contributions are required to pay the unfunded accrued liability. An employer contribution rate of 7 percent will be made to the pension trust until January 1, 2006. The anticipated employer contribution is lower than the recommended amount for the 2005 fiscal year. In accordance with the ordinance that the City adopted implementing plan design changes five years ago, the City will increase its contributions to the actuarially required contribution rate of 9.49 percent in January 2006 making this a short-term difference.

V. RELATED PARTY TRANSACTIONS

As of June 30, 2005 and 2004, the OCERS held judgements in the amounts of $1,332,788 and $1,885,885, respectively. The judgements earn 5.01 – 7.25 percent 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, 2005 and 2004, the OCERS reported charges for City services of $67,545 and $54,675, 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, 2005 and 2004, the OCERS reported income for services of $26,881 and $26,380, 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)
12/31/04	$381,495,000	$415,164,000	$33,669,000	92%	$88,866,000	38%
12/31/03	374,192,000	391,023,000	16,831,000	96	85,666,000	20
12/31/02	375,382,000	372,560,000	(2,822,000)	101	86,428,000	(3)
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)

(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
2005	7.00%	$6,484,268	100%
2004	7.00	5,995,471	100
2003	7.00	6,202,490	100
2002	7.00	6,028,887 (2)	100
2001	7.00	6,484,197	100
2000	8.35	6,690,670	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	12/31/04
Actuarial cost method	Individual entry age
Amortization method	Level percentage of payroll
Amortization period	40 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

	2005	2004
Personal services:		
Staff salaries and benefits	$146,588	$114,227
Compensated absences	1,648	7,169
Total personal services	148,236	121,396
Professional services:		
Actuarial	32,558	21,506
Accounting	24,832	16,186
Software implementation	555,361	-
Audit	12,210	24,330
Medical exams	2,100	1,600
Bank fees	1,940	2,534
Legal fees	3,911	460
Total professional services	632,912	66,616
Training, education, and travel	9,885	11,595
Miscellaneous:		
Supplies	28,211	6,548
Other	89,934	5,053
Total miscellaneous	118,145	11,601
Total administrative expenses	$909,178	$211,208

SCHEDULE OF INVESTMENT EXPENSES

	2005	2004
Management fees	$904,863	$778,229
Custodial fees	99,330	78,962
Investment performance analysis	85,000	82,500
Total investment expenses	$1,089,193	$939,691
Securities lending management fees	$42,989	$21,070

SCHEDULE OF CONSULTING EXPENSES

	2005	2004	
Gabriel, Roeder, Smith & Co.	$32,558	$21,506	Actuarial
Asset Consulting Group, Inc.	$85,000	$82,500	Consulting
PricewaterhouseCoopers LLP	12,210	$24,330	Auditing
Davis Graham & Stubbs LLP	$3,911	$460	Legal
Everge Group of Texas	$555,361	-	Software Implementation

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

September 19, 2005

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 the CFA Institute (formerly AIMR) 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 CFA Institute 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 C. Pulos

Jason C. Pulos, CFA
Director

INVESTMENT POLICY SUMMARY

Purpose and Objectives

The primary objective of the Oklahoma City Employee Retirement System (Plan) is to provide eligible employees with retirement benefits. Assets will be invested in a diversified portfolio to achieve attractive real rates of return. Following prudent standards for preservation of capital, the goal is to achieve the highest possible rate of return consistent with the Plan's tolerance for risk as determined by the Board of Trustees in its role as fiduciary.

Parties Associated with the Plan

Board of Trustees (Board)

1. Holds ultimate responsibility for the Plan and the appropriateness of its investment policy and its execution.
2. Retains consultants, investment managers and other advisors to implement and execute investment policy as it relates to the Plan.
3. Reviews adequacy or need for change of this policy.
4. Meets with investment managers and reviews quarterly reports concerning Plan asset management.
5. Administers and interprets the Plan.
6. Engages a custodian.
7. Defines investment policy, objectives and guidelines for the plan including risk tolerance.
8. Responsible for changes in funding of investment management.

Investment Managers

1. Will have full discretion in the management of assets allocated to the investment managers, subject to the overall investment guidelines set by the Board.
2. Serve as fiduciaries responsible for specific securities decision.
3. Will abide by duties, responsibilities and guidelines detailed in any specific investment manager agreement.

Custodian

1. Accepts possession of securities for safekeeping; collects and disburses income, collects principal of sold, matured or called items; provides periodic accounting statements; and processes and maintains securities lending program.
2. Meets as required with the Board and provides reports relative to the status of the Plan.
3. The custodian shall, in a timely fashion, forward and transmit to the investment manager all proxies related to equity securities held in an account.
4. Will abide by duties, responsibilities and guidelines detailed in any specific custodial agreement.

Investment Consultant

1. Assists Board in developing investment policy guidelines, including asset class choices, asset allocation targets and risk diversification.
2. Provides Board with objective information on a broad spectrum of investment management specialists and helps construct a portfolio management team of superior investment managers.
3. Monitors the performance of the investment managers and provides regular quarterly reports to the Board, which will aid them in carrying out the intent of this policy.
4. Reports conclusions and recommendations to the Board as required.
5. Evaluates and makes recommendations, as needed, on portfolio management.
6. Evaluates and makes recommendations, as needed, on other areas of investment, such as real estate, foreign securities or venture capital.
7. Will abide by duties, responsibilities and guidelines detailed in any specific investment consulting agreement.

Investment Objectives and Guidelines

Policies

1. To structure the Plan's portfolio for maximum investment style diversification and to achieve expected total return investment results, the Board:
   a) may retain multiple equity portfolio managers who will be granted full investment discretion. The total return concept as it applies to this portion of the Plan means dividend income plus realized and unrealized capital appreciation. Complementary multiple managers across various market capitalizations and styles will be used in structuring the equity asset mix.

b) may retain separate fixed income portfolio managers who will be granted full investment discretion. Fixed income investments will constitute a portion of the Plan's assets to primarily reduce the volatility of the total portfolio, in addition to providing current income. The total return concept as it applies to this portion of the Plan means interest income plus realized and unrealized capital appreciation.

c) may invest in judgments purchased by the City Treasurer for the benefit of the Plan. The interest rate is determined at the annual rate of the average U.S. Treasury bill rate of the preceding calendar year as certified to by the Administrator Director of the Courts of the State Treasurer on the first business day of January, plus four (4) percentage points but not to exceed ten percent (10%).

2. Investment management will be delegated to external professional organizations. The managers will operate within a set of guidelines, objectives and constraints.
3. The Board will follow the policy that, except for established guidelines and unusual circumstances, no restrictions will be placed on the selection of individual investments by the Plan's investment managers.
4. The Plan's managers shall vote proxies. Each manager shall vote the individual proxy's in the manner, which they feel, will benefit the Oklahoma Employees Retirement System the most. The Board reserves the right to instruct the managers on how to vote individual proxies. The manager will keep a record of proxy voting and upon request, will make these records available to the Board. If an investment manager needs policy clarification, the Investment Committee should be considered as the source for such clarification.
5. The Board may institute a securities lending program to generate additional income above and beyond that produced through dividend, interest and capital appreciation. The Board will receive collateral, consistent with industry standards, of at least 102% of market value, initially, on equity securities and 100% on fixed income securities. Securities are priced daily and collateral adjustments (marked to market) made as required.
6. The Board has authorized a commission recapture program whereby certain brokers rebate 50% or more of their commissions back to the Plan. The recapture brokers should provide monthly transaction reports to the Board or its representative for review.
7. Trustees, officers, employees, investment managers and consultants involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees, investment officials and consultants shall disclose to the Chairperson of the Board any direct financial interests in financial institutions that conduct business with the Plan, and they shall further disclose any personal financial investment positions that could be related to the performance of the Plan. Such disclosure shall be made to the Board within 90 of any such position being taken. Employees, officers, trustees and consultants shall subordinate their personal investment transactions to those of the Plan, particularly with regard to the timing of purchases and sale.
8. The Plan is subject to an annual audit of its financial position and review of its internal control procedures. The Board or Chairperson may establish internal control procedures, as they or he/she deems necessary for services performed by the City and/or its employees on behalf of the OCERS.

Portfolio Asset Allocation Guidelines

Target percentages have been determined for each asset class. Percentage allocations are intended to serve as guidelines; the board will not be required to remain strictly at the designated allocation. Market conditions or an investment transition (asset class or manager) may require an interim investment strategy and, therefore, a temporary imbalance in asset mix.

	Minimum	Target	Maximum
Equities			
Large Cap Domestic	30%	35%	40%
Small Cap Domestic	5%	10%	15%
International	5%	10%	15%
Long/Short	0%	5%	10%
Fixed Income			
Core Bonds	10%	15%	20%
Core Plus Bonds	15%	20%	25%
Low Volatility Hedge	0%	5%	10%

For purposes of this policy statement Fixed Income may include certain hedge fund strategies that exhibit similar volatility to fixed income with low correlation to long only equity and fixed income markets.

The Board, in conjunction with its investment consultant, will formally review asset allocation on an annual basis for potential rebalancing to target levels as established by the investment policy. The Board will informally monitor rebalancing needs to maintain compliance with the investment policy on a monthly basis.

Performance Objectives
The Plan's total return will be expected to provide equal or superior results, using a three-year moving average, relative to the following benchmarks:

1. An absolute return objective of 8.0% (or current actuarial rate).
2. A relative return objective of 40% S&P 500 Index, 10 % Russell 2000 index, 10% MSCI-EAFE, 40% Lehman Aggregate Bond Index,
3. A relative return objective of above median in consultant's total fund peer group universe.

Annual Review of Guidelines
In view of the rapid changes within the capital markets and investment management techniques, the Oklahoma City Employee Retirement System Board and its investment managers should review these guidelines annually. Any recommended changes to this policy should be communicated in writing to the Oklahoma City Employee Retirement System Board for review. Exceptions to these guidelines may be made anytime with the written approval of the Oklahoma City Employee Retirement System Board.

Investment Objective of Money Managers
The investment management style and process of each manager is important because of the manner in which each style blends with the structure of the total Plan; therefore, adherence to this discipline is a critical issue. The portfolio should be managed in a style consistent with the asset manager's other portfolios within the same investment mandate or product. Any significant deviation from the manager's stated style will require written approval from the Oklahoma City Employee Retirement System Board.

Performance Criteria for Money Managers
Manager performance shall be monitored over current and long term time periods. Performance will be reviewed over the following periods with an emphasis on 3 and 5 year periods:

- 3 months
- Year to date
- One Year
- Three Years
- Five Years

The manager's performance will be evaluated on absolute return, relative return, volatility profile, and consistency with stated style.

INVESTMENT SUMMARY

Equity	Cost of Holdings	Cash Equivalents	Cost	Market Value	% of Total Market Value
Domestic common stock:					
Active, small cap growth	$19,493,970	$1,828,659	$21,322,629	$24,052,376	5.28%
Active, small cap value	15,198,634	1,013,000	16,211,634	25,441,934	5.59
Passive, S&P 500	112,243,255	218	112,243,473	147,406,178	32.38
International stocks:					
Active, large cap value	20,000,000	-	20,000,000	23,537,091	5.17
Active, large cap growth	17,961,140	45	17,961,185	20,808,489	4.57
Hedge-long/short	20,000,000	-	20,000,000	20,353,095	4.47
Fixed Income					
Active	88,868,639	2,873,648	91,742,287	95,904,354	21.06
Passive	58,039,650	267	58,039,917	76,155,149	16.73
Hedge-low volatility	20,000,000	-	20,000,000	19,969,013	4.39
Other					
Treasury money market fund	-	294,520	294,520	294,520	0.06
Oklahoma City judgements	1,332,788	-	1,332,788	1,373,628	0.30
Total	$373,138,076	$6,010,357	$379,148,433	455,295,827	100.00%
Interest and dividend income:					
Fixed income				(622,297)	
Equities				(19,695)	
Total				$454,653,835	

For purposes of portfolio evaluation by the 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

	1 Year	3 Years	5 Years
Total Portfolio:			
OCERS Composite	8.6%	9.9%	2.5%
Median Total Fund (between 55-70% Equity)	9.1	9.5	3.9
Policy Index	7.8	8.9	2.6
Equities:			
Large Cap-Passive:			
State Street Global Advisors S & P 500 Flagship Fund	6.3%	8.3%	(2.4)%
Standard & Poor's 500 Index	6.3	8.3	(2.4)
Small Cap Value:			
Earnest Partners (inception May 2003)	22.2%	-	-
Russell 2000 Value Index	14.4	14.2	16.1
Small Cap Growth:			
Seneca Capital Management (inception May 2003)	(0.5)%	-	-
Russell 2000 Growth Index	4.3	11.4	(4.5)
International:			
Large Cap Value:			
Grantham, Mayo, VanOtterloo (inception February 2004)	15.5%	-	-
Morgan, Stanley, Capital International/Europe, Australia, and Far East	14.1	12.5	(0.2)
Large Cap Growth:			
Julius Baer (inception January 2004)	19.7%	-	-
Morgan, Stanley, Capital International/Europe, Australia, and Far East	14.1	12.5	(0.2)
Hedge Fund-Long/Short:			
K2 Advisors (inception January 2005)	1.8% (1)	-	-
HFRI Equity Hedge	1.6 (1)	8.3	4.6
Fixed Income:			
Core Bonds-Passive:			
State Street Global Advisors Passive Bond Market Securities Lending Index Fund	6.8%	5.7%	7.4%
Lehman Brothers Aggregate	6.8	5.8	7.4
Active:			
Western Asset Management (inception January 2003)	9.0%	-	-
Lehman Brothers Aggregate	6.8	5.8	7.4
Hedge Fund-Low Volatility:			
AIG Global Investment Group-Relative Value (inception January 2005)	(0.2)%(1)	-	-
Lehman Brothers Aggregate	6.8	5.8	7.4
Internal:			
City of Oklahoma City Judgements	5.5%	-	-
Merrill Lynch 1-3 Year Treasury Bond	1.9	2.3	4.5

(1) return for the six months ended June 30, 2005

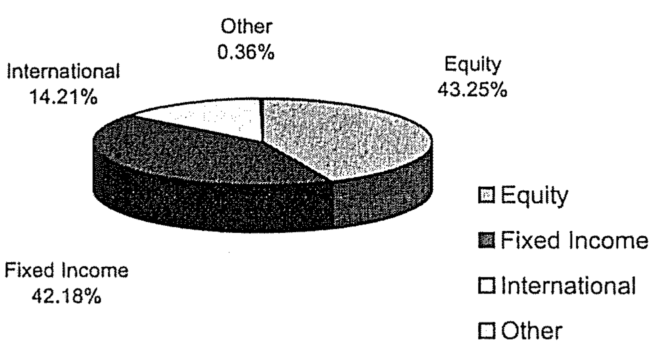
Monthly returns are calculated and linked to provide compounded, annual, and annualized rates of return for periods of one, three, and five years. An effort is made to follow *Association for Investment Management and Research* guidelines in the preparation of these numbers whenever possible. The returns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

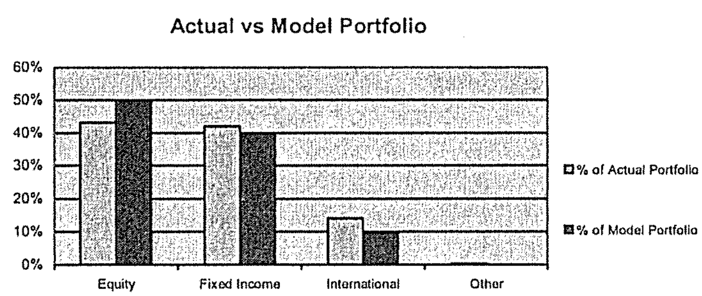
ASSET ALLOCATION

	Market Value of Holdings	Cash Equivalents	Accrued Income	Market Value	% of Total Market Value	% of Model Portfolio
Equity						
Domestic common stock:						
Passive, large cap	$147,405,960	$218	$ -	$147,406,178	32.38%	
Active, small cap	46,632,956	2,841,659	19,695	49,494,310	10.87	
					43.25%	50.00%
International stock:						
Active, large cap	44,345,535	45	-	44,345,580	9.74%	
Hedge-long/short	20,353,095	-	-	20,353,095	4.47	
					14.21%	10.00%
Fixed Income						
Active	92,449,250	2,873,648	581,456	95,904,354	21.06%	
Passive	76,154,881	267	1	76,155,149	16.73	
Hedge-low volatility	19,969,013	-	-	19,969,013	4.39	
					42.18%	40.00%
Other						
Treasury money market fund	-	294,520	-	294,520	0.06%	
Oklahoma City judgements	1,332,788	-	40,840	1,373,628	0.30	
					0.36%	
Total	$448,643,478	$6,010,357	$641,992	455,295,827	100.00%	100.00%
Interest and dividend income:						
Fixed Income				(622,297)		
Equities				(19,695)		
Total				$454,653,835		

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 Plan Net Assets* since accrued income and cash equivalent positions are included as shown above.

Asset Allocation by Class





LARGEST HOLDINGS

10 Largest Stock Holdings (by market value)

Shares	Stock	Market Value
17,100	Global Payments, Inc.	$1,159,380
17,600	Hovnanian Enterprises, Inc.	1,147,520
18,130	Cooper Companies, Inc.	1,103,392
15,920	Harsco Corp.	868,436
17,530	Psychiatric Solutions, Inc.	853,886
26,790	Sonic Corp.	817,899
18,102	JoS. A. Bank Clothier Global, Inc.	783,817
26,000	Flir Systems, Inc.	775,840
21,550	Cabot Oil and Gas Corp.	747,785
8,700	Philadelphia Consolidated Holding Corp.	737,412

10 Largest Fixed Income Holdings (by market value)

Par	Bonds	Rate	Maturity	Market Value
$6,240,000	United States Treasury Note	4.000%	2/15/2015	$6,262,152
4,200,000	GNMA	6.000	7/21/2035	4,331,250
3,810,000	United States Treasury Note	3.000	12/31/2006	3,775,024
3,413,812	United States Treasury Note	3.375	1/15/2007	3,552,235
3,280,000	United States Treasury Note	4.000	4/15/2010	3,315,883
2,700,000	Federal National Mortgage Assn.	5.500	7/1/2029	2,770,875
2,330,000	GNMA	5.000	7/21/2035	2,347,475
2,200,000	Federal National Mortgage Assn.	6.500	7/15/2033	2,275,625
2,000,000	Federal National Mortgage Assn.	5.000	7/14/2035	2,000,000
1,400,000	United State Treasury Bond	6.250	5/15/2030	1,823,556

A complete list of portfolio holdings is available upon request.

SCHEDULE OF FEES AND COMMISSIONS

INVESTMENT MANAGEMENT FEES

Equity Managers	Market Value of Holdings	Cash Equivalents	Accrued Income	Total Assets under Management	Fees
Active:					
Seneca Capital Management San Francisco, California	$22,219,867	$1,828,659	$3,850	$24,052,376	$194,649
Earnest Partners Atlanta, Georgia	24,413,089	1,013,000	15,845	25,441,934	210,462
Passive:					
State Street Global Advisors Boston, Massachusetts	147,405,960	218	-	147,406,178	69,578
Fixed Income Managers					
Active:					
Western Asset Management Pasadena, California	92,449,250	2,873,648	581,456	95,904,354	227,343
Passive:					
State Street Global Advisors Boston, Massachusetts	76,154,881	267	1	76,155,149	34,453
Hedge:					
AIG Global Investment Corp. (1) New York, New York	19,969,013	-	-	19,969,013	-
International Investment Managers					
Active:					
Grantham, Mayo, VanOtterloo & Co. Boston, Massachusetts	23,537,091	-	-	23,537,091	168,378
Julius Baer Investment Management (1) New York, New York	20,808,444	45	-	20,808,489	-
Hedge:					
K2 Advisors (1) Stanford, Connecticut	20,353,095	-	-	20,353,095	-
Other					
JPMorgan Money Market Boston, Massachusetts	-	294,520	-	294,520	-
City of Oklahoma City Judgements	1,332,788	-	40,840	1,373,628	-
Total	$448,643,478	$6,010,357	$641,992	455,295,827	$904,863
Interest and dividend income:					
Fixed income				($622,297)	
Equities				(19,695)	
Total				$454,653,835	

OTHER INVESTMENT SERVICE FEES

Custodial Fees	$99,330
Investment Consultant Fees	$85,000
Securities Lending Management Fees	$42,989

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

SCHEDULE OF FEES AND COMMISSIONS

BROKER COMMISSION

Broker	Shares	Commission Expense	Average Cost/Share
B-Trade Services LLC	547,760	$16,433	$0.03
Instinet Corporation	364,210	10,926	0.03
Donaldson & Company, Inc.	174,500	8,725	0.05
Lynch Jones & Ryan, Inc.	162,800	8,140	0.05
Lehman Brothers, Inc.	170,660	5,908	0.03
Raymond James & Associates, Inc.	142,490	6,034	0.04
All others $5,000 or less	1,705,655	60,883	0.04
Totals	3,268,075	$117,049	

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

September 19, 2005

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

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 City 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. 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 any 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, 2004.

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:

- Solvency Test-Schedule of Funding Progress
- Summary of Plan Provisions Evaluated or Considered
- Schedule of Retirees and Beneficiaries as of the Valuation Date
- Schedule of Active and Inactive Member Valuation Data
- Summary of Actuarial Assumptions and Methods
- Analysis of Financial Experience – Derivation of Experience Gains (Losses) for Valuation Years 2000-2004
- Retirees and Beneficiaries Added to and Removed From Rolls
- Schedule of Funding Progress
- Notes to Required Supplementary Information
- Schedule of Employer Contributions

September 19, 2005

Assets are valued on a market related basis that recognizes a portion of each year's realized and unrealized 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 GASB Statement No. 25. 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.

Investment return for 2004 was favorable again this year. The investment program is a very important factor in the long term well being of the Retirement System.

On the basis of the December 31, 2004 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. In order for the System to remain in sound condition, it is important that the System receive the recommended level of employer contribution and generate sufficient investment income.

Respectfully submitted,

Louise Gates

Louise M. Gates, ASA

Brian B Murphy

Brian B. Murphy, FSA

LMG/BBM:dm
Enclosures

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.

Experience Gains and Losses

Experience gains and losses are the difference between actual experience and the experience anticipated by the actuarial assumptions 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. The actuarial value of assets is equal to the market value of assets adjusted for investment gains and losses over a four year period. This method smoothes asset values and moderates fluctuations in contribution rates.

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 a 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 pays to those which will determine average final compensation. The table below summarizes these assumptions and was first used for the December 31, 2000 valuation.

	Annual Rate of Salary Increase			
Sample Ages	**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		
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.

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

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 form 0% to 100% based on age.
Pre 4/67: The rate of forfeitures is 0%.

Schedule of Active and Inactive Member Valuation Data

Valuation Date December 31	Number of Active Members	Inactive Members	Annual Payroll(1)	Active Member Averages: Age (2)	Active Member Averages: Service(2)	Active Member Averages: Pay	% Increase (Decrease) In Avg. Pay	Ratio of Active To Retired Members
1985	2,546	10	46,710	38.9	7.9	18,346		3.2
1986	2,568	29	49,255	39.1	8.0	19,180	4.5%	3.3
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
2002	2,374	55	86,428	44.5	11.7	36,406	6.5	2.4
2003	2,290	61	85,666	45.2	12.3	37,409	2.8	2.3
2004	2,302	54	88,866	45.2	12.3	38,604	3.2	2.2

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

(2) Amounts shown are expressed in years.

(3) Results reflect early retirement incentive program

Summary of Benefit Provisions Evaluated or Considered

(December 31, 2004)

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 and complete months 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 BENEFIT PROVISIONS EVALUATED OR CONSIDERED

(DECEMBER 31, 2004)

Duty Death Before Retirement

Eligibility - No age or service requirements.

Annual Amount - 20% of average final compensation to an 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 effective March 2, 2001 – December 31, 2005.

The actuarially determined contribution rate (up to a maximum of 10% of pay) effective January 1, 2006.

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.

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Statistical Section

Schedule of Changes in Net Assets

		Fiscal Year 2005	2004	2003	2002	2001
Additions						
Member contributions		$5,557,320	$5,138,821	$5,316,661	$5,168,718	$4,919,836
Employer contributions		6,484,268	5,995,471	6,202,490	6,028,887	6,484,197
As a percentage of covered payroll	(1)	7.00%	7.00%	7.00%	7.00%	7.00%
Investment income (net of expenses)	(2)	33,413,551	51,221,881	22,101,375	(34,256,097)	(26,040,010)
Other revenues and transfers		188,985	140,353	120,895	263,694	166,261
Total additions to plan net assets		45,644,124	62,496,526	33,741,421	(22,794,798)	(14,469,716)
Deductions						
Benefits		14,296,241	12,898,654	11,822,181	11,047,907	8,667,071
Refunds of contributions		994,191	1,229,398	1,018,628	983,063	1,225,722
Administrative expenses		909,178	211,208	285,290	324,201	404,248
Total deductions from plan net assets		16,199,610	14,339,260	13,126,099	12,355,171	10,297,041
Change in net assets		$29,444,514	$48,157,266	$20,615,322	($35,149,969)	($24,766,757)

		Fiscal Year 2000	1999	1998	1997	1996
Additions						
Member contributions		$4,807,499	$4,630,133	$4,475,892	$4,304,926	$4,264,669
Employer contributions		6,690,670	6,449,969	6,207,634	5,989,526	5,925,528
As a percentage of covered payroll	(1)	8.35%	8.35%	8.35%	8.35%	8.35%
Investment income (net of expenses)	(2)	52,903,764	41,805,633	46,531,306	34,687,616	30,741,258
Other revenues and transfers		134,689	284,197	80,180	158,846	110,000
Total additions to plan net assets		64,536,622	53,169,932	57,295,012	45,140,914	41,041,455
Deductions						
Benefits		7,527,183	7,140,119	6,886,541	6,594,531	6,240,880
Refunds of contributions		1,939,509	1,119,420	1,089,161	1,278,692	834,215
Administrative expenses		220,006	202,978	150,791	148,721	131,706
Total deductions from plan net assets		9,686,698	8,462,517	8,126,493	8,021,944	7,206,801
Change in net assets		$54,849,924	$44,707,415	$49,168,519	$37,118,970	$33,834,654

(1) In February 2001, the City Council approved a change in the employer's rate from 8.35% to 7.00% effective March 2001.

(2) The OCERS investment income was significantly affected by declines in market values in 2002 and 2001 in conjunction with national economic recession.

Schedule of Benefit and Refund Deductions from Net Assets by Type

Calendar Year Ending (1)	Age & Service Benefits		Disability Benefits Retirants		Total Benefits	Separation Refunds
	Retirants	Survivors	Duty	Non-Duty		
2004	$10,854,553	$1,620,152	$225,690	$338,037	$13,038,432	$1,137,897
2003	9,845,631	1,545,198	222,811	359,298	11,972,938	943,212
2002	9,230,259	1,495,760	205,299	330,454	11,261,772	1,158,112
2001	8,462,358	1,420,341	205,672	298,142	10,386,513	1,221,519
2000	7,300,842	1,399,723	196,191	291,567	9,188,323	1,723,960
1999	6,146,235	982,714	145,969	195,297	7,470,215	1,288,474
1998	5,881,995	893,581	179,558	179,558	7,134,692	1,123,040
1997	5,607,947	880,725	152,527	176,904	6,818,103	1,197,579
1996	5,397,363	776,608	154,526	179,223	6,507,720	1,028,401
1995	5,077,118	735,039	147,845	171,475	6,131,477	931,099

(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) 1	2	3	4	5	6	Life	Death Benefit	Option Selected (2) Opt. 1	Opt. 2	Opt. 3
Deferred	54	-	-	-	-	-	-	-	-	-	-	-
$1-250	40	1	11	21	2	4	1	8	-	10	3	19
251-500	162	34	60	48	7	9	4	73	3	24	13	49
501-750	196	33	76	52	16	12	7	80	10	41	10	55
751-1,000	196	62	81	25	9	7	12	96	2	43	19	36
1,001-1,250	133	73	41	11	1	1	6	61	-	27	12	33
1,251-1,500	112	78	27	3	2	-	2	41	-	23	18	30
1,501-1,750	78	66	7	4	-	-	1	31	-	22	12	13
1,751-2,000	55	47	4	3	1	-	-	21	-	12	9	13
Over 2,000	74	71	1	1	1	-	-	36	-	10	6	22
Totals	1,046	465	308	168	39	33	33	447	15	212	102	270

(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

Schedule of Average Benefit Payments

Retirement Effective Dates	Years of Credited Service						
January 1, 1995 to December 31, 2004	0-4	5-9	10-14	15-19	20-24	25-29	30+
Period 1/1/04 to 12/31/04:							
Average Monthly Benefit	$ -	$286	$519	$1,060	$1,102	$1,720	$2,580
Final Average Salary	-	2,299	2,853	3,723	3,205	3,662	4,047
Number of Active Retirants	-	3	6	8	7	27	12
Period 1/1/03 to 12/31/03:							
Average Monthly Benefit	$ -	$269	$739	$1,111	$1,392	$1,691	$2,547
Final Average Salary	-	2,113	3,011	3,407	3,582	3,581	3,902
Number of Active Retirants	-	4	3	2	6	19	10
Period 1/1/02 to 12/31/02:							
Average Monthly Benefit	$ -	$309	$520	$879	$1,372	$1,692	$1,955
Final Average Salary	-	2,403	2,629	2,978	3,556	3,479	3,103
Number of Active Retirants	-	6	6	10	6	17	14
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