Oklahoma Police Pension and Retirement Plan
Administered by
Oklahoma Police Pension and Retirement System

Financial Statements

June 30, 2009 and 2008
(With Independent Auditors' Report Thereon)

FINLEY & COOK
CERTIFIED PUBLIC ACCOUNTANTS

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

FINANCIAL STATEMENTS

Table of Contents

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of plan net assets of the Oklahoma Police Pension and Retirement Plan (the "Plan"), administered by the Oklahoma Police Pension and Retirement System, which is a part of the State of Oklahoma financial reporting entity, as of June 30, 2009 and 2008, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Plan as of June 30, 2009 and 2008, and the changes in the net assets of the Plan for the years then ended in conformity with accounting principles generally accepted in the United States.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplementary information contained in Management's Discussion and Analysis, the Schedule of Funding Progress, and the Schedule of Contributions from the Employer and Other Contributing Entities are not required as part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it.

In accordance with *Government Auditing Standards,* we have also issued a report dated September 14, 2009, on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Finley & Cook, PLLC

Shawnee, Oklahoma
September 14, 2009

1421 East 45th Street • Shawnee, OK 74804
P: 405.878.7300 • www.finley-cook.com • F: 405.878.4780

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Oklahoma Police Pension and Retirement Plan administered by the Oklahoma Police Pension and Retirement System (collectively referred to as the "System"), we offer readers of the System's financial statements this narrative overview and analysis of the financial statements of the System for the fiscal years ended June 30, 2009 and 2008. Please read it in conjunction with the System's financial statements which begin on page 2.

Financial Highlights

		June 30, 2009	June 30, 2008
		(Amounts in Thousands)	
• Net assets of the System	$	1,420,477	1,717,820
• Contributions:			
Cities		31,675	30,061
Plan members		19,139	17,997
Insurance premium tax		26,913	26,020
• Net investment loss		(283,519)	(43,387)
• Benefits paid, including refunds and deferred option benefits		89,048	86,255
• Change in net assets		(297,343)	(58,568)

DISCUSSION OF THE BASIC FINANCIAL STATEMENTS

This annual financial report consists of two parts: Management's Discussion and Analysis (this section) and the basic financial statements. The System is a pension trust fund of the State of Oklahoma. The financial statements are presented using the economic measurement focus and the accrual basis of accounting. The System's statements offer short-term and long-term financial information about the activities and operations of the System. These statements are presented in a manner similar to those of a private business. The statements of plan net assets represent the fair value of the System's assets as of the end of the fiscal year. The statements of changes in plan net assets are presented in order to show the change in net assets during the year. The activity primarily consists of contributions to the System, unrealized and realized gains and losses on investments, investment income, benefits paid, and investment and administrative expenses.

CONDENSED FINANCIAL INFORMATION COMPARING THE CURRENT YEAR TO THE PRIOR YEAR

Net Assets: The following table summarizes the net assets as of June 30:

	2009	2008	% Increase (Decrease)
	(Amounts in Thousands)		
Cash and cash equivalents	$ 24,019	6,234	285.3%
Receivables	10,665	11,041	(3.4)%
Investments, at fair value	1,398,241	1,718,173	(18.6)%
Securities lending collateral	23,803	71,086	(66.5)%
Total assets	1,456,728	1,806,534	(19.4)%
Liabilities	36,251	88,714	(59.1)%
Net assets	$ 1,420,477	1,717,820	(17.3)%

Operating Income: The following table summarizes the changes in net assets between fiscal years 2009 and 2008:

	2009	2008	% Increase (Decrease)
	(Amounts in Thousands)		
Additions			
Contributions	$ 77,727	74,078	4.9%
Net investment loss	(283,519)	(43,387)	553.5%
Total (reductions) additions	(205,792)	30,691	(770.5)%
Deductions			
Benefits paid, including refunds	81,388	76,209	6.8%
Deferred option benefits	7,660	10,046	(23.8)%
Administrative expenses	2,503	3,004	(16.7)%
Total deductions	91,551	89,259	2.6%
Decrease in net assets	$ (297,343)	(58,568)	407.7%

ANALYSIS OF THE OVERALL FINANCIAL POSITION AND RESULTS OF OPERATIONS

Funding for the System is derived primarily from contributions to the System from both the cities and the police officers. In total, the contribution had increased during the fiscal year 2009 compared to fiscal year 2008 due to the fact that more cities and members had joined the System.

The System's net yield (loss) on average assets was approximately (15)% for the fiscal year ended June 30, 2009, as a result of the market declining during this fiscal year. As the System accounts for its investments at fair value, increases and declines in the prices of stocks and bonds have a direct effect and impact on the net assets and operating results of the System. The System's net yield on its average assets for the past 2 years ended June 30 and the yield for the S&P 500 during the same period were as follows:

	2009	2008
System net yield on average assets	(15)%	(3)%
S&P 500	(26)%	(13)%

Total benefit payments increased during the year by approximately 7%. This was primarily due to cost-of-living allowance (COLA) increases.

Administrative expenses are composed primarily of payroll and related expenses for the employees of the System, legal fees, investment consulting fees, data processing fees, and medical and travel cost. Salaries increased by 29% in fiscal year 2009 primarily due to the cost of vacation and unused sick leave paid for the benefit of a retired employee.

Investment consulting fees decreased by 30% in fiscal year 2009 due to the decline in the market value of our investments. The consulting fee is $95,000 per year plus 8% of the market values of the nontraditional assets investment, with a maximum consulting fee of $650,000 per year. The overall decrease in administrative expenses of approximately 17% was due primarily to the situations explained above.

The System has no debt or infrastructure assets.

DESCRIPTION OF CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS THAT ARE EXPECTED TO HAVE A SIGNIFICANT EFFECT ON THE FINANCIAL POSITION OR RESULTS OF OPERATIONS

While the System is directly impacted by the overall stock market changes, investments are made based on the expected long-term performance and best interest of the members of the System. With over $1.4 billion of assets and a wide range of diversity of investments, the System has the financial resources to maintain its current investment strategies, while continuing to review for other investment options to benefit its members.

Presently the System receives 17% of the total taxes collected on insurance premiums. The System received insurance premium taxes of approximately $27 million and $26 million in the years ended June 30, 2009 and 2008, respectively. The System has received insurance premium taxes at the rate of 17% through June 30, 2009. Commencing July 1, 2009, the rate will be reduced to 14%.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the System's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Executive Director or Comptroller, Oklahoma Police Pension and Retirement System, 1001 N.W. 63rd Street, Suite 305, Oklahoma City, OK 73116-7335.

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

STATEMENTS OF PLAN NET ASSETS

June 30,	*2009*	*2008*
	(Amounts in Thousands)	
Assets		
Cash and cash equivalents	$ 24,019	6,234
Receivables:		
Interest and dividends receivable	2,874	2,948
Contributions receivable from cities	1,464	1,463
Contributions receivable from participants	901	878
Insurance premium tax receivable	5,426	5,752
Total receivables	10,665	11,041
Investments, at fair value:		
U.S. government securities	10,522	9,733
Domestic corporate bonds	335,406	237,100
International corporate bonds	79,277	71,264
Domestic stocks	434,970	755,314
International stocks	142,340	202,068
Equity—real estate investment trusts	3,708	512
Alternative investments	388,618	438,582
Real estate—Columbus Square	3,400	3,600
Total investments, at fair value	1,398,241	1,718,173
Securities lending collateral	23,803	71,086
Total assets	1,456,728	1,806,534
Liabilities		
Net payable to brokers	369	173
Accounts payable	1,251	1,126
Deferred option benefits payable	10,828	16,329
Securities lending collateral	23,803	71,086
Total liabilities	36,251	88,714
Net assets held in trust for pension benefits (Schedule of Funding Progress is presented in Exhibit I)	**$ 1,420,477**	**1,717,820**

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

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

STATEMENTS OF CHANGES IN PLAN NET ASSETS

Years Ended June 30,	*2009*	*2008*
	(Amounts in Thousands)	
Additions		
Contributions:		
Cities	$ 31,675	30,061
Plan members	19,139	17,997
Insurance premium tax	26,913	26,020
Total contributions	77,727	74,078
Investment income (loss):		
From investing activities:		
Net depreciation in fair value of investments	(288,656)	(54,576)
Interest	7,860	13,124
Dividends	8,596	9,504
Other	273	260
Total investment loss	(271,927)	(31,688)
Less investment expense	(11,885)	(12,204)
Loss from investing activities	(283,812)	(43,892)
From securities lending activities:		
Securities lending income	658	3,493
Securities lending expenses:		
Borrower rebates	(250)	(2,775)
Management fees	(115)	(213)
Income from securities lending activities	293	505
Net investment loss	(283,519)	(43,387)
Total (reductions) additions	(205,792)	30,691
Deductions		
Benefits paid	80,238	75,178
Deferred option benefits	7,660	10,046
Refunds of contributions	1,150	1,031
Administrative expenses	2,503	3,004
Total deductions	91,551	89,259
Net decrease	**(297,343)**	**(58,568)**
Net assets held in trust for pension benefits:		
Beginning of year	1,717,820	1,776,388
End of year	**$ 1,420,477**	**1,717,820**

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

(1) NATURE OF OPERATIONS AND DESCRIPTION OF THE SYSTEM

The Oklahoma Police Pension and Retirement System (the "System") is the administrator of a multiple-employer, cost-sharing defined benefit pension plan that provides participants with retirement, death, and disability benefits and a deferred option plan (the "Deferred Option"), both established by the State of Oklahoma. These plans are considered a single plan for financial reporting purposes. The System is part of the State of Oklahoma financial reporting entity and is included in the State's financial reports as a pension trust fund. The System covers substantially all police officers employed by the 130 participating municipalities and state agencies within the state of Oklahoma.

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

The Oklahoma Police Pension and Retirement Board of Trustees (the "Board") is responsible for the operation, administration, and management of the System. The Board also determines the general investment policy of the System's assets.

The System's participants at June 30 consisted of:

	2009	2008
Retirees and beneficiaries currently receiving benefits	2,785	2,719
Vested members with deferred benefits	103	91
Deferred Option plan members	60	86
	2,948	2,896
Active plan members:		
Vested	2,335	2,207
Nonvested	2,648	2,679
Total active plan members	4,983	4,886
Total members	7,931	7,782
Number of participating municipalities and state agencies	130	127

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

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Accounting

The financial statements are prepared using the accrual basis of accounting, under which expenses are recorded when the liability is incurred, revenues are recorded in the accounting period in which they are earned and become measurable, and investment purchases and sales are recorded as of their trade date. The financial statements are in conformity with provisions of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, issued by the Governmental Accounting Standards Board (GASB No. 25) and Statement No. 50, *Pension Disclosures* (GASB No. 50).

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

New Accounting Pronouncement

On June 30, 2008, GASB issued Statement No. 53, *Accounting for Financial Reporting for Derivative Instruments* (GASB 53), which provides guidance to governments to improve the reporting of derivative instruments in their financial statements. GASB 53 applies to all state and local governments and is effective for financial statements for periods beginning after June 15, 2009.

Investments

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

Method Used to Value Investments—Plan investments are reported at fair value. Short-term investments include an investment fund composed of an investment in units of a commingled trust fund of the Plan's custodial agent (which is valued at cost, which approximates fair value), commercial paper, treasury bills, and U.S. government agency securities. Debt and equity securities are reported at fair value, as determined by the Plan's custodial agent, using pricing services or prices quoted by independent brokers based on the latest reported sales prices at current exchange rates for securities traded on national or international exchanges. The fair value of the pro rata share of units owned by the Plan in equity index and commingled trust funds is determined by the respective fund trustee based on quoted sales prices of the underlying securities. The fair value of the real estate is determined from independent appraisals. Investments which do not have an established market are reported at estimated fair value.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Investments, Continued

Net investment income includes net (depreciation)/appreciation in the fair value of investments, interest income, dividend income, investment income from real estate, securities lending income and expenses, and investment expenses, which includes investment management and custodial fees and all other significant investment related costs. Foreign currency translation gains and losses are reflected in the net (depreciation)/appreciation in the fair value of investments. Investment income from real estate includes the Plan's share of income from operations, net appreciation in the fair value of the underlying real estate properties, and the Plan's real estate investment management fees. The fair value of the limited partnerships is determined by managers of the partnerships based on the values of the underlying assets.

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

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

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

The investment policy limits the concentration of each portfolio manager. Except as noted below, no single investment exceeds 5% of the Plan's net assets. The Plan, at June 30, 2009 and 2008, did have more than 5% invested in U.S. government obligations; however, these obligations are backed by the full faith and credit of the United States.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Investments Continued

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

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

			2009	
Classification of Investment	Name of Investment	Shares Held	Cost	Fair Value
			(Amounts in Thousands)	
U.S. common stocks	Pacific Alternative Asset	105,000,000	$ 105,000	134,645
U.S. common stocks	Mellon Large Cap Stock Index Fund	424,766	308,036	267,776
U.S. common stocks	Attalus Long/Short Equity Fund	71,111,715	67,000	71,112
International corporate bonds	Loomis Sayles World Bond	6,950,046	71,997	71,029
International stocks	Mondrian International Equity Fund	3,939,387	56,861	71,848
Limited partnership	Grosvenor Long/Short Equity Fund, LP	148,198,745	132,000	148,199

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

See Independent Auditors' Report.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Investments Continued

Classification of Investment	Name of Investment	Shares Held	2008 Cost	2008 Fair Value
			(Amounts in Thousands)	
U.S. common stocks	Pacific Alternative Asset	105,000,000	$ 105,000	162,482
U.S. common stocks	Mellon Large Cap Stock Index Fund	373,049	278,113	320,571
Limited partnership	Grosvenor Long/Short Equity Fund, LP	173,740,728	132,000	173,741
International stocks	Mondrian International Equity Fund	3,939,387	56,861	98,917
International stocks	Artio International Equity Group Trust Fund	839,657	114,487	103,194

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

Repurchase/Reverse Repurchase Agreement

The Plan has a master repurchase/reverse repurchase agreement. Under the agreement, the Plan may enter into a purchase/sale of a security with a simultaneous agreement to resell/repurchase the security at a specified future date and price. The Plan did not enter into any transactions under this agreement during fiscal year 2009 or 2008.

Use of Estimates

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

See Independent Auditors' Report.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Risks and Uncertainties

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

Income Taxes

The Plan is exempt from federal and state income taxes.

Plan Termination

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

Administrative Items

Operating Leases

The Plan had an operating lease which ended June 30, 2009. The lease has been renewed for the period July 1, 2009, through June 30, 2010. Total lease expense was approximately $78,000 and $79,000 for 2009 and 2008, respectively.

Compensated Absences

Employees of the System earn annual vacation leave at the rate of 10 hours per month for up to 5 years of service, 12 hours per month for service of 5 to 10 years, 13.3 hours per month for service of 10 to 20 years, and 16.7 hours per month for over 20 years of service. Unused annual leave may be accumulated to a maximum of 480 hours. All accrued leave is payable upon termination, resignation, retirement, or death. As of June 30, 2009 and 2008, approximately $104,000 and $118,000, respectively, was included in accounts payable as the accrual for compensated absences.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Administrative Items, Continued

Compensated Absences, Continued

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

		2009	2008
Balance at beginning of year	$	118,243	100,063
Additions		43,077	60,109
Amount used		(56,977)	(41,929)
Balance at end of year	$	104,343	118,243

Retirement Expense

The employees of the System are eligible to participate in the Oklahoma Public Employees Retirement Plan, which is administered by the Oklahoma Public Employees Retirement System (OPERS). OPERS is a multiple-employer, cost-sharing public retirement defined benefit pension plan. OPERS provides retirement, disability, and death benefits to its plan members and beneficiaries. OPERS issues a publicly available financial report which includes financial statements and required supplementary information for OPERS. That report may be obtained by writing to the Oklahoma Public Employees Retirement System, 5801 N. Broadway Extension, Suite 400, Oklahoma City, OK 73118.

Employees of the System are required to contribute 3.5% of their annual covered salary. The System is required to contribute at an actuarially determined rate, which was 14.5% of annual covered payroll as of June 30, 2009. During 2009, 2008, and 2007, a total of $122,449 $112,670, and $97,995, respectively, was paid to OPERS. The System's and employees' portions of those amounts were as follows:

		2009	2008	2007
System portion	$	97,319	89,002	76,054
Employee portion		25,130	23,668	21,941
	$	122,449	112,670	97,995

See Independent Auditors' Report.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Administrative Items, Continued

Risk Management

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

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

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

(3) DESCRIPTION OF PLAN

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

General

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

(3) DESCRIPTION OF PLAN, CONTINUED

Contributions

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

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

Funded Status and Funding Progress

As of July 1, 2009, the most recent actuarial valuation date, the Plan was 76.2% funded. The actuarial accrued liability for benefits was $2.3 billion, and the actuarial value of assets was $1.7 billion, resulting in an unfunded actuarial accrued liability (UAAL) of $535 million. The covered payroll (annual payroll of active employees covered by the Plan) was $254 million, and the ratio of UAAL to covered payroll was 210.9%.

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

See Independent Auditors' Report.

(3) DESCRIPTION OF PLAN, CONTINUED

Actuarial Methods and Assumptions

In the July 1, 2009, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included (a) a 7.5% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 5% to 19% per year. Both (a) and (b) included an inflation component of 3%. The projection of benefits for financial accounting purposes also does not explicitly incorporate the potential effects of any limitation on the State's contribution rate disclosed above under *Contributions*. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a 5-year period. The UAAL is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2009, was 9 years.

Benefits

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

- The normal retirement date under the Plan is the date upon which the participant completes 20 years of credited service, regardless of age. Participants become vested upon completing 10 years of credited service as a contributing participant of the Plan. No vesting occurs prior to completing 10 years of credited service. Participants' contributions are refundable, without interest, upon termination prior to normal retirement. Participants who have completed 10 years of credited service may elect a vested benefit in lieu of having their accumulated contributions refunded. If the vested benefit is elected, the participant is entitled to a monthly retirement benefit commencing on the date the participant reaches 50 years of age or the date the participant would have had 20 years of credited service had employment continued uninterrupted, whichever is later.

- Monthly retirement benefits are calculated at 2.5% of the final average salary (defined as the average paid base salary of the officer over the highest 30 consecutive months of the last 60 months of credited service) multiplied by the years of credited service, with a maximum of 30 years of credited service considered.

(3) DESCRIPTION OF PLAN, CONTINUED

Benefits, Continued

- Monthly benefits for participants due to permanent disability incurred in the line of duty are 2.5% of the participants' final average salary multiplied by 20 years. This disability benefit is reduced by stated percentages for partial disability based on the percentage of impairment. After 10 years of credited service, participants who retire due to disability incurred from any cause are eligible for a monthly benefit based on 2.5% of their final average salary multiplied by the years of service. This disability benefit is also reduced by stated percentages for partial disability based on the percentage of impairment. Effective July 1, 1998, once a disability benefit is granted to a participant, that participant is no longer allowed to apply for an increase in the dollar amount of the benefit at a subsequent date.

- Survivor's benefits are payable in full to the participant's beneficiary upon the death of a retired participant. The beneficiary of any active participant killed in the line of duty is entitled to a pension benefit. Effective July 1, 1999, a $5,000 death benefit is also paid, in addition to any survivor's pension benefits under the Plan, to the participant's beneficiary or estate for active or retired members.

- The Deferred Option allows participants otherwise eligible for a normal retirement benefit to defer terminating employment and drawing retirement benefits for a period not to exceed 5 years. Under the Deferred Option, retirement benefits are calculated based on compensation and service at the time of election and a separate account is established for each participant. During the participation period, the employee's retirement benefit is credited to the participant's account along with a portion of the employer's contribution and interest. Interest is credited at a rate of 2% below the rate of return on the investment portfolio of the Plan, with a guaranteed minimum interest equal to the assumed actuarial interest of 7.5%. Employee contributions cease once participation in the Deferred Option is elected. At the conclusion of participation in the Deferred Option, the participant will receive the balance in the separate account under payment terms allowed by the Deferred Option and will then begin receiving retirement benefit payments as calculated at the time of election.

(3) DESCRIPTION OF PLAN, CONTINUED

Benefits, Continued

- In the 2003 Legislative Session, Senate Bill 688 and House Bill 1464 created a "Back" DROP for members of the System. The "Back" DROP is a modified deferred retirement option retirement plan. The "Back" DROP allows the member flexibility by not having to commit to terminate employment within 5 years. Once a member has met their normal retirement period of 20 years, the member can choose, upon retirement, to be treated as if the member had entered into the "Back" DROP. A member, however, cannot receive credit to the "Back" DROP account based upon any years prior to when the member reached their normal retirement date. Once a member is ready to retire, the member can make the election to participate in the "Back" DROP and can receive a "Back" DROP benefit based upon up to 5 years of participation. The member's regular retirement benefit will not take into account any years of service credited to the "Back" DROP.

- In 2006, the Board approved a method of payment called the Deferred Option Payout Provision (the "Payout Provision"). The Payout Provision allows a retired member who has completed participation in the Deferred Option or the "Back" DROP the ability to leave their account balance in the Plan. The retired member's account balance will be commingled and reinvested with the total assets, and therefore the member will not be able to direct their personal investments. Written election must be made to the Board no more than 30 days following the termination of employment or within 30 days of the implementation of the policy.

- Upon participating in the Payout Provision, a retired member shall not be guaranteed a minimum rate of return on their investment. A retired member shall earn interest on their account as follows:

  a) The retired member shall earn two percentage points below the net annual rate of return of the investment portfolio of the System.

  b) If the portfolio earns less than a 2% rate of return, but more than zero, the retired member shall earn zero percentage points.

  c) If the portfolio earns less than zero percentage points, there shall be a deduction from the retired member's balance equal to the net annual rate of return of the investment portfolio of the System.

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

(3) DESCRIPTION OF PLAN, CONTINUED

Benefits, Continued

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

(4) CASH, CASH EQUIVALENTS, AND INVESTMENTS

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

	2009	2008
	(Amounts in Thousands)	
Cash on deposit with Mellon (the "Custodian")	$ 135	(11)
Short-term investments:		
Domestic	23,884	6,245
Total short-term investments	23,884	6,245
Total cash and cash equivalents	$ 24,019	6,234

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

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of the failure of a counterparty, the Plan will not be able to recover the value of its investments. Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. Investment securities are exposed to custodial credit risk if they are uninsured, are not registered in the name of the Plan, and are held by a counterparty or the counterparty's trust department but not in the name of the Plan. While the investment policy does not specifically address custodial credit risk of deposits, it does limit the amount of cash and short-term investments to no more than 5% of each manager's portfolio. At June 30, 2009 and 2008, approximately $24,019,000 and $6,234,000, respectively, of cash and cash equivalents was uninsured and uncollateralized. The policy also provides that investment collateral be held by a third-party custodian with whom the Plan has a current custodial agreement in the Plan's name.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The investment policy limits foreign equity investments to 10% of total net assets through its asset allocation policy. Investment in cash and cash equivalents, equities, and fixed-income securities as of June 30, 2009, is shown by monetary unit to indicate possible foreign currency risk.

Currency	Cash and Cash Equivalents	Equities	Corporate Bonds	Total
	(Amounts in Thousands)			
U.S. dollar[1]	$ -	5,445	992	6,437
Commingled funds	-	136,895	78,285	215,180
	$ -	142,340	79,277	221,617

[1] Investments in international companies that maintain their financial statements and investments in U.S. dollars.

See Independent Auditors' Report.

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

Foreign Currency Risk, Continued

Commingled funds are made up of the following:

- Mondrian International Equity Fund—The fund invests in international equity securities. The fund's allocation by country/region as of June 30, 2009, was as follows:

Country/Region Allocation

PACIFIC	
Australia	11.1%
Hong Kong	3.0%
Japan	22.2%
New Zealand	0.7%
Singapore	5.4%
Taiwan	1.9%
	44.3%
EUROPE	
Belgium	0.4%
Finland	0.8%
France	12.0%
Germany	5.2%
Italy	3.1%
Netherlands	2.4%
Spain	8.3%
Switzerland	3.3%
United Kingdom	16.9%
	52.4%
South Africa	0.9%
CASH	2.4%
	100.0%

See Independent Auditors' Report.

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

Foreign Currency Risk, Continued

- Artio International Equity Group Trust Fund—The fund seeks long-term growth of capital by investing in a diversified portfolio of international equities in developed and emerging markets. The fund's average portfolio weight by geographic allocation as of June 30, 2009, was as follows:

Geographic Allocation

Dollar bloc	15.75%
Developed Asia markets	1.64%
Emerging markets	17.42%
Developed Europe markets	36.48%
Japan	14.67%
United Kingdom	13.09%
Other	0.95%
	100.00%

- Loomis Sayles World Bond Fund—The fund normally invests at least 80% of its net assets in fixed-income securities. The fund invests primarily in investment grade fixed-income securities worldwide, although it may invest up to 20% of its fair value in lower rated fixed-income securities. Securities held by the fund may be denominated in any currency, may be of issuers located in countries with emerging securities markets, or may be fixed-income securities of any maturity. The fund's allocation by currency as of June 30, 2009, was as follows:

Currency Allocation

U.S. dollars	40.55%
Euro countries	29.26%
Japanese yen	15.54%
British pound sterling	5.73%
Non-Euro	3.97%
Canadian dollar	3.24%
Developing countries	1.19%
Australia and New Zealand	0.52%
	100.00%

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

Foreign Currency Risk, Continued

- OCM International Convertible Trust—The fund invests principally in convertible securities of foreign issuers. The funds allocation by country as of June 30, 2009, was as follows:

Country Allocation	
Australia	4.9%
Austria	0.3%
Belgium	2.1%
Brazil	2.0%
Canada	1.6%
China	5.2%
Egypt	1.4%
Finland	2.4%
France	10.5%
Germany	4.5%
Greece	1.6%
Hong Kong	4.2%
Hungary	1.6%
India	3.8%
Israel	1.2%
Italy	3.1%
Japan	1.7%
Luxembourg	0.3%
Malaysia	7.3%
Netherlands	4.1%
Nigeria	1.1%
Norway	3.3%
Portugal	1.5%
Singapore	1.6%
South Africa	0.7%
South Korea	2.3%
Spain	2.5%
Switzerland	4.9%
United Arab Emirates	0.5%
United Kingdom	14.0%
Vietnam	0.6%
Cash and receivables over payables	3.2%
	100.0%

See Independent Auditors' Report.

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

Foreign Currency Risk, Continued

Investment in cash and cash equivalents, foreign equities, and fixed-income securities as of June 30, 2008, is shown by monetary unit to indicate possible foreign currency risk.

Currency	Cash and Cash Equivalents	Equities	Corporate Bonds	Total
		(Amounts in Thousands)		
Euro currency unit	$ -	-	5	5
Romanian leu	-	11	-	11
Commingled funds	-	202,057	71,259	273,316
	$ -	202,068	71,264	273,332

See Independent Auditors' Report.

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

Foreign Currency Risk, Continued

Commingled funds are made up of the following:

- Mondrian International Equity Fund—The fund invests in international equity securities. The fund's allocation by country/region as of July 31, 2008, was as follows:

Country/Region Allocation

PACIFIC	
Australia	9.7%
Hong Kong	2.6%
Japan	20.1%
New Zealand	0.9%
Singapore	2.6%
Taiwan	2.0%
	37.9%
EUROPE	
Belgium	1.3%
Finland	1.1%
France	12.4%
Germany	5.5%
Italy	4.1%
Netherlands	3.9%
Spain	8.0%
Switzerland	4.0%
United Kingdom	19.8%
	60.1%
South Africa	1.0%
CASH	1.0%
	100.0%

See Independent Auditors' Report.

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

Foreign Currency Risk, Continued

- Artio International Equity Group Trust Fund—The fund seeks long-term growth of capital by investing in a diversified portfolio of international equities in developed and emerging markets. The fund's average portfolio weight by geographic allocation as of July 31, 2008, was as follows:

Geographic Allocation

Dollar bloc	12.6%
Developed Asia markets	1.3%
Emerging markets	19.9%
Developed Europe markets	43.9%
Japan	12.9%
United Kingdom	9.4%
	100.0%

- Loomis Sayles World Bond Fund—The fund normally invests at least 80% of its net assets in fixed-income securities. The fund invests primarily in investment grade fixed-income securities worldwide, although it may invest up to 20% of its fair value in lower rated fixed-income securities. Securities held by the fund may be denominated in any currency, may be of issuers located in countries with emerging securities markets, or may be fixed-income securities of any maturity.

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

Credit Risk

Fixed-income securities are subject to credit risk. Credit quality rating is one method of assessing the ability of the issuer to meet its obligation. The investment portfolio for domestic fixed-income securities requires the portfolio to maintain an average of A+ or higher. For international fixed-income securities, the investment policy requires the portfolio to invest in securities equal to or better than Moody's Baa3 or Standard & Poor's BBB. Exposure to credit risk as of June 30 was as follows:

	2009		
Investment Type	Moody's Ratings (Unless Noted)	Fair Value	Fair Value as a Percent of Total Fixed Maturity Fair Value
	(Amounts in Thousands)		
U.S. government securities	AGY(1)	$ 4,746	45.11%
	UST(2)	5,776	54.89%
Total U.S. government securities		**10,522**	**100.00%**
Domestic corporate bonds	AGY(1)	45,018	13.42%
	AAA (SP)	2,560	0.76%
	Aaa	10,728	3.20%
	A- (SP)	625	0.19%
	Aa1	866	0.26%
	Aa2	3,690	1.10%
	Aa3	5,587	1.67%
	A1	6,022	1.80%
	A2	10,440	3.11%
	A3	10,374	3.09%
	B (SP)	761	0.23%
	Ba2	210	0.06%
	Baa1	12,968	3.87%
	Baa2	9,892	2.95%
	Baa3	2,593	0.77%
	Not Rated	213,072	63.52%
Total domestic corporate bonds		**335,406**	**100.00%**

(Continued)

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

Credit Risk, Continued

Investment Type	Moody's Ratings (Unless Noted)	2009 Fair Value	2009 Fair Value as a Percent of Total Fixed Maturity Fair Value
	(Amounts in Thousands)		
International corporate bonds	Baa2	690	0.87%
	Baa3	302	0.38%
	Not Rated	78,285	98.75%
Total international corporate bonds		**79,277**	**100.00%**

[1] U.S. government agency securities

[2] U.S. Treasury securities

See Independent Auditors' Report.

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

Credit Risk, Continued

	2008		
Investment Type	Moody's Ratings (Unless Noted)	Fair Value	Fair Value as a Percent of Total Fixed Maturity Fair Value
	(Amounts in Thousands)		
U.S. government securities	AGY[1]	$ 4,423	45.44%
	UST[2]	5,310	54.56%
Total U.S. government securities		**9,733**	**100.00%**
Domestic corporate bonds	AGY[1]	57,350	24.19%
	AAA (SP)	8,331	3.51%
	Aaa	29,378	12.39%
	A- (SP)	351	0.15%
	Aa1	1,760	0.74%
	Aa2	4,558	1.92%
	Aa3	5,199	2.19%
	A1	5,147	2.17%
	A2	5,536	2.33%
	A3	6,845	2.89%
	Ba2	236	0.10%
	Baa1	7,556	3.19%
	Baa2	13,023	5.49%
	Baa3	3,898	1.64%
	Not Rated	87,932	37.10%
Total domestic corporate bonds		**237,100**	**100.00%**
International corporate bonds	Not Rated	71,264	100.00%
Total international corporate bonds		**71,264**	**100.00%**

(1) U.S. government agency securities

(2) U.S. Treasury securities

See Independent Auditors’ Report.

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

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. While all investments are subject to market changes, securities invested in index funds are more sensitive to market risk. Although the investment policy does not specifically address the duration of fixed-income securities, the Plan does monitor interest rate risk by monitoring the performance of each investment manager. As of June 30, the Plan had the following investments with maturities.

	2009				
	Investment Maturities at Fair Value (in Years)				
Investment Type	Less Than 5	5 or More, Less Than 10	More Than 10	Investments with No Duration	Total Fair Value
	(Amounts in Thousands)				
U.S. government securities	$ 288	4,458	5,776	-	10,522
Domestic corporate bonds:					
Asset-backed securities	-	-	1,043	-	1,043
CMBS	-	-	8,221	-	8,221
CMO corporate	-	-	10,294	-	10,294
Corporates and other credit	27,668	21,666	7,561	-	56,895
U.S. equity funds	-	-	-	200,320	200,320
U.S. government mortgages	-	4,629	40,389	-	45,018
Venture capital	-	-	-	4,886	4,886
U.S. fixed-income funds	-	-	-	7,866	7,866
Private placement	863	-	-	-	863
Total domestic corporate bonds	28,531	26,295	67,508	213,072	335,406
International corporate bonds	690	302	-	78,285	79,277
	$ 29,509	31,055	73,284	291,357	425,205

As noted above, the Plan has $45,018 of investments in mortgages, of which $25,413 represents FNMA loans and the remaining balance consists of FHLMC mortgages.

See Independent Auditors' Report.

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

Interest Rate Risk, Continued

Investment Type	2008 Investment Maturities at Fair Value (in Years) Less Than 5	5 or More, Less Than 10	More Than 10	Investments with No Duration	Total Fair Value
	(Amounts in Thousands)				
U.S. government securities	$ 1,180	3,243	5,310	-	9,733
Domestic corporate bonds:					
Asset-backed securities	-	465	443	-	908
CMBS	-	-	19,653	-	19,653
CMO corporate	-	-	17,184	-	17,184
Corporates and other credit	18,461	26,979	8,633	-	54,073
U.S. equity funds	-	-	-	67,108	67,108
U.S. government mortgages	-	649	56,700	-	57,349
Venture capital	-	-	-	4,686	4,686
U.S. fixed-income funds	-	-	-	16,139	16,139
Total domestic corporate bonds	18,461	28,093	102,613	87,933	237,100
International corporate bonds	5	-	-	71,259	71,264
	$ 19,646	31,336	107,923	159,192	318,097

As noted above, the Plan has $57,349 of investments in mortgages, of which $28,262 represents FNMA loans and the remaining balance consists of FHLMC mortgages.

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

Securities Lending

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

	2009		
	Collateral Held	Fair Value of Securities on Loan	Percent of Collateral to Loan
	(Amounts in Thousands)		
U.S. issuers	$ 23,803	23,092	103%

	2008		
	Collateral Held	Fair Value of Securities on Loan	Percent of Collateral to Loan
	(Amounts in Thousands)		
U.S. issuers	$ 71,086	67,974	105%

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

Securities Lending, Continued

As the Plan does not have the ability to pledge or sell non-cash collateral without a borrower default, the non-cash collateral the Plan had received at June 30, 2009 and 2008, was not included in the accompanying statements of plan net assets. According to the securities lending agreement, if at the close of trading on any business day, the fair value of the collateral presently delivered by the borrower is less than 100% of the fair value of such loaned securities, the Plan shall demand the borrower deliver collateral equal to 102% for domestic securities and 105% for non-U.S. securities, at the close of the next business day. At the maturity of the loans, the Plan receives a loan premium and the securities are returned. The Plan has no credit risk exposure to borrowers because the amount the Plan owes the borrowers exceeds the amount the borrowers owe the Plan. As of June 30, 2009 and 2008, the Plan had no losses on securities lending transactions resulting from default of a borrower or lending agent. Contracts with lending agents require them to indemnify the Plan if the borrowers fail to return the securities or otherwise fail to pay the Plan for income while the securities are on loan. The securities on loan are included in the respective investment categories in the accompanying statements of plan net assets. Cash collateral is invested in the lending agent's short-term investment pool and included as an asset in the accompanying statements of plan net assets, with an offsetting liability for the return of the collateral. The securities lending agreement sets forth credit quality standards, acceptable investments, diversification standards, and maturity and liquidity constraints for the investment fund.

The Plan's investment guidelines do not require a matching of investment maturities with loan maturities, but do establish minimum levels of liquidity and other restrictions designed to minimize the interest rate risk associated with not matching the maturities of the investments with the loans. The cash collateral investments had an average weighted maturity of 33 days and 20 days at June 30, 2009 and 2008, respectively.

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

Foreign Currency Transactions

The Plan has certain investment managers that trade on foreign exchanges. Foreign currency gains and losses are calculated at the transaction date using the current exchange rate, and assets are remeasured to U.S. dollars using the exchange rate as of each month end. During the year ended June 30, 2009, foreign currency gains of approximately $2,000 and remeasurement losses of approximately $7,000 were included in the accompanying statements of changes in plan net assets as net depreciation in fair value of investments. During the year ended June 30, 2008, foreign currency gains of approximately $15 million and remeasurement losses of approximately $5.9 million were included in the accompanying statements of changes in plan net assets as net depreciation in fair value of investments.

(5) INVESTMENT IN BUILDING AND ALTERNATIVE INVESTMENTS

Investment in Building

The Plan owns a building (Columbus Square) originally purchased for approximately $1.5 million, and it is held as a long-term investment. The building is accounted for at fair value based on periodic appraisals, and rental income and expenses are reported currently. The Plan utilizes part of the building for its administrative offices and charges itself rent, which is reflected as administrative expense and other investment income. The fair value of the building at June 30, 2009 and 2008, was estimated at approximately $3.4 million and $3.6 million, respectively.

See Independent Auditors' Report.

(5) INVESTMENT IN BUILDING AND ALTERNATIVE INVESTMENTS, CONTINUED

Alternative Investments

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

Investment	Purpose		Fair Market Value 2009	2008
			(Amounts in Thousands)	
Accel Europe, LP	Invests in companies that are organized outside the United States.	$	6,698	8,083
Aresenal Capital Partners, L.P.	Invests in portfolio companies.		5,531	6,453
Arsenal II	Invests in manufacturing, specialty chemicals, and healthcare industry.		3,664	4,537
BBT Overseas Partners, LP	Invests in equity securities and financial acquisitions.		709	64,002
Calera Partners III, LP	Invests in equity securities.		6,365	7,164
Calera Partners IV, LP	Invests in equity securities.		585	-
Grosvenor Long/Short Equity Fund, LP	Invests in domestic and international securities.		148,199	173,741
Hicks, Muse, Tate & Furst Equity Fund V, LP	Invests in private equity securities and leveraged acquisitions.		3,345	6,469
HM Capital Sector Performance	Invests primarily in debt and equity securities.		8,340	6,854
Knightsbridge Venture Capital VI	Invests in early stage U.S. venture capital partnership.		5,987	5,200
Levine Leichtman Capital Partners III, LP	Invests in securities of middle market companies.		7,346	7,573

(Continued)

(5) INVESTMENT IN BUILDING AND ALTERNATIVE INVESTMENTS, CONTINUED

Alternative Investments, Continued

Investment	Purpose	Fair Market Value 2009	2008
		(Amounts in Thousands)	
Levine Leichtman Capital Partners IV, LP	Invests in public and private securities in companies conducting substantial operations.	1,136	-
Lexington Capital Partners	Invests in private equity.	10,387	9,344
LightSpeed Venture Partners VI, LP	Invests in securities issued primarily in start-ups, early stage ventures, and expansion stage companies focusing on technology.	4,502	5,870
Marathon Fund IV, LP	To acquire, manage, and resell controlling interests in middle market companies.	2,176	1,609
Marathon Fund V, LP	Invests in portfolio companies.	9,176	7,344
Newstone Capital	Invests in leveraged buyouts, recapitalization, and later-stage growth financing.	3,752	2,958
Oaktree Fund VII	Invests in companies undergoing or having undergone reorganization or restructuring.	6,005	7,223
Oaktree Fund VIIb	Invests in companies undergoing or having undergone reorganization or restructuring.	6,378	540

(Continued)

(5) INVESTMENT IN BUILDING AND ALTERNATIVE INVESTMENTS, CONTINUED

Alternative Investments, Continued

Investment	Purpose	Fair Market Value 2009	2008
		(Amounts in Thousands)	
OCM Opportunities Fund II, LP	Invests in distressed debt.	7	30
OCM Opportunities	Invests in entities	77	178
OCM Opportunities Fund IV, LP	Invests in distressed debt.	50	70
OCM Opportunities Fund V, LP	Invests in distressed debt.	754	1,501
OCM Opportunities Fund VI, LP	Invests in distressed debt.	4,416	5,417
One-Focus Technology Opportunity Partners, LP	Invests primarily in the technology sector.	234	234
Peak Partners, LP	Speculative trading of commodity futures contracts. Options on futures contracts and forward contracts.	29,218	26,042
Pequot Private Equity Fund III, LP	Invests in equity securities.	8,656	9,978
Pequot Private Equity Fund IV	Invests in equity securities.	2,749	2,287
Pequot Venture General Partners II, LLC	Invests in the securities of technology and development stage companies.	185	249
PruTimber Fund II, LP	Invests in timber.	469	2,723

(Continued)

See Independent Auditors' Report.

(5) INVESTMENT IN BUILDING AND ALTERNATIVE INVESTMENTS, CONTINUED

Alternative Investments, Continued

Investment	Purpose	Fair Market Value 2009	2008
		(Amounts in Thousands)	
Siguler Guff Distressed Opportunities Fund, L.L.C.	Invests in securities of companies undergoing distress, operating difficulties, and significant reconstructing.	15,882	21,524
Siguler Guff Distressed Opportunities Fund II, LP	Invests in securities of companies undergoing distress, operating difficulties, and significant reconstructing.	15,430	20,030
Siguler Guff Distressed Opportunities Fund III, LP	Invests in securities of companies undergoing distress, operating difficulties, and significant reconstructing.	7,033	-
Sun Capital	Invests in privately negotiated subordinated debt and equity securities.	1,826	2,584
TCW/Cresent Mezzanine Partners II, LP	Invests in privately negotiated subordinated debt and equity securities.	-	15
TCW/Cresent Mezzanine Partners III, LP	Invests in privately negotiated subordinated debt and equity securities.	1,714	1,914
TCW/Cresent Mezzanine Partners IV, LP	Invests in privately negotiated subordinated debt and equity securities.	7,067	8,723

(Continued)

See Independent Auditors' Report.

(5) INVESTMENT IN BUILDING AND ALTERNATIVE INVESTMENTS, CONTINUED

Alternative Investments, Continued

Investment	Purpose	Fair Market Value 2009	2008
		(Amounts in Thousands)	
TCW/Cresent Mezzanine Partners V, LP	Invests in privately negotiated subordinated debt and equity securities.	1,973	1,588
Thompson Street Capital Partners	Private investment in companies.	3,355	1,893
Venture Lending & Leasing III, LLC	Debt financing and direct investment in equity securities of venture capital-backed companies.	694	933
Warburg Pincus	Making private equity and related investments.	3,864	3,120
Weathergage Venture Capital	Invests in information technology and life science funds.	1,402	735
Weiss, Peck, & Greer Venture Associates V, LLC	Invests in the securities of technology and development stage companies.	1,815	1,850
JP Morgan Chase Bank Strategic Property Fund	Invests in real estate investments owned directly or through partnership interests and mortgage loans on income-producing real estate.	39,467	-
		$ 388,618	438,582

See Independent Auditors' Report.

(5) INVESTMENT IN BUILDING AND ALTERNATIVE INVESTMENTS, CONTINUED

Alternative Investments, Continued

As of June 30, 2009 and 2008, the Plan had a remaining commitment to fund approximately $105 million and $120 million, respectively, in various partnerships and limited liability companies.

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

(6) DEFERRED OPTION BENEFITS PAYABLE

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

	2009			
	Deferred Option	"Back" DROP	Payout Provision	Total
	(Amounts in thousands)			
Beginning balance	$ 13,419	758	2,152	16,329
Employer contributions	338	345	-	683
Member contributions	-	425	-	425
Deferred benefits	2,489	2,817	-	5,306
Payments	(7,702)	(4,822)	(637)	(13,161)
Interest	730	800	(284)	1,246
Ending balance	$ 9,274	323	1,231	10,828

See Independent Auditors’ Report.

(6) DEFERRED OPTION BENEFITS PAYABLE, CONTINUED

	2008			
	Deferred Option	"Back" DROP	Payout Provision	Total
	(Amounts in thousands)			
Beginning balance	$ 19,003	323	1,840	21,166
Employer contributions	498	501	-	999
Member contributions	-	616	-	616
Deferred benefits	1,862	4,047	-	5,909
Plan reassignments	(423)	(491)	914	-
Payments	(8,639)	(5,689)	(556)	(14,884)
Interest	1,118	1,451	(46)	2,523
Ending balance	$ 13,419	758	2,152	16,329

(7) PLAN TERMINATION AND STATE FUNDING

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

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

(8) FEDERAL INCOME TAX STATUS

As an instrumentality of the State of Oklahoma, the Plan is tax-exempt. It is not subject to the Employee Retirement Income Security Act of 1974. The Plan has received favorable determination from the Internal Revenue Service (IRS) regarding its tax-exempt status. The Plan has been amended since receiving the determination letter. However, the Plan administrator believes that the Plan is designed and is currently being operated in substantial compliance with the applicable requirements of the Internal Revenue Code.

(9) HISTORICAL INFORMATION

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

(10) LEGISLATIVE AMENDMENTS

The following is a summary of significant plan provision changes that were enacted by the Oklahoma Legislature during 2008 and 2009.

- House Bill 3112—effective July 1, 2008, provided a 4% COLA for members receiving benefits as of June 30, 2007.

- Senate Bill 830—contained the required language necessary for the System to remain an IRS qualified plan.

(11) CONTINGENCIES

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

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

Exhibit I

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

SCHEDULE OF FUNDING PROGRESS
(In Millions)

June 30, 2009

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
June 30, 2000	$ 1,222	1,355	133	90.2%	149	89.1%
June 30, 2001	1,319	1,443	124	91.4%	154	81.1%
June 30, 2002	1,370	1,554	184	88.2%	160	114.9%
June 30, 2003	1,392	1,647	255	84.5%	171	149.5%
June 30, 2004	1,400	1,727	327	81.1%	176	186.4%
June 30, 2005	1,424	1,812	388	78.6%	189	205.3%
June 30, 2006	1,490	1,910	420	78.0%	204	205.6%
June 30, 2007	1,627	2,036	409	79.9%	221	184.8%
June 30, 2008	1,752	2,132	380	82.2%	240	158.5%
June 30, 2009	**1,718**	**2,253**	**535**	**76.2%**	**254**	**210.9%**

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

Exhibit II

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

SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYER AND OTHER CONTRIBUTING ENTITIES
(In Thousands)

June 30, 2009

		Contributions by Source			
Year Ended	Annual Required Contributions	Employer Contributions	State Contributions	Total	Percentage Contributed
June 30, 2000	$ 34,683	20,358	17,342	37,700	109%
June 30, 2001	53,043	21,414	18,638	40,052	76%
June 30, 2002	54,918	22,411	19,811	42,222	77%
June 30, 2003	71,705	23,738	20,400	44,138	62%
June 30, 2004	63,511	23,915	-	23,915	38%
June 30, 2005	73,756	25,001	23,730	48,731	66%
June 30, 2006	85,391	26,490	23,584	50,074	59%
June 30, 2007	95,082	28,258	28,122	56,380	59%
June 30, 2008	100,561	30,061	26,020	56,081	56%
June 30, 2009	**102,610**	**31,675**	**26,913**	**58,588**	**57%**

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

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2009

The information presented in the required supplementary schedules was determined as part of an actuarial valuation by an independent enrolled actuary (Buck Consultants) at the dates indicated. Additional information as of the June 30, 2009, valuation follows:

Assumptions

Actuarial cost method:	Entry age
Amortization method:	Level dollar—closed
Remaining amortization:	9 years
Asset valuation method:	5-year smoothed
Actuarial assumptions	
Investment rate of return:	7.5%
Projected salary increases*:	5% to 19%
Cost-of-living adjustments:	Police officers eligible to receive increased benefits according to repealed Section 50-120 of Title 11 of the Oklahoma Statutes pursuant to a court order receive an adjustment of 1/3 to 1/2 of the increase or decrease of any adjustment to the base salary of a regular police officer, based on an increase in base salary equal to the average increase over the 5 prior years. Members not eligible for this automatic increase are assumed to receive a 2% annual increase in benefits during each year of retirement.

* Includes inflation at 3%.

See Independent Auditors' Report.

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

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

We have audited the financial statements of the Oklahoma Police Pension and Retirement Plan (the "Plan") administered by the Oklahoma Police Pension and Retirement System (the "System"), which is a part of the State of Oklahoma financial reporting entity, as of and for the year ended June 30, 2009, and have issued our report thereon dated September 14, 2009, which includes an explanatory paragraph disclaiming an opinion on required supplementary information. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Plan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Plan's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Plan in a separate letter dated September 14, 2009.

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

Finley + Cook, PLLC

Shawnee, Oklahoma
September 14, 2009

FINLEY & COOK
CERTIFIED PUBLIC ACCOUNTANTS

September 14, 2009

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

In planning and performing our audit of the financial statements of the Oklahoma Police Pension and Retirement Plan (the "Plan"), administered by the Oklahoma Police Pension and Retirement System (the "System"), as of and for the year ended June 30, 2009, in accordance with auditing standards generally accepted in the United States, we considered the Plan's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we do not express an opinion on the effectiveness of the Plan's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, during our audit we became aware of additional matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

1421 East 45th Street • Shawnee, OK 74804
P: 405.878.7300 • www.finley-cook.com • F: 405.878.4780

To the Board of Trustees of
the Oklahoma Police Pension and Retirement System
September 14, 2009

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

Sincerely,

FINLEY & COOK, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

Nathan Atchison
Partner

DEFERRED OPTION

Comment:

We noted that members who join the Payout Provision are not being properly removed from the Deferred Option or "Back" DROP in which they were previously enrolled. Therefore, as of June 30, 2009, the members were included in both the Payout Provision and the "Back" DROP or Deferred Option. We recommend that a payment or transfer be shown on the Deferred Option or "Back" DROP to properly show the transfer of funds to the Payout Provision.

> *Response:*
>
> *Management is in the process of converting to "Pension Gold," a new pension software system. The new software system will properly account for the transfers.*