

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

Financial Statements

June 30, 2011 and 2010
(With Independent Auditors' Report Thereon)



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

FINANCIAL STATEMENTS

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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, 2011 and 2010, 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, 2011 and 2010, and the changes in the net assets of the Plan for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 19, 2011, on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

(Continued)

INDEPENDENT AUDITORS' REPORT, CONTINUED

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages I-1 through I-4 and the schedule of funding progress and the schedule of contributions from the employer and other contributing entities on pages 44-46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Shawnee, Oklahoma
September 19, 2011

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, 2011 and 2010. Please read it in conjunction with the System's financial statements which begin on page 3.

Financial Highlights

| | June 30, | |
|---|-------------------------------|-------------|
| | <u>2011</u> | <u>2010</u> |
| | <i>(Amounts in Thousands)</i> | |
| • Net assets of the System | \$ 1,800,742 | 1,548,827 |
| • Contributions: | | |
| Cities | 31,846 | 32,240 |
| Plan members | 19,489 | 19,626 |
| Insurance premium tax | 24,645 | 22,292 |
| • Net investment income | 282,305 | 163,058 |
| • Benefits paid, including refunds and deferred option benefits | 104,658 | 108,147 |
| • Change in net assets | 251,915 | 127,361 |

DISCUSSION OF THE BASIC FINANCIAL STATEMENTS

This following discussion and analysis is intended to serve as an introduction to the System's basic financial statements. The System's basic financial statements are comprised of 1) the statement of plan net assets, 2) the statement of changes in plan net assets, and 3) notes to basic financial statements. This report also contains required supplementary information and other supplemental schedules. The System is a component unit of the State of Oklahoma and together with other similar funds comprise the fiduciary pension trust funds 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 difference between assets and liabilities, called "net assets," represents the value of assets held in trust for future benefit payments. Over time, increases and decreases in the System's net assets can serve as an indicator of whether the financial position of the System is increase or decreasing.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

CONDENSED FINANCIAL INFORMATION COMPARING THE CURRENT YEAR TO THE PRIOR YEAR

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

| | <u>2011</u> | <u>2010</u> | <u>% Increase (Decrease)</u> |
|-------------------------------|-------------------------------|-------------------|----------------------------------|
| | <i>(Amounts in Thousands)</i> | | |
| Cash and cash equivalents | \$ 33,516 | 22,931 | 46.2% |
| Receivables | 10,867 | 10,132 | 7.3% |
| Investments, at fair value | 1,771,589 | 1,526,032 | 16.1% |
| Securities lending collateral | 44,578 | 48,845 | (8.7)% |
| Capital assets | 913 | 1,014 | (10.0)% |
| Total assets | <u>1,861,463</u> | <u>1,608,954</u> | 15.7% |
| Liabilities | <u>60,721</u> | <u>60,127</u> | 1.0% |
| Net assets | <u>\$ 1,800,742</u> | <u>1,548,827</u> | 16.3% |

Investments are made in accordance with the investment policy approved by the Oklahoma Police Pension and Retirement System Board. A more detailed description of the types of investments held and the investment policy is presented in Note 2 to the financial statements.

Operating Income: The following table summarizes the changes in net assets between fiscal years 2011 and 2010:

| | <u>2011</u> | <u>2010</u> | <u>% Increase (Decrease)</u> |
|----------------------------------|-------------------------------|------------------|----------------------------------|
| | <i>(Amounts in Thousands)</i> | | |
| Additions | | | |
| Contributions | \$ 75,980 | 74,158 | 2.5% |
| Net investment income | <u>282,305</u> | <u>163,058</u> | 73.1% |
| Total additions | <u>358,285</u> | <u>237,216</u> | 51.0% |
| Deductions | | | |
| Benefits paid, including refunds | 88,960 | 84,219 | 5.6% |
| Deferred option benefits | 15,698 | 23,928 | (34.4)% |
| Administrative expenses | <u>1,712</u> | <u>1,708</u> | 0.2% |
| Total deductions | <u>106,370</u> | <u>109,855</u> | (3.2)% |
| Changes in net assets | 251,915 | 127,361 | 97.8% |
| Net assets, beginning of year | <u>1,548,827</u> | <u>1,421,466</u> | 9.0% |
| Net assets, end of year | <u>\$ 1,800,742</u> | <u>1,548,827</u> | 16.3% |

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

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 contributions had increased during fiscal year 2011 compared to fiscal year 2010, due primarily to the fact that the amount of insurance premium tax increased \$2,354,091, or 10.5%. The System received 14% of total insurance premium tax collected for the years ended June 30, 2011 and 2010.

The System's net yield on average assets was approximately 19% for the fiscal year ended June 30, 2011, as a result of the market recovering 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 years ended June 30 and the yield for the S&P 500 during the same period were as follows:

| | <u>2011</u> | <u>2010</u> |
|---------|-------------|-------------|
| System | 19% | 12% |
| S&P 500 | 31% | 14% |

Total benefit payments, including refunds and deferred option benefits, decreased during the year by approximately 3%. This was primarily due to a decrease in the number of individuals retiring in 2011 and their election to participate in the "Back" DROP.

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 costs. Total administrative expenses for the year ended June 30, 2011, increased approximately 0.2% over the year ended June 30, 2010. The total administrative expenses held were consistent from fiscal year 2010 to 2011.

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 \$1.8 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 14% of the total taxes collected on insurance premiums. The System received insurance premium taxes of approximately \$25 million and \$22 million in the years ended June 30, 2011 and 2010, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

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

| <i>June 30,</i> | <i>2011</i> | <i>2010</i> |
|--|-------------------------------|------------------|
| | <i>(Amounts in Thousands)</i> | |
| Assets | | |
| Cash and cash equivalents | \$ 33,516 | 22,931 |
| Receivables: | | |
| Interest and dividends receivable | 2,973 | 2,905 |
| Contributions receivable from cities | 1,472 | 1,440 |
| Contributions receivable from participants | 893 | 870 |
| Insurance premium tax receivable | 5,526 | 4,917 |
| Other | 3 | - |
| Total receivables | <u>10,867</u> | <u>10,132</u> |
| Investments, at fair value: | | |
| U.S. government securities | 14,121 | 28,338 |
| Domestic corporate bonds | 229,068 | 200,803 |
| International corporate bonds | 101,435 | 84,656 |
| Domestic stocks | 533,850 | 418,316 |
| International stocks | 185,952 | 145,685 |
| Equity—real estate investment trusts | 5,231 | 3,469 |
| Alternative investments | 656,715 | 606,918 |
| Real estate fund | 41,517 | 34,372 |
| Real estate—Columbus Square | 3,700 | 3,475 |
| Total investments, at fair value | <u>1,771,589</u> | <u>1,526,032</u> |
| Securities lending collateral | 44,578 | 48,845 |
| Capital assets | 913 | 1,014 |
| Total assets | <u>1,861,463</u> | <u>1,608,954</u> |
| Liabilities | | |
| Net payable to brokers | 3,753 | 201 |
| Accounts payable | 1,672 | 1,167 |
| Deferred option benefits payable | 10,718 | 9,914 |
| Securities lending collateral | 44,578 | 48,845 |
| Total liabilities | <u>60,721</u> | <u>60,127</u> |
| Net assets held in trust for pension benefits | | |
| (Schedule of Funding Progress is presented as | | |
| Exhibit I) | | |
| | <u>\$ 1,800,742</u> | <u>1,548,827</u> |

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

OKLAHOMA POLICE PENSION AND RETIREMENT PLAN
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OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM

STATEMENTS OF CHANGES IN PLAN NET ASSETS

| <i>Years Ended June 30,</i> | <i>2011</i> | <i>2010</i> |
|--|-------------------------------|-------------------------|
| | <i>(Amounts in Thousands)</i> | |
| Additions | | |
| Contributions: | | |
| Cities | \$ 31,846 | 32,240 |
| Plan members | 19,489 | 19,626 |
| Insurance premium tax | 24,645 | 22,292 |
| Total contributions | <u>75,980</u> | <u>74,158</u> |
| Investment income: | | |
| From investing activities: | | |
| Net appreciation in fair value of investments | 276,186 | 157,918 |
| Interest | 7,365 | 7,451 |
| Dividends | 9,662 | 8,256 |
| Other | 732 | 233 |
| Total investment income | <u>293,945</u> | <u>173,858</u> |
| Less investment expense | <u>(11,700)</u> | <u>(10,907)</u> |
| Income from investing activities | <u>282,245</u> | <u>162,951</u> |
| From securities lending activities: | | |
| Securities lending income | 77 | 134 |
| Securities lending expenses: | | |
| Borrower rebates, net | 7 | 18 |
| Management fees | (24) | (45) |
| Income from securities lending activities | <u>60</u> | <u>107</u> |
| Net investment income | <u>282,305</u> | <u>163,058</u> |
| Total additions | <u>358,285</u> | <u>237,216</u> |
| Deductions | | |
| Benefits paid | 86,843 | 82,799 |
| Deferred option benefits | 15,698 | 23,928 |
| Refunds of contributions | 2,117 | 1,420 |
| Administrative expenses | 1,712 | 1,708 |
| Total deductions | <u>106,370</u> | <u>109,855</u> |
| Changes in net assets | 251,915 | 127,361 |
| Net assets held in trust for pension benefits: | | |
| Beginning of year | <u>1,548,827</u> | <u>1,421,466</u> |
| End of year | \$ <u>1,800,742</u> | <u>1,548,827</u> |

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

OKLAHOMA POLICE PENSION AND RETIREMENT PLAN
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OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

(1) NATURE OF OPERATIONS

The Oklahoma Police Pension and Retirement System (the “System”) was established by legislative act and became effective on January 1, 1981. The System is the administrator of a multiple-employer, cost-sharing defined benefit pension plan that provides participants with retirement, death, and disability benefits and a deferred option plan (the “Deferred Option”), both established by the State of Oklahoma. These plans are considered a single plan for financial reporting purposes. The System is part of the State of Oklahoma financial reporting entity and is included in the State’s financial reports as a pension trust fund. The System covers substantially all police officers employed by the 131 participating municipalities and state agencies within the state of Oklahoma.

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

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

The System’s participants at June 30 consisted of:

| | <u>2011</u> | <u>2010</u> |
|---|--------------|--------------|
| Retirees and beneficiaries currently receiving benefits | 3,060 | 2,993 |
| Vested members with deferred benefits | 124 | 111 |
| Deferred Option plan members | 50 | 50 |
| | <u>3,234</u> | <u>3,154</u> |
| Active plan members: | | |
| Vested | 2,411 | 2,350 |
| Nonvested | 2,540 | 2,576 |
| Total active plan members | <u>4,951</u> | <u>4,926</u> |
| Total members | <u>8,185</u> | <u>8,080</u> |
| Number of participating municipalities and state agencies | <u>131</u> | <u>131</u> |

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

See Independent Auditors’ Report.

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

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Accounting

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

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

Recent Accounting Pronouncements

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

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

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

See Independent Auditors' Report.

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

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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.

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.

Date of Review of Subsequent Events

The Plan has evaluated subsequent events through September 19, 2011, the date which the financial statements were available to be issued.

Investments

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

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

See Independent Auditors' Report.

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

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Investments, Continued

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

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

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

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

The investment policy limits the concentration of each portfolio manager. Except as noted below, no single investment exceeds 5% of the Plan's net assets. At June 30, 2011 and 2010, the Plan did have more than 5% invested in U.S. government obligations; however, these obligations are backed by the full faith and credit of the United States.

See Independent Auditors' Report.

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

(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:

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

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

See Independent Auditors' Report.

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

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Investments, Continued

| Classification of <u>Investment</u> | Name of <u>Investment</u> | Shares <u>Held</u> | 2010 | |
|--|---|-----------------------|-------------|-------------------|
| | | | <u>Cost</u> | <u>Fair Value</u> |
| Alternative investments | Newport Mesa, LLC | 105,000,000 | \$ 105,000 | 148,463 |
| Domestic stocks | Mellon Large Cap Stock Index Fund | 401,804 | 291,385 | 292,059 |
| Alternative investments | Grosvenor Long/Short Equity Fund, LP | 156,508,708 | 132,000 | 156,509 |

(Amounts in Thousands)

⁽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 2011 or 2010.

Capital Assets

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

Income Taxes

The Plan is exempt from federal and state income taxes.

See Independent Auditors' Report.

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

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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, 2011. The lease has been renewed for the period July 1, 2011, through June 30, 2012. Total lease expense was approximately \$90,000 and \$78,000 for 2011 and 2010, 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, 2011 and 2010, approximately \$117,000 and \$113,000, respectively, was included in accounts payable as the accrual for compensated absences.

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

| | <u>2011</u> | <u>2010</u> |
|------------------------------|-------------------|-----------------|
| Balance at beginning of year | \$ 112,740 | 112,325 |
| Additions and transfers | 56,953 | 43,411 |
| Amount used | <u>(53,109)</u> | <u>(42,996)</u> |
| Balance at end of year | <u>\$ 116,584</u> | <u>112,740</u> |

See Independent Auditors' Report.

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

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Administrative Items, Continued

Retirement Expense

The employees of the System are eligible to participate in the Oklahoma Public Employees Retirement Plan, which is administered by the Oklahoma Public Employees Retirement System (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 15.5% of annual covered payroll as of June 30, 2011 and 2010. During 2011, 2010, and 2009, a total of \$127,493 and \$121,050, and \$122,449, respectively, was paid to OPERS. The System's and employees' portions of those amounts were as follows:

| | <u>2011</u> | <u>2010</u> | <u>2009</u> |
|------------------|-------------------|----------------|----------------|
| System portion | \$ 103,855 | 99,784 | 97,319 |
| Employee portion | <u>23,638</u> | <u>21,266</u> | <u>25,130</u> |
| | <u>\$ 127,493</u> | <u>121,050</u> | <u>122,449</u> |

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.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Administrative Items, Continued

Risk Management, Continued

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.

Reclassification of Prior Year Amounts

Certain amounts for 2010 have been reclassified to make them comparable with the 2011 presentation.

(3) DESCRIPTION OF THE PLAN

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

General

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

Contributions

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

See Independent Auditors' Report.

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

(3) DESCRIPTION OF THE PLAN, CONTINUED

Contributions, Continued

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

Funded Status and Funding Progress

2011

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

2010

As of July 1, 2010, the most recent actuarial valuation date, the Plan was 74.9% funded. The actuarial accrued liability for benefits was \$2.3 billion, and the actuarial value of assets was \$1.8 billion, resulting in an unfunded actuarial accrued liability (UAAL) of \$587 million. The covered payroll (annual payroll of active employees covered by the Plan) was \$250 million, and the ratio of UAAL to covered payroll was 235.3%.

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

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) DESCRIPTION OF THE PLAN, CONTINUED

Actuarial Methods and Assumptions

2011

In the July 1, 2010, 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, 2011, was 7 years.

2010

In the July 1, 2010, 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, 2010, was 8 years.

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

(3) DESCRIPTION OF THE PLAN, CONTINUED

Benefits

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

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

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) DESCRIPTION OF THE PLAN, CONTINUED

Benefits, Continued

- The Deferred Option allows participants otherwise eligible for a normal retirement benefit to defer terminating employment and drawing retirement benefits for a period not to exceed 5 years. Under the Deferred Option, retirement benefits are calculated based on compensation and service at the time of election and a separate account is established for each participant. During the participation period, the employee's retirement benefit is credited to the participant's account along with a portion of the employer's contribution and interest. Interest is credited at a rate of 2% below the rate of return on the investment portfolio of the Plan, with a guaranteed minimum interest equal to the assumed actuarial interest of 7.5%. Employee contributions cease once participation in the Deferred Option is elected. At the conclusion of participation in the Deferred Option, the participant will receive the balance in the separate account under payment terms allowed by the Deferred Option and will then begin receiving retirement benefit payments as calculated at the time of election.
- In the 2003 Legislative Session, Senate Bill 688 and House Bill 1464 created a "Back" DROP for members of the System. The "Back" DROP is a modified deferred retirement option retirement plan. The "Back" DROP allows the member flexibility by not having to commit to terminate employment within 5 years. Once a member has met their normal retirement period of 20 years, the member can choose, upon retirement, to be treated as if the member had entered into the "Back" DROP. A member, however, cannot receive credit to the "Back" DROP account based upon any years prior to when the member reached their normal retirement date. Once a member is ready to retire, the member can make the election to participate in the "Back" DROP and can receive a "Back" DROP benefit based upon up to 5 years of participation. The member's regular retirement benefit will not take into account any years of service credited to the "Back" DROP.
- In 2006, the Board approved a method of payment called the Deferred Option Payout Provision (the "Payout Provision"). The Payout Provision allows a retired member who has completed participation in the Deferred Option or the "Back" DROP the ability to leave their account balance in the Plan. The retired member's account balance will be commingled and reinvested with the total assets, and therefore the member will not be able to direct their personal investments. Written election must be made to the Board no more than 30 days following the termination of employment or within 30 days of the implementation of the policy.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) DESCRIPTION OF THE PLAN, CONTINUED

Benefits, Continued

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

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

The Oklahoma Legislature has the authority to grant percentage increases or special one-time payments to persons receiving benefits from the Plan. Additionally, certain retirees are entitled to receive a cost-of-living 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.

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

(4) CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash and Cash Equivalents

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

| | <u>2011</u> | <u>2010</u> |
|---|-------------------------------|---------------|
| | <i>(Amounts in Thousands)</i> | |
| Cash on deposit with Mellon (the "Custodian") | \$ - | - |
| Short-term investments: | | |
| OK INVEST | 11,401 | 11,720 |
| Domestic | 22,115 | 11,211 |
| Total short-term investments | <u>33,516</u> | <u>22,931</u> |
| Total cash and cash equivalents | <u>\$ 33,516</u> | <u>22,931</u> |

At June 30, 2011 and 2010, as a result of outstanding checks and deposits, the carrying amount of the Plan's OK INVEST account totaled \$11,400,877 and \$11,719,633, respectively, and the bank balance totaled \$13,437,875 and \$20,838,113, respectively. The carrying amounts of the domestic short-term investment and cash on deposit with Mellon were the same as the bank balances at June 30, 2011 and 2010.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

Cash and Cash Equivalents, Continued

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

| | <u>2011</u> | <u>2010</u> |
|---------------------------------|----------------------|-------------------|
| U.S. agencies | \$ 4,907,982 | 7,984,319 |
| Mortgage-backed agencies | 4,874,600 | 7,372,081 |
| U.S. Treasury notes | 193,876 | 603,618 |
| Municipal bonds | 267,844 | 448,981 |
| Foreign bonds | 124,890 | 83,523 |
| Tri-party repurchase agreements | 906,802 | 1,336,375 |
| Certificates of deposit | 634,499 | 1,185,240 |
| Commercial paper | 49,961 | - |
| Money market mutual funds | <u>1,477,421</u> | <u>1,823,976</u> |
| | <u>\$ 13,437,875</u> | <u>20,838,113</u> |

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

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of the failure of a counterparty, the Plan will not be able to recover the value of its investments. Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. Investment securities are exposed to custodial credit risk if they are uninsured, are not registered in the name of the Plan, 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, 2011 and 2010, approximately \$22,115,000 and \$11,211,000, 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 is shown by monetary unit to indicate possible foreign currency risk.

| | 2011 | | | |
|------------------|--------------------------------------|------------------|----------------------------|------------------|
| <u>Currency</u> | <u>Cash and Cash Equivalents</u> | <u>Equities</u> | <u>Corporate Bonds</u> | <u>Total</u> |
| | <i>(Amounts in Thousands)</i> | | | |
| Commingled funds | \$ <u> -</u> | <u> 185,952</u> | <u> 101,435</u> | <u> 287,387</u> |
| | 2010 | | | |
| <u>Currency</u> | <u>Cash and Cash Equivalents</u> | <u>Equities</u> | <u>Corporate Bonds</u> | <u>Total</u> |
| | <i>(Amounts in Thousands)</i> | | | |
| Commingled funds | \$ <u> -</u> | <u> 145,685</u> | <u> 84,656</u> | <u> 230,341</u> |

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(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 was as follows:

| <u>Country/Region Allocation</u> | <u>2011</u> | <u>2010</u> |
|----------------------------------|---------------|---------------|
| PACIFIC | | |
| Australia | 7.2% | 10.2% |
| Hong Kong | 0.0% | 1.3% |
| Japan | 20.0% | 22.4% |
| New Zealand | 0.3% | 0.6% |
| Singapore | 4.7% | 4.8% |
| Taiwan | <u>1.8%</u> | <u>2.6%</u> |
| | <u>34.0%</u> | <u>41.9%</u> |
| EUROPE | | |
| Belgium | 0.0% | 0.2% |
| Finland | 0.0% | 0.4% |
| France | 14.6% | 13.4% |
| Germany | 4.6% | 4.8% |
| Israel | 1.0% | 0.0% |
| Italy | 4.9% | 1.6% |
| Netherlands | 5.6% | 3.1% |
| Spain | 6.6% | 6.5% |
| Switzerland | 5.6% | 5.4% |
| United Kingdom | <u>21.7%</u> | <u>20.0%</u> |
| | <u>64.6%</u> | <u>55.4%</u> |
| OTHER | | |
| South Africa | <u>0.0%</u> | <u>0.9%</u> |
| CASH | <u>1.4%</u> | <u>1.8%</u> |
| | <u>100.0%</u> | <u>100.0%</u> |

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(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 was as follows:

| <u>Geographic Allocation</u> | <u>2011</u> | <u>2010</u> |
|------------------------------|----------------|----------------|
| Dollar bloc | 13.71% | 26.69% |
| Developed Asia markets | 4.71% | 0.08% |
| Emerging markets | 29.00% | 23.87% |
| Developed Europe markets | 27.82% | 23.06% |
| Japan | 9.23% | 12.63% |
| United Kingdom | 15.22% | 11.44% |
| Other | <u>0.31%</u> | <u>2.23%</u> |
| | <u>100.00%</u> | <u>100.00%</u> |

- 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 was as follows:

| <u>Currency Allocation</u> | <u>2011</u> | <u>2010</u> |
|----------------------------|----------------|----------------|
| U.S. dollars | 34.24% | 39.63% |
| Euro countries | 23.58% | 21.99% |
| Japanese yen | 19.29% | 14.74% |
| British pound sterling | 4.22% | 6.19% |
| Non-Euro | 4.79% | 5.96% |
| Canadian dollar | 3.65% | 3.53% |
| Developing countries | 9.00% | 7.16% |
| Australia and New Zealand | <u>1.23%</u> | <u>0.80%</u> |
| | <u>100.00%</u> | <u>100.00%</u> |

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(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 was as follows:

| <u>Country Allocation</u> | <u>2011</u> | <u>2010</u> |
|---------------------------|----------------|----------------|
| Australia | 2.82% | 6.14% |
| Brazil | 1.69% | 1.60% |
| Canada | 5.47% | 7.01% |
| China | 11.77% | 5.26% |
| Columbia | 0.99% | 0.33% |
| Czech Republic | 0.00% | 1.22% |
| Finland | 2.04% | 1.76% |
| France | 12.24% | 9.75% |
| Germany | 6.58% | 4.18% |
| Hong Kong | 0.41% | 1.66% |
| Hungary | 0.76% | 1.73% |
| India | 4.34% | 6.80% |
| Israel | 0.00% | 1.59% |
| Italy | 2.15% | 1.92% |
| Japan | 7.07% | 5.75% |
| Kazakhstan | 0.00% | 1.51% |
| Luxembourg | 0.00% | 0.04% |
| Malaysia | 1.85% | 4.67% |
| Netherlands | 2.39% | 3.40% |
| Norway | 5.75% | 6.99% |
| Philippines | 1.88% | 0.00% |
| Portugal | 0.95% | 1.18% |
| Russian Federation | 4.35% | 0.23% |
| Singapore | 2.50% | 3.51% |
| South Africa | 4.42% | 2.17% |
| Korea—Republic of | 0.80% | 0.79% |
| Spain | 3.33% | 1.40% |
| Sweden | 1.72% | 1.47% |
| Switzerland | 1.89% | 1.54% |
| United Arab Emirates | 0.00% | 0.18% |
| United Kingdom | <u>9.84%</u> | <u>14.22%</u> |
| | <u>100.00%</u> | <u>100.00%</u> |

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

Credit Risk

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

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

(Continued)

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

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

Credit Risk, Continued

| <u>Investment Type</u> | <u>Moody's Ratings (Unless Noted)</u> | <u>2011</u> | |
|--|---|--------------------------|---|
| | | <u>Fair Value</u> | <u>Fair Value as a Percent of Total Fixed Maturity Fair Value</u> |
| International corporate bonds | Not Rated | <u>\$ 101,435</u> | <u>100.00%</u> |
| Total international corporate bonds | | <u>\$ 101,435</u> | <u>100.00%</u> |

(Amounts in Thousands)

⁽¹⁾ U.S. government agency securities

⁽²⁾ U.S. Treasury securities

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

Credit Risk, Continued

| <u>Investment Type</u> | Moody's Ratings (Unless Noted) | 2010 | |
|---|-----------------------------------|-------------------------------|--|
| | | <u>Fair Value</u> | Fair Value as a Percent of Total Fixed Maturity <u>Fair Value</u> |
| | | <i>(Amounts in Thousands)</i> | |
| U.S. government securities | AGY ⁽¹⁾ | \$ 10,444 | 36.86% |
| | UST ⁽²⁾ | 17,894 | 63.14% |
| Total U.S. government securities | | \$ 28,338 | 100.00% |
| Domestic corporate bonds | AGY ⁽¹⁾ | \$ 38,782 | 19.31% |
| | AAA (SP) | 379 | 0.19% |
| | Aaa | 9,492 | 4.73% |
| | A- (SP) | 328 | 0.16% |
| | Aa1 | 666 | 0.33% |
| | Aa2 | 4,427 | 2.20% |
| | Aa3 | 2,654 | 1.32% |
| | A1 | 6,692 | 3.33% |
| | A2 | 11,780 | 5.87% |
| | A3 | 9,358 | 4.66% |
| | B1 | 893 | 0.44% |
| | Ba1 | 141 | 0.07% |
| | Ba2 | 242 | 0.12% |
| | Baa1 | 13,859 | 6.90% |
| | Baa2 | 9,411 | 4.69% |
| | Baa3 | 4,499 | 2.24% |
| | Caa1 | 928 | 0.46% |
| | Not Rated | 86,272 | 42.98% |
| Total domestic corporate bonds | | \$ 200,803 | 100.00% |

(Continued)

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

Credit Risk, Continued

| <u>Investment Type</u> | <u>Moody's Ratings (Unless Noted)</u> | <u>2010</u> | |
|--|---|-------------------|---|
| | | <u>Fair Value</u> | <u>Fair Value as a Percent of Total Fixed Maturity Fair Value</u> |
| International corporate bonds | Not Rated | \$ 84,656 | 100.00% |
| Total international corporate bonds | | \$ 84,656 | 100.00% |

(Amounts in Thousands)

⁽¹⁾ U.S. government agency securities

⁽²⁾ U.S. Treasury securities

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

Interest Rate Risk

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

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

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

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

Interest Rate Risk, Continued

| <u>Investment Type</u> | 2010 | | | | <u>Total Fair Value</u> |
|---------------------------------------|---|--------------------------------|-------------------|-------------------------------------|-------------------------|
| | <u>Investment Maturities at Fair Value (in Years)</u> | | | | |
| | <u>Less Than 5</u> | <u>5 or More, Less Than 10</u> | <u>10 or More</u> | <u>Investments with No Duration</u> | |
| | <i>(Amounts in Thousands)</i> | | | | |
| U.S. government securities | \$ 10,444 | 10,563 | 7,331 | - | 28,338 |
| Domestic corporate bonds: | | | | | |
| Asset-backed securities | - | 455 | 26 | - | 481 |
| CMBS | - | 26 | 9,077 | - | 9,103 |
| CMO corporate | - | - | 2,869 | - | 2,869 |
| Corporates and other credit | 29,254 | 23,995 | 10,047 | - | 63,296 |
| U.S. equity funds | - | - | - | 70,199 | 70,199 |
| U.S. government mortgages | 157 | 3,669 | 34,956 | - | 38,782 |
| Venture capital | - | - | - | 5,238 | 5,238 |
| U.S. fixed-income funds | - | - | - | 10,835 | 10,835 |
| Total domestic corporate bonds | <u>29,411</u> | <u>28,145</u> | <u>56,975</u> | <u>86,272</u> | <u>200,803</u> |
| International corporate bonds | - | - | - | 84,656 | 84,656 |
| | <u>\$ 39,855</u> | <u>38,708</u> | <u>64,306</u> | <u>170,928</u> | <u>313,797</u> |

As noted above, the Plan had \$38,782 of investments in mortgages, of which \$21,714 represents FNMA loans and the remaining balance consists of FHLMC mortgages.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(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:

| | 2011 | | |
|--------------|-------------------------------|---|--|
| | <u>Collateral Held</u> | <u>Fair Value of Securities on Loan</u> | <u>Percent of Collateral to Loan</u> |
| | <i>(Amounts in Thousands)</i> | | |
| U.S. issuers | <u>\$ 44,578</u> | <u>43,452</u> | <u>103%</u> |
| | | | |
| | 2010 | | |
| | <u>Collateral Held</u> | <u>Fair Value of Securities on Loan</u> | <u>Percent of Collateral to Loan</u> |
| | <i>(Amounts in Thousands)</i> | | |
| U.S. issuers | <u>\$ 48,845</u> | <u>47,691</u> | <u>102%</u> |

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(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, 2011 and 2010, 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, 2011 and 2010, 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 47 days and 36 days at June 30, 2011 and 2010, respectively.

Foreign Currency Transactions

The Plan has certain investment managers that trade on foreign exchanges. Foreign currency gains and losses are calculated at the transaction date using the current exchange rate, and assets are remeasured to U.S. dollars using the exchange rate as of each month end. During the years ended June 30, 2011 and 2010, there were no foreign currency gains and no remeasurement losses.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(5) DERIVATIVES AND OTHER INSTRUMENTS

Derivative instruments are financial contracts whose values depend on the values of one or more underlying assets, reference rates, or financial indexes. They include futures contracts, swap contracts, options contracts, and forward foreign currency exchange. The Plan's investment policy notes that in order to achieve maximum returns, the Plan may diversify between various investments, including common stocks, bonds, real estate, private equity, venture equity and other hedge fund strategies, short-term cash instruments, and other investments deemed suitable. The investment policy also requires investment managers to follow certain controls and documentation and risk management procedures. The Plan did not have any direct derivative investments at June 30, 2011 or 2010. Investments in limited partnerships (alternative investments) and commingled funds may include derivatives. The Plan's investments in alternative investments are reflected at fair value, and any exposure is limited to its investment in the partnership and any unfunded commitment. Commingled funds have been reviewed to ensure they are in compliance with the Plan's investment policy.

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

(6) INVESTMENT IN BUILDING

The Plan owns a building (Columbus Square) originally purchased for approximately \$1.5 million, and it is held as a long-term investment. The building is accounted for at fair value based on periodic appraisals, 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, 2011 and 2010, was estimated at approximately \$3.7 million and \$3.5 million, respectively.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(7) INVESTMENT IN ALTERNATIVE INVESTMENTS

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

| <u>Investment</u> | <u>Purpose</u> | <u>Fair Market Value</u> | |
|---|---|-------------------------------|-------------|
| | | <u>2011</u> | <u>2010</u> |
| | | <i>(Amounts in Thousands)</i> | |
| <i>Accel Europe, LP</i> | Invests in companies that are organized outside the United States. | \$ 5,293 | 6,737 |
| <i>Arsenal Capital Partners, L.P.</i> | Invests in portfolio companies. | 4,440 | 3,264 |
| <i>Arsenal II</i> | Invests in manufacturing, specialty chemicals, and healthcare industry. | 15,524 | 7,670 |
| <i>Attalus Long/Short Equity Fund, LTD.</i> | Invests in other investment companies, also referred to as hedge funds, consisting of debt and equity securities as well as private equity. | 77,115 | 71,819 |
| <i>BBT Overseas Partners, LP</i> | Invests in equity securities and financial acquisitions. | 709 | 709 |
| <i>Calera Partners III, LP</i> | Invests in equity securities. | 5,440 | 5,456 |
| <i>Calera Partners IV, LP</i> | Invests in equity securities. | 6,312 | 3,719 |
| <i>FirstMark III, LP</i> | Invests in equity securities. | 7,396 | 8,064 |
| <i>FirstMark IV</i> | Invests in equity securities. | 4,520 | 3,937 |
| <i>FMVP General Partners II, LLC</i> | Invests in the securities of technology and development stage companies. | 39 | 115 |

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(7) INVESTMENT IN ALTERNATIVE INVESTMENTS, CONTINUED

| <u>Investment</u> | <u>Purpose</u> | <u>Fair Market Value</u> | |
|--|--|--------------------------|-------------|
| | | <u>2011</u> | <u>2010</u> |
| <i>(Amounts in Thousands)</i> | | | |
| <i>Grosvenor Long/Short Equity Fund, LP</i> | Invests in domestic and international securities. | 173,437 | 156,509 |
| <i>Hicks, Muse, Tate & Furst Equity Fund V, LP</i> | Invests in private equity securities and leveraged acquisitions. | 1,331 | 2,315 |
| <i>HM Capital Sector Performance</i> | Invests primarily in debt and equity securities. | 6,830 | 9,562 |
| <i>Knightsbridge Venture Capital VI</i> | Invests in early stage U.S. venture capital partnership. | 9,195 | 7,373 |
| <i>Levine Leichtman Capital Partners III, LP</i> | Invests in securities of middle market companies. | 5,554 | 6,682 |
| <i>Levine Leichtman Capital Partners IV, LP</i> | Invests in public and private securities in companies conducting substantial operations. | 5,035 | 1,402 |
| <i>Lexington Capital Partners</i> | Invests in private equity. | 14,355 | 12,068 |
| <i>LightSpeed Venture Partners VI, LP</i> | Invests in securities issued primarily in start-ups, early stage ventures, and expansion stage companies focusing on technology. | 3,761 | 4,060 |
| <i>Marathon Fund IV, LP</i> | To acquire, manage, and resell controlling interests in middle market companies. | 412 | 1,210 |

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(7) INVESTMENT IN ALTERNATIVE INVESTMENTS, CONTINUED

| <u>Investment</u> | <u>Purpose</u> | <u>Fair Market Value</u> | |
|---|---|-------------------------------|-------------|
| | | <u>2011</u> | <u>2010</u> |
| | | <i>(Amounts in Thousands)</i> | |
| <i>Marathon Fund V, LP</i> | Invests in portfolio companies. | 12,814 | 9,977 |
| <i>Newport Mesa, LLC</i> | Invests in non-readily marketable investment vehicles. | 159,081 | 148,463 |
| <i>Newstone Capital</i> | Invests in leveraged buyouts, recapitalization, and later-stage growth financing. | 2,850 | 4,277 |
| <i>Newstone Capital II</i> | Invests in leveraged buyouts, recapitalization, and later-stage growth financing. | 1,401 | - |
| <i>Oaktree Opportunities Fund II, LP</i> | Invests in distressed debt. | 5 | 5 |
| <i>Oaktree Opportunities Fund III, LP</i> | Invests in entities experiencing financial difficulties. | 57 | 92 |
| <i>Oaktree Opportunities Fund IV, LP</i> | Invests in distressed debt. | 24 | 48 |
| <i>Oaktree Opportunities Fund V, LP</i> | Invests in distressed debt. | 982 | 867 |
| <i>Oaktree Opportunities Fund VI, LP</i> | Invests in distressed debt. | 2,976 | 3,282 |

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(7) INVESTMENT IN ALTERNATIVE INVESTMENTS, CONTINUED

| <u>Investment</u> | <u>Purpose</u> | <u>Fair Market Value</u> | |
|---|---|--------------------------|-------------|
| | | <u>2011</u> | <u>2010</u> |
| <i>Oaktree Opportunities Fund VII</i> | Invests in companies undergoing or having undergone reorganization or restructuring. | 5,903 | 6,866 |
| <i>Oaktree Opportunities Fund VIIb</i> | Invests in companies undergoing or having undergone reorganization or restructuring. | 7,794 | 9,324 |
| <i>Oaktree Opportunities Fund VIII, LP</i> | Invests in distressed debt. | 6,154 | 2,111 |
| <i>Peak Partners, LP</i> | Speculative trading of commodity futures contracts. Options on futures contracts and forward contracts. | 25,420 | 29,568 |
| <i>PruTimber Fund II, LP</i> | Invests in timber. | - | 11 |
| <i>Siguler Guff Distressed Opportunities Fund, L.L.C.</i> | Invests in securities of companies undergoing distress, operating difficulties, and significant reconstructing. | 9,714 | 10,820 |
| <i>Siguler Guff Distressed Opportunities Fund II, LP</i> | Invests in securities of companies undergoing distress, operating difficulties, and significant reconstructing. | 14,147 | 19,565 |

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(7) INVESTMENT IN ALTERNATIVE INVESTMENTS, CONTINUED

| <u>Investment</u> | <u>Purpose</u> | <u>Fair Market Value</u> | |
|---|---|--------------------------|-------------|
| | | <u>2011</u> | <u>2010</u> |
| <i>(Amounts in Thousands)</i> | | | |
| <i>Siguler Guff Distressed Opportunities Fund III, LP</i> | Invests in securities of companies undergoing distress, operating difficulties, and significant reconstructing. | 13,978 | 12,388 |
| <i>Sun Capital</i> | Invests in privately negotiated subordinated debt and equity securities. | 6,423 | 4,197 |
| <i>TCW/Crescent Mezzanine Partners III, LP</i> | Invests in privately negotiated subordinated debt and equity securities. | 1,262 | 1,837 |
| <i>TCW/Crescent Mezzanine Partners IV, LP</i> | Invests in privately negotiated subordinated debt and equity securities. | 6,427 | 6,850 |
| <i>TCW/Crescent Mezzanine Partners V, LP</i> | Invests in privately negotiated subordinated debt and equity securities. | 5,324 | 4,084 |
| <i>Thompson Street Capital Partners</i> | Private investment in companies. | 8,294 | 8,371 |
| <i>Venture Lending & Leasing III, LLC</i> | Debt financing and direct investment in equity securities of venture capital-backed companies. | 491 | 561 |
| <i>Warburg Pincus</i> | Making private equity and related investments. | 11,864 | 6,731 |

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(7) INVESTMENT IN ALTERNATIVE INVESTMENTS, CONTINUED

| <u>Investment</u> | <u>Purpose</u> | <u>Fair Market Value</u> | |
|---|--|-------------------------------|----------------|
| | | <u>2011</u> | <u>2010</u> |
| | | <i>(Amounts in Thousands)</i> | |
| <i>Weathergage Venture Capital</i> | Invests in information technology and life science funds. | 4,338 | 2,336 |
| <i>Weathergage Venture Capital II</i> | Invests in information technology and life science funds. | 938 | - |
| <i>Weiss, Peck, & Greer Venture Associates V, LLC</i> | Invests in the securities of technology and development stage companies. | 1,356 | 1,616 |
| | | <u>\$ 656,715</u> | <u>606,918</u> |

As of June 30, 2011 and 2010, the Plan had a remaining commitment to fund approximately \$65 million and \$86 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.

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(8) INVESTMENT IN REAL ESTATE FUND

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

| <u>Investment</u> | <u>Purpose</u> | <u>Fair Value</u> | |
|--|--|-------------------|-------------|
| | | <u>2011</u> | <u>2010</u> |
| JPMorgan Chase Bank Strategic Property Fund | The Fund owns and seeks improved real estate projects with stabilized occupancies in an effort to produce a relatively high level of current income combined with moderate appreciation potential. | \$ 41,517 | 34,372 |

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

(9) CAPITAL ASSETS

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

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

| | <u>Balance at June 30, 2009</u> | <u>Additions</u> | <u>Disposals</u> | <u>Balance at June 30, 2010</u> |
|--------------------------|-------------------------------------|------------------|------------------|-------------------------------------|
| Cost | \$ 989,045 | 25,000 | - | 1,014,045 |
| Accumulated amortization | - | - | - | - |
| Capital assets, net | <u>\$ 989,045</u> | <u>25,000</u> | <u>-</u> | <u>1,014,045</u> |

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(10) DEFERRED OPTION BENEFITS PAYABLE

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

| | 2011 | | | |
|------------------------|-------------------------------|---------------|------------------|---------------|
| | <u>Deferred</u> | <u>"Back"</u> | <u>Payout</u> | <u>Total</u> |
| | <u>Option</u> | <u>DROP</u> | <u>Provision</u> | |
| | <i>(Amounts in Thousands)</i> | | | |
| Beginning balance | \$ 6,226 | 1,689 | 1,999 | 9,914 |
| Employer contributions | 211 | 970 | - | 1,181 |
| Member contributions | - | 1,194 | - | 1,194 |
| Deferred benefits | 1,772 | 7,939 | - | 9,711 |
| Payments | (2,577) | (12,317) | - | (14,894) |
| Interest | 885 | 2,404 | 323 | 3,612 |
| | <u>6,517</u> | <u>1,879</u> | <u>2,322</u> | <u>10,718</u> |
| Ending balance | <u>\$ 6,517</u> | <u>1,879</u> | <u>2,322</u> | <u>10,718</u> |
| | 2010 | | | |
| | <u>Deferred</u> | <u>"Back"</u> | <u>Payout</u> | <u>Total</u> |
| | <u>Option</u> | <u>DROP</u> | <u>Provision</u> | |
| | <i>(Amounts in Thousands)</i> | | | |
| Beginning balance | \$ 9,274 | 323 | 1,231 | 10,828 |
| Employer contributions | 250 | 1,505 | - | 1,755 |
| Member contributions | - | 1,853 | - | 1,853 |
| Plan reassignments | (145) | (502) | 647 | - |
| Deferred benefits | 1,944 | 12,992 | - | 14,936 |
| Payments | (5,847) | (18,995) | - | (24,842) |
| Interest | 750 | 4,513 | 121 | 5,384 |
| | <u>6,226</u> | <u>1,689</u> | <u>1,999</u> | <u>9,914</u> |
| Ending balance | <u>\$ 6,226</u> | <u>1,689</u> | <u>1,999</u> | <u>9,914</u> |

See Independent Auditors' Report.

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(11) PLAN TERMINATION AND STATE FUNDING

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

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

(12) FEDERAL INCOME TAX STATUS

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

(13) HISTORICAL INFORMATION

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

(14) LEGISLATIVE AMENDMENTS

The following is a summary of significant plan provision changes that were enacted by the Oklahoma Legislature during 2011 and 2010:

2011

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

2010

- Senate Bill 1989—contained the required language necessary for the System to remain an IRS qualified plan.

See Independent Auditors' Report.

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(15) CONTINGENCIES

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

(16) SUBSEQUENT EVENTS

Market Fluctuations

Subsequent to June 30, 2011, the United States financial market has had considerable downward fluctuation. The long-term ratings of U.S. government and federal agencies were lowered from AAA to AA+ by Standard & Poor's rating agency. As the investments of the Plan are at market value, these values have varied considerably and may continue to vary.

See Independent Auditors' Report.

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

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

SCHEDULE OF FUNDING PROGRESS

(In Millions)

June 30, 2011

| 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] ⁽¹⁾ |
|--------------------------|-------------------------------|---|---------------------------|-----------------------------|---------------------|--|
| June 20, 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 | 76.3% | 254 | 210.9% |
| June 30, 2010 | 1,754 | 2,341 | 587 | 74.9% | 250 | 235.3% |
| June 30, 2011 | 1,823 | 1,960 ⁽²⁾ | 137 | 93.0% ⁽²⁾ | 258 | 53.3% |

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

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

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

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

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

(In Thousands)

June 30, 2011

| Year Ended | Annual Required Contributions | Contributions by Source | | Total | Percentage Contributed |
|----------------------|----------------------------------|---------------------------|------------------------|---------------|---------------------------|
| | | Employer Contributions | State Contributions | | |
| 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% |
| June 30, 2010 | 132,456 | 32,240 | 22,292 | 54,532 | 41% |
| June 30, 2011 | 146,816 | 31,846 | 24,645 | 56,491 | 38% |

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, 2011

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, 2011, valuation follows:

Assumptions

| | |
|-------------------------|---------------------|
| Actuarial cost method: | Entry age |
| Amortization method: | Level dollar—closed |
| Remaining amortization: | 7 years |
| Asset valuation method: | 5-year smoothed |

Actuarial assumptions

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

^{_____}
* Includes inflation at 3%.

See Independent Auditors' Report.

**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, 2011, and have issued our report thereon dated September 19, 2011, 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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

(Continued)

**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*.

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

Shawnee, Oklahoma
September 19, 2011

Finley + Cook, PLLC



September 19, 2011

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

We have audited the financial statements the Oklahoma Police Pension and Retirement Plan administered by the Oklahoma Police Pension and Retirement System (collectively referred to as the "System") as of and for the year ended June 30, 2011, and have issued our report thereon dated September 19, 2011. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated November 16, 2010. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the System are described in Note 2 to the financial statements. The application of existing policies was not changed during the year ended June 30, 2011. We noted no transactions entered into by the System during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

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

Significant Audit Findings, Continued

Qualitative Aspects of Accounting Practices, Continued

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

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

Management's estimate of the market value of investments is based on the investment custodian. We evaluated the key factors and assumptions used to develop the estimate of investment market value in determining that it was reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

Disagreements with Management

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

Significant Audit Findings, Continued

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 19, 2011.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Information in Documents Containing Audited Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Other Required Communications

We as independent auditors are required to:

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

We have nothing to report.

This information is intended solely for the information and use of the Board of Trustees, management of the Plan, 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