

**Oklahoma Police Pension and  
Retirement Plan**

Administered by

**Oklahoma Police Pension and  
Retirement System**

*Financial Statements*

June 30, 2015 and 2014

(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

### **Report on the Financial Statements**

We have audited the accompanying financial statements 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, which comprise the statements of fiduciary net position as of June 30, 2015 and 2014, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

(Continued)

## **INDEPENDENT AUDITORS' REPORT, CONTINUED**

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Plan as of June 30, 2015 and 2014, and the changes in fiduciary net position of the Plan for the years then ended in accordance with accounting principles generally accepted in the United States.

### **Other Matters**

#### *Required Supplementary Information*

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 changes in the employers' net pension liability, the schedule of employers' net pension liability, the schedule of contributions from employers and other contributing entities, and the schedule of investment returns on pages 45 through 49 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.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2015, 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* in considering the Plan's internal control over financial reporting and compliance.

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

Shawnee, Oklahoma  
September 14, 2015

## 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, 2015, 2014, and 2013. Please read it in conjunction with the System's financial statements which begin on page 3.

### Financial Highlights

	June 30,		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
	<i>(Amounts in Thousands)</i>		
• Net fiduciary position restricted for pensions	\$ 2,264,996	2,238,466	1,975,665
• Contributions:			
Cities	37,261	35,547	34,645
Plan members	22,867	22,131	21,518
Insurance premium tax	35,490	31,329	31,412
• Net investment income	74,554	294,897	221,174
• Benefits paid, including refunds and deferred option benefits	141,693	119,241	114,835
• Net increase in net position	26,530	262,801	191,861

### **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 statements of fiduciary net position, 2) the statements of changes in fiduciary net position, and 3) notes to the 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 resources 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 fiduciary net position represent the fair value of the System's assets as of the end of the fiscal year. The difference between assets and liabilities, called "fiduciary net position," represents the value of assets held in trust for future benefit payments. Over time, increases and decreases in the System's net position can serve as an indicator of whether the financial position of the System is improving or declining.

The statements of changes in fiduciary net position present financial activities that caused a change in net position during the year. These activities primarily consist of contributions to the System, unrealized and realized gains and losses on investments, other investment income, benefits paid, and investment and administrative expenses.

**MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED**

**CONDENSED FINANCIAL INFORMATION COMPARING THE  
CURRENT YEAR TO PRIOR YEARS**

The following table summarizes the fiduciary net position as of June 30:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
	<i>(Amounts in Thousands)</i>		
<b>Assets:</b>			
Cash and cash equivalents	\$ 48,062	30,240	66,068
Receivables	14,430	12,197	12,903
Investments, at fair value	2,207,881	2,198,731	1,899,075
Securities lending collateral	-	9,315	20,003
Capital assets	101	304	507
Total assets	<u>2,270,474</u>	<u>2,250,787</u>	<u>1,998,556</u>
 <b>Liabilities</b>	 <u>5,478</u>	 <u>12,321</u>	 <u>22,891</u>
 Net fiduciary position	 <u>\$ 2,264,996</u>	 <u>2,238,466</u>	 <u>1,975,665</u>

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.

The following table summarizes the changes in fiduciary net position between fiscal years 2015, 2014, and 2013:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
	<i>(Amounts in Thousands)</i>		
<b>Additions</b>			
Contributions	\$ 95,618	89,007	87,575
Net investment income	74,554	294,897	221,174
Total additions	<u>170,172</u>	<u>383,904</u>	<u>308,749</u>
 <b>Deductions</b>			
Benefits paid, including refunds	102,924	99,120	95,817
Deferred option benefits	38,769	20,121	19,018
Administrative expenses	1,949	1,862	2,053
Total deductions	<u>143,642</u>	<u>121,103</u>	<u>116,888</u>
 Net increase in net position	 26,530	 262,801	 191,861
 Net fiduciary position, beginning of year	 <u>2,238,466</u>	 <u>1,975,665</u>	 <u>1,783,804</u>
 Net fiduciary position, end of year	 <u>\$ 2,264,996</u>	 <u>2,238,466</u>	 <u>1,975,665</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

### ANALYSIS OF THE OVERALL NET POSITION AND THE CHANGES IN NET POSITION

The System is funded by contributions from participating cities and their police officers, a dedicated percentage of the State of Oklahoma's insurance premium tax, and returns generated by investing the System's assets. In total, contributions increased during fiscal year 2015 compared to fiscal year 2014, due primarily to a \$4,161,000, or 13.3%, increase in insurance premium tax contributions. In prior periods, contributions increased during fiscal year 2014 compared to fiscal year 2013, due primarily to a \$901,971, or 2.6%, increase in city contributions and a \$613,479, or 2.9%, increase in member contributions. The System received 14% of the total insurance premium tax collected for each of the years ended June 30, 2015, 2014, and 2013.

The System's net yield on average assets was approximately 3.38% for the fiscal year ended June 30, 2015, resulting primarily from moderate to negative returns on the fixed income portion of assets. Since the System accounts for its investments at fair value, increases and decreases in the prices of stocks and bonds have a direct effect and impact on the net position 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>2015</u>	<u>2014</u>	<u>2013</u>
System	3%	15%	12%
S&P 500	7%	25%	21%

In fiscal years 2015 and 2014, total benefit payments, including refunds and deferred option benefits, increased during the year by approximately 19% and 4%, respectively. This was primarily due to a significant increase in deferred option benefits paid during the year.

Administrative expenses are composed primarily of payroll and related expenses for the employees of the System, legal and professional fees, data processing fees, medical and travel costs, and depreciation. Total administrative expenses for the year ended June 30, 2015, increased approximately 5% over the year ended June 30, 2014, due primarily to increased legal and professional fees. Total administrative expenses for the year ended June 30, 2014, decreased approximately 9% over the year ended June 30, 2013, due primarily to decreased personnel and actuarial and legal costs.

The overall fiduciary net position increased for the fiscal years ended June 30, 2015 and 2014.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED**

### **DESCRIPTION OF CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS THAT ARE EXPECTED TO HAVE A SIGNIFICANT EFFECT ON THE NET POSITION OR THE CHANGES IN NET POSITION**

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 \$2.2 billion of assets allocated across a highly diversified range of investments, the System has the financial resources to maintain its current investment strategies while continuing to review for suitable investment options that will benefit its members.

Presently, the System receives 14% of the total taxes collected on insurance premiums. The System received insurance premium taxes of approximately \$35 million, \$31 million, and \$31 million in the years ended June 30, 2015, 2014, and 2013, respectively.

### **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 the Chief Financial Officer, Oklahoma Police Pension and Retirement System, 1001 N.W. 63<sup>rd</sup> Street, Suite 305, Oklahoma City, OK 73116-7335.



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

**STATEMENTS OF FIDUCIARY NET POSITION**

<i>June 30,</i>	<i>2015</i>	<i>2014</i>
	<i>(Amounts in Thousands)</i>	
<b>Assets</b>		
Cash and cash equivalents	\$ 48,062	30,240
Receivables:		
Interest and dividends receivable	3,030	3,489
Contributions receivable from cities	1,478	1,116
Contributions receivable from participants	904	683
Insurance premium tax receivable	7,684	6,563
Receivable from brokers	1,334	346
Total receivables	<u>14,430</u>	<u>12,197</u>
Investments, at fair value:		
U.S. government securities	22,177	33,398
Domestic corporate bonds	138,566	253,377
International corporate bonds	210,307	114,216
Domestic stocks	543,980	659,596
International stocks	322,805	300,499
Equity—real estate investment trusts	7,339	12,495
Alternative investments	791,032	708,808
Real estate funds	167,775	112,542
Real estate—Columbus Square	3,900	3,800
Total investments, at fair value	<u>2,207,881</u>	<u>2,198,731</u>
Securities lending collateral	-	9,315
Capital assets	101	304
Total assets	<u>2,270,474</u>	<u>2,250,787</u>
<b>Liabilities</b>		
Payable to brokers	860	922
Accounts payable	856	962
Deferred option benefits due and currently payable	3,762	1,122
Securities lending collateral	-	9,315
Total liabilities	<u>5,478</u>	<u>12,321</u>
Net fiduciary position restricted for pensions	<u>\$ 2,264,996</u>	<u>2,238,466</u>

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

**OKLAHOMA POLICE PENSION AND RETIREMENT PLAN**  
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**STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION**

<i>Years Ended June 30,</i>	<i>2015</i>	<i>2014</i>
	<i>(Amounts in Thousands)</i>	
<b>Additions</b>		
Contributions:		
Cities	\$ 37,261	35,547
Plan members	22,867	22,131
Insurance premium tax	35,490	31,329
Total contributions	<u>95,618</u>	<u>89,007</u>
Investment income:		
From investing activities:		
Net appreciation in fair value of investments	65,594	286,638
Interest	7,612	8,155
Dividends	14,030	11,876
Other	578	513
Total investment income	87,814	307,182
Less investment expense	(13,312)	(12,384)
Income from investing activities	<u>74,502</u>	<u>294,798</u>
From securities lending activities:		
Securities lending income	24	(3)
Securities lending expenses:		
Borrower rebates, net	41	152
Management fees	(13)	(50)
Income from securities lending activities	<u>52</u>	<u>99</u>
Net investment income	<u>74,554</u>	<u>294,897</u>
Total additions	<u>170,172</u>	<u>383,904</u>
<b>Deductions</b>		
Benefits paid	100,889	97,361
Deferred option benefits	38,769	20,121
Refunds of contributions	2,035	1,759
Administrative expenses	1,949	1,862
Total deductions	<u>143,642</u>	<u>121,103</u>
Net increase in net position	26,530	262,801
Net position restricted for pensions:		
Beginning of year	<u>2,238,466</u>	<u>1,975,665</u>
End of year	<u>\$ 2,264,996</u>	<u>2,238,466</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, 2015 and 2014**

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**(1) NATURE OF OPERATIONS**

The Oklahoma Police Pension and Retirement System (the “System”) was established by legislative act and became effective on January 1, 1981. The System is the administrator of a multiple-employer, cost-sharing defined benefit pension plan that provides participants with retirement, death, and disability benefits and a deferred option plan (the “Deferred Option”), both established by the State of Oklahoma. These plans are considered a single plan for financial reporting purposes. The System is part of the State of Oklahoma financial reporting entity and is included in the State of Oklahoma’s financial reports as a pension trust fund. The System covers substantially all police officers employed by the 137 participating municipalities and state agencies within the state of Oklahoma. 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. The State of Oklahoma remits, through the Oklahoma Insurance Department, a portion of the insurance premium taxes collected by authority of the State. As a result of these contributions, the State is considered a non-employer contributing entity to the Plan.

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 Board is comprised of 13 members. Six members are active System members and represent specific geographic areas of the state. They must work for a police department physically located in the district they serve. The 7<sup>th</sup> district shall be a retired member of the System and encompasses the entire state area. These elected members serve 3-year terms. The remaining six members are either governmental office holders or are appointed as follows: one by the Speaker of the House of Representatives, one by the President Pro Tempore of the Senate, one by the Governor, and one by the President of the Oklahoma Municipal League; the final two members of the Board are the State Insurance Commissioner or designee and the Director of the Office of Management and Enterprise services or designee. The appointees and office holders or designees all serve a 4-year term, with the governor appointee’s term being coterminous with that office. The appointees of the board or designees of ex officio members should have either demonstrated professional experience in investment or funds management, demonstrated experience in the banking profession, be licensed to practice law in the state and have demonstrated professional experience in commercial matters, or be licensed by the Oklahoma Accountancy Board to practice in this state as a public accountant or a certified public accountant.

See Independent Auditors’ Report.

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

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(1) NATURE OF OPERATIONS, CONTINUED**

The System’s participants at June 30 consisted of:

	<u>2015</u>	<u>2014</u>
Retirees and beneficiaries currently receiving benefits	3,448	3,320
Vested members with deferred benefits	125	132
Deferred Option plan members	22	30
	<u>3,595</u>	<u>3,482</u>
Active plan members:		
Vested	2,362	2,213
Nonvested	2,876	3,107
Total active plan members	<u>5,238</u>	<u>5,320</u>
Total members	<u>8,833</u>	<u>8,802</u>
Number of participating municipalities and state agencies	<u>137</u>	<u>137</u>

**(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 Governmental Accounting Standards Board Statement No. 67, *Financial Reporting for Pension Plans—an Amendment of GASB Statement No. 25* (GASB 67).

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.

See Independent Auditors’ Report.

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

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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

**Recent Accounting Pronouncements**

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68). The objective of GASB 68 is to improve accounting and financial reporting for pensions by state and local governments, and to improve information where support for pensions has been provided by other entities. This statement establishes standards for measuring and recognizing liabilities, deferred inflows and outflows of resources, and expenses. For defined benefit pensions, it identifies methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their present value and attribute that value to periods of employee service. The Plan adopted this statement effective July 1, 2014. The adoption had no significant impact on the Plan's financial statements.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations* (GASB 69). GASB 69 establishes accounting and financial reporting standards related to governmental combinations and disposals of government operations. Generally, governmental combinations include mergers, acquisitions and transfers of operations. This statement improves financial reporting by providing guidance for business combinations in the governmental environment. The Plan adopted this statement July 1, 2014. Presently the Plan has no items to be reported, and the adoption had no significant impact on the financial statements of the Plan.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* (GASB 71). GASB 71 amends GASB 68 by amending the transition provisions of GASB 68. At transition to GASB 68, employers that could not practically determine all of the deferred inflows and outflows related to pensions were provided guidance that no deferred inflows or outflows should be reported. GASB 71 amends this guidance to provide that a government recognize a beginning deferred outflow of resources for pension contributions made subsequent to the measurement date. GASB 71 will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of GASB 68. The Plan adopted this statement on July 1, 2014. The adoption had no significant impact on the Plan's financial statements.

See Independent Auditors' Report.

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

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

**Recent Accounting Pronouncements, Continued**

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application* (GASB 72). GASB 72 addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GASB 72 provides guidance for determining a fair value measurement for financial reporting purposes. GASB 72 also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of GASB 72 will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. GASB 72 also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. GASB 72 is effective for financial statements for periods beginning after June 15, 2015. The Plan will adopt GASB 72 effective July 1, 2015, for the June 30, 2016, reporting year. GASB 72 will require additional and/or revised disclosures in the financial statements.

**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 position restricted for pensions 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 position during the reporting period, and when applicable, disclosures of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

See Independent Auditors' Report.

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

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

**Risks and Uncertainties**

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

**Plan Contributions**

Contributions to the Plan are recognized when due pursuant to formal commitments, as well as statutory or contractual requirements.

**Plan Benefit Payments and Refunds**

Benefits and refunds of the Plan are recognized when due and payable in accordance with the terms of the Plan.

**Receivables**

At June 30, 2015 and 2014, the Plan had no long-term receivables. All the receivables reflected in the statement of fiduciary net position are expected to be received and available for use by the Plan in its operations. Also, no allowance for any uncollectible portions is considered necessary.

**Investments**

Management of the Plan is authorized to invest in eligible investments as approved by the Board as set forth in its investment policy. The Board reviews and updates the plan investment policy at least annually, making changes as deemed necessary to achieve policy goals. An investment policy change can be made anytime the need should arise at the discretion of the Board.

*Investment Allocation Policy*—The Board's asset allocation policy will currently maintain approximately 60% of assets in equity instruments, including public equity, long-short hedge, venture capital, and private equity strategies; approximately 25% of assets in fixed income to include investment grade bonds, high yield and non-dollar denominated bonds, convertible bonds, and low volatility hedge fund strategies; and 15% of assets in real assets to include real estate, commodities, and other strategies.

See Independent Auditors' Report.

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

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

**Investments, Continued**

*Significant Investment Policy Changes Made During the Year*—During the year ended June 30, 2014, the Board changed the allocation for small/midcap equities from 0%–10% to 0%–15%. No significant investment policy changes were made during the year ended June 30, 2015.

*Rate of Return*—For the years ended June 30, 2015 and 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 3.36% and 15.04%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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

Net investment income (loss) includes net appreciation (depreciation) in the fair value of investments, interest income, dividend income, investment income from real estate, securities lending income and expenses, and investment expenses, which includes investment management and custodial fees and all other significant investment related costs. Foreign currency translation gains and losses are reflected in the net appreciation (depreciation) in the fair value of investments. Investment income from real estate includes the Plan's share of income from operations, net appreciation (depreciation) 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.

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**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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

**Investments, Continued**

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

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

The investment policy limits the concentration of each portfolio manager. Except as noted below, no investment with a single firm exceeds 5% of the Plan's net position.

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.

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**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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

**Investments, Continued**

The following tables present individual investments held by a single organization that exceed 5%\* of the Plan's fiduciary net position at June 30:

Classification of <u>Investment</u>	Name of <u>Organization</u>	Shares <u>Held</u>	2015	
			<u>Cost</u>	<u>Fair Value</u>
			<i>(Amounts in Thousands)</i>	
Alternative investments	PAAMCO	194,001,413	\$ 105,000	194,001
Alternative investments	Grosvenor	307,622,456	201,700	307,622
Domestic stocks	Northern Trust	17,934,301	373,051	394,296
International stocks	Mondrian	3,939,387	56,861	122,074
Corporate bonds and private equity	Oaktree Capital Mgmt.	17,900,261	144,748	155,140

Classification of <u>Investment</u>	Name of <u>Organization</u>	Shares <u>Held</u>	2014	
			<u>Cost</u>	<u>Fair Value</u>
			<i>(Amounts in Thousands)</i>	
Alternative investments	PAAMCO	194,030,808	\$ 105,000	194,031
Alternative investments	Grosvenor	274,978,349	192,100	274,978
Domestic stocks	BNY Mellon	280,408	210,464	427,096
International stocks	Mondrian	3,939,387	56,861	129,102
Corporate bonds and private equity	Oaktree Capital Mgmt.	17,965,992	143,355	153,685

\* While the investment with a single entity may exceed 5% of the Plan's net position, each investment is comprised of numerous individual securities. As such, no individual security exceeds the 5% threshold.

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**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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

**Repurchase/Reverse Repurchase Agreement**

The Plan has a master repurchase/reverse repurchase agreement. Under the agreement, the Plan may enter into a purchase/sale of a security with a simultaneous agreement to resell/repurchase the security at a specified future date and price. The Plan did not enter into any transactions under this agreement during fiscal year 2015 or 2014.

**Capital Assets**

Capital assets, which consist of software, are stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful life of the related asset (5 years). Depreciation of the new software began in fiscal year 2011 and amounted to approximately \$203,000 for each of the fiscal years 2014 and 2015.

**Income Taxes**

The Plan is exempt from federal and state income taxes.

**Plan Termination**

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

**Administrative Items**

***Operating Leases***

The Plan had an operating lease which ended June 30, 2015. The lease has been renewed for the period July 1, 2015, through June 30, 2016. Total lease expense was approximately \$90,000 for each of the years ended June 30, 2015 and 2014.

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**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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

**Administrative Items, Continued**

*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, 2015 and 2014, approximately \$128,000 and \$124,000, 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>2015</u>	<u>2014</u>
Balance at beginning of year	\$ 123,577	121,845
Additions and transfers	55,042	64,517
Amount used	<u>(50,485)</u>	<u>(62,785)</u>
Balance at end of year	<u>\$ 128,134</u>	<u>123,577</u>

*Retirement Expense*

Employees of the System are eligible to participate in the Oklahoma Public Employees Retirement Plan, which is administered by the Oklahoma Public Employees Retirement System (OPERS). OPERS is a multiple-employer, cost-sharing public retirement defined benefit pension plan. OPERS provides retirement, disability, and death benefits to its plan members and beneficiaries. OPERS issues a publicly available financial report which includes financial statements and required supplementary information for OPERS. That report may be obtained by writing to the Oklahoma Public Employees Retirement System, 5801 N. Broadway Extension, Suite 200, Oklahoma City, OK 73118-7484.

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**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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

**Administrative Items, Continued**

*Retirement Expense, Continued*

Employees of the System are required to contribute 3.5% of their annual covered salary. The System is required to contribute at a legislatively established rate, which was 16.5% of annual covered payroll for the fiscal years ended June 30, 2015 and 2014. During 2015, 2014, and 2013, a total of \$154,541, \$141,308, and \$155,036, respectively, was paid to OPERS. The System contributed 100% of the required contribution for each of the years ended June 30, 2015, 2014, and 2013. The System's and employees' portions of those amounts were as follows:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
System's portion	\$ 127,496	116,579	127,905
Employees' portion	<u>27,045</u>	<u>24,729</u>	<u>27,131</u>
	<u>\$ 154,541</u>	<u>141,308</u>	<u>155,036</u>

As noted earlier, the Plan adopted GASB 68 as of July 1, 2014, as it applies to its participation in OPERS. The effects upon the financial statements of the Plan as a result of the adoption of GASB 68 are considered immaterial.

***Risk Management***

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

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

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**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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

**Administrative Items, Continued**

***Risk Management, Continued***

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

**Date of Review of Subsequent Events**

The Plan has evaluated subsequent events through September 14, 2015, the date that the financial statements were available to be issued, and determined that no subsequent events have occurred which require adjustment to or disclosure in the financial statements.

(3) **DESCRIPTION OF THE PLAN**

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

**General**

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

**Contributions**

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

An eligible municipality may join the Plan on the first day of any month. Upon approval by the Board, its membership is irrevocable. All persons employed as police officers are required to participate in the Plan upon initial employment with the police department of the participating municipality. The Oklahoma Legislature has authority to establish and amend contribution amounts. Until July 1, 1991, each municipality contributed to the System 10% of the actual base salary of each participant employed by the municipality. Beginning July 1, 1991, municipality contributions increased by 1/2% per year and continued this increase until July 1, 1996, when the contribution level reached 13%, which it remains at currently. Each participant of the Plan contributes 8% of their actual paid base salary. Additional funds are provided to the Plan by the State of Oklahoma, a non-employer contributing entity, through a 14% 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.

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**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(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. The Plan's benefits are established and amended by State statute. 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**

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**(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 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.

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**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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

**Benefits, Continued**

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

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

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

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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>2015</u>	<u>2014</u>
	<i>(Amounts in Thousands)</i>	
Short-term investments:		
OK INVEST	\$ 22,461	14,509
Domestic	<u>25,600</u>	<u>15,731</u>
Total short-term investments	<u>48,061</u>	<u>30,240</u>
Cash—Commerce Bank	<u>1</u>	<u>-</u>
Total cash and cash equivalents	<u>\$ 48,062</u>	<u>30,240</u>

At June 30, 2015 and 2014, as a result of outstanding checks and deposits, the carrying amount of the Plan's OK INVEST account totaled \$22,461,205 and \$14,509,162, respectively, and the bank balance totaled \$25,554,314 and \$16,417,154, respectively. The carrying amounts of the domestic short-term investment and cash on deposit with Mellon and Commerce Bank were the same as the bank balances at June 30, 2015 and 2014.

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

	<u>2015</u>	<u>2014</u>
U.S. agencies	\$ 10,259,108	7,532,242
Mortgage-backed agencies	10,025,350	6,744,321
U.S. Treasury notes	295,785	195,455
Municipal bonds	354,331	251,867
Certificates of deposit	697,755	426,164
Commercial paper	713,802	474,455
Money market mutual funds	<u>3,208,183</u>	<u>792,650</u>
	<u>\$ 25,554,314</u>	<u>16,417,154</u>

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**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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

**Cash and Cash Equivalents, Continued**

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

**Custodial Credit Risk**

Custodial credit risk is the risk that in the event of the failure of a counterparty, the Plan will not be able to recover the value of its investments. Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. Investment securities are exposed to custodial credit risk if they are uninsured, are not registered in the name of the Plan, and are held by a counterparty or the counterparty's trust department but not in the name of the Plan. While the investment policy does not specifically address custodial credit risk of deposits, it does limit the amount of cash and short-term investments to no more than 5% of each manager's portfolio. At June 30, 2015 and 2014, approximately \$25,600,000 and \$15,731,000, 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.

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**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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

**Foreign Currency Risk**

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The investment policy limits foreign equity investments to 15% of total assets through its asset allocation policy. Investments in equities and fixed-income securities as of June 30 are shown by monetary unit to indicate possible foreign currency risk.

<u>Currency</u>	2015		
	<u>Equities</u>	Corporate	
		<u>Bonds</u>	<u>Total</u>
<i>(Amounts in Thousands)</i>			
Commingled funds:			
Barings Focused International Equity Fund	\$ 98,297	-	98,297
Mondrian International Equity Fund	122,074	-	122,074
Vontobel Global Emerging Markets Fund	68,723	-	68,723
Wasatch Emerging Markets Small Capitalization Fund	33,711	-	33,711
Loomis Sayles World Bond Fund	-	87,357	87,357
Oaktree Global High Yield Bond Fund	-	103,173	103,173
OCM International Convertible Fund	-	19,777	19,777
	<u>\$ 322,805</u>	<u>210,307</u>	<u>533,112</u>
<u>Currency</u>	2014		
	<u>Equities</u>	Corporate	
		<u>Bonds</u>	<u>Total</u>
<i>(Amounts in Thousands)</i>			
Commingled funds:			
Barings Focused International Equity Fund	\$ 87,440	-	87,440
Mondrian International Equity Fund	129,102	-	129,102
Vontobel Global Emerging Markets Fund	55,904	-	55,904
Wasatch Emerging Markets Small Capitalization Fund	28,053	-	28,053
Loomis Sayles World Bond Fund	-	95,047	95,047
OCM International Convertible Fund	-	19,169	19,169
	<u>\$ 300,499</u>	<u>114,216</u>	<u>414,715</u>

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**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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

**Foreign Currency Risk, Continued**

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

- Barings Focused International Equity Fund—The fund seeks long-term capital growth by investing in a concentrated portfolio of equity securities from developed international markets combined with a limited number of equities from emerging markets.
- Mondrian International Equity Fund—The fund’s investment objective is long-term total return through a value-driven approach of equity selection. The fund pursues this strategy by investing primarily in non-U.S. and emerging market equity securities.
- Vontobel Global Emerging Markets Fund—The fund seeks capital appreciation by investing, under normal market conditions, at least 75% of its assets in the equity securities of companies located in developing or emerging markets.
- Wasatch Emerging Markets Small Capitalization Fund—The fund seeks long-term capital growth by investing primarily in equity securities of small companies located in emerging markets. Companies will generally have a market capitalization of less than \$3 billion when purchased, and holdings will generally span broadly across countries and sectors.
- Loomis Sayles World Bond Fund—The fund normally invests at least 80% of its assets in fixed-income securities. The fund focuses primarily on investment grade fixed-income securities worldwide, although it may invest up to 20% of its fair value in lower rated fixed-income securities. Securities held by the fund may be denominated in any currency, may be from issuers located in emerging markets, or may be fixed-income securities of any maturity.
- Oaktree Global High Yield Bond Fund – The fund invests primarily in corporate high yield bonds emphasizing issuers in North America and Europe.
- OCM (Oaktree Capital Management) International Convertible Fund—The fund seeks a high level of total return through a combination of current income and capital appreciation by investing primarily in convertible securities of issuers located outside the United States. Convertible securities may consist of bonds, debentures, notes, preferred stock, or other securities that can be converted to common stock or other equity securities.

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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>	2015	
		<u>Fair Value</u>	<u>Fair Value as a Percent of Total Fixed Maturity</u>
		<i>(Amounts in Thousands)</i>	
U.S. government agency securities	Aaa	\$ 10,909	49.19%
U.S. Treasury securities	UST <sup>(1)</sup>	11,268	50.81%
<b>Total U.S. government securities</b>		<b><u>\$ 22,177</u></b>	<b><u>100.00%</u></b>
Domestic corporate bonds	Aaa	\$ 35,624	25.71%
	A- (SP)	1,434	1.03%
	Aa1	302	0.22%
	AA+ (SP)	257	0.19%
	Aa2	5,711	4.12%
	AA (SP)	1,150	0.83%
	Aa3	2,302	1.66%
	A1	4,204	3.03%
	A2	7,625	5.50%
	A3	15,981	11.53%
	A+ (SP)	837	0.60%
	Baa1	31,795	22.95%
	Baa2	11,952	8.63%
	Baa3	4,709	3.40%
	BBB- (SP)	151	0.11%
	Not Rated	14,532	10.49%
<b>Total domestic corporate bonds</b>		<b><u>\$ 138,566</u></b>	<b><u>100.00%</u></b>
International corporate bonds	Not Rated	\$ 210,307	100.00%
<b>Total international corporate bonds</b>		<b><u>\$ 210,307</u></b>	<b><u>100.00%</u></b>

<sup>(1)</sup> 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>	<u>Moody's Ratings</u> <u>(Unless Noted)</u>	2014	
		<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 agency securities	Aaa	\$ 14,845	44.45%
U.S. Treasury securities	UST <sup>(1)</sup>	<u>18,553</u>	<u>55.55%</u>
<b>Total U.S. government securities</b>		<b><u>\$ 33,398</u></b>	<b><u>100.00%</u></b>
Domestic corporate bonds	Aaa	\$ 38,545	15.21%
	A- (SP)	474	0.19%
	Aa1	297	0.12%
	Aa2	7,770	3.07%
	AA (SP)	1,203	0.47%
	Aa3	2,679	1.06%
	A1	3,851	1.52%
	A2	8,526	3.36%
	A3	15,568	6.14%
	Ba1	684	0.27%
	A+ (SP)	108	0.04%
	Baa1	25,386	10.02%
	Baa2	25,388	10.02%
	BBB (SP)	666	0.26%
	Baa3	3,878	1.53%
	BBB- (SP)	154	0.06%
	Not Rated	<u>118,200</u>	<u>46.66%</u>
<b>Total domestic corporate bonds</b>		<b><u>\$ 253,377</u></b>	<b><u>100.00%</u></b>
International corporate bonds	Not Rated	<u>\$ 114,216</u>	<u>100.00%</u>
<b>Total international corporate bonds</b>		<b><u>\$ 114,216</u></b>	<b><u>100.00%</u></b>

<sup>(1)</sup> 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>	2015				<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>					
<b>U.S. government securities:</b>					
U.S. government agency	\$ 2,549	-	8,360	-	10,909
U.S. Treasury	2,512	8,756	-	-	11,268
<b>Total U.S. government securities</b>	<u>5,061</u>	<u>8,756</u>	<u>8,360</u>	<u>-</u>	<u>22,177</u>
<b>Domestic corporate bonds:</b>					
Commercial mortgage-backed securities	-	-	9,224	-	9,224
Corporates and other credit	45,965	24,378	14,389	-	84,732
U.S. government mortgages	760	1,428	27,890	-	30,078
Venture capital	-	-	-	4,380	4,380
U.S. fixed-income funds	-	-	-	10,152	10,152
<b>Total domestic corporate bonds</b>	<u>46,725</u>	<u>25,806</u>	<u>51,503</u>	<u>14,532</u>	<u>138,566</u>
<b>International corporate bonds</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>210,307</u>	<u>210,307</u>
	<u>\$ 51,786</u>	<u>34,562</u>	<u>59,863</u>	<u>224,839</u>	<u>371,050</u>

As noted above, the Plan had approximately \$30,078,000 of investments in U.S. government mortgages, of which \$11,365,000 represents FNMA loans and \$18,713,000 represents FHLMC mortgages. U.S. government agency securities of \$8,360,000 represent GNMA mortgages.

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

**Interest Rate Risk, Continued**

<u>Investment Type</u>	2014				<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>				
<b>U.S. government securities:</b>					
U.S. government agency	\$ 2,543	-	12,302	-	14,845
U.S. Treasury	8,254	4,625	5,674	-	18,553
<b>Total U.S. government securities</b>	<u>10,797</u>	<u>4,625</u>	<u>17,976</u>	<u>-</u>	<u>33,398</u>
<b>Domestic corporate bonds:</b>					
Commercial mortgage-backed securities	-	-	8,739	-	8,739
Corporates and other credit	51,596	28,608	13,099	-	93,303
U.S. government mortgages	1,055	791	31,288	-	33,134
Venture capital	-	-	-	4,294	4,294
U.S. fixed-income funds	-	-	-	113,907	113,907
<b>Total domestic corporate bonds</b>	<u>52,651</u>	<u>29,399</u>	<u>53,126</u>	<u>118,201</u>	<u>253,377</u>
<b>International corporate bonds</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>114,216</u>	<u>114,216</u>
	<u>\$ 63,448</u>	<u>34,024</u>	<u>71,102</u>	<u>232,417</u>	<u>400,991</u>

As noted above, the Plan had approximately \$33,134,000 of investments in U.S. government mortgages, of which \$14,001,000 represents FNMA loans and \$19,133,000 represents FHLMC mortgages. U.S. government agency securities of \$12,302,000 represents GNMA mortgages.

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**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(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. Effective April 29, 2014, the Plan discontinued its securities lending program with its custodian. Accordingly, no securities were on loan at June 30, 2015. The collateral held and the fair value of the securities on loan for the Plan at June 30, 2014, were as follows:

	2014		
	<u>Collateral Held</u>	<u>Fair Value of Securities on Loan</u>	<u>Percent of Collateral to Loan</u>
	<i>(Amounts in Thousands)</i>		
U.S. issuers:			
Stocks	\$ 9,027	8,812	102%
Government securities	<u>288</u>	<u>282</u>	102%
	<u>\$ 9,315</u>	<u>9,094</u>	

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**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(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, 2014, was not included in the accompanying statements of fiduciary net position. According to the securities lending agreement, if at the close of trading on any business day, the fair value of the collateral presently delivered by the borrower is less than 100% of the fair value of such loaned securities, the Plan shall demand the borrower deliver collateral equal to 102% for domestic securities and 105% for non-U.S. securities by the close of the next business day. At the maturity of the loans, the Plan receives a loan premium and the securities are returned. The Plan had no credit risk exposure to borrowers on June 30, 2014, because the amount the Plan owed the borrowers exceeded the amount the borrowers owed the Plan. As of June 30, 2014, 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 fiduciary net position. Cash collateral is invested in the lending agent's short-term investment pool and included as an asset in the accompanying statements of fiduciary net position, 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 24 days at June 30, 2014.

**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, 2015 and 2014, there were no foreign currency gains and no remeasurement losses.

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**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(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, 2015 or 2014. 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 fiduciary net position and are based on the cash flows from interest and principal payments by the underlying mortgages. As a result, they are sensitive to prepayments by mortgagees, which are likely in declining interest rate environments, thereby reducing the values of these securities. The Plan invests in mortgage-backed securities to diversify the portfolio and increase the return while minimizing the extent of risk. Details regarding interest rate risks for these investments are included under the interest rate risk disclosures.

**(6) INVESTMENT IN BUILDING**

The Plan owns a building (Columbus Square) originally purchased for approximately \$1.5 million, and it is held as a long-term investment. The building is accounted for at fair value based on periodic appraisals. Rental income and expenses associated with the building are reported currently. The Plan utilizes part of the building for its administrative offices and charges itself rent, which is reflected as administrative expense and other investment income. The fair value of the building at June 30, 2015 and 2014, was estimated at approximately \$3.9 million and \$3.8 million, respectively.

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**(7) INVESTMENT IN ALTERNATIVE INVESTMENTS**

The Plan has also invested in alternative investments such as limited partnerships, limited liability companies, and private equity 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>2015</u>	<u>2014</u>
		<i>(Amounts in Thousands)</i>	
<i>Accel Europe, LP</i>	Invests in companies that are organized outside the United States.	\$ 5,408	5,469
<i>Actis Global IV</i>	Invests in emerging markets, focusing primarily on the regions of Africa, China, India, and Latin America.	3,988	1,691
<i>Apollo Investment Fund VIII</i>	Makes control-oriented investments in distressed investments, corporate carve-outs, and opportunistic buyouts.	1,551	271
<i>Arsenal Capital Partners, L.P.</i>	Invests in portfolio companies.	258	281
<i>Arsenal II</i>	Invests in manufacturing, specialty chemicals, and healthcare industry.	10,170	19,374
<i>Arsenal III</i>	Invests in specialized industries, healthcare, and financial services sectors.	5,542	4,104
<i>BBT Overseas Partners, LP</i>	Invests in equity securities and financial acquisitions.	592	592

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

<u>Investment</u>	<u>Purpose</u>	<u>Fair Market Value</u>	
		<u>2015</u>	<u>2014</u>
		<i>(Amounts in Thousands)</i>	
<i>Calera Partners III, LP</i>	Invests in equity securities.	4,056	6,892
<i>Calera Partners IV, LP</i>	Invests in equity securities.	4,163	8,166
<i>EnCap Energy Fund IX</i>	Invests in the independent sector of the United States oil and gas industry.	3,144	1,572
<i>EnCap Energy Fund X</i>	Invests in the independent sector of the United States oil and gas industry.	243	-
<i>FirstMark Cap Fund III</i>	Makes direct venture capital investments primarily in emerging technology companies.	1,083	150
<i>FirstMark (Midtown III)</i>	Invests in equity securities.	641	958
<i>FirstMark IV</i>	Invests in equity securities.	27,113	15,503
<i>FirstMark V</i>	Invests in equity securities.	4,467	3,341
<i>FMVP General Partners II, LLC</i>	Invests in the securities of technology and development stage companies.	46	46
<i>FirstMark Capital Opportunity I</i>	Invests in post development stage growth and technology equities.	1,071	532
<i>Francisco Partners IV</i>	Makes control oriented equity investments in middle market technology companies.	1,540	-

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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>2015</u>	<u>2014</u>
		<i>(Amounts in Thousands)</i>	
<i>Grosvenor Long/Short Equity Fund, LP (A)</i>	Invests in domestic and international securities.	184,928	171,992
<i>Grosvenor Long/Short Equity Fund, LP (B)</i>	Invests in domestic and international securities.	122,694	102,986
<i>HM Capital Sector Performance</i>	Invests primarily in debt and equity securities.	6	6
<i>Knightsbridge Venture Capital VI</i>	Invests in early stage U.S. venture capital partnerships.	11,112	12,491
<i>Levine Leichtman Capital Partners III, LP</i>	Invests in securities of middle market companies.	4,561	5,543
<i>Levine Leichtman Capital Partners IV, LP</i>	Invests in public and private securities in companies conducting substantial operations.	4,778	6,998
<i>Lexington Capital Partners</i>	Invests in private equity.	7,768	12,338
<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.	655	2,763
<i>Marathon Fund V, LP</i>	Invests in portfolio companies.	2,001	8,072

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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>2015</u>	<u>2014</u>
		<i>(Amounts in Thousands)</i>	
<i>Newport Mesa, LLC</i>	Invests in non-readily marketable investment vehicles.	194,001	194,031
<i>Newstone Capital</i>	Invests in leveraged buyouts, recapitalization, and later-stage growth financing.	995	974
<i>Newstone Capital II</i>	Invests in leveraged buyouts, recapitalization, and later-stage growth financing.	2,755	3,595
<i>Oaktree Opportunities Fund II, LP</i>	Invests in distressed debt.	-	3
<i>Oaktree Opportunities Fund III, LP</i>	Invests in entities experiencing financial difficulties.	85	55
<i>Oaktree Opportunities Fund IV, LP</i>	Invests in distressed debt.	38	25
<i>Oaktree Opportunities Fund V, LP</i>	Invests in distressed debt.	236	371
<i>Oaktree Opportunities Fund VI, LP</i>	Invests in distressed debt.	300	610
<i>Oaktree Opportunities Fund VII</i>	Invests in companies undergoing or having undergone reorganization or restructuring.	1,342	1,705

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

<u>Investment</u>	<u>Purpose</u>	<u>Fair Market Value</u>	
		<u>2015</u>	<u>2014</u>
		<i>(Amounts in Thousands)</i>	
<i>Oaktree Opportunities Fund VIIb</i>	Invests in companies undergoing or having undergone reorganization or restructuring.	896	1,752
<i>Oaktree Opportunities Fund VIII, LP</i>	Invests in distressed debt.	4,208	6,449
<i>Oaktree Opportunities Fund IX, LP</i>	Invests in the debt or equity of distressed or non-distressed entities.	7,085	5,112
<i>Oaktree European Dislocation Fund</i>	Invests in originating and refinancing high-yielding debt and preferred equity in Europe.	2,072	740
<i>Peak Partners, LP</i>	Speculative trading of commodity futures contracts. Options on futures contracts and forward contracts.	30,727	24,972
<i>Siguler Guff Distressed Opportunities Fund, L.L.C.</i>	Invests in securities of companies undergoing distress, operating difficulties, and significant restructuring.	1,452	1,830

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

<u>Investment</u>	<u>Purpose</u>	<u>Fair Market Value</u>	
		<u>2015</u>	<u>2014</u>
		<i>(Amounts in Thousands)</i>	
<i>Siguler Guff Distressed Opportunities Fund II, LP</i>	Invests in securities of companies undergoing distress, operating difficulties, and significant restructuring.	2,897	4,535
<i>Siguler Guff Distressed Opportunities Fund III, LP</i>	Invests in securities of companies undergoing distress, operating difficulties, and significant restructuring.	7,480	10,571
<i>Sun Capital</i>	Invests in privately negotiated subordinated debt and equity securities.	11,570	11,341
<i>The TAP Fund/Gresham Investments</i>	Invests in long-only, fully collateralized tangible commodity futures.	59,281	-
<i>TCW/Crescent Mezzanine Partners III, LP</i>	Invests in privately negotiated subordinated debt and equity securities.	728	815
<i>TCW/Crescent Mezzanine Partners IV, LP</i>	Invests in privately negotiated subordinated debt and equity securities.	1,089	2,316
<i>TCW/Crescent Mezzanine Partners V, LP</i>	Invests in privately negotiated subordinated debt and equity securities.	3,088	3,927
<i>Thompson Street Capital Partners</i>	Private investment in companies.	4,613	4,366
<i>Thompson Street Capital Partners III</i>	Private investment in companies.	5,567	3,280

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

<u>Investment</u>	<u>Purpose</u>	<u>Fair Market Value</u>	
		<u>2015</u>	<u>2014</u>
		<i>(Amounts in Thousands)</i>	
<i>Venture Lending &amp; Leasing III, LLC</i>	Debt financing and direct investment in equity securities of venture capital-backed companies.	371	450
<i>Warburg Pincus X</i>	Making private equity and related investments.	11,474	13,957
<i>Warburg Pincus XI</i>	Making private equity and related investments.	5,738	3,504
<i>Weathergage Venture Capital</i>	Invests in information technology and life science funds.	8,532	9,366
<i>Weathergage Venture Capital II</i>	Invests in information technology and life science funds.	8,796	5,816
<i>Weiss, Peck, &amp; Greer Venture Associates V, LLC</i>	Invests in the securities of technology and development stage companies.	37	209
		<u>\$ 791,032</u>	<u>708,808</u>

As of June 30, 2015 and 2014, the Plan had remaining commitments to fund approximately \$93 million and \$77 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 FUNDS**

The Plan's investment in real estate funds consists primarily of three commingled real estate funds and three real estate limited partnerships. Real estate investments at June 30 are summarized in the following table:

<u>Investment</u>	<u>Purpose</u>	<u>Fair Value</u>	
		<u>2015</u>	<u>2014</u>
<i>(Amounts in Thousands)</i>			
<i>Blackstone Property Partners</i>	Invests primarily in income-producing, large, high quality real estate assets in U.S. gateway cities.	\$ 21,451	-
<i>Cerberus Real Estate Fund III</i>	Invests in undervalued/and or distressed real estate, primarily in the U.S., Europe, and Asia.	21,672	9,806
<i>Hall Capital Fund III</i>	Invests primarily in current income producing properties in commercial real estate and oil and gas.	521	-
<i>JPMorgan Chase Bank Strategic Property Fund</i>	Invests in improved real estate projects with stable occupancies to produce high current income combined with moderate appreciation potential.	89,383	79,560
<i>Siguler Guff Distressed Real Estate Opportunities Fund, LP</i>	Invests in equity interests in commercial properties, commercial mortgages, commercial mortgage-backed securities, debt and equity securities of real estate operating companies, and REITs.	9,545	9,280
<i>Siguler Guff Distressed Real Estate Opportunities Fund II, LP</i>	Invests in equity interests in commercial properties, commercial mortgages, commercial mortgage-backed securities, debt and equity securities of real estate operating companies, and REITs.	3,569	-
<i>The Realty Associates Fund X, LP</i>	Invests primarily in office, industrial, retail, and residential real estate.	<u>21,634</u>	<u>13,896</u>
		<u>\$ 167,775</u>	<u>112,542</u>

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**(8) INVESTMENT IN REAL ESTATE FUNDS, CONTINUED**

Each fund accounts for its investments at fair value. Fair values of real estate investments are determined by each manager respectively at each valuation date. As part of Blackstone Property Partners and JPMorgan's valuation process, independent appraisers value properties on an annual basis (at a minimum). Siguler Guff's advisory board may request an independent appraisal of any portfolio investment within 30 days of the fund's audited financial statements. The Realty Associates utilizes independent appraisers to value properties at a frequency of no less than once every 3 years after acquisition. Cerberus follows detailed internal valuation policies and procedures and may engage independent valuation consultants on an as-needed basis.

As of June 30, 2015 and 2014, the Plan had remaining commitments to fund approximately \$18 million and \$28 million, respectively, in various real estate funds and limited partnerships.

**(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</u> <u>June 30, 2014</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at</u> <u>June 30, 2015</u>
Cost	\$ 1,014,045	-	-	1,014,045
Accumulated amortization	<u>(709,831)</u>	<u>(202,809)</u>	<u>-</u>	<u>(912,640)</u>
Capital assets, net	<u>\$ 304,214</u>	<u>(202,809)</u>	<u>-</u>	<u>101,405</u>
	<u>Balance at</u> <u>June 30, 2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at</u> <u>June 30, 2014</u>
Cost	\$ 1,014,045	-	-	1,014,045
Accumulated amortization	<u>(507,022)</u>	<u>(202,809)</u>	<u>-</u>	<u>(709,831)</u>
Capital assets, net	<u>\$ 507,023</u>	<u>(202,809)</u>	<u>-</u>	<u>304,214</u>

See Independent Auditors' Report.

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

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

**(10) DEFERRED OPTION BENEFITS**

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 various options as of June 30 is as follows:

	2015			
	<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	\$ 4,266	1,122	3,762	9,150
Employer contributions	133	2,580	-	2,713
Member contributions	-	3,175	-	3,175
Plan reassignments	-	(621)	621	-
Deferred benefits	1,124	22,746	-	23,870
Payments	(2,162)	(33,104)	(862)	(36,128)
Interest	285	7,864	59	8,208
	<u>\$ 3,646</u>	<u>3,762</u>	<u>3,580</u>	<u>10,988</u>
	2014			
	<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	\$ 3,548	1,174	2,948	7,670
Employer contributions	143	1,471	-	1,614
Member contributions	-	1,811	-	1,811
Plan reassignments	-	(381)	381	-
Deferred benefits	1,173	11,981	-	13,154
Payments	(1,039)	(19,134)	-	(20,173)
Interest	441	4,200	433	5,074
	<u>\$ 4,266</u>	<u>1,122</u>	<u>3,762</u>	<u>9,150</u>

See Independent Auditors' Report.

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

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(11) NET PENSION LIABILITY OF PARTICIPATING EMPLOYERS**

The components of the net pension liability of the participating employers at June 30, 2015, were as follows:

	<i>(Amounts in Thousands)</i>
Total pension liability	\$ 2,269,073
Plan fiduciary net position	<u>2,264,996</u>
Employers' net pension liability	<u>\$ 4,077</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>99.82%</u>

*Actuarial assumptions*—The total pension liability was determined by an actuarial valuation as of July 1, 2015, using the following actuarial assumptions, applied to all prior periods included in the measurement:

Inflation:	3%
Salary increases:	4.5% to 17% average, including inflation
Investment rate of return:	7.5% net of pension plan investment expense
Mortality rates:	Active employees (pre-retirement): RP-2000 Blue Collar Healthy Combined table with age set back 4 years with fully generational improvement using Scale AA.
	Active employees (post-retirement) and nondisabled pensioners: RP-2000 Blue Collar Healthy Combined table with fully generational improvement using scale AA.
	Disabled pensioners: RP-2000 Blue Collar Healthy Combined table with age set forward 4 years.

The actuarial assumptions used in the July 1, 2015, valuation were based on the results of an actuarial experience study for the period July 2007 to June 2012.

See Independent Auditors' Report.

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

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**(11) NET PENSION LIABILITY OF PARTICIPATING EMPLOYERS, CONTINUED**

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan’s target asset allocation as of June 30, 2015, (see discussion of the pension plan’s investment policy) are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income	2.24%
Domestic equity	4.87%
International equity	7.68%
Real estate	5.47%
Private equity	5.80%
Commodities	2.96%

*Discount rate*—The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, determined by the Oklahoma Statutes. Projected cash flows also assume the State of Oklahoma will continue contributing 14% of the insurance premium, as established by statute. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

See Independent Auditors’ Report.



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

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**(11) NET PENSION LIABILITY OF PARTICIPATING EMPLOYERS, CONTINUED**

*Sensitivity of the net pension liability to changes in the discount rate*—The following presents the net pension liability of the employers, calculated using the discount rate of 7.5%, as well as what the Plan’s net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

	1% Decrease <u>(6.5%)</u>	Current Discount <u>Rate (7.5%)</u>	1% Increase <u>(8.5%)</u>
	<i>(Amounts in Thousands)</i>		
Employers' net pension liability (asset)	\$ <u>245,001</u>	<u>4,077</u>	<u>(199,038)</u>

**(12) 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.

**(13) FEDERAL INCOME TAX STATUS**

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

**(14) 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, II, III, and IV.

See Independent Auditors’ Report.

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

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**(15) LEGISLATIVE AMENDMENTS**

The following is a summary of significant plan provision changes that were enacted by the Oklahoma Legislature during 2015 and 2014:

2015

- Senate Bill 345—Authorizes the Oklahoma Police Pension and Retirement System Board of Trustees to adopt rules for computation of the purchase price for transferred service credit and the purchase methods available, including time periods available to complete the purchase; additional required language regarding distributions necessary for the System to remain an IRS qualified plan.

2014

- Senate Bill 212—Allows refunding of erroneous contributions to participating municipalities; establishes that age-adjusted dollar limits applicable to a member will not decrease on account of an increase in age or the performance of additional services; and removes language related to death benefits and their federal tax classification.

**(16) 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 position or changes in net position of the Plan.

See Independent Auditors' Report.

**SUPPLEMENTARY INFORMATION REQUIRED BY  
GOVERNMENTAL ACCOUNTING STANDARDS BOARD  
STATEMENT NO. 67**

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

**SCHEDULE OF CHANGES IN EMPLOYERS' NET PENSION LIABILITY**

**Last 7 Fiscal Years (Dollar Amounts in Thousands)**

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>Total pension liability</b>							
Service cost	\$ 54,592	53,042	56,160	54,059	66,974	65,756	62,139
Interest	164,141	159,256	150,394	144,742	174,238	169,827	161,028
Changes of benefit terms	-	-	-	-	-	-	-
Differences between expected and actual experience	(12,764)	(18,258)	7,194	(10,069)	(96,100)	(38,037)	(7,660)
Changes in assumptions	-	-	(2,444)	-	(422,901) *	-	-
Benefit payments, including refunds of member contributions	<u>(141,693)</u>	<u>(119,241)</u>	<u>(114,835)</u>	<u>(113,300)</u>	<u>(104,044)</u>	<u>(110,427)</u>	<u>(94,114)</u>
Net change in total pension liability	64,276	74,799	96,469	75,432	(381,833)	87,119	121,393
Total pension liability—beginning	<u>2,204,797</u>	<u>2,129,998</u>	<u>2,033,529</u>	<u>1,958,097</u>	<u>2,339,930</u>	<u>2,252,811</u>	<u>2,131,418</u>
Total pension liability—ending (a)	<u>\$ 2,269,073</u>	<u>2,204,797</u>	<u>2,129,998</u>	<u>2,033,529</u>	<u>1,958,097</u>	<u>2,339,930</u>	<u>2,252,811</u>

\*The decrease was due to legislation which changed the actuarial assumptions to no longer include cost-of-living adjustments (COLA's).

Information to present a 10-year history is not readily available.

(Continued)

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

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

**SCHEDULE OF CHANGES IN EMPLOYERS' NET PENSION LIABILITY, CONTINUED**

**Last 7 Fiscal Years (Dollar Amounts in Thousands)**

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>Plan fiduciary net position</b>							
Contributions—employers (cities)	\$ 37,261	35,547	34,645	32,896	31,846	32,240	31,675
Contributions—members	22,867	22,131	21,518	20,113	19,489	19,626	19,139
Contributions—State of Oklahoma, a non-employer contributing entity	35,490	31,329	31,412	28,092	24,645	22,292	26,913
Net investment income	74,554	294,897	221,174	8,374	282,305	163,058	(283,519)
Benefit payments, including refunds of member contributions	(141,693)	(119,241)	(114,835)	(113,300)	(104,044)	(110,427)	(94,114)
Administrative expense	(1,949)	(1,862)	(2,053)	(1,952)	(1,712)	(1,708)	(2,176)
Net change in plan fiduciary net position	26,530	262,801	191,861	(25,777)	252,529	125,081	(302,082)
Plan fiduciary net position—beginning	<u>2,238,466</u>	<u>1,975,665</u>	<u>1,783,804</u>	<u>1,809,581</u>	<u>1,557,052</u>	<u>1,431,971</u>	<u>1,734,053</u>
Plan fiduciary net position—ending (b)	<u>\$ 2,264,996</u>	<u>2,238,466</u>	<u>1,975,665</u>	<u>1,783,804</u>	<u>1,809,581</u>	<u>1,557,052</u>	<u>1,431,971</u>
Plan's net pension liability (asset) (a) - (b)	<u>\$ 4,077</u>	<u>(33,669)</u>	<u>154,333</u>	<u>249,725</u>	<u>148,516</u>	<u>782,878</u>	<u>820,840</u>

Information to present a 10-year history is not readily available.

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 EMPLOYERS' NET PENSION LIABILITY**

**Last 7 Fiscal Years (Dollar Amounts in Thousands)**

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Total pension liability	\$ 2,269,073	2,204,797	2,129,998	2,033,529	1,958,097	2,339,930	2,252,811
Plan fiduciary net position	<u>2,264,996</u>	<u>2,238,466</u>	<u>1,975,665</u>	<u>1,783,804</u>	<u>1,809,581</u>	<u>1,557,052</u>	<u>1,431,971</u>
Plan's net pension liability (asset)	<u>\$ 4,077</u>	<u>(33,669)</u>	<u>154,333</u>	<u>249,725</u>	<u>148,516</u>	<u>782,878</u>	<u>820,840</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>99.82%</u>	<u>101.53%</u>	<u>92.75%</u>	<u>87.72%</u>	<u>92.42%</u>	<u>66.54%</u>	<u>63.56%</u>
Covered-employee payroll	<u>\$ 295,307</u>	<u>289,502</u>	<u>279,014</u>	<u>266,038</u>	<u>257,505</u>	<u>249,583</u>	<u>253,956</u>
Plan's net pension liability (asset) as a percentage of covered-employee payroll	<u>1.38%</u>	<u>(11.63)%</u>	<u>55.31%</u>	<u>93.87%</u>	<u>57.67%</u>	<u>313.67%</u>	<u>323.22%</u>

Information to present a 10-year history is not readily available.

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 EMPLOYERS AND OTHER CONTRIBUTING ENTITIES**

***Last 10 Fiscal Years (Dollar Amounts in Thousands)***

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Actuarially determined contribution	\$ <u>63,908</u>	<u>90,283</u>	<u>79,314</u>	<u>64,746</u>	<u>146,816</u>	<u>132,456</u>	<u>102,610</u>	<u>100,561</u>	<u>95,082</u>	<u>85,391</u>
Contributions in relation to the actuarially determined contribution:										
Employers (Cities)	37,261	35,547	34,645	32,896	31,846	32,240	31,675	30,061	28,258	26,490
State of Oklahoma, a non-employer contributing entity	<u>35,490</u>	<u>31,329</u>	<u>31,412</u>	<u>28,092</u>	<u>24,645</u>	<u>22,292</u>	<u>26,913</u>	<u>26,020</u>	<u>28,122</u>	<u>23,584</u>
	<u>72,751</u>	<u>66,876</u>	<u>66,057</u>	<u>60,988</u>	<u>56,491</u>	<u>54,532</u>	<u>58,588</u>	<u>56,081</u>	<u>56,380</u>	<u>50,074</u>
Contribution (excess) deficiency	\$ <u>(8,843)</u>	<u>23,407</u>	<u>13,257</u>	<u>3,758</u>	<u>90,325</u>	<u>77,924</u>	<u>44,022</u>	<u>44,480</u>	<u>38,702</u>	<u>35,317</u>
Covered-employee payroll	\$ <u>295,307</u>	<u>289,502</u>	<u>279,014</u>	<u>266,038</u>	<u>257,505</u>	<u>249,583</u>	<u>253,956</u>	<u>239,805</u>	<u>220,885</u>	<u>204,190</u>
Contributions as a percentage of covered-employee payroll	<u>24.64%</u>	<u>23.10%</u>	<u>23.68%</u>	<u>22.92%</u>	<u>21.94%</u>	<u>21.85%</u>	<u>23.07%</u>	<u>23.39%</u>	<u>25.52%</u>	<u>24.52%</u>

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

**OKLAHOMA POLICE PENSION AND RETIREMENT PLAN**  
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**SCHEDULE OF INVESTMENT RETURNS**

**Last 3 Fiscal Years**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Annual money-weighted rate of return, net of investment expense	3.36%	15.04%	12.56%

Information to present a 10-year history is not readily available.

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



**OKLAHOMA POLICE PENSION AND RETIREMENT PLAN**  
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**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2015**

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The information presented in the required supplementary schedules was determined as part of an actuarial valuation by an independent enrolled actuary (Buck Consultants) at the dates indicated. Additional information as of the July 1, 2015, valuation follows:

**Assumptions**

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

**Actuarial assumptions**

Investment rate of return:	7.5%
Projected salary increases*:	4.5% to 17%
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.  
See accompanying notes to required supplementary information.



**INDEPENDENT AUDITORS' 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, in accordance with the 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, the financial statements 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, which comprise the statement of fiduciary net position as of June 30, 2015, and the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 14, 2015. Our report includes an explanatory paragraph disclaiming an opinion on required supplementary information.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Plan's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we do not express an opinion on the effectiveness of the Plan's internal control.

A 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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

(Continued)

**INDEPENDENT AUDITORS' 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**

**Internal Control Over Financial Reporting, Continued**

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Plan's financial statements are free from 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*.

**Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Plan's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plan's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Shawnee, Oklahoma  
September 14, 2015