

EXECUTIVE DIRECTOR'S LETTER

Dear Member:

The Board of Trustees is pleased to submit the 28th Annual Report of the Oklahoma Police Pension and Retirement System for the year ended June 30, 2009. This report is furnished in accordance with Section 50-105.4 of Title 11 of the Oklahoma Statutes. State law also requires that certain information regarding the financial and actuarial condition of the Oklahoma Police Pension and Retirement System, using certain prescribed assumptions, be provided as an addendum to the annual report. The addendum section of this report is provided to fulfill that requirement.

The purpose of this report is to provide comprehensive information about the retirement plan including audited financial statements, actuarial information, historical and statistical data on active members, annuitants and benefit payments.

The Oklahoma Police Pension and Retirement System's fiscal year end actuary and audit reports have been completed respectively by Buck Consultants, Inc., and Finley & Cook, PLLC. Both reports are available for review at the office of the Oklahoma Police Pension and Retirement System and on our website at www.opprs.ok.gov.

Respectfully,

Steven K. Snyder
Executive Director

This publication, printed by DCS-Printing Services, is issued by the Oklahoma Police Pension and Retirement System as authorized by 11 O.S. § 50-105.4. One thousand copies have been prepared at a cost of \$675.00. Copies have been deposited with the Publications Clearinghouse of the Oklahoma Department of Libraries.

INTRODUCTION

The Oklahoma Police Pension and Retirement System was established January 1, 1981, to provide pension and other specified benefits for members who are qualified police officers and/or their beneficiaries of the participating municipalities.

The mission of the System is to provide secure retirement benefits for members and their beneficiaries.

The Oklahoma Police Pension and Retirement Board is comprised of thirteen (13) members. Seven Board members are elected by members of the System (six are active police officers, and one is a retired member). One Board member is appointed by the Governor, one by the Speaker of the House, one by the President Pro Tempore of the Senate and one by the President of the Oklahoma Municipal League. The two remaining Board members are the State Insurance Commissioner or the Commissioner's designee and the Director of State Finance or the Director's designee.

The System provides retirement benefits to all retirees. The four primary sources of revenue for the System are contributions from active members, member municipalities, dedicated revenue and investment income. In order to fulfill their fiduciary responsibilities, the Board retains an actuary to prepare an annual valuation. This report is submitted to the Governor and the Legislature. The Board also retains investment managers to ensure that the assets of the fund are being adequately invested at all times. Performance measurement is provided by an investment consulting firm. This firm compares the management of funds and the investment rate of return of the System against similar funds and trusts.

The agency maintains records pertaining to active members, retirees and beneficiaries. The agency also monitors the investments of the System.

FINLEY & COOK, PLLC
Certified Public Accountants

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

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

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

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

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

Finley & Cook, PLLC
September 14, 2009

FINANCIAL HIGHLIGHTS

Selected Financial Information at Fair Market Value

	Year Ended June 30	
	<u>2009</u>	<u>2008</u>
	(Amounts in Thousands)	
Net Assets	\$1,420,477	\$ 1,717,820
Net Investment (Loss) Income	(283,519)	(43,387)
Total Contributions	77,727	74,078
Total Revenues	(205,792)	30,691
Retirement and Other Benefits	89,048	86,255
Administrative Expenses	2,503	3,004
Total Expenses	91,551	89,259
Fund Balance (Decrease) Increase	(297,343)	(58,568)

Selected Investment Information

	Year Ended June 30	
	<u>2009</u>	<u>2008</u>
	(Amounts in Thousands)	
US Government Securities	\$ 10,522	\$ 9,733
International Government Securities		-
Domestic Corporate Bonds	335,406	237,100
International Corporate Bonds	79,277	71,264
Domestic Stocks	434,970	755,314
International Stocks	142,340	202,068
Alternative Investments	392,326	439,094
Real Estate	3,400	3,600
Securities Lending Collateral	<u>23,803</u>	<u>71,086</u>
Total Investment Portfolio	<u>\$1,422,044</u>	<u>\$1,789,259</u>

BUCK CONSULTANTS, INC.
Actuary's Certification

We have prepared an actuarial valuation of the Oklahoma Police Pension and Retirement System as of July 1, 2009, for the plan year ending June 30, 2009. The results of the valuation are set forth in this report, which reflects the provisions of the System as amended and effective on July 1, 2009.

The valuation is based on employee and financial data which were provided by the Oklahoma Police Pension and Retirement System and the independent auditor, respectively, and which are summarized in this report.

All costs, liabilities and other factors under the System were determined in accordance with generally accepted actuarial principles and procedures, in accordance with the provisions of current State Statutes and regulations issued thereunder, using an actuarial cost method which we believe is appropriate. In our opinion, the actuarial assumptions are reasonable and represent our best estimate of the anticipated experience under the System. This report fully and fairly discloses the actuarial position of the System on an ongoing basis.

The changes in actuarial methods, assumptions and benefit provisions since the last valuation of the System as of July 1, 2008 are summarized on page 3 and the financial impact, if any, are incorporated in this report.

We are available to answer any questions on the material contained in the report, or to provide explanations or further details as may be appropriate.

September 15, 2009

Richard A. Mackesey, F.S.A., E.A., M.A.A.A.

R. Ryan Falls, F.S.A., E.A., M.A.A.A.

MEMBER HIGHLIGHTS
RETIREES AND AVERAGE BENEFITS

	<u>2009</u>	<u>2008</u>
Retired Members	2,133	2,083
Average Annual Benefit	\$29,725	\$29,537
Beneficiaries	512	492
Average Annual Benefit	\$28,531	\$27,654
Disabled Members	140	144
Average Annual Benefit	\$17,405	\$17,337
Deferred Option Plan Members	60	86
Average Annual Benefit	\$36,698	\$37,351
Vested Terminated Members	103	91
Average Annual Deferred Benefit	\$14,161	\$13,831

SELECTED ACTUARIAL INFORMATION

	<u>Actuarial Valuation as of July 1</u>	
	<u>GASB No. 25 Funded Status (\$000,000)</u>	
	<u>2009</u>	<u>2008</u>
Actuarial Accrued Liability	\$2,253.1	\$2,132.2
Actuarial Value of Asset	1717.6	1,752.2
Unfunded Liability	535.6	380.0
Funded Ratio	76.2%	82.2%

Ten-Year Projected Cash Flow (Retirement Benefit Payments)

Fiscal year			
<u>Ending</u>	<u>Actives</u>	<u>Retirees (1)</u>	<u>Total</u>
06/30/2010	\$58,934,261	\$86,714,232	\$145,648,493
06/30/2011	42,370,324	85,925,324	128,295,648
06/30/2012	46,705,704	88,191,310	134,897,014
06/30/2013	54,837,429	87,485,122	142,322,551
06/30/2014	57,868,182	87,555,994	145,424,176
06/30/2015	68,223,582	87,882,029	156,105,611
06/30/2016	74,526,002	87,540,239	162,066,241
06/30/2017	76,566,986	88,044,191	164,611,177
06/30/2018	86,591,496	88,388,442	174,979,938
06/30/2019	92,725,146	88,619,043	181,344,189

(1) Includes Deferred Option Plan Members, Disabled Members, Beneficiaries and Terminated Vested Members.

Contribution Requirement Summary

	<u>Year ended June 30</u>		
	<u>2009</u>	<u>2008</u>	<u>%Change</u>
Unfunded Accrued Liability	\$535,567,775	\$ 380,006,698	41%
Amortization of Unfunded			
Accrued Liability	81,030,621	53,430,409	52%
Normal Cost	68,177,129	64,426,842	6%
Budgeted Exp.	3,564,762	3,936,766	-9%
Required Contribution	152,772,512	121,794,017	25%
Est. Employee Contribution	20,316,469	19,184,397	6%
Est. Municipality Contribution:			
Active Members	33,014,262	31,174,645	6%
DOP Members	587,823	830,207	-29%
Actual State Contribution			
Previous Year	26,913,000	26,020,000	3%
Total Contribution	80,831,554	77,209,249	5%

**POLICE PENSION AND RETIREMENT SYSTEM
BOARD OF TRUSTEES**

CHAIRMAN, Craig Akard
VICE CHAIRMAN, W. B. Smith

State Board District 1	Tom Custer, Edmond
State Board District 2	Craig Akard, Lawton
State Board District 3	Rick Smith, Broken Arrow
State Board District 4	Jim Keesee, Norman
State Board District 5	Jeff R. Cealka, Tulsa
State Board District 6	Randy Scott, Oklahoma City
State Board District 7	W. B. Smith, Retired
Governor Appointee	Andy McPherson
Speaker of the House Appointee	Charles Kerr
Senate President Pro Tempore Appointee	Susan Knight
Oklahoma Municipal League Appointee	Tony Davenport
State Insurance Commissioner	Kim Holland
	<i>Frank Stone, Designee</i>
Director of State Finance	Michael Clingman
	<i>Jim McGoodwin, Designee</i>

STAFF

Steven K. Snyder, Executive Director
Judy Cong, Comptroller
Dusty Brassfield, Pension Administration Officer
Marla Hensley, Administrative Officer
Debra Kearns, Pension Operations Administrator
Darcie Gordon, Administrative Assistant
Elizabeth Moore, Accountant
Katie Luttrell, Pension Analyst
Sean Ruark, Pension Analyst
Nancy Nethercutt, Customer Assistance Representative
Janice Halley, IT/Pension Operations Administrator

PROFESSIONAL SERVICE PROVIDERS

BNY MELLON Master Custodian	Buck Consultants Actuarial Consultant
Asset Consulting Group Investment Consultant	Finley & Cook, PLLC Independent Auditor

INVESTMENT MANAGERS

DOMESTIC EQUITY MANAGERS

Attalus Capital Management – Long/Short Equity
Boston Partners Asset Management – Small-Mid Capitalization Value
Grosvenor Capital Management, LP – Long/Short Equity
Martingale Asset Management – Small Capitalization Growth
Mellon Capital Management – Large Capitalization Core Index
One Focus Capital Investment – Long/Short Equity

INTERNATIONAL EQUITY MANAGERS

Artio Global Management, LLC (Formerly Julius Baer)
Mondrian Investment Partners Limited

DOMESTIC FIXED INCOME MANAGERS

Oaktree Capital Management – Enhanced Fixed Income
Agincourt Capital Management – Core Fixed Income

GLOBAL FIXED INCOME MANAGER

Loomis Sayles & Company, LP – Global Fixed income

REAL ASSETS MANAGERS

Columbus Square – Real Estate
J.P. Morgan Asset Management Inc. – Core Real Estate
Prudential Timber Investments, Inc., Fund II – Timberland

SPECIAL STRATEGY MANAGERS

Accel Europe, LP – European Venture Capital
Arsenal Capital Partners Fund I & II, LP – Small/Mid Market Buyout
Calera Capital III & IV – Mid Market Buyout
FirstMark Capital Management Fund II, III & IV, LP – Early & Late Stage Venture Capital
Hicks, Muse, Tate & Furst Equity Fund V, LP – Large Market Buyout
HM Sector Performance Fund – Large Market Buyout
Knightsbridge Advisers Inc. Fund VI – Venture Capital Fund of Funds
Levine Leichtman Capital Partners III & IV, LP – Mid Market Structured Equity
Lexington Capital Partners VI-B, LP – Secondary Interests in Private Equity
Lightspeed Venture VI, LP – Early Stage Venture Capital
Marathon Fund IV & V, LP – Mid Market Buyout
Mount Lucas Management Corporation – Managed Futures
Newstone Capital Partners, LP – Mezzanine Debt
Oaktree Capital Mgmt. Partners Fund II, III, IV, V, VI, VII, and VIIb, LP – Distressed Debt
Overseas Cap Partners, Inc. (Formerly BBT) – Multi Strategy
Pacific Alternative Asset Mgmt. Co., Newport Mesa, LLC – Low Volatility Hedge Fund of Funds
Siguler Guff & Company I, II & III, LLC – Distressed Debt
Sun Capital Partners Group, Inc. Fund V – Control Buyout
TCW/Crescent Mezzanine Partners Fund II, III, IV & V, LP – Mezzanine Debt
Thompson Street Capital Partners Fund II – Small/Mid Market Buyout

SPECIAL STRATEGY MANAGERS (Continued)

Venture Lending & Leasing Fund III, LLC – Venture Debt
Weathergage Venture Capital, LP – Venture Capital Fund of Funds
Warburg Pincus Private Equity X, LP – Diversified Private Equity
Weiss, Peck & Greer Investments Fund V, LP – Early Stage Venture Capital

LEGISLATION

The following Legislation passed during the 1st Session of the 52nd Legislature (2009) amended statutes pertaining to the Oklahoma Police Pension and Retirement System:

SB 830 Contains amendments required for the System to maintain IRS tax qualification.

ADDENDUM

BUCK CONSULTANTS, INC. Actuary's Certification – Prescribed Assumptions

We have prepared an actuarial valuation of the Oklahoma Police Pension and Retirement System as of July 1, 2009, for the plan year ending June 30, 2009. The results of the valuation are set forth in this report, which reflects the provisions of the System as amended and effective on July 1, 2009.

The valuation is based on employee and financial data which were provided by the Oklahoma Police Pension and Retirement System and the independent auditor, respectively, and which are summarized in this report.

The results in this Addendum have been prepared for the sole purpose of meeting the Retirement Board's requirement to submit this information to the Oklahoma State Pension Oversight Commission, based on the following prescribed assumptions (11 O.S. 2001, Section 50-105.4, Section G):

Interest rate: 7.5%
COLA assumption: 2.0%
Mortality: RP 2000 Generational Mortality Table
Amortization period: 30 years, open period
Sources of all contributions and revenues, including dedicated tax fee revenue and federal monies

All other assumptions, methodologies, and plan provisions used are consistent with those used in the July 1, 2009 valuation.

The results shown in this Addendum are not consistent with those in the July 1, 2009 valuation. The July 1, 2009 valuation results were determined in accordance with generally accepted actuarial principles and procedures, and are in compliance with the Actuarial Standards Board Actuarial Standard of Practice No. 27-Selection of Economic Assumptions for Measuring Pension Obligations. The results shown in this Addendum are not based on the assumptions and methodologies adopted by the Retirement Board. For those results, see the July 1, 2009 actuarial valuation.

We are available to answer any questions on the material contained in the report, or to provide explanations or further details as may be appropriate.

September 15, 2009
Richard A. Mackesey, FSA, EA,MAAA
R. Ryan Falls, FSA, EA, MAAA.

**SUMMARY OF VALUATION RESULTS
UNDER PRESCRIBED ASSUMPTIONS**

Actuarial Valuation as of July 1, 2009	
Summary of Costs	
Required State Contribution for Current Year under Prescribed Assumptions	\$65,225,439
Actual State Contribution Received in Prior Year	\$26,913,000

Funded Status	
Actuarial Accrued Liability	\$2,289,306,707
Actuarial Value of Assets	\$1,717,566,000
Unfunded Actuarial Accrued Liability	\$571,740,707

Market Value of Assets and Additional Liabilities	
Market Value of Assets	\$1,431,305,000
Present Value of Projected System Benefits	\$2,923,342,942

**SUMMARY OF VALUATION RESULTS
UNDER PRESCRIBED ASSUMPTIONS**

Summary of Contribution Requirements	Actuarial Valuation as of	
	July 1, 2009	
	Amount	% of Active Covered Comp.
1. Annual Covered Compensation for Members Included in Valuation		
a. Active members	\$253,955,863	
b. Deferred Option Plan Members	4,521,713	
c. Total	\$258,477,576	
2. Total Normal Cost Mid-year	\$68,857,959	27.1%
3. Unfunded Actuarial Accrued liability	\$571,740,707	
4. Amortization of Unfunded Actuarial Accrued Liability over 30 years From July 1, 2008 at mid-year	\$46,721,272	18.4%
5. Budgeted Expenses	\$3,564,762	1.4%
6. Total Required Contribution under Prescribed Assumptions (2 + 4 + 5)	\$119,143,993	46.9%
7. Estimated Employee Contribution (8% x 1a)	\$20,316,469	8.0%
8. Estimated Municipality Contributions		
a. Active Members	\$33,014,262	13.0%
b. Deferred Option Plan members	587,823	13% ⁽¹⁾
c. Total	\$33,602,085	13% ⁽²⁾
9. Required State Contribution to amortize Unfunded Actuarial Accrued Liability over 30 years from July 1, 2008 at mid-year (6 - 7 - 8c)	\$65,225,439	25.7%

⁽¹⁾ Percentage of Deferred Option Plan Members' compensation.

⁽²⁾ Percent of total compensation