

**OKLAHOMA POLICE PENSION AND  
RETIREMENT SYSTEM**

**35<sup>th</sup>  
ANNUAL REPORT**

**FISCAL YEAR 2016**



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## **EXECUTIVE DIRECTOR'S LETTER**

Dear Member:

The Board of Trustees is pleased to submit the 35th Annual Report of the Oklahoma Police Pension and Retirement System for the year ended June 30, 2016. This report is furnished in accordance with Section 50-105.4 of Title 11 of the Oklahoma Statutes.

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 Cavanaugh Macdonald Consulting, LLC. 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](http://www.opprs.ok.gov).

Respectfully,

Steven K. Snyder  
Executive Director

This publication, printed by OMES - Central Printing, is issued by the Oklahoma Police Pension and Retirement System as authorized by Steven K. Snyder, Executive Director. Fifty copies have been prepared at a cost of \$90.00. An electronic version of the publication has been deposited 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**

***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, 2016 and 2015, 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.

***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, 2016 and 2015, 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.

***Emphasis of Matter***

As discussed in Note 2 to the financial statements, in 2016 the Plan adopted new accounting guidance, Statement No. 72 of the Governmental Accounting Standards Board, *Fair Value Measurement and Application* (GASB 72). Adoption of this statement resulted in presentation changes to the financial statements and revised disclosures related to the financial statements. Our opinion is not modified with respect to this matter.

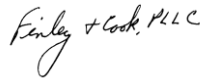
***Other Matters***

***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 51 through 55 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 19, 2016, 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.



Shawnee, Oklahoma  
September 19, 2016

## FINANCIAL HIGHLIGHTS

### Selected Financial Information at Fair Market Value

	Year Ended June 30	
	<u>2016</u>	<u>2015</u>
	(Amounts in Thousands)	
Net Assets	\$2,201,671	\$2,264,996
Net Investment (Loss) Income	(21,104)	74,554
Total Contributions	98,235	95,618
<b>Total Revenues</b>	<b>77,131</b>	<b>170,172</b>
Retirement and Other Benefits	138,625	141,693
Administrative Expenses	1,831	1,949
<b>Total Expenses</b>	<b>140,456</b>	<b>143,642</b>
<b>Fund Balance (Decrease) Increase</b>	<b>(63,325)</b>	<b>26,530</b>

### Selected Investment Information

	Year Ended June 30	
	<u>2016</u>	<u>2015</u>
	(Amounts in Thousands)	
US Government Securities	\$ 25,337	\$ 22,177
Domestic Corporate Bonds	152,450	138,566
International Corporate Bonds and Bond Funds	190,549	210,307
Domestic Equities	533,222	551,319
International Equities	299,849	322,805
Private Equity – Non-Real Estate	188,696	199,400
Low Volatility Hedge Funds	179,304	194,001
Long/Short Hedge Funds	302,409	307,623
Real Estate – Core and Private Equity	194,182	167,775
Commodities	79,627	90,008
Direct Real Estate – Columbus Square	<u>4,100</u>	<u>3,900</u>
 Total Investment Portfolio	 <u>\$ 2,149,725</u>	 <u>\$ 2,207,881</u>

**MEMBER HIGHLIGHTS**  
**RETIREES AND AVERAGE BENEFITS**

	<u>2016</u>	<u>2015</u>
Retired Members	2,683	2,602
Average Annual Benefit	\$32,065	\$31,596
Beneficiaries	727	707
Average Annual Benefit	\$26,982	\$26,859
Disabled Members	140	139
Average Annual Benefit	\$16,666	\$16,625
Deferred Option Plan Members	19	22
Average Annual Benefit	\$41,432	\$43,463
Vested Terminated Members	132	125
Average Annual Deferred Benefit	\$16,977	\$17,859

**SELECTED ACTUARIAL INFORMATION**

	<u>Actuarial Valuation as of July 1</u>	
	<u>Funded Status – Actuarial Basis (in millions)</u>	
	<u>2016</u>	<u>2015</u>
Actuarial Accrued Liability	\$2,354.8	\$2,269.1
Actuarial Value of Asset	2,323.4	2,229.3
Unfunded Liability	31.4	39.8
<b>Funded Ratio</b>	<b>98.7%</b>	<b>98.2%</b>

**Twenty-Year Projected Cash Flow  
(Retirement Benefit Payments)**

Year Ending June 30	Actives	Retirees	Total
2017	\$ 85,786,000	\$ 108,784,000	\$ 194,570,000
2018	48,301,000	107,869,000	156,170,000
2019	54,329,000	106,824,000	161,153,000
2020	71,018,000	105,648,000	176,666,000
2021	76,288,000	104,432,000	180,720,000
2022	76,701,000	103,156,000	179,857,000
2023	86,157,000	101,777,000	187,934,000
2024	86,333,000	100,147,000	186,480,000
2025	95,339,000	98,558,000	193,897,000
2026	110,108,000	96,768,000	206,876,000
2027	112,620,000	94,937,000	207,557,000
2028	125,751,000	93,046,000	218,797,000
2029	134,139,000	90,934,000	225,073,000
2030	149,856,000	88,708,000	238,564,000
2031	150,689,000	86,320,000	237,009,000
2032	161,209,000	83,838,000	245,047,000
2033	173,140,000	81,269,000	254,409,000
2034	170,562,000	78,556,000	249,118,000
2035	191,374,000	75,766,000	267,140,000
2036	206,577,000	72,889,000	279,466,000

**Contribution Requirement Summary**

	<u>Year ended June 30</u>	
	<u>2016</u>	<u>2015</u>
<b>Unfunded Accrued Liability</b>	<b>\$31,408,000</b>	<b>\$39,801,426</b>
Amortization of Unfunded Accrued Liability	7,487,000	9,494,339
Normal Cost	66,913,000	56,609,783
Budgeted Exp.	2,037,000	2,036,976
<b>Required Contribution</b>	<b>76,437,000</b>	<b>68,141,098</b>
Est. Employee Contribution	25,020,000	23,478,680
Est. Municipality Contribution:		
Active Members	40,657,644	38,152,855
DOP Members	117,408	118,532
Actual State Contribution		
Previous Year	35,915,000	35,490,000
<b>Total Contribution</b>	<b>107,845,000</b>	<b>107,942,524</b>



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

**CHAIRMAN, W.B. Smith**  
**VICE CHAIRMAN, Jim Keesee**

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	Ryan Perkins, Tulsa
State Board District 6	Jeff Pierce, Oklahoma City
State Board District 7	W. B. Smith, Retired
Governor Appointee	Andy McPherson
Speaker of the House Appointee	Tim Foley
Senate President Pro Tempore Appointee	Susan Knight
Oklahoma Municipal League Appointee	Tony Davenport
State Insurance Commissioner	John Doak
	<i>Frank Stone, Designee</i>
Director of State Finance	Preston L. Doerflinger
	<i>Brandy Manek, Designee</i>

**STAFF**

Steven K. Snyder, Executive Director  
Judy Cong, Comptroller  
Sean Ruark, Pension Administration Officer  
Darcie Gordon, Administrative Officer  
Elizabeth Moore, Accountant  
Katie Luttrell, Pension Operations Administrator/IT  
Leeandra Galutia, Pension Analyst  
Angela McCullough, Pension Analyst  
Nancy Nethercutt, Customer Assistance Representative  
Lauren Holmes, Administrative Assistant  
Deric Berousek, Chief Financial Officer

**PROFESSIONAL SERVICE PROVIDERS**

<b>BNY MELLON</b> Master Custodian	<b>Cavanaugh Macdonald Consulting, LLC</b> Actuarial Consultant
<b>Asset Consulting Group</b> Investment Consultant	<b>Finley &amp; Cook, PLLC</b> Independent Auditor

## **INVESTMENT MANAGERS**

### **DOMESTIC EQUITY MANAGERS**

Boston Partners Asset Management – Small-Mid Capitalization Value  
Grosvenor Capital Management, LP – Long/Short Equity  
Grosvenor B LP – Long/Short Equity  
Cortina – Small Capitalization Growth  
Northern Trust Asset Management – Large Capitalization Core Index

### **INTERNATIONAL EQUITY MANAGERS**

Baring Asset Management – Focused International Equity  
Northern Trust Asset Management – Emerging Markets Index  
Wasatch Advisors- Emerging Markets Small Capitalization  
Mondrian Investment Partners Limited – International Value

### **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  
Blackstone Property Partners – Core Real Estate  
Mount Lucas Management Corporation – Managed Futures  
The Realty Associates Fund – Private Real Estate  
Siguler Guff – Private Real Estate  
Cerberus Capital Management – Private Real Estate  
Hall Capital – Private Real Estate  
Gresham Tap Fund - Commodity

### **SPECIAL STRATEGY MANAGERS**

Accel Europe, LP – European Venture Capital  
Arsenal Capital Partners Fund I & II, & III LP – Small/Mid Market Buyout  
Calera Capital III & IV – Mid Market Buyout  
Encap Energy Cap IX & X – Other Private Equity - Energy  
FirstMark Capital Management Fund I, II, III, IV, & V, LP – Early & Late Stage Venture Capital  
Firstmark Capital Opportunity Fund I & II – 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 V, LP – Mid Market Buyout  
Newstone Capital Partners I & II, LP – Mezzanine Debt  
Oaktree Capital Mgmt. Partners Fund III, IV, V, VI, VII, VIIb, VIII, IX, X, XB LP – Distressed Debt  
Oaktree European Dislocation Fund - Distressed  
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 III, IV & V, LP – Mezzanine Debt  
Thompson Street Capital Partners Fund II, III, & IV – Small/Mid Market Buyout  
    Venture Lending & Leasing Fund III, LLC – Venture Debt  
    Weathergage Venture Capital I & II, LP – Venture Capital Fund of Funds  
Warburg Pincus Private Equity X, XI & XII LP – Diversified Private Equity  
    Actis IV – Emerging Market Focused  
    Apollo Investment Fund VIII – Buyout  
    Francisco Partners IV – Buyout  
    CenterOak Partners I – Buyout  
ArcLight Energy Partners VI – Other Private Equity – Energy  
    Leonard Green Equity Investors VII - Buyout

## **LEGISLATION**

The following Legislation passed during the 2<sup>nd</sup> Session of the 55<sup>th</sup> Legislature (2016) amended statutes pertaining to the Oklahoma Police Pension and Retirement System:

HB2273 - Makes technical corrections to bring the Oklahoma Police Pension and Retirement System into compliance with IRS Laws & Regulations.