

**OKLAHOMA POLICE PENSION AND  
RETIREMENT SYSTEM**

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

**FISCAL YEAR 2017**



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## **EXECUTIVE DIRECTOR'S LETTER**

Dear Member:

The Board of Trustees is pleased to submit the 36th Annual Report of the Oklahoma Police Pension and Retirement System for the year ended June 30, 2017. 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, 2017 and 2016, 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, 2017 and 2016, 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 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, 2017, 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, 2017

## FINANCIAL HIGHLIGHTS

### Selected Financial Information at Fair Market Value

	Year Ended June 30	
	<u>2017</u>	<u>2016</u>
	(Amounts in Thousands)	
Net Assets	\$2,395,381	\$2,201,671
Net Investment (Loss) Income	242,415	(21,104)
Total Contributions	97,086	98,235
<b>Total Revenues</b>	<b>339,501</b>	<b>77,131</b>
Retirement and Other Benefits	144,092	138,625
Administrative Expenses	1,699	1,831
<b>Total Expenses</b>	<b>145,791</b>	<b>140,456</b>
<b>Fund Balance (Decrease) Increase</b>	<b>193,710</b>	<b>(63,325)</b>

### Selected Investment Information

	Year Ended June 30	
	<u>2017</u>	<u>2016</u>
	(Amounts in Thousands)	
US Government Securities	\$ 23,529	\$ 25,337
Domestic Corporate Bonds	162,104	152,450
International Corporate Bonds and Bond Funds	195,207	190,549
Domestic Equities	602,164	533,222
International Equities	356,206	299,849
Private Equity – Non-Real Estate	199,559	188,696
Low Volatility Hedge Funds	186,745	179,304
Long/Short Hedge Funds	335,626	302,409
Real Estate – Core and Private Equity	209,991	194,182
Commodities	76,866	79,627
Direct Real Estate – Columbus Square	<u>4,250</u>	<u>4,100</u>
<b>Total Investment Portfolio</b>	<b><u>\$ 2,352,247</u></b>	<b><u>\$ 2,149,725</u></b>

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

	<u>2017</u>	<u>2016</u>
Retired Members	2,769	2,683
Average Annual Benefit	\$32,458	\$32,065
Beneficiaries	748	727
Average Annual Benefit	\$26,786	\$26,982
Disabled Members	141	140
Average Annual Benefit	\$17,249	\$16,666
Deferred Option Plan Members	14	19
Average Annual Benefit	\$38,943	\$41,432
Vested Terminated Members	132	132
Average Annual Deferred Benefit	\$16,230	\$16,977

**SELECTED ACTUARIAL INFORMATION**

	<u>Actuarial Valuation as of July 1</u>	
	<u>Funded Status – Actuarial Basis (in millions)</u>	
	<u>2017</u>	<u>2016</u>
Actuarial Accrued Liability	\$2,403.1	\$2,354.8
Actuarial Value of Asset	2,447.4	2,323.4
Unfunded Liability	(44.3)	31.4
<b>Funded Ratio</b>	<b>101.8%</b>	<b>98.7%</b>

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

Year Ending June 30	Actives	Retirees	Total
2018	\$ 89,621,000	\$ 112,795,000	\$ 202,416,000
2019	48,400,000	111,804,000	160,204,000
2020	63,059,000	110,748,000	173,807,000
2021	70,409,000	109,532,000	179,941,000
2022	71,798,000	108,270,000	180,068,000
2023	78,813,000	106,917,000	185,730,000
2024	79,868,000	105,346,000	185,214,000
2025	87,719,000	103,697,000	191,416,000
2026	102,276,000	101,908,000	204,184,000
2027	107,316,000	100,121,000	207,437,000
2028	116,886,000	98,195,000	215,081,000
2029	125,608,000	96,109,000	221,717,000
2030	139,779,000	93,869,000	233,648,000
2031	141,218,000	91,459,000	232,677,000
2032	151,741,000	88,971,000	240,712,000
2033	162,640,000	86,366,000	249,006,000
2034	160,105,000	83,630,000	243,735,000
2035	180,004,000	80,817,000	260,821,000
2036	194,392,000	77,905,000	272,297,000
2037	205,850,000	74,896,000	280,746,000

**Contribution Requirement Summary**

Year ended June 30

	<u>2017</u>	<u>2016</u>
Total Normal Cost	66,286,000	66,913,000
Amortization of Unfunded Accrued Liability (5 year rolling)	(10,555,000)	7,487,000
Budgeted Expenses	<u>2,114,000</u>	<u>2,037,000</u>
<b>Total Required Contribution</b>	<b>57,845,000</b>	<b>76,437,000</b>
Estimated Member Contributions	25,047,000	25,020,000
Estimated Employer Contributions	<u>40,785,000</u>	<u>40,775,000</u>
Required State Contribution (not less than -0-)	0.00	10,642,000
Actual State Contribution – Prior Year	34,283,000	35,915,000



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

**CHAIRMAN, W.B. Smith**  
**VICE CHAIRMAN, Ryan Perkins**

State Board District 1	Vacant
State Board District 2	Vacant
State Board District 3	Thomas Cooper, Broken Arrow
State Board District 4	Jim Keesee, Norman
State Board District 5	Ryan Perkins, Tulsa
State Board District 6	David Roberts, 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  
Ann Burrows, Comptroller  
Sean Ruark, Pension Administration Officer  
Darcie Gordon, Administrative Officer  
Elizabeth Marshall, 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  
Cortina – Small Capitalization Growth  
Grosvenor Capital Management, LP – Long/Short Equity  
Grosvenor B LP – Long/Short Equity  
Northern Trust Asset Management – Large Capitalization Core Index

### **INTERNATIONAL EQUITY MANAGERS**

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

### **DOMESTIC FIXED INCOME MANAGERS**

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

### **GLOBAL FIXED INCOME MANAGER**

Loomis Sayles & Company, LP – Global Fixed income

### **REAL ASSETS MANAGERS**

Blackstone Property Partners – Core Real Estate  
Cerberus Capital Management – Private Real Estate  
Columbus Square – Real Estate  
Gresham Tap Fund – Commodity  
Hall Capital – Private Real Estate  
J.P. Morgan Asset Management Inc. – Core Real Estate  
Mount Lucas Management Corporation – Managed Futures  
Siguler Guff – Private Real Estate  
The Realty Associates Fund – Private Real Estate

### **SPECIAL STRATEGY MANAGERS**

Accel Europe, LP – European Venture Capital  
Actis IV – Emerging Market Focused  
Apollo European Principal Finance Fund III – European Distressed Debt  
Apollo Investment Fund VIII – Buyout  
ArcLight Energy Partners VI – Other Private Equity – Energy  
Arsenal Capital Partners Fund I & II, & III LP – Small/Mid Market Buyout  
Calera Capital III & IV – Mid Market Buyout  
CenterOak Partners I – Buyout  
Encap Energy Cap IX, X & XI – 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  
Francisco Partners IV – Buyout  
Knightsbridge Advisers Inc. Fund VI – Venture Capital Fund of Funds  
LBC Credit Partners IV – Private Credit  
Leonard Green Equity Investors VII - Buyout  
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 & III, 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  
Warburg Pincus Private Equity X, XI & XII LP – Diversified Private Equity  
Weathergage Venture Capital I, II & IV, LP – Venture Capital Fund of Funds  
Wellington Trust – Global Total Return Fund

## **LEGISLATION**

The following Legislation passed during the 1<sup>st</sup> Session of the 56<sup>th</sup> Legislature (2017) amended statutes pertaining to the Oklahoma Police Pension and Retirement System:

HB1119 - Makes technical corrections to bring the Oklahoma Police Pension and Retirement System into compliance with IRS Laws & Regulations.