Oklahoma Police Pension and Retirement Plan

Administered by

Oklahoma Police Pension and Retirement System

Financial Statements

June 30, 2006 and 2005
(With Independent Auditors' Report Thereon)

Finley & Cook, PLLC
Certified Public Accountants

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

FINANCIAL STATEMENTS

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Finley & Cook, PLLC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of plan net assets of the Oklahoma Police Pension and Retirement Plan (the "Plan"), administered by the Oklahoma Police Pension and Retirement System, which is a part of the State of Oklahoma financial reporting entity, as of June 30, 2006 and 2005, 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, 2006 and 2005, 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 is not required as part of the basic financial statements but is 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 August 31, 2006, 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, 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

August 31, 2006

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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, 2006 and 2005. Please read it in conjunction with the System's financial statements which begin on page 2.

Financial Highlights

		June 30, 2006	June 30, 2005
		(Amounts in Thousands)	
• Net assets of the System	$	1,525,043	1,386,113
• Contributions:			
Cities		26,490	25,001
Plan members		15,326	14,234
Insurance premium tax		23,584	23,730
• Net investment income		154,591	113,964
• Benefits paid, including refunds and deferred option benefits		78,826	77,269
• Change in net assets		138,930	97,588

DISCUSSION OF THE BASIC FINANCIAL STATEMENTS

This annual financial report consists of two parts: Management's Discussion and Analysis (this section) and the basic financial statements. The System is a pension trust fund of the State of Oklahoma. The financial statements are presented using the economic measurement focus and the accrual basis of accounting. The System's statements offer short-term and long-term financial information about the activities and operations of the System. These statements are presented in a manner similar to those of a private business. The statements of plan net assets represent the fair market value of the System's assets as of the end of the fiscal year. The statements of changes in plan net assets are presented in order to show the change in net assets during the year. The activity primarily consists of contributions to the System, unrealized and realized gains on investments, investment income, benefits paid, and investment and administrative expenses.

CONDENSED FINANCIAL INFORMATION COMPARING THE CURRENT YEAR TO THE PRIOR YEAR

Net Assets: The following table summarizes the net assets as of June 30, 2006 and 2005:

		2006	2005	% Increase (Decrease)
		(Amounts in Thousands)		
Cash and cash equivalents	$	35,386	34,800	1.7%
Receivables		10,938	4,726	131.4%
Investments at fair value		1,508,533	1,378,649	9.4%
Securities lending collateral		53,657	62,984	(14.8)%
Total assets		1,608,514	1,481,159	8.6%
Liabilities		83,471	95,046	(12.2)%
Net assets	$	1,525,043	1,386,113	10.0%

Operating Income: The following table summarizes the changes in net assets between fiscal years 2006 and 2005:

		2006	2005	% Increase (Decrease)
		(Amounts in Thousands)		
Additions				
Contributions	$	65,400	62,965	3.9%
Net investment income		154,591	113,964	35.6%
Total additions		219,991	176,929	24.3%
Deductions				
Benefits paid, including refunds		67,276	64,209	4.8%
Deferred option benefits		10,006	12,027	(16.8)%
"Back" DROP benefits		1,544	1,033	49.5%
Administrative expenses		2,235	2,072	7.9%
Total deductions		81,061	79,341	2.2%
Increase in net assets	$	138,930	97,588	42.4%

ANALYSIS OF THE OVERALL FINANCIAL POSITION AND RESULTS OF OPERATIONS

Funding for the System is derived primarily from contributions to the System from both the cities and the police officers. Total contributions increased during the fiscal years 2006 and 2005, as the System received payments from the State Insurance Department at 17% of the premium taxes collected.

Net investment income increased approximately 36% during the year ended June 30, 2006, as a result of asset reallocation due to the System investing more in the limited partnerships and overall market performance. As the System accounts for its investments at market value, increases and declines in the prices of stocks and bonds have a direct effect and impact on the net assets and operating results of the System. The System's net yield on its average assets for the years ended June 30, 2006 and 2005, and the yield for the S&P 500 during the same period, was as follows:

	2006	2005
System net yield on average assets	11.0%	9.0%
S&P 500	8.6%	6.3%

Benefit payments increased during the year by approximately 5%. This was primarily due to increases in salary amounts given to active members, which also increased the dollar amount of benefits to retirees.

Administrative expenses are composed primarily of payroll and related expenses for the employees of the System, legal fees, investment consulting fees, data processing fees, and medical and travel cost. Salaries increased by 20% in fiscal year 2006 due to adding new positions, including that of deputy director, and due to overall increases as authorized by the Legislature and the Office of Personnel Management rules (pursuant to Title 74, Section 840-2.17). Legal fees increased by 176% due to the ongoing litigation regarding benefits. Investment consulting fees increased by 31% due to the asset reallocation stated above. The overall increase in administrative expenses of 8% was due to these and other immaterial increases.

The System has no debt or infrastructure assets.

DESCRIPTION OF CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS THAT ARE EXPECTED TO HAVE A SIGNIFICANT EFFECT ON THE FINANCIAL POSITION OR RESULTS OF OPERATIONS

While the System is directly impacted by the overall stock market changes, investments are made based on the expected long-term performance and best interest of the members of the System. With over a billion dollars of assets and a wide range of diversity of investments, the System has the financial resources to maintain its current investment strategies, while continuing to review for other investment options to benefit its members.

DESCRIPTION OF CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS THAT ARE EXPECTED TO HAVE A SIGNIFICANT EFFECT ON THE FINANCIAL POSITION OR RESULTS OF OPERATIONS, CONTINUED

The System received insurance premium taxes in an approximate amount of $24 million in the years ended June 30, 2006 and 2005, which is 17% of the taxes collected on premiums. The System will continue to receive the Insurance Premium Taxes at the rate of 17% until June 30, 2009, after which time the rate will be reduced to 14%.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the System's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Executive Director or Comptroller of the System, Oklahoma Police Pension and Retirement System, 1001 N.W. 63rd 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 PLAN NET ASSETS

June 30,	*2006*	*2005*
	(Amounts in Thousands)	
Assets		
Cash and cash equivalents	$ 35,386	34,800
Receivables:		
Interest and dividends receivable	3,823	3,033
Contributions receivable from cities	1,151	1,074
Contributions receivable from participants	666	612
Insurance premium tax receivable	5,298	7
Total receivables	10,938	4,726
Investments, at fair value:		
U.S. Government securities	7,748	31,665
International government securities	34,756	24,919
Domestic corporate bonds	218,872	209,655
International corporate bonds	3,886	11,285
Domestic stocks	730,096	614,341
International stocks	168,749	158,727
Alternative investments	340,092	323,357
Real estate	3,350	3,100
Warrants	984	1,600
Total investments, at fair value	1,508,533	1,378,649
Securities lending collateral	53,657	62,984
Total assets	1,608,514	1,481,159
Liabilities		
Net payable to brokers	4,223	2,270
Accounts payable	911	960
Deferred option benefits payable	24,680	28,832
Securities lending collateral	53,657	62,984
Total liabilities	83,471	95,046
Net assets held in trust for pension benefits (Schedule of Funding Progress is presented in Exhibit I)	$ 1,525,043	1,386,113

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

OKLAHOMA POLICE PENSION AND RETIREMENT PLAN
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STATEMENTS OF CHANGES IN PLAN NET ASSETS

Years Ended June 30,	*2006*	*2005*
	(Amounts in Thousands)	
Additions		
Contributions:		
Cities	$ 26,490	25,001
Plan members	15,326	14,234
Insurance premium tax allocation	23,584	23,730
Total contributions	65,400	62,965
Investment income (loss):		
From investing activities:		
Net appreciation in fair value of investments	141,920	110,903
Interest	10,862	10,246
Dividends	9,942	3,621
Partnership income (loss)	-	(2,524)
Other	326	822
Total investment income	163,050	123,068
Less - investment expense	(8,728)	(9,322)
Income from investing activities	154,322	113,746
From securities lending activities:		
Securities lending income	2,207	1,325
Securities lending expenses:		
Borrower rebates	(1,821)	(1,016)
Management fees	(117)	(91)
Income from securities lending activities	269	218
Net investment income	154,591	113,964
Total additions	219,991	176,929
Deductions		
Benefits paid	65,853	62,501
Deferred option benefits	10,006	12,027
"Back" DROP benefits	1,544	1,033
Refunds of contributions	1,423	1,708
Administrative expenses	2,235	2,072
Total deductions	81,061	79,341
Net increase	138,930	97,588
Net assets held in trust for pension benefits:		
Beginning of year	1,386,113	1,288,525
End of year	$ 1,525,043	1,386,113

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

(1) DESCRIPTION OF PLAN

General

The Oklahoma Police Pension and Retirement System (the "System") is the administrator of a cost-sharing multiple-employer defined benefit pension plan that provides participants with retirement, death, and disability benefits and a deferred option plan (the "Deferred Option"), both established by the State of Oklahoma. These plans are considered a single plan for financial reporting purposes. The System is part of the State of Oklahoma financial reporting entity and is included in the State's financial reports as a pension trust fund. The System covers substantially all police officers employed by the 124 participating municipalities within the state of Oklahoma.

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

The System's participants at June 30 consisted of:

	2006	2005
Retirees and beneficiaries receiving benefits	2,548	2,447
Vested members with deferred benefits	80	79
Deferred Option plan members	187	247
	2,815	2,773
Active plan members:		
Vested	2,012	1,914
Nonvested	2,129	2,102
Total active plan members	4,141	4,016
Total	6,956	6,789
Number of participating municipalities	124	123

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.

(1) DESCRIPTION OF PLAN, CONTINUED

Benefits

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.

(1) DESCRIPTION OF PLAN, CONTINUED

Benefits, Continued

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.

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, a separate account is established for each participant. During the participation period, the employee's retirement benefit that would have been payable to the participant is credited to the participant's account along with a portion of the employer's contribution and interest as specified in the Deferred Option provisions. 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.

In the 2003 Legislative Session, Senate Bill 688 and House Bill 1464 created a "Back" DROP for members of the System. The "Back" DROP is a modified deferred retirement option retirement plan. The "Back" DROP allows the member flexibility by not having to commit to terminate employment within 5 years. Once a member has met their normal retirement period of 20 years, the member can choose, upon retirement, to be treated as if the member had entered into the DROP. A member, however, cannot receive credit to the 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 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.

The Oklahoma State Legislature has the authority to grant percentage increases or special one-time payments to persons receiving benefits from the Plan. Additionally, certain retirees are entitled to receive a cost-of-living allowance (COLA) when a COLA is granted to active police officers in the retiree's city. Participants eligible to receive both types of benefit increases are to receive the greater of the legislative increase or the benefit increase the participant would receive pursuant to the COLA provision. Effective July 1, 1998, Senate Bill 1037 provided a COLA based on a loss of purchasing power to certain retired members of the System. In addition, effective July 1, 2000, Senate Bill 994 states that any member receiving benefits from the System as of June 30, 1999, and who continues to receive benefits on or after July 1, 2000, will receive a 4.7% increase in benefits beginning on July 1, 2000.

(1) DESCRIPTION OF PLAN, CONTINUED

Benefits, Continued

Any increase in benefits a member is eligible to receive, pursuant to Oklahoma State Legislature, after June 30, 1998, shall be offset by the increase in benefits if any, provided by Senate Bill 994. Senate Bill 994 applies to all members who were retired as of July 1, 1999. Senate Bill 994 also allows former members of the Plan who terminate and are later employed by a participating municipality to become members of the Plan even if those individuals are 45 years of age or older. Also, if such individuals have withdrawn their contributions, prior to re-entering the Plan, and desire to receive credit for such prior service, then members shall pay back such contributions and interest. However, members are not required to buy back prior service. Effective July 1, 2002, House Bill 2124 provided an ad hoc 5% COLA for members receiving benefits as of June 30, 2001. The increase is offset by any automatic increases received since June 30, 2000. Effective July 1, 2004, Senate Bill 1134 provided a 4% COLA for members receiving benefits as of June 30, 2003. The increase is offset by any automatic increase received since June 30, 2002.

Contributions

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 State 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 until July 1, 1996, when the contribution level reached 13%, which it remains at currently. Each participant of the Plan contributes 8% of their actual paid base salary. Additional funds are provided to the Plan by the State of Oklahoma through an allocation of the tax on premiums collected by insurance companies operating in Oklahoma and by the net investment income generated on assets held by the Plan. The Plan is responsible for paying administrative costs. Administrative costs of the Plan are paid for using the earnings from the invested assets of the Plan.

(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 dates. Member and employer contributions are established by statute as a percentage of salaries and are recognized in the period in which employees' salaries are earned. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

The Plan is administered by the System, a part of the State of Oklahoma financial reporting entity, which together with other similar funds comprise the fiduciary-pension trust funds of the State of Oklahoma

Investments, Cash, and Short-Term Investments

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

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.

Net investment income includes net appreciation 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 in the fair value of investments. Investment income from real estate includes the Plan's share of income from operations, net appreciation in the fair value of the underlying real estate properties, and the Plan's real estate investment management fees. The fair value of the limited partnerships is determined by managers of the partnerships based on the values of the underlying assets.

See Independent Auditors' Report.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Investments, Cash, and Short-Term Investments, Continued

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

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

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

The investment policy limits the concentration of each portfolio manager. Except as noted below, no single investment exceeds 5% of the Plan's net assets. The Plan, at June 30, 2006 and 2005, did have more than 5% invested in U.S. Government obligations; however, these obligations are backed by the full faith and credit of the United States.

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.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Investments, Cash, and Short-Term Investments, Continued

The following table presents the individual investments exceeding the 5%[1] threshold at June 30:

Classification of Investment	Name of Investment	Shares Held	Cost	Market Value
2006			*(Amounts in Thousands)*	
U.S. common stocks	Pacific Alternative Asset	105,000,000	$ 150,000	128,951
U.S. common stocks	SSGA Index Plus SL Fund	3,809,256	101,077	150,511
U.S. common stocks	EB Large Cap Stock Index Fund	236,606	172,056	214,455
Limited partnership	Grosvenor L/S Equity	150,543,859	132,000	150,544
Limited partnership	Mondrian Investment Partners	4,276,823	61,732	92,961
2005				
U.S. common stocks	Pacific Alternative Asset	80,000,000	80,000	93,367
U.S. common stocks	SSGA Index Plus SL Fund	3,809,256	101,077	138,805
U.S. common stocks	EB Large Cap Stock Index Fund	302,047	187,223	225,159
Limited partnership	One-Focus Technology Opportunity Partners, L.P.	75,000	75,000	72,743
Limited partnership	Grosvenor L/S Equity	94,902,301	85,000	94,902
Limited partnership	Mondrian Investment Partners	4,509,487	65,090	78,505

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

See Independent Auditors' Report.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Investments, Cash, and Short-Term Investments, Continued

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

	2006	2005
	(Amounts in Thousands)	
Cash on deposit with Mellon (the "Custodian")	$ 2,054	120
Short-term investments:		
International	5,066	3,941
Domestic	28,266	30,739
Total short-term investments	33,332	34,680
Total cash and cash equivalents	$ 35,386	34,800

The Plan's 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, 2006 and 2005, approximately $34,781,000 and $31,028,000, 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.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, 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 10% of total net assets through its asset allocation policy. Investment in cash and cash equivalents, foreign equities, and fixed-income securities as of June 30 is shown by monetary unit to indicate possible foreign currency risk.

	2006				
Currency	Cash and Cash Equivalents	Equities	Government Securities	Corporate Bonds	Total
	(Amounts in Thousands)				
Australian dollar	$ 349	1,319	-	-	1,668
Bulgarian lev	-	20	-	-	20
Brazil real	-	91	-	-	91
British pound sterling	160	9,271	5,888	4	15,323
Canadian dollar	-	238	1,592	-	1,830
Czech koruna	86	1,185	-	-	1,271
Danish krone	93	432	602	-	1,127
Euro currency unit	1,422	33,801	17,296	3,882	56,401
Hong Kong dollar	197	2,184	-	-	2,381
Hungarian forint	-	845	-	-	845
Indonesian rupian	21	108	-	-	129
Japanese yen	2,071	9,043	8,669	-	19,783
Mexican new peso	7	427	-	-	434
New Turkish lira	-	998	-	-	998
New Zealand dollar	21	115	709	-	845
Norwegian krone	264	1,258	-	-	1,522
Polish zloty	-	4,241	-	-	4,241
Romanian leu	2	559	-	-	561
Russian rubel	-	160	-	-	160
South Korean won	-	551	-	-	551
Swedish krona	239	2,854	-	-	3,093
Swiss franc	134	5,920	-	-	6,054
Thailand baht	-	168	-	-	168
Commingled funds	-	92,961	-	-	92,961
	$ 5,066	168,749	34,756	3,886	212,457

See Independent Auditors' Report.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Foreign Currency Risk, Continued

	2005				
Currency	Cash and Cash Equivalents	Equities	Government Securities	Corporate Bonds	Total
	(Amounts in Thousands)				
Australian dollar	$ 19	2,422	-	-	2,441
Bulgarian lev	-	18	-	-	18
Brazil real	1	-	-	-	1
British pound sterling	276	8,523	381	4	9,184
Canadian dollar	6	860	-	-	866
Czech koruna	22	1,093	-	-	1,115
Danish krone	58	778	620	-	1,456
Euro currency unit	1,407	24,998	16,839	5,718	48,962
Hong Kong dollar	8	496	-	-	504
Hungarian forint	86	1,489	-	-	1,575
Iceland krona	22	-	777	1,039	1,838
Indonesian rupian	-	261	-	-	261
Japanese yen	1,939	9,654	2,624	4,524	18,741
Romanian leu	-	85	-	-	85
Malaysian ringgit	5	-	-	-	5
Mexican new peso	6	435	-	-	441
New Turkish lira	46	2,772	-	-	2,818
New Zealand dollar	2	144	3,320	-	3,466
Norwegian krone	-	2,065	-	-	2,065
Philippines peso	1	72	-	-	73
Polish zloty	37	3,362	-	-	3,399
Russian rubel	-	237	-	-	237
South Korean won	-	597	-	-	597
Swedish krona	-	3,392	237	-	3,629
Swiss franc	-	4,282	-	-	4,282
Thailand baht	-	7	-	-	7
Not subject to foreign currency risk[1]	-	12,180	121	-	12,301
Commingled funds	-	78,505	-	-	78,505
	$ 3,941	158,727	24,919	11,285	198,872

[1] These investments are not subject to foreign currency risk as they are held and traded in the U.S.

See Independent Auditors' Report.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, 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:

	2006		
Investment Type	Moody's Ratings (Unless Noted)	Fair Value	Fair Value as a Percent of Total Fixed Maturity Fair Value
	(Amounts in Thousands)		
U.S. Government securities	UST(2)	$ 7,748	100.00%
Total U.S. Government securities		**7,748**	**100.00%**
International government securities	AAA (SP)	716	2.06%
	Aaa	24,374	70.13%
	Aa1	878	2.53%
	Aa2	119	0.34%
	A2	8,078	23.24%
	Not rated	591	1.70%
Total international government securities		**34,756**	**100.00%**
Domestic corporate bonds	AGY(1)	59,728	27.29%
	UST(2)	1,769	0.81%
	AAA (SP)	5,115	2.34%
	Aaa	25,354	11.58%
	A (SP)	280	0.13%
	Aa1	289	0.13%
	Aa2	922	0.42%
	Aa3	4,216	1.93%
	A1	4,014	1.83%
	A2	4,790	2.19%
	A3	8,721	3.98%
	Baa1	4,936	2.26%
	Baa2	12,485	5.70%
	Baa3	4,963	2.27%
	Not Rated	81,290	37.14%
Total domestic corporate bonds		**218,872**	**100.00%**

(Continued)

See Independent Auditors' Report.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Credit Risk, Continued

	2006		
Investment Type	Moody's Ratings (Unless Noted)	Fair Value	Fair Value as a Percent of Total Fixed Maturity Fair Value
	(Amounts in Thousands)		
International corporate bonds	Aaa	3,435	88.39%
	A1	362	9.32%
	A2	89	2.29%
Total international corporate bonds		**3,886**	**100.00%**

(1) U.S. Agency securities
(2) U.S. Treasury securities

See Independent Auditors' Report.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Credit Risk, Continued

Investment Type	Moody's Ratings (Unless Noted)	2005 Fair Value	2005 Fair Value as a Percent of Total Fixed Maturity Fair Value
		(Amounts in Thousands)	
U.S. Government securities	AGY(1)	$ 20,365	64.31%
	UST(2)	11,300	35.69%
Total U.S. Government securities		**31,665**	**100.00%**
International government securities	AAA (SP)	75	0.30%
	AA (SP)	2,624	10.53%
	Aaa	21,056	84.50%
	Aa1	916	3.67%
	Aa2	127	0.51%
	B2	121	0.49%
Total international government securities		**24,919**	**100.00%**
Domestic corporate bonds	AGY(1)	53,718	25.62%
	UST(2)	2,386	1.14%
	AAA (SP)	2,845	1.36%
	Aaa	21,925	10.46%
	Aa2	220	0.10%
	Aa3	2,723	1.30%
	A1	7,438	3.55%
	A2	4,854	2.31%
	A3	8,406	4.01%
	Baa1	6,621	3.16%
	Baa2	13,054	6.23%
	Baa3	9,763	4.65%
	Not Rated	75,702	36.11%
Total domestic corporate bonds		**209,655**	**100.00%**
International corporate bonds	Aaa	10,991	97.39%
	A1	49	0.44%
	A2	245	2.17%
Total international corporate bonds		**11,285**	**100.00%**

(1) U.S. Agency securities
(2) U.S. Treasury securities

See Independent Auditors' Report.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, 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.

	2006				
	Investment Maturities at Fair Value (in Years)				
Investment Type	1 - 5	5 - 10	More Than 10	Investments with No Duration	Total Fair Value
	(Amounts in Thousands)				
U.S. Government securities	$ -	-	7,748	-	7,748
International government securities	12,204	12,911	9,641	-	34,756
Domestic corporate bonds:					
Asset-backed securities	-	-	2,148	-	2,148
CMBS	1,694	151	10,159	-	12,004
CMO corporate	-	-	16,530	-	16,530
Corporates and other credit	13,422	21,862	9,748	-	45,032
Treasury Inflation-Protected Securities (TIPS)	-	-	1,768	-	1,768
U.S. Government mortgages	24,557	35,171	-	-	59,728
U.S. taxable municipal bonds	-	522	-	-	522
U.S. fixed-income funds	-	-	-	81,140	81,140
Total domestic corporate bonds	39,673	57,706	40,353	81,140	218,872
International corporate bonds	88	1,846	1,952	-	3,886
	$ 51,965	72,463	59,694	81,140	265,262

See Independent Auditors' Report.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Interest Rate Risk, Continued

	2005				
	Investment Maturities at Fair Value (in Years)				
Investment Type	1 - 5	5 - 10	More Than 10	Investments with No Duration	Total Fair Value
	(Amounts in Thousands)				
U.S. Government securities	$ 17,802	2,563	11,300	-	31,665
International government securities	10,337	1,001	13,581	-	24,919
Domestic corporate bonds:					
Asset-backed securities	1,601	-	3,999	-	5,600
CMBS	-	-	5,648	-	5,648
CMO corporate	-	-	13,285	-	13,285
CMO government agencies	-	-	3,238	-	3,238
Corporates and other credit	17,011	28,247	7,308	-	52,566
Treasury Inflation-Protected Securities (TIPS)	-	-	2,386	-	2,386
U.S. Government mortgages	-	870	49,610	-	50,480
U.S. taxable municipal bonds	-	-	750	-	750
U.S. fixed-income funds	-	-	-	75,702	75,702
Total domestic corporate bonds	18,612	29,117	86,224	75,702	209,655
International corporate bonds	5,857	2,390	3,038	-	11,285
	$ 52,608	35,071	114,143	75,702	277,524

See Independent Auditors' Report.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Securities Lending

The Plan's investment policy allows the loan of securities through a lending agent to various institutions, with a simultaneous agreement to return the collateral for the same securities in the future, generally less than 30 days. There are no restrictions on the dollar amount of the loans that can be made. The collateral held and the market value of the securities on loan for the Plan at June 30 were as follows:

2006		Collateral Held	Market Value of Securities on Loan	Percent of Collateral to Loan
		(Amounts in Thousands)		
U.S. issuers	$	39,292	37,856	104%
Non-U.S. issuers		14,365	13,672	105%
	$	53,657	51,528	
2005				
U.S. issuers	$	48,952	47,492	103%
Non-U.S. issuers		14,032	13,353	105%
	$	62,984	60,845	

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, 2006 and 2005, was not included in the accompanying statements of plan net assets. According to the securities lending agreement, if at the close of trading on any business day, the market value of the collateral presently delivered by the borrower is less than 100% of the market value of such loaned securities, the Plan shall demand the borrower deliver collateral equal to 102% for domestic securities and 105% for non-U.S. securities, at the close of the next business day. At the maturity of the loans, the Plan receives a loan premium and the securities are returned. The Plan has no credit risk exposure to borrowers because the amount the Plan owes the borrowers exceeds the amount the borrowers owe the Plan. As of June 30, 2006 and 2005, the Plan had no losses on securities lending transactions resulting from default of a borrower or lending agent. Contracts with lending agents require them to indemnify the Plan if the borrowers fail to return the securities or otherwise fail to pay the Plan for income while the securities are on loan. The securities on loan are included in the respective investment categories in the accompanying statements of plan net assets. Cash collateral is invested in the lending agent's short-term investment pool and included as an asset in the accompanying statements of plan net assets, with an offsetting liability for the return of the collateral. The securities lending agreement sets forth credit quality standards, acceptable investments, diversification standards, and maturity and liquidity constraints for the investment fund.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Securities Lending, Continued

The Plan's investment guidelines do not require a matching of investment maturities with loan maturities, but do establish minimum levels of liquidity and other restrictions designed to minimize the interest rate risk associated with not matching the maturities of the investments with the loans. The cash collateral investments had an average weighted maturity of 47 days and 31 days at June 30, 2006 and 2005, respectively.

Foreign Currency Transactions

The Plan has certain investment managers that trade on foreign exchanges. Foreign currency gains and losses are calculated at the transaction date using the current exchange rate, and assets are remeasured to U.S. dollars using the exchange rate as of each month end. During the year ended June 30, 2006, foreign currency losses of approximately $1.9 million and remeasurement gains of approximately $6.0 million were included in the accompanying statements of changes in plan net assets as net appreciation in fair value of investments. During the year ended June 30, 2005, foreign currency gains of approximately $2.3 million and remeasurement losses of approximately $4.3 million were included in the accompanying statements of changes in plan net assets as net appreciation in fair value of investments.

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 2006 or 2005.

Use of Estimates

The preparation of the Plan's financial statements in conformity with accounting principles generally accepted in the United States requires management of the Plan to make significant estimates and assumptions that affect the reported amounts of net assets held in trust for pension benefits at the date of the financial statements and the actuarial information in Exhibits I, II, and III included in the required supplementary information as of the benefit information date, the changes in the Plan's net assets during the reporting period, and, when applicable, disclosures of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

(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.

Administrative Items

Operating Leases:

The Plan had an operating lease which ended June 30, 2006. The lease has been renewed for the period July 1, 2006, through June 30, 2007. Total lease expense for both 2006 and 2005 was approximately $63,000.

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, 2006 and 2005, approximately $90,000 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:

	2006	2005
Balance at beginning of year	$ 89,913	62,178
Additions	42,728	70,253
Amount used	(43,377)	(42,518)
Balance at end of year	$ 89,264	89,913

See Independent Auditors' Report.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Administrative Items, Continued

Retirement Expense:

The employees of the System are eligible to participate in the Oklahoma Public Employees Retirement Plan, which is administered by the Oklahoma Public Employees Retirement System (OPERS). OPERS is a multiple-employer cost-sharing public retirement defined benefit pension plan. OPERS provides retirement, disability, and death benefits to Plan members and beneficiaries. OPERS issues a publicly available financial report which includes financial statements and required supplementary information for OPERS. That report may be obtained by writing to the Oklahoma Public Employees Retirement System, 5801 N. Broadway Extension, Suite 400, Oklahoma City, OK 73118.

Employees of the System are required to contribute 3% of their annual covered salary up to $25,000 and 3.5% for salaries above $25,000. The System is required to contribute at an actuarially determined rate, which is currently 11.5% of annual covered payroll. During 2006, 2005, and 2004, a total of $89,686, $63,755, and $59,585, respectively, was paid to OPERS. The System's and employees' portions of those amounts were as follows:

	2006	2005	2004
System portion	$ 69,787	48,025	45,180
Employee portion	19,899	15,730	14,405
	$ 89,686	63,755	59,585

Risk Management:

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

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Administrative Items, Continued

Risk Management, Continued:

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

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

(3) INVESTMENT IN BUILDING AND ALTERNATIVE INVESTMENTS

Investment in Building

The Plan owns a building originally purchased for approximately $1.5 million and it is held as a long-term investment. The building is accounted for at fair value based on periodic appraisals, and rental income and expenses are reported currently. The Plan utilizes part of the building for its administrative offices and charges itself rent, which is reflected as administrative expense and other investment income. The fair value of the building at June 30, 2006 and 2005, was estimated at approximately $3.4 million and $3.1 million, respectively.

(3) INVESTMENT IN BUILDING AND ALTERNATIVE INVESTMENTS, CONTINUED

Alternative Investments

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

Investment	Purpose		Fair Market Value 2006	2005
			(Amounts in Thousands)	
PruTimber Fund II, LP	Invests in timber.	$	2,625	3,799
OCM Opportunities Fund II, LP	Invests in distressed debt.		376	919
TCW/Cresent Mezzanine Partners II, LP	Invests in privately negotiated subordinated debt and equity securities.		296	1,170
Marathon Fund IV, LP	To acquire, manage, and resell controlling interests in middle market companies.		1,803	2,430
Weiss, Peck, & Greer Venture Associates V, LLC	Invests in the securities of technology and development stage companies.		2,033	2,001
Pequot Venture General Partners II, LLC	Invests in the securities of technology and development stage companies.		294	287
OCM Opportunities Fund III, LP	Invests in entities experiencing financial difficulties.		639	1,467
Accel Europe, LP	Invests in companies that are organized outside the United States.		5,632	3,628

(Continued)

See Independent Auditors' Report.

(3) INVESTMENT IN BUILDING AND ALTERNATIVE INVESTMENTS, CONTINUED

Alternative Investments, Continued

Investment	Purpose	Fair Market Value 2006	2005
		(Amounts in Thousands)	
Capital Works Cypress Fund II, LP	Invests in equity securities.	-	13,621
Pequot Private Equity Fund III, LP	Invests in equity securities.	10,022	8,325
Venture Lending & Leasing III, LLC	Debt financing and direct investment in equity securities of venture capital-backed companies.	1,354	2,066
LightSpeed Venture Partners VI, LP	Invests in securities issued primarily in start-ups, early stage ventures, and expansion stage companies focusing on technology.	6,176	4,468
One-Focus Technology Opportunity Partners, LP	Invests primarily in the technology sector.	11,643	72,743
TCW/Cresent Mezzanine Partners III, LP	Invests in privately negotiated subordinated debt and equity securities.	6,146	4,067
OCM Opportunities Fund IV, LP	Invests in distressed debt.	748	2,095
BBT Overseas Partners, LP	Invests in equity securities and financial acquisitions.	53,240	48,273
Hicks, Muse, Tate & Furst Equity Fund V, LP	Invests in private equity securities and leveraged acquisitions.	11,817	7,930

(Continued)

See Independent Auditors' Report.

(3) INVESTMENT IN BUILDING AND ALTERNATIVE INVESTMENTS, CONTINUED

Alternative Investments, Continued

Investment	Purpose	Fair Market Value 2006	2005
		(Amounts in Thousands)	
Pequot Private Equity Fund IV	Invests in equity securities.	774	-
Aresenal Capital Partners, L.P.	Invests in portfolio companies.	13,717	7,732
Siguler Guff Distressed Opportunities Fund, L.L.C.	Invests in securities of companies undergoing distress, operating difficulties, and significant reconstructing.	18,849	16,943
Freemont Partners III, LP	Invests in equity securities.	1,414	1,282
Levine Leichtman Capital Partners III, LP	Invests in securities of middle market companies.	4,954	2,351
Peak Partners, LP	Speculative trading of commodity futures contracts. Options on futures contracts and forward contracts.	17,909	15,044
OCM Opportunities Fund V, LP	Invests in distressed debt.	5,250	4,279
Grosvenor Long/Short Equity Fund, LP	Invests in domestic and international securities.	150,544	94,902
Marathon Fund V, LP	Invests in portfolio companies.	3,317	1,370

(Continued)

(3) INVESTMENT IN BUILDING AND ALTERNATIVE INVESTMENTS, CONTINUED

Alternative Investments, Continued

Investment	Purpose	Fair Market Value 2006	2005
		(Amounts in Thousands)	
Knightsbridge Venture Capital VI	Invests in early stage U.S. venture capital partnership.	922	165
Lexington Capital Partners	Invests in private equity.	731	-
OCM Opportunities Fund VI, LP	Invests in distressed debt.	2,908	-
Siguler Guff Distressed Opportunities Fund, II, LP	Invests in securities of companies undergoing distress, operating difficulties, and significant reconstructing.	3,959	-
		$ 340,092	323,357

As of June 30, 2006 and 2005, the Plan had a remaining commitment to fund approximately $87 million and $64 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.

See Independent Auditors' Report.

(4) WARRANTS

Capital Works Partners, LLC

The Plan has received a warrant issued by Capital Works Partners, LLC, which expires on October 1, 2006. The warrant may be exercised upon delivery of 90 days written notice from the Plan at any time before the expiration date. The Plan is entitled to receive a percentage of the gross asset value of the issuer upon execution of the warrant. The percentage to be received is 1% after the first year and an additional percentage for each year after that, up to 5%. The System has received a valuation of this warrant, which estimates the fair market value as of June 30, 2006 and 2005, at $984,000 and $1,600,000, respectively.

(5) PLAN TERMINATION AND STATE FUNDING

The Plan has not developed an allocation method if it were to terminate. The State of 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.

(6) TAX STATUS

As an instrumentality of the State of Oklahoma, the Plan is tax-exempt. It is not subject to the Employee Retirement Income Security Act of 1974. The Plan has received favorable determination from the Internal Revenue Service 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.

(7) HISTORICAL INFORMATION

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

(8) CONTINGENCIES

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

(9) LEGISLATIVE AMENDMENTS

Effective July 1, 2006, House Bill 1179 provided a 4% cost-of-living allowance (COLA) for members receiving benefits as of June 30, 2005.

Exhibit I

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

REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF FUNDING PROGRESS
(In Millions)

June 30, 2006

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
June 30, 1997	$ 828	877	49	94.4%	123	39.8%
June 30, 1998	967	1,092	125	88.6%	129	97.7%
June 30, 1999*	1,094	1,160	66	94.3%	139	47.1%
June 30, 2000	1,222	1,355	133	90.2%	149	89.1%
June 30, 2001	1,319	1,443	124	91.4%	154	81.1%
June 30, 2002	1,370	1,554	184	88.2%	160	114.9%
June 30, 2003	1,392	1,647	255	84.5%	171	149.5%
June 30, 2004	1,400	1,727	327	81.1%	176	186.4%
June 30, 2005	1,424	1,812	388	78.6%	189	205.3%
June 30, 2006	**1,490**	**1,910**	**420**	**78.0%**	**204**	**205.6%**

* Includes assumption which reflects 1% cost-of-living increases in future years.

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

Exhibit II

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

REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYER AND OTHER CONTRIBUTING ENTITIES
(In Thousands)

June 30, 2006

		Contributions by Source			
Year Ended	Annual Required Contributions	Employer Contributions	State Contributions	Total	Percentage Contributed
June 30, 1997	$ 26,460	17,251	15,734	32,985	125%
June 30, 1998	22,426	18,253	17,177	35,430	158%
June 30, 1999	39,827	19,374	16,841	36,215	91%
June 30, 2000	34,683	20,358	17,342	37,700	109%
June 30, 2001	53,043	21,414	18,638	40,052	76%
June 30, 2002	54,918	22,411	19,811	42,222	77%
June 30, 2003	71,705	23,738	20,400	44,138	62%
June 30, 2004	63,511	23,915	-	23,915	38%
June 30, 2005	73,756	25,001	23,730	48,731	66%
June 30, 2006	**85,391**	**26,490**	**23,584**	**50,074**	**59%**

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

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2006

The information presented in the required supplementary schedules was determined as part of an actuarial valuation by an independent enrolled actuary (Buck Consultants) at the dates indicated. Additional information as of the June 30, 2006, valuation follows:

Assumptions

Actuarial cost method:	Entry age
Amortization method:	Level dollar-closed
Remaining amortization:	12 years
Asset valuation method:	An expected actuarial value is determined equal to the prior year's actuarial value of assets plus cash flow (excluding realized and unrealized gains and losses) for the year ended on the valuation date and assuming a 7.5% interest return. Twenty percent (20%) of any (gain) loss is amortized over 5 years. The result is constrained to a value of 80% to 120% of the market value at the valuation date.
Actuarial assumptions	
Investment rate of return:	7.5%
Projected salary increases*:	5% to 19%
Cost-of-living adjustments:	Police officers eligible to receive increased benefits according to repealed Section 50-120 of Title 11 of the Oklahoma Statutes pursuant to a court order receive an adjustment of ⅓ to ½ of the increase or decrease of any adjustment to the base salary of a regular police officer, based on an increase in base salary equal to the average increase over the 5 prior years. Members not eligible for this automatic increase are assumed to receive a 2% annual increase in benefits during each year of retirement.

* Includes inflation at 3%.

See Independent Auditors' Report.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited the financial statements of the Oklahoma Police Pension and Retirement Plan (the "Plan") administered by the Oklahoma Police Pension and Retirement System as of and for the year ended June 30, 2006, and have issued our report thereon dated August 31, 2006, which includes an explanatory paragraph disclaiming an opinion on required supplementary information. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Plan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Plan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

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

Finley & Cook, PLLC

August 31, 2006

Finley & Cook, PLLC
Certified Public Accountants

August 31, 2006

Board of Trustees
Oklahoma Police Pension and Retirement System

In planning and performing our audit of the financial statements of the Oklahoma Police Pension and Retirement Plan (the "Plan"), administered by the Oklahoma Police Pension and Retirement System, for the year ended June 30, 2006, we considered the Plan's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure of the Plan.

The management of the Plan is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments made by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with accounting principles generally accepted in the United States. Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Our consideration of the internal control structure policies and procedures used by the Plan would not necessarily disclose all matters in the internal control structure that might constitute material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that an error that would be material to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operations that we consider to be material weaknesses as defined above.

Sincerely,

FINLEY & COOK, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

Nathan Atchison
Partner

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