



**OKLAHOMA POLICE PENSION
AND RETIREMENT SYSTEM**

**FINANCIAL STATEMENTS AS OF
JUNE 30, 2000 AND 1999
TOGETHER WITH REPORT OF INDEPENDENT
PUBLIC ACCOUNTANTS**



Report of Independent Public Accountants

To the Oklahoma Police Pension
and Retirement Board:

We have audited the accompanying statements of plan net assets of the Oklahoma Police Pension and Retirement System (the "System") as of June 30, 2000 and 1999, and the related statements of changes in plan net assets for the years then ended. These financial statements and the exhibits referred to below are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements and exhibits 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* (1994 revision), 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 financial status of the System as of June 30, 2000 and 1999, and the changes in its financial status 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 Exhibits I, II, and III is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report on compliance with laws, regulations, contracts and grants, and on internal control over financial reporting dated September 1, 2000.

Oklahoma City, Oklahoma,
September 1, 2000

Arthur Andersen LLP

OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM

STATEMENTS OF PLAN NET ASSETS

JUNE 30, 2000 AND 1999

(In thousands)

<u>ASSETS</u>	<u>2000</u>	<u>1999</u>
Cash	\$ 3	\$ 1,350
Short-term investments	<u>111,834</u>	<u>42,723</u>
Total cash and short-term investments	<u>111,837</u>	<u>44,073</u>
Receivables:		
Interest and dividends receivable	5,633	5,098
Contributions receivable from cities	1,041	897
Contributions receivable from participants	567	491
Insurance premium tax receivable	<u>867</u>	<u>929</u>
Total receivables	<u>8,108</u>	<u>7,415</u>
Investments, at fair value:		
U.S. Government securities	118,117 ✓	132,597
International government securities	32,109 ✓	51,978
Domestic corporate bonds	227,218 ✓	204,970
International corporate bonds	5,864 ✓	-
Domestic stocks	546,734	598,573
International stocks	210,760 ✓	177,877
PruTimber Fund Two Limited Partnership	8,153 ✓	7,960
Mount Lucas Fund L.P.	10,943 ✓	9,275
Weiss, Peck & Greer Venture Associates V, L.L.C.	5,969 ✓	-
CapitalWorks Cypress Fund II, L.P.	13,888 ✓	-
WPG – Farber, Present Institutional Fund, L.P.	16,138 ✓	-
Other	13,652 ✓	6,138
Securities lending short-term collateral investment pool	<u>55,586</u>	<u>43,513</u>
Total investments	<u>1,265,131</u>	<u>1,232,881</u>
Total assets	<u>1,385,076</u>	<u>1,284,369</u>
<u>LIABILITIES</u>		
Net payable to brokers	9,052	15,698
Accounts payable	1,175	1,083
Deferred option benefits payable	27,388	29,545
Securities lending collateral payable	<u>55,586</u>	<u>43,513</u>
Total liabilities	<u>93,201</u>	<u>89,839</u>
Net assets held in trust for pension benefits (a schedule of funding progress is presented in Exhibit I)	<u>\$1,291,875</u>	<u>\$1,194,530</u>

The accompanying notes are an integral part of these financial statements.

OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM

STATEMENTS OF CHANGES IN PLAN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2000 AND 1999 (In thousands)

	<u>2000</u>	<u>1999</u>
Contributions:		
Cities	\$ 20,358	\$ 19,374
Plan members	11,241	10,828
Insurance premium tax allocation	<u>17,342</u>	<u>16,841</u>
Total contributions	<u>48,941</u>	<u>47,043</u>
Investment income from investing activities:		
Net appreciation in fair value of investments	81,769	81,856
Interest	23,437	22,522
Dividends	6,804	6,571
Other	<u>758</u>	<u>1,019</u>
	112,768	111,968
Less- Investment expense	<u>(6,551)</u>	<u>(3,767)</u>
Income from investing activities	<u>106,217</u>	<u>108,201</u>
Investment income from securities lending activities:		
Securities lending income	2,580	3,297
Securities lending expenses:		
Borrower rebates	(2,034)	(2,926)
Management fees	<u>(163)</u>	<u>(134)</u>
Income from securities lending activities	<u>383</u>	<u>237</u>
Net investment income	<u>106,600</u>	<u>108,438</u>
Total additions	<u>155,541</u>	<u>155,481</u>
Benefits paid	43,788	40,756
Deferred option benefits	12,178	12,840
Refunds of contributions	1,178	1,109
Administrative expenses	<u>1,052</u>	<u>891</u>
Total deductions	<u>58,196</u>	<u>55,596</u>
Net increase in net assets	97,345	99,885
Net assets held in trust for pension benefits:		
Beginning of year	<u>1,194,530</u>	<u>1,094,645</u>
End of year	<u>\$1,291,875</u>	<u>\$ 1,194,530</u>

The accompanying notes are an integral part of these financial statements.

OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2000 AND 1999

1. DESCRIPTION OF PLAN:

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 115 participating municipalities within the State of Oklahoma.

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

The System's participants at June 30, 2000 and 1999, consisted of:

	<u>2000</u>	<u>1999</u>
Retirees and beneficiaries receiving benefits	<u>2,042</u>	<u>1,967</u>
Vested terminated members	<u>53</u>	<u>48</u>
Deferred Option Plan members	<u>357</u>	<u>338</u>
Active plan members:		
Vested	1,720	1,662
Nonvested	<u>2,058</u>	<u>2,054</u>
Total active plan members	<u>3,778</u>	<u>3,716</u>
Total	<u>6,230</u>	<u>6,069</u>
Number of participating municipalities	<u>115</u>	<u>113</u>

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 ten years of credited service as a contributing participant of the System. No vesting occurs prior to completing ten years of credited service. Participants' contributions are refundable, without interest, upon termination prior to normal retirement. Participants who have completed ten 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 he reaches 50 years of age or the date he would have had 20 years of credited service had his 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 or actual service if greater than 20 years. This disability benefit is reduced by stated percentages for partial disability based on the percentage impairment. After ten 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, not to exceed 30 years. This disability benefit is also reduced by stated percentages for partial disability based on the percentage impairment. Effective July 1, 1998, once a disability benefit is granted to a participant, that participant is no longer allowed to apply for an increase in the dollar amount of the benefit at a subsequent date.

Survivor's benefits are payable in full to the participant's beneficiary upon the death of a retired participant. The beneficiary of any active participant killed in the line of duty is entitled to a pension benefit. A \$4,000 death benefit is also paid, in addition to any survivor's pension benefits under the System, to the participant's beneficiary or estate for those active or retired members who die on or before July 1, 1999. For those members who die after July 1, 1999, the death benefit is increased to \$5,000.

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 his 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 his separate account under payment terms allowed by the Deferred Option and will then begin receiving retirement benefit payments.

The Oklahoma State Legislature has the authority to grant percentage increases or special one-time payments to persons receiving benefits from the System. 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. 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 System who terminate and are later employed by a participating municipality to become members of the System even if those individuals are 45 years of age or older. Also, if such individuals have withdrawn their contributions, prior to re-entering the System, 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.

An eligible municipality may join the System 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 System upon initial employment with the police department of the participating municipality provided they meet certain requirements. 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 System contributes 8% of his actual paid base salary. Additional funds are provided to the System 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 System.

The System is responsible for paying administrative costs. Administrative costs of the System are paid for using the earnings from the invested assets of the System.

2. SIGNIFICANT ACCOUNTING POLICIES:

The investments included in the accompanying financial statements have been stated at fair value. The fair value has been determined from quoted market prices, where available. The fair value of the limited partnerships is based on the fair value of the underlying assets which are determined from quoted market prices and independent appraisals. The System's investment in short-term investments represent its units-of-participation in an investment fund administered by the System's custodian and U.S. Treasury bills purchased with a maturity of three months or less. The cost of such investments approximates fair value. The fair value at June 30, 2000, of U.S. Government obligations, U.S. Corporate bonds, International and U.S. common stock, master trust participation investments and venture capital investments each in total exceeded 5% of net assets. However, other than cash equivalents, U.S. common stock, and master trust participation investments, there were no individual securities within these groups exceeding 5% of net assets. At June 30, 1999, U.S. Government obligations, U.S. Corporate bonds, International and U.S. common stock, and master trust participation investments, each in total exceeded 5% of net assets. However, other than U.S. common stock and master trust participation investments, there were no individual securities exceeding 5% of net assets. The following table presents the individual securities as of June 30, 2000 and 1999, exceeding the threshold:

<u>Type of Security</u>	<u>Name of Security</u>	<u>Shares Held</u>	<u>Cost</u>	<u>Market Value</u>
<u>2000</u>				
Cash equivalents	TBC Inc. Pooled Employee Funds – Daily Liquidity Fund	64,819,934	\$64,819,934	\$64,819,934
U.S. common stock	EB Large Cap Stock Index Fund	143,153	92,869,079	116,815,239
Master trust participation	OCM High Yield Trust	437,621	61,130,000	64,762,653
<u>1999</u>				
U.S. common stock	EB Russell 1000 Stock Index Fund	185,164	118,667,821	138,018,299
Master trust participation	OCM High Yield Trust	437,622	61,130,000	65,204,088

At June 30, cash and short-term investments were composed of the following:

	<u>2000</u>	<u>1999</u>
Cash on deposit with Custodian	\$ 3	\$ 1,350
Short-term investment fund, variable rate	<u>111,834</u>	<u>42,723</u>
Total cash and short-term investments	<u>\$ 111,837</u>	<u>\$ 44,073</u>

The System's short-term investment fund consists of temporary investments in commingled trust funds of the System's custodial agent. The commingled trust funds are composed of high-grade money market instruments with short maturities. Each participant in the funds shares the risk of loss in proportion to their respective investment in the funds.

The Government Accounting Standards Board issued Statement No. 3 ("GASB No. 3") "Deposits with Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements." GASB No. 3 requires disclosure of classification of deposits with financial institutions according to whether they are insured or collateralized. Bank balances are classified in the following categories of credit risk: Category 1 includes deposits that are insured or collateralized with securities held by the System or by the agent in the System's name. Category 2 includes deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the System's name. Category 3 includes deposits which are uncollateralized or deposits which are collateralized and the related securities are held by the pledging financial institution or by its trust department or agent not in the System's name. At June 30, 2000 and 1999, cash on deposit with the Custodian and the short-term investment fund are considered Category 3.

At June 30, 2000, the carrying amount of the System's cash deposits were the same as the Custodian's balances at June 30, 2000. Custodian balances of deposits are not insured or registered by the Custodian. These amounts are held overnight and transferred to the short-term investment fund the next day. The carrying amount of the short-term investment fund was the same as the bank balances at June 30, 2000.

GASB No. 3 also requires disclosure of certain information about the credit risks associated with the System's investment securities. In accordance with GASB No. 3, the System's investment securities would generally be categorized into one of three separate categories. Category 1 includes securities that are insured or registered, and for which the securities are held by the System or its agent in the System's name. Category 2 includes uninsured and unregistered securities for which the securities are held by the broker or agent in the System's name. Category 3 includes uninsured and unregistered securities for which the securities are held by the broker or agent, but not in the System's name. A summary of the System's investments at June 30, 2000 and 1999, is as follows:

	<u>2000</u>	<u>1999</u>
Category 1 Classification:		
U.S. Government obligations	\$ 104,226	\$ 127,283
International government securities	26,114	51,978
Domestic corporate bonds	213,103	199,484
International corporate bonds	5,445	-
Domestic stocks	542,047	596,442
International stocks	<u>193,564</u>	<u>148,937</u>
Total Category 1	<u>1,084,499</u>	<u>1,124,124</u>
Category 3 Classification:		
Investments held by brokers-dealers under securities loans for noncash collateral-		
U.S. Government obligations	1,027	-
International government securities	1,181	-
Domestic stocks	<u>203</u>	<u>-</u>
Total Category 3	<u>2,411</u>	<u>-</u>
Not subject to classification:		
Investments held by brokers-dealers under securities loans for cash collateral-		
U.S. Government obligations	12,864	5,314
International government securities	4,814	-
Domestic corporate bonds	14,115	5,486
International corporate bonds	419	-
Domestic stocks	4,484	2,131
International stocks	17,196	28,940
Securities lending collateral	55,586	43,513
PruTimber Fund Two Limited Partnership	8,153	7,960
Mount Lucas Fund L.P.	10,943	9,275
Weiss, Peck & Greer Venture Associates V, L.L.C.	5,969	-
CapitalWorks Cypress Fund II, L.P.	13,888	-
WPG – Farber, Present Institutional Fund, L.P.	16,138	-
Other	<u>13,652</u>	<u>6,138</u>
Total not subject to classification	<u>178,221</u>	<u>108,757</u>
Total investments	<u>\$1,265,131</u>	<u>\$1,232,881</u>

The System's investment policy allows loans 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. At June 30, 2000, loans to U.S. issuers were collateralized by \$32.0 million of cash and \$1.3 million of non-cash collateral, with a market value at 102% of the securities loaned. In addition, at June 30, 2000, loans to non-U.S. issuers were collateralized by \$24.0 million of cash and \$1.2 million of non-cash collateral, with a market value at 105% of the securities loaned. As the System does not have the ability to pledge or sell non-cash collateral without a borrower default, the non-cash collateral the System had received at June 30, 2000, was not included in the accompanying statement of plan net assets. At June 30, 1999, loans to U.S. issuers were collateralized by \$13.0 million of cash with a market value of 101% of the securities loaned. Also, at June 30, 1999, loans to non-U.S. issuers were collateralized by \$30.5 million of cash with a market value at 105% of the securities loaned. 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 System 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 System receives a loan premium and the securities are returned. The System has no credit risk exposure to borrowers because the amount the System owes the borrowers exceeds the amount the borrowers owe the System. As of June 30, 2000 and 1999, the System 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 System if the borrowers fail to return the securities or otherwise fail to pay the System 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. The System'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 31.19 days and 33.30 days at June 30, 2000 and 1999, respectively.

The System engages four 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, 2000, foreign currency losses of approximately \$2.8 million and remeasurement losses of approximately \$6.9 million are included in the accompanying statement of changes in plan net assets as net appreciation in fair value of investments. During the year ended June 30, 1999, foreign currency losses of approximately \$3.5 million and remeasurement losses of approximately \$1.9 million are included in the accompanying statement of changes in plan net assets as net appreciation in fair value of investments.

The System has a master repurchase/reverse repurchase agreement. Under the agreement, the System 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 System did not enter into any transactions under this agreement during fiscal years 2000 or 1999.

The System owns a building originally purchased for approximately \$1.5 million and 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 System utilizes part of the building for its administrative offices and charges itself rent, which is reflected as administrative expense and other investment income. Fair value of the building at June 30, 2000 and 1999, was estimated at \$2.1 million and \$1.9 million, respectively. The System has also invested in ten Limited Partnerships at June 30, 2000, five of which were held as investments at June 30, 1999. The first, PruTimber Fund Two Limited Partnership ("Timber L.P."), invests in timber. Fair value of Timber L.P. was estimated at \$8.2 million and \$8.0 million at June 30, 2000 and 1999, respectively. Timber L.P. expires on December 31, 2008. The second limited partnership, Mount Lucas Fund L.P. ("Futures L.P."), is engaged in speculative trading of commodity futures contracts, options on commodity futures contracts and commodity forward contracts. Futures L.P. expires on December 31, 2013. Fair value of Futures L.P. was estimated at \$10.9 million and \$9.3 million at June 30, 2000 and 1999, respectively. The third limited partnership, Oaktree Capital Management Opportunities Fund II Limited Partnership ("Debt L.P."), invests in distressed debt. The System became a limited partner in Debt L.P. on February 5, 1998, and Debt L.P. has no expiration date. Fair value of Debt L.P. was estimated at \$3.3 million and \$2.8 million at June 30, 2000 and 1999, respectively. The fourth and fifth limited partnerships were invested in during fiscal year 1999 and include TCW/Crescent Mezzanine Partners II Limited Partnership ("TCW") and Marathon Fund Limited Partnership IV ("Marathon"). The fair value of TCW and Marathon were estimated at \$4.7 million and \$1.1 million at June 30, 2000, respectively, and at \$1.0 million and \$0.1 million at June 30, 1999, respectively. TCW was formed for the purpose of allowing qualified investors to pool their assets to invest in privately negotiated subordinated debt and equity securities. Such investments include securities issued in connection with leveraged transactions, specifically management buyouts, acquisitions, refinancings,

recapitalizations and later-stage growth capital financings. Marathon was formed to provide private equity capital to acquire, manage, and resell controlling interests in middle market companies. The sixth and seventh were invested in during fiscal year 2000, when the System became a limited partner in Weiss, Peck & Greer Venture Associates V, L.L.C. ("WPG-V") and Pequot Venture General Partners II L.L.C. ("Pequot"), which were both formed for the purpose of investing in securities of technology and development stage companies. The fair value of WPG-V and Pequot was \$6.0 million and \$394,251 at June 30, 2000, respectively. Eight and nine are two limited partnership investments made during fiscal year 2000 in CapitalWorks Cypress Fund II, L.P. ("CapitalWorks") and WPG-Farber, Present Institutional Fund, L.P. ("WPG-Farber") both of which invest in equity securities and financial transactions. The fair value of CapitalWorks and WPG-Farber at June 30, 2000 were \$13.9 million and \$16.1 million, respectively. The tenth limited partnership investment was also made in fiscal year 2000 in Oak Tree Capital Management Opportunities Fund III, L.P. ("Fund III"), which allows investors to pool their assets to invest in entities experiencing financial difficulties. The majority of Fund III's investments include secured debt obligations, public and private unsecured debt securities, and other debt obligations and equity securities in U.S. entities. The fair value in Fund III at June 30, 2000, was \$2.0 million. The System's investment in the building and the limited partnerships not separately presented on the accompanying statements of plan net assets are included in other investments.

Open future contracts of Futures L.P. are valued at closing market quotations on the last business day of the calendar year, and the resulting change in unrealized gain or loss is reflected in the statements of changes in plan net assets.

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.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of plan assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of changes in plan net assets during the reporting period. Actual results could differ from those estimates.

Contributions to the System and the actuarial information in Exhibits I and II 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.

At June 30, 2000 and 1999, the System owed approximately \$51,000 and \$43,000, respectively, to its employees for accrued vacation.

The System has no capital lease commitments or operating lease commitments with terms greater than one year.

3. ACCOUNTING PRONOUNCEMENTS:

In June of 1999, the GASB issued Statement No. 34 (the "Statement"), "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments." This Statement establishes financial reporting standards for state and local governments. The requirements of this Statement are effective for periods beginning after June 15, 2001, in three phases based on a government's total annual revenues in the first fiscal year ending after June 15, 1999. As this Statement primarily relates to disclosure requirements, no impact is expected on the System's net assets or changes in its net assets.

4. PLAN TERMINATION AND STATE FUNDING:

The System 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 System is based on statutorily determined amounts rather than the actuarial calculations of the amount required to fund the Plan.

5. TAX STATUS:

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

6. HISTORICAL INFORMATION:

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

7. CONTINGENCIES:

The System 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 System.

OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
(In millions)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) – Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b - a)/c)</u>
June 30, 1991	\$ 428	\$ 604	\$ 176	70.9%	\$ 96	183.3%
June 30, 1992	\$ 468	\$ 653	\$ 185	71.7%	\$ 100	185.0%
June 30, 1993	\$ 549	\$ 686	\$ 137	80.0%	\$ 106	129.2%
June 30, 1994	\$ 602	\$ 758	\$ 156	79.4%	\$ 108	144.4%
June 30, 1995	\$ 665	\$ 798	\$ 133	83.3%	\$ 113	117.7%
June 30, 1996 (d)	\$ 739	\$ 831	\$ 92	88.9%	\$ 114	80.7%
June 30, 1997	\$ 828	\$ 877	\$ 49	94.4%	\$ 123	39.8%
June 30, 1998	\$ 967	\$1,092	\$ 125	88.5%	\$ 129	96.9%
June 30, 1999 (e)	\$1,094	\$1,160	\$ 66	94.3%	\$ 139	47.4%
June 30, 2000	\$1,222	\$1,355	\$ 133	90.2%	\$ 149	89.3%

(d) Revised economic and noneconomic assumptions due to experience review.

(e) Includes assumption which reflects 1% cost-of-living increases in future years.

OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM

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

<u>Year Ended</u>	<u>Annual Required Contributions</u>	<u>Contributions by Source</u>			<u>Percentage Contributed</u>
		<u>Employer Contributions</u>	<u>State Contributions</u>	<u>Total</u>	
June 30, 1991	\$27,676	\$ 9,530	11,963	21,493	78%
June 30, 1992	29,638	10,670	12,791	23,461	79%
June 30, 1993	32,460	11,776	13,008	24,784	76%
June 30, 1994	29,026	13,345	14,413	27,758	96%
June 30, 1995	31,960	14,469	14,555	29,024	91%
June 30, 1996	30,944	16,112	15,150	31,262	101%
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%

OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

The information presented in the required supplementary schedules was determined as part of an actuarial valuation by an independent enrolled actuary (William M. Mercer, Inc.) at the dates indicated. Additional information as of the June 30, 2000, valuation follows:

	<u>Assumptions</u>
Actuarial cost method	Entry age
Amortization method	Level dollar-closed
Remaining amortization	10 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 five 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*	5.0% to 19.0%
Cost-of-living adjustments	Police officers eligible to receive increased benefits according to repealed Section 50-120 of Title 11 of the Oklahoma Statutes pursuant to a court order, receive an adjustment of 1/3 to 1/2 of the increase or decrease of any adjustment to the base salary of a regular police officer, based on an increase in base salary equal to the average increase over the five prior years. Members not eligible for this automatic increase are assumed to receive a 1% annual increase in benefits during each year of retirement. This percentage increased from 1% to 2% beginning July 1, 2000, and will affect the System's funding in future years.

* Includes inflation at 4.0%



**Report of Independent Public Accountants on Compliance
and on Internal Control Over Financial Reporting**

To the Oklahoma Police Pension
and Retirement Board:

We have audited the financial statements of the Oklahoma Police Pension and Retirement System (the "System") as of and for the year ended June 30, 2000, and have issued our report thereon dated September 1, 2000. 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* (1994 revision), issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the System'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 assurance 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 over financial reporting that might be material weaknesses. A material weakness is a 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 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.

However, we noted other matters involving the internal control over financial reporting that we have reported to the System's management.

This report is intended solely for the information and the use of the Oklahoma Police Pension and Retirement Board and management and is not intended to be and should not be used by anyone other than these specified parties.

Oklahoma City, Oklahoma,
September 1, 2000

Arthur Andersen LLP