



# **Oklahoma Police Pension and Retirement System**

## *Financial Statements*

June 30, 2001 and 2000  
(With Independent Auditors' Report Thereon)

**Finley & Cook, PLLC**

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**Certified Public Accountants**



# Finley & Cook, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

To the Oklahoma Police Pension and Retirement Board

We have audited the accompanying statement of plan net assets of the Oklahoma Police Pension and Retirement System (the "System") as of June 30, 2001, and the related statement of changes in plan net assets for the year 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 audit. The financial statements for the year ended June 30, 2000, were audited by other auditors whose report dated September 1, 2000, expressed an unqualified opinion.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 audit provides 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, 2001, and the changes in its financial status for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was 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 and 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 audit 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 August 31, 2001. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Shawnee, Oklahoma  
August 31, 2001

*Finley & Cook, PLLC*





## OKLAHOMA POLICE PENSION & RETIREMENT SYSTEM

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### MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Oklahoma Police Pension and Retirement System's (the "System") financial performance provides an overview of the System's activities for the fiscal year ended June 30, 2001. Please read it in conjunction with the System's financial statements, which begin on page 2.

### 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 statement of plan net assets represents the fair market value of the System's assets as of the end of the fiscal year. The statement of changes in net assets is 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 changes in net assets between June 30, 2001 and 2000:

	2001	2000	% Increase (Decrease)
	<i>(amounts in thousands)</i>		
Cash and short-term investments	\$ 53,928	111,837	(51.8)%
Receivables	11,551	8,108	42.5%
Investments at fair value	1,239,236	1,265,131	(2.0)%
Total assets	1,304,715	1,385,076	(5.8)%
Liabilities	94,669	93,201	1.6%
Net assets	\$ 1,210,046	1,291,875	(6.3)%

## MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

### CONDENSED FINANCIAL INFORMATION COMPARING THE CURRENT YEAR TO THE PRIOR YEAR, CONTINUED

**Operating Income:** The following table summarizes the changes in operating income between fiscal years 2001 and 2000:

	2001	2000	% Increase (Decrease)
	<i>(amounts in thousands)</i>		
Contributions	\$ 51,840	48,941	5.9%
Net investment income (loss)	(70,101)	106,600	(165.8)%
Total additions	(18,261)	155,541	(112.2)%
Benefits paid	48,903	44,966	8.8%
Deferred option benefits paid	13,315	12,178	9.3%
Administrative expenses	1,350	1,052	28.3%
Total deductions	63,568	58,196	9.2%
(Decrease) increase in net assets	\$ (81,829)	97,345	(184.1)%

### 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. Funding is also received from the State Insurance Department for the System's share of insurance premium taxes. Total contributions increased during the fiscal year 2001, as a new participating city was added, and new officers joined the System from existing cities. Accounts receivable increased by approximately 43% over the previous year, principally due to a payment received from the State Insurance Department which was not deposited until July of 2001.

Investment income declined during the year as a result of the decline in the overall performance of the stock market for the fiscal year 2001. The amount of losses were limited, however, due to the diversity of the System's investment portfolio. As the System accounts for its investments at market value, declines in the prices of stocks and bonds have a direct effect and impact on the operating results of the System for the year. The System's net yield on its average assets was approximately negative 5%, which compares to a yield of negative 14% for the S&P 500 during that same period.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED**

### **ANALYSIS OF THE OVERALL FINANCIAL POSITION AND RESULTS OF OPERATIONS, CONTINUED**

Benefit payments increased during the year by approximately 9%. This is due to an increase in retirees for the year and a legislative cost of living increase which became effective July 1, 2000, increasing all benefit payments by a minimum of 4.7% over the previous year.

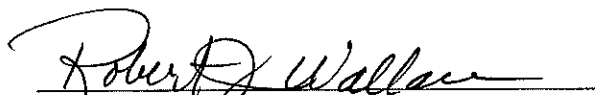
Administrative expenses increased by approximately 28% from the fiscal year 2000 to 2001. The major components of the administrative expenses are payroll and related expenses for the employees of the System, legal fees, computers and software, and expenses related to physical examinations of police officers entering the System. The increase for the year was related primarily to costs associated with new software development for the System.


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.

Other than changes in the value of System assets as impacted by the stock market, no other items are known by management to have a significant impact on the operations or financial position of the System as of September 10, 2001.

  
Robert J. Wallace, Executive Director

  
Judy Cong, Comptroller

# OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM

## STATEMENTS OF PLAN NET ASSETS

June 30, 2001 and 2000

	<u>2001</u>	<u>2000</u>
	<i>(Amounts in thousands)</i>	
<b>ASSETS</b>		
Cash	\$ 2	3
Short-term investments	53,926	111,834
Total cash and short-term investments	53,928	111,837
Receivables:		
Interest and dividends receivable	4,750	5,633
Contributions receivable from cities	1,073	1,041
Contributions receivable from participants	582	567
Insurance premium tax receivable	5,146	867
Total receivables	11,551	8,108
Investments, at fair value:		
U.S. Government securities	121,335	118,117
International government securities	27,311	32,109
Domestic corporate bonds	215,727	227,218
International corporate bonds	12,031	5,864
Domestic stocks	485,354	546,734
International stocks	171,804	210,760
Alternative investments	155,329	66,643
Real estate	2,350	2,100
Warrant	1,020	0
Securities lending short-term collateral investment pool	46,975	55,586
Total investments	1,239,236	1,265,131
Total assets	1,304,715	1,385,076

(Continued)

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

# OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM

## STATEMENTS OF PLAN NET ASSETS, CONTINUED

*June 30, 2001 and 2000*

	<u>2001</u>	<u>2000</u>
	<i>(Amounts in thousands)</i>	
<b>LIABILITIES</b>		
Net payable to brokers	17,976	9,052
Accounts payable	1,003	1,175
Deferred option benefits payable	28,715	27,388
Securities lending collateral payable	46,975	55,586
	<hr/>	<hr/>
Total liabilities	94,669	93,201
	<hr/>	<hr/>
Net assets held in trust for pension benefits (a schedule of funding progress is presented in Exhibit I)	\$ 1,210,046	1,291,875
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See Independent Auditors' Report.  
See accompanying notes to financial statements.

# OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM

## STATEMENTS OF CHANGES IN PLAN NET ASSETS

*Years Ended June 30, 2001 and 2000*

	<u>2001</u>	<u>2000</u>
	<i>(Amounts in thousands)</i>	
Contributions:		
Cities	\$ 21,414	20,358
Plan members	11,788	11,241
Insurance premium tax allocation	18,638	17,342
	<hr/>	<hr/>
Total contributions	51,840 ✓	48,941
Investment income from investing activities:		
Net (depreciation) appreciation in fair value of investments	(95,959)	81,769
Interest	22,816 ✓	23,437
Dividends	7,357 ✓	6,804
Other	1,562 ✓	758
	<hr/>	<hr/>
	(64,224)	112,768
Less: investment expense	(6,222) ✓	(6,551)
	<hr/>	<hr/>
Income from investing activities	(70,446)	106,217

(Continued)

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



# OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM

## STATEMENTS OF CHANGES IN PLAN NET ASSETS, CONTINUED

*Years Ended June 30, 2001 and 2000*

	<u>2001</u>	<u>2000</u>
	<i>(Amounts in thousands)</i>	
Investment income from securities lending activities:		
Securities lending income	2,941	2,580
Securities lending expenses:		
Borrower rebates	(2,448)	(2,034)
Management fees	(148)	(163)
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Income from securities lending activities	345	383
	<hr/>	<hr/>
Net investment (loss) income	(70,101)	106,600
	<hr/>	<hr/>
Total additions	(18,261)	155,541
	<hr/>	<hr/>
Benefits paid	47,883	43,788
Deferred option benefits	13,315	12,178
Refunds of contributions	1,020	1,178
Administrative expenses	1,350	1,052
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Total deductions	63,568	58,196
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Net (decrease) increase in net assets	(81,829)	97,345
Net assets held in trust for pension benefits:		
Beginning of year	1,291,875	1,194,530
End of year	<u>\$ 1,210,046</u>	<u>1,291,875</u>

See Independent Auditors' Report.

See accompanying notes to financial statements.

# OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS

*June 30, 2001 and 2000*

### (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 117 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 consisted of:

	<u>2001</u>	<u>2000</u>
Retirees and beneficiaries receiving benefits	2,119	2,042
Vested terminated members	55	53
Deferred Option plan members	366	357
Active plan members:		
Vested	1,730	1,720
Nonvested	2,086	2,058
Total active plan members	<u>3,816</u>	<u>3,778</u>
 Total	<u>6,356</u>	<u>6,230</u>
 Number of participating municipalities	<u>117</u>	<u>115</u>

See Independent Auditors' Report.

# OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

*June 30, 2001 and 2000*

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### (1) DESCRIPTION OF PLAN, CONTINUED

The normal retirement date under the System 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 System. 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 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 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, not to exceed 30 years. 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.

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 \$5,000 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 have died after July 1, 1999.

See Independent Auditors' Report.

# OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

*June 30, 2001 and 2000*

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### (1) DESCRIPTION OF PLAN, CONTINUED

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.

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.

See Independent Auditors' Report.



# OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

*June 30, 2001 and 2000*

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### (1) DESCRIPTION OF PLAN, CONTINUED

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 their 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

#### Investments, Cash, and Short-Term Investment Fund

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, 2001, of U.S. Government obligations, U.S. Corporate bonds, International and U.S. common stock, one venture capital investment, 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, 2000, 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.

See Independent Auditors' Report.

# OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2001 and 2000

### (2) SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

#### Investments, Cash, and Short-Term Investment Fund, Continued

The following table presents the individual securities as of June 30<sup>th</sup> 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>2001</u>				
U.S. common stock	EB Large Cap Stock Index Fund	138,871	\$ 91,469,497	96,516,940
Limited partnership	One -Focus Technology Opportunity Partners, L.P.	75,000	75,000,000	70,724,416
Master trust participation	OCM High Yield Trust	442,118	62,092,765	68,461,937

<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

See Independent Auditors' Report.

# OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

*June 30, 2001 and 2000*

### (2) SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

#### Investments, Cash, and Short-Term Investment Fund, Continued

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

	<u>2001</u>	<u>2000</u>
	<i>(Amounts in thousands)</i>	
Cash on deposit with Custodian	\$ 2	3
Short-term investment fund, variable rate	53,926	111,834
Total cash and short-term investments	<u>\$ 53,928</u>	<u>111,837</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.

#### Risk Categories of Cash

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, 2001 and 2000, cash on deposit with the Custodian and the short-term investment fund were considered Category 3.

At June 30, 2001, the carrying amount of the System's cash deposits were the same as the Custodian's balances at June 30, 2001. 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, 2001.

See Independent Auditors' Report.

# OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

*June 30, 2001 and 2000*

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### (2) SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

#### Risk Categories of Investments

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.

See Independent Auditors' Report.



# OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2001 and 2000

### (2) SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

#### Risk Categories of Investments, Continued

A summary of the System's investments at June 30<sup>th</sup> is as follows:

	<u>2001</u>	<u>2000</u>
	<i>(Amounts in thousands)</i>	
Category 1 Classification:		
U.S. Government obligations	\$ 98,301	104,226
International government securities	25,878	26,114
Domestic corporate bonds	202,840	213,103
International corporate bonds	10,675	5,445
Domestic stocks	483,199	542,047
International stocks	167,027	193,564
Total Category 1	<u>987,920</u>	<u>1,084,499</u>
Category 3 Classification:		
Investments held by brokers/dealers under securities loans for noncash collateral:		
U.S. Government obligations	0	1,027
International government securities	0	1,181
Domestic stocks	0	203
Total Category 3	<u>0</u>	<u>2,411</u>
Not subject to classification:		
Investments held by brokers/dealers under securities loans for cash collateral:		
U.S. Government obligations	23,034	12,864
International government securities	1,433	4,814
Domestic corporate bonds	12,887	14,115
International corporate bonds	1,356	419
Domestic stocks	2,155	4,484
International stocks	4,777	17,196
Securities lending collateral	46,975	55,586
Limited partnerships	155,329	66,643
Real estate	2,350	2,100
Warrants	1,020	0
Total not subject to classification	<u>251,316</u>	<u>178,221</u>
Total investments	<u>\$ 1,239,236</u>	<u>1,265,131</u>

See Independent Auditors' Report.

## OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM

### NOTES TO FINANCIAL STATEMENTS, CONTINUED

*June 30, 2001 and 2000*

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#### (2) SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

##### Securities Lending

The System'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. At June 30, 2001, loans to U.S. issuers were collateralized by \$39 million of cash, which was 102% of the market value of the securities loaned. Also, at June 30, 2001, loans to non-U.S. issuers were collateralized by \$8 million of cash, which was 105.3% of the market value of the securities loaned. At June 30, 2000, loans to U.S. issuers were collateralized by \$32 million of cash and \$1.3 million of non-cash collateral, with a market value of 102% of the securities loaned. In addition, at June 30, 2000, loans to non-U.S. issuers were collateralized by \$24 million of cash and \$1.2 million of non-cash collateral, with a market value of 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. 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, 2001 and 2000, 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 34 days and 31.19 days at June 30, 2001 and 2000, respectively.

See Independent Auditors' Report.

# **OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM**

## **NOTES TO FINANCIAL STATEMENTS, CONTINUED**

*June 30, 2001 and 2000*

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### **(2) SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

#### **Foreign Currency Transactions**

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, 2001, foreign currency losses of approximately \$5.1 million and remeasurement losses of approximately \$17.1 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, 2000, foreign currency losses of approximately \$1.5 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.

#### **Repurchase/Reverse Repurchase Agreements**

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 2001 or 2000.

See Independent Auditors' Report.

# OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2001 and 2000

### (2) SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

#### Investments in Building and Alternative Investments

The System 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 System 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, 2001 and 2000, was estimated at \$2.3 million and \$2.1 million, respectively. The System has also invested in fifteen alternative investments such as limited partnerships and limited liability companies. A summary of the alternative investments at June 30 are summarized in the following table.

<u>Investment</u>	<u>Purpose</u>	Fair Market Value as of June 30,	
		<u>2001</u>	<u>2000</u>
<i>PruTimber Fund II, LP</i>	Invests in timber	\$ 8,067	8,153
<i>Mount Lucas Fund, LP</i>	Speculative trading of commodity futures contracts, options on future contracts and forward contracts	12,952	10,943
<i>OCM Opportunities Fund II, LP</i>	Invests in distressed debt	3,343	3,280
<i>TCW/Crescent Mezzanine Partners II, LP</i>	Invests in privately negotiated subordinated debt and equity securities	5,962	4,741
<i>Marathon Fund IV, LP</i>	To acquire, manage, and resell controlling interests in middle market companies	4,631	1,148
<i>Weiss, Peck, &amp; Greer Venture Associates V, LLC</i>	Invests in the securities of technology and development stage companies	6,011	5,969

(Continued)

See Independent Auditors' Report.



# OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2001 and 2000

### (2) SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

#### Investments in Building and Alternative Investments, Continued

<u>Investment</u>	<u>Purpose</u>	Fair Market Value as of June 30,	
		<u>2001</u>	<u>2000</u>
<i>Pequot Venture General Partners II, LLC</i>	Invests in the securities of technology and development stage companies	\$ 477	394
<i>Capital Works Cypress Fund II, LP</i>	Invests in equity securities and financial transactions	14,016	13,888
<i>WPG-Farber, Present Institutional Fund, LP</i>	Invests in equity securities and financial transactions	15,124	16,138
<i>Oak Tree Capital Mgmt Opportunities Fund III, LP</i>	Invests in entities experiencing financial difficulties	5,229	1,989
<i>Accel Europe, LP</i>	Invests in companies that are companies organized outside the U.S.	467	0
<i>Pequot Private Equity Fund III, LP</i>	Invests in equity securities	2,670	0
<i>Venture Lending &amp; Leasing III, LLC</i>	Debt financing and direct investment in equity securities of venture capital-backed companies	4,000	0
<i>WPG Venture Associates VI, LP</i>	Invests in securities issued primarily in start-ups, early stage ventures, and expansion stage companies focusing in technology	1,656	0
<i>One Focus-Technology Opportunity Partners, LP</i>	Invests primarily in the technology sector	70,724	0
Total		<u>\$155,329</u>	<u>66,643</u>

See Independent Auditors' Report.

# OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

*June 30, 2001 and 2000*

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### (2) SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

#### Warrants

The System has received a warrant issued by CapitalWorks Partners, LLC, which expires on October 1, 2006. The warrant may be exercised upon delivery of 90 days written notice from the System at any time before the expiration date. The System 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 1<sup>st</sup> 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, 2001, at \$1,020,000, assuming an investment growth rate of 9%.

#### Futures Contracts

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.

#### 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.

#### Use of Estimates

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.

See Independent Auditors' Report.

# OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

*June 30, 2001 and 2000*

### (2) SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

#### Risks and Uncertainties

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.

#### Administrative Items

##### *Operating Leases:*

The System has an operating lease which ended June 30, 2001. The lease has been renewed for the period July 1, 2001, through June 30, 2002. Total lease expense for 2001 and 2000 was approximately \$39,000 and \$36,000, respectively.

##### *Compensated Absences:*

Employees of the System earn annual vacation leave at the rate of 6.7 hours per month for up to 5 years of service, 10 hours per month for service of 5 to 10 years, 13.3 hours per month for 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, 2001 and 2000, approximately \$51,000 and \$59,000, respectively, was included in accrued expenses as the accruals for compensated absences.

The change in the accrual for compensated absences was as follows:

Balance at June 30, 2000	\$ 51,000
Additions	24,702
Amount used	<u>(16,782)</u>
Balance at June 30, 2001	<u>\$ 58,920</u>

See Independent Auditors' Report.

# OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

*June 30, 2001 and 2000*

### (2) 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, 6601 N. Broadway Extension, Oklahoma City, OK 73114.

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 10% of annual covered payroll. During 2001 and 2000, a total of \$46,605 and \$43,597, respectively, was paid to OPERS. The System's and employees' portion of those amounts were as follows:

	<u>2001</u>	<u>2000</u>
System portion	\$ 35,182	33,160
Employee portion	11,423	10,437
	<u>\$ 46,605</u>	<u>43,597</u>

### (3) ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments," was implemented by the State of Oklahoma as of July 1, 2000. As Statement No. 34 primarily relates to disclosure requirements, there was no impact on the System's net assets or changes in net assets. The adoption of Statement No. 34 did however required the System to present a Management's Discussion and Analysis (MD&A), in addition to the financial statements. MD&A is considered to be required supplemental data and precedes the financial statements.

See Independent Auditors' Report.



# OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

*June 30, 2001 and 2000*

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### (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 System.

### (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.

See Independent Auditors' Report.

**OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM**

**REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF FUNDING PROGRESS**

**June 30, 2001**

(Amounts are in thousands)

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, 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 (a)	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 (b)	1,094	1,160	66	94.3%	139	47.4%
June 30, 2000	1,222	1,355	133	90.2%	149	89.3%
<b>June 30, 2001</b>	<b>1,319</b>	<b>1,443</b>	<b>124</b>	<b>91.4%</b>	<b>154</b>	<b>81.1%</b>

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

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

Exhibit II**OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM****REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYER AND OTHER CONTRIBUTING ENTITIES**June 30, 2001

(Amounts are in thousands)

<u>Year Ended</u>	<u>Annual Required Contributions</u>	<u>Contributions by Source</u>		<u>Total</u>	<u>Percentage Contributed</u>
		<u>Employer Contributions</u>	<u>State Contributions</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%
<b>June 30, 2001</b>	<b>53,043</b>	<b>21,414</b>	<b>19,538</b>	<b>40,052</b>	<b>76%</b>

**OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM****NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**June 30, 2001

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, 2001, valuation follows:

**Assumptions**

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 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*:	5.0% to 19.0%
Cost-of-living adjustments:	Police officers eligible to receive increased benefits according to repealed Section 50120 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 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.

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\* Includes inflation at 3.0%



**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, 2001, and have issued our report thereon dated August 31, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, 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.

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.

*Finley & Cook, PLLC*

Shawnee, Oklahoma  
August 31, 2001