



Oklahoma Police Pension and Retirement System

Financial Statements

June 30, 2003 and 2002
(With Independent Auditors' Report Thereon)

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 System (the "System") as of June 30, 2003 and 2002, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the System'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 System as of June 30, 2003 and 2002, and the changes in net assets for the years then ended in conformity with accounting principles generally accepted in the United States.

Our audits are 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.

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INDEPENDENT AUDITORS' REPORT, CONTINUED

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 29 2003. 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.

Finley & Cook, PLLC

Shawnee, Oklahoma
August 29, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

As management of the Oklahoma Police Pension and Retirement System (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, 2003 and 2002. Please read it in conjunction with the System's financial statements, which begin on page 3.

Financial Highlights

	June 30,	
	<u>2003</u>	<u>2002</u>
	<i>(Amounts in Thousands)</i>	
• Net assets of the System	\$ 1,152,955	1,128,292
• Contributions:		
Cities	23,738	22,411
Plan members	12,879	12,367
Insurance premium tax	20,400	19,811
• Net investment income (loss)	39,998	(68,857)
• Benefits paid, including refunds and deferred option benefits	70,422	65,806
• Change in net assets	24,663	(81,754)

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 plan 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

CONDENSED FINANCIAL INFORMATION COMPARING THE CURRENT YEAR TO THE PRIOR YEAR

Net Assets: The following table summarizes the net assets as of June 30, 2003 and 2002:

	<u>2003</u>	<u>2002</u>	<u>% Increase</u> <u>(Decrease)</u>
	<i>(Amounts in Thousands)</i>		
Cash and cash equivalents	\$ 44,866	62,063	(27.7)%
Receivables	11,387	7,116	60.0%
Investments at fair value	<u>1,244,865</u>	<u>1,166,945</u>	6.7%
Total assets	<u>1,301,118</u>	<u>1,236,124</u>	5.3%
 Liabilities	 <u>148,163</u>	 <u>107,832</u>	 37.4%
 Net assets	 <u>\$ 1,152,955</u>	 <u>1,128,292</u>	 2.2%

Operating Income: The following table summarizes the changes in net assets between fiscal years 2003 and 2002:

	<u>2003</u>	<u>2002</u>	<u>% Increase</u> <u>(Decrease)</u>
	<i>(Amounts in Thousands)</i>		
Additions			
Contributions	\$ 57,017	54,589	4.4%
Net investment income (loss)	<u>39,998</u>	<u>(68,857)</u>	(158.1)%
Total additions	<u>97,015</u>	<u>(14,268)</u>	(779.9)%
 Deductions			
Benefits paid	56,447	52,336	7.9%
Deferred option benefits paid	13,975	13,470	3.7%
Administrative expenses	<u>1,930</u>	<u>1,680</u>	14.9%
Total deductions	<u>72,352</u>	<u>67,486</u>	7.2%
 Increase (decrease) in net assets	 <u>\$ 24,663</u>	 <u>(81,754)</u>	 (130.2)%

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

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 of Oklahoma Insurance Department for the System's share of insurance premium taxes. Total contributions increased during the fiscal year 2002, as new officers joined the System from existing cities. Accounts receivable increased by approximately 60% from the previous year, principally due to a payment received from the State Insurance Department which was accrued for at June 30, 2003, and deposited in July of 2003.

Investment income declined during the year ended June 30, 2002, as a result of the decline in the overall value of the investment markets for fiscal year 2002. The amount of loss was limited, however, due to the diversity of the System's investment portfolio. Investment income increased during the year ended June 30, 2003, as a result of market increases. 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, 2003, and 2002, and the yield for the S&P 500 during the same period, was as follows:

	<u>2003</u>	<u>2002</u>
System yield on average assets	3.4%	(5)%
S&P 500	< 1%	(18)%

Benefit payments increased during the year by approximately 7.9%. This was principally due to an increase in retirees for the year and cost-of-living adjustments made during the year.

Administrative expenses increased by approximately 14.9% from the fiscal year 2002 to 2003. The major components of the administrative expenses are payroll and related expenses for the employees of the System, legal fees, computer and software expenses, and expenses related to the cost of review of physical examinations of police officers entering the System. The increase for the year was related to various immaterial increases in related administrative expenses.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

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

During the 2003 Legislative Session, Senate House Bill 206 reallocated revenue the System previously received from insurance premium taxes to the Education Reform Revolving Fund for fiscal year 2004. The System received approximately \$20 million from the insurance premium taxes in each of the last two years.

Other than changes in the value of System assets as impacted by the stock market, and the effects of not receiving insurance premium taxes for the next fiscal year, no other items were known by management to have a significant impact on the operations or financial position of the System as of August 29, 2003.

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 SYSTEM

STATEMENTS OF PLAN NET ASSETS

<i>June 30,</i>	<i>2003</i>	<i>2002</i>
	<i>(Amounts in Thousands)</i>	
Assets		
Cash and cash equivalents	\$ 44,866	62,063
Receivables:		
Interest and dividends receivable	3,841	4,724
Contributions receivable from cities	1,271	1,184
Contributions receivable from participants	698	643
Insurance premium tax receivable	5,577	565
Total receivables	11,387	7,116
Investments, at fair value:		
U.S. Government securities	45,190	96,054
International government securities	43,523	26,992
Domestic corporate bonds	234,996	214,213
International corporate bonds	7,232	9,408
Domestic stocks	433,962	395,766
International stocks	145,640	166,542
Alternative investments	221,874	194,960
Real estate	2,550	2,450
Warrants	770	640
Securities lending collateral	109,128	59,920
Total investments, at fair value	1,244,865	1,166,945
Total assets	1,301,118	1,236,124
Liabilities		
Net payable to brokers	8,935	18,567
Accounts payable	729	1,001
Deferred option benefits payable	29,371	28,344
Securities lending collateral	109,128	59,920
Total liabilities	148,163	107,832
Net assets held in trust for pension benefits (Schedule of Funding Progress is presented in Exhibit I)	\$ 1,152,955	1,128,292

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

OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM

STATEMENTS OF CHANGES IN PLAN NET ASSETS

<i>Years Ended June 30,</i>	<i>2003</i>	<i>2002</i>
	<i>(Amounts in Thousands)</i>	
Additions		
Contributions:		
Cities	\$ 23,738	22,411
Plan members	12,879	12,367
Insurance premium tax allocation	20,400	19,811
Total contributions	<u>57,017</u>	<u>54,589</u>
Investment income (loss):		
From investing activities:		
Net appreciation (depreciation) in fair value of investments	28,840	(86,883)
Interest	13,821	17,554
Dividends	6,762	7,004
Partnership (loss)	(2,933)	-
Other	226	887
Total investment income (loss)	<u>46,716</u>	<u>(61,438)</u>
Less - Investment expense	<u>(6,983)</u>	<u>(7,689)</u>
Income (loss) from investing activities	<u>39,733</u>	<u>(69,127)</u>
From securities lending activities:		
Securities lending income	1,090	1,556
Securities lending expenses:		
Borrower rebates	(710)	(1,175)
Management fees	<u>(115)</u>	<u>(111)</u>
Income from securities lending activities	<u>265</u>	<u>270</u>
Net investment income (loss)	<u>39,998</u>	<u>(68,857)</u>
Total additions (decrease)	<u>97,015</u>	<u>(14,268)</u>
Deductions		
Benefits paid	55,239	51,106
Deferred option benefits	13,975	13,470
Refunds of contributions	1,208	1,230
Administrative expenses	<u>1,930</u>	<u>1,680</u>
Total deductions	<u>72,352</u>	<u>67,486</u>
Net increase (decrease) in net assets	<u>24,663</u>	<u>(81,754)</u>
Net assets held in trust for pension benefits:		
Beginning of year	<u>1,128,292</u>	<u>1,210,046</u>
End of year	<u>\$ 1,152,955</u>	<u>1,128,292</u>

See Independent Auditors' Report.

See accompanying notes to financial statements.

OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

June 30, 2003 and 2002

(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 121 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:

	<u>2003</u>	<u>2002</u>
Retirees and beneficiaries receiving benefits	2,290	2,205
Vested members with deferred benefits	52	52
Deferred Option plan members	<u>324</u>	<u>361</u>
	<u>2,666</u>	<u>2,618</u>
Active plan members:		
Vested	1,774	1,755
Nonvested	<u>2,106</u>	<u>2,081</u>
Total active plan members	<u>3,880</u>	<u>3,836</u>
Total	<u>6,546</u>	<u>6,454</u>
Number of participating municipalities	<u>121</u>	<u>117</u>

See Independent Auditors' Report.

OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) DESCRIPTION OF PLAN, CONTINUED

Benefits

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. 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. 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.

OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(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. 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.

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. 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.

See Independent Auditors' Report.

OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) DESCRIPTION OF PLAN, CONTINUED

Contributions

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) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following are the significant accounting policies followed by the System.

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 System.

The System is a component unit of the State of Oklahoma (the State), which together with other similar funds comprise the fiduciary-pension trust funds of the State.

See Independent Auditors' Report.

OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Investments, Cash, and Short-Term Investment Fund

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

System 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 System's custodial agent, which is valued at cost, which approximates fair value. Debt and equity securities are reported at fair value, as determined by the System'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 System 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 (depreciation) 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 (depreciation) in the fair value of investments. Investment income from real estate includes the System's share of income from operations, net appreciation in the fair value of the underlying real estate properties, and the System'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.

The System'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 System invests in various traditional financial instruments that fall under the broad definition of derivatives. The System'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 System's investment policy.

See Independent Auditors' Report.

OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

The System'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 that such changes could materially affect the amounts reported in the statement of plan net assets.

Except as noted below, no single investment exceeds 5% of the System's net assets. The System, at June 30, 2002, 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 of America.

The System invests in domestic equity index funds, domestic equity commingled trust funds, and international equity funds. The System shares the risk of loss in these funds with other participants in proportion to its respective investment. Because the System 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 System 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.

See Independent Auditors' Report.

OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

The following table presents the individual securities exceeding the 5% threshold at June 30:

<u>Type of Security</u> <u>2003</u>	<u>Name of Security</u>	<u>Shares Held</u>	<u>Cost</u>	<u>Market Value</u>
U.S. common stocks	SSGA Index Plus SL Fund	3,388,140	\$ 87,076,891	97,100,693
U.S. common stocks	EB Large Cap Stock Index Fund	260,655	155,466,390	150,577,670
Limited partnership	One-Focus Technology Opportunity Partners, L.P.	75,000	75,000,000	64,393,131
Master trust participation (primarily corporate fixed income securities)	OCM High Yield Trust	413,559	58,114,022	76,760,994
<u>2002</u>				
U.S. common stocks	EB Large Cap Stock Index Fund	104,885	69,536,568	59,948,490
Limited partnership	One-Focus Technology Opportunity Partners, L.P.	75,000	75,000,000	63,660,801
Master trust participation (primarily corporate fixed income securities)	OCM High Yield Trust	442,118	62,092,765	70,159,319

See Independent Auditors' Report.

OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

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

	<u>2003</u>	<u>2002</u>
	<i>(Amounts in Thousands)</i>	
Cash on deposit with the Custodian	\$ 19	(261)
Short-term investment fund, variable rate	<u>44,847</u>	<u>62,324</u>
Total cash and cash equivalents	<u>\$ 44,866</u>	<u>62,063</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 Governmental Accounting Standards Board issued Statement No. 3, "Deposits with Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements" (GASB No. 3). 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, 2003 and 2002, cash on deposit with the Custodian and the short-term investment fund were considered Category 3.

At June 30, 2003 and 2002, the carrying amount of the System's cash deposits was the same as the Custodian's balance. The Custodian's balance of deposits is not insured or registered by the Custodian. This amount is 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 balance at June 30, 2003 and 2002.

See Independent Auditors' Report.

OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF 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.

OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Risk Categories of Investments, Continued

A summary of the System's investments at June 30 is as follows:

	<u>2003</u>	<u>2002</u>
	<i>(Amounts in Thousands)</i>	
Category 1 Classification:		
U.S. Government obligations	\$ 23,914	55,927
International governmental securities	38,147	26,579
Domestic corporate bonds	227,535	206,324
International corporate bonds	7,232	9,283
Domestic stocks	426,433	392,853
International stocks	115,777	159,549
Total Category 1	<u>839,038</u>	<u>850,515</u>
Not subject to classification:		
Investments held by brokers/dealers under securities loans for cash collateral:		
U.S. Government obligations	21,276	40,127
International government securities	5,376	413
Domestic corporate bonds	7,461	7,889
International corporate bonds	-	125
Domestic stocks	7,529	2,913
International stocks	29,863	6,993
Securities lending collateral	109,128	59,920
Limited partnerships	221,874	194,960
Real estate	2,550	2,450
Warrants	770	640
Total not subject to classification	<u>405,827</u>	<u>316,430</u>
Total investments	<u>\$ 1,244,865</u>	<u>1,166,945</u>

See Independent Auditors' Report.

OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF 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, 2003, loans to U.S. issuers were collateralized by \$72 million of cash, which was 102% of the market value of the securities loaned. Also, at June 30, 2003, loans to non-U.S. issuers were collateralized by \$37 million of cash, which was 106% of the market value of the securities loaned. At June 30, 2002, loans to U.S. issuers were collateralized by \$52 million of cash, which was 102% of the market value of the securities loaned. Also, at June 30, 2002, loans to non-U.S. issuers were collateralized by \$8 million of cash, which was 105% of the market value 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, 2003 and 2002, 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, 2003 and 2002, 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 18 days and 27 days at June 30, 2003 and 2002, respectively.

See Independent Auditors' Report.

OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Foreign Currency Transactions

The System 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, 2003, foreign currency gains of approximately \$3.5 million and remeasurement gains of approximately \$15.5 million were 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, 2002, foreign currency losses of approximately \$5.2 million and remeasurement gains of approximately \$32.9 million were 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 2003 or 2002.

Use of Estimates

The preparation of the System's financial statements in conformity with accounting principles generally accepted in the United States requires management of the System 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 System 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.

Risks and Uncertainties

Contributions to the System 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.

See Independent Auditors' Report.

OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Administrative Items

Operating Leases:

The System had an operating lease which ended June 30, 2003. The lease has been renewed for the period July 1, 2003, through June 30, 2004. Total lease expense for 2003 and 2002 was approximately \$39,000 for each year.

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 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, 2003 and 2002, approximately \$55,000 and \$53,000, respectively, was included in accounts payable as the accruals for compensated absences.

The changes in the accrual for compensated absences for the years ended June 30 were as follows:

	<u>2003</u>	<u>2002</u>
Balance at beginning of year	\$ 53,356	58,920
Additions	29,377	28,216
Amount used	<u>(27,364)</u>	<u>(33,780)</u>
Balance at end of year	<u>\$ 55,369</u>	<u>53,356</u>

See Independent Auditors' Report.

OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(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, 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 2003, 2002, and 2001, a total of \$56,777, \$55,069, and \$46,605, respectively, was paid to OPERS. The System's and employees' portion of those amounts were as follows:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
System portion	\$ 42,931	41,677	35,182
Employee portion	<u>13,846</u>	<u>13,392</u>	<u>11,423</u>
	<u>\$ 56,777</u>	<u>55,069</u>	<u>46,605</u>

See Independent Auditors' Report.

OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) INVESTMENTS IN BUILDING AND ALTERNATIVE INVESTMENTS

Investment in Building

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, 2003 and 2002, was estimated at \$2.5 million and \$2.4 million, respectively.

Alternative Investments

The System 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.

<u>Investment</u>	<u>Purpose</u>	<u>Fair Market Value</u>		
		<u>2003</u>	<u>2002</u>	
<i>(Amounts in Thousands)</i>				
<i>PruTimber Fund II, LP</i>	Invests in timber	\$ 7,422	7,802	
<i>Mount Lucas Fund, LP</i>	Speculative trading of commodity futures contracts, options on future contracts and forward contracts	13,077	12,597	
<i>OCM Opportunities Fund II, LP</i>	Invests in distressed debt	1,657	2,233	
<i>TCW/Crescent Mezzanine Partners II, LP</i>	Invests in privately negotiated subordinated debt and equity securities	2,703	3,435	
<i>Marathon Fund IV, LP</i>	To acquire, manage, and resell controlling interests in middle market companies	3,877	4,704	
<i>Weiss, Peck, & Greer Venture Associates V, LLC</i>	Invests in the securities of technology and development stage companies	3,211	3,804	
(Continued)				

(Continued)

See Independent Auditors' Report.

OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) INVESTMENTS IN BUILDING AND ALTERNATIVE INVESTMENTS, CONTINUED

Alternative Investments, Continued

<u>Investment</u>	<u>Purpose</u>	<u>Fair Market Value</u>	
		<u>2003</u>	<u>2002</u>
<i>(Amounts in Thousands)</i>			
<i>Pequot Venture General Partners II, LLC</i>	Invests in the securities of technology and development stage companies	\$ 246	223
<i>Capital Works Cypress Fund II, LP</i>	Invests in equity securities	12,812	12,121
<i>WPG-Farber, Present Institutional Fund, LP</i>	Invests in equity securities	13,811	14,420
<i>Oak Tree Capital Mgmt Opportunities Fund III, LP</i>	Invests in entities experiencing financial difficulties	3,486	4,980
<i>Accel Europe, LP</i>	Invests in companies that are organized outside the United States	1,081	1,231
<i>Pequot Private Equity Fund III, LP</i>	Invests in equity securities	3,429	2,973
<i>Venture Lending & Leasing III, LLC</i>	Debt financing and direct investment in equity securities of venture capital-backed companies	3,211	4,181
<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	2,371	2,033
(Continued)			

(Continued)

See Independent Auditors' Report.

OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) INVESTMENTS IN BUILDING AND ALTERNATIVE INVESTMENTS, CONTINUED

Alternative Investments, Continued

<u>Investment</u>	<u>Purpose</u>	<u>Fair Market Value</u>	
		<u>2003</u>	<u>2002</u>
<i>(Amounts in Thousands)</i>			
<i>One-Focus Technology Opportunity Partners, LP</i>	Invests primarily in the technology sector	\$ 64,393	63,661
<i>TCW/Crescent Mezzanine Partners III, LP</i>	Invests in privately negotiated subordinated debt and equity securities	5,646	2,279
<i>OCM Opportunities Fund IV, LP</i>	Invests in distressed debt	11,841	5,591
<i>BBT Overseas Partners, LP</i>	Invests in equity securities and financial acquisitions	41,110	42,163
<i>Hicks, Muse, Tate & Furst Equity</i>	Invests in private equity securities and leveraged acquisitions	7,863	4,108
<i>Arsenal Capital Partners, L.P.</i>	Invests in portfolio companies	5,330	-
<i>Siguler Guff Distressed Opportunities Fund, L.L.C.</i>	Invests in securities of companies undergoing distress, operating difficulties and significant reconstructing	10,596	-
<i>Freemont Partners III, LP</i>	Invests in equity securities	2,701	421
<i>Levine Leichtman Capital Partners III, LP</i>	Invests in securities of middle market companies	-	-
		<u>\$ 221,874</u>	<u>194,960</u>

See Independent Auditors' Report.

OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) INVESTMENTS IN BUILDING AND ALTERNATIVE INVESTMENTS, CONTINUED

Alternative Investments, Continued

As of June 30, 2003, the System had a remaining commitment to fund approximately \$80,000,000 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.

(4) WARRANTS

Capital Works Partners, LLC

The System 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 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 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, 2003 and 2002, at \$680,000 and \$570,000, respectively.

Focus Capital Management, LLC

The System has received a warrant issued by Focus Capital Management, LLC, which expires on September 8, 2007. 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 2% after the first year and an additional 2% for each year after that, up to 10%. The System has received a valuation of this warrant, which estimates the fair market value as of June 30, 2003 and 2002, at \$90,000 and \$70,000 respectively.

See Independent Auditors' Report.

OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(5) 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.

(6) 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.

(7) 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.

(8) 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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(9) LEGISLATIVE AMENDMENTS

Senate Bill 206 provides that, for the fiscal year ending June 30, 2004, the dedicated revenue composed of insurance premium tax allocations shall be deposited to the credit of the Education Reform Revolving Fund instead of the System. The insurance premium tax allocations were used to fund benefit payments. As a result of this event, the System will need to maintain adequate cash reserves to fund benefit payments. The insurance premium tax allocations amounted to approximately \$20 million in both 2003 and 2002.

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.

OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM

REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF FUNDING PROGRESS

(In Millions)

June 30, 2003

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial 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%

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

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

OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM**REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF CONTRIBUTIONS FROM
THE EMPLOYER AND OTHER CONTRIBUTING ENTITIES***(In Thousands)**June 30, 2003*

Year Ended	Annual Required Contributions	Contributions by Source		Total	Percentage Contributed
		Employer Contributions	State Contributions		
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%

See Independent Auditors' Report.

See accompanying notes to required supplementary information.

OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

June 30, 2003

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, 2003, 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% to 19%
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 $\frac{1}{2}$ to $\frac{1}{2}$ 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.

* Includes inflation at 3%.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
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 System (the "System") as of and for the year ended June 30, 2003, and have issued our report thereon dated August 29, 2003, which included 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.

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 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

Shawnee, Oklahoma
August 29, 2003