Oklahoma Police Pension and Retirement System

Administered by Oklahoma Police Pension and Retirement Systems

Financial Statements

June 30, 2004 and 2003 (With Independents Auditors' Report Thereon)

FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of plan net assets of the Oklahoma Police Pension and Retirement Plan (the "Plan"), administered by the Oklahoma Police Pension and Retirement System, which is a part of the State of Oklahoma financial reporting entity, as of June 30, 2004 and 2003, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Plan as of June 30, 2004 and 2003, and the changes in the net assets of the Plan for the years then ended in conformity with accounting principles generally accepted in the United States.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplementary information contained in Management's Discussion and Analysis, the Schedule of Funding Progress, and the Schedule of Contributions from the Employer and Other Contributing Entities is not required as part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it.

(Continued)

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 September 2, 2004. 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

September 2, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Oklahoma Police Pension and Retirement Plan administered by the Oklahoma Police Pension and Retirement System (collectively referred to as the "System"), we offer readers of the System's financial statements this narrative overview and analysis of the financial statements of the System for the fiscal years ended June 30, 2004 and 2003. Please read it in conjunction with the System's financial statements, which begin on page 3.

Financial Highlights

	rmanciai ingu	<u>пунь</u>	June 30,	
			2004	2003
			(Amounts in Th	ousands)
•	Net assets of the System	\$	1,288,525	1,152,955
	Contributions:			
	Cities		23,915	23,738
	Plan members		13,412	12,879
	Insurance premium tax		-	20,400
•	Net investment income		174,962	39,998
•	Benefits paid, including refunds and deferred option benefits		74,492	70,422
•	Change in net assets		135,570	24,663

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, 2004 and 2003:

			% Increase
	2004	2003	(Decrease)
	(Amounts in T	housands)	
Cash and cash equivalents	\$ 11,576	44,866	(74.2)%
Receivables	4,332	11,387	(62.0)%
Investments at fair value	 1,372,764	1,244,865	10.3%
Total assets	 1,388,672	1,301,118	6.7%
Liabilities	 100,147	148,163	(32.4)%
Net assets	\$ 1,288,525	1,152,955	11.8%

Operating Income: The following table summarizes the changes in net assets between fiscal years 2004 and 2003:

				% Increase
		2004	2003	(Decrease)
		(Amounts in Th	housands)	
Additions				
Contributions	\$	37,327	57,017	(34.5)%
Net investment income		174,962	39,998	337.4%
Total additions		212,289	97,015	118.8%
Deductions				
Benefits paid		59,049	56,447	4.6%
Deferred option benefits paid		14,947	13,975	7.0%
Back drop benefits paid		496	-	
Administrative expenses		2,227	1,930	15.4%
Total deductions	····	76,719	72,352	6.0%
Increase in net assets	\$	135,570	24,663	449.7%

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. Total contributions decreased during the fiscal year 2004, as the System did not receive payments from the State Insurance Department. These will be received in fiscal year 2005. Accounts receivable decreased by approximately 62% 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. The System has not received payments from the State Insurance Department since July 1, 2003.

Investment income increased during the year ended June 30, 2004 and 2003, as a result of market increase. 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, 2004 and 2003, and the yield for the S&P 500 during the same period, was as follows:

	2004	2003
System yield on average assets	15.4%	3.4%
S&P 500	19.1%	< 1%

Benefit payments increased during the year by approximately 4.6%. This was principally due to an increase in retirees for the year and cost-of-living adjustments made during the year.

Administrative expenses are composed primarily of payroll and related expenses for the employees of the System, legal fees, computer and software expenses, and travel cost. Salaries increased by 7% in fiscal year 2004. Legal fees increased 104% due to an ongoing lawsuit. Travel cost increased 16% as there were new board members who needed to attend training. The overall increase in administrative expenses of 15.4% is due to these and other immaterial increases.

The System has no debt or infrastructure assets.

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

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

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 2003. The System began receiving insurance premium taxes again in July 2004.

Other than changes in the value of System assets as impacted by the stock market, and the effects of not receiving insurance premium taxes in the current 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 June 2004.

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.

STATEMENTS OF PLAN NET ASSETS

June 30,	2004	2003
	(Amounts in T	housands)
Assets		
Cash and cash equivalents	\$ 11,576	44,866
Receivables:		
Interest and dividends receivable	2,759	3,841
Contributions receivable from cities	1,006	1,271
Contributions receivable from participants	567	698
Insurance premium tax receivable		5,577
Total receivables	4,332	11,387
Investments, at fair value:		
U.S. Government securities	37,153	45,190
International government securities	38,042	43,523
Domestic corporate bonds	211,589	234,996
International corporate bonds	11,189	7,232
Domestic stocks	573,238	433,962
International stocks	63,981	145,640
Alternative investments	366,385	221,874
Real estate	2,650	2,550
Warrants	920	770
Securities lending collateral	67,617	109,128
Total investments, at fair value	1,372,764	1,244,865
Total assets	1,388,672	1,301,118
Liabilities		
Net payable to brokers	966	8,935
Accounts payable	760	729
Deferred option benefits payable	30,804	29,371
Securities lending collateral	67,617	109,128
Total liabilities	100,147	148,163
Net assets held in trust for pension benefits (Schedule of		
Funding Progress is presented in Exhibit I)	\$ 1,288,525	1,152,955

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

STATEMENTS OF CHANGES IN PLAN NET ASSETS

Years Ended June 30,	2004	2003
	(Amounts in Thousands)	
Additions		
Contributions:		
Cities	\$ 23,915	23,738
Plan members	13,412	12,879
Insurance premium tax allocation		20,400
Total contributions	37,327	57,017
Investment income (loss):		
From investing activities:		
Net appreciation in fair value of investments	164,862	28,840
Interest	11,535	13,821
Dividends	3,651	6,762
Partnership income (loss)	1,316	(2,933)
Other	1,831	226
Total investment income	183,195	46,716
Less - investment expense	(8,466)	(6,983)
Income from investing activities	174,729	39,733
From securities lending activities:		
Securities lending income	910	1,090
Securities lending expenses:		
Borrower rebates	(583)	(710)
Management fees	(94) _	(115)
Income from securities lending activities	233	265
Net investment income	174,962	39,998
Total additions	212,289	97,015
Deductions		
Benefits paid	57,922	55,239
Deferred option benefits	14,947	13,975
Back drop payments	496	-
Refunds of contributions	1,127	1,208
Administrative expenses	2,227	1,930
Total deductions	76,719	72,352
Net increase in net assets	135,570	24,663
Net assets held in trust for pension benefits:	1 150 055	1 100 000
Beginning of year	1,152,955	1,128,292
End of year	<u>\$ 1,288,525</u>	1,152,955

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2004 and 2003

(1) <u>DESCRIPTION OF PLAN</u>

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:

	2004	2003
Retirees and beneficiaries receiving benefits	2,373	2,290
Vested members with deferred benefits	74	52
Deferred Option plan members	284	324
	2,731	2,666
Active plan members:		
Vested	1,817	1,774
Nonvested	2,078	2,106
Total active plan members	3,895	3,880
Total	6,626	6,546
Number of participating municipalities	121	121

The System administers the Oklahoma Police Pension and Retirement Plan (the "Plan"). For report purposes, the System is deemed to be the administrator of the Plan.

See Independent Auditors' Report.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) <u>DESCRIPTION OF PLAN, CONTINUED</u>

Benefits

The normal retirement date under the Plan is the date upon which the participant completes 20 years of credited service, regardless of age. Participants become vested upon completing 10 years of credited service as a contributing participant of the Plan. No vesting occurs prior to completing 10 years of credited service. Participants' contributions are refundable, without interest, upon termination prior to normal retirement. Participants who have completed 10 years of credited service may elect a vested benefit in lieu of having their accumulated contributions refunded. If the vested benefit is elected, the participant is entitled to a monthly retirement benefit commencing on the date the participant reaches 50 years of age or the date the participant would have had 20 years of credited service had employment continued uninterrupted, whichever is later.

Monthly retirement benefits are calculated at 2.5% of the final average salary (defined as the average paid base salary of the officer over the highest 30 consecutive months of the last 60 months of credited service) multiplied by the years of credited service, with a maximum of 30 years of credited service considered.

Monthly benefits for participants due to permanent disability incurred in the line of duty are 2.5% of the participants' final average salary multiplied by 20 years. This disability benefit is reduced by stated percentages for partial disability based on the percentage 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.

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 Plan, 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.

In the 2003 Legislative Session, Senate Bill 688 and House Bill 1464 created a "Back" DROP for members of the System. The "Back" DROP is a modified deferred retirement option retirement plan. The "Back" DROP allows the member flexibility by not having to commit to terminate employment within 5 years. Once a member has met their normal retirement period of 20 years, the member can choose, upon retirement, to be treated as if the member had entered into the DROP. A member, however, cannot receive credit to the DROP account based upon any years prior to when the member reached their normal retirement date. Once a member is ready to retire, the member can make the election to participate in the "Back" DROP and can receive a DROP benefit based upon up to 5 years of participation. The member's regular retirement benefit will not take into account any years of service credited to the "Back" DROP.

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) <u>DESCRIPTION OF PLAN, CONTINUED</u>

Benefits, Continued

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

Contributions

An eligible municipality may join the Plan on the first day of any month. Upon approval by the Board, its membership is irrevocable. All persons employed as police officers are required to participate in the Plan upon initial employment with the police department of the participating municipality, 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 Plan contributes 8% of their actual paid base salary. Additional funds are provided to the Plan by the State of Oklahoma through an allocation of the tax on premiums collected by insurance companies operating in Oklahoma and by the net investment income generated on assets held by the Plan. The Plan is responsible for paying administrative costs. Administrative costs of the Plan are paid for using the earnings from the invested assets of the Plan.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Accounting

The financial statements are prepared using the accrual basis of accounting under which expenses are recorded when the liability is incurred, revenues are recorded in the accounting period in which they are earned and become measurable, and investment purchases and sales are recorded as of their trade dates. Member and employer contributions are established by statute as a percentage of salaries and are recognized in the period in which employees' salaries are earned. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

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

Investments, Cash, and Short-Term Investment Fund

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

Plan investments are reported at fair value. Short-term investments include an investment fund composed of an investment in units of a commingled trust fund of the Plan's custodial agent, which is valued at cost, which approximates fair value. Debt and equity securities are reported at fair value, as determined by the Plan's custodial agent, using pricing services or prices quoted by independent brokers based on the latest reported sales prices at current exchange rates for securities traded on national or international exchanges. The fair value of the pro rata share of units owned by the Plan in equity index and commingled trust funds is determined by the respective fund trustee based on quoted sales prices of the underlying securities. The fair value of the real estate is determined from independent appraisals.

Net investment income includes net appreciation in the fair value of investments, interest income, dividend income, investment income from real estate, securities lending income and expenses, and investment expenses, which includes investment management and custodial fees and all other significant investment related costs. Foreign currency translation gains and losses are reflected in the net appreciation in the fair value of investments. Investment income from real estate includes the Plan's share of income from operations, net appreciation in the fair value of the underlying real estate properties, and the Plan's real estate investment management fees. The fair value of the limited partnerships is determined by managers of the partnerships based on the values of the underlying assets.

See Independent Auditors' Report.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

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

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

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

Except as noted below, no single investment exceeds 5% of the Plan's net assets. The Plan, at June 30, 2004 and 2003, 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 Plan invests in domestic equity index funds, domestic equity commingled trust funds, and international equity funds. The Plan shares the risk of loss in these funds with other participants in proportion to its respective investment. Because the Plan does not own any specific identifiable investment securities of these funds, the market risk associated with any derivative investments held in these funds is not apparent. The degree of market risk depends on the underlying portfolios of the funds, which were selected by the Plan in accordance with its investment policy guidelines including risk assessment. The international funds invest primarily in equity securities of entities outside the United States and may enter into forward contracts to purchase or sell securities at specified dates in the future at a guaranteed price in a foreign currency to protect against fluctuations in exchange rates of foreign currency.

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:

Type of	Name of	Shares		Market
Security	Security	<u>Held</u>	Cost	<u>Value</u>
2004				
U.S. common stocks	Pacific Alternative Asset	80,000,000	\$ 80,000,000	\$90,137,280
U.S. common stocks	SSGA Index Plus SL Fund	3,809,256	101,076,891	129,518,499
U.S. common stocks	EB Large Cap Stock Index Fund	302,149	186,613,014	208,602,111
Limited partnership	One-Focus Technology			
	Opportunity Partners, L.P.	75,000	75,000,000	68,857,550
Limited partnership	Grosvenor L/S Equity	86,644,040	85,000,000	86,644,040
Limited partnership	Delaware International Advisors	4,509,493	65,000,000	65,816,351
2003				
U.S. common stocks U.S. common stocks	SSGA Index Plus SL Fund EB Large Cap	3,388,140	\$ 87,076,891	97,100,693
	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

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:

	2004 (Amounts in	<u>2003</u> Thousands)
Cash on deposit with Mellon (the "Custodian") Short-term investment fund, variable rate	\$ (1,617) 13,193	19 44,847
Total cash and cash equivalents	\$ 11,576	44,866

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

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 Plan or by the agent in the Plan's name; Category 2 includes deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the Plan'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 Plan's name. At June 30, 2004 and 2003, cash on deposit with the Custodian and the short-term investment fund were considered Category 3.

At June 30, 2004 and 2003, the carrying amount of the Plan'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, 2004 and 2003.

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 Plan'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 Plan or its agent in the Plan's name. Category 2 includes uninsured and unregistered securities for which the securities are held by the broker or agent in the Plan's name. Category 3 includes uninsured and unregistered securities for which the securities are held by the broker or agent, but not in the Plan's name.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Risk Categories of Investments, Continued

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

	2004	2003	
	(Amounts in Thousands)		
Category 1 Classification:			
U.S. Government obligations	\$ 19,588	23,914	
International governmental securities	25,858	38,147	
Domestic corporate bonds	207,220	227,535	
International corporate bonds	11,189	7,232	
Domestic stocks	563,667	426,433	
International stocks	 58,787	115,777	
Total Category 1	 886,309	839,038	
Not subject to classification:			
Investments held by brokers/dealers under			
securities loans for cash collateral:			
U.S. Government obligations	17,565	21,276	
International government securities	12,185	5,376	
Domestic corporate bonds	4,369	7,461	
International corporate bonds	-		
Domestic stocks	9,571	7,529	
International stocks	5,193	29,863	
Securities lending collateral	67,617	109,128	
Limited partnerships	366,385	221,874	
Real estate	2,650	2,550	
Warrants	 920	770	
Total not subject to classification	 486,455	405,827	
Total investments	\$ 1,372,764	1,244,865	

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Securities Lending

The Plan's investment policy allows the loan of securities through a lending agent to various institutions, with a simultaneous agreement to return the collateral for the same securities in the future, generally less than 30 days. There are no restrictions on the dollar amount of the loans that can be made. At June 30, 2004, loans to U.S. issuers were collateralized by \$49 million of cash, which was 103% of the market value of the securities loaned. Also, at June 30, 2004, loans to non-U.S. issuers were collateralized by \$18 million of cash, which was 105% of the market value of the securities loaned. 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. As the Plan does not have the ability to pledge or sell non-cash collateral without a borrower default, the non-cash collateral the Plan had received at June 30, 2004 and 2003, 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 Plan shall demand the borrower deliver collateral equal to 102% for domestic securities, and 105% for non-U.S. securities at the close of the next business day. At the maturity of the loans, the Plan receives a loan premium and the securities are returned. The Plan has no credit risk exposure to borrowers because the amount the Plan owes the borrowers exceeds the amount the borrowers owe the Plan. As of June 30, 2004 and 2003, the Plan had no losses on securities lending transactions resulting from default of a borrower or lending agent. Contracts with lending agents require them to indemnify the Plan if the borrowers fail to return the securities or otherwise fail to pay the Plan for income while the securities are on loan. The securities on loan are included in the respective investment categories in the accompanying statements of plan net assets. Cash collateral is invested in the lending agent's short-term investment pool and included as an asset in the accompanying statements of plan net assets with an offsetting liability for the return of the collateral. The securities lending agreement sets forth credit quality standards, acceptable investments, diversification standards, and maturity and liquidity constraints for the investment fund. The Plan's investment guidelines do not require a matching of investment maturities with loan maturities, but do establish minimum levels of liquidity and other restrictions designed to minimize the interest rate risk associated with not matching the maturities of the investments with the loans. collateral investments had an average weighted maturity of 40 days and 18 days at June 30, 2004 and 2003, respectively.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Foreign Currency Transactions

The Plan has certain investment managers that trade on foreign exchanges. Foreign currency gains and losses are calculated at the transaction date using the current exchange rate, and assets are remeasured to U.S. dollars using the exchange rate as of each month end. During the year ended June 30, 2004, foreign currency gains of approximately \$30.8 million and remeasurement losses of approximately \$14.9 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, 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.

Repurchase/Reverse Repurchase Agreements

The Plan has a master repurchase/reverse repurchase agreement. Under the agreement, the Plan may enter into a purchase/sale of a security with a simultaneous agreement to resell/repurchase the security at a specified future date and price. The Plan did not enter into any transactions under this agreement during fiscal year 2004 or 2003.

Use of Estimates

The preparation of the Plan's financial statements in conformity with accounting principles generally accepted in the United States requires management of the Plan to make significant estimates and assumptions that affect the reported amounts of net assets held in trust for pension benefits at the date of the financial statements and the actuarial information in Exhibits I, II, and III included in the required supplementary information as of the benefit information date, the changes in the Plan 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 Plan and the actuarial information in Exhibits I, II and III included in the required supplementary information are reported based on certain assumptions pertaining to interest rates, inflation rates, and employee compensation and demographics. Due to the changing nature of these assumptions, it is at least reasonably possible that changes in these assumptions may occur in the near term and, due to the uncertainties inherent in setting assumptions, that the effect of such changes could be material to the financial statements.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Administrative Items

Operating Leases:

The Plan had an operating lease which ended June 30, 2004. The lease has been renewed for the period July 1, 2004, through June 30, 2005. Total lease expense for 2004 and 2003 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 service of 10 to 20 years, and 16.7 hours per month for over 20 years of service. Unused annual leave may be accumulated to a maximum of 480 hours. All accrued leave is payable upon termination, resignation, retirement, or death. As of June 30, 2004 and 2003, approximately \$62,000 and \$55,000, 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:

	2004		2003	
Balance at beginning of year Additions Amount used	\$	55,369 32,542 (25,733)	53,356 29,377 (27,364)	
Balance at end of year	\$	62,178	55,369	

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) <u>SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED</u>

Administrative Items, Continued

Retirement Expense:

The employees of the System are eligible to participate in the Oklahoma Public Employees Retirement Plan, which is administered by the Oklahoma Public Employees Retirement System (OPERS). OPERS is a multiple-employer, cost sharing public retirement defined benefit pension plan. OPERS provides retirement, disability, and death benefits to Plan members and beneficiaries. OPERS issues a publicly available financial report which includes financial statements and required supplementary information for OPERS. That report may be obtained by writing to the Oklahoma Public Employees Retirement System, 5801 N. Broadway Extension, Suite 400, Oklahoma City, OK 73152.

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 2004, 2003, and 2002, a total of \$59,585, \$56,777, and \$55,069, respectively, were paid to OPERS. The System's and employees' portions of those amounts were as follows:

	2004	2003	2002
System portion	\$ 45,180	42,931	41,677
Employee portion	 14,405	13,846	13,392
	\$ 59,585	56,777	55,069

Risk Management:

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Administrative Items, Continued

Risk Management, Continued:

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

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

(3) <u>INVESTMENTS IN BUILDING AND ALTERNATIVE INVESTMENTS</u>

Investment in Building

The Plan owns a building originally purchased for approximately \$1.5 million and it is held as a long-term investment. The building is accounted for at fair value based on periodic appraisals, and rental income and expenses are reported currently. The Plan utilizes part of the building for its administrative offices and charges itself rent, which is reflected as administrative expense and other investment income. The fair value of the building at June 30, 2004 and 2003, was estimated at approximately \$2.6 million and \$2.5 million, respectively.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) INVESTMENTS IN BUILDING AND ALTERNATIVE INVESTMENTS, CONTINUED

Alternative Investments

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

<u>Investment</u>	<u>Purpose</u>		Fair Market Value 2004 2003 (Amounts in Thousands)	
PruTimber Fund II, LP	Invests in timber.	\$	7,336	7,422
Mount Lucas Fund, LP	Speculative trading of commodity futures contracts, options on future contracts and forward contracts.		-	13,077
OCM Opportunities Fund II, LP	Invests in distressed debt.		1,287	1,657
TCW/Cresent Mezzanine Partners II, LP	Invests in privately negotiated subordinated debt and equity securities.		2,377	2,703
Marathon Fund IV, LP	To acquire, manage, and resell controlling interests in middle market companies.		1,666	3,877
Weiss, Peck, & Greer Venture Associates V, LLC	Invests in the securities of technology and development stage companies.		2,787	3,211
Pequot Venture General Partners II, LLC	Invests in the securities of technology and development stage companies.		245	246
Capital Works Cypress Fund II, LP	Invests in equity securities.		14,192	12,812
WPG-Farber, Present Institutional Fund, LP	Invests in equity securities.		-	13,811 (Continued)

See Independent Auditors' Report.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) INVESTMENTS IN BUILDING AND ALTERNATIVE INVESTMENTS, CONTINUED

Alternative Investments, Continued

			Fair Market Value		
<u>Investment</u>	<u>Purpose</u>		2004	2003	
			(Amounts in Thousands)		
Oak Tree Capital Mgmt Opportunities Fund III, LP	Invests in entities experiencing financial difficulties.	\$	2,947	3,486	
Accel Europe, LP	Invests in companies that are organized outside the United States.		2,290	1,081	
Pequot Private Equity Fund III, LP	Invests in equity securities.		5,720	3,429	
Venture Lending & Leasing III, LLC	Debt financing and direct investment in equity securities of venture capital-backed companies.		2,634	3,211	
WPG Venture Associates VI, LP	Invests in securities issued primarily in start-ups, early stage ventures, and expansion stage companies focusing in technology.		3,015	2,371	
One-Focus Technology Opportunity Partners, LP	Invests primarily in the technology sector.		68,857	64,393	
TCW/Cresent Mezzanine Partners III, LP	Invests in privately negotiated subordinated debt and equity securities.		6,440	5,646	
OCM Opportunities Fund IV, LP	Invests in distressed debt.		5,842	11,841	
BBT Overseas Partners, LP	Invests in equity securities and financial acquisitions.		44,833	41,110 (Continued)	

See Independent Auditors' Report.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) <u>INVESTMENTS IN BUILDING AND ALTERNATIVE INVESTMENTS, CONTINUED</u>

Alternative Investments, Continued

Investment	<u>Purpose</u>	Fair Mark 2004 (Amounts in	2003
Hicks, Muse, Tate & Furst Equity	Invests in private equity securities and leveraged acquisitions.	\$ 2,439	7,863
Aresenal Capital Partners, L.P.	Invests in portfolio companies.	7,586	5,330
Siguler Guff Distressed Opportunities Fund, L.L.C.	Invests in securities of companies undergoing distress, operating difficulties, and significant reconstructing.	12,423	10,596
Freemont Partners III, LP	Invests in equity securities.	3,100	2,701
Levine Leichtman Capital Partners III, LP	Invests in securities of middle market companies.	844	-
Peak Partners	Speculative trading of commodity futures contracts. Options on futures contracts and forward contracts.	14,264	-
Oaktree Fund V	Invests in distressed debt.	889	-
Delaware International Advisors	Invests in international securities.	65,728	-
Grosvenor	Invests in domestic and international securities.	 86,644	
		\$ 366,385	221,874

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) INVESTMENTS IN BUILDING AND ALTERNATIVE INVESTMENTS, CONTINUED

Alternative Investments, Continued

As of June 30, 2004 and 2003, the Plan had a remaining commitment to fund approximately \$77 and \$80 million, respectively, in various partnerships and limited liability companies.

Several of the limited partnerships invest in equity securities outside of the United States and may enter into forward contracts to purchase or sell securities at specified dates in the future at a guaranteed price in a foreign currency to protect against fluctuations in exchange rates of foreign currency. In addition, some of the partnerships may engage in hedging transactions involving derivative instruments as a part of their investment strategy.

(4) <u>WARRANTS</u>

Capital Works Partners, LLC

The Plan has received a warrant issued by Capital Works Partners, LLC, which expires on October 1, 2006. The warrant may be exercised upon delivery of 90 days written notice from the Plan at any time before the expiration date. The Plan is entitled to receive a percentage of the gross asset value of the issuer upon execution of the warrant. The percentage to be received is 1% after the first year and an additional percentage for each year after that, up to 5%. The System has received a valuation of this warrant, which estimates the fair market value as of June 30, 2004 and 2003, at \$830,000 and \$680,000, respectively.

Focus Capital Management, LLC

The Plan 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 Plan at any time before the expiration date. The Plan is entitled to receive a percentage of the gross asset value of the issuer upon execution of the warrant. The percentage to be received is 2% after the first year and an additional 2% for each year after that, up to 10%. The Plan has received a valuation of this warrant, which estimates the fair market value as of both June 30, 2004 and 2003, at \$90,000.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(5) PLAN TERMINATION AND STATE FUNDING

The Plan has not developed an allocation method if it were to terminate. The State of Oklahoma Legislature is required by statute to make such appropriation as necessary to assure that benefit payments are made.

A suggested minimum contribution from the State of Oklahoma is computed annually by an actuary hired by the State of Oklahoma. However, funding by the State of Oklahoma to the Plan is based on statutorily determined amounts rather than the actuarial calculations of the amount required to fund the Plan.

(6) TAX STATUS

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

(7) <u>HISTORICAL INFORMATION</u>

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

(8) CONTINGENCIES

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

(9) LEGISLATIVE AMENDMENTS

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 Plan. The insurance premium tax allocations were used to fund benefit payments. The insurance premium tax allocations amounted to approximately \$20 million in 2003. The insurance premium tax allocations will resume in fiscal year 2005.

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

REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF FUNDING PROGRESS (In Millions)

June 30, 2004						
	Actuarial	Actuarial Accrued	Unfunded			UAAL as a
Actuarial	Value of	Liability (AAL)	AAL	Funded	Covered	Percentage of
Valuation	Assets	Entry Age	(UAAL)	Ratio	Payroll	Covered Payroll
Date	(a)	(q)	(b-a)	(a/b)	(c)	[(b-a)/c]
June 30, 1997	\$ 828	877	49	94.4%	123	39.8%
June 30, 1998	196		125	88.6%	129	97.7%
June 30, 1999*	1,094		99	94.3%	139	47.1%
June 30, 2000	1,222		133	90.2%	149	89.1%
June 30, 2001	1,319		124	91.4%	154	81.1%
June 30, 2002	1,370		184	88.2%	160	114.9%
June 30, 2003	1,392	1,647	255	84.5%	171	149.5%
June 30, 2004	1,400	1,727	327	81.1%	176	186.4%
			•			

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

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

REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYER AND OTHER CONTRIBUTING ENTITIES

(In Thousands)

June 30, 2004

		Contribution			
	Annual Required	Employer	State		Percentage
Year Ended	Contributions	Contributions	Contributions	Total	Contributed
June 30, 1997	\$ 26,460	17,251	15,734	32,985	125%
June 30, 1998	22,426	18,253	17,177	35,430	158%
June 30, 1999	39,827	19,374	16,841	36,215	91%
June 30, 2000	34,683	20,358	17,342	37,700	109%
June 30, 2001	53,043	21,414	18,638	40,052	76%
June 30, 2002	54,918	22,411	19,811	42,222	77%
June 30, 2003	71,705	23,738	20,400	44,138	62%
June 30, 2004	63,511	23,915	-	23,915	38%

See Independent Auditors' Report.

See accompanying notes to required supplementary information.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2004

The information presented in the required supplementary schedules was determined as part of an actuarial valuation by an independent enrolled actuary (Mellon Consultants) at the dates indicated. Additional information as of the June 30, 2004, valuation follows:

Assumptions

Actuarial cost method:

Entry age

Amortization method:

Level dollar-closed

Remaining amortization:

14 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 ½ to ½ of the increase or decrease of any adjustment to the base salary of a regular police officer, based on an increase in base salary equal to the average increase over the 5 prior years.

Members not eligible for this automatic increase are assumed to receive a 2% annual increase in benefits during each year of retirement.

^{*} Includes inflation at 3%.



September 2, 2004

Board of Trustees Oklahoma Police Pension and Retirement System

In planning and performing our audit of the financial statements of the Oklahoma Police Pension and Retirement Plan (the "Plan"), administered by the Oklahoma Police Pension and Retirement System, for the year ended June 30, 2004, we considered the Plan's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure of the Plan.

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

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

Sincerely,

FINLEY & COOK, PLLC CERTIFIED PUBLIC ACCOUNTANTS

Nathan Atchison Partner

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 Plan (the "Plan") administered by the Oklahoma Police Pension and Retirement System as of and for the year ended June 30, 2004, and have issued our report thereon dated September 2, 2004, which includes an explanatory paragraph disclaiming an opinion on required supplementary information. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Plan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and 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 Plan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide 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 | Finley** | Fi

September 2, 2004