

## **EXECUTIVE DIRECTOR'S LETTER**

Dear Member:

The Board of Trustees is pleased to submit the 25th Annual Report of the Oklahoma Police Pension and Retirement System for the year ended June 30, 2006. This report is furnished in accordance with Section 50-105.4 of Title 11 of the Oklahoma Statutes. State law also requires that the certain information regarding the financial and actuarial condition of the Oklahoma Police Pension and Retirement System, using certain prescribed assumptions, be provided as an addendum to the annual report. The addendum section of this report is provided to fulfill that requirement.

The purpose of this report is to provide comprehensive information about the retirement plan including audited financial statements, actuarial information, historical and statistical data on active members, annuitants and benefit payments.

The Oklahoma Police Pension and Retirement System's fiscal year end actuary and audit reports have been completed respectively by Buck Consultants, Inc., and Finley & Cook, PLLC. Both reports are available for review at the office of the Oklahoma Police Pension and Retirement System.

Respectfully,

Robert J. Wallace  
Executive Director

This publication, printed by University of Oklahoma Printing Services, is issued by the Oklahoma Police Pension and Retirement System as authorized by 11 O.S. § 50-105.4. Seven thousand one hundred copies have been prepared at a cost of \$2,000.00. Copies have been deposited with the Publications Clearinghouse of the Oklahoma Department of Libraries.

## **INTRODUCTION**

The Oklahoma Police Pension and Retirement System was established January 1, 1981, to provide pension and other specified benefits for qualified police officers of the participating municipalities.

The Oklahoma Police Pension and Retirement Board is a thirteen (13) member Board. Seven Board members are elected by members of the System (six are active police officers, and one is a retired member). One Board member is appointed by the Governor, one by the Speaker of the House, one by the President Pro Tempore of the Senate and one by the President of the Oklahoma Municipal League. The two remaining Board members are the State Insurance Commissioner or the Commissioner's designee and the Director of State Finance or the Director's designee.

The System provides retirement benefits to all retirees. The four primary sources of revenue for the System are contributions from active members, member municipalities, dedicated revenue and investment income. In order to fulfill their fiduciary responsibilities, the Board hires an actuary to prepare an annual evaluation. This report is submitted to the Governor and the Legislature. The Board hires investment managers to assure that the assets of the fund are being adequately invested at all times. Performance measurement is provided by an investment consulting firm. This firm compares the management of funds and the investment rate of return of the System against similar funds and trusts.

The agency maintains records pertaining to active members, retirees and beneficiaries. The agency also monitors the investments of the System.

The mission of the System is to provide secure retirement benefits for members and their beneficiaries.

**FINLEY & COOK, PLLC**  
**Certified Public Accountants**

We have audited the accompanying statements of plan net assets of the Oklahoma Police Pension and Retirement Plan (the "Plan"), administered by the Oklahoma Police Pension and Retirement System, which is a part of the State of Oklahoma financial reporting entity, as of June 30, 2006 and 2005, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Plan as of June 30, 2006 and 2005, and the changes in net assets of the Plan for the years then ended in conformity with accounting principles generally accepted in the United States.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated August 31, 2006, on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Finley & Cook, PLLC  
August 31, 2006

## FINANCIAL HIGHLIGHTS

### Selected Financial Information, at Fair Market Value

|                                  | Year Ended June 30     |              |
|----------------------------------|------------------------|--------------|
|                                  | <u>2006</u>            | <u>2005</u>  |
|                                  | (Amounts in Thousands) |              |
| Net Assets                       | \$ 1,525,043           | \$ 1,386,113 |
| Net Investment (Loss) Income     | 154,591                | 113,964      |
| Total Contributions              | 65,400                 | 62,965       |
| Total Revenues                   | 219,991                | 176,929      |
| Retirement and Other Benefits    | 78,826                 | 77,269       |
| Administrative Expenses          | 2,235                  | 2,072        |
| Total Expenses                   | 81,061                 | 79,341       |
| Fund Balance (Decrease) Increase | 138,930                | 97,588       |

### Selected Investment Information

|                               | Year Ended June 30     |                    |
|-------------------------------|------------------------|--------------------|
|                               | <u>2006</u>            | <u>2005</u>        |
|                               | (Amounts in Thousands) |                    |
| US Government Securities      | \$ 7,748               | \$ 31,665          |
| International Gov. Securities | 34,756                 | 24,919             |
| Domestic Corporate Bonds      | 218,872                | 209,655            |
| International Corp. Bonds     | 3,886                  | 11,285             |
| Domestic Stocks               | 730,096                | 614,341            |
| International Stocks          | 168,749                | 158,727            |
| Alternative Investments       | 340,092                | 323,357            |
| Real Estate                   | 3,350                  | 3,100              |
| Warrant                       | 984                    | 1,600              |
| Security Lending Collateral   | <u>53,657</u>          | <u>62,984</u>      |
| Total Investment Portfolio    | <u>\$1,608,514</u>     | <u>\$1,481,159</u> |

**BUCK CONSULTANTS, INC.**  
**Actuary's Certification**

We have prepared an actuarial valuation of the Oklahoma Police Pension and Retirement System as of July 1, 2006, for the plan year ending June 30, 2006. The results of the valuation are set forth in this report, which reflects the provisions of the System as amended and effective on July 1, 2006.

The valuation is based on employee and financial data which were provided by the Oklahoma Police Pension and Retirement System and the independent auditor, respectively, and which are summarized in this report.

All costs, liabilities and other factors under the System were determined in accordance with generally accepted actuarial principles and procedures, in accordance with the provisions of current State Statutes and regulations issued thereunder, using an actuarial cost method which we believe is appropriate. In our opinion, the actuarial assumptions are reasonable and represent our best estimate of the anticipated experience under the System. This report fully and fairly discloses the actuarial position of the System on an ongoing basis.

There have been no changes in actuarial methods or assumptions. The changes in benefit provisions since the last valuation of the System as of July 1, 2005 are summarized on page 3 and the financial impact, if any, are incorporated in this report.

We are available to answer any questions on the material contained in the report, or to provide explanations or further details as may be appropriate.

September 15, 2006  
Richard A. Mackesey, F.S.A.  
R. Ryan Falls, F.S.A.

**MEMBER HIGHLIGHTS**  
**RETIREES AND AVERAGE BENEFITS**

|                                 | <u>2006</u> | <u>2005</u> |
|---------------------------------|-------------|-------------|
| Retired Members                 | 1,951       | 1,866       |
| Average Annual Benefit          | \$28,010    | \$26,925    |
| Beneficiaries                   | 453         | 433         |
| Average Annual Benefit          | \$25,589    | \$24,715    |
| Disabled Members                | 144         | 148         |
| Average Annual Benefit          | \$16,767    | \$16,422    |
| Deferred Option Plan Members    | 187         | 247         |
| Average Annual Benefit          | \$33,088    | \$31,585    |
| Vested Terminated Members       | 80          | 79          |
| Average Annual Deferred Benefit | \$13,066    | \$13,580    |

## SELECTED ACTUARIAL INFORMATION

|                             | <u>Actuarial Valuation as of July 1</u><br><u>GASB No. 25 Funded Status (\$000,000)</u> |              |
|-----------------------------|---|--------------|
|                             | <u>2006</u>   | <u>2005</u>  |
| Actuarial Accrued Liability | \$1,910.1   | \$1,811.6    |
| Actuarial Value of Asset    | 1,490.2   | 1,423.8      |
| Unfunded Liability          | 419.9   | 387.8        |
| <b>Funded Ratio</b>         | <b>78.0%</b>  | <b>78.6%</b> |

### Ten-Year Projected Cash Flow (Retirement Benefit Payments)

| <u>Fiscal year</u><br><u>Ending</u> | <u>Actives</u> | <u>Retirees (1)</u> | <u>Total</u> |
|-------------------------------------|----------------|---------------------|--------------|
| 06/30/2007                          | \$7,222,308    | \$74,860,683        | \$82,082,991 |
| 06/30/2008                          | 15,546,813     | 76,003,187          | 91,550,000   |
| 06/30/2009                          | 21,588,737     | 77,043,158          | 98,631,895   |
| 06/30/2010                          | 27,503,956     | 78,007,536          | 105,511,492  |
| 06/30/2011                          | 34,041,748     | 78,994,391          | 113,036,139  |
| 06/30/2012                          | 40,893,567     | 79,897,991          | 120,791,558  |
| 06/30/2013                          | 47,690,198     | 80,741,917          | 128,432,115  |
| 06/30/2014                          | 54,298,315     | 81,603,779          | 135,902,094  |
| 06/30/2015                          | 60,885,248     | 82,325,417          | 143,210,665  |
| 06/30/2016                          | 68,428,889     | 82,923,917          | 151,352,806  |

(1) Includes Deferred Option Plan Members, Disabled Members, Beneficiaries and Terminated Vested Members.

### Contribution Requirement Summary

|                              | <u>Year ended June 30</u> |                       | <u>%Change</u> |
|------------------------------|---------------------------|-----------------------|----------------|
|                              | <u>2006</u>               | <u>2005</u>           |                |
| <b>Unfunded Liability</b>    | <b>\$ 419,851,072</b>     | <b>\$ 387,738,114</b> | <b>8.3%</b>    |
| Amortization of              |                           |                       |                |
| Unfunded Liability           | 52,384,037                | 46,052,144            | 13.7%          |
| Normal Cost                  | 56,022,376                | 51,967,880            | 7.8%           |
| Budgeted Exp.                | 3,011,129                 | 2,479,296             | 21.5%          |
| <b>Required Contribution</b> | <b>111,417,542</b>        | <b>100,499,320</b>    | <b>10.9%</b>   |
| Est. Employee Contr.         | 16,335,185                | 15,107,876            | 8.1%           |
| Est. Municipality Contr.     | 26,544,675                | 24,550,299            | 8.1%           |
| DOP Members                  | 868,936                   | 1,149,000             | -24.4%         |
| State Contribution           |                           |                       |                |
| Previous Year                | 23,584,000                | 23,730,000            | -0.6%          |
| <b>Total Contribution</b>    | <b>67,332,796</b>         | <b>64,537,175</b>     | <b>4.3%</b>    |

**POLICE PENSION AND RETIREMENT SYSTEM  
BOARD OF TRUSTEES**

**July 2006**

**CHAIRMAN, Tom Custer**

**VICE CHAIRMAN, Charles Kerr**

|  |                                 |
|--|---------------------------------|
| State Board District 1                 | Tom Custer, Edmond              |
| State Board District 2                 | Craig Akard, Lawton             |
| State Board District 3                 | Rick Smith, Broken Arrow        |
| State Board District 4                 | Paul Swenson, Norman            |
| State Board District 5                 | Joe Perkins, Tulsa              |
| State Board District 6                 | Ralph Gibson, Oklahoma City     |
| State Board District 7                 | W. B. Smith, Retired            |
| Governor Appointee                     | David Been                      |
| Speaker of the House Appointee         | Charles Kerr                    |
| Senate President Pro Tempore Appointee | Neil Vickers                    |
| Oklahoma Municipal League Appointee    | Tony Davenport                  |
| State Insurance Commissioner           | Kim Holland                     |
|  | <i>Frank Stone, Designee</i>    |
| Director of State Finance              | Claudia San Pedro               |
|  | <i>James Wilbanks, Designee</i> |

**STAFF**

Robert J. Wallace, Executive Director  
Steven K. Snyder, Deputy Executive Director/General Counsel  
Judy Cong, Comptroller  
Dusty Brassfield, Pension Administration Coordinator  
Linda Ruckman, Administrative Officer  
Debra Wells, Information Systems Coordinator  
Lyn Sanders, Administrative Assistant  
Elizabeth Moore, Accountant  
Katie Luttrell, Pension Analyst  
Marqueta Brown, Pension Analyst  
Nancy Nethercutt, Customer Assistance Representative

**PROFESSIONAL SERVICE PROVIDERS**

**Mellon Trust of New England**  
Master Custodian

**Asset Consulting Group**  
Investment Consultant

**Buck Consultants**  
Actuarial Consultant

**Finley & Cook, PLLC**  
Independent Auditor

## **INVESTMENT MANAGERS**

### **DOMESTIC EQUITY MANAGERS**

Attalus Capital Management - Long/Short Equity  
Boston Partners Asset Management - Small-Mid Capitalization Value  
Grosvenor Capital Management, LP - Long/Short Equity  
Martingale Asset Management - Small Cap Growth  
Mellon Capital Management - Large Core Index  
One Focus Capital Investment - Long/Short Equity  
State Street Global Advisors - Large Cap Enhanced Index

### **INTERNATIONAL EQUITY MANAGERS**

Julius Baer Investment Management, LLC  
Mondrian Investment Partners Limited

### **DOMESTIC FIXED INCOME MANAGERS**

Oaktree Capital Management - Enhanced Fixed Income  
Agincourt Capital Management - Core Fixed Income

### **INTERNATIONAL FIXED INCOME MANAGER**

Fischer Francis Trees & Watts, Inc.

### **SPECIAL STRATEGY MANAGERS**

Accel Europe, LP - European Venture Capital  
Arsenal Capital Partners, LP - Small/Mid Market Buyout  
Columbus Square - Real Estate  
Fremont Partners Fund III, LP - Mid Market Buyout  
Goldner Hawn Johnson & Morrison, Inc. - Mid Market Buyout  
Hicks, Muse, Tate & First Equity Fund V, LP - Large Market Buyout  
Knightsbridge Advisers Inc. - Venture Capital Fund of Funds  
Levine Leichtman Capital Partners, LP - Mid Market Structured Equity  
Lexington Partners, Inc. - Secondary Interests in Private Equity  
Lightspeed Venture VI, LP - Early Stage Venture Capital  
Mount Lucas Management Corporation - Managed Futures  
Oaktree Capital Management Partners Fund II, III, IV, V & VI, LP - Distressed Debt  
Overseas Cap Partners, Inc. (Formerly BBT) - Multi Strategy  
Pacific Alternative Asset Management Co., LLC - Low Volatility Hedge Fund of Funds  
Pequot Capital Management Fund II, III & IV, LP - Early & Late Stage Venture Capital  
Prudential Timber Investments, Inc. - Timberland  
Siguler Guff & Company I & II, LLC - Distressed Debt  
TCW/Crescent Mezzanine Partners Fund II, III & IV, LP - Mezzanine Debt  
Venture Lending & Leasing Fund III, LLC - Venture Debt  
Weiss, Peck & Greer Investments Fund V, LP - Early Stage Venture Capital



## **LEGISLATION**

The following Legislation affecting the Oklahoma Police Pension and Retirement System became effective July 1, 2006.

**HB 1179** Provides a 4% cost-of-living adjustment for retired members who were receiving benefits as of June 30, 2004, and continued to receive benefits on or after July 1, 2006.

## **ADDENDUM**

### **BUCK CONSULTANTS, INC. Actuary's Certification – Prescribed Assumptions**

We have prepared an actuarial valuation of the Oklahoma Police Pension and Retirement System as of July 1, 2006, for the plan year ending June 30, 2006. The results of the valuation are set forth in this report, which reflects the provisions of the System as amended and effective on July 1, 2006.

The valuation is based on employee and financial data which were provided by the Oklahoma Police Pension and Retirement System and the independent auditor, respectively, and which are summarized in this report.

The results in this Addendum have been prepared for the sole purpose of meeting the Retirement Board's requirement to submit this information to the Oklahoma State Pension Oversight Commission, based on the following prescribed assumptions (11 O.S. 2001, Section 50-105.4, Section G):

- Interest rate: 7.5%
- COLA assumption: 2.0%
- Mortality: RP 2000 Generational Mortality Table
- Amortization period: 30 years, open period
- Sources of all contributions and revenues, including dedicated tax fee revenue and federal monies

All other assumptions, methodologies, and plan provisions used are consistent with those used in the July 1, 2006 valuation.

The results shown in this Addendum are not consistent with those in the July 1, 2006 valuation. The July 1, 2006 valuation results were determined in accordance with generally accepted actuarial principles and procedures, and are in compliance with the Actuarial Standards Board Actuarial Standard of Practice No. 27-Selection of Economic Assumptions for Measuring Pension Obligations. The results shown in this Addendum are not based on the assumptions and methodologies adopted by the Retirement Board. For those results, see the July 1, 2006 actuarial valuation.

We are available to answer any questions on the material contained in the report, or to provide explanations or further details as may be appropriate.

September 15, 2006  
Richard A. Mackesey, F.S.A.  
R. Ryan Falls, F.S.A.

**SUMMARY OF VALUATION RESULTS  
UNDER PRESCRIBED ASSUMPTIONS**

| <b>Actuarial Valuation<br/>as of July 1, 2006</b>                         |              |
|---|--------------|
| <b>Summary of Costs</b>   |              |
| Required State Contribution for Current Year under Prescribed Assumptions | \$50,248,025 |
| Actual State Contribution Received in Prior Year                          | \$23,584,000 |

|                                      |                 |
|--------------------------------------|-----------------|
| <b>Funded Status</b>                 |                 |
| Actuarial Accrued Liability          | \$1,914,696,582 |
| Actuarial Value of Assets            | \$1,490,208,000 |
| Unfunded Actuarial Accrued Liability | \$424,488,582   |

|  |                 |
|--|-----------------|
| <b>Market Value of Assets and Additional Liabilities</b> |                 |
| Market Value of Assets                                   | \$1,549,723,000 |
| Present Value of Projected System Benefits               | \$2,401,080,320 |

**SUMMARY OF VALUATION RESULTS  
UNDER PRESCRIBED ASSUMPTIONS**

| Summary of Contribution Requirements  | Actuarial Valuation as of |                           |
|---|---------------------------|---------------------------|
|   | July 1, 2006              |                           |
|   | Amount                    | % of Active Covered Comp. |
| 1. Annual Covered Compensation for Members Included in Valuation  |                           |                           |
| a. Active members   | \$204,189,807             |                           |
| b. Deferred Option Plan Members   | 13,368,248                |                           |
| c. Total  | \$217,558,055             |                           |
| 2. Total Normal Cost Mid-year   | \$56,297,509              | 27.6%                     |
| 3. Unfunded Actuarial Accrued liability   | \$424,488,582             |                           |
| 4. Amortization of Unfunded Actuarial Accrued Liability over 30 years From July 1, 2006 at mid-year   | \$34,688,183              | 17.0%                     |
| 5. Budgeted Expenses  | \$3,011,129               | 1.5%                      |
| 6. Total Required Contribution under Prescribed Assumptions<br>(2 + 4 + 5)  | \$93,996,821              | 46.0%                     |
| 7. Estimated Employee Contribution (8% x 1a)  | \$16,335,185              | 8.0%                      |
| 8. Estimated Municipality Contributions   |                           |                           |
| a. Active Members   | \$26,544,675              | 13.0%                     |
| b. Deferred Option Plan members   | 868,936                   | 6.5% <sup>(1)</sup>       |
| c. Total  | \$27,413,611              | 12.6% <sup>(2)</sup>      |
| 9. Required State Contribution to amortize Unfunded Actuarial Accrued Liability over 30 years from July 1, 2006 at mid-year<br>(6 - 7 - 8c) | \$50,248,025              | 24.6%                     |

<sup>(1)</sup> Percentage of Deferred Option Plan Members' compensation.

<sup>(2)</sup> Percent of total compensation