

EXECUTIVE DIRECTOR'S LETTER

Dear Member:

The Board of Trustees is pleased to submit the 26th Annual Report of the Oklahoma Police Pension and Retirement System for the year ended June 30, 2007. This report is furnished in accordance with Section 50-105.4 of Title 11 of the Oklahoma Statutes. State law also requires that 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 three hundred copies have been prepared at a cost of \$2,100.00. 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 valuation. This report is submitted to the Governor and the Legislature. The Board hires investment managers to ensure 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, 2007 and 2006, 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, 2007 and 2006, 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 14, 2007, 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, and 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
September 14, 2007

FINANCIAL HIGHLIGHTS

Selected Financial Information, at Fair Market Value

	Year Ended June 30	
	<u>2007</u>	<u>2006</u>
	(Amounts in Thousands)	
Net Assets	\$1,776,388	\$ 1,525,043
Net Investment (Loss) Income	267,160	154,591
Total Contributions	73,098	65,400
Total Revenues	340,258	219,991
Retirement and Other Benefits	86,463	78,826
Administrative Expenses	2,450	2,235
Total Expenses	88,913	81,061
Fund Balance (Decrease) Increase	251,345	138,930

Selected Investment Information

	Year Ended June 30	
	<u>2007</u>	<u>2006</u>
	(Amounts in Thousands)	
US Government Securities	\$ 14,034	\$ 7,748
International Government Securities	30,327	34,756
Domestic Corporate Bonds	216,797	218,872
International Corporate Bonds	4,979	3,886
Domestic Stocks	781,532	730,096
International Stocks	227,035	168,749
Alternative Investments	398,256	340,092
Real Estate	3,400	3,350
Warrants	-	984
Securities Lending Collateral	<u>112,923</u>	<u>53,657</u>
Total Investment Portfolio	<u>\$1,789,283</u>	<u>\$1,562,190</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, 2007, for the plan year ending June 30, 2007. 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, 2007.

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, 2006 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 18, 2007
Richard A. Mackesey, F.S.A.
R. Ryan Falls, F.S.A.

MEMBER HIGHLIGHTS
RETIREES AND AVERAGE BENEFITS

	<u>2007</u>	<u>2006</u>
Retired Members	2,035	1,951
Average Annual Benefit	\$28,353	\$28,010
Beneficiaries	471	453
Average Annual Benefit	\$26,405	\$25,589
Disabled Members	144	144
Average Annual Benefit	\$17,015	\$16,767
Deferred Option Plan Members	121	187
Average Annual Benefit	\$35,309	\$33,088
Vested Terminated Members	84	80
Average Annual Deferred Benefit	\$13,144	\$13,066

SELECTED ACTUARIAL INFORMATION

	<u>Actuarial Valuation as of July 1</u> <u>GASB No. 25 Funded Status (\$000,000)</u>	
	<u>2007</u>	<u>2006</u>
Actuarial Accrued Liability	\$2,035.7	\$1,910.1
Actuarial Value of Asset	1,627.5	1,490.2
Unfunded Liability	408.2	419.9
Funded Ratio	79.9%	78.0%

Ten-Year Projected Cash Flow (Retirement Benefit Payments)

Fiscal year <u>Ending</u>	<u>Actives</u>	<u>Retirees (1)</u>	<u>Total</u>
06/30/2008	\$8,643,868	\$76,817,542	\$85,461,410
06/30/2009	18,604,885	77,927,913	96,532,798
06/30/2010	25,448,647	78,953,772	104,402,419
06/30/2011	32,544,183	79,930,295	112,474,478
06/30/2012	39,818,696	80,864,485	120,683,181
06/30/2013	47,002,400	81,716,567	128,718,967
06/30/2014	53,921,152	82,609,606	136,530,758
06/30/2015	60,666,695	83,380,454	144,047,149
06/30/2016	68,360,478	84,004,370	152,364,848
06/30/2017	76,724,141	84,563,342	161,287,483

(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>2007</u>	<u>2006</u>	
Unfunded Liability	\$ 408,177,471	\$ 419,851,072	-3%
Amortization of			
Unfunded Liability	53,850,428	52,384,037	3%
Normal Cost	60,312,518	56,022,376	8%
Budgeted Exp.	4,069,250	3,011,129	35%
Required Contribution	118,232,196	111,417,542	6%
Est. Employee Contribution	17,670,790	16,335,185	8.2%
Est. Municipality Contribution:			
Active Members	28,715,034	26,544,675	8.2%
DOP Members	674,206	868,936	-22.4%
State Contribution			
Previous Year	28,122,000	23,584,000	19.2%
Total Contribution	75,182,030	67,332,796	11.7%

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

July 2007

CHAIRMAN, Charles Kerr

VICE CHAIRMAN, Rick Smith

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	Tony Hutchison
	<i>Jim McGoodwin, Designee</i>

STAFF

Robert J. Wallace, Executive Director
Steven K. Snyder, Deputy Executive Director/General Counsel
Judy Cong, Comptroller
Dusty Brassfield, Pension Administration Officer
Linda Ruckman, Administrative Officer
Debra Wells, Pension Operations Administrator
Darla Veitch, Administrative Assistant
Elizabeth Moore, Accountant
Katie Luttrell, Pension Analyst
Sean Ruark, 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.

REAL ASSETS MANAGERS

Columbus Square – Real Estate
J.P. Morgan Asset Management Inc. – Core Real Estate
Prudential Timber Investments, Inc. – Timberland

SPECIAL STRATEGY MANAGERS

Accel Europe, LP – European Venture Capital
Arsenal Capital Partners Fund I & II, LP – Small/Mid Market Buyout
Calera Capital – 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
Marathon Fund IV & V, LP – Mid Market Buyout
Mount Lucas Management Corporation – Managed Futures
Newstone Capital Partners, LP – Mezzanine Debt
Oaktree Capital Mgmt. Partners Fund II, III, IV, V, VI, VII, and VIIb, 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
Sector Performance Fund LP – Large Market Buyout
Siguler Guff & Company I & II, LLC – Distressed Debt
Sun Capital Partners Group, Inc. – Control Buyout
TCW/Crescent Mezzanine Partners Fund II, III & IV, LP – Mezzanine Debt
Thompson Street Capital Partners – Small / Mid Market Buyout

SPECIAL STRATEGY MANAGERS (Continued)

Venture Lending & Leasing Fund III, LLC – Venture Debt
Weathergag Venture Capital, LP – Venture Capital Fund of Funds
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, 2007.

- HB 2070 Subjects the System to the Oklahoma Pension Legislation Actuarial Analysis Act.
- SB 1112 Subjects the System to the Oklahoma Pension Legislation Actuarial Analysis Act.
- SB 695 Brings the System into compliance with IRS requirements as it relates to the direct payment of qualified health insurance premiums and the rollover of distributions of a non-spouse beneficiary.

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, 2007, for the plan year ending June 30, 2007. 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, 2007.

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, 2007 valuation.

The results shown in this Addendum are not consistent with those in the July 1, 2007 valuation. The July 1, 2007 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, 2007 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 18, 2007
Richard A. Mackesey, F.S.A.
R. Ryan Falls, F.S.A.

**SUMMARY OF VALUATION RESULTS
UNDER PRESCRIBED ASSUMPTIONS**

Actuarial Valuation as of July 1, 2007	
Summary of Costs	
Required State Contribution for Current Year under Prescribed Assumptions	\$51,515,949
Actual State Contribution Received in Prior Year	\$28,122,000

Funded Status	
Actuarial Accrued Liability	\$2,042,322,151
Actuarial Value of Assets	\$1,627,476,000
Unfunded Actuarial Accrued Liability	\$414,846,151

Market Value of Assets and Additional Liabilities	
Market Value of Assets	\$1,797,555,000
Present Value of Projected System Benefits	\$2,557,207,494

**SUMMARY OF VALUATION RESULTS
UNDER PRESCRIBED ASSUMPTIONS**

Summary of Contribution Requirements	Actuarial Valuation as of	
	July 1, 2007	
	Amount	% of Active Covered Comp.
1. Annual Covered Compensation for Members Included in Valuation		
a. Active members	\$220,884,875	
b. Deferred Option Plan Members	10,372,405	
c. Total	\$231,257,280	
2. Total Normal Cost Mid-year	\$60,606,502	27.4%
3. Unfunded Actuarial Accrued liability	\$414,846,151	
4. Amortization of Unfunded Actuarial Accrued Liability over 30 years From July 1, 2007 at mid-year	\$33,900,227	15.4%
5. Budgeted Expenses	\$4,069,250	1.8%
6. Total Required Contribution under Prescribed Assumptions (2 + 4 + 5)	\$98,575,979	44.6%
7. Estimated Employee Contribution (8% x 1a)	\$17,670,790	8.0%
8. Estimated Municipality Contributions		
a. Active Members	\$28,715,034	13.0%
b. Deferred Option Plan members	674,206	6.5% ⁽¹⁾
c. Total	\$29,389,240	12.7% ⁽²⁾
9. Required State Contribution to amortize Unfunded Actuarial Accrued Liability over 30 years from July 1, 2007 at mid-year (6 - 7 - 8c)	\$51,515,949	23.3%

⁽¹⁾ Percentage of Deferred Option Plan Members' compensation.

⁽²⁾ Percent of total compensation