

**OKLAHOMA POLICE PENSION AND
RETIREMENT SYSTEM**

**30TH
ANNUAL REPORT
FISCAL YEAR 2011**



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EXECUTIVE DIRECTOR'S LETTER

Dear Member:

The Board of Trustees is pleased to submit the 30th Annual Report of the Oklahoma Police Pension and Retirement System for the year ended June 30, 2011. This report is furnished in accordance with Section 50-105.4 of Title 11 of the Oklahoma Statutes.

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 and on our website at www.opprs.ok.gov.

Respectfully,

Steven K. Snyder
Executive Director

This publication, printed by Central Printing, is issued by the Oklahoma Police Pension and Retirement System as authorized by Steven K. Snyder, Executive Director. Three hundred copies have been prepared at a cost of \$249.00. 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 members who are qualified police officers and/or their beneficiaries of the participating municipalities.

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

The Oklahoma Police Pension and Retirement Board is comprised of thirteen (13) members. 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 retains an actuary to prepare an annual valuation. This report is submitted to the Governor and the Legislature. The Board also retains 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.

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, 2011 and 2010, 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, 2011 and 2010, 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 19, 2011, 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 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.

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages I-1 through I-4 and the schedule of funding progress and the schedule of contributions from the employer and other contributing entities on pages 44-46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Finley & Cook, PLLC
September 19, 2011

FINANCIAL HIGHLIGHTS

Selected Financial Information at Fair Market Value

	Year Ended June 30	
	<u>2011</u>	<u>2010</u>
	(Amounts in Thousands)	
Net Assets	\$1,800,742	\$1,548,827
Net Investment (Loss) Income	282,305	163,058
Total Contributions	75,980	74,158
Total Revenues	358,285	237,216
Retirement and Other Benefits	104,658	108,147
Administrative Expenses	1,712	1,708
Total Expenses	106,370	109,855
Fund Balance (Decrease) Increase	251,915	127,361

Selected Investment Information

	Year Ended June 30	
	<u>2011</u>	<u>2010</u>
	(Amounts in Thousands)	
US Government Securities	\$ 14,121	\$ 28,338
Domestic Corporate Bonds	229,068	200,803
International Corporate Bonds	101,435	84,656
Domestic Stocks	533,850	418,316
International Stocks	185,952	145,685
Equity—real estate investment trusts	5,231	3,469
Alternative Investments	656,715	606,918
Real Estate Fund	41,517	34,372
Real Estate – Columbus Square	<u>3,700</u>	<u>3,475</u>
Total Investment Portfolio	<u>\$ 1,771,589</u>	<u>\$ 1,526,032</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, 2011, for the plan year ending June 30, 2011. 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, 2011.

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.

Any changes in actuarial methods, assumptions and benefit provisions since the last valuation of the System as of July 1, 2010 are summarized on page 3 and the financial impact, if any, are incorporated in this report.

Actuarial Certification

The Board selected the assumptions used for the results in this report. I believe that these assumptions are reasonable and comply with the requirements of GASB 25. I prepared this report's exhibits in accordance with the requirements of these standards.

I am an Enrolled Actuary, a Fellow of the Society of Actuaries and a Member of the American Academy of Actuaries. I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained in this report. This report has been prepared in accordance with all applicable Actuarial Standards of Practice, and I am available to answer questions about it.

September 20, 2011
R. Ryan Falls, F.S.A., E.A., M.A.A.A.

MEMBER HIGHLIGHTS
RETIREES AND AVERAGE BENEFITS

	<u>2011</u>	<u>2010</u>
Retired Members	2,292	2,241
Average Annual Benefit	\$30,217	\$30,728
Beneficiaries	631	616
Average Annual Benefit	\$25,469	\$25,739
Disabled Members	137	136
Average Annual Benefit	\$17,198	\$17,343
Deferred Option Plan Members	50	50
Average Annual Benefit	\$37,438	\$38,078
Vested Terminated Members	124	111
Average Annual Deferred Benefit	\$15,332	\$14,153

SELECTED ACTUARIAL INFORMATION

	<u>Actuarial Valuation as of July 1</u> <u>GASB No. 25 Funded Status (\$000,000)</u>	
	<u>2011</u>	<u>2010</u>
Actuarial Accrued Liability	\$1,960.0	\$2,341.6
Actuarial Value of Asset	1,822.7	1,754.4
Unfunded Liability	137.3	587.2
Funded Ratio	93.0%	74.9%

Ten-Year Projected Cash Flow (Retirement Benefit Payments)

Fiscal year <u>Ending</u>	<u>Actives</u>	<u>Retirees (1)</u>	<u>Total</u>
06/30/2012	66,747,335	95,712,534	162,459,869
06/30/2013	46,137,767	90,650,686	136,788,453
06/30/2014	48,394,301	90,018,537	138,412,838
06/30/2015	57,241,693	90,776,286	148,017,979
06/30/2016	62,676,226	89,095,854	151,772,080
06/30/2017	61,159,334	89,564,070	150,723,404
06/30/2018	68,696,649	86,171,367	154,868,016
06/30/2019	74,388,044	85,129,825	159,517,869
06/30/2020	85,116,724	83,912,003	169,028,727
06/30/2021	92,112,808	82,646,807	174,759,615

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

Contribution Requirement Summary

	<u>Year ended June 30</u>	
	<u>2011</u>	<u>2010</u>
Unfunded Accrued Liability	\$137,274,006	\$587,247,152
Amortization of Unfunded Accrued Liability	25,013,281	96,761,553
Normal Cost	56,906,021	66,973,924
Budgeted Exp.	3,145,550	3,047,344
Required Contribution	85,064,852	166,782,821
Est. Employee Contribution	20,319,196	19,966,614
Est. Municipality Contribution:		
Active Members	33,018,693	32,445,748
DOP Members	456,901	478,016
Actual State Contribution		
Previous Year	24,645,000	22,292,000
Total Contribution	78,439,790	75,182,378

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

CHAIRMAN, Charles Kerr
VICE CHAIRMAN, Tom Custer

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	Jim Keesee, Norman
State Board District 5	Jeff R. Cealka, Tulsa
State Board District 6	Randy Scott, Oklahoma City
State Board District 7	W. B. Smith, Retired
Governor Appointee	Andy McPherson
Speaker of the House Appointee	Charles Kerr
Senate President Pro Tempore Appointee	Susan Knight
Oklahoma Municipal League Appointee	Tony Davenport
State Insurance Commissioner	John Doak
	<i>Frank Stone, Designee</i>
Director of State Finance	Preston L. Doerflinger
	<i>Brandy Manek, Designee</i>

STAFF

Steven K. Snyder, Executive Director
Judy Cong, Comptroller
Dusty Brassfield, Pension Administration Officer
Marla Hensley, Administrative Officer
Debra Kearns, IT/Pension Operations Administrator
Darcie Gordon, Administrative Assistant
Elizabeth Moore, Accountant
Katie Luttrell, Pension Analyst
Sean Ruark, Pension Analyst
Andrea Houston, Pension Analyst
Nancy Nethercutt, Customer Assistance Representative

PROFESSIONAL SERVICE PROVIDERS

BNY MELLON Master Custodian	Buck Consultants Actuarial Consultant
Asset Consulting Group Investment 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
William Blair and Company – Small Capitalization Growth
Mellon Capital Management – Large Capitalization Core Index

INTERNATIONAL EQUITY MANAGERS

Artio Global Management, LLC (Formerly Julius Baer)
Mondrian Investment Partners Limited

DOMESTIC FIXED INCOME MANAGERS

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

GLOBAL FIXED INCOME MANAGER

Loomis Sayles & Company, LP – Global Fixed income

REAL ASSETS MANAGERS

Columbus Square – Real Estate
J.P. Morgan Asset Management Inc. – Core Real Estate
Mount Lucas Management Corporation – Managed Futures

SPECIAL STRATEGY MANAGERS

Accel Europe, LP – European Venture Capital
Arsenal Capital Partners Fund I & II, LP – Small/Mid Market Buyout
Calera Capital III & IV – Mid Market Buyout
FirstMark Capital Management Fund II, III & IV, LP – Early & Late Stage Venture Capital
Hicks, Muse, Tate & Furst Equity Fund V, LP – Large Market Buyout
HM Sector Performance Fund – Large Market Buyout
Knightsbridge Advisers Inc. Fund VI – Venture Capital Fund of Funds
Levine Leichtman Capital Partners III & IV, LP – Mid Market Structured Equity
Lexington Capital Partners VI-B, LP – Secondary Interests in Private Equity
Lightspeed Venture VI, LP – Early Stage Venture Capital
Marathon Fund IV & V, LP – Mid Market Buyout
Newstone Capital Partners I & II, LP – Mezzanine Debt
Oaktree Capital Mgmt. Partners Fund II, III, IV, V, VI, VII, VIII, and VIII, LP – Distressed Debt
Overseas Cap Partners, Inc. (Formerly BBT) – Multi Strategy
Pacific Alternative Asset Mgmt. Co., Newport Mesa, LLC – Low Volatility Hedge Fund of Funds
Siguler Guff & Company I, II & III, LLC – Distressed Debt
Sun Capital Partners Group, Inc. Fund V – Control Buyout
TCW/Crescent Mezzanine Partners Fund III, IV & V, LP – Mezzanine Debt
Thompson Street Capital Partners Fund II – Small/Mid Market Buyout
Venture Lending & Leasing Fund III, LLC – Venture Debt
Weathergauge Venture Capital I & II, LP – Venture Capital Fund of Funds
Warburg Pincus Private Equity X, LP – Diversified Private Equity
Weiss, Peck & Greer Investments Fund V, LP – Early Stage Venture Capital

LEGISLATION

The following Legislation passed during the 1st Session of the 53rd Legislature (2011) amended statutes pertaining to the Oklahoma Police Pension and Retirement System:

SB 347 – Requiring the forfeiture of retirement benefits for certain municipal officers or employees convicted of certain crimes

SB 577 – Makes technical corrections to bring the Oklahoma Police Pension & Retirement System into compliance with IRS Laws & Regulations

HB 2132 – Eliminates 2% Cost of Living Assumption (COLA). Requires concurrent funding for any additional pension benefits.