

EXECUTIVE DIRECTOR'S LETTER

Dear Member:

The Board of Trustees is pleased to submit the 29th Annual Report of the Oklahoma Police Pension and Retirement System for the year ended June 30, 2010. 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 and on our website at www.opprs.ok.gov.

Respectfully,

Steven K. Snyder
Executive Director

This publication, printed by DCS-Printing Services, is issued by the Oklahoma Police Pension and Retirement System as authorized by 11 O.S. § 50-105.4. Seven hundred copies have been prepared at a cost of \$406.00. 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, 2010 and 2009, 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.

As more fully described in Note 3 to the financial statements, the 2009 financial statements were restated to reflect the implementation of Governmental Accounting Standards Board Statement No. 51, *Accounting and Reporting for Intangible Assets* (GASB 51). GASB 51 requires the financial statements capitalize and amortize certain intangible assets.

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, 2010 and 2009, 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.

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 48-50 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB, 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 15, 2010, 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
October 15, 2010

FINANCIAL HIGHLIGHTS

Selected Financial Information at Fair Market Value

	Year Ended June 30	
	<u>2010</u>	<u>2009</u>
	(Amounts in Thousands)	
Net Assets	\$1,548,827	\$1,421,466
Net Investment (Loss) Income	163,729	(283,519)
Total Contributions	74,158	77,727
Total Revenues	237,887	(205,792)
Retirement and Other Benefits	108,147	89,048
Administrative Expenses	2,379	2,176
Total Expenses	110,526	91,224
Fund Balance (Decrease) Increase	127,361	(297,016)

Selected Investment Information

	Year Ended June 30	
	<u>2010</u>	<u>2009</u>
	(Amounts in Thousands)	
US Government Securities	\$ 28,338	\$ 10,522
Domestic Corporate Bonds	349,266	335,406
International Corporate Bonds	84,656	79,277
Domestic Stocks	490,135	434,970
International Stocks	145,685	142,340
Equity—real estate investment trusts	3,469	3,708
Alternative Investments	421,008	388,618
Real Estate	3,475	3,400
Securities Lending Collateral	48,845	23,803
Capital assets	<u>1,014</u>	<u>989</u>
Total Investment Portfolio	<u>\$ 1,575,891</u>	<u>\$ 1,423,033</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, 2010, for the plan year ending June 30, 2010. 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, 2010.

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 on actuarial methods, assumptions and benefit provisions since the last valuation of the System as of July 1, 2009 are summarized on page 3 and the financial impact, if any, are incorporated in this report.

Actuarial Certification

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

We are Enrolled Actuaries, Fellows of the Society of Actuaries and Members of the American Academy of Actuaries. We 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 we are available to answer questions about it.

October 19, 2010

Richard A. Mackesey, F.S.A., E.A., M.A.A.A.

R. Ryan Falls, F.S.A., E.A., M.A.A.A.

MEMBER HIGHLIGHTS

RETIREES AND AVERAGE BENEFITS

	<u>2010</u>	<u>2009</u>
Retired Members	2,241	2,133
Average Annual Benefit	\$30,728	\$29,725
Beneficiaries	616	512
Average Annual Benefit	\$25,739	\$28,531
Disabled Members	136	140
Average Annual Benefit	\$17,349	\$17,405
Deferred Option Plan Members	50	60
Average Annual Benefit	\$38,078	\$36,698
Vested Terminated Members	111	103
Average Annual Deferred Benefit	\$14,153	\$14,161

SELECTED ACTUARIAL INFORMATION

	<u>Actuarial Valuation as of July 1</u> <u>GASB No. 25 Funded Status (\$000,000)</u>	
	<u>2010</u>	<u>2009</u>
Actuarial Accrued Liability	\$2,341.6	\$2,253.1
Actuarial Value of Asset	1,754.4	1717.6
Unfunded Liability	587.2	535.5
Funded Ratio	74.9%	76.2%

Ten-Year Projected Cash Flow (Retirement Benefit Payments)

<u>Fiscal year</u> <u>Ending</u>	<u>Actives</u>	<u>Retirees (1)</u>	<u>Total</u>
06/30/2011	\$61,555,202	\$93,944,575	\$155,499,777
06/30/2012	42,655,258	92,746,228	135,401,486
06/30/2013	51,160,704	92,624,185	143,784,889
06/30/2014	54,739,468	92,820,239	147,559,707
06/30/2015	64,335,776	95,086,263	159,422,039
06/30/2016	68,810,692	95,454,256	164,264,948
06/30/2017	71,140,123	94,340,221	165,480,344
06/30/2018	80,334,708	94,779,002	175,113,710
06/30/2019	87,803,303	95,181,746	182,985,049
06/30/2020	100,102,295	95,379,602	195,481,897

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

Contribution Requirement Summary

	<u>Year ended June 30</u>	
	<u>2010</u>	<u>2009</u>
Unfunded Accrued Liability	\$587,247,152	\$535,567,775
Amortization of Unfunded		
Accrued Liability	96,761,553	81,030,621
Normal Cost	66,973,924	68,177,129
Budgeted Exp.	3,047,344	3,564,762
Required Contribution	166,782,821	152,772,512
Est. Employee Contribution	19,966,614	20,316,469
Est. Municipality Contribution:		
Active Members	32,445,748	33,014,262
DOP Members	478,016	587,823
Actual State Contribution		
Previous Year	22,292,000	26,913,000
Total Contribution	75,182,378	80,831,554

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

CHAIRMAN, W. B. Smith

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	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	Kim Holland
	<i>Frank Stone, Designee</i>
Director of State Finance	Michael Clingman
	<i>Jim McGoodwin, 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
One Focus Capital Investment – Long/Short Equity

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
Prudential Timber Investments, Inc., Fund II – Timberland
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, 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

SPECIAL STRATEGY MANAGERS (Continued)

Venture Lending & Leasing Fund III, LLC – Venture Debt
Weathergage Venture Capital, 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 2nd Session of the 52nd Legislature (2010) amended statutes pertaining to the Oklahoma Police Pension and Retirement System:

SB 1989 Contains amendments required for the System to maintain IRS tax qualification.

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, 2010, for the plan year ending June 30, 2010. 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, 2010.

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, 2010 valuation.

The results shown in this Addendum are not consistent with those in the July 1, 2010 valuation. The July 1, 2010 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, 2010 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.

October 19, 2010
Richard A. Mackesey, F.S.A., E.A., M.A.A.A.
R. Ryan Falls, F.S.A., E.A., M.A.A.A.

**SUMMARY OF VALUATION RESULTS
UNDER PRESCRIBED ASSUMPTIONS**

Actuarial Valuation as of July 1, 2010	
Summary of Costs	
Required State Contribution for Current Year under Prescribed Assumptions	\$69,047,041
Actual State Contribution Received in Prior Year	\$22,292,000

Funded Status	
Actuarial Accrued Liability	\$2,381,573,945
Actuarial Value of Assets	\$1,754,372,000
Unfunded Actuarial Accrued Liability	\$627,201,945

Market Value of Assets and Additional Liabilities	
Market Value of Assets	\$1,558,741,000
Present Value of Projected System Benefits	\$2,991,031,160

**SUMMARY OF VALUATION RESULTS
UNDER PRESCRIBED ASSUMPTIONS**

Summary of Contribution Requirements	Actuarial Valuation as of	
	July 1, 2010	
	Amount	% of Active Covered Comp.
1. Annual Covered Compensation for Members Included in Valuation		
a. Active members	\$249,582,676	
b. Deferred Option Plan Members	3,677,049	
c. Total	\$253,259,725	
2. Total Normal Cost Mid-year	\$67,636,645	27.1%
3. Unfunded Actuarial Accrued liability	\$627,201,945	
4. Amortization of Unfunded Actuarial Accrued Liability over 30 years From July 1, 2010 at mid-year	\$51,253,430	20.5%
5. Budgeted Expenses	\$3,047,344	1.2%
6. Total Required Contribution under Prescribed Assumptions (2 + 4 + 5)	\$121,937,419	48.9%
7. Estimated Employee Contribution (8% x 1a)	\$19,966,614	8.0%
8. Estimated Municipality Contributions		
a. Active Members	\$32,445,748	13.0%
b. Deferred Option Plan members	478,016	13.0% ⁽¹⁾
c. Total	\$32,923,764	13.0% ⁽²⁾
9. Required State Contribution to amortize Unfunded Actuarial Accrued Liability over 30 years from July 1, 2010 at mid-year (6 - 7 - 8c)	\$69,047,041	27.7%

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

⁽²⁾ Percent of total compensation