

**OKLAHOMA POLICE PENSION AND  
RETIREMENT SYSTEM**

**31<sup>ST</sup>  
ANNUAL REPORT  
FISCAL YEAR 2012**



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## **EXECUTIVE DIRECTOR'S LETTER**

Dear Member:

The Board of Trustees is pleased to submit the 31st Annual Report of the Oklahoma Police Pension and Retirement System for the year ended June 30, 2012. 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](http://www.opprs.ok.gov).

Respectfully,

Steven K. Snyder  
Executive Director

This publication, printed by OMES - 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, 2012 and 2011, 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, 2012 and 2011, 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 17, 2012, 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 43-45 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 17, 2012

## FINANCIAL HIGHLIGHTS

### Selected Financial Information at Fair Market Value

	Year Ended June 30	
	<u>2012</u>	<u>2011</u>
	(Amounts in Thousands)	
Net Assets	\$1,777,980	\$1,800,742
Net Investment (Loss) Income	8,374	282,305
Total Contributions	81,101	75,980
<b>Total Revenues</b>	<b>89,475</b>	<b>358,285</b>
Retirement and Other Benefits	110,285	104,658
Administrative Expenses	1,952	1,712
<b>Total Expenses</b>	<b>112,237</b>	<b>106,370</b>
<b>Fund Balance (Decrease) Increase</b>	<b>(22,762)</b>	<b>251,915</b>

### Selected Investment Information

	Year Ended June 30	
	<u>2012</u>	<u>2011</u>
	(Amounts in Thousands)	
US Government Securities	\$ 18,418	\$ 14,121
Domestic Corporate Bonds	240,035	229,068
International Corporate Bonds	104,480	101,435
Domestic Stocks	441,609	553,850
International Stocks	205,997	185,952
Equity—real estate investment trusts	7,508	5,231
Alternative Investments	658,421	656,715
Real Estate Fund	46,040	41,517
Real Estate – Columbus Square	<u>3,700</u>	<u>3,700</u>
Total Investment Portfolio	<u>\$ 1,726,208</u>	<u>\$ 1,771,589</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, 2012, for the plan year ending June 30, 2013. 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, 2012.

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, 2011 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.

We are Members of the American Academy of Actuaries and 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.

September 19, 2012  
David Kent, F.S.A., E.A., M.A.A.A.  
Doug Fiddler, A.S.A., E.A., M.A.A.A.

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

	<u><b>2012</b></u>	<u><b>2011</b></u>
Retired Members	2,368	2,292
Average Annual Benefit	\$30,472	\$30,217
Beneficiaries	642	631
Average Annual Benefit	\$26,010	\$25,469
Disabled Members	138	137
Average Annual Benefit	\$16,964	\$17,198
Deferred Option Plan Members	37	50
Average Annual Benefit	\$34,860	\$37,438
Vested Terminated Members	126	124
Average Annual Deferred Benefit	\$16,880	\$15,332

## SELECTED ACTUARIAL INFORMATION

	<u>Actuarial Valuation as of July 1</u> <u>GASB No. 25 Funded Status (\$000,000)</u>	
	<u>2012</u>	<u>2011</u>
Actuarial Accrued Liability	\$2,034.5	\$1,960.0
Actuarial Value of Asset	1,834.2	1,822.7
Unfunded Liability	200.3	137.3
<b>Funded Ratio</b>	<b>90.2%</b>	<b>93.0%</b>

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

Fiscal year <u>Ending</u>	<u>Actives</u>	<u>Retirees (1)</u>	<u>Total</u>
06/30/2013	82,154,929	101,759,780	183,914,709
06/30/2014	47,707,921	92,154,051	139,861,972
06/30/2015	57,329,365	91,651,116	148,980,481
06/30/2016	62,719,531	91,007,113	153,726,644
06/30/2017	60,778,478	90,294,754	151,073,232
06/30/2018	67,899,352	89,382,911	157,282,263
06/30/2019	73,375,184	88,322,125	161,697,309
06/30/2020	83,840,661	87,113,907	170,954,568
06/30/2021	90,353,378	85,858,006	176,211,384
06/30/2022	93,542,673	84,523,045	178,065,717

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

### Contribution Requirement Summary

	<u>Year ended June 30</u>	
	<u>2012</u>	<u>2011</u>
<b>Unfunded Accrued Liability</b>	<b>\$200,315,171</b>	<b>\$137,274,006</b>
Amortization of Unfunded Accrued Liability	41,187,422	25,013,281
Normal Cost	56,159,687	56,906,021
Budgeted Exp.	3,048,911	3,145,550
<b>Required Contribution</b>	<b>100,396,020</b>	<b>85,064,852</b>
Est. Employee Contribution	21,082,370	20,319,196
Est. Municipality Contribution:		
Active Members	34,258,852	33,018,693
DOP Members	163,067	456,901
Actual State Contribution		
Previous Year	28,092,000	24,645,000
<b>Total Contribution</b>	<b>83,596,289</b>	<b>78,439,790</b>

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

**CHAIRMAN, Tom Custer**  
**VICE CHAIRMAN, Randy Scott**

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	Ryan Perkins, 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  
Darcie Gordon, Administrative Officer  
Debra Kearns, IT/Pension Operations Administrator  
Christina Hirschman, Executive Legal Assistant  
Elizabeth Moore, Accountant  
Katie Luttrell, Pension Analyst  
Sean Ruark, Pension Analyst  
Angela McCullough, Pension Analyst  
Nancy Nethercutt, Customer Assistance Representative  
Deric Berousek, Chief Financial Officer

**PROFESSIONAL SERVICE PROVIDERS**

<b>BNY MELLON</b> Master Custodian	<b>Buck Consultants</b> Actuarial Consultant
<b>Asset Consulting Group</b> Investment Consultant	<b>Finley &amp; Cook, PLLC</b> 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**

Barring Asset Management  
Vontobel Asset Management  
Wasatch Advisor  
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  
Siguler Guff – Private Real Estate

### **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, & V, 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, VIIb, VIII, and IX, 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  
Weathergage 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  
Actis IV – Emerging Market Focused

## **LEGISLATION**

The following Legislation passed during the 2<sup>nd</sup> Session of the 53<sup>rd</sup> Legislature (2012) amended statutes pertaining to the Oklahoma Police Pension and Retirement System:

HB 2319 – An Act modifying provisions related to the Oklahoma Police Pension & Retirement System real property.

SB 1214 – Makes technical corrections to bring the Oklahoma Police Pension & Retirement System into compliance with IRS Laws & Regulations.

SB 1588 – Makes technical corrections to bring the Oklahoma Police Pension and Retirement System into compliance with IRS Laws & Regulations.