

**OKLAHOMA POLICE PENSION AND
RETIREMENT SYSTEM**

**32nd
ANNUAL REPORT
FISCAL YEAR 2013**



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EXECUTIVE DIRECTOR'S LETTER

Dear Member:

The Board of Trustees is pleased to submit the 32nd Annual Report of the Oklahoma Police Pension and Retirement System for the year ended June 30, 2013. 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 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 financial statements 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, which comprise the statements of plan net position as of June 30, 2013 and 2012, and the related statements of changes in plan net position for the years then ended, and the related notes to the financial statements.

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the Plan as of June 30, 2013 and 2012, and the changes in net position of the Plan for the years then ended.

As discussed in Note 2 to the financial statements, in 2013 the Plan adopted new accounting guidance, Statement No. 63 of the Governmental Accounting Standards Board (GASB), *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Our opinion is not modified with respect to this matter.

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 through 44 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2013, 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* in considering the Plan's internal control over financial reporting and compliance.

Finley & Cook, PLLC
September 16, 2013

FINANCIAL HIGHLIGHTS

Selected Financial Information at Fair Market Value

	Year Ended June 30	
	<u>2013</u>	<u>2012</u>
	(Amounts in Thousands)	
Net Assets	\$1,969,169	\$1,777,980
Net Investment (Loss) Income	221,174	8,374
Total Contributions	87,575	81,101
Total Revenues	308,749	89,475
Retirement and Other Benefits	115,507	110,285
Administrative Expenses	2,053	1,952
Total Expenses	117,560	112,237
Fund Balance (Decrease) Increase	191,189	(22,762)

Selected Investment Information

	Year Ended June 30	
	<u>2013</u>	<u>2012</u>
	(Amounts in Thousands)	
US Government Securities	\$ 12,994	\$ 18,418
Domestic Corporate Bonds	256,042	240,035
International Corporate Bonds	104,311	104,480
Domestic Stocks	543,003	441,609
International Stocks	257,200	205,997
Equity—real estate investment trusts	13,911	7,508
Alternative Investments	644,269	654,318
Real Estate Fund	63,595	50,143
Real Estate – Columbus Square	<u>3,750</u>	<u>3,700</u>
Total Investment Portfolio	<u>\$ 1,899,075</u>	<u>\$ 1,726,208</u>

BUCK CONSULTANTS, INC.

Actuary's Certification

This report has been prepared by Buck Consultants for the Oklahoma Police Pension and Retirement System to:

- Present the results of a valuation of the Oklahoma Police Pension and Retirement System as of July 1, 2013;
- Review experience under the System for the year ended June 30, 2013; and
- Provide reporting and disclosure information for auditors' reports, governmental agencies and other interested parties.

Actuarial Certification

This 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.

Future actuarial measurements may differ significantly from current measurements due to plan experience differing from that anticipated by the economic and demographic assumptions, increases or decreases expected as part of the natural operation of the methodology used for these measurements, and changes in plan provisions or applicable law. Because of limited scope, Buck performed no analysis of the potential range of such future differences.

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 18, 2013

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>2013</u>	<u>2012</u>
Retired Members	2,441	2,368
Average Annual Benefit	\$30,813	\$30,472
Beneficiaries	659	642
Average Annual Benefit	\$26,876	\$26,010
Disabled Members	139	138
Average Annual Benefit	\$16,913	\$16,964
Deferred Option Plan Members	27	37
Average Annual Benefit	\$40,443	\$34,860
Vested Terminated Members	118	126
Average Annual Deferred Benefit	\$16,604	\$16,880

SELECTED ACTUARIAL INFORMATION

	<u>Actuarial Valuation as of July 1</u> <u>GASB No. 25 Funded Status (\$000,000)</u>	
	<u>2013</u>	<u>2012</u>
Actuarial Accrued Liability	\$2,131.2	\$2,034.5
Actuarial Value of Asset	1,902.6	1,834.2
Unfunded Liability	228.6	200.3
Funded Ratio	89.3%	90.2%

Ten-Year Projected Cash Flow (Retirement Benefit Payments)

Fiscal year <u>Ending</u>	<u>Actives</u>	<u>Retirees (1)</u>	<u>Total</u>
06/30/2014	78,132,939	106,993,930	185,126,869
06/30/2015	45,806,146	95,980,050	141,786,196
06/30/2016	54,079,547	95,467,164	149,546,711
06/30/2017	52,171,454	94,868,960	147,040,414
06/30/2018	62,755,201	94,041,838	156,797,040
06/30/2019	67,907,913	93,114,273	161,022,186
06/30/2020	81,819,639	92,053,270	173,872,909
06/30/2021	89,842,846	90,981,726	180,824,572
06/30/2022	89,497,175	89,792,948	179,290,124
06/30/2023	100,071,320	88,451,753	188,523,073

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

Contribution Requirement Summary

	<u>Year ended June 30</u>	
	<u>2013</u>	<u>2012</u>
Unfunded Accrued Liability	\$228,591,172	\$200,315,171
Amortization of Unfunded Accrued Liability	54,528,754	41,187,422
Normal Cost	54,994,819	56,159,687
Budgeted Exp.	2,913,500	3,048,911
Required Contribution	112,437,073	100,396,020
Est. Employee Contribution	22,153,614	21,082,370
Est. Municipality Contribution:		
Active Members	35,999,623	34,258,852
DOP Members	136,067	163,067
Actual State Contribution		
Previous Year	31,412,000	28,092,000
Total Contribution	89,701,304	83,596,289

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

CHAIRMAN, Jim Keesee
VICE CHAIRMAN, Ryan Perkins

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	Jeff Pierce, Oklahoma City
State Board District 7	W. B. Smith, Retired
Governor Appointee	Andy McPherson
Speaker of the House Appointee	Tim Foley
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
Sean Ruark, Pension Administration Officer
Darcie Gordon, Administrative Officer
Christina Hirschman, Executive Legal Assistant
Elizabeth Moore, Accountant
Katie Luttrell, Pension Operations Administrator/IT
Leanne Rios, Pension Analyst
Angela McCullough, Pension Analyst
Nancy Nethercutt, Customer Assistance Representative
Deric Berousek, Chief Financial Officer

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
Grosvenor B 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
The Realty Associates Fund – Private Real Estate
Siguler Guff – Private Real Estate

SPECIAL STRATEGY MANAGERS

Accel Europe, LP – European Venture Capital
Arsenal Capital Partners Fund I & II, & III LP – Small/Mid Market Buyout
Calera Capital III & IV – Mid Market Buyout
Encap Energy Cap IX – Private Equity
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, & III – Small/Mid Market Buyout
Venture Lending & Leasing Fund III, LLC – Venture Debt
Weathergag Venture Capital I & II, LP – Venture Capital Fund of Funds

Warburg Pincus Private Equity X, & XI 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 1st Session of the 54th Legislature (2013) amended statutes pertaining to the Oklahoma Police Pension and Retirement System:

HB 1324 – An act modifying an annuity table reference in regard to the Oklahoma Police Pension & Retirement System.