



**Oklahoma Firefighters Pension
and Retirement Plan**

Administered by
**Oklahoma Firefighters Pension
and Retirement System**

Financial Statements

June 30, 2006 and 2005
(With Independent Auditors' Report Thereon)

Finley & Cook, PLLC

Certified Public Accountants

OKLAHOMA FIREFIGHTERS PENSION AND RETIREMENT PLAN
Administered by
OKLAHOMA FIREFIGHTERS PENSION AND RETIREMENT SYSTEM

FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Oklahoma Firefighters Pension and Retirement System

We have audited the accompanying Statements of Plan Net Assets of the Oklahoma Firefighters Pension and Retirement Plan (the "Plan"), administered by the Oklahoma Firefighters Pension and Retirement System, which is a part of the State of Oklahoma financial reporting entity, as of June 30, 2006 and 2005, 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, 2006 and 2005, and the changes in 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 Employer and Other Contributing Entities is not a required 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.

(Continued)

INDEPENDENT AUDITORS' REPORT, CONTINUED

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2006, 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, 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.

A handwritten signature in black ink that reads "Finley + Cook, PLLC". The signature is written in a cursive, flowing style.

September 25, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of the financial performance of the Oklahoma Firefighters Pension and Retirement Plan administered by the Oklahoma Firefighters Pension and Retirement System (collectively referred to as the "System") provides an overview of the System's activities for the fiscal years ended June 30, 2006 and 2005. Please read it in conjunction with the System's financial statements, which begin on page 3.

Financial Highlights

	<u>2006</u>	<u>2005</u>
• Net assets of the System	\$ 1,585,843,863	1,456,403,821
• Contributions:		
Insurance premium tax	57,849,910	58,208,918
Municipalities	26,271,256	25,283,118
Plan members/employees	15,054,160	13,908,088
• Net investment income	148,048,671	124,413,401
• Benefits paid, including refunds	116,696,082	109,946,812
• Change in net assets	129,440,042	110,846,844

DISCUSSION OF THE BASIC FINANCIAL STATEMENTS

This annual financial report consists of two parts: Management's Discussion and Analysis (this section) and the basic financial statements. The System is a part of the State of Oklahoma financial reporting entity, which is combined with other similar funds (cost-sharing multiple employer) to comprise the fiduciary-pension trust funds of the State of Oklahoma. The financial statements are presented using the economic measurement focus and the accrual basis of accounting. The statements provide financial information about the activities and operations of the System and are presented in a manner similar to those of a private business. The Statements of Plan Net Assets present the assets of the System, along with liabilities, as of the end of the fiscal year. The System's investments are presented at fair market value. The Statements of Changes in Plan Net Assets are presented in order to show the change in net assets during the year. Activity of the System consists primarily of contributions to the System, realized and unrealized gains and losses on investments, investment income, benefits paid, and investment and administrative expenses.

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

CONDENSED FINANCIAL INFORMATION COMPARING THE CURRENT YEAR TO THE PRIOR YEAR

Net Assets: The following table summarizes the net assets as of June 30 and the % changes in the balances:

	<u>2006</u>	<u>2005</u>	<u>% Increase (Decrease)</u>
Cash and cash equivalents	\$ 34,066,539	39,044,081	(13)%
Receivables	22,628,459	11,667,122	94%
Investments at fair value and securities lending short-term collateral	1,668,955,906	1,544,270,670	8%
Capital assets, net	<u>51,848</u>	<u>61,178</u>	(15)%
Total assets	<u>1,725,702,752</u>	<u>1,595,043,051</u>	8%
Liabilities	<u>139,858,889</u>	<u>138,639,230</u>	1%
Net assets	<u>\$ 1,585,843,863</u>	<u>1,456,403,821</u>	9%

Investments are made in accordance with the investment policy approved by the Board of Trustees. A more detailed description of the types of investments held and the investment policy is presented in Note 5 to the financial statements.

Operating Income: The following table summarizes the changes in operating income between fiscal years 2006 and 2005:

	<u>2006</u>	<u>2005</u>	<u>% Increase (Decrease)</u>
Contributions	\$ 99,175,326	97,400,124	2%
Net investment income	<u>148,048,671</u>	<u>124,413,401</u>	19%
Total additions	<u>247,223,997</u>	<u>221,813,525</u>	11%
Benefits and refunds	116,696,082	109,946,812	6%
Administrative expenses	<u>1,087,873</u>	<u>1,019,869</u>	7%
Total deductions	<u>117,783,955</u>	<u>110,966,681</u>	6%
Change in net assets	<u>\$ 129,440,042</u>	<u>110,846,844</u>	17%

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

ANALYSIS OF THE OVERALL FINANCIAL POSITION AND RESULTS OF OPERATIONS

Funding for the System is provided by contributions from the member cities and the System members, as well as funds received from the State of Oklahoma Insurance Department for the System's share of insurance premium taxes. During the 2003 Legislative Session, Senate House Bill 206 reallocated revenue that the System previously received from insurance premium taxes to the Education Reform Revolving Fund for fiscal year 2004. The insurance premium tax allocations resumed in July 2004.

Investment income increased during the year ended June 30, 2006, and decreased during the year ended June 30, 2005, as a result of market increases and decreases. As the System accounts for its investments at market value, rises and declines in the prices of stocks and bonds have a direct effect and impact on the net assets and operating results of the System. The System's net yield on its average assets for the years ended June 30, 2006 and 2005, and the yield for the S&P 500 during the same period, was as follows:

	<u>2006</u>	<u>2005</u>
System yield on average assets	11%	10%
S&P 500	9%	6%

Benefit payments increased during the year by approximately 6%. This was due to an increase in the number of retirees and cost-of-living adjustments.

Administrative expenses remained relatively consistent from the fiscal year 2005 to 2006. The major components of the administrative expenses are payroll and related expenses for the employees of the System, legal fees, and miscellaneous office expenses.

The System has no debt or infrastructure assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

DESCRIPTION OF CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS THAT ARE EXPECTED TO HAVE A SIGNIFICANT EFFECT ON THE FINANCIAL POSITION OR RESULTS OF OPERATIONS

While the System is directly impacted by the overall investment market changes, investments are made based on their expected long-term performance and best interest of the members of the System. With over 1.5 billion dollars of assets and a wide range of diversity of investments, the System has the financial resources to maintain its current investment strategies, while continuing to review for other investment options to benefit its members.

As further discussed in Note 12 of the financial statements, the System's percentage of dedicated revenues from insurance premium taxes will decrease from 41.7% to 34%, effective July 1, 2006. An additional \$35,000,000 was appropriated to the System by the Oklahoma Legislature to compensate for the reduction.

Other than changes in the value of the System's assets as impacted by the investment markets and the effects of the reduced percentage of insurance premium taxes, no other items are known by management to have a significant impact on the operations or financial position of the System as of September 25, 2006.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the System's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Executive Director or Comptroller of the System, c/o Oklahoma Firefighters Pension and Retirement System, 4545 N. Lincoln Blvd., Suite 265, Oklahoma City, Oklahoma 73105-3414.

OKLAHOMA FIREFIGHTERS PENSION AND RETIREMENT PLAN
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STATEMENTS OF PLAN NET ASSETS

<i>June 30,</i>	<i>2006</i>	<i>2005</i>
Assets		
Cash and cash equivalents	\$ 34,066,539	39,044,081
Receivables:		
Employee contributions	166,429	279,666
Employer contributions	283,922	493,114
Due from the Oklahoma State Insurance Department	12,994,425	16,644
Due from brokers for securities sold	8,014,083	9,347,210
Accrued interest and dividends	1,001,746	1,396,360
Other	167,854	134,128
Total receivables	22,628,459	11,667,122
Investments, at fair value:		
U.S. Government securities	143,432,633	215,285,644
Domestic corporate bonds	210,020,434	218,507,600
Domestic stocks	781,802,090	712,738,148
International stocks	181,858,794	172,174,253
Alternative investments	225,536,874	97,980,113
Total investments, at fair value	1,542,650,825	1,416,685,758
Securities lending short-term collateral	126,305,081	127,584,912
Capital assets, net of accumulated depreciation	51,848	61,178
Total assets	1,725,702,752	1,595,043,051
Liabilities		
Accounts payable and accrued expenses	3,395,199	1,437,947
Due to brokers for securities purchased	10,158,609	9,616,371
Securities lending collateral	126,305,081	127,584,912
Total liabilities	139,858,889	138,639,230
Net assets held in trust for pension benefits (Schedule of Funding Progress is presented in Exhibit I)	\$ 1,585,843,863	1,456,403,821

See Independent Auditors' Report.
See accompanying notes to financial statements.

OKLAHOMA FIREFIGHTERS PENSION AND RETIREMENT PLAN
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OKLAHOMA FIREFIGHTERS PENSION AND RETIREMENT SYSTEM
STATEMENTS OF CHANGES IN PLAN NET ASSETS

<i>Years Ended June 30,</i>	<i>2006</i>	<i>2005</i>
Additions:		
Contributions:		
Insurance premium taxes	\$ 57,849,910	58,208,918
Municipalities	26,271,256	25,283,118
Plan members/employees	15,054,160	13,908,088
Total contributions	<u>99,175,326</u>	<u>97,400,124</u>
Investment income:		
From investment activities:		
Net appreciation in fair value of investments	138,648,385	113,409,584
Interest	4,398,182	4,971,496
Dividends	14,242,846	11,959,977
Total investment income	157,289,413	130,341,057
Less: Investment expense	<u>(9,722,295)</u>	<u>(6,343,242)</u>
Income from investment activities	<u>147,567,118</u>	<u>123,997,815</u>
From securities lending activities:		
Securities lending income	5,228,174	2,630,673
Securities lending expenses:		
Borrower rebates	(4,585,880)	(2,070,035)
Management fees	<u>(160,741)</u>	<u>(145,052)</u>
Income from securities lending activities	<u>481,553</u>	<u>415,586</u>
Net investment income	<u>148,048,671</u>	<u>124,413,401</u>
Total additions	<u>247,223,997</u>	<u>221,813,525</u>
Deductions:		
Pension benefit payments	115,622,019	108,977,075
Death benefit payments	765,000	735,000
Refunds to terminated participants	309,063	234,737
Total benefits and refunds	116,696,082	109,946,812
Administrative expense	1,087,873	1,019,869
Total deductions	<u>117,783,955</u>	<u>110,966,681</u>
Increase in net assets	129,440,042	110,846,844
Net assets held in trust for pension benefits, beginning of year	<u>1,456,403,821</u>	<u>1,345,556,977</u>
Net assets held in trust for pension benefits, end of year	<u>\$ 1,585,843,863</u>	<u>1,456,403,821</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

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NOTES TO FINANCIAL STATEMENTS

June 30, 2006 and 2005

(1) NATURE OF OPERATIONS AND DESCRIPTION OF THE SYSTEM

The Oklahoma Firefighters Pension and Retirement System (the “System”) was established by legislative act and became effective on January 1, 1981. The System assumed responsibility for all previous existing municipal firefighters’ pension plans in the state of Oklahoma. These municipalities transferred all existing pension assets and pension payment obligations to the System. The System recorded the investments at market value as of the date of transfer. The System is administered by a 13-member board which acts as a fiduciary for investment of funds and the application of plan interpretations. At June 30, 2006, there were 468 cities, 19 fire protection districts, 74 county fire departments, and 1 developmental authority participating in the System.

The System is a part of the State of Oklahoma financial reporting entity, which is combined with other similar funds (cost-sharing multiple employer) to comprise the fiduciary-pension trust funds of the State of Oklahoma.

The System’s membership consisted of the following as of June 30:

	<u>2006</u>	<u>2005</u>
Retirees and beneficiaries currently receiving benefits	8,509	8,347
Vested members with deferred benefits	1,180	1,113
Deferred option plan members	212	295
	<u>9,901</u>	<u>9,755</u>
Active plan members:		
Vested	4,503	4,380
Nonvested	6,906	6,619
Total active plan members	<u>11,409</u>	<u>10,999</u>
 Total	 <u>21,310</u>	 <u>20,754</u>

The System administers the Oklahoma Firefighters Pension and Retirement Plan (the “Plan”). For report purposes, the System is deemed to be the administrator of the Plan.

See Independent Auditors’ Report.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following are the significant accounting policies followed by the Plan.

Basis of Accounting

The financial statements are prepared using the accrual basis of accounting, under which expenses are recorded when the liability is incurred, revenues are recorded in the accounting period in which they are earned and become measurable, and investment purchases and sales are recorded as of their trade date. The financial statements are in conformity with provisions of Statement No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans," issued by the Governmental Accounting Standards Board (GASB No. 25).

The Plan is administered by the System, a part of the State of Oklahoma financial reporting entity, which together with other similar pension and retirement funds comprise the fiduciary-pension trust funds of the State of Oklahoma. Administrative expenses are paid with funds provided by operations of the Plan.

Investments

The Plan is authorized to invest in eligible investments as approved by the Board of Trustees as set forth in the investment policy.

Plan investments are reported at fair value. The Plan's short-term investments are considered cash equivalents and consist primarily of U.S. Treasury bills and investments in units of a commingled trust fund of the Plan's custodial agent, earning interest at variable rates, and are reported at cost, which approximates fair value. Debt and equity securities are reported at fair value, as determined by the Plan's custodial agent, using pricing services or prices quoted by independent brokers based on the latest reported sales prices at current exchange rates for securities traded on national or international exchanges.

Net investment income includes net appreciation in the fair value of investments, interest income, dividend income, foreign currency translation gains and losses, and investment expenses, which includes investment management and custodial fees and all other significant investment related costs.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Investments, Continued

The Plan authorizes its international investment managers to enter into forward foreign exchange contracts to minimize the short-term impact of foreign currency fluctuations on the asset and liability positions of foreign investments. The gains and losses on these contracts are included in income in the period in which the exchange rates change. Gains on open contracts which hedge specific foreign currency denominated commitments are deferred and recognized in the period in which the transaction is completed, while losses on the open contracts are included in current net investment income. The Plan had no material gains or losses on open contracts at June 30, 2006 or 2005.

The Plan invests in various traditional financial instruments that fall under the broad definition of derivatives. The Plan's derivatives include U.S. Treasury Strips, collateralized mortgage obligations, convertible stocks and bonds, and variable rate instruments. These investments are not speculative in nature and do not increase investment risk beyond allowable limits specified in the Plan's investment policy.

The Plan's investment policy provides for investments in any combination of stocks, bonds, fixed income securities, and other investment securities, along with investments in commingled, mutual, and index funds. Investment securities and investment securities underlying commingled or mutual fund investments are exposed to various risks, such as interest rate, market, and credit risks. Due to the risks associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities may occur in the near term and that such changes could materially affect the amounts reported in the Statements of Plan Net Assets.

The investment policy limits the concentration of each portfolio manager. Except as noted below, no single investment exceeds 5% or more of the Plan net assets. In addition, the Plan has no investments in loans, real estate, or leases, except through the Plan's investment in certain alternative investments as described in Note 3.

See Independent Auditors' Report.

OKLAHOMA FIREFIGHTERS PENSION AND RETIREMENT PLAN
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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Investments, Continued

The following table presents the individual securities exceeding the 5%⁽¹⁾ threshold at June 30:

<u>Type of Security</u>	<u>Name of Security</u>	<u>Shares Held</u>	<u>Cost</u>	<u>Market Value</u>
<u>2006</u>				
Alternative investment	Private Advisors Stable Value ERISA Fund, Ltd.	81,000,000	\$ 81,000,000	84,606,435
Domestic stock	SSGA S&P Flagship Fund	395,449	71,157,347	94,180,226
Domestic stock	S&P 500 Equal Weight CTF	2,801,074	67,798,621	97,917,155
U.S. Government securities	Bond Market Index Fund	7,939,369	118,512,204	143,432,633
Domestic corporate bonds	Invesco Core Fixed Income	6,754,382	78,959,284	87,011,354
Domestic corporate bonds	Pass. Inter. Agg. Bond SL	8,535,777	113,151,207	123,009,081
<u>2005</u>				
Domestic stock	SSGA S&P Flagship Fund	395,449	\$ 71,157,347	86,683,296
Domestic stock	S&P 500 Equal Weight CTF	2,758,187	66,321,354	87,536,573
U.S. Government securities	Bond Market Index Fund	8,740,570	123,458,189	159,191,999
Domestic corporate bonds	Invesco Core Fixed Income	6,754,382	78,959,284	87,161,254
Domestic corporate bonds	Pass. Inter. Agg. Bond SL	7,841,959	103,151,207	112,986,943

⁽¹⁾ While the individual investment may exceed 5% of the Plan's net assets, each investment is comprised of numerous individual securities. As such, no individual security exceeds the 5% threshold.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Capital Assets

Capital assets, which consist of furniture, fixtures, and equipment, are stated at cost, less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets (primarily 10 years).

Use of Estimates

The preparation of the Plan's financial statements in conformity with accounting principles generally accepted in the United States requires the Plan's management to make significant estimates and assumptions that affect the reported amounts of net assets held in trust for pension benefits at the date of the financial statements and the actuarial information included in the required supplementary information as of the benefit information date, the changes in plan net assets during the reporting period and, when applicable, the disclosures of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Risks and Uncertainties

Contributions to the Plan and the actuarial information included in the required supplementary information are reported based on certain assumptions pertaining to interest rates, inflation rates, and employee compensation and demographics. Due to the changing nature of these assumptions, it is at least reasonably possible that changes in these assumptions may occur in the near term and, due to uncertainties inherent in setting assumptions, that the effect of such changes could be material to the financial statements.

Income Taxes

The Plan is exempt from federal and state income taxes.

Plan Termination

In the event the Plan terminates, the Oklahoma statutes contain no provision for the order of distribution of net assets of the Plan. Plan termination would take an act of the Oklahoma Legislature, at which time the order of distribution of net assets would be addressed.

See Independent Auditors' Report.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Administrative Items

Operating Leases:

The Plan has an operating lease which ended June 30, 2006. The lease has been renewed for the period July 1, 2006, through June 30, 2007. Total lease expense for 2006 and 2005 was approximately \$30,000 for each year.

Compensated Absences:

Employees of the System earn annual vacation leave at the rate of 10 hours per month for up to 5 years of service, 12 hours per month for service of 5 to 10 years, 13.3 hours per month for service of 10 to 20 years, and 16.7 hours per month for over 20 years of service. Unused annual leave may be accumulated to a maximum of 480 hours. All accrued annual leave is payable upon termination, resignation, retirement, or death. As of June 30, 2006 and 2005, approximately \$72,000 and \$68,000, respectively, was included in accrued expenses as the accruals for compensated absences. A summary of changes in compensated absences is as follows:

	<u>2006</u>	<u>2005</u>
Balance at beginning of year	\$ 68,000	60,000
Additions	43,000	40,000
Deductions	<u>(39,000)</u>	<u>(32,000)</u>
Balance at end of year	<u>\$ 72,000</u>	<u>68,000</u>

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Administrative Items, Continued

Retirement Expense:

The employees of the System are eligible to participate in the Oklahoma Public Employees Retirement Plan, which is administered by the Oklahoma Public Employees Retirement System (OPERS). OPERS is a multiple-employer, cost sharing public retirement defined benefit pension plan. OPERS provides retirement, disability, and death benefits to its plan members and beneficiaries. OPERS issues a publicly available financial report which includes financial statements and required supplementary information for OPERS. That report may be obtained by writing to the Oklahoma Public Employees Retirement System, 5801 N. Broadway Extension, Suite 400, Oklahoma City, OK 73118.

Employees of the System are required to contribute 3.0% of their annual covered salary up to \$25,000 and 3.5% for salaries above \$25,000. The System is required to contribute 10% of annual covered payroll. During 2006, 2005, and 2004, totals of \$77,388, \$67,494, and \$68,278, respectively, were paid to OPERS. The System's and employees' portions of those amounts were as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
System portion	\$ 60,269	50,963	51,887
Employee portion	<u>17,119</u>	<u>16,531</u>	<u>16,391</u>
	<u>\$ 77,388</u>	<u>67,494</u>	<u>68,278</u>

The System has contributed 100% of required contributions to OPERS for 2006, 2005, and 2004.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Administrative Items, Continued

Risk Management:

The Risk Management Division of the Department of Central Services (the “Division”) is empowered by the authority of Title 74 O.S. Supp. 1993, Section 85.34 et seq. The Division is responsible for the acquisition and administration of all insurance purchased by the State or administration of any self-insurance plans and programs adopted for use by the State for certain organizations and bodies outside of state government, at the sole expense of such organizations and bodies.

The Division is authorized to settle claims of the State and shall govern the dispensation and/or settlement of claims against a political subdivision. In no event shall self-insurance coverage provided by the State, an agency, or other covered entity exceed the limitations on the maximum dollar amount of liability specified by the Oklahoma Government Tort Claims Act, as provided by Title 51 O.S. Supp. 1988, Section 154. The Division oversees the collection of liability claims owed to the State incurred as the result of a loss through the wrongful or negligent act of a private person or other entity.

The Division is also charged with the responsibility to immediately notify the attorney general of any claims against the State presented to the Division. The Division purchases insurance policies through third-party insurance carriers that ultimately inherit the risk of loss. The Division annually assesses each State agency, including the Plan, their pro-rata share of the premiums purchased. The Plan has no obligations for any claims submitted to the Division against the Plan.

See Independent Auditors’ Report.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) ALTERNATIVE INVESTMENTS

The Plan invests in alternative investments such as limited partnerships, limited liability companies, and other entities. The alternative investments at June 30 are summarized in the following table:

<u>Investment</u>	<u>Purpose</u>	<u>Fair Market Value</u>	
		<u>2006</u>	<u>2005</u>
Pequot Core Investors Fund, Inc.	Invests primarily in equity securities, domestic and foreign.	\$ 65,122,423	56,056,363
JP Morgan Chase Bank Strategic Property Fund	Invests in real estate investments owned directly or through partnership interests, and mortgage loans on income-producing property.	50,211,029	41,923,750
Private Advisors Stable Value ERISA Fund, Ltd.	Invests in private investment companies and short-term money market funds.	84,606,435	-
T.A. Realty Associates Fund VII, L.P.	Invests in income-producing real estate properties.	<u>25,596,987</u>	<u>-</u>
		<u>\$ 225,536,874</u>	<u>97,980,113</u>

Each of the entities accounts for their investments at fair value. Pequot Core Investors Fund, Inc. invests in both domestic and foreign equity securities. As such, it may enter into forward contracts to purchase or sell securities at specified dates in the future at a guaranteed price in a foreign country to protect against fluctuation in exchange rates of foreign currency.

See Independent Auditors' Report.

OKLAHOMA FIREFIGHTERS PENSION AND RETIREMENT PLAN
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OKLAHOMA FIREFIGHTERS PENSION AND RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(4) DESCRIPTION OF PLAN

The following brief description of the Plan is provided for general information purposes only. Participants should refer to Title 11 of the Oklahoma Statutes, Section 49–100.1 through 49–143.3, as amended, for more complete information.

General

The Plan is a multiple-employer, cost sharing public employee retirement plan covering members who have actively participated in firefighting activities.

Contributions

The contribution requirements of the Plan are at an established rate determined by Oklahoma statute and are not based on actuarial calculations.

Participating paid firefighters contribute 8% of applicable earnings, while member cities contribute 13% of the member's applicable earnings. In addition, the member cities contribute \$60 for each volunteer firefighter unless their annual income in the general fund is less than \$25,000, in which case they are exempt. The State of Oklahoma allocated 41.7% of the insurance premium tax collected from various types of insurance policies to the Plan during 2006 and 2005. The State may also allocate additional funds annually as needed to pay current costs and to amortize the unfunded actuarial present value of accumulated plan benefits. There were no additional State of Oklahoma appropriations for either 2006 or 2005.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(4) DESCRIPTION OF PLAN, CONTINUED

Benefits

In general, the Plan provides defined retirement benefits based on members' final average compensation, age, and term of service. In addition, the retirement program provides for benefits upon disability and to survivors upon death of eligible members. Retirement provisions are as follows:

- Normal retirement is attained upon completing 20 years of service. The normal retirement benefit is equal to 50% of the member's final average compensation. Final average compensation is defined as the monthly average of the highest 30 consecutive months of the last 60 months of participating service. For volunteer firefighters, the monthly pension benefit for normal retirement is \$139.20 per month.
- All firefighters are eligible for immediate disability benefits. For paid firefighters, the disability benefit is equal to 2.5% of final average monthly compensation per year of service, with a minimum service credit of 20 years and a maximum of 30 years. For disabilities not in the line of duty, final average monthly compensation is based on 60 months instead of 30 months. For volunteer firefighters, the disability benefit is \$6.96 per year of service, with a maximum of 30 years. For disabilities in the line of duty, there is a minimum service credit of 20 years.
- A \$5,000 lump sum death benefit is payable to the qualified spouse or designated recipient upon the participant's death. The \$5,000 death benefit does not apply to members electing the vested benefit. For the years ended June 30, 2006 and 2005, total death benefits of \$765,000 and \$735,000, respectively, were paid from the Plan.
- A member who terminates after 10 years of credited service is eligible for a vested severance benefit determined by the normal retirement formula, based on service and salary history to date of termination. The benefit is payable at age 50, or when the member would have completed 20 years of service, whichever is later, provided the member's contribution accumulation is not withdrawn. Members terminating with less than 10 years of credited service receive a refund of their contribution accumulation without interest.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(4) DESCRIPTION OF PLAN, CONTINUED

Benefits, Continued

- Firefighters with 20 or more years of service may elect to participate in the Oklahoma Firefighters Deferred Option Plan (the “Deferred Option Plan”). Active participation in the Deferred Option Plan shall not exceed 5 years. Under the Deferred Option Plan, retirement benefits are calculated based on compensation and service at the time of election. The retirement benefits plus half of the municipal contributions on behalf of the participant are deposited into a deferred retirement account. The Deferred Option Plan accounts are credited with interest at a rate of 2% below the rate of return on the investment portfolio of the Plan, with a guaranteed minimum interest rate equal to the assumed actuarial interest rate of 7.5%, as approved by the Board of Trustees. The participant is no longer required to make contributions. Upon retirement, the firefighter receives his/her monthly retirement benefit as calculated at the time of election. In addition, the amount accumulated in the deferred retirement account is payable either as a lump sum or as regular payments. As of June 30, 2006, there were 206 members actively participating in the Deferred Option Plan.

In the 2003 Legislative Session, Senate Bill 286 and House Bill 1464 created a “Back” DROP for members of the System effective July 1, 2003. The “Back” DROP is a modified deferred retirement option retirement plan. The “Back” DROP allows the member flexibility by not having to commit to terminate employment within 5 years. Once a member has met their normal retirement period of 20 years, the member can choose, upon retirement, to be treated as if the member had entered into the Deferred Option Plan. A member, however, cannot receive credit to the Deferred Option Plan account based upon any years prior to when the member reached their normal retirement date. Once a member is ready to retire, the member can make the election to participate in the “Back” DROP and can receive a Deferred Option Plan benefit based upon up to 5 years of participation. The member’s regular retirement benefit will not take into account any years of service credited to the “Back” DROP. As of June 30, 2006, there were 62 members participating in the “Back” DROP Plan.

- Firefighters with 20 years of service as of May 26, 1983, are entitled to post-retirement adjustments equal to one-half the increase or decrease for top step firefighters. Pensions will not be adjusted below the level at which the firefighter retired.

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OKLAHOMA FIREFIGHTERS PENSION AND RETIREMENT PLAN
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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(5) CASH AND INVESTMENTS

At June 30, cash and cash equivalents were composed of the following:

	<u>2006</u>	<u>2005</u>
Cash on deposit with the State	\$ 2,117,627	1,251,412
Cash on deposit with custodial agent:		
U.S. currency deposits	(136,408)	925,810
Foreign currency deposits	4,622,181	3,968,769
Short-term investments	<u>27,463,139</u>	<u>32,898,090</u>
	<u>\$ 34,066,539</u>	<u>39,044,081</u>

The Plan's short-term investments are considered cash equivalents and consist primarily of temporary investments in U.S. Treasury bills and a commingled trust fund of the Plan's custodial agent. The trust fund is composed of high-grade money market instruments with short maturities. Each participant in the trust fund shares the risk of loss in proportion to their respective investment in the fund.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of the failure of a counterparty, the Plan will not be able to recover the value of its investments. Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. Investment securities are exposed to custodial credit risk if they are uninsured, are not registered in the name of the Plan, or are held by a counterparty or the counterparty's trust department but not in the name of the Plan. While the investment policy does not specifically address custodial credit risk of deposits, it does limit the amount of cash and short-term investments of each manager's portfolio. At June 30, 2006 and 2005, the carrying amount of the Plan's cash and cash equivalents was \$34,066,539 and \$39,044,081, respectively, and the bank balances were \$35,971,396 and \$41,356,988, respectively. The difference in balances was primarily due to outstanding checks. Approximately \$4,486,000 of the bank balances of deposits was uninsured and uncollateralized. The policy also provides that investment collateral be held by a third-party custodian with whom the Plan has a current custodial agreement in the Plan's name.

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OKLAHOMA FIREFIGHTERS PENSION AND RETIREMENT PLAN
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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(5) CASH AND INVESTMENTS, CONTINUED

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The investment policy states that while there are no percentage limits with regard to country weightings, the investment manager should use prudent investment judgment. Investment in cash and cash equivalents and foreign equities is shown by monetary unit to indicate possible foreign currency risk.

The System's exposure to foreign currency risk at June 30 was as follows:

<u>Currency</u>	<u>2006</u>			
	<u>Cash and</u> <u>Cash Equivalents</u>	<u>Equities</u>	<u>Total</u>	<u>Percentage</u>
Australian dollar	\$ 377,178	1,831,056	2,208,234	1.184%
Brazilian real	-	97,096	97,096	0.052%
Canadian dollar	-	255,500	255,500	0.137%
Danish krone	4,493	520,884	525,377	0.282%
Euro currency unit	1,053,327	84,579,626	85,632,953	45.920%
Hong Kong dollar	225,617	2,524,505	2,750,122	1.475%
Hungarian forint	-	943,171	943,171	0.506%
Indonesian rupiah	31,305	126,268	157,573	0.084%
Japanese yen	2,212,502	36,874,876	39,087,378	20.961%
Mexican peso	6,460	507,259	513,719	0.275%
New Turkish lira	(62)	-	(62)	0.000%
New Zealand dollar	-	2,706,520	2,706,520	1.451%
Norwegian krone	281,691	1,384,394	1,666,085	0.893%
Philippines peso	294	-	294	0.000%
Polish zloty	2,143	4,770,546	4,772,689	2.560%
Pound sterling	79,987	20,508,279	20,588,266	11.040%
Singapore dollar	(1)	-	(1)	0.000%
Swedish krona	265,669	10,202,963	10,468,632	5.614%
Swiss franc	81,578	13,877,338	13,958,916	7.486%
Thailand baht	-	148,513	148,513	0.080%
	<u>\$ 4,622,181</u>	<u>181,858,794</u>	<u>186,480,975</u>	<u>100.000%</u>

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(5) CASH AND INVESTMENTS, CONTINUED

Foreign Currency Risk, Continued

	2005			
<u>Currency</u>	<u>Cash and</u> <u>Cash Equivalents</u>	<u>Equities</u>	<u>Total</u>	<u>Percentage</u>
Australian dollar	\$ 24,285	3,885,814	3,910,099	2.220%
Brazilian real	1,544	-	1,544	0.001%
Canadian dollar	8,659	3,246,227	3,254,886	1.848%
Danish krone	10,651	1,042,549	1,053,200	0.598%
Euro currency unit	365,585	76,601,319	76,966,904	43.696%
Hong Kong dollar	10,007	1,649,240	1,659,247	0.942%
Hungarian forint	-	2,050,769	2,050,769	1.164%
Indonesian rupian	2,261	346,504	348,765	0.198%
Japanese yen	3,472,044	29,700,626	33,172,670	18.832%
Mexican peso	5,779	2,522,949	2,528,728	1.436%
New Zealand dollar	2,464	2,855,786	2,858,250	1.623%
Norwegian krone	4,075	2,804,961	2,809,036	1.595%
Philippines peso	2,526	115,038	117,564	0.067%
Pound sterling	5,373	22,911,652	22,917,025	13.010%
Singapore dollar	8	3,390	3,398	0.002%
South African rand	5,757	346,956	352,713	0.200%
Swedish krona	28,186	7,624,394	7,652,580	4.345%
Swiss franc	19,265	14,454,426	14,473,691	8.216%
Thailand baht	300	11,653	11,953	0.007%
	<u>\$ 3,968,769</u>	<u>172,174,253</u>	<u>176,143,022</u>	<u>100.000%</u>

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(5) CASH AND INVESTMENTS, CONTINUED

Credit Risk

Fixed-income securities are subject to credit risk. Credit quality rating is one method of assessing the ability of the issuer to meet its obligation. The investment policy for fixed-income investment managers requires the securities to be rated at least “investment grade” by at least two rating agencies. Exposure to credit risk as of June 30 was as follows:

<u>Investment Type</u>	<u>S&P Ratings (Unless Noted)</u>	<u>2006</u>	
		<u>Fair Value</u>	<u>Fair Value as a Percent of Total Fixed Maturity Fair Value</u>
U.S. Government securities:			
Bond Market Index Fund	Not Rated	\$ 143,432,633 ⁽¹⁾	<u>100.00%</u>
Domestic corporate bonds:			
Invesco Core Fixed Income	Not Rated	\$ 87,011,353 ⁽²⁾	41.43%
Pass. Inter. Agg. Bond SL	Not Rated	<u>123,009,081</u> ⁽³⁾	<u>58.57%</u>
Total domestic corporate bonds		<u>\$ 210,020,434</u>	<u>100.00%</u>

⁽¹⁾ The Bond Market Index Fund is considered a U.S. Government security. The fund invests primarily in treasury, corporate, and mortgage-backed securities. The concentration of the securities is long-term debt of 3 or more years. The majority of the fund is Aaa rated, while approximately 7% is invested in Baa or lower.

⁽²⁾ The Invesco Core Fixed Income fund invests in investment-grade securities, including obligations of the U.S. Government and its agencies and corporations. The fund seeks to maintain an average credit rating of AA, and all securities held by the fund will have an investment-grade rating by at least one nationally recognized statistical rating organization. The fund will invest in mid- to long-range investments, causing difficulties in converting its investments on a timely basis into cash or other more liquid assets.

⁽³⁾ The Pass. Inter. Agg. Bond SL is considered a domestic corporate bond. The fund invests primarily in domestic, corporate, treasury, and mortgage-backed securities. The concentration of the securities is long-term of 3 or more years. The majority of the fund is invested in Aaa rated securities, while approximately 6% is invested in Baa or lower.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(5) CASH AND INVESTMENTS, CONTINUED

Credit Risk, Continued

<u>Investment Type</u>	<u>S&P Ratings (Unless Noted)</u>	2005	
		<u>Fair Value</u>	<u>Fair Value as a Percent of Total Fixed Maturity Fair Value</u>
U.S. Government securities	AAA	\$ 53,981,769	25.08%
	AAA	1,459,640	0.68%
	AA-	652,236	0.30%
	Not Rated	<u>159,191,999</u>	(1) <u>73.94%</u>
Total U.S. Government securities		<u>\$ 215,285,644</u>	<u>100.00%</u>
Domestic corporate bonds	AAA	\$ 1,601,249	0.73%
	A	4,809,867	2.20%
	A-	1,754,153	0.80%
	A+	3,173,866	1.45%
	AA-	1,461,425	0.67%
	BBB	1,659,819	0.76%
	BBB+	1,215,283	0.56%
	BBB-	2,373,550	1.09%
	Not Rated	<u>200,458,388</u>	(1) <u>91.74%</u>
Total domestic corporate bonds		<u>\$ 218,507,600</u>	<u>100.00%</u>

⁽¹⁾ These investments are not rated as they are commingled funds.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(5) CASH AND INVESTMENTS, CONTINUED

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. While all investments are subject to market changes, securities invested in fixed income index funds are more sensitive to market risk. The investment policy does not establish an overall duration period; however, it does establish benchmarks for each investment manager. As of June 30, the Plan had the following maturities:

Investment Maturities at Fair Value (in Years)						
	<u>Less than 1</u>	<u>1 or more, Less than 5</u>	<u>5 or more, Less than 10</u>	<u>More than 10</u>	<u>Commingled Funds with No Duration</u>	<u>Total Fair Value</u>
2006	\$ -	-	-	-	353,453,067	353,453,067
2005	\$ 6,626,440	23,419,224	4,368,617	39,728,577	359,650,386	433,793,244

Security Lending

The Plan's investment policy provides for its participation in a securities lending program. The program is administered by the Plan's custodial agent. Certain securities of the Plan are loaned to participating brokers, who must provide collateral in the form of cash or U.S. Treasury or Government agency securities. Under the program, the securities loaned are collateralized at a minimum of 105% of their market values. The Plan does not have the ability to pledge or sell collateral securities without borrower default. The collateral is marked to market daily such that at the close of trading on any business day, the value of the collateral shall not be less than 100% of the market value of the loaned securities. The Plan did not impose any restrictions regarding the amount of loans made, and the custodial agent indemnified the Plan by agreeing to purchase replacement securities or returning cash collateral in the event of borrower default. There were no such failures during 2006 or 2005. The indemnification does not cover market losses associated with investing the security lending cash collateral. The loan premium paid by the borrower of the securities is apportioned between the Plan and its custodial agent in accordance with the securities lending agreement.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(5) CASH AND INVESTMENTS, CONTINUED

Security Lending, Continued

During the fiscal year, the Plan and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool. The average duration of such investment pool was 58 and 40 days as of June 30, 2006 and 2005, respectively. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. On June 30, 2006 and 2005, the Plan had no credit risk exposure to borrowers. The collateral held and the market value of securities on loan for the Plan as of June 30 were as follows:

Year Ended <u>June 30</u>	Collateral <u>Held</u>	Market Value of <u>Securities on Loan</u>
2006	\$ <u>126,305,081</u>	<u>124,165,332</u>
2005	\$ <u>127,584,912</u>	<u>123,762,401</u>

Translation Gains and Losses

The Plan's international securities are recorded at fair value, which includes foreign currency gains and losses attributable to fluctuations in the exchange rate between the foreign denominated currency of the investment and the U.S. dollar. This translation gain or loss is calculated based on month-end exchange rates. The cumulative unrealized translation exchange gains for the years ended June 30 consisted of the following:

	<u>2006</u>	<u>2005</u>
Unrealized translation gain at beginning of year	\$ 100,624	71,695
Net (loss) gain on foreign currency translations	(19,817)	283,282
Realized translation (gain)	<u>(119,373)</u>	<u>(254,353)</u>
Unrealized translation (loss) gain at end of year	<u>\$ (38,566)</u>	<u>100,624</u>

At June 30, 2006 and 2005, the Plan's international securities consisted of \$181,858,794 and \$172,174,253, respectively, of equity securities.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(5) CASH AND INVESTMENTS, CONTINUED

Forward Contracts

The international investment managers for the Plan have entered into forward contracts to purchase or sell securities at specified dates in the future at a guaranteed price in a foreign currency. The Plan authorizes these contracts to protect against fluctuations in exchange rates of foreign currency for the U.S. dollar.

(6) DEFERRED OPTION PLAN

As noted previously, the Plan has a Deferred Option Plan available to its members. A summary of the Deferred Option Plan for 2006 and 2005 is as follows:

	<u>2006</u>	<u>2005</u>
Assets at beginning of year	\$ 208,974,491	194,512,218
Employer contributions	892,347	1,247,917
Retirement benefit payments	(14,085,739)	(11,580,574)
Transfers from pension plan	6,958,940	9,708,524
Interest	<u>18,307,830</u>	<u>15,086,406</u>
Assets at end of year	<u>\$ 221,047,869</u>	<u>208,974,491</u>

The assets shown above are included in the net assets held in trust for pension benefits as reflected on the Statements of Plan Net Assets.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(7) “BACK” DROP PLAN

As noted previously, the Plan has a “Back” DROP Plan available to the members effective July 1, 2003. A summary of the “Back” DROP Plan for 2006 and 2005 is as follows:

	<u>2006</u>	<u>2005</u>
Assets at beginning of year	\$ 1,390,099	633,173
Employer contributions	872,553	39,797
Retirement benefit payments	(1,290,417)	(539,793)
Transfers from pension plan	3,244,558	1,135,826
Interest	<u>1,158,732</u>	<u>121,096</u>
Assets at end of year	<u>\$ 5,375,525</u>	<u>1,390,099</u>

The assets shown are included in the net assets held in trust for pension benefits as reflected on the Statements of Plan Net Assets.

(8) CAPITAL ASSETS

The Plan has only one class of capital assets, consisting of furniture, fixtures, and equipment. A summary as of June 30 is as follows:

	<u>2006</u>			
	<u>Balance at</u> <u>June 30, 2005</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at</u> <u>June 30, 2006</u>
Cost	\$ 214,130	-	-	214,130
Accumulated depreciation	<u>(152,952)</u>	<u>(9,330)</u>	<u>-</u>	<u>(162,282)</u>
Capital assets, net	<u>\$ 61,178</u>	<u>(9,330)</u>	<u>-</u>	<u>51,848</u>

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OKLAHOMA FIREFIGHTERS PENSION AND RETIREMENT PLAN
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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(8) CAPITAL ASSETS, CONTINUED

	2005			Balance at <u>June 30, 2005</u>
	Balance at <u>June 30, 2004</u>	<u>Additions</u>	<u>Disposals</u>	
Cost	\$ 207,192	11,059	(4,121)	214,130
Accumulated depreciation	<u>(144,119)</u>	<u>(11,325)</u>	<u>2,492</u>	<u>(152,952)</u>
Capital assets, net	<u>\$ 63,073</u>	<u>(266)</u>	<u>(1,629)</u>	<u>61,178</u>

(9) FEDERAL INCOME TAX STATUS

As an instrumentality of the State of Oklahoma, the Plan is tax-exempt. It is not subject to the Employee Retirement Income Security Act of 1974. The Plan has received favorable determination from the Internal Revenue Service regarding its tax-exempt status. The Plan has been amended since receiving the determination letter. However, the plan administrator believes that the Plan is designed and is currently being operated in substantial compliance with the applicable requirements of the Internal Revenue Code.

(10) PLAN TERMINATION AND STATE FUNDING

The Plan has not developed an allocation method if it were to terminate. The Oklahoma Legislature is required by statute to make such appropriation as necessary to assure that benefit payments are made.

A suggested minimum contribution from the State of Oklahoma is computed annually by an actuary hired by the Plan. However, funding by the State of Oklahoma to the Plan is based on statutorily determined amounts rather than the actuarial calculations of the amount required to fund the Plan.

(11) HISTORICAL INFORMATION

Historical trend information designed to provide information about the System's progress made in accumulating sufficient assets to pay benefits when due is presented in Exhibits I and II.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(12) LEGISLATIVE AMENDMENTS

Effective July 1, 2006, House Bill 1179 provided a 4% cost-of-living allowance (COLA) for members receiving benefits as of June 30, 2005. In addition, House Bill 1179 lowered the percentage of dedicated revenues to be received from insurance premium taxes from 41.7% to 34%, effective July 1, 2006. To compensate the Plan for the reduction in insurance premium taxes, Senate Bill 90 appropriated \$35,000,000 to the Plan. The \$35,000,000 was received by the Plan in August 2006.

(13) CONTINGENCIES

As of June 30, 2006, the Plan was involved as a defendant in various litigation cases. Primarily, the cases involve methods of determination of benefits (cost-of-living adjustments, eligible years of service, etc.) to participants. The effect of the litigation on the Plan could not be estimated. Some of the cases have been pending for several years. Management intends to vigorously defend the lawsuits.

See Independent Auditors' Report.

**SUPPLEMENTARY INFORMATION
REQUIRED BY
GOVERNMENTAL ACCOUNTING STANDARDS BOARD
STATEMENT NO. 25 (GASB NO. 25)**

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SCHEDULE OF FUNDING PROGRESS

June 30, 2006

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent of Covered Payroll ((b-a)/c)
July 1, 1997	\$ 1,012,114,000 ⁽¹⁾	1,373,849,631 ⁽¹⁾	361,735,631 ⁽¹⁾	73.7% ⁽¹⁾	121,129,541	298.6%
July 1, 1998	1,126,749,678	1,477,888,439	351,138,761	76.2%	128,815,129	272.6%
July 1, 1999	1,235,758,489	1,562,965,242	327,206,753	79.1%	136,198,897	240.2%
July 1, 2000	1,355,708,774	1,665,329,807	309,621,033	81.4%	142,276,079	217.6%
July 1, 2001	1,438,496,849	1,734,900,620	296,403,771	82.9%	147,626,303	200.8%
July 1, 2002	1,457,170,001	1,858,079,585	400,909,584	78.4%	153,775,079	260.7%
July 1, 2003	1,496,885,848	1,946,753,099	449,867,251	76.9%	163,684,035	274.8%
July 1, 2004	1,473,396,552	2,233,519,875	760,123,323	66.0%	173,178,595	438.9% ⁽²⁾
July 1, 2005	1,485,516,048	2,332,601,300	847,085,252	63.7%	188,968,929	448.3%
July 1, 2006	1,546,486,429	2,666,305,915	1,119,819,486	58.0%	204,206,759	548.4% ⁽³⁾

⁽¹⁾ At July 1, 1997, 75% of any unrecognized outstanding gains and losses were included in the actuarial value of assets.

⁽²⁾ At July 1, 2004, a 1% COLA assumption was included for future benefit increases.

⁽³⁾ At July 1, 2006, an additional 1% COLA assumption was included for future benefit increases.

See Independent Auditors' Report.

See accompanying notes to supplementary information required by GASB No. 25.

OKLAHOMA FIREFIGHTERS PENSION AND RETIREMENT PLAN
Administered by
OKLAHOMA FIREFIGHTERS PENSION AND RETIREMENT SYSTEM

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER AND OTHER CONTRIBUTING ENTITIES*June 30, 2006*

Year Ended June 30,	Annual Required Contributions	Contributions by Source		Total Amount Contributed	Percentage Contributed
		Employer Contributions	State Contributions		
1997	\$ 59,669,403	16,791,667	39,045,428	55,837,095	93.6%
1998	56,075,006	17,458,598	40,881,567	58,340,165	104.0%
1999	56,998,185	18,093,467	40,897,464	58,990,931	103.5%
2000	56,993,710	19,406,860	42,118,025	61,524,885	108.0%
2001	61,937,990	20,217,253	45,364,211	65,581,464	105.9%
2002	63,101,261	21,442,143	47,349,618	68,791,761	109.0%
2003	76,522,653	22,306,819	50,206,475	72,513,294	94.8%
2004	73,681,227	22,820,020	-	22,820,020	31.0%
2005	106,735,523	23,995,404	58,208,918	82,204,322	77.0%
2006	118,296,060	24,506,356	57,849,910	82,356,266	69.6%

See Independent Auditors' Report.

See accompanying notes to supplementary information required by GASB No. 25.

OKLAHOMA FIREFIGHTERS PENSION AND RETIREMENT PLAN
Administered by
OKLAHOMA FIREFIGHTERS PENSION AND RETIREMENT SYSTEM

NOTES TO SUPPLEMENTARY INFORMATION
REQUIRED BY GASB NO. 25

June 30, 2006

The information presented in the required supplementary schedules was determined as part of an actuarial valuation by an independent enrolled actuary (Buck Consultants, LLC) at the dates indicated. Additional information as of the June 30, 2006, valuation follows:

Assumptions

Actuarial cost method:	Entry age
Amortization method:	Level dollar—closed
Remaining amortization:	27 years
Asset valuation method:	An expected actuarial value is determined equal to the prior year's actuarial value of assets plus cash flow (excluding realized and unrealized gains and losses) for the year ended on the valuation date and assuming a 7.5% interest return. Twenty percent (20%) of any (gain) loss is amortized over 5 years. The result is constrained to a value of 80% to 120% of the market value at the valuation date.

Actuarial assumptions

Investment rate of return:	7.5%
Projected salary increases*:	4% to 10%
Cost-of-living adjustments:	Half of the dollar amount of a 3% assumed increase in base pay for firefighters with 20 years of service as of May 26, 1983. Members not eligible for this increase are assumed to receive a 2% annual COLA adjustment each year.

* Includes inflation at 3%.

See Independent Auditors' Report.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Trustees
Oklahoma Firefighters Pension and Retirement System

We have audited the financial statements of the Oklahoma Firefighters Pension and Retirement Plan (the "Plan"), administered by the Oklahoma Firefighters Pension and Retirement System as of and for the year ended June 30, 2006, and have issued our report thereon dated September 25, 2006, which included an explanatory paragraph disclaiming an opinion on required supplementary information. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Plan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Plan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Trustees, management of the System, and the State of Oklahoma. This report is not intended to be and should not be used by anyone other than these specified parties.



September 25, 2006

September 25, 2006

Board of Trustees
Oklahoma Firefighters Pension and Retirement System

In planning and performing our audit of the financial statements of the Oklahoma Firefighters Pension and Retirement Plan (the “Plan”), administered by the Oklahoma Firefighters Pension and Retirement System, for the year ended June 30, 2006, we considered the Plan’s internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure of the Plan.

The management of the Plan is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments made by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management’s authorization and recorded properly to permit the preparation of financial statements in accordance with accounting principles generally accepted in the United States, and that federal awards programs are managed in compliance with applicable laws and regulations. Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Our consideration of the internal control structure policies and procedures used by the Plan would not necessarily disclose all matters in the internal control structure that might constitute material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that an error that would be material to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operations that we consider to be material weaknesses as defined above.

Board of Trustees
Oklahoma Firefighters Pension and Retirement System
September 25, 2006
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The attached management letter comments are merely suggestions to improve the present internal control system.

Sincerely,

FINLEY & COOK, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

A handwritten signature in black ink, appearing to read 'Nathan Atchison', written in a cursive style.

Nathan Atchison
Partner

OKLAHOMA FIREFIGHTERS PENSION AND RETIREMENT PLAN
Administered by
OKLAHOMA FIREFIGHTERS PENSION AND RETIREMENT SYSTEM

MANAGEMENT LETTER COMMENTS

June 30, 2006

GENERAL LEDGER AND MONTHLY TRIAL BALANCE

A general ledger is being maintained for the Plan to account for its assets and liabilities and various transactions. However, a trial balance and financial statements of some type are not given to the executive director for review on a regular basis. With recent changes and additions made in System personnel, we suggest that on a monthly basis the trial balance or financial statement be given to the executive director.

We have developed a monthly reporting package checklist (Example I) which we believe should be used to assist the controller and executive director in ensuring that the various procedures are performed. We suggest that the Plan implement the checklist as soon as possible.

OKLAHOMA FIREFIGHTERS PENSION AND RETIREMENT PLAN
Administered by
OKLAHOMA FIREFIGHTERS PENSION AND RETIREMENT SYSTEM

SAMPLE MONTHLY REPORTING PACKAGE

June 30, 2006

Items	Planned Date of Completion	Date Completed	Reviewed By
1. Trial balance prepared from double-entry system, and financial statements developed.			
2. Plan B reconciliation performed.			
3. Review of all bank reconciliations.			
4. Reconciliation of State Street information to OFPRS information.			
5. "Back" DROP accounts reconciled.			
6. Other			

All procedures completed and attached to this summary are supporting documentation for review by the Executive Director.

Ginger Poplin, Controller

Date

Reviewed by the Executive Director: _____

Robert Jones, Executive Director

Date