

Oklahoma Firefighters Pension and Retirement Plan

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

Financial Statements

June 30, 2011 and 2010
(With Independent Auditors' Report Thereon)



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, 2011 and 2010, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Plan as of June 30, 2011 and 2010, and the changes in net assets 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 our report dated October 13, 2011, on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

(Continued)

INDEPENDENT AUDITORS' REPORT, CONTINUED

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 36-37 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

Shawnee, Oklahoma
October 13, 2011

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, 2011 and 2010. Please read it in conjunction with the System's financial statements, which begin on page 3.

Financial Highlights

	<u>2011</u>	<u>2010</u>
• Net assets of the System	\$ 1,744,097,678	1,479,895,818
• Contributions:		
Insurance premium taxes	59,876,295	54,159,341
Participating municipalities	31,910,497	32,063,103
Plan members/employees	18,904,554	19,002,394
• Net investment income	307,628,153	131,133,694
• Benefits paid, including refunds	152,471,822	144,815,793
• Changes in net assets	264,201,860	89,911,197

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 pension trust fund 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 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>2011</u>	<u>2010</u>	<u>% Increase (Decrease)</u>
Cash and cash equivalents	\$ 43,898,020	22,129,386	98%
Receivables	18,662,204	15,696,950	19%
Investments at fair value	1,684,897,592	1,443,869,627	17%
Securities lending short-term collateral	192,135,212	174,723,589	10%
Capital assets, net	<u>37,953</u>	<u>47,725</u>	(20)%
Total assets	<u>1,939,630,981</u>	<u>1,656,467,277</u>	17%
Liabilities	<u>195,533,303</u>	<u>176,571,459</u>	11%
Net assets	<u>\$ 1,744,097,678</u>	<u>1,479,895,818</u>	18%

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 4 to the financial statements.

Operating Income: The following table summarizes the changes in net assets between fiscal years 2011 and 2010 and the % changes in the balances:

	<u>2011</u>	<u>2010</u>	<u>% Increase (Decrease)</u>
Contributions	\$ 110,691,346	105,224,838	5%
Net investment income	<u>307,628,153</u>	<u>131,133,694</u>	135%
Total additions	<u>418,319,499</u>	<u>236,358,532</u>	77%
Benefits and refunds	152,471,822	144,815,793	5%
Administrative expenses	<u>1,645,817</u>	<u>1,631,542</u>	1%
Total deductions	<u>154,117,639</u>	<u>146,447,335</u>	5%
Changes in net assets	<u>\$ 264,201,860</u>	<u>89,911,197</u>	194%

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

ANALYSIS OF THE OVERALL FINANCIAL POSITION AND RESULTS OF OPERATIONS

Funding for the System is derived primarily from contributions to the System from the participating municipalities and the System's members, as well as funds received from the State of Oklahoma Insurance Department for the System's share of insurance premium taxes.

The System had investment income of approximately \$307 million for 2011 compared to investment income of approximately \$131 million for 2010.

The investment income of the System increased approximately \$176,500,000 during the year ended June 30, 2011, compared to the year ended June 30, 2010, as a result of the market recovering during this fiscal year. The investment income of the System increased approximately \$442,500,000 during the year ended June 30, 2010, compared to the year ended June 30, 2009, as a result of the incline in the market.

As the System accounts for its investments at current market value, increases and decreases in the market value of stocks, bonds, and other assets have a direct effect and impact on the net assets and operating results of the System. The System's net return on its average assets for the years ended June 30, 2011 and 2010, and the return for the S&P 500 during the same period were as follows:

	<u>2011</u>	<u>2010</u>
System	21%	10%
S&P 500	31%	14%

During the year ended June 30, 2011, benefit payments increased by approximately 5% due to an increase in the number of retirees and court ordered benefit increases. During the year ended June 30, 2010, benefit payments decreased by approximately 1% due to certain one-time benefit adjustments that were given in fiscal year 2009.

Administrative expenses increased slightly from the fiscal year 2010 to 2011. The major components of the administrative expenses are professional fees, payroll, and related expenses for the employees of the System, 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 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 \$1.9 billion 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.

Other than changes in the value of the System's assets as impacted by the investment markets, no other items are known by management to have a significant impact on the operations or financial position of the System as of October 13, 2011.

The System received insurance premium taxes of approximately \$60 million \$54 million for the years ended June 30, 2011 and 2010, respectively. The System receives 34% of the total taxes collected on insurance premiums.

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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OKLAHOMA FIREFIGHTERS PENSION AND RETIREMENT SYSTEM

STATEMENTS OF PLAN NET ASSETS

<i>June 30,</i>	<i>2011</i>	<i>2010</i>
Assets		
Cash and cash equivalents	\$ 43,898,020	22,129,386
Receivables:		
Employees' contributions	594,332	583,031
Employer's contributions	996,986	974,518
Due from the Oklahoma State Insurance Department	13,419,535	11,941,963
Accrued interest and dividends	3,260,070	1,849,038
Other	391,281	348,400
Total receivables	<u>18,662,204</u>	<u>15,696,950</u>
Investments, at fair value:		
U.S. government securities	174,629,567	135,668,591
International government agencies	44,087,338	39,729,038
U.S. Treasury	25,565,795	1,913,653
International treasuries	49,586,555	4,922,030
Domestic corporate bonds	16,842,408	107,336,324
International corporate bonds	-	1,565,748
Domestic stocks	835,236,441	692,446,087
International stocks	188,895,201	140,442,246
Mortgage-backed securities	6,147,534	8,167,254
Municipal bonds	2,928,561	1,537,769
Alternative investments	340,978,192	310,140,887
Total investments, at fair value	<u>1,684,897,592</u>	<u>1,443,869,627</u>
Securities lending short-term collateral	192,135,212	174,723,589
Capital assets, net of accumulated depreciation	<u>37,953</u>	<u>47,725</u>
Total assets	<u>1,939,630,981</u>	<u>1,656,467,277</u>

(Continued)

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

OKLAHOMA FIREFIGHTERS PENSION AND RETIREMENT PLAN
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STATEMENTS OF PLAN NET ASSETS, CONTINUED

<i>June 30,</i>	<i>2011</i>	<i>2010</i>
Liabilities		
Accounts payable and accrued expenses	2,261,470	1,471,126
Securities lending collateral	192,135,212	174,723,589
Net due to brokers for security transactions	<u>1,136,621</u>	<u>376,744</u>
Total liabilities	<u>195,533,303</u>	<u>176,571,459</u>
 Net assets held in trust for pension benefits (Schedule of Funding Progress is presented in Exhibit I)	 <u>\$ 1,744,097,678</u>	 <u>1,479,895,818</u>

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

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

<i>Years Ended June 30,</i>	<i>2011</i>	<i>2010</i>
Additions:		
Contributions:		
Insurance premium taxes	\$ 59,876,295	54,159,341
Participating municipalities	31,910,497	32,063,103
Plan members/employees	18,904,554	19,002,394
Total contributions	<u>110,691,346</u>	<u>105,224,838</u>
Investment income:		
From investment activities:		
Net appreciation in fair value of investments	295,131,205	122,503,635
Interest	6,134,338	2,983,924
Dividends	15,876,666	13,071,343
Total investment income	<u>317,142,209</u>	<u>138,558,902</u>
Less investment expense	<u>(10,132,854)</u>	<u>(8,032,902)</u>
Income from investment activities	<u>307,009,355</u>	<u>130,526,000</u>
From securities lending activities:		
Securities lending income	980,101	993,595
Securities lending expenses:		
Borrower rebates	(154,512)	(182,870)
Management fees	(206,791)	(203,031)
Income from securities lending activities	<u>618,798</u>	<u>607,694</u>
Net investment income	<u>307,628,153</u>	<u>131,133,694</u>
Total additions	<u>418,319,499</u>	<u>236,358,532</u>
Deductions:		
Pension benefit payments	150,960,544	143,786,652
Death benefit payments	876,786	797,500
Refunds to terminated participants	634,492	231,641
Total benefits and refunds	<u>152,471,822</u>	<u>144,815,793</u>
Administrative expenses	<u>1,645,817</u>	<u>1,631,542</u>
Total deductions	<u>154,117,639</u>	<u>146,447,335</u>
Changes in net assets	264,201,860	89,911,197
Net assets held in trust for pension benefits:		
Beginning of year	<u>1,479,895,818</u>	<u>1,389,984,621</u>
End of year	<u>\$ 1,744,097,678</u>	<u>1,479,895,818</u>

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

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NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

(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 fair 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, 2011, there were 473 cities, 24 fire protection districts, and 116 county fire departments participating in the System.

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

The Oklahoma Firefighters Pension and Retirement Board of Trustees (the “Board”) is responsible for the operation, administration, and management of the System. The Board also determines the general investment policy of the System’s assets.

The System’s participants at June 30 consisted of:

	<u>2011</u>	<u>2010</u>
Retirees and beneficiaries currently receiving benefits	9,464	9,456
Vested members with deferred benefits	1,283	1,153
Deferred Option Plan members	119	120
	<u>10,866</u>	<u>10,729</u>
Active plan members:		
Vested	5,048	4,873
Nonvested	7,410	7,302
Total active plan members	<u>12,458</u>	<u>12,175</u>
	<u>23,324</u>	<u>22,904</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.

OKLAHOMA FIREFIGHTERS PENSION AND RETIREMENT PLAN
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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 Governmental Accounting Standards Board Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* (GASB 25), and GASB Statement No. 50, *Pension Disclosures* (GASB 50).

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.

Recent Accounting Pronouncements

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements* (GASB 62). The objective of GASB 62 is to incorporate into GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations.
2. Accounting Principles Board Opinions.
3. Accounting Research Bulletins of American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedures.

The requirements in GASB 62 will improve financial reporting by contributing to GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. GASB 62 is effective for financial statements for periods beginning after December 15, 2011, with earlier application encouraged. The provisions of GASB 62 are required to be applied retroactively for all periods presented.

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

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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.

Date of Subsequent Events Evaluation

The Plan has evaluated subsequent events through October 13, 2011, which is the date the financial statements were available to be issued.

Investments

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

Method Used to Value Investments—Plan investments are reported at fair value. 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. The fair value of the pro rata share of units owned by the Plan in equity index and commingled trust funds is determined by the respective fund trustee based on quoted sales prices of the underlying securities. The fair value of the real estate investments is determined from independent appraisals. Investments which do not have an established market are reported at estimated fair value.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Investments, Continued

Net investment income includes net appreciation (depreciation) in the fair value of investments, interest income, dividend income, foreign currency translation gains and losses, securities lending income and expenses, and investment expenses, which include investment management and custodial fees and all other significant investment related costs. Interest and dividends earned in commingled funds are reflected as a component of net appreciation in fair value of assets. The fair value of the limited partnerships is determined by managers of the partnerships based on the values of the underlying assets.

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, 2011 or 2010.

The Plan may invest in various traditional financial instruments that fall under the broad definition of derivatives. The Plan's derivatives may 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 change 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's 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 6.

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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>	2011		
		<u>Shares Held</u>	<u>Cost</u>	<u>Fair Value</u>
Alternative investment	Private Advisors Stable Value ERISA Fund, Ltd.	98,007,498	\$ 101,000,000	124,745,022
Alternative investment	Grosvenor Capital Management	75,000,000	75,000,000	83,173,200
Domestic stock	SSGA S&P 500 Flagship Fund	371,580	102,556,504	102,674,667
Domestic stock	S&P 500 Equal Weight CTF	2,917,186	73,085,441	120,304,742
U.S. government securities	Passive Bond Market Index Fund	3,153,437	76,416,290	78,135,862
2010				
<u>Type of Security</u>	<u>Name of Security</u>	<u>Shares Held</u>	<u>Cost</u>	<u>Fair Value</u>
Alternative investment	Private Advisors Stable Value ERISA Fund, Ltd.	98,007,498	\$ 101,000,000	114,382,089
Alternative investment	Grosvenor Capital Management	75,000,000	75,000,000	74,990,100
Domestic stock	SSGA S&P 500 Flagship Fund	371,663	89,455,336	78,541,993
Domestic stock	S&P 500 Equal Weight CTF	2,865,854	71,085,460	88,188,066
U.S. government securities	Bond Market Index Fund	5,680,788	96,267,794	135,668,590
Domestic corporate bonds	Pass. Inter. Agg. Bond SL	4,827,616	64,008,714	91,381,944

⁽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).

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.

Administrative Items

Operating Lease

The Plan has an operating lease which ended June 30, 2011. The lease has been renewed for the period July 1, 2011, through June 30, 2012. Total lease expense for 2011 and 2010 was approximately \$34,000.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Administrative Items, Continued

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 over 5 to 10 years, 13.3 hours per month for service of over 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 both June 30, 2011 and 2010, approximately \$73,000 was included in accrued expenses as the accruals for compensated absences. A summary of changes in compensated absences is as follows:

	<u>2011</u>	<u>2010</u>
Balance at beginning of year	\$ 73,000	73,000
Additions	86,909	39,000
Deductions	<u>(86,909)</u>	<u>(39,000)</u>
Balance at end of year	<u>\$ 73,000</u>	<u>73,000</u>

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 73118-7484.

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

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Administrative Items, Continued

Retirement Expense, Continued

Employees of the System are required to contribute 3.5% of their annual covered salary. The System was required to contribute 15.5% of annual covered payroll as of June 30, 2011 and 2010, and 14.5% as of June 30, 2009. During 2011, 2010, and 2009, totals of \$103,867, \$105,443, and \$97,874, respectively, were paid to OPERS. The System’s and employees’ portions of those amounts were as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
System portion	\$ 81,320	83,019	76,040
Employee portion	<u>22,547</u>	<u>22,424</u>	<u>21,834</u>
	<u>\$ 103,867</u>	<u>105,443</u>	<u>97,874</u>

The System has contributed 100% of required contributions to OPERS for 2011, 2010, and 2009.

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 of Oklahoma or administration of any self-insurance plans and programs adopted for use by the State of Oklahoma 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 of Oklahoma 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 of Oklahoma, 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 of Oklahoma 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 of Oklahoma 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.

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

(3) DESCRIPTION OF THE 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

Funding Policy—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 34% of the insurance premium tax collected from various types of insurance policies to the Plan during the years ended June 30, 2011 and 2010. The State of Oklahoma may also appropriate additional funds annually as needed to pay current costs and to amortize the unfunded actuarial present value of accumulated plan benefits. No such appropriations were received during the year ended June 30, 2011 or 2010.

Funded Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation date, the Plan was 63.7% funded. The actuarial accrued liability for benefits was \$2.8 billion, and the actuarial value of assets was \$1.8 billion, resulting in an unfunded actuarial accrued liability (UAAL) of \$1.0 billion. The covered payroll (annual payroll of active employees covered by the Plan) was \$244 million and the ratio of UAAL to covered payroll was 411.4%.

As of July 1, 2010, the most recent actuarial valuation date for the previous period, the Plan was 53.4% funded. The actuarial accrued liability for benefits was \$3.2 billion, and the actuarial value of assets was \$1.7 billion, resulting in an unfunded actuarial accrued liability (UAAL) of \$1.5 billion. The covered payroll (annual payroll of active employees covered by the Plan) was \$249 million and the ratio of UAAL to covered payroll was 590.6%.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) DESCRIPTION OF THE PLAN, CONTINUED

Funded Status and Funding Progress, Continued

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

2011

In the July 1, 2011, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included (a) a 7.5% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 4% to 10% per year. Both (a) and (b) included an inflation component of 3%. The projection of benefits for financial accounting purposes also does not explicitly incorporate the potential effects of any limitation on the State of Oklahoma's contribution rate disclosed above under *Funding Policy*. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the fair value of investments over a 5-year period. The UAAL is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2011, was 22 years.

2010

In the July 1, 2010, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included (a) a 7.5% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 4% to 10% per year. Both (a) and (b) included an inflation component of 3%. The projection of benefits for financial accounting purposes also does not explicitly incorporate the potential effects of any limitation on the State of Oklahoma's contribution rate disclosed above under *Funding Policy*. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the fair value of investments over a 5-year period. The UAAL is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2010, was 23 years.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) DESCRIPTION OF THE 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 \$150.60 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 \$7.53 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, 2011 and 2010, total death benefits of \$876,786 and \$797,500, 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

(3) DESCRIPTION OF THE 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 (having benefit payments credited to the account) 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. The member can elect to either leave the account balance accumulated in the Deferred Option Plan account or they can elect to have the balance paid to them either as a lump sum or in specified monthly payments. If the member elects to leave their account balance in the Deferred Option Plan account, they will continue to earn interest on their balance at the rate described above; however, no more benefit payments will be credited to their account. The member can leave their account balance in the Deferred Option Plan account until the age of 70½. When the member reaches 70½ years of age, they must either begin receiving regular monthly payments or a lump sum distribution. As of June 30, 2011, there were 119 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, 2011, there were 451 members participating in the “Back” DROP Plan.
- Firefighters with 20 years of service or who were receiving pension benefits 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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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(4) CASH, CASH EQUIVALENTS, AND INVESTMENTS

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

	<u>2011</u>	<u>2010</u>
Cash on deposit with the State of Oklahoma	\$ 307,175	383,859
Cash on deposit with custodial agent:		
U.S. currency deposits	11,198	15,923
Foreign currency deposits	2,918,680	1,646,352
Short-term investments	<u>40,660,967</u>	<u>20,083,252</u>
 Total cash and cash equivalents	 <u>\$ 43,898,020</u>	 <u>22,129,386</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, 2011 and 2010, the carrying amount of the Plan's cash and cash equivalents was \$43,898,020 and \$22,129,386, respectively, and the bank balances were \$46,662,221 and \$12,674,855, respectively. The difference in balances was primarily due to outstanding checks and a large deposit in transit in 2010.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(4) CASH, CASH EQUIVALENTS, AND INVESTMENTS, CONTINUED

Custodial Credit Risk, Continued

The bank balances of deposits were uninsured and uncollateralized in the amount of approximately \$2,930,000 and \$1,662,000 of as of June 30, 2011 and 2010, respectively. 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.

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.

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

(4) CASH, CASH EQUIVALENTS, AND INVESTMENTS, CONTINUED

Foreign Currency Risk, Continued

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

	2011				
	Cash and Cash Equivalents	Equities	Debt Securities	Total	Percentage
Australian dollar	\$ -	5,215,211	15,462,708	20,677,919	7.243%
Brazil real	87,790	3,649,771	3,170,404	6,907,965	2.420%
Canadian dollar	306,918	12,077,104	6,227,989	18,612,011	6.519%
Czech koruna	74,622	808,362	-	882,984	0.309%
Danish krone	21,666	5,646,258	-	5,667,924	1.985%
Euro currency	995,975	55,964,802	-	56,960,777	19.952%
Hong Kong dollar	968,163	22,821,426	-	23,789,589	8.333%
Hungarian forint	83	-	4,061,285	4,061,368	1.423%
Indonesian rupiah	-	-	5,089,203	5,089,203	1.783%
Japanese yen	78,734	22,178,313	-	22,257,047	7.796%
Malaysian ringgit	-	-	7,267,722	7,267,722	2.546%
Mexican peso	287,212	2,068,730	5,837,729	8,193,671	2.870%
New Bulgaria lev	-	297,119	-	297,119	0.104%
New Taiwan dollar	28,144	-	-	28,144	0.010%
New Zealand dollar	(375)	-	5,714,984	5,714,609	2.002%
Norwegian krone	31,966	1,412,197	6,377,706	7,821,869	2.740%
Philippine peso	762	-	-	762	0.000%
Polish zloty	-	44,498	9,348,448	9,392,946	3.290%
Pound sterling	(125,764)	36,855,636	13,395,598	50,125,470	17.559%
South African rand	88,894	580,391	4,661,813	5,331,098	1.867%
South Korean won	9,629	2,189,631	7,058,304	9,257,564	3.243%
Swedish krona	8,563	3,952,832	-	3,961,395	1.387%
Swiss franc	55,698	11,971,817	-	12,027,515	4.213%
Turkish lira	-	1,161,103	-	1,161,103	0.406%
	<u>\$ 2,918,680</u>	<u>188,895,201</u>	<u>93,673,893</u>	<u>285,487,774</u>	<u>100.000%</u>

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(4) CASH, CASH EQUIVALENTS, AND INVESTMENTS, CONTINUED

Foreign Currency Risk, Continued

	2010				
	<u>Cash and</u>	<u>Equities</u>	<u>Debt</u>	<u>Total</u>	<u>Percentage</u>
	<u>Cash Equivalents</u>		<u>Securities</u>		
Australian dollar	\$ 79,915	2,830,481	6,877,579	9,787,975	5.198%
Brazil real	62,485	4,042,944	2,730,148	6,835,577	3.630%
Canadian dollar	79,370	9,190,026	2,405,886	11,675,282	6.200%
Czech koruna	40,913	999,130	-	1,040,043	0.552%
Danish krone	-	4,076,095	-	4,076,095	2.165%
Euro currency	219,931	34,250,428	-	34,470,359	18.306%
Hong Kong dollar	68,786	13,006,726	-	13,075,512	6.944%
Hungarian forint	16,824	553,721	-	570,545	0.303%
Indonesian rupiah	37,501	145,505	2,546,844	2,729,850	1.450%
Japanese yen	716,646	16,412,266	-	17,128,912	9.096%
Malaysian ringgit	-	-	3,858,408	3,858,408	2.049%
Mexican peso	165,100	1,876,450	2,888,307	4,929,857	2.618%
New Bulgaria lev	-	168,386	-	168,386	0.089%
New Turkish lira	-	924,532	-	924,532	0.491%
New Zealand dollar	33,311	-	2,659,211	2,692,522	1.430%
Norwegian krone	113	993,305	3,076,997	4,070,415	2.162%
Philippine peso	762	-	-	762	0.000%
Polish zloty	47,993	1,444,006	4,311,812	5,803,811	3.082%
Pound sterling	43,189	30,316,348	8,173,361	38,532,898	20.464%
Singapore dollar	2,042	83,432	-	85,474	0.045%
South African rand	-	1,762,012	952,840	2,714,852	1.442%
South Korean won	31,471	1,325,296	3,405,775	4,762,542	2.529%
Swedish krona	-	2,715,944	2,329,648	5,045,592	2.679%
Swiss franc	-	13,325,213	-	13,325,213	7.076%
	<u>\$ 1,646,352</u>	<u>140,442,246</u>	<u>46,216,816</u>	<u>188,305,414</u>	<u>100.000%</u>

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(4) CASH, CASH EQUIVALENTS, 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>Moody's Ratings (Unless Noted)</u>	<u>2011</u>	
		<u>Fair Value</u>	<u>Fair Value as a Percentage of Total Fixed Maturity Fair Value</u>
U.S. government securities	Not rated	\$ 174,629,567 ⁽¹⁾	54.608%
International government agencies	A2	9,348,448	2.923%
	A3	7,267,722	2.273%
	AAA	18,320,680	5.729%
	BAA1	5,089,203	1.591%
	BAA2	4,061,285	1.270%
		<u>44,087,338</u>	<u>13.786%</u>
U.S. Treasury	Not rated	<u>25,565,795</u>	<u>7.995%</u>
International treasuries	Not rated	22,403,731	7.006%
	A1	7,058,303	2.207%
	A3	4,661,813	1.458%
	AA1	1,515,319	0.474%
	AAA	13,947,389	4.361%
		<u>49,586,555</u>	<u>15.506%</u>

(Continued)

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(4) CASH, CASH EQUIVALENTS, AND INVESTMENTS, CONTINUED

Credit Risk, Continued

<u>Investment Type, Continued</u>	Moody's Ratings (Unless Noted)	2011	
		<u>Fair Value</u>	Fair Value as a Percentage of Total Fixed Maturity <u>Fair Value</u>
Domestic corporate bonds	A1	358,853	0.112%
	A2	4,013,734	1.255%
	A3	884,576	0.277%
	AA2	2,322,720	0.726%
	AA3	2,540,485	0.794%
	BAA1	3,282,277	1.026%
	BAA2	<u>3,439,763</u>	<u>1.076%</u>
		<u>16,842,408</u>	<u>5.266%</u>
Mortgage-backed securities	Not rated	4,501,121	1.408%
	B3	437,389	0.137%
	CAA1	461,664	0.144%
	CAA2	<u>747,360</u>	<u>0.234%</u>
		<u>6,147,534</u>	<u>1.923%</u>
Municipal bonds	Not rated	1,145,453	0.358%
	A2	<u>1,783,108</u>	<u>0.558%</u>
		<u>2,928,561</u>	<u>0.916%</u>
		<u>\$ 319,787,758</u>	<u>100.000%</u>

⁽¹⁾ U.S. government securities include multiple index funds that are invested primarily in treasury, U.S. agency, corporate, and mortgage-backed securities, the majority of which are guaranteed by the full faith and credit of the United States. The concentration of the securities is long-term debt of 2 or more years. Over 90% of the funds are invested in A or higher rated securities, of which over 72% are invested in Aaa rated securities. Approximately 10% of the funds are invested in Baa or lower.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(4) CASH, CASH EQUIVALENTS, AND INVESTMENTS, CONTINUED

Credit Risk, Continued

<u>Investment Type</u>	Moody's Ratings (Unless Noted)	2010	
		<u>Fair Value</u>	Fair Value as a Percentage of Total Fixed Maturity <u>Fair Value</u>
U.S. government securities	Not rated	\$ 135,668,591 ⁽¹⁾	45.098%
International government agencies	Not rated	2,730,148	0.908%
	A1	3,405,775	1.132%
	A2	4,311,812	1.433%
	A3	4,811,248	1.599%
	AAA	19,034,904	6.327%
	BA2	2,546,844	0.847%
	BAA1	2,888,307	0.960%
		<u>39,729,038</u>	<u>13.206%</u>
U.S. Treasury	AAA	<u>1,913,653</u>	<u>0.636%</u>
International treasuries	AAA	<u>4,922,030</u>	<u>1.636%</u>
Domestic corporate bonds	Not rated	91,381,944 ⁽²⁾	30.377%
	A1	2,795,712	0.929%
	A2	3,596,355	1.195%
	A3	1,083,393	0.360%
	AA1	274,781	0.091%
	AA2	1,366,914	0.454%
	AA3	759,055	0.252%
	BAA1	2,394,214	0.796%
	BAA2	3,467,461	1.153%
	BAA3	216,495	0.072%
		<u>107,336,324</u>	<u>35.679%</u>

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(4) CASH, CASH EQUIVALENTS, AND INVESTMENTS, CONTINUED

Credit Risk, Continued

<u>Investment Type, Continued</u>	Moody's Ratings (Unless Noted)	2010	
		<u>Fair Value</u>	Fair Value as a Percentage of Total Fixed Maturity <u>Fair Value</u>
International corporate bonds	AAA	<u>1,565,748</u>	<u>0.520%</u>
Mortgage-backed securities	Not rated	731,401	0.243%
	B2	909,200	0.302%
	B3	1,915,696	0.637%
	BA2	536,172	0.178%
	CAA1	2,571,480	0.855%
	CAA2	831,333	0.276%
	CAA3	<u>671,972</u>	<u>0.223%</u>
		<u>8,167,254</u>	<u>2.714%</u>
Municipal bonds	A2	<u>1,537,769</u>	<u>0.511%</u>
		<u>\$ 300,840,407</u>	<u>100.000%</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 2 or more years. The majority of the fund is invested in Aaa rated securities, while approximately 8% is invested in Baa or lower.

⁽²⁾ 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 debt of 2 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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OKLAHOMA FIREFIGHTERS PENSION AND RETIREMENT PLAN
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OKLAHOMA FIREFIGHTERS PENSION AND RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(4) CASH, CASH EQUIVALENTS, 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:

	2011					Total Fair Value
	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>	
Fixed income securities:						
U.S. government securities	\$ -	-	-	-	174,629,567	174,629,567
U.S. Treasury securities	-	-	-	25,565,795	-	25,565,795
International treasuries	-	11,311,924	32,436,902	5,837,729	-	49,586,555
Domestic corporate bonds	-	6,655,709	-	10,186,699	-	16,842,408
International government agencies	4,270,481	22,253,985	10,920,003	6,642,869	-	44,087,338
Mortgage-backed securities	-	-	-	6,147,534	-	6,147,534
Municipal bonds	-	-	-	2,928,561	-	2,928,561
	<u>\$ 4,270,481</u>	<u>40,221,618</u>	<u>43,356,905</u>	<u>57,309,187</u>	<u>174,629,567</u>	<u>319,787,758</u>

See Independent Auditors' Report.

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

(4) CASH, CASH EQUIVALENTS, AND INVESTMENTS, CONTINUED

Interest Rate Risk, Continued

	2010					Total Fair Value
	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>	
Fixed income securities:						
U.S. government securities	\$ -	-	-	-	135,668,591	135,668,591
International corporate bonds	-	-	1,565,748	-	-	1,565,748
U.S. Treasury securities	-	-	-	1,913,653	-	1,913,653
International treasuries	4,922,030	-	-	-	-	4,922,030
Domestic corporate bonds	-	4,621,541	-	11,332,839	91,381,944	107,336,324
International government agencies	6,887,435	6,715,890	13,979,722	12,145,991	-	39,729,038
Mortgage-backed securities	-	-	-	8,167,254	-	8,167,254
Municipal bonds	-	-	-	1,537,769	-	1,537,769
	<u>\$ 11,809,465</u>	<u>11,337,431</u>	<u>15,545,470</u>	<u>35,097,506</u>	<u>227,050,535</u>	<u>300,840,407</u>

See Independent Auditors' Report.

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

(4) CASH, CASH EQUIVALENTS, AND INVESTMENTS, CONTINUED

Securities 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 fair 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 fair 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 return cash collateral in the event of borrower default. There were no such failures during 2011 or 2010. 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.

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 32 and 30 days as of June 30, 2011 and 2010, 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, 2011 and 2010, the Plan had no credit risk exposure to borrowers. The collateral held and the fair 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>	Fair Value of Securities on <u>Loan</u>	% of Collateral Held to Securities on <u>Loan</u>
2011	\$ <u>192,135,212</u>	<u>188,934,850</u>	<u>102%</u>
2010	\$ <u>174,723,589</u>	<u>167,780,278</u>	<u>104%</u>

See Independent Auditors' Report.

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

(5) DERIVATIVES AND OTHER INSTRUMENTS

Derivative instruments are financial contracts whose values depend on the values of one or more underlying assets, reference rates, or financial indexes. They include futures contracts, swap contracts, options contracts, and forward foreign currency exchange. The Plan's derivatives policy notes that derivatives may be used for the purpose of reducing or controlling risk, reducing transaction costs, or shifting an asset mix. The investment policy also requires investment managers to follow certain controls and documentation and risk management procedures. The Plan uses forward foreign exchange contracts primarily to hedge foreign currency exposure. The tables below summarize the various contracts in the portfolio as of June 30, 2011 and 2010. Investments in limited partnerships (alternative investments) and commingled funds may include derivatives that are not shown in the derivative totals below. The Plan's investments in alternative investments are reflected at fair value and any exposure is limited to its investment in the partnership and any unfunded commitment. Commingled funds have been reviewed to ensure they are in compliance with the Plan's investment policy. The notional values associated with the warrants are generally not recorded in the financial statements. The Plan does not anticipate additional significant market risk from the derivatives.

Derivative instruments at June 30 were as follows:

<u>Foreign Currency Forward Contracts</u>	<u>Fair Value at June 30, 2011</u>	<u>Changes in Fair Value</u>	<u>Notional Amount</u>
Net payable	<u>\$ (1,235,034)</u>	<u>(3,010,468)</u>	<u>73,432,335</u>
<u>Foreign Currency Forward Contracts</u>	<u>Fair Value at June 30, 2010</u>	<u>Changes in Fair Value</u>	<u>Notional Amount</u>
Net receivable	<u>\$ 618,143</u>	<u>1,235,063</u>	<u>-</u>

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(5) DERIVATIVES AND OTHER INSTRUMENTS, CONTINUED

At June 30, 2011 and 2010, the receivable is net of gross receivables of \$132,437 and \$970,487, respectively, and liabilities of \$1,367,471 and \$352,344, respectively. The gross receivables for June 30, 2011 and 2010, were supported by collateral in investments valued at \$132,437 and \$970,487, respectively, with credit risk ratings principally of AA for S&P and Aa3 for Moody's. The majority of the contracts expire by September 2011.

<u>Other</u>	<u>Fair Value at June 30, 2011</u>	<u>Changes in Fair Value</u>	<u>Notional Amount</u>
Common stock—rights	\$ <u> -</u>	<u> 120,773</u>	<u> -</u>
Common stock—warrants	\$ <u> 23,464</u>	<u> 34,482</u>	<u> 4</u>
<u>Other</u>	<u>Fair Value at June 30, 2010</u>	<u>Changes in Fair Value</u>	<u>Notional Amount</u>
Common stock—rights	\$ <u> -</u>	<u> 80,392</u>	<u> -</u>
Common stock—warrants	\$ <u> 79,695</u>	<u> 1,043</u>	<u> 32,790</u>

Fair values of all the derivative instruments were determined from market quotes of the instruments or similar instruments.

The Plan invests in mortgage-backed securities, which are reported at fair value in the statements of plan net assets and are based on the cash flows from interest and principal payments by the underlying mortgages. As a result, they are sensitive to prepayments by mortgagees, which are likely in declining interest rate environments, thereby reducing the values of these securities. The Plan invests in mortgage-backed securities to diversify the portfolio and increase the return while minimizing the extent of risk. Details regarding interest rate risks for these investments are included under the interest rate risk disclosures.

See Independent Auditors' Report.

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

(6) 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 Value</u>	
		<u>2011</u>	<u>2010</u>
Pequot Core Investors Fund, Inc.	Invests primarily in equity securities, domestic and foreign.	\$ -	2,767,498
JPMorgan Chase Bank Strategic Property Fund	Invests in real estate investments owned directly or through partnership interests, and mortgage loans on income-producing property.	53,219,491	44,752,822
Private Advisors Stable Value ERISA Fund, Ltd.	Invests in investment companies that are managed by external investment managers who invest in low volatility hedge funds.	124,745,022	114,546,164
T.A. Realty Associates Fund VII, L.P.	Invests in income-producing real estate properties.	17,266,389	17,138,830
Attalus Long/Short Equity Fund, Ltd.	Invests in investment companies that are managed by external investment managers who invest in long/short investments.	51,967,514	48,398,351
Grosvenor Global Long/Short Equity Fund, L.P.	Invests in investment companies that are managed by external investment managers who invest in long/short investments.	83,173,200	74,990,100
Portfolio Advisors Private Equity Fund	Invests in investment companies that are managed by external investment managers who invest in real estate assets.	10,606,576	7,547,122
		<u>\$ 340,978,192</u>	<u>310,140,887</u>

See Independent Auditors' Report.

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

(6) ALTERNATIVE INVESTMENTS, CONTINUED

Each of the entities accounts for their investments at fair value. Investments made by several of the entities include investments of both domestic and foreign equity securities. As such, they 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.

At June 30, 2011, the Plan had unfunded commitments of approximately \$13,222,000 to the various partnerships.

(7) 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 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</u>
Assets at beginning of year	\$ 254,143,024	248,845,212
Employer's contributions	410,086	380,966
Retirement benefit payments	(15,437,566)	(16,899,874)
Retirement benefits transferred from pension plan	3,339,337	3,070,544
Interest	<u>48,352,069</u>	<u>18,746,176</u>
Assets at end of year	<u>\$ 290,806,950</u>	<u>254,143,024</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.

See Independent Auditors' Report.

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

(8) “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 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</u>
Assets at beginning of year	\$ 60,964,020	39,536,541
Employer's contributions	3,859,968	4,047,591
Retirement benefit payments	(9,830,209)	(5,308,909)
Retirement benefits transferred from pension plan	13,720,045	14,805,380
Interest	<u>17,184,751</u>	<u>7,883,417</u>
Assets at end of year	<u>\$ 85,898,575</u>	<u>60,964,020</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.

(9) 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>Balance at June 30, 2010</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at June 30, 2011</u>
Cost	\$ 247,572	312	-	247,884
Accumulated depreciation	<u>(199,847)</u>	<u>(10,084)</u>	<u>-</u>	<u>(209,931)</u>
Capital assets, net	<u>\$ 47,725</u>	<u>(9,772)</u>	<u>-</u>	<u>37,953</u>

	<u>Balance at June 30, 2009</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at June 30, 2010</u>
Cost	\$ 227,589	19,983	-	247,572
Accumulated depreciation	<u>(190,433)</u>	<u>(9,414)</u>	<u>-</u>	<u>(199,847)</u>
Capital assets, net	<u>\$ 37,156</u>	<u>10,569</u>	<u>-</u>	<u>47,725</u>

See Independent Auditors’ Report.

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

(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) FEDERAL INCOME TAX STATUS

As an instrumentality of the State of Oklahoma, as amended, the Plan is tax-exempt. It is not subject to the Employee Retirement Income Security Act of 1974, as amended. 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.

(12) 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.

See Independent Auditors' Report.

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

(13) LEGISLATIVE AMENDMENTS

The following is a summary of significant plan provision changes that were enacted by the Oklahoma Legislature during 2011 and 2010:

2011

- Senate Bill 347—requires forfeiture of certain retirement benefits by officers or employees upon conviction of certain crimes.
- Senate Bill 778—contained the required language necessary for the System to remain an IRS qualified plan.
- House Bill 2132—modifies Oklahoma Pension Legislation Actuarial Analysis Act. All cost-of-living adjustments (COLA) would become fiscal bills.

2010

- Senate Bill 2130—contained the required language necessary for the System to remain an IRS qualified plan.

(14) CONTINGENCIES

The Plan is involved in legal proceedings in the normal course of operations, none of which, in the opinion of management, will have a material effect on the plan net assets or changes in plan net assets of the Plan.

(15) SUBSEQUENT EVENTS

Market Fluctuations

Subsequent to June 30, 2011, the United States financial market has had considerable downward fluctuation. The long-term ratings of U.S. government and federal agencies were lowered from AAA to AA+ by Standards & Poor's rating agency. As the investments of the Plan are at market value, these values have varied considerably and may continue to vary.

See Independent Auditors' Report.

**SUPPLEMENTARY INFORMATION
REQUIRED BY
GOVERNMENTAL ACCOUNTING STANDARDS BOARD
STATEMENTS NO. 25 AND 50**

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

SCHEDULE OF FUNDING PROGRESS

June 30, 2011

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, 2011	\$ 1,757,838,480	2,760,356,036 ⁽¹⁾	1,002,517,556 ⁽¹⁾	63.7% ⁽¹⁾	243,684,122	411.4%
July 1, 2010	1,681,531,081	3,149,411,893	1,467,880,812	53.4%	248,520,483	590.6%
July 1, 2009	1,667,981,545	3,075,087,927	1,407,106,382	54.2%	246,816,498	570.1%
July 1, 2008	1,817,177,365	2,941,207,332	1,124,029,967	61.8%	235,371,501	477.6%
July 1, 2007	1,717,070,814	2,785,218,488	1,068,147,674	61.6%	216,710,606	492.9%
July 1, 2006	1,546,486,429	2,666,305,915	1,119,819,486	58.0%	204,206,759	548.4% ⁽²⁾
July 1, 2005	1,485,516,048	2,332,601,300	847,085,252	63.7%	188,968,929	448.3%
July 1, 2004	1,473,396,552	2,233,519,875	760,123,323	66.0%	173,178,595	438.9% ⁽³⁾
July 1, 2003	1,496,885,848	1,946,753,099	449,867,251	76.9%	163,684,035	274.8%
July 1, 2002	1,457,170,001	1,858,079,585	400,909,584	78.4%	153,775,079	260.7%

⁽¹⁾ The decrease in the AAL and the unfunded AAL and corresponding increase in the funded ratio were the results of the actuarial assumptions to no longer include cost-of-living adjustments (COLA).

⁽²⁾ At July 1, 2006, an additional 1% COLA assumption was included for future benefit increases.

⁽³⁾ At July 1, 2004, a 1% COLA assumption was included for future benefit increases.

See Independent Auditors' Report.

See accompanying notes to required supplementary information.

OKLAHOMA FIREFIGHTERS PENSION AND RETIREMENT PLAN
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SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER AND OTHER CONTRIBUTING ENTITIES

June 30, 2011

Year Ended June 30,	Annual Required Contributions	Contributions by Source		Total Amount Contributed	Percentage Contributed
		Employer Contributions	State Contributions		
2011	\$ 195,669,404	28,050,529	59,876,295	87,926,824	44.9%
2010	187,157,125	28,015,512	54,159,341	82,174,853	43.9%
2009	157,823,945	29,143,775	53,989,458	83,133,233	52.7%
2008	147,273,273	29,932,946	53,172,116	83,105,062	56.4%
2007	146,828,788	26,008,322	91,406,791	117,415,113	80.0%
2006	118,296,060	24,506,356	57,849,910	82,356,266	69.6%
2005	106,735,523	23,995,404	58,208,918	82,204,322	77.0%
2004	73,681,227	22,820,020	-	22,820,020	31.0%
2003	76,522,653	22,306,819	50,206,475	72,513,294	94.8%
2002	63,101,261	21,442,143	47,349,618	68,791,761	109.0%

See Independent Auditors' Report.

See accompanying notes to required supplementary information.

OKLAHOMA FIREFIGHTERS PENSION AND RETIREMENT PLAN
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NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2011

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 July 1, 2011, valuation follows:

Actuarial cost method:	Entry age
Amortization method:	Level dollar—closed
Remaining amortization:	22 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 fair value at the valuation date.

Actuarial assumptions

Investment rate of return:	7.5%
Projected salary increases*:	4% to 10%
Cost-of-living adjustments (COLA):	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. No COLA is assumed for members not eligible for this increase.

* 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 (the “System”), as of and for the year ended June 30, 2011, and have issued our report thereon dated October 13, 2011, 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Plan’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Plan’s internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

(Continued)

**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*, CONTINUED**

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.

Finley + Cook, PLLC

Shawnee, Oklahoma
October 13, 2011