

Oklahoma Firefighters Pension and Retirement Plan

Administered by

Oklahoma Firefighters Pension and Retirement System

Financial Statements

June 30, 2014 and 2013

(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

To the Board of Trustees of
the Oklahoma Firefighters Pension and Retirement System

Report on the Financial Statements

We have audited the accompanying financial statements 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, which comprise the statements of fiduciary net position as of June 30, 2014 and 2013, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

(Continued)

INDEPENDENT AUDITORS' REPORT, CONTINUED

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Plan as of June 30, 2014 and 2013, and the changes in fiduciary net position of the Plan for the years then ended in accordance with accounting principles generally accepted in the United States.

Emphasis of Matter

Adoption of New Accounting Standards

As discussed in Note 2 to the financial statements, in 2014 the Plan adopted new accounting guidance, Statement No. 67 of the Governmental Accounting Standards Board, *Financial Reporting for Pension Plans—an Amendment of GASB Statement No. 25* (GASB 67). Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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 changes in employers' net pension liability, the schedule of employers' net pension liability, the schedule of contributions from employers and other contributing entities, and the schedule of investment returns on pages 44 through 49 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.

(Continued)

INDEPENDENT AUDITORS' REPORT, CONTINUED

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2014, on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plan's internal control over financial reporting and compliance.

Finley + Cook, PLLC

Shawnee, Oklahoma
October 9, 2014

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, 2014, 2013, and 2012. Please read it in conjunction with the System's financial statements, which begin on page 4.

Financial Highlights

	<u>2014</u>	<u>2013</u>	<u>2012</u>
• Net fiduciary position of the System	\$ 2,197,104,543	1,899,098,749	1,709,234,969
• Contributions:			
Insurance premium taxes	79,545,329	76,310,725	68,245,816
Participating municipalities	36,103,860	34,286,563	32,816,159
Plan members/employees	22,057,504	20,190,827	19,426,927
• Net investment income	335,602,149	230,064,460	5,734,519
• Benefits paid, including refunds	173,344,947	168,983,642	159,361,349
• Net increase (decrease) in net fiduciary position	298,005,794	189,863,780	(34,862,709)

DISCUSSION OF THE BASIC FINANCIAL STATEMENTS

This following discussion and analysis is intended to serve as an introduction to the System's basic financial statements. The System's basic financial statements are comprised of 1) the statements of fiduciary net position, 2) the statements of changes in fiduciary net position, and 3) notes to the financial statements. This report also contains required supplementary information. The System is a component unit of the State of Oklahoma and together with other similar funds comprise the fiduciary pension trust funds of the State of Oklahoma. The financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. The System's statements offer short-term and long-term financial information about the activities and operations of the System. These statements are presented in a manner similar to those of a private business.

The statements of fiduciary net position represent the fair value of the System's assets as of the end of the fiscal year. The difference between assets and liabilities, called "fiduciary net position," represents the value of assets held in trust for future benefit payments. Over time, increases and decreases in the System's fiduciary net position can serve as an indicator of whether the financial position of the System is improving or declining.

The statements of changes in fiduciary net position present financial activities that caused a change in fiduciary net position during the year. These activities primarily consist of contributions to the System, unrealized and realized gains and losses on investments, other investment income, benefits paid, and investment and administrative expenses.

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

CONDENSED FINANCIAL INFORMATION COMPARING THE CURRENT YEAR TO PRIOR YEARS

The following table summarizes the fiduciary net position as of June 30:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Cash and cash equivalents	\$ 40,394,823	49,485,679	42,074,327
Receivables	89,140,129	22,603,035	18,734,922
Investments, at fair value	2,071,895,693	1,829,300,840	1,650,497,837
Securities lending short-term collateral	144,543,920	137,834,828	178,692,610
Capital assets, net	29,223	35,994	42,010
Total assets	<u>2,346,003,788</u>	<u>2,039,260,376</u>	<u>1,890,041,706</u>
Liabilities	<u>148,899,245</u>	<u>140,161,627</u>	<u>180,806,737</u>
Net fiduciary position	<u>\$ 2,197,104,543</u>	<u>1,899,098,749</u>	<u>1,709,234,969</u>

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.

The following table summarizes the changes in fiduciary net position between fiscal years 2014, 2013, and 2012:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Additions			
Contributions	\$ 137,706,693	130,788,115	120,488,902
Net investment income	<u>335,602,149</u>	<u>230,064,460</u>	<u>5,734,519</u>
Total additions	<u>473,308,842</u>	<u>360,852,575</u>	<u>126,223,421</u>
Deductions			
Benefits and refunds	173,344,947	168,983,642	159,361,349
Administrative expenses	<u>1,958,101</u>	<u>2,005,153</u>	<u>1,724,781</u>
Total deductions	<u>175,303,048</u>	<u>170,988,795</u>	<u>161,086,130</u>
Net increase (decrease) in net position	298,005,794	189,863,780	(34,862,709)
Net fiduciary position, beginning of year	<u>1,899,098,749</u>	<u>1,709,234,969</u>	<u>1,744,097,678</u>
Net fiduciary position, end of year	<u>\$ 2,197,104,543</u>	<u>1,899,098,749</u>	<u>1,709,234,969</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

ANALYSIS OF THE OVERALL FIDUCIARY NET POSITION AND THE CHANGES IN FIDUCIARY NET POSITION

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 \$336 million for 2014 compared to investment income of approximately \$230 million for 2013.

The investment income of the System increased approximately \$106 million during the year ended June 30, 2014, compared to the year ended June 30, 2013, as a result of the market increasing during the fiscal year. The investment income of the System increased approximately \$224 million during the year ended June 30, 2013, compared to the year ended June 30, 2012, as a result of the market recovering during this fiscal year. The investment income of the System decreased approximately \$302 million during the year ended June 30, 2012, compared to the year ended June 30, 2011, as a result of the decline in the market during this fiscal year.

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 fiduciary net position and operating results of the System. The System's net return on its average assets for the years ended June 30, 2014, 2013, and 2012 were as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
System	18%	14%	1%

During the year ended June 30, 2014, benefit payments increased by approximately 3% due to an increase in the number of retirees and court ordered benefit increases. During the year ended June 30, 2013, benefit payments increased by approximately 6% due to an increase in the number of retirees and court ordered benefit increases. During the year ended June 30, 2012, benefit payments increased by approximately 4.5% due to an increase in the number of retirees and court ordered benefit increases.

Administrative expenses decreased slightly from fiscal year 2013 to 2014 and increased slightly from fiscal year 2012 to 2013. The major components of 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 FIDUCIARY NET POSITION OR THE CHANGES IN FIDUCIARY NET POSITION

While the System is directly impacted by overall investment market changes, investments are made based on their expected long-term performance and the best interest of the members of the System. With approximately \$2.3 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.

The System received insurance premium taxes of approximately \$80 million, \$76 million, and \$68 million, for the years ended June 30, 2014, 2013, and 2012, respectively. From July 1, 2013, to October 31, 2013, the System received 34% of the total taxes collected on insurance premiums. From November 1, 2013, to June 30, 2014, the System received 36% 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
Administered by
OKLAHOMA FIREFIGHTERS PENSION AND RETIREMENT SYSTEM

STATEMENTS OF FIDUCIARY NET POSITION

<i>June 30,</i>	<i>2014</i>	<i>2013</i>
Assets		
Cash and cash equivalents	\$ 40,394,823	49,485,679
Receivables:		
Employees' contributions	392,386	746,969
Employer's contributions	612,066	1,244,267
Due from the State of Oklahoma Insurance Department	16,875,273	16,068,488
Accrued interest and dividends	3,017,728	2,684,477
Net receivable from brokers for security transactions	-	1,293,948
Receivable from partial liquidation of alternative investment	67,987,452	-
Other	255,224	564,886
Total receivables	89,140,129	22,603,035
Investments, at fair value:		
International government agencies	45,509,701	60,001,951
U.S. Treasury	12,662,086	17,205,604
International treasuries	82,647,856	51,115,701
Domestic corporate bonds	3,077,856	10,603,954
Domestic stocks	1,478,397,423	1,323,253,720
International stocks	114,982,941	114,688,191
Mortgage-backed securities	20,013,919	-
Municipal bonds	1,733,871	1,518,931
Alternative investments	312,870,040	250,912,788
Total investments, at fair value	2,071,895,693	1,829,300,840
Securities lending short-term collateral	144,543,920	137,834,828
Capital assets, net of accumulated depreciation	29,223	35,994
Total assets	2,346,003,788	2,039,260,376

(Continued)

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

OKLAHOMA FIREFIGHTERS PENSION AND RETIREMENT PLAN
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STATEMENTS OF FIDUCIARY NET POSITION, CONTINUED

<i>June 30,</i>	<i>2014</i>	<i>2013</i>
Liabilities		
Accounts payable and accrued expenses	1,733,241	2,326,799
Securities lending collateral	144,543,920	137,834,828
Net due to brokers for security transactions	<u>2,622,084</u>	<u>-</u>
Total liabilities	<u>148,899,245</u>	<u>140,161,627</u>
Net fiduciary position restricted for pensions	<u>\$ 2,197,104,543</u>	<u>1,899,098,749</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 FIDUCIARY NET POSITION

<i>Years Ended June 30,</i>	<i>2014</i>	<i>2013</i>
Additions:		
Contributions:		
Insurance premium taxes	\$ 79,545,329	76,310,725
Participating municipalities	36,103,860	34,286,563
Plan members/employees	22,057,504	20,190,827
Total contributions	<u>137,706,693</u>	<u>130,788,115</u>
Investment income:		
From investment activities:		
Net appreciation in fair value of investments	320,907,226	212,642,610
Interest	7,437,951	8,277,402
Dividends	19,856,402	18,831,680
Total investment income	<u>348,201,579</u>	<u>239,751,692</u>
Less investment expense	<u>(13,363,548)</u>	<u>(10,702,937)</u>
Income from investment activities	<u>334,838,031</u>	<u>229,048,755</u>
From securities lending activities:		
Securities lending income	1,023,574	1,422,430
Securities lending expenses:		
Borrower rebates	(4,388)	(67,733)
Management fees	<u>(255,068)</u>	<u>(338,992)</u>
Income from securities lending activities	<u>764,118</u>	<u>1,015,705</u>
Net investment income	<u>335,602,149</u>	<u>230,064,460</u>
Total additions	<u>473,308,842</u>	<u>360,852,575</u>
Deductions:		
Pension benefit payments	171,897,210	167,542,044
Death benefit payments	875,000	936,667
Refunds to terminated participants	<u>572,737</u>	<u>504,931</u>
Total benefits and refunds	<u>173,344,947</u>	<u>168,983,642</u>
Administrative expenses	<u>1,958,101</u>	<u>2,005,153</u>
Total deductions	<u>175,303,048</u>	<u>170,988,795</u>
Changes in net fiduciary position	298,005,794	189,863,780
Net fiduciary position restricted for pensions:		
Beginning of year	<u>1,899,098,749</u>	<u>1,709,234,969</u>
End of year	<u>\$ 2,197,104,543</u>	<u>1,899,098,749</u>

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

OKLAHOMA FIREFIGHTERS PENSION AND RETIREMENT PLAN
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NOTES TO FINANCIAL STATEMENTS

June 30, 2014 and 2013

(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, 2014, there were 471 cities, 24 fire protection districts, and 120 county fire departments participating in the System. For report purposes, the System is deemed to be the administrator of the Oklahoma Firefighters Pension and Retirement Plan (the “Plan”). The State of Oklahoma remits, through the Oklahoma Insurance Department, a portion of the insurance premium taxes collected by authority of the State of Oklahoma. As a result of these contributions, the State of Oklahoma is considered a non-employer contributing entity to the Plan.

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 System 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 Board is comprised of 13 members. Five members shall be the Board of Trustees of the Oklahoma State Firefighters Association, a 5-year term. One member shall be the President of the Professional Firefighters of Oklahoma or his designee. One member shall be the President of the Oklahoma State Retired Firefighters Association or his designee. One member shall be appointed by the Speaker of the House of Representatives, a 4-year term. One member shall be appointed by the President Pro Tempore of the Senate, a 4-year term. Two members shall be appointed by the President of the Oklahoma Municipal League, a 4-year term. One member shall be the State Insurance Commissioner or his designee. One member shall be the Director of the Office of Management and Enterprise Services or his designee.

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

(1) NATURE OF OPERATIONS AND DESCRIPTION OF THE SYSTEM, CONTINUED

The System's participants at June 30 consisted of:

	<u>2014</u>	<u>2013</u>
Retirees and beneficiaries currently receiving benefits	10,020	9,868
Vested members with deferred benefits	1,390	1,356
Deferred Option Plan members	<u>77</u>	<u>84</u>
	<u>11,487</u>	<u>11,308</u>
Active plan members:		
Vested	4,946	4,928
Nonvested	<u>7,490</u>	<u>7,464</u>
Total active plan members	<u>12,436</u>	<u>12,392</u>
	<u>23,923</u>	<u>23,700</u>

The System administers the Plan. For report purposes, the System is deemed to be the administrator of the Plan.

(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. 67, *Financial Reporting for Pension Plans—an Amendment of GASB Statement No. 25* (GASB 67).

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.

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

Recent Accounting Pronouncements

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65). The objective of GASB 65 is to establish accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets or liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The System adopted this statement effective July 1, 2013. The adoption had no significant impact on the Plan's financial statements. Presently, the Plan has no items of deferred outflows of resources or deferred inflows of resources to be reported.

In March 2012, GASB issued Statement No. 66, *Technical Corrections—2012—An Amendment of GASB Statements No. 10 and No. 62* (GASB 66). GASB 66 improves accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements: Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* and Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The System adopted this statement effective July 1, 2013. The adoption had no significant impact on the financial statements of the Plan.

In June 2012, GASB issued GASB 67. GASB 67 addresses reporting by pension plans that administer benefits for governments and outlines basic framework for the separately issued financial reports of defined benefit pension plans, and details note disclosure requirements for defined benefit and defined contribution pension plans. The System adopted GASB 67 effective July 1, 2013. The adoption changed various reporting terminology, footnote disclosures, and required supplementary information.

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

Recent Accounting Pronouncements, Continued

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* (GASB 70). GASB 70 will require a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows expected to be incurred as a result of the guarantee. When there is no best estimate but a range of the estimated future outflows can be established, the amount of the liability to be recognized should be the discounted present value of the minimum amount within the range. A government that has issued an obligation guaranteed in a nonexchange transaction is to report the obligation until legally released as an obligor. This statement also provides additional guidance for intra-entity nonexchange financial guarantees involving blended component units. This statement specifies the information required to be disclosed by governments that extend nonexchange financial guarantees. This statement requires new information to be disclosed by governments that receive nonexchange financial guarantees. The System adopted this statement effective July 1, 2013. The adoption had no significant impact on the financial statements of the Plan.

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 fiduciary net position restricted for pensions at the date of the financial statements and the actuarial information included in Exhibits I, II, III, and IV included in the required supplementary information as of the benefit information date, the changes in fiduciary net position 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 in Exhibits I, II, III, and IV 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.

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

Plan Contributions

Contributions to the Plan are recognized when due pursuant to formal commitments, as well as statutory or contractual requirements.

Plan Benefit Payments and Refunds

Benefit payments and refunds of the Plan are recognized when due and payable in accordance with the terms of the Plan.

Receivables

At June 30, 2014 and 2013, the Plan had no long-term receivables. All the receivables reflected in the statements of fiduciary net position are expected to be received and available for use by the Plan in its operations. Also, no allowance for any uncollectible portions is considered necessary.

As noted on the statement of fiduciary net position, there was \$67,987,452 due from the partial liquidation of an alternative investment, Private Advisors Stable Value ERISA Fund, Ltd. Monies were withdrawn prior to June 30, 2014, and not received until July 2014.

Investments

Management of the Plan is authorized to invest in eligible investments as approved by the Board as set forth in the investment policy. The Board reviews and updates the plan investment policy at least annually, making changes as deemed necessary to achieve policy goals. An investment policy change can be made anytime the need should arise at the discretion of the Board.

Investment Allocation Policy—The Board's asset allocation policy will currently maintain approximately 65% of assets in equity instruments, both domestic and international; approximately 20% of assets in fixed income to include investment grade bonds, high yield and non-dollar denominated bonds, convertible bonds, and low volatility hedge fund strategies; and 15% of assets in real assets and other assets to include real estate, commodities, private equities, and other strategies.

Significant Investment Policy Changes Made During the Year—During the year ended June 30, 2014, the Board changed the investment allocation for each asset class. Equity instruments changed from 67% to 65%, fixed income assets changed from 15% to 20%, and real assets changed from 18% to 15%. No significant investment policy changes were made during the year ended June 30, 2013.

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

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Investments, Continued

Rates of Return

- *Money-Weighted Rate of Return*—For the years ended June 30, 2014 and 2013, the annual money-weighted rate of return on pension plan investments as defined by GASB 67, net of pension plan investment expense, was 18.13% and 11.15%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested, and is a computation required by GASB 67
- *Net Return on Average Assets*—For the years ended June 30, 2014 and 2013, the net return on average assets approximated 18% and 12%, respectively. The net return on average assets represents actual returns utilized by the System.

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

Net investment income (loss) 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. Foreign currency translation gains and losses are reflected in the net appreciation (depreciation) in the fair value of investments. Interest and dividends earned in commingled funds are reflected as a component of net appreciation in the fair values of assets.

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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, 2014 or 2013.

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 such change could materially affect the amounts reported in the statements of fiduciary net position.

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 fiduciary net position. 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 tables present the individual securities exceeding the 5%⁽¹⁾ threshold at June 30:

		2014		
<u>Type of Security</u>	<u>Name of Security</u>	<u>Shares Held</u>	<u>Cost</u>	<u>Fair Value</u>
Domestic stock	SSGA S&P 500 Flagship Fund	295,703	\$ 83,535,402	129,580,515
Domestic stock	S&P 500 Equal Weight CTF	2,015,567	53,642,351	132,471,148
		2013		
<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	136,960,088
Domestic stock	SSGA S&P 500 Flagship Fund	399,115	112,748,947	140,349,686
Domestic stock	S&P 500 Equal Weight CTF	2,712,969	72,203,038	140,027,230

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

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 the fiduciary net position of the Plan. Plan termination would take an act of the Oklahoma Legislature, at which time the order of distribution of the Plan's fiduciary net position would be addressed.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Administrative Items

Operating Lease

The Plan has an operating lease which ended June 30, 2014. The lease has been renewed for the period July 1, 2013, through June 30, 2014. Total lease expense for each of the years ended 2014 and 2013 was approximately \$36,000.

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 June 30, 2014 and 2013, approximately \$114,000 and \$108,000, respectively, was included in accrued expenses as the accruals for compensated absences. A summary of changes in compensated absences as of June 30 is as follows:

	<u>2014</u>	<u>2013</u>
Balance at beginning of year	\$ 108,000	82,000
Additions	112,000	106,000
Deductions	<u>(106,000)</u>	<u>(80,000)</u>
Balance at end of year	<u>\$ 114,000</u>	<u>108,000</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 (collectively referred to as 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.

Employees of the System are required to contribute 3.5% of their annual covered salary. The System is required to contribute at an actuarially determined rate, which was 16.5% of annual covered payroll as of June 30, 2014, 2013, and 2012. During 2014, 2013, and 2012, totals of \$139,237, \$137,893, and \$120,208, respectively, were paid to OPERS. The System's and the employees' portions of those amounts were as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
System portion	\$ 107,529	106,548	93,575
Employee portion	<u>31,708</u>	<u>31,345</u>	<u>26,633</u>
	<u>\$ 139,237</u>	<u>137,893</u>	<u>120,208</u>

The System has contributed 100% of required contributions to OPERS for 2014, 2013, and 2012.

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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 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.

Reclassification of Prior Year Amounts

Certain amounts for 2013 have been reclassified to make them comparable with the 2014 presentation.

Date of Management's Review of Subsequent Events

Management has evaluated subsequent events through October 9, 2014, the date that the financial statements were available to be issued, and determined that no subsequent events have occurred which require adjustment to or disclosure in the financial statements.

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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.

Prior to November 1, 2013, participating paid firefighters contributed 8% of applicable earnings, while member cities contributed 13% of the members' applicable earnings. For the period beginning November 1, 2013, participating paid firefighters contributed 9% of applicable earnings, while member cities contributed 14% of the members' 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, a non-employer contributing entity, allocated 34% of the insurance premium tax collected from various types of insurance policies to the Plan during the year ended June 30, 2013, and for the period from July 1, 2013, through October 31, 2013. For the period beginning November 1, 2013, through June 30, 2014, and presently, the State of Oklahoma, a non-employer contributing entity, allocated 36% of insurance premium tax collected from various types of insurance policies to the Plan. 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 years ended June 30, 2014 or 2013.

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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. The Plan's benefits are established and amended by state statute. Retirement provisions are as follows:

- *Normal Retirement*

Hired Prior to November 1, 2013

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.

Hired After November 1, 2013

Normal retirement is attained upon completing 22 years of service. The normal retirement benefit is equal to 55% 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. Also must be age 50 to begin receiving benefits. For volunteer firefighters, the monthly pension benefit for normal retirement is \$165.66 per month.

- All firefighters are eligible for immediate disability benefits. For paid firefighters, the disability in-the-line-of-duty benefit for firefighters with less than 20 years of service is equal to 50% of final average monthly compensation, based on the most recent 30 months of service. For firefighters with over 20 years of service, a disability in-the-line-of-duty is calculated based on 2.5% of final average monthly compensation, based on the most recent 30 months, per year of service, with a maximum of 30 years of service. For disabilities not-in-the-line-of-duty, the benefit is limited to only those with less than 20 years of service and is 50% of final average monthly compensation, based on the most recent 60-month salary as opposed to 30 months. For volunteer firefighters, the not-in-the-line-of-duty disability is also limited to only those with less than 20 years of service and is \$7.53 per year of service. For volunteer firefighters, the in-the-line-of-duty pension is \$150.60 with less than 20 years of service, or \$7.53 per year of service, with a maximum of 30 years.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) DESCRIPTION OF THE PLAN, CONTINUED

Benefits, Continued

- 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, 2014 and 2013, total death benefits of \$875,000 and \$936,667, respectively, were paid from the Plan.
- *Terminations*

Hired Prior to November 1, 2013

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 may elect to receive a refund of their contribution accumulation without interest.

Hired After November 1, 2013

A member who terminates after 11 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 22 years of service, whichever is later, provided the member's contribution accumulation is not withdrawn. Members terminating with less than 11 years of credited service may elect to 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 hired prior to November 1, 2013, with 20 or more years of service may elect to participate in the Oklahoma Firefighters Deferred Retirement Option Plan (the “Deferred Option Plan”). Firefighters hired after November 1, 2013, with 22 or more years or more of service may elect to participate in 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. 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, based on the annuity method, or a lump sum distribution. As of June 30, 2014, there were 1,279 members actively participating in the Deferred Option Plan.

The Deferred Option Plan was modified effective November 1, 2013, to limit post-retirement interest for new members to a rate of return on the portfolio, less a 1% administrative fee. In addition, the members participating must withdraw all money by the age of 70½.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) DESCRIPTION OF THE PLAN, CONTINUED

Benefits, Continued

- 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 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 for those hired prior to November 1, 2013, and 22 years for those hired after November 1, 2013, 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, 2014, there were 804 members participating in the “Back” DROP.
- 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.

(4) CASH, CASH EQUIVALENTS, AND INVESTMENTS

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

	<u>2014</u>	<u>2013</u>
Cash on deposit with the State of Oklahoma	\$ 826,858	261,814
Cash on deposit with custodial agent:		
U.S. currency deposits	706,274	451,872
Foreign currency deposits	3,254,747	344,191
Short-term investments	<u>35,606,944</u>	<u>48,427,802</u>
Total cash and cash equivalents	<u>\$ 40,394,823</u>	<u>49,485,679</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.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

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, 2014 and 2013, the carrying amounts of the Plan's cash and cash equivalents were \$40,394,823 and \$49,485,679, respectively, and the bank balances were \$41,710,901 and \$37,165,668, respectively. The difference in balances was primarily due to outstanding deposits and checks.

The bank balances of deposits were uninsured and uncollateralized in the amounts of approximately \$3,255,000 and \$344,000 of as of June 30, 2014 and 2013, 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. Investments in cash and cash equivalents, foreign equities, and debt securities are shown by monetary unit to indicate possible foreign currency risk.

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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:

	2014				
	<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	\$ -	-	17,471,905	17,471,905	7.091%
Brazil real	7,999	6,389,773	8,435,459	14,833,231	6.020%
Canadian dollar	7,999	3,396,884	-	3,404,883	1.382%
Danish krone	16,360	13,985,241	-	14,001,601	5.683%
Euro currency	2,903,156	21,845,664	21,141,672	45,890,492	18.624%
Hong Kong dollar	78,047	15,458,761	-	15,536,808	6.306%
Hungarian forint	-	-	6,526,893	6,526,893	2.649%
Indonesian rupiah	-	1,016,259	6,081,781	7,098,040	2.881%
Japanese yen	162,476	6,395,181	-	6,557,657	2.661%
Malaysian ringgit	-	-	3,466,785	3,466,785	1.407%
Mexican peso	-	2,111,597	25,608,009	27,719,606	11.250%
New Taiwan dollar	28,145	-	-	28,145	0.011%
New Zealand dollar	-	-	5,820,031	5,820,031	2.362%
Polish zloty	-	-	7,861,458	7,861,458	3.191%
Pound sterling	50,536	12,292,873	9,841,511	22,184,920	9.004%
Singapore dollar	-	1,436,526	-	1,436,526	0.583%
South African rand	-	1,707,589	5,809,778	7,517,367	3.051%
South Korean won	29	1,643,922	7,608,824	9,252,775	3.755%
Swedish krona	-	5,445,910	-	5,445,910	2.210%
Swiss franc	-	21,856,761	-	21,856,761	8.871%
Turkish lira	-	-	2,483,451	2,483,451	1.008%
	<u>\$ 3,254,747</u>	<u>114,982,941</u>	<u>128,157,557</u>	<u>246,395,245</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

		2013			
	Cash and		Debt		
	<u>Cash Equivalents</u>	<u>Equities</u>	<u>Securities</u>	<u>Total</u>	<u>Percentage</u>
Australian dollar	\$ -	-	14,800,649	14,800,649	6.545%
Brazil real	29,073	1,388,810	2,445,865	3,863,748	1.708%
Canadian dollar	5,400	4,090,931	-	4,096,331	1.811%
Danish krone	-	3,286,887	-	3,286,887	1.453%
Euro currency	52,277	27,059,273	18,276,053	45,387,603	20.070%
Hong Kong dollar	-	14,657,977	-	14,657,977	6.482%
Hungarian forint	-	-	6,518,654	6,518,654	2.882%
Indonesian rupiah	706	-	-	706	0.000%
Japanese yen	41,812	16,724,446	-	16,766,258	7.414%
Malaysian ringgit	-	-	6,762,740	6,762,740	2.990%
Mexican peso	-	2,300,246	22,679,492	24,979,738	11.046%
New Taiwan dollar	28,145	-	-	28,145	0.012%
New Zealand dollar	-	-	5,287,217	5,287,217	2.338%
Polish zloty	-	-	6,819,758	6,819,758	3.016%
Pound sterling	153,879	19,489,632	11,089,629	30,733,140	13.590%
Singapore dollar	-	1,156,691	-	1,156,691	0.511%
South African rand	-	1,090,704	4,918,784	6,009,488	2.657%
South Korean won	4	1,866,418	7,149,779	9,016,201	3.987%
Swedish krona	25,650	4,686,345	-	4,711,995	2.084%
Swiss franc	7,245	16,889,831	-	16,897,076	7.472%
Turkish lira	-	-	4,369,032	4,369,032	1.932%
	<u>\$ 344,191</u>	<u>114,688,191</u>	<u>111,117,652</u>	<u>226,150,034</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>2014</u>	
		<u>Fair Value</u>	<u>Fair Value as a Percentage of Total Fixed Maturity Fair Value</u>
International government agencies	Not rated	\$ 5,950,236	3.592%
	A2	7,861,458	4.746%
	Aaa	5,820,031	3.514%
	Ba1	6,526,893	3.940%
	Baa2	13,269,301	8.011%
	Baa3	6,081,782	3.672%
		<u>45,509,701</u>	<u>27.475%</u>
U.S. Treasury	Not rated	<u>12,662,086</u>	<u>7.644%</u>
International treasuries	A3	25,608,009	15.460%
	Aa1	18,786,532	11.341%
	Aa3	7,608,824	4.593%
	Aaa	8,526,884	5.148%
	B1	454,498	0.274%
	B2	1,214,985	0.733%
	Ba2	6,202,888	3.745%
	Baa1	5,809,778	3.507%
	Baa2	8,435,458	5.092%
		<u>82,647,856</u>	<u>49.893%</u>

(Continued)

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

Credit Risk, Continued

<u>Investment Type</u>	Moody's Ratings (Unless Noted)	2014	
		<u>Fair Value</u>	Fair Value as a Percentage of Total Fixed Maturity <u>Fair Value</u>
Domestic corporate bonds	Not rated	\$ 271,149	0.164%
	B1	79,688	0.048%
	B3	89,518	0.054%
	Baa1	1,819,520	1.098%
	Baa2	530,286	0.320%
	Caa1	139,850	0.084%
	Caa2	147,845	0.089%
		<u>3,077,856</u>	<u>1.857%</u>
Mortgage-backed securities	Not rated	5,943,755	3.588%
	A2	1,573,799	0.950%
	A3	1,792,273	1.082%
	Aa1	5,615,880	3.390%
	Aa3	4,286,612	2.588%
	Aaa	801,600	0.486%
		<u>20,013,919</u>	<u>12.084%</u>
Municipal bonds	A2	<u>1,733,871</u>	<u>1.047%</u>
		<u>\$ 165,645,289</u>	<u>100.000%</u>

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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

Credit Risk, Continued

<u>Investment Type</u>	<u>Moody's Ratings (Unless Noted)</u>	<u>2013</u>	
		<u>Fair Value</u>	<u>Fair Value as a Percentage of Total Fixed Maturity Fair Value</u>
International government agencies	Not rated	\$ 2,582,332	1.839%
	A2	6,819,758	4.856%
	A3	4,180,408	2.977%
	Aaa	5,287,217	3.765%
	Ba1	9,164,928	6.526%
	Baa1	27,598,276	19.650%
	Baa3	4,369,032	3.111%
		<u>60,001,951</u>	<u>42.724%</u>
U.S. Treasury	Not rated	<u>17,205,604</u>	<u>12.251%</u>
International treasuries	Not rated	22,155,426	15.775%
	Aa1	6,014,190	4.282%
	Aa3	7,149,779	5.091%
	Aaa	8,786,458	6.256%
	Ba3	4,563,984	3.250%
	Baa2	2,445,864	1.741%
		<u>51,115,701</u>	<u>36.395%</u>

(Continued)

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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)	2013	
		<u>Fair Value</u>	Fair Value as a Percentage of Total Fixed Maturity <u>Fair Value</u>
Domestic corporate bonds	A1	2,085,209	1.485%
	A2	1,735,963	1.236%
	Aaa	3,146,926	2.241%
	Baa1	772,428	0.550%
	Baa2	2,863,428	2.036%
		<u>10,603,954</u>	<u>7.548%</u>
Municipal bonds	A2	<u>1,518,931</u>	<u>1.082%</u>
		<u>\$ 140,446,141</u>	<u>100.000%</u>

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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:

	2014				
	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>Total Fair Value</u>
Fixed-income securities:					
International government					
agencies	\$ 2,483,451	5,671,332	19,448,639	17,906,279	45,509,701
U.S. Treasury	-	-	-	12,662,086	12,662,086
International treasuries	9,841,511	5,782,525	26,337,537	40,688,283	82,649,856
Domestic corporate					
bonds	-	2,349,806	-	728,050	3,077,856
Mortgage-backed					
securities	-	20,013,919	-	-	20,013,919
Municipal bonds	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,733,871</u>	<u>1,733,871</u>
	\$ 12,324,962	33,817,582	45,786,176	73,718,569	165,647,289

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

Interest Rate Risk, Continued

		2013				
		Investment Maturities at Fair Value (in Years)				Total
		Less than 1	1 or More, Less than 5	5 or More, Less than 10	More than 10	Fair Value
Fixed-income securities:						
International government agencies	\$ 18,332,697	10,838,303	13,060,721	17,770,230	60,001,951	
U.S. Treasury	13,226,575	-	-	3,979,029	17,205,604	
International treasuries	13,817,160	6,891,855	17,062,797	13,343,889	51,115,701	
Domestic corporate bonds	3,908,685	5,073,194	695,063	927,012	10,603,954	
Municipal bonds	-	-	-	1,518,931	1,518,931	
	<u>\$ 49,285,117</u>	<u>22,803,352</u>	<u>30,818,581</u>	<u>37,539,091</u>	<u>140,446,141</u>	

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 2014 or 2013. 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

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

Securities 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 37 days and 29 days as of June 30, 2014 and 2013, respectively. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. As of June 30, 2014 and 2013, 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>
2014	<u>\$ 144,543,920</u>	<u>141,573,999</u>	<u>102%</u>
2013	<u>\$ 137,834,828</u>	<u>133,860,933</u>	<u>103%</u>

(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, 2014 and 2013. 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.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(5) DERIVATIVES AND OTHER INSTRUMENTS, CONTINUED

Derivative instruments at June 30 were as follows:

<u>Foreign Currency Forward Contracts</u>	<u>Fair Value at June 30, 2014</u>	<u>Changes in Fair Value</u>	<u>Notional Amount</u>
Net payable	\$ <u>(217,199)</u>	<u>(3,125,796)</u>	<u>65,438,461</u>

<u>Foreign Currency Forward Contracts</u>	<u>Fair Value at June 30, 2013</u>	<u>Changes in Fair Value</u>	<u>Notional Amount</u>
Net receivable	\$ <u>1,790,659</u>	<u>1,221,695</u>	<u>115,094,682</u>

At June 30, 2014 and 2013, the receivable/payable is net of gross receivables of \$196,813 and \$3,047,084, respectively, and liabilities of \$414,012 and \$1,256,425, respectively. The gross receivables for June 30, 2014 and 2013, were supported by collateral in investments valued at \$142,725 and \$3,047,084, respectively, with a credit risk rating principally of A for S&P and A2 for Moody's for both years. The majority of the contracts expire by September 2014.

<u>Other</u>	<u>Fair Value at June 30, 2014</u>	<u>Changes in Fair Value</u>	<u>Notional Amount</u>
Common stock—rights	\$ <u>-</u>	<u>54,393</u>	<u>-</u>

<u>Other</u>	<u>Fair Value at June 30, 2013</u>	<u>Changes in Fair Value</u>	<u>Notional Amount</u>
Common stock—rights	\$ <u>-</u>	<u>(43,346)</u>	<u>-</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 fiduciary net position and are based on the cash flows from interest and principal payments of 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.

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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>2014</u>	<u>2013</u>
JPMorgan Chase Bank Strategic Property Fund	Invests in real estate investments owned directly or through partnership interests, and mortgage loans on income-producing property.	\$ 77,371,495	68,145,884
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.	75,000,000	136,810,426
T.A. Realty Associates Fund VII & IX, L.P.	Invests in income-producing real estate properties.	22,631,729	26,087,321
Portfolio Advisors Private Equity Fund III, IV, & V	Invests in investment companies that are managed by external investment managers who invest in real estate assets.	29,053,873	19,869,157
AG Net Lease Realty FD III	Seeks to invest in net leased corporate real estate properties in the United States and overseas, with an emphasis on providing sale-leaseback financing to financial sponsors and non-investment grade companies.	905,717	-

(Continued)

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(6) ALTERNATIVE INVESTMENTS, CONTINUED

<u>Investment</u>	<u>Purpose</u>	<u>Fair Value</u>	
		<u>2014</u>	<u>2013</u>
ASF VI LP	Invests in investment companies that are managed by external investment managers who invest in sale-leaseback opportunities.	5,783,063	-
Dune Real Estate Fund III	Executes opportunistic strategy, with a focus on distressed, deep value-add, and contrarian investing, primarily in the United States.	11,307,599	-
Garrison Fund	Invests in investment companies that are managed by external investment managers who invest in long/short investments.	39,098,251	-
Medley Fund	Invests in private equity funds, including buyout, growth equity, venture capital, and real estate in the United States, Europe, and Asia.	37,839,327	-
Mesirow Fund	Invests in investment companies that are managed by external investment managers who invest in long/short investments.	2,313,055	-
Pamona Capital Fund VIII	Invests in investment companies that are managed by external investment managers who invest in long/short investments.	11,565,931	-
		<u>\$ 312,870,040</u>	<u>250,912,788</u>

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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, 2014 and 2013, the Plan had unfunded commitments of approximately \$384,086,000 and \$91,534,000, respectively, 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 the years ended June 30 is as follows:

	<u>2014</u>	<u>2013</u>
Assets at beginning of year	\$ 317,042,636	297,391,911
Employer's contributions	428,856	394,240
Retirement benefit payments	(19,891,235)	(19,290,581)
Retirement benefits transferred		
from pension plan	3,002,057	3,088,014
Interest	<u>49,016,040</u>	<u>35,459,052</u>
Assets at end of year	<u>\$ 349,598,354</u>	<u>317,042,636</u>

The assets shown above are included in the fiduciary net position restricted for pensions as reflected on the statements of fiduciary net position.

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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 for the years ended June 30 is as follows:

	<u>2014</u>	<u>2013</u>
Assets at beginning of year	\$ 155,952,155	123,020,717
Employer's contributions	4,584,915	4,577,889
Retirement benefit payments	(13,002,735)	(11,985,202)
Retirement benefits transferred from pension plan	17,212,397	16,948,400
Interest	<u>33,872,695</u>	<u>23,390,351</u>
Assets at end of year	<u>\$ 198,619,427</u>	<u>155,952,155</u>

The assets shown are included in the fiduciary net position restricted for pensions as reflected on the statements of fiduciary net position.

(9) NET PENSION LIABILITY OF PARTICIPATING EMPLOYERS

The components of the net pension liability of the participating employers at June 30, 2014, were as follows:

Total pension liability	\$ 3,225,452,386
Fiduciary net position	<u>2,197,104,543</u>
Employers' net pension liability	<u>\$ 1,028,347,843</u>
Fiduciary net position as a percentage of total pension liability	<u>68.12%</u>

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(9) NET PENSION LIABILITY OF PARTICIPATING EMPLOYERS, CONTINUED

Actuarial Assumptions—The total pension liability was determined by an actuarial valuation as of July 1, 2014, using the following actuarial assumptions, applied to all prior periods included in the measurement:

Inflation:	3%
Salary increases:	3.5% to 9.0% average, including inflation
Investment rate of	7.5% net of pension plan investment expense

Mortality rates were based on the RP2000 combined healthy with blue collar adjustment as appropriate, with adjustments for generational mortality improvement using scale AA for healthy lives and no mortality improvement for disabled lives.

The actuarial assumptions used in the July 1, 2014, valuation were based on the results of an actuarial experience study for the period July 1, 2007, to June 30, 2012.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014, (see discussion of the pension plan's investment policy) are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income	5.48%
Domestic equity	9.61%
International equity	9.24%
Real estate	7.76%
Other assets	6.88%

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(9) NET PENSION LIABILITY OF PARTICIPATING EMPLOYERS, CONTINUED

Discount Rate—The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, determined by State statutes. Projected cash flows also assume the State of Oklahoma will continue contributing 36% of the insurance premium, as established by statute. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate—The following presents the net pension liability of the employers calculated using the discount rate of 7.5%, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Employers' net pension liability	\$ 1,342,805,189	1,028,347,843	764,710,067

(10) 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:

	Balance at June 30, 2013	Additions	Disposals	Balance at June 30, 2014
Cost	\$ 263,709	-	-	263,709
Accumulated depreciation	(227,715)	(6,771)	-	(234,486)
Capital assets, net	\$ 35,994	(6,771)	-	29,223

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(10) CAPITAL ASSETS, CONTINUED

	Balance at <u>June 30, 2012</u>	<u>Additions</u>	<u>Disposals</u>	Balance at <u>June 30, 2013</u>
Cost	\$ 261,194	2,515	-	263,709
Accumulated depreciation	<u>(219,184)</u>	<u>(8,531)</u>	<u>-</u>	<u>(227,715)</u>
Capital assets, net	<u>\$ 42,010</u>	<u>(6,016)</u>	<u>-</u>	<u>35,994</u>

(11) 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.

(12) FEDERAL INCOME TAX STATUS

As an instrumentality of the State of Oklahoma, the Plan, as amended, 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 (IRS) regarding its tax-exempt status in a letter dated September 10, 2014.

(13) HISTORICAL INFORMATION

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

See Independent Auditors' Report.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(14) LEGISLATIVE AMENDMENTS

The following is a summary of significant plan provision changes that were enacted by the Oklahoma Legislature during 2014 and 2013:

2014

- Senate Bill 2024—Effective May 12, 2014, this bill amends several sections of Oklahoma Statute 11. The bill clarifies the qualifications for municipal fire chiefs; changes the amortization period of the unfunded accrued liability over a period not to exceed 30 years beginning July 1, 2003, to July 1, 2014; extends the 2-year extension for “Back” DROP elections to those members who are not members of a collective bargaining organization; amends the statute for IRS compliance related to any age-adjusted dollar limits; prohibits any adjustment being made to reflect the probability of a member’s death between annuity starting date and various ages under various scenarios; deletes obsolete language related to the taxability of death benefits; clarifies that the determination of final average salary is an annualized calculation; and amends the maximum age a firefighter may serve from 65 years of age to 67 years of age for new members whose first service begins on or after November 1, 2013.

2013

- House Bill 2078—Effective November 1, 2013, this bill will provide additional funding to the System from both the members—an increase from 8% to 9% of contributable salary; and the participating municipalities—an increase from 13% to 14% of contributable salary. Additionally, the System’s portion of the state insurance premium tax collections will increase from 34% to 36%. In addition to funding increases, some benefits were modified for new members hired after November 1, 2013. This includes an increase from 20 to 22 years of service for a normal retirement, the attainment of age 50 before benefits can begin (does not include disability pensions), and an increase from 10 to 11 years of service to achieve vested rights. The Deferred Retirement Option Plan (DROP) was also modified for new members by defining the withdrawal period (must be withdrawn by age 70½) and limiting post-retirement interest to system returns minus a 1% administrative fee.
- Senate Bill 1101—Effective November 1, 2013, this bill continues the changes for new members from House Bill 2078 to include volunteer members. It also makes the corrections necessary for IRS compliance.

(15) 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 fiduciary net position or the changes in fiduciary net position of the Plan.

See Independent Auditors’ Report.



**INDEPENDENT AUDITORS' 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**

To the Board of Trustees of
the Oklahoma Firefighters Pension and Retirement System

We have audited, in accordance with the 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, the financial statements 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, which comprise the statement of fiduciary net position as of June 30, 2014, and the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 9, 2014. Our report includes an explanatory paragraph disclaiming an opinion on required supplementary information. Our report also includes an explanatory paragraph to emphasize the adoption of Governmental Accounting Standards Board Statement No. 67 by the Plan.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Plan's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Plan's internal control.

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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

(Continued)

**INDEPENDENT AUDITORS' 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**

Internal Control Over Financial Reporting, Continued

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Plan's financial statements are free from 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*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Plan's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plan's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Finley + Cook, PLLC

Shawnee, Oklahoma
October 9, 2014

**SUPPLEMENTARY INFORMATION
REQUIRED BY
GOVERNMENTAL ACCOUNTING STANDARDS BOARD
STATEMENT NO. 67**

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

SCHEDULE IN CHANGES IN EMPLOYERS' NET PENSION LIABILITY

Last 6 Fiscal Years

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Total pension liability						
Service cost	\$ 58,783,664	57,488,513	54,696,025	70,123,461	69,644,470	66,553,103
Interest	229,050,716	228,870,184	218,071,803	246,566,910	240,500,067	229,496,030
Changes of benefit terms	-	-	-	-	-	-
Differences between expected and actual experience	29,064,592	(37,193,696)	12,685,216	(67,154,697)	(91,004,778)	(41,195,532)
Changes in assumptions	-	115,269,271	-	(486,119,709)	-	25,672,850
Benefit payments, including refunds of member contributions	<u>(173,344,947)</u>	<u>(168,983,642)</u>	<u>(159,361,349)</u>	<u>(152,471,822)</u>	<u>(144,815,793)</u>	<u>(146,645,856)</u>
Net change in total pension liability	143,554,025	195,450,630	126,091,695	(389,055,857)	74,323,966	133,880,595
 Total pension liability—beginning	<u>3,081,898,361</u>	<u>2,886,447,731</u>	<u>2,760,356,036</u>	<u>3,149,411,893</u>	<u>3,075,087,927</u>	<u>2,941,207,332</u>
 Total pension liability—ending (a)	<u>\$ 3,225,452,386</u>	<u>3,081,898,361</u>	<u>2,886,447,731</u>	<u>2,760,356,036</u>	<u>3,149,411,893</u>	<u>3,075,087,927</u>

Information to present a 10-year history is not readily available.

(Continued)

See Independent Auditors' Report.

See accompanying notes to required supplementary information.

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

SCHEDULE IN CHANGES IN EMPLOYERS' NET PENSION LIABILITY, CONTINUED

Last 6 Fiscal Years

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Plan fiduciary net position						
Contributions—						
employers/municipalities	\$ 36,103,860	34,286,563	32,816,159	31,910,497	32,063,103	31,387,215
Contributions—members	22,057,504	20,190,827	19,426,927	18,904,554	19,002,394	18,952,373
Contributions—State of Oklahoma, a non-employer contributing entity	79,545,329	76,310,725	68,245,816	59,876,295	54,159,341	53,989,458
Net investment income (loss)	335,602,149	230,064,460	5,734,519	307,628,153	131,133,694	(311,409,533)
Benefit payments, including refunds of member contributions	(173,344,947)	(168,983,642)	(159,361,349)	(152,471,822)	(144,815,793)	(146,645,856)
Administrative expense	(1,958,101)	(2,005,153)	(1,724,781)	(1,645,817)	(1,631,542)	(1,508,538)
Other	-	-	-	-	-	-
Net change in plan fiduciary net position	298,005,794	189,863,780	(34,862,709)	264,201,860	89,911,197	(355,234,881)
Plan fiduciary net position—beginning	<u>1,899,098,749</u>	<u>1,709,234,969</u>	<u>1,744,097,678</u>	<u>1,479,895,818</u>	<u>1,389,984,621</u>	<u>1,745,219,502</u>
Plan fiduciary net position—ending (b)	<u>\$ 2,197,104,543</u>	<u>1,899,098,749</u>	<u>1,709,234,969</u>	<u>1,744,097,678</u>	<u>1,479,895,818</u>	<u>1,389,984,621</u>
Plan's net pension liability (a) - (b)	<u>\$ 1,028,347,843</u>	<u>1,182,799,612</u>	<u>1,177,212,762</u>	<u>1,016,258,358</u>	<u>1,669,516,075</u>	<u>1,685,103,306</u>

Information to present a 10-year history is not readily available.

See Independent Auditors' Report.

See accompanying notes to required supplementary information.

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

SCHEDULE OF EMPLOYERS' NET PENSION LIABILITY**Last 6 Fiscal Years**

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Total pension liability	\$ 3,225,452,386	3,081,898,361	2,886,447,731	2,760,356,036	3,149,411,893	3,075,087,927
Plan fiduciary net position	<u>2,197,104,543</u>	<u>1,899,098,749</u>	<u>1,709,234,969</u>	<u>1,744,097,678</u>	<u>1,479,895,818</u>	<u>1,389,984,621</u>
Plan's net pension liability	<u>\$ 1,028,347,843</u>	<u>1,182,799,612</u>	<u>1,177,212,762</u>	<u>1,016,258,358</u>	<u>1,669,516,075</u>	<u>1,685,103,306</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>68.12%</u>	<u>61.62%</u>	<u>59.22%</u>	<u>63.18%</u>	<u>46.99%</u>	<u>45.20%</u>
Covered-employee payroll	<u>\$ 271,572,339</u>	<u>253,955,389</u>	<u>256,250,268</u>	<u>243,684,122</u>	<u>248,520,483</u>	<u>246,816,498</u>
Plan's net pension liability as a percentage of covered-employee payroll	<u>378.66%</u>	<u>465.75%</u>	<u>459.40%</u>	<u>417.04%</u>	<u>671.78%</u>	<u>682.74%</u>

Information to present a 10-year history is not readily available.

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See accompanying notes to required supplementary information.

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

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYERS AND OTHER CONTRIBUTING ENTITIES

Last 6 Fiscal Years

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Actuarially determined contribution	<u>\$ 162,103,277</u>	<u>159,096,610</u>	<u>142,357,604</u>	<u>195,669,404</u>	<u>187,157,125</u>	<u>157,823,945</u>
Contributions in relation to the actuarially determined contribution:						
Employers/Municipalities	31,518,945	29,708,674	26,110,400	28,050,529	28,015,512	29,143,775
State of Oklahoma, a non-employer contributing entity	<u>79,545,329</u>	<u>76,310,725</u>	<u>68,245,816</u>	<u>59,876,295</u>	<u>54,159,341</u>	<u>53,989,458</u>
	<u>111,064,274</u>	<u>106,019,399</u>	<u>94,356,216</u>	<u>87,926,824</u>	<u>82,174,853</u>	<u>83,133,233</u>
Contribution deficiency	<u>\$ 51,039,003</u>	<u>53,077,211</u>	<u>48,001,388</u>	<u>107,742,580</u>	<u>104,982,272</u>	<u>74,690,712</u>
Covered-employee payroll	<u>\$ 271,572,339</u>	<u>253,955,389</u>	<u>256,250,268</u>	<u>243,684,122</u>	<u>248,520,483</u>	<u>246,816,498</u>
Contributions as a percentage of covered-employee payroll	<u>40.90%</u>	<u>41.75%</u>	<u>36.82%</u>	<u>36.08%</u>	<u>33.07%</u>	<u>33.68%</u>

Information to present a 10-year history is not readily available.

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See accompanying notes to required supplementary information.

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

SCHEDULE OF INVESTMENT RETURNS

Last 2 Fiscal Years

	<u>2014</u>	<u>2013</u>
Annual money-weighted rate of return, net of investment expense, as defined by GASB 67	<u>18.13%</u>	<u>11.15%</u>
Net return on average assets	<u>17.89%</u>	<u>12.28%</u>

Information to present a 10-year history is not readily available.

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See accompanying notes to required supplementary information.

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2014

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, 2014, valuation follows:

Actuarial cost method:	Entry age
Amortization method:	Level dollar—closed
Remaining amortization:	30 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*:	3.5% to 9.0%
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.