

Oklahoma Law Enforcement Retirement Plan

Administered by

Oklahoma Law Enforcement Retirement System

*Schedules of Allocations and Pension Amounts
by Participating Employer Agency*

June 30, 2017

(With Independent Auditors' Report Thereon)





INDEPENDENT AUDITORS' REPORT

Board of Trustees
Oklahoma Law Enforcement Retirement System

Report on the Schedules of Allocations and Pension Amounts by Participating Employer Agency

We have audited the individual columns labeled "Employer Agency Allocations" included in the accompanying Schedule of Allocations by Participating Employer Agency and the Schedule of Pension Amounts by Participating Employer Agency (the "Schedules") of the Oklahoma Law Enforcement Retirement Plan (the "Plan"), administered by the Oklahoma Law Enforcement Retirement System, which is a part of the State of Oklahoma financial reporting entity, as of and for the year ended June 30, 2017. We have also audited the total for all entities of the columns titled "Net Pension Liability," "Total Deferred Outflows of Resources," "Total Deferred Inflows of Resources," and "Total Employer Agency Pension Expense, Excluding that Attributable to Employer-Paid Member Contributions and Other Employer-Specified Amounts" ("specified column totals") included in the accompanying Schedules of the Plan as of and for the year ended June 30, 2017 (and 2016 where applicable) and the related notes to the Schedules.

Management's Responsibility for the Schedules

Management is responsible for the preparation and fair presentation of these Schedules 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 schedules that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on the individual columns labeled "Employer Agency Allocations" in the Schedules and the specified column totals included in the Schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the individual columns labeled "Employer Agency Allocations" and the specified column totals included in the Schedules are free from material misstatement.

(Continued)

INDEPENDENT AUDITORS' REPORT, CONTINUED

Auditors' Responsibility, Continued

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the individual columns labeled "Employer Agency Allocations" and the specified column totals included in the Schedules. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the individual columns labeled "Employer Agency Allocations" and the specified column totals included in the Schedules, 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 individual columns labeled "Employer Agency Allocations" and the specified column totals included in the Schedules 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 individual columns labeled "Employer Agency Allocations" and the specified column totals included in the Schedules.

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

Opinions

In our opinion, the Schedules referred to above present fairly, in all material respects, the employer agency allocations and net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total employer agency pension expense, excluding that attributable to employer-paid member contributions and other employer-specified amounts, for the total of all participating entities for the Plan as of and for the year ended June 30, 2017 (and 2016 where applicable) in accordance with accounting principles generally accepted in the United States.

Changes in Accounting Principles

As discussed in Note 3, in 2017, the Plan adopted Governmental Accounting Standards Board Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions* (GASB 74). With the implementation of GASB 74, management identified that other postemployment benefits were incorrectly included in the net pension liability thus required the Plan to adjust its net pension liability as of July 1, 2016. Our opinion is not modified with respect to this matter.

Other Matter

We have audited, in accordance with auditing standards generally accepted in the United States, the financial statements of the Plan as of and for the year ended June 30, 2017, and our report thereon, dated October 17, 2017, expressed an unmodified opinion on those financial statements.

Restriction on Use

Our report is intended solely for the information and use of the Plan's management, the Plan's Board of Trustees, and contributing employer agencies as of and for the year ended June 30, 2017, and their auditors and is not intended to be and should not be used by anyone other than these specified parties.

Finley + Cook, PLLC

Shawnee, Oklahoma
April 23, 2018

OKLAHOMA LAW ENFORCEMENT RETIREMENT PLAN
Administered by
OKLAHOMA LAW ENFORCEMENT RETIREMENT SYSTEM

SCHEDULE OF ALLOCATIONS BY PARTICIPATING EMPLOYER AGENCY

As of and for the Year Ended June 30, 2017

Entity	Employer Agency Allocations 2016		Employer Agency Allocations 2017		2017 Percentage Change in Proportion	Employer Agency Change in	Employer Agency Change in	Employer Agency Change in	Total Change in	Amount to Amortize as	June 30, 2017,	June 30, 2017,	June 30, 2016,	June 30, 2016,	June 30, 2016,	June 30, 2016,
	Employer Agency Contributions	Employer Agency Allocation Percentage	Employer Agency Contributions	Employer Agency Allocation Percentage		Proportion of June 30, 2016, Net Pension Liability	Proportion of June 30, 2016, Deferred Inflows	Proportion of June 30, 2016, Deferred Outflows	Proportionate Share of June 30, 2016, Net Pension Liability Deferred Inflows and Outflows	Pension Expense at June 30, 2017, Due to Changes in Proportion	Amount Recorded as Deferred OUTFLOWS Due to Changes in Proportion 2016	Amount Recorded as Deferred INFLOWS Due to Changes in Proportion 2016	Amount Recorded as Deferred OUTFLOWS Due to Changes in Proportion 2015	Amount Recorded as Deferred INFLOWS Due to Changes in Proportion 2015	Amount Recorded as Deferred OUTFLOWS Due to Changes in Proportion 2014	Amount Recorded as Deferred INFLOWS Due to Changes in Proportion 2014
TOTAL TO BE ALLOCATED	\$ 9,372,638	100.0000%	9,262,357	100.0000%	0.0000%	175,765,414	30,210,903	127,233,341	914,522	-	747,332	747,332	729,066	729,066	286,991	286,991
OSU	261,389	2.7889%	273,452	2.9523%	0.1634%	287,201	49,365	207,899	128,667	23,522	105,145	-	-	9,132	-	133,252
ABLE	106,011	1.1311%	120,619	1.3022%	0.1711%	300,735	51,691	217,696	134,730	24,631	110,099	-	-	202,310	46,431	-
OSBI	1,228,378	13.1060%	1,147,979	12.3940%	(0.7120)%	(1,251,450)	(215,102)	(905,901)	(560,651)	(102,496)	-	458,155	-	301,275	47,058	-
OBND	653,146	6.9686%	641,741	6.9285%	(0.0401)%	(70,482)	(12,115)	(51,021)	(31,576)	(5,773)	-	25,803	-	112,107	14,851	-
Pharmacy	18,569	0.1981%	17,612	0.1901%	(0.0080)%	(14,061)	(2,417)	(10,179)	(6,299)	(1,152)	-	5,147	-	10,714	-	11,093
Tourism	200,848	2.1429%	165,072	1.7822%	(0.3607)%	(633,986)	(108,971)	(458,931)	(284,026)	(51,924)	-	232,102	-	25,229	52,333	-
DPS	6,468,589	69.0156%	6,439,487	69.5232%	0.5076%	892,185	153,351	645,838	399,698	73,072	326,626	-	478,778	-	-	48,133
QRTZ	2,724	0.0291%	3,201	0.0346%	0.0055%	9,667	1,662	6,998	4,331	792	3,539	-	-	5,120	-	13,105
OU Norman	126,756	1.3524%	121,704	1.3140%	(0.0384)%	(67,494)	(11,601)	(48,858)	(30,237)	(5,528)	-	24,709	-	11,665	17,668	-
OU HSC	169,598	1.8095%	196,663	2.1233%	0.3138%	551,552	94,802	399,258	247,096	45,173	201,923	-	-	51,514	-	81,408
GRDA	136,630	1.4578%	134,827	1.4556%	(0.0022)%	(3,867)	(665)	(2,799)	(1,733)	(317)	-	1,416	250,288	-	108,650	-
	\$ 9,372,638	100.0000%	9,262,357	100.0000%	0.0000%	-	-	-	-	-	747,332	747,332	729,066	729,066	286,991	286,991

Due to the computed percentages being different from the percentages presented, the presented totals may vary due to rounding.

See Independent Auditors’ Report.
See accompanying notes to Schedules of Allocations and Pension Amount by Participating Employer Agency.

OKLAHOMA LAW ENFORCEMENT RETIREMENT PLAN
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SCHEDULE OF PENSION AMOUNTS BY PARTICIPATING EMPLOYER AGENCY

As of and for the Year Ended June 30, 2017

Employer Agency Allocations			Net Pension Liability	Deferred Outflows of Resources							Deferred Inflows of Resources							Pension Expense, Excluding that Attributable to Employer-Paid Member Contributions and Other Employer-Specified Amounts						
Entity	Employer Agency Contributions	Employer Agency Allocation Percentage	June 30, 2017, Net Pension Liability @ 7.5% Discount	Differences Between Expected and Actual Plan Experience	Net Difference Between Projected and Actual Plan Investment Earnings on Pension Plan Investments	Changes in Assumptions	Changes in Proportion and Differences between Employer Agency Contributions and Proportionate Share of Contributions	Changes in Proportion and Differences between Employer Agency Contributions and Proportionate Share of Contributions	Changes in Proportion and Differences between Employer Agency Contributions and Proportionate Share of Contributions	Total Deferred Outflows of Resources	Differences Between Expected and Actual Plan Experience	Net Difference Between Projected and Actual Plan Investment Earnings on Pension Plan Investments	Changes in Assumptions	Changes in Proportion and Differences between Employer Agency Contributions and Proportionate Share of Contributions	Changes in Proportion and Differences between Employer Agency Contributions and Proportionate Share of Contributions	Changes in Proportion and Differences between Employer Agency Contributions and Proportionate Share of Contributions	Total Deferred Inflows of Resources	Proportionate Share of Plan Pension Expense	Net Amortization of Deferred Amounts from Changes in Proportion and Differences between Employer Agency Contributions and Proportionate Share of Contributions	Net Amortization of Deferred Amounts from Changes in Proportion and Differences between Employer Agency Contributions and Proportionate Share of Contributions	Net Amortization of Deferred Amounts from Changes in Proportion and Differences between Employer Agency Contributions and Proportionate Share of Contributions	Total Employer Agency Pension Expense, Excluding that Attributable to Employer-Paid Member Contributions and Other Employer-Specified Amounts		
					2016		2015	2014				2016		2015	2014			2016	2015	2014				
TOTAL TO BE ALLOCATED	\$ 9,262,357	100.0000%	129,941,900	27,863,909	65,389,166	904,331	747,332	729,066	286,991	95,920,795	4,811,292	47,398,304	-	747,332	729,066	286,991	53,972,985	40,355,733	-	-	-	40,355,733		
OSU	273,452	2.9523%	3,836,275	822,626	1,930,484	26,699	105,145	-	-	2,884,954	142,044	1,399,340	-	-	9,132	133,252	1,683,768	1,191,422	23,522	(2,529)	(50,474)	1,161,941		
ABLE	120,619	1.3022%	1,692,103	362,844	851,498	11,776	110,099	-	46,431	1,382,648	62,653	617,221	-	-	202,310	-	882,184	525,512	24,631	(56,042)	17,587	511,688		
OSBI	1,147,979	12.3940%	16,104,999	3,453,453	8,104,333	112,083	-	-	47,058	11,716,927	596,312	5,874,546	-	458,155	301,275	-	7,230,288	5,001,690	(102,496)	(83,456)	17,824	4,833,562		
ORND	641,741	6.9285%	9,003,025	1,930,551	4,530,488	62,657	-	-	14,851	6,538,547	333,350	3,283,991	-	25,803	112,107	-	3,755,251	2,796,047	(5,773)	(31,055)	5,625	2,764,844		
Pharmacy	17,612	0.1901%	247,020	52,969	124,305	1,719	-	-	-	178,993	9,146	90,104	-	5,147	10,714	11,093	126,204	76,716	(1,152)	(2,968)	(4,202)	68,394		
Tourism	165,072	1.7822%	2,315,825	496,591	1,165,366	16,117	-	-	52,333	1,730,407	85,747	844,733	-	232,102	25,229	-	1,187,811	719,220	(51,924)	(6,989)	19,824	680,131		
DPS	6,439,487	69.5232%	90,339,766	19,371,881	45,460,640	628,719	326,626	478,778	-	66,266,644	3,344,964	32,952,817	-	-	-	48,133	36,345,914	28,056,598	73,072	132,626	(18,230)	28,244,066		
QRTZ	3,201	0.0346%	44,960	9,641	22,625	313	3,539	-	-	36,118	1,665	16,400	-	-	5,120	-	36,290	13,963	792	(1,418)	(4,965)	8,372		
OU Norman	121,704	1.3140%	1,707,437	366,132	859,214	11,883	-	-	17,668	1,254,897	63,220	622,814	-	24,709	11,665	-	722,408	530,274	(5,528)	(3,231)	6,693	528,208		
OU HSC	196,663	2.1233%	2,759,056	591,634	1,388,408	19,202	201,923	-	-	2,201,167	102,158	1,006,408	-	-	51,514	81,408	1,241,488	856,873	45,173	(14,270)	(30,837)	856,939		
GRDA	134,827	1.4556%	1,891,434	405,587	951,805	13,163	-	250,288	108,650	1,729,493	70,033	689,930	-	1,416	-	-	761,379	587,418	(317)	69,332	41,155	697,588		
	\$ 9,262,357	100.0000%	129,941,900	27,863,909	65,389,166	904,331	747,332	729,066	286,991	95,920,795	4,811,292	47,398,304	-	747,332	729,066	286,991	53,972,985	40,355,733	-	-	-	40,355,733		

Due to the computed percentages being different from the percentages presented, the presented totals may vary due to rounding.

See Independent Auditors’ Report.
See accompanying notes to Schedules of Allocations and Pension Amount by Participating Employer Agency.

OKLAHOMA LAW ENFORCEMENT RETIREMENT PLAN
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SCHEDULE OF PENSION AMOUNTS BY PARTICIPATING EMPLOYER AGENCY

As of and for the Year Ended June 30, 2016—Restated

Employer Agency Allocations			Net Pension Liability	Deferred Outflows of Resources						Deferred Inflows of Resources						Pension Expense, Excluding that Attributable to								
Entity	Employer Agency Contributions	Employer Agency Allocation Percentage	June 30, 2016, Net Pension Liability @ 7.5% Discount	Differences Between Expected and Actual Plan Experience	Net Difference Between Projected and Actual Plan Earnings on Pension Plan Investments	Changes in Assumptions	Changes in Proportion and Differences between Employer Agency Contributions and Proportionate Share of Contributions 2015	Changes in Proportion and Differences between Employer Agency Contributions and Proportionate Share of Contributions 2014	Total Deferred Outflows of Resources	Differences Between Expected and Actual Plan Experience	Net Difference Between Projected and Actual Plan Earnings on Pension Plan Investments	Changes in Assumptions	Changes in Proportion and Differences between Employer Agency Contributions and Proportionate Share of Contributions 2015	Changes in Proportion and Differences between Employer Agency Contributions and Proportionate Share of Contributions 2014	Total Deferred Inflows of Resources	Proportionate Share of Plan Pension Expense	Net Amortization of Deferred Amounts from Changes in Proportion and Differences between Employer Agency Contributions and Proportionate Share of Contributions 2015	Net Amortization of Deferred Amounts from Changes in Proportion and Differences between Employer Agency Contributions and Proportionate Share of Contributions 2014	Total Employer Agency Pension Expense, Excluding that Attributable to Employer-Paid Member Contributions and Other Employer-Specified Amounts					
TOTAL TO BE ALLOCATED				\$	9,372,638	100.0000%	175,765,414	*	38,016,447	89,216,894	-	931,024	395,699	128,560,064	4,637,360	25,573,543	-	931,024	395,699	31,537,626	43,115,276	-	-	43,115,276
OSU	261,389	2.7889%	4,901,922	1,060,241	2,488,170	-	-	-	3,548,411	129,331	713,221	-	11,661	183,726	1,037,939	1,202,442	(2,529)	(50,474)	1,149,439					
ABLE	106,011	1.1311%	1,988,083	430,004	1,009,132	-	-	64,018	1,503,154	52,453	289,262	-	258,352	-	600,067	487,677	(56,042)	17,587	449,222					
OSBI	1,228,378	13.1060%	23,035,815	4,982,436	11,692,766	-	-	64,882	16,740,084	607,772	3,351,669	-	384,731	-	4,344,172	5,650,688	(83,456)	17,824	5,585,056					
OBND	653,146	6.9686%	12,248,389	2,649,214	6,217,168	-	-	20,476	8,886,858	323,159	1,782,118	-	143,162	-	2,248,439	3,004,531	(31,055)	5,625	2,979,101					
Pharmacy	18,569	0.1981%	348,191	75,311	176,739	-	-	-	252,050	9,187	50,661	-	13,682	15,295	88,825	85,411	(2,968)	(4,202)	78,241					
Tourism	200,848	2.1429%	3,766,477	814,654	1,911,829	-	-	72,157	2,798,640	99,374	548,015	-	32,218	-	679,607	923,917	(6,989)	19,824	936,752					
DPS	6,468,589	69.0156%	121,305,555	26,237,278	61,573,575	-	611,404	-	88,422,257	3,200,503	17,649,734	-	-	66,363	20,916,600	29,756,267	132,626	(18,230)	29,870,663					
QRTZ	2,724	0.0291%	51,148	11,063	25,962	-	-	-	37,025	1,349	7,442	-	6,538	18,070	33,399	12,547	(4,965)	6,164						
OU Norman	126,756	1.3524%	2,377,051	514,134	1,206,569	-	-	24,361	1,745,064	62,716	345,857	-	14,896	-	423,469	583,091	(3,231)	6,693	586,553					
OU HSC	169,598	1.8095%	3,180,475	687,908	1,614,380	-	-	-	2,302,288	83,913	462,753	-	65,784	112,245	724,695	780,171	(14,270)	(30,837)	735,064					
GRDA	136,630	1.4578%	2,562,308	554,204	1,300,604	-	319,620	149,805	2,324,233	67,603	372,811	-	-	-	440,414	628,534	69,332	41,155	739,021					
				\$	9,372,638	100.0000%	175,765,414		38,016,447	89,216,894	-	931,024	395,699	128,560,064	4,637,360	25,573,543	-	931,024	395,699	31,537,626	43,115,276	-	-	43,115,276

* Amount was restated as described in Note 3 to the Schedules. The contributions were also restated to adjust for the allocation of OPEB contributions from pension contributions.

Due to the computed percentages being different from the percentages presented, the presented totals may vary due to rounding.

See Independent Auditors’ Report.
See accompanying notes to Schedules of Allocations and Pension Amount by Participating Employer Agency.

OKLAHOMA LAW ENFORCEMENT RETIREMENT PLAN
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OKLAHOMA LAW ENFORCEMENT RETIREMENT SYSTEM

NOTES TO SCHEDULES OF ALLOCATIONS AND PENSION AMOUNTS
BY PARTICIPATING EMPLOYER AGENCY

June 30, 2017

(1) SYSTEM STRUCTURE AND OPERATIONS

The Oklahoma Law Enforcement Retirement System (the “System”) is administrator of the Oklahoma Law Enforcement Retirement Plan (the “Plan”), a single-employer, cost-sharing defined benefit pension plan established by Oklahoma statutes. The Plan is a part of the financial reporting entity of the State of Oklahoma (the “State”). Currently, agencies and/or departments who are members of the System are the Oklahoma Highway Patrol and Capitol Patrol of the Department of Public Safety (DPS), the Oklahoma State Bureau of Investigation, the Oklahoma State Bureau of Narcotics and Dangerous Drugs Control, the Alcoholic Beverage Law Enforcement Commission, certain members of the DPS Communications Division, DPS Waterways Lake Patrol Division, park rangers, park managers, and park supervisors of the Oklahoma Tourism and Recreation Department, inspectors of the Oklahoma State Board of Pharmacy, and Oklahoma University and Oklahoma State University campus police officers, and the Grand River Dam Authority.

This report was prepared to provide participating employer agencies with additional information needed to comply with the financial reporting requirements promulgated under Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* (GASB 68). The System’s annual financial statements, located at www.olders.state.ok.us, contain additional information not included within the scope of this report. Participating employer agencies will need to reference this report and the System’s financial statements to fully comply with the disclosure requirements of GASB 68.

This report provides specific detailed information and should be utilized by the System’s participating employer agencies to assist with the preparation of their financial statements. Data provided in this report is limited in time, nature, and scope and does not provide complete financial information related to the System or its participating employer agencies.

As interpreted through GASB 68, the State is considered a non-employer contributing entity. The State contributes a portion of the Insurance Premium Tax collected through its taxing authority. This contribution is 5% of Insurance Premium Tax collected by the State. In addition, the Plan also receives 1.2% of all fees, taxes, and penalties collected by motor license agents. For the fiscal year ended June 30, 2017, the State’s contribution to the System totaled \$21,842,260. As a non-employer contributing entity, no portion of the net pension liability has been allocated directly to the State as a result of this contribution. The state agencies listed on the Schedule of Allocations by Participating Employer Agency and the Schedule of Pension Amounts by Participating Employer Agency (the “Schedules”) have been allocated their proportionate share of the net pension liability and other related pension amounts.

See Independent Auditors’ Report.

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NOTES TO SCHEDULES OF ALLOCATIONS AND PENSION AMOUNTS
BY PARTICIPATING EMPLOYER AGENCY, CONTINUED

(2) ESTIMATES, CONSIDERATION OF VOLATILITY, AND KEY DATES

The Schedules present amounts that are considered elements of the financial statements of the Plan or its participating employers. Accordingly, they do not purport to be a complete presentation of the financial position or changes in financial position of the Plan or the participating employers. The amounts presented in the Schedules were prepared in accordance with accounting principles generally accepted in the United States. Such preparation requires management of the Plan to make a number of estimates and assumptions that affect reported amounts, and changes therein, and disclosures. Due to the inherent nature of these estimates, actual results could differ from these estimates and differences could be material.

Due to the long-term nature of defined-benefit pension plans, certain amounts, including the net pension liability, are based on actuarial mathematical models and estimates that project future expectations. The Schedules provide results for a specific point in time, and changes in estimates, investment performance, and future cost expectations can have a material impact on the information presented from one year to the next.

Measurement Date and Valuation Date—The System has an annual actuarial valuation that coincides with its fiscal year end. The measurement date and valuation date covered by this valuation is June 30, 2017. The System's actuarial report is dated July 1, 2017.

Expected Remaining Service Life of Members—Certain deferred inflow and deferred outflow calculations require amortization over the remaining service life of the System's members, including retirees. For the fiscal year ended June 30, 2017, the membership's remaining service life was 5.47 years.

See Independent Auditors' Report.

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NOTES TO SCHEDULES OF ALLOCATIONS AND PENSION AMOUNTS
BY PARTICIPATING EMPLOYER AGENCY, CONTINUED

(3) IMPLEMENTATION OF GASB STATEMENT NO. 74

The Plan's financial statements for the year ended June 30, 2016, were restated for the adoption of GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)*. As a result of the restatement, the net pension liability as of June 30, 2016, was decreased \$13,195,271, as the net OPEB liability in prior years was a component of the net pension liability.

	Net Pension <u>Liability</u>	Net OPEB <u>Liability</u>
As previously reported as of June 30, 2016	\$ 188,960,685	-
As restated	<u>175,765,414</u>	<u>13,195,271</u>
Decrease (increase) in liability	<u>\$ 13,195,271</u>	<u>(13,195,271)</u>

Each agency may not necessarily experience a decrease, as the contribution revenues were also restated due to agency OPEB contributions being removed from pension contributions. Each agency will need to determine the impact of the restatement on its proportion of net pension liability and deferred outflows and inflows that were previously recorded at June 30, 2016. To assist with this, a Restated Schedule of Pension Amounts by Participating Employer Agency as of June 30, 2016, has been included. A comparison of amounts previously reported to restated amounts should be made first, and beginning net assets adjusted if material. Then a rollforward of the restated amounts to amounts as of June 30, 2017, should be done.

(4) SCHEDULES' COMPONENTS

The Plan requires participating employers in the Plan to recognize their proportionate share of the collective net pension liability, collective deferred outflows of resources, collective deferred inflows of resources, and collective pension expense, excluding that attributable to employer-paid member contributions and other employer-specified amounts. The employer allocation percentages presented in the Schedules are based on the ratio of the contributions as an individual employer to total contributions to the Plan during the years ended June 30, 2017 and 2016. In addition, employer contributions for employer agencies participating in OPEB benefits were reduced by the portion of contributions allocated to OPEB by the Plan. Employer allocation percentages have been rounded for presentation purposes; therefore, amounts presented in the Schedules may result in immaterial differences.

See Independent Auditors' Report.

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NOTES TO SCHEDULES OF ALLOCATIONS AND PENSION AMOUNTS
BY PARTICIPATING EMPLOYER AGENCY, CONTINUED

(4) **SCHEDULES' COMPONENTS, CONTINUED**

Employer Agency Allocations

Employer Agency Contributions

Employer agency contributions represent each participating employer agency's contributions to the Plan for the fiscal year.

Employer Agency Allocation Percentage

The employer agency allocation percentage represents the portion of each individual employer agency's contributions for the fiscal year divided by the total of all employer agency contributions for the fiscal year. This percentage represents each employer agency's proportionate share of the pension amounts presented in the Schedules.

2017 Percentage Change in Proportion shows the difference between each employer agency's proportion determined for fiscal year 2017 and that of fiscal year 2016.

Employer Agency Change in Proportion of June 30, 2016, Net Pension Liability represents each employer agency's increase or decrease in proportionate share of the net pension liability calculated for fiscal year 2016.

Employer Agency Change in Proportion of June 30, 2016, Deferred Inflows represents each employer agency's increase or decrease in proportionate share of the deferred inflows determined in fiscal year 2016.

Employer Agency Change in Proportion of June 30, 2016, Deferred Outflows represents each employer agency's increase or decrease in proportionate share of the deferred inflows determined in fiscal year 2016.

Total Change in Proportionate Share of June 30, 2016, Net Pension Liability and Deferred Inflows and Outflows shows the combined total of proportionate share changes for each employer agency for fiscal year 2016. This change in proportion is then amortized over the remaining service life of the System's members, with the remaining unamortized balance presented as either a deferred inflow or deferred outflow due to changes in proportion.

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NOTES TO SCHEDULES OF ALLOCATIONS AND PENSION AMOUNTS
BY PARTICIPATING EMPLOYER AGENCY, CONTINUED

(4) SCHEDULES' COMPONENTS, CONTINUED

Net Pension Liability

The total pension liability was calculated using a discount rate of 7.5%. For the fiscal year ended June 30, 2017, the System had a net pension liability of \$129,941,900 to be allocated proportionately among participating employer agencies. The System's net pension liability at June 30, 2017, was calculated as follows:

Total pension liability	\$ 1,069,286,516
Plan fiduciary net position	<u>939,344,616</u>
Employer agencies' net pension liability	<u>\$ 129,941,900</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>87.85%</u>

Actuarial Assumptions—The total pension liability was determined by an actuarial valuation as of July 1, 2017 and 2016, using the following actuarial assumptions, applied to all prior periods included in the measurement:

	<u>2017</u>
Inflation:	2.75%
Salary increases:	3.50% to 9.75%, including inflation
Investment rate of return:	7.5% compounded annually, net of investment expense, and including inflation
Mortality:	Pre-retirement mortality rates were based on the RP-2014 Blue Collar Healthy Employees with Generational Projection using Scale MP-2016. Post-retirement mortality rates were based on the same table as pre-retirement mortality. Disability mortality rates were based on the RP-2014 Blue Collar Table with no projection from 2006 base rates.
Actuarial cost method:	Entry age

The actuarial assumptions used in the July 1, 2017, valuation were based on the results of an actuarial experience study for the periods July 2012 to June 2016.

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(4) SCHEDULES' COMPONENTS, CONTINUED

Net Pension Liability, Continued

Long-Term Expected Real Rate of Return—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. The inflation factor added back was 3.51% for 2017. 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, 2017, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	Long-Term Expected Real Rate of Return <u>2017</u> (Includes inflation factor)
Fixed income:		
Core bonds	10.00%	6.28%
Multisector	10.00%	7.16%
Global bonds	10.00%	6.05%
Equities:		
U.S. large cap equity	20.00%	10.99%
U.S. small cap equity	10.00%	12.22%
International developed equity	10.00%	11.96%
Emerging market equity	5.00%	13.23%
Long/Short equity	10.00%	10.74%
Private equity	5.00%	13.71%
Real assets:		
Core real estate	7.00%	9.39%
Commodities	<u>3.00%</u>	5.61%
	<u>100.00%</u>	

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NOTES TO SCHEDULES OF ALLOCATIONS AND PENSION AMOUNTS
BY PARTICIPATING EMPLOYER AGENCY, CONTINUED

(4) SCHEDULES' COMPONENTS, CONTINUED

Net Pension Liability, Continued

Discount Rate—The discount rate used to measure the total pension liability was 7.5% for 2017. 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 employer agencies will be made at contractually required rates, determined by the State statutes. Projected cash flows also assume the State will continue contributing 5% of the insurance premium, as established by statute, and the System will continue to receive its share of fees, taxes, and penalties from motor license agents. 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.

A net pension liability sensitivity comparison shows how a 1% change (both lower and higher) in the discount rate will affect the net pension liability. The following table presents the System's net pension liability for the current discount rate of 7.5%, as well as what it would be using a discount rate 1% lower (6.5%) and 1% higher (8.5%).

	1% Decrease in Discount Rate (6.5%)	Current Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
Employer agencies' net pension liability	\$ 266,700,634	129,941,900	17,840,872

The Schedules present the net pension liability at the current discount rate.

Deferred Outflows and Inflows of Resources

Certain differences that occur from year to year in the calculation of the net pension liability and the net pension expense require amortization and recognition in future years. The following types of differences can result in a deferred outflow or deferred inflow of resources. Due to the variability of results that will affect the Plan, deferred inflows and outflows of resources may vary significantly between years. Additionally, certain deferrals may have both inflow and outflow components that are amortized over future years.

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NOTES TO SCHEDULES OF ALLOCATIONS AND PENSION AMOUNTS
BY PARTICIPATING EMPLOYER AGENCY, CONTINUED

(4) SCHEDULES' COMPONENTS, CONTINUED

Deferred Outflows and Inflows of Resources, Continued

Differences between Expected and Actual Plan Experience

This difference occurs when the System's actuarial estimate of the Plan's experience costs for a given period differs from the actual experience costs. This is usually the result of differences in the make-up of retirees, the dates chosen to retire, the longevity of System's members, or other similar demographic factors. The most recent actuarial experience study for the System was for the period from July 1, 2007, to June 30, 2011. Actuarial experience studies are generally performed every 5 years. For the fiscal year ended June 30, 2017, the System experienced a gain over expected experience, resulting in a system-wide deferred outflow for plan experience of \$2,306,866. System-wide deferred inflows and outflows that result from plan experience differences are divided by the expected remaining service life of its members, which was calculated as of the beginning of the measurement date to be 5.47 years, and amortized over that period, with the current year amount included in the determination of pension expense. For fiscal year 2017, \$421,731 was included as a component of the calculation for pension expense, with the remaining balance of \$1,885,135 recognized as a deferred outflow. Each employer agency's proportionate share was multiplied by this amount to determine the remaining balance of deferred inflows attributable to plan experience differences for fiscal year 2017.

*Net Difference between Projected and Actual Plan Investment Earnings on
Pension Plan Investments*

Each annual actuarial valuation estimates the projected return for the Plan. Net differences between this estimate and the actual investment earnings for a given year are included as either a deferred inflow when actual investment earnings exceed the estimate or a deferred outflow when actual investment earnings are less than the estimate. This difference is then amortized over a fixed 5-year period for each unique fiscal year. For fiscal year 2017, the System's estimated investment return was \$63,254,426. Actual investment earnings for fiscal year 2017 were \$106,518,842, resulting in a gain of \$43,264,416 over the expected return. This amount is amortized over 5 years, resulting in \$8,652,883 used as a component of pension expense for fiscal year 2017, with the remaining balance of \$36,611,533 to be amortized over the next 4 years as deferred inflows. These are collective plan amounts and are multiplied by each employer agency's proportionate share to determine each employer agency's allocation of this amount.

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NOTES TO SCHEDULES OF ALLOCATIONS AND PENSION AMOUNTS
BY PARTICIPATING EMPLOYER AGENCY, CONTINUED

(4) SCHEDULES' COMPONENTS, CONTINUED

Deferred Outflows and Inflows of Resources, Continued

Changes in Assumptions

On occasion, as the result of an experience study or other actuarial considerations, certain assumptions used for estimates may need to be changed. When this occurs, the Plan will generally experience an increase or decrease in either deferred inflows or deferred outflows. For the fiscal year ended June 30, 2017, a change in assumptions resulted in \$1,106,642 of loss to the Plan. Of this amount, \$202,311 was used as a component of pension expense for 2017 and the remaining balance of \$904,331 is reflected as deferred outflows, to be amortized over the next 4.47 years.

Changes in Proportion and Differences between Employer Agency Contributions and Proportionate Share of Contributions

A change in an employer agency's proportion can occur due to changes in the membership of participating employer agencies, new employer agencies joining the System, or other factors affecting the contributions of a participating employer agency in relation to all participating employer agencies. When a change in proportion occurs, the participating employer agency will experience an increase or decrease in either deferred inflows or outflows during the period the change occurs, with an offsetting effect on pension expense. The Schedule of Employer Allocations by Participating Employer Agency presents this change in proportion between the periods ended June 30, 2016, and June 30, 2017. Proportionate changes are then multiplied by the June 30, 2016, net pension liability, deferred inflows, and deferred outflows to determine the net effect of a change in proportion of each employer agency's pension expense for the current year as well as remaining deferred inflows or deferred outflows to be amortized over future periods.

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NOTES TO SCHEDULES OF ALLOCATIONS AND PENSION AMOUNTS
BY PARTICIPATING EMPLOYER AGENCY, CONTINUED

(4) SCHEDULES' COMPONENTS, CONTINUED

Deferred Outflows and Inflows of Resources, Continued

The following table (the table excludes any employer-specific amounts or other employer-specified amounts) presents the fiscal amounts determined and their effect on pension expense, deferred inflows, and deferred outflows, respectively, as well as remaining unamortized deferred balances and the period of amortization at June 30, 2017:

	Total Fiscal (Gains)/Losses	Amount Included in 2017 Pension Expense Calculation	Deferred Outflows Balance for 2017	Deferred Inflows Balance for 2017	Amortization Period (Years)
Changes in Assumptions					
2014	\$ -	-	-	-	-
2015	-	-	-	-	-
2016	-	-	-	-	-
2017	1,106,642	202,311	904,331	-	5.47
Differences Between Expected and Actual Experience					
2014	(9,770,969)	(1,711,203)	-	(2,926,157)	5.71
2015	51,089,996	9,058,510	23,914,466	-	5.64
2016	6,137,500	1,094,029	3,949,443	-	5.61
2017	(2,306,866)	(421,731)	-	(1,885,135)	5.47
Differences Between Projected and Actual Earnings					
2014	(63,933,857)	(12,786,771)	-	(12,786,771)	5
2015	30,470,086	6,094,017	12,188,034	-	5
2016	88,668,553	17,733,711	53,201,132	-	5
2017	(43,264,416)	(8,652,883)	-	(34,611,533)	5
Differences Due to Changes in Proportion					
2014	-	-	-	-	5.71
2015	-	-	286,991	(286,991)	5.64
2016	-	-	729,066	(729,066)	5.61
2017	-	-	747,332	(747,332)	5.47
			<u>\$95,920,795</u>	<u>(53,972,985)</u>	

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NOTES TO SCHEDULES OF ALLOCATIONS AND PENSION AMOUNTS
BY PARTICIPATING EMPLOYER AGENCY, CONTINUED

(4) SCHEDULES' COMPONENTS, CONTINUED

Deferred Outflows and Inflows of Resources, Continued

Amounts reported as deferred outflows of resources and deferred inflows of resources (excluding employer-specific amounts and other employer-specified amounts) related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30:</u>	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>
2018	\$ 34,660,433	(24,050,444)
2019	34,660,433	(10,767,423)
2020	25,266,219	(9,513,335)
2021	1,160,051	(9,364,997)
2022	<u>173,649</u>	<u>(276,786)</u>
	<u>\$ 95,920,785</u>	<u>(53,972,985)</u>

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NOTES TO SCHEDULES OF ALLOCATIONS AND PENSION AMOUNTS
BY PARTICIPATING EMPLOYER AGENCY, CONTINUED

(4) SCHEDULES' COMPONENTS, CONTINUED

Pension Expense

Proportionate Share of Plan Pension Expense

Under GASB 68, participating employers in cost-sharing, defined-benefit pension plans no longer expense actual contributions made to the Plan. Accounting principles generally accepted in the United States require that the pension expense recognized by participating employers in a given year consider their proportionate share of all plan components, not just payments into the Plan. For the fiscal year ended June 30, 2017, the Plan's collective pension expense allocated to all participating employer agencies was \$40,355,733. This amount as of June 30, 2017, was calculated as follows:

Service cost	\$ 23,670,205
Interest on total pension liability	75,079,775
Expensed portion of differences	
between expected and actual experience	8,019,606
Changes in assumptions	202,311
Employee contributions	(6,832,480)
Projected earnings on pension plan investments	(63,254,426)
Differences between projected and	
actual earnings on plan investments	2,388,073
Pension plan administrative expense	1,082,669
Other changes in fiduciary net position	<u>-</u>
Total collective pension expense	<u>\$ 40,355,733</u>

The collective pension expense is broken out for employer agencies by each unique proportion in the Schedule of Pension Amounts by Participating Employer Agency. The differences between expected and actual experience and the differences between projected and actual earnings on plan investments represent only the current year's portion of amortization to pension expense. The remaining unamortized balances of these differences are presented in their respective columns in the Schedule of Pension Amounts by Participating Employer Agency.

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NOTES TO SCHEDULES OF ALLOCATIONS AND PENSION AMOUNTS
BY PARTICIPATING EMPLOYER AGENCY, CONTINUED

(5) CHANGES IN NET PENSION LIABILITY

A summary of the changes in net pension liability for the year ended June 30, 2017, is as follows:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at June 30, 2016*	\$ 1,029,349,051	853,583,637	175,765,414
Changes for the year:			
Service cost	23,670,205	-	23,670,205
Interest	75,079,775	-	75,079,775
Changes in assumptions	1,106,642	-	1,106,642
Differences between expected and actual experience	(2,306,866)	-	(2,306,866)
Contributions—employer	-	21,842,260	(21,842,260)
Contributions—State of Oklahoma (a non-employer contributing entity)	-	9,262,357	(9,262,357)
Contributions—member	-	6,832,480	(6,832,480)
Net investment income	-	106,518,842	(106,518,842)
Benefit payments, including refunds of employee contributions**	(57,612,291)	(57,612,291)	-
Administrative expense	-	(1,082,669)	1,082,669
Other changes	-	-	-
Net changes	<u>39,937,465</u>	<u>85,760,979</u>	<u>(45,823,514)</u>
Balances at June 30, 2017	<u>\$ 1,069,286,516</u>	<u>939,344,616</u>	<u>129,941,900</u>

* Adjusted to remove the OPEB liability of \$13,195,271.

**Insurance or OPEB payments are not shown here.

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(6) EMPLOYER-PAID MEMBER CONTRIBUTIONS AND
OTHER EMPLOYER-SPECIFIED AMOUNTS

Because of the nature of the Plan, plan management is not aware of employer-paid member contributions and other employer-specified amounts. As such, each employer agency should determine the effect, if applicable, such employer-paid contributions and other employer-specified amounts will have on its pension expense and deferred inflows/outflows.

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