

Oklahoma Law Enforcement Retirement Plan

Administered by

Oklahoma Law Enforcement Retirement System

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

June 30, 2018

(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, 2018. 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, 2018, 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 label

ed "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, 2018, in accordance with accounting principles generally accepted in the United States.

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, 2018, and our report thereon, dated October 17, 2018, 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, 2018, 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 8, 2019

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, 2018

Entity	Employer Agency Allocations 2017		Employer Agency Allocations 2018		2018 Percentage Change in Proportion	Employer Agency Change in Proportion of June 30, 2017, Net Pension Liability	Employer Agency Change in Proportion of June 30, 2017, Deferred Inflows	Employer Agency Change in Proportion of June 30, 2017, Deferred Outflows	Total Change in Proportionate Share of June 30, 2017, Net Pension Liability Deferred Inflows and Outflows	Amount to Amortize as Pension Expense at June 30, 2018, Due to Changes in Proportion
	Employer Agency Contributions	Employer Agency Allocation Percentage	Employer Agency Contributions	Employer Agency Allocation Percentage						
TOTAL TO BE ALLOCATED	\$ 9,262,357	100.0000%	9,082,750	100.0000%	0.0000%	129,941,900	52,209,596	94,157,406	1,052,322	-
OSU	273,452	2.9523%	318,193	3.5033%	0.5510%	715,980	287,675	518,807	484,848	86,735
ABLE	120,619	1.3022%	66,680	0.7341%	(0.5681)%	(738,200)	(296,603)	(534,908)	(499,895)	(89,427)
OSBI	1,147,979	12.3940%	1,092,764	12.0312%	(0.3628)%	(471,429)	(189,416)	(341,603)	(319,242)	(57,109)
OBND	641,741	6.9285%	652,124	7.1798%	0.2513%	326,544	131,203	236,618	221,129	39,558
Pharmacy	17,612	0.1901%	8,265	0.0910%	(0.0991)%	(128,772)	(51,740)	(93,310)	(87,202)	(15,600)
Tourism	165,072	1.7822%	160,551	1.7676%	(0.0146)%	(18,972)	(7,623)	(13,747)	(12,848)	(2,298)
DPS	6,439,487	69.5232%	6,300,876	69.3719%	(0.1513)%	(196,603)	(78,993)	(142,461)	(133,135)	(23,816)
QRTZ	3,201	0.0346%	3,523	0.0388%	0.0042%	5,458	2,193	3,955	3,696	661
OU Norman	121,704	1.3140%	137,182	1.5104%	0.1964%	255,206	102,540	184,925	172,821	30,916
OU HSC	196,663	2.1233%	209,069	2.3018%	0.1785%	231,946	93,194	168,071	157,069	28,098
GRDA	134,827	1.4556%	133,523	1.4701%	0.0145%	18,842	7,570	13,653	12,759	2,282
	\$ 9,262,357	100.0000%	9,082,750	100.0000%	0.0000%	-	-	-	-	-

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 Amounts by Participating Employer Agency.

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SCHEDULE OF ALLOCATIONS BY PARTICIPATING EMPLOYER AGENCY, CONTINUED

As of and for the Year Ended June 30, 2018

Entity	June 30, 2018, Amount Recorded as Deferred OUTFLOWS Due to Changes in Proportion 2017	June 30, 2018, Amount Recorded as Deferred INFLOWS Due to Changes in Proportion 2017	June 30, 2018, Amount Recorded as Deferred OUTFLOWS Due to Changes in Proportion 2016	June 30, 2018, Amount Recorded as Deferred INFLOWS Due to Changes in Proportion 2016	June 30, 2018, Amount Recorded as Deferred OUTFLOWS Due to Changes in Proportion 2015	June 30, 2018, Amount Recorded as Deferred INFLOWS Due to Changes in Proportion 2015	June 30, 2018, Amount Recorded as Deferred OUTFLOWS Due to Changes in Proportion 2014	June 30, 2018, Amount Recorded as Deferred INFLOWS Due to Changes in Proportion 2014
TOTAL TO BE ALLOCATED	864,072	864,072	580,143	580,143	527,108	527,108	178,283	178,283
OSU	398,113	-	81,623	-	-	6,603	-	82,778
ABLE	-	410,468	85,468	-	-	146,268	28,844	-
OSBI	-	262,133	-	355,659	-	217,819	29,234	-
OBND	181,571	-	-	20,030	-	81,052	9,226	-
Pharmacy	-	71,602	-	3,995	-	7,746	-	6,891
Tourism	-	10,550	-	180,179	-	18,240	32,509	-
DPS	-	109,319	253,555	-	346,152	-	-	29,903
QRTZ	3,035	-	2,747	-	-	3,702	-	8,140
OU Norman	141,905	-	-	19,181	-	8,434	10,975	-
OU HSC	128,971	-	156,750	-	-	37,244	-	50,571
GRDA	10,477	-	-	1,099	180,956	-	67,495	-
	<u>864,072</u>	<u>864,072</u>	<u>580,143</u>	<u>580,143</u>	<u>527,108</u>	<u>527,108</u>	<u>178,283</u>	<u>178,283</u>

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

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SCHEDULE OF PENSION AMOUNTS BY PARTICIPATING EMPLOYER AGENCY

As of and for the Year Ended June 30, 2018

Employer Agency Allocations			Net Pension Liability	Deferred Outflows of Resources							
Entity	Employer Agency Contributions	Employer Agency Allocation Percentage	June 30, 2018, 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 2017	Changes in Proportion and Differences between Employer Agency Contributions and Proportionate Share of Contributions 2016	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
TOTAL TO BE ALLOCATED	\$ 9,082,750	100.0000%	107,117,336	17,711,371	41,561,438	702,020	864,072	580,143	527,108	178,283	62,124,435
OSU	318,193	3.5033%	3,752,642	620,482	1,456,022	24,594	398,113	81,623	-	-	2,580,834
ABLE	66,680	0.7341%	786,348	130,019	305,103	5,154	-	85,468	-	28,844	554,588
OSBI	1,092,764	12.0312%	12,887,501	2,130,890	5,000,340	84,461	-	-	-	29,234	7,244,925
OBND	652,124	7.1798%	7,690,810	1,271,641	2,984,028	50,404	181,571	-	-	9,226	4,496,870
Pharmacy	8,265	0.0910%	97,477	16,117	37,821	639	-	-	-	-	54,577
Tourism	160,551	1.7676%	1,893,406	313,066	734,640	12,409	-	-	-	32,509	1,092,624
DPS	6,300,876	69.3719%	74,309,331	12,286,716	28,831,958	487,005	-	253,555	346,152	-	42,205,386
QRTZ	3,523	0.0388%	41,562	6,872	16,126	272	3,035	2,747	-	-	29,052
OU Norman	137,182	1.5104%	1,617,900	267,513	627,744	10,603	141,905	-	-	10,975	1,058,740
OU HSC	209,069	2.3018%	2,465,627	407,680	956,661	16,159	128,971	156,750	-	-	1,666,221
GRDA	133,523	1.4701%	1,574,732	260,375	610,995	10,320	10,477	-	180,956	67,495	1,140,618
	\$ 9,082,750	100.0000%	107,117,336	17,711,371	41,561,438	702,020	864,072	580,143	527,108	178,283	62,124,435

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 Amounts by Participating Employer Agency.

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SCHEDULE OF PENSION AMOUNTS BY PARTICIPATING EMPLOYER AGENCY, CONTINUED

As of and for the Year Ended June 30, 2018

Deferred Inflows of Resources								
Entity	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 2017	Changes in Proportion and Differences between Employer Agency Contributions and Proportionate Share of Contributions 2016	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
TOTAL TO BE ALLOCATED	7,602,134	34,212,314	-	864,072	580,143	527,108	178,283	43,964,054
OSU	266,326	1,198,560	-	-	-	6,603	82,778	1,554,267
ABLE	55,807	251,153	-	410,468	-	146,268	-	863,696
OSBI	914,628	4,116,152	-	262,133	355,659	217,819	-	5,866,391
OBND	545,818	2,456,376	-	-	20,030	81,052	-	3,103,276
Pharmacy	6,918	31,133	-	71,602	3,995	7,746	6,891	128,285
Tourism	134,375	604,737	-	10,550	180,179	18,240	-	948,081
DPS	5,273,744	23,733,732	-	109,319	-	-	29,903	29,146,698
QRTZ	2,950	13,274	-	-	-	3,702	8,140	28,066
OU Norman	114,823	516,743	-	-	19,181	8,434	-	659,181
OU HSC	174,986	787,499	-	-	-	37,244	50,571	1,050,300
GRDA	111,759	502,955	-	-	1,099	-	-	615,813
	7,602,134	34,212,314	-	864,072	580,143	527,108	178,283	43,964,054

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

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See accompanying notes to Schedules of Allocations and Pension Amounts by Participating Employer Agency.

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

As of and for the Year Ended June 30, 2018

Entity	Pension Expense, Excluding that Attributable to Employer-Paid Member Contributions and Other Employer-Specified Amounts					Total Employer Agency Pension Expense, Excluding that Attributable to Employer-Paid Member Contributions and Other Employer-Specified Amounts
	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 2017	Net Amortization of Deferred Amounts from Changes in Proportion and Differences between Employer Agency Contributions and Proportionate Share of Contributions 2016	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 TO BE ALLOCATED	33,719,229	-	-	-	-	33,719,229
OSU	1,181,286	86,735	23,522	(2,529)	(50,474)	1,238,540
ABLE	247,533	(89,427)	24,631	(56,042)	17,587	144,282
OSBI	4,056,828	(57,109)	(102,496)	(83,456)	17,824	3,831,591
OBND	2,420,973	39,558	(5,773)	(31,055)	5,625	2,429,328
Pharmacy	30,684	(15,600)	(1,152)	(2,968)	(4,202)	6,762
Tourism	596,021	(2,298)	(51,924)	(6,989)	19,824	554,634
DPS	23,391,671	(23,816)	73,072	132,626	(18,230)	23,555,323
QRTZ	13,083	661	792	(1,418)	(4,965)	8,153
OU Norman	509,295	30,916	(5,528)	(3,231)	6,693	538,145
OU HSC	776,149	28,098	45,173	(14,270)	(30,837)	804,313
GRDA	495,706	2,282	(317)	69,332	41,155	608,158
	<u>33,719,229</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>33,719,229</u>

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 Amounts by Participating Employer Agency.

OKLAHOMA LAW ENFORCEMENT RETIREMENT PLAN
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NOTES TO SCHEDULES OF ALLOCATIONS AND PENSION AMOUNTS
BY PARTICIPATING EMPLOYER AGENCY

June 30, 2018

(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.olars.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, 2018, the State’s contribution to the System totaled \$23,673,616. 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, 2018. The System's actuarial report is dated July 1, 2018.

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, 2018, the membership's remaining service life was 5.59 years.

See Independent Auditors' Report.

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

(3) 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, 2018 and 2017. 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.

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.

2018 Percentage Change in Proportion shows the difference between each employer agency's proportion determined for fiscal year 2018 and that of fiscal year 2017.

Employer Agency Change in Proportion of June 30, 2017, Net Pension Liability represents each employer agency's increase or decrease in proportionate share of the net pension liability calculated for fiscal year 2017.

Employer Agency Change in Proportion of June 30, 2017, Deferred Inflows represents each employer agency's increase or decrease in proportionate share of the deferred inflows determined in fiscal year 2017.

Employer Agency Change in Proportion of June 30, 2017, Deferred Outflows represents each employer agency's increase or decrease in proportionate share of the deferred inflows determined in fiscal year 2017.

See Independent Auditors' Report.

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

(3) SCHEDULES' COMPONENTS, CONTINUED

Total Change in Proportionate Share of June 30, 2017, Net Pension Liability and Deferred Inflows and Outflows shows the combined total of proportionate share changes for each employer agency for fiscal year 2017. 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.

Net Pension Liability

The total pension liability was calculated using a discount rate of 7.5%. For the fiscal year ended June 30, 2018, the System had a net pension liability of \$107,117,336 to be allocated proportionately among participating employer agencies. The System's net pension liability at June 30, 2018, was calculated as follows:

Total pension liability	\$ 1,105,749,958
Plan fiduciary net position	<u>998,632,622</u>
Employer agencies' net pension liability	<u>\$ 107,117,336</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>90.31%</u>

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

(3) SCHEDULES' COMPONENTS, CONTINUED

Net Pension Liability, Continued

Actuarial Assumptions—The total pension liability was determined by an actuarial valuation as of July 1, 2018, using the following actuarial assumptions, applied to all prior periods included in the measurement:

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, 2018, valuation were based on the results of an actuarial experience study for the periods July 2012 to June 2016.

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

(3) 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 3.48% for 2018. 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, 2018, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	Long-Term Expected Real Rate of Return (Includes inflation factor)
Fixed income:		
Core bonds	10.00%	6.22%
Multisector	10.00%	7.08%
Global bonds	10.00%	6.00%
Equities:		
U.S. large cap equity	20.00%	11.01%
U.S. small cap equity	10.00%	12.27%
International developed equity	10.00%	11.99%
Emerging market equity	5.00%	13.28%
Long/Short equity	10.00%	9.75%
Private equity	5.00%	13.64%
Real assets:		
Core real estate	7.00%	9.39%
Commodities	<u>3.00%</u>	5.66%
	<u>100.00%</u>	

See Independent Auditors' Report.

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

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

(3) SCHEDULES' COMPONENTS, CONTINUED

Net Pension Liability, Continued

Discount Rate—The discount rate used to measure the total pension liability was 7.5% for 2018. 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.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate—The following presents the System's net pension liability (asset) calculated using 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 (asset)	\$ 244,831,043	107,117,336	(5,853,242)

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

(3) 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, 2012, to June 30, 2016. Actuarial experience studies are generally performed every 5 years. For the fiscal year ended June 30, 2018, the System experienced a gain over expected experience, resulting in a system-wide deferred inflow for plan experience of \$5,996,493. 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 5.59 years, and amortized over that period, with the current year amount included in the determination of pension expense. For fiscal year 2018, \$1,072,718 was included as a component of the calculation for pension expense, with the remaining balance of \$4,923,775 recognized as a deferred inflow. 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 2018.

*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 2018, the System's estimated investment return was \$69,688,000. Actual investment earnings for fiscal year 2018 were \$80,005,080, resulting in a gain of \$10,317,080 over the expected return. This amount is amortized over 5 years, resulting in \$2,063,416 used as a component of pension expense for fiscal year 2018, with the remaining balance of \$8,253,664 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

(3) 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, 2018, no changes in assumptions were made regarding the determination of the Plan's liabilities.

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, 2017, and June 30, 2018. Proportionate changes are then multiplied by the June 30, 2017, 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

(3) 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, 2018:

	Total Fiscal (Gains)/Losses	Amount Included in 2018 Pension Expense Calculation	Deferred Outflows Balance for 2018	Deferred Inflows Balance for 2018	Amortization Period (Years)
Changes in Assumptions					
2014	\$ -	-	-	-	-
2015	-	-	-	-	-
2016	-	-	-	-	-
2017	1,106,642	202,311	702,020	-	5.47
2018	-	-	-	-	-
Differences Between Expected and Actual Experience					
2014	(9,770,969)	(1,711,203)	-	(1,214,954)	5.71
2015	51,089,996	9,058,510	14,855,956	-	5.64
2016	6,137,500	1,094,029	2,855,415	-	5.61
2017	(2,306,866)	(421,731)	-	(1,463,405)	5.47
2018	(5,996,493)	(1,072,718)	-	(4,923,775)	5.59
Differences Between Projected and Actual Earnings					
2014	(63,933,857)	(12,786,771)	-	-	5.00
2015	30,470,086	6,094,017	6,094,017	-	5.00
2016	88,668,553	17,733,711	35,467,421	-	5.00
2017	(43,264,416)	(8,652,883)	-	(25,958,650)	5.00
2018	(10,317,080)	(2,063,416)	-	(8,253,664)	5.00
Differences Due to Changes in Proportion					
2014	-	-	-	-	5.71
2015	-	-	178,283	(178,283)	5.64
2016	-	-	527,108	(527,108)	5.61
2017	-	-	580,143	(580,143)	5.47
2018	-	-	864,072	(864,072)	5.59
			<u>\$ 62,124,435</u>	<u>(43,964,054)</u>	

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

(3) 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>
2019	\$ 34,848,683	(14,091,807)
2020	25,454,469	(12,837,719)
2021	1,348,301	(12,689,380)
2022	361,909	(3,601,171)
2023	<u>111,073</u>	<u>(743,977)</u>
	<u>\$ 62,124,435</u>	<u>(43,964,054)</u>

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

(3) 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, 2018, the Plan's collective pension expense allocated to all participating employer agencies was \$33,719,229. This amount for the year ended June 30, 2018, was calculated as follows:

Service cost	\$ 22,653,979
Interest on total pension liability	78,022,205
Benefit changes	832,135
Expensed portion of differences	
between expected and actual experience	6,946,887
Changes in assumptions	202,311
Employee contributions	(6,666,814)
Projected earnings on pension plan investments	(69,688,000)
Differences between projected and	
actual earnings on plan investments	324,656
Pension plan administrative expense	1,091,870
Other changes in fiduciary net position	<u>-</u>
Total collective pension expense	<u>\$ 33,719,229</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

(4) CHANGES IN NET PENSION LIABILITY

A summary of the changes in net pension liability for the year ended June 30, 2018, is as follows:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at June 30, 2017	\$ 1,069,286,516	939,344,616	129,941,900
Changes for the year:			
Service cost	22,653,979	-	22,653,979
Interest	78,022,205	-	78,022,205
Benefit changes	832,135	-	832,135
Changes in assumptions	-	-	-
Differences between expected and actual experience	(5,996,493)	-	(5,996,493)
Contributions—employer	-	9,082,750	(9,082,750)
Contributions—State of Oklahoma (a non-employer contributing entity)	-	23,673,616	(23,673,616)
Contributions—member	-	6,666,814	(6,666,814)
Net investment income	-	80,005,080	(80,005,080)
Benefit payments, including refunds of employee contributions	(59,048,384)	(59,048,384)	-
Administrative expense	-	(1,091,870)	1,091,870
Other changes	-	-	-
Net changes	<u>36,463,442</u>	<u>59,288,006</u>	<u>(22,824,564)</u>
Balances at June 30, 2018	<u>\$ 1,105,749,958</u>	<u>998,632,622</u>	<u>107,117,336</u>

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

(5) 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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