

# **Oklahoma Firefighters Pension and Retirement Plan**

Administered by

## **Oklahoma Firefighters Pension and Retirement System**

### *Financial Statements*

June 30, 2018 and 2017

(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, 2018 and 2017, 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, 2018 and 2017, 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.

### **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, and the related notes to the required supplementary information, on pages 52 through 57 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.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2018, 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 the effectiveness of the Plan's 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 12, 2018

## **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, 2018, 2017, and 2016. Please read it in conjunction with the System's financial statements, which begin on page 3.

### **Financial Highlights**

|  | <u>2018</u>      | <u>2017</u>   | <u>2016</u>   |
|--|------------------|---------------|---------------|
| • Fiduciary net position of the System                 | \$ 2,719,895,921 | 2,509,471,449 | 2,255,758,597 |
| • Contributions:                                       |                  |               |               |
| Insurance premium taxes                                | 100,333,324      | 88,133,633    | 92,330,270    |
| Participating municipalities                           | 41,590,815       | 40,325,760    | 39,173,661    |
| Plan members/employees                                 | 26,086,597       | 25,236,243    | 24,531,971    |
| • Net investment income                                | 290,165,929      | 302,619,557   | 14,238,895    |
| • Benefits paid, including refunds                     | 245,653,823      | 200,214,567   | 196,088,281   |
| • Net increase (decrease) in<br>fiduciary net position | 210,424,472      | 253,712,852   | (27,807,785)  |

### **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 comprises 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>2018</u>                    | <u>2017</u>                 | <u>2016</u>                 |
|--|--------------------------------|-----------------------------|-----------------------------|
| Cash and cash equivalents                | \$ 70,883,218                  | 57,633,745                  | 50,922,383                  |
| Receivables                              | 24,630,924                     | 24,801,415                  | 59,758,484                  |
| Investments, at fair value               | 2,644,349,572                  | 2,434,724,369               | 2,147,013,763               |
| Securities lending short-term collateral | 88,146,621                     | 76,510,460                  | 81,195,350                  |
| Capital assets, net                      | <u>1,008,094</u>               | <u>1,068,567</u>            | <u>956,581</u>              |
| Total assets                             | <u>2,829,018,429</u>           | <u>2,594,738,556</u>        | <u>2,339,846,561</u>        |
| Liabilities                              | <u>109,122,508</u>             | <u>85,267,107</u>           | <u>84,087,964</u>           |
| Fiduciary net position                   | <u><u>\$ 2,719,895,921</u></u> | <u><u>2,509,471,449</u></u> | <u><u>2,255,758,597</u></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 2 to the financial statements.

The following table summarizes the changes in fiduciary net position between fiscal years 2018, 2017, and 2016:

|   | <u>2018</u>                    | <u>2017</u>                 | <u>2016</u>                 |
|---|--------------------------------|-----------------------------|-----------------------------|
| <b>Additions</b>                          |                                |                             |                             |
| Contributions                             | \$ 168,010,736                 | 153,695,636                 | 156,035,902                 |
| Net investment income                     | <u>290,165,929</u>             | <u>302,619,557</u>          | <u>14,238,895</u>           |
| Total additions                           | <u>458,176,665</u>             | <u>456,315,193</u>          | <u>170,274,797</u>          |
| <b>Deductions</b>                         |                                |                             |                             |
| Benefits and refunds                      | 245,653,823                    | 200,214,567                 | 196,088,281                 |
| Administrative expenses                   | <u>2,098,370</u>               | <u>2,387,774</u>            | <u>1,994,301</u>            |
| Total deductions                          | <u>247,752,193</u>             | <u>202,602,341</u>          | <u>198,082,582</u>          |
| Changes in fiduciary net position         | 210,424,472                    | 253,712,852                 | (27,807,785)                |
| Fiduciary net position, beginning of year | <u>2,509,471,449</u>           | <u>2,255,758,597</u>        | <u>2,283,566,382</u>        |
| Fiduciary net position, end of year       | <u><u>\$ 2,719,895,921</u></u> | <u><u>2,509,471,449</u></u> | <u><u>2,255,758,597</u></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 \$290 million for 2018 compared to investment income of approximately \$303 million for 2017.

The investment income of the System decreased approximately \$13 million during the year ended June 30, 2018, compared to the year ended June 30, 2017, as a result of market stabilization during the fiscal year. The investment income of the System increased approximately \$289 million during the year ended June 30, 2017, compared to the year ended June 30, 2016, as a result of an overall strong market during the fiscal year. The investment income of the System decreased approximately \$103 million during the year ended June 30, 2016, compared to the year ended June 30, 2015, 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 was as follows:

|        | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|--------|-------------|-------------|-------------|
| System | 12%         | 14%         | 1%          |

During the years ended June 30, 2018, 2017, and 2016, benefit payments (including refunds) increased by approximately 23%, 2%, and 7%, respectively, due to an increase in the number of retirees, court-ordered benefit increases, and the mandatory disbursement of interest.

Administrative expenses decreased approximately 12% from fiscal year 2017 to 2018. Administrative expenses increased approximately 20% from fiscal year 2016 to 2017 due to non-capitalizable software maintenance costs, and decreased slightly from fiscal year 2015 to 2016. 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 \$2.7 billion of assets invested in 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 \$100 million, \$88 million, and \$92 million for the years ended June 30, 2018, 2017, and 2016, respectively. The System received 36% of the total taxes collected on insurance premiums during fiscal years ended 2018, 2017, and 2016.

### **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 Controller of the System, c/o Oklahoma Firefighters Pension and Retirement System, 6601 Broadway Extension, Suite 100, Oklahoma City, Oklahoma 73116.

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

**STATEMENTS OF FIDUCIARY NET POSITION**

| <i>June 30,</i>                                       | <i>2018</i>             | <i>2017</i>          |
|---|-------------------------|----------------------|
| <b>Assets</b>   |                         |                      |
| Cash and cash equivalents                             | \$ 70,883,218           | 57,633,745           |
| Receivables:  |                         |                      |
| Employees' contributions                              | 925,308                 | 671,174              |
| Employer's contributions                              | 1,457,524               | 1,064,378            |
| Due from the State of Oklahoma Insurance Department   | 18,153,428              | 19,331,062           |
| Accrued interest and dividends                        | 4,094,664               | 3,734,801            |
| Total receivables                                     | 24,630,924              | 24,801,415           |
| Investments, at fair value:                           |                         |                      |
| U.S. government securities                            | 82,716,321              | 35,750,067           |
| Domestic corporate bonds and bond funds               | 145,557,591             | 184,517,076          |
| International corporate and government bonds          | 86,553,887              | 95,569,404           |
| Domestic equities                                     | 1,302,475,738           | 1,188,249,714        |
| International equities                                | 352,895,617             | 310,444,375          |
| Private equity—non-real estate                        | 238,247,629             | 201,512,739          |
| Low volatility hedge funds                            | 1,523,988               | 145,475,221          |
| Long/Short hedge funds                                | 81,835,067              | 77,280,333           |
| Real estate—core and private equity                   | 352,543,734             | 195,925,440          |
| Total investments, at fair value                      | 2,644,349,572           | 2,434,724,369        |
| Securities lending short-term collateral              | 88,146,621              | 76,510,460           |
| Capital assets, net of accumulated depreciation       | 1,008,094               | 1,068,567            |
| Total assets  | 2,829,018,429           | 2,594,738,556        |
| <b>Liabilities</b>                                    |                         |                      |
| Accounts payable and accrued expenses                 | 15,167,118              | 3,951,387            |
| Net payable to brokers for security transactions      | 5,808,769               | 4,805,260            |
| Securities lending collateral                         | 88,146,621              | 76,510,460           |
| Total liabilities                                     | 109,122,508             | 85,267,107           |
| <b>Fiduciary net position restricted for pensions</b> | <b>\$ 2,719,895,921</b> | <b>2,509,471,449</b> |

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

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

**STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION**

| <i>Years Ended June 30,</i>                     | <i>2018</i>             | <i>2017</i>          |
|---|-------------------------|----------------------|
| <b>Additions:</b>                               |                         |                      |
| Contributions:                                  |                         |                      |
| Insurance premium taxes                         | \$ 100,333,324          | 88,133,633           |
| Participating municipalities                    | 41,590,815              | 40,325,760           |
| Plan members/employees                          | 26,086,597              | 25,236,243           |
| Total contributions                             | 168,010,736             | 153,695,636          |
| Investment income:                              |                         |                      |
| From investment activities:                     |                         |                      |
| Net appreciation in fair value of investments   | 280,541,385             | 292,074,202          |
| Interest  | 9,595,048               | 8,703,298            |
| Dividends                                       | 16,568,888              | 15,324,469           |
| Total investment income                         | 306,705,321             | 316,101,969          |
| Less investment expense                         | (17,444,603)            | (14,150,149)         |
| Income from investment activities               | 289,260,718             | 301,951,820          |
| From securities lending activities:             |                         |                      |
| Securities lending income                       | 1,381,278               | 972,788              |
| Securities lending expenses:                    |                         |                      |
| Borrower rebates                                | (174,236)               | (82,370)             |
| Management fees                                 | (301,831)               | (222,681)            |
| Income from securities lending activities       | 905,211                 | 667,737              |
| Net investment income                           | 290,165,929             | 302,619,557          |
| Total additions                                 | 458,176,665             | 456,315,193          |
| <b>Deductions:</b>                              |                         |                      |
| Pension benefit payments                        | 243,647,564             | 198,632,120          |
| Death benefit payments                          | 1,210,000               | 1,130,000            |
| Refunds to terminated participants              | 796,259                 | 452,447              |
| Total benefits and refunds                      | 245,653,823             | 200,214,567          |
| Administrative expenses                         | 2,098,370               | 2,387,774            |
| Total deductions                                | 247,752,193             | 202,602,341          |
| <b>Changes in fiduciary net position</b>        | <b>210,424,472</b>      | <b>253,712,852</b>   |
| Fiduciary net position restricted for pensions: |                         |                      |
| Beginning of year                               | 2,509,471,449           | 2,255,758,597        |
| <b>End of year</b>                              | <b>\$ 2,719,895,921</b> | <b>2,509,471,449</b> |

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

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2018 and 2017**

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**(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, 2018, there were 472 cities, 27 fire protection districts, and 128 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**

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

The Plan's participants at June 30 consisted of:

|   | <u>2018</u>   | <u>2017</u>   |
|---|---------------|---------------|
| Retirees and beneficiaries currently receiving benefits | 11,093        | 11,043        |
| Vested members with deferred benefits                   | 2,079         | 1,506         |
| Deferred Option Plan members                            | 48            | 57            |
|   | <u>13,220</u> | <u>12,606</u> |
| Active plan members:                                    |               |               |
| Vested  | 5,560         | 5,884         |
| Nonvested   | 6,792         | 6,494         |
| Total active plan members                               | <u>12,352</u> | <u>12,378</u> |
|   | <u>25,572</u> | <u>24,984</u> |

**(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 comprises 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**

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**(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**Recent Accounting Pronouncements**

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). GASB 75 addresses employer and governmental non-employer contributing entities' accounting and financial reporting when participating in an other postemployment benefit (OPEB) plan. This statement requires proper recognition of OPEB liabilities by employers and requires a more comprehensive measure of OPEB expense. More robust disclosures will also improve transparency and accountability. GASB 75 is effective for financial statements for the periods beginning after June 15, 2017. The Plan adopted GASB 75 effective July 1, 2017, for the June 30, 2018, reporting year. The adoption had no significant impact on the financial statements.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements* (GASB 81). GASB 81 provides recognition and measurement guidance for situations in which a government is one of the beneficiaries of an irrevocable split-interest agreement. Irrevocable split-interest agreements are a type of giving by a donor to provide resources to two or more beneficiaries, including governments. GASB 81 provides the recognition and reporting requirements applicable when a government is one of the parties to such an agreement. The Plan adopted GASB 81 effective July 1, 2017, for the June 30, 2018, reporting year. The adoption had no significant impact on the financial statements.

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations* (GASB 83). GASB 83 provides accounting and reporting requirements for certain asset retirement obligations (ARO) that arise from legally enforceable liabilities associated with the retirement of certain tangible capital assets. ARO's require an internal and external obligating event and the costs to be reasonably estimable for the incurrence of such a liability. The Plan will adopt GASB 83 effective July 1, 2018, for the June 30, 2019, reporting year. The Plan does not expect GASB 83 to have a significant impact on the financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities* (GASB 84). GASB 84 improves guidance regarding the recognition and reporting of fiduciary activities. GASB 84 identifies four types of reportable fiduciary fund types, including 1) pension (and other employee benefit) trust funds, 2) investment trust funds, 3) private-purpose trust funds, and 4) custodial funds. GASB 84 outlines the accounting and disclosure requirements for operating structures that qualify as a fiduciary activity. The Plan will adopt GASB 84 effective July 1, 2019, for the June 30, 2020, reporting year. The Plan does not expect GASB 84 to have a significant impact on the financial statements.

See Independent Auditors' Report.

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

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**(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**Recent Accounting Pronouncements, Continued**

In March 2017, GASB issued Statement No 85, *Omnibus 2017* (GASB 85). GASB 85 clarified several practice issues identified during the application of earlier GASB pronouncements. GASB 85 addresses topics including the blending of component units, goodwill and negative goodwill, fair value measurement and application, employer accounting and reporting for pensions and OPEB, and reporting by OPEB plans. The Plan adopted GASB 85 on July 1, 2017, for the June 30, 2018, reporting year. The adoption had no significant impact on the financial statements.

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues* (GASB 86). GASB 86 provides guidance regarding the in-substance defeasance of debt. Normally, a government will issue new debt at favorable rates and place the proceeds in trust to eliminate the liability of an existing debt. GASB 86 provides accounting and reporting guidance for situations where a government irrevocably sets aside cash and other assets to defease an existing debt. Guidance also addresses prepaid insurance related to extinguished debt and the financial valuation and disclosure of other assets used to defease debt. The Plan adopted GASB 86 on July 1, 2017, for the June 30, 2018, reporting year. The adoption had no significant impact on the financial statements.

In June 2017, GASB issued Statement No. 87, *Leases* (GASB 87). GASB 87 provides accounting and reporting guidance for leases, effectively considering most leases, other than those for terms of less than one year, as capital leases. GASB 87 guides that lessee's will recognize a lease liability at the outset of the lease, and an intangible right-to-use lease asset. The liability will be amortized as payments are made, and the asset will generally be depreciated over the shorter of the lease term or the service life of the asset. The Plan will adopt GASB 87 on July 1, 2020, for the June 30, 2021, reporting year. The Plan does not expect GASB 87 to have a significant impact on the financial statements.

In March 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Director Borrowings and Direct Placements* (GASB 88). GASB 88 provides certain clarifications regarding debt as a liability and identifies additional required disclosures related to debt, including direct borrowings and direct placements of debt. The Plan will adopt GASB 88 on July 1, 2019, for the June 30, 2020, reporting year. The Plan does not expect GASB 88 to have a significant impact on the financial statements.

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**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**Recent Accounting Pronouncements, Continued**

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* (GASB 89). GASB 89 directs that interest costs incurred during the construction period of an asset be expensed in the period incurred. GASB 89 changes previous guidance regarding capitalized construction costs where such costs were typically included in the capitalized cost of the asset constructed and depreciated over time. The Plan will adopt GASB 89 on July 1, 2020, for the June 30, 2021, reporting year. The Plan does not expect GASB 89 to have a significant impact on the financial statements.

**Reclassifications**

Certain prior year amounts have been reclassified to conform to the current year's financial statement presentation. These reclassifications had no effect on the previously reported changes in fiduciary net position.

**Use of Estimates**

The preparation of the Plan's financial statements in conformity with accounting principles generally accepted in the United States requires the management of the Plan 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, IV, and V, 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, IV, and V, 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.

**Plan Contributions**

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

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**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**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, 2018 and 2017, 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.

**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 62% 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 18% 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 years ended June 30, 2018 and 2017, the Board made no significant investment policy changes.

*Rates of Return*—

*Money-Weighted Rate of Return*—For the years ended June 30, 2018 and 2017, the annual money-weighted rate of return on the Plan's investments as defined by GASB 67, net of pension plan investment expense, was 11.80% and 14.36%, 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, 2018 and 2017, the net return on average assets approximated 11.76% and 14.38%, respectively. The net return on average assets represents actual returns utilized by the System.

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**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**Investments, Continued**

*Method Used to Value Investments*—As a key part of the Plan's activities, it holds investments that are measured and reported at fair value on a recurring basis. Generally accepted accounting principles establish a fair value hierarchy for the determination and measurement of fair value. This hierarchy is based on the type of valuation inputs needed to measure the fair value of an asset. The hierarchy generally is as follows:

Level 1—Unadjusted quoted prices in active markets for identical assets.

Level 2—Quoted prices for similar assets, or inputs that are observable or other forms of market corroborated inputs.

Level 3—Pricing based on best available information, including primarily unobservable inputs and assumptions market participants would use in pricing the asset.

In addition to the above three levels, if an investment does not have a readily determined fair value, the investment can be measured using net asset value (NAV) per share (or its equivalent). Investments valued at NAV are categorized as NAV and not listed as Level 1, 2, or 3.

Short-term investments include an investment fund composed of an investment in units of a commingled trust fund of the Plan's custodial agent (which is valued at amortized cost, which approximates fair value), commercial paper, treasury bills, and U.S. government agency securities. Active manager accounts holding 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 in active markets, and at current exchange rates for securities traded on national or international exchanges. The fair value of the pro rata share of units owned by the Plan in equity index and commingled trust funds is determined by the respective fund trustee or manager based on quoted sales prices of the underlying securities. The fair value of hedge fund and private equity investments are priced by each respective manager using a combination of observable and unobservable inputs. Investments which do not have an established market are reported at estimated fair value based on primarily unobservable inputs.

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**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**Investments, Continued**

*Method Used to Value Investments—Continued*

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. The fair value of the limited partnerships is determined by managers of the partnerships based on the values of the underlying assets.

The Plan authorizes its international investment managers to enter into forward foreign exchange contracts to minimize the short-term impact of foreign currency fluctuations on the asset and liability positions of foreign investments. The gains and losses on these contracts are included in income in the period in which the exchange rates change.

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 4.

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**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

**(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**Investments, Continued**

*Method Used to Value Investments—Continued*

The following tables present the securities exceeding the 5%\* threshold at June 30:

| <u>Type of Security</u> | <u>Name of Security</u>           | <u>Shares Held</u> | <u>2018</u>   |                   |
|-------------------------|-----------------------------------|--------------------|---------------|-------------------|
|                         |                                   |                    | <u>Cost</u>   | <u>Fair Value</u> |
| Alternative investment  | JP Morgan Strategic Property Fund | 46,533             | \$ 74,492,461 | 156,968,276       |
| Domestic equity         | S&P 500 Equal Weight Index Fund   | 2,013,338          | 53,597,273    | 189,602,032       |
| Domestic equity         | S&P 500 Flagship Index Fund       | 286,998            | 81,076,020    | 189,798,980       |

| <u>Type of Security</u> | <u>Name of Security</u>           | <u>Shares Held</u> | <u>2017</u>    |                   |
|-------------------------|-----------------------------------|--------------------|----------------|-------------------|
|                         |                                   |                    | <u>Cost</u>    | <u>Fair Value</u> |
| Alternative investment  | JP Morgan Strategic Property Fund | 46,533             | \$ 108,204,904 | 145,475,221       |
| Domestic equity         | S&P 500 Equal Weight Index Fund   | 2,013,729          | 53,595,711     | 169,221,147       |
| Domestic equity         | S&P 500 Flagship Index Fund       | 295,423            | 83,456,252     | 170,793,955       |

\*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 purchased software costs, furniture, fixtures, and equipment, are stated at cost less accumulated depreciation. Amortization and 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.

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**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**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.

**Administrative Items**

*Operating Lease*—At June 30, 2018, the Plan had an operating lease expiring on October 31, 2018. The lease has been renewed for a 1-year term expiring on October 31, 2019. The present lease requires monthly payments of approximately \$3,700. Total lease expense for the each of the years ended 2018 and 2017 was \$44,000.

*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, 2018 and 2017, approximately \$119,000 and \$150,000, 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>2018</u>       | <u>2017</u>     |
|------------------------------|-------------------|-----------------|
| Balance at beginning of year | \$ 150,000        | 133,000         |
| Additions                    | 54,000            | 66,000          |
| Deductions                   | <u>(85,000)</u>   | <u>(49,000)</u> |
| Balance at end of year       | <u>\$ 119,000</u> | <u>150,000</u>  |

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**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(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 and a defined contribution 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, 5400 N. Grand Boulevard, Suite 400, Oklahoma City, OK 73112.

*Defined Benefit Plan*—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, 2018, 2017, and 2016. During 2018, 2017, and 2016, totals of \$160,624, \$172,644, and \$168,920, respectively, were paid to OPERS. The System has contributed 100% of required contributions to OPERS for 2018, 2017, and 2016. The System's and the employees' portions of those amounts were as follows:

|                  | <u>2018</u>       | <u>2017</u>    | <u>2016</u>    |
|------------------|-------------------|----------------|----------------|
| System portion   | \$ 123,585        | 134,166        | 131,362        |
| Employee portion | <u>37,039</u>     | <u>38,478</u>  | <u>37,558</u>  |
|                  | <u>\$ 160,624</u> | <u>172,644</u> | <u>168,920</u> |

The Plan adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68) as of July 1, 2014, as it applies to its participation in OPERS. The effects upon the financial statements of the Plan as a result of the adoption of GASB 68 are considered immaterial.

The Plan adopted GASB 75 as of July 1, 2017, as it applies to its participation in various other postemployment benefits (OPEB). The effects on the financial statements of the Plan as a result of the adoption of GASB 75 are considered immaterial.

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**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**Administrative Items, Continued**

*Defined Contribution Plan*—Effective November 1, 2015, OPERS established the Pathfinder Defined Contribution Plan (“Pathfinder”), a mandatory defined contribution plan for eligible state employees who first become employed by a participating employer on or after November 1, 2015, and have no prior participation in OPERS. Under Pathfinder, members will choose a contribution rate which will be matched by their employer up to 7%. All state employers with Pathfinder participants contribute 16.5% of salary, with contributions in excess of the matched amount going into the Defined Benefit Plan, as required by statute. During the year ended June 30, 2018, a total of \$2,155 was paid to OPERS, representing 100% of the required contributions. During the year ended June 30, 2017, no contributions were made to Pathfinder by the System or by the employees. The System’s and the employees’ contributions to Pathfinder for 2018 were as follows:

|                  |                 |
|------------------|-----------------|
| System portion   | \$ 1,513        |
| Employee portion | <u>642</u>      |
|                  | <u>\$ 2,155</u> |

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

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

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

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**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**Date of Management's Review of Subsequent Events**

Management has evaluated subsequent events through October 12, 2018, the date which the financial statements were available to be issued, and determined that no subsequent events have occurred that require adjustment to or disclosure in the financial statements.

**(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 49–143.6, 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. Prior to November 1, 2013, the State of Oklahoma, a non-employer contributing entity, allocated 34% of insurance premium tax collected from various types of insurance policies to the Plan. For the period beginning November 1, 2013, 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 year ended June 30, 2018 or 2017.

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**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(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 Oklahoma 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 participants 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**

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**(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, 2018 and 2017, total death benefits of \$1,210,000 and \$1,130,000, 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**

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**(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, 2018, there were 1,221 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**

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**(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, 2018, there were 1,391 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>2018</u>          | <u>2017</u>       |
|--|----------------------|-------------------|
| Cash on deposit with the State of Oklahoma | \$ 63,512            | 162,702           |
| Cash on deposit with custodial agents:     |                      |                   |
| U.S. currency deposits                     | 2,086,491            | 1,457,833         |
| Foreign currency deposits                  | 727,629              | 342,484           |
|  | <u>2,814,120</u>     | <u>1,800,317</u>  |
| Cash equivalents:                          |                      |                   |
| Short-term investments                     | <u>68,005,586</u>    | <u>55,670,726</u> |
| Total cash and cash equivalents            | <u>\$ 70,883,218</u> | <u>57,633,745</u> |

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**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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

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

**Custodial Credit Risk**

Custodial credit risk is the risk that in the event of the failure of a counterparty, the Plan will not be able to recover the value of its investments. Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. Investment securities are exposed to custodial credit risk if they are uninsured, are not registered in the name of the Plan, or are held by a counterparty or the counterparty's trust department but not in the name of the Plan. While the investment policy does not specifically address custodial credit risk of deposits, it does limit the amount of cash and short-term investments of each manager's portfolio. At June 30, 2018 and 2017, the carrying amounts of the Plan's cash and cash equivalents were \$70,883,218 and \$57,633,745, respectively, and the bank balances were \$80,950,718 and \$57,699,691, 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 \$728,000 and \$342,000 of as of June 30, 2018 and 2017, 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 Plan's exposure to foreign currency risk at June 30 was as follows:

|                    | 2018               |                    |                   |                    |                   |
|--------------------|--------------------|--------------------|-------------------|--------------------|-------------------|
|                    | Cash and Cash      |                    | Debt              |                    |                   |
|                    | <u>Equivalents</u> | <u>Equities</u>    | <u>Securities</u> | <u>Total</u>       | <u>Percentage</u> |
| Australian dollar  | \$ -               | 5,990,845          | 12,067,920        | 18,058,765         | 4.103%            |
| Bermudian dollar   | -                  | 3,626,118          | -                 | 3,626,118          | 0.824%            |
| Brazil real        | 72,295             | 1,886,344          | 6,286,647         | 8,245,286          | 1.873%            |
| Bulgarian lev      | 1,717              | -                  | -                 | 1,717              | 0.000%            |
| Canadian dollar    | -                  | 22,490,316         | -                 | 22,490,316         | 5.109%            |
| Chinese yuan       | -                  | 23,936,063         | -                 | 23,936,063         | 5.438%            |
| Danish krone       | -                  | 13,036,111         | -                 | 13,036,111         | 2.962%            |
| Euro currency      | 49,849             | 72,651,071         | 1,545,844         | 74,246,764         | 16.867%           |
| Hong Kong dollar   | -                  | 4,707,727          | -                 | 4,707,727          | 1.070%            |
| Indian rupee       | -                  | 11,613,112         | -                 | 11,613,112         | 2.638%            |
| Indonesian rupiah  | -                  | 1,527,302          | 5,691,495         | 7,218,797          | 1.640%            |
| Israeli new shekel | -                  | 5,746,118          | -                 | 5,746,118          | 1.305%            |
| Japanese yen       | 63,244             | 25,464,889         | -                 | 25,528,133         | 5.800%            |
| Malaysian ringgit  | -                  | -                  | 10,177,105        | 10,177,105         | 2.312%            |
| Mexican peso       | -                  | 3,390,404          | 20,761,431        | 24,151,835         | 5.487%            |
| New Taiwan dollar  | 29,241             | 7,416,013          | -                 | 7,445,254          | 1.691%            |
| Norwegian krone    | -                  | -                  | 2,279,505         | 2,279,505          | 0.518%            |
| Polish zloty       | -                  | -                  | 8,994,362         | 8,994,362          | 2.043%            |
| Pound sterling     | -                  | 17,402,344         | 9,113,373         | 26,515,717         | 6.024%            |
| Puerto Rico        | -                  | 531,172            | -                 | 531,172            | 0.121%            |
| Singapore dollar   | 248,928            | 6,205,760          | -                 | 6,454,688          | 1.466%            |
| South African rand | -                  | 6,248,273          | 7,670,075         | 13,918,348         | 3.162%            |
| South Korean won   | 34,740             | 4,881,918          | -                 | 4,916,658          | 1.117%            |
| Swedish krona      | 82,021             | 5,334,703          | -                 | 5,416,724          | 1.231%            |
| Swiss franc        | 145,594            | 29,999,458         | -                 | 30,145,052         | 6.848%            |
| Turkish lira       | -                  | -                  | 855,191           | 855,191            | 0.194%            |
| Venezuelan bolivar | -                  | -                  | 1,110,939         | 1,110,939          | 0.252%            |
| Commingled funds:  |                    |                    |                   |                    |                   |
| Clarivest EM       |                    |                    |                   |                    |                   |
| Equity Fund        | -                  | 55,403,605         | -                 | 55,403,605         | 12.588%           |
| Wasatch EM         |                    |                    |                   |                    |                   |
| Small Cap Fund     | -                  | 23,405,951         | -                 | 23,405,951         | 5.317%            |
|                    | <u>\$ 727,629</u>  | <u>352,895,617</u> | <u>86,553,887</u> | <u>440,177,133</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**

|                    | 2017                         |                    |                    |                    |                 |
|--------------------|------------------------------|--------------------|--------------------|--------------------|-----------------|
|                    | Cash and Cash<br>Equivalents | Equities           | Debt<br>Securities | Total              | Percentage      |
| Australian dollar  | \$ -                         | 5,598,718          | 11,181,764         | 16,780,482         | 4.130%          |
| Bermudian dollar   | -                            | 2,919,237          | -                  | 2,919,237          | 0.718%          |
| Brazil real        | 58,227                       | 6,334,628          | 7,770,933          | 14,163,788         | 3.486%          |
| Bulgarian lev      | 1,664                        | -                  | -                  | 1,664              | 0.000%          |
| Canadian dollar    | -                            | 10,564,535         | -                  | 10,564,535         | 2.600%          |
| Chinese yuan       | -                            | 23,741,693         | -                  | 23,741,693         | 5.843%          |
| Danish krone       | -                            | 17,155,324         | -                  | 17,155,324         | 4.222%          |
| Euro currency      | 64,835                       | 59,201,697         | 7,505,944          | 66,772,476         | 16.430%         |
| Hong Kong dollar   | -                            | 7,236,937          | -                  | 7,236,937          | 1.781%          |
| Indian rupee       | -                            | 8,621,945          | -                  | 8,621,945          | 2.122%          |
| Indonesian rupiah  | -                            | -                  | 6,850,942          | 6,850,942          | 1.686%          |
| Israeli new shekel | -                            | 3,541,119          | -                  | 3,541,119          | 0.871%          |
| Japanese yen       | 24,768                       | 20,559,922         | -                  | 20,584,690         | 5.066%          |
| Malaysian ringgit  | -                            | -                  | 8,109,194          | 8,109,194          | 1.996%          |
| Mexican peso       | -                            | 2,962,513          | 20,917,640         | 23,880,153         | 5.877%          |
| New Taiwan dollar  | 29,074                       | 7,602,262          | -                  | 7,631,336          | 1.878%          |
| Norwegian krone    | -                            | -                  | 2,284,015          | 2,284,015          | 0.562%          |
| Polish zloty       | -                            | -                  | 9,080,791          | 9,080,791          | 2.235%          |
| Pound sterling     | 10                           | 22,500,460         | 9,049,787          | 31,550,257         | 7.764%          |
| Russian ruble      | -                            | 2,802,039          | -                  | 2,802,039          | 0.690%          |
| South African rand | -                            | 2,552,672          | 7,117,468          | 9,670,140          | 2.380%          |
| South Korean won   | 19,866                       | 4,000,105          | 2,339,883          | 6,359,854          | 1.565%          |
| Swedish krona      | -                            | 2,393,621          | -                  | 2,393,621          | 0.589%          |
| Swiss franc        | 144,040                      | 26,209,178         | -                  | 26,353,218         | 6.485%          |
| Turkish lira       | -                            | -                  | 432,366            | 432,366            | 0.106%          |
| Venezuelan bolivar | -                            | -                  | 2,928,677          | 2,928,677          | 0.721%          |
| Commingled funds:  |                              |                    |                    |                    |                 |
| Clarivest EM       |                              |                    |                    |                    |                 |
| Equity Fund        | -                            | 52,329,686         | -                  | 52,329,686         | 12.878%         |
| Wasatch EM         |                              |                    |                    |                    |                 |
| Small Cap Fund     | -                            | 21,616,084         | -                  | 21,616,084         | 5.319%          |
|                    | <u>\$ 342,484</u>            | <u>310,444,375</u> | <u>95,569,404</u>  | <u>406,356,263</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<br/>(Unless Noted)</u> | <u>2018</u>                  |   |
|--|---|------------------------------|---|
|  |   | <u>Fair Value</u>            | <u>Fair Value as a<br/>Percent of Total<br/>Fixed Maturity<br/>Fair Value</u> |
| U.S. Treasury securities                             | Aaa                                       | <u>\$ 82,716,321</u>         | <u>100.00%</u>  |
| <b>Total U.S. government securities</b>              |   | <b><u>\$ 82,716,321</u></b>  | <b><u>100.00%</u></b>   |
| Domestic corporate bonds and bond funds              | Aaa                                       | \$ 14,566,564                | 10.01%  |
|  | Aa1                                       | 5,006,813                    | 3.44%   |
|  | Aa2                                       | 3,586,886                    | 2.46%   |
|  | Aa3                                       | 4,870,960                    | 3.35%   |
|  | A1  | 27,364,813                   | 18.80%  |
|  | A2  | 15,113,048                   | 10.38%  |
|  | A3  | 28,085,776                   | 19.30%  |
|  | Baa1                                      | 4,968,580                    | 3.41%   |
|  | Baa2                                      | 13,341,477                   | 9.17%   |
|  | Baa3                                      | 4,216,802                    | 2.90%   |
|  | B1  | 320,528                      | 0.22%   |
|  | Not Rated*                                | <u>24,115,344</u>            | <u>16.56%</u>   |
| <b>Total domestic corporate bonds and bond funds</b> |   | <b><u>\$ 145,557,591</u></b> | <b><u>100.00%</u></b>   |

\*Commingled funds. Management believes the underlying investments of the commingled funds meet the requirements of the investment policy.

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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<br/>(Unless Noted)</u> | <u>2018</u>                 |   |
|---|---|-----------------------------|---|
|   |   | <u>Fair Value</u>           | <u>Fair Value as a<br/>Percent of Total<br/>Fixed Maturity<br/>Fair Value</u> |
| International corporate and<br>government bonds               | Aaa                                       | \$ 7,297,962                | 8.43%   |
|   | Aa1                                       | 1,786,837                   | 2.06%   |
|   | Aa2                                       | 1,847,566                   | 2.13%   |
|   | Aa3                                       | 2,895,282                   | 3.35%   |
|   | A2  | 10,691,336                  | 12.35%  |
|   | A3  | 30,938,536                  | 35.74%  |
|   | Baa2                                      | 5,691,495                   | 6.58%   |
|   | Ba2                                       | 6,286,647                   | 7.26%   |
|   | Ba3                                       | 7,670,075                   | 8.86%   |
|   | B1  | 722,745                     | 0.84%   |
|   | B2  | 479,811                     | 0.55%   |
|   | BB+ (S&P 500)                             | 277,032                     | 0.32%   |
|   | Not Rated*                                | <u>9,968,563</u>            | <u>11.53%</u>   |
| <b>Total international corporate<br/>and government bonds</b> |   | <b><u>\$ 86,553,887</u></b> | <b><u>100.00%</u></b>   |

\*Commingled funds. Management believes the underlying investments of the commingled funds meet the requirements of the investment policy.

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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<br/>Ratings<br/>(Unless Noted)</u> | 2017                  |  |
|--|---|-----------------------|--|
|  |   | <u>Fair Value</u>     | Fair Value as a<br>Percent of Total<br>Fixed Maturity<br><u>Fair Value</u> |
| U.S. Treasury securities                                 | Aaa   | \$ 35,750,067         | 100.00%  |
| <b>Total U.S. government securities</b>                  |   | <b>\$ 35,750,067</b>  | <b>100.00%</b>   |
| Domestic corporate<br>bonds and bond funds               | Aaa   | \$ 35,658,952         | 19.33%   |
|  | Aa1   | 4,520,970             | 2.45%  |
|  | Aa2   | 792,670               | 0.43%  |
|  | Aa3   | 882,710               | 0.48%  |
|  | A1  | 5,526,085             | 2.99%  |
|  | A2  | 10,489,494            | 5.68%  |
|  | A3  | 20,444,281            | 11.08%   |
|  | Baa1  | 4,921,460             | 2.67%  |
|  | Baa2  | 8,332,527             | 4.52%  |
|  | Baa3  | 4,130,390             | 2.24%  |
|  | Ba1   | 368,683               | 0.20%  |
|  | Ba2   | 86,063                | 0.05%  |
|  | Caa2  | 126,826               | 0.07%  |
|  | Not Rated*                                    | 88,235,965            | 47.81%   |
| <b>Total domestic corporate<br/>bonds and bond funds</b> |   | <b>\$ 184,517,076</b> | <b>100.00%</b>   |

\*Commingled funds. Management believes the underlying investments of the commingled funds meet the requirements of the investment policy.

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**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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

**Credit Risk, Continued**

| <u>Investment Type</u>  | 2017                                 |                             | Fair Value as a<br>Percent of Total<br>Fixed Maturity<br>Fair Value |
|---|--------------------------------------|-----------------------------|---|
|   | Moody's<br>Ratings<br>(Unless Noted) | Fair Value                  |   |
| International corporate and<br>government bonds               | Aaa                                  | \$ 6,030,089                | 6.31%   |
|   | Aa1                                  | 13,565,437                  | 14.19%  |
|   | Aa2                                  | 2,339,883                   | 2.45%   |
|   | Aa3                                  | 5,515,305                   | 5.77%   |
|   | A2                                   | 10,217,698                  | 10.69%  |
|   | A3                                   | 29,026,834                  | 30.37%  |
|   | Baa3                                 | 14,044,571                  | 14.70%  |
|   | Ba1                                  | 4,546,839                   | 4.76%   |
|   | Ba2                                  | 7,770,933                   | 8.13%   |
|   | B1                                   | 743,224                     | 0.78%   |
|   | B+ (S&P 500)                         | 280,710                     | 0.29%   |
|   | B2                                   | 487,833                     | 0.51%   |
|   | Not Rated*                           | 1,000,048                   | 1.05%   |
| <b>Total international corporate<br/>and government bonds</b> |                                      | <b><u>\$ 95,569,404</u></b> | <b><u>100.00%</u></b>   |

\*Commingled funds. Management believes the underlying investments of the commingled funds meet the requirements of the investment policy.

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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:

|  | 2018   |                        |                         |                   |                              |                    |
|--|--|------------------------|-------------------------|-------------------|------------------------------|--------------------|
|  | Investment Maturities at Fair Value (in Years) |                        |                         |                   |                              |                    |
| Investment Type                                      | Less Than 1                                    | 1 or More, Less Than 5 | 5 or More, Less Than 10 | 10 or More        | Investments with No Duration | Total Fair Value   |
| <b>U.S. government securities:</b>                   |  |                        |                         |                   |                              |                    |
| U.S. Treasury  | \$ 10,022,174                                  | 34,245,896             | 14,698,792              | 23,749,459        | -                            | 82,716,321         |
| <b>Total U.S. government securities</b>              | <u>10,022,174</u>                              | <u>34,245,896</u>      | <u>14,698,792</u>       | <u>23,749,459</u> | <u>-</u>                     | <u>82,716,321</u>  |
| <b>Domestic corporate bonds and bond funds:</b>      |  |                        |                         |                   |                              |                    |
| Corporate bonds                                      | 1,380,254                                      | 79,429,820             | 19,685,394              | 5,879,857         | -                            | 106,375,325        |
| U.S. government mortgages                            | <u>4,979,975</u>                               | <u>9,586,589</u>       | <u>3,410,329</u>        | <u>21,205,373</u> | <u>-</u>                     | <u>39,182,266</u>  |
| <b>Total domestic corporate bonds and bond funds</b> | <u>6,360,229</u>                               | <u>89,016,409</u>      | <u>23,095,723</u>       | <u>27,085,230</u> | <u>-</u>                     | <u>145,557,591</u> |

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**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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

**Interest Rate Risk, Continued**

|  | 2018   |                        |                         |            |                              |                  |
|--|--|------------------------|-------------------------|------------|------------------------------|------------------|
|  | Investment Maturities at Fair Value (in Years) |                        |                         |            |                              |                  |
| Investment Type                                    | Less Than 1                                    | 1 or More, Less Than 5 | 5 or More, Less Than 10 | 10 or More | Investments with No Duration | Total Fair Value |
| International corporate and government bonds:      |  |                        |                         |            |                              |                  |
| International government agencies                  | 3,766,915                                      | 19,222,291             | 3,135,040               | 5,188,943  | -                            | 31,313,189       |
| International government treasuries                | 11,747,945                                     | 1,847,566              | 7,141,838               | 28,431,506 | -                            | 49,168,855       |
| International corporate bonds                      | 2,741,656                                      | 1,784,343              | -                       | -          | -                            | 4,525,999        |
| International mortgage-backed securities           | -  | -                      | -                       | 1,545,844  | -                            | 1,545,844        |
| Total international corporate and government bonds | 18,256,516                                     | 22,854,200             | 10,276,878              | 35,166,293 | -                            | 86,553,887       |
|  | \$ 34,638,919                                  | 146,116,505            | 48,071,393              | 86,000,982 | -                            | 314,827,799      |

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**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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

**Interest Rate Risk, Continued**

|  | 2017   |                              |                               |               |                                 |                  |
|--|--|------------------------------|-------------------------------|---------------|---------------------------------|------------------|
|  | Investment Maturities at Fair Value (in Years) |                              |                               |               |                                 |                  |
| Investment Type                                  | Less<br>Than 1                                 | 1 or More,<br>Less<br>Than 5 | 5 or More,<br>Less<br>Than 10 | 10 or<br>More | Investments with<br>No Duration | Total Fair Value |
| U.S. government securities:                      |  |                              |                               |               |                                 |                  |
| U.S. Treasury                                    | \$ -   | 11,750,162                   | -                             | 23,999,905    | -                               | 35,750,067       |
| Total U.S. government securities                 | -  | 11,750,162                   | -                             | 23,999,905    | -                               | 35,750,067       |
| Domestic corporate<br>bonds and bond funds:      |  |                              |                               |               |                                 |                  |
| Commercial mortgage-backed securities            | -  | -                            | -                             | 126,826       | -                               | 126,826          |
| Corporate bonds                                  | 3,651,592                                      | 29,202,474                   | 16,396,700                    | 11,244,567    | -                               | 60,495,333       |
| U.S. government mortgages                        | 6,887,782                                      | 10,039,598                   | 5,432,999                     | 13,298,573    | -                               | 35,658,952       |
| U.S. fixed-income funds                          | -  | -                            | -                             | -             | 88,235,965                      | 88,235,965       |
| Total domestic corporate<br>bonds and bond funds | 10,539,374                                     | 39,242,072                   | 21,829,699                    | 24,669,966    | 88,235,965                      | 184,517,076      |

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**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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

**Interest Rate Risk, Continued**

|  | 2017   |                        |                         |            |                              |                  |
|--|--|------------------------|-------------------------|------------|------------------------------|------------------|
|  | Investment Maturities at Fair Value (in Years) |                        |                         |            |                              |                  |
| Investment Type                                    | Less Than 1                                    | 1 or More, Less Than 5 | 5 or More, Less Than 10 | 10 or More | Investments with No Duration | Total Fair Value |
| International corporate and government bonds:      |  |                        |                         |            |                              |                  |
| International government agencies                  | -  | 6,635,044              | 12,969,399              | 6,720,499  | -                            | 26,324,942       |
| International government treasuries                | -  | 10,235,549             | 21,011,862              | 26,849,346 | -                            | 58,096,757       |
| International corporate bonds                      | 6,085,826                                      | 2,906,269              | -                       | -          | -                            | 8,992,095        |
| International mortgage-backed securities           | -  | -                      | -                       | 2,155,610  | -                            | 2,155,610        |
| Total international corporate and government bonds | 6,085,826                                      | 19,776,862             | 33,981,261              | 35,725,455 | -                            | 95,569,404       |
|  | \$ 16,625,200                                  | 70,769,096             | 55,810,960              | 84,395,326 | 88,235,965                   | 315,836,547      |

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**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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

**Investments Measured at Fair Value**

|   | 2018                                 |   |   |  |
|---|--------------------------------------|---|---|--|
|   | Amounts<br>Measured at<br>Fair Value | Quoted Prices<br>in Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| <b><u>Investments by Fair Value Level</u></b>                     |                                      |   |   |  |
| <b>Cash equivalents:</b>  |                                      |   |   |  |
| State Street—Government STIF                                      | \$ 68,005,586                        | 68,005,586  | -   | -  |
| Total cash equivalents  | <u>\$ 68,005,586</u>                 | <u>68,005,586</u>   | <u>-</u>  | <u>-</u>   |
| <b>Debt securities:</b>   |                                      |   |   |  |
| U.S. Treasury   | \$ 82,716,321                        | 82,716,321  | -   | -  |
| Domestic corporate bonds and bond funds:                          |                                      |   |   |  |
| Corporate bonds   | 106,375,325                          | -   | 106,375,325   | -  |
| U.S. government mortgage-backed securities                        | 39,182,266                           | -   | 39,182,266  | -  |
| International corporate and government bonds:                     |                                      |   |   |  |
| International government agencies                                 | 31,313,188                           | -   | 31,313,188  | -  |
| International government treasuries                               | 49,168,856                           | -   | 49,168,856  | -  |
| International corporate bonds                                     | 4,525,999                            | -   | 4,525,999   | -  |
| International mortgage-backed securities                          | <u>1,545,844</u>                     | <u>-</u>  | <u>1,545,844</u>  | <u>-</u>   |
| Total debt securities   | <u>314,827,799</u>                   | <u>82,716,321</u>   | <u>232,111,478</u>  | <u>-</u>   |
| <b>Equity securities—domestic:</b>                                |                                      |   |   |  |
| Domestic equity—common stock and<br>real estate investment trusts | 841,652,163                          | 841,652,163   | -   | -  |
| Russell Small Cap Complete Index Fund                             | 81,422,563                           | -   | 81,422,563  | -  |
| S&P 500 Equal Weight Index Fund                                   | 189,602,032                          | -   | 189,602,032   | -  |
| S&P 500 Flagship Index Fund                                       | <u>189,798,980</u>                   | <u>-</u>  | <u>189,798,980</u>  | <u>-</u>   |
| Total domestic equities   | <u>1,302,475,738</u>                 | <u>841,652,163</u>  | <u>460,823,575</u>  | <u>-</u>   |

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**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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

**Investments Measured at Fair Value, Continued**

|   | 2018                                 |   |   |  |
|---|--------------------------------------|---|---|--|
|   | Amounts<br>Measured at<br>Fair Value | Quoted Prices<br>in Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| <b><u>Investments by Fair Value Level, Continued</u></b>            |                                      |   |   |  |
| <b>Equity securities—international:</b>                             |                                      |   |   |  |
| Intl. Equities—common stock   | 274,086,061                          | 274,086,061   | -   | -  |
| Intl. Emerging Markets—Wasatch EM<br>Small Cap Fund                 | 55,403,605                           | -   | 55,403,605  | -  |
| Intl. Emerging Markets—Clarivest EM<br>Equity Fund                  | 23,405,951                           | -   | 23,405,951  | -  |
| Total international equities  | 352,895,617                          | 274,086,061   | 78,809,556  | -  |
| <b>Private equity:</b>  |                                      |   |   |  |
| Private equity—non-real estate focused                              | 238,247,629                          | -   | -   | 238,247,629  |
| Private equity—real estate focused                                  | 112,650,577                          | -   | -   | 112,650,577  |
| Total private equity  | 350,898,206                          | -   | -   | 350,898,206  |
| <b>Long/Short hedge fund:</b>                                       |                                      |   |   |  |
| Long/Short hedge—OFP Permal Fund                                    | 81,835,067                           | -   | -   | 81,835,067   |
| Total long/short hedge fund   | 81,835,067                           | -   | -   | 81,835,067   |
| <b>Investments measured at net asset value (NAV):</b>               |                                      |   |   |  |
| Low Volatility Hedge Fund—<br>Private Advisors Stable Value Fund    | 1,523,988                            |   |   |  |
| Private Equity—Real Estate Focused—<br>AG Net Lease Realty Fund III | 18,607,749                           |   |   |  |
| Core Real Estate—JP Morgan<br>Strategic Property Fund               | 156,968,276                          |   |   |  |
| Core Real Estate—JP Morgan<br>Special Situation Property Fund       | 64,317,132                           |   |   |  |
| Total investments measured at NAV                                   | 241,417,145                          |   |   |  |
| Total investments measured at fair value                            | \$ 2,644,349,572                     | 1,198,454,545   | 771,744,609   | 432,733,273  |

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**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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

**Investments Measured at Fair Value, Continued**

|   | 2017                                 |   |   |  |
|---|--------------------------------------|---|---|--|
|   | Amounts<br>Measured at<br>Fair Value | Quoted Prices<br>in Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| <u>Investments by Fair Value Level</u>                            |                                      |   |   |  |
| <b>Cash equivalents:</b>  |                                      |   |   |  |
| State Street—Government STIF                                      | \$ 55,670,726                        | -   | 55,670,726  | -  |
| Total cash equivalents  | <u>\$ 55,670,726</u>                 | <u>-</u>  | <u>55,670,726</u>   | <u>-</u>   |
| <b>Debt securities:</b>   |                                      |   |   |  |
| U.S. Treasury   | \$ 35,750,067                        | 35,750,067  | -   | -  |
| Domestic corporate bonds and bond funds:                          |                                      |   |   |  |
| Residential mortgage-backed securities                            | 126,826                              | -   | 126,826   | -  |
| Corporate bonds   | 60,495,333                           | -   | 60,495,333  | -  |
| U.S. government mortgage-backed securities                        | 35,658,952                           | -   | 35,658,952  | -  |
| Mortgage-backed index funds                                       | 15,582,901                           | -   | 15,582,901  | -  |
| Intermediate Bond Market Index Fund                               | 16,955,227                           | -   | 16,955,227  | -  |
| State Street Passive Bond Market Index Fund                       | 44,545,792                           | -   | 44,545,792  | -  |
| Intermediate Credit Index Fund                                    | 11,152,045                           | -   | 11,152,045  | -  |
| International corporate and government bonds:                     |                                      |   |   |  |
| International government agencies                                 | 26,324,942                           | -   | 26,324,942  | -  |
| International government treasuries                               | 58,096,757                           | -   | 58,096,757  | -  |
| International corporate bonds                                     | 8,992,095                            | -   | 8,992,095   | -  |
| International mortgage-backed securities                          | 2,155,610                            | -   | 2,155,610   | -  |
| Total debt securities   | <u>315,836,547</u>                   | <u>35,750,067</u>   | <u>280,086,480</u>  | <u>-</u>   |
| <b>Equity securities—domestic:</b>                                |                                      |   |   |  |
| Domestic equity—common stock and<br>real estate investment trusts | 778,474,668                          | 778,474,668   | -   | -  |
| Russell Small Cap Complete Index Fund                             | 69,759,944                           | -   | 69,759,944  | -  |
| S&P 500 Equal Weight Index Fund                                   | 169,221,147                          | -   | 169,221,147   | -  |
| S&P 500 Flagship Index Fund                                       | 170,793,955                          | -   | 170,793,955   | -  |
| Total domestic equities   | <u>1,188,249,714</u>                 | <u>778,474,668</u>  | <u>409,775,046</u>  | <u>-</u>   |

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**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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

**Investments Measured at Fair Value, Continued**

|   | 2017  |  |  |   |
|---|---|--|--|---|
|   | Amounts<br>Measured at<br><u>Fair Value</u> | Quoted Prices<br>in Active<br>Markets for<br>Identical<br>Assets<br><u>(Level 1)</u> | Significant<br>Other<br>Observable<br>Inputs<br><u>(Level 2)</u> | Significant<br>Unobservable<br>Inputs<br><u>(Level 3)</u> |
| <b><u>Investments by Fair Value Level, Continued</u></b>            |   |  |  |   |
| <b>Equity securities—international:</b>                             |   |  |  |   |
| Intl. Equities—common stock   | 236,498,605                                 | 236,498,605  | -  | -   |
| Intl. Emerging Markets—Wasatch EM<br>Small Cap Fund                 | 52,329,686                                  | -  | 52,329,686   | -   |
| Intl. Emerging Markets—Clarivest EM<br>Equity Fund                  | 21,616,084                                  | -  | 21,616,084   | -   |
| Total international equities  | <u>310,444,375</u>                          | <u>236,498,605</u>   | <u>73,945,770</u>  | <u>-</u>  |
| <b>Private equity:</b>  |   |  |  |   |
| Private equity—non-real estate focused                              | 201,512,739                                 | -  | -  | 201,512,739   |
| Private equity—real estate focused                                  | 108,044,153                                 | -  | -  | 108,044,153   |
| Total private equity  | <u>309,556,892</u>                          | <u>-</u>   | <u>-</u>   | <u>309,556,892</u>  |
| <b>Long/Short hedge fund:</b>                                       |   |  |  |   |
| Long/Short hedge—OFP Permal Fund                                    | 77,280,333                                  | -  | -  | 77,280,333  |
| Total long/short hedge fund   | <u>77,280,333</u>                           | <u>-</u>   | <u>-</u>   | <u>77,280,333</u>   |
| <b>Investments measured at net asset value (NAV):</b>               |   |  |  |   |
| Low Volatility Hedge Fund—<br>Private Advisors Stable Value Fund    | 145,475,221                                 |  |  |   |
| Private Equity—Real Estate Focused—<br>AG Net Lease Realty Fund III | 57,736,593                                  |  |  |   |
| Core Real Estate—JP Morgan<br>Strategic Property Fund               | 18,621,682                                  |  |  |   |
| Core Real Estate—JP Morgan<br>Special Situation Property Fund       | 11,523,012                                  |  |  |   |
| Total investments measured at NAV                                   | <u>233,356,508</u>                          |  |  |   |
| Total investments measured at fair value                            | <u>\$ 2,434,724,369</u>                     | <u>1,050,723,340</u>   | <u>763,807,296</u>   | <u>386,837,225</u>  |

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**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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

**Investments Measured at Fair Value, Continued**

*Fair Value of Cash and Cash Equivalents*—Short-term investments include cash equivalents held in State Street Global Advisors U.S. Government Short-Term Investment Fund (STIF). The funds are actively managed and comprised primarily of very short-term securities issued by the U.S. government or its agencies or instrumentalities, and in repurchase agreements with respect to such securities. The STIF funds are valued at amortized cost, which also approximates fair value. For determining fair value, the instruments held are valued using actual quoted prices or by using matrix pricing, a method of pricing securities based on their relationship to benchmark quoted market prices. Both of these investments are classified in Level 2 of the fair valued hierarchy based on the development of an aggregate daily value of the individual instruments in each fund that are typically classified in either Level 1 or Level 2 of the fair value hierarchy.

*Fair Value of Debt Securities*—The Plan holds a diversified mix of debt instruments through various domestic and international bond managers. Generally, the Plan holds a mix of U.S. Treasuries and U.S. government mortgage-backed securities, residential mortgage-backed securities, domestic corporate bonds, and various fixed-income focused bond funds. U.S. Treasury securities are classified in Level 1 of the fair value hierarchy, using quoted prices in active markets. The remaining debt securities, other than the bond funds, are classified in Level 2 of the fair value hierarchy, valued using a matrix pricing technique. This method values securities based on their relationship to benchmark quoted prices. The fixed-income focused bond funds are generally commingled funds, and are classified in Level 2 of the fair value hierarchy based the development of a total value through the aggregation of Level 1 and Level 2 quoted prices for instruments held by the funds.

The Plan also holds investments that focus primarily on international fixed income and debt type securities. Generally, the Plan holds an international mix of government treasuries and agencies, international corporate bonds and international mortgage-backed securities.

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**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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

**Investments Measured at Fair Value, Continued**

*Fair Value of Equity Securities*—The Plan holds equity securities through a number of managers, both actively and passively managed. They are as follows:

**DOMESTIC**

*Domestic Equity—Common Stock and Real Estate Investment Trusts*—The Plan uses various fund managers to invest in a diversified mix of domestic common stock and real estate investment trusts. The Plan seeks to achieve the highest possible return from each of the managers using the Russell 3000 as the fund level benchmark. Investment assets in this category are classified in Level 1 of the fair value hierarchy since all securities are priced at quoted market prices in active markets for identical securities.

*Russell Small Cap Complete Index Fund*—The Plan participates in a passively managed commingled equity fund that focuses primarily on U.S. equity securities comprising the Russell 2000 index. Generally, the securities are invested at the same or similar proportions as that of the index. This fund is classified in Level 2 of the fair value hierarchy, as the price of the fund is derived from securities that are all priced at quoted market prices in active markets. This fund prices and provides liquidity to its investors on a monthly basis.

*S&P 500 Equal Weight Index Fund*—The Plan participates in an equal-weight version of the S&P 500 index. This fund includes all of the constituents as the capitalization weighted S&P 500, except each company on the index is allocated a fixed weight. The fund is rebalanced quarterly. This fund is classified in Level 2 of the fair value hierarchy, as the price of the fund is derived from securities that are all priced at quoted market prices in active markets. This fund prices and provides liquidity to its investors on a monthly basis.

*S&P 500 Flagship Index Fund*—The Plan invests in this fund with a full S&P 500 index replication strategy. The strategy mandates that the holdings, sector weights, and industry weights match, as closely as possible, those of the S&P 500 index. This fund is classified in Level 2 of the fair value hierarchy, as the price of the fund is derived from securities that are all priced at quoted market prices in active markets. This fund prices and provides liquidity to its investors on a monthly basis.

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**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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

**Investments Measured at Fair Value, Continued**

*Fair Value of Equity Securities—Continued*

INTERNATIONAL

*International Equities—Common Stock*—The Plan uses various fund managers to invest in a diversified mix of international common stock. The Plan seeks to achieve the highest possible return from each of the managers using the MSCI-ACW Index excluding the United States as the fund level benchmark. This benchmark captures large and mid-cap representation across 22 of the 23 developed markets. This benchmark representation includes 85% of the global equity opportunities outside of the United States. Investment assets in this category are classified in Level 1 of the fair value hierarchy since all securities are priced at quoted market prices in active markets for identical securities.

*Wasatch Emerging Markets Small Capitalization Fund*—The Plan invests in a Wasatch fund that is focused on small-capitalization equity securities that are located in non-U.S. emerging markets. The Wasatch Fund is a commingled investment trust that is managed for institutional investors. The fund is classified in Level 2 of the fair value hierarchy, as the holdings of the fund are all priced at quoted market prices in active markets, allowing the fund sponsor to develop daily net asset value pricing and liquidity.

*Clarivest Emerging Markets Equity Fund*—The Plan invests in a fund that is focused on investing in securities from any emerging or frontier company, industry, sector, and economy. The Clarivest Fund is a collective investment fund that is managed for institutional investors. The fund is classified in Level 2 of the fair value hierarchy, as the holdings of the fund are all priced at quoted market prices in active markets, allowing the fund sponsor to develop daily net asset value pricing and liquidity.

*Fair Value of Private Equity and Long/Short Hedge*—The Plan participates in a number of private equity partnerships (including the Plan's long/short hedge fund) as a limited partner. Private equity investments are structured to be operated by a general partner, usually highly experienced in the specific focus of the fund, who calls for investments from the limited partners when a suitable investment opportunity arises. As such, investments in private equity can generally never be redeemed, but instead participate in distributions from the fund as liquidation of the underlying assets are realized.

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**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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

**Investments Measured at Fair Value, Continued**

*Fair Value of Private Equity and Long/Short Hedge—Continued*

Several of the limited partnerships invest in equity securities outside of the United States and may enter into forward contracts to purchase or sell securities at specified dates in the future at a guaranteed price in a foreign currency to protect against fluctuations in exchange rates of foreign currency. In addition, some of the partnerships may engage in hedging transactions involving derivative instruments as a part of their investment strategy.

The Plan's private equity (PE) and long/short hedge investments have a long investment horizon of 5 to 10 years, are not liquid, and the Plan generally holds this type of investment to maturity. Depending on the type of holdings within a given partnership, the investment horizon can be extended if the general partner deems the remaining investments in the fund still hold significant future value and a majority of limited partners concur. The Plan's PE general partners typically make fair value determinations on the investments in each of their respective funds quarterly using a variety of pricing techniques including, but not limited to, observable transaction values for similar investments, third-party bids, appraisals of both properties and businesses, and public market capitalization of similar or like businesses. Each PE fund then calculates the fair value of the Plan's ownership of the partners' capital on a quarterly basis. The Plan classifies all private equity investments in Level 3 of the fair value hierarchy, as most investments of this type require unobservable inputs and other ancillary market metrics to determine fair value. Although most PE interests are marketable in a secondary market, the Plan generally does not sell its interests early at values less than its interest in the partnership. At June 30, 2018, the Plan was invested in 20 different PE partnerships (9 of which were real estate) and had a remaining commitment of approximately \$164,000,000 for the non-real estate PE partnerships and approximately \$42,000,000 for the real estate PE partnerships. At June 30, 2017, the Plan was invested in 20 different PE partnerships (10 of which were real estate) and had a remaining commitment of approximately \$212,838,000 for the non-real estate PE partnerships and approximately \$60,170,000 for the real estate PE partnerships. The Plan entered into 1 new PE partnership agreement during fiscal 2018 (non-real estate), having an open-ended contract duration. The new PE investment (1 non-real estate PE partnership) required a total commitment of \$50,000,000, which was funded prior to June 30, 2018. The Plan entered into 5 new PE partnership agreements during fiscal 2017 (4 non-real estate and 1 real estate), having an open-ended contract duration. The new PE investments required a total commitment of \$210,625,000, which was partially funded prior to June 30, 2017. Since the Plan follows a rolling year PE strategy, new PE investments are made as older PE investments reach their expiration.

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**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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

**Investments Measured at Fair Value, Continued**

*Fair Value of Private Equity and Long/Short Hedge—Continued*

The Plan is invested in the following private equity strategies:

**BUYOUT**—This private equity strategy seeks to invest capital in mature businesses that have the potential for growth in value from efficiencies gained through structural, strategic management, and operational improvements.

**DISTRESSED**—Under the distressed strategy, a fund will invest in the debt of companies that are struggling, with the intent of influencing the process by which the company restructures its debt, narrows its focus, or implements a plan for a turnaround in its operations. Distressed investments of this nature can be debt, equity, or other types of lending.

**VENTURE CAPITAL**—The venture strategy primarily seeks to invest in early-stage, high-potential, high-growth companies. This type of investment is usually through equity ownership in the company, where the private equity general partner can lend expertise and facilitate growth. Investment returns are usually realized if the portfolio company is taken public through an IPO or the fund may sell its equity investment to another investor.

**FUND OF FUNDS**—Under a fund of funds private equity investment, the general partner seeks to build a combination of private equity investments that will work synergistically together to maximize returns and minimize the risk of loss.

**REAL ESTATE**—Private equity investment in real estate may encompass several of the above-mentioned strategies, based on the skill and experience of the general partner. Generally, real estate private equity investments seek to capitalize on distressed situations, as well as seek to identify lucrative investments that produce a high level of current income.

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**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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

**Investments Measured at Fair Value, Continued**

*Fair Value of Investments Measured at Net Asset Value (NAV)*

*Low-Volatility Hedge Fund—Private Advisors Stable Value Fund*—The Plan is invested in a hedge fund structured as a fund of funds to achieve positive returns which are not dependent upon a rising equity market. The fund invests with hedge funds and other experienced portfolio managers or utilizes services of investment advisors to achieve the fund objective. This fund employs a multitude of investment strategies including direct lending, convertible arbitrage, merger or risk arbitrage and other event-driven investing, distressed and long/short credit, long/short equity, multi-strategy and other relative value strategies. This investment is valued at NAV semi-annually and provides semi-annual redemptions with at least 95 days' written notice. Effective June 30, 2016, the fund directors elected to suspend voluntary redemptions and to commence an orderly compulsory redemption process. The fund liquidation proceeds will be paid to the shareholders pro rata in an unknown timeframe. In addition, the investment manager will cease charging management and incentive fees of any remaining shareholder balances.

*Private Equity—Real Estate Focused—AG Net Lease Realty Fund III*—The Plan invests in a net lease real estate private equity managed by Angelo Gordon & Co. The fund strategy focuses on providing sale-leaseback financing to less-than-investment grade owner-occupiers of corporate real estate. Generally, investment income is derived from single tenant commercial real estate in the form of current lease income. The net asset value of the fund is determined on a quarterly basis by each of the funds personnel responsible for the management of each individual investment and reviewed in total by the general partner. The net asset value per share is determined from an income valuation approach that includes certain capitalization and discount rates unique to the fund. The rates are determine based on tenant credit, location, remaining lease term, type and nature of each property, and current and anticipated market conditions. Due to the illiquid nature of the underlying investments, the fund does not allow periodic redemptions of funds by limited partners until maturity of the partnership agreement.

*Core Real Estate—JP Morgan Strategic Property and JP Morgan Special Situation Property Fund*—The Plan invests in two core real property funds, the JP Morgan Strategic Property fund and the JP Morgan Special Situation Property Fund. Both of these funds invest in core real properties seeking to realize capital appreciation on its portfolio while also generating a high level of current income. These funds both make strategic property acquisitions primarily in the U.S. As part of JPMorgan's valuation process, independent appraisers value properties on an annual basis (at a minimum). Both funds are valued at NAV monthly. Each fund allows withdrawals once per quarter subject to "available cash" as determined by a pool trustee with 45 days' advance written notice.

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

**Securities Lending**

The Plan's investment policy provides for its participation in a securities lending program. The program is administered by the Plan's custodial agent. Certain securities of the Plan are loaned to participating brokers, who must provide collateral in the form of cash or U.S. Treasury or government agency securities. Under the program, the securities loaned are collateralized at a minimum of 105% of their fair values. The Plan does not have the ability to pledge or sell collateral securities without borrower default. The collateral is marked to market daily such that at the close of trading on any business day, the value of the collateral shall not be less than 100% of the fair value of the loaned securities. The Plan did not impose any restrictions regarding the amount of loans made, and the custodial agent indemnified the Plan by agreeing to purchase replacement securities or return cash collateral in the event of borrower default. There were no such failures during 2018 or 2017. The indemnification does not cover market losses associated with investing the security lending cash collateral. The loan premium paid by the borrower of the securities is apportioned between the Plan and its custodial agent in accordance with the securities lending agreement.

During the fiscal year, the Plan and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool. The average duration of such investment pool was 27 days and 29 days as of June 30, 2018 and 2017, 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, 2018 and 2017, 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:

| <u>June 30</u> | <u>Collateral<br/>Held</u> | <u>Fair Value of<br/>Securities on<br/>Loan</u> | <u>% of Collateral<br/>Held to<br/>Securities on<br/>Loan</u> |
|----------------|----------------------------|---|---|
| 2018           | <u>\$ 88,146,621</u>       | <u>85,141,061</u>                               | <u>104%</u>   |
| 2017           | <u>\$ 76,510,460</u>       | <u>74,115,923</u>                               | <u>103%</u>   |

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**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(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, 2018 and 2017. Investments in limited partnerships (alternative investments) and commingled funds may include derivatives that are not shown in the derivative totals below. The Plan's investments in alternative investments are reflected at fair value and any exposure is limited to its investment in the partnership and any unfunded commitment. Commingled funds have been reviewed to ensure they are in compliance with the Plan's investment policy. The notional values associated with the warrants are generally not recorded in the financial statements. The Plan does not anticipate additional significant market risk from the derivatives.

Derivative instruments at June 30 were as follows:

| <u>Foreign Currency Forward Contracts</u> | <u>Fair Value at<br/>June 30, 2018</u> | <u>Changes in<br/>Fair Value</u> | <u>Notional<br/>Amount</u> |
|---|--|----------------------------------|----------------------------|
| Net payable                               | \$ <u>(2,293,333)</u>                  | <u>(911,077)</u>                 | <u>(87,845,278)</u>        |
| <u>Foreign Currency Forward Contracts</u> | <u>Fair Value at<br/>June 30, 2017</u> | <u>Changes in<br/>Fair Value</u> | <u>Notional<br/>Amount</u> |
| Net receivable                            | \$ <u>774,614</u>                      | <u>1,040,779</u>                 | <u>80,459,598</u>          |

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**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(5) DERIVATIVES AND OTHER INSTRUMENTS, CONTINUED**

At June 30, 2018 and 2017, the receivable was net of gross receivables of \$746,935 and \$1,183,152, respectively, and liabilities of \$3,040,268 and \$408,538, respectively. The gross receivables for June 30, 2018 and 2017, were supported by collateral in investments valued at \$746,935 and \$1,183,152, respectively, with a credit risk rating principally of AA for S&P and Prime-1 for Moody's for both years. The majority of the contracts expired by September 2017.

| <u>Other</u>        | <u>Fair Value at<br/>June 30, 2018</u> | <u>Changes in<br/>Fair Value</u> | <u>Notional<br/>Amount</u> |
|---------------------|--|----------------------------------|----------------------------|
| Common stock—rights | \$ <u>-</u>                            | <u>-</u>                         | <u>-</u>                   |
| <u>Other</u>        | <u>Fair Value at<br/>June 30, 2017</u> | <u>Changes in<br/>Fair Value</u> | <u>Notional<br/>Amount</u> |
| Common stock—rights | \$ <u>-</u>                            | <u>-</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**

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**(6) DEFERRED OPTION PLAN**

As noted previously, the Plan has a Deferred Option Plan available to its members. A summary of the Deferred Option Plan for the years ended June 30 is as follows:

|  | <u>2018</u>           | <u>2017</u>        |
|--|-----------------------|--------------------|
| Assets at beginning of year                          | \$ 390,287,325        | 364,637,320        |
| Employer's contributions                             | 369,737               | 349,808            |
| Retirement benefit payments                          | (34,819,061)          | (21,162,583)       |
| Retirement benefits transferred<br>from pension plan | 1,993,644             | 2,474,487          |
| Interest on Deferred Option Plan balances            | <u>36,806,825</u>     | <u>43,988,293</u>  |
| Assets at end of year                                | <u>\$ 394,638,470</u> | <u>390,287,325</u> |

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

**(7) "BACK" DROP PLAN**

As noted previously, the Plan has a "Back" DROP Plan available to the members effective July 1, 2003. A summary of the "Back" DROP Plan for the years ended June 30 is as follows:

|  | <u>2018</u>           | <u>2017</u>        |
|--|-----------------------|--------------------|
| Assets at beginning of year                          | \$ 359,222,860        | 305,574,999        |
| Employer's contributions                             | 5,575,441             | 5,773,859          |
| Retirement benefit payments                          | (37,606,602)          | (20,754,127)       |
| Retirement benefits transferred<br>from pension plan | 19,570,786            | 21,914,401         |
| Interest on "Back" DROP Plan balances                | <u>42,603,803</u>     | <u>46,713,728</u>  |
| Assets at end of year                                | <u>\$ 389,366,288</u> | <u>359,222,860</u> |

The assets shown 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**

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**(8) NET PENSION LIABILITY OF PARTICIPATING EMPLOYERS**

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

|  | <u>2018</u>             | <u>2017</u>          |
|--|-------------------------|----------------------|
| Total pension liability  | \$ 3,845,542,352        | 3,767,195,100        |
| Fiduciary net position   | <u>2,719,895,921</u>    | <u>2,509,471,449</u> |
| Employers' net pension liability                                     | <u>\$ 1,125,646,431</u> | <u>1,257,723,651</u> |
| Fiduciary net position as a percentage<br>of total pension liability | <u>70.73%</u>           | <u>66.61%</u>        |

*Actuarial Assumptions*—The total pension liability was determined by an actuarial valuation as of July 1, 2018 and 2017, 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 return: | 7.5% net of pension plan investment expense |

Mortality rates were based on the RP-2000 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, 2018 and 2017, valuation were based on the results of an actuarial experience study for the period July 1, 2007, to June 30, 2012.

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**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(8) NET PENSION LIABILITY OF PARTICIPATING EMPLOYERS, CONTINUED**

*Actuarial Assumptions—Continued*

The long-term expected rate of return on the Plan's 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 2.26% for both 2018 and 2017. Best estimates of arithmetic real rates of return for each major asset class included in the Plan's target asset allocation as of June 30 (see discussion of the Plan's investment policy) are summarized in the following table:

| <u>Asset Class</u>   | <u>Long-Term Expected<br/>Real Rate of Return</u> |             |
|----------------------|---|-------------|
|                      | <u>2018</u>                                       | <u>2017</u> |
|                      | (Includes inflation factor)                       |             |
| Fixed income         | 4.37%   | 4.38%       |
| Domestic equity      | 7.01%   | 7.72%       |
| International equity | 8.83%   | 9.70%       |
| Real estate          | 6.58%   | 6.96%       |
| Other assets         | 5.70%   | 5.75%       |

*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 Oklahoma statutes. Projected cash flows also assume the State of Oklahoma will continue contributing 36% of the insurance premium, as established by Oklahoma statute. Based on these assumptions, the 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 the Plan's investments was applied to all periods of projected benefit payments to determine the total pension liability.

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**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

**(8) NET PENSION LIABILITY OF PARTICIPATING EMPLOYERS, CONTINUED**

*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<br>(6.5%) | Current Discount<br>Rate (7.5%) | 1% Increase<br>(8.5%) |
|----------------------------------|-----------------------|---------------------------------|-----------------------|
| <u>2018</u>                      |                       |                                 |                       |
| Employers' net pension liability | \$ 1,474,374,208      | 1,125,646,431                   | 832,769,504           |
| <u>2017</u>                      |                       |                                 |                       |
| Employers' net pension liability | \$ 1,649,949,319      | 1,257,723,651                   | 925,321,337           |

**(9) CAPITAL ASSETS**

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

|                          | Balance at<br>June 30, 2017 | Additions | Disposals | Balance at<br>June 30, 2018 |
|--------------------------|-----------------------------|-----------|-----------|-----------------------------|
| Cost                     | \$ 1,193,440                | -         | -         | 1,193,440                   |
| Accumulated depreciation | (124,873)                   | (60,473)  | -         | (185,346)                   |
| Capital assets, net      | \$ 1,068,567                | (60,473)  | -         | 1,008,094                   |
|                          | Balance at<br>June 30, 2016 | Additions | Disposals | Balance at<br>June 30, 2017 |
| Cost                     | \$ 1,025,190                | 168,250   | -         | 1,193,440                   |
| Accumulated depreciation | (68,609)                    | (56,264)  | -         | (124,873)                   |
| Capital assets, net      | \$ 956,581                  | 111,986   | -         | 1,068,567                   |

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**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(10) PLAN TERMINATION AND STATE FUNDING**

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

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

**(11) FEDERAL INCOME TAX STATUS**

As an instrumentality of the State of Oklahoma, 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.

**(12) 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, III, and IV.

**(13) LEGISLATIVE AMENDMENTS**

The following is a summary of significant plan provision changes that were enacted by the Oklahoma Legislature during 2018 and 2017:

2018

- House Bill 1340—Provides for a single, one-time, non-permanent increase in the payment of retirement benefits. A single payment of 2% of the gross annual retirement benefit will be paid to qualifying members, subject to a cap and floor on the payment. Dependent on the funded status of the plan, the maximum payment will be \$1,000. Additionally qualifying members with at least 20 years of membership will receive a payment of not less than \$350.

2017

- House Bill 1705—The bill modified certain provisions of eligible rollover distributions, provided treatment of certain mandatory distributions occurring on or after a certain date, and defined certain terms.

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**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(14) CONTINGENCIES**

**Legal**

In June 2018, there was a suit filed against the System due to the System requiring participants to take (i) mandatory distribution of interest and (ii) minimum distributions based on an assumed interest rate of 7.5%. Due to the suit, the System has accrued approximately \$11,900,000 of interest that was included in accrued expenses as of June 30, 2018.

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## **REQUIRED SUPPLEMENTARY INFORMATION**

**OKLAHOMA FIREFIGHTERS PENSION AND RETIREMENT PLAN**  
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**SCHEDULE OF CHANGES IN EMPLOYERS' NET PENSION LIABILITY**

**Last 10 Fiscal Years**

|   | <u>2018</u>             | <u>2017</u>          | <u>2016</u>          | <u>2015</u>          | <u>2014</u>          | <u>2013</u>          | <u>2012</u>          | <u>2011</u>          | <u>2010</u>          | <u>2009</u>          |
|---|-------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| <b>Total pension liability</b>                                    |                         |                      |                      |                      |                      |                      |                      |                      |                      |                      |
| Service cost  | \$ 64,638,597           | 61,489,198           | 60,823,560           | 61,193,365           | 58,783,664           | 57,488,513           | 54,696,025           | 70,123,461           | 69,644,470           | 66,553,103           |
| Interest  | 278,175,509             | 257,914,126          | 248,081,554          | 239,652,841          | 229,050,716          | 228,870,184          | 218,071,803          | 246,566,910          | 240,500,067          | 229,496,030          |
| Changes of benefit terms  | (144,096,161)           | -                    | -                    | -                    | -                    | -                    | -                    | -                    | -                    | -                    |
| Differences between<br>expected and actual<br>experience          | 125,283,130             | 170,533,239          | 19,681,640           | 1,225,109            | 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,<br>including refunds of<br>member contributions | <u>(245,653,823)</u>    | <u>(200,214,567)</u> | <u>(196,088,281)</u> | <u>(182,549,070)</u> | <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<br>pension liability                          | 78,347,252              | 289,721,996          | 132,498,473          | 119,522,245          | 143,554,025          | 195,450,630          | 126,091,695          | (389,055,857)        | 74,323,966           | 133,880,595          |
| Total pension liability—<br>beginning                             | <u>3,767,195,100</u>    | <u>3,477,473,104</u> | <u>3,344,974,631</u> | <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> | <u>2,941,207,332</u> |
| Total pension liability—<br>ending (a)                            | <u>\$ 3,845,542,352</u> | <u>3,767,195,100</u> | <u>3,477,473,104</u> | <u>3,344,974,631</u> | <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> |

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See accompanying notes to required supplementary information.

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**SCHEDULE OF CHANGES IN EMPLOYERS' NET PENSION LIABILITY, CONTINUED**

**Last 10 Fiscal Years**

|  |    | <u>2018</u>          | <u>2017</u>          | <u>2016</u>          | <u>2015</u>          | <u>2014</u>          | <u>2013</u>          | <u>2012</u>          | <u>2011</u>          | <u>2010</u>          | <u>2009</u>          |
|--|----|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| <b>Plan fiduciary<br/>net position</b> |    |                      |                      |                      |                      |                      |                      |                      |                      |                      |                      |
| Contributions—                         |    |                      |                      |                      |                      |                      |                      |                      |                      |                      |                      |
| employers/municipalities               | \$ | 41,590,815           | 40,325,760           | 39,173,661           | 38,875,835           | 36,103,860           | 34,286,563           | 32,816,159           | 31,910,497           | 32,063,103           | 31,387,215           |
| Contributions—members                  |    | 26,086,597           | 25,236,243           | 24,531,971           | 24,310,588           | 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                    |    | 100,333,324          | 88,133,633           | 92,330,270           | 91,235,807           | 79,545,329           | 76,310,725           | 68,245,816           | 59,876,295           | 54,159,341           | 53,989,458           |
| Net investment                         |    |                      |                      |                      |                      |                      |                      |                      |                      |                      |                      |
| income (loss)                          |    | 290,165,929          | 302,619,557          | 14,238,895           | 116,617,766          | 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                   |    | (245,653,823)        | (200,214,567)        | (196,088,281)        | (182,549,070)        | (173,344,947)        | (168,983,642)        | (159,361,349)        | (152,471,822)        | (144,815,793)        | (146,645,856)        |
| Administrative expense                 |    | <u>(2,098,370)</u>   | <u>(2,387,774)</u>   | <u>(1,994,301)</u>   | <u>(2,029,087)</u>   | <u>(1,958,101)</u>   | <u>(2,005,153)</u>   | <u>(1,724,781)</u>   | <u>(1,645,817)</u>   | <u>(1,631,542)</u>   | <u>(1,508,538)</u>   |
| Net change in plan                     |    |                      |                      |                      |                      |                      |                      |                      |                      |                      |                      |
| fiduciary net position                 |    | 210,424,472          | 253,712,852          | (27,807,785)         | 86,461,839           | 298,005,794          | 189,863,780          | (34,862,709)         | 264,201,860          | 89,911,197           | (355,234,881)        |
| Plan fiduciary net                     |    |                      |                      |                      |                      |                      |                      |                      |                      |                      |                      |
| position—beginning                     |    | <u>2,509,471,449</u> | <u>2,255,758,597</u> | <u>2,283,566,382</u> | <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> | <u>1,745,219,502</u> |
| Plan fiduciary net                     |    |                      |                      |                      |                      |                      |                      |                      |                      |                      |                      |
| position—ending (b)                    | \$ | <u>2,719,895,921</u> | <u>2,509,471,449</u> | <u>2,255,758,597</u> | <u>2,283,566,382</u> | <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>1,125,646,431</u> | <u>1,257,723,651</u> | <u>1,221,714,507</u> | <u>1,061,408,249</u> | <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> |

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See accompanying notes to required supplementary information.

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**SCHEDULE OF EMPLOYERS' NET PENSION LIABILITY**

| <b>Last 10 Fiscal Years</b>  |                         |                      |                      |                      |                      |                      |                      |                      |                      |                      |
|--|-------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
|  | <u>2018</u>             | <u>2017</u>          | <u>2016</u>          | <u>2015</u>          | <u>2014</u>          | <u>2013</u>          | <u>2012</u>          | <u>2011</u>          | <u>2010</u>          | <u>2009</u>          |
| Total pension liability  | \$ 3,845,542,352        | 3,767,195,100        | 3,477,473,104        | 3,344,974,631        | 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>2,719,895,921</u>    | <u>2,509,471,449</u> | <u>2,255,758,597</u> | <u>2,283,566,382</u> | <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 net pension liability   | <u>\$ 1,125,646,431</u> | <u>1,257,723,651</u> | <u>1,221,714,507</u> | <u>1,061,408,249</u> | <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>70.73%</u>           | <u>66.61%</u>        | <u>64.87%</u>        | <u>68.27%</u>        | <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 payroll  | <u>\$ 303,090,745</u>   | <u>285,073,253</u>   | <u>273,621,126</u>   | <u>270,535,966</u>   | <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 net pension liability as a percentage of covered payroll              | <u>371.39%</u>          | <u>441.19%</u>       | <u>446.50%</u>       | <u>392.34%</u>       | <u>378.66%</u>       | <u>465.75%</u>       | <u>459.40%</u>       | <u>417.04%</u>       | <u>671.78%</u>       | <u>682.74%</u>       |

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 CONTRIBUTIONS FROM EMPLOYERS AND OTHER CONTRIBUTING ENTITIES**

| <b><u>Last 10 Fiscal Years</u></b>                                       |                       |                    |                    |                    |                    |                    |                    |                    |                    |                    |
|--|-----------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
|  | <u>2018</u>           | <u>2017</u>        | <u>2016</u>        | <u>2015</u>        | <u>2014</u>        | <u>2013</u>        | <u>2012</u>        | <u>2011</u>        | <u>2010</u>        | <u>2009</u>        |
| Actuarially determined contribution                                      | \$ 155,547,401        | 141,509,975        | 139,226,348        | 142,494,951        | 162,103,277        | 159,096,610        | 142,357,604        | 195,669,404        | 187,157,125        | 157,823,945        |
| Contributions in relation to the<br>actuarially determined contribution: |                       |                    |                    |                    |                    |                    |                    |                    |                    |                    |
| Employers/Municipalities   | 36,015,374            | 34,567,211         | 32,670,684         | 29,001,438         | 31,518,945         | 29,708,674         | 26,110,400         | 28,050,529         | 28,015,512         | 29,143,775         |
| State of Oklahoma,<br>a non-employer<br>contributing entity              | <u>100,333,324</u>    | <u>88,133,633</u>  | <u>92,330,270</u>  | <u>91,235,807</u>  | <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>136,348,698</u>    | <u>122,700,844</u> | <u>125,000,954</u> | <u>120,237,245</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>\$ 19,198,703</u>  | <u>18,809,131</u>  | <u>14,225,394</u>  | <u>22,257,706</u>  | <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 payroll  | <u>\$ 303,090,745</u> | <u>285,073,253</u> | <u>273,621,126</u> | <u>270,535,966</u> | <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<br>covered payroll                      | <u>44.99%</u>         | <u>43.04%</u>      | <u>45.68%</u>      | <u>44.44%</u>      | <u>40.90%</u>      | <u>41.75%</u>      | <u>36.82%</u>      | <u>36.08%</u>      | <u>33.07%</u>      | <u>33.68%</u>      |

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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 6 Fiscal Years**

|  | <u>2018</u>   | <u>2017</u>   | <u>2016</u>  | <u>2015</u>  | <u>2014</u>   | <u>2013</u>   |
|--|---------------|---------------|--------------|--------------|---------------|---------------|
| Annual money-weighted rate of<br>return, net of investment expense,<br>as defined by GASB 67 | <u>11.80%</u> | <u>14.36%</u> | <u>1.05%</u> | <u>5.78%</u> | <u>17.89%</u> | <u>14.28%</u> |
| Net return on average assets   | <u>11.76%</u> | <u>14.38%</u> | <u>1.11%</u> | <u>5.82%</u> | <u>17.89%</u> | <u>14.28%</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**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2018**

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The information presented in the required supplementary schedules was determined as part of an actuarial valuation by an independent enrolled actuary (Retirement Horizons, Inc. for 2018 and Conduent, formerly Buck Consultants, LLC, for all prior years). Additional information as of the July 1, 2018, valuation follows:

|                                    |   |
|------------------------------------|---|
| Actuarial cost method:             | Entry age   |
| Amortization method:               | Level dollar—closed   |
| Remaining amortization:            | 26 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. |
| <u>Actuarial assumptions</u>       |   |
| 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.   |

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\*Includes inflation at 3%.

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, 2018, 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 12, 2018. Our report includes an explanatory paragraph disclaiming an opinion on required supplementary information.

**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.

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.

(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**

**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 12, 2018