Oklahoma Public Employees Retirement Plan

Administered by the Oklahoma Public Employees Retirement System

Financial Statements
(With Independent Auditors' Report Thereon)
June 30, 2017

CPAs & BUSINESS ADVISORS

Independent Auditor's Report

To the Board of Trustees
Oklahoma Public Employees Retirement System
Oklahoma City, Oklahoma

Report on the Financial Statements
We have audited the accompanying financial statements of the Oklahoma Public Employees Retirement System (the System), a component unit of the State of Oklahoma, which comprise the statement of fiduciary net position as of June 30, 2017, and the related statement of changes in fiduciary net position, for the year 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 of America; 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.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 auditor's 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 auditor considers internal control relevant to the entity'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 entity'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.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Oklahoma Public Employees Retirement System, as of June 30, 2017, and the respective statement of changes in fiduciary net position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter
As discussed in Note 1, the financial statements of the Oklahoma Public Employees Retirement System, are intended to present the fiduciary net position, the changes in fiduciary net position of only that portion of the System. They do not purport to, and do not, present fairly the fiduciary net position of other Plans governed by the Oklahoma Public Employee Retirement System Board of Trustees, as of June 30, 2017, the changes in its fiduciary net position, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Changes in Accounting Principles
As discussed in Note 2(g), in 2017, the System adopted Governmental Accounting Standards Board (GASB) Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions*. The provisions of GASB Statement No. 74 required the System to adjust its net position as of July 1, 2016, upon adoption. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information on pages 4 to 10 and 34 to 39 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 of America, 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 Information
Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements as a whole. The other supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements.

The other supplementary information accompanying financial information listed as other supplementary information on pages 40 to 42 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying financial information listed as supplementary schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2017, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

Eide Bailly LLP

October 13, 2017
Oklahoma City, Oklahoma

Management's Discussion and Analysis
(Unaudited)

As management of the Oklahoma Public Employees Retirement System (the System), we offer readers of the System's financial statements this narrative overview and analysis of the financial activities of the System for the fiscal years ended June 30, 2017 and 2016.

Financial Highlights

- The net position restricted for pension and health insurance subsidy plan (HISP) totaled approximately $9.2 billion at June 30, 2017, compared to $8.4 billion at June 30, 2016. The net position is available for payment of monthly retirement benefits and other qualified distributions to the System's participants. Equity markets performed well during fiscal year 2017, resulting in an increase in net investment income which lead to an increase in net position restricted for pension/HISP benefits from June 30, 2016 to June 30, 2017.
- At June 30, 2017 and 2016, the total number of members participating in the System decreased 2.6% and decreased 1.2%, respectively. Membership was 79,403 at June 30, 2017 and 81,501 at June 30, 2016. The number of retirees increased by 2.5% as of June 30, 2017 and increased by 3.0% as of June 30, 2016. The total number of retirees was 34,579 at June 30, 2017 and 33,749 at June 30, 2016.
- The beginning balance of the net position restricted for pension/HISP benefits was restated due to the implementation of GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* (GASB 74). This had no effect on the combined System ratio of fiduciary net position to the combined liabilities for pensions and HISP.

Overview of the Financial Statements

The System is a multiple-employer, cost-sharing public employee retirement plan, which is a defined benefit pension plan. The System covers substantially all employees of the state of Oklahoma (the State) except those covered by seven other plans sponsored by the State and also covers employees of participating counties and local agencies. Nearly all new state employees first employed by a System participating employer on or after November 1, 2015, will participate in the State's new defined contribution plan. Therefore, the System is closed to nearly all new State employees, but remains open to new employees of participating counties and local agencies. For the majority of the System's members, benefits are determined at 2% of the average highest thirty-six months' annual covered compensation multiplied by the number of years of credited service. Members qualify for full retirement benefits at their specified normal retirement age or, for any person who became a member prior to July 1, 1992, when the sum of the member's age and years of credited service equals or exceeds 80 (Rule of 80), and for any person who became a member after June 30, 1992, when the member's age and years of credited service equals or exceeds 90 (Rule of 90). Normal retirement age under the System is 62 or Rule of 80/90 if the participant became a member prior to November 1, 2011, or age 65 or Rule of 90 if the participant became a member on or after November 1, 2011. Members become eligible to vest fully upon termination of employment after attaining eight years of credited service, or the members' contributions may be withdrawn upon termination of employment.

The System also includes a multiple-employer, cost-sharing public employee other post-employment benefit plan, which is a defined benefit plan. This plan is called the Health Insurance Subsidy Plan (HISP), and it provides a health insurance premium subsidy for retirees of the System who elect to maintain health insurance with the Oklahoma Employees Group Insurance Division (EGID) or other qualified insurance plan provided by the employer. This subsidy continues until the retiree terminates health insurance coverage with EGID or other qualified plan, or until death. The subsidy is only for the retiree, not joint annuitants or beneficiaries.

Management's Discussion and Analysis (continued)
(Unaudited)

The System's financial statements are comprised of Statements of Fiduciary Net Position and Statements of Changes in Fiduciary Net Position for both pensions and HISP, and Notes to Financial Statements. Also included is certain required supplementary information and supplementary information for both pensions and HISP.

The System is administered by the Oklahoma Public Employees Retirement System, a component unit of the State, which together with other similar funds comprise the fiduciary-pension and HISP trust funds of the State.

The *statements of fiduciary net position* presents information on the System's assets, liabilities and the resulting *net position restricted for pensions and net position restricted for HISP.* These statements reflect the System's investments, at fair value, along with cash and cash equivalents, receivables, and other assets and liabilities.

The *statements of changes in fiduciary net position* presents information showing how the System's net position restricted for pensions and HISP changed during the years ended June 30, 2017 and 2016. It reflects contributions by members and participating employers along with deductions for retirement benefits, refunds and withdrawals, and administrative expenses. Investment income during the period is also presented showing income from investing and securities lending activities.

On July 1, 2016, the System implemented Governmental Accounting Standards Board (GASB) Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions* (GASB 74). GASB 74 presents improved information about postemployment benefit plans other than pensions (OPEB). The System administers a health insurance subsidy plan (HISP), which is considered OPEB in accordance with the provisions of GASB 74. As a result of the implementation of GASB 74, a beginning balance restatement occurred.

The *notes to financial statements* provide additional information that is essential to a full understanding of the data provided in the financial statements

The *required supplementary information* presents a schedule of changes in the net pension liability, schedule of net pension liability, schedule of employer contributions and schedule of money-weighted rate of return on pension plan and HISP investments. Schedules of certain expenses and fees paid are presented as *supplementary information.*

Financial Analysis

The following are the condensed Schedules of Fiduciary Net Position and Changes in Fiduciary Net Position for the Oklahoma Public Employees Retirement System for the fiscal years ended June 30, 2017 and 2016.

Management's Discussion and Analysis (continued) (Unaudited)

Condensed Schedules of Fiduciary Net Position
($ millions)

	2017			
	Pension	HISP	Combined	2016*
Assets:				
Cash and cash equivalents	$ 113.3	$ 5.9	$ 119.2	$ 120.7
Receivables	340.9	11.8	$ 352.7	283.1
Investments	9,042.9	318.3	$ 9,361.2	8,449.8
Securities lending collateral	618.2	21.8	$ 640.0	500.7
Property and equipment	0.4	-	$ 0.4	0.5
Other assets	0.3	-	$ 0.3	0.3
Total assets	10,116.0	357.8	10,473.8	9,355.1
Liabilities:				
Other liabilities	583.8	20.5	$ 604.3	418.9
Securities lending collateral	618.2	21.8	$ 640.0	500.7
Total liabilities	1,202.0	42.3	1,244.3	919.6
Ending fiduciary net position	$ 8,914.0	$ 315.5	$ 9,229.5	$ 8,435.5

Condensed Schedules of Changes in Fiduciary Net Position
($ millions)

	2017			
	Pension	HISP	Combined	2016*
Member contributions	$ 70.3	$ -	$ 70.3	$ 73.8
State and local agency contributions	269.5	18.9	288.4	296.2
Net investment income	1,013.9	35.7	1,049.6	15.6
Total additions	1,353.7	54.6	1,408.3	385.6
Retirement, death and survivor benefits	573.9	19.0	592.9	565.4
Refunds and withdrawals	16.0	-	16.0	15.9
Administrative expenses	5.2	0.2	5.4	5.2
Total deductions	595.1	19.2	614.3	586.5
Net (decrease) increase in fiduciary net position	758.6	35.4	794.0	(200.9)
Beginning of year as restated for GASB 74	8,155.4	280.1	8,435.5	-
End of year	8,914.0	315.5	9,229.5	(200.9)

*Prior year column has not been restated for the effect of the adoption of GASB Statement No. 74

For the year ended June 30, 2017, fiduciary net position increased by $793.9 million, or 9.4%, from June 30, 2016. Total assets increased $1.1 billion, or 12.0%, due to a 10.8% increase in investments and a 27.8% increase in securities lending collateral. The System achieved a money-weighted rate of return of 12.64% compared to the prior year of 0.18% resulting in the majority of the increase in fiduciary net position. Total liabilities increased $324.7 million, or 35.3%, due to a 44.3% increase in pending purchases of securities and a 27.8% increase in the securities lending collateral liability.

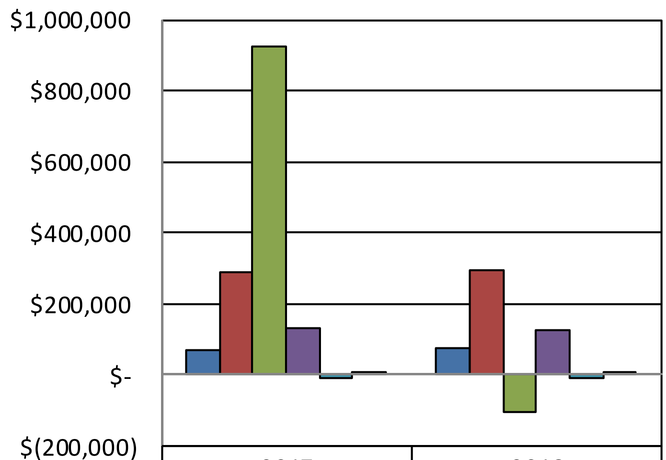
Fiscal year 2017 showed a $1.0 billion increase in total additions and a $27.9 million increase in total deductions. Compared to the prior year, the increase in additions was due to increases of $1.0 billion in the net appreciation of assets. Deductions increased 4.7% due to a $27.6 million increase in retirement, death, and survivor benefits.

Additions to Fiduciary Net Position

For the year ended June 30, 2017, total additions to fiduciary net position increased $1.0 billion from the prior year. The net increase in net appreciation of the fair value of investments of $1.0 billion was the result of an improving market, compared to fiscal year 2016. Interest income decreased $0.7 million, or 1.1%, but dividend income increased $4.9 million, or 8.3%. Securities lending net income increased $0.3 million, or 14.0%. Contributions were $11.4 million, or 3.1%, lower than the prior year due to the closure of the defined benefit pension plan to new state employees. HISP remains open to new retirees.

Management's Discussion and Analysis (continued) (Unaudited)

Additions to Fiduciary Net Position
Comparative Data for Fiscal Years Ended June 30, 2017 and 2016
($ thousands)



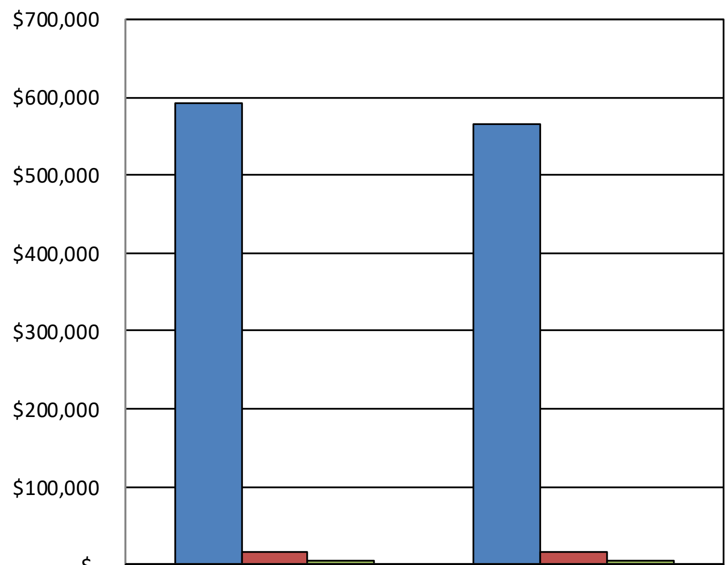
	2017	2016
Member contributions	$70,276	$73,801
State and local agency contributions	288,339	296,249
Net appreciation (depreciation)	925,746	(106,650)
Interest, dividends, and other investment income	132,117	128,168
Investment expenses	(10,643)	(7,859)
Securities lending income	2,393	2,098

Deductions to Fiduciary Net Position

For the year ended June 30, 2017, total deductions increased $27.8 million, or 4.7%, from the prior year. Retirement, death, and survivor benefits increased $27.5 million, or 4.9%, due to a 2.5% increase in the number of retirees at year end and a 1.6% increase in the average benefit. Refunds and withdrawals increased $0.1 million, or 0.6%, as more participants withdrew contributions during fiscal 2017. The 3.5% increase in administrative costs was primarily due to the increase in personnel costs.

Management's Discussion and Analysis (continued)
(Unaudited)

Deductions to Fiduciary Net Position
Comparative Data for Fiscal Years Ended June 30, 2017 and 2016
($ thousands)



	2017	2016
Retirement, death and survivor benefits	$592,961	$565,412
Refunds and withdrawals	15,950	15,862
Administrative expenses	5,397	5,213

Investments

The investment portfolio is reported in the chart below by the asset class of the investment managers' portfolios which includes the cash and cash equivalents in those portfolios. In April, the System's Board voted to modify the policy asset allocation to increase exposure to international equity and reduce exposure to U.S. equity. A summary of the System's cash, cash equivalents, and investments for fiscal years ended June 30, 2017 and 2016 is as follows:

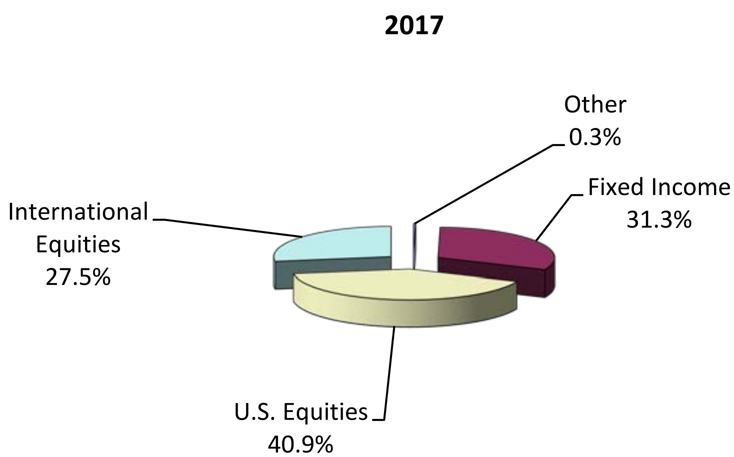
Cash, Cash Equivalents, and Investment Portfolio
($ millions)

	June 30	
	2017	**2016**
Fixed income	$ 3,149.1	$ 2,891.4
U.S. equities	3,762.8	3,790.3
International equities	2,532.8	1,852.9
Other	20.8	20.6
Total managed investments	9,465.5	8,555.2
Cash equivalents on deposit with State	2.8	2.4
Real estate	12.1	12.9
Securities lending collateral	640.0	500.7
Total cash, cash equivalents, and investments	$ 10,120.4	$ 9,071.2

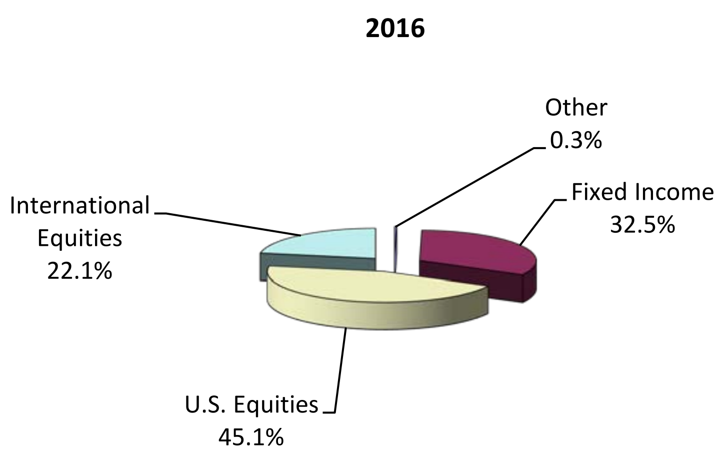
Management's Discussion and Analysis (continued)
(Unaudited)

The increase in the System's managed investments is reflective of the increase in domestic and international equity markets for the year. The System's overall return for the year ended June 30, 2017 was 12.8%. U.S. equities showed a return of 19.6% exceeding the market trend for the asset class, and international equities showed a return of 19.2%. Fixed income showed a return of -0.6%. Due to a rebalancing of the portfolio, international equities were increased $330.0 million and fixed income was increased $170.0 million during the year by reallocating $480.0 million from large cap equities and $20.0 million from small cap equities. An amount of $251.0 million of U.S. equities was used to supplement the cash requirements of monthly retiree benefit payments. The change in securities lending collateral is dependent on the securities loaned by the System's master custodian at year end.

At June, 30, 2017, the distribution of the System's investments including accrued income and pending trades was as follows:



At June, 30, 2016, the distribution of the System's investments including accrued income and pending trades was as follows:



Management's Discussion and Analysis (continued)
(Unaudited)

Ratio of Fiduciary Net Position to Total Pension Liability and to Total HISP Liability

The ratio of fiduciary net position to the total pension liability was as follows:

	June 30 2017
Total pension liability	$ 9,454,641,808
Plan fiduciary net position	$ 8,913,978,627
Ratio of fiduciary net position to total pension liability	94.28%

The ratio of fiduciary net position to the total HISP liability was as follows:

	June 30 2017
Total HISP liability	$ 326,975,262
Plan fiduciary net position	$ 315,521,246
Ratio of fiduciary net position to total HISP liability	96.50%

System Amendments

System provision changes were enacted by the State Legislature during the session ended in May 2017. The changes include the removal of a prohibition against remarriage for surviving spouses of elected officials, the inclusion of Grand River Dam Authority officers in the hazardous duty exclusion the Pathfinder defined contribution plan and the addition of the Oklahoma State Treasurer, or designee, to the OPERS Board of Trustees.

The System's actuary does not believe any of these amendments will have any significant financial impact to the System.

Other

The actuarial assumptions used in the July 1, 2017, valuation are based on the results of the most recent actuarial experience study, which covered the three-year period ending June 30, 2016. Some important changes adopted by the Board as a result of this experience study were to: decrease the expected investment return from 7.25% to 7.00%; change the range of assumed salary increases to 3.5%-9.5% from 4.5%-8.4%; decrease the assumed inflation rate from 3.00% to 2.75%; and decrease the payroll growth assumption from 4.0% to 3.5%.

Other than changes in the fair value of System assets as may be impacted by the equity and bond markets, no other matters are known by management to have a significant impact on the operations or financial position of the System.

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 Financial Reporting Division, OPERS, P.O. Box 53007, Oklahoma City, Oklahoma 73152-3007.

Statements of Fiduciary Net Position

As of June 30, 2017

	Pension Plan	Health Insurance Subsidy Plan	Combined
Assets			
Cash equivalents	$ 113,313,456	$ 5,882,243	$ 119,195,699
Receivables:			
Member contributions	3,274,683	-	3,274,683
State and local agency contributions	11,587,503	407,842	11,995,345
Due from brokers for securities sold	307,390,955	10,819,143	318,210,098
Accrued interest and dividends	18,601,990	654,728	19,256,718
Total receivables	340,855,131	11,881,713	352,736,844
Investments, at fair value:			
Short-term investments	122,257,586	4,303,062	126,560,648
Government obligations	2,061,181,245	72,546,752	2,133,727,997
Corporate bonds	807,673,399	28,427,428	836,100,827
Domestic equities	3,586,931,470	126,248,106	3,713,179,576
International equities	2,453,161,345	86,343,153	2,539,504,498
Real estate	11,688,600	411,400	12,100,000
Securities lending collateral	618,225,490	21,759,489	639,984,979
Total investments	9,661,119,135	340,039,390	10,001,158,525
Property and equipment, at cost, net of accumulated depreciation of $2,554,690 in 2017; $2,461,544 in 2016	366,044	12,884	378,928
Other assets	305,351	10,747	316,098
Total assets	10,115,959,117	357,826,977	10,473,786,094
Liabilities			
Due to brokers and investment managers	583,755,000	20,546,242	604,301,242
Securities lending collateral	618,225,490	21,759,489	639,984,979
Total liabilities	1,201,980,490	42,305,731	1,244,286,221
Net position restricted for pension/HISP benefits	$ 8,913,978,627	$ 315,521,246	$ 9,229,499,873

Statements of Changes in Fiduciary Net Position

For the Year Ended June 30, 2017

	Pension Plan	Health Insurance Subsidy Plan	Combined
Additions			
Contributions:			
Members	$ 70,276,234	$ -	$ 70,276,234
State and local agencies	269,510,941	18,828,000	288,338,941
Total contributions	339,787,175	18,828,000	358,615,175
Investment income:			
From investing activities:			
Net appreciation in fair value of investments	894,271,036	31,475,378	925,746,414
Interest	66,287,438	2,394,891	68,682,329
Dividends	60,927,908	2,144,461	63,072,369
Real estate	350,935	12,352	363,287
Total investment income	1,021,837,317	36,027,082	1,057,864,399
Less – Investment expenses	(10,281,060)	(361,859)	(10,642,919)
Income from investing activities	1,011,556,257	35,665,223	1,047,221,480
From securities lending activities:			
Securities lending income	4,984,859	175,451	5,160,310
Securities lending expenses:			
Borrower rebates	(2,297,148)	(80,852)	(2,378,000)
Management fees	(376,046)	(13,236)	(389,282)
Income from securities lending activities	2,311,665	81,363	2,393,028
Net investment income	1,013,867,922	35,746,586	1,049,614,508
Total additions	1,353,655,097	54,574,586	1,408,229,683
Deductions			
Retirement, death and survivor benefits	573,962,256	18,999,021	592,961,277
Refunds and withdrawals	15,950,303	-	15,950,303
Administrative expenses	5,213,634	183,503	5,397,137
Total deductions	595,126,193	19,182,524	614,308,717
Net increase in net position	758,528,904	35,392,062	793,920,966
Net position restricted for pension/HISP benefits			
Beginning of year as restated (See Note 2(g))	8,155,449,723	280,129,184	8,435,578,907
End of year	$ 8,913,978,627	$ 315,521,246	$ 9,229,499,873

Notes to Financial Statements

June 30, 2017

(1) Reporting Entity

The Oklahoma Public Employee's Retirement System (the System) is a defined benefit cost-sharing multiple employer plan consisting of a retirement plan and a cost-sharing multiple employer health insurance subsidy plan (HISP) both held in irrevocable trusts. The System, together with other similar fiduciary pension trust funds of the state of Oklahoma (the State), is a component unit of the State. The System is administered by the Oklahoma Public Employees Retirement System (OPERS). As set forth in Title 74, of the Oklahoma Statutes, at Section 921, administrative expenses are paid with funds provided by operations of the System.

(2) Summary of Significant Accounting Policies

The following are the significant accounting policies followed by the Oklahoma Public Employees Retirement System (the System).

(a) Basis of Accounting

The financial statements are prepared using the economic resources measurement focus and 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 dates. Member and employer contributions are established by statute as a percentage of salaries and are recognized when due, pursuant to legal requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the System.

(b) Investments

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

System investments are reported at fair value, which is the price that would be received if the investments were sold in an orderly transaction between a willing buyer and a willing seller. Short-term investments include bills and notes, commercial paper, and international foreign currency contracts. Short-term investments, debt securities, and equity securities are reported at fair value, as determined by the System's custodial agent, using pricing services or prices quoted by independent brokers based on the latest reported sales prices at current exchange rates for securities traded on national or international exchanges. The fair value of the pro rata share of units owned by the System in equity index and commingled trust funds is determined by the respective fund trustee based on quoted sales prices of the underlying securities. The investment in real estate is valued using an annual third party appraisal.

Cash equivalents include investments in money market funds and investment pools and are reported at amortized cost.

Notes to Financial Statements (continued)

Net investment income (loss) includes net appreciation (depreciation) in the fair value of investments, interest income, dividend income, 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.

The System's international investment managers may enter into forward foreign exchange contracts to protect against fluctuation in exchange rates between the trade date and the settlement date of foreign investment transactions. Any gains and losses on these contracts are included in income in the period in which the exchange rates change.

The System's investment policy provides for investments in combinations 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 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 those changes could materially affect the amounts reported in the statement of fiduciary net position.

(c) Property and Equipment

Property and equipment with an initial cost of $100 and an estimated useful life of at least three years are considered capital assets. Property and equipment are carried at cost, less accumulated depreciation. Costs of additions are capitalized, as are the costs of internally generated computer software. Maintenance and repairs are charged to expense as incurred. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets, as follows:

Furniture and equipment	10-15 years
Computer equipment	3-5 years

(d) Use of Estimates

Management of the System has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with U.S. generally accepted accounting principles (GAAP), note disclosure and required supplementary information (RSI). Actual results could differ from these estimates.

(e) Risk and Uncertainties

Contributions to the System and the actuarial information included in Note (6) Net Pension Liability, Net HISP Liability and Actuarial Information and the RSI 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 the uncertainties inherent in setting assumptions, that the effect of such changes could be material to the financial statements.

(f) Composition of Board of Trustees

The Board of Trustees of OPERS consists of fourteen appointed members, some by position and some by association. Those serving through position are a member of the Corporation Commission as selected by the Commission, a member of the Tax Commission as selected by the Tax Commission,

Notes to Financial Statements (continued)

the Administrator of the Office of Personnel Management or designee, the State Insurance Commissioner or designee, the Director of State Finance or designee, and the State Treasurer or designee. Of the remaining members, three are appointed by the Governor, one is appointed by the Supreme Court, two are appointed by the Speaker of the House of Representatives and two are appointed by the President Pro Tempore of the Senate. Qualifications for certain of these appointees include a balance of individuals having experience in investment management, pension management, public fund management, the banking profession or a licensed attorney or a licensed accountant.

(g) Restatement and Reclassifications

On July 1, 2016, the System implemented Governmental Accounting Standards Board (GASB) Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions* (GASB 74). GASB 74 presents improved information about postemployment benefit plans other than pensions (OPEB). The System administers a health insurance subsidy plan (HISP), which is considered OPEB in accordance with the provisions of GASB 74. As a result of the implementation of GASB 74, a beginning balance restatement occurred as follows:

	Pension Plan	Health Insurance Subsidy Plan	Combined
Net Position restricted for pension / HISP benefits as of June 30, 2016	$ 8,435,578,907	$ -	$ 8,435,578,907
Adoption of GASB 74	(280,129,184)	280,129,184	-
Net Position restricted for pension / HISP benefits as of June 30, 2016	$ 8,155,449,723	$ 280,129,184	$ 8,435,578,907

Certain amounts in prior-year financial statements have been reclassified to conform with the current year presentation.

(3) System Description and Contribution Information

The following brief description of the System is provided for general information purposes only. Participants should refer to Title 74 of the Oklahoma Statutes, Sections 901 through 932 and 935, as amended, for more complete information.

(a) General

The System is a multiple-employer, cost-sharing public employee retirement plan, which is a defined benefit pension plan covering substantially all state employees except employees covered by seven other plans sponsored by the State. It also covers employees of participating county and local agencies. Nearly all new state employees first employed by a System participating employer on or after November 1, 2015, will participate in the State's new defined contribution plan. Therefore, the System is closed to nearly all new State employees, but remains open to new employees of participating counties and local agencies. Agencies and/or participants not included in the System are as follows: teachers, municipal police, municipal firefighters, judicial, wildlife, state law enforcement and nearly all State employees first employed on or after November 1, 2015.

The System also administers the Health Insurance Subsidy Plan, a cost-sharing multiple-employer defined benefit OPEB plan that provides OPEB covering the same categories of employees covered by the pension plan.

Notes to Financial Statements (continued)

The supervisory authority for the management and operation of the System and HISP is the Board, which acts as a fiduciary for investment of the funds and the application of System interpretations.

At June 30, the System's membership consisted of:

	2017
Inactive members or their beneficiaries currently receiving benefits	34,579
Inactive members entitled to but not yet receiving benefits	5,951
Active members	38,873
Total	79,403

*Of the inactive members or their beneficiaries currently receiving benefits, 14,262 are retirees and beneficiaries in the HISP. The Plan also includes 52,126 nonvested terminated members entitled to a refund of their member contributions as of June 30, 2017.

For purposes of the discussion on benefits and contributions, the members are described in the following categories: hazardous duty members, which includes certain employees of the Department of Corrections who are classified as correction officers, probation and parole officers, and fugitive apprehension agents along with Oklahoma Military Department firefighters; elected officials, which includes elected officials who serve the State and participating counties; and State, county, and local agency employees, which includes all other employees previously described. If the member category is not specifically identified, the attributes of the System discussed apply to all members.

(b) Benefits

Pensions

Members qualify for full retirement benefits at their specified normal retirement age or, for any person who became a member prior to July 1, 1992, when the sum of the member's age and years of credited service equals or exceeds 80 (Rule of 80), and for any person who became a member after June 30, 1992, when the member's age and years of credited service equals or exceeds 90 (Rule of 90).

Normal retirement date is further qualified to require that all members employed on or after January 1, 1983 must have six or more years of full-time equivalent employment with a participating employer before being eligible to receive benefits. Credited service is the sum of participating and prior service. Prior service includes nonparticipating service before January 1, 1975, or the entry date of the employer and active wartime military service.

A member with a minimum of ten years of participating service may elect early retirement with reduced benefits beginning at age 55 if the participant became a member prior to November 1, 2011, or age 60 if the participant became a member on or after November 1, 2011.

Disability retirement benefits are available for members having eight years of credited service whose disability status has been certified as being within one year of the last day on the job by the Social Security Administration. Disability retirement benefits are determined in the same manner as retirement benefits, but payable immediately without an actuarial reduction.

Health Insurance Subsidy Plan

HISP provides a health insurance premium subsidy for retirees of the System who elect to maintain health insurance with the Oklahoma Employees Group Insurance Division (EGID) or other qualified insurance plan provided by the employer. This subsidy continues until the retiree terminates health insurance coverage with EGID or other qualified plan, or until death. The subsidy is only for the retiree, not joint annuitants or beneficiaries.

Notes to Financial Statements (continued)

The following are various benefit attributes for each member category:

State, County, and Local Agency Employees

Benefits are determined at 2% of the average annual salary received during the highest thirty-six months of the last ten years of participating service, but not to exceed the applicable annual salary cap, multiplied by the number of years of credited service. Members who join OPERS on or after July 1, 2013, will have their salary averaged over the highest 60 months of the last ten years. Normal retirement age under the System is 62 or Rule of 80/90 if the participant became a member prior to November 1, 2011, or age 65 or Rule of 90 if the participant became a member on or after November 1, 2011.

Members who elect to pay the additional contribution rate, which became available in January 2004, will receive benefits using a 2.5% computation factor for each full year the additional contributions are made. In 2004, legislation was enacted to provide an increased benefit to retiring members who were not yet eligible for Medicare. The Medicare Gap benefit option became available to members under age 65 who retired on or after May 1, 2006. Members may elect to receive a temporary increased benefit to cover the cost of health insurance premiums until the member is eligible to receive Medicare. After the member becomes eligible for Medicare, the retirement benefit will be permanently reduced by an actuarially determined amount. The option is irrevocable, must be chosen prior to retirement, and is structured to have a neutral actuarial cost to the System.

Members become eligible to vest fully upon termination of employment after attaining eight years of credited service, or the members' contributions may be withdrawn upon termination of employment.

Elected Officials

Benefits are determined as the greater of the calculation described in the preceding section or, based on the official's contribution election, either 1.9% or 4.0% of the highest annual covered compensation received as an elected official, but not to exceed the applicable annual salary cap, multiplied by the number of years of credited service. For members elected prior to November 1, 2011, normal retirement age under the System is 60 with six years of participation as an elected official or Rule of 80. For members elected on or after November 1, 2011, the normal retirement age is 62 with 10 years of participation as an elected official or 65 with eight years of participation as an elected official. Members elected prior to November 1, 2011 become eligible to vest fully upon termination of employment after attaining six years of participating service as an elected official. Members elected on or after November 1, 2011 become eligible to vest fully upon termination of employment after attaining eight years of participating service as an elected official. The members' contributions may be withdrawn upon termination of employment.

Hazardous Duty Members

Benefits are determined at (a) 2.5% of the final average compensation up to the applicable annual salary cap multiplied by the number of years of service as a hazardous duty member not to exceed 20 years and (b) 2.0% of the final average compensation multiplied by the number of years of service in excess of 20 years and any other years of service creditable. Normal retirement age under the System is 62 or at completion of 20 years of creditable service as a hazardous duty member or Rule of 80/90 if participant became a member prior to November 1, 2011, or age 65 or at completion of 20 years of creditable service as a hazardous duty member or Rule of 90 if participant became a member on or after November 1, 2011.

Notes to Financial Statements (continued)

Military Department firefighters are not restricted to a maximum of 20 years of hazardous duty for the 2.5% computation.

However, members who contributed prior to July 1, 1990 but do not qualify for normal retirement as a hazardous duty member shall receive benefits computed at 2.5% of the final compensation for those full time years as a hazardous duty member after July 1, 1990, 2.25% before July 1, 1990, and 2.0% for all other years of credited service. Members become eligible to vest fully after 20 years of full time service as a hazardous duty member.

Upon the death of an active member, the accumulated contributions of the member are paid to the member's named beneficiary(ies) in a single lump sum payment. If a retired member elected a joint annuitant survivor option or an active member was eligible to retire with either reduced or unreduced benefits or eligible to vest the retirement benefit at the time of death, benefits can be paid in monthly payments over the life of the spouse if the spouse so elects.

Benefits are payable to the surviving spouse of an elected official only if the elected official had at least six years of participating elected service and was married at least three years immediately preceding death. Survivor benefits are terminated upon death of the named survivor and, for elected officials, remarriage of the surviving spouse. Upon the death of a retired member, with no survivor benefits payable, the member's beneficiary(ies) are paid the excess, if any, of the member's accumulated contributions over the sum of all retirement benefit payments made.

Upon the death of a retired member, the System will pay a $5,000 death benefit to the member's beneficiary or estate of the member if there is no living beneficiary. The death benefit will be paid in addition to any excess employee contributions or survivor benefits due to the beneficiary. Death benefits paid for the years ended June 30, 2017 and 2016 totaled approximately $5,493,000 and $5,190,000, respectively.

Legislation was enacted in 1999 which provided a limited additional benefit for certain terminated members eligible to vest as of July 1, 1998. This limited benefit is payable as an additional $200 monthly benefit upon the member's retirement up to the total amount of certain excess contributions paid by the participant to the System. In April 2001, limited benefit payments began for qualified retired members. The estimated liability for future payments of the limited benefit of approximately $0.4 million has been included in the calculation of the total pension liability of the System at June 30, 2017.

Benefits are established and may be amended by the State Legislature from time to time.

(c) Contributions

The contribution rates for each member category of the System are established by the Oklahoma Legislature after recommendation by the Board based on an actuarial calculation, which is performed to determine the adequacy of such contribution rates. An actuarially determined portion of the total contributions to the System are set aside to finance the cost of the benefits of the HISP in accordance with provisions of the Internal Revenue Code.

Each member participates based on their qualifying gross salary earned, excluding overtime. There is no cap on the qualifying gross salary earned, subject to Internal Revenue Service (IRS) limitations on compensation. Only employers contribute to the HISP.

The following contribution rates were in effect:

Notes to Financial Statements (continued)

State, County, and Local Agency Employees

For 2017, *state agency employers* contributed 16.5% on all salary, and *state employees* contributed 3.5% on all salary.

For 2017, contributions of *participating county and local agencies* totaled 20.0% of salary composed of a minimum employee contribution rate of 3.5% up to a maximum of 8.5% and a minimum employer contribution rate of 11.5% up to a maximum of 16.5%.

Members have the option to elect to increase the benefit computation factor for all future service from 2.0% to 2.5%. The election is irrevocable, binding for all future employment under OPERS, and applies only to full years of service. Those who make the election pay the standard contribution rate plus an additional contribution rate, 2.91% which is actuarially determined. The election is available for all state, county, and local government employees, except for elected officials and hazardous duty members.

Elected Officials

Elected officials' employee contributions are based on the maximum compensation levels set for all members, and the participating employers are required to contribute on the elected officials' covered salary using the same percentage and limits as applicable for state agencies. Members elected prior to November 1, 2011 must select an employee contribution rate of 4.5%, 6.0%, 7.5%, 8.5%, 9.0% or 10.0%. Members elected on or after November 1, 2011 have a contribution rate of 3.5%.

Effective July 1, 1999, elected officials must affirmatively elect or decline participation in the System within 90 days after taking office. This decision is irrevocable, and failure of an elected official to decline to participate in the System will be deemed as an irrevocable election to participate and contribute at the highest rate (currently 3.5% for officials elected on or after November 1, 2011). All current elected officials who had not elected to participate in the System must have either elected, including selecting a contribution rate, or declined to participate in the System on or before December 1, 1999.

Elected officials who are first elected or appointed to an elected office between November 1, 2010 and October 31, 2011 may only select one of two benefit computation factors - 1.9% or 4.0% - with the respective employee contribution rates of 4.5% or 10.0%.

Effective November 1, 2011, elected officials who are first elected or appointed to an elected office participate with a benefit computation factor of 2.0% with an employee contribution rate of 3.5%.

Hazardous Duty Members

For 2017, hazardous duty members contributed 8.0%, and their employer agencies contributed 16.5% on all salary.

(d) Participating Employers

At June 30, the number of participating employers for the pension plan and the HISP plan was as follows:

Notes to Financial Statements (continued)

	2017
State agencies	118
County governments	75
Local government towns and cities	29
Other local governmental units	62
Total	284

(e) Defined Contribution System created for New Members

House Bill 2630 and Senate Bill 2120 directed OPERS to establish a defined contribution retirement system for members first employed by a participating employer of the system on or after November 1, 2015, including statewide elected officials and legislators. The provisions of this bill are not applicable to hazardous duty members, district attorneys, assistant district attorneys or other employees of the district attorney's office who will continue to participate in the defined benefit plan. Also excluded are employees of a county, county elected officials, county hospital, city or town, conservation district, circuit engineering district, and any public or private trust in which a county, city or town participates and is the primary beneficiary.

This new defined contribution plan was created and implemented during the year ended June 30, 2016. Under this new plan, participating employees contribute a minimum of 4.5% of their compensation. Participating employers match employee contributions up to 7%. In addition to the matching contributions, participating employers are required to remit to OPERS the difference between the matching contributions for defined contribution plan members and the amount the participating employer would have contributed for a defined benefit plan member.

This new defined contribution plan is a separate and distinct plan that is has its own set of financial statements and is therefore not included in the disclosures of the OPERS defined benefit plan.

(4) Cash and Cash Equivalents

Cash and cash equivalents represent short-term investment funds held by the Office of the State Treasurer (State Treasurer) and the System's custodial agent, and foreign currency.

At June 30, cash and cash equivalents were:

	2017
Cash equivalents	
State Treasurer	$ 2,779,741
Custodial agent	114,068,389
Foreign currency	2,347,569
Total cash and cash equivalents	$ 119,195,699

Cash is deposited to *OK INVEST*, an internal investment pool of the State Treasurer with holdings limited to obligations of the U.S. Government, its agencies and instrumentalities, agency senior debt and mortgage-backed pass-through securities, tri-party repurchase agreements, money market mutual funds, collateralized certificates of deposit, commercial paper, obligations of state and local governments, and State of Israel Bonds. Participants are limited to qualifying agencies and funds within the State's reporting entity, and each participant maintains an interest in the underlying investments of *OK INVEST* and shares the risk of loss on the fund in proportion to the respective investment in the fund. The custodial agent cash equivalents consist of temporary investments in commingled trust funds of the System's custodial agent. The fund is composed of high-grade money market instruments with short maturities. Each participant in the fund shares the risk of loss on the fund in proportion to the respective investment in the fund.

Notes to Financial Statements (continued)

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agency but not in the depositor-government's name. At June 30, 2017, the cash equivalents in *OK INVEST* and the System's custodial agent cash equivalents were not exposed to custodial credit risk because their existence cannot be evidenced by securities that exist in physical or book entry form.

The System holds foreign currency in banks outside the United States as a result of transactions of international investment managers. The foreign currency is in accounts in the name of the System's custodial agent and is uncollateralized, and the System is exposed to custodial credit risk. At June 30, 2017, the foreign currency holdings were $2,347,569. The System's exposure to foreign currency risk is detailed in the section entitled Investments, Foreign Currency Risk.

(5) Investments

(a) General

Investments are pooled for administrative purposes and then allocated to the pension plan and HISP based on actuarial data, inflows and outflows. The OPERS Statement of Investment Policy states that the Board believes that System assets should be managed in a fashion that reflects the System's unique liabilities and funding resources, incorporating accepted investment theory and reliable empirical evidence. Specifically, the Board has adopted the following principles:

- Asset allocation is the key determinant of return, and therefore, commitments to asset allocation targets will be maintained through a disciplined rebalancing program.
- Diversification, both by and within asset classes, is the primary risk control element.
- Passive fund portfolios are suitable investment strategies, especially in highly efficient markets. These index funds which are externally managed by professional investment management firms selected through due diligence of the Board are deemed to be actively managed accounts within the meaning of Section 909.1(D) of Title 74 of the Oklahoma Statutes.

The investment policy, guidelines, and objectives which govern the investment of System and HISP assets shall be developed and adopted by the Board of Trustees at a regularly scheduled public Board meeting, at least annually, prior to August 1 of each year. Changes to the investment policy may be made, as necessary, at any public meeting of the Board of Trustees, in compliance with the Open Meeting Act. During 2015, the investment policy was modified to allow investments in certain real estate-related assets.

The asset allocation guidelines established by policy at June 30, 2017, were U.S. equities – 40%, international equities – 28% and domestic fixed income – 32%. The guidelines also establish minimum and maximum percentages for each asset class allocation, and when allocations move outside these limits, portfolios are rebalanced.

Notes to Financial Statements (continued)

The fair value of investments held by the System at June 30 was as follows:

		2017
U.S. Treasury notes/bonds	$	1,127,901,185
U.S. TIPS index fund		302,179,401
Government agencies		6,287,681
Government mortgage-backed securities		669,924,779
Foreign bonds		9,237,760
Municipal bonds		18,197,190
Corporate bonds		711,801,112
Asset-backed securities		156,956,304
Commercial mortgage-backed securities		71,016,975
Non government backed collateralized mortgage obligations		22,889,244
Domestic equities		2,163,658,371
U.S. equity index fund		1,549,521,205
International equities		896,202,932
International equity index funds		1,643,299,407
Real estate		12,100,000
Securities lending collateral		639,984,979
Total investments	$	10,001,158,525

The System participates in fixed income and international and domestic equity index funds managed by BlackRock Institutional Trust Company, N.A. (BTC). BTC, a subsidiary of BlackRock Inc., is a national banking association and operates as a limited purpose trust company. Its primary regulator is the Office of the Comptroller of the Currency (OCC), the agency of the U.S. Treasury Department that regulates United States national banks. Each fund is a collective fund which is a group trust and an entity separate from BTC, other funds, and the investing participants. BTC is trustee of each of the collective fund trusts and holds legal title to each trust's assets for the exclusive benefit of the System. The fair value of the System's position in the pool is the same as the value of the pool shares. As of June 30, 2017, the System was invested in two domestic equity index funds, two international equity index funds, and a fixed income index fund. The System shares the risk of loss in these funds with other participants in proportion to its respective investment. Because the System does not own any specific identifiable investment securities of these funds, the risk associated with any derivative investments held in these funds is not apparent. The degree of risk depends on the underlying portfolios of the funds, which were selected by the System in accordance with its investment policy guidelines including risk assessment.

The international funds invest primarily in equity securities of entities outside 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.

Securities Lending

The System's investment policy provides for its participation in a securities lending program. The program is administered by the System's master custodian, and there are no restrictions on the amount of loans that can be made. During 2017, the types of securities loaned were primarily U.S. Government and corporate bonds, domestic equity securities, and international equity securities. Certain securities of the System are loaned to participating brokers, who must provide collateral in the form of cash, U.S. Treasury or Government Agency securities, or letters of credit issued by approved banks.

Under the terms of the securities lending agreement, collateral is required to be provided in the amount of 102% of the fair value of U.S. securities loaned and 105% of the fair value of non-U.S. securities loaned. At June 30, 2017, the System had no credit risk exposure to borrowers because the amounts the System owes the borrowers exceed the amounts the borrowers owe the System. The securities on loan at June 30, 2017

Notes to Financial Statements (continued)

collateralized by cash collateral were $625,686,133, and the cash collateral received for those securities on loan was $639,984,979. In addition, the securities on loan at June 30, 2017 collateralized by non-cash collateral were $117,402,420, and the market value of the non-cash collateral for those securities on loan was $120,009,989. The master custodian provides for full indemnification to the System for any losses that might occur in the program due to the failure of a broker to return a security that was borrowed (and if the collateral is inadequate to replace the securities lent) or failure to pay the System for income of the securities while on loan. The System cannot pledge or sell collateral securities unless the borrower defaults. The loan premium paid by the borrower of the securities is apportioned between the System and its custodial agent in accordance with the securities lending agreement. All securities loans can be terminated on demand by either the lender or the borrower.

The securities lending agreement provides that cash collateral be invested in the custodial agent's short-term investment pool and sets forth credit quality standards, acceptable investments, diversification standards, and maturity and liquidity constraints for the investment fund. The System's investment guidelines do not require a matching of investment maturities with loan maturities but do establish minimum levels of liquidity and other investment restrictions designed to minimize the interest rate risk associated with not matching the maturities of the investments with the loans. At June 30, 2017, the cash collateral investments had an average weighted maturity of 17 days, and the relationship between the maturities of the custodial agent's investment pool and the System's loans is affected by the maturities of the securities loans made by other entities that use the agent's pool, which the System cannot determine. The System's non-cash collateral is represented by its allocated share of a pool administered by the agent for the System and other pool participants.

(b) Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will default or will otherwise not fulfill its obligations.

The System's investment guidelines provide for the domestic fixed income managers to follow one of four investment styles and specifies quality guidelines for each style.

The *Constrained Core* manager will invest in a broadly diversified portfolio with characteristics similar to a broad fixed income market index, such as the Barclays Capital Aggregate Bond Index. The total portfolio minimum quality should be A as rated by Standard and Poor's (S&P). The portfolio should primarily consist of investment grade securities, with a minimum quality rating for any issue of BBB- (S&P) or its equivalent rating by at least one Nationally Recognized Statistical Rating Organization (NASRO). In the event that a credit rating is downgraded below this minimum, the investment manager shall immediately notify OPERS staff and provide an evaluation and recommended course of action.

The *Core Plus* manager will invest in a broadly diversified portfolio with characteristics similar to the Constrained Core manager and will add a "plus" of limited exposure to high yield bonds. The total portfolio minimum quality should be A as rated by S&P. No more than 20% of the portfolio shall consist of non-investment grade issues. The minimum quality rating for any issue is B (S&P) or its equivalent rating by at least one NASRO, and no more than 5% of a portfolio shall be invested in issues rated below BB (S&P) or its equivalent rating by at least one NASRO. In the event that a credit rating is downgraded below this minimum, the investment manager shall immediately notify OPERS staff and provide an evaluation and recommended course of action.

The *Interest Rate Anticipator* manager follows a style that seeks to correctly forecast the long term trend in interest rates and adjust the portfolio duration accordingly. The total portfolio minimum quality should be A as rated by S&P, and the portfolio should consist of investment grade securities only.

Notes to Financial Statements (continued)

The *Passive* fixed income style consists of a TIPS index fund. TIPS are securities issued by the U.S. Government that are designed to protect the purchasing power of the investor.

At June 30, 2017, the domestic fixed income portfolio consisted of a constrained core fixed income portfolio, a core plus fixed income portfolio, a rate anticipator portfolio, and a passive U.S. TIPS Index fund. All components met the stated policy restrictions except the core fixed income portfolio, which held $1,992,698 in issues rated below BBB-, and the core plus fixed income portfolio, which held $5,662,170 in issues rated below B. The System's investment managers have advised retention of the securities after having assessed their risk/reward profiles.

Investments issued by or explicitly guaranteed by the U.S. Government are not considered to have credit risk. At June 30, 2017, the System held 38.6% of fixed income investments that were not considered to have credit risk and 9.8% in a U.S. TIPS index fund made up of explicitly guaranteed U.S. Treasury Inflation-Protected Securities. Implicitly guaranteed investments primarily refer to bonds issued by a government sponsored entity (GSE) which is a government chartered corporation. This government charter implies that the government is unlikely to allow a GSE to default on its bond payments.

The System's exposure to credit risk at June 30, 2017 is presented below, in thousands, by investment category as rated by S&P or Moody's Investor Service.

	AAA/Aaa	AA/Aa	A/A	BBB/Baa	BB/Ba	B/B	CCC/Caa	Not Rated or Rating Not Available	Total
Government agencies	$ -	$ -	$ -	$ 616	$ -	$ -	$ -	$ -	$ 616
Foreign bonds	-	-	-	8,754	484	-	-	-	9,238
Municipal bonds	3,558	9,880	4,759	-	-	-	-	-	18,197
Corporate bonds	15,484	39,804	208,493	309,796	11,691	4,128	-	122,405	711,801
Asset-backed securities	100,463	25,436	17,274	4,363	2,206	3,160	1,424	2,630	156,956
Commercial mortgage-backed securities	56,619	5,325	-	2,304	-	-	-	6,769	71,017
Non government backed collateralized mortgage obligations	6,715	6,644	7,100	2,273	-	-	-	157	22,889
Total fixed income securities exposed to credit risk	$ 182,839	$ 87,089	$ 237,626	$ 328,106	$14,381	$ 7,288	$ 1,424	$ 131,961	$ 990,714
Percent of total fixed income portfolio	5.9%	2.8%	7.7%	10.6%	0.5%	0.2%	0.0%	4.3%	32.0%

The exposure to credit risk of the underlying investments of the System's cash equivalents at June 30 is as follows:

Credit Rating	2017
AAA	0.1 %
AA	95.8
A1	4.1
	100.0 %

(c) Concentration of Credit Risk

Investments can be exposed to concentration of credit risk if significant amounts are invested in any one issuer. The System's investment policy states that portfolios managed on behalf of the System should not hold more than 5% of the outstanding securities of any single issuer. As of June 30, 2017, the System did not have 5% or more of its total investments in any single issuer.

Notes to Financial Statements (continued)

(d) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment or a deposit. Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates based upon the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price. Effective duration estimates the sensitivity of a bond's price to interest rate changes and makes assumpti1ons regarding the most likely timing and amounts of variable cash flows arising from investments, such as callable bonds, collateralized mortgage obligations, and other mortgage-backed securities.

At June 30, the System's exposure to interest rate risk as measured by effective duration is listed below by investment category.

	2017	
	Fair Value	Effective duration in years
U.S. Treasury notes/bonds	$ 1,127,901,185	10.8
U.S. TIPS index fund	302,179,401	7.8
Government agencies	6,287,681	10.3
Government mortgage-backed securities	669,924,779	4.4
Foreign bonds	9,237,760	9.2
Municipal bonds	18,197,190	6.4
Corporate bonds	711,801,112	5.1
Asset-backed securities	156,956,304	1.0
Commercial mortgage-backed securities	71,016,975	3.9
Non government backed collateralized mortgage obligations	22,889,244	1.2
Total fixed income	$ 3,096,391,631	
Porfolio duration		7.0

The System does not have a formal investment policy on interest rate risk. Interest rate risk is controlled through diversification of portfolio management styles.

Some investments' sensitivity to changing interest rates may derive from prepayment options embedded in an investment. Asset-backed securities, mortgage-backed securities, and collateralized mortgage obligations are pass-through securities that represent pooled debt obligations repackaged as securities that pass income and principal from debtors through the intermediary to investors.

Asset-backed securities are bonds or notes backed by loan paper or accounts receivable originated by banks, credit card companies, or other providers of credit and often enhanced by a bank letter of credit or by insurance coverage proved by an institution other than the issuer. At June 30, 2017, the System held $156,956,304 in asset-backed securities.

Mortgage-backed securities are securities backed by mortgages issued by public and private institutions. At June 30, 2017, the System held $669,924,779 in government mortgage-backed securities issued by the Federal Home Loan Mortgage Corporation (FHLMC), Government National Mortgage Association (GNMA), and Federal National Mortgage Association (FNMA) as well as $71,016,975 in commercial mortgage-backed securities.

Notes to Financial Statements (continued)

Collateralized mortgage obligations (CMOs) are mortgage-backed bonds that allocate mortgage cash flows (interest and principal) into different maturity classes, called tranches. This is accomplished by dedicating mortgage cash flows to specific tranches and paying each tranche off in turn by prespecified rules. CMOs provide investors with increased security about the life of their investment compared to purchasing a pass-through mortgage-backed security. If mortgage rates drop (rise) sharply, prepayment rates will increase (decrease), and CMO tranches may be repaid before (after) the expected maturity. At June 30, 2017, the System held $22,889,244 in non-government backed CMOs.

The exposure to interest rate risk of the underlying investments of the System's cash equivalents at June 30 is as follows:

Maturities (in days)	**2017**
0 - 14	37.8 %
15 - 30	2.6
31 - 60	12.3
61 - 90	19.9
91 - 180	9.3
181 - 364	16.5
365 - 730	1.6
	100.0 %

(e) 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 OPERS Statement of Investment Policy addresses foreign currency risk by stating that the primary sources of value-added for international equity investment managers will be issue and country selection, with currency management focused on limiting losses due to fluctuations in currency values.

Notes to Financial Statements (continued)

The System's exposure to foreign currency risk by asset class at June 30, 2017 is as follows:

Currency	Equities	Short-term Investments	Cash	Total	Percent
Australian dollar	$ 22,874,325	$ -	$ 143,003	$ 23,017,328	0.9 %
Brazilian real	11,285,447	189,665	6	11,475,118	0.5
British pound sterling	145,944,637	238,242	380,836	146,563,715	5.8
Canadian dollar	5,426,988	-	154,454	5,581,442	0.2
Danish krone	19,879,680	-	-	19,879,680	0.8
Euro	181,698,391	-	20,101	181,718,492	7.1
Hong Kong dollar	33,655,533	625,581	215,522	34,496,636	1.4
Indonesian rupiah	2,062,054	-	-	2,062,054	0.1
Japanese yen	136,821,458	(637,117)	859,664	137,044,005	5.4
Malaysian ringgit	8,717,064	-	1	8,717,065	0.3
Mexican peso	7,234,175	-	246,444	7,480,619	0.3
Philippine peso	1,220,931	-	-	1,220,931	0.0
Polish zloty	-	-	446	446	0.0
Qatari rial	2,132,410	-	-	2,132,410	0.1
Singapore dollar	33,574,735	-	49,472	33,624,207	1.3
South African rand	20,613,284	79,151	133,653	20,826,088	0.8
South Korean won	24,049,386	(71,779)	83,693	24,061,300	0.9
Swedish krona	39,892,209	-	-	39,892,209	1.6
Swiss franc	65,726,044	-	-	65,726,044	2.6
Thai baht	3,427,638	-	-	3,427,638	0.1
Turkish lira	5,818,007	-	60,274	5,878,281	0.2
United Arab Emirates dirham	2,040,638	-	-	2,040,638	0.1
International portfolio exposed to foreign currency risk	774,095,034	423,743	2,347,569	776,866,346	30.5
International portfolio in U.S. dollars	1,765,409,464	(425,903)	5,291,979	1,770,275,540	69.5
Total international portfolio	$ 2,539,504,498	$ (2,160)	$ 7,639,548	$ 2,547,141,886	100.0 %

The System's actively-managed international equity securities are recorded at fair value, which includes foreign currency gains and losses attributable to fluctuations in the exchange rate between the foreign denominated currency of the investment and the U.S. dollar. This translation gain or loss is calculated based on month-end exchange rates. Cumulative unrealized translation losses at June 30, 2017 were approximately $59.5 million.

(f) Rate of Return

For the year ended June 30, 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 12.64%, and the annual money-weighted rate of return on HISP plan investments, net of HISP plan investment expenses, was 12.76%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

(g) Fair Value Measurement

The System categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The inputs to the three levels of the fair value hierarchy are described as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities

Level 2: Significant other observable inputs, including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets in markets that are not active and other market corroborated inputs

Notes to Financial Statements (continued)

Level 3: Significant unobservable inputs

Investments in equity securities classified in level 1 are valued directly from a predetermined primary external pricing vendor using published prices. Investments in debt securities classified as level 2 are obtained from using an alternative pricing source due to lack of information by the primary vendor. The investment in real estate is classified as level 3 due to lack of observable pricing inputs and is valued using annual appraisals.

Assets measured at fair value and net asset value at June 30, 2017 are as follows:

		Fair Value Measurements Using		
Investments by Fair Value Level	**6/30/2017**	**Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Short-term investment fund	$ 110,247,798	$ -	$ 110,247,798	$ -
Debt Securities				
U.S. Treasury notes/bonds	$ 1,127,901,185	$ -	$ 1,127,901,185	$ -
Government agencies	6,287,681	-	6,287,681	-
Government mortgage-backed	669,924,779	-	669,924,779	-
Foreign bonds	9,237,760	-	9,237,760	-
Municipal bonds	18,197,190	-	18,197,190	-
Corporate bonds	711,801,112	-	711,801,112	-
Asset-backed securities	156,956,304	-	156,956,304	-
Commercial mortgage-backed	71,016,975	-	71,016,975	-
Non government backed collateralized mortgage obligations	22,889,244	-	22,889,244	-
Total Debt Securities	2,794,212,230	-	2,794,212,230	-
Equity Securities				
International equities	896,202,932	896,202,932	-	-
U.S. common and preferred stock	2,163,658,371	2,163,658,371	-	-
Total Equity Securities	3,059,861,303	3,059,861,303	-	-
Real estate				
Real estate	12,100,000	-	-	12,100,000
Total Investments by Fair Value Level	$ 5,866,173,533	$ 3,059,861,303	$ 2,794,212,230	$ 12,100,000
Investments Measured at the Net Asset Value (NAV)				
U.S. TIPS index fund	$ 302,179,401			
International equity index funds	1,643,299,407			
U.S. equity index fund	1,549,521,205			
Total Investments Measured at NAV	3,495,000,013			
Securities lending collateral	639,984,979			
Total Investments	$ 10,001,158,525			

There have been no significant changes in valuation techniques during the fiscal year ended June 30, 2017.

Certain investments that do not have a readily determinable fair value are measured at NAV (or its equivalent), such as member units or an ownership interest. NAV per share is calculated as of the System's year-end in a manner consistent with the Financial Accounting Standards Board's measurement principles for investment companies. The valuation method for investments measured at the NAV per share, or equivalent, is presented in the table below.

Notes to Financial Statements (continued)

Investments Measured at the Net Asset Value	6/30/2017	Redemption Frequency	Redemption Notice Period
U.S. TIPS index fund (1)	$ 302,179,401	Daily	2 days
International equity index funds (2)	1,643,299,407	Daily	2 days
U.S. equity index fund (3)	1,549,521,205	Daily	1 day
	$ 3,495,000,013		

(1) **U.S. TIPS index fund** – The US Treasury Inflation Protected Securities fund is an index fund that establishes an objective of delivering investment performance approximating the rate of return for outstanding US Treasury inflation protected securities with a maturity of one year or greater. The investment is valued at the net asset value of units held at the end of the period based upon the fair value of the underlying investments

(2) **International Equity Index Funds** – The International equity funds consist of index funds that are designed to track various segments of non-US equity markets. Those index funds include the ACWI ex-US Index Fund and the ACWI ex-US Growth Index Fund. The index funds are invested and reinvested in portfolios of non-US developed and emerging markets equity securities, with the objective of approximating the capitalization-weighted return of each respective market segment for publicly traded equity securities. The investment is valued at the net asset value of units held at the end of the period based upon the fair value of the underlying investments.

(3) **U.S. Equity Index Fund** – The US equity fund consist of an index fund that is designed to track various segments of US equity markets. That index fund is the Russell 1000 Index Fund. The index fund is invested and reinvested in portfolios of US equity securities, with the objective of approximating the capitalization-weighted return of each respective market segment for publicly traded equity securities. The investment is valued at the net asset value of units held at the end of the period based upon the fair value of the underlying investments.

The System had no unfunded commitments related to investments measured at NAV as of June 30, 2017.

(6) Net Pension Liability, Net HISP Liability and Actuarial Information

(a) Net Pension Liability and Net HISP Liability of Participating Agencies

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

	2017
Total pension liability	$ 9,454,641,808
Plan ficuciary net position	$ 8,913,978,627
Employers' net pension liability	$ 540,663,181
Plan fiduciary net position as a percentage of the total pension liability	94.28%

The Components of the net HISP liability of the employers at June 30 were as follows:

	2017
Total HISP liability	$ 326,975,262
HISP plan ficuciary net position	$ 315,521,246
Employers' net HISP liability	$ 11,454,016
Plan fiduciary net position as a percentage of the total HISP liability	96.50%

Notes to Financial Statements (continued)

(b) Actuarial Methods and Assumptions

The total pension liability and total HISP liability, both as of June 30, 2017, were determined based on actuarial valuations prepared as of July 1, 2017, using the following actuarial assumptions:

- Investment return – 7.00% compounded annually net of investment expense and including inflation
- Salary increases – 3.5% to 9.5% per year including inflation
- Mortality rates – active participants and nondisabled pensioners – RP-2014 Mortality Table projected to 2025 by Scale MP-2016 (disabled pensioners set forward 12 years)
- No annual post-retirement benefit increases
- Assumed inflation rate – 2.75%
- Payroll growth – 3.5%
- Actuarial cost method – Entry age
- Select period for the termination of employment assumptions – 10 years

The actuarial assumptions used in the July 1, 2017, valuation are based on the results of the most recent actuarial experience study, which covered the three-year period ending June 30, 2016. The experience study report is dated April 13, 2017.

The long-term expected rate of return on pension plan investments and HISP plan investments was determined using a log-normal distribution analysis 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 HISP represents a subsidy that is capped at $105 per month per retiree.

The target asset allocation and best estimates of geometric real rates of return for each major asset class as of June 30, 2017, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Large Cap Equity	38.0%	5.3%
U.S. Small Cap Equity	6.0%	5.6%
U.S. Fixed Income	25.0%	0.7%
International Stock	18.0%	5.6%
Emerging Market Stock	6.0%	6.4%
TIPS	3.5%	0.7%
Rate Anticipation	3.5%	1.5%
Total	100.0%	

(c) Discount rate

The discount rate used to measure the total pension liability and the total HISP liability was 7.00% for 2017. The projection of cash flows used to determine the discount rate assumed that contributions from System members and the employers will be made at the current contribution rate as set out in state statute. Based on those assumptions, the pension plan's fiduciary net position and the HISP's fiduciary net position were projected through 2114 to be available to make all projected future benefit payments of current System members. Therefore, the long-term expected rate of return on pension plan and HISP plan investments was applied to all periods of projected benefit payments to determine the total pension liability and total HISP liability. The discount rate determined does not use a municipal bond rate.

Sensitivity of the net pension liability and net HISP liability to changes in the discount rate

The following presents the net pension liability of the employer calculated using the discount rate of 7.00% for 2017, as well as what the System's net pension liability (asset) would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	June 30, 2017		
	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Net pension liability (asset)	$ 1,597,952,521	$ 540,663,181	$ (354,612,797)

The following presents the net HISP liability of the employer calculated using the discount rate of 7.00% for 2017, as well as what the System's net HISP liability (asset) would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	June 30, 2017		
	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Net HISP liability (asset)	$ 45,242,503	$ 11,454,016	$ (17,594,704)

Due to the structure of the HISP, healthcare cost trend rate sensitivity analysis is not meaningful.

(7) Federal Income Tax Status

Pursuant to a determination by the IRS, the System is qualified under the Internal Revenue Code of 1986, as amended and, therefore, is exempt from federal income taxes. The latest determination letter is dated October 28, 2014 and was a favorable determination for the Oklahoma Public Employees Retirement Plan. The System has been amended since receiving the determination letter; however, the System administrator believes that the System is designed and is currently being operated in substantial compliance with the applicable requirements of the Internal Revenue Code and will retain its status as a qualified plan.

(8) Plan Amendments

During 2017, the State Legislature enacted the following System provisions during the session ended in May 2017:

(a) Oklahoma State Treasurer Added to Board

SB 242 adds the Oklahoma State Treasurer, or his/her designee, to the OPERS and Teachers' Retirement System Board of Trustees.

(b) Clarification of Certain System Provisions

OPERS requested HB 1704 to clarify certain System provisions for elected officials and for public safety officers under the Grand River Dam Authority (GRDA).

Elected Officials – Prior to the new legislation, if an elected official chose the maximum retirement option with a one-half survivor annuity, the surviving spouse would only receive the survivor annuity if he/she did not remarry after the elected official's death. The amended language removed the prohibition against remarriage.

GRDA Public Safety Officers – The statutory cite for hazardous duty exemptions in the System's new defined contribution plan needed to be updated to include GRDA officers.

(9) New Accounting Pronouncements

The following GASB statements were implemented during the fiscal year:

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions* improves the usefulness of information about OPEB to be included in general purpose external financial reports of OPEB plans. As previously discussed, the implementation of GASB 74 resulted in a restatement of restricted net position at the beginning of the year, disaggregating amounts.

GASB Statement No. 77, *Tax Abatement Disclosures* provides additional disclosure related to certain types of tax abatements. This statement had no effect on the System.

GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans* addresses practice issues regarding the scope of GASB-68, *Accounting and Financial Reporting for Pensions* and certain multiple-employer plans that are not state or local governmental pension plans and that may provide defined benefit pensions to both governmental and non-governmental employees. This statement had no effect on the System.

GASB Statement No. 80, *Blending Requirements for Certain Component Units* also addresses a practice issue regarding the presentation of not-for-profit corporations and similar component units where a primary government is the sole corporate member of the component unit. This statement had no effect on the plan.

GASB Statement No. 82, *Pension Issues – An Amendment to GASB Statements No. 67, No. 68, and No. 73* (GASB 82). The objective of GASB 82 is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The System made certain clarifications in the Required Supplementary Information with regard to payroll-related measures to conform to the provisions of GASB 82.

In addition, the following accounting pronouncements have been issued by the GASB, but not yet adopted:

<u>Fiscal Year Ended June 30, 2018:</u>

For the fiscal year ended June 30, 2018, the System will assist employers of the State in their implementation of GASB Statement No. 75 (GASB 75), *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. GASB 75 requires employers to provide additional information regarding OPEB in their financial statements. The System will provide such information in the form of additional schedules.

GASB Statement No. 81 (GASB 81), *Irrevocable Split-Interest Agreements* provides additional accounting and financial reporting information for circumstances when a government is a beneficiary or and administrator of such agreements. As of the date of the financial statements, the System is currently evaluating the effects of this pronouncement.

Notes to Financial Statements (continued)

GASB Statement No. 85 (GASB 85), *Omnibus 2017* addresses practice issues identified in the implementation and application of existing GASB Statements. The issues involve certain situations involving blending component units, goodwill, fair value measurement and application, pensions and OPEB. As of the date of the financial statements, the System is currently evaluating the effects of this pronouncement.

GASB Statement No. 86 (GASB 86), *Certain Debt Extinguishment Issues* improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired only with existing resources – resources other than the proceeds of refunding deb t- are placed in an irrevocable trust for the sole purpose of extinguishing debt. As of the date of the financial statements, the System is currently evaluating the effects of this pronouncement.

<u>Fiscal Year Ended June 30, 2019 (and beyond</u>):

GASB Statement No. 83 (GASB 83), *Certain Asset Retirement Obligations* addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance. GASB 83 is effective for reporting periods beginning after June 15, 2018. As of the date of the financial statements, the System is currently evaluating the effects of this pronouncement.

GASB Statement No. 84 (GASB 84), *Fiduciary Activities* seeks to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. GASB-84 establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. GASB 84 is effective for reporting periods beginning after December 15, 2018. As of the date of the financial statements, the System is currently evaluating the effects of this pronouncement.

GASB Statement No. 87 (GASB 87), *Leases* increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this GASB 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. GASB 87 is effective for reporting periods beginning after December 15, 2019. As of the date of the financial statements, the System is currently evaluating the effects of this pronouncement.

Required Supplementary Information
And Other Supplementary Information
June 30, 2017

Oklahoma Public Employees Retirement Plan

Required Supplementary Information

(Unaudited)

June 30, 2017

Schedule 1

Schedule of Changes in the Net Pension Liability ($ in Thousands)

Year Ended June 30,	2017	2016	2015	2014
Total Pension Liability				
Service cost	$ 177,082	$ 178,523	$ 175,809	$ 184,835
Interest	639,266	653,306	635,975	621,990
Difference between expected and actual experience	(117,283)	(52,745)	(11,228)	(89,172)
Changes of assumptions	238,225	233,874	-	15,413
Benefit payments	(573,962)	(565,412)	(542,488)	(520,641)
Refunds of contributions	(15,950)	(15,862)	(15,611)	(14,878)
Net change in total pension liability	347,378	431,684	242,457	197,547
Total pension liability - beginning	9,427,810	8,996,126	8,753,669	8,556,122
Adoption of GASB 74	(320,546)	-	-	-
Total pension liability - ending (a)	$ 9,454,642	$ 9,427,810	$ 8,996,126	$ 8,753,669
Plan Fiduciary Net Position				
Contributions - employer	$ 269,511	$ 296,249	$ 292,185	$ 280,047
Contributions - member	70,276	73,801	73,145	70,524
Net investment income	1,013,868	15,756	264,289	1,317,980
Benefit payments	(573,962)	(565,412)	(542,488)	(520,641)
Administrative expense	(5,214)	(5,395)	(5,183)	(4,709)
Refunds of contributions	(15,950)	(15,862)	(15,611)	(14,878)
Net change in plan fiduciary net position	758,529	(200,863)	66,337	1,128,323
Plan fiduciary net position - beginning	8,435,579	8,636,442	8,570,105	7,441,782
Adoption of GASB 74	(280,129)	-	-	-
Plan fiduciary net position - ending (b)	8,913,979	8,435,579	8,636,442	8,570,105
Net pension liability - ending (a) - (b)	$ 540,663	$ 992,231	$ 359,684	$ 183,564

Schedule of the Net Pension Liability ($ in Thousands)

Year Ended June 30,	2017	2016	2015	2014
Total pension liability	$ 9,454,642	$ 9,427,810	$ 8,996,126	$ 8,753,669
Plan fiduciary net position	8,913,979	8,435,579	8,636,442	8,570,105
Net pension liability	$ 540,663	$ 992,231	$ 359,684	$ 183,564
Ratio of plan fiduciary net position to total pension liability	94.28%	89.48%	96.00%	97.90%
Covered payroll	$ 1,790,810	$ 1,808,973	$ 1,744,042	$ 1,695,348
Net pension liability as a % of covered payroll	30.19%	54.85%	20.62%	10.83%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the information included is for those years for which information is available.

Discount Rate as of 6/30/2017 was changed to 7.00% from 2016.

Required Supplementary Information

Schedule of Pension Employer Contributions ($ in Thousands)

(Unaudited)

June 30, 2017

Schedule 2

Year Ended June 30,	2017	2016	2015	2014
Actuarially determined employer contribution	$ 176,016	$ 164,600	$ 200,784	$ 258,879
Actual employer contributions	269,511	296,249	292,185	280,047
Annul contribution deficiency (excess)	$ (93,495)	$ (131,649)	$ (91,401)	$ (21,168)
Covered payroll*	$ 1,790,810	$ 1,808,973	$ 1,744,042	$ 1,695,348
Actual contributions as a percentage of covered payroll*	15.05%	16.38%	16.75%	16.52%

* Covered payroll beginning in 2017 is for the defined benefit plan members only although employer contributions toward the net pension liability are being received on behalf of defined contribution plan members. Note: 2017 was the first year to exclude the health insurance subsidy.

Notes to Schedule

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the information included is for those years for which information is available.

Valuation date:

Actuarially determined contributions are calculated as of the beginning of the fiscal year in which contributions are reported

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	12 years
Asset valuation method	5-year moving average
Inflation	2.75% for 2017, 3.00% for 2016 and 2015
Salary increase	4.50 to 8.40 percent, including inflation
Investment rate of return	7.00% for 2017, 7.25% for 2016 and 7.50% for 2015, compounded annually, net of investment expense and including inflation
Retirement age	Age 65 for all members hired on or after November 1, 2011, age 62 for members hired prior to November 1, 2011
Mortality	For 2017, active participants and nondisabled pensioners – RP-2014 Mortality Table projected to 2025 by Scale MP-2016 (disabled pensioners set forward 12 years). For 2016, Active participants and nondisabled pensioners – RP-2000 Mortality Table projected to 2010 by Scale AA (disabled pensioners set forward 15 years)

Other information:

The plan has been amended by House Bill 2630 in 2014 which states that effective November 1, 2015, OPERS shall create a defined contribution plan for most people first employed by a participating employer. Exemptions from the new defined contribution plan include hazardous duty members and district attorneys, assistant district attorneys and employees of the district attorney's office. Each employer shall send to OPERS the difference between the required employer contribution to OPERS and the amount required to match the participating employee's contribution in the defined contribution plan.

Senate Bill 2120, also enacted in 2014, amends House Bill 2630 to further exempt from the new defined contribution plan county elected officials and employees of a county, county hospital, city or town, conservation district, circuit engineering district, and any public or private trust in which a county, city or town participates. Senate Bill 2120 also states that employees who participate in the defined contribution system are excluded from the $105 health subsidy.

New employees specifically exempted from the defined contribution plan will participate in the existing defined benefit plan.

Required Supplementary Information

Schedule of Money-Weighted Rate of Return on Pension Plan Investments

(Unaudited)

June 30, 2017

Schedule 3

Annual money-weighted rate of return, net of investment expense	
Year Ended June 30, 2017	12.64%
Year Ended June 30, 2016	0.18%
Year Ended June 30, 2015	3.12%
Year Ended June 30, 2014	17.96%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the information included is for those years for which information is available.

Required Supplementary Information

(Unaudited)

June 30, 2017

Schedule 4

Schedule of Changes in the Net HISP Liability ($ in Thousands)

Year Ended June 30,	2017
Total HISP Liability	
Service cost	$ 8,550,066
Interest	22,562,886
Difference between expected and actual experience	(16,757,130)
Changes of assumptions	11,072,934
Benefit payments	(18,999,021)
Net change in total HISP liability	6,429,735
Total HISP liability - beginning	320,545,527
Total HISP liability - ending (a)	$ 326,975,262
Plan Fiduciary Net Position	
Contributions - employer	$ 18,828,000
Net investment income	35,746,586
Benefit payments	(18,999,021)
Administrative expense	(183,503)
Net change in plan fiduciary net position	35,392,062
Plan fiduciary net position - beginning	280,129,184
Plan fiduciary net position - ending (b)	315,521,246
Net HISP liability - ending (a) - (b)	$ 11,454,016

Schedule of the Net HISP Liability ($ in Thousands)

Year Ended June 30,	2017
Total HISP liability	$ 326,975,262
Plan fiduciary net position	315,521,246
Net HISP liability	$ 11,454,016
Ratio of plan fiduciary net position to total HISP liability	96.50%
Covered payroll*	N/A
Net HISP liability as a percentage of covered payroll	N/A

*Covered Payroll is not meaningful to formulate a ratio of net HISP liability as a percentage of covered payroll. Contributions are only received from employers.

Discount Rate as of 6/30/2017 was 7.00%.

Required Supplementary Information

Schedule of HISP Employer Contributions ($ in Thousands)
(Unaudited)
June 30, 2017
Schedule 5

Year Ended June 30,	2017
Actuarially determined employer contribution	$ 6,087
Actual employer contributions	18,828
Annul contribution deficiency (excess)	$ (12,741)
Covered payroll*	N/A
Actual contributions as a % of covered payroll*	N/A

*Covered Payroll is not meaningful to formulate a ratio of net HISP liability as a percentage of covered payroll. Contributions are only received from employers.

Notes to Schedule

Valuation date:
Actuarially determined contributions are calculated as of the beginning of the fiscal year in which contributions are reported

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	12 years
Asset valuation method	5-year moving average
Inflation	2.75%
Salary increase	4.50 to 8.40 percent, including inflation
Investment rate of return	7.00%, compounded annually, net of investment expense and including inflation
Retirement age	Age 65 for all members hired on or after November 1, 2011, age 62 for members hired prior to November 1, 2011
Mortality	Active participants and nondisabled pensioners – RP-2014 Mortality Table projected to 2025 by Scale MP-2016 (disabled pensioners set forward 12 years).

Required Supplementary Information

Schedule of Money-Weighted Rate of Return on HISP Investments

(Unaudited)

June 30, 2017

Schedule 6

	Annual money-weighted rate of return, net of investment expense
Year Ended June 30, 2017	12.76%

Supplementary Information

Schedule of Investment Expenses

Year Ended June 30, 2017

Schedule 7

		2017
Investment management fees		
Fixed Income Managers:		
BlackRock Financial Management, Inc.	$	1,112,322
Hoisington Investment Management		414,437
Metropolitan West Asset Management, LLC		396,933
BlackRock Institutional Trust Company, N.A. - TIPS		30,106
U.S. Equity Managers:		
Aronson, Johnson, and Ortiz, LP		-
Barrow, Hanley, Mewhinney & Strauss, Inc.		1,074,775
BlackRock Institutional Trust Company, N.A.		142,842
DePrince Race & Zollo, Inc.		678,136
Mellon Capital Management		125,000
State Street Global Advisors		164,864
UBS Global Asset Management		299,228
Westfield Capital Management		1,295,414
International Equity Managers:		
Baillie Gifford Overseas Limited		1,890,828
BlackRock Institutional Trust Company, N.A.		623,069
Mondrian Investment Partners, Ltd		1,925,160
Total investment management fees		10,173,114
Investment consultant fees		
Verus Investment Advisory Group		246,655
Investment custodial fees		
Northern Trust Company		31,188
Other investment related expenses		191,962
Total investment expenses	$	10,642,919

Supplementary Information

Schedule of Administrative Expenses

Year Ended June 30, 2017

Schedule 8

		2017
Staff salaries	$	3,093,225
Social Security		228,692
Retirement		522,155
Insurance		608,661
Temporary employees		82,809
Total personnel services		4,535,542
Actuarial		136,700
Audit		262,022
Legal		57,924
Total professional services		456,646
Printing		62,375
Telephone		26,588
Postage and mailing expenses		137,509
Travel		39,069
Total communication		265,541
Office space		249,364
Equipment leasing		51,958
Total rentals		301,322
Supplies		22,614
Maintenance		110,942
Depreciation		229,609
Other		239,900
Total miscellaneous		603,065
Total administrative expenses		6,162,116
Administrative expenses allocated		
Uniform Retirement System for Justices and Judges (URSJJ)		(159,595)
Oklahoma State Employees Deferred Compensation Plan (DCP)		(479,316)
Oklahoma State Employees Deferred Savings Incentive Plan (SIP)		(126,068)
Total administrative expenses allocated		(764,979)
Net administrative expenses	$	5,397,137

Note to Schedule of Administrative Expenses

Administrative overhead expenses, including personnel and other supporting services costs, which are paid for by the Plan, are allocated to three other retirement funds also administered by OPERS. The allocation is based on OPERS' estimate of the cost of service provided by the Plan to the other funds.

Supplementary Information

Schedule of Professional/Consultant Fees

Year Ended June 30, 2017

Schedule 9

			2017
Professional/Consultant	**Service**		
Cavanaugh Macdonald Consulting, Inc.	Actuarial	$	136,700
McGladrey LLP / RSM US LLP	External Auditor		100,000
Arledge & Associates	External Auditor		15,000
Finley & Cook, PLLC	Internal Auditor		147,022
Ice Miller LLP	Legal		10,583
Phillips Murrah, P.C.	Legal		47,291
Michael Mitchelson	Hearings Examiner		50
Total professional/consultant fees		$	456,646

Independent Auditor's 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
Oklahoma Public Employees Retirement System
Oklahoma City, Oklahoma

We have audited, in accordance with auditing standards generally accepted in the United States of America 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 Public Employees Retirement System (the System), which comprise the statements of fiduciary net position as of June 30, 2017, and the related statements 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 13, 2017.

Internal Control over Financial Reporting
In planning and performing our audit of the financial statements, we considered the System'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 System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System'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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the System'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 result of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eide Bailly LLP

Oklahoma City, Oklahoma
October 13, 2017