Oklahoma Public Employees Retirement Plan

ADMINISTERED BY THE OKLAHOMA PUBLIC EMPLOYEES RETIREMENT SYSTEM

Financial Statements

June 30, 2011 and 2010

(With Independent Auditor's Report Thereon)

COLE + REED P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

Board of Trustees
Oklahoma Public Employees Retirement System:

We have audited the accompanying statements of plan net assets of the Oklahoma Public Employees Retirement Plan (the Plan), a component unit of the state of Oklahoma, as of June 30, 2011 and 2010, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Plan at June 30, 2011 and 2010, and the changes in its net assets for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 20, 2011, on our consideration of the Plan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and the schedules of funding progress and employers' contributions in schedule 1 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information included in schedules 2 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Cole & Reed P.C.

Oklahoma City, Oklahoma
October 20, 2011

Management's Discussion and Analysis

As management of the Oklahoma Public Employees Retirement System (the Plan) we offer readers of the Plan's financial statements this narrative overview and analysis of the financial activities of the Plan for the fiscal years ended June 30, 2011 and 2010.

Financial Highlights

- The net assets held in trust for pension benefits totaled approximately $6.8 billion at June 30, 2011 compared to $5.8 billion at June 30, 2010 and $5.2 billion at June 30, 2009. The net assets are available for payment of monthly retirement benefits and other qualified distributions to the Plan's participants. The increase of $1.0 billion and increase of $0.6 billion of the respective years resulted primarily from the changes in the fair value of the Plan's investments due to volatile equity markets.
- At June 30, 2011 and 2010 the total number of members participating in the Plan decreased 2.6% and decreased 1.0%, respectively. Membership was 75,491 at June 30, 2011 and 77,503 at June 30, 2010. The number of retirees decreased by 2.6% as of June 30, 2011 and increased by 3.9% as of June 30, 2010. The total number of retirees was 29,418 at June 30, 2011 and 28,009 at June 30, 2010.
- The funded ratio of the Plan was 80.7% at June 30, 2011 compared to 66.0% at June 30, 2010. The key items responsible for the change in the funded status were the removal of the COLA assumption and reserve of $1,702.7 million and a liability gain of $153.1 million resulting from an actuarial accrued liability that was lower than expected. The funded ratio of the Plan was 66.8% at June 30, 2009.

Overview of the Financial Statements

The Plan is a multiple-employer, cost-sharing public employee retirement plan, which is a defined benefit pension plan. The Plan covers substantially all employees of the state of Oklahoma (the State) except those covered by six other plans sponsored by the State and also covers employees of participating counties and local agencies. For the majority of the Plan'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. Normal retirement age under the Plan is 62 or when the sum of the member's age and years of credited service equals or exceeds 80 (90 for anyone who became a member after June 30, 1992). 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 Plan's financial statements are comprised of a Statement of Plan Net Assets, a Statement of Changes in Plan Net Assets, and Notes to Financial Statements. Also included is certain required supplementary and supplementary information.

The Plan 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 trust funds of the State.

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 funding progress and a schedule of employer contributions. Schedules of certain expenses and fees paid are presented as *supplementary information.*

Management's Discussion and Analysis (continued)

Financial Analysis

The following are the condensed Schedules of Plan Net Assets and Changes in Plan Net Assets for the Oklahoma Public Employees Retirement Plan for the fiscal years ended June 30, 2011, 2010, and 2009.

Condensed Schedule of Plan Net Assets
($ millions)

	June 30,		
	2011	2010	2009
Cash and cash equivalents	$ 174.9	$ 157.4	$ 64.6
Receivables	360.1	307.8	471.3
Investments	6,875.9	5,766.9	5,220.6
Securities lending collateral	725.6	615.5	785.1
Property and equipment	0.8	0.7	0.4
Other assets	0.2	0.2	0.1
Total assets	8,137.5	6,848.5	6,542.1
Other liabilities	570.9	458.6	572.7
Securities lending collateral	725.6	615.5	795.9
Total liabilities	1,296.5	1,074.1	1,368.6
Ending net assets held in trust for benefits	$ 6,841.0	$ 5,774.4	$ 5,173.5

Condensed Schedules of Changes in Plan Net Assets
($ millions)

	June 30,		
	2011	2010	2009
Member contributions	$ 66.4	$ 69.0	$ 68.7
State and local agency contributions	252.9	259.8	243.0
Net investment income (loss)	1,226.7	716.9	(967.3)
Total additions	1,546.0	1,045.7	(655.6)
Retirement, death and survivor benefits	462.1	429.3	410.0
Refunds and withdrawals	12.6	11.0	11.5
Administrative expenses	4.7	4.5	4.6
Total deductions	479.4	444.8	426.1
Total changes in plan net assets	$ 1,066.6	$ 600.9	$ (1,081.7)

For the year ended June 30, 2011 plan net assets increased $1,066.6 million or 18.5%. Total assets increased $1.3 billion or 18.8% due to a 18.8% increase in pending sales of securities, a 17.0% increase in receivables, a 19.2% increase in investments and a 17.9% increase in securities lending collateral. Total liabilities increased $222.5 million or 20.7% due to a 17.9% increase in the securities lending collateral liability and a 24.5% increase in other liabilities.

Fiscal year 2010 showed a $500.3 million increase in total additions and a $34.5 million increase in total deductions. Compared to the prior year, the increase in additions was due to increases of $509.8 million in the net appreciation of assets partially offset by a $9.5 million decrease in contributions. Deductions increased 7.8% due to the $32.8 million increase in retirement, death and survivor benefits.

For the year ended June 30, 2010 plan net assets increased $600.9 million or 11.6%. Total assets increased $306.3 million or 4.7% due to a 10.5% increase in investments offset by a 22.7% decrease in securities lending collateral, a 37.4% decrease in pending sales of securities, and a 34.7% decrease in receivables. Total liabilities decreased $294.5 million or 21.5% due to a 22.7% decrease in the securities lending collateral liability and a 19.9% decrease in other liabilities.

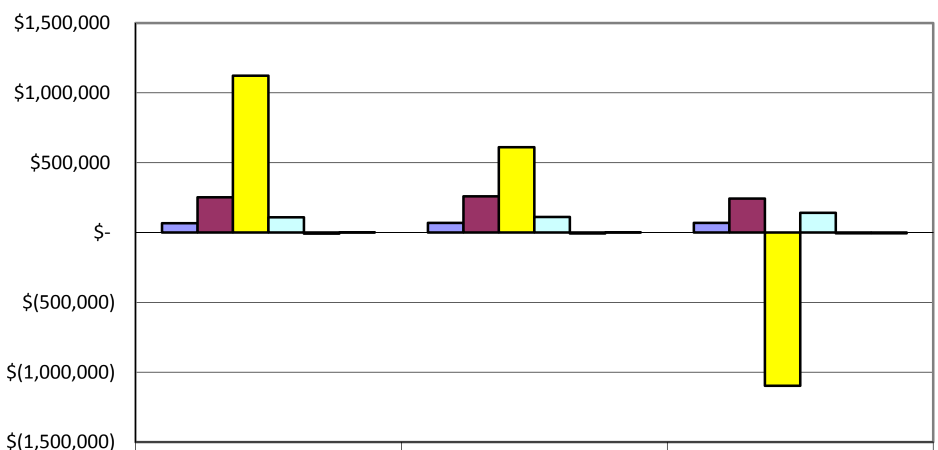
Management's Discussion and Analysis (continued)

Fiscal year 2010 showed a $1.7 billion increase in total additions and a $18.7 million increase in total deductions. Compared to the prior year, the increase in additions was due to increases of $1.7 billion in the net appreciation of assets and $17.1 million in contributions. Deductions increased 4.4% due to the $19.2 million increase in retirement, death and survivor benefits.

Additions to Plan Net Assets

For the year ended June 30, 2011 total additions to plan net assets increased $500.3 million from the prior year. The net change in the fair value of investments of $509.8 million was the result the rebounding market in all asset classes. Interest income decreased $7.1 million or 9.3%, and dividend income increased $5.3 million or 14.9%. Securities lending net income increased $0.3 million or 18.8%. Contributions were $9.5 million or 2.9% lower than the prior year in spite of increased employer contribution rates for local government. The decrease is primarily due to a reduction in the number of active plan participants as a result of the Voluntary Buyout Offer Bill of 2010.

Additions to Plan Net Assets
Comparative Data for Fiscal Years Ended June 30, 2011, 2010, and 2009
($ thousands)



	2011	2010	2009
Member contributions	$66,431	$69,041	$68,713
State and local agency contributions	252,905	259,779	243,022
Net appreciation (depreciation)	1,122,811	610,536	(1,096,980)
Interest, dividends, and other investment income	109,515	111,365	141,073
Investment expenses	(7,466)	(6,544)	(5,630)
Securities lending income (loss)	1,826	1,537	(5,712)

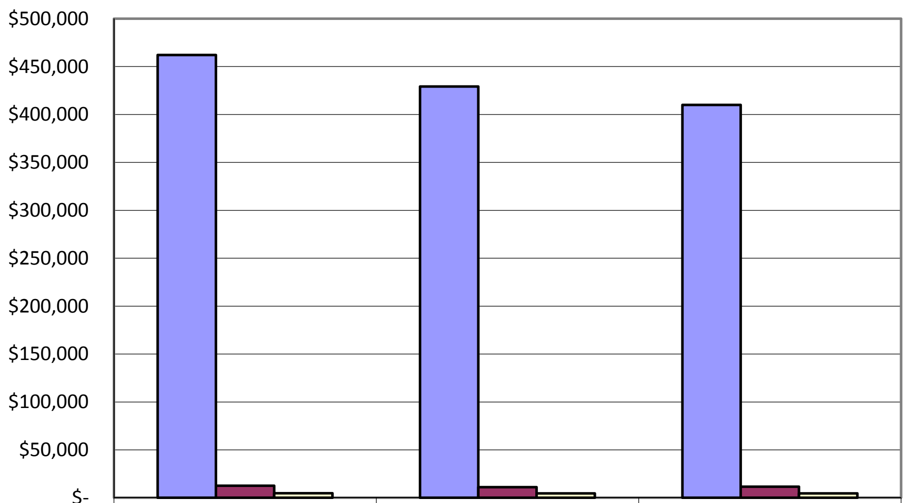
For the year ended June 30, 2010 total additions to plan net assets increased $1.7 billion from the prior year. The net change in the fair value of investments of $1.7 billion was the result the rebounding market in all asset classes. Interest income decreased $30.4 million or 28.5%, and dividend income increased $2.1 million or 6.3%. Securities lending net income increased $7.2 million or 126.9% only due to the elimination of the securities lending collateral deficiency incurred in the prior year. Contributions were $17.1 million or 5.5% higher than the prior year due to increased employer contribution rates.

Management's Discussion and Analysis (continued)

Deductions to Plan Net Assets

For the year ended June 30, 2011 total deductions increased $34.5 million or 7.8% from the prior year. Retirement, death and survivor benefits increased $32.8 million or 7.6% due to a 5.0% increase in the number of retirees at year end and a 2.3% increase in the average benefit. Refunds and withdrawals increased $1.6 million or 14.5% as more participants withdrew contributions during fiscal 2011. The 2.7% increase in administrative costs was primarily due to the increase in the allocation rate and personnel costs.

Deductions to Plan Net Assets
Comparative Data for Fiscal Years Ended June 30, 2011, 2010, and 2009
($ thousands)



	2011	2010	2009
Retirement, death and survivor benefits	$462,062	$429,260	$410,037
Refunds and withdrawals	12,657	11,058	11,516
Administrative expenses	4,681	4,556	4,603

For the year ended June 30, 2010 total deductions increased $18.7 million or 4.4% from the prior year. Retirement, death and survivor benefits increased $19.2 million or 4.7% due to a 3.9% increase in the number of retirees at year end and a 1.7% increase in the average benefit. Refunds and withdrawals decreased $0.5 million or 4.0% as fewer participants withdrew contributions during fiscal 2010. The 1.0% decrease in administrative costs was primarily due to the reclassification and capitalization of payroll costs for internally generated computer software.

Management's Discussion and Analysis (continued)

Investments

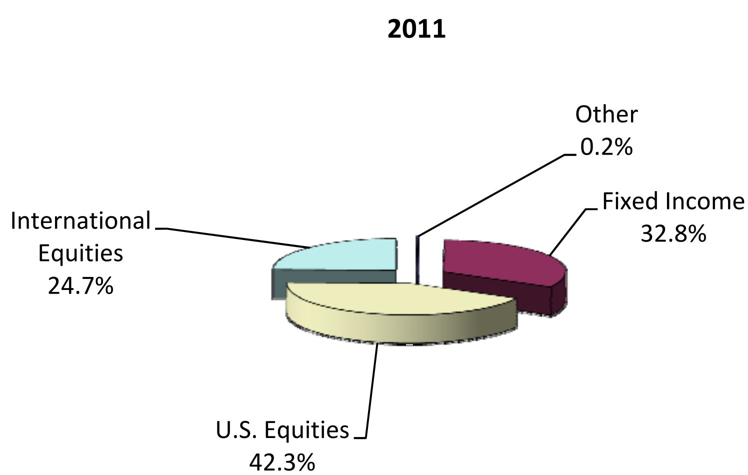
The investment portfolio is reported in the chart below by the asset class of the investment managers' portfolios which includes the cash and cash equivalents in those portfolios. A summary of the Plan's cash, cash equivalents, and investments for fiscal years ended June 30, 2011, 2010, and 2009 is as follows:

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

	June 30, 2011	June 30, 2010	June 30, 2009
Fixed income	$ 2,471.2	$ 2,376.8	$ 2,046.2
U.S. equities	2,881.1	2,218.9	2,032.0
International equities	1,681.6	1,297.9	1,178.9
Other	15.7	28.6	27.3
Total managed investments	7,049.6	5,922.2	5,284.4
Cash equivalents on deposit with State	1.2	2.0	0.8
Securities lending collateral	725.6	615.5	785.1
Total cash, cash equivalents, and investments	$ 7,776.4	$ 6,539.7	$ 6,070.3

The increase in the Plan's managed investments is reflective of the increase in all markets for the year. The Plan's overall return for the year ended June 30, 2011 was 21.2%. A 4.6% return for the fixed income component exceeded the market trend for the asset class. U.S. equities showed a return of 32.2%, and international equities showed a return of 30.0%. Domestic small cap equities were increased $135.3 million during the year due to a reallocation of $96.8 million from large cap equities and $22.0 million from fixed income. Amounts of $95.0 million of U.S. equities and $46.7 million of fixed income were 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 Plan's master custodian at year end.

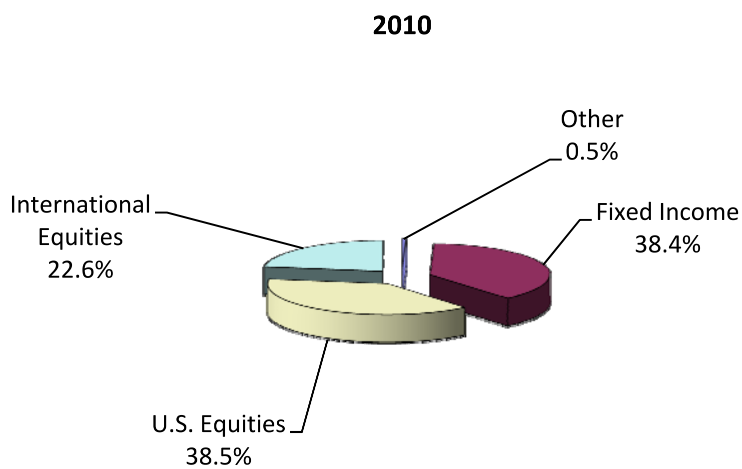
At June, 30, 2011 the distribution of the Plan's investments including accrued income and pending trades was as follows:



Management's Discussion and Analysis (continued)

For the year ended June 30, 2010 the increase in the Plan's managed investments is reflective of the increase in all markets for the year. The Plan's overall return was 13.8%. A 12.9% return for the fixed income component exceeded the market trend for the asset class. U.S. equities showed a return of 16.4%, and international equities showed a return of 10.0%. Fixed income holdings were increased $135.0 million during the year due to a reallocation from domestic equities. Another $16.5 million of U.S. equities and $128.5 million of fixed income were 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 Plan's master custodian at year end.

At June, 30, 2010 the distribution of the Plan's investments including accrued income and pending trades was as follows:



Economic Factors

Funding

A measure of the adequacy of a pension's funding status is when it has enough money in reserve to meet all expected future obligations to participants. The funded ratios of the Plan at June 30 for the current and two preceding fiscal years were as follows:

2011	2010	2009
80.7%	66.0%	66.8%

Plan Amendments

Plan provision changes were enacted by the State Legislature during the session ended in May 2010. The changes include adjustments to the retirement age requirements, changes in participation requirements for elected officials, changes to the funding of cost of living adjustments, an extension of the voluntary buyout fund created to provide budget relief to state agencies, and a clarification on procedures for administrative hearings and appeals.

Management's Discussion and Analysis (continued)

Other

Other than changes in the fair value of Plan 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 Plan.

Requests for Information

This financial report is designed to provide a general overview of the Plan'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 Plan Net Assets

June 30, 2011 and 2010

Assets	**2011**	**2010**
Cash equivalents	$ 174,890,095	$ 157,359,942
Receivables:		
Member contributions	3,077,652	3,201,144
State and local agency contributions	10,884,088	11,241,230
Due from brokers for securities sold	330,608,855	278,378,484
Accrued interest and dividends	15,493,674	14,990,441
Total receivables	360,064,269	307,811,299
Investments, at fair value:		
Short-term investments	39,569,804	24,823,239
Government obligations	1,435,424,873	1,321,207,854
Corporate bonds	854,458,642	924,072,479
Domestic equities	2,859,836,292	2,197,488,032
International equities	1,686,604,195	1,299,271,431
Securities lending collateral	725,638,216	615,487,747
Total investments	7,601,532,022	6,382,350,782
Property and equipment, at cost, net of accumulated depreciation of $1,233,228 in 2011 and $1,090,492 in 2010	818,679	668,540
Other assets	226,641	257,587
Total assets	8,137,531,706	6,848,448,150
Liabilities		
Due to brokers and investment managers	570,891,721	458,581,140
Securities lending collateral	725,638,216	615,487,747
Total liabilities	1,296,529,937	1,074,068,887
Net assets held in trust for pension benefits	$ 6,841,001,769	$ 5,774,379,263

See accompanying notes to financial statements.

Statements of Changes in Plan Net Assets

Years Ended June 30, 2011 and 2010

	2011	2010
Additions:		
Contributions:		
Members	$ 66,431,434	$ 69,041,436
State and local agencies	252,904,579	259,779,236
Total contributions	319,336,013	328,820,672
Investment income:		
From investing activities:		
Net appreciation in fair value of investments	1,122,811,032	610,536,132
Interest	69,039,631	76,143,014
Dividends	40,475,599	35,222,195
Total investment income	1,232,326,262	721,901,341
Less – Investment expenses	(7,466,011)	(6,543,751)
Income from investing activities	1,224,860,251	715,357,590
From securities lending activities:		
Securities lending income	2,381,383	2,426,231
Securities lending expenses:		
Borrower rebates	(232,771)	(532,630)
Management fees	(322,370)	(356,110)
Income from securities lending activities	1,826,242	1,537,491
Net investment income	1,226,686,493	716,895,081
Total additions	1,546,022,506	1,045,715,753
Deductions:		
Retirement, death and survivor benefits	462,062,563	429,260,056
Refunds and withdrawals	12,656,758	11,058,379
Administrative expenses	4,680,679	4,555,833
Total deductions	479,400,000	444,874,268
Net increase	1,066,622,506	600,841,485
Net assets held in trust for pension benefits:		
Beginning of year	5,774,379,263	5,173,537,778
End of year	$ 6,841,001,769	$ 5,774,379,263

See accompanying notes to financial statements.

Notes to Financial Statements

June 30, 2011 and 2010

(1) Summary of Significant Accounting Policies

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

(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 formal commitments, as well as statutory or contractual requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

The Plan, together with other similar fiduciary – pension trust funds of the state of Oklahoma (the State), is a component unit of the State. The Plan 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 Plan.

(b) Investments

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

Plan investments are reported at fair value. Short-term investments include bills and notes, commercial paper and international foreign currency contracts valued at fair value. Debt and equity securities are reported at fair value, as determined by the Plan's custodial agent, using pricing services or prices quoted by independent brokers based on the latest reported sales prices at current exchange rates for securities traded on national or international exchanges. The fair value of the pro rata share of units owned by the Plan in equity index and commingled trust funds is determined by the respective fund trustee based on quoted sales prices of the underlying securities.

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 includes 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 Plan'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 Plan'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 plan net assets.

(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

The preparation of the Plan's financial statements, in conformity with U.S. generally accepted accounting principles, requires the Plan administrator to make significant estimates and assumptions that affect the reported amounts of net assets held in trust for pension benefits at the date of the financial statements and the actuarial information included in Note (5) Funded Status and Actuarial Information and the required supplementary information (RSI) as of the benefit information date, the changes in Plan net assets during the reporting period and, when applicable, disclosures of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

(e) Reclassifications

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

(2) Plan Description and Contribution Information

The following brief description of the Plan 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 Plan 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 six other plans sponsored by the State. It also covers employees of participating county and local agencies. Agencies and/or participants not included in the Plan are as follows: teachers, municipal police, municipal firefighters, judicial, wildlife, and state law enforcement.

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

Notes to Financial Statements (continued)

At June 30 the Plan's membership consisted of:

	2011	2010
Retirees and beneficiaries currently receiving benefits	29,418	28,009
Terminated vested participants	5,522	5,560
Active participants	40,551	43,934
Total	75,491	77,503

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 Plan discussed apply to all members.

(b) Benefits

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.

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.

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. Normal retirement age under the Plan is 62 or Rule of 80/90.

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 Plan.

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. Normal retirement age under the Plan is 60 or Rule of 80. Members become eligible to vest fully upon termination of employment after attaining six years of participating service as an elected official, or 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 Plan is 62 or at completion of 20 years of creditable service as a hazardous duty member or Rule of 80/90. 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 Plan 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, 2011 and 2010 totaled approximately $4,436,000 and $4,466,000, 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 Plan. In April 2001 limited benefit payments began for qualified retired members. The estimated liability for future payments of the limited benefit of approximately $0.8 million has been included in the calculation of the actuarial liability of the Plan at June 30, 2011 and 2010.

(c) Contributions

The contribution rates for each member category of the Plan 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.

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.

The following contribution rates were in effect:

State, County, and Local Agency Employees

For 2011 and 2010, *state agency employers* contributed 15.5% on all salary, and *state employees* contributed 3.5% on all salary.

For 2011 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%. For 2010 contributions of *participating county and local agencies* totaled 19.0% 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 10.5% up to a maximum of 15.5%.

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. Elected officials must select an employee contribution rate of 4.5%, 6.0%, 7.5%, 8.5%, 9.0% or 10.0%.

Effective July 1, 1999, elected officials must affirmatively elect or decline participation in the Plan within 90 days after taking office. This decision is irrevocable and failure of an elected official to decline to participate in the Plan will be deemed as an irrevocable election to participate and contribute at the highest rate (currently 10%). All current elected officials who had not elected to participate in the Plan must have either elected, including selecting a contribution rate, or declined to participate in the Plan on or before December 1, 1999.

Notes to Financial Statements (continued)

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

Hazardous Duty Members

For 2011 and 2010 hazardous duty members contributed 8% and their employer agencies contributed 15.5% on all salary.

Effective July 1, 2010 the contribution rates increase as follows:

The state agency employer contribution rate will increase to 16.5% for the year ended June 30, 2012 and each year thereafter.

(d) Participating Employers

At June 30, the number of participating employers was as follows:

	2011	2010
State agencies	126	124
County governments	75	75
Local government towns and cities	28	28
Other local governmental units	57	52
Total	286	279

(3) 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 Plan's custodial agent, and foreign currency.

At June 30 cash and cash equivalents were

	2011	2010
Cash equivalents		
State Treasurer	$ 1,276,210	$ 1,979,498
Custodial agent	171,571,209	154,637,315
Foreign currency	2,042,676	743,129
Total cash and cash equivalents	$ 174,890,095	$ 157,359,942

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 funds in proportion to the respective investment in the funds. The custodial agent cash equivalents consist of temporary investments in commingled trust funds of the Plan's custodial agent. The funds are composed of high-grade money market instruments with short maturities. Each participant in the funds shares the risk of loss on the funds in proportion to the respective investment in the funds.

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, 2011 and 2010 the cash equivalents in *OK INVEST* and the Plan'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.

At June 30, 2011, as a result of outstanding checks, the Plan's carrying amount in *OK INVEST* totaled $1,276,210 and the bank balances totaled $9,269,403. At June 30, 2010, as a result of outstanding checks, the Plan's carrying amount in *OK INVEST* totaled $1,979,498 and the bank balances totaled $9,862,294. At June 30, 2011 and 2010 the carrying amounts of the Plan's custodial agent cash equivalents were the same as the bank balances, $171,571,209 and $154,637,315, respectively.

The Plan hold 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 Plan's custodial agent and is uncollateralized, and the Plan is exposed to custodial credit risk. At June 30, 2011 and 2010 the foreign currency holdings were $2,042,676 and $743,129, respectively. The Plan's exposure to foreign currency risk is detailed in the section entitled Investments, Foreign Currency Risk.

(3) Investments

(a) General

The OPERS Statement of Investment Policy states that the Board believes that Plan assets should be managed in a fashion that reflects the Plan'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.

At June 30, 2011 and 2010 the asset allocation guidelines established by policy were U.S. equities – 40%, international equities – 24%, and domestic fixed income – 36%. 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 Plan at June 30 was as follows:

	2011	2010
U.S. Treasury notes/bonds	$ 310,627,697	$ 405,066,213
U.S. Treasury strips	103,521,994	141,300,079
U.S. TIPS index fund	217,029,797	201,263,717
Government agencies	148,068,004	152,001,753
Government mortgage-backed securities	647,145,562	388,548,756
Municipal bonds	13,381,666	43,466,130
Corporate bonds	545,957,803	545,680,796
Asset-backed securities	157,360,480	174,111,214
Commercial mortgage-backed securities	130,337,416	139,697,741
Non government backed collateralized mortgage obligations	56,106,508	78,969,685
Domestic equities	1,183,856,294	874,783,387
U.S. equity index fund	1,675,979,998	1,322,704,645
International equities	576,635,456	447,399,131
International equity index funds	1,109,885,131	851,869,788
Securities lending collateral	725,638,216	615,487,747
Total investments	$ 7,601,532,022	$ 6,382,350,782

The Plan participates in a fixed income and international and domestic equity index funds managed by BlackRock Institutional Trust Company, N.A. (BTC). Prior to December 2009 international and domestic equity index funds were managed by Barclays Global Investors, N.A. (BGI). 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. BGI, a wholly owned subsidiary of Barclays Bank PLC. (Barclays), operated as a limited purpose trust company, and its primary regulator was the OCC. In December 2009 BlackRock, Inc. acquired from Barclays all of the outstanding equity interests of subsidiaries of Barclays conducting the business of BGI. Each fund is a collective fund which is a group trust and an entity separate from the manager, (BTC and prior to December 2009 BGI), other funds, and the investing participants. BTC, and prior to December 2009 BGI, is trustee of each of the collective fund trusts and holds legal title to each trust's assets for the exclusive benefit of the Plan. The fair value of the Plan's position in the pool is the same as the value of the pool shares. As of June 30, 2011, the Plan was invested in four domestic equity index funds, two international equity index funds and a fixed income index fund. In 2010 the Plan invested in a domestic equity index fund, three international equity index funds and a fixed income index fund. The Plan shares the risk of loss in these funds with other participants in proportion to its respective investment. Because the Plan 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 Plan 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.

(b) Securities Lending

The Plan's investment policy provides for its participation in a securities lending program. The program is administered by the Plan's master custodian and there are no restrictions on the amount of loans that can be made. During 2011 and 2010 the types of securities loaned were primarily U.S. Government and corporate bonds, domestic equity securities, and international equity securities. Certain securities of the Plan 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, 2011 and 2010 the Plan had no credit risk exposure to borrowers because the amounts the Plan owes the borrowers exceed the amounts the borrowers owe the Plan. The securities on loan at June 30, 2011 and 2010 were $706,274,811 and $595,667,637, respectively, and the collateral received for those securities on loan was $725,638,216 and $615,487,747, respectively. The master custodian provides for full indemnification to the Plan 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 Plan for income of the securities while on loan. The Plan cannot pledge or sell collateral securities unless the borrower defaults. The loan premium paid by the borrower of the securities is apportioned between the Plan and its custodial agent in accordance with the securities lending agreement. 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 Plan'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, 2011 and 2010 the cash collateral investments had an average weighted maturity of 21 and 24 days, respectively, and the relationship between the maturities of the custodial agent's investment pool and the Plan's loans is affected by the maturities of the securities loans made by other entities that use the agent's pool, which the Plan cannot determine. The Plan's non-cash collateral is represented by its allocated share of a pool administered by the agent for the Plan and other pool participants.

(c) Credit Risk

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

The Plan's investment guidelines provide for the domestic fixed income managers to follow one of three investment styles and specify quality guidelines for each.

The *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 Corporation (S&P). The portfolio should be made up of investment grade securities only, 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 Core manager and will add a "plus" of limited exposure to high yield. The total portfolio minimum quality should be A as rated by S&P. No more than 20% of the portfolio shall be in noninvestment 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.

Notes to Financial Statements (continued)

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 be made up of investment grade securities only.

At June 30, 2011 the domestic fixed income portfolio consisted of a core fixed income portfolio, a core plus fixed income portfolio and a rate anticipator portfolio including a U.S. TIPS Index fund. All components met the stated policy restrictions except the core fixed income portfolio which held $18,121,029 in issues rated below BBB- and the core plus fixed income portfolio which held $7,065,008 in issues rated below B. The Plan's investment managers have advised retention of the securities after having assessed their risk/reward profiles. At June 30, 2010 the domestic fixed income portfolio consisted of a core fixed income portfolio, a core plus fixed income portfolio and a rate anticipator portfolio including a U.S. TIPS Index fund. All components met the stated policy restrictions except the core fixed income portfolio which held $29,294,343 in issues rated below BBB- and the core plus fixed income portfolio which held $4,490,860 in issues rated below B. The Plan'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, 2011 the Plan held 22.1% of fixed income investments that were not considered to have credit risk and 9.3% in a U.S. TIPS index fund made up of explicitly guaranteed U.S. Treasury Inflation-Protected Securities. At June 30, 2010 the Plan held 26.7% of fixed income investments that were not considered to have credit risk and 8.9% in a U.S. TIPS index fund made up of explicitly guaranteed U.S. Treasury Inflation-Protected Securities.

The Plan's exposure to credit risk at June 30, 2011 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	$ 116,498	$ —	$ 8,734	$ 5,908	$ —	$ —	$ —	$ 16,103	$ 147,243
Government mortgage-backed securities	28,587	—	—	—	—	—	—	519,501	548,088
Municipal bonds	—	3,074	10,308	—	—	—	—	—	13,382
Corporate bonds	71,405	54,802	172,857	168,134	40,554	9,124	1,335	27,747	545,958
Asset-backed securities	101,237	26,815	16,189	3,427	3,344	10	3,628	2,710	157,360
Commercial mortgage-backed securities	76,907	9,452	40,541	2,917	520	—	—	—	130,337
Non government backed collateralized mortgage obligations	40,985	—	—	1,689	825	7,862	2,296	2,450	56,107
Total fixed income securities exposed to credit risk	$ 435,619	$ 94,143	$ 248,629	$ 182,075	$ 45,243	$ 16,996	$ 7,259	$ 568,511	$ 1,598,475
Percent of total fixed income portfolio	18.7%	4.0%	10.7%	7.8%	1.9%	0.7%	0.4%	24.4%	68.6%

Notes to Financial Statements (continued)

The Plan's exposure to credit risk at June 30, 2010 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	$ 94,983	$ 16,650	$ 23,240	$ —	$ —	$ —	$ —	$ 15,771	$ 150,644
Government mortgage-backed securities	—	—	—	—	—	—	—	328,973	328,973
Municipal bonds	1,984	11,728	23,353	4,726	—	—	—	1,675	43,466
Corporate bonds	95,300	93,316	157,041	152,941	25,843	7,512	—	13,728	545,681
Asset-backed securities	138,655	12,788	11,152	2,279	3,440	—	4,104	1,693	174,111
Commercial mortgage-backed securities	107,032	6,356	26,310	—	—	—	—	—	139,698
Non government backed collateralized mortgage obligations	45,671	—	335	2,421	1,668	12,916	12,508	3,451	78,970
Total fixed income securities exposed to credit risk	$ 483,625	$ 140,838	$ 241,431	$ 162,367	$ 30,951	$ 20,428	$ 16,612	$ 365,291	$ 1,461,543
Percent of total fixed income portfolio	21.3%	6.2%	10.6%	7.2%	1.4%	0.9%	0.7%	16.1%	64.4%

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

	2011		2010	
Credit Rating	*OK INVEST*	Custodial Agent	*OK INVEST*	Custodial Agent
AAA	79.8 %	22.1 %	87.1 %	31.2 %
AA	1.3	—	0.7	—
A1	6.9	77.9	6.3	68.8
BBB	—	—	—	—
BB	—	—	—	—
NR	12.0	—	5.9	—
	100.0 %	100.0 %	100.0 %	100.0 %

(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 assumptions 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.

Notes to Financial Statements (continued)

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

	2011		2010	
	Fair Value	Effective duration in years	Fair Value	Effective duration in years
U.S. Treasury notes/bonds	$ 310,627,697	8.9	$ 405,066,213	10.5
U.S. Treasury strips	103,521,994	21.0	141,300,079	22.1
U.S. TIPS index fund	217,029,797	7.6	201,263,717	3.5
Government agencies	148,068,004	3.3	152,001,753	3.4
Government mortgage-backed securities	647,145,562	3.6	388,548,756	3.9
Municipal bonds	13,381,666	9.2	43,466,130	11.1
Corporate bonds	545,957,803	4.2	545,680,796	4.6
Asset-backed securities	157,360,480	1.5	174,111,214	0.8
Commercial mortgage-backed securities	130,337,416	3.6	139,697,741	4.0
Non government backed collateralized mortgage obligations	56,106,508	1.6	78,969,685	2.1
Total fixed income	$ 2,329,536,927		$ 2,270,106,084	
Portfolio duration		5.4		6.2

The Plan 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, 2011 and 2010 the Plan held $157,360,480 and $174,111,214, respectively, in asset-backed securities.

Mortgage-backed securities are securities backed by mortgages issued by public and private institutions. At June 30, 2011 and 2010 the Plan held $647,145,562 and $388,548,756, respectively, 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 $130,337,416 and $139,697,741, respectively, in commercial mortgage-backed securities.

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 tranch 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, 2011 and 2010 the Plan held $56,106,508 and $78,969,685, respectively, in non government backed CMOs.

Notes to Financial Statements (continued)

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

	2011		2010	
Maturities (in days)	***OK INVEST***	**Custodial Agent**	***OK INVEST***	**Custodial Agent**
0 - 14	20.2 %	18.7 %	16.8 %	47.0 %
15 - 30	0.8	14.7	0.8	18.0
31 - 60	1.4	16.4	1.5	12.0
61 - 90	1.3	24.8	1.5	15.7
91 - 180	4.3	11.8	5.6	4.8
181 - 364	3.9	13.6	8.7	2.5
365 - 730	9.3	—	13.5	—
Over 730	58.8	—	51.6	—
	100.0 %	100.0 %	100.0 %	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 Plan's exposure to foreign currency risk by asset class at June 30, 2011 is as follows:

Currency	Equities	Short-term Investments	Cash	Total	Percent
Australian dollar	$ 31,606,695	$ (17,221,573)	$ —	$ 14,385,122	0.8 %
Brazilian real	13,068,865	—	18	13,068,883	0.8
British pound sterling	89,139,145	(493,030)	(3)	88,646,112	5.2
Canadian dollar	6,438,531	—	—	6,438,531	0.4
Egyptian pound	224,927	—	5,488	230,415	0.0
Euro	183,954,065	—	399,290	184,353,355	10.9
Hong Kong dollar	26,993,235	199,157	141,589	27,333,981	1.6
Indonesian rupiah	4,839,767	—	27,250	4,867,017	0.3
Japanese yen	87,474,243	—	1,425,709	88,899,952	5.3
Malaysian ringgit	1,344,274	—	—	1,344,274	0.1
Mexican peso	3,918,985	—	—	3,918,985	0.2
New Zealand dollar	1,319,889	(162,578)	—	1,157,311	0.1
Polish zloty	895,696	—	—	895,696	0.1
Singapore dollar	15,110,583	—	25	15,110,608	0.9
South African rand	6,672,028	22,871	43,309	6,738,208	0.4
South Korean won	9,056,125	102,242	—	9,158,367	0.5
Swiss franc	22,566,138	(12,412,862)	—	10,153,276	0.6
Thai baht	4,183,108	—	—	4,183,108	0.2
Turkish lira	4,240,234	—	1	4,240,235	0.3
International portfolio exposed to foreign currency risk	513,046,533	(29,965,773)	2,042,676	485,123,436	28.7
International portfolio in U.S. dollars	1,173,557,662	29,882,165	4,702,214	1,208,142,041	71.3
Total international portfolio	$ 1,686,604,195	$ (83,608)	$ 6,744,890	$ 1,693,265,477	100.0 %

Notes to Financial Statements (continued)

The Plan's exposure to foreign currency risk by asset class at June 30, 2010 is as follows:

Currency	Equities	Short-term Investments	Cash	Total	Percent
Australian dollar	$ 39,498,581	$ —	$ 58	$ 39,498,639	3.0 %
Brazilian real	7,200,568	—	7	7,200,575	0.5
British pound sterling	65,400,483	—	(6)	65,400,477	5.0
Canadian dollar	5,834,071	—	—	5,834,071	0.4
Czech koruna	2,248,998	—	—	2,248,998	0.2
Egyptian pound	306,856	—	—	306,856	—
Euro	123,315,035	—	28,905	123,343,940	9.5
Hong Kong dollar	20,613,365	(323,740)	85,759	20,375,384	1.6
Indonesian rupiah	1,516,658	—	—	1,516,658	0.1
Japanese yen	82,783,490	(255,228)	615,312	83,143,574	6.3
Malaysian ringgit	1,484,518	—	—	1,484,518	0.1
Mexican peso	1,487,228	—	10,960	1,498,188	0.1
New Zealand dollar	1,991,651	—	—	1,991,651	0.2
Polish zloty	667,032	—	—	667,032	0.1
Singapore dollar	15,202,136	—	2,134	15,204,270	1.2
South African rand	4,272,913	—	—	4,272,913	0.3
South Korean won	4,350,378	(63,653)	—	4,286,725	0.3
Swiss franc	20,126,063	—	—	20,126,063	1.5
Thai baht	2,093,000	—	—	2,093,000	0.2
Turkish lira	3,906,058	282,530	—	4,188,588	0.3
International portfolio exposed to foreign currency risk	404,299,082	(360,091)	743,129	404,682,120	30.9
International portfolio in U.S. dollars	894,972,349	357,579	11,710,301	907,040,229	69.1
Total international portfolio	$ 1,299,271,431	$ (2,512)	$ 12,453,430	$ 1,311,722,349	100.0 %

The Plan'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 gains at June 30, 2011 and 2010 were approximately $66.3 million and $16.6 million, respectively.

Notes to Financial Statements (continued)

(4) Funded Status and Actuarial Information

(a) Funded Status and Funding Progress

The funded status of the Plan as of June 30 is as follows:

	2011	2010
Actuarial value of the assets (a)	$ 6,598,627,939	$ 6,348,416,407
Actuarial accrued liability (AAL) (b)	$ 8,179,767,661	$ 9,622,627,833
Total unfunded actuarial accrued liability (UAAL) (b-a)	$ 1,581,139,722	$ 3,274,211,426
Funded ratio (a/b)	80.7 %	66.0 %
Covered payroll	$ 1,570,500,148	$ 1,683,697,139
UAAL as a percentage of covered payroll	100.7 %	194.5 %

The schedules of funding progress, presented as RSI following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

(b) Actuarial Methods and Assumptions

The information presented in the RSI was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation, June 30, 2011 is as follows:

Funding Method

Costs are developed using the entry age normal cost method (based on a level percentage of covered payrolls). Under the method used for this plan, the accrued liability and the present value of future normal costs are determined by summing the individual entry age results for each participant.

The normal cost is then determined in the aggregate by spreading the present value of future normal costs as a level percentage of expected future covered payrolls. Entry age is defined as the first day service is credited under the Plan.

Experience gains and losses, i.e., decreases or increases in accrued liabilities attributable to deviations in experience from the actuarial assumptions, adjust the UAAL.

Asset Valuation Method

For actuarial purposes, assets are determined equal to the prior year's actuarial value of assets plus cash flows (excluding realized and unrealized gains or losses) for the year ended on the valuation date assuming 7.5% interest return. Prior year's unrecognized gains and losses are added to this amount to develop expected actuarial value. The expected actuarial value is then compared to the market value of the assets at the valuation date, and 20% of any gain (loss) for the last five years is added to the expected actuarial value. The gain (loss) is amortized over five years with the actuarial value of the assets being constrained to a range of 80% to 120% of the market value at the valuation date.

Amortization

The funding policy amortizes the UAAL on a level percent of payroll over a 20-year closed period. At June 30, 2011 there are 14 years remaining to the amortization period. Prior to July 1, 2007 the funding policy amortized the UAAL on the level dollar method, and the amortization period was 40 years from July 1, 1987.

Assumptions

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2011 and 2010 are as follows:

- Investment return – 7.5% compounded annually
- Salary increases – 4.9% to 8.8% per year
- Mortality rates – Active participants and nondisabled pensioners – RP-2000 Mortality Table projected to 2010 by Scale AA (disabled pensioners set forward 15 years)
- No annual post-retirement benefit increases
- Assumed inflation rate – 3.0%
- Payroll growth – 4.0% per year
- Select period for the termination of employment assumptions – 10 years

(5) Federal Income Tax Status

Pursuant to a determination by the IRS, the Plan 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 February 7, 2006 and was a favorable determination for the Oklahoma Public Employees Retirement Plan. The Plan has been amended since receiving the determination letter; however the plan administrator believes that the Plan 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.

(6) Plan Amendments

The State Legislature enacted the following significant plan provisions during the session ended in May 2011:

(a) Changes to Retirement Age Requirements and Changes to Participation by Elected Officials

Under SB 794, the retirement age for all OPERS members hired on or after November 1, 2011, was increased to age 65. Members hired on or after November 1, 2011, must also be at least age 60 to retire with 90 points. These members may retire with full, unreduced benefits from OPERS when the sum of their age and years of service in OPERS equals 90 or more and they are at least 60 years of age.

Also, under SB 794, the vesting period for elected officials first elected on or after November 1, 2011, was increased to eight years of elected or appointed service. The retirement age for newly elected officials was increased to age 65 with eight years of elected or appointed service, or age 62 with 10 years of elected or appointed service. Newly elected officials will also contribute at the same rate and have their benefits calculated using the same computation factor as other state and local government employees.

Notes to Financial Statements (continued)

(b) Changes to Funding of Cost of Living Adjustments

Cost of living adjustments (COLAs) for retired OPERS members must be passed by the Legislature. Under HB 2132, COLAs are no longer considered “non-fiscal retirement bills” in the Oklahoma Pension Legislation Actuarial Analysis Act. This means COLAs must now be funded by the Legislature before they can be passed into law. This bill becomes effective August 25, 2011.

(c) Voluntary Buyout Fund Extended

In May 2010, the State Legislature created the Voluntary Buyout Reimbursement Revolving Fund to provide budget relief to state agencies and provide reimbursement to state agencies that offered voluntary buy-out benefits to retirement-eligible employees. The deadline for state agencies to apply for these funds was originally June 30, 2011. HB 2177 extended the deadline for application to June 30, 2012.

(d) Clarification on Administrative Hearings and Appeals

Existing law requires suits against OPERS be brought in Oklahoma County. SB 840 provides clarification on appeals to administrative decisions by the OPERS Board. This bill brings the OPERS hearing procedures in line with the Administrative Procedures Act including the appointment of hearing examiners.

(7) New Pronouncements

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB 62) which is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain FASB and AICPA pronouncements. GASB 62 is effective for financial statements for periods beginning after December 15, 2011.

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63) which provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. GASB 63 is effective for financial statements for periods beginning after December 15, 2011.

In June 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – An Amendment of GASB Statement No. 53* (GASB 64) which clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty’s credit support provider. GASB 64 sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. GASB 64 is effective for financial statements for periods beginning after June 15, 2011.

OPERS is currently evaluating the effects the above GASB Pronouncements will have on its financial statements.

Required Supplementary Information

(Unaudited)
June 30, 2011
Schedule 1

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/2006	$5,654,276,043	$7,914,657,886	$2,260,381,843	71.4 %	$1,568,350,023	144.1
6/30/2007	6,110,230,058	8,413,248,130	2,303,018,072	72.6	1,626,737,832	141.6
6/30/2008	6,491,928,362	8,894,287,254	2,402,358,892	73.0	1,682,663,413	142.8
6/30/2009	6,208,245,334	9,291,457,837	3,083,212,503	66.8	1,732,975,532	177.9
6/30/2010	6,348,416,407	9,622,627,833	3,274,211,426	66.0	1,683,697,139	194.5
6/30/2011	6,598,627,939	8,179,767,661	1,581,139,722	80.7	1,570,500,148	100.7

Schedule of Employer Contributions

Year Ended June 30,	Annual Required Contribution	Percentage Contributed
2006	$ 309,980,339	55.3 %
2007	338,550,016	58.4
2008	363,914,352	60.5
2009	323,104,773	75.2
2010	389,155,339	66.8
2011	402,011,633	62.9

Supplementary Information

Schedule of Investment Expenses

Years Ended June 30, 2011 and 2010

Schedule 2

	2011	2010
Investment management fees:		
Fixed Income Managers:		
BlackRock Institutional Trust Company, N.A.	$ 1,111,269	$ 1,119,247
Hoisington Investment Management	332,247	448,730
Metropolitan West Asset Management, LLC	1,551,912	1,175,558
U.S. Equity Managers:		
Aronson, Johnson, and Ortiz, LP	132,311	—
Barrow, Hanley, Mewhinney & Strauss, Inc.	640,381	486,451
BlackRock Institutional Trust Company, N.A.	124,233	147,336
DePrince Race & Zollo, Inc.	163,435	—
Mellon Capital Management	125,000	121,701
State Street Global Advisors	87,617	77,017
Turner Investment Partners, Inc.	158,951	256,611
UBS Global Asset Management	282,954	187,771
International Equity Managers:		
BlackRock Institutional Trust Company, N.A.	525,753	512,387
Mondrian Investment Partners, Ltd	1,958,874	1,756,811
Total investment management fees	7,194,937	6,289,620
Investment consultant fees:		
Strategic Investment Solutions, Inc.	242,134	225,189
Investment custodial fees:		
Northern Trust Company	28,940	28,942
Total investment expenses	$ 7,466,011	$ 6,543,751

See accompanying independent auditors' report.

Supplementary Information

Schedule of Adminstrative Expenses

Years Ended June 30, 2011 and 2010

Schedule 3

	2011	2010
Staff salaries	$ 2,590,863	$ 2,474,150
Social Security	190,661	183,561
Retirement	421,664	403,269
Insurance	589,537	525,218
Temporary employees	149,594	148,188
Total personnel services	3,942,319	3,734,386
Actuarial	101,967	135,867
Audit	129,715	175,803
Legal	29,247	61,022
Administrative	52,600	73,134
Total professional services	313,529	445,826
Printing	111,570	108,236
Telephone	19,780	21,647
Postage and mailing expenses	114,572	144,409
Travel	37,137	27,624
Total communication	283,059	301,916
Office space	183,239	200,102
Equipment leasing	42,519	42,854
Total rentals	225,758	242,956
Supplies	37,641	40,295
Maintenance	83,027	76,824
Depreciation	204,632	147,415
Other	154,243	169,189
Total miscellaneous	479,543	433,723
Total administrative expenses	5,244,208	5,158,807
Administrative expenses allocated		
Uniform Retirement System for Justices and Judges (URSJJ)	(118,765)	(114,663)
Oklahoma State Employees Deferred Compensation Plan (DCP)	(356,095)	(393,038)
Oklahoma State Employees Deferred Savings Incentive Plan (SIP)	(88,669)	(95,273)
Total administrative expenses allocated	(563,529)	(602,974)
Net administrative expenses	$ 4,680,679	$ 4,555,833

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.

See accompanying independent auditors' report.

Supplementary Information

Schedule of Professional/Consultant Fees

Years Ended June 30, 2011 and 2010

Schedule 4

Professional/Consultant	**Service**	**2011**	**2010**
Cavanaugh Macdonald Consulting, Inc.	Actuarial	$ 79,167	$ —
Milliman, Inc.	Actuarial	22,800	135,867
Cole & Reed PC	External Auditor	79,300	77,000
Finely & Cook, PLLC	Internal Auditor	50,415	98,803
Ice Miller LLP	Legal	11,619	30,686
Phillips Murrah, P.C.	Legal	7,778	25,346
Lee Slater, Attorney at Law	Hearings Examiner	—	3,040
Michael Mitchelson	Hearings Examiner	50	—
Slater & Denny	Hearings Examiner	9,800	1,950
CEM Benchmarking, Inc.	Performance Measurement Consulting	35,000	35,000
EFL Associates, Inc.	Executive Search	—	33,134
Principal Technologies, Inc.	Executive Search	12,600	—
Glass Lewis & Co.	Proxy Services	5,000	5,000
		$ 313,529	$ 445,826

See accompanying independent auditors' report.

Independent Auditors' Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards

Board of Trustees
Oklahoma Public Employees Retirement Plan:

We have audited the financial statements of the Oklahoma Public Employees Retirement Plan (the Plan), which is a component unit of the state of Oklahoma, as of and for the year ended June 30, 2011, and have issued our report thereon dated October 20, 2011, which includes explanatory paragraphs related to required supplementary information and other supplementary information. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Plan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we do not express an opinion of the effectiveness of the Plan's internal control over financial reporting.

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 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.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

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This report is intended solely for the information and use of the Board of Trustees, the Oklahoma State Auditor and Inspector, and management and is not intended to be and should not be used by anyone other than these specified parties.

Cole & Reed P.C.

Oklahoma City, Oklahoma
October 20, 2011