Oklahoma Public Employees Retirement Plan

ADMINISTERED BY THE OKLAHOMA PUBLIC EMPLOYEES RETIREMENT SYSTEM

Financial Statements

June 30, 2012 and 2011

(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, 2012 and 2011, 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, 2012 and 2011, 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 18, 2012, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, beginning on page 3, and the schedules of funding progress and employer contributions in schedule 1 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.

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Our audits were conducted for the purpose of forming an opinion on the financial statements 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Cole & Reed P.C.

Oklahoma City, Oklahoma
October 18, 2012

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, 2012 and 2011.

Financial Highlights

- The net assets held in trust for pension benefits totaled approximately $6.8 billion at June 30, 2012 compared to $6.8 billion at June 30, 2011 and $5.8 billion at June 30, 2010. 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 from June 30, 2010 to June 30, 2011 resulted primarily from the changes in the fair value of the Plan's investments due to volatile equity markets.
- At June 30, 2012 and 2011 the total number of members participating in the Plan increased 3.8% and decreased 2.6%, respectively. Membership was 78,329 at June 30, 2012 and 75,491 at June 30, 2011. The number of retirees increased by 2.9% as of June 30, 2012 and increased by 5.0% as of June 30, 2011. The total number of retirees was 30,263 at June 30, 2012 and 29,418 at June 30, 2011.
- The funded ratio of the Plan was 80.2% at June 30, 2012 compared to 80.7% at June 30, 2011. The key item responsible for the change in the funded status was a liability gain of $115.2 million resulting from an actuarial accrued liability that was lower than expected. The funded ratio of the Plan was 66.0% at June 30, 2010.

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, 2012, 2011, and 2010.

Condensed Schedule of Plan Net Assets
($ millions)

	June 30		
	2012	**2011**	**2010**
Assets:			
Cash and cash equivalents	$ 132.5	$ 174.9	$ 157.4
Receivables	326.9	360.1	307.8
Investments	6,864.9	6,875.9	5,766.9
Securities lending collateral	438.0	725.6	615.5
Property and equipment	0.9	0.8	0.7
Other assets	0.3	0.2	0.2
Total assets	7,763.5	8,137.5	6,848.5
Liabilities:			
Other liabilities	504.2	570.9	458.6
Securities lending collateral	438.0	725.6	615.5
Total liabilities	942.2	1,296.5	1,074.1
Ending net assets held in trust for benefits	$ 6,821.3	$ 6,841.0	$ 5,774.4

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

	June 30		
	2012	**2011**	**2010**
Member contributions	$ 66.3	$ 66.4	$ 69.0
State and local agency contributions	262.7	252.9	259.8
Net investment income	154.7	1,226.7	716.9
Total additions	483.7	1,546.0	1,045.7
Retirement, death and survivor benefits	484.3	462.1	429.3
Refunds and withdrawals	14.3	12.6	11.0
Administrative expenses	4.8	4.7	4.5
Total deductions	503.4	479.4	444.8
Total changes in plan net assets	$ (19.7)	$ 1,066.6	$ 600.9

For the year ended June 30, 2012 plan net assets decreased $19.7 million or 0.3%. Total assets decreased $374.0 million or 4.6% primarily due to a 39.6% decrease in securities lending collateral. Total liabilities decreased $354.3 million or 27.3% primarily due to a 39.6% decrease in the securities lending collateral liability.

Fiscal year 2012 showed a $1,062.3 million decrease in total additions and a $24.0 million increase in total deductions. Compared to the prior year, the decrease in additions was due to decreases of $1,076.3 million in the net appreciation of assets partially offset by a $9.7 million increase in contributions. Deductions increased 5.0% due to the $22.2 million increase in retirement, death and survivor benefits.

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 an 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.

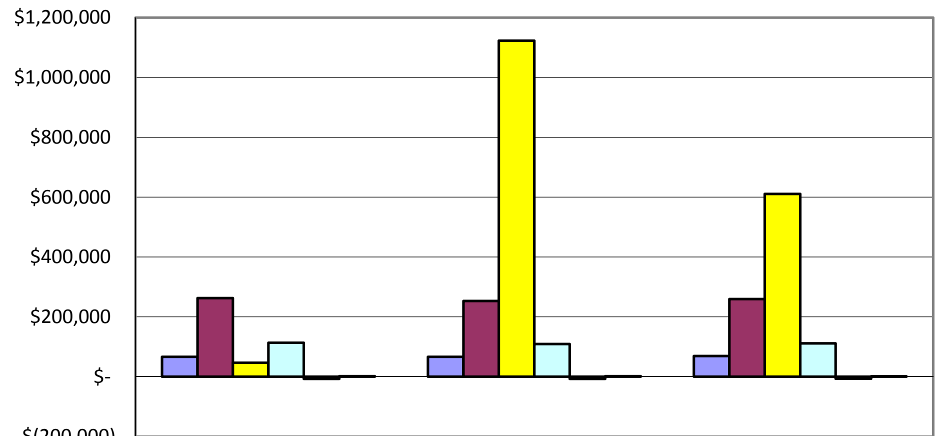
Fiscal year 2011 showed a $500.3 million increase in total additions and a $34.5 million increase in total deductions. Compared to the prior year, the increase in additions was due to increases of $509.8 million in the net appreciation of assets partially offset by a $9.5 million decrease in contributions. Deductions increased 7.8% due to the $32.8 million increase in retirement, death and survivor benefits.

Management's Discussion and Analysis (continued)

Additions to Plan Net Assets

For the year ended June 30, 2012 total additions to plan net assets decreased $1,062.3 million from the prior year. The net decrease in the fair value of investments of $1,076.3 million was the result of the struggling market, particularly in domestic and international equities. Interest income increased $1.0 million or 1.4%, and dividend income increased $3.3 million or 8.3%. Securities lending net income decreased $0.1 million or 5.0%. Contributions were $9.7 million or 3.0% higher than the prior year due to increased employer contribution rates for state government.

Additions to Plan Net Assets
Comparative Data for Fiscal Years Ended June 30, 2012, 2011, and 2010
($ thousands)



	2012	2011	2010
Member contributions	$66,300	$66,431	$69,041
State and local agency contributions	262,710	252,905	259,779
Net appreciation (depreciation)	46,557	1,122,811	610,536
Interest, dividends, and other investment income	113,813	109,515	111,365
Investment expenses	(7,413)	(7,466)	(6,544)
Securities lending income	1,735	1,826	1,537

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 of 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.

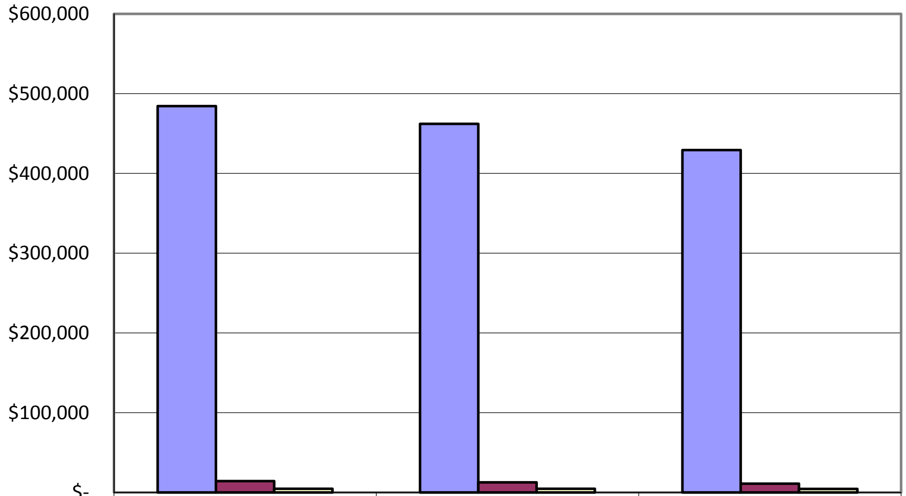
Deductions to Plan Net Assets

For the year ended June 30, 2012 total deductions increased $24.0 million or 5.0% from the prior year. Retirement, death and survivor benefits increased $22.2 million or 4.8% due to a 2.9% increase in the number of retirees at year end and a 1.3% increase in the average benefit. Refunds and withdrawals increased $1.7 million or 13.2% as more participants withdrew contributions during fiscal 2012. The 1.7% increase in administrative costs was primarily due to the increase in the allocation rate and personnel costs.

Management's Discussion and Analysis (continued)

Deductions to Plan Net Assets

Comparative Data for Fiscal Years Ended June 30, 2012, 2011, and 2010
($ thousands)



	2012	2011	2010
Retirement, death and survivor benefits	$484,310	$462,062	$429,260
Refunds and withdrawals	14,332	12,657	11,058
Administrative expenses	4,758	4,681	4,556

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.

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, 2012, 2011, and 2010 is as follows:

Cash, Cash Equivalents, and Investment Portfolio

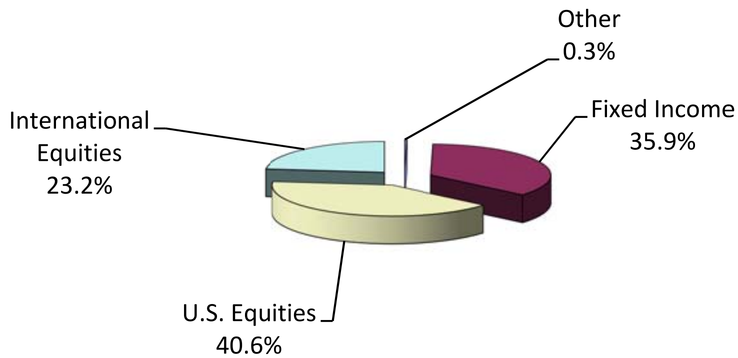
($ millions)	June 30		
	2012	**2011**	**2010**
Fixed income	$ 2,638.6	$ 2,471.2	2,376.8
U.S. equities	2,762.4	2,881.1	2,218.9
International equities	1,573.7	1,681.6	1,297.9
Other	21.0	15.7	28.6
Total managed investments	6,995.7	7,049.6	5,922.2
Cash equivalents on deposit with State	1.7	1.2	2.0
Securities lending collateral	438.0	725.6	615.5
Total cash, cash equivalents, and investments	$ 7,435.4	$ 7,776.4	$ 6,539.7

Management's Discussion and Analysis (continued)

The decrease in the Plan's managed investments is reflective of the decrease in domestic and international equity markets for the year. The Plan's overall return for the year ended June 30, 2012 was 2.4%. An 11.5% return for the fixed income component exceeded the market trend for the asset class. U.S. equities showed a return of 4.1%, and international equities showed a return of negative 12.5%. International equities were increased $100.0 million during the year due to a reallocation of $90.0 million from large cap equities and $10.0 million from small cap equities. Amounts of $131.8 million of U.S. equities and $48.5 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, 2012 the distribution of the Plan's investments including accrued income and pending trades was as follows:

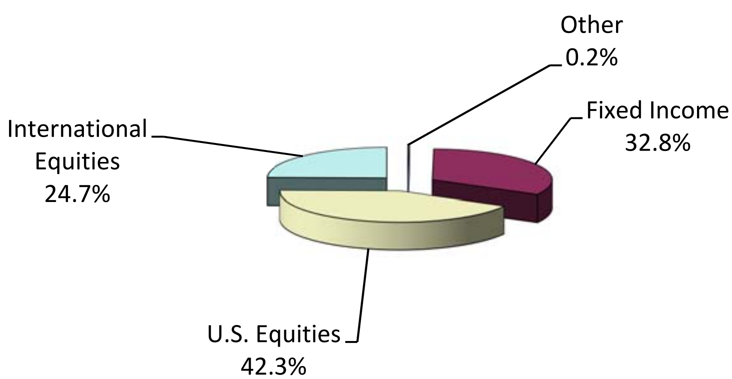
2012



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:

2011



Management's Discussion and Analysis (continued)

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:

2012	2011	2010
80.2%	80.7%	66.0%

Plan Amendments

Plan provision changes were enacted by the State Legislature during the session ended in May 2012. The changes include the elimination of rounding of service credit, allowing elected officials to begin participating in the "Step-Up" Program and allowing Teachers' Retirement System members affected by the 2011 Information Technology Consolidation and Coordination Act the ability to elect to continue their participation in the Teachers' Retirement System in lieu of participating in OPERS.

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, 2012 and 2011

	2012	2011
Assets		
Cash equivalents	$ 132,498,192	$ 174,890,095
Receivables:		
Member contributions	3,560,487	3,077,652
State and local agency contributions	13,239,061	10,884,088
Due from brokers for securities sold	294,568,871	330,608,855
Accrued interest and dividends	15,491,139	15,493,674
Total receivables	326,859,558	360,064,269
Investments, at fair value:		
Short-term investments	9,518,119	39,569,804
Government obligations	1,675,214,620	1,435,424,873
Corporate bonds	865,697,402	854,458,642
Domestic equities	2,737,286,573	2,859,836,292
International equities	1,577,173,105	1,686,604,195
Securities lending collateral	437,964,331	725,638,216
Total investments	7,302,854,150	7,601,532,022
Property and equipment, at cost, net of accumulated depreciation of $1,434,932 in 2012 and $1,233,228 in 2011	941,641	818,679
Other assets	295,857	226,641
Total assets	7,763,449,398	8,137,531,706
Liabilities		
Due to brokers and investment managers	504,181,526	570,891,721
Securities lending collateral	437,964,331	725,638,216
Total liabilities	942,145,857	1,296,529,937
Net assets held in trust for pension benefits	$ 6,821,303,541	$ 6,841,001,769

See accompanying notes to financial statements.

Statements of Changes in Plan Net Assets
Years Ended June 30, 2012 and 2011

	2012	2011
Additions		
Contributions:		
Members	$ 66,299,570	$ 66,431,434
State and local agencies	262,710,009	252,904,579
Total contributions	329,009,579	319,336,013
Investment income:		
From investing activities:		
Net appreciation in fair value of investments	46,557,082	1,122,811,032
Interest	69,997,122	69,039,631
Dividends	43,816,355	40,475,599
Total investment income	160,370,559	1,232,326,262
Less – Investment expenses	(7,412,642)	(7,466,011)
Income from investing activities	152,957,917	1,224,860,251
From securities lending activities:		
Securities lending income	853,893	2,381,383
Securities lending expenses:		
Borrower rebates	1,183,094	(232,771)
Management fees	(302,468)	(322,370)
Income from securities lending activities	1,734,519	1,826,242
Net investment income	154,692,436	1,226,686,493
Total additions	483,702,015	1,546,022,506
Deductions		
Retirement, death and survivor benefits	484,309,893	462,062,563
Refunds and withdrawals	14,331,714	12,656,758
Administrative expenses	4,758,636	4,680,679
Total deductions	503,400,243	479,400,000
Net (decrease) increase	(19,698,228)	1,066,622,506
Net assets held in trust for pension benefits		
Beginning of year	6,841,001,769	5,774,379,263
End of year	$ 6,821,303,541	$ 6,841,001,769

See accompanying notes to financial statements.

Notes to Financial Statements

June 30, 2012 and 2011

(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.

(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:

	2012	2011
Retirees and beneficiaries currently receiving benefits	30,263	29,418
Terminated vested participants	5,497	5,522
Active participants	42,569	40,551
Total	78,329	75,491

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 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.

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 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 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. For members elected prior to November 1, 2011, normal retirement age under the Plan 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 Plan 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.

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, 2012 and 2011 totaled approximately $4,591,000 and $4,436,000, 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, 2012 and 2011.

(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 2012 and 2011, *state agency employers* contributed 16.5% and 15.5%, respectively, on all salary, and *state employees* contributed 3.5% on all salary for both years.

For 2012 and 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%.

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 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 3.5% for officials elected on or after November 1, 2011). 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.

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 2012 and 2011 hazardous duty members contributed 8.0% and their employer agencies contributed 16.5% and 15.5%, respectively, on all salary.

(d) Participating Employers

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

	2012	2011
State agencies	127	126
County governments	75	75
Local government towns and cities	28	28
Other local governmental units	57	57
Total	287	286

(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:

	2012	2011
Cash equivalents		
State Treasurer	$ 1,696,249	$ 1,276,210
Custodial agent	128,768,704	171,571,209
Foreign currency	2,033,239	2,042,676
Total cash and cash equivalents	$132,498,192	$174,890,095

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, 2012 and 2011 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, 2012, as a result of outstanding checks, the Plan's carrying amount in *OK INVEST* totaled $1,696,249 and the bank balances totaled $9,831,489. 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, 2012 and 2011 the carrying amounts of the Plan's custodial agent cash equivalents were the same as the bank balances, $128,768,704 and $171,571,209, respectively.

The Plan 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 Plan's custodial agent and is uncollateralized, and the Plan is exposed to custodial credit risk. At June 30, 2012 and 2011 the foreign currency holdings were $2,033,239 and 2,042,676, respectively. The Plan's exposure to foreign currency risk is detailed in the section entitled Investments, Foreign Currency Risk.

(4) 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, 2012 and 2011 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.

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

	2012	2011
U.S. Treasury notes/bonds	$ 569,249,755	$ 310,627,697
U.S. Treasury strips	132,499,808	103,521,994
U.S. TIPS index fund	242,546,008	217,029,797
Government agencies	54,330,935	148,068,004
Government mortgage-backed securities	643,627,988	647,145,562
Municipal bonds	25,232,068	13,381,666
Corporate bonds	519,687,667	545,957,803
Asset-backed securities	214,912,773	157,360,480
Commercial mortgage-backed securities	95,659,590	130,337,416
Non government backed collateralized mortgage obligations	52,659,652	56,106,508
Domestic equities	1,141,258,519	1,183,856,294
U.S. equity index fund	1,596,028,053	1,675,979,998
International equities	447,742,645	576,635,456
International equity index funds	1,129,454,358	1,109,885,131
Securities lending collateral	437,964,331	725,638,216
Total investments	$ 7,302,854,150	$ 7,601,532,022

The Plan participates in a 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 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, 2012, the Plan was invested in three domestic equity index funds, two international equity index funds and a fixed income index fund. In 2011 the Plan invested in four domestic equity index funds, two 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 2012 and 2011 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, 2012 and 2011 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, 2012 and 2011 were $428,942,703 and $706,274,811, respectively, and the collateral received for those securities on loan was $437,964,331 and $725,638,216, 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, 2012 and 2011 the cash collateral investments had an average weighted maturity of 30 and 21 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 default or will otherwise not fulfill its obligations.

The Plan'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, 2012 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 $28,024,999 in issues rated below BBB- and the core plus fixed income portfolio which held $6,228,848 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, 2011 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 $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.

Investments issued by or explicitly guaranteed by the U.S. Government are not considered to have credit risk. At June 30, 2012 the Plan held 30.7% of fixed income investments that were not considered to have credit risk and 9.5% in a U.S. TIPS index fund made up of explicitly guaranteed U.S. Treasury Inflation-Protected Securities. 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.

The Plan's exposure to credit risk at June 30, 2012 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	$ -	$ 41,668	$ 11,911	$ -	$ -	$ -	$ -	$ -	$ 53,579
Government mortgage-backed securities	8,882	12,676	-	-	-	-	-	550,524	572,082
Municipal bonds	5,678	9,059	10,495	-	-	-	-	-	25,232
Corporate bonds	43,546	63,012	177,869	169,578	45,412	9,614	-	1,162	510,193
Asset-backed securities	124,073	50,074	23,827	12,165	907	7	3,209	651	214,913
Commercial mortgage-backed securities	48,388	6,029	28,062	5,572	3,366	-	-	4,243	95,660
Non government backed collateralized mortgage obligations	36,608	1,503	-	4,483	1,905	-	8,160	-	52,659
Total fixed income securities exposed to credit risk	$ 267,175	$184,021	$ 252,164	$ 191,798	$51,590	$ 9,621	$11,369	$ 556,580	$1,524,318
Percent of total fixed income portfolio	10.5%	7.2%	9.9%	7.5%	2.0%	0.4%	0.4%	21.9%	59.8%

Notes to Financial Statements (continued)

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%

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

	2012		2011	
Credit Rating	*OK INVEST*	Custodial Agent	*OK INVEST*	Custodial Agent
AAA	49.4 %	13.1 %	79.8 %	22.1 %
AA	46.9	86.1	1.3	—
A1	—	0.8	6.9	77.9
BBB	—	—	—	—
BB	—	—	—	—
NR	3.7	—	12.0	—
	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.

	2012		2011	
	Fair Value	Effective duration in years	Fair Value	Effective duration in years
U.S. Treasury notes/bonds	$ 569,249,755	9.0	$ 310,627,697	8.9
U.S. Treasury strips	132,499,808	20.2	103,521,994	21.0
U.S. TIPS index fund	242,546,008	8.2	217,029,797	7.6
Government agencies	54,330,935	4.0	148,068,004	3.3
Government mortgage-backed securities	643,627,988	2.3	647,145,562	3.6
Municipal bonds	25,232,068	9.4	13,381,666	9.2
Corporate bonds	519,687,667	4.4	545,957,803	4.2
Asset-backed securities	214,912,773	1.9	157,360,480	1.5
Commercial mortgage-backed securities	95,659,590	3.8	130,337,416	3.6
Non government backed collateralized mortgage obligations	52,659,652	1.6	56,106,508	1.6
Total fixed income	$ 2,550,406,244		$ 2,329,536,927	
Portfolio duration		5.8		5.4

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, 2012 and 2011 the Plan held $214,912,773 and $157,360,480, respectively, in asset-backed securities.

Mortgage-backed securities are securities backed by mortgages issued by public and private institutions. At June 30, 2012 and 2011 the Plan held $643,627,988 and $647,145,562, 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 $95,659,590 and $130,337,416, 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, 2012 and 2011 the Plan held $52,659,652 and $56,106,508, respectively, in non government backed CMOs.

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

	2012		**2011**	
Maturities (in days)	***OK INVEST***	**Custodial Agent**	***OK INVEST***	**Custodial Agent**
0 - 14	14.1 %	45.4 %	20.2 %	18.7 %
15 - 30	0.8	8.2	0.8	14.7
31 - 60	0.8	10.6	1.4	16.4
61 - 90	0.7	10.5	1.3	24.8
91 - 180	2.6	4.3	4.3	11.8
181 - 364	3.4	16.3	3.9	13.6
365 - 730	12.1	4.7	9.3	0.0
Over 730	65.5	0.0	58.8	0.0
	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.

The Plan's exposure to foreign currency risk by asset class at June 30, 2012 is as follows:

Currency	**Equities**	**Short-term Investments**	**Cash**	**Total**	**Percent**
Australian dollar	$ 15,411,346	$ (13,966,056)	$ -	$ 1,445,290	0.1 %
Brazilian real	10,275,030	-	23	10,275,053	0.6
British pound sterling	62,525,784	(214,983)	250,831	62,561,632	3.9
Canadian dollar	5,699,183	-	170,835	5,870,018	0.4
Euro	134,417,356	-	657,000	135,074,356	8.5
Hong Kong dollar	21,124,148	-	325,900	21,450,048	1.4
Indonesian rupiah	6,348,509	131,031	59,785	6,539,325	0.4
Japanese yen	75,196,030	(240,143)	412,955	75,368,842	4.8
Malaysian ringgit	667,876	-	77,422	745,298	0.0
Mexican peso	3,401,704	-	78,475	3,480,179	0.2
Singapore dollar	11,438,482	-	13	11,438,495	0.7
South African rand	4,409,911	-	-	4,409,911	0.3
South Korean won	8,321,196	-	-	8,321,196	0.5
Swiss franc	23,017,070	491,481	-	23,508,551	1.5
Thai baht	4,008,678	-	-	4,008,678	0.3
Turkish lira	4,663,736	-	-	4,663,736	0.3
International portfolio exposed to foreign currency risk	390,926,039	(13,798,670)	2,033,239	379,160,608	23.9
International portfolio in U.S. dollars	1,186,247,066	13,822,568	6,928,415	1,206,998,049	76.1
Total international portfolio	$ 1,577,173,105	$ 23,898	$ 8,961,654	$ 1,586,158,657	100.0 %

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 %

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, 2012 and 2011 were approximately $16.5 million and $66.3 million, respectively.

(5) Funded Status and Actuarial Information

(a) Funded Status and Funding Progress

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

	2012	2011
Actuarial value of the assets (a)	$ 6,682,200,296	$ 6,598,627,939
Actuarial accrued liability (AAL) (b)	$ 8,334,637,900	$ 8,179,767,661
Total unfunded actuarial accrued liability (UAAL) (b-a)	$ 1,652,437,604	$ 1,581,139,722
Funded ratio (a/b)	80.2%	80.7%
Covered payroll	$ 1,633,837,374	$ 1,570,500,148
UAAL as a percentage of covered payroll	101.1%	100.7%

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, 2012 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, 2012 there are 15 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, 2012 and 2011 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

(6) 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.

(7) Plan Amendments

The State Legislature enacted the following significant plan provisions during the session ended in May 2012:

(a) Rounding of Service Credit Eliminated for New Members

HB 2321 eliminates rounding of service credit for members who join OPERS on or after November 1, 2012. The bill states the number of years of credited service used in calculating retirement benefits shall be based on actual years and months of credited service without rounding up or down. Members who joined OPERS prior to November 1, 2012, are not impacted by this new provision.

(b) Step-Up Program Offered to Elected Officials

SB 794 provided that newly elected officials after November 1, 2011, are subject to the same contribution rates and benefit computation factors as state and local government members of OPERS. This year, HB 2322 went further to allow elected officials to begin participating in the "Step-Up" program just as state and local government members are allowed to do. The Step-Up program allows members to pay an additional contribution, currently 2.91%, for an increased benefit computation factor of 2.5%.

(c) Information Technology Consolidation and Participation in Oklahoma Teachers' Retirement System

HB 2939 provides state employees who are (or were) members of the Teachers' Retirement System of Oklahoma and are transferred pursuant to the Information Technology Consolidation and Coordination Act may elect to continue their participation in the Teachers' Retirement System in lieu of participating in OPERS. The election to continue or return to participation in the Teachers' Retirement System is irrevocable and effective until the employment with the Office of Management and Enterprise Services is terminated.

(8) 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 April 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65). GASB 65 provides further guidance on determining which balances currently reported as assets and liabilities should instead be reported as deferred outflows or deferred inflows of resources. GASB 65 is effective for periods beginning after December 15, 2012, and will be applied on a retroactive basis.

In June 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans* (GASB 67). GASB 67 replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and Statement 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. GASB 67 builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. GASB 67 enhances note disclosures and required supplementary information (RSI) for both defined benefit and defined contribution pension plans. GASB 67 also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules. The requirements of GASB 67 are effective for fiscal years beginning after June 15, 2013.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68). GASB 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50 as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. GASB 68 also enhances accountability and transparency through revised and new note disclosures and RSI. The requirements of GASB 68 are effective for fiscal years beginning after June 15, 2014.

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

Required Supplementary Information

(Unaudited)

June 30, 2012

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)
6/30/2007	$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
6/30/2012	6,682,200,296	8,334,637,900	1,652,437,604	80.2	1,633,837,374	101.1

Schedule of Employer Contributions

Year Ended June 30,	Annual Required Contribution	Percentage Contributed
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
2012	240,131,738	109.4

Supplementary Information

Schedule of Investment Expenses

Years Ended June 30, 2012 and 2011

Schedule 2

	2012	2011
Investment management fees		
Fixed Income Managers:		
BlackRock Institutional Trust Company, N.A.	$ 1,184,751	$ 1,111,269
Hoisington Investment Management	354,082	332,247
Metropolitan West Asset Management, LLC	482,282	1,551,912
U.S. Equity Managers:		
Aronson, Johnson, and Ortiz, LP	-	132,311
Barrow, Hanley, Mewhinney & Strauss, Inc.	638,744	640,381
BlackRock Institutional Trust Company, N.A.	123,682	124,233
DePrince Race & Zollo, Inc.	1,065,955	163,435
Mellon Capital Management	125,000	125,000
State Street Global Advisors	98,114	87,617
Turner Investment Partners, Inc.	-	158,951
UBS Global Asset Management	734,612	282,954
International Equity Managers:		
BlackRock Institutional Trust Company, N.A.	503,230	525,753
Mondrian Investment Partners, Ltd	1,829,132	1,958,874
Total investment management fees	7,139,584	7,194,937
Investment consultant fees		
Strategic Investment Solutions, Inc.	244,105	242,134
Investment custodial fees		
Northern Trust Company	28,953	28,940
Total investment expenses	$ 7,412,642	$ 7,466,011

See accompanying independent auditors’ report.

Supplementary Information
Schedule of Adminstrative Expenses
Years Ended June 30, 2012 and 2011
Schedule 3

	2012	2011
Staff salaries	$ 2,664,241	$ 2,590,863
Social Security	196,285	190,661
Retirement	457,413	421,664
Insurance	633,685	589,537
Temporary employees	29,987	149,594
Total personnel services	3,981,611	3,942,319
Actuarial	147,917	101,967
Audit	182,148	129,715
Legal	32,352	29,247
Administrative	35,000	52,600
Total professional services	397,417	313,529
Printing	83,860	111,570
Telephone	23,949	19,780
Postage and mailing expenses	121,951	114,572
Travel	37,588	37,137
Total communication	267,348	283,059
Office space	200,895	183,239
Equipment leasing	40,347	42,519
Total rentals	241,242	225,758
Supplies	34,485	37,641
Maintenance	87,493	83,027
Depreciation	222,157	204,632
Other	132,643	154,243
Total miscellaneous	476,778	479,543
Total administrative expenses	5,364,396	5,244,208
Administrative expenses allocated		
Uniform Retirement System for Justices and Judges (URSJJ)	(154,623)	(118,765)
Oklahoma State Employees Deferred Compensation Plan (DCP)	(359,035)	(356,095)
Oklahoma State Employees Deferred Savings Incentive Plan (SIP)	(92,102)	(88,669)
Total administrative expenses allocated	(605,760)	(563,529)
Net administrative expenses	$ 4,758,636	$ 4,680,679

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, 2012 and 2011
Schedule 4

Professional/Consultant	Service	2012	2011
Cavanaugh Macdonald Consulting, Inc.	Actuarial	$ 147,917	$ 79,167
Milliman, Inc.	Actuarial	-	22,800
Cole & Reed PC	External Auditor	79,300	79,300
Finley & Cook, PLLC	Internal Auditor	102,848	50,415
Ice Miller LLP	Legal	25,302	11,619
Phillips Murrah, P.C.	Legal	-	7,778
Lee Slater, Attorney at Law	Hearings Examiner	3,150	-
Michael Mitchelson	Hearings Examiner	2,250	50
Slater & Denny	Hearings Examiner	1,650	9,800
CEM Benchmarking, Inc.	Performance Measurement Consulting	35,000	35,000
Principal Technologies, Inc.	Executive Search	-	12,600
Glass Lewis & Co.	Proxy Services	-	5,000
Total professional/consultant fees		$ 397,417	$ 313,529

See accompanying independent auditors’ report.

COLE + REED P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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, 2012, and have issued our report thereon dated October 18, 2012. 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.

Internal Control over Financial Reporting

Management of the Plan is responsible for establishing and maintaining effective 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 18, 2012