Oklahoma Public Employees Retirement Plan

ADMINISTERED BY THE OKLAHOMA PUBLIC EMPLOYEES RETIREMENT SYSTEM

Financial Statements

June 30, 2013 and 2012

(With Independent Auditor’s Report Thereon)

COLE + REED P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying statements of plan net position of the Oklahoma Public Employees Retirement Plan (the Plan), a component unit of the state of Oklahoma, as of June 30, 2013 and 2012, and the related statements of changes in plan net position for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Oklahoma Public Employees Retirement Plan as of June 30, 2013 and 2012, and the respective changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

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.

Other Information

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 in schedules 2 through 4 is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated October 17, 2013, 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* in considering the Plan's internal control over financial reporting and compliance.

Cole & Reed P.C.

Oklahoma City, Oklahoma
October 17, 2013

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, 2013 and 2012.

Financial Highlights

- The net position restricted for pension benefits totaled approximately $7.4 billion at June 30, 2013 compared to $6.8 billion at June 30, 2012 and $6.8 billion at June 30, 2011. The net position is available for payment of monthly retirement benefits and other qualified distributions to the Plan's participants. The increase of $0.6 billion from June 30, 2012 to June 30, 2013 resulted primarily from the changes in the fair value of the Plan's investments due to improved equity markets.
- At June 30, 2013 and 2012 the total number of members participating in the Plan increased 2.1% and increased 3.8%, respectively. Membership was 80,003 at June 30, 2013 and 78,329 at June 30, 2012. The number of retirees increased by 2.9% as of June 30, 2013 and also increased by 2.9% as of June 30, 2012. The total number of retirees was 31,135 at June 30, 2013 and 30,263 at June 30, 2012.
- The funded ratio of the Plan was 81.6% at June 30, 2013 compared to 80.7% at June 30, 2012. The key item responsible for the change in the funded status was a liability gain of $48.1 million resulting from an actuarial accrued liability that was lower than expected. The funded ratio of the Plan was 80.7% at June 30, 2011.

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. Members qualify for full retirement benefits at their specified normal retirement age or, for any person who became a member prior to July 1, 1992, when the sum of the member's age and years of credited service equals or exceeds 80 (Rule of 80), and for any person who became a member after June 30, 1992, when the member's age and years of credited service equals or exceeds 90 (Rule of 90). Normal retirement age under the 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 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 Position, a Statement of Changes in Plan Net Position, 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 Position and Changes in Plan Net Position for the Oklahoma Public Employees Retirement Plan for the fiscal years ended June 30, 2013, 2012, and 2011.

Condensed Schedule of Plan Net Position
($ millions)

	June 30		
	2013	**2012**	**2011**
Assets:			
Cash and cash equivalents	$ 212.4	$ 132.5	$ 174.9
Receivables	631.0	326.9	360.1
Investments	7,443.7	6,864.9	6,875.9
Securities lending collateral	688.7	438.0	725.6
Property and equipment	1.0	0.9	0.8
Other assets	0.2	0.3	0.2
Total assets	8,977.0	7,763.5	8,137.5
Liabilities:			
Other liabilities	846.5	504.2	570.9
Securities lending collateral	688.7	438.0	725.6
Total liabilities	1,535.2	942.2	1,296.5
Ending net position restricted for pension benefits	$ 7,441.8	$ 6,821.3	$ 6,841.0

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

	June 30		
	2013	**2012**	**2011**
Member contributions	$ 68.2	$ 66.3	$ 66.4
State and local agency contributions	270.0	262.7	252.9
Net investment income	804.1	154.7	1,226.7
Total additions	1,142.3	483.7	1,546.0
Retirement, death and survivor benefits	502.6	484.3	462.1
Refunds and withdrawals	14.6	14.3	12.6
Administrative expenses	4.6	4.8	4.7
Total deductions	521.8	503.4	479.4
Total changes in plan net position	$ 620.5	$ (19.7)	$ 1,066.6

For the year ended June 30, 2013 plan net position increased $620.5 million or 9.1%. Total assets increased $1.2 billion or 15.6% due to an 8.4% increase in investments, a 103.3% increase in pending sales of securities and a 57.3% increase in securities lending collateral. Total liabilities increased $593.0 million or 62.9% due to a 67.9% increase in pending purchases of securities and a 57.3% increase in the securities lending collateral liability.

Fiscal year 2013 showed a $658.7 million increase in total additions and an $18.5 million increase in total deductions. Compared to the prior year, the increase in additions was due to increases of $658.1 million in the net appreciation of assets. Deductions increased 3.7% due to the $18.3 million increase in retirement, death and survivor benefits.

For the year ended June 30, 2012 plan net position 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.

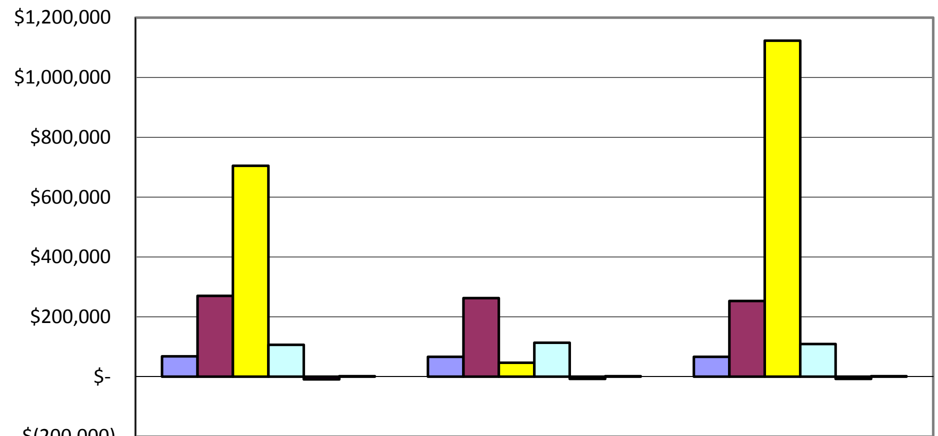
Fiscal year 2012 showed a $1,062.3 million decrease in total additions and a $24.0 million increase in total deductions. Compared to the prior year, the decrease in additions was due to decreases of $1,076.3 million in the net appreciation of assets partially offset by a $9.7 million increase in contributions.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

Management's Discussion and Analysis (continued)

Additions to Plan Net Position

For the year ended June 30, 2013 total additions to plan net position increased $658.7 million from the prior year. The net increase in the fair value of investments of $658.1 million was the result of the rebounding market, particularly in domestic and international equities. Interest income decreased $7.7 million or 11.0%, and dividend income increased $0.5 million or 1.2%. Securities lending net income decreased $0.1 million or 3.5%. Contributions were $9.2 million or 2.8% higher than the prior year due to a slight increase in the number of participants.

Additions to Plan Net Position
Comparative Data for Fiscal Years Ended June 30, 2013, 2012, and 2011
($ thousands)



	2013	2012	2011
Member contributions	$68,201	$66,300	$66,431
State and local agency contributions	269,995	262,710	252,905
Net appreciation (depreciation)	704,638	46,557	1,122,811
Interest, dividends, and other investment income	106,652	113,813	109,515
Investment expenses	(8,908)	(7,413)	(7,466)
Securities lending income	1,795	1,735	1,826

For the year ended June 30, 2012 total additions to plan net position 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.

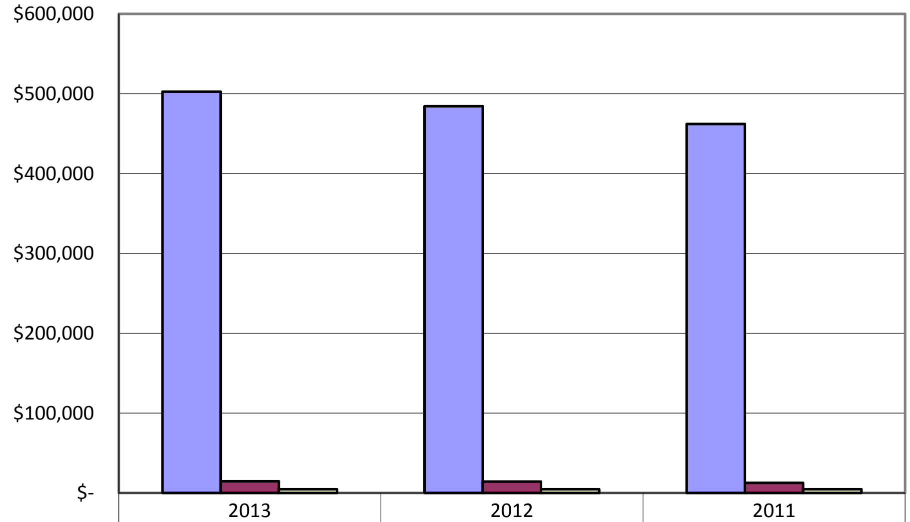
Deductions to Plan Net Position

For the year ended June 30, 2013 total deductions increased $18.5 million or 3.7% from the prior year. Retirement, death and survivor benefits increased $18.3 million or 3.8% due to a 2.9% increase in the number of retirees at year end and a 1.7% increase in the average benefit. Refunds and withdrawals increased $0.3 million or 2.2% as more participants withdrew contributions during fiscal 2013. The 3.1% decrease in administrative costs was primarily due to the decrease in the allocation rate and personnel costs.

Management's Discussion and Analysis (continued)

Deductions to Plan Net Position

Comparative Data for Fiscal Years Ended June 30, 2013, 2012, and 2011
($ thousands)



	2013	2012	2011
Retirement, death and survivor benefits	$502,637	$484,310	$462,062
Refunds and withdrawals	14,645	14,332	12,657
Administrative expenses	4,613	4,758	4,681

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.

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, 2013, 2012, and 2011 is as follows:

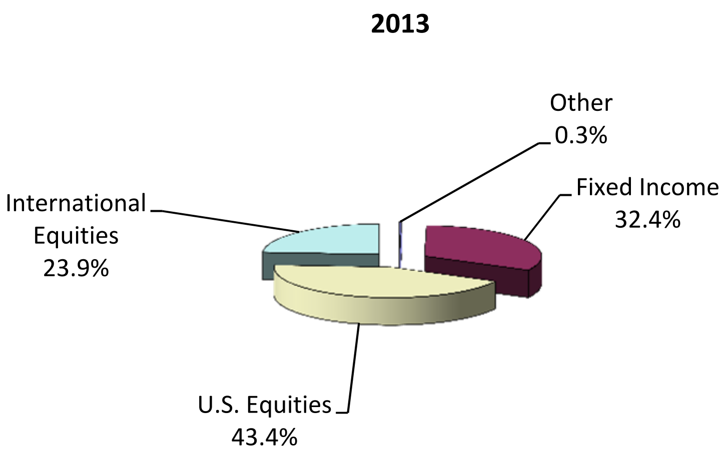
Cash, Cash Equivalents, and Investment Portfolio
($ millions)

	June 30		
	2013	**2012**	**2011**
Fixed income	$ 2,638.8	$ 2,638.6	$ 2,471.2
U.S. equities	3,219.1	2,762.4	2,881.1
International equities	1,770.1	1,573.7	1,681.6
Other	25.9	21.0	15.7
Total managed investments	7,653.9	6,995.7	7,049.6
Cash equivalents on deposit with State	2.2	1.7	1.2
Securities lending collateral	688.7	438.0	725.6
Total cash, cash equivalents, and investments	$ 8,344.8	$ 7,435.4	$ 7,776.4

Management's Discussion and Analysis (continued)

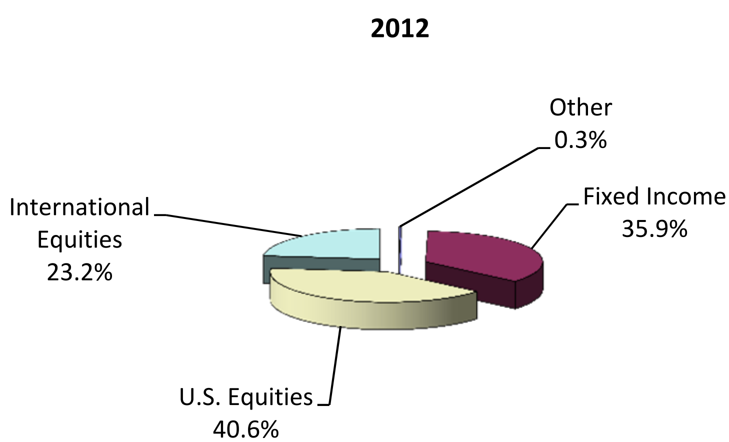
The increase in the Plan's managed investments is reflective of the increase in domestic and international equity markets for the year. The Plan's overall return for the year ended June 30, 2013 was 12.0%. A negative 1.0% return for the fixed income component exceeded the market trend for the asset class. U.S. equities showed a return of 22.7%, and international equities showed a return of 13.9%. Amounts of $154.0 million of U.S. equities, $18.0 million of international equities and $15.0 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, 2013 the distribution of the Plan's investments including accrued income and pending trades was as follows:



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:



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:

2013	2012	2011
81.6%	80.2%	80.7%

Plan Amendments

Plan provision changes were enacted by the State Legislature during the session ended in May 2013. The changes include the expansion of final average salary from three years to five years for new members; administrative changes for data reporting, probate waivers and death benefit payments; a change in the composition of the Board of Trustees and the establishment of a pension stabilization revolving fund.

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 Position

June 30, 2013 and 2012

	2013	2012
Assets		
Cash equivalents	$ 212,400,281	$ 132,498,192
Receivables:		
Member contributions	3,781,376	3,560,487
State and local agency contributions	14,360,762	13,239,061
Due from brokers for securities sold	598,834,106	294,568,871
Accrued interest and dividends	14,031,272	15,491,139
Total receivables	631,007,516	326,859,558
Investments, at fair value:		
Short-term investments	25,420,709	9,518,119
Government obligations	1,656,546,453	1,675,214,620
Corporate bonds	799,987,931	865,697,402
Domestic equities	3,195,795,760	2,737,286,573
International equities	1,765,894,020	1,577,173,105
Securities lending collateral	688,724,272	437,964,331
Total investments	8,132,369,145	7,302,854,150
Property and equipment, at cost, net of accumulated depreciation of $1,687,700 in 2013 and $1,434,932 in 2012	982,035	941,641
Other assets	238,613	295,857
Total assets	8,976,997,590	7,763,449,398
Liabilities		
Due to brokers and investment managers	846,491,700	504,181,526
Securities lending collateral	688,724,272	437,964,331
Total liabilities	1,535,215,972	942,145,857
Net position restricted for pension benefits	$ 7,441,781,618	$ 6,821,303,541

See accompanying notes to financial statements.

Statements of Changes in Plan Net Position

Years Ended June 30, 2013 and 2012

	2013	2012
Additions		
Contributions:		
Members	$ 68,200,616	$ 66,299,570
State and local agencies	269,994,831	262,710,009
Total contributions	338,195,447	329,009,579
Investment income:		
From investing activities:		
Net appreciation in fair value of investments	704,638,124	46,557,082
Interest	62,327,958	69,997,122
Dividends	44,324,224	43,816,355
Total investment income	811,290,306	160,370,559
Less – Investment expenses	(8,907,933)	(7,412,642)
Income from investing activities	802,382,373	152,957,917
From securities lending activities:		
Securities lending income	1,194,002	853,893
Securities lending expenses:		
Borrower rebates	917,940	1,183,094
Management fees	(316,603)	(302,468)
Income from securities lending activities	1,795,339	1,734,519
Net investment income	804,177,712	154,692,436
Total additions	1,142,373,159	483,702,015
Deductions		
Retirement, death and survivor benefits	502,636,899	484,309,893
Refunds and withdrawals	14,645,400	14,331,714
Administrative expenses	4,612,783	4,758,636
Total deductions	521,895,082	503,400,243
Net (decrease) increase	620,478,077	(19,698,228)
Net position restricted for pension benefits		
Beginning of year	6,821,303,541	6,841,001,769
End of year	$ 7,441,781,618	$ 6,821,303,541

See accompanying notes to financial statements.

Notes to Financial Statements

June 30, 2013 and 2012

(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.

Notes to Financial Statements (continued)

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 position.

(c) Property and Equipment

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

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

(d) Use of Estimates

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 position restricted 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 position 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.

At June 30 the Plan's membership consisted of:

	2013	2012
Retirees and beneficiaries currently receiving benefits	31,135	30,263
Terminated vested participants	5,595	5,497
Active participants	43,273	42,569
Total	80,003	78,329

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, 2013 and 2012 totaled approximately $4,426,000 and $4,591,000, 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 $0.7 million and $0.8 million has been included in the calculation of the actuarial liability of the Plan at June 30, 2013 and 2012, respectively.

(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 2013 and 2012, *state agency employers* contributed 16.5% on all salary, and *state employees* contributed 3.5% on all salary.

For 2013 and 2012, 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%.

Notes to Financial Statements (continued)

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 2013 and 2012 hazardous duty members contributed 8.0% and their employer agencies contributed 16.5% on all salary.

(d) Participating Employers

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

	2013	2012
State agencies	121	127
County governments	75	75
Local government towns and cities	28	28
Other local governmental units	59	57
Total	283	287

(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:

	2013	2012
Cash equivalents		
State Treasurer	$ 2,138,807	$ 1,696,249
Custodial agent	208,570,741	128,768,704
Foreign currency	1,690,733	2,033,239
Total cash and cash equivalents	$212,400,281	$132,498,192

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, 2013 and 2012 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, 2013, as a result of outstanding checks, the Plan's carrying amount in *OK INVEST* totaled $2,138,807 and the bank balances totaled $10,067,606. 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, 2013 and 2012 the carrying amounts of the Plan's custodial agent cash equivalents were the same as the bank balances, $208,570,741 and $128,768,704, 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, 2013 and 2012 the foreign currency holdings were $1,690,733 and 2,033,239, 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, 2013 and 2012 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:

	2013	2012
U.S. Treasury notes/bonds	$ 618,361,468	$ 569,249,755
U.S. Treasury strips	109,974,524	132,499,808
U.S. TIPS index fund	230,951,252	242,546,008
Government agencies	66,540,888	54,330,935
Government mortgage-backed securities	614,765,008	643,627,988
Municipal bonds	12,328,604	25,232,068
Corporate bonds	471,665,169	519,687,667
Asset-backed securities	225,198,472	214,912,773
Commercial mortgage-backed securities	100,519,845	95,659,590
Non government backed collateralized mortgage obligations	30,145,726	52,659,652
Domestic equities	1,365,825,185	1,141,258,519
U.S. equity index fund	1,829,970,575	1,596,028,053
International equities	480,932,133	447,742,645
International equity index funds	1,286,466,024	1,129,454,358
Securities lending collateral	688,724,272	437,964,331
Total investments	$ 8,132,369,145	$ 7,302,854,150

Notes to Financial Statements (continued)

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, 2013 and June 30, 2012, the Plan was invested in three 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 2013 and 2012 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, 2013 and 2012 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, 2013 and 2012 collateralized by cash collateral were $673,260,062 and $428,942,703, respectively, and the cash collateral received for those securities on loan was $688,724,272 and $437,964,331, respectively. In addition, the securities on loan at June 30, 2013 and 2012 collateralized by non-cash collateral were $128,586,470 and $6,747,265, respectively, and the market value of the non-cash collateral for those securities on loan was $131,162,701 and $437,964,331, 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, 2013 and 2012 the cash collateral investments had an average weighted maturity of 17 and 30 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.

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, 2013 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 $13,791,244 in issues rated below BBB- and the core plus fixed income portfolio which held $1,905,405 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, 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.

Investments issued by or explicitly guaranteed by the U.S. Government are not considered to have credit risk. At June 30, 2013 the Plan held 31.4% 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, 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.

Notes to Financial Statements (continued)

The Plan's exposure to credit risk at June 30, 2013 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	$ 9,080	$ 55,458	$ 1,884	$ -	$ -	$ -	$ -	$ -	$ 66,422
Government mortgage-backed securities	8,043	10,688	-	-	-	-	-	546,266	564,997
Municipal bonds	-	3,405	8,924	-	-	-	-	-	12,329
Corporate bonds	39,220	59,450	180,570	133,301	23,422	5,971	-	29,731	471,665
Asset-backed securities	113,705	68,206	17,115	13,723	2,274	5,944	2,073	2,158	225,198
Commercial mortgage-backed securities	74,737	5,863	4,015	1,982	3,327	3,745	-	6,851	100,520
Non government backed collateralized mortgage obligations	12,820	4,051	5,791	2,943	1,853	-	-	2,688	30,146
Total fixed income securities exposed to credit risk	$ 257,605	$207,121	$ 218,299	$ 151,949	$30,876	$15,660	$ 2,073	$ 587,694	$1,471,277
Percent of total fixed income portfolio	10.4%	8.4%	8.8%	6.1%	1.2%	0.6%	0.1%	23.7%	59.3%

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%

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

	2013		2012	
Credit Rating	*OK INVEST*	Custodial Agent	*OK INVEST*	Custodial Agent
AAA	9.6 %	11.5 %	49.4 %	13.1 %
AA	84.6	85.8	46.9	86.1
A1	0.3	1.9	—	0.8
BBB	—	—	—	—
BB	—	—	—	—
NR	5.5	0.8	3.7	—
	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.

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

	2013		2012	
	Fair Value	**Effective duration in years**	**Fair Value**	**Effective duration in years**
U.S. Treasury notes/bonds	$ 618,361,468	7.4	$ 569,249,755	9.0
U.S. Treasury strips	109,974,524	23.6	132,499,808	20.2
U.S. TIPS index fund	230,951,252	7.7	242,546,008	8.2
Government agencies	66,540,888	2.7	54,330,935	4.0
Government mortgage-backed securities	614,765,008	4.9	643,627,988	2.3
Municipal bonds	12,328,604	8.6	25,232,068	9.4
Corporate bonds	471,665,169	4.4	519,687,667	4.4
Asset-backed securities	225,198,472	1.3	214,912,773	1.9
Commercial mortgage-backed securities	100,519,845	3.1	95,659,590	3.8
Non government backed collateralized mortgage obligations	30,145,726	1.1	52,659,652	1.6
Total fixed income	$ 2,480,450,956		$ 2,550,406,244	
Portfolio duration		6.0		5.8

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, 2013 and 2012 the Plan held $225,198,472 and $214,912,773, respectively, in asset-backed securities.

Mortgage-backed securities are securities backed by mortgages issued by public and private institutions. At June 30, 2013 and 2012 the Plan held $614,765,008 and $643,627,988, 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 $100,519,845 and $95,659,590, respectively, in commercial mortgage-backed securities.

Notes to Financial Statements (continued)

Collateralized mortgage obligations (CMOs) are mortgage-backed bonds that allocate mortgage cash flows (interest and principal) into different maturity classes, called tranches. This is accomplished by dedicating mortgage cash flows to specific tranches and paying each 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, 2013 and 2012 the Plan held $30,145,726 and $52,659,652, 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:

	2013		2012	
Maturities (in days)	***OK INVEST***	**Custodial Agent**	***OK INVEST***	**Custodial Agent**
0 - 14	11.8 %	35.9 %	14.1 %	45.4 %
15 - 30	1.2	6.5	0.8	8.2
31 - 60	0.0	16.0	0.8	10.6
61 - 90	0.6	10.1	0.7	10.5
91 - 180	2.9	14.3	2.6	4.3
181 - 364	6.2	16.6	3.4	16.3
365 - 730	14.6	0.6	12.1	4.7
Over 730	62.7	0.0	65.5	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, 2013 is as follows:

Currency	Equities	Short-term Investments	Cash	Total	Percent
Australian dollar	$ 15,250,988	$ (12,426,860)	$ -	$ 2,824,128	0.2 %
Brazilian real	10,771,314	-	109	10,771,423	0.6
British pound sterling	83,068,353	(852,664)	971,212	83,186,901	4.7
Canadian dollar	4,389,865	-	73,106	4,462,971	0.3
Euro	131,069,630	-	146,844	131,216,474	7.4
Hong Kong dollar	18,845,334	-	156,023	19,001,357	1.1
Indonesian rupiah	9,625,856	75,357	-	9,701,213	0.5
Japanese yen	70,070,442	(771,882)	315,744	69,614,304	3.9
Malaysian ringgit	441,320	178,038	-	619,358	0.0
Mexican peso	6,558,713	-	-	6,558,713	0.4
Singapore dollar	15,879,693	194,972	-	16,074,665	0.9
South African rand	5,202,861	-	27,695	5,230,556	0.3
South Korean won	8,398,131	-	-	8,398,131	0.5
Swiss franc	27,434,142	-	-	27,434,142	1.5
Thai baht	4,788,970	-	-	4,788,970	0.3
Turkish lira	7,465,293	65,410	-	7,530,703	0.4
International portfolio exposed to foreign currency risk	419,260,905	(13,537,629)	1,690,733	407,414,009	23.0
International portfolio in U.S. dollars	1,346,633,115	15,041,767	8,062,406	1,369,737,288	77.0
Total international portfolio	$ 1,765,894,020	$ 1,504,138	$ 9,753,139	$ 1,777,151,297	100.0 %

Notes to Financial Statements (continued)

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 %

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 losses at June 30, 2013 were approximately $3.3 million and 2012 unrealized translation gains were approximately $16.5 million.

(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:

	2013	2012
Actuarial value of the assets (a)	$ 6,978,873,421	$ 6,682,200,296
Actuarial accrued liability (AAL) (b)	$ 8,556,121,906	$ 8,334,637,900
Total unfunded actuarial accrued liability (UAAL) (b-a)	$ 1,577,248,485	$ 1,652,437,604
Funded ratio (a/b)	81.6%	80.2%
Covered payroll	$ 1,695,347,809	$ 1,633,837,374
UAAL as a percentage of covered payroll	93.0%	101.1%

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.

Notes to Financial Statements (continued)

(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, 2013 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, 2013 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, 2013 and 2012 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 2013:

(a) Final Average Salary Expanded from Three to Five Years and Administrative Changes

HB 1325 changes the definition of "Final Average Salary" for members who join OPERS on or after July 1, 2013. This is the salary number used in the final retirement benefit calculation. New OPERS members will have their salary averaged over the highest five of the last ten years instead of three years in previous law.

HB 1325 requires participating employers to provide salary and other information for retiring members to OPERS no later than the fifteenth day of the month of retirement. This will help OPERS speed up the retirement process. The bill also increases the amount that OPERS can pay a deceased member's heirs without requiring that the estate be probated. It also allows OPERS to pay the final benefit of a deceased member to the named beneficiary before paying the estate of the member.

(b) OPERS Board of Trustees Composition

Legislation last year inadvertently removed the Director of Human Capital Management (HCM) of the Office of Management and Enterprise Services from the OPERS Board of Trustees. HB 1477 puts the Director of HCM back on the Board and also allows the Corporation Commission member of the Board to send a designee in his or her place.

(c) Pension Stabilization Revolving Fund

Under SB 847, surplus funds over and above those going to the State's "Rainy Day Fund" will go into a revolving fund. The Legislature may appropriate any such funds to pension systems with a funded ratio below 90%. Priority will be given to the lowest funded pension systems.

(8) New Pronouncements

(a) New Accounting Pronouncements Adopted in Fiscal Year 2013

The Plan adopted Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB 62), during 2013. GASB 62 is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain FASB and AICPA pronouncements. The adoption of GASB 62 did not have a significant impact on the Plan's financial statements.

The Plan adopted Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63), during 2013. GASB 63 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. Adoption of GASB 63 resulted in changes to the Plan's financial statement presentation, but such changes were not significant.

(b) New Accounting Pronouncements Issued, Not Yet Adopted

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.

In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations* (GASB 69). GASB 69 establishes guidance for 1) determining whether a specific government combination is a government merger, a government acquisition, or a transfer of operations; 2) using carrying values to measure the assets, deferred outflows of resources, liabilities, and deferred inflows of resources combined in a government merger or transfer of operations; 3) measuring acquired assets, deferred outflows of resources, liabilities, and deferred inflows of resources based upon their acquisition values in a government acquisition; and 4) reporting the disposal of government operations that have been transferred or sold. The requirements of GASB 69 are effective for fiscal years beginning after December 15, 2013.

Notes to Financial Statements (continued)

In April 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* (GASB 70). GASB 70 requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. GASB 70 also provides additional guidance for intra-entity nonexchange financial guarantees involving blended component units and specifies information required to be disclosed by governments that extend and/or receive nonexchange financial guarantees. The requirements of GASB 70 are effective for fiscal years beginning after June 15, 2013.

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

Required Supplementary Information

(Unaudited)
June 30, 2013
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)
6/30/2008	$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
6/30/2013	6,978,873,421	8,556,121,906	1,577,248,485	81.6	1,695,347,809	93.0

Schedule of Employer Contributions

Year Ended June 30,	Annual Required Contribution	Percentage Contributed
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
2013	256,596,988	105.2

Supplementary Information

Schedule of Investment Expenses

Years Ended June 30, 2013 and 2012

Schedule 2

	2013	2012
Investment management fees		
Fixed Income Managers:		
BlackRock Financial Management, Inc.	$ 1,211,182	$ 1,156,627
Hoisington Investment Management	343,446	354,082
Metropolitan West Asset Management, LLC	1,791,918	482,282
BlackRock Institutional Trust Company, N.A. - TIPS	29,146	28,124
U.S. Equity Managers:		
Aronson, Johnson, and Ortiz, LP	141,583	-
Barrow, Hanley, Mewhinney & Strauss, Inc.	756,119	638,744
BlackRock Institutional Trust Company, N.A.	135,015	123,682
DePrince Race & Zollo, Inc.	804,639	1,065,955
Mellon Capital Management	125,000	125,000
State Street Global Advisors	102,887	98,114
Turner Investment Partners, Inc.	-	-
UBS Global Asset Management	777,123	734,612
International Equity Managers:		
BlackRock Institutional Trust Company, N.A.	634,589	503,230
Mondrian Investment Partners, Ltd	1,779,870	1,829,132
Total investment management fees	8,632,517	7,139,584
Investment consultant fees		
Strategic Investment Solutions, Inc.	246,449	244,105
Investment custodial fees		
Northern Trust Company	28,967	28,953
Total investment expenses	$ 8,907,933	$ 7,412,642

See accompanying independent auditors' report.

Supplementary Information

Schedule of Administrative Expenses

Years Ended June 30, 2013 and 2012

Schedule 3

	2013	2012
Staff salaries	$ 2,641,048	$ 2,664,241
Social Security	195,601	196,285
Retirement	431,658	457,413
Insurance	592,324	633,685
Temporary employees	17,628	29,987
Total personnel services	3,878,259	3,981,611
Actuarial	87,083	147,917
Audit	186,135	182,148
Legal	44,641	32,352
Administrative	-	35,000
Total professional services	317,859	397,417
Printing	78,026	83,860
Telephone	18,450	23,949
Postage and mailing expenses	118,321	121,951
Travel	27,561	37,588
Total communication	242,358	267,348
Office space	201,042	200,895
Equipment leasing	38,282	40,347
Total rentals	239,324	241,242
Supplies	30,943	34,485
Maintenance	71,700	87,493
Depreciation	253,267	222,157
Other	185,054	132,643
Total miscellaneous	540,964	476,778
Total administrative expenses	5,218,764	5,364,396
Administrative expenses allocated		
Uniform Retirement System for Justices and Judges (URSJJ)	(128,007)	(154,623)
Oklahoma State Employees Deferred Compensation Plan (DCP)	(381,447)	(359,035)
Oklahoma State Employees Deferred Savings Incentive Plan (SIP)	(96,527)	(92,102)
Total administrative expenses allocated	(605,981)	(605,760)
Net administrative expenses	$ 4,612,783	$ 4,758,636

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, 2013 and 2012

Schedule 4

Professional/Consultant	Service	2013	2012
Cavanaugh Macdonald Consulting, Inc.	Actuarial	$ 87,083	$ 147,917
Cole & Reed PC	External Auditor	75,000	79,300
Finley & Cook, PLLC	Internal Auditor	111,135	102,848
Ice Miller LLP	Legal	9,596	25,302
Phillips Murrah, P.C.	Legal	31,620	-
Lee Slater, Attorney at Law	Hearings Examiner	2,900	3,150
Michael Mitchelson	Hearings Examiner	350	2,250
Slater & Denny	Hearings Examiner	-	1,650
Steve Meador & Associates	Hearings Examiner	175	-
CEM Benchmarking, Inc.	Performance Measurement	-	35,000
Total professional/consultant fees		$ 317,859	$ 397,417

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*

The Board of Trustees
Oklahoma Public Employees Retirement Plan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Oklahoma Public Employees Retirement Plan (the Plan), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements, and have issued our report thereon dated October 17, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Plan's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we do not express an opinion on the effectiveness of the Plan's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Plan's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cole & Reed P.C.

Oklahoma City, Oklahoma
October 17, 2013