Oklahoma Public Employees Retirement Plan

Administered by the Oklahoma Public Employees Retirement System

Financial Statements

June 30, 2014 and 2013

(With Independent Auditors' 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
Oklahoma City, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the Oklahoma Public Employees Retirement Plan (the Plan), a component unit of the state of Oklahoma, which comprise the statements of fiduciary net position as of June 30, 2014 and 2013, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States 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 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, 2014 and 2013, 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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Emphasis of Matter

As discussed in Note 8 of the financial statements, in 2014 the Plan adopted Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans*. Comparative information has not been presented for fiscal year 2013. Our opinion is not modified with respect to this matter.

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 information included in schedules 1 through 3 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 4 through 6 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 4 through 6 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 our report dated October 22, 2014, on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 22, 2014

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, 2014 and 2013.

Financial Highlights

- The net position restricted for pensions totaled approximately $8.6 billion at June 30, 2014, compared to $7.4 billion at June 30, 2013 and $6.8 billion at June 30, 2012. The net position is available for payment of monthly retirement benefits and other qualified distributions to the Plan's participants. The increase of $1.1 billion from June 30, 2013 to June 30, 2014 resulted primarily from the changes in the fair value of the Plan's investments due to improved equity markets.
- At June 30, 2014 and 2013, the total number of members participating in the Plan increased 1.8% and increased 2.1%, respectively. Membership was 81,451 at June 30, 2014 and 80,003 at June 30, 2013. The number of retirees increased by 2.2% as of June 30, 2014 and increased by 2.9% as of June 30, 2013. The total number of retirees was 31,833 at June 30, 2014 and 31,135 at June 30, 2013.

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 Fiduciary Net Position, a Statement of Changes in Fiduciary 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 changes in the net pension liability, schedule of net pension liability, schedule of employer contributions and schedule of investment returns. 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 Fiduciary Net Position and Changes in Fiduciary Net Position for the Oklahoma Public Employees Retirement Plan for the fiscal years ended June 30, 2014, 2013, and 2012.

Condensed Schedules of Fiduciary Net Position
($ millions)

	June 30		
	2014	**2013**	**2012**
Assets:			
Cash and cash equivalents	$ 81.9	$ 212.4	$ 132.5
Receivables	289.3	631.0	326.9
Investments	8,594.6	7,443.7	6,864.9
Securities lending collateral	591.2	688.7	438.0
Property and equipment	1.0	1.0	0.9
Other assets	0.4	0.2	0.3
Total assets	9,558.4	8,977.0	7,763.5
Liabilities:			
Other liabilities	397.0	846.5	504.2
Securities lending collateral	591.2	688.7	438.0
Total liabilities	988.2	1,535.2	942.2
Ending net position restricted for pensions	$ 8,570.2	$ 7,441.8	$ 6,821.3

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

	June 30		
	2014	**2013**	**2012**
Member contributions	$ 70.5	$ 68.2	$ 66.3
State and local agency contributions	280.0	270.0	262.7
Net investment income	1,317.9	804.1	154.7
Total additions	1,668.4	1,142.3	483.7
Retirement, death and survivor benefits	520.6	502.6	484.3
Refunds and withdrawals	14.9	14.6	14.3
Administrative expenses	4.7	4.6	4.8
Total deductions	540.2	521.8	503.4
Net (decrease) increase in net position	$ 1,128.2	$ 620.5	$ (19.7)

For the year ended June 30, 2014, fiduciary net position increased $1.1 billion, or 15.2%. Total assets increased $581.3 million, or 6.5%, due to an 15.5% increase in investments partially offset by a 56.7% decrease in pending sales of securities, and a 14.2% decrease in securities lending collateral. Total liabilities decreased $547.0 million, or 35.6%, due to a 53.1% decrease in pending purchases of securities and a 14.2% decrease in the securities lending collateral liability.

Fiscal year 2014 showed a $526.2 million increase in total additions and an $18.3 million increase in total deductions. Compared to the prior year, the increase in additions was due to increases of $505.8 million in the net appreciation of assets. Deductions increased 3.5% due to the $18.0 million increase in retirement, death, and survivor benefits.

For the year ended June 30, 2013, fiduciary 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.

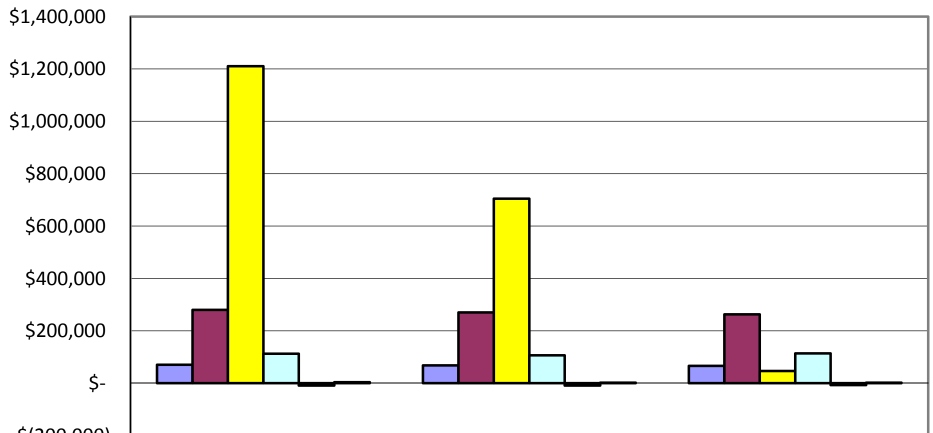
Fiscal year 2013 showed a $658.7 million increase in total additions and an $18.5 million increase in total deductions. Compared to the prior year, the increase in additions was due to increases of $658.1 million in the net appreciation of assets. Deductions increased 3.7% due to the $18.3 million increase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

Management's Discussion and Analysis (continued)

Additions to Fiduciary Net Position

For the year ended June 30, 2014, total additions to fiduciary net position increased $526.2 million from the prior year. The net increase in the fair value of investments of $505.8 million was the result of the rebounding market, particularly in domestic and international equities. Interest income decreased $3.7 million, or 5.9%, and dividend income increased $9.5 million, or 21.4%. Securities lending net income increased $2.2 million, or 125.1%. Contributions were $12.4 million, or 3.7%, higher than the prior year due to a slight increase in the number of participants.

Additions to Fiduciary Net Position
Comparative Data for Fiscal Years Ended June 30, 2014, 2013, and 2012
($ thousands)



	2014	2013	2012
Member contributions	$70,524	$68,201	$66,300
State and local agency contributions	280,048	269,995	262,710
Net appreciation (depreciation)	1,210,474	704,638	46,557
Interest, dividends, and other investment income	112,449	106,652	113,813
Investment expenses	(8,984)	(8,908)	(7,413)
Securities lending income	4,041	1,795	1,735

For the year ended June 30, 2013, total additions to fiduciary 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.

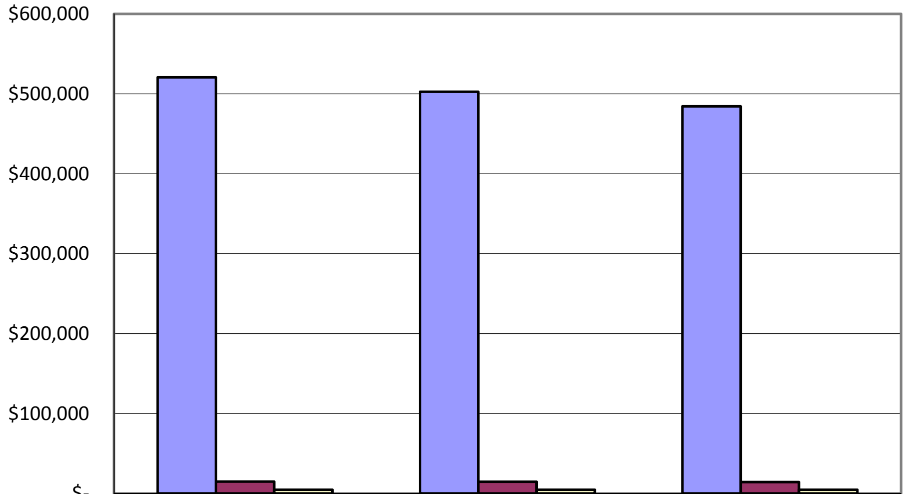
Deductions to Fiduciary Net Position

For the year ended June 30, 2014, total deductions increased $18.3 million, or 3.5%, from the prior year. Retirement, death, and survivor benefits increased $18.0 million, or 3.6%, due to a 2.2% increase in the number of retirees at year end and a 1.2% increase in the average benefit. Refunds and withdrawals increased $0.2 million, or 1.6%, as more participants withdrew contributions during fiscal 2014. The 2.1% increase in administrative costs was primarily due to the increase in personnel costs.

Management's Discussion and Analysis (continued)

Deductions to Fiduciary Net Position

Comparative Data for Fiscal Years Ended June 30, 2014, 2013, and 2012
($ thousands)



	2014	2013	2012
Retirement, death and survivor benefits	$520,641	$502,637	$484,310
Refunds and withdrawals	14,878	14,645	14,332
Administrative expenses	4,709	4,613	4,758

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.

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, 2014, 2013, and 2012 is as follows:

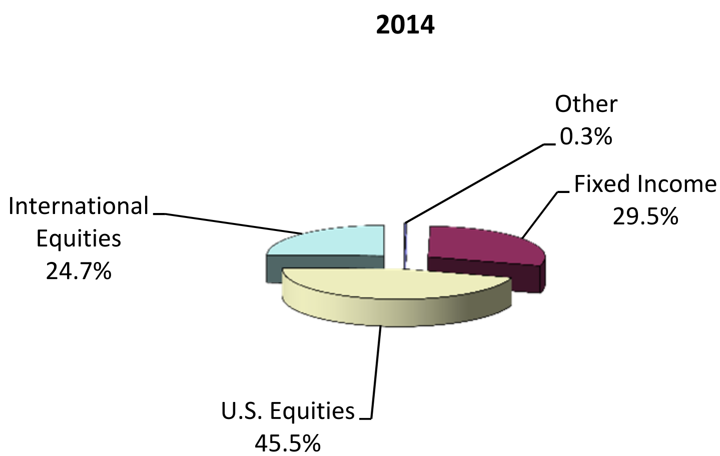
Cash, Cash Equivalents, and Investment Portfolio
($ millions)

	June 30		
	2014	**2013**	**2012**
Fixed income	$ 2,649.9	$ 2,638.8	$ 2,638.6
U.S. equities	3,888.4	3,219.1	2,762.4
International equities	2,108.0	1,770.1	1,573.7
Other	27.2	25.9	21.0
Total managed investments	8,673.5	7,653.9	6,995.7
Cash equivalents on deposit with State	3.0	2.2	1.7
Securities lending collateral	591.2	688.7	438.0
Total cash, cash equivalents, and investments	$ 9,267.7	$ 8,344.8	$ 7,435.4

Management's Discussion and Analysis (continued)

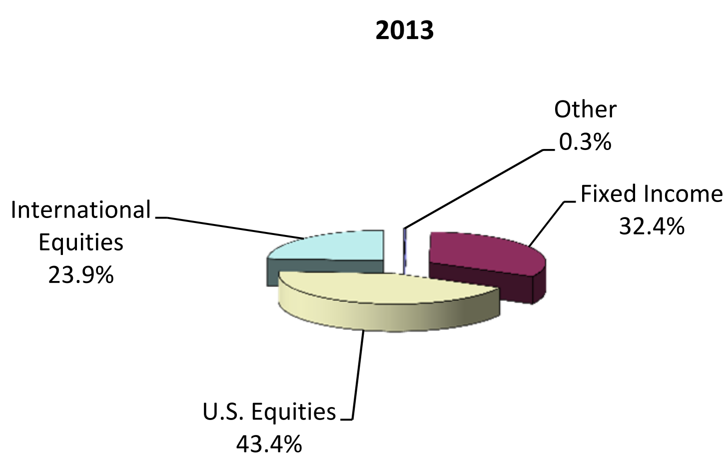
The increase in the Plan's managed investments is reflective of the increase in domestic and international equity markets for the year. The Plan's overall return for the year ended June 30, 2014 was 18.0%. A 5.1% return for the fixed income component exceeded the market trend for the asset class. U.S. equities showed a return of 25.6%, and international equities showed a return of 21.9%. Amounts of $137.0 million of U.S. equities and $45.0 million of international equities 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, 2014, the distribution of the Plan's investments including accrued income and pending trades was as follows:



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:



Management's Discussion and Analysis (continued)

Economic Factors

Ratio of Fiduciary Net Position to Total Pension Liability

The manner of calculating the funded ratio changed during fiscal year 2014 due to the adoption of GASB Statement No. 67, *Financial Reporting for Pension Plans.* For this reason, there is no comparative presentation for fiscal year 2013.

	June 30 2014
Total pension liability	$ 8,753,669,153
Plan fiduciary net position	$ 8,570,104,910
Ratio of fiduciary net position to total pension liability	97.90%

Plan Amendments

Plan provision changes were enacted by the State Legislature during the session ended in May 2014. The changes include the creation of a defined contribution system for new members and clarification of the participants to be excluded.

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 Fiduciary Net Position

June 30, 2014 and 2013

	2014	2013
Assets		
Cash equivalents	$ 81,933,338	$ 212,400,281
Receivables:		
Member contributions	3,128,868	3,781,376
State and local agency contributions	11,321,253	14,360,762
Due from brokers for securities sold	259,524,443	598,834,106
Accrued interest and dividends	15,277,652	14,031,272
Total receivables	289,252,216	631,007,516
Investments, at fair value:		
Short-term investments	77,799,198	25,420,709
Government obligations	1,702,939,220	1,656,546,453
Corporate bonds	843,810,311	799,987,931
Domestic equities	3,873,529,422	3,195,795,760
International equities	2,096,496,177	1,765,894,020
Securities lending collateral	591,194,077	688,724,272
Total investments	9,185,768,405	8,132,369,145
Property and equipment, at cost, net of accumulated depreciation of $1,975,486 in 2014 and $1,687,700 in 2013	986,297	982,035
Other assets	384,674	238,613
Total assets	9,558,324,930	8,976,997,590
Liabilities		
Due to brokers and investment managers	397,025,943	846,491,700
Securities lending collateral	591,194,077	688,724,272
Total liabilities	988,220,020	1,535,215,972
Net position restricted for pensions	$ 8,570,104,910	$ 7,441,781,618

See accompanying notes to financial statements.

Statements of Changes in Fiduciary Net Position

Years Ended June 30, 2014 and 2013

	2014	2013
Additions		
Contributions:		
Members	$ 70,523,854	$ 68,200,616
State and local agencies	280,047,664	269,994,831
Total contributions	350,571,518	338,195,447
Investment income:		
From investing activities:		
Net appreciation in fair value of investments	1,210,474,272	704,638,124
Interest	58,657,632	62,327,958
Dividends	53,791,422	44,324,224
Total investment income	1,322,923,326	811,290,306
Less – Investment expenses	(8,984,211)	(8,907,933)
Income from investing activities	1,313,939,115	802,382,373
From securities lending activities:		
Securities lending income	3,080,344	1,194,002
Securities lending expenses:		
Borrower rebates	1,331,851	917,940
Management fees	(371,039)	(316,603)
Income from securities lending activities	4,041,156	1,795,339
Net investment income	1,317,980,271	804,177,712
Total additions	1,668,551,789	1,142,373,159
Deductions		
Retirement, death and survivor benefits	520,641,175	502,636,899
Refunds and withdrawals	14,878,427	14,645,400
Administrative expenses	4,708,895	4,612,783
Total deductions	540,228,497	521,895,082
Net (decrease) increase in net position	1,128,323,292	620,478,077
Net position restricted for pensions		
Beginning of year	7,441,781,618	6,821,303,541
End of year	$ 8,570,104,910	$ 7,441,781,618

See accompanying notes to financial statements.

Notes to Financial Statements

June 30, 2014 and 2013

(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 fiduciary net position.

(c) Property and Equipment

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

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

(d) Use of Estimates

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 pensions at the date of the financial statements and the actuarial information included in Note (5) Net Pension Liability and Actuarial Information and the required supplementary information (RSI) as of the benefit information date, the changes in fiduciary 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.

(e) Risk and Uncertainties

Contributions to the Plan and the actuarial information included in Note (5) Net Pension Liability and Actuarial Information and the RSI are reported based on certain assumptions pertaining to interest rates, inflation rates, and employee compensation and demographics. Due to the changing nature of these assumptions, it is at least reasonably possible that changes in these assumptions may occur in the near term and, due to the uncertainties inherent in setting assumptions, that the effect of such changes could be material to the financial statements.

(f) Composition of Board of Trustees

The Board of Trustees of OPERS consists of thirteen appointed members, some by position and some by association. Those serving through position are a member of the Corporation Commission as selected by the Commission, a member of the Tax Commission as selected by the Tax Commission, the Administrator of the Office of Personnel Management or designee, the State Insurance Commissioner or designee, and the Director of State Finance or designee. Of the remaining members, three are appointed by the Governor, one is appointed by the Supreme Court, two are appointed by the Speaker of the House of Representatives and two are appointed by the President Pro Tempore of the Senate. Qualifications for certain of these appointees include a balance of individuals having experience in investment management, pension management, public fund management, the banking profession or a licensed attorney or a licensed accountant.

Notes to Financial Statements (continued)

(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:

	2014
Inactive members or their beneficiaries currently receiving benefits	31,833
Inactive members entitled to but not yet receiving benefits	5,671
Active members	43,947
Total	81,451

*The Plan includes 46,447 nonvested terminated members entitled to a refund of their member contributions.

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.

Notes to Financial Statements (continued)

The following are various benefit attributes for each member category:

State, County, and Local Agency Employees

Benefits are determined at 2% of the average annual salary received during the highest thirty-six months of the last ten years of participating service, but not to exceed the applicable annual salary cap, multiplied by the number of years of credited service. Members who join OPERS on or after July 1, 2013, will have their salary averaged over the highest 60 months of the last ten years. Normal retirement age under the 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, 2014 and 2013 totaled approximately $4,916,000 and $4,426,000, 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 $0.6 million and $0.7 million has been included in the calculation of the total pension liability of the Plan at June 30, 2014 and 2013, 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 2014 and 2013, *state agency employers* contributed 16.5% on all salary, and *state employees* contributed 3.5% on all salary.

For 2014 and 2013, 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 2014 and 2013, 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:

	2014	2013
State agencies	122	121
County governments	75	75
Local government towns and cities	29	28
Other local governmental units	61	59
Total	287	283

Notes to Financial Statements (continued)

(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:

	2014	2013
Cash equivalents		
State Treasurer	$ 3,027,232	$ 2,138,807
Custodial agent	76,030,220	208,570,741
Foreign currency	2,875,886	1,690,733
Total cash and cash equivalents	$ 81,933,338	$212,400,281

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, 2014 and 2013, 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, 2014, as a result of outstanding checks, the Plan's carrying amount in *OK INVEST* totaled $3,027,232, and the bank balances totaled $10,728,564. 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, 2014 and 2013, the carrying amounts of the Plan's custodial agent cash equivalents were the same as the bank balances, $76,030,220 and $208,570,741, 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, 2014 and 2013, the foreign currency holdings were $2,875,886 and $1,690,733, 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.

The investment policy, guidelines, and objectives which govern the investment of Plan assets shall be developed and adopted by the Board of Trustees at a regularly scheduled public Board meeting, at least annually, prior to August 1 of each year. Changes to the investment policy may be made, as necessary, at any public meeting of the Board of Trustees, in compliance with the Open Meeting Act.

At June 30, 2014, the asset allocation guidelines established by policy were U.S. equities – 44%, international equities – 24%, and domestic fixed income – 32%. At June 30, 2013, 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:

	2014	2013
U.S. Treasury notes/bonds	$ 685,346,520	$ 618,361,468
U.S. Treasury strips	111,755,663	109,974,524
U.S. TIPS index fund	241,659,857	230,951,252
Government agencies	47,816,167	66,540,888
Government mortgage-backed securities	584,838,161	614,765,008
Municipal bonds	27,279,617	12,328,604
Corporate bonds	539,733,941	471,665,169
Asset-backed securities	240,677,005	225,198,472
Commercial mortgage-backed securities	120,947,059	100,519,845
Non government backed collateralized mortgage obligations	23,613,654	30,145,726
Other fixed income	999,426	-
Domestic equities	1,728,358,207	1,365,825,185
U.S. equity index fund	2,145,171,215	1,829,970,575
International equities	834,631,557	480,932,133
International equity index funds	1,261,746,279	1,286,466,024
Securities lending collateral	591,194,077	688,724,272
Total investments	$ 9,185,768,405	$ 8,132,369,145

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, 2014 and 2013, 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.

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 2014 and 2013, 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, 2014 and 2013, 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, 2014 and 2013 collateralized by cash collateral were $577,434,507 and $673,260,062, respectively, and the cash collateral received for those securities on loan was $591,194,077 and $688,724,272, respectively. In addition, the securities on loan at June 30, 2014 and 2013 collateralized by non-cash collateral were $113,248,082 and $128,586,470, respectively, and the market value of the non-cash collateral for those securities on loan was $116,355,031 and $131,162,701, 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, 2014 and 2013, the cash collateral investments had an average weighted maturity of 19 and 17 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.

(b) Credit Risk

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

The 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, 2014, 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 $4,292,443 in issues rated below BBB-, and the core plus fixed income portfolio, which held $2,271,131 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, 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.

Investments issued by or explicitly guaranteed by the U.S. Government are not considered to have credit risk. At June 30, 2014, the Plan held 31.0% of fixed income investments that were not considered to have credit risk, 9.2% in a U.S. TIPS index fund made up of explicitly guaranteed U.S. Treasury Inflation-Protected Securities and 1.4% of fixed income investments that were implicitly guaranteed. Implicitly guaranteed investments primarily refer to bonds issued by a government sponsored entity (GSE) which is a government chartered corporation. This government charter implies that the government is unlikely to allow a GSE to default on its bond payments. At June 30, 2013, the Plan held 31.4% of fixed income investments that were not considered to have credit risk, 9.3% in a U.S. TIPS index fund made up of explicitly guaranteed U.S. Treasury Inflation-Protected Securities and 2.3% of fixed income investments that were implicitly guaranteed.

Notes to Financial Statements (continued)

The Plan's exposure to credit risk at June 30, 2014 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	$ 12,218	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 12,218
Government mortgage-backed securities	16,096	-	-	-	-	-	-	553,057	569,153
Municipal bonds	5,250	11,299	10,731	-	-	-	-	-	27,280
Corporate bonds	31,561	50,113	208,511	160,135	8,054	-	-	81,360	539,734
Asset-backed securities	122,807	73,958	16,149	12,092	5,856	5,063	2,441	2,311	240,677
Commercial mortgage-backed securities	97,462	10,802	1,114	3,451	3,885	1,500	-	2,733	120,947
Non government backed collateralized mortgage obligations	4,018	2,799	5,800	9,550	1,095	343	-	8	23,613
Other fixed income	-	-	999	-	-	-	-	-	999
Total fixed income securities exposed to credit risk	$ 289,412	$148,971	$ 243,304	$ 185,228	$18,890	$ 6,906	$ 2,441	$ 639,469	$1,534,621
Percent of total fixed income portfolio	11.0%	5.7%	9.3%	7.1%	0.7%	0.3%	0.1%	24.4%	58.6%

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	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 9,080
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	$151,663	$ 216,415	$ 151,949	$30,876	$15,660	$ 2,073	$ 587,694	$1,413,935
Percent of total fixed income portfolio	10.4%	6.1%	8.7%	6.1%	1.2%	0.6%	0.1%	23.7%	56.9%

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

	2014		**2013**	
Credit Rating	***OK INVEST***	**Custodial Agent**	***OK INVEST***	**Custodial Agent**
AAA	5.0 %	22.1 %	9.6 %	11.5 %
AA	89.3	67.5	84.6	85.8
A1	2.4	9.4	0.3	1.9
BBB	—	—	—	—
BB	—	—	—	—
NR	3.3	1.0	5.5	0.8
	100.0 %	100.0 %	100.0 %	100.0 %

(c) 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.

	2014		2013	
	Fair Value	**Effective duration in years**	**Fair Value**	**Effective duration in years**
U.S. Treasury notes/bonds	$ 685,346,520	7.9	$ 618,361,468	7.4
U.S. Treasury strips	111,755,663	23.3	109,974,524	23.6
U.S. TIPS index fund	241,659,857	7.7	230,951,252	7.7
Government agencies	47,816,167	3.7	66,540,888	2.7
Government mortgage-backed securities	584,838,161	4.4	614,765,008	4.9
Municipal bonds	27,279,617	10.0	12,328,604	8.6
Corporate bonds	539,733,941	4.9	471,665,169	4.4
Asset-backed securities	240,677,005	1.1	225,198,472	1.3
Commercial mortgage-backed securities	120,947,059	2.6	100,519,845	3.1
Non government backed collateralized mortgage obligations	23,613,654	0.6	30,145,726	1.1
Other fixed income	999,426	1.2		
Total fixed income	$ 2,624,667,070		$ 2,480,450,956	
Portfolio duration		6.0		6.0

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, 2014 and 2013, the Plan held $240,677,005 and $225,198,472, respectively, in asset-backed securities.

Mortgage-backed securities are securities backed by mortgages issued by public and private institutions. At June 30, 2014 and 2013, the Plan held $584,838,161 and $614,765,008, 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 $120,947,059 and $100,519,845, 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, 2014 and 2013, the Plan held $23,613,654 and $30,145,726, 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:

	2014		**2013**	
Maturities (in days)	***OK INVEST***	**Custodial Agent**	***OK INVEST***	**Custodial Agent**
0 - 14	7.0 %	28.2 %	11.8 %	35.9 %
15 - 30	0.7	6.3	1.2	6.5
31 - 60	1.1	14.7	0.0	16.0
61 - 90	0.9	18.5	0.6	10.1
91 - 180	4.0	11.4	2.9	14.3
181 - 364	7.7	14.8	6.2	16.6
365 - 730	17.7	6.1	14.6	0.6
Over 730	60.9	0.0	62.7	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.

Notes to Financial Statements (continued)

The Plan's exposure to foreign currency risk by asset class at June 30, 2014 is as follows:

Currency	Equities	Short-term Investments	Cash	Total	Percent
Australian dollar	$ 28,635,461	$ (6,686,100)	$ 45,677	$ 21,995,038	1.0 %
Brazilian real	8,776,953	-	109	8,777,062	0.4
British pound sterling	157,272,928	-	81,937	157,354,865	7.5
Canadian dollar	5,948,045	-	136,734	6,084,779	0.3
Danish krone	14,396,966	-	-	14,396,966	0.7
Euro	196,059,086	-	1,862,005	197,921,091	9.4
Hong Kong dollar	27,160,248	-	298,466	27,458,714	1.3
Indonesian rupiah	5,036,568	-	70,639	5,107,207	0.2
Japanese yen	113,932,287	-	286,921	114,219,208	5.4
Malaysian ringgit	4,671,572	70,309	1	4,741,882	0.2
Mexican peso	7,809,680	-	-	7,809,680	0.4
New Zealand dollar	2,727,427	-	-	2,727,427	0.1
Philippine peso	1,374,980	-	-	1,374,980	0.1
Singapore dollar	25,325,202	271,141	34	25,596,377	1.2
South African rand	12,342,358	-	-	12,342,358	0.6
South Korean won	13,602,778	-	19,213	13,621,991	0.6
Swedish krona	30,443,974		-	30,443,974	1.4
Swiss franc	72,531,086	-	-	72,531,086	3.4
Thai baht	2,985,506	-	-	2,985,506	0.1
Turkish lira	5,511,495	-	74,150	5,585,645	0.3
International portfolio exposed to foreign currency risk	736,544,600	(6,344,650)	2,875,886	733,075,836	35.0
International portfolio in U.S. dollars	1,359,951,577	7,726,071	4,240,772	1,371,918,420	65.0
Total international portfolio	$ 2,096,496,177	$ 1,381,421	$ 7,116,658	$ 2,104,994,256	100.0 %

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 %

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, 2014 were approximately $16.1 million, and 2013 unrealized translation losses were approximately $3.3 million.

(f) Rate of Return

For the year ended June 30, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 17.96%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

(5) Net Pension Liability and Actuarial Information

(a) Net Pension Liability of Participating Agencies

The Components of the net pension liability of the employer at June 30, 2014, were as follows:

	2014
Total pension liability	$ 8,753,669,153
Plan fiduciary net position	$ (8,570,104,910)
Employers' net pension liability	$ 183,564,243
Plan fiduciary net position as a percentage of the total pension liability	97.90%

(b) Actuarial Methods and Assumptions

The total pension liability as of June 30, 2014, was determined based on an actuarial valuation prepared as of July 1, 2014, using the following actuarial assumptions:

- Investment return – 7.5% compounded annually net of investment expense and including inflation
- Salary increases – 4.5% to 8.4% per year including inflation
- 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
- Actuarial cost method – Entry age
- Select period for the termination of employment assumptions – 10 years

The actuarial assumptions used in the July 1, 2014, valuation are based on the results of the most recent actuarial experience study, which cover the three-year period ending June 30, 2013. The experience study report is dated May 9, 2014.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Notes to Financial Statements (continued)

The Target asset allocation and best estimates of geometric real rates of return for each major asset class as of June 30, 2014, are summarized in the following table:

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

(c) Discount rate

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and the employers will be made at the current contribution rate as set out in state statute. Based on those assumptions, the pension plan's fiduciary net position was projected through 2113 to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determined does not use a municipal bond rate.

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

The following presents the net pension liability of the employer calculated using the discount rate of 7.50%, as well as what the plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent) or one percentage point higher (8.50 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net pension liability	$ 1,142,826,586	$ 183,564,243	$ (631,946,382)

(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 October 9, 2012 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 2014:

(a) Defined Contribution System Created for New Members

HB 2630 directs OPERS to establish a defined contribution retirement system for members first employed by a participating employer of the system on or after November 1, 2015, including statewide elected officials and legislators. The provisions of this bill are not applicable to hazardous duty members, district attorneys, assistant district attorneys or other employees of the district attorney's office who will continue to participate in the defined benefit plan.

Participating employees will contribute between 3% and 7% of their compensation. Participating employers will match employee contributions up to 7%, but not less than 3%. The OPERS Board will provide investment choices for participants to have investment discretion of all employee contributions and employer matching funds.

Participants will always be 100% vested in their contributions and the gains or losses on those contributions. Employees will become vested in the employer contributions, and gains or losses, at 20% per year until becoming fully vested after five full years.

(b) Expanded List of Excluded Participants in the New Defined Contribution System

SB 2120 expands the list of excluded participants in the new defined contribution system. Those excluded are employees of a county, county elected officials, county hospital, city or town, conservation district, circuit engineering district, and any public or private trust in which a county, city or town participates and is the primary beneficiary.

The bill also permits any person first licensed by the Department of Rehabilitation Services as a vending operator or managing operator on or after November 1, 2015, to be eligible for participation in the defined contribution system.

Participants in the defined contribution system will not be eligible for the $105.00 monthly health insurance subsidy currently paid by OPERS.

(8) New Pronouncements

(a) New Accounting Pronouncements Adopted in Fiscal Year 2014

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. The adoption of GASB 65 did not have a significant impact on the Plan's financial statements.

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. Adoption of GASB 67 had no impact on the Plan's net position but did result in changes to the presentation of the financial statements, notes to the financial statements, and RSI. Comparative information has not been presented for disclosures required by GASB 67 as presentation of the information for prior years was not practical.

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 adoption of GASB 70 did not have a significant impact on the Plan's financial statements.

(b) New Accounting Pronouncements Issued, Not Yet Adopted

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.

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68* (GASB 71). GASB 71 addresses an issue regarding application of the transition provisions of GASB 68. Contributions to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the reporting period are required to be recognized as deferred outflows of resources. The requirements of GASB 71 are effective simultaneously with GASB 68.

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

Required Supplementary Information

(Unaudited)
June 30, 2014
Schedule 1

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

Year Ended June 30,	2014
Total Pension Liability	
Service cost	$ 184,836
Interest	621,989
Benefit changes	-
Difference between expected and actual experience	(89,172)
Changes of assumptions	15,413
Benefit payments	(520,641)
Refunds of contributions	(14,878)
Net change in total pension liability	197,547
Total pension liability - beginning	8,556,122
Total pension liability - ending (a)	$ 8,753,669
Plan Fiduciary Net Position	
Contributions - employer	$ 280,048
Contributions - non-employer	-
Contributions - member	70,524
Net investment income	1,317,979
Benefit payments	(520,641)
Administrative expense	(4,709)
Refunds of contributions	(14,878)
Other	-
Net change in plan fiduciary net position	1,128,323
Plan fiduciary net position - beginning	7,441,782
Plan fiduciary net position - ending (b)	8,570,105
Net pension liability - ending (a) - (b)	$ 183,564

Schedule of the Net Pension Liability ($ in Thousands)

Year Ended June 30,	2014
Total pension liability	$ 8,753,669
Plan fiduciary net position	8,570,105
Net pension liability	$ 183,564
Ratio of plan fiduciary net position to total pension liability	97.90%
Covered employee payroll	$ 1,695,348
Net pension liability as a percentage of covered-employee payroll	10.83%

Required Supplementary Information

Schedule of Employer Contributions ($ in Thousands)
(Unaudited)
June 30, 2014
Schedule 2

Year Ended June 30,		2014
Actuarially determined employer contribution	$	258,879
Actual employer contributions		280,048
Annul contribution deficiency (excess)	$	(21,169)
Covered employee payroll	$	1,695,348
Actual contributions as a percentage of covered-employee payroll		16.52%

Notes to Schedule

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

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	13 years
Asset valuation method	5-year moving average
Inflation	3.00%
Salary increase	4.50 to 8.40 percent, including inflation
Investment rate of return	7.50%, compounded annually, net of investment expense and including inflation
Retirement age	Age 65 for all members hired on or after November 1, 2011, age 62 for members hired prior to November 1, 2011
Mortality	Active participants and nondisabled pensioners - RP-2000 Mortality Table projected to 2010 by Scale AA (disabled pensioners set forward 15 years)

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

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

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

Required Supplementary Information

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

(Unaudited)

June 30, 2014

Schedule 3

Year Ended June 30,	2014
Annual money-weighted rate of return, net of investment expense	17.96%

Supplementary Information

Schedule of Investment Expenses

Years Ended June 30, 2014 and 2013

Schedule 4

	2014	2013
Investment management fees		
Fixed Income Managers:		
BlackRock Financial Management, Inc.	$ 1,132,110	$ 1,211,182
Hoisington Investment Management	311,032	343,446
Metropolitan West Asset Management, LLC	804,797	1,791,918
BlackRock Institutional Trust Company, N.A. - TIPS	28,078	29,146
U.S. Equity Managers:		
Aronson, Johnson, and Ortiz, LP	482,429	141,583
Barrow, Hanley, Mewhinney & Strauss, Inc.	943,141	756,119
BlackRock Institutional Trust Company, N.A.	151,536	135,015
DePrince Race & Zollo, Inc.	558,862	804,639
Mellon Capital Management	125,000	125,000
State Street Global Advisors	126,064	102,887
UBS Global Asset Management	1,074,357	777,123
International Equity Managers:		
Baillie Gifford Overseas Limited	415,194	-
BlackRock Institutional Trust Company, N.A.	606,839	634,589
Mondrian Investment Partners, Ltd	1,948,866	1,779,870
Total investment management fees	8,708,305	8,632,517
Investment consultant fees		
Strategic Investment Solutions, Inc.	246,930	246,449
Investment custodial fees		
Northern Trust Company	28,976	28,967
Total investment expenses	$ 8,984,211	$ 8,907,933

See accompanying independent auditors' report.

Supplementary Information

Schedule of Administrative Expenses

Years Ended June 30, 2014 and 2013

Schedule 5

	2014	2013
Staff salaries	$ 2,691,557	$ 2,641,048
Social Security	201,461	195,601
Retirement	454,767	431,658
Insurance	583,323	592,324
Temporary employees	16,697	17,628
Total personnel services	3,947,805	3,878,259
Actuarial	95,750	87,083
Audit	138,100	186,135
Legal	33,260	44,641
Administrative	-	-
Total professional services	267,110	317,859
Printing	90,973	78,026
Telephone	18,496	18,450
Postage and mailing expenses	156,703	118,321
Travel	26,007	27,561
Total communication	292,179	242,358
Office space	217,508	201,042
Equipment leasing	38,331	38,282
Total rentals	255,839	239,324
Supplies	30,361	30,943
Maintenance	77,383	71,700
Depreciation	287,786	253,267
Other	188,130	185,054
Total miscellaneous	583,660	540,964
Total administrative expenses	5,346,593	5,218,764
Administrative expenses allocated		
Uniform Retirement System for Justices and Judges (URSJJ)	(132,190)	(128,007)
Oklahoma State Employees Deferred Compensation Plan (DCP)	(402,651)	(381,447)
Oklahoma State Employees Deferred Savings Incentive Plan (SIP)	(102,857)	(96,527)
Total administrative expenses allocated	(637,698)	(605,981)
Net administrative expenses	$ 4,708,895	$ 4,612,783

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, 2014 and 2013

Schedule 6

Professional/Consultant	Service	2014	2013
Cavanaugh Macdonald Consulting, Inc.	Actuarial	$ 95,750	$ 87,083
Cole & Reed PC	External Auditor	77,000	75,000
Finley & Cook, PLLC	Internal Auditor	61,100	111,135
Ice Miller LLP	Legal	24,200	9,596
Phillips Murrah, P.C.	Legal	8,181	31,620
Lee Slater, Attorney at Law	Hearings Examiner	-	2,900
Michael Mitchelson	Hearings Examiner	750	350
Steve Meador & Associates	Hearings Examiner	129	175
Total professional/consultant fees		$ 267,110	$ 317,859

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*

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), a component unit of the State of Oklahoma, which comprise the statement of fiduciary net position as of June 30, 2014, and the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 22, 2014.

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 22, 2014