Oklahoma Law Enforcement Retirement Plan

Administered by

Oklahoma Law Enforcement Retirement System

Financial Statements

June 30, 2011 and 2010
(With Independent Auditors' Report Thereon)

FINLEY & COOK
CERTIFIED PUBLIC ACCOUNTANTS

OKLAHOMA LAW ENFORCEMENT RETIREMENT PLAN
Administered by
OKLAHOMA LAW ENFORCEMENT RETIREMENT SYSTEM

FINANCIAL STATEMENTS

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FINLEY & COOK
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Oklahoma Law Enforcement Retirement System
Board of Trustees

We have audited the accompanying statements of plan net assets of the Oklahoma Law Enforcement Retirement Plan (the "Plan"), administered by the Oklahoma Law Enforcement Retirement System, which is part of the State of Oklahoma financial reporting entity, as of June 30, 2011 and 2010, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2011, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

(Continued)

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INDEPENDENT AUDITORS' REPORT, CONTINUED

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages I–1 to I–4 and the schedule of funding progress and the schedule of contributions from the employer and other contributing entities on pages 37–39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, 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.

Finley & Cook, PLLC

Shawnee, Oklahoma
October 11, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of the financial performance of the Oklahoma Law Enforcement Retirement Plan (the "Plan"), administered by the Oklahoma Law Enforcement Retirement System (collectively referred to as the "System"), provides an overview of the System's activities for the fiscal years ended June 30, 2011 and 2010. Please read it in conjunction with the System's financial statements, which begin on page 3.

Financial Highlights

	June 30, 2011	June 30, 2010
• Net assets of the System	$ 710,070,352	599,470,564
• Contributions:		
State agencies	7,694,103	7,778,735
Plan members	5,492,594	5,638,870
Insurance premium tax	8,798,389	7,957,624
Other state sources	8,166,200	7,498,145
	30,151,286	28,873,374
• Net investment income	129,299,707	71,516,362
• Benefits paid, refunds, and other deductions	48,851,205	45,895,966
• Changes in net assets	110,599,788	54,493,770

Discussion of the Basic Financial Statements

This annual financial report consists of two parts: Management's Discussion and Analysis (this section) and the basic financial statements. The System is a pension trust fund of the State of Oklahoma. The financial statements are presented using the economic measurement focus and the accrual basis of accounting. The System's statements offer short-term and long-term financial information about the activities and operations of the System. These statements are presented in a manner similar to those of a private business. The statements of plan net assets represent the fair market value of the System's assets as of the end of the fiscal year. The statements of changes in plan net assets are presented in order to show the change in net assets during the year. The activity primarily consists of contributions to the System, unrealized and realized gains/losses on investments, investment income/loss, benefits paid, and administrative expenses.

Condensed Financial Information Comparing the Current Year to the Prior Year

Net Assets: The following table summarizes the net assets as of June 30:

	2011	2010	% Increase (Decrease)
Cash and cash equivalents	$ 11,841,024	10,307,844	14.9%
Receivables	4,573,633	4,421,824	3.4%
Investments, at fair value	709,113,462	591,650,995	19.9%
Securities lending short-term collateral	75,725,428	80,802,515	(6.3)%
Capital assets, net	12,382	34,309	(63.9)%
Total assets	801,265,929	687,217,487	16.6%
Liabilities	91,195,577	87,746,923	3.9%
Net assets	$ 710,070,352	599,470,564	18.4%

Investments are made in accordance with the investment policy approved by the Oklahoma Law Enforcement Retirement System Board of Trustees. A more detailed description of the types of investments held and the investment policy is presented in Notes 2 and 4 to the financial statements.

Operating Income: The following table summarizes the changes in net assets between fiscal years 2011 and 2010:

	2011	2010	% Increase (Decrease)
Contributions	$ 30,151,286	28,873,374	4.4%
Net investment income	129,299,707	71,516,362	80.8%
Total additions	159,450,993	100,389,736	58.8%
Benefits paid, including health insurance payments and refunds of contributions	42,093,820	41,062,306	2.5%
Deferred Option benefits	5,839,649	3,829,207	52.5%
Administrative expenses	917,736	1,004,453	(8.6)%
Total deductions	48,851,205	45,895,966	6.4%
Changes in net assets	$ 110,599,788	54,493,770	103.0%

Analysis of the Overall Financial Position and Results of Operations

Funding for the System is provided by contributions from the employers and the System members, as well as funds received from motor license agents for the System's share of fees, taxes, and penalties, from the State of Oklahoma Insurance Department for the System's share of insurance premium taxes, and from net investment income generated on assets held. The amount of insurance premium tax revenue increased in 2011 by approximately 11%. Accounts receivable increased by approximately 3% from the previous year, principally because interest and dividend receivables and the receivable for insurance premium tax increased collectively approximately $222 thousand.

Investment income increased from earnings of $71 million for 2010 to earnings of $129 million for the year ended June 30, 2011, as a result of market increases/decreases. As the System accounts for its investments at fair value, rises and declines in the prices of stocks and bonds have a direct effect and impact on the net assets and operating results of the System. The System's net yield on its average assets for the years ended June 30, 2011 and 2010, and the yield for the S&P 500 during the same period were as follows:

	2011	2010
System	20%	13%
S&P 500	31%	14%

Benefit expenses (including health insurance payments and refunds) increased during the year by approximately 2.5%, and Deferred Option benefits increased approximately 53%.

Administrative expenses decreased during the year by approximately 9%. The major components of the administrative expenses are payroll and related expenses for the employees of the System, legal fees, and miscellaneous office expenses.

The System had no debt or infrastructure assets.

Description of Currently Known Facts, Decisions, or Conditions That Are Expected to Have a Significant Effect on the Financial Position or Results of Operations

While the System is directly impacted by the overall stock market changes, investments are made based on the expected long-term performance and in the best interest of the members of the System. With over $801 million of total assets and a wide range of diversity of investments, the System has the financial resources to maintain its current investment strategies, while continuing to review for other investment options to benefit its members.

Other than changes in the value of the System's assets as impacted by the stock market, no other items were known by management to have a significant impact on the operations or financial position of the System as of October 11, 2011.

Requests for Information

This financial report is designed to provide a general overview of the System's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Executive Director of the System, c/o Oklahoma Law Enforcement Retirement System, 421 N.W. 13th Street, Suite 100, Oklahoma City, Oklahoma 73103.

OKLAHOMA LAW ENFORCEMENT RETIREMENT PLAN
Administered by
OKLAHOMA LAW ENFORCEMENT RETIREMENT SYSTEM

STATEMENTS OF PLAN NET ASSETS

June 30,	*2011*	*2010*
Assets		
Cash	$ 265,627	299,310
Short-term investments	11,575,397	10,008,534
Total cash and cash equivalents	11,841,024	10,307,844
Receivables:		
Interest and dividends receivable	786,474	781,923
Contributions receivable:		
State agencies	577,379	607,913
Plan members	445,198	467,533
Other state sources	789,970	780,308
Insurance premium tax	1,973,461	1,756,171
Other	1,151	27,976
Total receivables	4,573,633	4,421,824
Investments, at fair value:		
U.S. government securities	65,300,893	48,149,474
Domestic corporate bonds	158,784,033	149,509,572
Domestic common and preferred stock	285,138,714	231,002,822
International common and preferred stock	140,997,834	114,970,037
Real estate funds	33,316,985	26,386,927
Alternative investments	22,225,003	18,382,163
Real estate	3,350,000	3,250,000
Total investments, at fair value	709,113,462	591,650,995
Securities lending short-term collateral	75,725,428	80,802,515
Capital assets, net of accumulated depreciation	12,382	34,309
Total assets	801,265,929	687,217,487
Liabilities		
Accounts payable	928,733	480,971
Net payable to brokers	11,435,913	2,465,714
Deferred option benefits payable	3,105,503	3,997,723
Securities lending collateral payable	75,725,428	80,802,515
Total liabilities	91,195,577	87,746,923
Net assets held in trust for pension benefits (the Schedule of Funding Progress is presented in Exhibit I)	**$ 710,070,352**	**599,470,564**

See Independent Auditors' Report.
See accompanying notes to financial statements.

OKLAHOMA LAW ENFORCEMENT RETIREMENT PLAN
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OKLAHOMA LAW ENFORCEMENT RETIREMENT SYSTEM

STATEMENTS OF CHANGES IN PLAN NET ASSETS

Years Ended June 30,	*2011*	*2010*
Additions:		
Contributions:		
State agencies	$ 7,694,103	7,778,735
Plan members	5,492,594	5,638,870
Insurance premium tax	8,798,389	7,957,624
Other state sources	8,166,200	7,498,145
Total contributions	30,151,286	28,873,374
Investment income:		
Net appreciation in fair value of investments	122,541,223	65,447,119
Interest	6,332,052	5,296,792
Dividends	2,821,686	2,577,992
Net rental income	205,052	169,843
Total investment income	131,900,013	73,491,746
Less: investment expense	(2,754,495)	(2,100,751)
Income from investment activities	129,145,518	71,390,995
Securities lending activities:		
Securities lending income	237,480	234,305
Securities lending expenses:		
Management fees	(66,730)	(49,881)
Borrower rebates	(16,561)	(59,057)
Income from securities lending activities	154,189	125,367
Net investment income	129,299,707	71,516,362
Total additions	159,450,993	100,389,736
Deductions:		
Benefits payments	40,636,546	39,929,195
Deferred option benefits	5,839,649	3,829,207
Health insurance payments	817,973	795,737
Refunds of contributions	639,301	337,374
Administrative expenses	917,736	1,004,453
Total deductions	48,851,205	45,895,966
Changes in net assets	**110,599,788**	**54,493,770**
Net assets held in trust for pension benefits:		
Beginning of year	599,470,564	544,976,794
End of year	**$ 710,070,352**	**599,470,564**

See Independent Auditors' Report.
See accompanying notes to financial statements.

(1) NATURE OF OPERATIONS

The Oklahoma Law Enforcement Retirement System (the "System") is the administrator of a cost-sharing, multiple-employer defined benefit pension plan that provides participants with retirement, death, and disability benefits, a Deferred Option Plan (the "Deferred Option"), and supplemental health benefits, all established by the State of Oklahoma. These plans are considered a single plan for financial reporting purposes. The System is part of the State of Oklahoma financial reporting entity and is included in the State of Oklahoma's financial reports as a pension trust fund.

The System is a part of the State of Oklahoma financial reporting entity, which is combined with other similar funds (cost-sharing, multiple-employer) to comprise the fiduciary-pension trust funds of the State of Oklahoma.

The Oklahoma Law Enforcement Retirement System Board of Trustees (the "Board") is responsible for the operation, administration, and management of the System. The Board also determines the general investment policy of the System's assets.

General

The System was established July 1, 1947, for the purpose of providing retirement allowances and other benefits for qualified law enforcement officers as defined by Oklahoma statutes. Currently, agencies and/or departments who are members of the System are the Oklahoma Highway Patrol and Capitol Patrol of the Department of Public Safety (DPS), the Oklahoma State Bureau of Investigation, the Oklahoma State Bureau of Narcotics and Dangerous Drugs Control, the Alcoholic Beverage Law Enforcement Commission, certain members of the DPS Communications Division, DPS Waterways Lake Patrol Division, Park Rangers, Park Managers, and Park Supervisors of the Oklahoma Tourism and Recreation Department, inspectors of the Oklahoma State Board of Pharmacy, and Oklahoma University and Oklahoma State University campus police officers.

(1) NATURE OF OPERATIONS, CONTINUED

General, Continued

The Oklahoma Law Enforcement Retirement Plan's (the "Plan") membership consisted of the following as of June 30:

	2011	2010
Retirees and beneficiaries currently receiving benefits	1,242	1,216
Terminated vested participants	28	22
Deferred Option participants	41	43
Active participants	1,209	1,258
Total members	2,520	2,539

The System administers the Plan. For report purposes, the System is deemed to be the administrator of the Plan.

Administrative Costs

The Plan is responsible for paying administrative costs. Administrative costs of the Plan are paid for using primarily contributions and other income. Additional funds are transferred from selected investments and earnings from the invested assets of the Plan, if needed.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following are the significant accounting policies followed by the Plan.

Basis of Accounting

The financial statements are prepared using 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 in the period in which employees' salaries are earned. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. The financial statements are in conformity with provisions of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, issued by the Governmental Accounting Standards Board (GASB 25) and Statement No. 50, *Pension Disclosures* (GASB 50).

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Basis of Accounting, Continued

The Plan is administered by the System, a part of the State of Oklahoma financial reporting entity, which together with other similar funds comprise the fiduciary pension trust funds of the State of Oklahoma. Administrative expenses are paid with the funds provided by operations of the Plan.

Recent Accounting Pronouncements

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB 62). The objective of GASB 62 is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedures.

The requirements in GASB 62 will improve financial reporting by contributing to GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. GASB 62 is effective for financial statements for periods beginning after December 15, 2011, with earlier application encouraged. The provisions of GASB 62 are required to be applied retroactively for all periods presented.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management of the Plan to make significant estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported changes in net assets during the reporting period. Actual results could differ from those estimates.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Risks and Uncertainties

Contributions to the Plan and the actuarial information in Exhibits I and II included in the required supplementary information are reported based on certain assumptions pertaining to interest rates, inflation rates, and employee compensation and demographics. Due to the changing nature of these near-term assumptions and the uncertainties inherent in setting assumptions, the effect of such changes could be material to the financial statements.

Income Taxes

The Plan is exempt from federal and state income taxes.

Date of Management's Review of Subsequent Events

Subsequent events have been evaluated through October 11, 2011, the date which the financial statements were available to be issued.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Cash, Cash Equivalents, and Investments

The investments included in the accompanying financial statements have been stated at fair value. The fair value has been determined from quoted market prices, except for the investment in real estate funds, which is subsequently discussed in Note 6. The fair value of the real estate is determined from independent appraisals. The investment policy limits the concentration of each portfolio manager. Except as noted below, no single investment exceeds 5%[1] of net assets at June 30:

Classification of Investment	Name of Investment	2011 Cost	2011 Fair Value
Domestic corporate bonds	NTGI-QM Collective Daily Aggregate Bond Index Fund	$ 67,933,688	95,339,613
Domestic common and preferred stock	NTGI-QM Collective Daily S&P 500 Equity Index Fund	48,457,530	61,001,831
International common and preferred stock	Grosvenor Global Long/ Short Equity Master Fund	71,000,000	71,727,453

[1] While the individual investment may exceed 5% of the Plan's assets, each investment is comprised of numerous individual securities. As such, no individual security exceeds the 5% threshold.

See Independent Auditors' Report.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Cash, Cash Equivalents, and Investments, Continued

Classification of Investment	Name of Investment	2010 Cost	2010 Fair Value
Domestic corporate bonds	NTGI-QM Collective Daily Aggregate Bond Index Fund	$ 73,051,990	98,773,371
Domestic common and preferred stock	NTGI-QM Collective Daily S&P 500 Equity Index Fund	58,505,256	56,354,267
International common and preferred stock	Grosvenor Global Long/ Short Equity Master Fund	67,000,000	60,442,368

(1) While the individual investment may exceed 5% of the Plan's assets, each investment is comprised of numerous individual securities. As such, no individual security exceeds the 5% threshold.

The Plan's short-term investment fund consists of collective trust funds of The Northern Trust Company which are allocated on the basis of $1.00 for each unit. This fund is composed of high-grade money market instruments with short maturities, generally less than 90 days, including banker's acceptances, certificates of deposit, commercial paper notes, Euro time deposits, floating rate instruments, and money market demand accounts. Each participant in the fund shares the risk of loss in the fund in proportion to their respective investment in the fund.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Capital Assets

The Plan records capital assets at cost when acquired. Maintenance and repairs are charged to expense as incurred. Depreciation is computed 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

A summary as of June 30 is as follows:

	Balance at June 30, 2010	Additions	Disposals	Balance at June 30, 2011
Cost	$ 180,577	-	-	180,577
Accumulated depreciation	(146,268)	(21,927)	-	(168,195)
Capital assets, net	$ 34,309	(21,927)	-	12,382

	Balance at June 30, 2009	Additions	Disposals	Balance at June 30, 2010
Cost	$ 180,577	-	-	180,577
Accumulated depreciation	(127,308)	(18,960)	-	(146,268)
Capital assets, net	$ 53,269	(18,960)	-	34,309

See Independent Auditors' Report.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Administrative Items

Operating Leases

The Plan has no capital or operating lease commitments that have terms greater than 1 year.

Compensated Absences

Employees of the System earn annual vacation leave at the rate of 10 hours per month for up to 5 years of service, 12 hours per month for service of 5 to 10 years, 13.3 hours per month for service of 10 to 20 years, and 16.7 hours per month for over 20 years of service. Unused annual leave may be accumulated to a maximum of 480 hours. All accrued leave is payable upon termination, resignation, retirement, or death.

At June 30, 2011 and 2010, the System owed $42,493 and $39,137, respectively, to its employees for accrued vacation. A summary of the changes in accrued vacation is as follows:

	2011	2010
Accrued vacation at beginning of year	$ 39,137	46,522
Additions	26,040	26,281
Reductions	(22,684)	(33,666)
Accrued vacation at end of year	$ 42,493	39,137

See Independent Auditors' Report.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Administrative Items, Continued

Retirement Expense

The employees of the System are eligible to participate in the Oklahoma Public Employees Retirement Plan, which is administered by the Oklahoma Public Employees Retirement System (OPERS). OPERS is the administrator of a cost-sharing, multiple-employer public retirement defined benefit pension plan. OPERS provides retirement, disability, and death benefits to Plan members and beneficiaries. OPERS issues a publicly available financial report which includes financial statements and required supplementary information for OPERS. That report may be obtained by writing to the Oklahoma Public Employees Retirement System, 5801 N. Broadway Extension, Suite 400, Oklahoma City, OK 73118-7484.

Employees of the System are required to contribute 3.5% of their annual covered salary. The System is required to contribute at an actuarially determined rate, which was 15.5% of annual covered payroll in both 2011 and 2010. The System's and the employees' portions of those amounts were as follows:

	2011	2010	2009
System portion	$ 45,738	50,706	49,510
Employee portion	12,968	15,308	16,755
	$ 58,706	66,014	66,265

Risk Management

The Risk Management Division of the Department of Central Services (the "Division") is empowered by the authority of Title 74 O.S. Supp. 1993, Section 85.34 et seq. The Division is responsible for the acquisition and administration of all insurance purchased by the State of Oklahoma or administration of any self-insurance plans and programs adopted for use by the State of Oklahoma for certain organizations and bodies outside of state government, at the sole expense of such organizations and bodies.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Administrative Items, Continued

Risk Management, Continued

The Division is authorized to settle claims of the State of Oklahoma and shall govern the dispensation and/or settlement of claims against a political subdivision. In no event shall self-insurance coverage provided by the State, an agency, or other covered entity exceed the limitations on the maximum dollar amount of liability specified by the Oklahoma Government Tort Claims Act, as provided by Title 51 O.S. Supp. 1988, Section 154. The Division oversees the collection of liability claims owed to the State of Oklahoma incurred as the result of a loss through the wrongful or negligent act of a private person or other entity.

The Division is also charged with the responsibility to immediately notify the attorney general of any claims against the State of Oklahoma presented to the Division. The Division purchases insurance policies through third-party insurance carriers that ultimately inherit the risk of loss. The Division annually assesses each state agency, including the Plan, their pro rata share of the premiums purchased. The Plan has no obligations to any claims submitted against the Plan.

(3) DESCRIPTION OF THE PLAN

The following brief description of the Plan is provided for general information purposes only. Participants should refer to the Oklahoma statutes for more complete information.

Contributions

Contributions to the Plan are generated from established employer and employee contribution rates and certain revenues are dedicated by the Oklahoma State Legislature and are not based on an actuarially calculated contribution amount. A suggested minimum required contribution from the State of Oklahoma is computed annually by an actuary hired by the State of Oklahoma. However, funding by the State of Oklahoma to the Plan is based on statutorily determined amounts rather than the actuarial calculations of the amount required to fund the Plan.

The Plan receives contributions from state agencies and members of 10% and 8%, respectively, of the actual paid base salary of each member. The Plan also receives 1.2% of all fees, taxes, and penalties collected by motor license agents after approximately the first 5%; and 5% of the insurance premium taxes collected by the insurance commissioner. Additional funds are also provided to the Plan by the net investment income generated on assets held by the Plan.

See Independent Auditors' Report.

(3) DESCRIPTION OF THE PLAN, CONTINUED

Funded Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation date, the Plan was approximately 76% funded. The actuarial accrued liability for benefits was $901 million, and the actuarial value of assets was $684 million, resulting in an unfunded actuarial accrued liability (UAAL) of $217 million. The covered payroll (annual payroll of active employees covered by the Plan) was $71 million, and the ratio of UAAL to covered payroll was 306%.

As of July 1, 2010, the most recent actuarial valuation date for the prior period, the Plan was approximately 74% funded. The actuarial accrued liability for benefits was $904 million, and the actuarial value of assets was $665 million, resulting in an unfunded actuarial accrued liability (UAAL) of $239 million. The covered payroll (annual payroll of active employees covered by the Plan) was $74 million, and the ratio of UAAL to covered payroll was 325%.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

2011

In the July 1, 2011, actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included (a) a 7.5% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 4.25% to 8.25% per year. Both (a) and (b) included an inflation component of 3.25%. The projection of benefits for financial accounting purposes also does not explicitly incorporate the potential effects of any limitation on the State's contribution rate disclosed above under *Contributions*. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the fair value of investments over a 5-year period. The UAAL is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at July 1, 2011, was 10 years.

See Independent Auditors' Report.

(3) DESCRIPTION OF THE PLAN, CONTINUED

Actuarial Methods and Assumptions, Continued

2010

In the July 1, 2010, actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included (a) a 7.5% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 4.25% to 8.25% per year. Both (a) and (b) included an inflation component of 3.25%. The projection of benefits for financial accounting purposes also does not explicitly incorporate the potential effects of any limitation on the State's contribution rate disclosed above under *Contributions*. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the fair value of investments over a 5-year period. The UAAL is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at July 1, 2010, was 11 years.

Benefits

In general, the Plan provides defined retirement benefits based on members' final average compensation, age, and term of service. In addition, the retirement program provides for benefits upon disability and to survivors upon death of eligible members. Retirement provisions are as follows:

- The normal retirement date when a member is eligible to receive retirement benefits is when the member completes 20 years of service or reaches age 62 with at least 10 years of service.

- Members become vested upon completing 10 years of credited service as a contributing member of the Plan. No vesting occurs prior to completing 10 years of credited service. Members' contributions are refundable, without interest, upon termination prior to normal retirement. Members who have completed 10 years of credited service may elect a vested benefit in lieu of having their accumulated contributions refunded. If the vested benefit is elected, the member is entitled to a monthly retirement benefit commencing on the member's normal retirement date as if the member's employment continued uninterrupted, based on the actual completed years and months of service.

(3) DESCRIPTION OF THE PLAN, CONTINUED

Benefits, Continued

- Monthly retirement benefits are calculated at 2.5% of the highest 30 consecutive months of actual paid base salary multiplied by the years and complete months of credited service. Only salaries on which required contributions have been made are used in computing the final average salary. House Bill 2212, which was effective as of July 1, 2002, redefined final average earnings to be the greater of (i) the highest consecutive 30 months of actual earnings and (ii) the top base pay paid to active members.

- Members who became disabled prior to July 1, 2000, prior to the member's normal retirement date and by direct reason of the performance of the member's duties as an officer, receive a monthly benefit equal to the greater of 50% of the average of the highest 30 consecutive complete months of actual paid base salary or 2.5% of the average of the highest 30 consecutive complete months of actual paid base salary multiplied by the number of years and complete months of the member's credited service. Effective July 1, 2000, Senate Bill 994 provides that the monthly benefit will be equal to 2.5% multiplied by the greater of 20 years of service or the actual number of years of service performed by the member if the member had performed 20 or more years of service, multiplied by final average salary. Senate Bill 994 provides that the final average salary for a member who performed less than 20 years of service prior to disability shall be computed assuming that the member was paid the highest salary allowable pursuant to the law in effect at the time of the member's disability based on 20 years of service and with an assumption that the member was eligible for any and all increases in pay based upon rank during the entire period. The final average salary for a member who had performed 20 or more years of service prior to disability shall be equal to the member's actual final average salary.

- Members who became disabled prior to the member's normal retirement date, but after completing 3 years of vesting service and not by reason of the performance of the member's duties as an officer or as a result of the member's willful negligence, receive a monthly benefit equal to 2.5% of the average of the highest 30 consecutive complete months of actual paid base salary multiplied by the number of years and complete months of the member's credited service.

(3) DESCRIPTION OF THE PLAN, CONTINUED

Benefits, Continued

- Survivor's benefits are payable in full to the participant's beneficiary upon the death of a retired participant. The beneficiary of any active participant killed in the line of duty is also entitled to a pension benefit and, if applicable, each child is entitled to receive $400 per month until reaching age 18 or 22, providing the child is a full-time student. A $5,000 death benefit is also paid, in addition to any survivor's pension benefits from the Plan, to the participant's beneficiary or estate for those active or retired members who died after July 1, 1999.

- The Deferred Option allows members who have 20 or more years of service to defer terminating employment and drawing retirement benefits for a period not to exceed 5 years. Under the Deferred Option, retirement benefits are calculated based on compensation and service at the time of election and a separate account is set-up for each member. During the participation period, the member's retirement benefit is credited to the member's account along with a portion of the employer's contribution and interest. Interest is credited at a rate of 2% below the rate of return on the investment portfolio of the Plan, with a guaranteed minimum interest equal to the assumed actuarial interest of 7.5%. Member contributions cease once participation in the Deferred Option begins. At the conclusion of participation in the Deferred Option, the member will receive the balance in the member's separate account under payment terms allowed by the Deferred Option and will then begin receiving retirement benefit payments as calculated at the time of election.

- In the 2003 Legislative Session, Senate Bill 688 and House Bill 1464 created a "Back" DROP for members of the Plan. The "Back" DROP is a modified deferred option retirement plan. The "Back" DROP allows the member flexibility by not having to commit to terminate employment within 5 years. Once a member has met their normal retirement period of 20 years, the member can choose, upon retirement, to be treated as if the member had entered into the Deferred Option. A member, however, cannot receive credit to the Deferred Option account based upon any years prior to when the member reached their normal retirement date. Once a member is ready to retire, the member can make the election to participate in the "Back" DROP and can receive a Deferred Option benefit based upon up to 5 years of participation. The member's regular retirement benefit will not take into account any years of service credited to the "Back" DROP.

  A member may elect to participate in "Back" DROP even if the member has elected to participate in the Deferred Option. The member may select a "Back" DROP date which is up to 5 years prior to the termination date. Participation in the "Back" DROP cannot exceed 5 years when combined with the member's prior period of participation in the Deferred Option plan.

See Independent Auditors' Report.

(3) DESCRIPTION OF THE PLAN, CONTINUED

Benefits, Continued

- The Plan contributes $105 per month or the Medicare supplement premium, if less, toward the cost of health insurance for members receiving retirement benefits. These benefits commence upon retirement. As of June 30, 2011 and 2010, 580 and 577 members, respectively, had elected this benefit. House Bill 2311 allows spouses and children to elect health insurance and provides up to $105 per month to those who do elect the insurance. The monies for the health insurance coverage are remitted monthly to the Oklahoma State and Education Employees Group Insurance Board, which administers various group health benefit plans for the State of Oklahoma. The Plan is required by statute to remit the payment, but has no administrative functions related to the payment, and no portion of the contribution amounts of either active members or state agencies is specifically identified by statute as relating to such payment. Accordingly, the provisions of GASB Statement No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans*, are deemed not to apply.

  House Bill 2442, which took effect July 1, 2004, allows members who are retired from the System by means of a personal and traumatic injury of a catastrophic nature and in the line of duty and any surviving spouse of a member who was killed in the line of duty to have 100% of the retired member's or surviving spouse's healthcare premium cost paid by the Plan.

  The total amount remitted for health insurance premiums for the years ended June 30, 2011 and 2010, was $817,973 and $795,737, respectively.

(4) CASH, CASH EQUIVALENTS, AND INVESTMENTS

At June 30, cash and cash equivalents were composed of the following:

	2011	2010
Cash on deposit with the State of Oklahoma	$ 65,700	29,434
Cash on deposit with local financial institution	199,927	269,876
Cash on deposit with custodial agent:		
Short-term investments	11,575,397	10,008,534
	$ 11,841,024	10,307,844

See Independent Auditors' Report.

(4) CASH, CASH EQUIVALENTS, AND INVESTMENTS, CONTINUED

The Plan's short-term investment fund consists of collective trust funds of The Northern Trust Company which are allocated on the basis of $1.00 for each unit. This fund is composed of high-grade money market instruments with short maturities, generally less than 90 days, including banker's acceptances, certificates of deposit, commercial paper notes, Euro time deposits, floating rate instruments, and money market demand accounts. Each participant in the fund shares the risk of loss in the fund in proportion to their respective investment in the fund.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of the failure of a counterparty, the Plan will not be able to recover the value of its investments. Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. Investment securities are exposed to custodial credit risk if they are uninsured, are not registered in the name of the Plan, or are held by a counterparty or the counterparty's trust department but not in the name of the Plan. While the investment policy does not specifically address custodial credit risk of deposits, it does limit the amount of cash and short-term investments of each manager's portfolio. The policy also provides that investment collateral be held by a third-party custodian with whom the Plan has a current custodial agreement in the Plan's name.

At June 30, 2011, as a result of outstanding checks, the carrying amount of the Plan's cash deposits with the State of Oklahoma and a financial institution totaled $265,627 and the bank balances totaled $1,086,088. At June 30, 2010, as a result of outstanding checks, the carrying amount of the Plan's cash deposits with the State of Oklahoma and a financial institution totaled $299,310 and the bank balances totaled $1,240,459. The carrying amounts of the short-term investment were the same as the bank balances at June 30, 2011 and 2010.

The Plan had no bank balances of deposits that were uninsured or uncollateralized of as of June 30, 2011 or 2010.

(4) CASH, CASH EQUIVALENTS, AND INVESTMENTS, CONTINUED

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 investment policy states that while there are no percentage limits in regard to country weightings, the investment manager should use prudent and reasonable investment judgment. The Plan's international common and preferred stock consisted of the following as of June 30:

Security	Fair Value 2011	Fair Value 2010
Grosvenor Global Long/Short Equity Master Fund	$ 71,727,453	60,442,368
CF Mondrian International Equity Fund	34,864,881	27,007,508
CF Artio International Equity Group Trust Fund	34,405,500	27,520,161
	$ 140,997,834	114,970,037

While the securities are commingled funds, a brief description of the foreign currency risk is as follows:

- Grosvenor Global Long/Short Equity Master Fund—The fund invests in international equity securities. The fund's allocation by country/region is as follows:

Country/Region Allocation	Fund July 1, 2011	Fund July 1, 2010
U.S./Canada	52.86%	56.08%
Global	1.07%	0.72%
Europe	20.23%	21.40%
Japan	4.36%	3.97%
Asia (excluding Japan)	5.85%	4.23%
Emerging markets—Asia	3.69%	4.47%
Emerging markets—other	2.69%	2.20%
	90.75%	93.07%
Cash:		
Manager cash	7.71%	1.78%
Portfolio cash	1.54%	5.15%
	9.25%	6.93%
	100.00%	100.00%

See Independent Auditors' Report.

(4) CASH, CASH EQUIVALENTS, AND INVESTMENTS, CONTINUED

Foreign Currency Risk, Continued

- CF Mondrian International Equity Fund—The fund invests in international equity securities. The Fund's allocation by country/region as of June 30 is as follows:

Country/Region Allocation	Fund 2011	Fund 2010
PACIFIC		
Australia	7.4%	10.2%
Hong Kong	0.0%	1.3%
Japan	20.0%	22.4%
New Zealand	0.3%	0.6%
Singapore	4.7%	4.8%
Taiwan	1.8%	2.6%
	34.2%	41.9%
EUROPE		
Belgium	0.0%	0.2%
Finland	0.0%	0.4%
France	14.6%	13.5%
Germany	4.6%	4.8%
Israel	1.0%	
Italy	4.9%	1.6%
Netherlands	5.6%	3.1%
Spain	6.6%	6.5%
Switzerland	5.6%	5.4%
United Kingdom	21.8%	20.0%
	64.7%	55.5%
OTHER		
South Africa	0.0%	0.9%
CASH	1.1%	1.7%
	100.0%	100.0%

(4) CASH, CASH EQUIVALENTS, AND INVESTMENTS, CONTINUED

Foreign Currency Risk, Continued

- CF Artio International Equity Group Trust Fund—The fund seeks long-term growth of capital by investing in a diversified portfolio of international equities in developed and emerging markets. The average portfolio weight by geographic allocation as of June 30 is as follows:

Geographic Allocation	Fund	
	2011	2010
Dollar bloc	13.71%	26.69%
Developed Asia markets	4.71%	0.08%
Emerging markets	29.00%	23.87%
Developed Europe markets	27.82%	23.06%
Japan	9.23%	12.63%
United Kingdom	15.22%	11.44%
Other	0.31%	2.23%
	100.00%	100.00%

(4) CASH, CASH EQUIVALENTS, AND INVESTMENTS, CONTINUED

Credit Risk

Fixed-income securities are subject to credit risk. Credit quality rating is one method of assessing the ability of the issuer to meet its obligation. The investment portfolio requires the portfolio to maintain an average of AA or higher. Exposure to credit risk as of June 30 was as follows:

Investment Type	2011 S&P (Unless Noted)	Fair Value	Fair Value as a Percentage of Total Fixed Maturity Fair Value
U.S. government securities	AGY[(1)]	$ 34,207,742	52.38%
	TSY[(2)]	4,868,221	7.46%
	AAA	9,757,469	14.94%
	AA	684,675	1.05%
	AA+	895,896	1.37%
	A+	330,665	0.51%
	AA-	301,086	0.46%
	A-	488,469	0.75%
	A	242,208	0.37%
	Aaa (Moody's)	13,524,462	20.71%
Total U.S. government securities		**$ 65,300,893**	**100.00%**

(Continued)

(4) CASH, CASH EQUIVALENTS, AND INVESTMENTS, CONTINUED

Credit Risk, Continued

	2011		
Investment Type	S&P (Unless Noted)	Fair Value	Fair Value as a Percentage of Total Fixed Maturity Fair Value
Domestic corporate bonds	AAA	$ 12,585,688	7.93%
	AA+	3,121,576	1.97%
	AA-	350,376	0.22%
	AA	931,456	0.59%
	A+	5,536,394	3.49%
	A	3,580,866	2.26%
	A-	1,110,527	0.70%
	BBB+	1,241,804	0.78%
	BBB	3,084,384	1.94%
	BBB-	1,958,993	1.23%
	BB+	26,460	0.02%
	BB	372,166	0.23%
	BB-	64,141	0.04%
	B+	597,571	0.38%
	B	412,141	0.26%
	B-	8,465	0.01%
	CCC	5,634,241	3.55%
	CC	1,043,367	0.66%
	D	3,753,036	2.36%
	Aaa (Moody's)	692,219	0.44%
	Ba2 (Moody's)	9,068	0.01%
	Caa2 (Moody's)	687,942	0.43%
	Not Rated[3]	111,981,152	70.52%
Total domestic corporate bonds		**$ 158,784,033**	**100.00%**

[1] U.S. agency securities
[2] U.S. Treasury securities
[3] While the funds are commingled and not rated, the majority of the assets are held in an index fund which at June 30, 2011, maintained ratings of: AAA—77%; AA—5%; A—10%; BAA—8%.

See Independent Auditors' Report.

(4) CASH, CASH EQUIVALENTS, AND INVESTMENTS, CONTINUED

Credit Risk, Continued

	2010		
Investment Type	S&P (Unless Noted)	Fair Value	Fair Value as a Percentage of Total Fixed Maturity Fair Value
U.S. government securities	AGY[(1)]	$ 20,570,459	42.72%
	TSY[(2)]	2,573,722	5.35%
	AAA	22,843,250	47.44%
	AA	189,994	0.39%
	AA+	895,719	1.86%
	A+	253,166	0.53%
	AA-	201,542	0.42%
	A-	380,037	0.79%
	A	241,585	0.50%
Total U.S. government securities		**$ 48,149,474**	**100.00%**

(Continued)

(4) CASH, CASH EQUIVALENTS, AND INVESTMENTS, CONTINUED

Credit Risk, Continued

Investment Type	S&P (Unless Noted)	2010 Fair Value	2010 Fair Value as a Percentage of Total Fixed Maturity Fair Value
Domestic corporate bonds	AAA	$ 6,724,669	4.50%
	AA+	2,003,846	1.34%
	AA-	1,734,372	1.16%
	AA	290,209	0.19%
	A+	2,730,415	1.83%
	A	3,245,743	2.17%
	A-	1,305,537	0.87%
	BBB+	1,229,522	0.82%
	BBB	1,956,327	1.31%
	BBB-	1,291,920	0.86%
	BB+	25,740	0.02%
	BB	206,650	0.14%
	BB-	55,393	0.04%
	B+	45,503	0.03%
	B	410,725	0.27%
	B-	7,095	0.01%
	CCC	5,451,226	3.65%
	CC	4,115,159	2.75%
	D	1,139,188	0.76%
	Aaa (Moody's)	983,203	0.66%
	Baa1 (Moody's)	9,720	0.01%
	Caa2 (Moody's)	858,727	0.57%
	Not Rated[3]	113,688,683	76.04%
Total domestic corporate bonds		**$ 149,509,572**	**100.00%**

(1) U.S. agency securities
(2) U.S. Treasury securities
(3) While the funds are commingled and not rated, the majority of the assets are held in an index fund which at June 30, 2010, maintained ratings of: AAA—79%; AA—4%; A—10%; BAA—7%.

See Independent Auditors' Report.

(4) CASH, CASH EQUIVALENTS, AND INVESTMENTS, CONTINUED

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. While all investments are subject to market changes, securities invested in index funds are more sensitive to market risk. Although the investment policy does not specifically address the duration of fixed-income securities, the Plan does monitor interest rate risk by monitoring the performance of each investment manager. As of June 30, the Plan had the following investments with maturities.

	2011		
	Investment Type		
Investment Maturities at Fair Value (in Years)	U.S. Government Securities	Domestic Corporate Bonds	Total
Less than 1	$ 3,119,476	294,317	3,413,793
1 or more, less than 5	14,432,737	6,528,468	20,961,205
5 or more, less than 10	13,497,230	6,697,445	20,194,675
10 or more	34,251,450	33,734,332	67,985,782
Commingled funds with no duration[1]	-	111,529,471	111,529,471
Total fair value	$ 65,300,893	158,784,033	224,084,926

[1] The majority of the assets of the commingled funds are held in an index fund, with maturity characteristics of 1–5 years (40%), 5–10 years (46%), and over 10 years (14%).

See Independent Auditors' Report.

(4) CASH, CASH EQUIVALENTS, AND INVESTMENTS, CONTINUED

Interest Rate Risk, Continued

	2010		
	Investment Type		
Investment Maturities at Fair Value (in Years)	U.S. Government Securities	Domestic Corporate Bonds	Total
Less than 1	$ 78,529	116,662	195,191
1 or more, less than 5	20,322,067	3,705,288	24,027,355
5 or more, less than 10	5,690,160	5,523,490	11,213,650
10 or more	20,012,049	25,478,979	45,491,028
Commingled funds with no duration[1]	2,046,669	114,685,153	116,731,822
Total fair value	$ 48,149,474	149,509,572	197,659,046

[1] The majority of the assets of the commingled funds are held in an index fund, with maturity characteristics of 1–5 years (60%), 5–10 years (30%), and over 10 years (10%).

See Independent Auditors' Report.

(4) CASH, CASH EQUIVALENTS, AND INVESTMENTS, CONTINUED

Securities Lending

The Plan's investment policy allows loans of securities through a lending agent to various institutions on a short-term basis (generally less than 30 days). The amount of loans that can be made is presently limited to a maximum of approximately $80,802,515. The collateral held and the fair values of the securities on loan for the Plan at June 30 are as follows:

	2011		
	Collateral Held	Fair Value of Securities on Loan	Percent of Collateral to Loan
U.S. issuers:			
Cash	$ 75,725,428	74,523,976	102%

	2010		
	Collateral Held	Fair Value of Securities on Loan	Percent of Collateral to Loan
U.S. issuers:			
Cash	$ 80,802,515	78,631,815	103%

As the Plan does not have the ability to pledge or sell noncash collateral without a borrower default, the noncash collateral the Plan had received at June 30, 2011 and 2010, was not included in the accompanying statements of plan net assets. According to the securities lending agreement, the borrower is required to deliver additional collateral when necessary so that the total collateral held by the agent for all loans to the borrower will at least equal the fair value plus accrued interest of all the borrowed securities loaned to the borrower. At the maturity of the loans, the Plan receives a loan premium and the securities are returned.

(4) CASH, CASH EQUIVALENTS, AND INVESTMENTS, CONTINUED

Securities Lending, Continued

The Plan has no credit risk exposure to borrowers because the amount the Plan owes the borrowers exceeds the amount the borrowers owe the Plan. As of June 30, 2011 and 2010, the Plan had no losses on securities lending transactions resulting from default of a borrower or lending agent. Contracts with lending agents require them to indemnify the Plan if the borrowers fail to return the securities or otherwise fail to pay the Plan for income while the securities are on loan. The securities on loan are included in the respective investment categories in the accompanying statements of plan net assets. Cash collateral is invested in the lending agent's short-term investment pool and included as an asset in the accompanying statements of plan net assets with an offsetting liability for the return of the collateral. The securities lending agreement states those investments of cash collateral must be structured to closely match the maturities of the underlying loans. The agreement also sets forth that a minimum of 20% of the cash collateral fund should be available each business day. The cash collateral investments had an average weighted maturity of 21 days and 24 days at June 30, 2011 and 2010, respectively.

Real Estate Funds

The Plan invested in shares of stock of RREEF America REIT II, Inc. ("REIT") real estate funds during plan year 1999. Based on independent appraisal and acquisition cost plus capital additions, the total estimated fair value of the investments was approximately $33 million and $26 million at June 30, 2011 and 2010, respectively.

(5) DERIVATIVES AND OTHER INSTRUMENTS

Derivative instruments are financial contracts whose values depend on the values of one or more underlying assets, reference rates, or financial indexes. They include futures contracts, swap contracts, options contracts, and forward foreign currency exchange. The Plan's derivatives policy states that derivatives may be used to reduce or eliminate undesirable portfolio risks caused by currency exposure, duration, and yield curve position. Investments in limited partnerships (alternative investments) and commingled funds may include derivatives. The Plan's investments in alternative investments are reflected at fair value, and any exposure is limited to its investment in the partnership and any unfunded commitment. Commingled funds have been reviewed to ensure they are in compliance with the Plan's investment policy. The Plan did not hold any direct derivative investments as of June 30, 2011 or 2010.

(5) DERIVATIVES AND OTHER INSTRUMENTS, CONTINUED

The Plan may invest in mortgage-backed securities, which are reported at fair value in the statements of plan net assets and are based on the cash flows from interest and principal payments by the underlying mortgages. As a result, they are sensitive to prepayments by mortgagees, which are likely in declining interest rate environments, thereby reducing the values of these securities. The Plan may invest in mortgage-backed securities to diversify the portfolio and increase the return while minimizing the extent of risk. Details regarding interest rate risks for these investments are included under the interest rate risk disclosures.

(6) INVESTMENT IN BUILDING

The Plan owns a building (Colcord Center), originally purchased as an investment property for approximately $3.4 million, and it is held as a long-term investment. The building is accounted for at fair value based on periodic appraisals and rental income and expenses reported currently. The Plan utilizes part of the building for its administrative office and pays itself rent, which is reflected as administrative expense and other investment income. The fair value of the building at June 30, 2011 and 2010, was estimated at approximately $3.35 million and $3.25 million, respectively.

(7) INVESTMENT IN ALTERNATIVE INVESTMENTS

The Plan has also invested in alternative investments, such as limited partnerships. A summary of the alternative investments is as follows:

		Fair Market Value as of June 30,	
Investment	Purpose	2011	2010
American Private Equity Partners, L.P.	Invests in private equity securities	$ 2,816,039	3,349,725
American Private Equity Partners II, L.P.	Invests in private equity securities	6,877,865	5,799,729
Knightsbridge Venture Capital VI	Invests in private equity securities	9,726,655	7,958,344
Knightsbridge Venture Capital VII	Invests in private equity securities	2,804,444	1,274,365
		$ 22,225,003	18,382,163

See Independent Auditors' Report.

(7) INVESTMENT IN ALTERNATIVE INVESTMENTS, CONTINUED

The Plan has the following total and remaining capital commitments for its alternative investments as of June 30, 2011:

	Committed Capital	Remaining Capital Commitment
American Private Equity Partners, L.P.	$ 8,000,000	837,003
American Private Equity Partners II, L.P.	10,000,000	3,395,588
Knightsbridge Venture Capital VI	10,000,000	1,229,534
Knightsbridge Venture Capital VII	7,500,000	4,800,000
	$ 35,500,000	10,262,125

See Independent Auditors' Report.

(8) DEFERRED OPTION BENEFITS PAYABLE

As noted previously, the Plan has Deferred Option and "Back" DROP benefits available to its members. A summary of the changes in the liability for the various options as of June 30 is as follows:

	2011		
	Deferred Option	"Back" DROP	Total
Beginning balance	$ 2,214,998	1,782,725	3,997,723
Employer contributions	103,355	43,170	146,525
Deferred benefits	1,314,943	3,454,310	4,769,253
Payments	(1,065,303)	(5,666,566)	(6,731,869)
Interest	369,721	554,150	923,871
Transfers between "Back" DROP and Deferred Option	(217,768)	217,768	-
Ending balance	$ 2,719,946	385,557	3,105,503

	2010		
	Deferred Option	"Back" DROP	Total
Beginning balance	$ 3,766,330	1,180,357	4,946,687
Employer contributions	97,235	44,305	141,540
Deferred benefits	1,184,137	1,831,859	3,015,996
Payments	(2,889,602)	(1,888,566)	(4,778,168)
Interest	367,969	303,699	671,668
Transfers between "Back" DROP and Deferred Option	(311,071)	311,071	-
Ending balance	$ 2,214,998	1,782,725	3,997,723

(9) PLAN TERMINATION

In the event the Plan terminates, the Board will distribute the net assets of the Plan to provide the following benefits in the order indicated:

a) Accumulated member contributions, defined for purposes of the plan termination section as member contributions and contributions from state agencies for the benefit of a member, will be allocated to each respective member, former member, retired member, joint annuitant, or beneficiary then receiving payments.

b) The balance of such assets, if any, will be allocated to persons in the following groups. The amount allocated to the respective members would be the excess of their retirement income under the Plan less the actuarial equivalent of the amount allocated to them under a) above. The allocation would occur in the following order:

- Those retired members, joint annuitants, or beneficiaries receiving payments,
- Those members eligible to retire,
- Those members eligible for early retirement,
- Former members electing to receive a vested benefit, and
- All other members.

(10) FEDERAL INCOME TAX STATUS

As an instrumentality of the State of Oklahoma, the Plan is tax-exempt. It is not subject to the Employee Retirement Income Security Act of 1974, as amended. The Plan has received a favorable determination letter from the Internal Revenue Service regarding its tax-exempt status. The Plan has been amended since receiving the determination letter. However, the Plan's management believes that the Plan is designed and is currently being operated in substantial compliance with the applicable requirements of the Internal Revenue Code.

(11) HISTORICAL INFORMATION

Historical trend information designed to provide information about the Plan's progress made in accumulating sufficient assets to pay benefits when due is presented in Exhibits I and II.

(12) LEGISLATIVE CHANGES

The following is a summary of significant plan provision changes that were enacted by the Oklahoma Legislature during 2011 and 2010:

2011

- Senate Bill 2132—modifies Oklahoma Pension Legislation Actuarial Analysis Act. All cost-of-living adjustments (COLA) would become fiscal bills.

- Senate Bill 584—contained the required language necessary for the System to remain an IRS qualified plan.

2010

- Senate Bill 2130—effective July 1, 2010, removed the requirement that a member retire at age 60 provided the member had at least 20 years of service.

- Senate Bill 1989—contained the required language necessary for the System to remain an IRS qualified plan.

(13) CONTINGENCIES

The Plan is involved in legal proceedings in the normal course of operations, none of which, in the opinion of management, will have a material effect on the net assets or changes in net assets of the Plan.

(14) SUBSEQUENT EVENTS

Market Fluctuations

Subsequent to June 30, 2011, the United States financial market has had considerable downward fluctuation. The long-term ratings of U.S. government and federal agencies were lowered from AAA to AA+ by Standard & Poor's rating agency. As the investments of the Plan are at market value, these values have varied considerably and may continue to vary.

SUPPLEMENTARY INFORMATION REQUIRED BY GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS NO. 25 AND 50

Exhibit I

OKLAHOMA LAW ENFORCEMENT RETIREMENT PLAN
Administered by
OKLAHOMA LAW ENFORCEMENT RETIREMENT SYSTEM

SCHEDULE OF FUNDING PROGRESS
(In Millions)

June 30, 2011

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c][1]
July 1, 2002	$ 570	632	62	90%	49	127%
July 1, 2003	586	668	82	88%	50	164%
July 1, 2004	604	690	86	88%	49	176%
July 1, 2005	630	752	122	84%	51	239%
July 1, 2006	652	772	120	84%	57	211%
July 1, 2007	698	841	143	83%	64	223%
July 1, 2008	730	881	151	83%	74	205%
July 1, 2009	660	892	232	74%	75	308%
July 1, 2010	665	904	239	74%	74	325%
July 1, 2011	**684**	**901** [2]	**217** [2]	**76%** [2]	**71**	306%

[1] The amounts shown in the table above are rounded. The percentages shown are calculated on the actual amounts rather than on the rounded amounts.

[2] The decrease in the AAL and the unfunded AAL and the corresponding increase in the funded ratio are the results of legislation which changed the actuarial assumptions to no longer include an annual 4% cost-of-living adjustment (COLA).

See Independent Auditors' Report.
See notes to required supplementary information.

OKLAHOMA LAW ENFORCEMENT RETIREMENT PLAN
Administered by
OKLAHOMA LAW ENFORCEMENT RETIREMENT SYSTEM

SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYER AND OTHER CONTRIBUTING ENTITIES
(In Thousands)

June 30, 2011

	Annual	Contributions by Source			
Year Ended	Required Contributions	Employer Contributions[1]	State Contributions	Total	Percentage Contributed
June 30, 2002	$ 10,659	6,166	14,226	20,392	191%
June 30, 2003	22,937	5,526	15,579	21,105	92%
June 30, 2004	25,343	4,893	8,100	12,993	51%
June 30, 2005	25,285	4,930	16,045	20,975	83%
June 30, 2006	30,006	5,871	16,152	22,023	73%
June 30, 2007	32,503	6,281	18,162	24,443	75%
June 30, 2008	32,668	7,313	17,670	24,983	76%
June 30, 2009	36,616	7,581	17,311	24,892	68%
June 30, 2010	48,103	7,682	15,456	23,138	48%
June 30, 2011	**50,094**	**7,591**	**16,965**	**24,556**	**49%**

[1] Employer contributions were reduced for contributions allocated to the deferred option accounts.

See Independent Auditors' Report.
See notes to required supplementary information.

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NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2011

The information presented in the required supplementary schedules was determined as part of an actuarial valuation by an independent enrolled actuary (Buck Consultants) at the dates indicated. Additional information as of the July 1, 2011, valuation follows:

Assumptions

Actuarial cost method:	Entry Age Normal Method
Asset valuation method:	An expected actuarial value is determined equal to the prior year's actuarial value of assets plus cash flow (excluding investment returns) for the year ended on the valuation date and assuming a 7.5% interest return. The (gain) loss is measured by the difference between the expected actuarial value and the fair value at the valuation date. The (gain) loss is amortized over 5 years by 20% per year. The result is constrained to a value of 80% to 120% of the fair value at the valuation date.
Amortization method:	Level dollar-closed
Remaining amortization:	10 years
Actuarial assumptions	
Investment rate of return:	7.5%
Projected salary increases*:	4.25% to 8.25%
Cost-of-living adjustments:	Members eligible for the automatic cost-of-living increase are assumed to have their benefits increase by 3.25% per year. Effective July 1, 2002, retirement benefits will be recalculated to increase in conjunction with increases to the top base pay for active members.

*Includes inflation at 3.25%.

See Independent Auditors' Report.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Oklahoma Law Enforcement Retirement System
Board of Trustees

We have audited the financial statements of the Oklahoma Law Enforcement Retirement Plan (the "Plan"), administered by the Oklahoma Law Enforcement Retirement System, as of and for the year ended June 30, 2011, and have issued our report thereon dated October 11, 2011, which includes an explanatory paragraph disclaiming an opinion on required supplementary information. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

(Continued)

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*, CONTINUED

Compliance and Other Matters

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

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

Finley & Cook, PLLC

Shawnee, Oklahoma
October 11, 2011