

PUBLIC EMPLOYEES RETIREMENT SYSTEM

A Component Unit of the State of Oklahoma

Oklahoma



COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended
June 30, 2003

FOREWORD

This year's annual report features the abundance of wildlife found in our state. Oklahoma's diverse geography makes it a haven for many species of animals, from bison which roam freely in the Wichita Wildlife Refuge, to bats that hibernate in the Selman Bat Caves. The Oklahoma Department of Wildlife Conservation has many programs that foster the development and protection of our wildlife. We are grateful for their assistance in providing the photography and wildlife information contained in this financial report. If you are interested in knowing more about Oklahoma's wildlife or how you can help in the state's wildlife conservation efforts, you can visit their web site at www.wildlifedepartment.com.

CREDITS

Special thanks to Micah Holmes and Paul Moore from the Oklahoma Department of Wildlife Conservation for their assistance in providing the photographs and descriptive text for this report.

ON THE FRONT COVER

The Scissor-Tailed Flycatcher is one of Oklahoma's most popular and strikingly beautiful birds. It was officially recognized as Oklahoma's state bird in 1951. It can be found in the summer months on fences and telephone lines along rural roadways and the outskirts of cities. Farmers find this little bird to be a great help in pest control since its diet consists solely of insects, including those that are harmful to crops such as grasshoppers.

ON THE BACK COVER

There are over 20 bat species in Oklahoma. Although these flying mammals are frequently associated with vampires, they are actually timid, small animals that roost in caves and trees. They are nocturnal and feed primarily on flying insects. The bat population in Oklahoma has suffered recent declines and several bat species in Oklahoma are considered endangered. The Selman Bat Cave Wildlife Management Area is one of the state's largest maternity colonies of Mexican free-tailed bats. It provides a protected habitat for over 1 million bats. Local farmers and ranchers benefit from the nearly 22,000 pounds of insects the bats at the Selman Caves consume every night.

All photographs in this report are used with permission.



COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended
June 30, 2003

Prepared by the staff of the
Oklahoma Public Employees Retirement System

This publication, printed by the Department of Central Services, Central Printing Division, is issued by the Oklahoma Public Employees Retirement System as authorized by its Executive Director. Two thousand copies have been prepared and distributed at a cost of \$12,600. Twenty-five copies have been deposited with the Publications Clearinghouse of the Oklahoma Department of Libraries.

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INTRODUCTORY SECTION





The Collared Lizard has been the official state reptile since 1969. Known locally as the Mountain Boomer, this colorful creature's name is derived from the dark stripes around its neck. Like other cold-blooded reptiles, they thrive in the summer heat. If threatened, the Collared Lizard is capable of running on its hind legs with its body upright.



STATE OF OKLAHOMA
OKLAHOMA PUBLIC EMPLOYEES RETIREMENT SYSTEM

November 28, 2003

Letter of Transmittal

Board of Trustees
Oklahoma Public Employees Retirement System

Ladies and Gentlemen:

The Comprehensive Annual Financial Report (CAFR) of the Oklahoma Public Employees Retirement System (OPERS) for the fiscal year ended June 30, 2003 is hereby submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation rests with the management of OPERS, and sufficient internal accounting controls exist to provide reasonable assurance regarding the safekeeping of assets and fair presentation of the financial statements, supporting schedules and statistical tables. We hope that you and the members of the retirement system will find this CAFR helpful in understanding the current financial condition of OPERS.

OPERS is considered a component unit of the state of Oklahoma for financial reporting purposes and, as such the financial statements contained in this report are also included in the State of Oklahoma Comprehensive Annual Financial Report. For financial reporting purposes, the Plan utilizes Governmental Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, along with GASB Statement No. 34, Basic Financial Statements— and Management's Discussion and Analysis (MD&A)—for State and Local Governments*. MD&A is intended to provide a narrative introduction, overview, and analysis to accompany the basic financial statements. This Letter of Transmittal is designed to complement MD&A and should be read in conjunction with it.

This CAFR is divided into five sections: an Introductory Section, which contains this transmittal letter, the administrative organization, and a summary of recently enacted legislation; a Financial Section, which contains the Independent Auditors' Report, MD&A, the financial statements of the system, certain required supplementary information and schedules of investment, administrative and professional/consultant fees; an Investment Section, which contains a report on the investment activity, investment policies, investment results, and various investment schedules; an Actuarial Section, which contains an Actuary's Certification Letter and the results of the annual actuarial valuation; and a Statistical Section, which includes significant data

pertaining to OPERS. The Addendum, entitled Summary of Valuation Results under Prescribed Assumptions, sets forth a report on the financial and actuarial condition of OPERS based on the prescribed assumptions as required by legislation enacted in the May 2002 session.

The Oklahoma Public Employees Retirement System was established in 1964 by the Oklahoma Legislature. Currently, OPERS consists of 259 participating employers, 43,350 active members, 5,288 terminated vested participants and 22,147 retirees and beneficiaries. The purpose of OPERS is to provide for an orderly means whereby employees covered by OPERS who have attained retirement age may be retired from active service and enable such employees to accumulate reserves for themselves and their dependents, and provide for termination of employment and retirement and death benefits.

Additions to Plan Net Assets

OPERS is funded through a combination of member contributions, employer contributions and investment earnings. The decrease in member and employer contributions is due primarily to decreases in the salary base on which contributions were calculated and fewer active members. Net investment income increased due primarily to the appreciation of the fair value of the Plan's investments which reflects the improvements in the total US equity and fixed income markets.

Additions to Plan Net Assets (expressed in millions)

	<u>2003</u>	<u>2002</u>	<u>Increase (Decrease)</u>
Member Contributions	\$ 50.1	\$ 50.8	\$ (0.7)
Employer Contributions	137.5	139.6	(2.1)
Net Investment Income (Loss)	<u>240.4</u>	<u>(250.8)</u>	<u>491.2</u>
	<u>\$ 428.0</u>	<u>\$ (60.4)</u>	<u>\$ 488.4</u>

Deductions from Plan Net Assets

Deductions from plan net assets are incurred primarily for the purpose for which OPERS was created, namely the payment of benefits to retirees. Retirement, death and survivor benefits increased primarily due to the increase in the number of retired members and an increase in the average monthly benefits of retired members. Refunds, withdrawals, and administrative expenses for the current fiscal year remained substantially unchanged from the prior period.

Deductions from Plan Net Assets (expressed in millions)

	<u>2003</u>	<u>2002</u>	<u>Increase</u>
Retirement, Death & Survivor Benefits	\$ 282.5	\$ 257.9	\$ 24.6
Refunds and Withdrawals	8.8	8.3	0.5
Administrative Expenses	<u>3.2</u>	<u>3.2</u>	<u>0.0</u>
	<u>\$ 294.5</u>	<u>\$ 269.4</u>	<u>\$ 25.1</u>

Investments

The standard for OPERS in making investments is to exercise the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. In addition, funds are to be diversified so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so. Funds of OPERS are invested solely in the interest of the membership and their beneficiaries, and for the exclusive purpose of providing benefits to such membership and their beneficiaries and defraying reasonable expenses of administering OPERS. The Board of Trustees has established an investment policy and guidelines which provide for the delegation of investment authority to professional investment advisors. Outside investment advisors execute the investment policy in accordance with the statutory authority, the Board policy and their respective guidelines, but are to use full discretion within the policy and guidelines.

At fiscal year end, the investment portfolio of OPERS was managed by 10 investment managers in the following categories and amounts:

	<u>000's</u>	
US Equity	\$ 2,033,784	43.0%
Non-US Equity	618,251	13.1%
Fixed Income	2,061,555	43.5%
Cash	20,903	0.4%
	<u>\$ 4,734,493</u>	<u>100.0%</u>

Included in the Investment Section of this report is a summary of the Investment Portfolio by Type and Manager. For fiscal year 2003, investments provided a 5.7 percent rate of return. The annualized rate of return for OPERS over the last three years was -1.9 percent and 2.6 percent over the last five years.

Funding

A pension fund is well funded when it has enough money in reserve to meet all expected future obligations to participants. The funding objective for OPERS is to meet long-term benefit promises through contributions that remain approximately level as a percent of member payroll. The greater the level of funding, the larger the ratio of assets accumulated to the actuarial accrued liability and the greater the level of investment potential. The advantage of a well-funded plan is that the participants can look at assets that are committed to the payment of benefits. The actuarial accrued liability and actuarial value of assets of OPERS as of June 30, 2003 amounted to \$7.0 billion and \$5.4 billion, respectively. A detailed discussion of funding is provided in the Actuarial Section of this report.

Legislation

Several plan provisions were enacted by the 2003 Oklahoma Legislature. These changes include an irrevocable member election to increase their contribution rate and benefit computation factor effective January 1, 2004 and graduated employer contribution rate increases for future years beginning in 2006. A more complete summary of legislative changes is contained in the Introductory Section of this report.

Professional Services

Professional consultants are appointed by the Board of Trustees to perform professional services that are essential to the effective and efficient operation of OPERS. An opinion from the independent auditors and the actuary are included in this report. Aside from the individual investment managers, which are listed elsewhere in this report, the professional consultants to the Board for the past fiscal year are as follows:

KPMG LLP, Independent Auditors
Finley & Cook, PLLC, Internal Auditors
Mercer Human Resource Consulting, Actuary
The Northern Trust Company, Custodial Bank
Strategic Investment Solutions, Inc., Investment Consultant

Executive Director

At their July 17, 2003, meeting, the Board of Trustees selected Tom Spencer as Executive Director of OPERS, replacing Stephen C. Edmonds, who retired effective June 1, 2003, after serving eight years in that position. Mr. Spencer, a longtime employee of the State of Oklahoma, has served as the Governor's general counsel, as chief of staff at the State Treasurer's office, and as an assistant attorney general. Mr. Spencer, who holds a law degree, has also been an attorney in private practice.

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Oklahoma Public Employees Retirement System for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2002. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of a state and local government financial report.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The Oklahoma Public Employees Retirement System has received a Certificate of Achievement for the last six consecutive years. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA.

Acknowledgments

The compilation of this report reflects the combined effort of the staff of OPERS under the leadership of the Board of Trustees. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means of determining responsible stewardship of the funds of OPERS.

This report is being provided to the retirement coordinators for all participating employers of OPERS. The retirement coordinators form a vital link between OPERS and its membership and their cooperation contributes significantly to the success of OPERS. The report is also available, upon request, to any member of OPERS. We hope the employers and their employees find this report informative.

We would like to take this opportunity to express our gratitude to the Board, the staff, the advisors, and to the many people who work so diligently to assure the successful operation of OPERS.

Respectfully submitted,



Brad C. Holt
Deputy Director



Virginia Lawrenz
Chief Financial Officer

DON KILPATRICK
CHAIRMAN



BRAD HENRY
GOVERNOR

STATE OF OKLAHOMA
OKLAHOMA PUBLIC EMPLOYEES RETIREMENT SYSTEM

November 28, 2003

Chairman's Letter

Dear OPERS Members:

On behalf of the Board of Trustees of the Oklahoma Public Employees Retirement System, (OPERS), I am pleased to present the Comprehensive Annual Financial Report for the fiscal year ending June 30, 2003.

This report is designed to provide a detailed look at the financial, investment and actuarial aspects of OPERS, which continues to be a strong retirement system.

You are encouraged to carefully review this report, as it contains a wealth of information about your retirement system. If you have questions or comments, please feel free to contact us. We can be reached at PO Box 53007, Oklahoma City, Oklahoma 73152-3007. Our telephone number is 405-858-6737 (or toll-free 1-800-733-9008).

I also want to thank the OPERS staff for their diligent work in preparing this report and their commitment to continually improve the administrative operations of OPERS.

Sincerely,

A handwritten signature in cursive script, appearing to read "Don Kilpatrick".

Don Kilpatrick
Chairman

Board of Trustees



Back row, left to right: Jon Forman, Scott Meacham, Oscar B. Jackson, Jr., Jerry Johnson, Vic Thompson, Richard Haugland, DeWayne McAnally, Steve Paris
Front row, left to right: Howard Conyers, Don Kilpatrick, Fay Waits
Not pictured: Denise Bode, Carroll Fisher

Don Kilpatrick
Board Chairman
Appointee of the President
Pro Tempore of the Senate

Howard Conyers
Board Vice Chairman
Appointee of the Supreme Court

Denise Bode
Chair, Corporation Commission
Ex Officio

Carroll Fisher
State Insurance Commissioner
Ex Officio

Jon Forman
Appointee of the Governor

Richard Haugland
Appointee of the Speaker of
the House of Representatives

Oscar B. Jackson, Jr.
Administrator
Office of Personnel Management
Ex Officio

Jerry Johnson
Vice Chairman-Member
Oklahoma Tax Commission
Ex Officio

DeWayne McAnally
Appointee of the Governor

Scott Meacham
Director of State Finance
Ex Officio

Steve Paris*
Appointee of the Governor

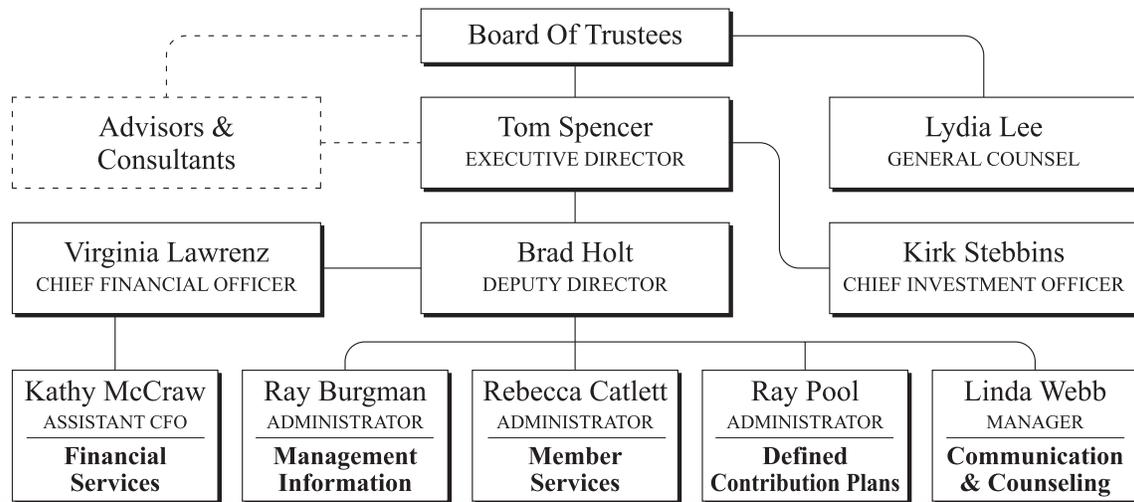
Vic Thompson
Appointee of the President
Pro Tempore of the Senate

Faye Waits
Appointee of the Speaker of
the House of Representatives

John Willbanks*
Appointee of the Governor

*Mr. Willbanks served on the Board of Trustees through July 13, 2003. Mr. Paris succeeded Mr. Willbanks effective July 14, 2003.

Organizational Structure



Back row, left to right: Lydia Lee, Kirk Stebbins, Kathy McCraw, Ray Burgman, Brad Holt, Ray Pool
 Front row, left to right: Linda Webb, Tom Spencer, Virginia Lawrenz
 Not pictured: Rebecca Catlett

Advisors and Consultants

Master Custodian
 The Northern Trust Company
 Chicago, Illinois

Investment Consultant
 Strategic Investment Solutions, Inc.
 San Francisco, California

Independent Auditors
 KPMG LLP
 Oklahoma City, Oklahoma

Actuarial Consultant
 Mercer Human Resource Consulting
 Dallas, Texas

Internal Auditors
 Finley & Cook PLLC
 Shawnee, Oklahoma

2003 Legislation

Effective July 1, 2003 (unless otherwise noted)

General

Joint Study on Retiree Health Care Expenses

Senate Bill 409 requires OPERS and several other agencies to conduct a study of various plans and vehicles available to help retired members of state retirement systems pay for health care expenses after retirement.

Study of Hazardous Duty

Senate Bill 411 directs OPERS to conduct a study of a possible specialized retirement plan within OPERS for OPERS members who are employed in hazardous duty positions. The study will include an actuarial report regarding the costs of the new benefit structure for the hazardous duty plan.

Repeal of Pension Commission's Review of Legislation

House Bill 1067 repeals the Oklahoma State Pension Commission's requirement to review retirement-related legislation.

Active Members

OLERS Membership for Certain GRDA Employees

Senate Bill 408 allows dispatchers and lake patrol officers employed by the Grand River Dam Authority (GRDA) to make an irrevocable election by January 1, 2004 to be in the Oklahoma Law Enforcement Retirement System (OLERS) rather than OPERS. All GRDA dispatchers and lake patrol officers hired on or after July 1, 2003 will be OLERS members.

Member Election to Increase Contribution Rate and Benefit Computation Factor

Senate Bill 643 provides an irrevocable election beginning January 1, 2004 for certain members, excluding elected officials and hazardous duty employees, to increase the benefit computation factor for all future service from 2% to 2½%. This step-up election is binding for future employment under OPERS and is applicable only to full years of service. Those making the election will pay the standard employee contribution rate plus an additional employee contribution rate, initially set at 2.91%, which is actuarially determined.

Change in Requirements to Purchase Incentive Credit

Senate Bill 643 extends the purchase of incentive credit in OPERS to members who have already reached normal retirement eligibility.

Gradual Increase in Contribution Rates

Senate Bill 643 provides for OPERS participating employer's contribution rates to increase by 1% each year beginning July 1, 2006 until 2012.

2003 Legislation

Effective July 1, 2003 (unless otherwise noted)

Final Average Compensation for Correctional Officer Service

Senate Bill 643 clarifies the calculation of final average salary for correctional officers who retire after January 1, 2004.

Special Membership Provisions

Senate Bill 673 contains special provisions for the Commissioner of Public Safety and the directors of the Oklahoma State Bureau of Investigation (OSBI) and the Oklahoma State Bureau of Narcotics and Dangerous Drugs Control (OBNDD) to elect to participate in either OPERS or the Oklahoma Law Enforcement Retirement System. This applies to OSBI and OBNDD directors hired on or after July 1, 2003.

Service Transfer to County Retirement Systems

House Bill 1301 allows an inactive OPERS member, who has not withdrawn contributions in OPERS and who is a member of the Oklahoma or Tulsa county retirement system, to transfer their OPERS' employee contributions into the county defined benefit retirement system.

Surviving Spouse Benefits upon Death of an Eligible Member

House Bill 1647 clarifies that the surviving spouse of vested member no longer must be the named beneficiary to be eligible for the survivor benefit.

Retirees

GRDA Retiree Health Premium Assistance

Senate Bill 408 requires the Grand River Dam Authority (GRDA) to pay up to \$60 each month towards its retirees' health premiums. This payment will be made by GRDA and is in addition to the \$105 insurance subsidy paid by OPERS.

Disability Benefits in Lieu of Early Retirement

Senate Bill 643 provides that an OPERS member who has retired under early retirement provisions, and who is otherwise eligible for a disability benefit under OPERS plan provisions with a disability date on or after July 1, 1999 can apply to receive disability benefits in lieu of the early retirement benefits.

OPERS Insurance Subsidy

Senate Bill 669 is corrective legislation regarding the continuation of health insurance to retirees and payment by OPERS of the \$105 monthly premium supplement. Non-state agency employers that participate in OPERS and offer health insurance to their active employees, are required to offer the same coverage to their retired and vested employees on or before January 1, 2004. Any employees of such employers who terminated their employment between January 1, 2002 and December 31, 2003 have a one-time opportunity to make an election to join the Oklahoma State and Education Employees Group Health Insurance Plan. If eligible, OPERS will then begin to pay the \$105 insurance premium subsidy if they are receiving monthly benefits from OPERS.

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Oklahoma Public Employees Retirement System

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2002

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



A handwritten signature in black ink, reading "William Patrick Barta".

President

A handwritten signature in black ink, reading "Jeffrey R. Emer".

Executive Director

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FINANCIAL SECTION





The Bison, also known as the American Buffalo, once boasted a population of over 60 million and roamed the plains of North America from Canada to Mexico. Their numbers were reduced to near-extinct proportions in the late 1800s. These majestic beasts now live primarily on protected lands. They are considered the largest land mammal in North America. The Bison was named the state mammal in 1972.



700 Oklahoma Tower
210 Park Avenue
Oklahoma City, OK 73102-5671

Independent Auditors' Report

Board of Trustees
Oklahoma Public Employees Retirement System:

We have audited the accompanying statements of plan net assets of the Oklahoma Public Employees Retirement Plan (the Plan), a part of the financial reporting entity of the state of Oklahoma administered by the Oklahoma Public Employees Retirement System, as of June 30, 2003 and 2002, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Plan at June 30, 2003 and 2002, and the changes in its net assets for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements. The supplementary information included in schedules 2 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements, and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Introductory Section, the Investment Section, the Actuarial Section, the Statistical Section, and the Addendum are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we express no opinion on it.

KPMG LLP

October 3, 2003

OKLAHOMA PUBLIC EMPLOYEES RETIREMENT PLAN
Administered by the Oklahoma Public Employees Retirement System

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, 2003 and 2002.

Financial Highlights

- The net assets held in trust for pension benefits totaled approximately \$4.6 billion at June 30, 2003 compared to \$4.5 billion at June 30, 2002. The net assets are available for payment of monthly retirement benefits and other qualified distributions to the Plan's participants. The increase of \$133.5 million resulted primarily from the appreciation in the fair value of the Plan's investments due to equity market increases affecting the year ended June 30, 2003.
- The total number of members participating in the Plan decreased 0.5% from June 30, 2002, to 70,785 at June 30, 2003, while the number of retirees at June 30, 2003 was 22,147, a 3.2% increase from the prior year.
- The funded ratio of the Plan was 76.8% at June 30, 2003 compared to 79.8% at June 30, 2002. This resulted from liability gains of \$30.5 million and asset losses of \$231.6 million as computed by the Plan's actuary.

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 three years' annual covered compensation multiplied by the number of years of credited service. Normal retirement age under the Plan is 62 or when the sum of the member's age and years of credited service equals or exceeds 80 (90 for anyone who became a member after June 30, 1992). Members become eligible to vest fully upon termination of employment after attaining eight years of credited service or the members' contributions may be withdrawn upon termination of employment.

The Plan's financial statements are comprised of a Statement of Plan Net Assets, a Statement of Changes in Plan Net Assets, and Notes to Financial Statements. Also included is certain required supplementary and other 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 *statement of plan net assets* presents information on the Plan's assets and liabilities and the resulting *net assets held in trust for pension benefits*. This statement reflects the Plan's investments, at fair value, along with cash and cash equivalents, receivables and other assets and liabilities.

OKLAHOMA PUBLIC EMPLOYEES RETIREMENT PLAN
Administered by the Oklahoma Public Employees Retirement System

Management's Discussion and Analysis

The *statement of changes in plan net assets* presents information showing how the Plan's net assets held in trust for pension benefits changed during the years ended June 30, 2003 and 2002. It reflects contributions by members and participating employers along with deductions for retirement benefits, refunds and withdrawals, and administrative expenses. Investment income during the period is also presented showing income from investing and securities lending activities.

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* and the related note present a schedule of funding progress along with a discussion of actuarial assumptions and methods. Schedules of certain expenses and fees paid are also presented as *other supplementary information*.

Financial Analysis

The following are the condensed Schedules of Plan Net Assets and Changes in Plan Net Assets for the Oklahoma Public Employees Retirement Plan for the fiscal years ended June 30, 2003, 2002, and 2001.

CONDENSED SCHEDULES OF PLAN NET ASSETS	(\$ millions)		
	June 30,		
	2003	2002	2001
Cash and cash equivalents	\$ 66.9	\$ 35.5	\$ 74.8
Receivables	437.3	155.5	92.6
Investments	4,668.5	4,447.4	4,749.0
Securities lending collateral	378.4	573.9	656.8
Property and equipment	0.3	0.4	0.4
Other assets	0.2	0.2	0.1
Total Assets	5,551.6	5,212.9	5,573.7
Other liabilities	554.1	153.4	101.5
Securities lending collateral	378.4	573.9	656.8
Total Liabilities	932.5	727.3	758.3
Net Assets Held in Trust for Benefits	\$ 4,619.1	\$ 4,485.6	\$ 4,815.4

OKLAHOMA PUBLIC EMPLOYEES RETIREMENT PLAN
Administered by the Oklahoma Public Employees Retirement System

Management's Discussion and Analysis

CONDENSED SCHEDULES OF CHANGES IN PLAN NET ASSETS	(\$ millions)		
	June 30,		
	2003	2002	2001
Member contributions	\$ 50.1	\$ 50.8	\$ 47.4
State and local agency contributions	137.5	139.6	131.2
Net investment income (loss)	240.4	(250.8)	(311.5)
Total Additions	428.0	(60.4)	(132.9)
Retirement, death and survivor benefits	282.5	257.9	247.1
Refunds and withdrawals	8.8	8.3	47.7
Administrative expenses	3.2	3.2	2.8
Total Deductions	294.5	269.4	297.6
Total Changes in Plan Net Assets	\$ 133.5	\$ (329.8)	\$ (430.5)

For the year ended June 30, 2003 plan net assets increased \$133.5 million or 3.0% from the prior year primarily due to the 5.0% increase in investments of \$221.1 million. Receivables increased \$281.8 million at the end of the fiscal year due to pending sales of securities. Liabilities increased \$205.2 million at the end of the fiscal year due to a \$400.7 million increase in payables for pending purchases of securities which was partially offset by a \$195.5 million decrease in the liability for cash collateral related to security lending.

Total additions of \$428.0 million were significantly more than the prior year due to the appreciation of the fair value of investments in fiscal 2003. Investment earnings and income from securities lending activities as well as investment expenses were lower than fiscal year 2002. Deductions increased \$25.1 million for the year ended June 30, 2003 as a result of a 9.5 % increase in retirement, death and survivor benefits.

Fiscal year 2002 showed a decrease in plan net assets of \$329.8 million from the prior year which was primarily a result of the continued decline in the equity markets that began in fiscal 2001. The net investment loss of \$250.8 million was less severe than the prior year as equity markets declined for both years. Contributions and benefits increased 6.6% and 4.4% respectively from the prior year. Fiscal year 2002 refunds and withdrawals were significantly reduced from the prior year since, in July 2000, a one-time \$37.7 million statutory transfer of excess optional contributions of covered participants was made to their accounts in the Oklahoma State Employees Deferred Savings Incentive Plan.

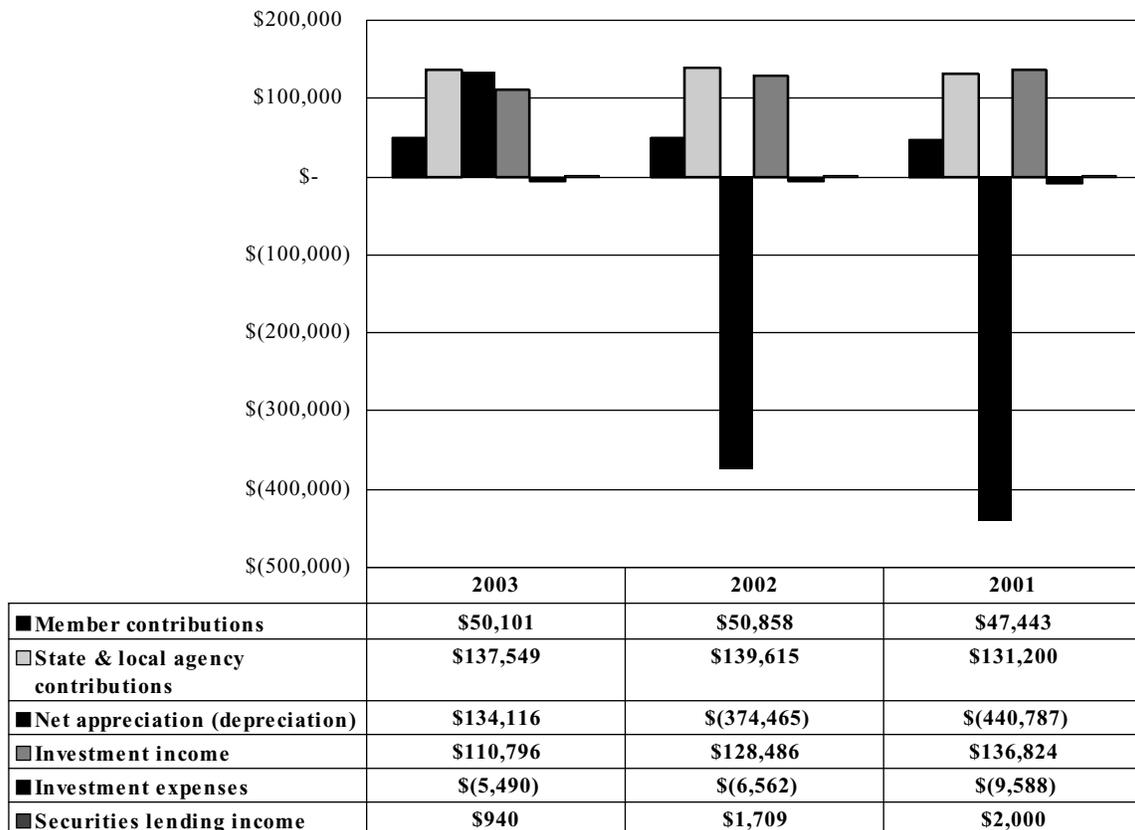
OKLAHOMA PUBLIC EMPLOYEES RETIREMENT PLAN
Administered by the Oklahoma Public Employees Retirement System

Management's Discussion and Analysis

Additions to Plan Net Assets

Additions for the year ended June 30, 2003 were \$428.0 million, a \$488.4 million increase over the prior year due to an increase in net appreciation in the fair value of investments which was offset by lower investment income and securities lending income. Investment expenses were lower for the year due to the reallocation of part of the domestic equity portfolio from active to passive management. Contributions of members and state and local agency employers were somewhat reduced due to a lower total annual salary base for calculation and fewer active members. At June 30, 2003 the total number of active members was 43,350 compared to 44,292 at June 30, 2002, a decrease of 2.1%.

ADDITIONS TO PLAN NET ASSETS
Comparative Data for Fiscal Years Ended June 30, 2003, 2002, and 2001
(in \$000's)



For fiscal year 2002 the Plan suffered a net investment loss from investing activities of \$250.8 million as the decline in the domestic and international equity markets resulted in the depreciation in the fair value of investment of \$374.5 million. Investment income and securities lending income decreased to \$128.5 million and \$1.7 million respectively, and investment expenses based on the market value of manager portfolios were also reduced. Contribution increases for both members and state and local agencies were a result of an increased salary base used for calculation.

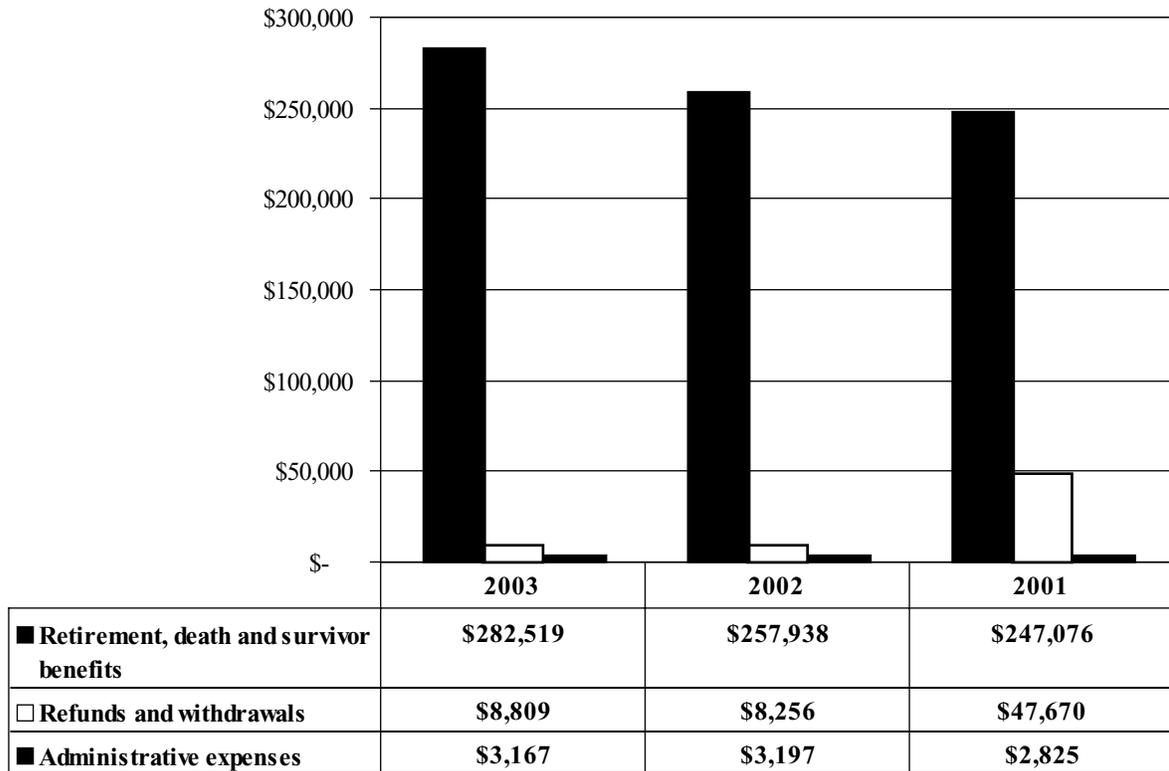
OKLAHOMA PUBLIC EMPLOYEES RETIREMENT PLAN
Administered by the Oklahoma Public Employees Retirement System

Management's Discussion and Analysis

Deductions to Plan Net Assets

For the year ended June 30, 2003 total deductions increased \$25.1 million over the prior year due to a 9.5% increase in retirement, death and survivor benefits as the average monthly benefit increased for an increased number of retirees. At June 30, 2003 the total number of members receiving retirement benefits was 22,147 compared to 21,452 at June 30, 2002, an increase of 3.2%. Refunds and withdrawals increased as more participants withdrew contributions during the period compared to the prior year. The 0.9% decrease in administrative expenses is a result of a lower percentage attributable to the Plan's allocated share of administrative costs.

DEDUCTIONS TO PLAN NET ASSETS
Comparative Data for Fiscal Years Ended June 30, 2003, 2002, and 2001
(in \$000's)



OKLAHOMA PUBLIC EMPLOYEES RETIREMENT PLAN
Administered by the Oklahoma Public Employees Retirement System

Management's Discussion and Analysis

In fiscal year 2002 retirement, death and survivor benefits grew primarily due to the increasing numbers of retired members and an increase in the average monthly benefits of newly retired members. At June 30, 2002 the total number of members receiving retirement benefits was 21,452 compared to 20,863 at June 30, 2001, an increase of 2.8%. The primary cause for the significant decrease in refunds and withdrawals when compared to the prior year, was the one time \$37.7 million transfer in July 2000 of excess optional contributions from the Plan to qualifying members' accounts in the Oklahoma State Employees Deferred Savings Incentive Plan. The increase in administrative expenses related primarily to increased personnel, professional, and communication costs.

Investments

The investment portfolio is reported by asset class which is comprised of the investment managers' portfolios including cash equivalents. A summary of the Plan's investments for fiscal years ended June 30, 2003, 2002, and 2001 is as follows:

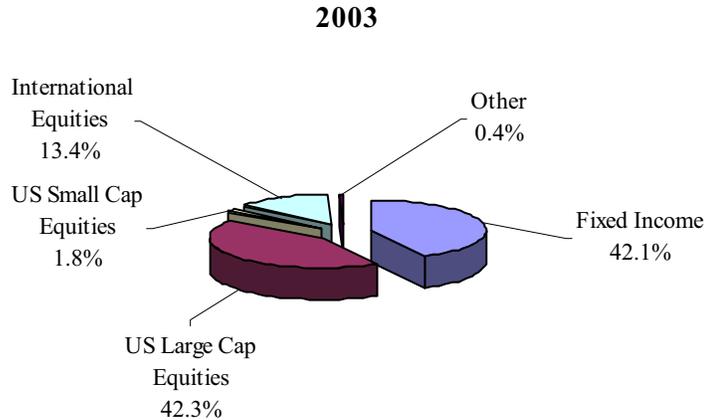
INVESTMENT PORTFOLIO	(\$ millions)		
	June 30,		
	2003	2002	2001
Fixed Income	\$ 2,061.6	\$ 1,952.7	\$ 2,045.7
Large Cap Domestic Equities	1,950.8	1,506.5	1,696.9
Mid Cap Domestic Equities	-	203.7	-
Small Cap Domestic Equities	82.9	208.7	464.2
International Equities	618.3	581.8	590.1
Other	20.9	28.9	26.3
Total managed investments	4,734.5	4,482.3	4,823.2
Cash on deposit with State	0.9	0.6	0.6
Securities Lending Collateral	378.4	573.9	656.8
Total Investments and Cash	\$ 5,113.8	\$ 5,056.8	\$ 5,480.6

For the year ended June 30, 2003 the Plan's managed investments for the most part reflect the investment environment with fixed income components providing above average results. The Plan's overall return for the year was 5.7%. While the Plan's fixed income component earned 13.2%, this was offset by reductions for the cash flow requirements of the Plan for operations and reallocations of \$100 million to the US equity portfolio and \$50 million to the international portfolio. The US equity portfolio showed a 0.3% return for the year, and the international equity portfolio declined 3.2%. The US equity portfolio experienced a midyear transition of \$93.0 million small cap equities, \$175.0 million mid cap equities, and \$1.0 billion large cap equities to a Russell 3000 index fund. The change in securities lending collateral is dependent on the securities loaned by the Plan's master custodian at year end.

OKLAHOMA PUBLIC EMPLOYEES RETIREMENT PLAN
Administered by the Oklahoma Public Employees Retirement System

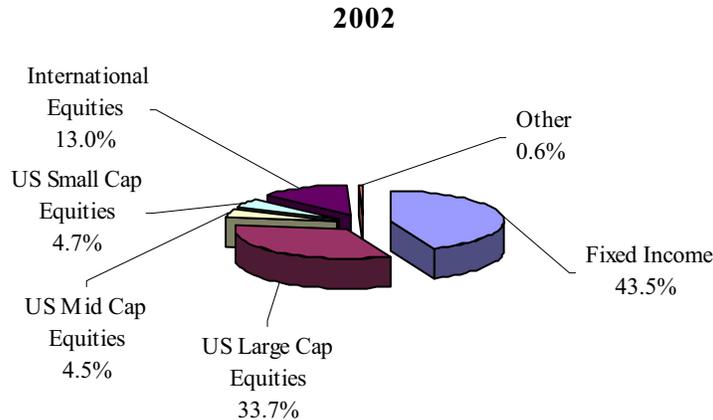
Management's Discussion and Analysis

At June 30, 2003, the distribution of the Plan's investments including accruals was as follows:



For the year ended June 30, 2002 the reduction in the Plan's managed investments is reflective of the decline in the US and international equity markets. The Plan's overall return for the year ended June 30, 2002 was a negative 5.1%. The Plan's fixed income component earned 7.3% and, in accordance with the Plan's allocation policy, was reduced \$144 million during the year through transfers of \$113 million to the large cap domestic equity portfolio and \$31 million to the international portfolio. These assets were also decreased by the cash flow requirements of the Plan for operations. Equities suffered negative returns for the year of 16.0% for US equity and 6.6% for international equities. During the year \$205 million was reallocated from US small cap equities to US mid cap equities. The change in securities lending collateral is dependent on the securities loaned by the Plan's master custodian at year end.

At June 30, 2002, the distribution of the Plan's investments including accruals was as follows:



OKLAHOMA PUBLIC EMPLOYEES RETIREMENT PLAN
Administered by the Oklahoma Public Employees Retirement System

Management's Discussion and Analysis

Economic Factors

Funding

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

<u>2003</u>	<u>2002</u>	<u>2001</u>
76.8%	79.8%	82.6%

Plan Amendments

Plan provision changes were enacted by the State Legislature during the session ended in May 2003. These changes include an irrevocable member election to increase their contribution rate and benefit computation factor effective January 1, 2004 and graduated employer contribution rate increases for future years beginning in 2006.

Other

Other than changes in the fair value of Plan assets as may be impacted by the stock 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.

OKLAHOMA PUBLIC EMPLOYEES RETIREMENT PLAN
Administered by the Oklahoma Public Employees Retirement System

Statements of Plan Net Assets

June 30, 2003 and 2002

	2003	2002
Assets		
Cash and cash equivalents	\$ 66,858,122	\$ 35,458,844
Receivables:		
Member contributions	780,414	801,046
State and local agency contributions	1,836,326	1,943,945
Due from brokers for securities sold	417,203,354	130,072,628
Accrued interest and dividends	17,501,741	22,687,459
Total receivables	437,321,835	155,505,078
Investments, at fair value:		
Short-term investments	314,854,274	115,170,536
Government obligations	1,075,350,357	1,210,356,852
Corporate bonds	641,960,470	639,960,003
Domestic stocks	2,057,782,665	1,943,672,841
International equities	578,573,549	538,230,707
Securities lending collateral	378,386,256	573,935,175
Total investments	5,046,907,571	5,021,326,114
Property and equipment, at cost, net of accumulated depreciation of \$662,249 in 2003 and \$640,012 in 2002	353,735	391,920
Other assets	180,298	185,923
Total assets	5,551,621,561	5,212,867,879
Liabilities		
Due to brokers and investment managers	554,172,162	153,386,588
Securities lending collateral	378,386,256	573,935,175
Total liabilities	932,558,418	727,321,763
Net assets held in trust for pension benefits (Schedule of Funding Progress is presented in Schedule 1)	\$ 4,619,063,143	\$ 4,485,546,116

See accompanying notes to financial statements.

OKLAHOMA PUBLIC EMPLOYEES RETIREMENT PLAN
Administered by the Oklahoma Public Employees Retirement System

Statements of Changes in Plan Net Assets

Years Ended June 30, 2003 and 2002

	2003	2002
Additions:		
Contributions:		
Members	\$ 50,101,133	\$ 50,857,928
State and local agencies	137,549,234	139,614,903
Total contributions	187,650,367	190,472,831
Investment income (loss):		
From investing activities:		
Net appreciation (depreciation) in fair value of investments	134,115,921	(374,464,731)
Interest	96,570,709	116,711,068
Dividends	14,031,903	11,676,601
Other	193,350	98,307
Total investment income (loss)	244,911,883	(245,978,755)
Less - Investment expenses	(5,489,820)	(6,562,232)
Income (loss) from investing activities	239,422,063	(252,540,987)
From securities lending activities:		
Securities lending income	7,987,847	16,069,237
Securities lending expenses:		
Borrower rebates	(6,645,551)	(13,627,611)
Management fees	(402,691)	(732,488)
Income from securities lending activities	939,605	1,709,138
Net investment income (loss)	240,361,668	(250,831,849)
Total increase (decrease)	428,012,035	(60,359,018)
Deductions:		
Retirement, death and survivor benefits	282,519,128	257,938,411
Refunds and withdrawals	8,809,116	8,256,213
Administrative expenses	3,166,764	3,196,980
Total deductions	294,495,008	269,391,604
Net increase (decrease)	133,517,027	(329,750,622)
Net assets held in trust for pension benefits:		
Beginning of year	4,485,546,116	4,815,296,738
End of year	\$ 4,619,063,143	\$ 4,485,546,116

See accompanying notes to financial statements.

OKLAHOMA PUBLIC EMPLOYEES RETIREMENT PLAN
Administered by the Oklahoma Public Employees Retirement System

Notes to Financial Statements

June 30, 2003 and 2002

(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 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 Plan is administered by the Oklahoma Public Employees Retirement System (OPERS) a component unit of the State of Oklahoma (the State), which together with other similar funds comprise the fiduciary-pension trust funds of the State. 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 currency valued at fair value, and an investment fund composed of an investment in units of a commingled trust fund of the Plan's custodial agent, which is valued at cost, which approximates 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 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.

OKLAHOMA PUBLIC EMPLOYEES RETIREMENT PLAN
Administered by the Oklahoma Public Employees Retirement System

Notes to Financial Statements

June 30, 2003 and 2002

The Plan's international investment managers 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. The gains and losses on these contracts are included in income in the period in which the exchange rates change.

The Plan invests in various traditional financial instruments that fall under the broad definition of derivatives. The Plan's derivatives include U.S. Treasury Strips, collateralized mortgage obligations, convertible stocks and bonds, and variable rate instruments. These investments do not increase investment risk beyond allowable limits specified in the Plan's investment policy.

The Plan's investment policy provides for investments in any 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, market 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 that such changes could materially affect the amounts reported in the statement of plan net assets.

(c) *Property and Equipment*

Property and equipment are carried at cost, less accumulated depreciation. Costs of additions are capitalized. 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 accounting principles generally accepted in the United States of America requires the Plan administrator to make significant estimates and assumptions that affect the reported amounts of net assets held in trust for pension benefits at the date of the financial statements and the actuarial information in Schedule 1 included in the required supplementary information as of the benefit information date, the changes in Plan net assets during the reporting period and, when applicable, disclosures of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

OKLAHOMA PUBLIC EMPLOYEES RETIREMENT PLAN
Administered by the Oklahoma Public Employees Retirement System

Notes to Financial Statements

June 30, 2003 and 2002

(e) Risks and Uncertainties

Contributions to the Plan and the actuarial information in Schedule 1 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 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) Reclassification of Prior Year Amounts

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

(2) Plan Description and Contribution Information

The following brief description of the Plan is provided for general information purposes only. Participants should refer to Title 74 of the Oklahoma Statutes, Sections 901 through 932, 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:

	2003	2002
Retirees and beneficiaries currently receiving benefits	22,147	21,452
Terminated vested participants	5,288	5,392
Active participants	43,350	44,292
	70,785	71,136

OKLAHOMA PUBLIC EMPLOYEES RETIREMENT PLAN
Administered by the Oklahoma Public Employees Retirement System

Notes to Financial Statements

June 30, 2003 and 2002

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 described above. If the member category is not specifically identified, the attributes of the Plan discussed apply to all members.

(b) Benefits

Members qualify for full retirement benefits at their specified normal retirement age or, for any person who became a member prior to July 1, 1992, when the sum of the member's age and years of credited service equals or exceeds 80 (Rule of 80), and for any person who became a member after June 30, 1992, when the member's age and years of credited service equals or exceeds 90 (Rule of 90).

Normal retirement date is further qualified to require that all members employed on or after January 1, 1983, must have six or more years of full-time equivalent employment with a participating employer before being eligible to receive benefits. Credited service is the sum of participating and prior service. Prior service includes nonparticipating service before January 1, 1975, or the entry date of the employer and active wartime military service.

A member with a minimum of ten years of participating service may elect early retirement with reduced benefits beginning at age 55.

Disability retirement benefits are available for members having eight years of credited service whose disability status has been certified as being within one year of the last day on the job by the Social Security Administration. Disability retirement benefits are determined in the same manner as retirement benefits, but payable immediately without an actuarial reduction.

The following are various benefit attributes for each member category:

State, County and Local Agency Employees

Benefits are determined at 2% of the average annual salary received during the highest three of the last ten years of participating service, but not to exceed the applicable annual salary cap, multiplied by the number of years of credited service. Normal retirement age under the Plan is 62 or Rule of 80/90.

OKLAHOMA PUBLIC EMPLOYEES RETIREMENT PLAN
Administered by the Oklahoma Public Employees Retirement System

Notes to Financial Statements

June 30, 2003 and 2002

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, a range from 1.9% to 4.0% of the highest annual covered compensation received as an elected official, but not to exceed the applicable annual salary cap, multiplied by the number of years of credited service. Normal retirement age under the Plan is 60 or Rule of 80.

Members become eligible to vest fully upon termination of employment after attaining six years of participating service as an elected official or the members' contributions may be withdrawn upon termination of employment.

Hazardous Duty Members

Benefits are determined at (a) 2.5% of the final average compensation up to the applicable annual salary cap multiplied by the number of years of service as a hazardous duty member not to exceed 20 years and (b) 2.0% of the final average compensation multiplied by the number of years of service in excess of 20 years and any other years of service creditable. Normal retirement age under the Plan is 62 or at completion of 20 years of creditable service as a hazardous duty member or Rule of 80/90. Military Department firefighters are not restricted to a maximum of 20 years of hazardous duty for the 2.5% computation.

However, members who contributed prior to July 1, 1990 but do not qualify for normal retirement as a hazardous duty member shall receive benefits computed at 2.5% of the final compensation for those full time years as a hazardous duty member after July 1, 1990, 2.25% before July 1, 1990, and 2.0% for all other years of credited service. Members become eligible to vest fully after 20 years of full time service as a hazardous duty member.

Upon the death of an active member, the accumulated contributions of the member are paid to the member's named beneficiary(ies) in a single lump sum payment. If a retired member elected a joint annuitant survivor option or an active member was eligible to retire with either reduced or unreduced benefits or eligible to vest the retirement benefit at the time of death, benefits can be paid in monthly payments over the life of the spouse if the spouse so elects.

Benefits are payable to the surviving spouse of an elected official only if the elected official had at least six years of participating elected service and was married at least three years immediately preceding death. Survivor benefits are terminated upon death of the named survivor and, for elected officials, remarriage of the surviving spouse. Upon the death of a retired member, with no survivor benefits payable, the member's beneficiary(ies) are paid the excess, if any, of the member's accumulated contributions over the sum of all retirement benefit payments made.

OKLAHOMA PUBLIC EMPLOYEES RETIREMENT PLAN
Administered by the Oklahoma Public Employees Retirement System

Notes to Financial Statements

June 30, 2003 and 2002

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, 2003 and 2002, totaled approximately \$3,830,000 and \$3,758,000, 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 \$1.2 million has been included in the calculation of the actuarial liability of the Plan at June 30, 2003 and 2002.

For the years ended June 30, 2003 and 2002, the Plan remitted up to \$105 per month per eligible member receiving retirement benefits, excluding beneficiaries and surviving spouses, for health insurance premiums to the Oklahoma State and Education Employees Group Insurance Board, which administers various group health benefit plans for the State. The Plan is required by statute to remit this payment for eligible members but has no administrative functions related to the payment and no portion of the contribution amounts of either active members or state and local 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. The amount remitted for the years ended June 30, 2003 and 2002, for such premiums were approximately \$16,849,000 and \$16,824,000, 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.

OKLAHOMA PUBLIC EMPLOYEES RETIREMENT PLAN
Administered by the Oklahoma Public Employees Retirement System

Notes to Financial Statements

June 30, 2003 and 2002

The following contribution rates were in effect:

State, County, and Local Agency Employees

State employees and agencies – For 2003 and 2002, state agency employers contributed 10% on all salary. State employees contributed 3.0% on the first \$25,000 of salary and 3.5% on salary above \$25,000 for both years.

Participating county and local agencies – For 2003 and 2002, contributions totaled 13.5% 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 5% up to a maximum of 10%.

Elected Officials

Elected officials' employee contributions are based on the maximum compensation levels set for all members, and the participating employers are required to contribute on the elected officials' covered salary using the same percentage and limits as applicable for State agencies. Elected officials must select an employee contribution rate of 4.5%, 6.0%, 7.5%, 8.5%, 9.0% or 10%.

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

Hazardous Duty Members

For 2003 and 2002, hazardous duty members contributed 8% and their employer agencies contributed 10% on all salary.

(d) Participating Employers

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

	<u>2003</u>	<u>2002</u>
State agencies	119	115
County governments	75	75
Local government towns and cities	28	28
Other local governmental units	<u>37</u>	<u>34</u>
Total	<u>259</u>	<u>252</u>

OKLAHOMA PUBLIC EMPLOYEES RETIREMENT PLAN
Administered by the Oklahoma Public Employees Retirement System

Notes to Financial Statements

June 30, 2003 and 2002

(3) Cash and Cash Equivalents

Cash and cash equivalents represent cash on deposit with the State and short-term investment funds held by the Plan's custodial agent. Cash is on deposit with the Office of the State Treasurer and is required to be insured or collateralized by the Oklahoma Statutes covering deposits of public funds. The short-term investment funds 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 their respective investment in the funds.

Deposits with financial institutions are classified depending on whether they are insured or collateralized. Bank balances are classified in the following categories of credit risk: Category 1 includes deposits that are insured or collateralized with securities held by the Plan or by the agent in the Plan's name. Category 2 includes deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the Plan's name. Category 3 includes deposits, which are uncollateralized, or deposits, which are collateralized and the related securities are held by the pledging financial institution or by its trust department or agent not in the Plan's name. At June 30, 2003 and 2002, cash on deposit with the State is considered Category 1, and the short-term investment funds are considered Category 3.

At June 30, 2003, as a result of outstanding checks, the carrying amount of the Plan's cash deposits totaled \$887,210 and the bank balances totaled \$9,464,576. At June 30, 2002, as a result of outstanding checks, the carrying amount of the Plan's cash deposits totaled \$626,181 and the bank balances totaled \$8,743,970. At June 30, 2003 and 2002 the carrying amounts of the Plan's short-term investment funds were, the same as the bank balances, \$65,970,912 and \$34,832,663 respectively.

(4) Investments

The Plan's investments would generally be categorized into one of three separate credit risk categories. Category 1 includes investments that are insured or registered or are held by the Plan or its agent in the Plan's name. Category 2 includes uninsured and unregistered investments, which are held by the counterparties, trust departments or agents in the Plan's name. Category 3 includes uninsured and unregistered investments, held by the counterparties, or their trust departments or agents, but not in the Plan's name. A summary of the Plan's investments at June 30, 2003 and 2002, is as follows:

OKLAHOMA PUBLIC EMPLOYEES RETIREMENT PLAN
Administered by the Oklahoma Public Employees Retirement System

Notes to Financial Statements

June 30, 2003 and 2002

	2003	2002
Category 1 Classification:		
Commercial paper	\$ 54,040,470	\$ 51,587,880
International currency	10,546,485	13,306,040
Treasury bonds and notes	108,310,015	103,263,733
Government bonds and government mortgage-backed securities	810,164,715	646,351,852
Corporate bonds	552,834,691	531,496,247
Convertible bonds	730,363	82,669
Domestic stocks	387,212,724	422,270,538
International equities	343,489,049	266,102,710
Total Category 1	2,267,328,512	2,034,461,669
Category 3 Classification:		
International currency	197,906	313,866
Investments held by brokers-dealers under securities loans for non-cash collateral:		
Treasury bonds and notes	156,440,450	154,309,510
Government bonds and government mortgage-backed securities	22,148,181	25,214,671
Corporate bonds	6,572,484	2,330,011
Domestic stocks	2,031,371	381,152
International equities	62,665	768,502
Total Category 3	187,453,057	183,317,712
Not subject to classification:		
Investments held by brokers-dealers under securities loans for cash collateral:		
Treasury bonds and notes	228,356,409	327,715,027
Government bonds and government mortgage-backed securities	-	3,464,808
Corporate bonds	81,822,932	106,051,076
Domestic stocks	20,239,687	44,915,831
International equities	28,172,347	70,660,650
Securities lending collateral	378,386,256	573,935,175
Domestic equity index funds	1,606,090,122	1,334,530,107
Domestic equity commingled trust fund	42,208,761	141,575,214
International equity index funds	206,849,488	200,698,845
Total not subject to classification	2,592,126,002	2,803,546,733
Total investments	\$ 5,046,907,571	\$ 5,021,326,114

OKLAHOMA PUBLIC EMPLOYEES RETIREMENT PLAN
Administered by the Oklahoma Public Employees Retirement System

Notes to Financial Statements

June 30, 2003 and 2002

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 2003 and 2002, 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, 2003 and 2002, the Plan has no credit risk exposure to borrowers because the amounts the Plan owes the borrowers exceed the amounts the borrowers owe the Plan. 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, 2003 and 2002 the cash collateral investments had an average weighted maturity of 38 and 30 days, respectively, and the relationship between the maturities of the custodial agent's investment pool and the Plan's loans is affected by the maturities of the securities loans made by other entities that use the agent's pool, which the Plan cannot determine. The Plan's non-cash collateral is represented by its allocated share of a pool administered by the agent for the Plan and other pool participants.

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, 2003 and 2002 were approximately \$55 million and \$15 million, respectively.

OKLAHOMA PUBLIC EMPLOYEES RETIREMENT PLAN
Administered by the Oklahoma Public Employees Retirement System

Notes to Financial Statements

June 30, 2003 and 2002

The Plan invests in domestic equity index funds, a domestic equity commingled trust fund and an international equity 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 market risk associated with any derivative investments held in these funds is not apparent. The degree of market 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.

No investments, other than U.S. Government bonds and instrumentalities, in any one organization represent 5% or more of plan net assets at June 30, 2003 and 2002, respectively.

(5) Federal Income Tax Status

Pursuant to a determination by the IRS, the Plan is qualified under the Internal Revenue Code of 1986, as amended and, therefore, is exempt from federal income taxes. The latest determination letter is dated October 10, 2000 and was a favorable determination for the Oklahoma Public Employees Retirement Plan. The Plan has been amended since receiving the determination letter; however the plan administrator believes that the Plan is designed and is currently being operated in substantial compliance with the applicable requirements of the Internal Revenue Code and will retain its status as a qualified plan.

(6) Plan Amendments

The following is a summary of significant plan provision changes that were enacted by the State Legislature during the session ended in May 2003:

(a) *Member Election to Increase Contribution Rate and Benefit Computation Factor*

Effective January 1, 2004 members may elect to increase the benefit computation factor for all future service from 2% to 2½%. Generally this election is available only for the category of state, county and local agency employees. The election is irrevocable, binding for all future employment under OPERS, and applies only to full years of service. Those making the election will pay the standard contribution rate plus an additional contribution rate, currently 2.91%, which is actuarially determined.

OKLAHOMA PUBLIC EMPLOYEES RETIREMENT PLAN
Administered by the Oklahoma Public Employees Retirement System

Notes to Financial Statements

June 30, 2003 and 2002

(b) Contribution Rates

Effective July 1, 2006 the state, county and local agency contribution rates increase as follows:

The state agency employer contribution rate will increase by 1% each year until it is 16% for the year ended June 30, 2012 and each year thereafter.

The combined employee and employer contribution rate for county and local agencies will increase by 1% each year until it is 19½% for the year ended June 30, 2012 and each year thereafter. The maximum employee rate will remain unchanged at 8½%.

(7) New Pronouncement

GASB Statement No. 40, *Deposit and Investment Risk Disclosures* updates the custodial credit risk disclosure requirements of GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements* and establishes more comprehensive disclosure requirements addressing credit risk, interest rate risk, and foreign currency risk. GASB 40 applies to all state and local governments and is effective for financial statements for periods beginning after June 15, 2004.

OKLAHOMA PUBLIC EMPLOYEES RETIREMENT PLAN
Administered by the Oklahoma Public Employees Retirement System

Note to Schedule 1 Required Supplementary Information

June 30, 2003

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a/c))
7/1/94	\$ 2,394,610,775	\$ 3,028,802,077	\$ 634,191,302	79.1%	\$ 1,077,456,734	58.9%
7/1/95	2,614,375,864	3,214,094,907	599,719,043	81.3%	1,095,906,991	54.7%
7/1/96	2,893,339,691	3,318,226,436	424,886,745	87.2%	1,117,631,035	38.0%
7/1/97	3,270,947,820	3,594,630,911	323,683,091	91.0%	1,176,659,783	27.5%
7/1/98	3,732,849,134	4,116,569,826	383,720,692	90.7%	1,154,342,141	33.2%
7/1/99	4,261,624,240	5,179,784,869	918,160,629	82.3%	1,219,031,066	75.3%
7/1/00	4,785,555,333	5,694,725,385	909,170,052	84.0%	1,281,505,876	70.9%
7/1/01	5,110,226,650	6,190,228,108	1,080,001,458	82.6%	1,317,043,030	82.0%
7/1/02	5,299,781,370	6,639,720,469	1,339,939,099	79.8%	1,450,317,127	92.4%
7/1/03	5,354,795,771	6,974,583,356	1,619,787,585	76.8%	1,411,719,256	114.7%

Schedule of Employer Contributions

Year Ended June 30,	Annual Required Contribution	Percentage Contributed
1994	\$ 99,800,260	111.8%
1995	131,860,203	90.1%
1996	131,266,084	103.1%
1997	110,887,284	122.1%
1998	95,973,977	149.7%
1999	107,171,639	139.2%
2000	161,793,250	77.8%
2001	169,642,126	77.3%
2002	187,991,746	74.3%
2003	232,891,719	59.1%

The employers' contribution rates are established by the Oklahoma Legislature and are based on an actuarial calculation, which is performed to determine the adequacy of such contribution rates.

See accompanying independent auditors' report.

OKLAHOMA PUBLIC EMPLOYEES RETIREMENT PLAN
Administered by the Oklahoma Public Employees Retirement System

Note to Schedule 1 Required Supplementary Information

June 30, 2003

Actuarial Assumptions and Methods

The information presented in the required supplemental schedule was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation date, July 1, 2003, is as follows:

Funding Method

Costs are developed using the entry age normal cost method (based on a level percentage of covered payrolls). Under the method used for this plan, the accrued liability and the present value of future normal costs are determined by summing the individual entry age results for each participant. The normal cost is then determined in aggregate by spreading the present value of future normal costs as a level percentage of expected future covered payrolls. Entry age is defined as the first day service is credited under the Plan.

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

Asset Valuation Method

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

Amortization

The unfunded actuarial accrued liability for valuations as of July 1, 1998, and prior were amortized on a level dollar method over a 25-year closed period from July 1, 1987. For the July 1, 1999 and subsequent valuation, the amortization period was changed to 40 years from July 1, 1987 (24 years remaining as of July 1, 2003).

OKLAHOMA PUBLIC EMPLOYEES RETIREMENT PLAN
Administered by the Oklahoma Public Employees Retirement System

Note to Schedule 1 Required Supplementary Information

June 30, 2003

Significant actuarial assumptions employed by the actuary for fund purposes as of July 1, 2003, are as follows:

- Investment return – 7.5% compounded annually
- Salary increases – 5.1% to 9.0% per year (includes inflation of 3.0% and merit ranging from 2.1% to 6.0%)
- Mortality rates – Active participants and nondisabled pensioners – 1983 Group Annuity Mortality Table (disabled pensioners set forward 10 years)
- Post retirement benefit increases – 2.0% per year (two-thirds of inflation assumption)
- Post retirement health insurance premium – The Plan is required by statute to contribute up to \$105 per month or the Medicare Supplement Premium, if less, for eligible Plan members receiving retirement benefits who elect health insurance coverage through the Oklahoma State and Education Employee's Group Health Program or other eligible group employer health plans.

The key items responsible for the change in the funded status at July 1, 2003, compared to July 1, 2002, are as follows:

- Liability gains occurred resulting in an accrued liability \$30.5 million less than expected.
- The return on the actuarial value of assets was approximately 3.1% compared to the expected return of 7.5% resulting in an actuarial loss of \$231.6 million.

OKLAHOMA PUBLIC EMPLOYEES RETIREMENT PLAN
Administered by the Oklahoma Public Employees Retirement System

Other Supplementary Information

Schedule of Investment Expenses

Years Ended June 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Investment management fees:		
Fixed Income Managers:		
Blackrock Financial Management, Inc.	\$ 1,076,134	\$ 1,148,495
Hoisington Investment Management	441,471	460,262
Loomis Sayles & Co., LP	—	61,540
Metropolitan West Asset Management	—	652,901
U.S. Equity Managers:		
Aeltus Investment Management, Inc.	342,162	431,367
Barclays Global Investors	155,573	147,046
David L. Babson & Co. Inc.	—	70,033
Dimensional Fund Advisors, Inc.	389,090	833,693
Dresdner RCM Global Investors, LLC	—	17,325
Loomis Sayles & Co., LP	170,988	523,857
TCW Asset Management Company	1,061,093	369,713
International Equity Managers:		
Barclays Global Investors	66,159	70,647
Capital Guardian Trust Company	789,807	808,233
Delaware International Advisors, Ltd.	690,190	622,220
Scudder Kemper Investments, Inc.	—	47,894
Total investment management fees	<u>5,182,667</u>	<u>6,265,226</u>
Investment consultant fees:		
Strategic Investment Solutions, Inc.	162,686	152,392
Investment custodial fees:		
Northern Trust Company	<u>144,467</u>	<u>144,614</u>
Total investment expenses	<u>\$ 5,489,820</u>	<u>\$ 6,562,232</u>

See accompanying independent auditors' report.

OKLAHOMA PUBLIC EMPLOYEES RETIREMENT PLAN
Administered by the Oklahoma Public Employees Retirement System

Other Supplementary Information

Schedule of Administrative Expenses

Years Ended June 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Staff salaries	\$ 1,977,928	\$ 1,973,677
Social Security	144,194	145,482
Retirement	204,723	209,470
Insurance	166,755	146,090
Temporary employees	63,567	51,152
	<hr/>	<hr/>
Total personnel services	2,557,167	2,525,871
Actuarial	97,906	128,936
Audit	148,964	118,873
Legal	24,131	60,057
	<hr/>	<hr/>
Total professional services	271,001	307,866
Printing	74,073	87,919
Telephone	32,710	36,981
Postage and mailing expenses	101,862	119,712
Travel	30,797	29,787
	<hr/>	<hr/>
Total communication	239,442	274,399
Office space	170,545	141,936
Equipment leasing	31,996	32,090
	<hr/>	<hr/>
Total rentals	202,541	174,026
Supplies	38,407	45,226
Maintenance	57,108	61,569
Depreciation	101,863	103,746
Other	135,637	121,332
	<hr/>	<hr/>
Total miscellaneous	333,015	331,873
Total administrative expenses	3,603,166	3,614,035
Administrative expenses allocated		
Uniform Retirement System for Justices and Judges (URSJJ)	(80,957)	(89,461)
Oklahoma State Employees Deferred Compensation Plan (DCP)	(280,841)	(280,293)
Oklahoma State Employees Deferred Savings Incentive Plan (SIP)	(74,604)	(47,301)
	<hr/>	<hr/>
Total administrative expenses allocated (see Note below)	(436,402)	(417,055)
Net administrative expenses	\$ <u>3,166,764</u>	\$ <u>3,196,980</u>

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 services provided by the Plan to the other funds.

See accompanying independent auditors' report.

OKLAHOMA PUBLIC EMPLOYEES RETIREMENT PLAN
Administered by the Oklahoma Public Employees Retirement System

Other Supplementary Information

Schedule of Professional/Consultant Fees

Years Ended June 30, 2003 and 2002

<u>Professional/Consultant</u>	<u>Service</u>	<u>2003</u>	<u>2002</u>
Mercer Human Resource Consulting	Actuarial	\$ 97,906	\$ 128,936
KPMG LLP	External Auditor	81,250	—
Arthur Andersen LLP	External Auditor	—	68,000
Finley & Cook PLLC	Internal Auditor	67,714	50,873
Gable & Gotwals	Legal	8,781	54,958
Ice Miller Donadio and Ryan	Legal	6,399	5,099
Lee Slater	Hearings Examiner	8,951	—
		<u>\$ 271,001</u>	<u>\$ 307,866</u>

See accompanying independent auditors' report.

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INVESTMENT SECTION





The Cardinal is one of Oklahoma's most readily recognized birds. Its bright red feathers, black face, and gold beak make it easy to spot. Cardinals can thrive in a variety of habitats including woodlands, city parks, and backyards. They are non-migratory and can be found year-round in Oklahoma. Bird enthusiasts love these little backyard campers and can easily attract them with black oil sunflower seeds.

STRATEGIC INVESTMENT SOLUTIONS, INC.

601 CALIFORNIA STREET, STE. 200
SAN FRANCISCO, CALIFORNIA 94108

BARRY W. DENNIS
MANAGING DIRECTOR

TEL 415/362-3484
FAX 415/362-2752

Investment Consultant's Report

Investment Objectives

The primary financial objective is to earn a long-term return sufficient to avoid deterioration in funded status. The Plan's actuary estimates this return requirement to be 7.5% while its investment consultant estimates the real return requirement to be 5.0%.

Secondary goals are to outperform the asset allocation-weighted benchmark (44% US Equities, 14% Non-US Equities, and 42% Fixed Income) and to rank in the top forty percent of a universe of public pension funds.

Asset Allocation

The Plan's Investment Philosophy stresses the following key points:

1. Asset allocation is the key determinant of return. Therefore, commitments to asset allocation targets are maintained through a disciplined rebalancing program.
2. Diversification, both by and within asset classes, is the primary tool for risk control.
3. Passive instruments (index funds) are suitable strategies in highly efficient markets.

ASSET CLASS	6/30/03 ALLOCATION	LOW	TARGET	HIGH	% PASSIVE OR SEMI-PASSIVE
US LARGE CAP	42.3%	40.4%	42.3%	46.0%	92.0%
US SMALL CAP	1.8	0.0	1.7	1.7	0.0
FIXED INCOME	42.1	39.6	42.0	44.4	58.1
NON-US EQUITY	13.4	11.8	14.0	16.3	33.6
CASH	0.4	0.0	0.0	0.0	100.0

Review of Fiscal 2003 Investment Environment

Fiscal year ended June 30, 2003 saw an investment climate that favored the US Growth-style (+2.8%) equity markets on a relative basis over the US Value-style equities (-1.2%), a reversal of what occurred in the previous two fiscal years. The total US equity market was up (+0.8%) for the 12-month period ending June 30, 2003. Fiscal year 2003 was the first year equity markets were positive since the 12-month period ending June 30, 2000. The total US equity market was up by +16.3% for the 3-month period ending June 30, 2003 which brought the asset class back to positive territory. Non-US equity markets did not fare as well (-4.2%), as the weakness of the dollar versus the European Currency Unit and the Japanese Yen could not offset the sharp overall negative performance.

The US fixed income market produced above average historical results (+10.4%) for the third straight year.

Within the US equity market, stocks of large companies slightly outperformed large for the first time in four years (+0.9% versus -1.6%). Growth stocks outperformed value by small margins in large caps (+2.9% versus -1.0%) and by similar margins in small caps (+0.7% versus -3.8%).

Performance Review

At quarterly intervals, the Plan reviews performance at the total fund, asset class and individual manager levels. At each level, returns are evaluated versus appropriate indexes and peers. Index comparisons have as return objectives various after-fee return premiums with risk (standard deviation) not exceeding 125%-150% of the underlying index. Comparisons with peers seek top forty percentile results.

Investment returns achieved through June 30, 2003 have been calculated using the return methodology endorsed by the Association for Investment Management and Research (AIMR). As shown in the following table, for the one-year time period ending June 30, 2003 the Non-US Equity and the Fixed Income asset classes performed above their respective benchmarks and the US Equity asset class performed below its respective benchmark. The Domestic Equity asset class ranked slightly better than median while the Non-US Equity and Fixed Income asset classes were both ranked in the top quartile. Results in the Non-US Equity asset class hurt the Fund's overall results for annualized periods of three and five years. The US Equity area helped the overall portfolio's results for the annualized time period of three years and was neutral over the annualized time period of five years. Conversely, Fixed Income hurt the overall portfolio's results for the annualized time period of three years and helped overall results for the annualized time period of five years.

Strategic Investment Solutions prepares a Quarterly Report of Investment Performance for the Fund based on performance calculations made by the Fund's custodian, The Northern Trust Company. The one-year, three-year, and five-year time-weighted rates of return for the years ended June 30, 2003 are:

PERIODS ENDED 6/30/03	ONE YEAR	THREE YEARS	FIVE YEARS
Domestic Equity <i>Russell 3000</i>	0.3%	-9.5%	-1.0%
Rank	45*	55	67
Non-US Equity <i>MSCI ACWI ex-US Free</i>	-3.2%	-12.8%	-3.0%
Rank	24	66	81
Fixed Income <i>Lehman Aggregate</i>	+13.2%	+10.4%	+7.7%
Rank	19	37	41
Total Fund <i>Policy Benchmark***</i>	5.7%	-1.9%	+2.6%
<i>Public Fund Median</i>	3.9%	-2.6%	+2.7%
Rank**	4.1%	-1.2%	+3.1%
	19	57	67

* Ranking 1 is best, 100 is worst.

** Rankings source - ICC Public Funds Universe

***Policy Benchmark is 44% Russell 3000/ 42% Lehman Agg/
14% MS ACWI ex-US Free

Yours truly,



Barry Dennis
Managing Director



STATE OF OKLAHOMA
OKLAHOMA PUBLIC EMPLOYEES RETIREMENT SYSTEM

Chief Investment Officer's Report

Dear Members:

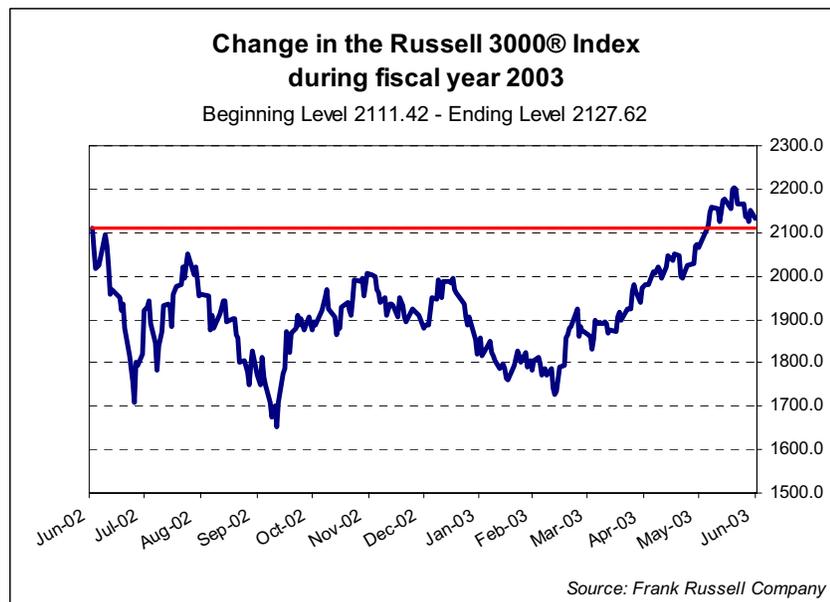
In this letter we will look back at the environment and events that helped to shape investment returns for the fiscal year ending June 30, 2003. I will present investment performance of major markets and the Fund for last year and for longer periods. Since asset allocation plays a dominant role in determining investment performance, we will review the Fund's asset allocation. I will also provide a brief summary of the outlook that shapes our current thinking. Finally, I will summarize the investment philosophies and principles that have long guided and that continue to guide the management of the Fund.

Economic Environment

Below Average Economic Growth - The 12-months ending June 30, 2003 was, like the year before, a period of slow economic growth. Real Gross Domestic Product grew by 2.5% which was higher than last year's rate of 2.2% but still slower than the average year over year growth rate since 1946 of 3.4%. Labor markets continued to be soft in what some have termed a "jobless" recovery. There were however some notable bright spots on the economic landscape. In contrast to last year's drop of -12.4%, corporate profits after tax this year rose 4.9% on a year over year basis. Business investments rose 1.0% compared to last year's drop of -6.3%. Consumer spending continued to grow and inflation remained subdued.

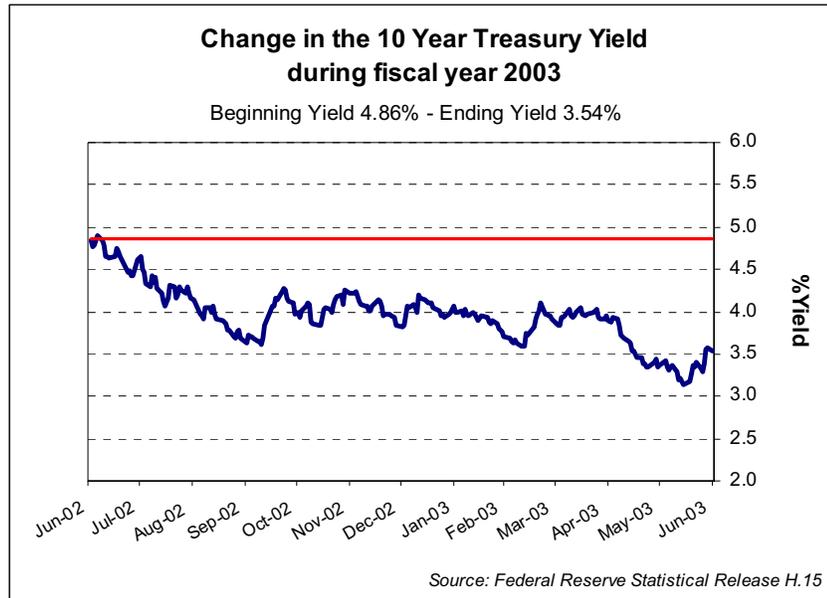
Capital Markets

US Stock Market – The US stock market spent most of the 12 month period ending June 30, 2003 in negative territory. The chart to the right shows the level of the Russell 3000 stock index. This broad measure of the US stock market finished the fiscal year slightly higher than where it began, but the period was anything but calm. Economic uncertainty coupled with anxiety over the tensions and eventual war in Iraq made for a volatile year.



Tax and fiscal policy stimulus coupled with the end of large-scale hostilities in Iraq and corporate earnings improvement prompted a strong rally beginning in the middle of March.

Interest Rates – Interest rates moved lower during the 12 month period ending June 30, 2003. The Federal Reserve continued to apply monetary stimulus to the economy by lowering the Fed Funds Rate twice during the fiscal year. On November 6th 2002, the rate was lowered 50 basis points from 1.75% to 1.25%. On June 25th 2003, they lowered the rate another 25 basis points from 1.25% to 1.00% where it stands now. Longer term rates as shown by the 10 year US Treasury bond yield on the accompanying chart also moved generally lower. Both the accommodative Fed and the flight from stocks to the relative safety of bonds probably accounted for much of this move. The drop in yields caused bond prices to rise and made fiscal year 2003 a very good year for fixed income returns.



Investment Returns Through June 2003

US Equity	Asset Class	1 Year	3 Years	5 Years
Russell 3000	Broad US Equity	0.76%	(10.47%)	(1.14%)
S&P 500	Large Cap Equity	0.26%	(11.20%)	(1.61%)
Russell 1000 Growth	Large Cap Growth	2.93%	(21.54%)	(5.04%)
Russell 1000 Value	Large Cap Value	(1.03%)	(0.19%)	1.05%
Russell 2000	Small Cap Equity	(1.64%)	(3.30%)	0.97%
Russell 2000 Growth	Small Cap Growth	0.67%	(16.67%)	(4.25%)
Russell 2000 Value	Small Cap Value	(3.80%)	10.93%	4.98%
Oklahoma Public Employees Retirement System	Broad US Equity	0.30%	(9.48%)	(1.03%)
US Fixed Income	Asset Class	1 Year	3 Years	5 Years
3 month Treasury Bills	Cash	1.53%	3.34%	3.34%
Lehman Aggregate	Domestic Fixed Income	10.40%	10.08%	7.54%
Salomon Corporate	Corporate Bonds	16.31%	11.84%	7.98%
Merrill Lynch High Yield Master II	High Yield Bonds	22.20%	5.02%	2.95%
Oklahoma Public Employees Retirement System	Domestic Fixed Income	13.23%	10.37%	7.65%
International	Asset Class	1 Year	3 Years	5 Years
MSCI ACWI Free Ex-US	Broad Non-US Equity	(4.20%)	(12.48%)	(2.81%)
MSCI EAFE	Developed Non-US Equity	(6.05%)	(13.20%)	(3.68%)
MSCI Emerging Mkts. Free	Emerging Non-US Equity	6.94%	(7.02%)	2.52%
Lehman Global Ex-US Bond	Core Non-US Bonds	17.54%	7.86%	5.67%
Oklahoma Public Employees Retirement System	International Equity	(3.21%)	(12.77%)	(2.96%)
Oklahoma Public Employees Retirement System	Total Fund	5.68%	(1.90%)	2.59%

Source: Strategic Investment Solutions; Northern Trust

Investment Performance

Bear Market Reprieve – Thanks to the rally that began in the middle of March 2003, U.S equities ended the year slightly ahead. Reversing recent trends among US equity classes, large cap growth stocks did best while small cap value stocks did worst. As noted above, bonds did well especially credit sensitive and foreign issues. Non US equities were a mixed bag as developed markets continued to struggle while emerging markets did reasonably well.

Asset Allocation

Diversification reduces volatility – Diversification is the investor’s best defense against market volatility. Diversification, which controls risk, is achieved by allocating assets across various asset classes. The asset allocation of the Fund is shown below. As of year end the fund was allocated very close to the target allocation.

Asset Allocation				
Asset Class	Min	06/30/03	Target	Max
Cash	0.0%	0.4%	0.0%	-
Domestic Fixed Income	39.6%	42.1%	42.0%	44.4%
US Equity	40.4%	44.1%	44.0%	47.6%
International Equity	11.7%	13.4%	14.0%	16.3%
Total Fund		100%	100%	

Recent Events and Outlook

Looking Ahead – As we look forward, it appears that equity markets may be starting to recover some ground due to policy stimulus and improved corporate profitability. It is likely however that these markets will remain choppy. There is also some concern that a stronger economy may mean higher interest rates and trouble for bonds. In such an environment we anticipate that our diversification and rebalancing discipline will provide appropriate risk controls.

Investment Philosophies and Guiding Principles

Listed below are the beliefs that guide our stewardship of the Fund.

- A pension fund has the longest of investment horizons and therefore rightly focuses on factors that impact long-term results.
- Asset allocation is the key factor determining long-term returns.
- Disciplined rebalancing towards the desired asset allocation maintains diversification and controls risk.
- Diversification within and across asset classes is the most effective tool for controlling risk.
- Passive investment management is commonly the most effective approach in efficient markets: active investment management can be successful in inefficient markets.

By adhering to these long standing principles we expect continued success in the prudent management of the assets of the Fund. Thank you for allowing me the opportunity to present my perspective. I look forward to visiting with you again next year.

Sincerely,



Kirk D. Stebbins, CFA
Chief Investment Officer

Largest Holdings

The Plan's ten largest fixed income and stock holdings at June 30, 2003 are described in the following schedules. The Plan invests in various index and commingled funds which are separately presented.

Ten Largest Fixed Income Holdings (By Fair Value):

<u>Security</u>	<u>Par</u>	<u>Fair Value</u>
FHLB Discount Note due 7-21-2003	\$ 189,700,000	\$ 189,605,150
U. S. Treasury Bonds Zero Coupon Principal Strips due 11-15-2021	142,474,000	58,288,961
U.S. Treasury Bonds 5.375% due 2-15-2031	48,345,000	54,463,542
FNMA 30 year Single Family Mortgage 6.000% due 7-1-2033	49,600,000	51,537,376
U. S. Treasury Bonds 6.875% due 8-15-2025	35,485,000	46,788,393
U. S. Treasury Bonds Zero Coupon Principal Strips due 5-15-2021	102,521,000	43,202,348
U.S. Treasury Notes 6.500% due 11-15-2026	32,150,000	40,805,101
U.S. Treasury Bonds 6.125% due 8-15-2029	27,644,000	33,784,283
U.S. Treasury Bonds 8.000% due 11-15-2021	20,565,000	29,801,975
U.S. Treasury Notes 4.617% due 1-15-2010	21,761,000	27,964,809

Ten Largest Stock Holdings (By Fair Value):

<u>Security</u>	<u>Shares</u>	<u>Fair Value</u>
Progressive Corp. OH Common Stock	228,030	\$ 16,668,993
Royal Dutch Petrol Euro Common Stock	249,598	11,585,479
Amgen Inc. Common Stock	171,726	11,409,475
Genentech Inc. Common Stock	156,230	11,267,308
Microsoft Corp Common Stock	400,500	10,256,805
Amazon Com Inc. Common Stock	270,250	9,861,423
Wal-Mart Stores Inc. Common Stock	157,580	8,457,319
Ebay Inc. Common Stock	77,500	8,073,950
Network Appliance Inc. Common Stock	490,850	7,956,679
Canon Inc. Common Stock	169,000	7,755,070

Investments in Funds (By Fair Value):

<u>Fund</u>	<u>Units</u>	<u>Fair Value</u>
BGI Russell 1000 Value Index Fund	3,297,501	\$ 120,574,558
BGI Russell 3000 Index Fund	188,760,532	1,485,515,566
BGI EAFE Equity Index Fund	2,388,206	206,849,487
Dimensional Fund Advisors Small Cap Value Trust Fund	80,764	42,208,761

A complete list of portfolio holdings is available upon request from the OPERS Investment Accounting & Financial Reporting Department.

Investment Portfolio by Type and Manager

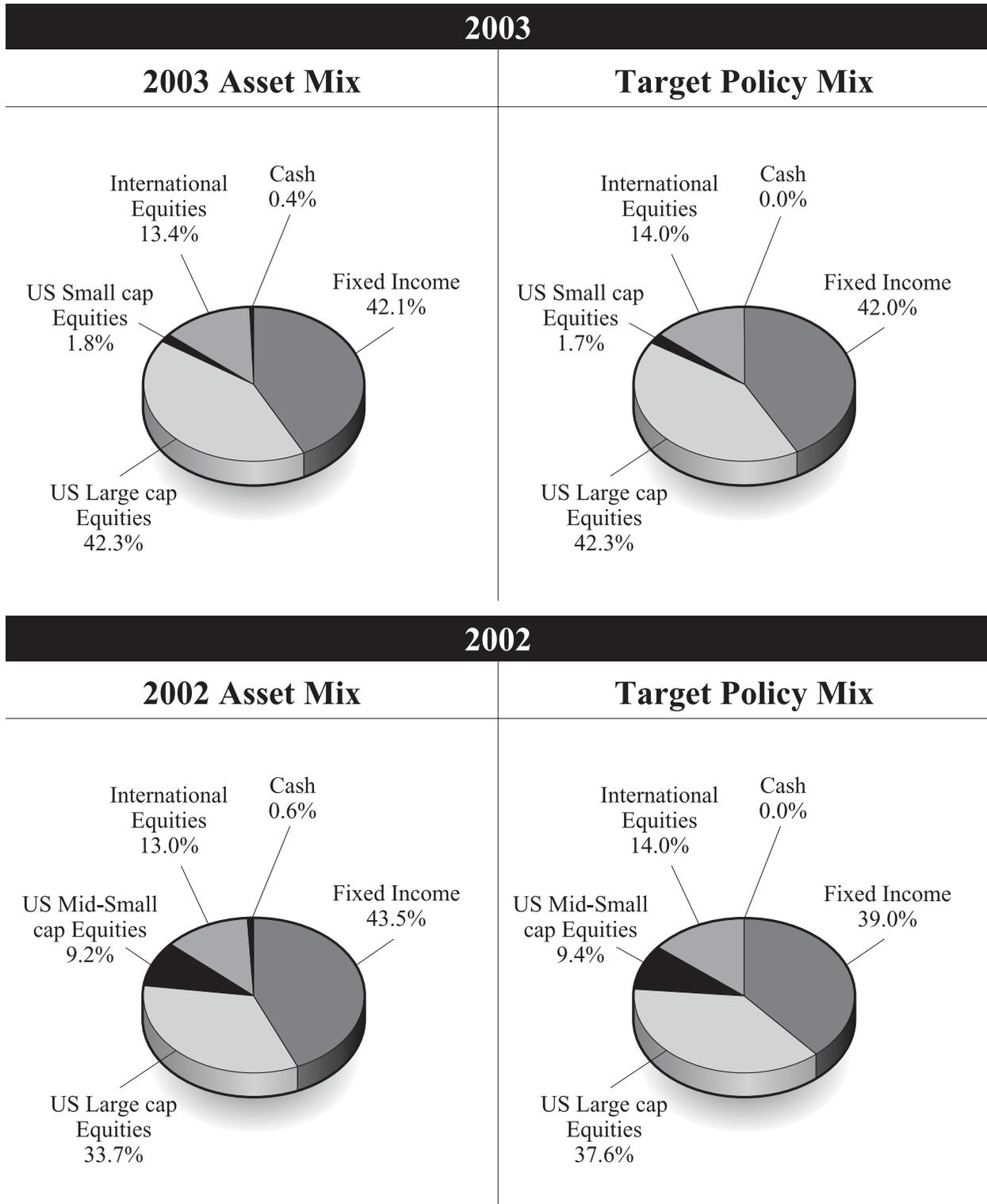
At June 30, 2003, the investment portfolio of OPERS was allocated by type and style as follows:

<u>Investment Type and Manager</u>	<u>Style</u>	<u>Fair Value*</u> <i>(000's)</i>	<u>Percent of Total Fair Value</u>
Fixed Income:			
Hoisington Investment Management	Interest Rate Anticipation	\$ 308,314	6.5%
Blackrock Financial Management, Inc.	Enhanced Index	1,224,701	25.9%
Metropolitan West Asset Management	Full Range Core +	<u>528,540</u>	<u>11.2%</u>
Total Fixed Income		2,061,555	43.6%
U.S. Equities:			
TCW Asset Management Company	Large cap - Growth	156,006	3.3%
Aeltus Investment Management, Inc.	Large cap - Enhanced Index	188,745	4.0%
Barclays Global Investors	Index Fund – Russell 1000 Value	120,574	2.5%
Barclays Global Investors	Index Fund – Russell 3000	1,485,516	31.4%
UBS Global Asset Management	Small cap – Growth	40,734	.9%
Dimensional Fund Advisors, Inc	Small cap – Value		
	Commingled Trust Fund	<u>42,209</u>	<u>.9%</u>
Total U.S. Equities		2,033,784	43.0%
International Equities:			
Barclays Global Investors	Index Fund – EAFE	206,850	4.4%
Capital Guardian Trust Company	Core	186,655	3.9%
Delaware International Advisers, Ltd.	Core	<u>224,746</u>	<u>4.7%</u>
Total International Equities		618,251	13.0%
Short-term Investment Funds	Operating Cash	<u>20,903</u>	<u>0.4%</u>
Total Managed Investments		4,734,493	100.0%
Securities Lending Collateral		378,386	
Cash on Deposit with State		<u>887</u>	
Total Investments and Cash and Cash Equivalents		<u>\$5,113,766</u>	
Statement of Plan Net Assets			
Cash		\$ 66,858	
Investments		<u>5,046,908</u>	
Total Investments and Cash and Cash Equivalents		<u>\$5,113,766</u>	

* Manager fair values include their respective cash and cash equivalents

Asset Comparison

A comparison of the actual investment distribution at June 30, 2003 and 2002, based on the net investment manager holdings, including accrued income, payables and receivables, compared to the target allocation and previous year's allocation is as follows:



Schedule of Stock Brokerage Commissions Paid

Year ended June 30, 2003

<u>Brokerage Firm</u>	<u>Shares Traded</u>	<u>Dollar Volume of Trades</u>	<u>Commission</u>	
			<u>Dollar Amount</u>	<u>Per Share</u>
Goldman Sachs & Company	10,110,488	\$ 306,032,528	\$ 171,272	0.017
Smith Barney, Inc.	3,183,635	69,303,500	99,626	0.031
Lynch Jones & Ryan	2,576,115	57,464,215	99,104	0.038
Lehman Brothers, Inc.	5,509,185	19,446,391	55,878	0.010
J. P. Morgan Securities, Inc.	729,897	14,864,814	35,594	0.049
Merrill Lynch Pierce Fenner & Smith	974,881	27,221,736	30,941	0.032
CFSB Limited London	48,926,361	12,395,923	26,880	0.001
Credit Suisse First Boston Corporation	481,255	9,322,875	23,964	0.050
Thomas Weisel Partners LLC	505,865	7,676,367	23,814	0.047
J. P. Morgan Securities Asia Pacific	16,159,800	5,218,355	23,041	0.001
UBS AG London Equities	1,735,348	8,557,715	14,784	0.009
Banc America Secur Montgomery Div	283,290	6,609,282	14,165	0.050
BNY ESI Securities Company	482,755	6,935,768	13,387	0.028
U. S. Bancorp Piper Jaffray, Inc.	252,130	6,829,564	12,607	0.050
SG Cowen and Company	252,925	4,812,992	12,480	0.049
Salomon Brothers New York	706,377	6,870,773	11,474	0.016
Dresdner Kleinwort Wasserstein Secs	838,054	5,468,082	11,352	0.014
Merrill Lynch Fenner & Smith, Inc.	807,055	3,414,321	10,595	0.013
UBS Warburg Dillon Read LLC	233,150	5,231,956	10,371	0.044
RBC Dain Rauscher	203,845	5,024,999	10,192	0.050
Other	<u>74,854,252</u>	<u>244,618,489</u>	<u>459,115</u>	0.006
Total	<u>169,806,663</u>	<u>\$ 833,320,645</u>	<u>\$ 1,170,636</u>	0.007

Excludes zero commission trades.

ACTUARIAL SECTION





The Wild Turkey was officially adopted as Oklahoma's state game bird in 1990.

These hefty birds can be found in a variety of rural areas and primarily eat nuts, seeds, worms, and insects. In spite of their awkward size and appearance, they are quite adept at running and flying, and even roost in trees at night.

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October 20, 2003

Board of Trustees
Oklahoma Public Employees Retirement System
P.O. Box 53007
Oklahoma City, OK 73152

2003 Certification of Actuarial Valuation

Dear Members of the Board:

We certify that the information presented herein and in the July 1, 2003 Actuarial Valuation Report is accurate and shows fairly the actuarial position of the Oklahoma Public Employees Retirement System (OPERS) as of July 1, 2003.

The actuarial valuation was based on participant data submitted by the OPERS staff, which we examined for reasonableness. The financial information used in the valuation was provided to us by the System's independent public accountants.

Actuarial valuations to determine the funding requirements of the System are performed annually. The most recent actuarial valuation was done as of July 1, 2003.

The System's required contribution rates are established which, over time, will gradually decrease as a percent of payroll if assumptions are met and the required rate is contributed. The required contribution rate has been determined to provide for (1) the normal cost developed as a level percentage of payroll, plus (2) a level dollar amortization of the unfunded actuarial accrued liability over 40 years from July 1, 1987, plus (3) budgeted administrative expenses. The State's current contribution rate is 10.0% of covered payroll with scheduled increases beginning in fiscal 2007. As of July 1, 2003, the required contribution rate is 18.2%. The State's current contribution is not sufficient to fund the contribution developed under Government Accounting Standards Number 25.

The actuarial assumptions and methods used in the valuation were adopted by the Board, based upon our recommendations. The assumptions and methods used for funding purposes meet the parameters set for the disclosures presented in the financial section by Government Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit and Note Disclosures for Defined Contribution Plans*.

We prepared all of the schedules shown in the Actuarial Section of the System's Annual Report. We also provided the Schedule of Funding Progress and Schedule of Employer Contributions, which appear in the Financial Section of the System's Annual Report.

In addition to these results, 11 O.S. 2001, Section 50-105.4, Section H requires disclosure of valuation results under specified assumptions. This information is provided elsewhere.

Sincerely,



Brent A. Hradek, FSA, EA



Stephen T. McElhaney, FSA, EA

Summary of Actuarial Assumptions and Methods

1. The investment return rate used in the valuation was 7.5 percent per year, net of investment expenses, compounded annually. This rate of return is not the assumed real rate of return. The real rate of return is the rate of return in excess of the inflation rate. Considering other financial assumptions, the 7.5 percent investment return rate translates to an assumed real rate of return of 4.5 percent.
2. The 1983 Group Annuity Mortality Table for males and females is used for preretirement and postretirement mortality for all non-disabled members and beneficiaries.
3. The probabilities of withdrawal from service, together with individual pay increase assumptions, are shown in Schedule 1.
4. The probabilities of retirement with an age and service allowance are shown in Schedules 2A, 2B and 2C.
5. The portion of the individual pay increase assumption attributable to inflation is 3 percent.
6. Benefits are expected to increase by 66.7% of the assumed rate of inflation as a result of future ad-hoc cost-of-living increases.
7. An individual entry-age actuarial cost method of valuation was used in determining age and service allowance actuarial liabilities and normal cost. Actuarial gains and losses reduce or increase the unfunded liability and are amortized over the remaining amortization period.
8. The actuarial value of assets is based on a five-year moving average of expected actuarial values and market values. A preliminary expected actuarial value is determined equal to the prior year's actuarial value of assets plus net cash flow for the year ending on the valuation date, assuming 7.5% interest. The expected actuarial asset value is equal to the preliminary expected actuarial value plus the unrecognized investment gains and losses as of the beginning of the previous fiscal year. Twenty percent (20%) of any gain/loss as measured by the difference between the expected actuarial value and the market value at the valuation date is added to the preliminary expected actuarial value plus twenty percent (20%) of the unrecognized gains or losses for the four preceding fiscal years. The final result is constrained to a value no less than 80% and no more than 120% of the market value at the valuation date.
9. The data about persons now covered was furnished by the System's administrative staff. Although examined for general reasonableness, the data was not audited by the actuary.
10. The actuarial valuation computations were made by or under the supervision of a member of the American Academy of Actuaries (M.A.A.A.).

Summary of Actuarial Assumptions and Methods (CONTINUED)

11. The actuarial assumptions and methods used in the valuation were adopted by the Board, based upon recommendations by the actuary. The assumptions and methods used for the July 1, 2003 valuation were adopted by the Board for the July 1, 2002 valuation based on System experience from July 1, 1998 through June 30, 2001.
12. Each year, System experience is compared with the actuarial assumptions used for valuation purposes. No assumptions have changed since the July 1, 2002 valuation.

Schedule 1

Withdrawal From Active Employment Before Age & Service Retirement and Individual Pay Increase Assumptions

Sample Ages	Withdrawal After Five- Year Select Period	Percent Increase in Individual's Pay During Next Year
25	10.72%	8.4%
30	8.81	7.1
35	7.42	6.2
40	5.87	5.9
45	4.68	5.6
50	3.98	5.2
55	3.03	5.1

Schedule 2A

Percent of Eligible Active Members Retiring Within Next Year Those Eligible for Unreduced Retirement

Retirement Ages	Percent	Retirement Ages	Percent
50	10.0%	61	20.0%
51	10.0	62	40.0
52	10.0	63	22.0
53	10.0	64	25.0
54	10.0	65	40.0
55	10.0	66	25.0
56	10.0	67	23.0
57	11.0	68	22.0
58	12.0	69	21.0
59	13.0	70	100.0
60	14.0		

Schedule 2B

**Percent of Eligible Active Members Retiring Within Next Year
Those Not Eligible for Unreduced Retirement and
Department of Corrections Members With Less Than 20 Years of Service**

Retirement Ages	Percent	Retirement Ages	Percent
55	7.0%	63	22.0%
56	6.0	64	25.0
57	7.0	65	40.0
58	7.0	66	25.0
59	7.0	67	23.0
60	9.0	68	22.0
61	20.0	69	21.0
62	40.0	70	100.0

Schedule 2C

**Percent of Eligible Active Members Retiring Within Next Year
Department of Corrections Members With More Than 20 Years of Service**

Service	Percent
20-21	25%
21-30	15
30+	100

Schedule of Active Member Valuation Data

<u>Valuation Date</u>	<u>Number</u>	<u>Annual Payroll¹</u>	<u>Annual Average Pay</u>	<u>% Increase in Average Pay</u>
July 1, 2003	43,350	\$1,411,719,256	\$ 32,566	(0.55%)
July 1, 2002	44,292	1,450,317,127	32,745	8.64
July 1, 2001	43,696	1,317,043,030	30,141	2.94
July 1, 2000	43,775	1,281,505,876	29,279	5.96
July 1, 1999	44,116	1,219,031,066	27,633	3.84
July 1, 1998	43,379	1,154,342,141	26,611	0.53
July 1, 1997	44,570	1,179,728,464	26,470	4.08
July 1, 1996	44,125	1,122,183,864	25,432	1.58
July 1, 1995	43,987	1,101,256,680	25,036	3.08
July 1, 1994	44,853	1,089,323,295	24,287	2.14

¹ The annual payroll shown above differs from the covered payroll shown in the Financial Section. The annual payroll reflects total compensation paid during the fiscal year. The covered payroll reflects compensation up to the maximum compensation levels on which employee and employer contributions are based.

Schedule of Retirants, Disabled Retirants, and Beneficiaries Added to and Removed from Rolls

<u>Year Ended</u>	<u>Added to Rolls</u>		<u>Removed from Rolls</u>		<u>Rolls – End of Year</u>		<u>% Increase in</u>	<u>Average Annual Allowances</u>
	<u>No.</u>	<u>Annual Allowances</u>	<u>No.</u>	<u>Annual Allowances</u>	<u>No.</u>	<u>Annual Allowances</u>	<u>Annual Allowances</u>	
June 30, 2003	1,406	\$19,968,509	711	\$ 6,364,104	22,147	\$266,566,903	5.20%	\$ 12,036
June 30, 2002	1,305	17,512,521	716	6,241,483	21,452	253,395,228	10.11	11,812
June 30, 2001	1,309	16,663,109	752	6,718,226	20,863	230,121,114	4.66	11,030
June 30, 2000	1,344	15,679,120	671	5,324,291	20,306	219,877,693	9.63	10,828
June 30, 1999	1,303	13,425,106	629	5,311,921	19,633	200,555,038	4.88	10,215
June 30, 1998	1,296	13,107,129	669	4,617,640	18,959	191,226,984	15.64	10,086
June 30, 1997	1,219	13,140,234	630	5,209,799	18,332	165,361,419	5.04	9,020
June 30, 1996	1,154	10,792,811	618	3,734,220	17,743	157,430,984	4.69	8,873
June 30, 1995	1,139	9,714,883	514	3,322,193	17,207	150,372,393	4.44	8,739
June 30, 1994	1,201	15,922,280	522	3,081,956	16,582	143,979,703	9.79	8,683

Analysis of Financial Experience

Gains & Losses in Accrued Liabilities During the Year Ended June 30, 2003 Resulting from Differences Between Assumed Experience & Actual Experience

Type of Activity	Gain (or Loss) for Year 2003
1. Age & Service Retirements. If members retire at older ages or with greater benefits than assumed, there is a gain. If they retire at younger ages or have higher average pays, a loss occurs.	\$ 7,755,000
2. Disability Retirements. If disability claims are less than assumed, there is a gain. If more claims, a loss.	\$ (2,071,000)
3. Death Benefits. If survivor claims are less than assumed, there is a gain. If more claims, there is a loss.	\$ 5,674,000
4. Withdrawal from Employment. If more liabilities are released by withdrawals than assumed, there is a gain. If smaller releases, a loss.	\$ (50,575,000)
5. Pay Increases. If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	\$ 146,828,000
6. New Entrants. All new entrants to the System create a loss.	\$ (33,920,000)
7. Other. Miscellaneous gains and losses resulting from data adjustments, employee transfers, valuation methods, etc.	\$ (43,176,000)
8. Gain (or Loss) During Year From Financial Experience.	\$ (231,618,000)
9. Non-Recurring Items. Adjustments for System amendments, etc.	\$ 0
10. Assumption Changes.	\$ 0
11. Composite Gain (or Loss) During Year.	\$ (201,103,000)

Summary of System Provisions

<i>Effective Date:</i>	The System became effective January 1, 1964. The fiscal year is July 1 to June 30.
<i>Employees Included:</i>	<p>All permanent employees of the State of Oklahoma, legislated agencies, and any other employer such as county, county hospital, city, or trust in which a municipality is the primary beneficiary, are eligible to join if:</p> <ul style="list-style-type: none">• the employee is not eligible for or participating in another retirement system authorized under Oklahoma law, except Social Security and not participating in the U.S. Civil Service Retirement System,• the employee is scheduled for 1,000 hours per year and salary is not less than the hourly rate of the monthly minimum wage for State employees (for employees of local government employers, not less than the hourly rate of the monthly minimum wage for such employees). <p>Membership is mandatory for new eligible employees on the first of the month following employment.</p>
<i>Employee and Employer Contributions:</i>	3% for pay under \$25,000 and 3.5% over \$25,000 for State employees and 10.0% for employers with scheduled increases beginning in fiscal 2007. Local employees, elected officials and Department of Corrections employees contribute at varying rates.
<i>Final Average Compensation:</i>	Generally, the highest annual average of any three years within the last ten years of participating service.
<i>Retirement Date:</i>	
<i>Normal:</i>	Age 62 (age 60 for elected officials), 80 age/service points if hired before July 1, 1992, 90 age/service points if hired after July 1, 1992. 20 years of service for certain members covered by the Department of Corrections Hazardous Duty Provisions and certain Oklahoma Military Department firefighters.
<i>Early:</i>	Age 55 with 10 years of service.
<i>Normal Retirement Benefit:</i>	General formula is 2% of final average compensation multiplied by service.
<i>Disability Benefit:</i>	After eight years of service, provided the member qualifies for disability benefits as certified either by the Social Security Administration or the Railroad Retirement Board. Payable immediately without actuarial reduction.

Summary of System Provisions (CONTINUED)

<i>In-service death benefit:</i>	<p>If the deceased member was vested, the benefit that would have been paid the member had he retired and elected the joint and 100% survivor option.</p> <p>For elected officials, it is 50% of the benefit that would have been paid the member had he retired and elected the Joint and 50% survivor option.</p>
<i>Postretirement death benefit:</i>	\$5,000 lump-sum.
<i>Forms of payment:</i>	Life annuity, joint and 50% survivor annuity, joint and 100% survivor annuity, life annuity with a minimum of 120 monthly payments.
<i>Postretirement medical insurance premium:</i>	The System will contribute the lesser of \$105 per month or the Medicare Supplement Premium to the Oklahoma State and Education Employee's Group Health Insurance Program (or other eligible employer health plans) for members receiving retirement benefits.

Solvency Test

The OPERS funding objective is to be able to pay long-term benefit promises through contributions that remain approximately level from year to year as a percent of salaries earned by members. In this way, members and employers in each year pay their fair share for retirement service accrued in that year by OPERS members.

If the retirement system follows level contribution rate financing principles, the system will pay all promised benefits when due – the ultimate test of financial soundness.

A short-term solvency test is one means of checking OPERS funding progress. In a short-term solvency test, the retirement System's present valuation assets are compared with: 1) active member contributions on deposit, 2) the liabilities for future benefits to persons who have retired and the liabilities for terminated employees with vested benefits, and 3) the liabilities for service already rendered by active members. In a system that has been following the discipline of level contribution rate financing, the liabilities for member contributions on deposit (liability 1), the liabilities for future benefits to present retirees and the liabilities for future benefits for terminated employees (liability 2) will be fully covered by present assets, except in rare circumstances.

In addition, the liabilities for service already rendered by members (liability 3) will be partially covered by the remainder of present assets. Generally, if the system has been using level contribution rate financing, the funded portion of liability 3 will increase over time; however, a decrease generally occurs in those years when substantial benefit improvements are granted by the Legislature. It is unusual for liability 3 to be fully funded. The funded ratio of the System based on total actuarial accrued liabilities (1+2+3) provides an indication of how well the System is funded.

The schedule below illustrates the progress of funding the accrued actuarial liabilities of OPERS.

Actuarial Accrued Liabilities and Valuation Assets (in thousands)						Portion of Actuarial Accrued Liabilities Covered by Reported Assets			
Date	Active Member Contributions (Liability 1)	Retirees, Beneficiaries and Terminated Vested Members (Liability 2)	Employer Financed Portion of Active Members (Liability 3)	Total Liability (1+2+3)	Reported Assets ¹	(1)	(2)	(3)	Funded Ratio of Total Accrued Actuarial Liabilities
7-1-94	\$172,724	\$1,375,847	\$1,480,231	\$3,028,802	\$2,394,611	100%	100%	57.2%	79.1%
7-1-95	189,499	1,470,733	1,553,863	3,214,095	2,614,376	100	100	61.4	81.3
7-1-96	202,509	1,547,484	1,568,233	3,318,226	2,893,340	100	100	72.9	87.2
7-1-97	216,000	1,617,983	1,760,648	3,594,631	3,270,948	100	100	81.6	91.0
7-1-98	232,699	1,978,246	1,905,625	4,116,570	3,732,849	100	100	79.9	90.7
7-1-99	254,787	2,455,786	2,469,212	5,179,785	4,261,624	100	100	62.8	82.3 ²
7-1-00	277,697	2,723,695	2,693,333	5,694,725	4,785,555	100	100	66.2	84.0
7-1-01	285,434	3,068,730	2,836,064	6,190,228	5,110,227	100	100	61.9	82.6
7-1-02	314,610	3,114,272	3,210,838	6,639,720	5,299,781	100	100	58.3	79.8
7-1-03	337,656	3,458,516	3,178,411	6,974,583	5,354,796	100	100	49.0	76.8

¹ Actuarial value of assets based on the smoothing technique adopted by Board. The June 30, 2003, market value of net assets available for benefits was approximately \$4,619,063,000.

² Decrease from prior year is mostly due to the addition of a 2% annual ad-hoc COLA assumption.

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STATISTICAL SECTION





Egrets are a common sight around the many lakes in Oklahoma. The Great Salt Plains National Wildlife Refuge is an important habitat for migrating shorebirds. In addition to egrets, the Great Salt Plains is also a refuge for several endangered species including whooping cranes, interior least terns, peregrine falcons, and bald eagles. In the colder months, thousands of white pelicans and double-crested cormorants feed on the fish at the refuge.

Schedule of Revenue by Source

Year Ended June 30	Member Contributions	Employer Contributions		Investment Income (a)	Total
		Dollars	% of Annual Covered Payroll		
2003	\$ 50,101,133	\$ 137,549,234	9.48	\$ 240,361,668	\$ 428,012,035
2002	50,857,928	139,614,903	10.60	(250,831,849)	(60,359,018)
2001	47,443,043	131,200,423	10.24	(311,550,807)	(132,907,341)
2000	45,057,894	125,803,575	10.32	476,529,982	647,391,451
1999	43,926,338	149,221,715	12.93	411,771,139	604,919,192
1998	40,733,996	143,699,100	12.21	689,661,465	874,094,561
1997	35,065,157	135,398,023	12.11	590,621,553	761,084,733
1996	28,760,749	123,394,882	11.26	416,850,932	569,006,563
1995	29,202,934	118,786,354	11.02	389,255,790	537,245,078
1994	29,113,352	111,615,426	11.04	250,756,324	391,485,102

Schedule of Expenses by Source

Year Ended June 30	Benefit Payments	Administrative Expenses	Refunds	Other (b)	Total
2002	257,938,411	3,196,980	8,253,043	3,170	269,391,604
2001	247,076,546	2,825,116	9,988,042	37,681,952	297,571,656
2000	222,746,667	2,478,971	7,588,290	-	232,813,928
1999	211,519,489	2,637,341	9,232,301	-	223,389,131
1998	181,860,179	3,279,144	6,868,646	-	192,007,969
1997	166,444,374	2,049,333	6,640,430	-	175,134,137
1996	159,327,539	2,111,476	6,072,222	-	167,511,237
1995	152,327,223	2,107,563	5,639,341	-	160,074,127
1994	140,780,790	1,862,570	4,709,756	3,219,370	150,572,486

(a) In fiscal year 1996, OPERS adopted GASB Statement No. 25, which among other provisions, required that investments be reported at fair value. The effect of implementing this pronouncement was reflected for reporting purposes for the plan year ending June 30, 1995, requiring a restatement of net plan assets at June 30, 1994. Accordingly, investment income, beginning with the fiscal year ended June 30, 1995, reflects both realized and unrealized investment gains and losses. In years prior to this date, investments were reported at cost and the investment income reported for those periods reflects only realized gains and losses.

(b) Other for years prior to 1995 represents the impairment of investment in real estate funds recorded under the cost basis of accounting.

Other for 2002 and 2001 represents the transfer of contributions and earnings to eligible members.

Schedule of Retired Members by Type of Benefit

June 30, 2003

Amount of Monthly Benefit	Number of Retirees	Type of Retirement**					Option Selected #			
		1	2	3	4	5	Opt. 1	Opt. 2	Opt. 3	Opt. 4
\$ 1 - 1,000	13,427	8,177	2,654	1,496	989	111	8,796	2,801	1,654	176
1,001 - 2,000	6,440	5,796	197	288	159	-	3,943	1,274	1,102	121
2,001 - 3,000	1,837	1,762	6	66	3	-	884	440	457	56
3,001 - 4,000	353	338	3	12	-	-	158	78	110	7
4,001 - 5,000	70	70	-	-	-	-	32	22	15	1
Over - 5,000	<u>20</u>	<u>20</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7</u>	<u>8</u>	<u>5</u>	<u>-</u>
Totals	<u>22,147</u>	<u>16,163</u>	<u>2,860</u>	<u>1,862</u>	<u>1,151</u>	<u>111</u>	<u>13,820</u>	<u>4,623</u>	<u>3,343</u>	<u>361</u>

**Type of Retirement

Type 1 - Normal retirement for age and service: Eligible at (1) age 62 or (2) when the sum of the member's age plus years of service equals 80 points for those who became members before July 1, 1992 and 90 points for those becoming members after that date.

Type 2 - Early retirement: Eligible beginning at age 55 with ten (10) years of participating service.

Type 3 - Survivor payment - normal or early retirement

Type 4 - Disability: Eligible if member is qualified for payment of disability benefits as certified by the Social Security Administration, has eight (8) years of credited service, and has terminated employment.

Type 5 - Survivor payment - disability retirement.

#Option Selected

Option 1 - Single-life annuity - The maximum benefit is paid for the member's lifetime.

Option 2 - Option A – ½ Joint and Survivor Annuity. The member will receive a reduced retirement benefit for life and ½ of the reduced retirement benefit will be paid to the surviving joint annuitant for their lifetime.

Option 3 - Option B – 100% Joint and Survivor Annuity. A reduced benefit is paid to the member for life and the same benefit is paid to a surviving joint annuitant for their lifetime.

Option 4 - Option C – Single-life Annuity with a 10-Year Certain Period. The member will receive a reduced benefit for their lifetime. If the member dies within ten years of when the benefit payments began, the monthly payment will be made to the beneficiary for the balance of the ten year period.

Deferred Members

At June 30, 2003, there are 5,288 former members with deferred future benefits.

Schedule of Average Benefit Payments

Retirement Effective Dates <u>July 1, 1993 to June 30, 2003</u>	Years of Credited Service						
	<u>0 to 5</u>	<u>6 to 10</u>	<u>11 to 15</u>	<u>16 to 20</u>	<u>21 to 25</u>	<u>26 to 30</u>	<u>31+</u>
Period 7/1/93 to 6/30/94							
Average Monthly Benefit	\$ 177	\$ 312	\$ 494	\$ 767	\$ 1,153	\$ 1,432	\$ 2,130
Average Final Average Salary	\$ 1,406	\$ 1,575	\$ 1,737	\$ 1,976	\$ 2,163	\$ 2,203	\$ 2,825
Number of Active Retirees	1	130	267	176	174	141	185
Period 7/1/94 to 6/30/95							
Average Monthly Benefit	\$ 181	\$ 332	\$ 488	\$ 750	\$ 1,100	\$ 1,470	\$ 1,997
Average Final Average Salary	\$ 1,467	\$ 1,680	\$ 1,717	\$ 1,885	\$ 2,173	\$ 2,284	\$ 2,707
Number of Active Retirees	1	169	272	179	158	132	116
Period 7/1/95 to 6/30/96							
Average Monthly Benefit	\$ 119	\$ 307	\$ 481	\$ 700	\$ 1,118	\$ 1,546	\$ 2,072
Average Final Average Salary	\$ 986	\$ 1,642	\$ 1,834	\$ 1,977	\$ 2,241	\$ 2,510	\$ 2,730
Number of Active Retirees	1	134	248	187	186	130	143
Period 7/1/96 to 6/30/97							
Average Monthly Benefit	\$ 128	\$ 371	\$ 536	\$ 748	\$ 1,094	\$ 1,529	\$ 2,044
Average Final Average Salary	\$ 1,144	\$ 1,870	\$ 1,910	\$ 2,016	\$ 2,218	\$ 2,431	\$ 2,785
Number of Active Retirees	2	194	260	197	203	149	152
Period 7/1/97 to 6/30/98							
Average Monthly Benefit	\$ 209	\$ 307	\$ 469	\$ 746	\$ 1,141	\$ 1,546	\$ 1,978
Average Final Average Salary	\$ 2,087	\$ 1,793	\$ 1,990	\$ 2,138	\$ 2,346	\$ 2,741	\$ 2,930
Number of Active Retirees	1	219	230	264	225	151	154
Period 7/1/98 to 6/30/99							
Average Monthly Benefit	\$ -	\$ 346	\$ 532	\$ 811	\$ 1,226	\$ 1,707	\$ 2,303
Average Final Average Salary	\$ -	\$ 1,863	\$ 2,072	\$ 2,235	\$ 2,434	\$ 2,789	\$ 3,092
Number of Active Retirees	-	194	281	244	198	190	153
Period 7/1/99 to 6/30/00							
Average Monthly Benefit	\$ 65	\$ 334	\$ 506	\$ 749	\$ 1,123	\$ 1,580	\$ 2,293
Average Final Average Salary	\$ 1,305	\$ 1,959	\$ 2,218	\$ 2,205	\$ 2,463	\$ 2,758	\$ 3,188
Number of Active Retirees	8	178	261	257	214	235	160
Period 7/1/00 to 6/30/01							
Average Monthly Benefit	\$ 114	\$ 384	\$ 561	\$ 832	\$ 1,273	\$ 1,694	\$ 2,394
Average Final Average Salary	\$ 1,136	\$ 2,174	\$ 2,253	\$ 2,411	\$ 2,677	\$ 3,016	\$ 3,735
Number of Active Retirees	4	174	241	246	244	212	150
Period 7/1/01 to 6/30/02							
Average Monthly Benefit	\$ 88	\$ 319	\$ 544	\$ 805	\$ 1,235	\$ 1,639	\$ 2,334
Average Final Average Salary	\$ 1,253	\$ 2,013	\$ 2,358	\$ 2,537	\$ 2,753	\$ 3,013	\$ 3,344
Number of Active Retirees	2	135	267	229	232	237	168
Period 7/1/02 to 6/30/03							
Average Monthly Benefit	\$ 123	\$ 365	\$ 631	\$ 959	\$ 1,328	\$ 1,738	\$ 2,472
Average Final Average Salary	\$ 1,259	\$ 2,027	\$ 2,338	\$ 2,543	\$ 2,674	\$ 2,866	\$ 3,175
Number of Active Retirees	6	150	287	256	293	201	165

10/29/03
Average Benefits OPERS 3

Participating Employers

State Agencies

ABLE Commission	Handicapped Concerns, Office of	Pardon and Parole Board
Accountancy, Board of Public	Health, Department of	Peanut Commission
Aeronautics Commission	Health Care Authority	Personnel Management, Office of
Agriculture, Department of	Historical Society	Pharmacy, Board of
Architects, Board of Governors	Horse Racing Commission	Physicians Manpower Training Commission
Arts Council, State	House of Representatives	Police Pension and Retirement
Attorney General's Office	Housing Finance Agency	Psychologists Examiners, Board of
Auditor and Inspector	Human Rights Commission	Public Safety, Department of
Banking Department	Human Services, Department of	Public Employees Retirement System
Boll Weevil Eradication Organization	Indian Affairs Commission	Quartz Mountain Arts and Conference Center Nature Park
Campaign Compliance, Commission on	Indigent Defense System	Real Estate Commission
Capitol Complex Centennial Commemoration, Oklahoma	Industrial Finance Authority	Rehabilitation, Department of
Central Services, Department of	Insurance Department, State	Scenic Rivers Commission
Children & Youth, Commission on	CompSource Oklahoma	Science and Technology, Center for Advancement of
Chiropractic Examiners, Board of	Investigation, State Bureau of	Secretary of State, Office of the
Civil Emergency Management	Juvenile Affairs, Office of	Securities Commission
Conservation Commission	Labor, Department of	Space Industry Development Authority
Consumer Credit, Department of	Land Office, Commissioners of the	Speech Pathology and Audiology Board
Commerce, Department of	Law Enforcement Education and Training, Council on	State Senate
Corporation Commission	Law Enforcement Retirement System	State and Education Employees Group Insurance Board
Corrections, Department of	Legislative Service Bureau	Supreme Court
Cosmetology, Board of	Libraries, Department of	Tax Commission
Council on Judicial Complaints	Lieutenant Governor, Office of	Teacher Preparation, Commission on
Court of Criminal Appeals	Liquefied Petroleum Gas Admin.	Tobacco Settlement Trusts
Davis Gun Museum	Marginally Producing Oil and Gas Wells, Commission on	Transportation, Department of
Dentistry, Board of	McCarty Center for Handicapped Children, J. D.	Treasurers Office, State
District Attorneys Council	Medical Licensure Board	Tourism and Recreation Department
District Courts	Medicolegal Investigations, Board of	Transportation Authority
Educational Television Authority	Mental Health, Department of	Used Motor Vehicles and Parts Commission
Election Board, State	Merit Protection Commission	University Health Sciences Center
Embalmers and Funeral Directors, Board of	Military Department	University of Oklahoma
Employees Benefits Council	Mines, Department of	University Hospitals Authority
Employment Security Commission	Motor Vehicle Commission	Veterans Affairs, Department of
Energy, Office of the Secretary of	Municipal Power Authority	Veterinary Medical Examiners, State Board of
Engineers and Surveyors, Board of	Narcotics and DDC, Bureau of	Waters Resources Board
Environmental Quality, Department of	Nursing, Board of	Wheat Commission
Finance, State Office of	Nursing Home Administrators, Board of Examiners for	Will Rogers Memorial Commission
Fire Marshall Commission, State	Ordinance Works Authority	Workers' Compensation Court
Firefighters Pension and Retirement Board	Optometry Board	
Governor's Office	Osteopathic Examiners, State Board of	
Grand River Dam Authority		

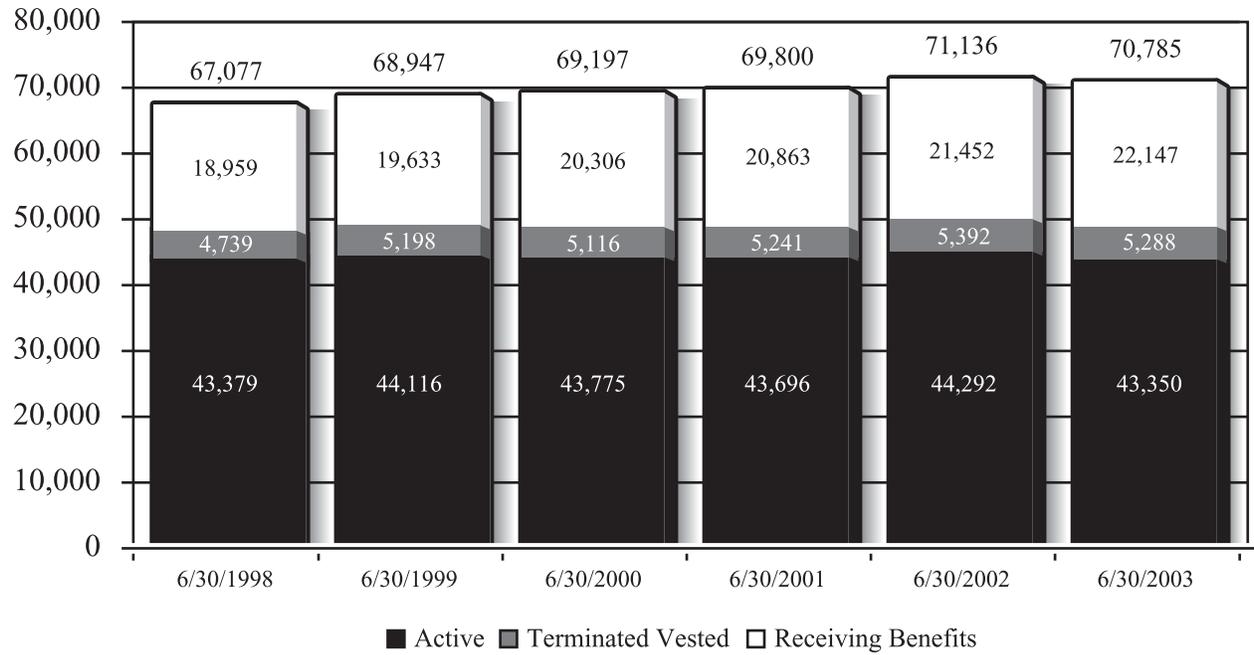
Participating Employers

County and Local Government

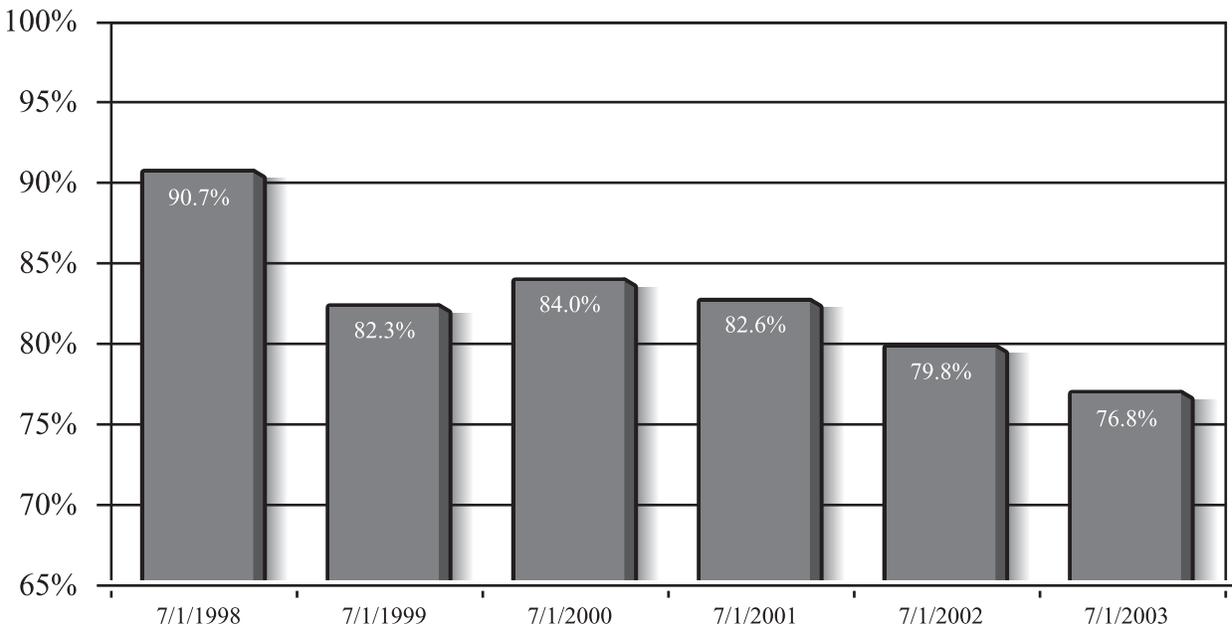
Adair County	McCurtain County	Rush Springs, Town of
Alfalfa County	McIntosh County	Ryan, City of
Atoka County	Murray County	Sentinel, Town of
Beaver County	Muskogee County	Shattuck, City of
Beckham County	Noble County	Stigler, City of
Blaine County	Nowata County	Tahlequah, City of
Bryan County	Okfuskee County	Vici, Town of
Caddo County	Okmulgee County	Wewoka, City of
Canadian County	Osage County	Wilson, City of
Carter County	Ottawa County	Assn. of South Central OK Governments
Cherokee County	Pawnee County	Atoka County Rural Water District #2
Choctaw County	Payne County	Atoka County Rural Water District #4
Cimarron County	Pittsburg County	Beaver County Memorial Hospital
Cleveland County	Pontotoc County	Bixby Public Works
Coal County	Pottawatomie County	Choctaw County Ambulance
Comanche County	Pushmataha County	Consolidated Rural Water District #1 Nowata
Cotton County	Roger Mills County	Craig County General Hospital
Craig County	Rogers County	Creek County Rural Water District #5
Creek County	Seminole County	Eastern Oklahoma District Library
Custer County	Sequoyah County	Grady County Criminal Justice Authority
Deleware County	Stephens County	Grady County EMS
Dewey County	Texas County	Greer County Special Ambulance Service
Ellis County	Tillman County	Heavener Utility Authority
Garfield County	Wagoner County	Idabel Housing Authority
Garvin County	Washington County	Jefferson County Detention Center
Grady County	Washita County	Johnston County Rural Water District
Grant County	Woods County	Ketchum Public Works
Greer County	Woodward County	Kiamichi Econ. Dev. District of OK
Harmon County	Arnett, Town of	LeFlore County EMS
Harper County	Beaver, City of	LeFlore County Rural Water & Sewer
Haskell County	Bixby, City of	LeFlore County Rural Water Dist #3
Hughes County	Cheyenne, City of	Major County EMS
Jackson County	Commerce, City of	Mayes County Rural Water District #3
Jefferson County	Cyril, Town of	McCurtain County EMS
Johnston County	Fairfax, Town of	Midwestern OK Development Authority
Kay County	Fort Supply, Town of	Muskogee County EMS
Kingfisher County	Grandfield, City of	OK Environmental Management Auth.
Kiowa County	Grove, City of	Okmulgee Co. Criminal Justice Authority
Latimer County	Heavener, City of	Pittsburg County Rural Water District #7
LeFlore County	Hinton, Town of	Poteau Valley Improvement Authority
Lincoln County	Holdenville, City of	Sequoyah County Rural Water District #7
Logan County	Hugo, City of	Southwestern OK Development Authority
Love County	Ketchum, City of	Tillman County EMS
Major County	Kingfisher, City of	Tilman County Rural Water District
Marshall County	Mangum, City of	Tri-County Rural Water District
Mayes County	Mountain View, City of	Watonga Housing Authority
McClain County	Okarche, City of	

Demographics and Actuarial Accrued Liability Status Charts

Demographics Chart



Actuarial Accrued Liability Status Chart



Schedule of Benefit Payments and Refunds by Type

Fiscal Year Ended June 30, 2003

The following schedule provides information as to the type of benefit expenses incurred by the Plan as reflected in the "Benefit Payment" and "Refunds" columns of the **Schedule of Expenses by Source** included elsewhere in this Statistical Section.

Fiscal Year	Service and Disability Benefits	Beneficiary Death Benefits	Refunds And Withdrawals	Transfers To Other Systems	Total Benefit Payments And Refunds
2003	\$278,651,061	\$3,868,067	\$6,372,048	\$2,437,068	\$291,328,244
2002	254,165,278	3,773,133	5,697,306	2,555,737	266,191,454
2001	243,632,046	3,444,500	7,238,436	2,749,606	257,064,588
2000	219,087,263	3,659,404	6,182,939	1,405,351	230,334,957
1999	208,784,505	2,734,984	7,683,667	1,548,634	220,751,790
1998	179,103,296	2,756,883	5,127,314	1,741,332	188,728,825
1997	163,881,693	2,562,681	5,351,913	1,288,517	173,084,804
1996	156,260,520	2,709,628	4,966,174	1,463,439	165,399,761
1995	149,656,198	2,380,880	4,507,179	1,422,307	157,966,564
1994	138,143,772	2,417,265	3,784,942	1,144,567	145,490,546

Member Statistics

Inactive Members as of July 1, 2003	No.	Amount of Annual Benefit ¹
Members receiving benefits		
▪ Retired	19,023	\$ 242,247,571
▪ Joint annuitants and surviving spouses	1,973	15,283,021
▪ Disabled	1,151	9,036,311
Total	22,147	\$ 266,566,903
Members with deferred benefits		
▪ Vested terminated	4,147	\$ 30,981,037
▪ Assumed deferred vested members ²	1,141	16,185,414
Total	5,288	\$ 47,166,451

Statistics for	No.	Average		
		Age	Service	Earnings
As of July 1, 2002				
▪ Continuing	38,618	46.3	11.7	\$ 34,122
▪ New	5,674	37.7	1.7	23,368
Total	44,292	45.2	10.4	\$ 32,745
As of July 1, 2003				
▪ Continuing	38,813	46.5	11.7	\$ 33,663
▪ New	4,537	38.2	1.9	23,180
Total	43,350	45.6	10.7	\$ 32,566

¹ Does not include monthly medical insurance premium.

² Estimated benefits.

Summary of Retirees, Beneficiaries and Disabled Members (Annual Benefits)

Attained Age	Retirees		Joint Annuitants & Surviving Spouses		Disabled Members		Current Payment Total	
	No.	Benefit	No.	Benefit	No.	Benefit	No.	Benefit
Under 51	63	\$ 1,248,718	61	\$ 477,873	149	\$ 1,160,169	273	\$ 2,886,760
51	33	766,500	10	88,737	28	262,038	71	1,117,275
52	72	1,653,782	9	40,479	42	355,186	123	2,049,447
53	86	2,006,007	15	142,356	46	386,279	147	2,534,642
54	148	3,252,909	16	187,229	51	505,501	215	3,945,639
55	183	3,800,840	27	279,841	56	465,216	266	4,545,897
56	278	4,995,734	18	178,263	56	509,836	352	5,683,833
57	311	5,225,497	27	250,786	61	495,500	399	5,971,783
58	297	5,132,894	33	257,316	46	362,277	376	5,752,487
59	373	6,452,776	40	290,683	57	367,744	470	7,111,203
60	474	8,050,211	40	390,865	66	516,980	580	8,958,056
61	440	7,397,415	47	315,590	65	549,112	552	8,262,117
62	550	8,642,071	43	399,828	51	347,778	644	9,389,677
63	742	10,659,786	46	364,791	60	461,362	848	11,485,939
64	751	10,417,711	53	448,232	42	302,125	846	11,168,068
65	742	9,859,533	64	504,699	46	322,937	852	10,687,169
66	789	10,601,593	58	496,829	38	307,784	885	11,406,206
67	807	10,070,861	53	521,452	30	181,194	890	10,773,507
68	859	10,486,680	74	587,003	27	175,127	960	11,248,810
69	870	10,702,684	80	532,214	29	231,706	979	11,466,604
70	748	9,205,450	72	604,175	29	216,247	849	10,025,872
71	793	9,463,065	64	493,221	18	133,469	875	10,089,755
72	746	8,621,849	61	527,141	16	117,324	823	9,266,314
73	712	8,266,504	79	594,082	21	141,464	812	9,002,050
74	698	8,141,712	71	572,083	14	116,540	783	8,830,335
75	647	6,969,472	77	560,776	6	38,876	730	7,569,124
76	604	7,045,824	84	719,679	0	0	688	7,765,503
77	618	6,856,119	75	549,782	0	0	693	7,405,901
78	554	5,864,338	73	614,578	0	0	627	6,478,916
79	514	5,456,042	68	547,860	0	0	582	6,003,902
80	516	5,699,724	51	387,759	1	6,540	568	6,094,023
81	410	4,540,646	49	344,634	0	0	459	4,885,280
82	468	4,913,371	53	351,859	0	0	521	5,265,230
83	341	3,511,963	49	286,013	0	0	390	3,797,976
84	288	2,791,538	42	249,261	0	0	330	3,040,799
85	273	2,478,959	28	155,710	0	0	301	2,634,669
86	227	2,126,993	23	120,745	0	0	250	2,247,738
87	200	1,773,410	25	174,202	0	0	225	1,947,612
88	137	1,180,273	27	198,951	0	0	164	1,379,224
89	151	1,339,597	19	114,479	0	0	170	1,454,076
90	140	1,203,653	19	78,489	0	0	159	1,282,142
Over 90	370	3,372,867	50	282,476	0	0	420	3,655,343
Total	19,023	\$242,247,571	1,973	\$15,283,021	1,151	\$9,036,311	22,147	\$266,566,903

Summary of Terminated Vested Members
(Deferred Annual Benefits)

Attained Age	Members With Deferred Benefits	
	No.	Benefit
Under 41	604	\$ 5,144,639
41	147	1,227,108
42	156	1,422,095
43	182	1,490,698
44	217	1,875,663
45	201	1,744,364
46	253	2,448,380
47	270	2,459,748
48	258	2,474,770
49	290	2,979,811
50	280	2,950,399
51	269	2,717,941
52	274	2,787,702
53	289	2,730,156
54	281	2,429,300
55	279	2,268,947
56	231	2,071,991
57	204	1,476,471
58	132	1,066,406
59	146	1,135,296
60	127	808,021
61	103	632,181
62	67	541,000
63	8	54,416
64	7	68,271
65	3	8,868
66	0	0
67	4	88,105
68	1	3,256
69	0	0
70	2	12,560
Over 70	3	47,888
Total	5,288	\$ 47,166,451

Summary of Active Members

Age and Years of Credited Service

Earnings Tabulated Are Average Rates of Pay as of July 1, 2003

Count of Paid Active Members

Age	Years of Service									Total
	0 - 4	5 - 9	10 -14	15 -19	20 - 24	25 - 29	30 - 34	35 - 39	40+	
Under 20	52									52
20 - 24	1,221	24								1,245
25 - 29		498	5							2,908
30 - 34	2,158	1,354	333	14						3,859
35 - 39	1,823	1,273	1,043	418	62					4,619
40 - 44	1,926	1,238	1,097	1,105	916	58				6,340
45 - 49	1,785	1,211	1,149	986	1,243	608	97	1		7,080
50 - 54	1,442	1,157	1,147	964	1,032	740	376	49		6,907
55 - 59	1,091	940	964	866	772	368	328	157	18	5,504
60 - 64	524	551	531	495	365	179	106	60	33	2,844
65 - 69	149	163	199	122	86	40	22	8	15	804
70 - 74	39	45	57	22	28	8	10	3	4	216
75+	12	8	5	9	11	6	1	2	2	56
Total	14,627	8,462	6,530	5,001	4,515	2,007	940	280	72	42,434

916¹

43,350

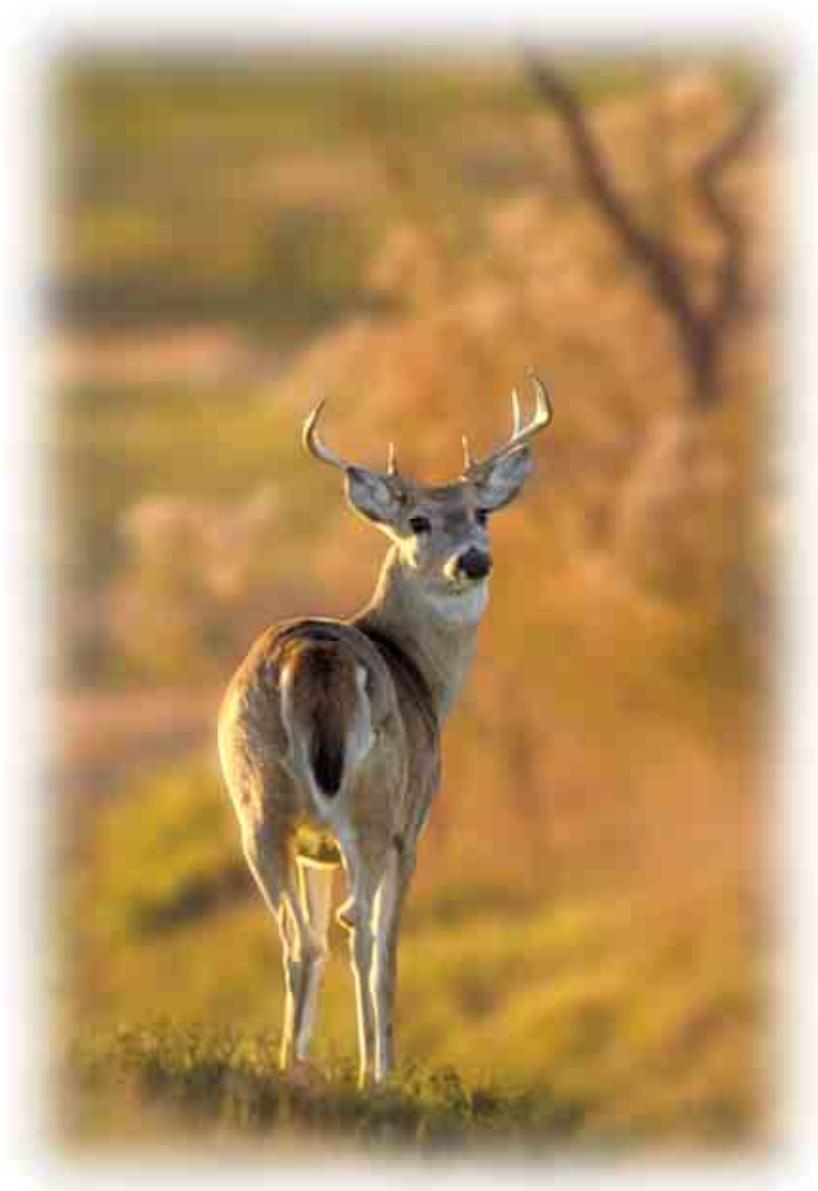
Average Compensation²

Age	Years of Service									Total
	0 - 4	5 - 9	10 -14	15 -19	20 - 24	25 - 29	30 - 34	35 - 39	40+	
Under 20	16,075									16,075
20 - 24	21,195	25,636								21,281
25 - 29	26,677	29,288	26,249							27,123
30 - 34	27,186	32,396	33,550	31,379						29,579
35 - 39	27,570	32,285	35,695	37,152	35,646					31,680
40 - 44	27,470	31,677	36,011	39,553	38,146	37,650				33,511
45 - 49	28,446	32,724	34,763	38,187	40,056	39,892	40,608	35,970		34,748
50 - 54	28,300	32,082	35,022	37,455	39,077	41,224	42,556	39,899		35,181
55 - 59	28,179	30,767	34,503	36,374	38,165	39,986	44,879	44,434	46,497	34,727
60 - 64	27,231	30,031	34,271	35,964	36,927	38,730	44,771	45,171	49,062	33,862
65 - 69	27,221	29,618	33,058	33,681	32,668	36,291	38,346	36,775	45,339	31,903
70 - 74	21,810	27,792	35,065	28,999	36,502	28,644	44,920	44,393	66,382	31,653
75+	25,148	44,953	28,931	31,225	42,648	51,597	48,412	29,206	13,172	35,696
Total	26,972	31,675	34,967	37,545	38,651	40,150	43,348	43,440	47,610	32,759²

¹ Members without applications.

² Average compensation for members without application is \$23,180. The average for all members including the members without applications is \$32,566.

ADDENDUM





The White-Tailed Deer was named Oklahoma's state game animal in 1990. The Whitetail is by nature a nervous and shy animal and will flash the white underside of its tail when it senses danger or is startled. Its population in Oklahoma is plentiful which makes it a popular game animal for hunters.

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October 20, 2003

Board of Trustees
Oklahoma Public Employees Retirement System
P.O. Box 53007
Oklahoma City, Oklahoma 73152

2003 Certification of Pro-forma Financial Information

Dear Members of the Board:

We have calculated pro-forma financial information for the Oklahoma Public Employees Retirement System as of July 1, 2003 using assumptions and methods specified in 11 O.S. 2001, Section 50-105.4, Section H.

The results of this pro-forma information have been prepared for the sole purpose of meeting this statutory requirement based on the following prescribed assumptions:

Interest rate: 7.5%

COLA assumption: 2.0%

Mortality: RP 2000 Mortality Table for Employees, Healthy Retirees and Disabled Retirees with Mortality Projected Forward from 2000 using Scale AA.

Amortization period: 30 years, open period

Sources of all contributions and revenues, including dedicated tax fee revenue and federal monies

All other assumptions, methodologies, and System provisions used are consistent with those used in the July 1, 2003 valuation. These assumptions, methodologies, and System provisions are described elsewhere.

All calculations were based on participant data submitted by the OPERS staff, which we examined for reasonableness. The financial information used for these calculations was provided to us by the System's independent auditors.

We certify that the pro-forma financial information presented herein is accurate and shows the actuarial position of the Oklahoma Public Employees Retirement System as of July 1, 2003 under the specified assumptions.

Actuarial valuations to determine the funding requirements of the System are performed annually. The most recent actuarial valuation was done as of July 1, 2003.

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Board of Trustees
Oklahoma Public Employees Retirement System

The pro-forma financial information is not consistent with the July 1, 2003 valuation. The July 1, 2003 valuation results were determined in accordance with generally accepted actuarial principles and procedures, and are in compliance with the Actuarial Standards Board Actuarial Standard of Practice No. 27-Selection of Economic Assumptions for Measuring Pension Obligations, except as noted below. The results shown in this section are not based on the assumptions and methodologies adopted by the Board of Trustees. For those results, see the July 1, 2003 actuarial valuation.

The System's required contribution rates are established which, over time, will gradually decrease as a percent of payroll if assumptions are met and the required rate is contributed. The required contribution rate has been determined to provide for (1) the normal cost developed as a level percentage of payroll, plus (2) an amortization of the unfunded actuarial accrued liability over 30 years, plus (3) budgeted administrative expenses. The State's current contribution rate is 10.0% of covered payroll with scheduled increases beginning in fiscal 2007. As of July 1, 2003, the required contribution rate using the specified assumptions would be 19.0%. The State's current contribution is not sufficient to fund the contribution developed under the assumptions and methods used for the pro-forma financial information.

Other than the assumptions described above, the actuarial assumptions and methods used in the valuation were adopted by the Board, based upon our recommendations. The assumptions and methods used for funding purposes meet the parameters set for the disclosures presented in the financial section by Government Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit and Note Disclosures for Defined Contribution Plans*.

We prepared the Summary of Valuation Results Under Prescribed Assumptions.

Sincerely,



Brent A. Hradek, FSA, EA



Stephen T. McElhaney, FSA, EA

Summary of Valuation Results Under Prescribed Assumptions

	Actuarial Valuation as of July 1, 2003	
	Amount	% of Covered Comp.
Summary of Contribution Requirements		
1. Annual covered compensation for members included in valuation	\$1,411,719,256	N/A
2. Total normal cost mid-year	165,769,441	11.7%
3. Unfunded actuarial accrued liability	1,795,942,379	127.2
4. Amortization of unfunded actuarial accrued liability over 30 years	146,760,079	10.4
5. Budgeted expenses provided by the System	6,723,945	0.5
6. Total required contribution (2. + 4. + 5.)	\$ 319,253,465	22.6
7. Estimated member contribution	50,488,834	3.6
8. Required employer contributions (not less than \$0) (6.-7.)	\$ 268,764,631	19.0
9. Previous year's actual contribution		
a. Member	50,101,133	3.5 ¹
b. Employer	137,549,234	9.5 ¹
c. Total	\$ 187,650,367	12.9 ¹

Summary of Costs	Actuarial Valuation as of July 1, 2003
Required employer contribution for current year	\$ 268,764,631
Actual employer contributions received in prior year	137,549,234

Funded Status	
Actuarial accrued liability	\$ 7,150,738,150
Actuarial value of assets	5,354,795,771
Unfunded actuarial accrued liability	\$ 1,795,942,379

Market Value of Assets and Additional Liabilities	
Market value of assets	\$ 4,619,063,143
Present value of projected System benefits	8,413,157,842

¹ Percent of previous year's annual compensation for active members (\$1,450,317,127 at July 1, 2002).

