OKLAHOMA STATE EMPLOYEES DEFERRED SAVINGS INCENTIVE PLAN

Administered by the Oklahoma Public Employees Retirement System

Financial Statements

June 30, 2006 and 2005

(With Independent Auditors' Report Thereon)

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

Independent Auditors' Report

Board of Trustees
Oklahoma State Employees
Deferred Savings Incentive Plan:

We have audited the accompanying statements of plan net assets of the Oklahoma State Employees Deferred Savings Incentive Plan (the Plan), as of June 30, 2006 and 2005, 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 U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 plan net assets as of June 30, 2006 and 2005, and the changes in plan net assets for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards,* we have also issued our report dated October 5, 2006, on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the U.S. generally accepted accounting principles. 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.

KPMG LLP

October 5, 2006

Management's Discussion and Analysis

As management of the Oklahoma State Employees Deferred Savings Incentive Plan (the Plan), which is administered by the Oklahoma Public Employees Retirement System (OPERS), 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, 2006, 2005, and 2004.

Financial Highlights

- The net assets available for plan benefits totaled approximately $97.1 million at June 30, 2006 compared to approximately $85.4 million at June 30, 2005 and approximately $75.8 million at June 30, 2004. These funds are available for distribution to plan participants in accordance with Plan provisions.

- At June 30, 2006, the number of active, retired or inactive participants increased to 31,800 compared to 30,523 and 30,152 at June 30, 2005 and 2004, respectively.

- In October 2005, the Board of Trustees (the Board) voted to remove the savings option from the investment line-up to reduce redundancy in investment options. The savings option was closed to new investments in May 2006, and investment balances remaining in the savings options at May 22, 2006, were transferred to the stable value fund. In June 2004, the Board of Trustees voted to replace the Plan's specialty fund with an aggressive growth mid-cap fund.

- A Request for Proposals (RFP) was issued by the Board in November 2005 for potential vendors to provide recordkeeping and communication services for the Plan. A separate RFP was also issued for a stable value fund manager. After evaluation of the responses, in April 2006, the board voted to retain Great-West to provide these services.

- The Plan's average annualized rates of return of its mutual funds for the one-year period ended June 30, 2006, ranged from a high of 32.34% to a low of negative 0.91%. This compares with a high of 37.26% and a low of 4.27% in the corresponding prior-year period. For the year ended June 30, 2004, the returns ranged from a low of 0.20% to a high of 35.90%.

Overview of the Financial Statements

The Plan is established as a money purchase pension plan pursuant to Internal Revenue Code (IRC) Section 401(a). Participants who are employees of the State of Oklahoma (the State) and active participants in the Oklahoma State Employees Deferred Compensation Plan (Deferred Compensation Plan) are eligible to receive contributions from the State to the Plan on their behalf at, currently, the equivalent of $25 per month. Benefits are payable to participants, in accordance with plan provisions, upon termination of employment with the State, retirement, or death based on the participants' account balance.

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.

The s*tatement of plan net assets* presents information on the Plan's assets and liabilities with the difference between the two reported as net assets available for plan benefits. This statement reflects, at fair value, the participants' balances in their selected investment options, which are available to pay benefits.

Management's Discussion and Analysis

The *statement of changes in plan net assets* presents information showing how the Plan's net assets available for plan benefits changed during the years ended June 30, 2006 and 2005. This statement reflects contributions made on behalf of or by participants along with benefits paid to participants during the period. Investing activities during the period are also presented which include interest and dividends added to participant accounts and the net appreciation or depreciation in fair value of the investments. Administrative fees affecting participant accounts are also reported in this statement.

The *notes to the financial statements* provide additional information that is essential to a full understanding of the data provided in the financial statements.

The Plan does not meet the criteria for inclusion in the financial statements of the State of Oklahoma.

Financial Analysis

Plan net assets at June 30 are summarized as follows:

	2006	2005	2004
Cash and cash equivalents	$ 65,826	$ 109,312	$ 114,363
Contributions receivable	141,260	130,326	—
Investments			
Savings accounts	—	5,473,914	4,907,931
Stable value fund	40,426,104	32,878,994	31,418,403
Mutual funds	56,520,402	46,930,600	39,437,502
Total assets	97,153,592	85,523,146	75,878,199
Other liabilities	63,715	107,200	112,116
Ending net assets	$ 97,089,877	$ 85,415,946	$ 75,766,083

Summarized changes in Plan net assets are as follows for the years ended June 30:

	2006	2005	2004
Additions:			
Contributions	$ 8,879,087	$ 8,601,974	$ 7,702,479
Investment income	7,233,713	4,927,601	7,237,605
Total additions	16,112,800	13,529,575	14,940,084
Deductions:			
Benefits	4,315,219	3,760,943	3,593,423
Administrative fees	123,650	118,769	116,825
Total deductions	4,438,869	3,879,712	3,710,248
Increase in net assets	$ 11,673,931	$ 9,649,863	$ 11,229,836

(Continued)

Total contributions to the Plan for the year ended June 30, 2006 increased approximately $277,000 or 3.2% compared to the prior year which corresponds to the increase of 3.1% in the number of active participants. Total contributions for the year ended June 30, 2005 increased approximately $900,000 or 11.7% compared to the prior year. During 2005, the State contributions remained constant while rollovers into the Plan increased by $857,000 or 134.7%.

During the years ended June 30, 2006, 2005, and 2004, Plan participants elected to allocate their State contributions as follows:

	2006	2005	2004
Savings accounts	8.1 %	10.2 %	10.1 %
Stable value fund	24.7	20.5	21.9
Bond funds	8.0	8.0	7.9
Balanced fund	3.8	3.4	2.7
Large-Cap equity funds	22.5	25.3	25.1
Mid-Cap equity fund	16.4	16.9	5.2
Small-Cap equity funds	9.1	9.0	6.8
Specialty fund	0.0	1.3	16.6
International equity funds	7.4	5.4	3.7
	100.0 %	100.0 %	100.0 %

Benefits paid to participants in 2006 and 2005 increased approximately $554,000 or 14.7% and approximately $168,000 or 4.7%, respectively, resulting from increases in the number of retired members.

At June 30, 2006, Plan investments totaled $96.9 million, an increase of $11.7 million or 13.7% over the prior year. During this period, the returns for the total US Equity market were 9.6% while the US fixed income market declined 0.8%. Plan investments increased $9.5 million to $85.3 million at June 30, 2005, an increase of 12.5%. The return for the total US Equity market for this period was 8.1% and the total US fixed income market return was 6.8%.

(Continued)

Management's Discussion and Analysis

A summary of the mutual fund balances at June 30, 2006 and 2005, and the one-year annualized returns of the fiscal years then ended is as follows:

	Year ended June 30, 2006		Year ended June 30, 2005	
	Balance (000's)	One-Year Returns	Balance (000's)	One-Year Returns
Bond funds:				
Evergreen Core Bond Fund	$ 2,097	-0.91 %	$ 2,132	6.43 %
T. Rowe Price High-Yield Fund	1,798	5.06	1,554	9.53
T. Rowe Price Spectrum Income Fund	1,497	2.80	1,340	7.98
	5,392		5,026	
Balanced fund:				
T. Rowe Price Balanced Fund	2,617	7.50	2,204	9.00
Large-Cap equity funds:				
American Century Income & Growth	5,493	7.24	4,902	8.28
BGI S&P 500 Stock Fund	2,654	8.43	2,466	6.14
T. Rowe Price Blue Chip Growth Fund	10,339	6.51	9,578	4.37
T. Rowe Price Total Equity Market Fund	597	9.88	429	8.11
	19,083		17,375	
Mid-Cap equity funds:				
Dreyfus Premier New Leaders Fund	5,591	15.95	4,578	11.04
American Century Vista Advisor Fund	8,536	16.81	6,883	4.27
	14,127		11,461	
Small-Cap equity funds:				
Janus Small Cap Value Fund	3,761	7.48	3,365	10.05
Columbia Acorn Fund	4,058	16.44	3,004	14.58
	7,819		6,369	
International equity funds:				
American Funds EuroPacific Growth Fund	2,594	28.36	1,648	15.07
T. Rowe Price Emerging Markets Stock	4,888	32.34	2,848	37.26
	7,482		4,496	
Total mutual funds	$ 56,520		$ 46,931	

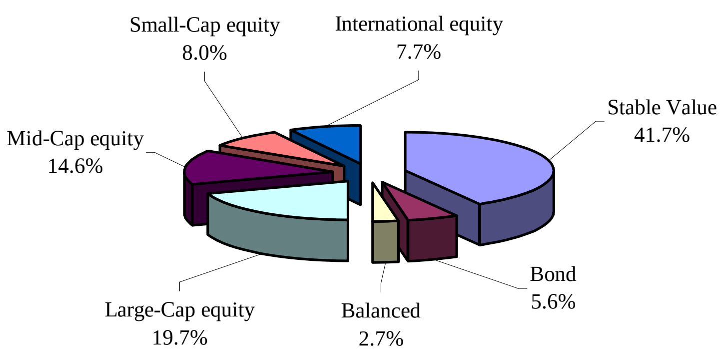
(Continued)

OKLAHOMA STATE EMPLOYEES
DEFERRED SAVINGS INCENTIVE PLAN
Administered by the Oklahoma Public Employees Retirement System

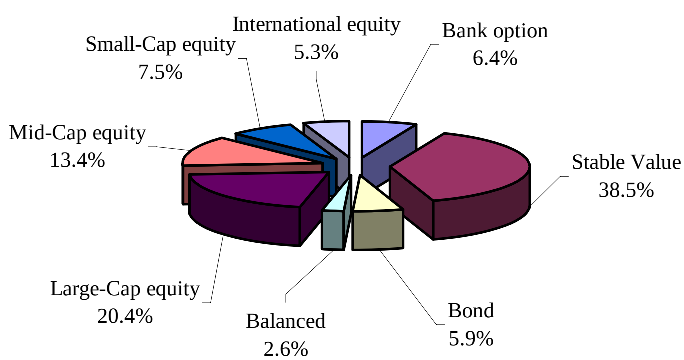
Management's Discussion and Analysis

At June 30, 2006 and 2005, the participant balances, including accruals, were invested as follows:

June 30, 2006



June 30, 2005



Economic Factors

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 Plan Administrator, Defined Contribution Plans, c/o OPERS, P.O. Box 53007, Oklahoma City, Oklahoma 73152-3007.

OKLAHOMA STATE EMPLOYEES
DEFERRED SAVINGS INCENTIVE PLAN

Administered by the Oklahoma Public Employees Retirement System

Statements of Plan Net Assets

June 30, 2006 and 2005

	2006	2005
Cash and cash equivalents	$ 65,826	$ 109,312
Contributions receivable	141,260	130,326
Investments:		
Savings accounts	—	5,473,914
Stable value fund	40,426,104	32,878,994
Mutual funds:		
Bond funds	5,392,292	5,025,746
Balanced funds	2,616,808	2,204,274
Large-Cap equity funds	19,082,711	17,375,070
Mid-Cap equity funds	14,127,448	11,460,689
Small-Cap equity funds	7,818,559	6,368,869
International equity funds	7,482,584	4,495,952
	56,520,402	46,930,600
Total investments	96,946,506	85,283,508
Total assets	97,153,592	85,523,146
Other liabilities	63,715	107,200
Net assets available for plan benefits	$ 97,089,877	$ 85,415,946

See accompanying notes to financial statements.

OKLAHOMA STATE EMPLOYEES
DEFERRED SAVINGS INCENTIVE PLAN
Administered by the Oklahoma Public Employees Retirement System

Statements of Changes in Plan Net Assets

Years Ended June 30, 2006 and 2005

	2006	2005
Additions:		
Contributions		
State	$ 7,232,412	$ 7,108,331
Rollovers	1,646,675	1,493,643
Total contributions	8,879,087	8,601,974
Investment income:		
Net appreciation in fair value of investments	3,418,179	1,858,143
Interest and dividends	3,815,534	3,069,458
Total investment income	7,233,713	4,927,601
Total additions	16,112,800	13,529,575
Deductions:		
Benefits paid to participants	4,315,219	3,760,943
Administrative fees	123,650	118,769
Total deductions	4,438,869	3,879,712
Net increase	11,673,931	9,649,863
Net assets available for plan benefits:		
Beginning of year	85,415,946	75,766,083
End of year	$ 97,089,877	$ 85,415,946

See accompanying notes to financial statements.

(1) Description of the Plan

The following brief description of the Oklahoma State Employees Deferred Savings Incentive Plan (the Plan), which is administered by the Oklahoma Public Employees Retirement System (OPERS), is provided for general information purposes only. For a more complete description of the Plan provisions, refer to the detailed Plan documents or Title 74 of the Oklahoma Statutes (O.S.).

Effective January 1, 1998, the State of Oklahoma (the State) established the Plan as a money purchase pension plan pursuant to Internal Revenue Code (IRC) Section 401(a). The Plan is intended to qualify as a governmental plan within the definition of IRC Section 414(d) and is not subject to the Employee Retirement Income Security Act of 1974 (ERISA). The Plan and its related Trust are intended to meet the requirements of IRC Sections 401(a) and 501(a).

Any qualified participant, who is a State employee that is an active participant in the Oklahoma State Employees Deferred Compensation Plan (Deferred Compensation Plan), is eligible for a contribution of the amount determined by the State Legislature, currently the equivalent of $25 per month. The Deferred Compensation Plan is a voluntary deferred compensation plan offered to State employees, as defined, which is authorized by Section 457 of the IRC, as amended by the Tax Reform Act of 1986. Participation in the Plan is automatic in the month of participation in the Deferred Compensation Plan and is not voluntary.

Upon cessation of contributions to the Deferred Compensation Plan, termination of employment with the State, retirement, or death, a participant will no longer be eligible for contributions from the State into the Plan. Participants are at all times 100% vested in their Plan account. Participant contributions are not required or permitted. Qualified participants may make rollover contributions to the Plan, provided such rollover contributions meet the applicable requirements of the IRC. Plan participants may direct the investment of the contributions in available investment options offered by the Plan. All interest, dividends, and investment fees are allocated to the participants' accounts.

Plan benefits are paid to participants or beneficiaries upon termination, retirement, or death. Such benefits are based on a participant's account balance and are disbursed in a lump sum or periodic payments or may be rolled over to a qualified plan at the option of the participant or beneficiaries.

The employers of eligible participants are required to remit directly to the Plan the equivalent of $25 per month for each qualified participant. The amounts remitted by the employers are reflected in the accompanying statements of changes in plan net assets as contributions from the State.

The supervisory authority for the management and operation of the Plan is the Board of Trustees (the Board) of OPERS.

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At June 30, the Plan's membership consisted of the following:

	2006	2005
Active participants	24,742	23,999
Retired and inactive participants	7,058	6,524
	31,800	30,523

(2) Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared on the economic resources measurement focus and the accrual basis of accounting.

Contributions Receivable

Contributions receivable included in the Statements of Plan Net Assets represent employer contributions not yet remitted to the Plan by the state agency responsible for payrolls.

Investments

The Plan is authorized to invest in eligible investments as prescribed in the Plan documents. Investments in the mutual funds are presented at their fair value based on published market prices. Investments in savings accounts and the stable value fund are presented at contract value, which approximates their fair value.

Administrative Expenses

Certain administrative functions of the Plan are provided by OPERS and the related expenses are not reflected in these financial statements. These administrative expenses would not be material to the plan if recorded. The employers of eligible participants were required to remit directly to the Plan the equivalent of $1.78 ($1.67 in 2005) per month for reimbursement to OPERS of administrative expenses incurred on behalf of the Plan and the Deferred Compensation Plan. In addition, in 2005, approximately $62,000 of previously unused appropriated funds were used to supplement amounts received from employers. In accordance with an administrative expense allocation policy adopted by the Board, approximately $109,500 in 2006 and $98,000 in 2005 were remitted to OPERS to cover the Plan's allocable share of such expenses.

A $1 fee is deducted from each participant's account balance at the end of each quarter by the recordkeeper for the Plan, for recordkeeping and communication expenses. These amounts are reflected as administrative fees in the accompanying statements of changes in plan net assets.

Federal Income Tax Status

The Plan has received a favorable determination letter from the Internal Revenue Service dated January 31, 2000, affirming that the Plan, in its present form, is qualified under the IRC and is entitled to favorable tax treatment.

Use of Estimates

The preparation of the Plan's financial statements in conformity with U.S. generally accepted accounting principles requires the Plan administrator to make significant estimates and assumptions that affect the reported amounts of plan net assets at the date of the financial statements and the changes in plan net assets during the reporting periods and, when applicable, disclosures of contingent assets at the date of the financial statements. Actual results could differ from those estimates.

Risks and Uncertainties

The Plan provides for various investment options in any combination of savings accounts, mutual funds, and other investment securities. Investment securities 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 participants' account balances and the amounts reported in the accompanying statements of plan net assets.

(3) Cash and Cash Equivalents

Cash and cash equivalents represents cash and cash equivalents on deposit with the State as a part of a pool maintained by the State Treasurer. At June 30, 2006 and 2005, the Plan had enrolled in *OK INVEST*, an internal investment pool of the State Treasurer with holdings limited to high-rated money market mutual funds, obligations of the U.S. Government, U.S. Government agencies and instrumentalities and collateralized tri-party repurchase agreements. Participants are limited to qualifying agencies and funds within the State's reporting entity, and each participant maintains an interest in the underlying investment of *OK INVEST* and shares the risk of loss on the funds in proportion to the respective investment in the funds.

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agency but not in the depositor-government's name. At June 30, 2006 and 2005, the cash equivalents in *OK INVEST* were not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. The Plan does not have a formal deposit policy for custodial credit risk.

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At June 30, 2006, the carrying amount of the Plan's cash deposits and the bank balances at the Office of the State Treasurer totaled $64,069. At June 30, 2005, as a result of outstanding checks, the carrying amount of the Plan's cash deposits totaled $107,628, while the bank balances at the Office of the State Treasurer in which deposits are held totaled $474,314. Generally, any funds received by the Plan, including contributions, are transferred to the recordkeeper within one day.

At June 30, 2006 and 2005, cash of $1,757 and $1,684, respectively, was held in the Plan's name by its recordkeeper representing distributions payable to participants who cannot currently be located. The funds are invested in the Plan's stable value fund which is described in note 4. The liability for this amount is included in Other Liabilities in the Statements of Plan Net Assets.

(4) Investments

The Plan's Investment Policies and Guidelines state that the Board of Trustees of OPERS has the fiduciary responsibility to provide investment and administrative services to the Plan's participants and sets forth the following objectives:

- To provide participants with a prudent menu of investment options to diversify their investment portfolios in order to efficiently achieve reasonable financial goals for retirement.
- To provide education to participants to help them build portfolios that maximize the probability of achieving their investment goals.
- To administer the Plan in an efficient manner, such that participants are able to monitor their individual portfolios and make suitable adjustments in a timely manner.
- To provide competitive investment options in major asset classes at a reasonable cost.
- To establish criteria and procedures for the ongoing evaluation of the investment offered, which are consistent with prudent investment management and participants' needs for diverse investment options.
- To establish procedures for the selection, evaluation, review, and elimination of fund options and the Board's expectations regarding each fund option.

The menu of core investment options must include at least one offering in each of the following asset categories: Cash Equivalents, Fixed Income, Balanced, Domestic Large Cap Equity, Domestic Small and Mid-Cap Equity, and International Equity. With the exception of the cash equivalent category, the Plan is structured such that all core investment options are publicly traded mutual funds.

Great-West/BenefitsCorp. (Great-West) is the Plan's recordkeeper. An "unbundled" group of mutual funds offered by various fund managers is available to Plan participants.

A brief description of the investment options is as follows:

Bank Option

The Savings option offered a Federal Deposit Insurance Corporation (FDIC) insured savings account. The savings account bore interest equal to the mean of the 3-month Treasury bill auctions, which occurred the previous month plus an additional 0.25%. The rate for the quarter ended June 30, 2005, ranged from 3.05% to 3.17%.

In October 2005, the Board voted to remove the Savings option from the investment line-up. The Savings option was closed to new investments in May 2006, and investment balances remaining in this option at May 22, 2006, were transferred to the SoonerSave Fund.

Stable Value Fund

Great-West, as the Plan's trustee and recordkeeper, has established a separate stable value fund, the SoonerSave Stable Value Fund (SoonerSave Fund), for the Plan and the Deferred Compensation Plan. The SoonerSave Fund provides a stable rate of return by investing in a pool of government securities backed by the U.S. government and/or its agencies. In advance of each calendar quarter, Great-West establishes a rate of return for that quarter for the SoonerSave Fund. The rates for the quarters ended June 30, 2006 and 2005 were 4.45% and 4.20%, respectively.

Stable value fund investment income included in the accompanying financial statements is net of annual fees which are deducted from earnings prior to posting to the participant accounts. The annual fee as a percent of participating assets was .50% through April 30, 2006, and was reduced to .40% effective May 1, 2006.

Mutual Funds

At June 30, 2006 and 2005, the Plan offered 14 mutual funds from 8 fund families and is composed of three (3) bond funds: eight (8) equity funds which includes large-, mid-, and small-cap funds; two (2) international equity funds; and one (1) balanced fund with a mix of bond and equity securities. A specialty (market sector) fund which was offered during 2004 was replaced during 2005 with a mid-cap equity fund.

Shares of these funds are not insured, although some securities in which the funds invest may be insured or backed by the U.S. Government or its agencies. Investment income in the accompanying financial statements is net of management and other expenses charged by the funds' managers which are deducted from earnings prior to posting to the participant accounts. The mutual funds are no-load funds.

(Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Other than the requirement that the duration of the SoonerSave Fund cannot exceed five years, the Plan investment guidelines include no formal policy on interest rate risk. Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates based upon the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price. The average effective duration in years as provided by data from Morningstar, Inc. reports were:

	June 30, 2006		June 30, 2005	
Fixed Income Mutual Fund	**Fair Value**	**Weighted Average Duration**	**Fair Value**	**Weighted Average Duration**
T. Rowe Price Spectrum Income Fund	$ 1,496,587	4.00	$ 1,339,477	3.90
Evergreen Core Bond Fund	2,097,383	4.70	2,132,346	4.30
T. Rowe Price High-Yield Fund	1,798,322	4.00	1,553,923	3.80

At June 30, 2006 and 2005, the fair value of the SoonerSave Fund was $40,426,104 and $32,878,994 and the weighted average duration as provided by GreatWest was 2.80 years and 3.06 years, respectively.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the Plan. The Plan's policies and guidelines set forth specific criteria for selection of mutual fund options to be offered to participants and provide that a review and evaluation of these funds will be performed at least annually. While the guidelines set no specific rating criteria for the fixed income mutual funds, these funds are subject to the selection and review provisions as are all of the other mutual fund investments. At June 30, 2006 and 2005, the weighted averaged credit rating for the fixed income securities included in the fixed income mutual funds, as provided by Morningstar, Inc. Reports, was a follows: T. Rowe Price High-Yield Fund – B, and the Evergreen Core Bond Fund – AAA. The T. Rowe Price Spectrum Income Fund was rated A at June 30, 2006 and B at June 30, 2005.

The Plan's policies and guidelines require that the credit quality of the SoonerSave Fund be that of securities issues by the U.S. government and agencies and commercial bank securities with FDIC guarantees. The investments in the SoonerSave Fund at June 30, 2006 and 2005 were primarily composed of mortgage-backed and asset-backed securities which were all rated AAA.

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

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Board of Trustees
Oklahoma State Employees Deferred Savings Incentive Plan:

We have audited the financial statements of the Oklahoma State Employees Deferred Savings Incentive Plan (the Plan), as of and for the year ended June 30, 2006, and have issued our report thereon dated October 5, 2006, which includes an explanatory paragraph related to required supplementary information. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Plan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

(Continued)

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

KPMG LLP

October 5, 2006