# OKLAHOMA STATE EMPLOYEES DEFERRED COMPENSATION PLAN

Administered by the Oklahoma Public Employees Retirement System

Financial Statements

June 30, 2013 and 2012

(With Independent Auditor's Report Thereon)

COLE + REED P.C.
CERTIFIED PUBLIC ACCOUNTANTS

**Independent Auditors' Report**

Board of Trustees
Oklahoma State Employees
Deferred Compensation Plan:

**Report on the Financial Statements**

We have audited the accompanying statements of fiduciary net position of the Oklahoma State Employees Deferred Compensation Plan (the Plan), as of June 30, 2013 and 2012, and the related statements of changes in fiduciary net position for the years then ended and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

**Opinion**

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



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**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, beginning on page 3, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated October 17, 2013, on our consideration of the Plan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plan's internal control over financial reporting and compliance.

Cole & Reed P.C.

Oklahoma City, Oklahoma
October 17, 2013

As management of the Oklahoma State Employees Deferred Compensation 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, 2013, 2012 and 2011.

## Financial Highlights

- The net position available for plan benefits totaled approximately $618.1 million at June 30, 2013 compared to $556.1 million at June 30, 2012 and approximately $539.5 million at June 30, 2011. These funds are available for distribution to plan participants in accordance with Plan provisions.

- At June 30, 2013, the number of active, retired or inactive participants increased to 36,557 compared to 35,739 and 35,220 at June 30, 2012 and 2011, respectively.

- The Plan's average annualized rates of return of its mutual funds for the one-year period ended June 30, 2013, ranged from a high of 17.36% to a low of negative 9.16%. This compares with a high of 7.01% and a low of negative 15.58% in the corresponding prior-year period. For the year ended June 30, 2011 the returns ranged from a high of 42.32% to a low of 11.33%.

- During 2013, the Plan closed one mid-cap investment option – American Century Vista Advisor Fund.

## Overview of the Financial Statements

The Plan is a deferred compensation plan as authorized by Section 457 of the Internal Revenue Code (IRS), as amended, through which the State of Oklahoma (the State) offers its employees the option to defer income in accordance with IRS and Plan guidelines. Participants may direct their contributions in available investment options offered by the Plan and are 100% vested in their accounts. Benefits are payable to participants, in accordance with Plan provisions, upon termination of employment with the State, retirement, death, or unforeseeable emergency based on the participant's account balance.

The Plan's financial statements are comprised of a Statement of Fiduciary Net Position, a Statement of Changes in Fiduciary Net Position, and Notes to Financial Statements.

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

The *statement of changes in fiduciary net position* presents information showing how the Plan's net position available for plan benefits changed during the years ended June 30, 2013 and 2012. This statement reflects contributions made by and 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. Other transfers and fees affecting participant accounts are also reported in this statement.

The *notes to 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.



(Continued)

## Financial Analysis

Plan net position at June 30 is summarized as follows:

| | | 2013 | | 2012 | | 2011 |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | $ | 1,135,422 | $ | 2,083,046 | $ | 1,613,882 |
| Contributions receivable | | 506,288 | | 401,738 | | 264,038 |
| Investments: | | | | | | |
| Stable value fund | | 248,646,343 | | 240,750,102 | | 219,373,674 |
| Mutual funds | | 368,485,638 | | 314,477,933 | | 319,469,084 |
| Annuity contracts | | 389,035 | | 431,926 | | 434,551 |
| Total assets | | 619,162,726 | | 558,144,745 | | 541,155,229 |
| Other liabilities | | 1,095,337 | | 2,083,046 | | 1,613,882 |
| Ending net position | $ | 618,067,389 | $ | 556,061,699 | $ | 539,541,347 |

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

| | | 2013 | | 2012 | | 2011 |
|---|---|---|---|---|---|---|
| Additions: | | | | | | |
| Contributions | $ | 34,933,671 | $ | 41,307,912 | $ | 33,394,090 |
| Investment income | | 59,433,692 | | 5,262,192 | | 80,895,433 |
| Total additions | | 94,367,363 | | 46,570,104 | | 114,289,523 |
| Deductions: | | | | | | |
| Benefits paid to participants | | 32,064,963 | | 29,757,683 | | 32,297,950 |
| Administrative fees | | 296,710 | | 292,069 | | 293,884 |
| Total deductions | | 32,361,673 | | 30,049,752 | | 32,591,834 |
| Increase in net position | $ | 62,005,690 | $ | 16,520,352 | $ | 81,697,689 |

Contributions to the Plan decreased by approximately $6.4 million in 2013 or negative 15.4%. Contributions increased by approximately $7.9 million or 23.70% in 2012. Participants elected to allocate their contributions to the Plan for the years ended June 30, 2013, 2012, and 2011 as follows:

| | 2013 | | 2012 | | 2011 | |
|---|---|---|---|---|---|---|
| Stable value fund | 37.2 | % | 44.6 | % | 38.5 | % |
| Bond funds | 6.5 | | 5.3 | | 6.3 | |
| Balanced fund | 4.6 | | 3.8 | | 4.7 | |
| Large-Cap equity funds | 18.1 | | 15.8 | | 18.4 | |
| Mid-Cap equity funds | 12.6 | | 13.3 | | 13.7 | |
| Small-Cap equity funds | 4.2 | | 3.9 | | 4.2 | |
| International equity funds | 8.0 | | 7.8 | | 10.0 | |
| Target date funds | 8.8 | | 5.5 | | 4.2 | |
| | 100.0 | % | 100.0 | % | 100.0 | % |



(Continued)

Benefits and transfers paid to participants totaled $32.1 million in the fiscal year ended June 30, 2013 compared to $29.8 million in 2012 and $32.3 million in 2011. During 2013, benefit payments for death, retirement and severance of employment increased approximately $2.4 million along with a $69,000 decrease in hardship distributions. During 2012, benefit payments for death, retirement and severance of employment decreased $3.0 million along with a $178,000 decrease in hardship distributions.

As of June 30, 2013, Plan investments totaled approximately $617.5 million, an increase of $61.9 million or 11.1% over the previous year. During 2013 the returns for the total U.S. Equity market was 21.46% and negative .69% for the U.S. fixed income market. At June 30, 2012, Plan investments totaled approximately $555.7 million, an increase of $16.4 million or 3.0% compared to the prior year. During this period, the returns were 3.84% for the total U.S. Equity market and 7.47% for the U.S. fixed income market.

Additions to the plan during fiscal year 2013 increased approximately $47.8 million, or 102.6% compared to the prior year. This is mainly attributable to investment gains.



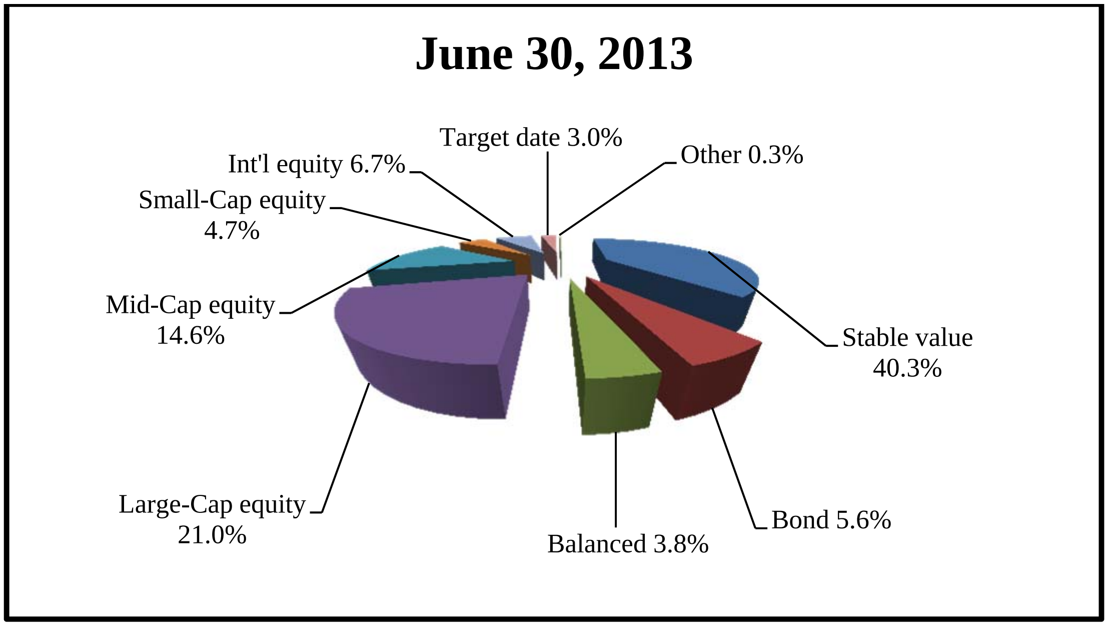
(Continued)

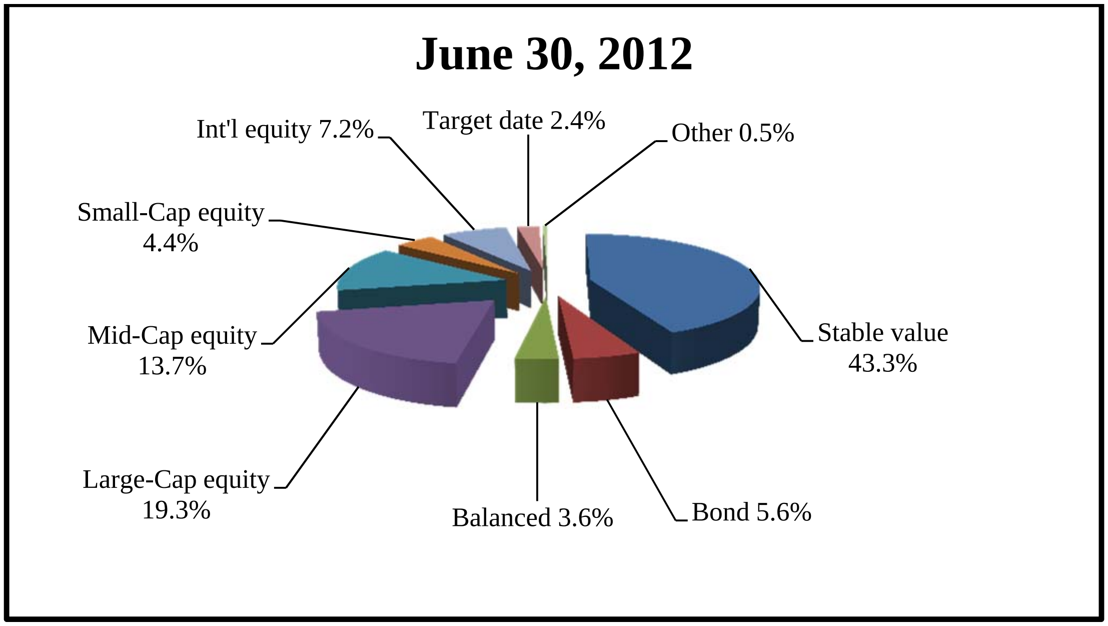
A summary of the mutual fund balances at June 30, 2013 and 2012 and the one-year annualized returns as of the fiscal years then ended is as follows:

| | Year Ended June 30, 2013 | | Year Ended June 30, 2012 | |
|---|---|---|---|---|
| | **Balance (000's)** | **One Year Returns** | **Balance (000's)** | **One Year Returns** |
| Balance fund: | | | | |
| T. Rowe Price Balanced Fund | $ 23,486 | 5.72 % | $ 19,742 | 2.25 % |
| | 23,486 | | 19,742 | |
| Bond funds: | | | | |
| T. Rowe Price High-Yield Fund | 19,412 | 2.53 | 16,053 | 5.57 |
| T. Rowe Price Spectrum Income Fund | 15,072 | -0.56 | 14,809 | 5.08 |
| | 34,484 | | 30,862 | |
| International funds: | | | | |
| American Funds EuroPacific Growth Fund | 18,804 | 1.99 | 16,625 | -12.93 |
| T. Rowe Price Emerging Markets Stock | 22,666 | -9.16 | 23,597 | -15.58 |
| | 41,470 | | 40,222 | |
| Large-Cap funds: | | | | |
| American Century Income and Growth | 34,408 | 16.77 | 28,779 | 4.75 |
| Blackrock S&P 500 Stock Fund | 22,207 | 13.75 | 17,715 | 5.30 |
| T. Rowe Price Blue Chip Growth Fund | 63,369 | 12.14 | 54,030 | 7.01 |
| T. Rowe Price Total Equality Market Fund | 9,357 | 14.20 | 6,769 | 3.63 |
| | 129,341 | | 107,293 | |
| Mid-Cap equity funds: | | | | |
| American Century Vista Advisor Fund | - | (a) | 23,937 | -4.79 |
| Artisian Mid-Cap Value Fund | 33,087 | 17.36 | 26,169 | -0.53 |
| Columbia Acorn Fund | 56,725 | 10.52 | 26,069 | -2.78 |
| | 89,812 | | 76,175 | |
| Small-Cap equity funds: | | | | |
| Perkins Small-Cap Value Fund | 24,855 | 13.97 | 22,064 | -3.86 |
| Blackrock Small-Cap Growth Equity | 3,918 | 12.51 | 2,370 | -6.54 |
| | 28,773 | | 24,434 | |
| Target date funds: | | | | |
| Vanguard Target Retirement 2010 | 3,593 | 2.24 | 3,892 | 4.06 |
| Vanguard Target Retirement 2020 | 6,667 | 5.04 | 4,217 | 1.75 |
| Vanguard Target Retirement 2030 | 4,143 | 6.89 | 2,638 | 0.16 |
| Vanguard Target Retirement 2040 | 2,820 | 8.28 | 1,687 | -0.91 |
| Vanguard Target Retirement 2050 | 1,127 | 8.27 | 716 | -0.85 |
| | 18,350 | | 13,150 | |
| Self-directed brokers mututal fund option | 2,770 | n/a | 2,600 | n/a |
| Total mutual funds | $ 368,486 | | $ 314,478 | |

(a) Fund removed from offered options in November 2012

At June 30, 2013 and 2012, the participant balances, including accruals, were invested as follows:



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

**OKLAHOMA STATE EMPLOYEES**
**DEFERRED COMPENSATION PLAN**
Administered by the Oklahoma Public Employees Retirement System

Statements of Fiduciary Net Position

June 30, 2013 and 2012

| | | 2013 | | 2012 |
|---|---|---|---|---|
| Cash and cash equivalents | $ | 1,135,422 | $ | 2,083,046 |
| Contributions receivable | | 506,288 | | 401,738 |
| Investments: | | | | |
| Stable value fund | | 248,646,343 | | 240,750,102 |
| Mutual Funds: | | | | |
| Bond funds | | 34,483,507 | | 30,862,308 |
| Balanced funds | | 23,485,767 | | 19,741,558 |
| Large-Cap equity funds | | 129,340,671 | | 107,293,387 |
| Mid-Cap equity fund | | 89,812,436 | | 76,174,747 |
| Small-Cap equity funds | | 28,773,009 | | 24,434,257 |
| International equity funds | | 41,470,228 | | 40,221,515 |
| Target date funds | | 18,350,231 | | 13,149,838 |
| Self-directed brokerage mutual funds option | | 2,769,789 | | 2,600,323 |
| | | 368,485,638 | | 314,477,933 |
| Annuity Contracts | | 389,035 | | 431,926 |
| Total investments | | 617,521,016 | | 555,659,961 |
| Total assets | | 619,162,726 | | 558,144,745 |
| Other liabilities | | 1,095,337 | | 2,083,046 |
| Net position available for plan benefits | $ | 618,067,389 | $ | 556,061,699 |

See accompanying notes to financial statements.

**OKLAHOMA STATE EMPLOYEES**
**DEFERRED COMPENSATION PLAN**
Administered by the Oklahoma Public Employees Retirement System

Statements of Changes in Fiduciary Net Position

Years Ended June 30, 2013 and 2012

| | 2013 | 2012 |
|---|---|---|
| Additions: | | |
| Contributions: | | |
| Participants | $ 34,614,101 | $ 33,682,145 |
| Plan to plan transfers | 319,570 | 7,625,767 |
| Total contributions | 34,933,671 | 41,307,912 |
| Investment income: | | |
| Net appreciation (depreciation) in fair value of investments | 41,961,803 | (11,894,250) |
| Interest and dividends | 17,471,889 | 17,156,442 |
| Total investment income (loss) | 59,433,692 | 5,262,192 |
| Total additions | 94,367,363 | 46,570,104 |
| Deductions: | | |
| Benefits paid to participants | 32,064,963 | 29,757,683 |
| Administrative fees | 296,710 | 292,069 |
| Total deductions | 32,361,673 | 30,049,752 |
| Net increase | 62,005,690 | 16,520,352 |
| Net position available for plan benefits: | | |
| Beginning of year | 556,061,699 | 539,541,347 |
| End of year | $ 618,067,389 | $ 556,061,699 |

See accompanying notes to financial statements.

## (1) Description of the Plan

The following brief description of the Oklahoma State Employees Deferred Compensation 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.).

The State of Oklahoma (the State) offers its employees a deferred compensation plan as authorized by Section 457 of the Internal Revenue Code (IRC), as amended by the Tax Reform Act of 1986, and in accordance with the provisions of Sections 1701 through 1706 of Title 74 of the O.S.

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

The Plan is available to all State employees, as well as any elected officials receiving a salary from the State. Participants may direct the investment of their contributions in available investment options offered by the Plan. The minimum contribution amount is the equivalent of $25 per month and participants are immediately 100% vested in their respective accounts. All interest, dividends and investment fees are allocated to participants' accounts.

Participants may defer until future years up to the lesser of 100% of their compensation as defined by Plan documents or the maximum amount allowed each year as determined by the Internal Revenue Service, currently $17,500.

The Plan offers a catch-up program to participants, which allows them to defer annually for the three years prior to their year of retirement up to twice that Plan year's deferral limit. The amount of additional contributions in excess of the normal maximum contributions to the Plan are also limited to contributions for the years in which the participant was eligible but did not participate in the Plan or the difference between contributions made and the maximum allowable level. To be eligible for the catch–up program, the participant must be within three years of retirement with no reduced benefits.

Participants age 50 or older may make additional contributions of up to $5,500 annually subject to certain limits.

Deferred compensation benefits are paid to participants or beneficiaries upon termination, retirement, death or unforeseeable emergency. Such benefits are based on a participant's account balance and are disbursed in a lump sum or periodic payments at the option of the participant or beneficiaries in accordance with Plan provisions.

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Effective January 1, 1998, the Board established a Trust and Trust Fund covering the Plan assets, pursuant to federal legislation enacted in 1996, requiring public employers to establish such trusts for plans meeting the requirements of Section 457 of the IRC no later than January 1, 1999. Under the terms of the Trust, the corpus or income of the Trust Fund may be used only for the exclusive benefit of the Plan participants and their beneficiaries. Prior to the establishment of the Trust, Plan assets were subject to the claims of general creditors of the State. The Board acts as trustee of the Trust. The participants' accounts are invested in accordance with the investment elections of the participants. The Board is accountable for all deferred compensation received, but has no duty to require any compensation to be deferred or to determine that the amounts received comply with the Plan or to determine that the Trust Fund is adequate to provide the benefits payable pursuant to the Plan.

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

| | 2013 | 2012 |
|---|---|---|
| Active participants | 24,544 | 24,354 |
| Retired and inactive participants | 12,013 | 11,385 |
| | 36,557 | 35,739 |

## (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. Salary deferrals are generally recorded when received and, as required by State law, are posted and transferred within ten (10) business days to the investment option as determined by the participant. Certain prior year information has been reclassified to conform to the current year presentation.

Consistent with the provisions of Statement No. 32 of the Governmental Accounting Standards Board (GASB), *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, the Plan does not meet the criteria for inclusion in the fiduciary funds of the State. The separate financial statements of the Plan present net position available for plan benefits and changes in net position available for plan benefits for the years ended June 30, 2013 and 2012.

### *Contributions Receivable*

Contributions receivable included in the Statements of Fiduciary Net Position represent contributions withheld from participants' salaries but not yet remitted to the Plan by the state agency responsible for the payrolls.

### *Investments*

The Plan is authorized to invest in eligible investments as prescribed in Title 74 O.S. 1701. Investments in the mutual funds are presented at their fair value based on published market prices. Investments in the annuity contracts 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 are required to remit directly to the Oklahoma State Employees Deferred Savings Incentive Plan (the Savings Incentive Plan) the equivalent of $1.87 ($1.54 in 2012) per month for reimbursement to OPERS of administrative expenses incurred on behalf of the Plan and the Savings Incentive Plan. In accordance with an administrative expense allocation policy adopted by the Board, approximately $382,000 in 2013 and $359,000 in 2012 was the Plan's allocable share of such expenses.

A $2 participant administrative services fee is deducted from each participant's account balance at the end of each quarter by the recordkeeper for the Plan. These amounts are reflected as administrative fees in the accompanying Statements of Changes in Fiduciary Net Position.

Effective with the fiscal year beginning July 1, 2012, and with optional renewals for four succeeding terms of one year, the Board entered into an agreement with Great-West/BenefitCorp (Great-West) for recordkeeping services for the Plan and the Savings Incentive Plan. Under terms of this agreement, as amended, Great-West will receive an administrative service fee comprised of the following four components: (1) per participant administrative service fee; (2) per participant self-directed brokerage option service fee; (3) mutual fund re-allowance revenue; and (4) Stable Value Fund revenue.

The agreement defines specific fees for each component and a maximum administrative fee of $31.32 per participant per year that Great-West can receive as compensation. In the event that the compensation received by Great-West exceeds the maximum fee, the Plan and the Deferred Compensation Plan are entitled to a credit of that amount, which would first be offset by any revenue deficits. Great-West has established an Excess Revenue Sharing Account, currently invested in the Stable Value Fund, into which the estimated excess credits are deposited quarterly, pending final accounting within 60 days of year end. The Board may authorize Great-West to utilize the excess credits to provide additional services or options to the Plan and the Savings Incentive Plan or to participants.

### *Federal Income Tax Status*

The Plan has received a favorable private letter ruling from the Internal Revenue Service dated July 7, 1999. The ruling concludes that the Plan is an eligible deferred compensation plan as defined in Section 457 of the IRC and amounts deferred in the Plan are taxable only in the year or years in which amounts are paid out of the Plan. The Trust established under the Plan is treated as exempt from federal income taxation.

### *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 fiduciary net position at the date of the financial statements and the changes in fiduciary net position 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 Fiduciary Net Position.

## (3) Cash and Cash Equivalents

Cash represents cash on deposit with the State as a part of a pool maintained by the State Treasurer. At June 30, 2013 and 2012, 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, collateralized certificates of deposit, mortgage-backed pass-through agency securities, and tri-party repurchase agreements. Participants are limited to qualifying agencies and funds within the State's reporting entity, and each participant maintains 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, 2013 and 2012, 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.

At June 30, 2013, as a result of outstanding checks, the Plan's carrying amount totaled $45,182 and the bank balances at the Office of the State Treasurer totaled $1,589,500. At June 30, 2012 as a result of outstanding checks, the Plan's carrying amount totaled $5,035 and the bank balances at the Office of the State Treasurer totaled $1,541,467. Generally, any funds received by the Plan, including contributions, are transferred to the recordkeeper within one business day.

At June 30, 2013 and 2012, funds were held in the Plan's name by its recordkeeper in the amounts of $64,195 and $62,547, respectively, 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 these amounts is included in Other Liabilities in the Statements of Plan Net Position.

At June 30, 2013 and 2012, funds were also held in the Plan's name by its recordkeeper in the stable value fund in the amount of $1,026,045 and $2,015,464, respectively. These balances represent the estimated revenue share amount plus earnings, resulting from the Excess Revenue Sharing agreement described in Note 2. At the January 2013 meeting, the Board approved a distribution of Revenue Share funds in excess of one year's estimated fee to Great-West. The distribution was credited to the participant accounts on March 13, 2013. $1,423,890 was distributed from the Revenue Share fund to participants in the Plan. The liability for this amount is included in Other liabilities in the Statements of Fiduciary Net Position.

## (4) Investments

The Plan's Investment Policies and Guidelines state that the Board 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 equivalents category, the Plan is structured such that all core investment options are publicly traded mutual funds.

An "unbundled" group of mutual funds and a self-directed brokerage option is offered by various fund managers to Plan participants.

A brief description of the investment options is as follows:

***Stable Value Fund***

Great-West, as the Plan's trustee and recordkeeper, has established a separate stable value fund, the SoonerSave Fund, for the Plan and the Savings Incentive Plan. The SoonerSave Fund provides a stable rate of return by investing in a pool of government securities backed by the full faith and credit of 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 rate in effect for the quarter ended June 30, 2013 was 2.45% and the rate in effect for the quarter ended June 30, 2012 was 2.95%.

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.

***Mutual Funds***

As of June 30, 2013 and June 30, 2012, no funds were added to the Plan although one fund was terminated during fiscal year 2013 – American Century Vista. The Plan offers 18 mutual funds from 8 fund families. The composition is two (2) bond funds; nine (8) equity funds which includes large-, mid-, and small-cap funds; two (2) international equity funds; one (1) balanced fund with a mix of bond and equity securities; and (5) target date funds. A self-directed brokerage option is also available to qualifying participants through an independent broker, which allows investment in mutual funds not offered by the Plan for a $15 quarterly fee charged directly to the participant.

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.

***Annuity Contracts***

Through June 30, 1995, participants could pool their deferred compensation at retirement and purchase an annuity contract to receive benefits over the duration of their annuity contract.

***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, 2013 | | June 30, 2012 | |
|---|---|---|---|---|
| **Fixed Income Mutual Fund** | **Fair Value** | **Weighted Average Duration** | **Fair Value** | **Weighted Average Duration** |
| T. Rowe Price Spectrum Income Fund | $ 15,072,241 | 5.26 | $ 14,808,996 | 4.74 |
| T. Rowe Price High Yield Fund | 19,411,266 | 3.61 | 16,053,312 | 6.11 |

At June 30, 2013 and 2012, the fair value of the SoonerSave Stable Value Fund was $248,646,343 and $240,750,102 and the weighted average duration as provided by Great-West was 4.3 years and 2.7 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. The weighted averaged credit ratings for the fixed income securities included in the fixed income mutual funds, as provided by Morningstar, Inc. reports, were as follows: T. Rowe Price High-Yield Fund, B at June 30, 2013 and June 30, 2012. The T. Rowe Price Spectrum Income Fund was rated BB at June 30, 2013 and June 30, 2012.

The Plan's policies and guidelines require that the credit quality of the SoonerSave Stable Value Fund be that of securities issued by the U.S. government and agencies and commercial bank securities with FDIC guarantees. The investments in the SoonerSave Stable Value Fund at June 30, 2013 and 2012 were primarily composed of mortgage-backed and asset-backed securities which were all rated AA+/AAA.

## (5) Savings Incentive Plan

Contributions equivalent to $25 per month for qualified participants of the Plan who are making deferrals of at least $25 per month were remitted by the participants' employers to the Savings Incentive Plan, a separate qualified defined contribution plan established in accordance with Section 401(a) of the IRC. The funds of the Savings Incentive Plan are not included in the accompanying financial statements.

## (6) New Pronouncements

***New Accounting Pronouncements Adopted in Fiscal Year 2013***

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

The Plan adopted Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63), during 2013. GASB 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Adoption of GASB 63 resulted in changes to the Plan's financial statement presentation, but such changes were not significant.

***New Accounting Pronouncements Issued, Not Yet Adopted***

In April 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65). GASB 65 provides further guidance on determining which balances currently reported as assets and liabilities should instead be reported as deferred outflows or deferred inflows of resources. GASB 65 is effective for periods beginning after December 15, 2012, and will be applied on a retroactive basis.

In March 2012, the GASB issued Statement No. 66, *Technical Corrections - 2012; an Amendment of GASB Statements No. 10 and No. 62* (GASB 66). GASB 66 amends GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues,* by removing the provision that limits fund-based reporting of a state and local government's risk financing activities to the general fund and the internal service fund type. The requirements of GASB 66 are effective for fiscal years beginning after December 15, 2012.

In June 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans* (GASB 67). GASB 67 replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and Statement 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. GASB 67 builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. GASB 67 enhances note disclosures and required supplementary information (RSI) for both defined benefit and defined contribution pension plans. GASB 67 also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules. The requirements of GASB 67 are effective for fiscal years beginning after June 15, 2013.

In June 2012, the GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions (GASB 68). GASB 68 replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers and Statement No. 50 as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. GASB 68 also enhances accountability and transparency through revised and new note disclosures and RSI. The requirements of GASB 68 are effective for fiscal years beginning after June 15, 2014.

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

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

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

COLE + REED P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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

Board of Trustees
Oklahoma State Employees
Deferred Compensation Plan:

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

**Internal Control over Financial Reporting**

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

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

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

**Compliance and Other Matters**

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



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**Purpose of this Report**

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

Cole & Reed P.C.

Oklahoma City, Oklahoma
October 17, 2013