

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

Financial Statements

June 30, 2014 and 2013

(With Independent Auditors' Report Thereon)

Independent Auditors' Report

Board of Trustees
Oklahoma State Employees
Deferred Compensation Plan:

Report on the Financial Statements

We have audited the accompanying financial statements of the Oklahoma State Employees Deferred Compensation Plan (the Plan), which comprise the statements of fiduciary net position as of June 30, 2014 and 2013, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Oklahoma State Employees Deferred Compensation Plan as of June 30, 2014 and 2013, and the respective changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 our report dated October 16, 2014, on our consideration of the Plan’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plan’s internal control over financial reporting and compliance.

Cole & Reed P.C.

Oklahoma City, Oklahoma
October 16, 2014

**OKLAHOMA STATE EMPLOYEES
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Management's Discussion and Analysis

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, 2014, 2013, and 2012.

Financial Highlights

- The net position available for plan benefits totaled approximately \$706.7 million at June 30, 2014, compared to \$618.1 million at June 30, 2013 and approximately \$556.1 million at June 30, 2012. These funds are available for distribution to plan participants in accordance with Plan provisions.
- At June 30, 2014, the number of active, retired or inactive participants increased to 37,548, compared to 36,557 and 35,739 at June 30, 2013 and 2012, respectively.
- The Plan's average annualized rates of return of its mutual funds for the one-year period ended June 30, 2014, ranged from a high of 30.48% to a low of 9.03%. This compares with a high of 17.36% and a low of negative 9.16% in the corresponding prior-year period. For the year ended June 30, 2012, the returns ranged from a high of 7.01% to a low of negative 15.58%.
- No investment options were closed during FY2014. 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, 2014 and 2013. 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.

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Financial Analysis

Plan net position at June 30 is summarized as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Cash and cash equivalents	\$ 1,202,249	\$ 1,135,422	\$ 2,083,046
Contributions receivable	613,005	506,288	401,738
Investments:			
Stable value fund	250,289,756	248,646,343	240,750,102
Mutual funds	455,689,199	368,485,638	314,477,933
Annuity contracts	99,793	389,035	431,926
Total assets	<u>707,894,002</u>	<u>619,162,726</u>	<u>558,144,745</u>
Other liabilities	1,202,249	1,095,337	2,083,046
Ending net position	<u>\$ 706,691,753</u>	<u>\$ 618,067,389</u>	<u>\$ 556,061,699</u>

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Additions:			
Contributions	\$ 36,351,272	\$ 34,933,671	\$ 41,307,912
Investment income	85,112,967	59,433,692	5,262,192
Total additions	<u>121,464,239</u>	<u>94,367,363</u>	<u>46,570,104</u>
Deductions:			
Benefits paid to participants	32,535,648	32,064,963	29,757,683
Administrative fees	304,227	296,710	292,069
Total deductions	<u>32,839,875</u>	<u>32,361,673</u>	<u>30,049,752</u>
Increase in net position	<u>\$ 88,624,364</u>	<u>\$ 62,005,690</u>	<u>\$ 16,520,352</u>

Contributions to the Plan increased by approximately \$1.4 million in 2014, or 4.06%. Contributions decreased by approximately \$6.4 million, or negative 15.4%, in 2013. Participants elected to allocate their contributions to the Plan for the years ended June 30, 2014, 2013, and 2012 as follows:

	<u>2014</u>		<u>2013</u>		<u>2012</u>
Stable value fund	33.5	%	37.2	%	44.6
Bond funds	6.1		6.5		5.3
Balanced fund	4.7		4.6		3.8
Large-Cap equity funds	19.3		18.1		15.8
Mid-Cap equity funds	12.8		12.6		13.3
Small-Cap equity funds	4.6		4.2		3.9
International equity funds	7.2		8.0		7.8
Target date funds	11.8		8.8		5.5
	<u>100.0</u>	<u>%</u>	<u>100.0</u>	<u>%</u>	<u>100.0</u>

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Benefits and transfers paid to participants totaled \$32.5 million in the fiscal year ended June 30, 2014, compared to \$32.1 million in 2013 and \$29.8 million in 2012. During 2014, benefit payments for death, retirement, and severance of employment decreased approximately \$349,000. 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.

As of June 30, 2014, Plan investments totaled approximately \$706.1 million, an increase of \$88.6 million, or 14.3%, over the previous year. During 2014, the returns for the total U.S. Equity market was 25.22% and 4.37% for the U.S. fixed income market. 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.

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A summary of the mutual fund balances at June 30, 2014 and 2013 and the one-year annualized returns as of the fiscal years then ended is as follows:

	<u>Year Ended June 30, 2014</u>		<u>Year Ended June 30, 2013</u>	
	<u>Balance (000's)</u>	<u>One Year Returns</u>	<u>Balance (000's)</u>	<u>One Year Returns</u>
Balance fund:				
T. Rowe Price Balanced Fund	\$ 28,637	18.76 %	\$ 23,486	5.72 %
	28,637		23,486	
Bond funds:				
T. Rowe Price High-Yield Fund	22,020	12.36	19,412	2.53
T. Rowe Price Spectrum Income Fund	<u>16,325</u>	9.03	<u>15,072</u>	-0.56
	38,345		34,484	
International funds:				
American Funds EuroPacific Growth Fund	23,038	21.94	18,804	1.99
T. Rowe Price Emerging Markets Stock	<u>22,784</u>	12.60	<u>22,666</u>	-9.16
	45,822		41,470	
Large-Cap funds:				
American Century Income and Growth	43,909	24.66	34,408	16.77
Blackrock S&P 500 Stock Fund	29,312	24.46	22,207	13.75
T. Rowe Price Blue Chip Growth Fund	83,149	30.06	63,369	12.14
T. Rowe Price Total Equality Market Fund	<u>12,020</u>	25.14	<u>9,357</u>	14.20
	168,390		129,341	
Mid-Cap equity funds:				
American Century Vista Advisor Fund	- (a)		- (a)	
Artisian Mid-Cap Value Fund	40,518	21.02	33,087	17.36
Columbia Acorn Fund	<u>66,071</u>	21.57	<u>56,725</u>	10.52
	106,589		89,812	
Small-Cap equity funds:				
Perkins Small-Cap Value Fund	29,309	21.20	24,855	13.97
Blackrock Small-Cap Growth Equity	<u>7,736</u>	30.48	<u>3,918</u>	12.51
	37,045		28,773	
Target date funds:				
Vanguard Target Retirement 2010	4,098	11.75	3,593	2.24
Vanguard Target Retirement 2020	9,636	16.43	6,667	5.04
Vanguard Target Retirement 2030	6,525	19.49	4,143	6.89
Vanguard Target Retirement 2040	4,989	22.16	2,820	8.28
Vanguard Target Retirement 2050	<u>2,397</u>	22.14	<u>1,127</u>	8.27
	27,645		18,350	
Self-directed brokers mutual fund option	<u>3,216</u>	n/a	<u>2,770</u>	n/a
Total mutual funds	<u>\$ 455,689</u>		<u>\$ 368,486</u>	

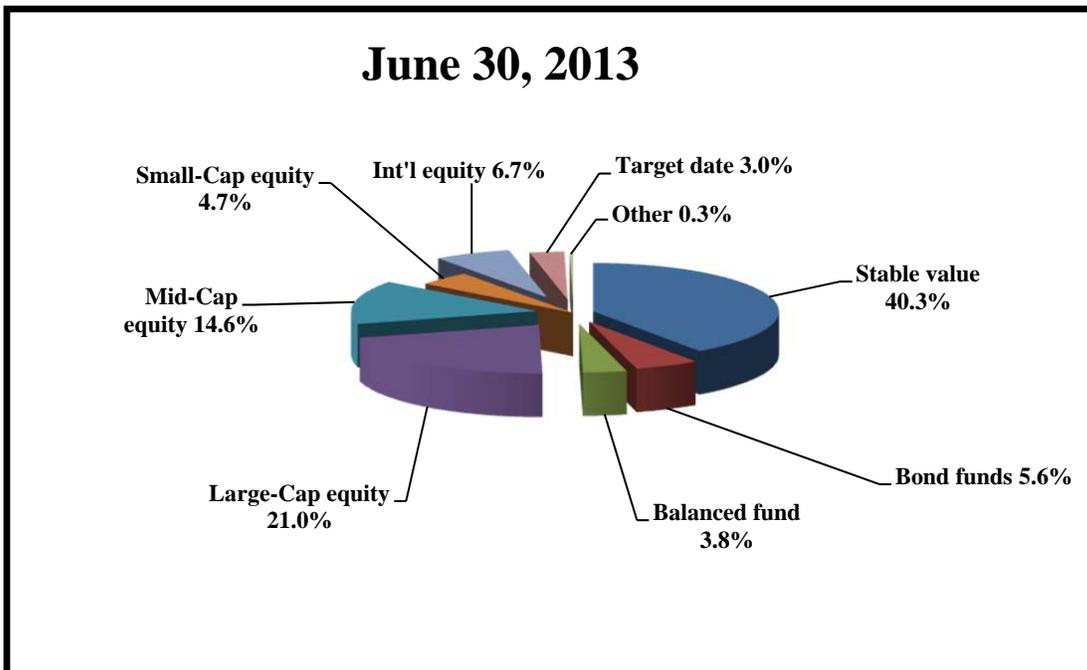
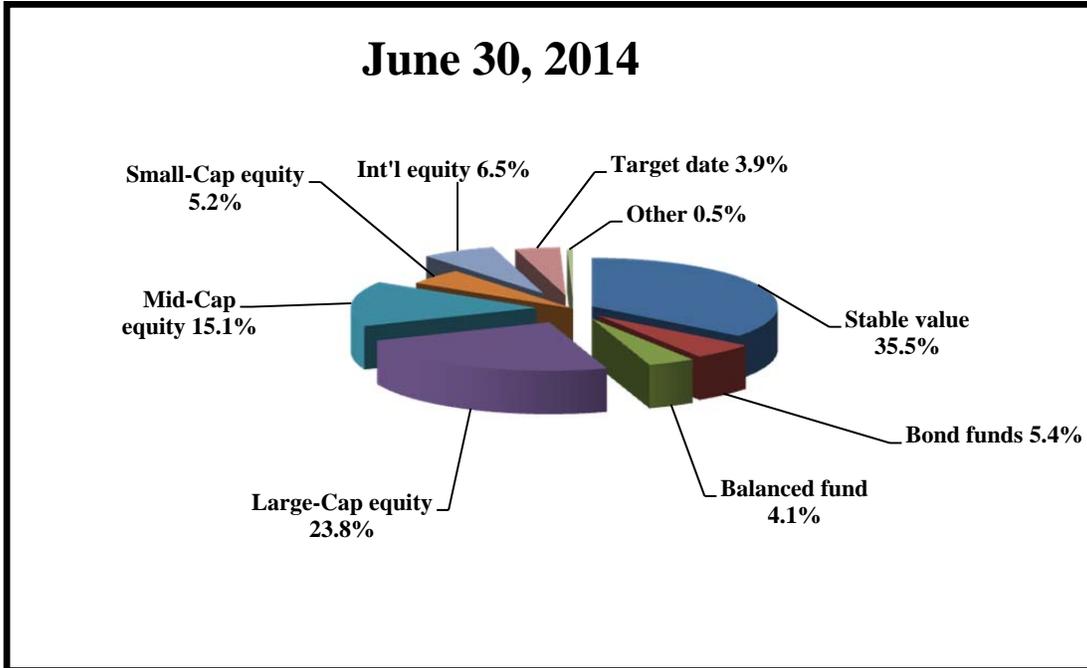
(a) Fund removed from offered options in November 2012

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At June 30, 2014 and 2013, the participant balances, including accruals, were invested as follows:



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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.

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Statements of Fiduciary Net Position

June 30, 2014 and 2013

	2014	2013
Cash and cash equivalents	\$ 1,202,249	\$ 1,135,422
Contributions receivable	613,005	506,288
Investments:		
Stable value fund	250,289,756	248,646,343
Mutual Funds:		
Bond funds	38,344,755	34,483,507
Balanced funds	28,636,833	23,485,767
Large-Cap equity funds	168,390,053	129,340,671
Mid-Cap equity fund	106,588,997	89,812,436
Small-Cap equity funds	37,045,303	28,773,009
International equity funds	45,821,853	41,470,228
Target date funds	27,645,142	18,350,231
Self-directed brokerage mutual funds option	3,216,263	2,769,789
	455,689,199	368,485,638
Annuity Contracts	99,793	389,035
Total investments	706,078,748	617,521,016
Total assets	707,894,002	619,162,726
Other liabilities	1,202,249	1,095,337
Net position available for plan benefits	\$ 706,691,753	\$ 618,067,389

See accompanying notes to financial statements.

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Statements of Changes in Fiduciary Net Position

Years Ended June 30, 2014 and 2013

	2014	2013
Additions:		
Contributions:		
Participants	\$ 36,067,387	\$ 34,614,101
Plan to plan transfers	283,885	319,570
Total contributions	36,351,272	34,933,671
Investment income:		
Net appreciation (depreciation) in fair value of investments	64,431,789	41,961,803
Interest and dividends	20,681,178	17,471,889
Total investment income (loss)	85,112,967	59,433,692
Total additions	121,464,239	94,367,363
Deductions:		
Benefits paid to participants	32,535,648	32,064,963
Administrative fees	304,227	296,710
Total deductions	32,839,875	32,361,673
Net increase	88,624,364	62,005,690
Net position available for plan benefits:		
Beginning of year	618,067,389	556,061,699
End of year	\$ 706,691,753	\$ 618,067,389

See accompanying notes to financial statements.

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Notes to Financial Statements

June 30, 2014 and 2013

(1) Description of the Plan

The following brief description of the Oklahoma State Employees Deferred Compensation Plan (the Plan), a defined contribution pension plan 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:

	<u>2014</u>	<u>2013</u>
Active participants	24,805	24,544
Retired and inactive participants	<u>12,743</u>	<u>12,013</u>
	<u>37,548</u>	<u>36,557</u>

(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.

The Plan is not included 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, 2014 and 2013.

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.

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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 \$1.81 (\$1.87 in 2013) 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 \$403,000 in 2014 and \$382,000 in 2013 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 Savings Incentive 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.

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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, 2014 and 2013, 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, 2014 and 2013, 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, 2014, as a result of outstanding checks, the Plan's carrying amount totaled \$5,097, and the bank balances at the Office of the State Treasurer totaled \$45,387. 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. Generally, any funds received by the Plan, including contributions, are transferred to the recordkeeper within one business day.

At June 30, 2014 and 2013, funds were held in the Plan's name by its recordkeeper in the amounts of \$65,516 and \$64,195, 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, 2014 and 2013, funds were also held in the Plan's name by its recordkeeper in the stable value fund in the amount of \$1,131,636 and \$1,026,045, 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 2014 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 February 11, 2014. \$325,390 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.

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(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 are 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, 2014 was 1.9%, and the rate in effect for the quarter ended June 30, 2013 was 2.45%.

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.

**OKLAHOMA STATE EMPLOYEES
DEFERRED COMPENSATION PLAN**

Administered by the Oklahoma Public Employees Retirement System

Notes to Financial Statements

June 30, 2014 and 2013

Mutual Funds

As of June 30, 2014 and June 30, 2013, 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; eight (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 five (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:

Fixed Income Mutual Fund	June 30, 2014		June 30, 2013	
	Fair Value	Weighted Average Duration	Fair Value	Weighted Average Duration
T. Rowe Price Spectrum Income Fund	\$ 16,324,475	5.16	\$ 15,072,241	5.26
T. Rowe Price High Yield Fund	22,020,280	3.08	19,411,266	3.61

At June 30, 2014 and 2013, the fair value of the SoonerSave Stable Value Fund was \$250,289,756 and \$248,646,343, and the weighted average duration as provided by Great-West was 3.4 years and 4.3 years, respectively.

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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, 2014 and June 30, 2013. The T. Rowe Price Spectrum Income Fund was rated BB at June 30, 2014 and June 30, 2013.

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, 2014 and 2013 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 2014

The Plan adopted Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65), during 2014. GASB 65 provides further guidance on determining which balances currently reported as assets and liabilities should instead be reported as deferred outflows or deferred inflows of resources. The adoption of GASB 65 did not have a significant impact on the Plan's financial statements.

The Plan adopted GASB Statement No. 66, *Technical Corrections - 2012; an Amendment of GASB Statements No. 10 and No. 62* (GASB 66), during 2014. 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 adoption of GASB 66 did not have a significant impact on the Plan's financial statements.

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Notes to Financial Statements

June 30, 2014 and 2013

The Plan adopted GASB Statement No. 67, *Financial Reporting for Pension Plans* (GASB 67), during 2014. 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 adoption of GASB 67 did not have a significant impact on the Plan's financial statements.

The Plan adopted GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* (GASB 70), during 2014. GASB 70 requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. GASB 70 also provides additional guidance for intra-entity nonexchange financial guarantees involving blended component units and specifies information required to be disclosed by governments that extend and/or receive nonexchange financial guarantees. The adoption of GASB 70 did not have a significant impact on the Plan's financial statements.

New Accounting Pronouncements Issued, Not Yet AdoptedIn 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.

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

**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), which comprise the statement of fiduciary net position as of June 30, 2014, and the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 16, 2014.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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



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 16, 2014