

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

Financial Statements

June 30, 2008 and 2007

(With Independent Auditors' Report Thereon)

## Independent Auditors' Report

Board of Trustees  
Oklahoma State Employees  
Deferred Compensation Plan:

We have audited the accompanying statements of plan net assets of the Oklahoma State Employees Deferred Compensation Plan (the Plan), as of June 30, 2008 and 2007, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets as of June 30, 2008 and 2007, and the changes in plan net assets for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2008 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, 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 and compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However we did not audit the information and express no opinion on it.

*Cole & Reed P.C.*

Oklahoma City, Oklahoma  
October 14, 2008

**OKLAHOMA STATE EMPLOYEES  
DEFERRED COMPENSATION PLAN**  
Administered by the Oklahoma Public Employees Retirement System  
**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, 2008, 2007 and 2006.

**Financial Highlights**

- The net assets available for plan benefits totaled approximately \$456.3 million at June 30, 2008 compared to approximately \$446.9 million at June 30, 2007, and approximately \$395.6 million at June 30, 2006. These funds are available for distribution to plan participants in accordance with Plan provisions.
- At June 30, 2008, the number of active, retired or inactive participants increased to 33,972 compared to 33,003 and 32,192 at June 30, 2007 and 2006, respectively.
- The Plan's average annualized rates of return of its mutual funds for the one-year period ended June 30, 2008, ranged from a high of 4.33% to a low of -18.48%. This compares with a high of 51.04% and a low of 5.63% in the corresponding prior-year period. For the year ended June 30, 2006 the returns ranged from a low of negative 0.91% to a high of 32.34%.

**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 Plan Net Assets, a Statement of Changes in Plan Net Assets, and Notes to Financial Statements.

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

**OKLAHOMA STATE EMPLOYEES  
DEFERRED COMPENSATION PLAN**

Administered by the Oklahoma Public Employees Retirement System

**Management's Discussion and Analysis**

The *statement of changes in plan net assets* presents information showing how the Plan's net assets available for plan benefits changed during the years ended June 30, 2008 and 2007. 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.

**Financial Analysis**

Plan net assets at June 30 are summarized as follows:

	<u>2008</u>		<u>2007</u>		<u>2006</u>
Cash and cash equivalents	\$ 611,469	\$	247,122	\$	53,762
Contributions receivable	115,653		798,897		637,654
Investments:					
Stable value fund	163,129,168		141,391,425		130,291,404
Mutual funds	292,537,764		324,216,502		264,162,216
Annuity contracts	509,139		503,843		547,010
	<u>456,903,193</u>		<u>467,157,789</u>		<u>395,692,046</u>
Total assets					
Other liabilities	611,469		247,122		53,762
	<u>456,291,724</u>	\$	<u>466,910,667</u>	\$	<u>395,638,284</u>
Ending net assets					

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

	<u>2008</u>		<u>2007</u>		<u>2006</u>
Additions:					
Contributions	\$ 36,189,955	\$	33,837,313	\$	31,259,125
Investment income (loss)	(17,839,687)		63,954,020		32,126,803
	<u>18,350,268</u>		<u>97,791,333</u>		<u>63,385,928</u>
Total additions					
Deductions:					
Benefits and transfers	28,680,615		26,249,479		22,322,304
Administrative fees	288,596		269,471		255,569
	<u>28,969,211</u>		<u>26,518,950</u>		<u>22,577,873</u>
Total deductions					
Increase (decrease) in net assets	\$ (10,618,943)	\$	71,272,383	\$	40,808,055

**OKLAHOMA STATE EMPLOYEES  
DEFERRED COMPENSATION PLAN**

Administered by the Oklahoma Public Employees Retirement System

**Management's Discussion and Analysis**

Contributions to the Plan increased by \$2.4 million or 7.0% in 2008 and by \$2.6 million or 8.2% in 2007, reflecting the increase in the number of active participants. Participants elected to allocate their contributions to the Plan for the years ended June 30, 2008, 2007, and 2006 as follows:

	<b>2008</b>	<b>2007</b>	<b>2006</b>
Savings accounts	0.0 %	0.0 %	7.3 %
Stable value fund	29.6	29.3	23.0
Bond funds	7.4	7.6	8.0
Balanced fund	5.3	5.1	4.7
Large-Cap equity funds	22.0	22.8	23.3
Mid-Cap equity fund	12.5	12.8	13.6
Small-Cap equity funds	10.1	11.2	11.3
International equity funds	13.1	11.2	8.8
	100.0 %	100.0 %	100.0 %

Benefits and transfers paid to participants totaled \$28.7 million in the fiscal year ended June 30, 2008 compared to \$26.2 million in 2007 and \$22.3 million in 2006. During 2008, benefit payments for death, retirement and severance of employment increased approximately \$2.0 million along with a \$161,000 increase in hardship distributions and \$246,000 increase in other payments. During 2007, benefit payments for death, retirement and severance of employment increased approximately \$3.8 million along with a \$28,000 decrease in hardship distributions and \$169,000 increase in other payments. During 2006, benefit payments for death, retirement and severance of employment increased approximately \$99,000 along with an increase of \$317,000 in hardship and other payments.

At June 30, 2008, Plan investments totaled \$456.2 million, a decrease of \$9.9 million or -2.1% compared to the prior year. During this period, the returns were -12.7% for the total U.S. Equity market and 7.1% for the U.S. fixed income market. Plan investments increased \$71.1 million to \$466.1 million at June 30, 2007 an increase of 18.0%. The returns for this period were 20.1% for the total U.S. Equity market and 6.1% for the U.S. fixed income market.

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

**Management's Discussion and Analysis**

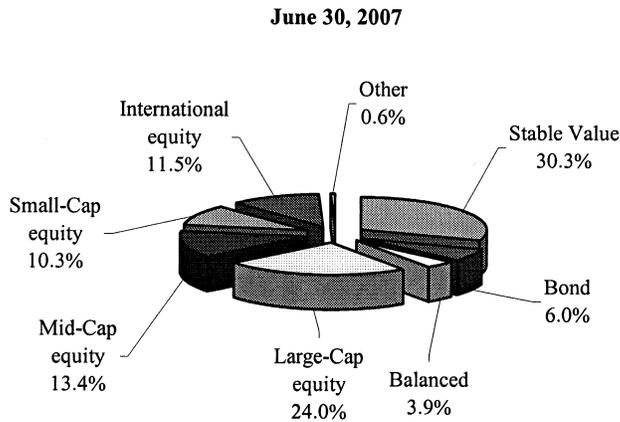
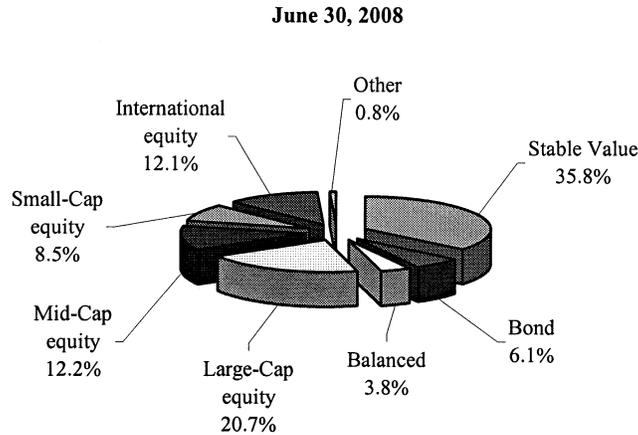
A summary of the mutual fund balances at June 30, 2008 and 2007 and the one-year annualized returns as of the fiscal years then ended is as follows:

	<u>Year ended June 30, 2008</u>			<u>Year ended June 30, 2007</u>	
	<u>Balance (000's)</u>	<u>One-Year Returns</u>		<u>Balance (000's)</u>	<u>One-Year Returns</u>
Bond funds:					
Evergreen Core Bond Fund	\$ 9,598	-2.43	%	\$ 10,392	5.63
T. Rowe Price High-Yield Fund	8,373	-2.20		8,702	11.84
T. Rowe Price Spectrum Income Fund	<u>10,028</u>	2.19		<u>8,634</u>	9.66
	27,999			27,728	
Balanced fund:					
T. Rowe Price Balanced Fund	17,451	-4.88		18,114	17.22
Large-Cap equity funds:					
American Century Income & Growth	29,319	-18.48		40,092	22.70
BGI S&P 500 Stock Fund	14,349	-13.21		16,690	20.38
T. Rowe Price Blue Chip Growth Fund	45,378	-7.44		49,422	20.87
T. Rowe Price Total Equity Market Fund	<u>5,081</u>	-12.99		<u>5,651</u>	20.07
	94,127			111,855	
Mid-Cap equity fund:					
American Century Vista Advisor Fund	29,208	4.06		26,191	24.43
Dreyfus Premier New Leaders Fund	<u>26,542</u>	-16.21		<u>36,133</u>	15.77
	55,750			62,324	
Small-Cap equity funds:					
Janus Small Cap Value Fund	17,046	-12.54		21,081	18.59
Columbia Acorn Fund	<u>21,844</u>	-12.19		<u>26,717</u>	20.66
	38,890			47,798	
International equity funds:					
American Funds EuroPacific Growth Fund	21,930	-4.18		22,992	27.33
T. Rowe Price Emerging Markets Stock	<u>33,030</u>	4.33		<u>30,511</u>	51.04
	54,960			53,503	
Self-directed brokers mutual fund option	<u>3,361</u>	n/a		<u>2,894</u>	n/a
Total mutual funds	<u>\$ 292,538</u>			<u>\$ 324,216</u>	

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

**Management's Discussion and Analysis**

At June 30, 2008 and 2007, 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 Plan Net Assets

June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash and cash equivalents	\$ 611,469	\$ 247,122
Contributions receivable	115,653	798,897
Investments:		
Stable value fund	163,129,168	141,391,425
Mutual Funds:		
Bond funds	27,998,613	27,727,596
Balanced funds	17,450,755	18,114,075
Large-Cap equity funds	94,127,143	111,855,284
Mid-Cap equity fund	55,750,203	62,324,314
Small-Cap equity funds	38,889,830	47,797,347
International equity funds	54,960,579	53,503,427
Self-directed brokerage mutual funds option	3,360,641	2,894,459
	<u>292,537,764</u>	<u>324,216,502</u>
Annuity Contracts	509,139	503,843
Total investments	<u>456,176,071</u>	<u>466,111,770</u>
Total assets	456,903,193	467,157,789
Other liabilities	<u>611,469</u>	<u>247,122</u>
Net assets available for plan benefits	<u>\$ 456,291,724</u>	<u>\$ 466,910,667</u>

See accompanying notes to financial statements.

**OKLAHOMA STATE EMPLOYEES  
DEFERRED COMPENSATION PLAN**  
Administered by the Oklahoma Public Employees Retirement System  
Statements of Changes in Plan Net Assets  
Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Additions:		
Contributions:		
Participants	\$ 36,074,196	\$ 33,741,868
Plan to plan transfers	115,759	95,445
Total contributions	<u>36,189,955</u>	<u>33,837,313</u>
Investment income:		
Net appreciation (depreciation) in fair value of investments	(50,513,409)	40,547,567
Interest and dividends	<u>32,673,722</u>	<u>23,406,453</u>
Total investment income (loss)	<u>(17,839,687)</u>	<u>63,954,020</u>
Total additions	18,350,268	97,791,333
Deductions:		
Benefits paid to participants	28,680,615	26,249,479
Administrative fees	<u>288,596</u>	<u>269,471</u>
Total deductions	<u>28,969,211</u>	<u>26,518,950</u>
Net increase (decrease)	(10,618,943)	71,272,383
Net assets available for plan benefits:		
Beginning of year	<u>466,910,667</u>	<u>395,638,284</u>
End of year	<u>\$ 456,291,724</u>	<u>\$ 466,910,667</u>

See accompanying notes to financial statements.

**OKLAHOMA STATE EMPLOYEES  
DEFERRED COMPENSATION PLAN**

Administered by the Oklahoma Public Employees Retirement System

Notes to Financial Statements

June 30, 2008 and 2007

**(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 \$15,500.

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 \$5,000 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.

**OKLAHOMA STATE EMPLOYEES  
DEFERRED COMPENSATION PLAN**

Administered by the Oklahoma Public Employees Retirement System

Notes to Financial Statements

June 30, 2008 and 2007

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:

	2008	2007
Active participants	25,609	25,251
Retired and inactive participants	8,363	7,752
	33,972	33,003

**(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.

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 assets available for plan benefits and changes in net assets available for plan benefits for the years ended June 30, 2008 and 2007.

***Contributions Receivable***

Contributions receivable included in the Statements of Plan Net Assets 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.

**OKLAHOMA STATE EMPLOYEES  
DEFERRED COMPENSATION PLAN**

Administered by the Oklahoma Public Employees Retirement System

Notes to Financial Statements

June 30, 2008 and 2007

***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 \$1.65 (\$1.73 in 2007) 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 \$402,700 in 2008 and \$416,800 in 2007 from these funds were remitted to OPERS to cover 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 Plan Net Assets.

Effective with the fiscal year beginning July 1, 2006, 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 \$37.50 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 plan net assets at the date of the financial statements and the changes in plan net assets during the reporting periods and, when applicable, disclosures of contingent assets at the date of the financial statements. Actual results could differ from those estimates.

**OKLAHOMA STATE EMPLOYEES  
DEFERRED COMPENSATION PLAN**

Administered by the Oklahoma Public Employees Retirement System

Notes to Financial Statements

June 30, 2008 and 2007

***Risks and Uncertainties***

The Plan provides for various investment options in any combination of savings accounts, mutual funds, and other investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the risks associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities may occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the accompanying Statements of Plan Net Assets.

**(3) Cash and Cash Equivalents**

Cash represents cash on deposit with the State as a part of a pool maintained by the State Treasurer. At June 30, 2008 and 2007, 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 an interest in the underlying investment of OK INVEST and shares the risk of loss on the funds in proportion to the respective investment in the funds.

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agency but not in the depositor-government's name. At June 30, 2008 and 2007, 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, 2008 and 2007, the carrying amount of the Plan's cash deposits and the bank balance at the Office of the State Treasurer totaled \$4,027. Generally, any funds received by the Plan, including contributions, are transferred to the recordkeeper within one business day.

At June 30, 2008 and 2007, funds were held in the Plan's name by its recordkeeper in the amounts of \$54,234 and \$51,798, 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 Assets.

At June 30, 2008 and 2007, funds were also held in the Plan's name by its recordkeeper in the stable value fund in the amount of \$553,209 and \$191,297, respectively. These balances represent the estimated revenue share amount plus earnings, resulting from the Excess Revenue Sharing agreement described in Note 2. The liability for this amount is included in Other Liabilities in the Statements of Plan Net Assets.

**OKLAHOMA STATE EMPLOYEES  
DEFERRED COMPENSATION PLAN**

Administered by the Oklahoma Public Employees Retirement System

Notes to Financial Statements

June 30, 2008 and 2007

**(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 quarters ended June 30, 2008 and 2007 was 4.9%.

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, 2008 and 2007

***Mutual Funds***

At June 30, 2008 and 2007, the Plan offered 14 mutual funds from 8 fund families and is composed of three (3) bond funds; eight (8) equity funds which includes large-, mid-, and small-cap funds; two (2) international equity funds; and one (1) balanced fund with a mix of bond and equity securities. A 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:

	<u>June 30, 2008</u>		<u>June 30, 2007</u>	
	<u>Fair value</u>	<u>Weighted Average Duration</u>	<u>Fair value</u>	<u>Weighted Average Duration</u>
<b><u>Fixed Income Mutual Funds</u></b>				
T. Rowe Price Spectrum Income Fund	\$ 10,028,098	4.80	\$ 8,633,652	3.60
Evergreen Core Bond Fund	9,597,691	4.40	10,392,359	4.40
T. Rowe Price High-Yield Fund	8,372,824	3.80	8,701,585	4.10

At June 30, 2008 and 2007, the fair value of the SoonerSave Fund was \$163,129,168 and \$141,391,425 and the weighted average duration as provided by Great-West was 3.40 years and 3.10 years, respectively.

**OKLAHOMA STATE EMPLOYEES  
DEFERRED COMPENSATION PLAN**

Administered by the Oklahoma Public Employees Retirement System

Notes to Financial Statements

June 30, 2008 and 2007

***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 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 and T. Rowe Price Spectrum Income Fund – A at June 30, 2008 and 2007 and the Evergreen Core Bond Fund – AA and AAA at June 30, 2008 and 2007, respectively.

The Plan's policies and guidelines require that the credit quality of the SoonerSave 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 Fund at June 30, 2008 and 2007 were primarily composed of mortgage-backed and asset-backed securities which were all rated 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) Subsequent Event**

Subsequent to year end, the credit and liquidity crisis in the United States and throughout the global financial system has resulted in substantial volatility in financial markets and the banking system. These and other economic events have had an adverse impact on the mutual fund investments of the Plan. At September 30, 2008, the market value of the mutual fund investments has declined approximately 16% compared to year end including participant directed changes.

**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 the financial statements of the Oklahoma State Employees Deferred Compensation Plan (the Plan), as of and for the year ended June 30, 2008, and have issued our report thereon dated October 14, 2008, which includes an explanatory paragraph related to required supplementary information. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance and Other Matters**

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

**Internal Control Over Financial Reporting**

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

A control deficiency 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 misstatements on a timely basis.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affect the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control.

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

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

Cole & Reed P.C.

Oklahoma City, Oklahoma  
October 14, 2008