

**OKLAHOMA STATE EMPLOYEES
DEFERRED SAVINGS INCENTIVE PLAN**

Administered by the Oklahoma Public Employees Retirement System

Financial Statements

June 30, 2015 and 2014

(With Independent Auditors' Report Thereon)



RSM US LLP

Independent Auditor's Report

Board of Trustees
Oklahoma State Employees Deferred Savings Incentive Plan
Oklahoma City, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the Oklahoma State Employees Deferred Savings Incentive Plan (the Plan), which comprise the statement of fiduciary net position as of June 30, 2015, and the related statement of changes in fiduciary net position for the year 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 audit. We conducted our audit 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. 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 Savings Incentive Plan as of June 30, 2015, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The financial statements of the Plan, as of and for the year ended June 30, 2014, were audited by other auditors whose report dated October 16, 2014, expressed an unmodified opinion on those statements.

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 financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 February 12, 2016, 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 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. The report for the year ended June 30, 2014 was issued by other auditors and was dated October 16, 2014.

RSM US LLP

Oklahoma City, Oklahoma
February 12, 2016

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

Management's Discussion and Analysis

As management of the Oklahoma State Employees Deferred Savings Incentive Plan (the Plan), which is administered by the Oklahoma Public Employees Retirement System (OPERS), we offer readers of the Plan's financial statements this narrative overview and analysis of the financial activities of the Plan for the fiscal years ended June 30, 2015, 2014, and 2013.

Financial Highlights

- The net position available for plan benefits totaled approximately \$193.3 million at June 30, 2015, compared to \$187.6 million at June 30, 2014 and approximately \$164.5 million at June 30, 2013. These funds are available for distribution to plan participants in accordance with Plan provisions.
- At June 30, 2015, the number of active, retired, or inactive participants increased to 38,686, compared to 37,762 and 36,770 at June 30, 2014 and 2013, respectively.
- The Plan's average annualized rates of return of its mutual funds for the one-year period ended June 30, 2015, ranged from a high of 12.95% to a low of -2.70%. This compares with a high of 30.48% and a low of 9.03% in the corresponding prior-year period. For the year ended June 30, 2013, the returns ranged from a high of 17.36% to a low of negative 9.16%.
- No investment options were closed during FY2015. During 2013, the Plan closed one mid-cap investment option – American Century Vista Advisor Fund.

Overview of the Financial Statements

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

The Plan's financial statements are comprised of a Statement of 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, 2015 and 2014. This statement reflects contributions made on behalf of or by participants along with benefits paid to participants during the period. Investing activities during the period are also presented which include interest and dividends added to participant accounts and the net appreciation or depreciation in fair value of the investments. Administrative fees affecting participant accounts are also reported in this statement.

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

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

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Financial Analysis

Plan net position at June 30 is summarized as follows:

	<u>2015</u>		<u>2014</u>		<u>2013</u>
Cash and cash equivalents	\$ 556,933	\$	755,438	\$	561,384
Contributions receivable	112,343		101,391		88,294
Investments:					
Stable value fund	72,597,014		73,395,939		72,677,542
Mutual funds	<u>120,604,674</u>		<u>114,079,910</u>		<u>91,748,908</u>
Total assets	193,870,964		188,332,678		165,076,128
Other liabilities	<u>554,821</u>		<u>753,328</u>		<u>559,272</u>
Ending net position	<u>\$ 193,316,143</u>	\$	<u>187,579,350</u>	\$	<u>164,516,856</u>

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

	<u>2015</u>		<u>2014</u>		<u>2013</u>
Additions:					
Contributions	\$ 10,085,939	\$	11,080,422	\$	10,533,119
Investment income	<u>6,747,188</u>		<u>21,668,508</u>		<u>15,121,483</u>
Total additions	16,833,127		32,748,930		25,654,602
Deductions:					
Benefits paid to participants	10,942,267		9,537,365		8,159,288
Administrative fees	<u>154,067</u>		<u>149,071</u>		<u>145,600</u>
Total deductions	<u>11,096,334</u>		<u>9,686,436</u>		<u>8,304,888</u>
Increase in net position	<u>\$ 5,736,793</u>	\$	<u>23,062,494</u>	\$	<u>17,349,714</u>

Total contributions to the Plan for the year ended June 30, 2015, decreased approximately \$994,000, or -8.98%, compared to the year ended June 30, 2014, which showed an increase of approximately \$547,000, or 5.2%, compared to the prior year.

During the years ended June 30, 2015, 2014, and 2013, Plan participants elected to allocate their State contributions as follows:

	<u>2015</u>		<u>2014</u>		<u>2013</u>
Stable value fund	30.0	%	38.0	%	41.6
Bond funds	3.9		5.0		4.4
Balanced fund	3.1		3.5		3.3
Large-Cap equity funds	17.4		15.9		17.3
Mid-Cap equity funds	10.6		12.1		11.3
Small-Cap equity funds	2.7		3.6		2.8
International equity funds	7.4		6.6		6.1
Target date funds	<u>24.9</u>		<u>15.3</u>		<u>13.2</u>
	<u>100.0</u>	%	<u>100.0</u>	%	<u>100.0</u>

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Benefits paid to participants in 2015 increased over 2014 levels approximately \$1.4 million, or 15%. The increase is mainly attributable to payments made by employees who separated from service followed by required minimum distributions by members. Benefits paid to participants in 2014 increased over 2013 levels approximately \$1.4 million, or 16.9%. The increase is mainly attributable to payments made to employees who have separated from service followed by payments made as a result of member's death.

At June 30, 2015, Plan investments totaled \$193.2 million, an increase of \$5.7 million, or 3.1%, over 2014 levels. During this period, the returns for the total U.S. equity market were 7.29% and 1.86% for the U.S. fixed income market. At June 30, 2014, Plan investments totaled \$187.5 million, an increase of \$23.0 million, or 14.0%, over 2013 levels. During this period, the returns for the total U.S. equity market were 25.22% and 4.37% for the U.S. fixed income market.

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A summary of the mutual fund balances at June 30, 2015 and 2014, and the one-year annualized returns of the fiscal years then ended is as follows:

	<u>Year ended June 30, 2015</u>		<u>Year ended June 30, 2014</u>	
	<u>Balance (000's)</u>	<u>One Year Returns</u>	<u>Balance (000's)</u>	<u>One Year Returns</u>
Balanced fund:				
T. Rowe Price Balanced Fund	\$ 7,318	3.50 %	\$ 7,095	18.76 %
Bond funds:				
T. Rowe Price High-Yield Fund	5,116	-0.14	5,241	12.36
T. Rowe Price Spectrum Income Fund	3,220	-1.20	3,301	9.03
	<u>8,336</u>		<u>8,542</u>	
International funds:				
American Funds EuroPacific Growth Fund	4,740	0.63	4,876	21.94
T. Rowe Price Emerging Markets Stock	6,095	-2.24	6,362	12.60
	<u>10,835</u>		<u>11,238</u>	
Large-Cap funds:				
American Century Income and Growth	10,293	2.87	10,254	24.66
Blackrock S&P 500 Stock Fund	7,272	7.41	6,364	24.46
T. Rowe Price Blue Chip Growth Fund	24,578	12.95	21,867	30.06
T. Rowe Price Total Equity Market Fund	2,799	6.85	2,561	25.14
	<u>44,942</u>		<u>41,046</u>	
Mid-Cap equity funds:				
American Century Vista Advisor Fund				
Artisian Mid-Cap Value Fund	8,670	-2.70	9,428	21.02
Columbia Acorn Fund	21,166	4.73	21,096	21.57
	<u>29,836</u>		<u>30,524</u>	
Small-Cap equity funds:				
Perkins Small-Cap Value Fund	7,122	4.85	7,096	21.20
Blackrock Small-Cap Growth Equity	1,377	7.94	1,120	30.48
	<u>8,499</u>		<u>8,216</u>	
Target date funds:				
Vanguard Target Retirement 2010	1,102	2.19	788	11.75
Vanguard Target Retirement 2020	3,006	3.03	2,360	16.43
Vanguard Target Retirement 2030	3,412	3.19	2,057	19.49
Vanguard Target Retirement 2040	2,297	3.28	1,521	22.16
Vanguard Target Retirement 2050	1,022	3.29	693	22.14
	<u>10,839</u>		<u>7,419</u>	
Total mutual funds	\$ <u><u>120,605</u></u>		\$ <u><u>114,080</u></u>	

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Economic Factors

Other than changes in the fair value of Plan assets as may be impacted by the stock and bond markets, no other matters are known by management to have a significant impact on the operations or financial position of the Plan.

Requests for Information

This financial report is designed to provide a general overview of the Plan's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Plan Administrator, Defined Contribution Plans, c/o OPERS, P.O. Box 3007, Oklahoma City, Oklahoma 73152-3007.

**OKLAHOMA STATE EMPLOYEES
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Statements of Fiduciary Net Position

June 30, 2015 and 2014

	2015	2014
Cash and cash equivalents	\$ 556,933	\$ 755,438
Contributions receivable	112,343	101,391
Investments:		
Stable value fund	72,597,014	73,395,939
Mutual funds:		
Bond funds	8,335,810	8,541,764
Balanced funds	7,318,187	7,094,358
Large-Cap equity funds	44,941,625	41,046,081
Mid-Cap equity fund	29,836,410	30,524,006
Small-Cap equity funds	8,499,290	8,216,183
International equity funds	10,834,721	11,238,210
Target date funds	10,838,631	7,419,308
	<u>120,604,674</u>	<u>114,079,910</u>
Total investments	<u>193,201,688</u>	<u>187,475,849</u>
Total assets	193,870,964	188,332,678
Other liabilities	<u>554,821</u>	<u>753,328</u>
Net position available for plan benefits	<u>\$ 193,316,143</u>	<u>\$ 187,579,350</u>

See accompanying notes to financial statements.

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Statements of Changes in Fiduciary Net Position
Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Additions:		
Contributions:		
Employers	\$ 7,292,587	\$ 7,290,183
Plan to plan transfers	<u>2,793,352</u>	<u>3,790,239</u>
Total contributions	10,085,939	11,080,422
Investment income:		
Net appreciation (depreciation) in fair value of investments	(4,312,345)	16,332,037
Interest and dividends	<u>11,059,533</u>	<u>5,336,471</u>
Total investment income	<u>6,747,188</u>	<u>21,668,508</u>
Total additions	16,833,127	32,748,930
Deductions:		
Benefits paid to participants	10,942,267	9,537,365
Administrative fees	<u>154,067</u>	<u>149,071</u>
Total deductions	<u>11,096,334</u>	<u>9,686,436</u>
Net increase	5,736,793	23,062,494
Net position available for plan benefits:		
Beginning of year	<u>187,579,350</u>	<u>164,516,856</u>
End of year	<u>\$ 193,316,143</u>	<u>\$ 187,579,350</u>

See accompanying notes to financial statements.

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Notes to Financial Statements

June 30, 2015 and 2014

(1) Description of the Plan

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

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

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

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

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

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

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

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

	<u>2015</u>	<u>2014</u>
Active participants	24,633	24,805
Retired and inactive participants	14,053	12,957
	<u>38,686</u>	<u>37,762</u>

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June 30, 2015 and 2014

(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. Certain prior year information has been reclassified to conform to the current year presentation.

Contributions Receivable

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

Investments

The Plan is authorized to invest in eligible investments as prescribed in the Plan documents. Investments in the mutual funds are presented at their fair value based on published market prices. Investments in savings accounts and the stable value fund, an interest-earning contract, are presented at book value as determined by the Plan's recordkeeper.

Administrative Expenses

The employers of eligible participants were required to remit directly to the Plan the equivalent of \$1.55 (\$1.81 in 2014) per participating employee per month for reimbursement to OPERS of administrative expenses incurred on behalf of the Plan and the Deferred Compensation Plan. Of the fees received, approximately \$115,000 in 2015 and \$103,000 in 2014 was remitted to OPERS as the Plan's allocable share of administrative expenses in accordance with an administrative expense allocation policy adopted by the Board.

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, now Empower Retirement (Empower), for recordkeeping services for the Plan and the Deferred Compensation Plan. Under terms of this agreement, as amended, Empower will receive an administrative service fee comprised of the following four components: (1) a \$1 per participant administrative service fee, which is deducted from each participant's account balance at the end of each quarter by the Plan's recordkeeper and reflected as administrative fees in the accompanying statements of changes in fiduciary net position (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 Empower can receive as compensation. In the event that the compensation received by Empower 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. Empower 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 Empower to utilize the excess credits to provide additional services or options to the Plan and the Deferred Compensation Plan or to participants.

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Federal Income Tax Status

The Plan has received a favorable determination letter from the Internal Revenue Service dated October 9, 2012, affirming that the Plan, in its present form, is qualified under the IRC and is entitled to favorable tax treatment.

Use of Estimates

The preparation of the Plan's financial statements in conformity with U.S. generally accepted accounting principles requires the Plan administrator to make significant estimates and assumptions that affect the reported amounts of 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 and cash equivalents represent cash and cash equivalents on deposit with the State as a part of a pool maintained by the State Treasurer. At June 30, 2015 and 2014, the Plan had enrolled in *OK INVEST*, an internal investment pool of the State Treasurer with holdings limited to highly-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. At June 30, 2015 and 2014, cash equivalents in *OK INVEST* totaled \$229,801 and \$447,961, respectively.

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, 2015 and 2014, 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. Generally, any funds received by the Plan, including contributions, are transferred to the recordkeeper within one day.

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At June 30, 2015 and 2014, cash of \$1,792 and \$1,782, respectively, was held in the Plan's name by its recordkeeper representing distributions payable to participants who cannot currently be located. The funds are invested in the Plan's stable value fund, which is described in Note 4. The liability for this amount is included in Other Liabilities in the Statements of Plan Fiduciary Net Position.

At June 30, 2015 and 2014, funds were also held in the Plan's name by its recordkeeper in the stable value fund in the amount of \$325,340 and \$305,695, respectively. These funds represent the estimated revenue share amount plus earnings, resulting from the Excess Revenue Sharing agreement described in Note 2. At the February 2015 meeting, the Board approved a distribution of Revenue Share funds in excess of one year's estimated fee to Empower. The distribution was credited to the participant accounts on March 25, 2015. \$125,642 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 Trustees of OPERS has the fiduciary responsibility to provide investment and administrative services to the Plan's participants and sets forth the following objectives:

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

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

An "unbundled" group of mutual funds offered by various fund managers is available to Plan participants.

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A brief description of the investment options is as follows:

Stable Value Fund

Empower, as the Plan's trustee and recordkeeper, has established a separate stable value fund, the SoonerSave Stable Value Fund (SoonerSave Fund), for the Plan and the Deferred Compensation Plan. The SoonerSave Fund is an interest-earning contract that provides a stable rate of return by investing in a pool of government securities backed by the U.S. government and/or its agencies. In advance of each calendar quarter, Empower establishes a rate of return for that quarter for the SoonerSave Fund. The rate in effect for the quarters ended June 30, 2015 and 2014 was 1.95 % and 1.9%, respectively.

Stable value fund investment income included in the accompanying financial statements is net of annual fees which are deducted from earnings prior to posting to the participant accounts.

Mutual Funds

As of June 30, 2015 and June 30, 2014, no funds were added to the Plan. 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 deducted directly from the participant's account.

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.

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, 2015</u>		<u>June 30, 2014</u>	
	<u>Fair Value</u>	<u>Weighted Average Duration</u>	<u>Fair Value</u>	<u>Weighted Average Duration</u>
<u>Fixed Income Mutual Funds</u>				
T. Rowe Price Spectrum Income Fund	\$ 3,219,976	4.99	\$ 3,300,726	5.16
T. Rowe Price High Yield Fund	\$ 5,115,835	3.56	\$ 5,241,038	3.08

At June 30, 2015 and 2014, the carrying amount of the SoonerSave Stable Value Fund was \$72,597,014 and \$73,395,939 and the weighted average duration as provided by Empower was 3.4 years and 3.4 years, respectively.

**OKLAHOMA STATE EMPLOYEES
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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 rating 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, 2015 and June 30, 2014. The T. Rowe Price Spectrum Income Fund was rated BB at June 30, 2015 and June 30, 2014.

The Plan's policies and guidelines require that the credit quality of the SoonerSave Stable Value Fund be that of securities issues by the U.S. government and agencies and commercial bank securities with FDIC guarantees. The investments in the SoonerSave Stable Value Fund at June 30, 2015 and 2014 were primarily composed of mortgage-backed and asset-backed securities which were all rated AA+/AAA.

(5) New Pronouncements

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application* (GASB 72). GASB 72 addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GASB 72 provides guidance for determining a fair value measurement for financial reporting purposes. GASB 72 also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of GASB 72 will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. GASB 72 also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. GASB 72 is effective for financial statements for periods beginning after June 15, 2015.

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GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* (GASB No. 73): GASB No. 73 was issued June 2015 and will be effective for the Plan beginning with its fiscal year ending June 30, 2016—except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement No. 68, which are effective for the Plan beginning with its fiscal year ending June 30, 2017. The Statement establishes requirements for pensions not covered by Statement Nos. 67 and 68 which are essentially the same requirements as Statement No. 68. However, the lack of a pension plan that is administered through a trust that meets specified criteria is reflected in the measurements.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (GASB No. 76): The objective of GASB No. 76 is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. Earlier application is permitted.

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

**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***

Independent Auditor's Report

Board of Trustees
Oklahoma State Employees Deferred Savings Incentive Plan
Oklahoma City, Oklahoma

We have audited, 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, the financial statements of the Oklahoma State Employees Deferred Savings Incentive Plan (the Plan), which comprise the statement of fiduciary net position as of June 30, 2015, 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 February 12, 2016.

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.

RSM US LLP

Oklahoma City, Oklahoma
February 12, 2016