OKLAHOMA STATE EMPLOYEES DEFERRED COMPENSATION PLAN

Administered by the Oklahoma Public Employees Retirement System

Financial Statements
June 30, 2016 and 2015
(With Independent Auditors' Report Thereon)

Independent Auditor's Report

To the Board of Trustees
Oklahoma State Employees Deferred Compensation Plan
Oklahoma City, Oklahoma

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, 2016 and 2015, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements.

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

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, 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 opinions.

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, 2016 and 2015, and the 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 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 for the year ended June 30, 2016, dated October 20, 2016, and our report for the year ended June 30, 2015, 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.

RSM US LLP

Oklahoma City, Oklahoma
October 20, 2016

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, 2016, 2015, and 2014.

Financial Highlights

- The net position available for plan benefits totaled approximately $715.5 million at June 30, 2016, compared to $724.8 million at June 30, 2015, and approximately $706.7 million at June 30, 2014. These funds are available for distribution to plan participants in accordance with Plan provisions.
- At June 30, 2016, the number of active, retired or inactive participants decreased to 38,240, compared to 38,427 and 37,548 at June 30, 2015 and 2014, respectively.
- The Plan's average annualized rates of return of its mutual funds for the one-year period ended June 30, 2016, ranged from a high of 4.68% to a low of -12.63%. This compares with a high of 12.95% and a low of -2.70% in the corresponding prior-year period. For the year ended June 30, 2014, the returns ranged from a high of 30.48% to a low of 9.03%.
- No investment options were closed during FY2016, FY2015, or FY2014.

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, 2016 and 2015. 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.

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

Management's Discussion and Analysis

Financial Analysis

Plan net position at June 30 is summarized as follows:

	2016	2015	2014
Cash and cash equivalents	$ 1,332,153	$ 1,302,891	$ 1,202,249
Contributions receivable	350,469	706,782	613,005
Investments:			
Stable value fund	260,364,932	252,982,296	250,289,756
Mutual funds	454,681,347	471,050,736	455,689,199
Annuity contracts	87,537	87,729	99,793
Total assets	716,816,438	726,130,434	707,894,002
Other liabilities	1,332,153	1,302,891	1,202,249
Ending net position	$ 715,484,285	$ 724,827,543	$ 706,691,753

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

	2016	2015	2014
Additions:			
Contributions	$ 36,414,338	$ 37,222,208	$ 36,351,272
Investment income	(3,633,397)	25,093,636	85,112,967
Total additions	32,780,941	62,315,844	121,464,239
Deductions:			
Benefits paid to participants	41,810,825	43,867,933	32,535,648
Administrative fees	313,374	312,121	304,227
Total deductions	42,124,199	44,180,054	32,839,875
Increase in net position	$ (9,343,258)	$ 18,135,790	$ 88,624,364

Contributions to the Plan decreased by approximately $0.8 million in 2016, or -2.17%. Contributions increased by approximately $0.87 million, or 2.4%, in 2015. Participants elected to allocate their contributions to the Plan for the years ended June 30, 2016, 2015, and 2014 as follows:

	2016	**2015**	**2014**
Stable value fund	31.2 %	31.4 %	33.5 %
Bond funds	5.5	5.8	6.1
Balanced fund	4.7	4.7	4.7
Large-Cap equity funds	20.1	20.5	19.3
Mid-Cap equity funds	10.6	11.7	12.8
Small-Cap equity funds	4.5	4.5	4.6
International equity funds	5.9	6.5	7.2
Target date funds	17.5	14.9	11.8
	100 %	100 %	100 %

Benefits and transfers paid to participants totaled $41.8 million in the fiscal year ended June 30, 2016, compared to $43.8 million in 2015 and $32.5 million in 2014. During 2016, benefit payments for death, retirement, and severance of employment decreased approximately $2.5 million. During 2015, benefit payments for death, retirement, and severance of employment increased approximately $10.8 million.

As of June 30, 2016, Plan investments totaled approximately $715.1 million, a decrease of $9.0 million, or 1.2%, over the previous year. During 2016, the returns for the total U.S. Equity market was 2.1% and 6.0% for the U.S. fixed income market. As of June 30, 2015, Plan investments totaled approximately $724.1 million, an increase of $18.0 million, or 2.6%, over the previous year. During 2015, the returns for the total U.S. Equity market was 7.29% and 1.86% for the U.S. fixed income market.

A summary of the mutual fund balances at June 30, 2016 and 2015 and the one-year annualized returns as of the fiscal years then ended is as follows:

	Year ended June 30, 2016		Year ended June 30, 2015	
	Balance (000's)	**One Year Returns**	**Balance (000's)**	**One Year Returns**
Balanced fund:				
T. Rowe Price Balanced Fund	$ 29,730	-0.41 %	$ 29,814	3.50 %
Bond funds:				
T. Rowe Price High-Yield Fund	19,946	0.02	21,189	-0.14
T. Rowe Price Spectrum Income Fund	16,951	4.68	15,680	-1.20
	36,897		36,869	
International funds:				
American Funds EuroPacific Growth Fund	19,349	-9.89	22,402	0.63
T. Rowe Price Emerging Markets Stock	19,581	-5.63	21,322	-2.24
	38,930		43,724	
Large-Cap funds:				
American Century Income and Growth	40,861	1.00	42,867	2.87
Blackrock S&P 500 Stock Fund	34,015	3.81	34,369	7.41
T. Rowe Price Blue Chip Growth Fund	88,812	-1.60	91,881	12.95
T. Rowe Price Total Equity Market Fund	12,320	2.16	12,750	6.85
	176,008		181,867	
Mid-Cap equity funds:				
Artisan Mid-Cap Value Fund	33,888	-1.43	36,053	-2.70
Columbia Acorn Fund	57,252	-7.84	65,253	4.73
	91,140		101,306	
Small-Cap equity funds:				
Perkins Small-Cap Value Fund	29,153	1.63	29,474	4.85
Blackrock Small-Cap Growth Equity	7,735	-12.63	8,339	7.94
	36,888		37,813	
Target date funds:				
Vanguard Target Retirement 2010	4,678	2.91	4,535	2.19
Vanguard Target Retirement 2020	14,781	1.44	12,833	3.03
Vanguard Target Retirement 2030	10,999	0.11	8,887	3.19
Vanguard Target Retirement 2040	7,445	-1.44	6,886	3.28
Vanguard Target Retirement 2050	3,948	-1.48	3,271	3.29
	41,851		36,412	
Self-directed brokers mutual fund option	3,237		3,246	
Total mutual funds	$ 454,681		$ 471,051	

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, Post Office Box 53007, Oklahoma City, Oklahoma 73152-3007.

OKLAHOMA STATE EMPLOYEES
DEFERRED COMPENSATION PLAN

Administered by the Oklahoma Public Employees Retirement System

Statements of Fiduciary Net Position

June 30, 2016 and 2015

		2016		2015
Cash and cash equivalents	$	1,332,153	$	1,302,891
Contributions receivable		350,469		706,782
Investments:				
Stable value fund		260,364,932		252,982,296
Mutual funds:				
Bond funds		36,896,829		36,868,654
Balanced funds		29,729,785		29,813,724
Large-Cap equity funds		176,007,731		181,867,016
Mid-Cap equity fund		91,139,755		101,306,361
Small-Cap equity funds		36,888,355		37,813,376
International equity funds		38,930,529		43,724,123
Target date funds		41,851,072		36,411,840
Self-directed brokerage mutual funds option		3,237,291		3,245,642
Total mutual funds		454,681,347		471,050,736
Annuity contracts		87,537		87,729
Total investments		715,133,816		724,120,761
Total assets		716,816,438		726,130,434
Other liabilities		1,332,153		1,302,891
Net position available for plan benefits	$	715,484,285	$	724,827,543

OKLAHOMA STATE EMPLOYEES
DEFERRED COMPENSATION PLAN

Administered by the Oklahoma Public Employees Retirement System

Statements of Changes in Fiduciary Net Position

Years Ended June 30, 2016 and 2015

	2016	2015
Additions:		
Contributions:		
Participants	$ 36,040,561	$ 37,075,050
Plan to plan transfers	373,777	147,158
Total contributions	36,414,338	37,222,208
Investment income:		
Net appreciation (depreciation) in fair value of investments	(58,495,971)	(16,295,807)
Interest and dividends	54,862,574	41,389,443
Total investment income (loss)	(3,633,397)	25,093,636
Total additions	32,780,941	62,315,844
Deductions:		
Benefits paid to participants	41,810,825	43,867,933
Administrative fees	313,374	312,121
Total deductions	42,124,199	44,180,054
Net increase (decrease)	(9,343,258)	18,135,790
Net position available for plan benefits:		
Beginning of year	724,827,543	706,691,753
End of year	$ 715,484,285	$ 724,827,543

(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, except for those employees participating in the Pathfinder Defined Contribution Plan. 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 100% vested in their respective accounts immediately. 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 $18,000.

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 $6,000 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.

(1) Description of the Plan (Continued)

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:

	2016	2015
Active participants	23,640	24,633
Retired and inactive participants	14,600	13,794
	38,240	38,427

(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, 2016 and 2015.

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 mutual funds are presented at fair value, which is the price that would be received if the investments were sold in an orderly transaction between a willing buyer and a willing seller. Investments in the annuity contracts are presented at contract value, which approximates their fair value. Investments in the Stable Value Fund, an interest-earning contract, are presented at book value as determined by the Plan's recordkeeper.

(2) Summary of Significant Accounting Policies (Continued)

Administrative Expenses: 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 $1.70 ($1.55 in 2015) per participating employee per month for reimbursement to OPERS for administrative expenses incurred on behalf of the Plan and the Savings Incentive Plan. Of the fees received, approximately $429,000 in 2016 and $415,000 in 2015 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 Savings Incentive Plan. Under terms of this agreement, as amended, Empower will receive an administrative service fee comprised of the following four components: (1) a $2 per participant administrative service fee, which is deducted from each participant's account balance at the end of each quarter by the Plan's record keeper 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 Savings Incentive 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 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.

(2) Summary of Significant Accounting Policies (Continued)

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 the Plan's investment in OK INVEST, an internal investment pool maintained by the State Treasurer. At June 30, 2016 and 2015, cash equivalents in OK INVEST totaled $49,472 and $9,992, respectively. The Plans' investment in OK INVEST is carried at cost, as management has determined that the difference between cost and fair value of the Plan's investment in OK INVEST is not material to the financial statements as a whole.

Agencies and funds that are considered to be part of the State's reporting entity in the State's Comprehensive Annual financial Report are allowed to participate in OK INVEST. Oklahoma statutes and the State Treasurer establish the primary objectives and guidelines governing the investment of funds in OK INVEST. Safety, liquidity, and return on investment are the objectives that establish the framework for the day-to-day OK INVEST management, with an emphasis on safety of the capital and the probable income to be derived and meeting the State and its funds' and agencies' daily cash flow requirements. Guidelines in the Investment Policy address credit quality requirements, diversification percentages and the types and maturities of allowable investments. The specifics regarding these policies can be found on the State Treasurer's website at http://www.ok.gov/treasurer. The State Treasurer, at his discretion, may further limit or restrict such investments on a day-to-day basis. OK INVEST includes a substantial investment in securities with an overnight maturity as well as in U.S government securities with a maturity of up to three years. OK INVEST maintains an overall weighted average maturity of less than four years.

Participants in OK INVEST maintain interest in its underlying investments and, accordingly, may be exposed to certain risks. As stated in the State Treasurer information statement, the main risks are interest rate risk, credit/default risk, liquidity risk, and U.S. government securities risk. Detailed information regarding OK INVEST's portfolio and the related risks is available within the State's Comprehensive Annual Financial Report.

Custodial credit risk of investments is the risk that in the event of a bank failure, the government's investments may not be returned to it. Interests in OK INVEST are not insured or guaranteed by the State, the FDIC, or any other government agency. The Plan does not have a formal policy for custodial credit risk. Generally, any funds received by the Plan, including contributions, are transferred to the record keeper within one business day.

(3) Cash and Cash Equivalents (Continued)

At June 30, 2016 and 2015, funds were held in the Plan's name by its record keeper in the amounts of $68,056 and $66,776, 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 Fiduciary Net Position.

At June 30, 2016 and 2015, funds were also held in the Plan's name by its record keeper in the Stable Value Fund in the amount of $1,214,625 and $1,226,123, 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 Fiduciary Net Position. At the February 2016 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 participant accounts on March 23, 2016. $555,514 was distributed from the Revenue Share fund to participants in the plan. The previous fiscal year the distribution amount was $452,597.

(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.

(4) Investments (Continued)

A brief description of the investment options is as follows:

Stable Value Fund: Empower, as the Plan's trustee and record keeper, has established a separate stable value fund for the Plan and the Savings Incentive Plan. The Stable Value Fund is an interest-earning contract that 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, Empower establishes a rate of return for that quarter for the Stable Value Fund. The rate in effect for the quarter ended June 30, 2016 was 1.85%, and the rate in effect for the quarter ended June 30, 2015 was 1.95%.

The Stable Value Fund's 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, 2016, and June 30, 2015, 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 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 Stable Value Fund cannot exceed five years, the Plan investment guidelines include no formal policy on interest rate risk. Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates based upon the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price. The average effective duration in years as provided by data from Morningstar, Inc. reports were:

	June 30, 2016		June 30, 2015	
Fixed Income Mutual Funds	Fair Value	Weighted Average Duration	Fair Value	Weighted Average Duration
T. Rowe Price Spectrum Income Fund	$ 16,950,474	5.22	$ 15,679,903	4.99
T. Rowe Price High Yield Fund	19,946,355	3.62	21,188,750	3.56

(4) Investments (Continued)

At June 30, 2016 and 2015, the carrying amount of the Stable Value Fund was $260,364,932 and $252,982,296, and the weighted average duration as provided by Empower was 2.6 years and 3.4 years, respectively.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the Plan. The Plan's policies and guidelines set forth specific criteria for selection of mutual fund options to be offered to participants and provide that a review and evaluation of these funds will be performed at least annually. While the guidelines set no specific rating criteria for the fixed income mutual funds, these funds are subject to the selection and review provisions, as are all of the other mutual fund investments. The weighted averaged credit ratings for the fixed income securities included in the fixed income mutual funds, as provided by Morningstar, Inc. reports, were as follows: T. Rowe Price High-Yield Fund, B at June 30, 2016 and June 30, 2015. The T. Rowe Price Spectrum Income Fund was rated BB at June 30, 2016 and June 30, 2015.

The Plan's policies and guidelines require that the credit quality of the 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 Stable Value Fund at June 30, 2016 and 2015 were primarily composed of mortgage-backed and asset-backed securities which were rated AA+/AAA.

Fair Value Measurement: The Plan categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The inputs to the three levels of the fair value hierarchy are described as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities

Level 2: Significant other observable inputs, including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets in markets that are not active and other market corroborated inputs

Level 3: Significant unobservable inputs

(4) Investments (Continued)

Assets measured at fair value on a recurring basis are summarized below:

	Level 1	Level 2	Level 3	Fair Value
June 30, 2016				
Mutual funds:				
Bond funds	$ 36,896,829	$ -	$ -	$ 36,896,829
Balanced funds	29,729,785	-	-	29,729,785
Large-Cap equity funds	176,007,731	-	-	176,007,731
Mid-Cap equity funds	91,139,756	-	-	91,139,756
Small-Cap equity funds	36,888,354	-	-	36,888,354
International equity funds	38,930,529	-	-	38,930,529
Target date funds	41,851,072	-	-	41,851,072
Self-directed brokerage mutual funds	3,237,291	-	-	3,237,291
Totals	$ 454,681,347	$ -	$ -	$ 454,681,347
June 30, 2015				
Mutual funds:				
Bond funds	$ 36,868,654	$ -	$ -	$ 36,868,654
Balanced funds	29,813,724	-	-	29,813,724
Large-Cap equity funds	181,867,016	-	-	181,867,016
Mid-Cap equity funds	101,306,361	-	-	101,306,361
Small-Cap equity funds	37,813,376	-	-	37,813,376
International equity funds	43,724,123	-	-	43,724,123
Target date funds	36,411,840	-	-	36,411,840
Self-directed brokerage mutual funds	3,245,642	-	-	3,245,642
Totals	$ 471,050,736	$ -	$ -	$ 471,050,736

Mutual funds are valued based on published market prices and categorized as Level 1 within the hierarchy.

There have been no significant changes in valuation techniques during the fiscal years ended June 30, 2016 and 2015.

(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

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. GASB 72 became effective for fiscal years beginning after June 15, 2015. Adoption of GASB 72 had no impact on the Plan's statements of fiduciary net position and changes in fiduciary net position but resulted in additional disclosures related to the Plan's fair value measurements.

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 became 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. Adoption of the effective portion of this statement did not have a significant impact on the Plan's financial statements for the year ended June 30, 2016.

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. Adoption of this statement did not have a significant impact on the Plan's financial statements.

RSM US LLP

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

To the Board of Trustees
Oklahoma State Employees Deferred Compensation 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 Compensation Plan (the Plan), which comprise the statement of fiduciary net position as of June 30, 2016, 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 20, 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
October 20, 2016