OKLAHOMA STATE EMPLOYEES
DEFFERED SAVINGS INCENTIVE PLAN

Administered by the Oklahoma Public
Employees Retirement System

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

AS OF AND FOR THE FISCAL YEARS
ENDED JUNE 30, 2018 AND 2017

OKLAHOMA STATE EMPLOYEES
DEFERRED SAVINGS INCENTIVE PLAN
Public Employees Retirement System

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Arledge & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Oklahoma State Employees
Deferred Savings Incentive Plan

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 statements of fiduciary net position as of June 30, 2018 and 2017, 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 from 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 Plan'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 Plan'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, 2018 and 2017 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.

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Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2018, 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.

Arledge & Associates, P.C.

Edmond, Oklahoma
October 5, 2018

OKLAHOMA STATE EMPLOYEES
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MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2018 and June 30, 2017

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, 2018, 2017, and 2016.

FINANCIAL HIGHLIGHTS

- The net position available for plan benefits totaled approximately $229 million at June 30, 2018, compared to $210.5 million at June 30, 2017, and $189.7 million at June 30, 2016. These funds are available for distribution to plan participants in accordance with Plan provisions.
- At June 30, 2018, the number of active, retired or inactive participants decreased to 35,997 compared to 37,305 and 38,537 at June 30, 2017 and 2016, respectively.
- The Plan's average annualized rates of return of its mutual funds for the one-year period ended June 30, 2018, ranged from a high of 27.84% to a low of - 0.48%. This compares with a high of 27.86% and a low of 5.23% in the corresponding prior-year period. For the year ended June 30, 2016, the returns ranged from a high of 4.68% to a low of -12.63%.
- During the review period the Board approved share class changes to four mutual funds to share classes with lower expense ratios. The share class changes were for the following funds: American Century Income and Growth, Janus Henderson Small Cap Value, T. Rowe Price High Yield and Columbia Acorn. Two options were discontinued – T. Rowe Price Balanced and T. Rowe Price Spectrum Income. These were replaced by Vanguard Balanced Index and BNY Mellon Aggregate Bond Index Institutional. The plan also added two additional funds – BNY Mellon ACWI Ex-US Institutional and BNY Mellon Small Cap Stock Index Institutional. No investment options were closed during the period ending June 30, 2017.

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 s*tatement 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.

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MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2018 and June 30, 2017

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, 2018 and 2017. 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.

FINANCIAL ANALYSIS

Plan net position at June 30 is summarized as follows:

	2018	2017	2016
Cash and cash equivalents	$ 254,517	$ 512,878	$ 503,315
Contributions receivable	55,690	70,194	59,864
Investments:			
Stable value fund	71,635,256	72,380,724	73,119,278
Mutual funds	154,066,653	138,085,731	116,544,497
Common trust funds	3,682,339	-	-
Total assets	229,694,455	211,049,527	190,226,954
Other liabilities	252,405	510,766	501,204
Ending net assets	$ 229,442,050	$ 210,538,761	$ 189,725,750

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

	2018	2017	2016
Additions:			
Contributions:	$ 8,951,652	$ 8,644,422	$ 9,180,868
Investment income:	23,214,328	24,302,322	(1,065,770)
Total additions	32,165,980	32,946,744	8,115,098
Deductions:			
Benefits paid to participants	13,397,647	11,982,901	11,550,287
Administrative fees	(134,956)	150,832	155,200
Total deductions	13,262,691	12,133,733	11,705,487
Increase (decrease) in net assets	$ 18,903,289	$ 20,813,011	$ (3,590,389)

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MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2018 and June 30, 2017

Total contributions to the Plan for the year ended June 30, 2018, increased approximated $307,000 or 3.5% compared to a decrease of approximately $536,000, or 5.84%, at June 30, 2017 compared to the prior year.

During the years ended June 30, 2018, 2017, and 2016, Plan participants elected to allocate their State contributions as follows:

	2018		2017		2016	
Stable value fund	40.3	%	38.5	%	32.1	%
Bond fund	3.4		3.5		6.8	
Balanced fund	3.0		3.9		3.4	
Large-Cap equity fund	13.2		13.8		13.8	
Mid-Cap equity fund	9.7		9.1		9.6	
Small-Cap equity fund	2.9		2.9		4.4	
International equity fund	4.3		4.9		4.6	
Target date funds	23.2		23.4		25.3	
	100	%	100	%	100	%

Benefits paid to participants in 2018 increased over 2017 levels by approximated $1.4 million or 11.72%. The increase was mainly attributable to payments made to members who left employment. Benefits paid to participants in 2017 increased over 2016 levels approximately $0.43 million, or 3.75%. The increase is mainly attributable to payments made to employees who separated from service followed by retirement payments..

At June 30, 2018, Plan investments totaled $229.4 million, an increase of 9% over 2017 levels. At June 30, 2017, Plan investments totaled $210.5 million, an increase of $20.8 million, or 11%, over 2016 levels. During the period ending June 30, 2018, the returns for the total U.S. equity market were 14.8% and negative 0.4% for the U.S. fixed income market. For the previous period ended June 30, 2017, the return for the total U.S. equity market was 18.5% and negative 0.3% for the U.S. fixed income market.

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MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2018 and June 30, 2017

A summary of the mutual fund and common trust fund balances at June 30, 2018 and 2017, and the one-year annualized returns of the fiscal years then ended is as follows:

	Year ended June 30, 2018		Year ended June 30, 2017	
	Balance (000's)	One Year Returns	Balance (000's)	One Year Returns
Balanced fund:				
Vanguard Balanced Index	$ 8,632	8.58%	$ -	
T. Rowe Price Balanced Fund	-		8,128	14.20%
	8,632		8,128	
Bond funds:				
T. Rowe Price High Yield Fund	-		5,649	11.96
T. Rowe Price Spectrum Income Fund	-		3,531	5.23
T. Rowe Price Institutional High Yield	5,590	1.83%	-	
BNY Mellon Ag Bond Index	3,559	-0.48	-	
	9,149		9,180	
International funds:				
American Funds EuroPacific Growth Fund	5,291	9.00	4,940	21.76
T. Rowe Price Emerging Markets Stock	7,421	11.54	6,677	22.07
BNY ACWI Ex-US Institutional	58	7.67	-	
	12,770		11,617	
Large-Cap funds:				
American Century Income and Growth	-		10,827	15.95
American Century Income and Growth Instl.	11,920	14.56	-	
Blackrock S & P 500 Stock Fund	9,596	14.24	8,604	17.85
T. Rowe Price Blue Chip Growth Fund	35,656	27.84	28,222	27.86
T. Rowe Price Total Equity Market Fund	3,729	14.18	3,332	18.60
	60,901		50,985	
Mid-Cap equity funds:				
Artisan Mid-Cap Value Fund	9,824	9.30	9,328	16.24
Columbia Acorn Fund	26,212	22.97	22,143	24.24
	36,036		31,471	
Small-Cap equity funds:				
Janus Henderson Small-Cap Value Fund*	-		8,518	22.39
Blackrock Small-Cap Growth Equity	1,493	21.76	1,256	22.77
Janus Henderson Small-Cap Vlaue Fund N	8,556	8.97	-	
BNY Small Cap Stock Index	65	17.55	-	
	10,114		9,774	
Target date funds:				
Vanguard Target Retirement Income Inv.	1,201	3.96	-	
Vanguard Target Retirement 2010	-		902	5.39
Vanguard Target Retirement 2020	4,789	6.68	4,539	10.30
Vanguard Target Retirement 2030	6,590	8.48	5,373	13.40
Vanguard Target Retirement 2040	4,945	10.14	3,979	16.49
Vanguard Target Retirement 2050	2,622	10.52%	2,137	16.99%
	20,147		16,930	
Total mutual funds and common trust funds	$ 157,749		$ 138,085	

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

OKLAHOMA STATE EMPLOYEES
DEFFERED SAVINGS INCENTIVE PLAN
Administered by the Oklahoma Public Employees Retirement System

STATEMENTS OF FIDUCIARY NET POSITION
June 30, 2018 and 2017

	2018	2017
ASSETS		
Cash and cash equivalents	$ 254,517	$ 512,878
Contributions receivable	55,690	70,194
Investments		
Stable value fund	71,635,256	72,380,724
Mutual funds		
Bond funds	5,589,647	9,180,263
Balanced funds	8,631,565	8,127,601
Large-Cap equity funds	60,901,391	50,984,761
Mid-Cap equity funds	36,035,942	31,471,411
Small-Cap equity funds	10,049,314	9,774,252
International equity funds	12,711,331	11,617,356
Target date funds	20,147,463	16,930,087
Total mutual funds	154,066,653	138,085,731
Common trust funds		
Bond fund	3,559,199	-
Small-Cap equity fund	64,750	-
International equity fund	58,390	-
Total common trust funds	3,682,339	-
Total investments	229,384,248	210,466,455
TOTAL ASSETS	229,694,455	211,049,527
LIABILITIES		
Other Liabilities	252,405	510,766
NET POSITION AVAILABLE FOR PLAN BENEFITS	$ 229,442,050	$ 210,538,761

See accompanying notes to financial statements.

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STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
For the Fiscal Years Ended June 30, 2018 and 2017

	2018	2017
ADDITIONS:		
Contributions:	$	$
Employers	6,188,307	6,767,498
Plan to plan transfers	2,763,345	1,876,924
Total contributions	8,951,652	8,644,422
Investment income:		
Net appreciation in fair value of investments	11,495,982	15,567,229
Interest and dividends	11,718,346	8,735,093
Total investment income (loss)	23,214,328	24,302,322
TOTAL ADDITIONS	32,165,980	32,946,744
DEDUCTIONS:		
Benefits paid to participants	13,397,647	11,982,901
Administrative fees (rebate)	(134,956)	150,832
TOTAL DEDUCTIONS	13,262,691	12,133,733
NET INCREASE (DECREASE)	18,903,289	20,813,011
NET POSITION AVAILABLE FOR PLAN BENEFITS		
Beginning of year	210,538,761	189,725,750
End of year	$ 229,442,050	$ 210,538,761

See accompanying notes to financial statements.

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 of OPERS (the Board).

1. DESCRIPTION OF THE PLAN (Cont'd)

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

	2018	2017
Active participants	20,266	21,827
Retired and inactive participants	15,731	15,478
Total	35,997	37,305

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The accompanying financial statements have been prepared on the economic resources measurement focus and the accrual basis of accounting.

B. 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.

C. Investments

The Plan is authorized to invest in eligible investments as prescribed in the Plan documents. 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 savings accounts and the Stable Value Fund, an interest-earning contract, are presented at book value as determined by the Plan's record keeper.

D. Administrative Expenses

The employers of eligible participants were required to remit directly to the Plan the equivalent of $1.49 ($2.23 in 2017) per participating employee per month for reimbursement to OPERS for administrative expenses incurred on behalf of the Plan and the Deferred Compensation Plan. Of the fees received, approximately $121,000 in 2018 and $126,000 in 2017 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

D. Administrative Expenses (Cont'd)

Effective with the fiscal year beginning July 1, 2012, the Board entered into an agreement with Great-West, now Empower Retirement (Empower), for recordkeeping services for the Plan and the Deferred Compensation Plan. The agreement may be renewed by the Board for one year terms and was renewed through fiscal year 2018. Under terms of this agreement, as amended, Empower received 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 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.

Prior to July 1, 2017, the agreement defines specific fees for each component and a maximum administrative fee of $31.32 per participant per year that Empower could receive as compensation. In the event that the compensation received by Empower exceeded the maximum fee, the Plan and the Deferred Compensation Plan were entitled to a credit of that amount, which would first be offset by any revenue deficits. Empower established an Excess Revenue Sharing Account, that was invested in the Stable Value Fund, into which the estimated excess credits were 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.

The Board amended the Empower contract and effective July 1, 2017, the Empower administrative fee of $31.32 per participant per year is paid by the participant with a deduction of two dollars and sixty-one cents ($2.61) per month from each participant's account.

E. Federal Income Tax Status

The Plan has received a favorable determination letter from the Internal Revenue Service dated October 28, 2014, affirming that the Plan, in its present form, is qualified under the IRC and is entitled to favorable tax treatment.

F. 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 (Cont'd)

G. 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, 2018 and 2017, the bank balance of cash equivalents in OK INVEST totaled $212,321 and $205,872, 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 (Cont'd)

At June 30, 2018 and 2017, cash of $13,956 and $6,629, respectively, was held in the Plan's name by its record keeper 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 fiduciary net position.

At June 30, 2018 and 2017, funds were also held in the Plan's name by its record keeper in the Stable Value Fund in the amount of $43 and $326,206, respectively. These funds 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 2018 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 21, 2018 and $416,472 was distributed from the Revenue Share fund to participants in the Plan. The previous fiscal year distribution amount was $139,416.

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.

4. INVESTMENTS (Cont'd)

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

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 Deferred Compensation 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 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 quarters ended June 30, 2018 and 2017 was 1.90% and 1.80 %, respectively.

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 and Common Trust Funds

The Plan offers 17 mutual funds from 8 fund families and 3 common trust funds form BNY Mellon. The composition is one (1) 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; five (5) target date funds; one (1) bond common trust fund; one (1) small cap stock common trust fund; and one (1) international equity common trust fund 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 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.

4. INVESTMENTS (Cont'd)

The average effective duration in years as provided by data from Empower and Morningstar, Inc. reports were:

	June 30, 2018		June 30, 2017	
Fixed Income Mutual Funds	Fair Value	Weighted Average Duration	Fair Value	Weighted Average Duration
T. Rowe Price Spectrum Income Fund	$ -	-	$ 3,531,449	5.29
T. Rowe Price Institutional High Yield	5,589,647	3.78	-	-
T. Rowe Price High Yield Fund	-	-	5,648,814	3.01
BNY Mellon Aggregate Bond Index Instl.	$ 3,559,199	6.08	$ -	-

At June 30, 2018 and 2017, the carrying amount of the Stable Value Fund was $71,635,256 and $72,380,724 and the weighted average duration as provided by Empower was 3.0 and 3.3 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 average credit ratings for the fixed income securities include in the fixed income mutual and common trust funds, as provided by Morningstar, Inc. reports, were as follows: T. Rowe Price High Yield Fund, B at June 30, 2018 and 2017. The T. Rowe Price Spectrum Income Fund was rated BB at June 30, 2017. The BNY Mellon Aggregate Bond Index was rated AA1/AA2 at June 30, 2018.

The Plan's policies and guidelines require that the credit quality of the 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 Stable Value Fund at June 30, 2018 and 2017 were primarily composed of mortgage-backed and asset-backed securities which were rated AA+/AAA/AAA (S&P/Moody's/Fitch).

5. 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

5. FAIR VALUE MEASUREMENT (Cont'd)

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

	Level 1	Level 2	Level 3	Fair Value
June 30, 2018				
Mutual Funds:				
Bond funds	$ 5,589,647	$ -	$ -	$ 5,589,647
Balanced funds	8,631,565	-	-	8,631,565
Large-Cap equity funds	60,901,391	-	-	60,901,391
Mid-Cap equity funds	36,035,942	-	-	36,035,942
Small-Cap equity funds	10,049,314	-	-	10,049,314
International equity funds	12,711,331	-	-	12,711,331
Target date funds	20,147,463	-	-	20,147,463
Total	$ 154,066,653	$ -	$ -	$ 154,066,653
Common Trust funds:				
Bond fund	$ -	$ 3,559,199	$	$ 3,559,199
Small-Cap equity fund	-	64,750		64,750
International equity funds	-	58,390		58,390
Total	$ -	$ 3,682,339	$ -	$ 3,682,339

	Level 1	Level 2	Level 3	Fair Value
June 30, 2017				
Mutual Funds:				
Bond funds	$ 9,180,263	$ -	$ -	$ 9,180,263
Balanced funds	8,127,601	-	-	8,127,601
Large-Cap equity funds	50,984,761	-	-	50,984,761
Mid-Cap equity funds	31,471,411	-	-	31,471,411
Small-Cap equity funds	9,774,252	-	-	9,774,252
International equity funds	11,617,356	-	-	11,617,356
Target date funds	16,930,087	-	-	16,930,087
Total	$ 138,085,731	$ -	$ -	$ 138,085,731

Mutual funds are valued based on published market prices and categorized as Level 1 within the hierarchy. Common trust funds values are available through common media publications and are categorized as Level 2 within the hierarchy. There have been no significant changes in valuation techniques during the fiscal years ended June 30, 2018 and 2017.

INDEPENDENT AUDITOR'S 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 Savings Incentive Plan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Oklahoma State Employees Deferred Savings Incentive Plan (the "Plan"), which comprise the statement of fiduciary net position as of June 30, 2018, 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 5, 2018.

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 Plan'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.

Arledge & Associates, P.C.

Edmond, Oklahoma
October 5, 2018