

Oklahoma State Employees Deferred Savings Incentive Plan

Administered by the Oklahoma Public Employees Retirement System

Financial Statements
(With Independent Auditor's Report Thereon)
June 30, 2021 and 2020

**OKLAHOMA STATE EMPLOYEES
DEFERRED SAVINGS INCENTIVE PLAN**

Administered by the Oklahoma Public Employees Retirement System

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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, 2021 and 2020, 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, 2020 and 2019 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, 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, 2021, 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.

October 5, 2021

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**MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2021 and 2020**

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, 2021, 2020 and 2019.

FINANCIAL HIGHLIGHTS

- The net position available for plan benefits totaled approximately \$292.4 million at June 30, 2021, compared to \$239.0 million at June 30, 2020, and \$234.0 million at June 30, 2019. These funds are available for distribution to plan participants in accordance with Plan provisions.
- At June 30, 2021, the number of active, retired or inactive participants decreased to 32,641 compared to 33,662 and 34,562 at June 30, 2020 and 2019, respectively.
- The Plan's average annualized rates of return of its mutual funds for the one-year period ended June 30, 2021, ranged from a high of 62.55% to a low of -0.50%. This compares with a high of 19.37% and a low of -17.48% in the corresponding prior-year period. For the year ended June 30, 2019, the returns ranged from a high of 10.41% to a low of -3.27%.
- During the review period, there were no changes to the Plan investment options

During the period ended June 30, 2020, the Board approved a discontinuance of six investment options, Vanguard Balanced Index Fund – Admiral, Vanguard Target Retirement Income Investment Fund, Vanguard Target Retirement 2020 Investment Fund, Vanguard Target Retirement 2030 Investment Fund, Vanguard Target Retirement 2040 Investment Fund and Vanguard Target Retirement 2050 Investment Fund. They were replaced by Vanguard Balanced Index Fund – Institutional, Vanguard Target Retirement Income Institutional Fund, Vanguard Institutional Target Retirement 2020 Fund, Vanguard Institutional Target Retirement 2030 Fund, Vanguard Institutional Target Retirement 2040 Fund and Vanguard Institutional Target Retirement 2050 Fund, respectively.

During the period ended June 30, 2019, the Board approved a discontinuance of one investment option, Artisan Midcap Value Fund. It was replaced by Vanguard Selected Value Investor 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.

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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, 2020 and 2019. 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:

	2021	2020	2019
Cash and cash equivalents	\$ 385,975	\$ 256,599	\$ 145,101
Contribution receivable	169,463	76,181	65,675
Investments:			
Stable value fund	72,183,471	71,170,237	70,807,095
Mutual funds	215,410,091	163,334,695	159,386,740
Common trust funds	4,614,891	4,408,895	3,701,094
Total assets	<u>292,763,891</u>	<u>239,246,607</u>	<u>234,105,705</u>
Other Liabilities	383,864	254,488	142,990
Net assets available for plan benefits	<u>\$ 292,380,027</u>	<u>\$ 238,992,119</u>	<u>\$ 233,962,715</u>

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

	2021	2020	2019
Additions:			
Contributions	\$ 8,288,986	\$ 8,491,578	\$ 7,580,963
Investment income	59,368,924	10,332,914	11,256,231
Total additions	<u>67,657,910</u>	<u>18,824,492</u>	<u>18,837,194</u>
Deductions:			
Benefits paid to participants	14,452,649	13,935,714	14,480,312
Administrative fees	(182,647)	(140,626)	(163,783)
Total deductions	<u>14,270,002</u>	<u>13,795,088</u>	<u>14,316,529</u>
Increase in net assets	<u>\$ 53,387,908</u>	<u>\$ 5,029,404</u>	<u>\$ 4,520,665</u>

Total contributions to the Plan for the year ended June 30, 2021, decreased approximated \$203,000 or 2.4% compared to an increase of approximately \$911,000, or 12.0%, at June 30, 2020 compared to the prior year.

During the years ended June 30, 2021, 2020, and 2019, Plan participants elected to allocate their State contributions as follows:

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	<u>2021</u>	<u>2020</u>	<u>2019</u>
Stable value fund	30.2 %	36.5 %	34.0 %
Bond funds	3.8	5.7	4.1
Balanced fund	5.3	3.7	3.5
Large-Cap equity funds	16.6	16.0	16.3
Mid-Cap equity funds	7.3	6.5	9.7
Small-Cap equity funds	3.5	2.3	4.1
International equity funds	4.3	4.7	4.5
Target date funds	29.0	24.6	23.8
	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>

Benefits paid to participants in 2021 increased over 2020 levels by approximated \$517,000 or 3.7%. The increase was mainly attributable to an increase in death payouts and in-service withdrawals. Retirements increased significantly, but this was almost completely offset by a reduction in severances of employment compared to prior year. Benefits paid to participants in 2020 decreased over 2019 levels approximately \$545,000, or 3.8%. The decrease was mainly attributable to a reduction in in-service withdrawals.

At June 30, 2021, Plan investments totaled \$292.2 million, an increase of \$53.3 million, or 22.3% over 2020 levels. At June 30, 2020, Plan investments totaled \$238.9 million, an increase of \$5.0 million, or 2.1%, over 2019 levels. During the period ending June 30, 2021, the return for the total U.S. equity market was 44.2% and -0.3% for the U.S. fixed income market. For the previous period ended June 30, 2020, the return for the total U.S. equity market was 6.5% and 8.7% for the U.S. fixed income market.

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A summary of the mutual fund balances at June 30, 2021 and 2020, and the one-year annualized returns of the fiscal years then ended is as follows:

	Year ended June 30, 2021		Year ended June 30, 2020	
	Balance	One-Year Returns	Balance	One-Year Returns
Balanced fund:				
Vanguard Balanced Index Fund - Instl	\$ 12,184,886	24.80 %	\$ 9,807,099	8.22 %
Bond funds:				
T. Rowe Price High-Yield Fund	6,315,240	14.10	5,575,284	-0.69
BNY Mellon Agg Bond Index	3,991,054	-0.50	4,129,196	8.67
	10,306,294		9,704,480	
International funds:				
American Funds EuroPacific Growth Fund	6,862,164	39.62	5,020,021	2.76
T. Rowe Price Emerging Markets Stock	8,430,208	33.88	6,747,525	-1.27
BNY Mellon ACWI EX-US Institutional	296,720	35.84	143,213	-4.68
	15,589,092		11,910,759	
Large-Cap funds:				
American Century Income and Growth	14,936,747	39.70	11,362,949	1.90
Blackrock S&P 500 Stock Fund	14,901,890	40.71	10,915,175	7.55
T. Rowe Price Blue Chip Growth Fund	55,721,030	36.61	43,400,907	19.37
T. Rowe Price Total Equity Market Fund	5,543,732	43.25	3,976,990	5.80
	91,103,399		69,656,021	
Mid-Cap equity funds:				
Vanguard Selected Value Fund	12,121,585	62.55	7,847,452	-14.47
Columbia Acorn Fund	34,047,413	38.31	26,043,875	5.52
	46,168,998		33,891,327	
Small-Cap equity funds:				
Janus Henderson Small-Cap Value Fund	8,632,067	43.57	6,289,243	-17.48
Blackrock Small-Cap Growth Equity	2,824,154	50.72	1,781,072	6.17
BNY Mellon Small-Cap Stock Index	327,117	62.05	136,486	-6.53
	11,783,338		8,206,801	
Target date funds:				
Vanguard Target Retirement Inc Instl	1,310,532	12.04	1,163,078	5.87
Vanguard Target Retirement 2020 Instl	5,928,417	18.96	5,086,915	5.15
Vanguard Target Retirement 2030 Instl	11,045,916	26.11	8,420,109	4.43
Vanguard Target Retirement 2040 Instl	9,273,176	32.73	6,511,889	3.46
Vanguard Target Retirement 2050 Instl	5,330,934	36.49	3,385,112	3.00
	32,888,975		24,567,103	
Total mutual funds	\$ 220,024,982		\$ 167,743,590	

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

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Statements of Fiduciary Net Position

As of June 30, 2021 and 2020

	2021	2020
Assets		
Cash and cash equivalents	\$ 385,975	\$ 256,599
Contributions receivable	169,463	76,181
Investments:		
Stable value fund	72,183,471	71,170,237
Mutual funds		
Bond funds	6,315,240	5,575,284
Balanced funds	12,184,886	9,807,099
Large-Cap equity funds	91,103,399	69,656,021
Mid-Cap equity funds	46,168,998	33,891,327
Small-Cap equity funds	11,456,221	8,070,315
International equity funds	15,292,372	11,767,546
Target date funds	32,888,975	24,567,103
Total mutual funds	215,410,091	163,334,695
Common trust funds		
Bond fund	3,991,054	4,129,196
Small-Cap equity fund	327,117	136,486
International equity fund	296,720	143,213
Total common trust funds	4,614,891	4,408,895
Total investments	292,208,453	238,913,827
Total assets	292,763,891	239,246,607
Liabilities		
Other liabilities	383,864	254,488
Net position available for plan benefits	\$ 292,380,027	\$ 238,992,119

See accompanying notes to financial statements.

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Statements of Changes in Fiduciary Net Position

For the Fiscal Years Ended June 30, 2021 and 2020

	2021	2020
Additions		
Contributions:		
Employers	\$ 5,195,982	\$ 5,493,297
Plan to plan transfers	3,093,004	2,998,281
Total contributions	8,288,986	8,491,578
Investment income:		
Net appreciation in fair value of investments	48,765,704	2,675,030
Interest and dividends	10,603,220	7,657,884
Total investment income	59,368,924	10,332,914
Total additions	67,657,910	18,824,492
Deductions		
Benefits paid to participants	14,452,649	13,935,714
Administrative fees	(182,647)	(140,626)
Total deductions	14,270,002	13,795,088
Net increase in net position	53,387,908	5,029,404
Net position available for plan benefits		
Beginning of year	238,992,119	233,962,715
End of year	\$ 292,380,027	\$ 238,992,119

See accompanying notes to financial statements.

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NOTES TO THE FINANCIAL STATEMENTS

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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).

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

	2021	2020
Active participants	16,986	18,151
Retired and inactive participants	15,655	15,511
Total	<u>32,641</u>	<u>33,662</u>

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 \$4.59 (\$3.44 in 2020) 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 \$126,000 in 2021 and \$142,000 in 2020 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, 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 2020. 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.

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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.

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.

H. Future Accounting Pronouncements

In June 2017, GASB issued Statement No. 87, Leases (GASB 87). GASB 87 defines a lease as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. GASB 87 improves accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities for leases that previously were

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classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. Due to the implementation of GASB 95, the requirements of GASB 87 are now effective July 1, 2021, for the June 30, 2022 reporting year. Earlier application is encouraged. The Plan has determined the impact of GASB 87 on the financial statements to not be material.

J. Subsequent Events

In March 2020, the World Health Organization declared the novel strain of coronavirus ("COVID-19") a global pandemic in response to the rapidly growing outbreak of the virus. The COVID-19 pandemic continues to have significant effects on global markets, businesses, and communities. While the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events are still developing, it could impact the volatility of the Plan assets. The impact to participants would be dependent on the timing of distributions and the related market price of investments held at the distribution date.

Subsequent events were evaluated through October 5th, 2021, which is the date the financial statements were available to be issued.

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, 2021 and 2020, the bank balance of cash equivalents in OK INVEST totaled \$20,968 and \$20,762, 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.

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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.

At June 30, 2021 and 2020, cash of \$13,049 and \$12,995, 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, 2021 and 2020, funds were also held in the Plan's name by its record keeper in the Stable Value Fund in the amount of \$1,806 and \$71, 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. No distributions were made to the participants during the fiscal years ended June 30, 2021 and June 30, 2020.

At June 30, cash and cash equivalents consisted of the following:

	<u>2021</u>	<u>2020</u>
OK Invest	\$ 20,968	\$ 20,761
Forfeiture/Asset Holding account at Empower	14,854	13,066
Cash held for administrative expense reimbursement	<u>350,153</u>	<u>222,772</u>
Total cash and cash equivalents	<u>\$ 385,975</u>	<u>\$ 256,599</u>

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.

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- 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.

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 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 quarters ended June 30, 2021 and 2020 was 1.40% and 1.85%, 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. The Stable Value Fund is carried at book value.

Mutual Funds and Common Trust Funds

The Plan offers 17 mutual funds from eight fund families and three common trust funds from BNY Mellon. The composition is one (1) bond fund; eight (8) domestic 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

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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.

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

	June 30, 2021		June 30, 2020	
	Fair Value	Weighted Average Duration	Fair Value	Weighted Average Duration
Fixed Income Mutual Funds				
T. Rowe Price Institutional High Yield	\$ 6,315,240	2.93	\$ 5,575,284	3.20
BNY Mellon Aggregate Bond Index Instl	\$ 3,991,054	6.59	\$ 4,129,196	6.04

At June 30, 2021 and 2020, the carrying amount of the Stable Value Fund was \$72,183,471 and \$71,170,237 and the weighted average duration as provided by Empower was 2.5 and 2.1 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 rated as follows: T. Rowe Price High-Yield Fund, B at June 30, 2021 and June 30, 2020. The BNY Mellon Aggregate Bond Index was rated AA1/AA2 at June 30, 2021 and June 30, 2020.

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, 2021 and 2020 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

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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

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

June 30, 2021	Level 1	Level 2	Level 3	Fair Value
Mutual funds:				
Bond funds	\$ 6,315,240	\$ -	\$ -	\$ 6,315,240
Balanced funds	12,184,886	-	-	12,184,886
Large-Cap equity funds	91,103,399	-	-	91,103,399
Mid-Cap equity funds	46,168,998	-	-	46,168,998
Small-Cap equity funds	11,456,221	-	-	11,456,221
International equity funds	15,292,372	-	-	15,292,372
Target date funds	32,888,975	-	-	32,888,975
Total	\$ 215,410,091	\$ -	\$ -	\$ 215,410,091
Common Trust funds:				
Bond fund	\$ -	\$ 3,991,054	\$ -	\$ 3,991,054
Small-cap equity fund	-	327,117	-	327,117
International equity funds	-	296,720	-	296,720
Total	\$ -	\$ 4,614,891	\$ -	\$ 4,614,891

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June 30, 2020	Level 1	Level 2	Level 3	Fair Value
Mutual funds:				
Bond funds	\$ 5,575,284	\$ -	\$ -	\$ 5,575,284
Balanced funds	9,807,099	-	-	9,807,099
Large-Cap equity funds	69,656,021	-	-	69,656,021
Mid-Cap equity funds	33,891,327	-	-	33,891,327
Small-Cap equity funds	8,070,315	-	-	8,070,315
International equity funds	11,767,546	-	-	11,767,546
Target date funds	24,567,103	-	-	24,567,103
Total	<u>\$ 163,334,695</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 163,334,695</u>
Common Trust funds:				
Bond fund	\$ -	\$ 4,129,196	\$ -	\$ 4,129,196
Small-cap equity fund	-	136,486	-	136,486
International equity funds	-	143,213	-	143,213
Total	<u>\$ -</u>	<u>\$ 4,408,895</u>	<u>\$ -</u>	<u>\$ 4,408,895</u>

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, 2021 and 2020.

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, 2021, 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, 2021.

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.

October 5, 2021