

Oklahoma State Employees Pathfinder 457 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

PATHFINDER 457 PLAN

Administered by the Oklahoma Public Employees Retirement System

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Oklahoma State Employees
Pathfinder 457 Plan

Report on the Financial Statements

We have audited the accompanying financial statements of the Oklahoma State Employees Pathfinder 457 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Pathfinder 457 Plan as of June 30, 2021 and 2020 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'S DISCUSSION AND ANALYSIS

June 30, 2021 and 2020

As management of the Pathfinder 457 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 and 2020.

FINANCIAL HIGHLIGHTS

- The net position available for plan benefits totaled \$21,622,411 at June 30, 2021 compared to \$12,101,885 at June 30, 2020 and \$6,813,207 at June 30, 2019. These funds are available for distribution to plan participants in accordance with Plan provisions.
- The number of active, retired or inactive participants was 5,826 at June 30, 2021 compared to 4,862 and 3,632 at June 30, 2020 and 2019, respectively.
- The Plan's average annualized rates of return of its mutual funds and common trust funds for the one-year period ended June 30, 2021, ranged from a high of 62.55% to a low of -0.50% compared to a high of 19.37% to a low of -17.48% for 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 a defined contribution 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 balances.

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.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2021 and 2020

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 fiscal years ended June 30, 2021 and June 30, 2020. This statement reflects contributions made by and benefits paid to participants during the period. Investing activities during the period are also presented which include interest and dividends added to participant accounts and the net appreciation or depreciation in fair value of the investments. Other transfers and fees affecting participant accounts are also reported in this statement.

The *notes to financial statements* provide additional information that is essential to a full understanding of the data provided in the financial statements. The Plan does not meet the criteria for inclusion in the financial statements of the State of Oklahoma.

FINANCIAL ANALYSIS

Plan net position at June 30 is summarized as follows:

	2021	2020	2019
Cash and cash equivalents	\$ 19,463	\$ 1,644	\$ 628
Contribution receivable	236,983	128,583	59,162
Investments:			
Stable value fund	166,538	167,377	66,881
Mutual funds	20,813,778	11,634,886	6,574,099
Common trust funds	385,665	169,398	113,065
Total assets	21,622,427	12,101,888	6,813,835
Other liabilities	16	3	628
Net assets available for plan benefits	<u>\$ 21,622,411</u>	<u>\$ 12,101,885</u>	<u>\$ 6,813,207</u>

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

	2021	2020	2019
Additions:			
Contributions	\$ 6,734,097	\$ 5,104,344	\$ 3,292,958
Investment income (loss)	3,770,944	719,813	447,621
Total additions	10,505,041	5,824,157	3,740,579
Deductions:			
Benefits paid to participants	984,570	534,959	335,341
Administrative fees	(55)	520	703
Total deductions	984,515	535,479	336,044
Increase (decrease) in net assets	<u>\$ 9,520,526</u>	<u>\$ 5,288,678</u>	<u>\$ 3,404,535</u>

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MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2021 and 2020

Participants elected to allocate their contributions to the Plan for the years ended June 30, 2021, 2020 and 2019, as follows:

	2021	2020	2019
Bond funds	0.75 %	0.79 %	0.61 %
Balanced fund	78.25	80.83	79.67
Large-Cap equity funds	7.79	6.35	6.71
Mid-Cap equity funds	0.67	0.52	0.63
Small-Cap equity funds	1.38	1.06	1.44
International equity funds	1.48	1.55	2.70
Stable value fund	0.78	0.74	0.34
Target date funds	8.90	8.16	7.90
	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>

Payments made as a result of separation from service during the period ended June 30, 2021 totaled \$652,985 compared to \$490,480 in 2020 and \$290,880 in 2019. In addition, payments for death and retirement totaled \$35,259 in 2021 compared to \$20,539 in 2020 and \$3,083 in 2019.

As of June 30, 2021, Plan investments totaled approximately \$21.4 million, an increase of \$9.4 million or 78.5% over the previous fiscal year. As of June 30, 2020, Plan investments totaled approximately \$12.0 million, an increase of \$5.2 million, or 77.3% over the previous year. The returns for the total U.S. equity market were 44.2% and -0.3% for the U.S. fixed income market at June 30, 2021. At June 30, 2020 the returns for the total U.S. equity market were 6.5% and 8.7% for the U.S. fixed income market.

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

A summary of the mutual funds and common trust funds at June 30, 2021 and 2020 and their one-year annualized returns 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	\$ 15,943,633	24.80 %	\$ 9,182,126	8.22 %
Bond funds:				
T. Rowe Price High-Yield Fund	57,648	14.10	62,815	-0.69
BNY Mellon Agg Bond Index	131,595	-0.50	51,195	8.67
	189,243		114,010	
International funds:				
American Funds EuroPacific Growth Fund	110,728	39.62	52,410	2.76
T. Rowe Price Emerging Markets Stock	197,220	33.88	120,751	-1.27
BNY Mellon ACWI EX-US Institutional	118,622	35.84	60,913	-4.68
	426,570		234,074	
Large-Cap funds:				
American Century Income and Growth	124,428	39.70	68,612	1.90
Blackrock S&P 500 Stock Fund	783,215	40.71	411,493	7.55
T. Rowe Price Blue Chip Growth Fund	970,063	36.61	489,936	19.37
	1,877,706		970,041	
Mid-Cap equity funds:				
Vanguard Selected Value Fund	49,902	62.55	16,012	-14.47
Columbia Acorn Fund	140,788	38.31	54,377	5.52
	190,690		70,389	
Small-Cap equity funds:				
Janus Henderson Small-Cap Value Fund	92,472	43.57	40,038	-17.48
Blackrock Small-Cap Growth Equity	150,566	50.72	46,049	6.17
BNY Mellon Small-Cap Stock Index	135,448	62.05	57,290	-6.53
	378,486		143,377	
Target date funds:				
Vanguard Target Retirement 2020 Instl	166,983	18.96	108,185	5.15
Vanguard Target Retirement 2030 Instl	600,692	26.11	273,423	4.43
Vanguard Target Retirement 2040 Instl	667,719	32.73	351,151	3.46
Vanguard Target Retirement 2050 Instl	722,793	36.49	354,203	3.00
	2,158,187		1,086,962	
Self-directed brokers mutual fund	34,928		3,305	
Total mutual funds	\$ 21,199,443		\$ 11,804,284	

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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.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Plan's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Plan Administrator, Defined Contribution Plans, c/o OPERS, P.O. Box 53007, Oklahoma City, Oklahoma 73152-3007.

OKLAHOMA STATE EMPLOYEES**PATHFINDER 457 PLAN**

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Statements of Fiduciary Net Position

As of June 30, 2021 and 2020

	2021	2020
Assets		
Cash and cash equivalents	\$ 19,463	\$ 1,644
Contributions receivable	236,983	128,583
Investments:		
Stable value fund	166,538	167,377
Mutual funds		
Bond funds	57,648	62,815
Balanced funds	15,943,633	9,182,126
Large-Cap equity funds	1,877,706	970,041
Mid-Cap equity funds	190,690	70,389
Small-Cap equity funds	243,038	86,087
International equity funds	307,948	173,161
Target date funds	2,158,187	1,086,962
Self-directed	34,928	3,305
Total mutual funds	20,813,778	11,634,886
Common trust funds		
Bond fund	131,595	51,195
Small-Cap equity fund	135,448	57,290
International equity fund	118,622	60,913
Total common trust funds	385,665	169,398
Total investments	21,365,981	11,971,661
Total assets	21,622,427	12,101,888
Liabilities		
Other payables	16	3
Net position available for plan benefits	\$ 21,622,411	\$ 12,101,885

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:		
Participants	\$ 6,726,219	\$ 5,090,105
Plan to plan transfers	7,878	14,239
Total contributions	6,734,097	5,104,344
Investment income:		
Net appreciation in fair value of investments	3,320,850	495,929
Interest and dividends	450,094	223,884
Total investment income	3,770,944	719,813
Total additions	10,505,041	5,824,157
Deductions		
Benefits paid to participants	984,570	534,959
Administrative fees	(55)	520
Total deductions	984,515	535,479
Net increase in net position	9,520,526	5,288,678
Net position available for plan benefits		
Beginning of year	12,101,885	6,813,207
End of year	\$ 21,622,411	\$ 12,101,885

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 Pathfinder 457 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 defined contribution 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 Section 935.1 through 935.11 of Title 74 of the O.S. The Plan’s effective date was November 1, 2015.

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 who are first employed by a participating employer on or after November 1, 2015, and have no prior participation in the Oklahoma Public Employees Retirement System. The Plan accepts voluntary participant contributions above the mandatory amount of 4.5%. Mandatory contributions are made to the separate Pathfinder 401(a) Plan. Participants may direct the investment of their contributions in available investment options offered by the Plan. Participants are immediately 100% vested in their respective accounts. All interest, dividends, and investment fees are allocated to participants’ accounts. Participant allocations are initially defaulted into the Vanguard Balanced Fund. After enrollment, participants can access their account through a secure web site or call recordkeeper’s client service area to change their allocations. Participants have the option to transfer other 457 accounts into the Plan.

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 \$19,500.

The Plan offers a catch-up program to participants, which allows them to defer annually for the three years prior to their year of retirement up to twice that Plan year’s deferral limit. The amount of additional contributions in excess of the normal maximum contributions to the Plan are also limited to contributions for the years in which the participant was eligible but did not participate in the Plan or the difference between contributions made and the maximum allowable level. To be eligible for the catch-up program, the participant must be within three years of normal retirement age as defined in the administrative rules of the Plan.

Participants age 50 or older may make additional contributions of up to \$6,500 annually subject to certain limits.

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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.

Effective November 1, 2015, the Board established a Trust and Trust Fund covering the Plan assets. 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. 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:

	<u>2021</u>	<u>2020</u>
Active participants	4,301	3,714
Retired and inactive participants	1,525	1,148
Total	<u>5,826</u>	<u>4,862</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 Statement 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.

C. Investments

The Plan is authorized to invest in eligible investments as prescribed in Title 74 O.S. 935.9. Investments in the 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 common trust funds are presented at fair value based on the unit price quoted by the fund, representing the fair value of the underlying investment. Investments in the Stable Value fund, an interest-earning contract, are presented at contract book value, which approximates fair value, as determined by the Plan's recordkeeper.

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D. Administrative Expenses

The employers of eligible participants were required to remit directly to the Plan the equivalent of \$1.57 (\$1.45 in 2020) per participating employee per month for reimbursement to OPERS for administrative expenses incurred on behalf of the Plan and the Pathfinder 401(a) Plan. Of the fees received, approximately \$19,000 in 2021 and \$3,000 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 November 1, 2015, the Board entered into an agreement with Empower Retirement (Empower) for recordkeeping services for the two Pathfinder Plans. The agreement has been renewed through fiscal year 2022. Empower receives an administrative fee of two dollars and sixty-one cents (\$2.61) per participant per month as compensation for recordkeeping services provided to the Pathfinder Plans. Plan participants are solely responsible for payment of the administrative fee. The fee is collected from the participant's Pathfinder 401(a) Plan account. However, if there are not sufficient assets in the Pathfinder 401(a) Plan account the fee will be collected from the participant's Pathfinder 457 Plan account.

E. Federal Income Tax Status

The Plan is administered in compliance with Section 457 of the Internal Revenue Code (Code) and designed to meet the requirements of an eligible government plan as described in Section 457(b) of the Code. The Trust established under the Plan is treated as exempt from federal income taxation.

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 Statement 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

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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 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 pool maintained by the State Treasurer. At June 30, 2021 and 2020, the bank balance of cash equivalents in OK INVEST totaled \$16,884 and \$0, respectively. The Plan's 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

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<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 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, cash and cash equivalents consisted of the following:

	2021	2020
OK Invest	\$ 19,447	\$ 1,641
Forfeiture/Asset Holding account at Empower	16	3
Total cash and cash equivalents	<u>\$ 19,463</u>	<u>\$ 1,644</u>

4. INVESTMENTS

The Plan's Investment Policies and Guidelines state that the Board 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.

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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 or common trust funds.

A brief description of the investment options is as follows:

Stable Value Fund

Empower, as the Plan's trustee and recordkeeper, has established a separate stable value fund (Fund), for the Plan. The 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 Fund. The rate in effect for the quarter ended June 30, 2021 and 2020 was 1.40% and 1.85%, respectively.

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

Mutual Funds and Common Trust Funds

As of June 30, 2021 and 2020, the Plan offers 15 mutual funds from 8 fund families and 3 common trust funds from BNY Mellon. The composition is one (1) bond fund; seven (7) 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; four (4) 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.

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.

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

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NOTES TO THE FINANCIAL STATEMENTS

June 30, 2021 and 2020

	June 30, 2021		June 30, 2020	
	Fair Value	Weighted Average Duration	Fair Value	Weighted Average Duration
<u>Fixed Income Mutual Funds</u>				
T. Rowe Price Institutional High Yield	\$ 57,648	2.93	\$ 62,815	3.20
BNY Mellon Aggregate Bond Index Instl	\$ 131,595	6.59	\$ 51,195	6.04

At June 30, 2021 and 2020, the carrying amount of the Stable Value fund was \$166,538 and \$167,377, 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 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, 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 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, 2021 and 2020 were primarily composed of mortgage-backed and asset-backed securities which were all 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

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June 30, 2021 and 2020

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	\$ 57,648	\$ -	\$ -	\$ 57,648
Balanced funds	15,943,633	-	-	15,943,633
Large-Cap equity funds	1,877,706	-	-	1,877,706
Mid-Cap equity funds	190,690	-	-	190,690
Small-Cap equity funds	243,038	-	-	243,038
International equity funds	307,948	-	-	307,948
Target date funds	2,158,187	-	-	2,158,187
Self-directed brokerage	34,928	-	-	34,928
Total	<u>\$ 20,813,778</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,813,778</u>
Common Trust funds:				
Bond fund	\$ -	\$ 131,595	\$ -	\$ 131,595
Small-cap equity fund	-	135,448	-	135,448
International equity funds	-	118,622	-	118,622
Total	<u>\$ -</u>	<u>\$ 385,665</u>	<u>\$ -</u>	<u>\$ 385,665</u>

June 30, 2020	Level 1	Level 2	Level 3	Fair Value
Mutual funds:				
Bond funds	\$ 62,815	\$ -	\$ -	\$ 62,815
Balanced funds	9,182,126	-	-	9,182,126
Large-Cap equity funds	970,041	-	-	970,041
Mid-Cap equity funds	70,389	-	-	70,389
Small-Cap equity funds	86,087	-	-	86,087
International equity funds	173,161	-	-	173,161
Target date funds	1,086,962	-	-	1,086,962
Self-directed brokerage	3,305	-	-	3,305
Total	<u>\$ 11,634,886</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,634,886</u>
Common Trust funds:				
Bond fund	\$ -	\$ 51,195	\$ -	\$ 51,195
Small-cap equity fund	-	57,290	-	57,290
International equity funds	-	60,913	-	60,913
Total	<u>\$ -</u>	<u>\$ 169,398</u>	<u>\$ -</u>	<u>\$ 169,398</u>

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.



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
Pathfinder 457 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 Pathfinder 457 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