



# **Oklahoma State Employees Pathfinder 401(a) Plan**

Administered by the Oklahoma Public Employees Retirement System

Financial Statements  
(With Independent Auditor's Report Thereon)  
June 30, 2023 and 2022

**OKLAHOMA STATE EMPLOYEES**

**PATHFINDER 401(a) PLAN**

Administered by the Oklahoma Public Employees Retirement System

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## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Oklahoma State Employees  
Pathfinder 401(a) Plan

### Opinions

We have audited the accompanying financial statements which comprise the statements of fiduciary net position of the Oklahoma State Employees Pathfinder 401(a) Plan ("the Plan") as of and for the years ended June 30, 2023, and 2022, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements, which collectively comprise the Plan basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Oklahoma State Employees Pathfinder 401(a) Plan, as of June 30, 2023, and 2022, and the respective changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Plan, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Plan's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Plan's ability to continue as a going concern for a reasonable period of time.

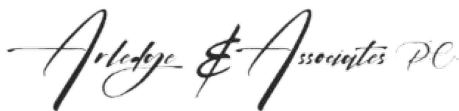
We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

#### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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, 2023, 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 solely 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 the effectiveness of the Plan's 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.



Edmond, Oklahoma  
October 5, 2023



## OKLAHOMA STATE EMPLOYEES

### PATHFINDER 401(a) PLAN

Administered by the Oklahoma Public Employees Retirement System

#### MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2023 and 2022

As management of the Pathfinder 401(a) 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, 2023 and June 30, 2022.

#### FINANCIAL HIGHLIGHTS

- The net position available for plan benefits totaled \$234,345,063 at June 30, 2023 compared to \$171,011,051 at June 30, 2022 and \$157,199,278 at June 30, 2021. These funds are available for distribution to plan participants in accordance with Plan provisions.
- At June 30, 2023, the number of active, retired, or inactive participants was 18,822 compared to 16,051 and 13,539 at June 30, 2022 and 2021, 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, 2023, ranged from a high of 26.21% to a low of -0.99%. This compares to a high of -8.68% to a low of -36.23% in the corresponding prior year period. For the year ended June 30, 2021, the returns ranged from a high of 62.55% to a low of -0.50%.
- During the review period, Vanguard merged the Vanguard Target Retirement Funds into the Vanguard Target Retirement Trust Funds and added the Vanguard Target Retirement 2060 Trust Fund.

During the period ended June 30, 2022, the Board authorized the creation of the Baird Midcap Growth investment option consisting primarily of U.S. mid-cap growth equity securities to replace the Columbia Acorn Fund which was also a mid-cap investment option. In addition, Vanguard merged the Vanguard Institutional Target Retirement Funds into the Vanguard Target Retirement Funds which is expected to result in a lower expense ratio for each Target Retirement Fund.

During the period ended June 30, 2021, there were no changes to the Plan investment options.

#### OVERVIEW OF THE FINANCIAL STATEMENTS

The Plan is established as a money purchase pension plan pursuant to Internal Revenue Code (IRC) Section 401(a). The Plan includes mandatory employee and employer contributions and earnings. Participants also have the option to rollover contributions from qualified retirement plans. 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 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.

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, 2023 and June 30, 2022. 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

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2023 and 2022

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:

	<b>2023</b>	<b>2022</b>	<b>2021</b>
Cash and cash equivalents	\$ 22,482,843	\$ 10,703,926	\$ 7,278,107
Contributions receivable	287,410	1,675,784	1,541,344
Investments:			
Stable value fund	1,832,998	1,043,369	495,932
Mutual funds	231,290,643	167,353,659	154,313,360
Common trust funds	916,094	848,364	788,563
Total assets	<u>256,809,988</u>	<u>181,625,102</u>	<u>164,417,306</u>
Total liabilities	<u>22,464,925</u>	<u>10,614,051</u>	<u>7,218,028</u>
Net assets available for plan benefits	<u>\$ 234,345,063</u>	<u>\$ 171,011,051</u>	<u>\$ 157,199,278</u>

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

	<b>2023</b>	<b>2022</b>	<b>2021</b>
Additions:			
Contributions	\$ 66,420,913	\$ 53,135,935	\$ 45,016,522
Investment income (loss)	21,481,956	(25,177,963)	27,523,253
Total additions	<u>87,902,869</u>	<u>27,957,972</u>	<u>72,539,775</u>
Deductions:			
Benefits paid to participants	24,034,409	13,692,579	8,335,209
Administrative fees	534,448	453,620	385,532
Total deductions	<u>24,568,857</u>	<u>14,146,199</u>	<u>8,720,741</u>
Increase in net assets	<u>\$ 63,334,012</u>	<u>\$ 13,811,773</u>	<u>\$ 63,819,034</u>

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2023 and 2022

Participants elected to allocate their contributions to the Plan for the years ended June 30, 2023, 2022 and 2021, as follows:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Bond funds	0.16 %	0.19 %	0.24 %
Balanced fund	91.50	91.75	91.00
Large-Cap equity funds	2.69	2.82	3.09
Mid-Cap equity funds	0.52	0.52	0.45
Small-Cap equity funds	0.54	0.64	0.49
International equity funds	0.36	0.46	0.43
Stable value fund	0.37	0.27	0.24
Target date funds	3.86	3.35	4.06
	<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, 2023 totaled \$22,887,287 compared to \$13,167,210 in 2022 and \$7,991,335 in 2021. In addition, payments for death and retirement totaled \$846,204 in 2023 compared to \$385,237 in 2022 and \$133,023 in 2021.

As of June 30, 2023, Plan investments totaled approximately \$234.0 million, an increase of \$64.8 million or 38.3% over the previous fiscal year. As of June 30, 2022, Plan investments totaled approximately \$169.2 million, an increase of \$13.6 million or 8.8% over the previous fiscal year. During the period ending June 30, 2023, the returns for the total U.S. equity market were 19.0% and -0.9% for the U.S. fixed income market. For the previous period ended June 30, 2022, the return for the total U.S. equity market was -13.9% and -10.3% for the U.S. fixed income market.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2023 and 2022**

A summary of the mutual funds and common trust fund balances at June 30, 2023 and 2022 and their one-year annualized returns is as follows:

	Year ended June 30, 2023		Year ended June 30, 2022	
	Balance	One-Year Returns	Balance	One-Year Returns
Balanced fund:				
Vanguard Balanced Index Fund - Instl	\$207,931,031	10.70 %	\$151,352,162	-12.51 %
Bond funds:				
T. Rowe Price High-Yield Fund	332,490	9.63	260,197	-12.79
BNY Mellon Agg Bond Index	198,841	-0.99	242,432	-10.35
	<u>531,331</u>		<u>502,629</u>	
International funds:				
American Funds EuroPacific Growth Fund	350,228	15.38	246,327	-27.93
T. Rowe Price Emerging Markets Stock	464,970	-0.99	356,984	-30.05
BNY Mellon ACWI EX-US Institutional	283,211	12.93	241,184	-19.38
	<u>1,098,409</u>		<u>844,495</u>	
Large-Cap funds:				
American Century Income and Growth	498,992	4.68	426,619	-9.67
Blackrock S&P 500 Stock Fund	3,966,322	19.56	2,561,408	-10.64
T. Rowe Price Blue Chip Growth Fund	3,945,245	26.21	2,644,211	-31.31
	<u>8,410,559</u>		<u>5,632,238</u>	
Mid-Cap equity funds:				
Baird Mid-Cap Growth Fund	643,077	N/A	-	N/A
Vanguard Selected Value Fund	793,791	19.92	385,017	-8.68
Columbia Acorn Fund	-	N/A	450,146	-36.23
	<u>1,436,868</u>		<u>835,163</u>	
Small-Cap equity funds:				
Janus Henderson Small-Cap Value Fund	425,712	12.81	250,307	-13.09
Blackrock Small-Cap Growth Equity	783,188	18.66	511,254	-33.21
BNY Mellon Small-Cap Stock Index	434,042	12.28	364,748	-25.21
	<u>1,642,942</u>		<u>1,126,309</u>	
Target date funds:				
Vanguard Target Retirement 2020 Instl	-	N/A	403,550	-11.65
Vanguard Target Retirement 2030 Instl	-	N/A	1,991,119	-13.94
Vanguard Target Retirement 2040 Instl	-	N/A	2,072,261	-14.82
Vanguard Target Retirement 2050 Instl	-	N/A	3,206,898	-15.45
Vanguard Target Retirement 2020 Trust Fund	520,826	6.57	-	N/A
Vanguard Target Retirement 2030 Trust Fund	2,903,791	10.03	-	N/A
Vanguard Target Retirement 2040 Trust Fund	2,457,444	12.66	-	N/A
Vanguard Target Retirement 2050 Trust Fund	4,657,172	14.67	-	N/A
Vanguard Target Retirement 2060 Trust Fund	325,531	14.71	-	N/A
	<u>10,864,764</u>		<u>7,673,828</u>	
Self-directed brokers mutual fund	290,833		235,199	
Total mutual funds	<u>\$232,206,737</u>		<u>\$168,202,023</u>	



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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2023 and 2022

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 401(a) PLAN**

Administered by the Oklahoma Public Employees Retirement System

**Statements of Fiduciary Net Position**

As of June 30, 2023 and 2022

	<b>2023</b>	<b>2022</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 22,482,843	\$ 10,703,926
Contributions receivable	287,410	1,675,784
Investments:		
Stable value fund	1,832,998	1,043,369
Mutual funds		
Bond funds	332,490	260,197
Balanced funds	207,931,031	151,352,162
Large-Cap equity funds	8,410,559	5,632,238
Mid-Cap equity funds	1,436,868	835,163
Small-Cap equity funds	1,208,900	761,561
International equity funds	815,198	603,311
Target date funds	10,864,764	7,673,828
Self-directed	290,833	235,199
Total mutual funds	231,290,643	167,353,659
Common trust funds		
Bond fund	198,841	242,432
Small-Cap equity fund	434,042	364,748
International equity fund	283,211	241,184
Total common trust funds	916,094	848,364
Total investments	234,039,735	169,245,392
Total assets	256,809,988	181,625,102
<b>Liabilities</b>		
OPERS administrative reimbursement collections in excess of remittances	754,998	59,992
Other payables	21,709,927	10,554,059
Net position available for plan benefits	\$ 234,345,063	\$ 171,011,051

See accompanying notes to financial statements.

**OKLAHOMA STATE EMPLOYEES****PATHFINDER 401(a) PLAN**

Administered by the Oklahoma Public Employees Retirement System

**Statements of Changes in Fiduciary Net Position**

For the Fiscal Years Ended June 30, 2023 and 2022

	<b>2023</b>	<b>2022</b>
<b>Additions</b>		
Contributions:		
Participants	\$ 25,934,434	\$ 20,728,551
Employers	37,226,470	29,962,566
Plan to plan transfers	3,260,009	2,444,818
Total contributions	66,420,913	53,135,935
Investment income (loss):		
Net appreciation (depreciation) in fair value of investments	16,177,102	(31,628,738)
Interest and dividends	5,304,854	6,450,775
Total investment income (loss)	21,481,956	(25,177,963)
Total additions	87,902,869	27,957,972
<b>Deductions</b>		
Benefits paid to participants	24,034,409	13,692,579
Administrative fees	534,448	453,620
Total deductions	24,568,857	14,146,199
Net increase in net position	63,334,012	13,811,773
<b>Net position available for plan benefits</b>		
Beginning of year	171,011,051	157,199,278
End of year	\$ 234,345,063	\$ 171,011,051

See accompanying notes to financial statements.

## **OKLAHOMA STATE EMPLOYEES**

### **PATHFINDER 401(a) PLAN**

Administered by the Oklahoma Public Employees Retirement System

#### **NOTES TO THE FINANCIAL STATEMENTS**

June 30, 2023 and 2022

#### **1. DESCRIPTION OF THE PLAN**

The following brief description of the Oklahoma State Employees Pathfinder 401(a) 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 November 1, 2015, 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).

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

The Plan is a mandatory defined contribution plan for eligible state employees who first become employed by a participating employer on or after November 1, 2015, and have no prior participation in the Oklahoma Public Employees Retirement System.

Qualified participants make mandatory contributions of 4.5% and receive an employer contribution of 6%. The employer will contribute an additional 1% to the Plan if the employee makes voluntary contributions of 2.5% or more into the separate Pathfinder Deferred Compensation Plan. Participants elect their contribution amount at the time of hire on an enrollment form provided by their employer. The employee elections are entered into the employer's payroll system and contributions are withheld when the employer's payroll is processed. Rollover contributions are accepted into the Plan provided such rollover contributions meet the applicable requirements of the IRC.

Participants have investment discretion over all contributions into the Plan. Investment allocations are initially defaulted into the Vanguard Balanced Fund; however, upon enrollment participants can change their investment allocation by logging into their account through a secure website or by calling the recordkeeper's client service department. Plan investment options are approved by the Board of Trustees and include fifteen mutual funds, three common trust funds, a Stable Value fund and a self-directed brokerage option for mutual funds. 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.

Participants are vested immediately in their contributions plus actual earnings thereon. Vesting in the employer's contribution portion of their accounts is based on years of continuous service. A participant is 100% vested after 5 years of credited service.

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**PATHFINDER 401(a) PLAN**

Administered by the Oklahoma Public Employees Retirement System

**NOTES TO THE FINANCIAL STATEMENTS**

June 30, 2023 and 2022

1. DESCRIPTION OF THE PLAN (Continued)

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

	<u>2023</u>	<u>2022</u>
Active participants	12,416	10,551
Retired and inactive participants	6,406	5,500
Total	<u>18,822</u>	<u>16,051</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 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 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.

D. Administrative Expenses

The employers of eligible participants were required to remit directly to the Plan the equivalent of \$2.63 (\$1.91 in 2022) per participating employee per month for reimbursement to OPERS for administrative expenses incurred on behalf of the Plan and the Pathfinder 457 Plan. Of the fees received, approximately \$322,000 in 2023 and \$233,000 in 2022 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 2024. Under terms of this agreement, Empower receives an administrative service fee of thirty-one dollars and thirty-two cents (\$31.32) per participant per

## OKLAHOMA STATE EMPLOYEES

### PATHFINDER 401(a) PLAN

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#### NOTES TO THE FINANCIAL STATEMENTS

June 30, 2023 and 2022

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

year. The fee is paid by participants 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 August 8, 2016, 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 plan net position at the date of the financial statements and the changes in plan 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.

#### 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, 2023 and 2022, the bank balance of cash equivalents in OK INVEST totaled \$3,434,863 and \$73,617, 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 Annual Comprehensive 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

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#### NOTES TO THE FINANCIAL STATEMENTS

June 30, 2023 and 2022

### 3. CASH AND CASH EQUIVALENTS (Continued)

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 Annual Comprehensive 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, 2023 and 2022, cash of \$21,709,927 and \$10,554,059, respectively, was held in the Plan's name by its recordkeeper representing forfeitures. 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 Statement of Plan Fiduciary Net Position.

### 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.

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

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June 30, 2023 and 2022

#### 4. INVESTMENTS (Continued)

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 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 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, 2023 and 2022 was 2.20% and 1.10%, respectively.

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

##### Mutual Fund and Common Trust Funds

As of June 30, 2023 and 2022, the Plan offers 16 mutual funds from eight fund families and three common trust funds from BNY Mellon. The composition is one (1) bond fund; seven (7) 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.

Shares of these funds and options 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.



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4. INVESTMENTS (Continued)

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

	<u>June 30, 2023</u>		<u>June 30, 2022</u>	
	<u>Fair Value</u>	<u>Weighted Average Duration</u>	<u>Fair Value</u>	<u>Weighted Average Duration</u>
<b><u>Fixed Income Mutual Funds</u></b>				
T. Rowe Price Institutional High Yield	\$ 332,490	3.84	\$ 260,197	4.35
BNY Mellon Aggregate Bond Index Instl	\$ 198,841	6.34	\$ 242,432	6.45

At June 30, 2023 and 2022, the carrying amount of the Stable Value fund was \$1,832,998 and \$1,043,369, and the weighted average duration as provided by Empower was 2.9 and 2.9 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 and common trust 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 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, 2023 and June 30, 2022. The BNY Mellon Aggregate Bond Index was rated AA1/AA2 at June 30, 2023 and June 30, 2022.

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, 2023 and 2022 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:

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## NOTES TO THE FINANCIAL STATEMENTS

June 30, 2023 and 2022

5. FAIR VALUE MEASUREMENT (Continued)

- 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, 2023	Level 1	Level 2	Level 3	Fair Value
Mutual funds:				
Bond funds	\$ 332,490	\$ -	\$ -	\$ 332,490
Balanced funds	207,931,031	-	-	207,931,031
Large-Cap equity funds	8,410,559	-	-	8,410,559
Mid-Cap equity funds	1,436,868	-	-	1,436,868
Small-Cap equity funds	1,208,900	-	-	1,208,900
International equity funds	815,198	-	-	815,198
Target date funds	10,864,764	-	-	10,864,764
Self-directed brokerage	290,833	-	-	290,833
Total	\$ 231,290,643	\$ -	\$ -	\$ 231,290,643
Common Trust funds:				
Bond fund	\$ -	\$ 198,841	\$ -	\$ 198,841
Small-cap equity fund	-	434,042	-	434,042
International equity funds	-	283,211	-	283,211
Total	\$ -	\$ 916,094	\$ -	\$ 916,094

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**NOTES TO THE FINANCIAL STATEMENTS**

June 30, 2023 and 2022

5. FAIR VALUE MEASUREMENT (Continued)

June 30, 2022	Level 1	Level 2	Level 3	Fair Value
Mutual funds:				
Bond funds	\$ 260,197	\$ -	\$ -	\$ 260,197
Balanced funds	151,352,162	-	-	151,352,162
Large-Cap equity funds	5,632,238	-	-	5,632,238
Mid-Cap equity funds	835,163	-	-	835,163
Small-Cap equity funds	761,561	-	-	761,561
International equity funds	603,311	-	-	603,311
Target date funds	7,673,828	-	-	7,673,828
Self-directed brokerage	235,199	-	-	235,199
Total	<u>\$ 167,353,659</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 167,353,659</u>
Common Trust funds:				
Bond fund	\$ -	\$ 242,432	\$ -	\$ 242,432
Small-cap equity fund	-	364,748	-	364,748
International equity funds	-	241,184	-	241,184
Total	<u>\$ -</u>	<u>\$ 848,364</u>	<u>\$ -</u>	<u>\$ 848,364</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 401(a) 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 401(a) Plan (the "Plan"), which comprise the statement of fiduciary net position as of June 30, 2023, 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, 2023.

### **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.

Edmond, Oklahoma  
October 5, 2023