

**OKLAHOMA STATE EMPLOYEES
PATHFINDER 457 PLAN**

Administered by the Oklahoma Public
Employees Retirement System

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

**AS OF JUNE 30, 2017 AND THE INITIAL
PERIOD FROM NOVEMBER 1, 2015 TO
JUNE 30, 2016**

**OKLAHOMA STATE EMPLOYEES
PATHFINDER 457 PLAN**

Administered by the Oklahoma Public Employees Retirement System

TABLE OF CONTENTS

June 30, 2017 and 2016

	<u>Page</u>
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-7
Statements of Fiduciary Net Position	8
Statements of Changes in Fiduciary Net Position	9
Notes to Financial Statements	10-18
Internal Control Over Financial Reporting and Compliance	19-20



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, 2017 and 2016, and the related statements of changes in fiduciary net position for the year ended June 30, 2017 and the initial period from November 1, 2015 (date of inception) to June 30, 2016, 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, 2017 and 2016 and the changes in its financial position for the year ended June 30, 2017 and the initial period from November 1, 2015 (date of inception) to June 30, 2016 in accordance with accounting principles generally accepted in the United States of America.

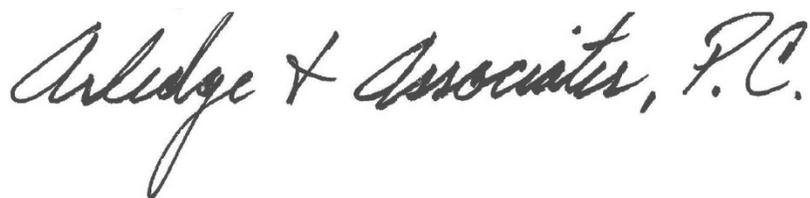
Other Matters

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 6, 2017, 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.



Edmond, Oklahoma
October 6, 2017

**OKLAHOMA STATE EMPLOYEES
PATHFINDER 457 PLAN**
Administered by the Oklahoma Public Employees Retirement System
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017 and 2016

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, 2017 and 2016.

FINANCIAL HIGHLIGHTS

- The net position available for plan benefits totaled approximately \$1,405,430 on at June 30, 2017 and \$216,416 at June 30, 2016. These funds are available for distribution to plan participants in accordance with Plan provisions.
- The number of active, retired or inactive participants was 1,617 at June 30, 2017 and 652 at June 30, 2016.
- The Plan's average annualized rates of return of its mutual funds and common trust funds for the one-year periods ended June 30, 2017, ranged from a high of 27.86% to a low of negative 0.44%. This compares with a high of 4.01% to a low of negative 12.63% in the corresponding prior year period.
- No investment options were closed during initial period ending June 30, 2017 or June 30, 2016.

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.

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 year ended June 30, 2017 and the initial period ended June 30, 2016. 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.

**OKLAHOMA STATE EMPLOYEES
PATHFINDER 457 PLAN**
Administered by the Oklahoma Public Employees Retirement System
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017 and 2016

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:

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 205	\$ 25
Contributions receivable	24,171	19,783
Investments:		
Stable value fund	1,339	2
Mutual funds	1,343,388	196,503
Common Trust funds	<u>36,532</u>	<u>128</u>
Total assets	1,405,635	216,441
Other Liabilities	<u>205</u>	<u>25</u>
Ending net position	\$ <u><u>1,405,430</u></u>	\$ <u><u>216,416</u></u>

Summarized changes in Plan net position are as follows for the initial period ended June 30, 2016 and the fiscal year ended June 30, 2017:

	<u>2017</u>	<u>2016</u>
Additions:		
Contributions	\$ 1,156,028	\$ 210,649
Investment income	<u>71,849</u>	<u>6,077</u>
Total additions	1,227,877	216,726
Deductions:		
Benefits paid to participants	38,694	308
Administrative fees	<u>169</u>	<u>2</u>
Total deductions	<u>38,863</u>	<u>310</u>
Increase in net position	\$ <u><u>1,189,014</u></u>	\$ <u><u>216,416</u></u>

**OKLAHOMA STATE EMPLOYEES
PATHFINDER 457 PLAN**
Administered by the Oklahoma Public Employees Retirement System
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017 and 2016

Participants elected to allocate their contributions to the Plan for the years ended June 30, 2017 and 2016 as follows:

	<u>2017</u>	<u>2016</u>
Bond fund	0.55%	0.19%
Balanced fund	86.47%	92.57%
Large Cap equity fund	3.33%	4.34%
Mid Cap equity fund	0.18%	0.10%
Small Cap fund	0.63%	0.57%
International equity fund	0.97%	1.01%
Stable Value fund	0.11%	0.00%
Target Date Fund	7.76%	1.22%
	<u>100.00%</u>	<u>100.00%</u>

As of June 30, 2017 and 2016, Plan investments totaled approximately \$1,405,000 and \$197,000, respectively. During this period, the returns for the total U.S. equity market were 18.5% and negative 0.3% for the U.S. fixed income market. The returns for the U.S. equity market were 2.1% and 6.0% for the U.S. fixed income market at June 30, 2016.

**OKLAHOMA STATE EMPLOYEES
PATHFINDER 457 PLAN**
Administered by the Oklahoma Public Employees Retirement System
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017 and 2016

A summary of the mutual funds and common trust funds at June 30, 2017 and 2016 and their one-year annualized returns is as follows:

	Year ended June 30, 2017		Year ended June 30, 2016	
	Balance	One Year Returns	Balance	One Year Returns
Balanced fund:				
Vanguard Balanced Index	\$ 1,191,560	10.59 %	\$ 181,740	4.01 %
	<u>1,191,560</u>		<u>181,740</u>	
Bond funds:				
BNY Mellon Ag Bond Index	15,860	-0.44	3	n/a
T. Rowe Price High Yield Fund	<u>3,081</u>	12.64	<u>369</u>	0.01
	18,941		372	
International funds:				
American Funds EuroPacific Growth Fund	2,303	22.18	-	-9.57
T. Rowe Price Emerging Markets Stock	16,906	22.10	1,954	-5.53
BNY ACWI Ex-US	<u>13,409</u>	20.55	<u>121</u>	n/a
	32,618		2,075	
Large-Cap funds:				
American Century Income and Growth	8,817	16.16	2,165	1.21
Blackrock S&P 500 Stock Fund	24,711	17.85	5,937	3.81
T. Rowe Price Large Cap Growth Equity	<u>12,723</u>	27.86	<u>632</u>	-1.46
	46,251		8,734	
Mid-Cap equity funds:				
Artisan Mid-Cap Value Fund	1,720	16.49	147	-1.21
Columbia Acorn Y Fund	<u>727</u>	24.35	<u>45</u>	-7.83
	2,447		192	
Small-Cap equity funds:				
BNY Small Cap Stock Index	7,264	22.77	4	n/a
Janus Henderson Small-Cap Value Fund*	6,604	22.67	764	1.88
Blackrock Small-Cap Growth Equity	<u>1,509</u>	24.57	<u>355</u>	-12.63
	15,377		1,123	
Target date funds:				
Vanguard Target Retirement 2020	545	10.30	120	1.44
Vanguard Target Retirement 2030	13,627	13.40	1,843	0.11
Vanguard Target Retirement 2040	46,312	16.49	306	-1.44
Vanguard Target Retirement 2050	<u>12,242</u>	16.99	<u>126</u>	-1.48
	72,726		2,395	
Total mutual funds and common trust funds	\$ <u>1,379,920</u>		\$ <u>196,631</u>	

*Name change June 2017 – previously Perkins Small-Cap Value Fund

**OKLAHOMA STATE EMPLOYEES
PATHFINDER 457 PLAN**
Administered by the Oklahoma Public Employees Retirement System
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017 and 2016

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**

Administered by the Oklahoma Public Employees Retirement System

STATEMENTS OF FIDUCIARY NET POSITION

June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 205	\$ 25
Contributions receivable	24,171	19,783
Investments		
Stable value fund	1,339	2
Mutual funds		
Bond funds	3,082	369
Balanced funds	1,191,560	181,740
Large-Cap equity funds	46,251	8,734
Mid-Cap equity funds	2,447	192
Small-Cap equity funds	8,112	1,119
International equity funds	19,210	1,954
Target date funds	<u>72,726</u>	<u>2,395</u>
Total mutual funds	1,343,388	196,503
Common trust funds		
Bond funds	15,860	3
Small-Cap equity funds	7,264	4
International equity funds	<u>13,408</u>	<u>121</u>
Total common trust funds	36,532	128
Total investments	<u>1,381,259</u>	<u>196,633</u>
TOTAL ASSETS	<u>1,405,635</u>	<u>216,441</u>
LIABILITIES		
OPERS administrative reimbursement collections in excess of remittances	<u>205</u>	<u>25</u>
TOTAL LIABILITIES	<u>205</u>	<u>25</u>
NET POSITION AVAILABLE FOR PLAN BENEFITS	<u>\$ 1,405,430</u>	<u>\$ 216,416</u>

See accompanying notes to financial statements.

**OKLAHOMA STATE EMPLOYEES
PATHFINDER 457 PLAN**

Administered by the Oklahoma Public Employees Retirement System

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION

For the fiscal year ending June 30, 2017 and the initial period from
November 1, 2015 (Date of Inception) to June 30, 2016

	<u>2017</u>	<u>2016</u>
ADDITIONS		
Contributions		
Employees	\$ 1,115,882	\$ 210,649
Rollover	40,146	-
Total contributions	<u>1,156,028</u>	<u>210,649</u>
Investment income		
Net appreciation in fair value of investments	56,145	5,016
Interest and dividends	15,704	1,061
Net investment income	<u>71,849</u>	<u>6,077</u>
TOTAL ADDITIONS	<u>1,227,877</u>	<u>216,726</u>
DEDUCTIONS		
Benefits paid to participants	38,694	308
Administrative fees	169	2
TOTAL DEDUCTIONS	<u>38,863</u>	<u>310</u>
NET INCREASE	1,189,014	216,416
NET POSITION AVAILABLE FOR PLAN BENEFITS		
Beginning of year	<u>216,416</u>	-
End of year	<u>\$ 1,405,430</u>	<u>\$ 216,416</u>

See accompanying notes to financial statements.

**OKLAHOMA STATE EMPLOYEES
PATHFINDER 457 PLAN**

Administered by the Oklahoma Public Employees Retirement System

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017 and 2016

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 recordkeepers’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 \$18,000.

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

Participants age 50 or older may make additional contributions of up to \$6,000 annually subject to certain limits.

**OKLAHOMA STATE EMPLOYEES
PATHFINDER 457 PLAN**

Administered by the Oklahoma Public Employees Retirement System

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017 and 2016**

1. DESCRIPTION OF THE PLAN (Cont'd)

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>2017</u>	<u>2016</u>
Active Participants	1,316	589
Retired and Inactive	<u>301</u>	<u>63</u>
Total	<u><u>1,617</u></u>	<u><u>652</u></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.

**OKLAHOMA STATE EMPLOYEES
PATHFINDER 457 PLAN**

Administered by the Oklahoma Public Employees Retirement System

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017 and 2016

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

D. Administrative Expenses

Certain administrative functions of the Plan are provided by OPERS, and the related expenses are not reflected in these financial statements. These administrative expenses would not be material to the Plan if recorded.

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 2018. 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.

**OKLAHOMA STATE EMPLOYEES
PATHFINDER 457 PLAN**

Administered by the Oklahoma Public Employees Retirement System

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017 and 2016

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, 2017 and 2016, the bank balance of cash equivalents in OK INVEST totaled \$29,182 and \$25, 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 <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.

**OKLAHOMA STATE EMPLOYEES
PATHFINDER 457 PLAN**

Administered by the Oklahoma Public Employees Retirement System

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017 and 2016

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 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, 2017 and 2016 was 1.80% 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.

**OKLAHOMA STATE EMPLOYEES
PATHFINDER 457 PLAN**

Administered by the Oklahoma Public Employees Retirement System

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017 and 2016

4. INVESTMENTS (Cont'd)

Mutual Funds and Common Trust Funds

As of June 30, 2017 and 2016, 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:

	<u>June 30, 2017</u>		<u>June 30, 2016</u>	
	<u>Fair Value</u>	<u>Weighted Average Duration</u>	<u>Fair Value</u>	<u>Weighted Average Duration</u>
<u>Fixed Income Mutual Funds</u>				
T. Rowe Price High Yield Fund	\$ 3,082	3.01	\$ 369	3.62
BNY Mellon AG Bond Index	\$ 15,860	6.01	\$ 3	5.61

At June 30, 2017 and 2016, the fair value of the Stable Value fund was \$1,339 and \$2, and the weighted average duration as provided by Empower was 3.3 and 2.6 years respectively.

**OKLAHOMA STATE EMPLOYEES
PATHFINDER 457 PLAN**

Administered by the Oklahoma Public Employees Retirement System

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017 and 2016

4. INVESTMENTS (Cont'd)

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 rating for the fixed income securities included in the T. Rowe Price Institutional High-Yield fixed income mutual fund, as provided by Morningstar, Inc. reports, was B at June 30, 2017 and June 30, 2016.

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, 2017 and 2016 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

**OKLAHOMA STATE EMPLOYEES
PATHFINDER 457 PLAN**

Administered by the Oklahoma Public Employees Retirement System

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017 and 2016

5. FAIR VALUE MEASUREMENT (Cont'd)

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

	Level 1	Level 2	Level 3	Fair Value
June 30, 2017				
Mutual funds:				
Bond funds	\$ 3,082	\$ -	\$ -	\$ 3,082
Balanced funds	1,191,560	-	-	1,191,560
Large-Cap equity funds	46,251	-	-	46,251
Mid-Cap equity funds	2,447	-	-	2,447
Small-Cap equity funds	8,112	-	-	8,112
International equity funds	19,210	-	-	19,210
Target date funds	72,726	-	-	72,726
Total	\$ 1,343,388	\$ -	\$ -	\$ 1,343,388
Common Trust funds:				
Bond fund	\$ -	\$ 15,860	\$ -	\$ 15,860
Small-cap equity fund	-	7,264	-	7,264
International equity funds	-	13,408	-	13,408
Total	\$ -	\$ 36,532	\$ -	\$ 36,532

**OKLAHOMA STATE EMPLOYEES
PATHFINDER 457 PLAN**

Administered by the Oklahoma Public Employees Retirement System

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017 and 2016

5. FAIR VALUE MEASUREMENT (Cont'd)

	Level 1	Level 2	Level 3	Fair Value
June 30, 2016				
Mutual funds:				
Bond funds	\$ 369	\$ -	\$ -	\$ 369
Balanced funds	181,740	-	-	181,740
Large-Cap equity funds	8,734	-	-	8,734
Mid-Cap equity funds	192	-	-	192
Small-Cap equity funds	1,119	-	-	1,119
International equity funds	1,954	-	-	1,954
Target date funds	2,395	-	-	2,395
Total	<u>\$ 196,503</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 196,503</u>
Common Trust funds:				
Bond fund	\$ -	\$ 3	\$ -	\$ 3
Small-cap equity fund	-	4	-	4
International equity funds	-	121	-	121
Total	<u>\$ -</u>	<u>\$ 128</u>	<u>\$ -</u>	<u>\$ 128</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, 2017, 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 6, 2017.

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.

A handwritten signature in black ink that reads "Arledge & Associates, P.C." in a cursive script.

Edmond, Oklahoma
October 6, 2017