

Oklahoma State Employees Deferred Compensation Plan

Administered by the Oklahoma Public Employees Retirement System

Financial Statements
(With Independent Auditor's Report Thereon)
June 30, 2020 and 2019

**OKLAHOMA STATE EMPLOYEES
DEFERRED COMPENSATION PLAN**

Administered by the Oklahoma Public Employees Retirement System

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Oklahoma State Employees
Deferred Compensation Plan

Report on the Financial Statements

We have audited the accompanying financial statements of the Oklahoma State Employees Deferred Compensation Plan (the "Plan"), which comprise the statements of fiduciary net position as of June 30, 2020 and 2019, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Plan's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Oklahoma State Employees Deferred Compensation Plan as of June 30, 2020 and 2019 and the changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2020, on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plan's internal control over financial reporting and compliance.

Arledge & Associates, P.C.

Edmond, Oklahoma
October 6, 2020

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**MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2020 and 2019**

As management of the Oklahoma State Employees Deferred Compensation 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, 2020, 2019, and 2018.

FINANCIAL HIGHLIGHTS

- The net position available for plan benefits totaled approximately \$897.3 million at June 30, 2020 compared to \$882.2 million at June 30, 2019 and approximately \$861.3 million at June 30, 2018. These funds are available for distribution to plan participants in accordance with Plan provisions.
- At June 30, 2020, the number of active, retired or inactive participants was 32,926 compared to 33,977 and 35,790 at June 30, 2019 and 2018, respectively.
- The Plan’s average annualized rates of return of its mutual funds for the one-year period ended June 30, 2020, ranged from a high of 19.37% to a low of -17.48%. This compares with a high of 10.41% and a low of -3.27% in the corresponding prior-year period. For the year ended June 30, 2018, the returns ranged from a high of 27.84% to a low of -0.48%.
- During the review period 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.

During the period ended June 30, 2018, the Board approved share class changes to four mutual funds to share classes with lower expense ratios. The share class changes were for the following funds: American Century Income and Growth, Janus Henderson Small Cap Value, T. Rowe Price High Yield and Columbia Acorn. Two options were discontinued – T. Rowe Price Balanced and T. Rowe Price Spectrum Income. These were replaced by Vanguard Balanced Index and BNY Mellon Aggregate Bond Index Institutional. The plan also added two additional funds – BNY Mellon ACWI Ex-US Institutional and BNY Mellon Small Cap Stock Index Institutional.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Plan is a deferred compensation 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 balance.

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MANAGEMENT DISCUSSION AND ANALYSIS
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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 years ended June 30, 2020 and 2019. 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:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 84,583	\$ 79,429	\$ 43,486
Contributions receivable	496,795	427,160	350,679
Investments:			
Stable value fund	252,724,746	252,702,797	253,958,715
Mutual funds	624,164,738	610,299,010	589,462,082
Common trust funds	19,879,522	18,694,831	17,449,282
Annuity contracts	<u>42,353</u>	<u>46,032</u>	<u>75,841</u>
Total assets	897,392,737	882,249,259	861,340,085
Other Liabilities	<u>45,139</u>	<u>51,039</u>	<u>43,486</u>
Net assets available for plan benefits	<u><u>\$897,347,598</u></u>	<u><u>\$882,198,220</u></u>	<u><u>\$861,296,599</u></u>

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Additions:			
Contributions	\$ 31,241,516	\$ 31,438,828	\$ 32,302,818
Investment income	<u>39,069,282</u>	<u>43,089,406</u>	<u>86,937,713</u>
Total additions	70,310,798	74,528,234	119,240,531
Deductions:			
Benefits paid to participants	54,765,115	53,238,866	50,876,300
Administrative fees	<u>396,305</u>	<u>387,747</u>	<u>312,829</u>
Total deductions	<u>55,161,420</u>	<u>53,626,613</u>	<u>51,189,129</u>
Increase in net assets	<u><u>\$ 15,149,378</u></u>	<u><u>\$ 20,901,621</u></u>	<u><u>\$ 68,051,402</u></u>

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Contributions to the Plan decreased by approximately \$197,000 in FY2020, or 0.6%. Contributions to the Plan decreased by approximately \$864,000 in FY2019, or 2.7%. Contributions decreased by approximately \$2.3 million in 2018, or 6.6%. Participants elected to allocate their contributions to the Plan for the years ended June 30, 2020, 2019, and 2018 as follows:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Stable value fund	23.2 %	24.6 %	27.3 %
Bond funds	4.8	4.9	5.1
Balanced fund	4.9	4.7	4.8
Large-Cap equity funds	22.5	22.5	21.8
Mid-Cap equity funds	9.2	9.6	9.9
Small-Cap equity funds	4.6	4.6	4.3
International equity funds	5.6	5.9	6.3
Target date funds	<u>25.2</u>	<u>23.2</u>	<u>20.5</u>
	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>

Benefits and transfers paid to participants totaled \$54.8 million in the fiscal year ended June 30, 2020 compared to \$53.2 million in the fiscal year ended June 30, 2019 and \$50.9 million in 2018. During FY2020, benefit payments for death and retirement increased about \$1,009,000 and benefits paid for severance of employment increased by \$351,000 over the previous fiscal year. During 2019, benefit payments for death and retirement decreased over \$1,042,000 and benefits paid for severance of employment increased by \$2.6 million over the previous fiscal year. During 2018, benefit payments for death, retirement, and severance of employment increased approximately \$2.7 million.

As of June 30, 2020, Plan investments totaled approximately \$897 million, an increase of \$15 million or 1.7% over the previous fiscal year. As of June 30, 2019, Plan investments totaled approximately \$882 million, an increase of \$21 million, or 2.4% over the previous year. During the period ending 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. For the previous period ended June 30, 2019, the return for the total U.S. equity market was 9.0% and 7.9% for the U.S. fixed income market.

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A summary of the mutual fund balances at June 30, 2020 and 2019 and the one-year annualized returns as of the fiscal years then ended is as follows:

	<u>Year ended</u> <u>June 30, 2020</u>		<u>Year ended</u> <u>June 30, 2019</u>	
	<u>Balance</u>	<u>One-Year</u> <u>Returns</u>	<u>Balance</u>	<u>One-Year</u> <u>Returns</u>
Balanced fund:				
Vanguard Balanced Index Fund - Instl	\$ 42,355,995	8.22 %	\$ -	0.00 %
Vanguard Balanced Index - Admiral	-	0.00	39,796,924	8.91
Bond funds:				
T. Rowe Price High-Yield Fund	21,723,263	-0.69	22,066,287	7.72
BNY Mellon Agg Bond Index	<u>18,436,351</u>	8.67	<u>16,871,849</u>	7.83
	40,159,614		38,938,136	
International funds:				
American Funds EuroPacific Growth Fund	22,989,987	2.76	23,592,086	1.57
T. Rowe Price Emerging Markets Stock	22,512,022	-1.27	24,599,938	3.34
BNY Mellon ACWI EX-US Institutional	<u>737,679</u>	-4.68	<u>886,901</u>	1.41
	46,239,688		49,078,925	
Large-Cap funds:				
American Century Income and Growth	46,669,451	1.90	48,385,046	4.65
Blackrock S&P 500 Stock Fund	49,934,762	7.55	48,440,060	10.41
T. Rowe Price Blue Chip Growth Fund	164,767,003	19.37	144,140,190	10.34
T. Rowe Price Total Equity Market Fund	<u>18,763,301</u>	5.80	<u>17,479,863</u>	8.82
	280,134,517		258,445,159	
Mid-Cap equity funds:				
Vanguard Selected Value Fund	30,426,539	-14.47	37,288,756	-0.68
Columbia Acorn Fund	<u>79,009,959</u>	5.52	<u>81,546,573</u>	4.28
	109,436,498		118,835,329	
Small-Cap equity funds:				
Janus Henderson Small-Cap Value Fund	25,501,661	-17.48	33,103,534	0.97
Blackrock Small-Cap Growth Equity	10,943,151	6.17	10,577,588	2.89
BNY Mellon Small-Cap Stock Index	<u>705,492</u>	-6.53	<u>936,081</u>	-3.27
	37,150,304		44,617,203	
Target date funds:				
Vanguard Target Retirement Inc Instl	7,097,774	5.87	-	0.00
Vanguard Target Retirement 2020 Instl	22,217,832	5.15	-	0.00
Vanguard Target Retirement 2030 Instl	26,223,573	4.43	-	0.00
Vanguard Target Retirement 2040 Instl	18,413,949	3.46	-	0.00
Vanguard Target Retirement 2050 Instl	10,897,373	3.00	-	0.00
Vanguard Target Retirement Income Inv	-	0.00	6,203,197	6.54
Vanguard Target Retirement 2020	-	0.00	21,971,831	6.50
Vanguard Target Retirement 2030	-	0.00	23,281,421	6.42
Vanguard Target Retirement 2040	-	0.00	15,438,946	6.00
Vanguard Target Retirement 2050	<u>-</u>	0.00	<u>8,832,108</u>	5.86
	84,850,501		75,727,503	
Self-directed brokers mutual fund	<u>3,717,143</u>		<u>3,554,662</u>	
Total mutual funds	<u>\$ 644,044,260</u>		<u>\$ 628,993,841</u>	

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OTHER

Other than changes in the fair value of Plan assets as may be impacted by the stock and bond markets, no other matters are known by management to have a significant impact on the operations or financial position of the Plan.

REQUESTS FOR INFORMATION

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

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Statements of Fiduciary Net Position

As of June 30, 2020 and 2019

	2020	2019
Assets		
Cash and cash equivalents	\$ 84,583	\$ 79,429
Contributions receivable	496,795	427,160
Investments:		
Stable value fund	252,724,746	252,702,797
Mutual funds		
Bond funds	21,723,263	22,066,287
Balanced funds	42,355,995	39,796,924
Large-Cap equity funds	280,134,517	258,445,159
Mid-Cap equity funds	109,436,498	118,835,329
Small-Cap equity funds	36,444,812	43,681,122
International equity funds	45,502,009	48,192,024
Target date funds	84,850,501	75,727,503
Self-directed brokerage mutual funds option	3,717,143	3,554,662
Total mutual funds	624,164,738	610,299,010
Common trust funds		
Bond fund	18,436,351	16,871,849
Small-Cap equity fund	705,492	936,081
International equity fund	737,679	886,901
Total common trust funds	19,879,522	18,694,831
Annuity contracts	42,353	46,032
Total investments	896,811,359	881,742,670
Total assets	897,392,737	882,249,259
Liabilities		
Other liabilities	45,139	51,039
Net position available for plan benefits	\$ 897,347,598	\$ 882,198,220

See accompanying notes to financial statements.

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Statements of Changes in Fiduciary Net Position

For the Fiscal Years Ended June 30, 2020 and 2019

	2020	2019
Additions		
Contributions:		
Participants	\$ 31,027,274	\$ 31,385,806
Plan to plan transfers	214,242	53,022
Total contributions	31,241,516	31,438,828
Investment income:		
Net appreciation in fair value of investments	11,798,043	6,842,427
Interest and dividends	27,271,239	36,246,979
Total investment income	39,069,282	43,089,406
Total additions	70,310,798	74,528,234
Deductions		
Benefits paid to participants	54,765,115	53,238,866
Administrative fees	396,305	387,747
Total deductions	55,161,420	53,626,613
Net increase in net position	15,149,378	20,901,621
Net position available for plan benefits		
Beginning of year	882,198,220	861,296,599
End of year	\$ 897,347,598	\$ 882,198,220

See accompanying notes to financial statements.

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1. DESCRIPTION OF THE PLAN

The following brief description of the Oklahoma State Employees Deferred Compensation 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 deferred compensation 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 Sections 1701 through 1706 of Title 74 of the O.S.

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, as well as any elected officials receiving a salary from the State, except for those employees participating in the Pathfinder Defined Contribution Plan. Participants may direct the investment of their contributions in available investment options offered by the Plan. The minimum contribution amount is the equivalent of \$25 per month, and participants are 100% vested in their respective accounts immediately. All interest, dividends, and investment fees are allocated to participants' accounts.

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 retirement with no reduced benefits.

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

Deferred compensation 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 January 1, 1998, the Board established a Trust and Trust Fund covering the Plan assets, pursuant to federal legislation enacted in 1996, requiring public employers to establish such trusts for plans meeting the requirements of Section 457 of the IRC no later than January 1, 1999. 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. Prior to the establishment of the Trust, Plan assets were subject to

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the claims of general creditors of the State. 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>2020</u>	<u>2019</u>
Active participants	18,151	19,017
Retired and inactive participants	<u>14,775</u>	<u>14,960</u>
Total	<u><u>32,926</u></u>	<u><u>33,977</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. Salary deferrals are generally recorded when received and, as required by State law, are posted and transferred within ten (10) business days to the investment option as determined by the participant.

The Plan is not included in the fiduciary funds of the State. The separate financial statements of the Plan present net position available for plan benefits and changes in net position available for plan benefits for the years ended June 30, 2020 and 2019.

B. Contributions Receivable

Contributions receivable included in the Statements 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. 1701. Investments in mutual funds are presented at fair value, which is the price that would be received if the investments were sold in an orderly transaction between a willing buyer and a willing seller. Investments in the annuity contracts are presented at contract value, which approximates their fair value. Investments in the Stable Value Fund, an interest-earning contract, are presented at book value as determined by the Plan's record keeper.

D. Administrative Expenses

The employers of eligible participants are required to remit directly to the Oklahoma State Employees Deferred Savings Incentive Plan (the Savings Incentive Plan) the equivalent of \$3.44

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(\$2.13 in 2019) per participating employee per month for reimbursement to OPERS for administrative expenses incurred on behalf of the Plan and the Savings Incentive Plan. Of the fees received, approximately \$528,000 in 2020 and \$461,000 in 2019 was remitted to OPERS as the Plan's allocable share of administrative expenses in accordance with an administrative expense allocation policy adopted by the Board.

Effective with the fiscal year beginning July 1, 2012, the Board entered into an agreement with Great-West, now Empower Retirement (Empower), for recordkeeping services for the Plan and the Deferred Compensation Plan. The agreement may be renewed by the Board for one year terms and was renewed through fiscal year 2020. Under terms of this agreement, as amended, Empower received an administrative service fee comprised of the following four components: (1) a \$1 per participant administrative service fee, which is deducted from each participant's account balance at the end of each quarter by the Plan's record keeper and reflected as administrative fees in the accompanying statements of changes in fiduciary net position; (2) per participant self-directed brokerage option service fee; (3) mutual fund re-allowance revenue; and (4) Stable Value Fund revenue.

Prior to July 1, 2017, the agreement defines specific fees for each component and a maximum administrative fee of \$31.32 per participant per year that Empower could receive as compensation. In the event that the compensation received by Empower exceeded the maximum fee, the Plan and the Deferred Compensation Plan were entitled to a credit of that amount, which would first be offset by any revenue deficits. Empower established an Excess Revenue Sharing Account, that was invested in the Stable Value Fund, into which the estimated excess credits were deposited quarterly, pending final accounting within 60 days of year end. The Board may authorize Empower to utilize the excess credits to provide additional services or options to the Plan and the Deferred Compensation Plan or to participants.

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

E. Federal Income Tax Status

The Plan has received a favorable private letter ruling from the Internal Revenue Service dated July 7, 1999. The ruling concludes that the Plan is an eligible deferred compensation plan as defined in Section 457 of the IRC, and amounts deferred in the Plan are taxable only in the year or years in which amounts are paid out of the Plan. 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,

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when applicable, disclosures of contingent assets at the date of the financial statements. Actual results could differ from those estimates.

G. Risks and Uncertainties

The Plan provides for various investment options in any combination of savings accounts, mutual funds, and other investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the risks associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities may occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the accompanying Statements of Fiduciary Net Position.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents represent the Plan's investment in OK INVEST, an internal investment pool maintained by the State Treasurer. At June 30, 2020 and 2019, the bank balance of cash equivalents in OK INVEST totaled \$44,654 and \$1,023,260, 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 not have a formal policy for custodial credit risk. Generally, any funds received by the Plan, including contributions, are transferred to the record keeper within one business day.

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At June 30, 2020 and 2019, funds were held in the Plan's name by its record keeper in the amounts of \$37,711 and \$39,969, respectively, representing distributions payable to participants who cannot currently be located. The funds are invested in the Plan's stable value fund which is described in Note 4. The liability for these amounts is included in Other Liabilities in the Statements of Fiduciary Net Position.

At June 30, 2020 and 2019, funds were also held in the Plan's name by its record keeper in the Stable Value Fund in the amount of \$2,218 and \$2,195, respectively. These balances represent the estimated revenue share amount plus earnings, resulting from the Excess Revenue Sharing agreement described in Note 2. The liability for this amount is included in Other Liabilities in the Statements of Fiduciary Net Position. No distributions were made to the participants during the fiscal years ended June 30, 2020 or June 30, 2019.

4. INVESTMENTS

The Plan's Investment Policies and Guidelines state that the Board of OPERS has the fiduciary responsibility to provide investment and administrative services to the Plan's participants and sets forth the following objectives:

- To provide participants with a prudent menu of investment options to diversify their investment portfolios in order to efficiently achieve reasonable financial goals for retirement.
- To provide education to participants to help them build portfolios that 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.

An "unbundled" group of mutual funds and a self-directed brokerage option are offered by various fund managers to Plan participants.

A brief description of the investment options is as follows:

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Stable Value Fund

Empower, as the Plan's trustee and record keeper, has established a separate stable value fund for the Plan and the Savings Incentive Plan. The Stable Value Fund is an interest-earning contract that provides a stable rate of return by investing in a pool of government securities backed by the full faith and credit of the U.S. government and/or its agencies. In advance of each calendar quarter, Empower establishes a rate of return for that quarter for the Stable Value Fund. The rate in effect for the quarters ended June 30, 2020 and 2019 was 1.85% and 2.15%, respectively.

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

Mutual Funds and Common Trust Funds

The Plan offers 17 mutual funds from eight fund families and three common trust funds from BNY Mellon. The composition is one (1) bond fund; eight (8) domestic equity funds which includes large-, mid-, and small-cap funds; two (2) international equity funds; one (1) balanced fund with a mix of bond and equity securities; five (5) target date funds; one (1) bond common trust fund; one (1) small-cap stock common trust fund; and one (1) international equity common trust fund. A self-directed brokerage option is also available to qualifying participants through an independent broker, which allows investment in mutual funds not offered by the Plan for a \$15 quarterly fee deducted directly from the participant's account.

Shares of these funds are not insured, although some securities in which the funds invest may be insured or backed by the U.S. Government or its agencies. Investment income in the 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.

Annuity Contracts

Through June 30, 1995, participants could pool their deferred compensation at retirement and purchase an annuity contract to receive benefits over the duration of their annuity contract.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Other than the requirement that the duration of the Stable Value Fund cannot exceed five years, the Plan investment guidelines include no formal policy on interest rate risk. Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates based upon the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price. The average effective duration in years as provided by data from Empower and Morningstar, Inc. reports were:

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June 30, 2020 and 2019

	<u>June 30, 2020</u>		<u>June 30, 2019</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 Institutional High Yield	\$ 21,723,263	3.20	\$ 22,066,287	3.08
BNY Mellon Aggregate Bond Index Instl	\$ 18,436,352	6.04	\$ 16,871,849	5.76

At June 30, 2020 and 2019, the carrying amount of the Stable Value Fund was \$252,724,746 and \$252,702,797, and the weighted average duration as provided by Empower was 2.1 and 2.4 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, 2020 and June 30, 2019. The BNY Mellon Aggregate Bond Index was rated AA1/AA2 at June 30, 2020 and June 30, 2019.

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, 2020 and 2019 were primarily composed of mortgage-backed and asset-backed securities which were rated AA+/AAA/AAA (S&P/Moody's/Fitch).

5. FAIR VALUE MEASUREMENT

The Plan categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The inputs to the three levels of the fair value hierarchy are described as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities
- Level 2: Significant other observable inputs, including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets in markets that are not active and other market corroborated inputs
- Level 3: Significant unobservable inputs

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June 30, 2020 and 2019

June 30, 2020	Level 1	Level 2	Level 3	Fair Value
Mutual funds:				
Bond funds	\$ 21,723,263	\$ -	\$ -	\$ 21,723,263
Balanced funds	42,355,995	-	-	42,355,995
Large-Cap equity funds	280,134,517	-	-	280,134,517
Mid-Cap equity funds	109,436,498	-	-	109,436,498
Small-Cap equity funds	36,444,812	-	-	36,444,812
International equity funds	45,502,009	-	-	45,502,009
Target date funds	84,850,501	-	-	84,850,501
Self-directed brokerage	3,717,143	-	-	3,717,143
Total	\$ 624,164,738	\$ -	\$ -	\$ 624,164,738

Common Trust funds:				
Bond fund	\$ -	\$ 18,436,351	\$ -	\$ 18,436,351
Small-cap equity fund	-	705,492	-	705,492
International equity funds	-	737,679	-	737,679
Total	\$ -	\$ 19,879,522	\$ -	\$ 19,879,522

June 30, 2019	Level 1	Level 2	Level 3	Fair Value
Mutual funds:				
Bond funds	\$ 22,066,287	\$ -	\$ -	\$ 22,066,287
Balanced funds	39,796,924	-	-	39,796,924
Large-Cap equity funds	258,445,159	-	-	258,445,159
Mid-Cap equity funds	118,835,329	-	-	118,835,329
Small-Cap equity funds	43,681,122	-	-	43,681,122
International equity funds	48,192,024	-	-	48,192,024
Target date funds	75,727,503	-	-	75,727,503
Self-directed brokerage	3,554,662	-	-	3,554,662
Total	\$ 610,299,010	\$ -	\$ -	\$ 610,299,010

Common Trust funds:				
Bond fund	\$ -	\$ 16,871,849	\$ -	\$ 16,871,849
Small-cap equity fund	-	936,081	-	936,081
International equity funds	-	886,901	-	886,901
Total	\$ -	\$ 18,694,831	\$ -	\$ 18,694,831

6. SAVINGS INCENTIVE PLAN

Contributions equivalent to \$25 per month for qualified participants of the Plan who are making deferrals of at least \$25 per month were remitted by the participants' employers to the Savings Incentive Plan, a separate qualified defined contribution plan established in accordance with Section 401(a) of the IRC. The funds of the Savings Incentive Plan are not included in the accompanying financial statements.



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Trustees
Oklahoma State Employees
Deferred Compensation Plan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Oklahoma State Employees Deferred Compensation Plan (the "Plan"), which comprise the statement of fiduciary net position as of June 30, 2020, 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, 2020.

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, PC.

Edmond, Oklahoma
October 6, 2020