

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, 2021 and 2020

OKLAHOMA STATE EMPLOYEES

PATHFINDER 401(a) PLAN

Administered by the Oklahoma Public Employees Retirement System

TABLE OF CONTENTS

June 30, 2020 and 2019

Page

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	10-17
Internal Control Over Financial Reporting and Compliance	18-19

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Oklahoma State Employees Pathfinder 401(a) Plan (the "Plan"), which comprise the statements of fiduciary net position as of June 30, 2021 and 2020, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Oklahoma State Employees Pathfinder 401(a) Plan as of June 30, 2021 and 2020 and the changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2021, on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plan's internal control over financial reporting and compliance.

Arledge & Associates, P.C.

October 5, 2021

OKLAHOMA STATE EMPLOYEES

PATHFINDER 401(a) PLAN

Administered by the Oklahoma Public Employees Retirement System

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2021 and 2020

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, 2021 and June 30, 2020.

FINANCIAL HIGHLIGHTS

- The net position available for plan benefits totaled \$157,199,278 at June 30, 2021 compared to \$93,380,244 at June 30, 2020 and \$55,146,471 at June 30, 2019. These funds are available for distribution to plan participants in accordance with Plan provisions.
- At June 30, 2021, the number of active, retired, or inactive participants was 13,539 compared to 11,705 and 9,208 at June 30, 2020 and 2019, respectively.
- The Plan's average annualized rates of return of its mutual funds and common trust funds for the one-year period ended June 30, 2021, ranged from a high of 62.55% to a low of -0.50%. This compares to a high of 19.37% to a low of -17.48% in the corresponding prior year period. For the year ended June 30, 2019, the returns ranged from a high of 10.41% to a low of -3.27%.
- During the review period, there were no changes to the Plan investment options.

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS

The Plan is established as a money purchase pension plan pursuant to Internal Revenue Code (IRC) Section 401(a). 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, 2021 and June 30, 2020. This statement

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

Administered by the Oklahoma Public Employees Retirement System

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2021 and 2020

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

The *notes to the financial statements* provide additional information that is essential to a full understanding of the data provided in the financial statements.

The Plan does not meet the criteria for inclusion in the financial statements of the State of Oklahoma.

FINANCIAL ANALYSIS

Plan net position at June 30 is summarized as follows:

	2021	2020	2019
Cash and cash equivalents	\$ 7,278,107	\$ 4,573,891	\$ 2,630,974
Contributions receivable	1,541,344	779,315	468,562
Investments:			
Stable value fund	495,932	335,831	117,251
Mutual funds	154,313,360	91,766,060	54,316,934
Common trust funds	788,563	486,925	243,724
Total assets	164,417,306	97,942,022	57,777,445
Other liabilities	7,218,028	4,561,778	2,630,974
Net assets available for plan benefits	<u>\$ 157,199,278</u>	<u>\$ 93,380,244</u>	<u>\$ 55,146,471</u>

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

	2021	2020	2019
Additions:			
Contributions	\$ 45,016,522	\$ 37,725,707	\$ 25,185,598
Investment income (loss)	27,523,253	5,931,263	3,855,166
Total additions	72,539,775	43,656,970	29,040,764
Deductions:			
Benefits paid to participants	8,335,209	5,098,434	3,210,558
Administrative fees	385,532	324,763	242,811
Total deductions	8,720,741	5,423,197	3,453,369
Increase (decrease) in net assets	<u>\$ 63,819,034</u>	<u>\$ 38,233,773</u>	<u>\$ 25,587,395</u>

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

Administered by the Oklahoma Public Employees Retirement System

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2021 and 2020

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

	2021	2020	2019
Bond funds	0.24 %	0.26 %	0.26 %
Balanced fund	91.00	92.54	91.27
Large-Cap equity funds	3.09	2.47	2.61
Mid-Cap equity funds	0.45	0.27	0.34
Small-Cap equity funds	0.49	0.48	0.72
International equity funds	0.43	0.49	0.62
Stable value fund	0.24	0.16	0.17
Target date funds	4.06	3.33	4.01
	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>

Payments made as a result of separation from service during the period ended June 30, 2021 totaled \$7,991,335 compared to \$4,880,422 in 2020 and \$3,185,927 in 2019. In addition, payments for death and retirement totaled \$83,588 in 2021 compared to \$129,533 in 2020 and \$2,273 in 2019.

As of June 30, 2021, Plan investments totaled approximately \$155.6 million, an increase of \$63.0 million or 68.1% over the previous fiscal year. As of June 30, 2020, Plan investments totaled approximately \$92.6 million, an increase of \$37.9 million, or 69.3% over the previous year. The returns for the total U.S. equity market were 44.2% and -0.3% for the U.S. fixed income market at June 30, 2021. For the year ended 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.

OKLAHOMA STATE EMPLOYEES

PATHFINDER 401(a) PLAN

Administered by the Oklahoma Public Employees Retirement System

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2021 and 2020

A summary of the mutual funds and common trust fund balances at June 30, 2021 and 2020 and their one-year annualized returns is as follows:

	Year ended June 30, 2021		Year ended June 30, 2020	
	Balance	One-Year Returns	Balance	One-Year Returns
Balanced fund:				
Vanguard Balanced Index Fund - Instl	\$138,468,539	24.80 %	\$ 83,487,873	8.22 %
Bond funds:				
T. Rowe Price High-Yield Fund	240,498	14.10	211,716	-0.69
BNY Mellon Agg Bond Index	251,212	-0.50	209,369	8.67
	491,710		421,085	
International funds:				
American Funds EuroPacific Growth Fund	278,939	39.62	134,145	2.76
T. Rowe Price Emerging Markets Stock	458,171	33.88	248,331	-1.27
BNY Mellon ACWI EX-US Institutional	189,237	35.84	111,689	-4.68
	926,347		494,165	
Large-Cap funds:				
American Century Income and Growth	276,983	39.70	163,906	1.90
Blackrock S&P 500 Stock Fund	1,979,576	40.71	1,045,571	7.55
T. Rowe Price Blue Chip Growth Fund	3,357,024	36.61	1,861,045	19.37
	5,613,583		3,070,522	
Mid-Cap equity funds:				
Vanguard Selected Value Fund	218,057	62.55	89,936	-14.47
Columbia Acorn Fund	619,090	38.31	249,186	5.52
	837,147		339,122	
Small-Cap equity funds:				
Janus Henderson Small-Cap Value Fund	243,817	43.57	139,397	-17.48
Blackrock Small-Cap Growth Equity	646,040	50.72	283,892	6.17
BNY Mellon Small-Cap Stock Index	348,114	62.05	165,867	-6.53
	1,237,971		589,156	
Target date funds:				
Vanguard Target Retirement 2020 Instl	352,493	18.96	230,516	5.15
Vanguard Target Retirement 2030 Instl	1,991,014	26.11	975,123	4.43
Vanguard Target Retirement 2040 Instl	2,082,539	32.73	1,192,911	3.46
Vanguard Target Retirement 2050 Instl	2,912,532	36.49	1,388,484	3.00
	7,338,578		3,787,034	
Self-directed brokers mutual fund	188,048		64,028	
Total mutual funds	\$155,101,923		\$ 92,252,985	

OKLAHOMA STATE EMPLOYEES

PATHFINDER 401(a) PLAN

Administered by the Oklahoma Public Employees Retirement System

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2021 and 2020

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, 2021 and 2020

	2021	2020
Assets		
Cash and cash equivalents	\$ 7,278,107	\$ 4,573,891
Contributions receivable	1,541,344	779,315
Investments:		
Stable value fund	495,932	335,831
Mutual funds		
Bond funds	240,498	211,716
Balanced funds	138,468,539	83,487,873
Large-Cap equity funds	5,613,583	3,070,522
Mid-Cap equity funds	837,147	339,122
Small-Cap equity funds	889,857	423,289
International equity funds	737,110	382,476
Target date funds	7,338,578	3,787,034
Self-directed	188,048	64,028
Total mutual funds	154,313,360	91,766,060
Common trust funds		
Bond fund	251,212	209,369
Small-Cap equity fund	348,114	165,867
International equity fund	189,237	111,689
Total common trust funds	788,563	486,925
Total investments	155,597,855	92,588,816
Total assets	164,417,306	97,942,022
Liabilities		
OPERS administrative reimbursement		
collections in excess of remittances	170,085	72,810
Other payables	7,047,943	4,488,968
Net position available for plan benefits	\$ 157,199,278	\$ 93,380,244

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, 2021 and 2020

	2021	2020
Additions		
Contributions:		
Participants	\$ 17,420,972	\$ 14,325,055
Employers	24,999,431	20,514,374
Plan to plan transfers	2,596,119	2,886,278
Total contributions	45,016,522	37,725,707
Investment income:		
Net appreciation in fair value of investments	24,016,900	4,127,392
Interest and dividends	3,506,353	1,803,871
Total investment income	27,523,253	5,931,263
Total additions	72,539,775	43,656,970
Deductions		
Benefits paid to participants	8,335,209	5,098,434
Administrative fees	385,532	324,763
Total deductions	8,720,741	5,423,197
Net increase in net position	63,819,034	38,233,773
Net position available for plan benefits		
Beginning of year	93,380,244	55,146,471
End of year	\$ 157,199,278	\$ 93,380,244

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, 2021 and 2020

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 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.

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

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

Administered by the Oklahoma Public Employees Retirement System

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2021 and 2020

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

	<u>2021</u>	<u>2020</u>
Active participants	9,250	8,314
Retired and inactive participants	4,289	3,391
Total	<u>13,539</u>	<u>11,705</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 \$1.57 (\$1.45 in 2020) per participating employee per month for reimbursement to OPERS for administrative expenses incurred on behalf of the Plan and the Pathfinder 457 Plan. Of the fees received, approximately \$149,000 in 2021 and \$25,000 in 2020 was remitted to OPERS as the Plan's allocable share of administrative expenses in accordance with an administrative expense allocation policy adopted by the Board.

Effective November 1, 2015, the Board entered into an agreement with Empower Retirement (Empower), for recordkeeping services for the two Pathfinder Plans. The agreement has been renewed through fiscal year 2022. Under terms of this agreement, Empower receives an administrative service fee of thirty-one dollars and thirty-two cents (\$31.32) per participant per 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.

OKLAHOMA STATE EMPLOYEES

PATHFINDER 401(a) PLAN

Administered by the Oklahoma Public Employees Retirement System

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2021 and 2020

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.

H. Future Accounting Pronouncements

In June 2017, GASB issued Statement No. 87, Leases (GASB 87). GASB 87 defines a lease as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. GASB 87 improves accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. Due to the implementation of GASB 95, the requirements of GASB 87 are now effective July 1, 2021, for the June 30, 2022 reporting year. Earlier application is encouraged. The Plan has determined the impact of GASB 87 on the financial statements to not be material.

J. Subsequent Events

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

OKLAHOMA STATE EMPLOYEES

PATHFINDER 401(a) PLAN

Administered by the Oklahoma Public Employees Retirement System

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2021 and 2020

The impact to participants would be dependent on the timing of distributions and the related market price of investments held at the distribution date.

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

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents represent the Plan's investment in OK INVEST, an internal pool maintained by the State Treasurer. At June 30, 2021 and 2020, the bank balance of cash equivalents in OK INVEST totaled \$49,775 and \$12, respectively. The Plans investment in OK INVEST is carried at cost, as management has determined that the difference between cost and fair value of the Plan's investment in OK INVEST is not material to the financial statements as a whole.

Agencies and funds that are considered to be part of the State's reporting entity in the State's Comprehensive Annual Financial Report are allowed to participate in OK INVEST. Oklahoma statutes and the State Treasurer establish the primary objectives and guidelines governing the investment of funds in OK INVEST. Safety, liquidity, and return on investment are the objectives that establish the framework for the day-to-day OK INVEST management, with an emphasis on safety of the capital and the probable income to be derived and meeting the State and its funds' and agencies' daily cash flow requirements. Guidelines in the Investment Policy address credit quality requirements, diversification percentages and the types and maturities of allowable investments. The specifics regarding these policies can be found on the State Treasurer's website at <http://www.ok.gov/treasurer>. The State Treasurer, at his discretion, may further limit or restrict such investments on a day-to-day basis. OK INVEST includes a substantial investment in securities with an overnight maturity as well as in U.S. government securities with a maturity of up to three years. OK INVEST maintains an overall weighted average maturity of less than four years.

Participants in OK INVEST maintain interest in its underlying investments and, accordingly, may be exposed to certain risks. As stated in the State Treasurer information statement, the main risks are interest rate risk, credit/default risk, liquidity risk, and U.S. government securities risk. Detailed information regarding OK INVEST's portfolio and the related risks is available within the State's Comprehensive Annual Financial Report.

Custodial credit risk of investments is the risk that in the event of a bank failure, the government's investments may not be returned to it. Interests in OK INVEST are not insured or guaranteed by the State, the FDIC, or any other government agency. The Plan does have a formal policy for custodial credit risk. Generally, any funds received by the Plan, including contributions, are transferred to the record keeper within one business day.

At June 30, 2021 and 2020, cash of \$7,047,943 and \$4,488,968, 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.

OKLAHOMA STATE EMPLOYEES

PATHFINDER 401(a) PLAN

Administered by the Oklahoma Public Employees Retirement System

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2021 and 2020

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

	<u>2021</u>	<u>2020</u>
OK Invest	\$ 60,094	\$ 12,125
Forfeiture/Asset Holding account at Empower	7,047,943	4,488,968
Cash held for administrative expense reimbursement	170,070	72,798
Total cash and cash equivalents	<u>\$ 7,278,107</u>	<u>\$ 4,573,891</u>

4. INVESTMENTS

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

- To provide participants with a prudent menu of investment options to diversify their investment portfolios in order to efficiently achieve reasonable financial goals for retirement.
- To provide education to participants to help them build portfolios which maximize the probability of achieving their investment goals.
- To administer the Plan in an efficient manner, such that participants are able to monitor their individual portfolios and make suitable adjustments in a timely manner.
- To provide competitive investment options in major asset classes at a reasonable cost.
- To establish criteria and procedures for the ongoing evaluation of the investment offered, which are consistent with prudent investment management and participants' needs for diverse investment options.
- To establish procedures for the selection, evaluation, review, and elimination of fund options and the Board's expectations regarding each fund option.

The menu of core investment options must include at least one offering in each of the following asset categories: Cash Equivalents, Fixed Income, Balanced, Domestic Large Cap Equity, Domestic Small and Mid-Cap Equity, and International Equity. With the exception of the cash equivalent category, the Plan is structured such that all core investment options are publicly traded mutual funds 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, 2021 and 2020 was 1.40% and 1.85%, respectively.

OKLAHOMA STATE EMPLOYEES

PATHFINDER 401(a) PLAN

Administered by the Oklahoma Public Employees Retirement System

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2021 and 2020

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

Mutual Fund and Common Trust Funds

As of June 30, 2021 and 2020, the Plan offers 15 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; 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 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.

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

	June 30, 2021		June 30, 2020	
	Fair Value	Weighted Average Duration	Fair Value	Weighted Average Duration
<u>Fixed Income Mutual Funds</u>				
T. Rowe Price Institutional High Yield	\$ 240,498	2.93	\$ 211,716	3.20
BNY Mellon Aggregate Bond Index Instl	\$ 251,212	6.59	\$ 209,369	6.04

At June 30, 2021 and 2020, the carrying amount of the Stable Value fund was \$495,932 and \$335,831, and the weighted average duration as provided by Empower was 2.5 and 2.1 years, respectively.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the Plan. The Plan's policies and guidelines set forth specific criteria for selection of mutual fund 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

OKLAHOMA STATE EMPLOYEES

PATHFINDER 401(a) PLAN

Administered by the Oklahoma Public Employees Retirement System

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2021 and 2020

Morningstar, Inc. reports, were as follows: T. Rowe Price High-Yield Fund, B at June 30, 2021 and June 30, 2020. The BNY Mellon Aggregate Bond Index was rated AA1/AA2 at June 30, 2021 and June 30, 2020.

The Plan's policies and guidelines require that the credit quality of the Stable Value fund be that of securities issued by the U.S. government and agencies and commercial bank securities with FDIC guarantees. The investments in the Stable Value fund at June 30, 2021 and 2020 were primarily composed of mortgage-backed and asset-backed securities which were all rated AA+/AAA/AAA (S&P/Moody's/Fitch).

5. FAIR VALUE MEASUREMENT

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

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

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

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

Administered by the Oklahoma Public Employees Retirement System

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2021 and 2020

June 30, 2021	Level 1	Level 2	Level 3	Fair Value
Mutual funds:				
Bond funds	\$ 240,498	\$ -	\$ -	\$ 240,498
Balanced funds	138,468,539	-	-	138,468,539
Large-Cap equity funds	5,613,583	-	-	5,613,583
Mid-Cap equity funds	837,147	-	-	837,147
Small-Cap equity funds	889,857	-	-	889,857
International equity funds	737,110	-	-	737,110
Target date funds	7,338,578	-	-	7,338,578
Self-directed brokerage	188,048	-	-	188,048
Total	\$ 154,313,360	\$ -	\$ -	\$ 154,313,360
Common Trust funds:				
Bond fund	\$ -	\$ 251,212	\$ -	\$ 251,212
Small-cap equity fund	-	348,114	-	348,114
International equity funds	-	189,237	-	189,237
Total	\$ -	\$ 788,563	\$ -	\$ 788,563

June 30, 2020	Level 1	Level 2	Level 3	Fair Value
Mutual funds:				
Bond funds	\$ 211,716	\$ -	\$ -	\$ 211,716
Balanced funds	83,487,873	-	-	83,487,873
Large-Cap equity funds	3,070,522	-	-	3,070,522
Mid-Cap equity funds	339,122	-	-	339,122
Small-Cap equity funds	423,289	-	-	423,289
International equity funds	382,476	-	-	382,476
Target date funds	3,787,034	-	-	3,787,034
Self-directed brokerage	64,028	-	-	64,028
Total	\$ 91,766,060	\$ -	\$ -	\$ 91,766,060
Common Trust funds:				
Bond fund	\$ -	\$ 209,369	\$ -	\$ 209,369
Small-cap equity fund	-	165,867	-	165,867
International equity funds	-	111,689	-	111,689
Total	\$ -	\$ 486,925	\$ -	\$ 486,925

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, 2021, and the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 5, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Plan's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we do not express an opinion on the effectiveness of the Plan's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Plan's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Plan's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Arledge & Associates, P.C.

October 5, 2021

October 5, 2021

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

We have audited the financial statements of the Oklahoma State Employees Pathfinder 401(a) Plan (the “Plan”) for the year ended June 30, 2021, and have issued our report thereon dated October 5, 2021. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated June 29, 2021. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Plan are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2021. We noted no transactions entered into by the Plan during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

1. The methods and significant assumptions used to estimate fair values of financial instruments. The Plan’s investment in the common trust funds is based on the relative interest of the Plan’s investment in the underlying assets of the trust which are based on the fair value of the listed securities or upon pricing from observable market information in a non-active market. We have evaluated the key factors and assumptions used to develop the fair value of these investments in determining that it is reasonable in relation to the financial statements taken as a whole.
2. The methods and significant assumptions used to estimate fair values of financial instruments. The Plan’s investment in mutual funds are reported at fair value as determined by quoted market prices.
3. The methods and significant assumptions used to estimate fair value of financial instruments. The Plan’s investment in the stable value fund is reported at contract book value, which approximates fair value, as determined by the Plan’s recordkeeper.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in performing and completing our audit.

Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. There were no adjustments proposed or recorded.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 5, 2021.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Plan's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Plan's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the management's discussion and analysis, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

This information is intended solely for the use of the Board of Trustees and management of the Plan and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

Arledge & Associates, P.C.

Arledge & Associates, P.C.