

# **Oklahoma State Employees Deferred Savings Incentive Plan**

Administered by the Oklahoma Public Employees Retirement System

Financial Statements  
(With Independent Auditor's Report Thereon)  
June 30, 2022 and 2021

**OKLAHOMA STATE EMPLOYEES  
DEFERRED SAVINGS INCENTIVE PLAN**

Administered by the Oklahoma Public Employees Retirement System

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## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Oklahoma State Employees  
Deferred Savings Incentive Plan

### Opinions

We have audited the accompanying financial statements which comprise the statement of fiduciary net position of the Oklahoma State Employees Savings Incentive Plan ("the Plan") as of and for the year ended June 30, 2022, and 2021, and the related statement of changes in fiduciary net position for the years then ended, and the related notes to the financial statements, which collectively comprise the Plan basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Oklahoma State Employees Savings Incentive Plan, as of June 30, 2022, and 2021 and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Plan, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Responsibilities of Management for the Financial Statements

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

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

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

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Plan's ability to continue as a going concern for a reasonable period of time.

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

#### **Required Supplementary Information**

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

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2022, on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Plan's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plan's internal control over financial reporting and compliance.

*Arledge & Associates, P.C.*

Edmond, Oklahoma  
October 4, 2022



**OKLAHOMA STATE EMPLOYEES  
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MANAGEMENT DISCUSSION AND ANALYSIS  
June 30, 2022 and 2021

As management of the Oklahoma State Employees Deferred Savings Incentive 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, 2022, 2021 and 2020.

FINANCIAL HIGHLIGHTS

- The net position available for plan benefits totaled approximately \$235.0 million at June 30, 2022, compared to \$292.4 million at June 30, 2021, and \$239.0 million at June 30, 2020. These funds are available for distribution to plan participants in accordance with Plan provisions.
- At June 30, 2022, the number of active, retired or inactive participants decreased to 31,628 compared to 32,641 and 33,662 at June 30, 2021 and 2020, respectively.
- The Plan's average annualized rates of return of its mutual funds for the one-year period ended June 30, 2022, ranged from a high of -8.68% to a low of -36.23%. This compares with a high of 62.55% and a low of -0.50% in the corresponding prior-year period. For the year ended June 30, 2020, the returns ranged from a high of 19.37% to a low of 17.48%.
- During the review period, the board authorized the creation of the Baird Midcap Growth investment option consisting primarily of U.S. mid-cap growth equity securities to replace the Columbia Acorn Fund which was also a mid-cap investment option. In addition, Vanguard merged the Vanguard Institutional Target Retirement Funds into the Vanguard Target Retirement Funds which is expected to result in a lower expense ratio for each Target Retirement Fund.

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

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.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Plan is established as a money purchase pension plan pursuant to Internal Revenue Code (IRC) Section 401(a). Participants who are employees of the State of Oklahoma (the State) and active participants in the Oklahoma State Employees Deferred Compensation Plan (Deferred Compensation Plan) are eligible to receive contributions from the State to the Plan on their behalf at, currently, the equivalent of \$25 per month. 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 balance.

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,

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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, 2022 and 2021. This statement reflects contributions made on behalf of or by participants along with benefits paid to participants during the period. Investing activities during the period are also presented which include interest and dividends added to participant accounts and the net appreciation or depreciation in fair value of the investments. Administrative fees affecting participant accounts are also reported in this statement.

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:

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 218,043	\$ 385,975	\$ 256,599
Contribution receivable	134,516	169,463	76,181
Investments:			
Stable value fund	70,576,667	72,183,471	71,170,237
Mutual funds	160,579,675	215,410,091	163,334,695
Common trust funds	3,701,861	4,614,891	4,408,895
Total assets	<u>235,210,762</u>	<u>292,763,891</u>	<u>239,246,607</u>
Other Liabilities	215,932	383,864	254,488
Net assets available for plan benefits	<u>\$ 234,994,830</u>	<u>\$ 292,380,027</u>	<u>\$ 238,992,119</u>

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

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Additions:			
Contributions	\$ 6,242,933	\$ 8,288,986	\$ 8,491,578
Investment income	(46,060,697)	59,368,924	10,332,914
Total additions	<u>(39,817,764)</u>	<u>67,657,910</u>	<u>18,824,492</u>
Deductions:			
Benefits paid to participants	17,749,974	14,452,649	13,935,714
Administrative fees	(182,541)	(182,647)	(140,626)
Total deductions	<u>17,567,433</u>	<u>14,270,002</u>	<u>13,795,088</u>
Increase in net assets	<u>\$ (57,385,197)</u>	<u>\$ 53,387,908</u>	<u>\$ 5,029,404</u>

Total contributions to the Plan for the year ended June 30, 2022, decreased approximated \$2.0 million or 24.7% compared to a decrease of approximately \$203,000, or 2.4%, at June 30, 2021 compared to the prior year.

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During the years ended June 30, 2022, 2021, and 2020, Plan participants elected to allocate their State contributions as follows:

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Stable value fund	28.1 %	30.2 %	36.5 %
Bond funds	4.8	3.8	5.7
Balanced fund	7.7	5.3	3.7
Large-Cap equity funds	16.4	16.6	16.0
Mid-Cap equity funds	8.7	7.3	6.5
Small-Cap equity funds	3.2	3.5	2.3
International equity funds	4.1	4.3	4.7
Target date funds	27.0	29.0	24.6
	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>

Benefits paid to participants in 2022 increased over 2021 levels by approximated \$3.3 million or 22.8%. The increase was mainly attributable to an increase in retirements partially offset by a reduction in severances of employment compared to prior year. Benefits paid to participants in 2021 increased over 2020 levels approximately \$517,000, or 3.7%. The increase was mainly attributable to an increase in death payouts and in-service withdrawals.

At June 30, 2022, Plan investments totaled \$234.9 million, an decrease of \$57.4 million, or 19.6% over 2021 levels. At June 30, 2021, Plan investments totaled \$292.2 million, an increase of \$53.3 million, or 22.3%, over 2020 levels. During the period ending June 30, 2022, the return for the total U.S. equity market was -13.9% and -10.3% for the U.S. fixed income market. For the previous period ended June 30, 2021, the return for the total U.S. equity market was 44.2% and -0.3% for the U.S. fixed income market.

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A summary of the mutual fund balances at June 30, 2022 and 2021, and the one-year annualized returns of the fiscal years then ended is as follows:

	Year ended June 30, 2022		Year ended June 30, 2021	
	Balance	One-Year Returns	Balance	One-Year Returns
Balanced fund:				
Vanguard Balanced Index Fund - Instl	\$ 10,488,834	-12.51 %	\$ 12,184,886	24.80 %
Bond funds:				
T. Rowe Price High-Yield Fund	5,293,957	-12.79	6,315,240	14.10
BNY Mellon Agg Bond Index	3,173,576	-10.35	3,991,054	-0.50
	<u>8,467,533</u>		<u>10,306,294</u>	
International funds:				
American Funds EuroPacific Growth Fund	4,746,384	-27.93	6,862,164	39.62
T. Rowe Price Emerging Markets Stock	5,578,085	-30.05	8,430,208	33.88
BNY Mellon ACWI EX-US Institutional	255,986	-19.38	296,720	35.84
	<u>10,580,455</u>		<u>15,589,092</u>	
Large-Cap funds:				
American Century Income and Growth	12,902,666	-9.67	14,936,747	39.70
Blackrock S&P 500 Stock Fund	13,419,788	-10.64	14,901,890	40.71
T. Rowe Price Blue Chip Growth Fund	36,044,841	-31.31	55,721,030	36.61
T. Rowe Price Total Equity Market Fund	4,438,663	-14.20	5,543,732	43.25
	<u>66,805,958</u>		<u>91,103,399</u>	
Mid-Cap equity funds:				
Vanguard Selected Value Fund	10,520,777	-8.68	12,121,585	62.55
Columbia Acorn Fund	20,213,403	-36.23	34,047,413	38.31
	<u>30,734,180</u>		<u>46,168,998</u>	
Small-Cap equity funds:				
Janus Henderson Small-Cap Value Fund	7,025,074	-13.09	8,632,067	43.57
Blackrock Small-Cap Growth Equity	1,824,419	-33.21	2,824,154	50.72
BNY Mellon Small-Cap Stock Index	272,299	-25.21	327,117	62.05
	<u>9,121,792</u>		<u>11,783,338</u>	
Target date funds:				
Vanguard Target Retirement Inc Instl	1,113,553	-10.14	1,310,532	12.04
Vanguard Target Retirement 2020 Instl	4,976,854	-11.65	5,928,417	18.96
Vanguard Target Retirement 2030 Instl	9,193,552	-13.94	11,045,916	26.11
Vanguard Target Retirement 2040 Instl	8,027,722	-14.82	9,273,176	32.73
Vanguard Target Retirement 2050 Instl	4,771,103	-15.45	5,330,934	36.49
	<u>28,082,784</u>		<u>32,888,975</u>	
Total mutual funds	<u>\$ 164,281,536</u>		<u>\$ 220,024,982</u>	



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ECONOMIC FACTORS

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

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.

**OKLAHOMA STATE EMPLOYEES  
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**Statements of Fiduciary Net Position**

As of June 30, 2022 and 2021

	2022	2021
<b>Assets</b>		
Cash and cash equivalents	\$ 218,043	\$ 385,975
Contributions receivable	134,516	169,463
Investments:		
Stable value fund	70,576,667	72,183,471
Mutual funds		
Bond funds	5,293,957	6,315,240
Balanced funds	10,488,834	12,184,886
Large-Cap equity funds	66,805,958	91,103,399
Mid-Cap equity funds	30,734,180	46,168,998
Small-Cap equity funds	8,849,493	11,456,221
International equity funds	10,324,469	15,292,372
Target date funds	28,082,784	32,888,975
Total mutual funds	160,579,675	215,410,091
Common trust funds		
Bond fund	3,173,576	3,991,054
Small-Cap equity fund	272,299	327,117
International equity fund	255,986	296,720
Total common trust funds	3,701,861	4,614,891
Total investments	234,858,203	292,208,453
Total assets	235,210,762	292,763,891
<b>Liabilities</b>		
Other liabilities	215,932	383,864
Net position available for plan benefits	\$ 234,994,830	\$ 292,380,027

See accompanying notes to financial statements.

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**Statements of Changes in Fiduciary Net Position**

For the Fiscal Years Ended June 30, 2022 and 2021

	2022	2021
<b>Additions</b>		
Contributions:		
Employers	\$ 4,815,864	\$ 5,195,982
Plan to plan transfers	1,427,069	3,093,004
Total contributions	6,242,933	8,288,986
Investment income:		
Net appreciation in fair value of investments	(67,009,418)	48,765,704
Interest and dividends	20,948,721	10,603,220
Total investment income	(46,060,697)	59,368,924
Total additions	(39,817,764)	67,657,910
<b>Deductions</b>		
Benefits paid to participants	17,749,974	14,452,649
Administrative fees	(182,541)	(182,647)
Total deductions	17,567,433	14,270,002
Net increase in net position	(57,385,197)	53,387,908
<b>Net position available for plan benefits</b>		
Beginning of year	292,380,027	238,992,119
End of year	\$ 234,994,830	\$ 292,380,027

See accompanying notes to financial statements.

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NOTES TO THE FINANCIAL STATEMENTS  
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1. DESCRIPTION OF THE PLAN

The following brief description of the Oklahoma State Employees Deferred Savings Incentive 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 January 1, 1998, 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).

Any qualified participant, who is a State employee that is an active participant in the Oklahoma State Employees Deferred Compensation Plan (Deferred Compensation Plan), is eligible for a contribution of the amount determined by the State Legislature, currently the equivalent of \$25 per month. The Deferred Compensation Plan is a voluntary deferred compensation plan offered to State employees, as defined, which is authorized by Section 457 of the IRC, as amended by the Tax Reform Act of 1986. Participation in the Plan is automatic in the month of participation in the Deferred Compensation Plan and is not voluntary.

Upon cessation of contributions to the Deferred Compensation Plan, termination of employment with the State, retirement, or death, a participant will no longer be eligible for contributions from the State into the Plan. Participants are at all times 100% vested in their Plan account. Participant contributions are not required or permitted. Qualified participants may make rollover contributions to the Plan, provided such rollover contributions meet the applicable requirements of the IRC. Plan participants may direct the investment of the contributions in available investment options offered by the Plan. 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.

The employers of eligible participants are required to remit directly to the Plan the equivalent of \$25 per month for each qualified participant. The amounts remitted by the employers are reflected in the accompanying statements of changes in fiduciary net position as contributions from the State.

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

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

	<u>2022</u>	<u>2021</u>
Active participants	15,715	16,986
Retired and inactive participants	<u>15,913</u>	<u>15,655</u>
Total	<u>31,628</u>	<u>32,641</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 statements 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 in the Plan documents. 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 savings accounts and 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 were required to remit directly to the Plan the equivalent of \$4.26 (\$4.59 in 2021) per participating employee per month for reimbursement to OPERS for administrative expenses incurred on behalf of the Plan and the Deferred Compensation Plan. Of the fees received, approximately \$137,000 in 2022 and \$126,000 in 2021 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 2022. 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.

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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 determination letter from the Internal Revenue Service dated October 28, 2014, 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 fiduciary net position at the date of the financial statements and the changes in fiduciary net position during the reporting periods and, when applicable, disclosures of contingent assets at the date of the financial statements. Actual results could differ from those estimates.

G. Risks and Uncertainties

The Plan provides for various investment options in any combination of savings accounts, mutual funds, and other investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the risks associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities may occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the accompanying 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, 2022 and 2021, the bank balance of cash equivalents in OK INVEST totaled \$21,279 and \$20,968, 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

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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.

At June 30, 2022 and 2021, cash of \$13,040 and \$13,049, respectively, was held in the Plan's name by its record keeper 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 this amount is included in other liabilities in the statements of fiduciary net position.

At June 30, 2022 and 2021, funds were also held in the Plan's name by its record keeper in the Stable Value Fund in the amount of \$1,806 and \$1,806, respectively. These funds 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, 2022 and June 30, 2021.

**4. INVESTMENTS**

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

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- 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.

An "unbundled" group of mutual funds offered by various fund managers is available to Plan participants.

A brief description of the investment options is as follows:

Stable Value Fund

Empower, as the Plan's trustee and record keeper, has established a separate stable value fund for the Plan and the Deferred Compensation 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, 2022 and 2021 was 1.10% and 1.40%, 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



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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.

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:

	<u>June 30, 2022</u>		<u>June 30, 2021</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	\$ 5,293,957	4.35	\$ 6,315,240	2.93
BNY Mellon Aggregate Bond Index Instl	\$ 3,173,576	6.45	\$ 3,991,054	6.59

At June 30, 2022 and 2021, the carrying amount of the Stable Value Fund was \$70,576,667 and \$72,183,471 and the weighted average duration as provided by Empower was 2.9 and 2.5 years, respectively.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the Plan. The Plan's policies and guidelines set forth specific criteria for selection of mutual fund options to be offered to participants and provide that a review and evaluation of these funds will be performed at least annually. While the guidelines set no specific rating criteria for the fixed income mutual funds, these funds are subject to the selection and review provisions as are all of the other mutual fund investments. The weighted averaged credit ratings for the fixed income securities included in the fixed income mutual funds, as provided by Morningstar, Inc. reports, were rated as follows: T. Rowe Price High-Yield Fund, B at June 30, 2022 and June 30, 2021. The BNY Mellon Aggregate Bond Index was rated AA1/AA2 at June 30, 2022 and June 30, 2021.

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The Plan's policies and guidelines require that the credit quality of the Stable Value Fund be that of securities issues by the U.S. government and agencies and commercial bank securities with FDIC guarantees. The investments in the Stable Value Fund at June 30, 2022 and 2021 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

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

June 30, 2022	Level 1	Level 2	Level 3	Fair Value
<b>Mutual funds:</b>				
Bond funds	\$ 5,293,957	\$ -	\$ -	\$ 5,293,957
Balanced funds	10,488,834	-	-	10,488,834
Large-Cap equity funds	66,805,958	-	-	66,805,958
Mid-Cap equity funds	30,734,180	-	-	30,734,180
Small-Cap equity funds	8,849,493	-	-	8,849,493
International equity funds	10,324,469	-	-	10,324,469
Target date funds	28,082,784	-	-	28,082,784
<b>Total</b>	<b>\$ 160,579,675</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 160,579,675</b>
<b>Common Trust funds:</b>				
Bond fund	\$ -	\$ 3,173,576	\$ -	\$ 3,173,576
Small-cap equity fund	-	272,299	-	272,299
International equity funds	-	255,986	-	255,986
<b>Total</b>	<b>\$ -</b>	<b>\$ 3,701,861</b>	<b>\$ -</b>	<b>\$ 3,701,861</b>

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June 30, 2021	Level 1	Level 2	Level 3	Fair Value
<b>Mutual funds:</b>				
Bond funds	\$ 6,315,240	\$ -	\$ -	\$ 6,315,240
Balanced funds	12,184,886	-	-	12,184,886
Large-Cap equity funds	91,103,399	-	-	91,103,399
Mid-Cap equity funds	46,168,998	-	-	46,168,998
Small-Cap equity funds	11,456,221	-	-	11,456,221
International equity funds	15,292,372	-	-	15,292,372
Target date funds	32,888,975	-	-	32,888,975
<b>Total</b>	<b>\$ 215,410,091</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 215,410,091</b>
<b>Common Trust funds:</b>				
Bond fund	\$ -	\$ 3,991,054	\$ -	\$ 3,991,054
Small-cap equity fund	-	327,117	-	327,117
International equity funds	-	296,720	-	296,720
<b>Total</b>	<b>\$ -</b>	<b>\$ 4,614,891</b>	<b>\$ -</b>	<b>\$ 4,614,891</b>

Mutual funds are valued based on published market prices and categorized as Level 1 within the hierarchy.

There have been no significant changes in valuation techniques during the fiscal years ended June 30, 2022 and 2021.



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 Savings Incentive 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 Savings Incentive Plan (the "Plan"), which comprise the statement of fiduciary net position as of June 30, 2022, 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 4, 2022.

### **Internal Control over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

Edmond, Oklahoma  
October 4, 2022