

**Oklahoma Police Pension and
Retirement Plan**

Administered by

**Oklahoma Police Pension and
Retirement System**

Financial Statements

June 30, 2020 and 2019

(With Independent Auditors' Report Thereon)



OKLAHOMA POLICE PENSION AND RETIREMENT PLAN
Administered by
OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM

FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
the Oklahoma Police Pension and Retirement System

Report on the Financial Statements

We have audited the accompanying financial statements of the Oklahoma Police Pension and Retirement Plan (the "Plan"), administered by the Oklahoma Police Pension and Retirement System, which is a part of the State of Oklahoma financial reporting entity, which comprise the statements of fiduciary net position as of June 30, 2020 and 2019, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States 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 auditors' 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 auditors consider internal control relevant to the entity'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 entity'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.

(Continued)

INDEPENDENT AUDITORS' REPORT, CONTINUED

Opinion

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages I-1 through I-4 and the schedule of changes in employers' net pension (asset) liability, the schedule of employers' net pension (asset) liability, the schedule of contributions from employers and other contributing entities, and the schedule of investment returns, and the related notes, on pages 53 through 58 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, 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 September 10, 2020, on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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.

Finlay + Cook, PLLC

Shawnee, Oklahoma
September 10, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Oklahoma Police Pension and Retirement Plan administered by the Oklahoma Police Pension and Retirement System (collectively referred to as the "System"), we offer readers of the System's financial statements this narrative overview and analysis of the financial statements of the System for the fiscal years ended June 30, 2020, 2019, and 2018. Please read it in conjunction with the System's financial statements which begin on page 3.

Financial Highlights

	June 30,		
	<u>2020</u>	<u>2019</u>	<u>2018</u>
	<i>(Amounts in Thousands)</i>		
• Fiduciary net position restricted for pensions	\$ 2,621,311	2,618,857	2,563,446
• Contributions:			
Cities	44,226	42,154	40,135
Plan members	27,310	26,173	24,747
Insurance premium tax	40,295	39,559	39,028
• Net investment income	55,808	104,882	205,439
• Benefits paid, including refunds and deferred option benefits	163,193	155,486	139,563
• Net increase in net position	2,454	55,411	168,065

DISCUSSION OF THE BASIC FINANCIAL STATEMENTS

This following discussion and analysis is intended to serve as an introduction to the System's basic financial statements. The System's basic financial statements are comprised of 1) the statements of fiduciary net position, 2) the statements of changes in fiduciary net position, and 3) notes to the basic financial statements. This report also contains required supplementary information and other supplemental schedules. The System is a component unit of the State of Oklahoma and, together with other similar funds, comprises the fiduciary pension trust funds of the State of Oklahoma. The financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. The System's statements offer short-term and long-term financial information about the activities and operations of the System. These statements are presented in a manner similar to those of a private business.

The statements of fiduciary net position represent the fair value of the System's assets as of the end of the fiscal year. The difference between assets and liabilities, called "fiduciary net position," represents the value of assets held in trust for future benefit payments. Over time, increases and decreases in the System's net position can serve as an indicator of whether the financial position of the System is improving or declining.

The statements of changes in fiduciary net position present financial activities that caused a change in net position during the year. These activities primarily consist of contributions to the System, unrealized and realized gains and losses on investments, other investment income, benefits paid, and investment and administrative expenses.

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

CONDENSED FINANCIAL INFORMATION COMPARING THE CURRENT YEAR TO PRIOR YEARS

The following table summarizes the fiduciary net position as of June 30:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
	<i>(Amounts in Thousands)</i>		
Assets:			
Cash and cash equivalents	\$ 37,594	18,026	38,434
Receivables	15,521	13,806	14,729
Investments, at fair value	2,571,612	2,591,932	2,514,904
Securities lending collateral	70,726	-	-
Total assets	<u>2,695,453</u>	<u>2,623,764</u>	<u>2,568,067</u>
 Liabilities	 <u>74,142</u>	 <u>4,907</u>	 <u>4,621</u>
Fiduciary net position	<u>\$ 2,621,311</u>	<u>2,618,857</u>	<u>2,563,446</u>

Investments are made in accordance with the investment policy approved by the Oklahoma Police Pension and Retirement System Board of Trustees. A more detailed description of the types of investments held and the investment policy is presented in Note 2 to the financial statements.

The following table summarizes the changes in fiduciary net position between fiscal years 2020, 2019, and 2018:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
	<i>(Amounts in Thousands)</i>		
Additions			
Contributions	\$ 111,831	107,886	103,910
Net investment income	<u>55,808</u>	<u>104,882</u>	<u>205,439</u>
Total additions	<u>167,639</u>	<u>212,768</u>	<u>309,349</u>
 Deductions			
Benefits paid, including refunds	125,826	121,841	116,710
Deferred option benefits	37,367	33,645	22,853
Administrative expenses	<u>1,992</u>	<u>1,871</u>	<u>1,721</u>
Total deductions	<u>165,185</u>	<u>157,357</u>	<u>141,284</u>
Net increase in net position	2,454	55,411	168,065
Fiduciary net position, beginning of year	<u>2,618,857</u>	<u>2,563,446</u>	<u>2,395,381</u>
Fiduciary net position, end of year	<u>\$ 2,621,311</u>	<u>2,618,857</u>	<u>2,563,446</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

ANALYSIS OF THE OVERALL NET POSITION AND THE CHANGES IN NET POSITION

The System is funded by contributions from participating cities and their police officers, a dedicated percentage of the State of Oklahoma's insurance premium tax, and returns generated by investing the System's assets. In total, contributions increased in fiscal year 2020 compared to fiscal year 2019, due primarily to a \$2,072,000, or 4.92%, increase in city contributions and a \$1,137,000, or 4.34%, increase in member contributions. In prior periods, contributions increased during fiscal year 2019 compared to fiscal year 2018, due primarily to a \$2,019,000 and \$1,426,000, or 5.0% and 5.8%, increase in employer and member contributions, respectively. Contributions increased during fiscal year 2018 compared to fiscal year 2017, due primarily to a \$4,745,000, or 13.8%, increase in insurance premium tax contributions. The System received 14% of the total insurance premium tax collected for each of the years ended June 30, 2020, 2019, and 2018.

The System's net yield on average assets was approximately 2% for the fiscal year ended June 30, 2020, due primarily to value-oriented equity underperformance. Net yield for the fiscal year ended June 30, 2019, resulted primarily from modestly negative returns on the small cap and international equity allocations. Since the System accounts for its investments at fair value, increases and decreases in the prices of stocks and bonds have a direct effect and impact on the net position and operating results of the System. The System's net yield on its average assets for the years ended June 30 and the yield for the S&P 500 during the same period were as follows:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
System	2%	4%	8%
S&P 500	8%	10%	14%

In fiscal year 2020, total benefit payments, including refunds and deferred option benefits, increased 5% over the prior year, primarily due to an increase in retirements resulting from a COLA passed during the 2020 legislative session. Fiscal year 2019 total benefit payments, including refunds and deferred option benefits, increased 11.4% over the prior year, primarily due to a modest increase in retirements, leading to higher monthly and deferred option benefits paid.

Administrative expenses are composed primarily of payroll and related expenses for the employees of the System, legal and professional fees, data processing fees, medical and travel costs, and equipment. Total administrative expenses for the year ended June 30, 2020, increased approximately 6.5% over the year ended June 30, 2019, due primarily to increased legal costs. Total administrative expenses for the year ended June 30, 2019, increased approximately 8.7% over the year ended June 30, 2018, due primarily to higher legal and information technology costs.

The overall fiduciary net position increased for the fiscal years ended June 30, 2020 and 2019.

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

DESCRIPTION OF CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS THAT ARE EXPECTED TO HAVE A SIGNIFICANT EFFECT ON THE NET POSITION OR THE CHANGES IN NET POSITION

While the System is directly impacted by the overall stock market changes, investments are made based on the expected long-term performance and best interest of the members of the System. With just over \$2.6 billion of assets allocated across a highly diversified range of investments, the System has the financial resources to maintain its current investment strategies while continuing to review for suitable investment options that will benefit its members.

Presently, the System receives 14% of the total taxes collected on insurance premiums. The System received insurance premium taxes of approximately \$40 million, \$40 million, and \$39 million in the years ended June 30, 2020, 2019, and 2018, respectively.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the System'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 Executive Director or the Chief Financial Officer, Oklahoma Police Pension and Retirement System, 1001 N.W. 63rd Street, Suite 305, Oklahoma City, OK 73116-7335.

OKLAHOMA POLICE PENSION AND RETIREMENT PLAN
Administered by
OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM

STATEMENTS OF FIDUCIARY NET POSITION

<i>June 30,</i>	<i>2020</i>	<i>2019</i>
	<i>(Amounts in Thousands)</i>	
Assets		
Cash and cash equivalents	\$ 37,594	18,026
Receivables:		
Interest and dividends receivable	1,789	1,844
Contributions receivable from cities	2,844	2,156
Contributions receivable from participants	1,750	1,358
Insurance premium tax receivable	7,835	8,408
Receivable from brokers	1,303	40
Total receivables	<u>15,521</u>	<u>13,806</u>
Investments, at fair value:		
U.S. government securities	37,917	41,383
Domestic corporate bonds	217,356	176,870
International corporate bonds and bond funds	219,400	210,703
Domestic equities	659,372	644,061
International equities	399,687	378,081
Private equity—non-real estate	295,859	279,066
Low volatility hedge funds	164,679	181,141
Long/short hedge funds	229,943	374,278
Real estate—core and private equity	320,500	226,668
Commodities	22,799	75,381
Direct real estate—Columbus Square	4,100	4,300
Total investments, at fair value	<u>2,571,612</u>	<u>2,591,932</u>
Securities lending collateral	<u>70,726</u>	<u>-</u>
Total assets	<u>2,695,453</u>	<u>2,623,764</u>
Liabilities		
Payable to brokers	2,505	428
Accounts payable	732	683
Deferred option benefits due and currently payable	179	3,796
Securities lending collateral payable	70,726	-
Total liabilities	<u>74,142</u>	<u>4,907</u>
Fiduciary net position restricted for pensions	<u>\$ 2,621,311</u>	<u>2,618,857</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

OKLAHOMA POLICE PENSION AND RETIREMENT PLAN
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OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION

<i>Years Ended June 30,</i>	<i>2020</i>	<i>2019</i>
	<i>(Amounts in Thousands)</i>	
Additions		
Contributions:		
Cities	\$ 44,226	42,154
Plan members	27,310	26,173
Insurance premium tax	40,295	39,559
Total contributions	<u>111,831</u>	<u>107,886</u>
Investment income:		
From investing activities:		
Net appreciation in fair value of investments	54,283	104,266
Interest	9,267	7,720
Dividends	8,783	8,521
Other	570	248
Total investment income	<u>72,903</u>	<u>120,755</u>
Less investment expense	<u>(17,147)</u>	<u>(15,873)</u>
Income from investing activities	<u>55,756</u>	<u>104,882</u>
From securities lending activities:		
Securities lending income	340	-
Securities lending expenses:		
Borrower rebates, net	(238)	-
Management fees	(50)	-
Income from securities lending activities	<u>52</u>	<u>-</u>
Net investment income	<u>55,808</u>	<u>104,882</u>
Total additions	<u>167,639</u>	<u>212,768</u>
Deductions		
Benefits paid	123,375	119,964
Deferred option benefits	37,367	33,645
Refunds of contributions	2,451	1,877
Administrative expenses	1,992	1,871
Total deductions	<u>165,185</u>	<u>157,357</u>
Net increase in net position	2,454	55,411
Net position restricted for pensions:		
Beginning of year	<u>2,618,857</u>	<u>2,563,446</u>
End of year	<u>\$ 2,621,311</u>	<u>2,618,857</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

OKLAHOMA POLICE PENSION AND RETIREMENT PLAN
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NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

(1) NATURE OF OPERATIONS

The Oklahoma Police Pension and Retirement System (the “System”) was established by legislative act and became effective on January 1, 1981. The System is the administrator of a multiple-employer, cost-sharing defined benefit pension plan that provides participants with retirement, death, and disability benefits and a deferred option plan (the “Deferred Option”), both established by the State of Oklahoma. These plans are considered a single plan for financial reporting purposes. The System is part of the State of Oklahoma financial reporting entity and is included in the State of Oklahoma’s financial reports as a pension trust fund. The System covers substantially all police officers employed by the 147 participating municipalities and state agencies within the state of Oklahoma. The System administers the Oklahoma Police Pension and Retirement Plan (the “Plan”). For report purposes, the System is deemed to be the administrator of the Plan. The State of Oklahoma remits, through the Oklahoma Insurance Department, a portion of the insurance premium taxes collected by authority of the State. As a result of these contributions, the State is considered a non-employer contributing entity to the Plan.

The System is a part of the State of Oklahoma financial reporting entity, which is combined with other similar funds (multiple-employer, cost-sharing) to comprise the fiduciary-pension trust funds of the State of Oklahoma.

The Oklahoma Police Pension and Retirement System Board of Trustees (the “Board”) is responsible for the operation, administration, and management of the System. The Board also determines the general investment policy of the System’s assets. The Board is comprised of 13 members. Six members are active System members and represent specific geographic areas of the state. They must work for a police department physically located in the district they serve. The 7th district shall be represented by a retired member of the System and encompasses the entire state area. These elected members serve 3-year terms. The remaining six members are either governmental office holders or are appointed as follows: one by the Speaker of the House of Representatives, one by the President Pro Tempore of the Senate, one by the Governor, and one by the President of the Oklahoma Municipal League; the final two members of the Board are the State Insurance Commissioner or designee and the Director of the Office of Management and Enterprise services or designee. The appointees and office holders or designees all serve a 4-year term, with the governor appointee’s term being coterminous with that office. The appointees of the Board or designees of ex officio members should have either demonstrated professional experience in investment or funds management, demonstrated experience in the banking profession, be licensed to practice law in the state and have demonstrated professional experience in commercial matters, or be licensed by the Oklahoma Accountancy Board to practice in this state as a public accountant or a certified public accountant.

See Independent Auditors’ Report.

OKLAHOMA POLICE PENSION AND RETIREMENT PLAN
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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) NATURE OF OPERATIONS, CONTINUED

The System’s participants at June 30 consisted of:

	<u>2020</u>	<u>2019</u>
Retirees and beneficiaries currently receiving benefits	3,912	3,815
Vested members with deferred benefits	161	158
Deferred Option plan members	<u>2</u>	<u>4</u>
	<u>4,075</u>	<u>3,977</u>
Active plan members:		
Vested	2,435	2,510
Nonvested	<u>3,454</u>	<u>3,217</u>
Total active plan members	<u>5,889</u>	<u>5,727</u>
Total members	<u><u>9,964</u></u>	<u><u>9,704</u></u>
Number of participating municipalities and state agencies	<u>147</u>	<u>146</u>

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following are the significant accounting policies followed by the Plan.

Basis of Accounting

The financial statements are prepared using the accrual basis of accounting, under which expenses are recorded when the liability is incurred, revenues are recorded in the accounting period in which they are earned and become measurable, and investment purchases and sales are recorded as of their trade date. The financial statements are in conformity with provisions of Governmental Accounting Standards Board Statement No. 67, *Financial Reporting for Pension Plans—an Amendment of GASB Statement No. 25* (GASB 67).

The Plan is administered by the System, a part of the State of Oklahoma financial reporting entity, which together with other similar pension and retirement funds comprises the fiduciary-pension trust funds of the State of Oklahoma. Administrative expenses are paid with funds provided by operations of the Plan.

See Independent Auditors’ Report.

OKLAHOMA POLICE PENSION AND RETIREMENT PLAN
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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Recent Accounting Pronouncements

In June 2017, GASB issued Statement No. 87, *Leases* (GASB 87). GASB 87 provides accounting and reporting guidance for leases, effectively considering most leases, other than those for terms of less than one year, as capital leases. GASB 87 guides that lessees will recognize a lease liability at the outset of the lease, and an intangible right-to-use lease asset. The liability will be amortized as payments are made, and the asset will generally be depreciated over the shorter of the lease term or the service life of the asset. The Plan adopted GASB 87 on July 1, 2020, for the June 30, 2021, reporting year. The Plan does not expect GASB 87 to have a significant impact on the financial statements.

In March 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* (GASB 88). GASB 88 provides certain clarifications regarding debt as a liability and identifies additional required disclosures related to debt, including direct borrowings and direct placements of debt. The Plan adopted GASB 88 on July 1, 2019, for the June 30, 2020, reporting year, which did not have a significant impact on the financial statements.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* (GASB 89). GASB 89 directs that interest costs incurred during the construction period of an asset be expensed in the period incurred. GASB 89 changes previous guidance regarding capitalized construction costs where such costs were typically included in the capitalized cost of the asset constructed and depreciated over time. The Plan adopted GASB 89 on July 1, 2020, for the June 30, 2021, reporting year. The Plan does not expect GASB 89 to significantly impact the financial statements.

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests* (GASB 90), an amendment of GASB Statements No. 14 and No. 61. GASB 90 seeks to improve the consistency and comparability of financial reporting for majority equity interests, or situations where an entity would hold a majority share of equity or have a measurable right to resources of a legally separate entity. Under GASB 90 specific guidance is also provided for governments engaged in fiduciary activities when reporting equity interests. The Plan adopted GASB 90 on July 1, 2019, for the June 30, 2020, reporting year, which did not significantly impact the financial statements.

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations* (GASB 91). The objective of GASB 91 is to provide a single method of reporting for conduit debt obligations issued and eliminate diversity in practice regarding (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The Plan will adopt GASB 91 on July 1, 2021, for the June 30, 2022, reporting year. The Plan does not expect GASB 91 to have a significant impact the financial statements.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Recent Accounting Pronouncements, Continued

In January 2020, GASB issued Statement No. 92, *Omnibus 2020* (GASB 92). GASB 92 is a cleanup omnibus that addresses multiple issues including; interim lease reporting, intra-entity asset transfers between the primary government and a component unit for defined benefit pension and OPEB plans, reporting of postemployment benefit plans that do not meet the definition of a trust, applicability of certain fiduciary activities to postemployment benefit arrangements, measurement of liabilities and assets related to ARO's (asset retirement obligations) in a government acquisition, reporting by public entity risk pools, references to nonrecurring fair value measurements of assets and liabilities and terminology used when referring to derivative instruments. The Plan adopted GASB 92 on July 1, 2020, for the June 30, 2021, reporting year. GASB 92 will not have a significant impact on the Plan's financial statements.

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offer Rates* (GASB 93). GASB 93 addresses upcoming changes and the eventual removal of a global reference rate called LIBOR (London Interbank Offered Rate) which is often used as a reference rate for variable and derivative instruments. GASB 93 addresses allowable exceptions to existing contracts and agreements where LIBOR can be replaced with another IBOR without needed a new contract. GASB 93 also identifies the SOFR (Secured Overnight Financing Rate) and the FFR (Federal Funds Rate) as benchmarks for evaluating interest rate swaps. Finally, GASB 93 modifies lease agreements to allow for a change in the IBOR without being considered a modification to a lease. The Plan adopted GASB 93 on July 1, 2020, for the June 30, 2021, reporting year. The Plan does not expect GASB 93 to significantly impact the financial statements.

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* (GASB 94). GASB 94 defines and provides financial reporting requirements for Public-Private or Public-Public Partnerships (PPP) and Availability Payment Arrangements (APA). A PPP is an arrangement between a government (transferor) and an operator (governmental or non-governmental) to provide public services by conveying the right to control or use a nonfinancial or infrastructure asset for a period of time in an exchange-like transaction. An APA is a similar arrangement where the operator may also be compensated for services that include designing, constructing, financing and maintaining a nonfinancial asset for a period of time. The Plan will adopt GASB 94 on July 1, 2022, for the June 30, 2023, reporting year. GASB 94 will not have a significant impact on the Plan's financial statements.

See Independent Auditors' Report.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Recent Accounting Pronouncements, Continued

In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* (GASB 95). GASB 95 provides temporary postponement of the effective dates of certain provisions in GASB Statements and Implementation Guides that first became effective or are scheduled to become effective after June 15, 2018. Most affected statements are postponed by one year while GASB Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, are postponed by 18 months. GASB 95 was effective immediately for the June 30, 2020, reporting year. The Plan does not anticipate a significant impact on the financial statements due to GASB 95. The Plan does not anticipate deferring any affected GASB Statements since their impact on the Plan's financial reporting will not be significant.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements* (GASB 96). GASB 96 provides accounting and financial reporting guidance for the governmental end users of subscription-based information technology arrangements (SBITAs). GASB 96 defines an SBITA, establishes right-to-use assets and corresponding liabilities, and provides capitalization criteria and the note disclosures required for SBITAs. The Plan will adopt GASB 96 on July 1, 2022, for the June 30, 2023, reporting year. The Plan does not expect GASB 96 to significantly impact the financial statements.

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans* (GASB 97). GASB 97 seeks to improve consistency and comparability related to fiduciary component unit reporting in circumstances where the potential component unit does not have a governing board and the primary government performs such duties. GASB 97 also seeks to mitigate reporting costs for certain defined-contribution, OPEB and other employee benefit plans as fiduciary component units and to enhance the relevance, consistency and comparability of Internal Revenue Code (IRC) Section 457 deferred compensation plans. Portions of GASB 97 were effective immediately for the June 30, 2020, reporting year. The Plan will adopt sections of GASB 97 related to IRC Section 457 plans on July 1, 2021, for the June 30, 2022, reporting year. GASB 97 will not significantly impact the Plan's financial statements.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

Use of Estimates

The preparation of the Plan's financial statements in conformity with accounting principles generally accepted in the United States requires management of the Plan to make significant estimates and assumptions that affect the reported amounts of net position restricted for pensions at the date of the financial statements and the actuarial information in Exhibits I, II, and III included in the required supplementary information as of the benefit information date, the changes in the Plan's net position during the reporting period, and when applicable, disclosures of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Risks and Uncertainties

Contributions to the Plan and the actuarial information in Exhibits I, II, and III included in the required supplementary information are reported based on certain assumptions pertaining to interest rates, inflation rates, and employee compensation and demographics. Due to the changing nature of these assumptions, it is at least reasonably possible that changes in these assumptions may occur in the near term and, due to the uncertainties inherent in setting assumptions, that the effect of such changes could be material to the financial statements.

Plan Contributions

Contributions to the Plan are recognized when due pursuant to formal commitments, as well as statutory or contractual requirements.

Plan Benefit Payments and Refunds

Benefits and refunds of the Plan are recognized when due and payable in accordance with the terms of the Plan.

Receivables

At June 30, 2020 and 2019, the Plan had no long-term receivables. All the receivables reflected in the statements of fiduciary net position are expected to be received and available for use by the Plan in its operations. Also, no allowance for any uncollectible portions is considered necessary.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

Investments

Management of the Plan is authorized to invest in eligible investments as approved by the Board as set forth in its investment policy. The Board reviews and updates the plan investment policy at least annually, making changes as deemed necessary to achieve policy goals. An investment policy change can be made anytime the need should arise at the discretion of the Board.

Investment Allocation Policy—The Board’s asset allocation policy will currently maintain approximately 60% of assets in equity instruments, including public equity, long/short hedge, venture capital, and private equity strategies; approximately 25% of assets in fixed income to include investment grade bonds, high yield and non-dollar denominated bonds, convertible bonds, low volatility hedge funds, and absolute return strategies; and 15% of assets in core and opportunistic real estate.

Significant Investment Policy Changes Made During the Year—During the year ended June 30, 2020, no significant investment policy changes were made. During the year ended June 30, 2019, the Board made several target allocation changes to the investment policy. The Board increased the target allocation for private equity to 15% from 10%, increased the target allocation for core real estate to 10% from 5%, reduced the target allocation to long/short equity to 10% from 15%, and eliminated the target of 5% to commodities.

Rate of Return—For the years ended June 30, 2020 and 2019, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 2.15% and 4.12%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Investments, Continued

Method Used to Value Investments—As a key part of the Plan’s activities, it holds investments that are measured and reported at fair value on a recurring basis. Generally accepted accounting principles establish a fair value hierarchy for the determination and measurement of fair value. This hierarchy is based on the type of valuation inputs needed to measure the fair value of an asset. The hierarchy generally is as follows:

Level 1—Unadjusted quoted prices in active markets for identical assets.

Level 2—Quoted prices for similar assets, or inputs that are observable or other forms of market corroborated inputs.

Level 3—Pricing based on best available information, including primarily unobservable inputs and assumptions market participants would use in pricing the asset.

Short-term investments include an investment fund composed of an investment in units of a commingled trust fund of the Plan’s custodial agent (which is valued at amortized cost, which approximates fair value), commercial paper, treasury bills, and U.S. government agency securities. Active manager accounts holding debt and equity securities are reported at fair value, as determined by the Plan’s custodial agent, using pricing services or prices quoted by independent brokers based on the latest reported sales prices in active markets, and at current exchange rates for securities traded on national or international exchanges. The fair value of the pro rata share of units owned by the Plan in equity index and commingled trust funds is determined by the respective fund trustee or manager based on quoted sales prices of the underlying securities. The fair value of hedge fund and private equity investments are priced by each respective manager using a combination of observable and unobservable inputs. The fair value of the real estate is determined from independent appraisals and discounted income approaches. Investments which do not have an established market are reported at estimated fair value based on primarily unobservable inputs.

Net investment income (loss) includes net appreciation (depreciation) in the fair value of investments, interest income, dividend income, investment income from real estate, securities lending income and expenses, and investment expenses, which includes investment management and custodial fees and all other significant investment related costs. Foreign currency translation gains and losses are reflected in the net appreciation (depreciation) in the fair value of investments. Investment income from real estate includes the Plan’s share of income from operations, net appreciation (depreciation) in the fair value of the underlying real estate properties, and the Plan’s real estate investment management fees. The fair value of the limited partnerships is determined by managers of the partnerships based on the values of the underlying assets.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Investments, Continued

The Plan's international investment managers enter into forward foreign exchange contracts to protect against fluctuation in exchange rates between the trade date and the settlement date of foreign investment transactions. The gains and losses on these contracts are included in income in the period in which the exchange rates change.

The Plan may invest in various traditional financial instruments that fall under the broad definition of derivatives. The Plan's derivatives may include collateralized mortgage obligations, convertible stocks and bonds, and variable rate instruments. These investments do not increase investment risk beyond allowable limits specified in the Plan's investment policy.

The Plan's investment policy provides for investments in stocks, bonds, fixed-income securities, and other investment securities, along with investments in commingled, mutual, and index funds. Investment securities and investment securities underlying commingled or mutual fund investments are exposed to various risks, such as interest rate and 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 such changes could materially affect the amounts reported in the statements of fiduciary net position.

The investment policy limits the concentration of each portfolio manager. Except as noted below, no investment with a single firm exceeds 5% of the Plan's net position.

The Plan invests in domestic equity index funds, domestic equity commingled trust funds, and international equity funds. The Plan shares the risk of loss in these funds with other participants in proportion to its respective investment. Because the Plan does not own any specific identifiable investment securities of these funds, the market risk associated with any derivative investments held in these funds is not apparent. The degree of market risk depends on the underlying portfolios of the funds, which were selected by the Plan in accordance with its investment policy guidelines, including risk assessment. The international funds invest primarily in equity securities of entities outside the United States and may enter into forward contracts to purchase or sell securities at specified dates in the future at a guaranteed price in a foreign currency to protect against fluctuations in exchange rates of foreign currency.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Investments, Continued

The following tables present individual investments held by a single organization that exceed 5%* of the Plan's fiduciary net position at June 30:

Classification of <u>Investment</u>	Name of <u>Organization</u>	Shares <u>Held</u>	2020	
			<u>Cost</u>	<u>Fair Value</u>
			<i>(Amounts in Thousands)</i>	
Long/short hedge funds	K2 Mauna Kea	144,053,958	\$ 98,020	143,883
Domestic equities	Northern Trust	13,808,925	287,239	500,201
Domestic corporate bonds	Agincourt	N/A	238,915	258,342
International equities	Barings	148,738,494	117,000	148,738
International corporate bonds and private equity—non-real estate	Oaktree Capital Mgmt.	147,568,282	156,368	146,699
Real estate—core and private equity	JP Morgan	14,809,408	93,330	150,762
			2019	
Classification of <u>Investment</u>	Name of <u>Organization</u>	Shares <u>Held</u>	<u>Cost</u>	<u>Fair Value</u>
			<i>(Amounts in Thousands)</i>	
Long/short hedge funds	Grosvenor	374,278,418	\$ 215,994	374,278
Domestic equities	Northern Trust	13,810,298	287,268	465,476
International equities	Mondrian	3,939,387	56,861	140,801
International corporate bonds and private equity—non-real estate	Oaktree Capital Mgmt.	143,855,591	138,359	144,043

* While the investment with a single entity may exceed 5% of the Plan's net position, each investment is comprised of numerous individual securities. As such, no individual security exceeds the 5% threshold.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

Repurchase/Reverse Repurchase Agreement

The Plan has a master repurchase/reverse repurchase agreement. Under the agreement, the Plan may enter into a purchase/sale of a security with a simultaneous agreement to resell/repurchase the security at a specified future date and price. The Plan did not enter into any transactions under this agreement during fiscal year 2020 or 2019.

Capital Assets

Capital assets, which consist of software, are stated at cost less accumulated depreciation. Capital assets were fully depreciated as of June 30, 2020 and 2019.

Income Taxes

The Plan is exempt from federal and state income taxes.

Plan Termination

In the event the Plan terminates, the Oklahoma Statutes contain no provision for the order of distribution of the net position of the Plan. Plan termination would take an act of the Oklahoma Legislature, at which time the order of distribution of the Plan's net position would be addressed.

Administrative Items

Operating Leases

The Plan had an operating lease which ended June 30, 2020. The lease has been renewed for the period July 1, 2020, through June 30, 2021. Total lease expense was approximately \$91,000 for each of the years ended June 30, 2020 and 2019.

Compensated Absences

Employees of the System earn annual vacation leave at the rate of 10 hours per month for up to 5 years of service, 12 hours per month for service of 5 to 10 years, 13.3 hours per month for service of 10 to 20 years, and 16.7 hours per month for over 20 years of service. Unused annual leave may be accumulated to a maximum of 480 hours. All accrued leave is payable upon termination, resignation, retirement, or death. As of June 30, 2020 and 2019, approximately \$126,000 and \$152,000, respectively, was included in accounts payable as the accrual for compensated absences.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Administrative Items, Continued

Compensated Absences, Continued

The changes in the accrual for compensated absences for the years ended June 30 were as follows:

	<u>2020</u>	<u>2019</u>
Balance at beginning of year	\$ 151,696	129,100
Additions and transfers	76,124	93,169
Amount used	<u>(102,113)</u>	<u>(70,573)</u>
Balance at end of year	<u>\$ 125,707</u>	<u>151,696</u>

Retirement Expense

Employees of the System are eligible to participate in the Oklahoma Public Employees Retirement Plan, which is administered by the Oklahoma Public Employees Retirement System (OPERS). OPERS is a multiple-employer, cost-sharing public retirement defined benefit pension plan and a defined contribution plan. OPERS provides retirement, disability, and death benefits to its plan members and beneficiaries. OPERS issues a publicly available financial report which includes financial statements and required supplementary information for OPERS. That report may be obtained by writing to the Oklahoma Public Employees Retirement System, 5400 N. Grand Blvd, Suite 400, Oklahoma City, OK 73112-5625.

Defined Benefit Plan

Eligible employees of the System are required to contribute 3.5% of their annual covered salary to the defined benefit plan. The System is required to contribute at an actuarially determined rate, which was 16.5% of annual covered payroll as of June 30, 2020, 2019, and 2018. During 2020, 2019, and 2018, totals of \$166,036, \$152,014, and \$142,975, respectively, were paid to OPERS. The System has contributed 100% of required contributions to OPERS for 2020, 2019, and 2018. The System's and the employees' portions of those amounts were as follows:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
System's portion	\$ 133,610	122,610	117,954
Employees' portion	<u>32,426</u>	<u>29,404</u>	<u>25,021</u>
	<u>\$ 166,036</u>	<u>152,014</u>	<u>142,975</u>

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Administrative Items, Continued

Defined Benefit Plan, Continued

The Plan adopted GASB 68 as of July 1, 2014, as it applies to its participation in OPERS. The effects on the financial statements of the Plan as a result of the adoption of GASB 68 are considered immaterial.

The Plan adopted GASB 75 as of July 1, 2017, as it applies to its participation in OPERS, OPEB, and Implicit Rate Subsidy. The effects on the financial statements of the Plan as a result of the adoption of GASB 75 are considered immaterial.

Defined Contribution Plan

Effective November 1, 2015, OPERS established the Pathfinder Defined Contribution Plan (“Pathfinder”), 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 OPERS. Under Pathfinder, members will choose a contribution rate which will be matched by their employer up to 7%. All state employers with Pathfinder participants contribute 16.5% of salary, with contributions in excess of the matched amount going into the Defined Benefit Plan, as required by statute. During 2020, 2019, and 2018, totals of \$17,386, \$16,591, and \$17,991, respectively, were paid to OPERS, representing 100% of the required contributions. The System’s and employees’ contributions to Pathfinder were as follows:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
System's portion	\$ 12,062	11,649	12,632
Employees' portion	<u>5,324</u>	<u>4,942</u>	<u>5,359</u>
	<u>\$ 17,386</u>	<u>16,591</u>	<u>17,991</u>

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Administrative Items, Continued

Risk Management

The Risk Management Division (the “Division”) of the Office of Management and Enterprise Services is empowered by the authority of Title 74 O.S. Supp. 1993, Section 85.34 et seq. The Division is responsible for the acquisition and administration of all insurance purchased by the State of Oklahoma or administration of any self-insurance plans and programs adopted for use by the State of Oklahoma for certain organizations and bodies outside of state government, at the sole expense of such organizations and bodies.

The Division is authorized to settle claims of the State of Oklahoma and shall govern the dispensation and/or settlement of claims against a political subdivision. In no event shall self-insurance coverage provided by the State of Oklahoma, an agency, or other covered entity exceed the limitations on the maximum dollar amount of liability specified by the Oklahoma Government Tort Claims Act, as provided by Title 51 O.S. Supp. 1988, Section 154. The Division oversees the collection of liability claims owed to the State of Oklahoma incurred as the result of a loss through the wrongful or negligent act of a private person or other entity.

The Division is also charged with the responsibility to immediately notify the attorney general of any claims against the State of Oklahoma presented to the Division. The Division purchases insurance policies through third-party insurance carriers that ultimately inherit the risk of loss. The Division annually assesses each State agency, including the System, their pro rata share of the premiums purchased. The System has no obligations to any claims submitted against the System.

Date of Review of Subsequent Events

The Plan has evaluated subsequent events through September 10, 2020, the date that the financial statements were available to be issued, and determined that no subsequent events have occurred which require adjustment to or disclosure in the financial statements.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) DESCRIPTION OF THE PLAN

The following brief description of the Plan is provided for general information purposes only. Participants should refer to the Oklahoma Statutes for more complete information.

General

The Plan is a multiple-employer, cost-sharing defined benefit pension plan covering members who have actively participated in being a police officer for an Oklahoma municipality or state agency which is a member of the Plan.

Contributions

The contribution requirements of the Plan are at an established rate determined by Oklahoma statute and are not based on actuarial calculations.

An eligible municipality may join the Plan on the first day of any month. Upon approval by the Board, its membership is irrevocable. All persons employed as police officers are required to participate in the Plan upon initial employment with the police department of the participating municipality. The Oklahoma Legislature has authority to establish and amend contribution amounts. Until July 1, 1991, each municipality contributed to the System 10% of the actual base salary of each participant employed by the municipality. Beginning July 1, 1991, municipality contributions increased by 1/2% per year and continued this increase until July 1, 1996, when the contribution level reached 13%, which it remains at currently. Each participant of the Plan contributes 8% of their actual paid base salary. Additional funds are provided to the Plan by the State of Oklahoma, a non-employer contributing entity, through a 14% allocation of the tax on premiums collected by insurance companies operating in Oklahoma and by the net investment income generated on assets held by the Plan. The Plan is responsible for paying administrative costs. Administrative costs of the Plan are paid by using the earnings from the invested assets of the Plan.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) DESCRIPTION OF THE PLAN, CONTINUED

Benefits

In general, the Plan provides defined retirement benefits based on members' final average compensation, age, and term of service. In addition, the retirement program provides for benefits upon disability and to survivors upon death of eligible members. The Plan's benefits are established and amended by State statute. Retirement provisions are as follows:

- The normal retirement date under the Plan is the date upon which the participant completes 20 years of credited service, regardless of age. Participants become vested upon completing 10 years of credited service as a contributing participant of the Plan. No vesting occurs prior to completing 10 years of credited service. Participants' contributions are refundable, without interest, upon termination prior to normal retirement. Participants who have completed 10 years of credited service may elect a vested benefit in lieu of having their accumulated contributions refunded. If the vested benefit is elected, the participant is entitled to a monthly retirement benefit commencing on the date the participant reaches 50 years of age or the date the participant would have had 20 years of credited service had employment continued uninterrupted, whichever is later.
- Monthly retirement benefits are calculated at 2.5% of the final average salary (defined as the average paid base salary of the officer over the highest 30 consecutive months of the last 60 months of credited service) multiplied by the years of credited service, with a maximum of 30 years of credited service considered.
- Monthly benefits for participants due to permanent disability incurred in the line of duty are 2.5% of the participants' final average salary multiplied by 20 years. This disability benefit is reduced by stated percentages for partial disability based on the percentage of impairment. After 10 years of credited service, participants who retire due to disability incurred from any cause are eligible for a monthly benefit based on 2.5% of their final average salary multiplied by the years of service. This disability benefit is also reduced by stated percentages for partial disability based on the percentage of impairment. Effective July 1, 1998, once a disability benefit is granted to a participant, that participant is no longer allowed to apply for an increase in the dollar amount of the benefit at a subsequent date.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) DESCRIPTION OF THE PLAN, CONTINUED

Benefits, Continued

- Survivor's benefits are payable in full to the participant's beneficiary upon the death of a retired participant. The beneficiary of any active participant killed in the line of duty is entitled to a pension benefit. Effective July 1, 1999, a \$5,000 death benefit is also paid, in addition to any survivor's pension benefits under the Plan, to the participant's beneficiary or estate for active or retired members.
- The Deferred Option allows participants otherwise eligible for a normal retirement benefit to defer terminating employment and drawing retirement benefits for a period not to exceed 5 years. Under the Deferred Option, retirement benefits are calculated based on compensation and service at the time of election and a separate account is established for each participant. During the participation period, the employee's retirement benefit is credited to the participant's account along with a portion of the employer's contribution and interest. Interest is credited at a rate of 2% below the rate of return on the investment portfolio of the Plan, with a guaranteed minimum interest equal to the assumed actuarial interest of 7.5%. Employee contributions cease once participation in the Deferred Option is elected. At the conclusion of participation in the Deferred Option, the participant will receive the balance in the separate account under payment terms allowed by the Deferred Option and will then begin receiving retirement benefit payments as calculated at the time of election.
- In the 2003 Legislative Session, Senate Bill 688 and House Bill 1464 created a "Back" DROP for members of the System. The "Back" DROP is a modified deferred retirement option plan. The "Back" DROP allows the member flexibility by not having to commit to terminate employment within 5 years. Once a member has met their normal retirement period of 20 years, the member can choose, upon retirement, to be treated as if the member had entered into the "Back" DROP. A member, however, cannot receive credit to the "Back" DROP account based upon any years prior to when the member reached their normal retirement date. Once a member is ready to retire, the member can make the election to participate in the "Back" DROP and can receive a "Back" DROP benefit based upon up to 5 years of participation. The member's regular retirement benefit will not take into account any years of service credited to the "Back" DROP.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) DESCRIPTION OF THE PLAN, CONTINUED

Benefits, Continued

- In 2006, the Board approved a method of payment called the Deferred Option Payout Provision (the “Payout Provision”). The Payout Provision allows a retired member who has completed participation in the Deferred Option or the “Back” DROP the ability to leave their account balance in the Plan. The retired member’s account balance will be commingled and reinvested with the total assets, and therefore the member will not be able to direct their personal investments. Written election must be made to the Board no more than 30 days following the termination of employment.
- Upon participating in the Payout Provision, a retired member shall not be guaranteed a minimum rate of return on their investment. A retired member shall earn interest on their account as follows:
 - a) The retired member shall earn two percentage points below the net annual rate of return of the investment portfolio of the System.
 - b) If the portfolio earns less than a 2% rate of return, but more than zero, the retired member shall earn zero percentage points.
 - c) If the portfolio earns less than zero percentage points, there shall be a deduction from the retired member’s balance equal to the net annual rate of return of the investment portfolio of the System.

Interest as earned above shall be credited to the retired member’s account.

The Oklahoma Legislature has the authority to grant percentage increases or special one-time payments to persons receiving benefits from the Plan. Additionally, certain retirees are entitled to receive a cost-of-living adjustment (COLA) when a COLA is granted to active police officers in the retiree’s city. Participants eligible to receive both types of benefit increases are to receive the greater of the legislative increase or the benefit increase the participant would receive pursuant to the COLA provision.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(4) CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash and Cash Equivalents

At June 30, cash and cash equivalents were composed of the following:

	<u>2020</u>	<u>2019</u>
	<i>(Amounts in Thousands)</i>	
Short-term investments:		
OK INVEST	\$ 5,023	5,743
Domestic	<u>32,571</u>	<u>12,283</u>
Total short-term investments	<u>37,594</u>	<u>18,026</u>
Total cash and cash equivalents	<u>\$ 37,594</u>	<u>18,026</u>

At June 30, 2020 and 2019, as a result of outstanding checks and deposits, the carrying amount of the Plan's OK INVEST account totaled \$5,022,669 and \$5,743,433, respectively, and the bank balance totaled \$13,005,407 and \$12,364,105, respectively.

Included in cash and cash equivalents are investments included in the State of Oklahoma's OK INVEST Portfolio. Because these investments are controlled by the State of Oklahoma and the balances change on a daily basis, they are considered cash equivalents. The balances are overnight funds consisting of U.S. agencies, mortgage-backed agencies, U.S. Treasury notes, municipal bonds, foreign bonds, tri-party repurchase agreements, certificates of deposit, commercial paper, and money market mutual funds. As of June 30, the investment balances were as follows:

	<u>2020</u>	<u>2019</u>
U.S. agencies	\$ 3,014,720	3,830,847
Mortgage-backed agencies	4,832,370	4,968,043
U.S. Treasury notes	4,136,089	1,988,146
Municipal bonds	16,674	21,971
Certificates of deposit	191,940	273,371
Commercial paper	135,149	51,216
Money market mutual funds	<u>678,465</u>	<u>1,230,511</u>
	<u>\$ 13,005,407</u>	<u>12,364,105</u>

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(4) CASH, CASH EQUIVALENTS, AND INVESTMENTS, CONTINUED

Cash and Cash Equivalents, Continued

The Plan's other short-term investments consist of temporary investments in commingled trust funds of the Plan's custodial agent, commercial paper, treasury bills, and U.S. government agency securities. The commingled trust funds are composed of high-grade money market instruments with short maturities. Each participant shares the risk of loss in proportion to their respective investment in the funds.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of the failure of a counterparty, the Plan will not be able to recover the value of its investments. Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. Investment securities are exposed to custodial credit risk if they are uninsured, are not registered in the name of the Plan, and are held by a counterparty or the counterparty's trust department but not in the name of the Plan. While the investment policy does not specifically address custodial credit risk of deposits, it does limit the amount of cash and short-term investments to no more than 5% of each manager's portfolio. At June 30, 2020 and 2019, approximately \$32,571,000 and \$12,283,000, respectively, of cash and cash equivalents was uninsured and uncollateralized. The policy also provides that investment collateral be held by a third-party custodian with whom the Plan has a current custodial agreement in the Plan's name.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(4) CASH, CASH EQUIVALENTS, AND INVESTMENTS, CONTINUED

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The investment policy limits foreign equity investments to 15% of total assets through its asset allocation policy. Investments in equities and fixed-income securities as of June 30 are shown by monetary unit to indicate possible foreign currency risk.

	2020		
<u>Currency</u>	<u>Equities</u>	<u>Corporate Bonds and Bond Funds</u>	<u>Total</u>
	<i>(Amounts in Thousands)</i>		
Commingled funds:			
Barings Focused International Equity Fund	\$ 148,738	-	148,738
Mondrian International Equity Fund	122,217	-	122,217
AllianceBernstein EM Strategic Core Fund	86,540	-	86,540
Wasatch Emerging Markets Small Capitalization Fund	42,192	-	42,192
Loomis Sayles World Bond Fund	-	85,485	85,485
Oaktree Global Credit Fund	-	133,915	133,915
	<u>\$ 399,687</u>	<u>219,400</u>	<u>619,087</u>
	2019		
<u>Currency</u>	<u>Equities</u>	<u>Corporate Bonds and Bond Funds</u>	<u>Total</u>
	<i>(Amounts in Thousands)</i>		
Commingled funds:			
Barings Focused International Equity Fund	\$ 120,844	-	120,844
Mondrian International Equity Fund	140,801	-	140,801
AllianceBernstein EM Strategic Core Fund	80,267	-	80,267
Wasatch Emerging Markets Small Capitalization Fund	36,169	-	36,169
Loomis Sayles World Bond Fund	-	81,553	81,553
Oaktree Global Credit Fund	-	129,150	129,150
	<u>\$ 378,081</u>	<u>210,703</u>	<u>588,784</u>

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(4) CASH, CASH EQUIVALENTS, AND INVESTMENTS, CONTINUED

Foreign Currency Risk, Continued

The Plan was exposed to foreign currency risk through investments in the following commingled funds:

- Barings Focused International Equity Fund—The fund seeks long-term capital growth by investing in a concentrated portfolio of equity securities from developed international markets combined with a limited number of equities from emerging markets.
- Mondrian International Equity Fund—The fund's investment objective is long-term total return through a value-driven approach of equity selection. The fund pursues this strategy by investing primarily in non-U.S. and emerging market equity securities.
- AllianceBernstein Emerging Markets Strategic Core Fund—The fund seeks long-term capital growth through a bottom-up fundamental selection of equities in global emerging markets. The fund will generally hold between 70-85 equity positions which may include up to 20% in developed-market domiciled companies that have significant emerging market exposure. The fund may also hold up to 10% in Frontier Market companies.
- Wasatch Emerging Markets Small Capitalization Fund—The fund seeks long-term capital growth by investing primarily in equity securities of small companies located in emerging markets. Companies will generally have a market capitalization of less than \$3 billion when purchased, and holdings will generally span broadly across countries and sectors.
- Loomis Sayles World Bond Fund—The fund normally invests at least 80% of its assets in fixed-income securities. The fund focuses primarily on investment grade fixed-income securities worldwide, although it may invest up to 20% of its fair value in lower rated fixed-income securities. Securities held by the fund may be denominated in any currency, may be from issuers located in emerging markets, or may be fixed-income securities of any maturity.
- Oaktree Global Credit Fund—The fund invests across a broad spectrum of debt instruments including high-yield corporate bonds, senior loans, emerging market debt, real estate debt, structured credit and convertible securities with a primary emphasis on issuers in North America and Europe.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(4) CASH, CASH EQUIVALENTS, AND INVESTMENTS, CONTINUED

Credit Risk

Fixed-income securities are subject to credit risk. Credit quality rating is one method of assessing the ability of the issuer to meet its obligation. The investment portfolio for domestic fixed-income securities requires the portfolio to maintain an average of A+ or higher. For international fixed-income securities, the investment policy requires the portfolio to invest in securities equal to or better than Moody's Baa3 or Standard & Poor's BBB. Exposure to credit risk as of June 30 was as follows:

<u>Investment Type</u>	<u>Moody's Ratings</u> <u>(Unless Noted)</u>	<u>2020</u>	
		<u>Fair Value</u>	<u>Fair Value as a</u> <u>Percent of Total</u> <u>Fixed Maturity</u> <u>Fair Value</u>
		<i>(Amounts in Thousands)</i>	
U.S. government agency securities	Aaa	\$ 10,624	28.02%
U.S. Treasury securities	UST ⁽¹⁾	<u>27,293</u>	<u>71.98%</u>
Total U.S. government securities		<u>\$ 37,917</u>	<u>100.00%</u>
Domestic corporate bonds	Aaa	\$ 79,538	36.59%
	A- (S&P)	1,302	0.60%
	Aa1	900	0.41%
	Aa2	6,750	3.11%
	Aa3	651	0.30%
	A1	7,568	3.48%
	A2	17,149	7.89%
	A3	24,673	11.35%
	Baa1	36,432	16.77%
	Baa2	31,347	14.42%
	Baa3	10,047	4.62%
	Ba1	359	0.17%
	Not Rated	<u>640</u>	<u>0.29%</u>
Total domestic corporate bonds		<u>\$ 217,356</u>	<u>100.00%</u>
International corporate bonds and bond funds (avg. rating)	A3	\$ 85,485	38.96%
	B1	<u>133,915</u>	<u>61.04%</u>
Total international corporate bonds and bond funds		<u>\$ 219,400</u>	<u>100.00%</u>

⁽¹⁾U.S. Treasury securities.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(4) CASH, CASH EQUIVALENTS, AND INVESTMENTS, CONTINUED

Credit Risk, Continued

<u>Investment Type</u>	<u>Moody's Ratings</u> (Unless Noted)	2019	
		<u>Fair Value</u>	Fair Value as a Percent of Total Fixed Maturity <u>Fair Value</u>
<i>(Amounts in Thousands)</i>			
U.S. government agency securities	Aaa	\$ 12,924	31.23%
U.S. Treasury securities	UST ⁽¹⁾	28,459	68.77%
Total U.S. government securities		\$ 41,383	100.00%
Domestic corporate bonds	Aaa	\$ 66,568	37.62%
	Aa1	338	0.19%
	Aa2	3,372	1.91%
	Aa3	1,541	0.87%
	A1	2,629	1.49%
	A2	14,744	8.34%
	A3	25,726	14.55%
	BBB+ (S&P)	1,334	0.75%
	Baa1	28,497	16.11%
	Baa2	20,403	11.54%
	Baa3	9,002	5.09%
	Ba1	1,963	1.11%
	Not Rated	753	0.43%
Total domestic corporate bonds		\$ 176,870	100.00%
International corporate bonds and bond funds (avg. rating)	A2	\$ 81,553	38.71%
	B1	129,150	61.29%
Total international corporate bonds and bond funds		\$ 210,703	100.00%

⁽¹⁾ U.S. Treasury securities.

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(4) CASH, CASH EQUIVALENTS, AND INVESTMENTS, CONTINUED

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. While all investments are subject to market changes, securities invested in index funds are more sensitive to market risk. Although the investment policy does not specifically address the duration of fixed-income securities, the Plan does monitor interest rate risk by monitoring the performance of each investment manager. As of June 30, the Plan had the following investments with maturities:

<u>Investment Type</u>	2020				<u>Total Fair Value</u>
	<u>Investment Maturities at Fair Value (in Years)</u>				
	<u>Less Than 5</u>	<u>5 or More, Less Than 10</u>	<u>10 or More</u>	<u>Investments with No Duration</u>	
	<i>(Amounts in Thousands)</i>				
U.S. government securities:					
U.S. government agency	\$ -	-	10,624	-	10,624
U.S. Treasury	-	171	27,122	-	27,293
Total U.S. government securities	<u>-</u>	<u>171</u>	<u>37,746</u>	<u>-</u>	<u>37,917</u>
Domestic corporate bonds:					
Commercial mortgage-backed securities	-	-	6,438	-	6,438
Corporates and other credit	55,759	50,227	37,284	-	143,270
U.S. government mortgages	1	1,665	65,982	-	67,648
Total domestic corporate bonds	<u>55,760</u>	<u>51,892</u>	<u>109,704</u>	<u>-</u>	<u>217,356</u>
International corporate bonds and bond funds (effective duration)	<u>133,915</u>	<u>85,485</u>	<u>-</u>	<u>-</u>	<u>219,400</u>
	<u>\$ 189,675</u>	<u>137,548</u>	<u>147,450</u>	<u>-</u>	<u>474,673</u>

As noted above, the Plan had approximately \$67,648,000 of investments in U.S. government mortgages, of which \$40,622,000 represents FNMA loans and \$27,026,000 represents FHLMC mortgages. U.S. government agency securities of \$10,624,000 represent GNMA mortgages.

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(4) CASH, CASH EQUIVALENTS, AND INVESTMENTS, CONTINUED

Interest Rate Risk, Continued

<u>Investment Type</u>	2019				<u>Total Fair Value</u>
	<u>Investment Maturities at Fair Value (in Years)</u>				
	<u>Less Than 5</u>	<u>5 or More, Less Than 10</u>	<u>10 or More</u>	<u>Investments with No Duration</u>	
<i>(Amounts in Thousands)</i>					
U.S. government securities:					
U.S. government agency	\$ -	-	12,924	-	12,924
U.S. Treasury	1,901	6,328	20,230	-	28,459
Total U.S. government securities	<u>1,901</u>	<u>6,328</u>	<u>33,154</u>	<u>-</u>	<u>41,383</u>
Domestic corporate bonds:					
Commercial mortgage-backed securities	-	-	5,337	-	5,337
Corporates and other credit	60,993	27,141	26,318	-	114,452
U.S. government mortgages	68	1,261	55,752	-	57,081
Total domestic corporate bonds	<u>61,061</u>	<u>28,402</u>	<u>87,407</u>	<u>-</u>	<u>176,870</u>
International corporate bonds and bond funds (effective duration)	<u>129,150</u>	<u>81,553</u>	<u>-</u>	<u>-</u>	<u>210,703</u>
	<u>\$ 192,112</u>	<u>116,283</u>	<u>120,561</u>	<u>-</u>	<u>428,956</u>

As noted above, the Plan had approximately \$57,081,000 of investments in U.S. government mortgages, of which \$36,689,000 represents FNMA loans and \$20,392,000 represents FHLMC mortgages. U.S. government agency securities of \$12,924,000 represent GNMA mortgages.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(4) CASH, CASH EQUIVALENTS, AND INVESTMENTS, CONTINUED

Investments Measured at Fair Value

	Amounts Measured at Fair Value	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<i>June 30, 2020</i>				
<u>Investments by Fair Value Level</u>				
Cash and cash equivalents:				
OK INVEST—State managed short-term high liquidity	\$ 5,023	-	5,023	-
BNY Mellon—STIF-type investment; high liquidity	32,571	-	32,571	-
Total cash equivalents measured at fair value	<u>\$ 37,594</u>	<u>-</u>	<u>37,594</u>	<u>-</u>
Debt securities:				
U.S. government agency	\$ 10,624	-	10,624	-
U.S. Treasury	27,293	27,293	-	-
Domestic corporate bonds:				
Commercial mortgage-backed securities	6,438	-	6,438	-
Corporate bonds	143,270	-	143,270	-
U.S. government mortgages	67,648	-	67,648	-
International corporate bonds:				
Oaktree Global Credit Fund	133,915	-	-	133,915
Loomis Sayles World Bond Fund	85,485	-	85,485	-
Total debt securities	<u>474,673</u>	<u>27,293</u>	<u>313,465</u>	<u>133,915</u>
Equity securities—domestic:				
Domestic Large Cap—				
Northern Trust Russell 1000 Index Fd	500,201	-	500,201	-
Domestic Small Cap Value Focus—Boston Partners	71,705	71,705	-	-
Domestic Small Cap Growth Focus—Silvercrest	87,466	87,466	-	-
Total domestic equities	<u>659,372</u>	<u>159,171</u>	<u>500,201</u>	<u>-</u>

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(4) CASH, CASH EQUIVALENTS, AND INVESTMENTS, CONTINUED

Investments Measured at Fair Value, Continued

	Amounts Measured at Fair Value	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<i>June 30, 2020</i>				
<u>Investments by Fair Value Level, Continued</u>				
Equity securities—international:				
Intl. Equities—Barings Focused Intl Equity Fund (developed markets)	148,738	-	148,738	-
Intl. Equities—Value Focus—Mondrian Partners	122,217	-	122,217	-
Intl. Emerging Markets—Wasatch EM Small Cap Fund	42,193	-	42,193	-
Intl. Emerging Markets—AB EM Strategic Core	<u>86,539</u>	<u>-</u>	<u>86,539</u>	<u>-</u>
Total international equities	<u>399,687</u>	<u>-</u>	<u>399,687</u>	<u>-</u>
Private equity:				
Private equity—non-real estate focused	295,859	-	-	295,859
Real estate	<u>56,294</u>	<u>-</u>	<u>-</u>	<u>56,294</u>
Total private equity	<u>352,153</u>	<u>-</u>	<u>-</u>	<u>352,153</u>
Real estate—direct ownership—income producing:				
Total direct ownership real estate	<u>4,100</u>	<u>-</u>	<u>-</u>	<u>4,100</u>
Investments measured at net asset value (NAV):				
Low Volatility Hedge Fund—PAAMCO	86,528			
Long/Short Equity Hedge Fund— Grosvenor Class A & B	86,060			
Long/Short Equity Hedge Fund— K2 Mauna Kea	143,883			
Low Volatility Hedge Fund—Wellington Global Total Return Fund	78,151			
Core Real Estate—JP Morgan Strategic Property Fund	150,762			
Core Real Estate—Blackstone Property Partners	113,444			
Commodities—Mt. Lucas—MLM Macro-Peak	<u>22,799</u>			
Total investments measured at NAV	<u>681,627</u>			
Total investments measured at fair value	<u>\$ 2,571,612</u>			

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(4) CASH, CASH EQUIVALENTS, AND INVESTMENTS, CONTINUED

Investments Measured at Fair Value, Continued

	Amounts Measured at Fair Value	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<i>June 30, 2019</i>				
<u>Investments by Fair Value Level</u>				
Cash and cash equivalents:				
OK INVEST—State managed short-term high liquidity	\$ 5,743	-	5,743	-
BNY Mellon—STIF-type investment; high liquidity	12,283	-	12,283	-
Total cash equivalents measured at fair value	<u>\$ 18,026</u>	<u>-</u>	<u>18,026</u>	<u>-</u>
Debt securities:				
U.S. government agency	\$ 12,924	-	12,924	-
U.S. Treasury	28,459	28,459	-	-
Domestic corporate bonds:	-			
Commercial mortgage-backed securities	5,337	-	5,337	-
Corporate bonds	114,452	-	114,452	-
U.S. government mortgages	57,081	-	57,081	-
International corporate bonds:				
Oaktree Global Credit Fund	129,150	-	-	129,150
Loomis Sayles World Bond Fund	81,553	-	81,553	-
Total debt securities	<u>428,956</u>	<u>28,459</u>	<u>271,347</u>	<u>129,150</u>
Equity securities—domestic:				
Domestic Large Cap—				
Northern Trust Russell 1000 Index Fd	465,476	-	465,476	-
Domestic Small Cap Value Focus—Boston Partners	86,157	86,157	-	-
Domestic Small Cap Growth Focus—Cortina	92,428	92,428	-	-
Total domestic equities	<u>644,061</u>	<u>178,585</u>	<u>465,476</u>	<u>-</u>

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(4) CASH, CASH EQUIVALENTS, AND INVESTMENTS, CONTINUED

Investments Measured at Fair Value, Continued

	Amounts Measured at Fair Value	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<i>June 30, 2019</i>				
<u>Investments by Fair Value Level, Continued</u>				
Equity securities—international:				
Intl. Equities—Barings Focused Intl Equity Fund (developed markets)	120,844	-	120,844	-
Intl. Equities—Value Focus—Mondrian Partners	140,801	-	140,801	-
Intl. Emerging Markets—Wasatch EM Small Cap Fund	36,169	-	36,169	-
Intl. Emerging Markets—AB EM Strategic Core	80,267	-	80,267	-
Total international equities	<u>378,081</u>	-	<u>378,081</u>	-
Private equity:				
Private equity—non-real estate focused	279,066	-	-	279,066
Real estate	53,271	-	-	53,271
Total private equity	<u>332,337</u>	-	-	<u>332,337</u>
Real estate—direct ownership—income producing:				
Total direct ownership real estate	<u>4,300</u>	-	-	<u>4,300</u>
Investments measured at net asset value (NAV):				
Low Volatility Hedge Fund—PAAMCO	114,730			
Long/Short Equity Hedge Fund— Grosvenor Class A & B	374,278			
Low Volatility Hedge Fund—Wellington Global Total Return Fund	66,411			
Core Real Estate—JP Morgan Strategic Property Fund	129,423			
Core Real Estate—Blackstone Property Partners	43,974			
Commodities—Gresham Partners—TAP Fund	48,626			
Commodities—Mt. Lucas—MLM Macro-Peak	26,755			
Total investments measured at NAV	<u>804,197</u>			
Total investments measured at fair value	<u>\$ 2,591,932</u>			

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(4) CASH, CASH EQUIVALENTS, AND INVESTMENTS, CONTINUED

Investments Measured at Fair Value, Continued

Fair Value of Cash and Cash Equivalents—Short-term investments include cash equivalents held at the State Treasurer’s office and an investment fund composed of units of a commingled trust fund of the Plan’s custodial agent, commercial paper, treasury bills, and U.S. government agency securities. These investments offer high, immediate liquidity and are readily converted to cash. The funds are comprised primarily of very short-term debt instruments, and are valued at amortized cost, which also approximates fair value. For determining fair value, the instruments held are valued using actual quoted prices or by using matrix pricing, a method of pricing securities based on their relationship to benchmark quoted market prices. Both of these investments are classified in Level 2 of the fair value hierarchy based on the development of an aggregate daily value of the individual instruments in each fund that are typically classified in either Level 1 or Level 2 of the fair value hierarchy.

Fair Value of Debt Securities—The Plan holds a diversified mix of debt instruments through an active domestic bond manager, Agincourt, and has international debt exposure through the Loomis Sayles Global Bond Fund. Agincourt generally holds a mix of U.S. government agency securities and U.S. government mortgages, U.S. Treasury securities, domestic corporate bonds and commercial mortgage-backed securities. U.S. Treasury securities are classified in Level 1 of the fair value hierarchy, using quoted prices in active markets. The remaining debt securities are classified in Level 2 of the fair value hierarchy, valued using a matrix pricing technique. This method values securities based on their relationship to benchmark quoted prices. The Loomis Sayles Global Bond Fund is a global debt instrument commingled fund, and is classified in Level 2 of the fair value hierarchy based the development of a total value through the aggregation of Level 1 and Level 2 quoted prices for instruments held by the fund.

The Plan also holds a limited partnership, the Oaktree Global Credit Fund, managed by Oaktree Capital Management that focuses primarily on domestic and international fixed income and debt type securities, senior loans, convertible securities, secured loans, structured credit and emerging market debt.

The investments in this mandate are held in a limited partnership account where the underlying investments are priced in either Level 1, Level 2, or Level 3 of the fair value hierarchy, using quoted prices in active markets or other market corroborated inputs as well as independent valuation sources for certain debt instruments. The Oaktree account is classified in Level 3 of the fair value hierarchy based on the aggregation of the investments held. Oaktree prices the fund monthly and offers monthly liquidity after 30 days’ notice.

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(4) CASH, CASH EQUIVALENTS, AND INVESTMENTS, CONTINUED

Investments Measured at Fair Value, Continued

Fair Value of Equity Securities—The Plan holds equity securities through a number of managers, both actively and passively managed. They are as follows:

DOMESTIC

Northern Trust Collective Russell 1000 Index Fund—The Plan holds a proportionate share of a fund managed by Northern Trust that seeks to correlate the holdings of the Russell 1000 index fund, a basket of passively managed holdings to serve as a benchmark for the U.S. equity market. The equities that comprise this index are all domestic, publicly traded securities and are daily priced. The Northern Trust Collective Russell 1000 Index Fund is a commingled fund and is classified in Level 2 of the fair value hierarchy, as its total value is calculated daily through the aggregation of Level 1 quoted prices, providing the equivalent of the Russell 1000 index, a daily priced basket of assets. The Plan has daily liquidity access to its investment in this fund.

Boston Partners (Small Cap Value Focus)—The Plan has an active investment manager that focuses on domestic small to mid-capitalization sized companies with a mandate to follow the value style of investing. Boston Partners manages an account through the Plan's custodian, and purchases securities in the primary active domestic equity markets. The Boston Partners account is classified in Level 1 of the fair value hierarchy since all securities are priced at quoted market prices in active markets for identical assets.

Cortina (Small Cap Growth Focus)—The Plan has an active investment manager focused on the small to micro segment of the equities market with a mandate to pursue the growth style of investing. Cortina actively manages an account through the Plan's custodian and deals in equity securities in the domestic market. The Cortina account is classified in Level 1 of the fair value hierarchy since all securities are priced at quoted market prices in active markets for identical securities.

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(4) CASH, CASH EQUIVALENTS, AND INVESTMENTS, CONTINUED

Investments Measured at Fair Value, Continued

Fair Value of Equity Securities—Continued

INTERNATIONAL

AllianceBernstein (AB) Emerging Markets Strategic Core Equity—The Plan initiated an investment with AllianceBernstein in November 2016 from the liquidation of its holdings in the Northern Trust Emerging Markets Index fund. The AB fund is a commingled fund that focuses on companies located in emerging markets or that have significant exposure to emerging markets. This fund is classified in Level 2 of the fair value hierarchy since the price of the fund is derived from securities that are all priced as quoted market prices in active markets. The fund prices on a daily basis and provides liquidity on a monthly (30-day notice) basis.

Barings Focused International Equity—The Plan participates in a commingled equity fund that focuses on a smaller number of equity securities located primarily in international developed markets. This investment is a commingled fund of international equity securities that are typically priced based on quoted market prices in active markets around the globe. This fund is classified in Level 2 of the fair value hierarchy, as the price of the fund is derived from securities that are all priced at quoted market prices in active markets. This fund prices and provides liquidity to its investors on a monthly basis.

Mondrian Partners International Equity Fund L.P.—The Plan participates in a fund managed by Mondrian Partners that invests primarily in non-US equity securities, with a focus on the value style of investing. This fund is classified in Level 2 in the fair value hierarchy since the price of the fund is derived from securities that are all priced at quoted market prices in active markets. The fund prices and provides liquidity to its investors on a monthly basis.

Wasatch Emerging Markets Small Capitalization Fund—The Plan invests in a Wasatch fund that is focused on small-capitalization equity securities that are located in non-U.S. emerging markets. The Wasatch fund is a commingled investment trust that is managed for institutional investors. The fund is classified in Level 2 of the fair value hierarchy, as the holdings of the fund are all priced at quoted market prices in active markets, allowing the fund sponsor to develop daily net asset value pricing and liquidity.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(4) CASH, CASH EQUIVALENTS, AND INVESTMENTS, CONTINUED

Investments Measured at Fair Value, Continued

Fair Value of Private Equity—The Plan participates in a number of private equity partnerships as a limited partner. Private equity investments are structured to be operated by a general partner, usually highly experienced in the specific focus of the fund, who calls for investments from the limited partners when a suitable investment opportunity arises. As such, investments in private equity can generally never be redeemed, but instead participate in distributions from the fund as liquidation of the underlying assets are realized.

Several of the limited partnerships invest in equity securities outside of the United States and may enter into forward contracts to purchase or sell securities at specified dates in the future at a guaranteed price in a foreign currency to protect against fluctuations in exchange rates of foreign currency. In addition, some of the partnerships may engage in hedging transactions involving derivative instruments as a part of their investment strategy.

The Plan's private equity (PE) investments have a long investment horizon of 5 to 10 years, are not liquid, and the Plan generally holds this type of investment to maturity. Depending on the type of holdings within a given partnership, the investment horizon can be extended if the general partner deems the remaining investments in the fund still hold significant future value and a majority of limited partners concur. The Plan's PE general partners typically make fair value determinations on the investments in each of their respective funds quarterly using a variety of pricing techniques including, but not limited to, observable transaction values for similar investments, third-party bids, appraisals of both properties and businesses, and public market capitalization of similar or like businesses. Each PE fund then calculates the fair value of the Plan's ownership of the partners' capital on a quarterly basis. The Plan classifies all private equity investments in Level 3 of the fair value hierarchy, as most investments of this type require unobservable inputs and other ancillary market metrics to determine fair value. Although most PE interests are marketable in a secondary market, the Plan generally does not sell its interests early at values less than its interest in the partnership.

At June 30, 2020, the Plan was invested in 73 different private equity strategies (9 of which were in real estate PE) and had remaining commitments of \$318 million for the non-real estate PE partnerships and \$42 million for the real estate PE partnerships. The Plan entered into 10 new private equity partnership agreements during fiscal year 2020 (10 non-real estate PE partnerships), 9 which have an average contract maturity of 10 years, and 1 with a 3-year maturity. These new PE investments will require total commitments of \$185 million.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(4) CASH, CASH EQUIVALENTS, AND INVESTMENTS, CONTINUED

Investments Measured at Fair Value, Continued

Fair Value of Private Equity—Continued

The Plan had commitments of \$175 million remaining at June 30, 2020, to PE partnership investments entered into prior to 2020, with an estimated maturity between 1 and 9 years. Since the Plan follows a rolling year PE strategy, new PE investments are made as older PE investments reach their expiration.

At June 30, 2019, the Plan was invested in 68 different private equity strategies (9 of which were in real estate PE) and had remaining commitments of \$189 million for the non-real estate PE partnerships and \$55 million for the real estate PE partnerships. The Plan entered into 6 new private equity partnership agreements during fiscal year 2019 (4 non-real estate PE partnerships), 5 which have an average contract maturity of 10 years, and 1 with a 3-year maturity. These new PE investments will require total commitments of \$101.6 million.

The Plan had commitments of \$142.7 million remaining at June 30, 2019, to PE partnership investments entered into prior to 2019, with an estimated maturity between 2 and 9 years. Since the Plan follows a rolling year PE strategy, new PE investments are made as older PE investments reach their expiration.

The Plan is invested in the following private equity strategies:

BUYOUT—This private equity strategy seeks to invest capital in mature businesses that have the potential for growth in value from efficiencies gained through structural, strategic management, and operational improvements.

DISTRESSED—Under the distressed strategy, a fund will invest in the debt of companies that are struggling, with the intent of influencing the process by which the company restructures its debt, narrows its focus, or implements a plan for a turnaround in its operations. Distressed investments of this nature can be debt, equity, or other types of lending.

MEZZANINE—Private equity funds that pursue the mezzanine strategy will usually make unsecured loans or purchase preferred equity, often in smaller capitalization companies, where the unsecured risk is typically offset by the prospect of higher returns.

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(4) CASH, CASH EQUIVALENTS, AND INVESTMENTS, CONTINUED

Investments Measured at Fair Value, Continued

Fair Value of Private Equity—Continued

VENTURE CAPITAL—The venture strategy primarily seeks to invest in early-stage, high-potential, high-growth companies. This type of investment is usually through equity ownership in the company, where the private equity general partner can lend expertise and facilitate growth. Investment returns are usually realized if the portfolio company is taken public through an IPO or the fund may sell its equity investment to another investor.

EMERGING MARKETS AND OTHER—Private equity investment in emerging markets may make use of one or more of the above-listed strategies in smaller global markets in an effort to realize returns by identifying and capitalizing on new startup companies, as well as market inefficiencies. Investments in the other category are generally highly focused private equity funds that seek to maximize returns through a specific market segment, such as energy or healthcare.

FUND OF FUNDS—Under a fund of funds private equity investment, the general partner seeks to build a combination of private equity investments that will work synergistically together to maximize returns and minimize the risk of loss.

REAL ESTATE—Private equity investment in real estate may encompass several of the above-mentioned strategies, based on the skill and experience of the general partner. Generally, real estate private equity investments seek to capitalize on distressed situations, as well as seek to identify lucrative investments that produce a high level of current income.

The Plan is invested with 6 separate private equity real estate managers, some with more than one fund by a given manager. The Plan's managers are Siguler Guff, The Realty Associates, Cerberus, Angelo Gordon, Blackstone, and Hall Capital Partners. The fair value of real estate investments are determined by each manager respectively at each valuation date and rely primarily on third-party appraisals and other unobservable inputs. Siguler Guff's advisory board may request an independent appraisal of any portfolio investment within 30 days of the fund's audited financial statements. The Realty Associates utilizes independent appraisers to value properties at a frequency of no less than once every 3 years after acquisition. Cerberus follows detailed internal valuation policies and procedures and may engage independent valuation consultants on an as-needed basis. Angelo Gordon property values will be estimated by the general partner; however, an advisory committee can request an independent valuation on any property if one has not been performed in the previous 12 months. Blackstone as general partner will value properties internally with the added consent of an LP advisory committee. Hall Capital Partners values investments in the fund on an income approach rather than base valuations on cyclical appraisals.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(4) CASH, CASH EQUIVALENTS, AND INVESTMENTS, CONTINUED

Investments Measured at Fair Value, Continued

Fair Value of Investments Measured at Net Asset Value (NAV)

Low Volatility Hedge Fund—PAAMCO—The Plan is invested in a hedge fund managed by Pacific Alternative Asset Management Company (PAAMCO) structured as a fund of funds to manage and moderate volatility of the value of the investment. The fund uses a number of sub-managers to achieve its desired level of diversification, but is limited to a maximum number of 55 sub-managers. This fund uses a multitude of investment strategies and will invest in debt, equities, credit instruments, distressed debt, merger arbitrage, and sovereign and convertible debt, as well as take both long and short equity positions. This investment is valued at NAV monthly and provides quarterly redemptions with at least 60 days' written notice.

Low Volatility Hedge Fund—Wellington Global Total Return (GTR) Fund—The Plan invested in Wellington's Global Total Return Fund in fiscal year 2017. The GTR Fund is an absolute return fund designed to be without directional dependence, or correlation to, equities, bonds and credit markets. The fund pursues opportunistic strategies in long/short exposure to global interest rates, currencies and credit, and will invest globally to pursue this strategy. This investment is valued at NAV daily and provides daily liquidity.

Long/Short Equity Hedge Fund—Grosvenor Class A & B—The Plan has two hedge fund investments with Grosvenor Capital Management. Both of these investments are structured as fund of funds and utilize a number of sub-managers that invest in long and short positions of U.S. and international equity securities. The Class A investment is highly diversified and will generally have between 20 and 30 sub-managers at any given time that will be selected and managed by Grosvenor at its discretion. The Class B investment is more concentrated and will generally have 15 or fewer sub-managers that are selected by the System's investment consultant, ACG, with confirmation by Grosvenor and the approval of the System's Board. Grosvenor does not have primary investment discretion over the Class B shares, but performs due diligence on the investment for addition to their menu of investible funds. While the Class A investment takes a more market neutral approach to allocations, the Class B investment is designed to capture more upside movement within the markets and has a greater focus on long bias positions. These funds are valued at NAV monthly, and the Class A shares are redeemable at the end of each calendar quarter with 70 days' prior written notice. The Class B shares are redeemable at any time, subject to any gates or lockups by the underlying sub-managers. Due to these gates and lockups, the Class B fund would be able to liquidate varied amounts quarterly over the next 4 quarters; 88.15%, or \$149 million, could be liquidated by June 30, 2020, with the remaining balance to follow in successive quarters as the remaining lockups expire.

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(4) CASH, CASH EQUIVALENTS, AND INVESTMENTS, CONTINUED

Investments Measured at Fair Value, Continued

Fair Value of Investments Measured at Net Asset Value (NAV), Continued

Long/Short Equity Hedge Fund—Grosvenor Class A & B—Continued

In late 2019, the Board voted to re-weight its allocation to Long/Short Hedge funds. In fiscal 2020 the Plan began a full exit from both Grosvenor Classes A and B. At fiscal year end, the Plan had fully exited Grosvenor Class B. The proceeds from this exit were moved to a new hedge fund manager, K2 Mauna Kea. The full exit from Grosvenor Class A will be completed in fiscal 2021. Some proceeds from Grosvenor Class A will also be moved to the new hedge fund platform to bring the hedge fund allocation to investment policy targets.

K2 Mauna Kea Hedge Fund—The Plan has moved a portion of the assets from Grosvenor Classes A and B to K2 Mauna Kea. This investment is structured as a hedge fund of funds and utilizes sub-managers that have been approved to join the K2 Mauna Kea platform. This allocation will generally have between 10 and 15 sub-managers that are selected by the System’s investment consultant, ACG, with confirmation by the System’s Board. Any new fund new to the K2 Mauna Kea platform must also pass all K2’s due diligence requirements to be listed on the platform as an eligible fund. The K2 Mauna Kea allocation is designed to have a long-bias intended to capture more upside movements in the markets. The underlying funds are valued at NAV monthly and withdrawals are allowable at any time subject to gates and redemption windows that vary by underlying sub-manager. Due to these gates and redemption windows, a full exit from the K2 Mauna Kea platform would take approximately 4 quarters.

Core Real Estate—JP Morgan Strategic Property Fund and Blackstone Property Partners—The Plan invests in two core real property funds: the JP Morgan Strategic Property fund and the Blackstone Property Partners Limited Partnership. Both of these funds invest in core real properties seeking to realize capital appreciation on its portfolio while also generating a high level of current income. These funds both make strategic property acquisitions primarily in the U.S. As part of JPMorgan’s and Blackstone Property Partners’ valuation process, independent appraisers value properties on an annual basis (at a minimum). Both funds are valued at NAV monthly. The JP Morgan fund allows withdrawals *once per quarter subject to “available cash” as determined by a pool trustee with 45 days’ advance* written notice. The Blackstone Property Partners fund has an initial lockup period of 24 months, after which withdrawals are available at the end of each quarter with 90 days’ advance written notice. The Plan’s lockup period in the Blackstone Property partnership expired on December 31, 2017.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(4) CASH, CASH EQUIVALENTS, AND INVESTMENTS, CONTINUED

Investments Measured at Fair Value, Continued

Fair Value of Investments Measured at Net Asset Value (NAV), Continued

Commodities—Gresham Partners (TAP Fund) and MLM Macro Peak—The Plan has investments in two commodities funds with distinctly different approaches. The Gresham TAP (Tangible Asset Program) fund is a commingled investment fund that invests in long-only, fully collateralized tangible commodity futures. It seeks to provide diversification to a portfolio of traditional investments through low correlation to stocks and bonds, and trades across most commodities markets. The MLM Macro-Peak Fund, structured as a liquid limited partnership, is a global macro strategy managed by Mount Lucas. This fund trades in the world's major asset classes and financial markets, including equity, global fixed income, currency, and commodity sectors following internally developed proprietary trading models. Both of these funds are priced at NAV on a monthly basis. The Gresham TAP Fund offers monthly liquidity with at least 5 days' written notice. The MLM Macro-Peak Fund also offers monthly liquidity with at least 10 days' written notice. Under the MLM Macro-Peak Fund, 90% of the cash proceeds are ordinarily paid within 10 days, with the remaining 10% balance paid within 60 days.

In fiscal 2020, the Plan made a complete exit from the Gresham Partners (TAP Fund) and re-allocated the proceeds from this redemption to other existing investments

Foreign Currency Transactions

The Plan has certain investment managers that trade on foreign exchanges. Foreign currency gains and losses are calculated at the transaction date using the current exchange rate, and assets are remeasured to U.S. dollars using the exchange rate as of each month end. During the years ended June 30, 2020 and 2019, there were no foreign currency gains and no remeasurement losses.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(4) CASH, CASH EQUIVALENTS, AND INVESTMENTS, CONTINUED

Securities Lending

The Plan’s investment policy and state statute allow for participation in a securities lending program which was implemented on July 1, 2019. The program is administered by its master custodian. Lendable securities (U.S. equities, U.S. corporate bonds, and U.S. government instruments) within the Plan are loaned to contractually approved brokers who provide collateral in the form of cash, U.S. Treasury or government agency securities, industrialized country governmental and bank securities, and domestic and foreign equities or corporate bonds. Cash or dollar denominated securities provided as collateral must represent 102% of the fair market value of securities on loan. Foreign currency denominated collateral must represent 105% of the fair market value of securities on loan. The Plan cannot pledge or sell collateral securities without a borrower default. The Plan has no restrictions on the amount of securities that may be loaned, and the custodian has indemnified the Plan by agreeing to provide replacement securities or cash in the event of a borrower default. There were no such failures in fiscal 2020. This indemnification does not cover market losses the Plan could incur by investing the security lending cash collateral. The loan premium paid by the borrower of securities, as well as related program fees and costs, are apportioned between the Plan and its custodian in accordance with the securities lending agreement.

For the fiscal year, the Plan and the borrowers retained the right to terminate any and all securities lending transactions on demand. The cash collateral received for loans was invested by the Plan’s custodian in a separately managed account. Investments made with cash collateral, as well as their duration, are limited to securities outlined in the securities lending agreement. At June 30, 2020, the average duration of securities held with cash collateral was 1 day. Since the security loans are terminable at will, their duration generally does not match the duration of investments made with cash collateral. At June 30, 2020, the Plan had no credit risk exposure to borrowers since the amounts the Plan owes to borrowers exceed the amounts borrowers owed to the Plan. The collateral held and the fair value of securities on loan at June 30, 2020, were as follows:

	<u>Collateral Held</u>	<u>Market Value of Securities on Loan</u>	<u>Percent of Collateral to Loan</u>
	<i>(Amounts in Thousands)</i>		
Securities on loan with:			
Cash collateral	\$ 12,277	11,987	102%
Non-cash collateral	<u>58,449</u>	<u>52,082</u>	112%
	<u>\$ 70,726</u>	<u>64,069</u>	

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(5) DERIVATIVES AND OTHER INSTRUMENTS

Derivative instruments are financial contracts whose values depend on the values of one or more underlying assets, reference rates, or financial indexes. They include futures contracts, swap contracts, options contracts, and forward foreign currency exchange. The Plan's investment policy notes that in order to achieve maximum returns, the Plan may diversify between various investments, including common stocks, bonds, real estate, private equity, venture equity and other hedge fund strategies, short-term cash instruments, and other investments deemed suitable. The investment policy also requires investment managers to follow certain controls and documentation and risk management procedures. The Plan did not have any direct derivative investments at June 30, 2020 or 2019. Investments in limited partnerships (alternative investments) and commingled funds may include derivatives. The Plan's investments in alternative investments are reflected at fair value, and any exposure is limited to its investment in the partnership and any unfunded commitment. Commingled funds have been reviewed to ensure they are in compliance with the Plan's investment policy.

The Plan invests in mortgage-backed securities, which are reported at fair value in the statements of fiduciary net position and are based on the cash flows from interest and principal payments by the underlying mortgages. As a result, they are sensitive to prepayments by mortgagees, which are likely in declining interest rate environments, thereby reducing the values of these securities. The Plan invests in mortgage-backed securities to diversify the portfolio and increase the return while minimizing the extent of risk. Details regarding interest rate risks for these investments are included under the interest rate risk disclosures.

(6) INVESTMENT IN BUILDING

The Plan owns a building (Columbus Square) originally purchased for approximately \$1.5 million, and it is held as a long-term investment. The building is accounted for at fair value based on periodic appraisals. Rental income and expenses associated with the building are reported currently. The Plan utilizes part of the building for its administrative offices and charges itself rent, which is reflected as administrative expense and other investment income. The fair value of the building at June 30, 2020 and 2019 was estimated at approximately \$4.1 million and \$4.3 million, respectively.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(7) CAPITAL ASSETS

The Plan has only one class of capital assets, consisting of software. A summary as of June 30 is as follows:

	<u>Balance at</u> <u>June 30, 2019</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at</u> <u>June 30, 2020</u>
Cost	\$ 1,014,045	-	-	1,014,045
Accumulated amortization	<u>(1,014,045)</u>	<u>-</u>	<u>-</u>	<u>(1,014,045)</u>
Capital assets, net	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>Balance at</u> <u>June 30, 2018</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at</u> <u>June 30, 2019</u>
Cost	\$ 1,014,045	-	-	1,014,045
Accumulated amortization	<u>(1,014,045)</u>	<u>-</u>	<u>-</u>	<u>(1,014,045)</u>
Capital assets, net	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(8) DEFERRED OPTION BENEFITS

As noted previously, the Plan has Deferred Option, “Back” DROP, and Payout Provision benefits available to its members. A summary of the changes in the various options as of June 30 is as follows:

	2020			
	<u>Deferred</u> <u>Option</u>	<u>"Back"</u> <u>DROP</u>	<u>Payout</u> <u>Provision</u>	<u>Total</u>
	<i>(Amounts in Thousands)</i>			
Beginning balance	\$ 720	3,796	1,693	6,209
Employer contributions	19	2,604	-	2,623
Plan reassignments	-	-	-	-
Member contributions	-	3,207	-	3,207
Deferred benefits	144	24,332	-	24,476
Payments	(500)	(39,788)	(696)	(40,984)
Interest	30	6,028	14	6,072
Ending balance	<u>\$ 413</u>	<u>179</u>	<u>1,011</u>	<u>1,603</u>
	2019			
	<u>Deferred</u> <u>Option</u>	<u>"Back"</u> <u>DROP</u>	<u>Payout</u> <u>Provision</u>	<u>Total</u>
	<i>(Amounts in Thousands)</i>			
Beginning balance	\$ 2,170	1,265	1,392	4,827
Employer contributions	41	2,367	-	2,408
Plan reassignments	(209)	(58)	267	-
Member contributions	-	2,914	-	2,914
Deferred benefits	294	21,335	-	21,629
Payments	(1,679)	(29,435)	-	(31,114)
Interest	103	5,408	34	5,545
Ending balance	<u>\$ 720</u>	<u>3,796</u>	<u>1,693</u>	<u>6,209</u>

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(9) NET PENSION LIABILITY OF PARTICIPATING EMPLOYERS

The components of the net pension liability of the participating employers at June 30 were as follows:

	<u>2020</u>	<u>2019</u>
	<i>(Amounts in Thousands)</i>	
Total pension liability	\$ 2,736,156	2,612,473
Plan fiduciary net position	<u>2,621,311</u>	<u>2,618,857</u>
Employers' net pension liability (asset)	<u>\$ 114,845</u>	<u>(6,384)</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>95.80%</u>	<u>100.24%</u>

Actuarial assumptions—The total pension liability was determined by an actuarial valuation as of July 1, 2020 and 2019, using the following actuarial assumptions, applied to all prior periods included in the measurement:

Inflation:	2.75%
Salary increases:	3.5% to 12.0% average, including inflation
Investment rate of return:	7.5%, net of pension plan investment expense
Cost-of-living adjustments:	Police officers eligible to receive increased benefits according to repealed Section 50-120 of Title 11 of the Oklahoma Statutes pursuant to a court order receive an adjustment of 1/3 to 1/2 of the increase or decrease of any adjustment to the base salary of a regular police officer, based on an increase in base salary of 3.5% (wage inflation).
Mortality rates:	Active employees (pre-retirement): RP-2000 Combined Blue Collar Healthy Table with age set back 4 years with fully generational improvement using Scale AA. Active employees (post-retirement) and nondisabled pensioners: RP-2000 Combined Blue Collar Healthy Table with fully generational improvement using scale AA. Disabled pensioners: RP-2000 Combined Blue Collar Healthy Table with age set forward 4 years.

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(9) NET PENSION LIABILITY OF PARTICIPATING EMPLOYERS, CONTINUED

The actuarial assumptions used in the July 1, 2020 and 2019, valuations were based on the results of an actuarial experience study for the period of July 2012 to June 2017.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The Plan will fully exit its commodities allocation in fiscal 2021 and has accordingly set that long-term return expectation at 0.00%. The inflation factor added back was 2.0% for both 2020 and 2019. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan’s target asset allocation as of June 30 (see discussion of the pension plan’s investment policy at Note 2) are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>	
	<u>2020</u>	<u>2019</u>
	(includes inflation factor)	
Fixed income	5.11%	4.79%
Domestic equity	6.80%	5.74%
International equity	11.45%	9.19%
Real estate	8.60%	7.99%
Private equity	11.58%	10.20%
Commodities	0.00%	3.50%

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(9) NET PENSION LIABILITY OF PARTICIPATING EMPLOYERS, CONTINUED

Discount rate—The discount rate used to measure the total pension liability was 7.5% for 2020 and 2019. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, determined by the Oklahoma Statutes. Projected cash flows also assume the State of Oklahoma will continue contributing 14% of the insurance premium, as established by statute. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate—The following presents the net pension liability of the employers, calculated using the discount rate of 7.5%, as well as what the Plan’s net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.5%) or 1 percentage point higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
	<i>(Amounts in Thousands)</i>		
<u>2020</u>			
Employers' net pension liability (asset)	\$ 405,701	114,845	(131,158)
<u>2019</u>			
Employers' net pension liability (asset)	\$ 271,956	(6,384)	(241,724)

(10) PLAN TERMINATION AND STATE FUNDING

The Plan has not developed an allocation method if it were to terminate. The Oklahoma Legislature is required by statute to make such appropriation as necessary to assure that benefit payments are made.

A suggested minimum contribution from the State of Oklahoma is computed annually by an actuary hired by the State of Oklahoma. However, funding by the State of Oklahoma to the Plan is based on statutorily determined amounts rather than the actuarial calculations of the amount required to fund the Plan.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED

(11) FEDERAL INCOME TAX STATUS

As an instrumentality of the State of Oklahoma, the Plan is tax-exempt. It is not subject to the Employee Retirement Income Security Act of 1974, as amended. The Plan has received favorable determination from the Internal Revenue Service (IRS) regarding its tax-exempt status. The Plan has been amended since receiving the determination letter. However, the plan administrator believes that the Plan is designed and is currently being operated in substantial compliance with the applicable requirements of the Internal Revenue Code.

(12) HISTORICAL INFORMATION

Historical trend information designed to provide information about the Plan's progress made in accumulating sufficient assets to pay benefits when due is presented in Exhibits I, II, III, and IV.

(13) LEGISLATIVE AMENDMENTS

The following is a summary of significant plan provision changes that were enacted by the Oklahoma Legislature during 2020 and 2019:

2020

- House Bill 3330—Provides that members who are injured in the performance of duties as a police officer by a violent act will be eligible for the State Board to assess that the member has sustained a one-hundred-percent disability for the determination of a benefit. HB 3330 further defines a violent act as “a violent attack on the member by means of a dangerous weapon, including, but not limited to, a firearm, knife, automobile, explosive device, or other dangerous weapon.”
- House Bill 3350—Provides a cost-of-living adjustment (COLA) to any person receiving a benefit from the System and who continues to receive a benefit on or after July 1, 2020, based on the following retirement dates: Zero (0%) if the person was retired 2 years or less on July 1, 2020; Two (2%) if the person has been retired for at least 2 years but less than 5 years as of July 1, 2020 and; Four (4%) if the person has been retired for 5 years or more on July 1, 2020. This COLA is offset by any increase in benefits a person received pursuant to repealed Section 50-120 of Title 11 of the Oklahoma Statutes after June 30, 2008.

See Independent Auditors' Report.

OKLAHOMA POLICE PENSION AND RETIREMENT PLAN
Administered by
OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(13) LEGISLATIVE AMENDMENTS, CONTINUED

2019

- House Bill 2269—Provides that participants in the Deferred Option Plan (DOP) can name a designated recipient; if there is no such designation, the surviving spouse (having been married to the participant for the 30 continuous months preceding death) will be the eligible recipient. The 30-month requirement does not apply in the event of a duty related death. If neither a named recipient nor a surviving spouse is an eligible recipient, payment will be made to the estate of the participant. HB 2269 further provides that the Council on Law Enforcement Education and Training (CLEET) will grant the Board access to records regarding actively working police officers in participating agencies and municipalities. Lastly HB 2269 allows for the final benefit payment due a member in the month they are deceased to be paid to a successor-in-interest provided it is less than the limits set in Title 58 § 393 of the state statutes.

(14) CONTINGENCIES

The Plan is involved in legal proceedings in the normal course of operations, none of which, in the opinion of management, will have a material effect on the net position or changes in net position of the Plan.

The novel coronavirus (“COVID-19”), which was declared a global health emergency in January 2020 and a pandemic in March 2020, has caused significant changes in political and economic conditions around the world, including disruptions and volatility in the global capital markets. In response, the State of Oklahoma and local municipalities have taken various preventative or protective actions, such as imposing restrictions on business operations and advising or requiring individuals to limit or forgo their time outside of their homes. The Plan’s management has considered the economic implications of the COVID-19 pandemic in making critical and significant accounting estimates included in the June 30, 2020, financial statements.

The extent to which the COVID-19 pandemic may impact the Plan will depend on future developments which are uncertain, such as the duration of the outbreak, additional governmental mandates issued to mitigate the spread of the disease, business closures, economic disruptions, and the effectiveness of actions taken to contain and treat the virus. Accordingly, the COVID-19 pandemic may have a negative impact on the Plan’s future operations, the size and duration of which is difficult to predict. The Plan’s management will continue to actively monitor the situation and may take further actions altering operations that the Plan’s management determines are in the best interests of its employees and stakeholders, or as required by federal, state, or local authorities.

See Independent Auditors’ Report.

REQUIRED SUPPLEMENTARY INFORMATION

OKLAHOMA POLICE PENSION AND RETIREMENT PLAN
Administered by
OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM

SCHEDULE OF CHANGES IN EMPLOYERS' NET PENSION (ASSET) LIABILITY

Last 10 Fiscal Years (Dollar Amounts in Thousands)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Total pension liability										
Service cost	\$ 68,239	64,777	62,896	63,029	58,695	54,592	53,042	56,160	54,059	66,974
Interest	189,926	182,961	175,092	171,306	165,076	164,141	159,256	150,394	144,742	174,238
Changes of benefit terms	43,716	-	2,161	-	-	-	-	-	-	-
Differences between expected and actual experience	-	4,410	(13,155)	(41,985)	596	(12,764)	(18,258)	7,194	(10,069)	(96,100)
Changes in assumptions	(15,005)	-	25,307	-	-	-	-	(2,444)	-	(422,901) *
Benefit payments, including refunds of member contributions	<u>(163,193)</u>	<u>(155,486)</u>	<u>(139,563)</u>	<u>(144,092)</u>	<u>(138,625)</u>	<u>(141,693)</u>	<u>(119,241)</u>	<u>(114,835)</u>	<u>(113,300)</u>	<u>(104,044)</u>
Net change in total pension liability	123,683	96,662	112,738	48,258	85,742	64,276	74,799	96,469	75,432	(381,833)
Total pension liability—beginning	<u>2,612,473</u>	<u>2,515,811</u>	<u>2,403,073</u>	<u>2,354,815</u>	<u>2,269,073</u>	<u>2,204,797</u>	<u>2,129,998</u>	<u>2,033,529</u>	<u>1,958,097</u>	<u>2,339,930</u>
Total pension liability—ending (a)	<u>\$ 2,736,156</u>	<u>2,612,473</u>	<u>2,515,811</u>	<u>2,403,073</u>	<u>2,354,815</u>	<u>2,269,073</u>	<u>2,204,797</u>	<u>2,129,998</u>	<u>2,033,529</u>	<u>1,958,097</u>

*The decrease was due to legislation which changed the actuarial assumptions to no longer include cost-of-living adjustments (COLA's).

(Continued)

See Independent Auditors' Report.
See accompanying notes to required supplementary information.

OKLAHOMA POLICE PENSION AND RETIREMENT PLAN
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OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM

SCHEDULE OF CHANGES IN EMPLOYERS' NET PENSION (ASSET) LIABILITY, CONTINUED

Last 10 Fiscal Years (Dollar Amounts in Thousands)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Plan fiduciary net position										
Contributions—employers (cities)	\$ 44,226	42,154	40,135	38,887	38,533	37,261	35,547	34,645	32,896	31,846
Contributions—members	27,310	26,173	24,747	23,916	23,787	22,867	22,131	21,518	20,113	19,489
Contributions—State of Oklahoma, a non-employer contributing entity	40,295	39,559	39,028	34,283	35,915	35,490	31,329	31,412	28,092	24,645
Net investment income (loss)	55,808	104,882	205,439	242,415	(21,104)	74,554	294,897	221,174	8,374	282,305
Benefit payments, including refunds of member contributions	(163,193)	(155,486)	(139,563)	(144,092)	(138,625)	(141,693)	(119,241)	(114,835)	(113,300)	(104,044)
Administrative expense	(1,992)	(1,871)	(1,721)	(1,699)	(1,831)	(1,949)	(1,862)	(2,053)	(1,952)	(1,712)
Net change in plan fiduciary net position	2,454	55,411	168,065	193,710	(63,325)	26,530	262,801	191,861	(25,777)	252,529
Plan fiduciary net position—beginning	<u>2,618,857</u>	<u>2,563,446</u>	<u>2,395,381</u>	<u>2,201,671</u>	<u>2,264,996</u>	<u>2,238,466</u>	<u>1,975,665</u>	<u>1,783,804</u>	<u>1,809,581</u>	<u>1,557,052</u>
Plan fiduciary net position—ending (b)	<u>\$ 2,621,311</u>	<u>2,618,857</u>	<u>2,563,446</u>	<u>2,395,381</u>	<u>2,201,671</u>	<u>2,264,996</u>	<u>2,238,466</u>	<u>1,975,665</u>	<u>1,783,804</u>	<u>1,809,581</u>
Plan's net pension liability (asset) (a) - (b)	<u>\$ 114,845</u>	<u>(6,384)</u>	<u>(47,635)</u>	<u>7,692</u>	<u>153,144</u>	<u>4,077</u>	<u>(33,669)</u>	<u>154,333</u>	<u>249,725</u>	<u>148,516</u>

See Independent Auditors' Report.

See accompanying notes to required supplementary information.

OKLAHOMA POLICE PENSION AND RETIREMENT PLAN
Administered by
OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM

SCHEDULE OF EMPLOYERS' NET PENSION (ASSET) LIABILITY

Last 10 Fiscal Years (*Dollar Amounts in Thousands*)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Total pension liability	\$ 2,736,156	2,612,473	2,515,811	2,403,073	2,354,815	2,269,073	2,204,797	2,129,998	2,033,529	1,958,097
Plan fiduciary net position	<u>2,621,311</u>	<u>2,618,857</u>	<u>2,563,446</u>	<u>2,395,381</u>	<u>2,201,671</u>	<u>2,264,996</u>	<u>2,238,466</u>	<u>1,975,665</u>	<u>1,783,804</u>	<u>1,809,581</u>
Plan's net pension liability (asset)	<u>\$ 114,845</u>	<u>(6,384)</u>	<u>(47,635)</u>	<u>7,692</u>	<u>153,144</u>	<u>4,077</u>	<u>(33,669)</u>	<u>154,333</u>	<u>249,725</u>	<u>148,516</u>
Plan fiduciary net position as a percentage of the total pension liability (asset)	<u>95.80%</u>	<u>100.24%</u>	<u>101.89%</u>	<u>99.68%</u>	<u>93.50%</u>	<u>99.82%</u>	<u>101.53%</u>	<u>92.75%</u>	<u>87.72%</u>	<u>92.42%</u>
Covered payroll	<u>\$ 340,200</u>	<u>324,262</u>	<u>308,731</u>	<u>299,131</u>	<u>296,408</u>	<u>295,307</u>	<u>289,502</u>	<u>279,014</u>	<u>266,038</u>	<u>257,505</u>
Plan's net pension liability (asset) as a percentage of covered payroll	<u>33.76%</u>	<u>(1.97)%</u>	<u>(15.43)%</u>	<u>2.57%</u>	<u>51.67%</u>	<u>1.38%</u>	<u>(11.63)%</u>	<u>55.31%</u>	<u>93.87%</u>	<u>57.67%</u>

See Independent Auditors' Report.
See accompanying notes to required supplementary information.

OKLAHOMA POLICE PENSION AND RETIREMENT PLAN
Administered by
OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYERS AND OTHER CONTRIBUTING ENTITIES

Last 10 Fiscal Years (Dollar Amounts in Thousands)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Actuarially determined contribution	\$ 39,475	36,720	32,798	51,417	45,054	63,908	90,283	79,314	64,746	146,816
Contributions in relation to the actuarially determined contribution:										
Employers (Cities)	44,226	42,154	40,135	38,887	38,533	37,261	35,547	34,645	32,896	31,846
State of Oklahoma, a non-employer contributing entity	40,295	39,559	39,028	34,283	35,915	35,490	31,329	31,412	28,092	24,645
	<u>84,521</u>	<u>81,713</u>	<u>79,163</u>	<u>73,170</u>	<u>74,448</u>	<u>72,751</u>	<u>66,876</u>	<u>66,057</u>	<u>60,988</u>	<u>56,491</u>
Contribution (excess) deficiency	\$ <u>(45,046)</u>	<u>(44,993)</u>	<u>(46,365)</u>	<u>(21,753)</u>	<u>(29,394)</u>	<u>(8,843)</u>	<u>23,407</u>	<u>13,257</u>	<u>3,758</u>	<u>90,325</u>
Covered payroll	\$ <u>340,200</u>	<u>324,262</u>	<u>308,731</u>	<u>299,131</u>	<u>296,408</u>	<u>295,307</u>	<u>289,502</u>	<u>279,014</u>	<u>266,038</u>	<u>257,505</u>
Contributions as a percentage of covered payroll	<u>24.84%</u>	<u>25.20%</u>	<u>25.64%</u>	<u>24.46%</u>	<u>25.12%</u>	<u>24.64%</u>	<u>23.10%</u>	<u>23.68%</u>	<u>22.92%</u>	<u>21.94%</u>

See Independent Auditors' Report.
See accompanying notes to required supplementary information.

OKLAHOMA POLICE PENSION AND RETIREMENT PLAN
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OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM

SCHEDULE OF INVESTMENT RETURNS

Last 8 Fiscal Years

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Annual money-weighted rate of return, net of investment expense	2.15%	4.12%	8.64%	11.11%	(0.94)%	3.36%	15.04%	12.56%

Information to present a 10-year history is not readily available.

See Independent Auditors' Report.
See accompanying notes to required supplementary information.

OKLAHOMA POLICE PENSION AND RETIREMENT PLAN
Administered by
OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2020

The information presented in the required supplementary schedules was determined as part of an actuarial valuation by an independent enrolled actuary (Cavanaugh Macdonald Consulting, LLC for 2020, 2019, and 2018, and by Buck Consultants, LLC for all other years presented) at the dates indicated. Additional information as of the July 1, 2020, valuation follows:

Assumptions

Actuarial cost method:	Entry age
Amortization method:	Level dollar—open
Remaining amortization:	30 years
Asset valuation method:	5-year smoothed

Actuarial assumptions:

Investment rate of return:	7.5%, net of pension plan investment expense
Projected salary increases*:	3.5% to 12.0%
Cost-of-living adjustments:	Police officers eligible to receive increased benefits according to repealed Section 50-120 of Title 11 of the Oklahoma Statutes pursuant to a court order receive an adjustment of 1/3 to 1/2 of the increase or decrease of any adjustment to the base salary of a regular police officer, based on an increase in base salary of 3.5% (wage inflation).

* Includes inflation at 3.5%.

See Independent Auditors' Report.



**INDEPENDENT AUDITORS' 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**

To the Board of Trustees of
the Oklahoma Police Pension and Retirement System

We have audited, in accordance with the auditing standards generally accepted in the United States 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 Police Pension and Retirement Plan (the "Plan"), administered by the Oklahoma Police Pension and Retirement System, which is a part of the State of Oklahoma financial reporting entity, which comprise the statement of fiduciary net position as of June 30, 2020, and the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 10, 2020. Our report includes an explanatory paragraph disclaiming an opinion on required supplementary information.

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") as a basis for designing 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.

(Continued)

**INDEPENDENT AUDITORS' 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*, CONTINUED**

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 financial statements. 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 Plan's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Finlay + Cook, PLLC

Shawnee, Oklahoma
September 10, 2020