Tobacco Settlement Endowment Trust Fund

Financial Statements

June 30, 2020 and 2019
(With Independent Auditors' Report Thereon)

FINLEY & COOK
CERTIFIED PUBLIC ACCOUNTANTS

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

FINANCIAL STATEMENTS

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<u>INDEPENDENT AUDITORS' REPORT</u>

Board of Directors and Board of Investors
Tobacco Settlement Endowment Trust Fund

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the permanent fund of the Tobacco Settlement Endowment Trust Fund (the "Fund"), which is a part of the State of Oklahoma financial reporting entity, as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

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 opinions 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 opinions.

(Continued)

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Opinions

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

Emphasis of Matter

Component-Unit-Only Financial Statements

As discussed in Note 1, the financial statements of the Fund, a permanent fund of the State of Oklahoma, are intended to present the financial position and the changes in financial position of only that portion of the governmental activities and governmental funds of the State of Oklahoma that is attributable to the transactions of the Fund. They do not purport to, and do not, present fairly the financial position of the State of Oklahoma as of June 30, 2020 and 2019, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States. Our opinion is not modified with respect to this matter.

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-17 and the schedule of the Fund's proportionate share of the net pension and OPEB liabilities and the schedule of the Fund's contributions on pages 76 through 80, respectively, 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.

(Continued)

INDEPENDENT AUDITORS' REPORT, CONTINUED

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2020, on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

Finley + Cook, PLLC

Shawnee, Oklahoma
September 30, 2020

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

June 30, 2020 and 2019

The Management's Discussion and Analysis (MD&A) of the Tobacco Settlement Endowment Trust Fund (the "Fund") provides an overview and overall review of the Fund's financial activities for the fiscal years ended June 30, 2020 and 2019. The intent of the MD&A is to look at the Fund's financial performance as a whole. It should, therefore, be read in conjunction with the Fund's financial statements and the notes thereto.

The Fund was established pursuant to the Constitution of the State of Oklahoma. The Fund's principal was established with funds received by the State of Oklahoma (the "State") on or after July 1, 2001, pursuant to any settlement with or judgment against any tobacco companies. The principal funds are invested, and the earnings (see Note 7) may be expended for operations; tobacco prevention and cessation programs; research and treatment efforts in Oklahoma to prevent and combat cancer and other tobacco-related diseases; and programs to maintain or improve the health of Oklahomans or to enhance health care services provided to Oklahomans, with a particular emphasis on children and senior adults.

A Board of Investors was created to manage the investments of the Fund and to annually certify the earnings that are available for program expenditures. A Board of Directors was created to oversee the Fund's operating and program expenditures.

Through the joint effort of both Boards in 2011, the Board of Investors requested an official Attorney General Opinion regarding conflicting language between Article X of the Constitution and the statutory language in Title 62, Section 2307 in defining earnings available for certification by the Board of Investors. An opinion was issued by the Attorney General on August 31, 2011, stating that earnings for the annual certification by the Board of Investors includes, but is not limited to, interest, dividends, and realized capital gains from investments, minus costs and expenses of the investments, and minus any losses realized by the Fund.

Since this method is reflective of the constitutional language, and the Board of Investors has historically used the definition within the statutory language to certify earnings, additional earnings were certified by the Board of Investors for the year ended June 30, 2011, inclusive of net realized gains. The recalculation according to the Attorney General's opinion resulted in $36,023,061 being certified by the Board of Investors at their meeting on November 17, 2011.

At this joint meeting of both the Board of Investors and the Board of Directors, there was discussion of a possible action on the earnings previously certified between FY 2001 and FY 2010. It was determined that an additional $42,898,847 would have been certified during this period had the Board of Investors calculated available earnings under the constitutional language. Upon the request of the Board of Directors, the Board of Investors voted to hold the $42,898,847 in reserve to be certified when future earnings calculations were below 5% of the corpus of the Fund.

In consideration of this, the Board of Directors approved the execution of a settlement agreement and release of all claims signed on February 16, 2012. This reserve is to be invested in the same manner as the Fund. According to the agreement, some or all of the reserve funds are to be available for spending when the current year earnings calculation is below 5% of the corpus of the Fund. The certification of reserve funds is limited to the 5% cap, inclusive of the initial calculation based upon the constitutional language. This agreement is in effect until the total amount of the reserve has been certified by the Board of Investors. At their November 14, 2012, meeting, the Board of Investors defined the corpus of the Fund as the custodial market value of the Fund as of June 30, less any previous certified earnings (current year and previous years' certified earnings that remain invested) within the Fund at June 30.

At their August 18, 2020, meeting, the Board of Investors certified $40,990,966, reserving $500,000 for possible audit adjustments. The estimated earnings available for certification for the period ended June 30, 2020, were $41,490,966.

USING THIS ANNUAL REPORT

The basic financial statements presented in the annual report include both government-wide and fund financial statements.

Government-Wide Statements: The government-wide financial statements include the statements of net position and the statements of activities. These statements display information about the Fund as a whole. The government-wide financial statements of the Fund are presented on a full accrual economic resource basis, which includes all assets and liabilities whether current or noncurrent. These statements provide both short-term and long-term information about the Fund's overall financial status.

Fund Statements: The fund financial statements include the governmental fund's balance sheets and the statements of revenues, expenditures, and changes in fund balance. In the fund financial statements, the revenues and expenditures of the Fund are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Under these accounting methods, revenues and assets are recognized when they become both measurable and available, and expenditures and liabilities are recognized when obligations are incurred as a result of the receipt of goods or services.

FINANCIAL HIGHLIGHTS

Statements of Net Position

The statements of net position provide an indication of the Fund's financial condition at the end of the 2020, 2019, and 2018 fiscal years; the statements report all assets and liabilities using the accrual basis of accounting.

Tobacco Settlement Endowment Trust Fund
Statements of Net Position

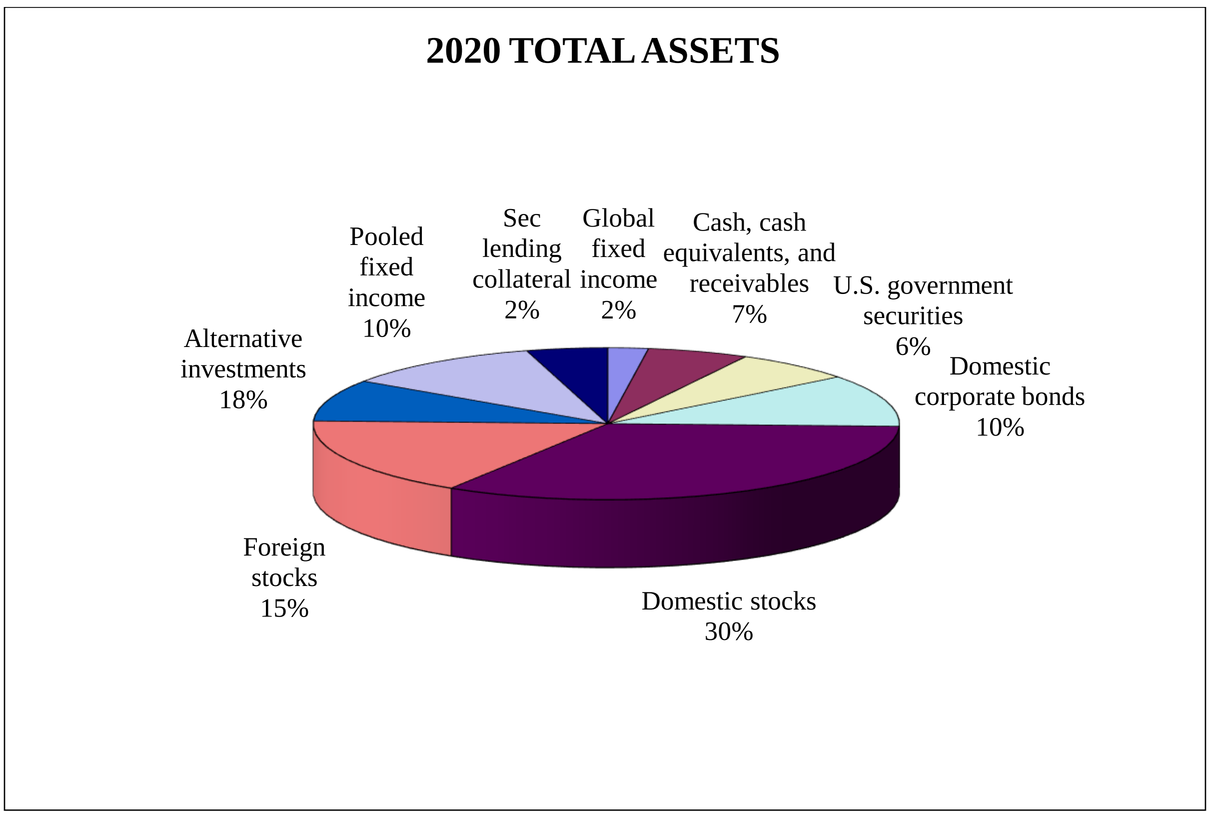
	2020	2019	2018
Assets			
Current assets	$ 96,568,537	87,045,494	108,497,619
Investments, at fair value	1,311,796,351	1,275,118,724	1,204,542,742
Securities lending collateral—non-cash	35,135,707	40,676,550	46,612,924
Capital assets	76,717	23,580	43,292
Total assets	1,443,577,312	1,402,864,348	1,359,696,577
Deferred outflows of resources:			
Deferred amounts related to the pension and OPEB	225,763	347,383	502,530
Liabilities			
Current liabilities	18,872,577	17,705,635	24,732,760
Liability under securities lending	96,894,655	89,201,029	110,177,570
Noncurrent liabilities	267,737	344,451	639,923
Total liabilities	116,034,969	107,251,115	135,550,253
Deferred inflows of resources:			
Deferred amounts related to the pension and OPEB	104,571	167,416	143,638
Net Position			
Net investment in capital assets	76,717	23,580	43,292
Restricted for investment	1,206,810,105	1,174,234,769	1,117,758,270
Unrestricted	120,776,713	121,534,851	106,703,654
Total net position	$ 1,327,663,535	1,295,793,200	1,224,505,216

FINANCIAL HIGHLIGHTS, CONTINUED

Statements of Net Position, Continued

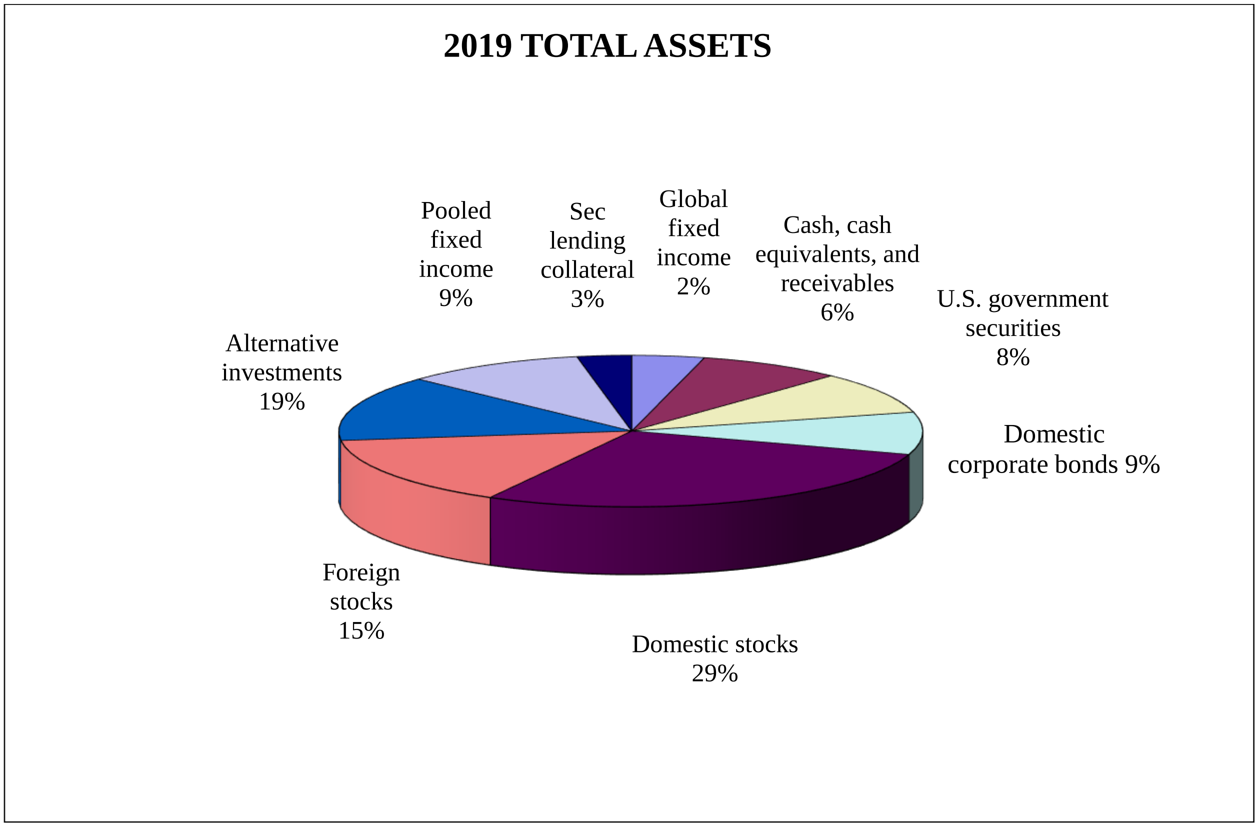
The Fund's total net position increased $31.87 million during the year, as the Fund invested an additional $49.7 million in settlement receipts, recognized $24.3 million as net investment income, and expended $47.0 million on programs and operations. Total investments increased from $1,275.12 million at the beginning of the year to $1,311.80 million as of year-end, as the Board of Investors invested cash and cash equivalents held at the beginning of the year and additional settlement receipts were deposited during the year. The Fund recognized $12.4 million from the net depreciation of the fair value of the portfolio and earned $36.5 million in interest and dividends, net of investment management fees. The Fund's investment policy establishes investment goals and objectives and provides specific investment guidelines for investment managers, including a prohibition from investing in securities issued by companies engaged in the manufacture of tobacco products.

Cash balances also include restricted cash of approximately $61.8 million, which represents cash collateral presented to the Fund by security borrowers through the Board of Investors' securities lending effort. Use of this cash is restricted unless the borrowers were to default in the return of the securities borrowed.



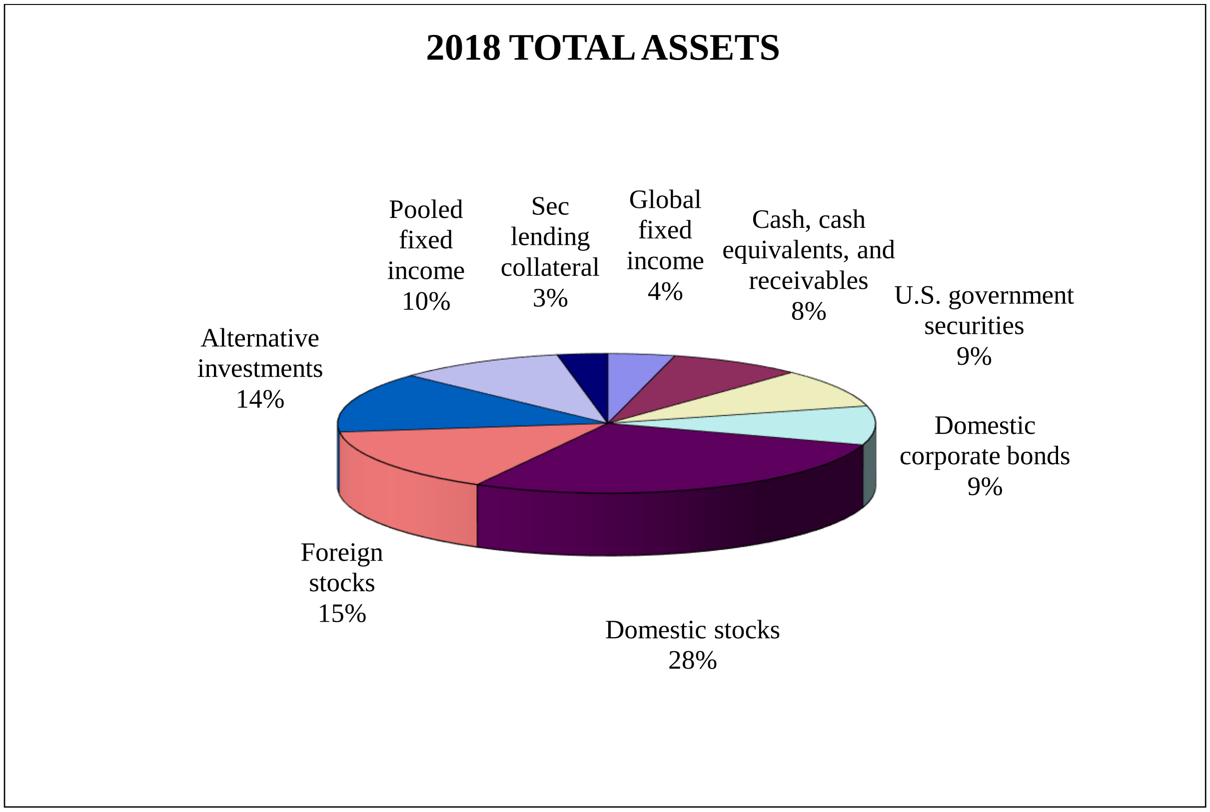
FINANCIAL HIGHLIGHTS, CONTINUED

Statements of Net Position, Continued



FINANCIAL HIGHLIGHTS, CONTINUED

Statements of Net Position, Continued



FINANCIAL HIGHLIGHTS, CONTINUED

Statements of Activities—Income and Expenses

The statements of activities report all of the income and expenses during the time periods indicated.

Tobacco Settlement Endowment Trust Fund
Statements of Activities

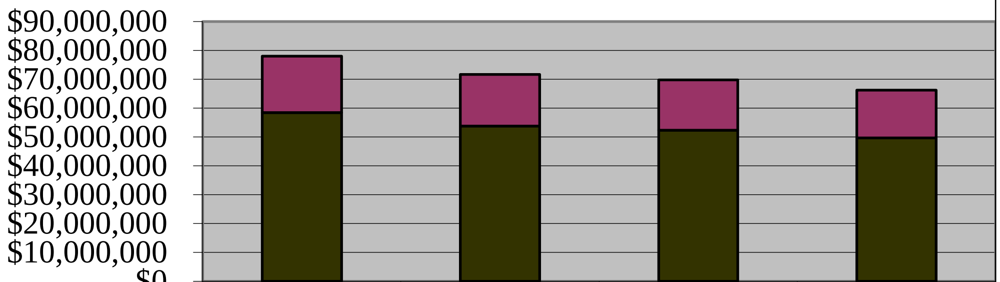
	2020	2019	2018
Investment income:			
Interest and dividend income	$ 44,391,351	42,939,801	36,049,742
Securities lending income	147,739	233,493	255,288
Net (depreciation) appreciation in fair value of investments:			
Net unrealized (losses) gains	(17,202,364)	4,125,668	19,897,296
Net realized gains	4,848,257	23,371,397	35,042,469
	(12,354,107)	27,497,065	54,939,765
Total investment income	32,184,983	70,670,359	91,244,795
Investment expenses	(7,896,381)	(6,334,913)	(6,085,185)
Net investment income	24,288,602	64,335,446	85,159,610
Other income:			
Contract income	4,786,777	1,917,985	1,005,201
Miscellaneous income	67,140	25,714	12,342
Total other income	4,853,917	1,943,699	1,017,543
Expenses:			
Program	45,543,588	45,801,808	50,048,120
Operating	1,439,156	1,514,470	1,735,940
Total expenses	46,982,744	47,316,278	51,784,060
Changes in net position before settlement receipts	(17,840,225)	18,962,867	34,393,093
Contribution to fund principal:			
Settlement receipts	49,710,560	52,325,117	53,747,503
Changes in net position	31,870,335	71,287,984	88,140,596
Net position, beginning of year	1,295,793,200	1,224,505,216	1,136,364,620
Net position, end of year	$ 1,327,663,535	1,295,793,200	1,224,505,216

FINANCIAL HIGHLIGHTS, CONTINUED

Statements of Activities—Income and Expenses, Continued

Revenues from settlement receipts are restricted for investment purposes. During the fiscal years ended June 30, 2020 and 2019, 75% of settlement receipts paid to the State were deposited by the State into the Fund. The percentage of the State's settlement receipts to be received by the Fund increased by 5% annually until it reached 75% during the fiscal year ended June 30, 2007, where it remains. As reflected below, settlement receipts deposited by the Fund decreased by $2,614,557 from 2019.

OKLAHOMA TOBACCO SETTLEMENT RECEIPTS



	2017	2018	2019	2020
Balance to State	$19,488,261	$17,915,834	$17,441,706	$16,570,186
Fund Deposit	$58,464,784	$53,747,503	$52,325,117	$49,710,560

There are no guarantees regarding the State's continued receipt of funds in the settlement of claims against the tobacco companies. The amount received by the State can be attributed to several factors. An independent auditor calculates and determines the amount of all payments based in part on the market share of tobacco consumption.

As settlement receipts were deposited and invested and the portfolio was diversified during the fiscal year ended June 30, 2020, net investment income decreased by $40 million. Interest and dividend income increased $1.5 million, while the net appreciation/depreciation of investments in the Fund's portfolio decreased $39.9 million. Fees paid to investment managers, consultants, and custodians increased $1.56 million.

As previously noted, the Fund's principal is restricted for investment purposes only. According to a recent Attorney General's opinion, interest, dividends, and realized capital gains from investments minus costs and expenses of the investments, and minus any losses realized by the Fund may be expended for operations; tobacco use prevention and cessation programs; research and treatment efforts in Oklahoma to prevent and combat cancer and other tobacco-related diseases; and other programs to improve the health and wellbeing of Oklahomans, with a particular emphasis on children and senior adults.

FINANCIAL HIGHLIGHTS, CONTINUED

Statements of Activities—Income and Expenses, Continued

In the early years of the endowment, the TSET Board of Directors adopted a strategic plan to maximize the impact of endowment earnings by focusing on preventing and reducing tobacco use in Oklahoma. Tobacco use remains Oklahoma's leading cause of preventable death and it was the reason for the Master Settlement Agreement, which created the funding source for the endowment. While Oklahoma has made great strides in reducing tobacco prevalence and consumption, tobacco use still kills more than 7,500 Oklahomans each year and requires a long-term strategy to prevent young people from starting tobacco use and help people quit.

Since FY10, the Board of Directors has supported a strategic plan to emphasize three primary areas of funding: prevention, research, and emerging opportunities. Prevention programs focus on reducing risk factors for cancer and cardiovascular disease, Oklahoma's leading causes of death, through comprehensive programs that aim to prevent and reduce tobacco use, physical inactivity, poor nutrition, and obesity. Research programs focus on decreasing the burden of cancer and supporting cancer research and reducing the toll of tobacco-related diseases. Emerging opportunities include grants to organizations proposing innovative and evidence-based approaches to transform and improve health in Oklahoma. Preference has been given to proposals that impact large populations, organizations, or systems, those with multiple funding partners, short-term grants, and those that address the Board of Directors' strategic goals.

In FY20, TSET worked to streamline programs and goals in line with an updated strategic plan from the TSET Board of Directors. In addition to strategic alignment, TSET grants and programs adjusted to financial and programmatic disruption brought on by the COVID-19 pandemic in the later part of the fiscal year. Despite the dramatic changes brought on by the COVID-19, TSET programs continued to achieve outcomes, agency goals were met, and new programs were launched.

In the first quarter of FY20, TSET Board of Directors took an exhaustive look at programs, commitments, and its strategic goals to prevent and reduce the leading causes of death in Oklahoma. The board examined each program portfolio, adjusting metrics, looking at impact and total amount expended. As a result of this process, updated program metrics are in development for all TSET research grants as well as regular reporting to the TSET Board of Directors.

In FY20, the board adopted a new 3-year strategic plan that placed an emphasis on supporting programs that improve health behaviors, focus on youth, and achieve measurable improvements in the health of Oklahomans. The TSET Board of Directors also made multi-year budgeting a priority with an understanding that TSET programs are often long-term investments and the pacing of expenditures need to support sustained and stable investment in prevention and improving health.

FINANCIAL HIGHLIGHTS, CONTINUED

Statements of Activities—Income and Expenses, Continued

As a result of those strategic goals, the TSET Board of Directors in FY20 approved the development of a three-phase effort that focuses on supporting healthy choices for youth. The multi-phase approach includes a public education communication effort to provide information to youth about the harms of nicotine addiction and e-cigarette use. Oklahoma was ranked 13th for the number of youth consuming highly addictive nicotine through vapor devices, according to the Youth Risk Behavior Survey conducted in 2019. A public education campaign launched in the first quarter of FY21 and two additional phases of youth character development to support healthy choices will begin in FY21.

In FY20, TSET's total budget was $49,038,149 with administrative costs accounting for roughly 3% of the total budget. By statute, the administration budget is capped at 15% of certified earnings. The FY20 budget was in line with the budget target established by the TSET Board of Directors. The board policy uses 3-year rolling average of previous years' certified earnings. The TSET Board of Directors has had this policy in place since FY16 when certified earnings were nearly half of the total agency budget and reserve funds were used to support grants and programs.

In January 2016, the Board of Directors amended its "Allocation of Earnings and Reserve Fund" policy to establish a *target spending limit* as "the average of the preceding 3 years" certified earnings, plus expected lapse.

In addition, the policy was further amended to continue to add a portion of earnings to reserve to account for years when earnings would decrease. This serves to insulate the agency's programs and grants from budget cuts that could devastate progress in health improvements and the state's primary funding source for prevention and reduction in unhealthy behaviors such as tobacco use, obesity and sedentary lifestyle. The Board of Directors has a policy to put unspent earnings into the reserve fund with a target reserve balance equal to 2 years of expenses. The same process is used to replenish the reserve when needed. The balance of certified unspent earnings after all FY20 expenditures are complete is expected to be $67,689,774. The Board of Investors has a balance of $2,258,971 in certified unspent earnings.

Following the historic economic downturn brought on by the COVID-19 pandemic in FY20, certified earnings from fund performance of the endowment in FY20 were nearly 30 percent less than the total amount of earnings certified from fund performance in FY19. To account for the decrease in available earnings, the TSET Board of Directors approved an FY21 budget that was reduced by nearly 5 percent compared to FY20.

FINANCIAL HIGHLIGHTS, CONTINUED

Statements of Activities—Income and Expenses, Continued

Prevention

As a result of TSET investments in tobacco control, smoking prevalence among high school youth dropped from 26.5% in 2002 to 9.1% in 2019, according to the Youth Risk Behavior Surveillance System. Smoking prevalence among adults dropped from 26.6% in 2002 to 19.7% in 2018. In Oklahoma, smoking is decreasing ten-times faster compared to other states with a similar policy and pricing environment, according to a study conducted by the Wisconsin School of Medicine and Public Health. The study credited TSET's sustained investment in best-practice tobacco control programs. Additionally, per capita cigarette consumption among Oklahoma adults declined 40% from 102 packs per person per year in 2002 to 42.8 packs per person in 2019. Cigarette tax stamps, sold by the Oklahoma Tax Commission, are affixed to all cigarette packs sold at retailers, including tribal tobacco retailers. The total number of cigarette stamps sold decreased by 59 million between FY18 and FY19 – highlighting the impact of a 2018 cigarette price increase and ongoing efforts to reduce smoking. This progress continues as TSET has supported proven best-practice, evidence based tobacco control programs and media campaigns to educate the public for more than a decade. Programs include community-based grants, evidence-based health system change and cessation services, and constant collaboration to ensure that best practices are implemented to prevent and reduce tobacco use in Oklahoma.

The Oklahoma Tobacco Helpline offered services for enrollees including telephone coaching as well as web, email, and text services. In FY20, 28,547 tobacco users registered for services, and 18,022 referrals were made to Oklahoma Tobacco Helpline through partnerships with health care providers, behavioral health facilities and other entities that have instituted real-time referrals to the Oklahoma Tobacco Helpline. The Helpline is collaboratively funded by the TSET, the Oklahoma State Department of Health (OSDH), Centers for Disease Control and Prevention (CDC), the Oklahoma Employees Group Insurance Division (EGID), and the Oklahoma Health Care Authority (OHCA).

In FY20, the Oklahoma Tobacco Helpline was the top-ranked quitline in the North American Quitline Consortium for reaching tobacco users in need of treatment. In FY20, Optum, the contracted vendor that delivers services for the Oklahoma Tobacco Helpline, continued to employ Oklahoma workers as "Quit Coaches" to assist tobacco users in 26 states (and Guam) and over 750 commercial clients.

In FY20, the Board of Directors continued to invest in best practice health communication interventions. *Tobacco Stops With Me* engaged with more than 40 organizations to promote a seven-point common sense policy plan to cut adult smoking in half. *Tobacco Stops With Me* also invested in a public education campaign on the harms of nicotine addiction and the harms of vapor and e-cigarette usage by children. The *Shape Your Future* campaigns also continued to encourage Oklahomans to eat better, move more, and be tobacco-free. Media products also promoted the Oklahoma Tobacco Helpline services to Oklahomans. TSET continued to partner with the Oklahoma Health Care Authority to leverage additional funds to promote the Oklahoma Tobacco Helpline services to SoonerCare members.

FINANCIAL HIGHLIGHTS, CONTINUED

Statements of Activities—Income and Expenses, Continued

Prevention, Continued

The TSET Healthy Living Program entered the final year of its 5-year funding cycle. The program works within communities, schools, city governments and businesses to address and integrate the issues of tobacco use and obesity prevention, promoting good nutrition, physical activity, and tobacco-free living.

The TSET Healthy Living program grants assisted 47 lead agencies to serve 62 of Oklahoma's 77 counties, or 94% of the state's population. The program, which ended its 5-year funding cycled in FY20, promoted sustainable change through policy adoption. To date, policies have been adopted at twice the rate of policy adoption under the Communities of Excellence grants, which ended in FY15. Grantees working across sectors passed more than 2,100 policies that worked to prevent and reduce tobacco use and obesity in an effort to reduce the leading causes of death in Oklahoma, cancer and cardiovascular disease.

As one wave of the TSET Healthy Living Program entered its final year, TSET also released a newly designed funding opportunity for community based grants. The second generation of the TSET Healthy Living Program focuses on local data collection and using that data to inform decisions on how to impact targeted areas of need in grantee service areas.

After a competitive funding process, the TSET Board of Directors awarded grants to 35 lead agencies to serve 37 counties. As part of the 5-year funding cycle that begins in FY21, community-based grants will work with local work groups to analyze data and choose from a menu of strategies to prevent and reduce tobacco use and obesity.

Community partnerships through the Healthy Living Program have resulted in local efforts to improve opportunities for physical activity by increasing sidewalks, bike lanes and complete street policies in rural communities. Grantees also work with businesses to promote tobacco-free workplaces. Grantees working in schools have helped schools adopt tobacco free, vape free policies to prevent and reduce youth use of nicotine and tobacco products. Other efforts include increasing access to fresh fruits and vegetables to help prevent and reduce obesity by improving food access and the nutritional content of available food.

To support community-based initiatives, the Board of Directors also continued an agreement with the Oklahoma State Department of Health, Center for the Advancement of Wellness, to provide training, consultation, and technical assistance to grantees. In addition, an agreement with the University of Oklahoma College of Public Health and the Oklahoma State University Department of Nutrition Sciences (together known as the University Partnership for Applied Evaluation and Research or UPAER) for evaluation of the programs was continued.

FINANCIAL HIGHLIGHTS, CONTINUED

Statements of Activities—Income and Expenses, Continued

Prevention, Continued

TSET funded programs in healthcare settings that support tobacco use prevention, cessation, and improving health. Under the Health Systems Initiative portfolio, the Oklahoma Health Care Authority, the Oklahoma Hospital Association and the Oklahoma Department of Mental Health and Substance Abuse Services work to implement best practice interventions to address tobacco, nutrition, and physical activity (as appropriate) among patients in inpatient hospitals or outpatient care in a hospital-affiliated clinic, Medicaid beneficiaries, and within routine mental health and substance abuse treatment inpatient and outpatient programs. Over the course of the grant, nearly 40,000 referrals have been made to the Oklahoma Tobacco Helpline through TSET's work with the Oklahoma Department of Mental Health and Substance Abuses Services. Oklahoma's mental health system and all contract behavioral health facilities adhere to best-practice policy to be tobacco free for patients and staff.

Research

The Peggy and Charles Stephenson Cancer Center (SCC) grant was renewed in FY17 in the amount of $31.3 million over 5 years. The FY20 budget was $5.5 million. Thanks in part to TSET funding, the Stephenson Cancer Center was awarded NCI Designation in FY18. With this award, the Stephenson Cancer Center joins an elite group of 70 NCI-Designated Cancer Centers nationwide. NCI-Designated Cancer Centers represent only the top two percent of cancer centers in the United States. The Stephenson Cancer Center is the only NCI-Designated Cancer Center in Oklahoma.

TSET began funding work with the Stephenson Cancer Center in FY12, when the Board of Directors committed $30.25 million over 5 years. The grant created a TSET Cancer Research Program, expanding access to Phase I Clinical Trials and leveraging additional dollars to recruit scientists as TSET Cancer Research Scholars.

Nearly every county in Oklahoma was represented in the clinical trial patient census, and the TSET Phase I Clinical Trials program is ranked among the top three in the country for the number of patients enrolled in Phase I clinical trials. In addition to receiving care at Stephenson Cancer Center, patients can also be enrolled in trial locations in Altus, Lawton, Duncan, Tulsa, Bartlesville, Stillwater and McAlester. This provides statewide coverage and allows patients to receive care surrounded by friends and family.

The Oklahoma Tobacco Research Center (OTRC), a program of the Stephenson Cancer Center, was funded for a new, 5-year grant cycle beginning FY16. OTRC continues to recruit scientists with external funding, funding research projects in population, regulatory, and clinical science, and to inform efforts to prevent and reduce cancer and other tobacco related diseases in Oklahoma. The FY19 budget was $3.8 million.

FINANCIAL HIGHLIGHTS, CONTINUED

Statements of Activities—Income and Expenses, Continued

Research, Continued

The Oklahoma Center for Adult Stem Cell Research (OCASCR), which was established in FY10, entered the 4th year of a 5-year continuation grant to advance regenerative medicine through the use of adult stem cells. OCASCR is governed by the research directors of the Oklahoma Medical Research Foundation, the University of Oklahoma, and Oklahoma State University, with the Oklahoma Medical Research Foundation serving as the fiscal agent. In FY15 the Board of Directors committed up to $3 million per year or $15 million over 5 years. The FY20 budget was $3 million.

Emerging Opportunities

TSET's Emerging Opportunities portfolio supports innovative, new ideas based in best practice science or proven practices to improve health outcomes.

A grant to the Oklahoma State University – Center for Health Sciences was made beginning FY16, to expand medical residencies for rural and underserved areas of Oklahoma. Oklahoma faces a severe shortage of primary care physicians and this $3.8 million, 6-year program is one step toward addressing that issue. This program has supported the training of 52 new osteopathic doctors with residency programs in Lawton and Norman. In FY20, without Medicaid matching dollars and a residency program ready for implementation, the Oklahoma State Medical Authority did not have a residency program open for TSET investment. OSMA continues to search for opportunities to support physician training.

In May 2019, the TSET Board of Directors voted to extend the PMTC contract to 2027, to solidify funding through the 2023 class. The grant to PMTC helps to fund the Oklahoma Medical Loan Repayment Program, which recruits physicians to practice in rural and medically underserved areas. There are currently 39 physicians practicing across the state. Since the program began, physicians have logged more than 324,000 patient visits and more than 30% of patients have been insured by SoonerCare.

In FY20, physicians earned up to $160,000 in loan repayment assistance if they practiced in a rural area for up to 4 years. By 2027, approximately 82 physicians will have gone through the program with a total anticipated loan repayment at $11.3 million, which includes TSET funds and leveraged dollars. At the end of FY20, 64 physicians have participated in the program. Twenty-six physicians are practicing in Oklahoma's rural and underserved areas. To date, 54% of doctors who have completed the program remain in practice in rural areas.

Conference Sponsorships

In FY10, the Board of Directors established a conference sponsorship process whereby organizations could apply for sponsorship funds for training and conferences that are statewide and address the Board's strategic plan or any area related to the constitutional mission. In FY20, 16 conference and training grants were awarded for a total of $34,000.

FUND HIGHLIGHTS

Governmental Fund—Balance Sheets

The Fund is classified as a permanent fund, as the principal funds are restricted by law for investment purposes only. The earnings may be expended for operations; tobacco prevention and cessation programs; research and treatment efforts in Oklahoma to prevent and combat cancer and other tobacco-related diseases; and other programs to maintain or improve the health of Oklahomans or to enhance health care services provided to Oklahomans, with a particular emphasis on children and senior adults. Accordingly, the fund balance at year-end includes balances which are nonspendable (restricted for investment purposes) and balances which are assigned and unassigned that are expendable for operations and programs of the Fund.

Tobacco Settlement Endowment Trust Fund
Balance Sheets—Permanent Fund

	2020	2019	2018
Assets:			
Cash and cash equivalents	$ 92,289,866	82,590,907	103,514,613
Interest and dividends receivable	3,282,371	3,900,871	4,288,167
Contract receivable	982,777	541,717	668,266
Securities lending receivable	13,523	11,999	26,573
Securities lending collateral—non-cash	35,135,707	40,676,550	46,612,924
Investments at fair value	1,311,796,351	1,275,118,724	1,204,542,742
Total assets	$ 1,443,500,595	1,402,840,768	1,359,653,285
Liabilities:			
Net payable to brokers	$ 9,144,906	8,545,728	14,909,285
Accounts payable	9,631,940	9,093,127	9,756,604
Liability under securities lending	96,894,655	89,201,029	110,177,570
Total liabilities	115,671,501	106,839,884	134,843,459
Fund Balances:			
Nonspendable	1,206,810,105	1,174,234,769	1,117,758,270
Assigned	79,528,023	61,556,337	41,789,243
Unassigned	41,490,966	60,209,778	65,262,313
Total fund balances	1,327,829,094	1,296,000,884	1,224,809,826
Total liabilities and fund balances	$ 1,443,500,595	1,402,840,768	1,359,653,285

FUND HIGHLIGHTS, CONTINUED

Governmental Fund—Revenues, Expenditures, and Changes in Fund Balances

Tobacco Settlement Endowment Trust Fund
Revenues, Expenditures, and Changes in Fund Balances—Permanent Fund

	2020	2019	2018
Revenues:			
Restricted:			
Net (depreciation) appreciation in fair value of investments:			
Net unrealized (losses) gains	$ (17,202,364)	4,125,668	19,897,296
Net realized gains	4,848,257	23,371,397	35,042,469
	(12,354,107)	27,497,065	54,939,765
Settlement receipts	49,710,560	52,325,117	53,747,503
Miscellaneous income	67,140	25,714	12,342
Total restricted revenues	37,423,593	79,847,896	108,699,610
Interest and dividend income	44,391,351	42,939,801	36,049,742
Securities lending income	147,739	233,493	255,288
Contract income	4,786,777	1,917,985	1,005,201
Total revenues	86,749,460	124,939,175	146,009,841
Expenditures:			
Program and grant management support	2,123,400	1,418,810	3,310,965
Statewide programs	5,035,261	6,237,776	7,891,662
Community programs	11,876,918	12,865,216	15,350,946
Evaluation services	1,394,240	1,532,068	1,264,263
Furniture and equipment	71,271	2,247	347
Research	10,387,672	12,236,256	12,206,540
Investment management fees	7,896,381	6,334,913	6,085,185
Health communications	14,726,097	11,511,682	10,023,744
General operations and administrative expenses	1,410,010	1,609,149	1,595,738
Total expenditures	54,921,250	53,748,117	57,729,390
Net changes in fund balances	31,828,210	71,191,058	88,280,451
Fund balances, beginning of year	1,296,000,884	1,224,809,826	1,136,529,375
Fund balances, end of year	$ 1,327,829,094	1,296,000,884	1,224,809,826

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Fund'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 Lisa Murray, Chief Investment Officer, Office of the Oklahoma State Treasurer, 2300 North Lincoln Boulevard, Room 217, Oklahoma City, Oklahoma 73105-4895.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

STATEMENTS OF NET POSITION

June 30,	*2020*	*2019*
Assets		
Cash and cash equivalents:		
Unrestricted cash	$ 30,530,918	34,066,428
Restricted cash:		
Securities lending collateral	61,758,948	48,524,479
Total cash and cash equivalents	92,289,866	82,590,907
Receivables:		
Interest and dividends	3,282,371	3,900,871
Contract receivable	982,777	541,717
Securities lending receivable	13,523	11,999
Total receivables	4,278,671	4,454,587
Investments, at fair value:		
U.S. government securities	92,698,481	106,231,677
Foreign government securities	7,233,951	7,505,224
Domestic corporate bonds	142,260,155	125,016,243
Foreign corporate bonds	21,643,180	24,672,977
Domestic stocks	430,912,598	410,212,132
Foreign stocks	216,711,421	214,035,673
Pooled fixed income funds	139,244,888	126,148,316
Alternative investments	261,091,677	261,296,482
Total investments, at fair value	1,311,796,351	1,275,118,724
Securities lending collateral—non-cash	35,135,707	40,676,550
Capital assets, net of accumulated depreciation of $229,311 and $213,080 as of June 30, 2020 and 2019, respectively.	76,717	23,580
Total assets	1,443,577,312	1,402,864,348
Deferred outflows of resources:		
Deferred amounts related to the pension	201,299	317,390
Deferred amounts related to OPEB	24,464	29,993
	225,763	347,383

(Continued)

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

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

STATEMENTS OF NET POSITION, CONTINUED

June 30,	*2020*	*2019*
Liabilities		
Net payable to brokers	9,144,906	8,545,728
Accounts payable	9,631,940	9,093,127
Liability under securities lending	96,894,655	89,201,029
Net pension liability—amount due in more than 1 year	102,316	184,477
Net OPEB liability—amount due in more than 1 year	21,824	59,805
Compensated absences:		
Payable within 1 year	95,731	66,780
Payable after 1 year	143,597	100,169
Total liabilities	116,034,969	107,251,115
Deferred inflows of resources:		
Deferred amounts related to the pension	69,904	134,072
Deferred amounts related to OPEB	34,667	33,344
	104,571	167,416
Net Position		
Net investment in capital assets	76,717	23,580
Restricted for investment	1,206,810,105	1,174,234,769
Unrestricted	120,776,713	121,534,851
Total net position	$ 1,327,663,535	1,295,793,200

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

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

STATEMENTS OF ACTIVITIES

Years Ended June 30,	*2020*	*2019*
Expenses:		
Program:		
Program and grant management support	$ 2,123,400	1,418,810
Statewide programs	5,035,261	6,237,776
Community programs	11,876,918	12,865,216
Evaluation services	1,394,240	1,532,068
Health communications	14,726,097	11,511,682
Research	10,387,672	12,236,256
Total program expenses	45,543,588	45,801,808
Operating:		
General operations and administrative expenses	1,422,925	1,494,758
Depreciation	16,231	19,712
Total operating expenses	1,439,156	1,514,470
Total expenses	46,982,744	47,316,278
Investment income:		
Interest income	17,178,079	16,902,569
Dividend income	27,213,272	26,037,232
Securities lending income	147,739	233,493
Net (depreciation) appreciation in fair value of investments:		
Net unrealized (losses) gains	(17,202,364)	4,125,668
Net realized gains	4,848,257	23,371,397
	(12,354,107)	27,497,065
Total investment income	32,184,983	70,670,359
Investment expenses	(7,896,381)	(6,334,913)
Net investment income	24,288,602	64,335,446

(Continued)

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

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

STATEMENTS OF ACTIVITIES, CONTINUED

Years Ended June 30,	*2020*	*2019*
Other income:		
Contract income	4,786,777	1,917,985
Miscellaneous income	67,140	25,714
Total other income	4,853,917	1,943,699
Changes in net position, before settlement receipts	(17,840,225)	18,962,867
Contribution to fund principal:		
Settlement receipts	49,710,560	52,325,117
Changes in net position	31,870,335	71,287,984
Net position, beginning of year	1,295,793,200	1,224,505,216
Net position, end of year	$ 1,327,663,535	1,295,793,200

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

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

BALANCE SHEETS—PERMANENT FUND

June 30,	*2020*	*2019*
Assets		
Cash and cash equivalents:		
Unrestricted cash	$ 30,530,918	34,066,428
Restricted cash:		
Securities lending collateral	61,758,948	48,524,479
Total cash and cash equivalents	92,289,866	82,590,907
Receivables:		
Interest and dividends	3,282,371	3,900,871
Contract receivable	982,777	541,717
Securities lending receivable	13,523	11,999
Total receivables	4,278,671	4,454,587
Investments, at fair value:		
U.S. government securities	92,698,481	106,231,677
Foreign government securities	7,233,951	7,505,224
Domestic corporate bonds	142,260,155	125,016,243
Foreign corporate bonds	21,643,180	24,672,977
Domestic stocks	430,912,598	410,212,132
Foreign stocks	216,711,421	214,035,673
Pooled fixed income funds	139,244,888	126,148,316
Alternative investments	261,091,677	261,296,482
Total investments, at fair value	1,311,796,351	1,275,118,724
Securities lending collateral—non cash	35,135,707	40,676,550
Total assets	$ 1,443,500,595	1,402,840,768
Liabilities and Fund Balances		
Liabilities:		
Net payable to brokers	$ 9,144,906	8,545,728
Accounts payable	9,631,940	9,093,127
Liability under securities lending	96,894,655	89,201,029
Total liabilities	115,671,501	106,839,884
Fund balances:		
Nonspendable	1,206,810,105	1,174,234,769
Assigned	79,528,023	61,556,337
Unassigned	41,490,966	60,209,778
Total fund balances	1,327,829,094	1,296,000,884
Total liabilities and fund balances	$ 1,443,500,595	1,402,840,768

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

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

RECONCILIATION OF THE BALANCE SHEETS—PERMANENT FUND TO THE STATEMENTS OF NET POSITION

June 30,	*2020*	*2019*
Total fund balances, per the balance sheets—permanent fund	$ 1,327,829,094	1,296,000,884
Amounts reported in the statements of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund.	76,717	23,580
Deferred outflows related to the pension and OPEB are not financial resources and therefore are not reported in the funds.	225,763	347,383
Some liabilities are not due and payable in the current period and therefore are not reported in the fund. Those liabilities consist of:		
Compensated absences	(239,328)	(166,949)
Net pension liability	(102,316)	(184,477)
Net OPEB liability	(21,824)	(59,805)
Deferred inflows related to the pension and OPEB are not due and payable in the current period and therefore are not reported in the funds.	(104,571)	(167,416)
Net position, per the statements of net position	$ 1,327,663,535	1,295,793,200

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

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES—PERMANENT FUND

Years Ended June 30,	*2020*	*2019*
Revenues:		
Restricted:		
Net (depreciation) appreciation in fair value of investments:		
Net unrealized (losses) gains	$ (17,202,364)	4,125,668
Net realized gains	4,848,257	23,371,397
	(12,354,107)	27,497,065
Settlement receipts	49,710,560	52,325,117
Miscellaneous income	67,140	25,714
Total restricted revenues	37,423,593	79,847,896
Interest income	17,178,079	16,902,569
Dividend income	27,213,272	26,037,232
Securities lending income	147,739	233,493
Contract income	4,786,777	1,917,985
Total revenues	86,749,460	124,939,175
Expenditures:		
Program and grant management support	2,123,400	1,418,810
Statewide programs	5,035,261	6,237,776
Community programs	11,876,918	12,865,216
Evaluation services	1,394,240	1,532,068
Furniture and equipment	71,271	2,247
Research	10,387,672	12,236,256
Investment management fees	7,896,381	6,334,913
Health communications	14,726,097	11,511,682
General operations and administrative expenses	1,410,010	1,609,149
Total expenditures	54,921,250	53,748,117
Net changes in fund balances	31,828,210	71,191,058
Fund balances, beginning of year	1,296,000,884	1,224,809,826
Fund balances, end of year	$ 1,327,829,094	1,296,000,884

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

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES—PERMANENT FUND TO THE STATEMENTS OF ACTIVITIES

Years Ended June 30,		*2020*	*2019*
Net changes in fund balances, per the statements of revenues, expenditures, and changes in fund balances—permanent fund	$	31,828,210	71,191,058
Amounts reported in the statements of activities are different because:			
Governmental funds report capital outlays as expenditures. However, in the statements of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays were less than depreciation in the current period.		53,137	(19,712)
Some expenses reported in the statements of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This amount represents the amount by which unused compensated absences (increased) decreased over the amount in the prior year.		(72,380)	229
In the statements of activities, the cost of pension benefits and OPEB earned net of employee contributions is reported as an element of pension and OPEB expense. The fund financial statements report pension and OPEB contributions as expenditures.		61,368	116,409
Changes in net position, per the statements of activities	$	31,870,335	71,287,984

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

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Tobacco Settlement Endowment Trust Fund (the "Fund") was established pursuant to the Constitution of the State of Oklahoma. The Fund principal was established with funds received by the State of Oklahoma (the "State") on or after July 1, 2001, pursuant to any settlement with or judgment against any tobacco companies. Fifty percent (50%) of all such receipts were deposited into the Fund during the fiscal year ended June 30, 2002. That percentage increased by 5% annually until it reached 75% during the fiscal year ended June 30, 2007, where it remains. However, there are no guarantees regarding the State's continued receipt of funds in settlement of claims against tobacco companies. The principal funds are invested, and the earnings (see Note 7) may be expended for operations; tobacco prevention and cessation programs; research and treatment efforts in Oklahoma to prevent and combat cancer and other tobacco-related diseases; and other programs to maintain or improve the health of Oklahomans or to enhance health care services provided to Oklahomans, with a particular emphasis on children and senior adults.

Pursuant to the Constitution of the State of Oklahoma, the Board of Investors was created to manage the investment of the principal of the Fund and to annually certify the earnings that are available for program expenditures. The Board of Directors was created to oversee Fund operating and program expenditures. The Fund is a part of the State's financial reporting entity and is included in the State's Comprehensive Annual Financial Report as a permanent fund and a governmental entity.

The financial statements of the Fund are intended to present the financial position and changes in financial position of only that portion of the governmental activities and governmental funds of the State that is attributable to the transactions of the Fund, and not those of the entire State.

Basis of Presentation, Measurement Focus, and Basis of Accounting

The financial statements have been prepared in accordance with Governmental Accounting Standards Board Statement No. 34 (GASB 34).

Government-Wide Financial Statements—The statements of net position and the statements of activities are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Investment purchases and sales are recorded as of their trade dates. Settlement receipts are recognized as revenue when they are received by the State and their use is restricted as noted above.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Basis of Presentation, Measurement Focus, and Basis of Accounting, Continued

Governmental Fund Financial Statements—As a permanent fund, the Fund is reported in the governmental fund financial statements using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Since the Fund predominantly accounts for financial resources, revenue recognition is generally consistent between the accrual and the modified accrual basis of accounting. Settlement receipts are recognized as revenue when they are received by the State and their use is restricted as noted above.

Investment purchases and sales are recorded as of their trade dates. Expenditures generally are recorded when a liability is incurred.

Since the governmental fund financial statements are presented on a different measurement focus and basis of accounting than the government-wide financial statements, reconciliations are presented which briefly explain the adjustments necessary to reconcile the fund and the government-wide presentations.

Investments

The Fund is authorized to invest in eligible investments as approved by the Board of Investors and set forth in its investment policy.

Fund investments are reported at fair value, except for alternative investments (which are reported at net asset value (NAV), which approximates fair value) and SEC-registered money market mutual funds (which are reported as cash equivalents and reported at cost, which approximates fair value). Debt and equity securities are reported at fair value, as determined by the Fund's custodial agent, using pricing services or prices quoted by independent brokers based on the latest reported sales prices at current exchange rates for securities traded on national or international exchanges.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Investments, Continued

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.

In addition to the above three levels, if an investment does not have a readily determined fair value, the investment can be measured using NAV per share (or its equivalent). Investments valued at NAV are categorized as NAV and not listed as level 1, 2, or 3.

The Fund invests in various traditional financial instruments that fall under the broad definition of derivatives. The Fund's derivatives may include U.S. Treasury strips, collateralized mortgage obligations, asset-backed securities, forward-based derivatives, option-based derivatives, and variable-rate instruments. These investments do not increase investment risk beyond allowable limits specified in the Fund's investment policy.

Net investment income includes net appreciation (depreciation) in the fair value of investments, interest income, dividend income, securities lending income, and investment expenses, which includes investment management and custodial fees and all other significant investment-related costs.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Securities Lending

The investment policy authorizes the Board of Investors to contract with their custodian to act as their securities lending agent. The policy requires the securities lending agent to provide indemnification against borrower default, have written agreements with each borrower, not loan securities until acceptable collateral is received and monitor that collateral on a daily basis, and review and monitor the approved borrowers to minimize risk.

The fair values of securities loaned and collateral maintained for those securities at June 30 were:

	Fair Value	
	2020	2019
Securities loaned:		
U.S. government securities	$ 10,370,977	2,299,786
U.S. corporate bonds	45,156,100	33,438,591
U.S. equity	29,603,927	39,897,424
Sovereign Debt	-	379,334
Foreign	8,868,320	9,917,328
Total securities loaned	$ 93,999,324	85,932,463
Collateral maintained for securities loaned	$ 96,894,655	89,201,029
Percentage of collateral to securities loaned as of June 30	103.08%	103.80%

Borrowers are required to deliver collateral for each loan with a fair value equal to 102% of the current fair value of the loaned securities. Collateral delivered in non-U.S. currency is required to be equal to 105% of the fair value of the securities loaned. At June 30, 2020, collateral was presented in both cash (U.S. currency), and non-cash securities. The total value of the collateral held at June 30, 2020 and 2019, was $2,895,331 and $3,268,566, respectively, more than the current fair value of the securities loaned. Cash collateral is invested in a short-term investment pool and is included as an asset, with an offsetting liability for the return of the collateral.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Securities Lending, Continued

At June 30, 2020, cash collateral was $61,758,948 and non-cash collateral totaled $35,135,707. Non-cash collateral consisted of the following:

Description	Value
U.S. government debt—Treasuries	$ 14,195,311
U.S. government agencies (i.e., FNMA, GNMA, FMAC)	6,225,360
Foreign securities	14,715,036
	$ 35,135,707

Securities lending income included as certified earnings was $147,739 and $233,493 for the fiscal years ended June 30, 2020 and 2019, respectively.

Capital Assets

Office equipment and furnishings which have a cost in excess of $2,000 and an expected useful life of more than 1 year are recorded as capital assets. Computer and technology equipment which have a cost in excess of $500 and an expected useful life of more than 1 year are recorded as capital assets. Capital assets are recorded at cost when purchased. Depreciation is recorded on capital assets in the government-wide financial statements. Depreciation is calculated on a straight-line basis over a 4- to 12-year period.

No provision for depreciation is recorded in the governmental fund financial statements, as expenditures for capital assets are recorded as period costs when the capital assets are purchased.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

See Independent Auditors' Report.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Risks and Uncertainties

The Fund invests in various types of investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect investment balances, amounts used in the determination of certified earnings and the amounts reported in the financial statements.

Compensated Absences

Employees earn annual vacation leave at the rate of 10 hours per month for the first 5 years of service, 12 hours per month for service of over 5 years to 10 years, 13.33 hours per month for service of over 10 years to 20 years, and 16.67 hours per month for over 20 years of service. Unused annual leave may be accumulated to a maximum of 480 hours. All accrued annual leave is payable upon termination, resignation, retirement, or death. The governmental fund financial statements record expenditures when employees are paid for leave. The government-wide financial statements present the cost of accumulated vacation leave as a liability. The liability is valued based on the current rate of pay.

Advertising Costs

All costs associated with advertising are expensed as incurred.

Pensions

Defined Benefit Plan

The Fund participates in a cost-sharing, multiple-employer defined benefit pension plan administered by the Oklahoma Public Employees Retirement System. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Fund's participation in the Oklahoma Public Employees Retirement Plan (OPERS) and additions to/deductions from OPERS' fiduciary net position have been determined on the same basis as they are reported by OPERS.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Pensions, Continued

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%. During the years ended June 30, 2020 and 2019, the Fund had the following contributions to Pathfinder:

	2020	2019
Fund's portion	$ 35,344	25,268

Other Postemployment Employee Benefits

The Fund participates in the OPERS Health Insurance Subsidy Plan (HISP), a cost-sharing, multiple-employer defined benefit public employee health insurance subsidy retirement plan which is administered by OPERS.

The Fund participates in the EGID's health insurance plan, which is a non-trusted single-employer plan that provides for employee and dependent healthcare coverage from the date of retirement to age 65, provided the participant was covered by the health insurance plan before retiring.

The Fund adopted GASB 75 effective July 1, 2017, which required the recording of the Fund's allocated share of the net OPEB liability, deferred outflows, deferred inflows, and OPEB expense. The effect of implementing GASB 75 was recognized during the year ended June 30, 2018, and there was no restatement presented as of or for the year ended June 30, 2017.

Recent Accounting Pronouncements

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities* (GASB 84). GASB 84 improves guidance regarding the recognition and reporting of fiduciary activities. GASB 84 identifies four types of reportable fiduciary fund types, including 1) pension (and other employee benefit) trust funds, 2) investment trust funds, 3) private-purpose trust funds, and 4) custodial funds. GASB 84 outlines the accounting and disclosure requirements for operating structures that qualify as a fiduciary activity. TSET will adopt GASB 84 effective July 1, 2020, for the June 30, 2021, reporting year. TSET does not expect GASB 84 to have a significant impact on the financial statements.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Recent Accounting Pronouncements, Continued

In June 2017, GASB issued Statement No. 87, *Leases* (GASB 87). GASB 87 defines a lease as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. GASB 87 improves accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged. TSET has not determined the impact of GASB 87 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. TSET will adopt GASB 88 on July 1, 2020, for the June 30, 2021, reporting year. TSET does not expect GASB 88 to 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. TSET will adopt GASB 89 on July 1, 2021, for the June 30, 2022, reporting year. TSET does not expect GASB 89 to significantly impact the financial statements.

In August 2018, GASB issued Statement No. 90, *Majority Equity Interest* (GASB 90). GASB 90 improves the consistency and comparability of reporting government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. TSET will adopt GASB 90 effective July 1, 2020, for the June 30, 2021, reporting year. TSET does not expect GASB 90 to have a significant impact on the financial statements.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Recent Accounting Pronouncements, Continued

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations* (GASB 91). GASB 91 provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligation, and (3) related note disclosures. TSET will adopt GASB 91 effective July 1, 2022, for the June 30, 2023, reporting year. TSET does not expect GASB 91 to have a significant impact on the financial statements.

In January 2020, GASB issued Statement No. 92, *Omnibus 2020* (GASB 92). GASB 92 addresses a variety of topics and includes specific provisions relating to 1) interim financial reporting requirements of GASB 87 and Implementation Guide 2019-3 2) reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan 3) the applicability of Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68,* as amended, and No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* as amended, to reporting assets accumulated for postemployment benefits 4) the applicability of certain requirements of GASB 84 to postemployment benefit arrangements 5) measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition 6) reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers 7) reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature and 8) terminology used to refer to derivative instruments. The requirements of GASB 92 are effective upon issuance in relation to the provisions impacting GASB 87 and Implementation Guide 2019-3 and are effective for periods beginning after June 15, 2021, for all other provisions. TSET is currently evaluating the impact that the adoption of GASB 92 will have on its financial statements.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Recent Accounting Pronouncements, Continued

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates Activities* (GASB 93). GASB 93 addresses various accounting and other issues arising from the result of the replacement of an interbank offered rate (IBOR) by 1) providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment 2) clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate 3) clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable 4) removing the London Interbank Offered Rate (LIBOR) as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap 5) identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap and 6) clarifying the definition of *reference rate,* as it is used in Statement 53, as amended. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021 and the remaining requirements of GASB 93 are effective for periods beginning after June 15, 2021, for all other provisions. TSET is currently evaluating the impact that the adoption of GASB 93 will have on its financial statements.

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* (GASB 94). GASB 94 improves accounting and financial reporting by addressing various issues relating to public-private and public-public partnership arrangements (PPPs). This includes the requirement that PPPs that meet the definition of a lease apply the guidance in GASB 87 and establishes the accounting and financial reporting requirements for all other PPPs. The requirements of GASB 94 are effective for periods beginning after June 15, 2022. TSET is currently evaluating the impact that the adoption of GASB 94 will have on its financial statements.

In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* (GASB 95). GASB 95 postpones the effective dates of certain provisions in existing GASB Statements and Implementation Guides that are scheduled to become effective for periods beginning after June 15, 2018, and later. This includes GASB 83, GASB 84, GASB 87, GASB 88, GASB 90, GASB 91, GASB 92, GASB 93, Implementation Guide 2018-1, Implementation Guide 2019-1, Implementation Guide 2019-2, and Implementation Guide 2019-3.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Recent Accounting Pronouncements, Continued

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements* (GASB 96). GASB 96 provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users. GASB 96 1) defines a SBITA; 2) establishes that SBITA results in a right-to-use subscription intangible asset and a corresponding subscription liability; 3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of SBITA; and 4) requires note disclosures regarding SBITA. The requirements of GASB 96 are effective for periods beginning after June 15, 2022. TSET is currently evaluating the impact that the adoption of GASB 96 will have on its 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—an Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32* (GASB 97). The primary objectives of GASB 97 are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The requirements of GASB 97 that 1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and 2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective at the date of issuance of GASB 97. The requirements of GASB 97 that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of GASB 97 that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted by requirement as specified within GASB 97. TSET is currently evaluating the impact that the adoption of GASB 96 will have on its financial statements.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Annual Budget-to-Actual Comparison

The Fund is not required to prepare an annual budget. Therefore, an annual budget-to-actual comparison as required by GASB 34 is not presented.

Date of Management's Review of Subsequent Events

Management has evaluated subsequent events through September 30, 2020, the date which the financial statements were available to be issued, and determined that no subsequent events have occurred that require adjustment to or disclosure in the financial statements.

(2) CASH AND INVESTMENTS

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

		2020	2019
Cash on deposit with the State	$	5,666,723	5,910,751
Foreign currency		493,408	1,129,832
Collateral from securities lending—restricted cash		61,758,948	48,524,479
Cash and equivalents		7,890,632	10,292,928
Money market mutual fund		16,480,155	16,732,917
	$	92,289,866	82,590,907

Restricted Cash

Cash collateral from securities lending activity is identified as restricted cash as it cannot be used by the Fund unless there is default in the return of the securities loaned.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of the failure of a counterparty, the Fund 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 Fund, and are held by the counterparty or the counterparty's trust department but not in the name of the Fund. The investment policy requires that all deposits be invested in a fully collateralized interest-bearing account. Policy also provides that investment collateral be held by a third-party custodian with whom the Fund has a current custodial agreement in the Fund's name.

See Independent Auditors' Report.

(2) CASH AND INVESTMENTS, CONTINUED

Credit Risk

Fixed income securities are subject to credit risk. A bond's credit quality rating is one method of assessing the ability of the issuer to meet its obligation. Exposure to credit risk as of June 30 was as follows:

	2020	
	Fair Value *(Expressed in thousands)*	Moody Rating
U.S. government agencies (held in U.S. currency):		
U. S. Treasury bonds	$ 8,800	AAA
U. S. Treasury notes	33,322	AAA
Federal Home Loan Mortgage Corporation	522	AAA
Federal National Mortgage Corporation	6,580	AAA
Government National Mortgage Association	3,056	AAA
Other	4,989	AAA
Other	15,061	AAA
Other	656	A1
Other	11,590	AA1
Other	4,503	AA2
Other	498	BAA1
Other	865	BAA3
Other	2,256	NA
	92,698	
Corporate bonds (held in U.S. currency):		
Domestic bonds	7,818	A1
Domestic bonds	11,527	A2
Domestic bonds	10,551	A3
Domestic bonds	1,610	AA1
Domestic bonds	4,135	AA2
Domestic bonds	2,999	AA3
Domestic bonds	7,212	AAA
Domestic bonds	8,032	B1
Domestic bonds	6,345	B2
Domestic bonds	3,086	B3
Domestic bonds	8,636	BA1
Domestic bonds	9,768	BA2
Domestic bonds	22,132	BA3

(Continued)

(2) CASH AND INVESTMENTS, CONTINUED

Credit Risk, Continued

	2020	
	Fair Value *(Expressed in thousands)*	Moody Rating
Corporate bonds (held in U.S. currency), Continued:		
Domestic bonds	4,885	BAA1
Domestic bonds	9,622	BAA2
Domestic bonds	5,997	BAA3
Domestic bonds	228	C
Domestic bonds	999	CA
Domestic bonds	2,763	CAA1
Domestic bonds	1,665	CAA2
Domestic bonds	1,515	CAA3
Domestic bonds	10,735	NA
Domestic bonds		
	142,260	
Foreign corporate bonds (held in U.S. currency):		
Foreign bonds	1,559	A1
Foreign bonds	64	AA2
Foreign bonds	1,382	B1
Foreign bonds	802	B2
Foreign bonds	905	B3
Foreign bonds	1,640	BA1
Foreign bonds	4,307	BA2
Foreign bonds	1,709	BA3

(Continued)

(2) CASH AND INVESTMENTS, CONTINUED

Credit Risk, Continued

	2020	
	Fair Value *(Expressed in thousands)*	Moody Rating
Foreign corporate bonds (held in U.S. currency), Continued:		
Foreign bonds	485	BAA1
Foreign bonds	433	BAA2
Foreign bonds	1,813	BAA3
Foreign bonds	8	CA
Foreign bonds	418	CAA1
Foreign bonds	635	CAA2
Foreign bonds	500	CAA3
Foreign bonds	646	NA
	17,306	
Foreign corporate bonds (held in foreign currency):		
Foreign bonds	261	B2
Foreign bonds	408	B3
Foreign bonds	871	BA1
Foreign bonds	419	BA2
Foreign bonds	780	BA3
Foreign bonds	134	BAA1
Foreign bonds	387	BAA3
Foreign bonds	113	CAA1
Foreign bonds	235	CAA2
Foreign bonds	729	NA
	4,337	

(Continued)

(2) CASH AND INVESTMENTS, CONTINUED

Credit Risk, Continued

	2020	
	Fair Value *(Expressed in thousands)*	Moody Rating
Foreign government bonds (held in U.S. currency):		
Foreign government bonds	83	A3
Foreign government bonds	1,156	AA2
Foreign government bonds	218	AA3
Foreign government bonds	178	B2
Foreign government bonds	235	B3
Foreign government bonds	174	BA1
Foreign government bonds	278	CA
	2,322	
Foreign government bonds (held in foreign currency):		
Foreign government bonds	156	AA2U
Foreign government bonds	217	B1
Foreign government bonds	188	B2
Foreign government bonds	575	BA1
Foreign government bonds	422	BA2
Foreign government bonds	1,328	BAA1
Foreign government bonds	1,002	BAA2
Foreign government bonds	815	BAA3
Foreign government bonds	209	CA
	4,912	
Total fair value of credit risk	$ 263,835	

(2) CASH AND INVESTMENTS, CONTINUED

Credit Risk, Continued

	2019		
	Fair Value (Expressed in thousands)		Moody Rating
U.S. government agencies (held in U.S. currency):			
U. S. Treasury bonds	$	19,249	AAA
U. S. Treasury notes		30,187	AAA
U.S. Treasury Inflation Index		6,344	AAA
Federal Home Loan Mortgage Corporation		2,841	AAA
Federal National Mortgage Corporation		7,077	AAA
Government National Mortgage Association		3,060	AAA
Other		26,685	AAA
Other		3,628	AA1
Other		85	AA2
Other		1,527	AA3
Other		782	A1
Other		1,907	A2
Other		922	BAA3
Other		1,938	NA/NR
		106,232	
Corporate bonds (held in U.S. currency):			
Domestic bonds		3,274	A1
Domestic bonds		5,827	A2
Domestic bonds		3,510	A3
Domestic bonds		1,392	AA1
Domestic bonds		1,577	AA2
Domestic bonds		5	AA3
Domestic bonds		10,972	AAA
Domestic bonds		9,766	B1
Domestic bonds		9,326	B2
Domestic bonds		6,824	B3
Domestic bonds		8,106	BA1
Domestic bonds		9,975	BA2
Domestic bonds		18,603	BA3

(Continued)

(2) CASH AND INVESTMENTS, CONTINUED

Credit Risk, Continued

	2019	
	Fair Value *(Expressed in thousands)*	Moody Rating
Corporate bonds (held in U.S. currency), Continued:		
Domestic bonds	2,406	BAA1
Domestic bonds	4,953	BAA2
Domestic bonds	6,929	BAA3
Domestic bonds	350	C
Domestic bonds	649	CA
Domestic bonds	2,279	CAA1
Domestic bonds	3,027	CAA2
Domestic bonds	1,020	CAA3
Domestic bonds	14,233	NA/NR
Domestic bonds	13	DFLT
	125,016	
Foreign corporate bonds (held in U.S. currency):		
Foreign bonds	1,510	A1
Foreign bonds	1,820	B1
Foreign bonds	1,781	B2
Foreign bonds	2,110	B3
Foreign bonds	1,697	BA1
Foreign bonds	2,793	BA2
Foreign bonds	1,542	BA3
Foreign bonds	471	BAA1

(Continued)

(2) CASH AND INVESTMENTS, CONTINUED

Credit Risk, Continued

	2019	
	Fair Value *(Expressed in thousands)*	Moody Rating
Foreign corporate bonds (held in U.S. currency), Continued:		
Foreign bonds	1,530	BAA2
Foreign bonds	1,849	BAA3
Foreign bonds	21	CA
Foreign bonds	1,164	CAA1
Foreign bonds	827	CAA2
Foreign bonds	834	NA/NR
	19,949	
Foreign corporate bonds (held in foreign currency):		
Foreign bonds	817	B2
Foreign bonds	1,235	BA1
Foreign bonds	648	BA2
Foreign bonds	642	BA3
Foreign bonds	128	BAA1
Foreign bonds	156	BAA3
Foreign bonds	146	CAA1
Foreign bonds	135	CAA2
Foreign bonds	817	NR
	4,724	

(Continued)

(2) CASH AND INVESTMENTS, CONTINUED

Credit Risk, Continued

	2019	
	Fair Value (Expressed in thousands)	Moody Rating
Foreign government bonds (held in U.S. currency):		
Foreign government bonds	912	AA2
Foreign government bonds	207	B1
Foreign government bonds	995	B2
Foreign government bonds	254	B3
	2,368	
Foreign government bonds (held in foreign currency):		
Foreign government bonds	849	A3
Foreign government bonds	148	Aa2u
Foreign government bonds	631	B1
Foreign government bonds	427	B2
Foreign government bonds	180	BA2
Foreign government bonds	755	BAA2
Foreign government bonds	1,779	BAA3
Foreign government bonds	368	CAA1
	5,137	
Total fair value of credit risk	$ 263,426	

Concentration of Credit Risk

The Fund limits its exposure to concentrations of credit risk through its investment policy and asset allocation policy. Within asset classes, individual securities are limited to not more than 6% of the investment manager's portfolio; however, securities of one issuer could be represented in more than one asset class. No investments in any one organization, excluding those guaranteed by the U.S. government, represented 5% or more of the Fund's net position at June 30, 2020 or 2019, except for $139,244,888 and $126,148,316 invested in the Pooled Fixed Income Fund at June 30, 2020 and 2019, respectively. While the investment is over 5% of the net position, the Fund has a share of each individual security of the Pooled Fixed Income Fund and no ownership interest in a single security would exceed 5%.

(2) CASH 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. Mortgage-backed securities are highly sensitive to interest rate changes. The investment policy manages interest rate risk by limiting the effective duration of an actively managed fixed-income portfolio. Excluding U.S. government guaranteed securities, effective duration is not to exceed 7 years.

	2020	
	Fair Value *(Expressed in thousands)*	Effective Duration Years
U.S. government securities (government guaranteed):		
U.S. Treasury bonds	$ 8,800	20.62
U.S. Treasury notes	33,322	3.83
Federal National Mortgage Association—FHR	4,767	2.00
Federal National Mortgage Association—FNR	8,901	2.46
Government National Mortgage Association	190	1.01
GNR	2,866	2.58
Other	26,750	6.85
Foreign government securities:		
Foreign government bonds (held in U.S. currency)	2,322	4.74
Foreign government bonds (held in foreign currency)	4,912	4.48
Mortgage-backed securities:		
Federal Home Loan Mortgage Corp.	522	2.61
Federal National Mortgage Corp.	6,580	5.04
Corporate bonds:		
Domestic bonds (held in U.S. currency)	142,260	5.23
Foreign bonds (held in U.S. currency)	17,306	3.93
Foreign bonds (held in foreign currency)	4,337	2.99
Total fixed income	$ 263,835	

(2) CASH AND INVESTMENTS, CONTINUED

Interest Rate Risk, Continued

	2019	
	Fair Value *(Expressed in thousands)*	Effective Duration Years
U.S. government securities (government guaranteed):		
U.S. Treasury bonds	$ 19,249	20.35
U.S. Treasury notes	30,187	3.03
US Treasury Inflation Index (in U.S. Currency)	6,344	4.80
Federal National Mortgage Association—FHR	7,020	2.86
Federal National Mortgage Association—FNR	8,754	3.53
Government National Mortgage Association	50	3.31
GNR	3,010	3.65
Other	21,700	2.97
Foreign government securities:		
Foreign government bonds (held in U.S. currency)	2,368	5.05
Foreign government bonds (held in foreign currency)	5,137	1.33
Mortgage-backed securities:		
Federal Home Loan Mortgage Corp.	2,841	1.05
Federal National Mortgage Corp.	7,077	5.21
Corporate bonds:		
Domestic bonds (held in U.S. currency)	125,016	3.72
Foreign bonds (held in U.S. currency)	19,949	3.98
Foreign bonds (held in foreign currency)	4,724	2.04
Total fixed income	$ 263,426	

See Independent Auditors' Report.

(2) CASH 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 10% of total net position through its asset allocation policy. Investment in foreign equities and fixed income is shown by monetary unit to indicate possible foreign currency risk.

	2020	
	Fair Value *(Expressed in thousands)*	Type
Foreign currency:		
Argentina peso	$ 855	Fixed Income
Argentina peso	163	Foreign Currency
Bermuda dollar	241	Equity
Bermuda dollar	189	Fixed Income
Brazilian real	2,388	Equity
Brazilian real	422	Fixed Income
Brazilian real	24	Foreign Currency
British pound sterling	33,616	Equity
British pound sterling	2,867	Fixed Income
British pound sterling	29	Foreign Currency
Canadian dollar	4,183	Fixed Income
Canadian dollar	1,884	Equity
Canadian dollar	46	Foreign Currency
Cayman dollar	15,117	Equity
Cayman dollar	797	Fixed Income
Colombian peso	89	Fixed Income
Colombian peso	1	Foreign Currency
Danish krone	3,765	Equity
Emirati Dirham	439	Fixed Income
Euro	58,736	Equity
Euro	6,140	Fixed Income
Euro	94	Foreign Currency
Ghana cedi	235	Fixed Income
Honduran lempira	217	Fixed Income
Hong Kong dollar	8,951	Equity
Indian rupee	3,693	Equity

(Continued)

(2) CASH AND INVESTMENTS, CONTINUED

Foreign Currency Risk, Continued

	2020	
	Fair Value *(Expressed in thousands)*	Type
Foreign currency, Continued:		
Indonesian rupiah	998	Fixed Income
Indonesian rupiah	57	Foreign Currency
Japanese yen	14,849	Equity
Korean won	7,099	Equity
Korean won	946	Fixed Income
Liberian dollar	1,551	Fixed Income
Mexican peso	2,310	Fixed Income
Mexican peso	46	Foreign Currency
Multiple	893	Fixed Income
Netherlands Antilles	9,672	Equity
Netherlands Antilles	1,247	Fixed Income
New Zealand dollar	4,100	Equity
Nigerian Naira	178	Fixed Income
Norwegian krone	6,799	Equity
Panamanian Balboa	401	Fixed Income
Peruvian nuevo sol	320	Fixed Income
Qatari Rial	218	Fixed Income
Russian ruble	815	Fixed Income
Russian ruble	17	Foreign Currency
Saudi riyal	1,559	Fixed Income
Singaporean dollar	2,514	Equity
South African Rand	748	Fixed Income
South African Rand	15	Foreign Currency
Swiss franc	34,955	Equity
Taiwanese Yen	8,333	Equity
Virgin Islands, British	261	Fixed Income
	$ 246,082	

See Independent Auditors' Report.

(2) CASH AND INVESTMENTS, CONTINUED

Foreign Currency Risk, Continued

	2019	
	Fair Value *(Expressed in thousands)*	Type
Foreign currency:		
Argentina peso	$ 1,661	Fixed Income
Argentina peso	49	Foreign Currency
Australian dollar	127	Fixed Income
Bermuda dollar	384	Equity
Bermuda dollar	311	Fixed Income
Brazilian real	6,720	Equity
Brazilian real	180	Fixed Income
Brazilian real	1	Foreign Currency
British pound sterling	32,443	Equity
British pound sterling	3,881	Fixed Income
British pound sterling	31	Foreign Currency
Canadian dollar	4,156	Fixed Income
Canadian dollar	48	Foreign Currency
Cayman dollar	11,675	Equity
Cayman dollar	817	Fixed Income
Colombian peso	93	Fixed Income
Colombian peso	2	Foreign Currency
Danish krone	2,963	Equity
Egyptian pound	211	Fixed Income
Euro	69,359	Equity
Euro	9,579	Fixed Income
Euro	552	Foreign Currency
Ghana cedi	254	Fixed Income
Honduran lempira	221	Fixed Income
Hong Kong dollar	6,671	Equity
Indian rupee	5,223	Equity
Indonesian rupiah	751	Fixed Income
Indonesian rupiah	89	Foreign Currency
Japanese yen	23,798	Equity
Jersey pound	16	Equity
Jersey pound	180	Fixed Income

(Continued)

(2) CASH AND INVESTMENTS, CONTINUED

Foreign Currency Risk, Continued

	2019	
	Fair Value *(Expressed in thousands)*	Type
Foreign currency, Continued:		
Korean won	6,203	Equity
Korean won	912	Fixed Income
Liberian dollar	1,318	Fixed Income
Mexican peso	1,974	Fixed Income
Mexican peso	53	Foreign Currency
Multiple	294	Fixed Income
Netherlands Antilles	1,865	Equity
Netherlands Antilles	203	Fixed Income
New Taiwan dollar	5,435	Equity
New Zealand dollar	3,374	Equity
Nigerian naira	199	Fixed Income
Norwegian krone	6,461	Equity
Peruvian nuevo sol	230	Fixed Income
Russian ruble	1,092	Fixed Income
Russian ruble	130	Foreign Currency
Saudi riyal	1,510	Fixed Income
Singaporean dollar	3,884	Equity
South African Rand	687	Fixed Income
South African Rand	63	Foreign Currency
Swiss franc	25,095	Equity
Swiss franc	222	Fixed Income
Turkish new lira	617	Fixed Income
Turkish new lira	112	Foreign Currency
Uae dirham	233	Fixed Income
Virgin Islands, British	21	Equity
Virgin Islands, British	265	Fixed Income
Yuan renminbi	2,446	Equity
	$ 247,344	

Securities held in U.S. currency that are traded in foreign markets or are significantly influenced by foreign exchange rates are included in the foreign currency risk shown in the schedule above.

See Independent Auditors' Report.

(2) CASH AND INVESTMENTS, CONTINUED

Pooled Fixed Income Funds

The pooled fixed income funds consisted of an investment in the Reams Asset Management, Unconstrained Fixed Income Composite (the "Pooled Fixed Income Fund"), a commingled fund. The Pooled Fixed Income Fund seeks to maximize risk-adjusted total return by systematically pursuing relative value opportunities throughout all sectors of the fixed income market. At June 30, 2020, the average duration of the portfolio of the Pooled Fixed Income Fund was 0.9 years, the average maturity was 6.0 years, the yield to maturity was 3.00%, and the average asset quality was A2. At June 30, 2019, the average duration of the portfolio of the Pooled Fixed Income Fund was -0.3 years, the average maturity was 3.3 years, the yield to maturity was 2.60%, and the average asset quality was AA3.

At June 30, the Pooled Fixed Income Fund primarily consisted of:

Fixed Income Securities	Percentage	
	2020	2019
Corporate	59%	33%
Asset-backed	2%	2%
Government related	3%	0%
Non-domestic securities	2%	0%
Cash and cash equivalents	29%	9%
Treasury	0%	35%
Mortgage-backed	5%	21%

The Fund's investment in the Pooled Fixed Income Fund was approximately 3.22% and 2.43% of the total portfolio of the total Pooled Fixed Income Funds at June 30, 2020 and 2019, respectively.

See Independent Auditors' Report.

(2) CASH AND INVESTMENTS, CONTINUED

Investments Measured at Fair Value

The Fund categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Fund had the following recurring fair value measurements as of June 30:

2020 **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)
U.S. government securities	$ 92,698,481	42,122,524	50,575,957	-
Foreign government securities	7,233,951	-	7,233,951	-
Domestic corporate bonds	142,260,155	-	142,260,155	-
Foreign corporate bonds	21,643,180	-	21,643,180	-
Domestic stocks	430,912,598	430,912,598	-	-
Foreign stocks	216,711,421	216,711,421	-	-
Pooled fixed income funds	139,244,888	1,539,084	137,705,804	-
Alternative investments	103,180,787	103,180,787	-	-
	1,153,885,461	794,466,414	359,419,047	-
Alternative investments measured at NAV:				
Core real estate	110,815,707			
Non-real estate	47,095,183			
	157,910,890			
Total investments at fair value	$1,311,796,351	794,466,414	359,419,047	-

See Independent Auditors' Report.

(2) CASH AND INVESTMENTS, CONTINUED

Investments Measured at Fair Value, Continued

2019 **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)
U.S. government securities	$	106,231,677	63,008,356	43,223,321	-
Foreign government securities		7,505,224	-	7,505,224	-
Domestic corporate bonds		125,016,243	-	125,016,243	-
Foreign corporate bonds		24,672,977	-	24,672,977	-
Domestic stocks		410,212,132	410,212,132	-	-
Foreign stocks		214,035,673	214,035,673	-	-
Pooled fixed income funds		126,148,316	-	126,148,316	-
Alternative investments		101,438,567	101,438,567	-	-
		1,115,260,809	788,694,728	326,566,081	-
Alternative investments measured at NAV:					
Core real estate		114,488,511			
Non-real estate		45,369,404			
		159,857,915			
Total investments at fair value	$	1,275,118,724	788,694,728	326,566,081	-

Debt and equity securities and alternative investments in Level 1 are reported at fair value, as determined by the Fund's custodial agent, using pricing services or prices quoted by independent brokers based on the latest reported sales prices at current exchange rates for securities traded on national or international exchanges. Debt and equity securities classified in Level 2 of the fair value hierarchy are inputs, other than quoted prices included within Level 1, which are observable either directly or indirectly.

See Independent Auditors' Report.

(2) CASH AND INVESTMENTS, CONTINUED

Investments Measured at Fair Value, Continued

Alternative investments that are not classified as Level 1 investments are carried at the NAV of the fund as provided by the administrator or general partner as these investments do not have a readily determinable fair value. The Fund uses the NAV to determine the fair value for all alternative investments which (a) do not have a readily determinable fair value and (b) a proportionate share of the net assets is attributed to member units or an ownership interest in partners' capital. Management evaluates the values provided based on a number of factors, including obtaining an understanding of the fund's underlying investments, strategy, positions, and valuation methodologies, obtaining audited financial statements, obtaining verification of transactions at or near year end, and comparing information provided by the fund administrator or general partner to other available information such as sector data and indexes. Because alternative investments are not readily marketable, their NAV is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed. Such a difference could be material. Discretionary redemption of the investment in the limited partnerships by the Fund is not permitted.

Fair Value of Private Equity—The Fund 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 partnership, 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 partnership as liquidation of the underlying assets are realized.

The Fund's private equity (PE) investments have a long investment horizon of 5 to 10 years, are not liquid, and the Fund 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 Fund'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 Fund's ownership of the partners' capital on a quarterly basis. Although most PE interests are marketable in a secondary market, the Fund generally does not sell its interests early at values less than its interest in the partnership.

Additional information on alternative investments are described in Note 4.

(3) DERIVATIVES

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 Fund's derivatives policy identifies and allows common derivative investments and strategies which are consistent with applicable law and the Investment Policy Statement and requires investment managers to petition for the inclusion of additional derivative instruments and strategies. The guidelines also require investment managers to follow certain controls and documentation and risk management procedures. The Fund enters into these certain derivative instruments primarily to enhance the performance and reduce the volatility of its portfolio. It enters futures contracts to gain or hedge exposure to certain markets and to manage interest rate risk and uses forward foreign exchange contracts primarily to hedge foreign currency exposure. The tables below summarize the various contracts in the portfolio as of June 30, 2020 and 2019. The notional values associated with the futures and options contracts are generally not recorded in the financial statements, as they represent the obligation to purchase the futures contracts. Unrealized gains or losses are recognized daily by the investment manager and have been reflected in the Fund's financial statements. Interest risks associated with these investments are included in the interest rate risk disclosures. The Fund does not anticipate additional significant market risk from the futures, options, or currency contracts.

Futures Contracts

	Expiration Date	Long/Short	Notional/ Fair Value *(Expressed in thousands)*
2020			
U.S. 10-year note	September 2020	Long/Short	$ (139)
U.S. 5-year note	September 2021	Long/Short	$ (2,138)
U.S. long bond	September 2022	Long/Short	$ (1,607)
Euro BUND future	September 2023	Long/Short	$ (1,983)
2019			
U.S. 10-year note	September 2019	Short	$ (2,303)
U.S. 5-year note	September 2019	Short	$ (1,063)
Euro BUXL 30-year bond	September 2019	Short	$ (231)
U.S. long bond	September 2019	Short	$ (1,556)
90 Day Euro	September 2019	Short	$ (3,344)
Euro BUND future	September 2019	Short	$ 355

(3) DERIVATIVES, CONTINUED

Foreign Currency Forward Contracts

		2020	2019
		(Expressed in thousands)	
Pending receivable	$	14,152	18,400
Pending payable		(14,213)	(18,338)
Foreign currency forward contracts net (liability) asset	$	(61)	62

As of June 30, 2020, the foreign currency forward contracts expire in August 2020 and September 2020. During the years ended June 30, 2020 and 2019, realized losses on foreign currency contracts were approximately $(811,000) and $(665,000), respectively.

The Fund invests in mortgage-backed securities, which are reported at fair value in the statements of net position and the balance sheets 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 Fund 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.

(4) ALTERNATIVE INVESTMENTS

Alternative investments as of June 30, including limited partnerships, were as follows:

2020			
Company	Fair Value	Unfunded Commitment	Purpose
Real Estate			
AEW Core Property Trust, Inc.	$ 50,391,151	-	Real estate investment trust.
AEW VII	2,404,771	867,255	Real estate investment trust.
Siguler Guff	22,594,076	4,497,500	Investments in distressed opportunities in commercial real estate.
UBS Trumbull	35,425,710	-	Real estate investment trust.
	110,815,708	5,364,755	
Fund of Funds			
PIMCO All Asset Fund	65,012,384	-	Fund invests in other PIMCO funds (A fund of funds).
Other			
Medley Opportunity Fund II L.P.	11,137,453	1,332,729	Investments consist of senior secured direct loans to corporate entities that meet certain criteria.
SJC Offshore II (Frontpoint)	67,615	1,600,213	Investments consist of senior secured direct loans to corporate entities that meet certain criteria.
SJC Onshore	13,554	3,099,511	Investments consist of senior secured direct loans to corporate entities that meet certain criteria.
Monroe Capital	35,876,560	14,695,714	Investments consist of senior secured direct loans to corporate entities that meet certain criteria.
Tortoise	38,168,403	-	Investments consist of limited partnerships in the oil and gas industries.
	85,263,585	20,728,167	
Total alternative investments	$ 261,091,677	26,092,922	

See Independent Auditors' Report.

(4) ALTERNATIVE INVESTMENTS, CONTINUED

	2019		
Company	Fair Value	Unfunded Commitment	Purpose
Real Estate			
AEW Core Property Trust, Inc.	$ 49,748,173	-	Real estate investment trust.
AEW VII	4,902,960	867,255	Real estate investment trust.
Siguler Guff	23,722,938	5,320,000	Investments in distressed opportunities in commercial real estate.
UBS Trumbull	36,114,440	-	Real estate investment trust.
	114,488,511	6,187,255	
Fund of Funds			
PIMCO All Asset Fund	59,509,072	-	Fund invests in other PIMCO funds (A fund of funds).
Other			
Medley Opportunity Fund II L.P.	16,958,119	1,332,729	Investments consist of senior secured direct loans to corporate entities that meet certain criteria.
SJC Offshore (Frontpoint)	38,809	2,292,987	Investments consist of senior secured direct loans to corporate entities that meet certain criteria.
SJC Offshore II (Frontpoint)	299,366	1,600,213	Investments consist of senior secured direct loans to corporate entities that meet certain criteria.
SJC Onshore	361,562	3,099,511	Investments consist of senior secured direct loans to corporate entities that meet certain criteria.
Monroe Capital	27,711,547	22,797,983	Investments consist of senior secured direct loans to corporate entities that meet certain criteria.
Tortoise	41,929,496	-	Investments consist of limited partnerships in the oil and gas industries.
	87,298,899	31,123,423	
Total alternative investments	$ 261,296,482	37,310,678	

See Independent Auditors' Report.

(5) CAPITAL ASSETS

The following is a summary of changes in capital assets:

	Balance at June 30, 2019	Additions	Disposals	Balance at June 30, 2020
Depreciable capital assets:				
Office equipment and furnishings	$ 236,660	69,368	-	306,028
Accumulated depreciation:				
Office equipment and furnishings	(213,080)	(16,231)	-	(229,311)
Capital assets, net	$ 23,580	53,137	-	76,717

	Balance at June 30, 2018	Additions	Disposals	Balance at June 30, 2019
Depreciable capital assets:				
Office equipment and furnishings	$ 236,660	-	-	236,660
Accumulated depreciation:				
Office equipment and furnishings	(193,368)	(19,712)	-	(213,080)
Capital assets, net	$ 43,292	(19,712)	-	23,580

(6) CHANGES IN COMPENSATED ABSENCES

Compensated absence activity was as follows:

Balance at June 30, 2019	Additions	Reductions	Balance at June 30, 2020	Amounts Due Within 1 Year
$ 166,949	98,168	(25,789)	239,328	95,731

Balance at June 30, 2018	Additions	Reductions	Balance at June 30, 2019	Amounts Due Within 1 Year
$ 167,178	110,521	(110,750)	166,949	66,780

See Independent Auditors’ Report.

(7) AVAILABLE EARNINGS AND FUND BALANCES

Available Earnings

Annual earnings available for expenditure were previously considered to be dividends and interest, less fees to manage the Fund. However, Attorney General Opinion 2011-11 (AG Opinion 2011-11), which was issued in August 2011, states that earnings are equal to the income generated from the Fund, including but not limited to interest, dividends, and realized capital gains from investments, minus the costs and expenses of investments and minus any losses realized by the Fund. As a result of the AG Opinion 2011-11, the Board of Investors and the Board of Directors reached an agreement in February 2012 that $42,898,847 of earnings (July 1, 2001, through June 30, 2010) as defined by AG Opinion 2011-11 would be available for certification in addition to any current year earnings in years in which current year earnings to be certified were less than 5% of the corpus of the Fund. The $42,898,847 was reflected as assigned to be certified earnings. Of this reserve, $13,104,185, $18,789,438, $84,186, $1,041,808, and $7,620,259 was certified in the November 2017, November 2016, November 2015, November 2013, and in the November 2012 board meetings, respectively, to bring the amount in the total certification up to 5% of the corpus, thus reducing the reserve balance to $2,258,971 as of June 30, 2019. The $2,258,971 is expected to be certified by the Board of Investors at its November 2020 meeting.

Fund Balances

Fund balance refers to the difference between assets and liabilities in the governmental funds balance sheet. Fund balance, as defined in GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as applicable to the Fund, consists of the following three categories:

- Nonspendable Fund Balance: The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. This would include items not expected to be converted to cash, including inventories and prepaid amounts. It may also include the long-term amounts of loans and receivables, as well as property acquired for resale and the corpus (principal) of a permanent fund.

  Nonspendable amounts are primarily composed of settlement receipts and the net unrealized appreciation or depreciation in the fair value of invested funds.

- Assigned Fund Balance: The assigned fund balance classification reflects amounts that are constrained by the Fund's intent to be used for specific purposes. For purposes of the assigned fund balance, the Fund's Board of Directors and Board of Investors have authority to assign funds for specific purposes.

(7) AVAILABLE EARNINGS AND FUND BALANCES, CONTINUED

Fund Balances, Continued

- Assigned Fund Balance, Continued:

  Assigned by Board of Directors (Certified)

  Prior to 2012, the Board of Directors had set aside 10% of the unassigned fund balance as a reserve to be used for future periods should annual earnings prove insufficient for operations. In November 2011, the Board of Directors chose to limit yearly expenditures of certified earnings to no more than 5% of the corpus of the Fund. Each year, any unexpended certified earnings will be added to the reserve of prior year unspent certified earnings. In essence, unexpended amounts will be moved to assigned fund balances for future years' operations. All the unspent amounts have previously been certified by the Board of Investors.

  Assigned by Board of Investors (Uncertified)

  As previously discussed, an additional $42,898,847 was reserved during 2012 in accordance with an agreement between the Board of Directors and the Board of Investors. According to the agreement, some or all of the reserve funds are to be available for spending when the current year earnings calculation is below 5% of the corpus of the Fund. When future earnings calculations are below 5% of the corpus of the Fund, the reserve will be reduced by the difference and certified for use. The certification of reserve funds is limited to the 5% cap, inclusive of the initial calculation based upon the constitutional language. The agreement will remain in effect until the total amount of the reserve has been certified by the Board of Investors.

- Unassigned Fund Balance: The unassigned fund balance essentially consists of excess funds that have not been classified in the above fund balance categories.

  The unassigned fund balance consists of annual earnings that have been certified by the Board of Investors as available for expenditures for approved programs and operations, and contractual income less program and operational expenses.

It is the Fund's policy that expenditures which are incurred for purposes for which both unassigned and assigned fund balances are available, unassigned fund balances are considered to have been spent first.

(7) AVAILABLE EARNINGS AND FUND BALANCES, CONTINUED

Fund Balances, Continued

The Board of Directors manages program and operating expenses that are expended from the assigned and unassigned fund balance. Contract income is the reimbursement of program expenses related to the Helpline and is considered a reduction to unassigned expenses. Operating expenses include salaries, travel, and other operating expenses of the Board of Investors and the Board of Directors. The maximum amount allowed for operating expenses is 15% of certified earnings in any fiscal year. Operating expenses do not include program expenses or investment management expenses.

A reconciliation of the nonspendable, assigned, and unassigned components of the fund balances as of June 30 is as follows:

	2020				
	Nonspendable	Assigned Available for Expenditure but Uncertified	Assigned Available for Expenditure and Certified	Unassigned	Total
Balance at June 30, 2019	$ 1,174,234,769	2,258,971	59,297,366	60,209,778	1,296,000,884
Estimated transfer—2020—5% cap	-	(2,258,971)	2,258,971	-	-
Settlement receipts	49,710,560	-	-	-	49,710,560
Net unrealized losses on investments	(17,202,364)	-	-	-	(17,202,364)
Miscellaneous income	67,140	-	-	-	67,140
Contract income	-	-	-	4,786,777	4,786,777
Expendable earnings, including net realized gains/losses on investments	-	-	-	41,490,966	41,490,966
Program and operating expenses	-	-	-	(47,024,869)	(47,024,869)
Transfer—estimate of certified earnings for 2020	-	-	17,971,686	(17,971,686)	-
Balance at June 30, 2020	$ 1,206,810,105	-	79,528,023	41,490,966	1,327,829,094

See Independent Auditors' Report.

(7) AVAILABLE EARNINGS AND FUND BALANCES, CONTINUED

Fund Balances, Continued

	2019				
	Nonspendable	Assigned Available for Expenditure but Uncertified	Assigned Available for Expenditure and Certified	Unassigned	Total
Balance at June 30, 2018	$ 1,117,758,270	2,258,971	39,530,272	65,262,313	1,224,809,826
Settlement receipts	52,325,117	-	-	-	52,325,117
Net unrealized gains on investments	4,125,668	-	-	-	4,125,668
Miscellaneous income	25,714	-	-	-	25,714
Contract income	-	-	-	1,917,985	1,917,985
Expendable earnings, including net realized gains/losses on investments	-	-	-	60,209,778	60,209,778
Program and operating expenses	-	-	-	(47,413,204)	(47,413,204)
Transfer—estimate of certified earnings for 2019	-	-	19,767,094	(19,767,094)	-
Balance at June 30, 2019	$ 1,174,234,769	2,258,971	59,297,366	60,209,778	1,296,000,884

The amount of earnings available for certification for the period ended June 30, 2020, was $41,490,966, which was below 5% of the corpus of the Fund. The amount of earnings available for certification for the period ended June 30, 2019, was $60,209,778, which was above 5% of the corpus of the Fund.

At their August 18, 2020 meeting, the Board of Investors certified $40,990,966, reserving a portion of the amount available for certification for possible audit adjustments. It is anticipated that the Board of Investors will certify an additional amount at their November 2020 meeting. The Board of Investors has defined the corpus of the Fund as the custodial market value of the Fund as of June 30, less any previous certified earnings (current year and previous years' certified earnings that remain invested) within the Fund at June 30.

See Independent Auditors' Report.

(7) AVAILABLE EARNINGS AND FUND BALANCES, CONTINUED

Fund Balances, Continued

The transfers of fund balances during 2020 and 2019 as noted in the above reconciliation are as follows:

2020

- The transfer of $17,971,686 was to adjust the unassigned balance to the estimate of certified earnings at June 30, 2020, before the 5% cap adjustment.

- The transfer of $2,258,971 was the remaining reserve funds available for spending as the current year earnings available for certification was below the 5% cap for 2020. It is anticipated that the Board of Investors will certify this amount at the November 2020 meeting.

2019

- The transfer of $19,767,094 was to adjust the unassigned balance to the estimate of certified earnings at June 30, 2019, before the 5% cap adjustment.

(8) PENSION PLAN

Plan Description

The Fund contributes to the Oklahoma Public Employees Retirement Plan (OPERS), a cost-sharing, multiple-employer defined benefit public employee retirement plan administered by the Oklahoma Public Employees Retirement System (the "System"). OPERS provides retirement, disability, and death benefits to plan members and beneficiaries. The benefit provisions are established and may be amended by the Oklahoma Legislature. Title 74 of the Oklahoma Statutes, Sections 901–943, as amended, assigns the authority for management and operation of OPERS to the Board of Trustees of the System. The System issues a publicly available annual financial report that includes financial statements and required supplementary information for OPERS. That annual report may be obtained by writing to the Oklahoma Public Employees Retirement System, 5400 N. Grand Blvd., Suite 400, Oklahoma City, Oklahoma 73112 or by calling 1-800-733-9008, or can be obtained at www.opers.ok.gov.

(8) PENSION PLAN, CONTINUED

Benefits Provided

OPERS provides members with full retirement benefits at their specified normal retirement age or, for any person who became a member prior to July 1, 1992, when the sum of the member's age and years of credited service equals or exceeds 80 (Rule of 80), and for any person who became a member after June 30, 1992, when the member's age and years of credited service equals or exceeds 90 (Rule of 90).

Normal retirement date is further qualified to require that all members employed on or after January 1, 1983, must have 6 or more years of full-time equivalent employment with a participating employer before being eligible to receive benefits. Credited service is the sum of participating and prior service. Prior service includes nonparticipating service before January 1, 1975, or the entry date of the employer and active wartime military service.

A member with a minimum of 10 years of participating service may elect early retirement with reduced benefits beginning at age 55 if the participant became a member prior to November 1, 2011, or age 60 if the participant became a member on or after November 1, 2011.

Disability retirement benefits are available for members having 8 years of credited service whose disability status has been certified as being within 1 year of the last day on the job by the Social Security Administration. Disability retirement benefits are determined in the same manner as retirement benefits, but payable immediately without an actuarial reduction.

For state, county, and local agency employees, benefits are determined at 2% of the average annual salary received during the highest 36 months of the last 10 years of participating service, but not to exceed the applicable annual salary cap, multiplied by the number of years of credited service. Members who join OPERS on or after July 1, 2013, will have their salary averaged over the highest 60 months of the last 10 years. Normal retirement age under the Plan is 62 or Rule of 80/90 if the participant became a member prior to November 1, 2011, or age 65 or Rule of 90 if the participant became a member on or after November 1, 2011.

Members who elect to pay the additional contribution rate, which became available in January 2004, will receive benefits using a 2.5% computation factor for each full year the additional contributions are made. In 2004, legislation was enacted to provide an increased benefit to retiring members who were not yet eligible for Medicare. The Medicare Gap benefit option became available to members under age 65 who retired on or after May 1, 2006. Members may elect to receive a temporary increased benefit to cover the cost of health insurance premiums until the member is eligible to receive Medicare. After the member becomes eligible for Medicare, the retirement benefit will be permanently reduced by an actuarially determined amount. The option is irrevocable, must be chosen prior to retirement, and is structured to have a neutral actuarial cost to the plan.

(8) PENSION PLAN, CONTINUED

Benefits Provided, Continued

Members become eligible to vest fully upon termination of employment after attaining 8 years of credited service, or the members' contributions may be withdrawn upon termination of employment.

Upon the death of an active member, the accumulated contributions of the member are paid to the member's named beneficiary(ies) in a single lump sum payment. If a retired member elected a joint annuitant survivor option or an active member was eligible to retire with either reduced or unreduced benefits or eligible to vest the retirement benefit at the time of death, benefits can be paid in monthly payments over the life of the spouse if the spouse so elects.

Benefits are payable to the surviving spouse of an elected official only if the elected official had at least 6 years of participating elected service and was married at least 3 years immediately preceding death. Survivor benefits are terminated upon death of the named survivor and, for elected officials, remarriage of the surviving spouse. Upon the death of a retired member, with no survivor benefits payable, the member's beneficiary(ies) are paid the excess, if any, of the member's accumulated contributions over the sum of all retirement benefit payments made.

Upon the death of a retired member, OPERS will pay a $5,000 death benefit to the member's beneficiary or estate of the member if there is no living beneficiary. The death benefit will be paid in addition to any excess employee contributions or survivor benefits due to the beneficiary.

Legislation was enacted in 1999 which provided a limited additional benefit for certain terminated members eligible to vest as of July 1, 1998. This limited benefit is payable as an additional $200 monthly benefit upon the member's retirement up to the total amount of certain excess contributions paid by the participant to OPERS. In April 2001, limited benefit payments began for qualified retired members.

Benefits are established and may be amended by the State Legislature.

Contributions

The contribution rates for each member category of OPERS are established by the Oklahoma Legislature after recommendation by the Board of Trustees of the System based on an actuarial calculation, which is performed to determine the adequacy of such contribution rates.

Each member participates based on their qualifying gross salary earned, excluding overtime. There is no cap on the qualifying gross salary earned, subject to Internal Revenue Service (IRS) limitations on compensation.

(8) PENSION PLAN, CONTINUED

Contributions, Continued

For 2020, 2019, and 2018, *state agency employers* contributed 16.5% on all salary, and *state employees* contributed 3.5% on all salary.

Members have the option to elect to increase the benefit computation factor for all future service from 2.0% to 2.5%. The election is irrevocable, binding for all future employment under OPERS, and applies only to full years of service. Those who make the election pay the standard contribution rate plus an additional contribution rate, 2.91%, which is actuarially determined. The election is available for all state, county, and local government employees, except for elected officials and hazardous duty members.

Contributions to OPERS for the pension plan by the Fund for 2020, 2019, and 2018, were as follows:

2020	2019	2018
$ 189,736	199,876	219,925

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2020, the Fund reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2019. The Fund’s proportion of the net pension liability was based on the Fund’s contributions received by OPERS relative to the total contributions received by OPERS for all participating employers as of June 30, 2019. Based upon this information, the Fund’s proportion was 0.0768210%.

(8) PENSION PLAN, CONTINUED

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, Continued

For the years ended June 30, 2020 and 2019, the Fund recognized pension (benefit) expense of $(30,238) and $99,362, respectively. At June 30, 2020 and 2019, the Fund reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
2020		
Differences between expected and actual experience	$ -	24,076
Changes of assumptions	-	
Proportionate changes	11,563	14,956
Net difference between projected and actual earnings on pension plan investments	-	30,872
Fund contributions subsequent to the measurement date	189,736	-
	$ 201,299	69,904
2019		
Differences between expected and actual experience	$ -	103,895
Changes of assumptions	79,335	-
Proportionate changes	38,179	-
Net difference between projected and actual earnings on pension plan investments	-	30,177
Fund contributions subsequent to the measurement date	199,876	-
	$ 317,390	134,072

See Independent Auditors' Report.

(8) PENSION PLAN, CONTINUED

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, Continued

Reported deferred outflows of resources of $189,736 related to pensions resulting from the Fund's contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ending June 30, 2021. Any other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions as of June 30, 2020, will be recognized in pension expense as follows:

Years Ending June 30:		
2021	$	(11,730)
2022		(83,225)
2023		25,806
2024		10,808
2025		-
	$	(58,341)

See Independent Auditors' Report.

(8) PENSION PLAN, CONTINUED

Actuarial Methods and Assumptions

The total pension liability was determined on an actuarial valuation prepared as of July 1, 2019 and 2018, using the following actuarial assumptions:

Investment return:	7.00% for both 2019 and 2018, compounded annually net of investment expense and including inflation
Salary increases:	3.50% to 9.50% for both 2019 and 2018, including inflation
Mortality rates:	For both 2019 and 2018 Calculation—Active participants and nondisabled pensioners: RP-2014 Mortality Table projected to 2025 by Scale MP-2016 (disabled pensioners set forward 12 years).
Annual post-retirement benefit increases:	None
Assumed inflation rate:	2.75% for both 2019 and 2018
Payroll growth:	3.50% for both 2019 and 2018
Actuarial cost method:	Entry age
Select period for the termination of employment assumptions:	10 years

(8) PENSION PLAN, CONTINUED

Actuarial Methods and Assumptions, Continued

The actuarial assumptions used in the July 1, 2019, valuations are based on the results of the most recent actuarial experience study, which covers the 3-year period ending June 30, 2016. The experience study report is dated April 13, 2017.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis 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 target asset allocation and best estimates of geometric real rates of return for each major asset class as of June 30, are summarized in the following table:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
2019		
U.S. large cap equity	38.0%	3.8%
U.S. small cap equity	6.0%	4.9%
U.S. fixed income	24.0%	9.2%
International stock	32.0%	1.4%
	100.0%	
2018		
U.S. large cap equity	38.0%	3.8%
U.S. small cap equity	6.0%	4.9%
U.S. fixed income	32.0%	1.5%
International stock	24.0%	9.2%
	100.0%	

See Independent Auditors' Report.

(8) PENSION PLAN, CONTINUED

Discount Rate

The discount rate used to measure the total pension liability was 7.00% for both 2019 and 2018. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and the employers will be made at the current contribution rate as set out in state statute. Based on those assumptions, OPERS' fiduciary net position was projected through 2114 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. The discount rate determined does not use a municipal bond rate.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the employer calculated using the discount rate of 7.00% for both 2020 and 2019, as well as what the Fund's net pension (asset) liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
June 30, 2020			
Net pension liability (asset)	$ 925,100	102,316	(595,247)

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
June 30, 2019			
Net pension liability (asset)	$ 1,183,647	184,477	(662,264)

Pension Plan Fiduciary Net Position

Detailed information about OPERS' fiduciary net position is available in the separately issued financial report of OPERS, which can be located at www.opers.ok.gov.

(9) OTHER POSTEMPLOYMENT EMPLOYEE BENEFITS

HEALTH INSURANCE SUBSIDY OPEB

Description

The Fund participates in the OPERS Health Insurance Subsidy Plan (HISP), a cost-sharing, multiple-employer defined benefit public employee health insurance subsidy retirement plan which is administered by OPERS. The HISP is classified as an "other postemployment employee benefit."

As previously mentioned, effective July 1, 2017, the Fund adopted GASB 75, which required the recording of the Fund's allocated share of the net OPEB liability, deferred outflows, deferred inflows, and OPEB expense associated with the HISP. The effect of implementing GASB 75 was recognized during the year ended June 30, 2018, and there was no restatement presented as of and for the year ended June 30, 2017.

Benefits Provided

HISP provides a health insurance premium subsidy for retirees of OPERS who elect to maintain health insurance with the Oklahoma Employees Group Insurance Division (EGID) or other qualified insurance plan provided by the employers. The HISP subsidy is capped at $105 per month per retiree. This subsidy continues until the retiree terminates health insurance coverage with EGID or other qualified plan, or until death. The subsidy is only for the retiree, not joint annuitants or beneficiaries.

Contributions

The contribution rates for each member category of OPERS are established by the Oklahoma Legislature after recommendation by OPERS' Board of Trustees based on an actuarial calculation, which is performed to determine the adequacy of such contribution rates. An actuarially determined portion of the total contribution to OPERS are set aside to finance the cost of the benefits of the HISP in accordance with provisions of the Internal Revenue Code.

Each member participates based on their qualifying gross salary earned, excluding overtime. There is no cap on the qualifying gross salary earned, subject to Internal Revenue Service (IRS) limitations on compensation. Only employers contribute to the HISP. For 2020 *state agency employers* contributed 16.5% for OPERS programs on all salaries.

Contributions to OPERS for the HISP by the Fund for year ended June 30, 2020 and 2019, were approximately $13,800 and $14,600, respectively.

(9) OTHER POSTEMPLOYMENT EMPLOYEE BENEFITS, CONTINUED

HEALTH INSURANCE SUBSIDY OPEB, CONTINUED

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2020, the Fund reported an asset for its proportionate share of the net OPEB asset. The net OPEB asset was measured as of June 30, 2019, and the total OPEB asset used to calculate the net OPEB asset was determined by an actuarial valuation as of July 1, 2019. The Fund's proportion of the net OPEB asset was based on the Fund's contributions received by OPERS relative to the total contributions received by OPERS for all participating employers as of June 30, 2019. Based upon this information, the Fund's proportion was 0.0768210%.

For the years ended June 30, 2020 and 2019, the Fund recognized OPEB (benefit) expense related to the HISP of $(15,015) and $689, respectively. At June 30, 2020 and 2019, the Fund reported deferred outflows of resources and deferred inflows of resources related to the HISP from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
2020		
Differences between expected and actual experience	$ -	24,267
Changes of assumptions	4,488	-
Proportionate changes	1,959	1,746
Net difference between projected and actual earnings on OPEB investments	-	3,226
Fund contributions subsequent to the measurement date	13,817	-
	$ 20,264	29,239
2019		
Differences between expected and actual experience	$ -	19,244
Changes of assumptions	7,174	-
Proportionate changes	2,434	-
Net difference between projected and actual earnings on OPEB investments	-	11,350
Fund contributions subsequent to the measurement date	14,620	-
	$ 24,228	30,594

(9) OTHER POSTEMPLOYMENT EMPLOYEE BENEFITS, CONTINUED

HEALTH INSURANCE SUBSIDY OPEB, CONTINUED

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB, Continued

Reported deferred outflows of resources of $13,817 related to OPEB resulting from the Fund's contributions subsequent to the measurement date will be recognized as a/an increase/decrease of the net OPEB asset in the year ending June 30, 2021. Any other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB as of June 30, 2020, will be recognized in OPEB expense as follows:

Years Ending June 30:		
2021	$	(6,745)
2022		(6,745)
2023		(4,137)
2024		(2,768)
2025 and thereafter		(2,397)
	$	(22,792)

See Independent Auditors' Report.

(9) OTHER POSTEMPLOYMENT EMPLOYEE BENEFITS, CONTINUED

HEALTH INSURANCE SUBSIDY OPEB, CONTINUED

Actuarial Methods and Assumptions

The total OPEB liability was determined on an actuarial valuation prepared as of July 1, 2019 and 2018:

Investment return:	7.00% for both 2019 and 2018, compounded annually net of investment expense and including inflation
Salary increases:	3.50% to 9.50% for both 2019 and 2018, including inflation
Mortality rates:	For both 2019 and 2018 Calculation—Active participants and nondisabled pensioners: RP-2014 Mortality Table projected to 2025 by Scale MP-2016 (disabled pensioners set forward 12 years).
Annual post-retirement benefit increases:	None
Assumed inflation rate:	2.75% for both 2019 and 2018
Payroll growth:	3.50% for both 2019 and 2018
Actuarial cost method:	Entry age
Select period for the termination of	10 years
Health care trend rate	Not applicable based on how OPERS is structured and benefit payments are made.

The actuarial assumptions used in the July 1, 2019, valuations are based on the results of the most recent actuarial experience study, which covers the 3-year period ending June 30, 2016. The experience study report is dated April 13, 2017.

(9) OTHER POSTEMPLOYMENT EMPLOYEE BENEFITS, CONTINUED

HEALTH INSURANCE SUBSIDY OPEB, CONTINUED

Actuarial Methods and Assumptions, Continued

The long-term expected rate of return on OPEB plan investments was determined using a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected returns, net of OPEB 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 target asset allocation and best estimates of geometric real rates of return for each major asset class as of June 30, are summarized in the following table:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
2019		
U.S. large cap equity	38.0%	3.8%
U.S. small cap equity	6.0%	4.9%
U.S. fixed income	24.0%	9.2%
International stock	32.0%	1.4%
	100.0%	
2018		
U.S. large cap equity	38.0%	3.8%
U.S. small cap equity	6.0%	4.9%
U.S. fixed income	32.0%	1.4%
International stock	24.0%	9.2%
	100.0%	

See Independent Auditors' Report.

(9) OTHER POSTEMPLOYMENT EMPLOYEE BENEFITS, CONTINUED

HEALTH INSURANCE SUBSIDY OPEB, CONTINUED

Discount Rate

The discount rate used to measure the total pension liability was 7.00% for both 2019 and 2018. The projection of cash flows used to determine the discount rate assumed that contributions from the employers will be made at the current contribution rate as set out in state statute. Based on those assumptions, OPERS' 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 OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability. The discount rate determined does not use a municipal bond rate.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net pension (asset) liability of the employer calculated using the discount rate of 7.00% for both 2020 and 2019, as well as what the Fund's net OPEB (asset) liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
June 30, 2020			
Net OPEB asset	$ (4,717)	(29,864)	(51,494)

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
June 30, 2019			
Net OPEB liability (asset)	$ 19,487	(12,240)	(39,529)

OPEB Plan Fiduciary Net Position

Detailed information about OPERS' fiduciary net position is available in the separately issued financial report of OPERS, which can be located at www.opers.ok.gov.

(9) OTHER POSTEMPLOYMENT EMPLOYEE BENEFITS, CONTINUED

IMPLICIT RATE SUBSIDY OF HEALTH INSURANCE OPEB LIABILITY

Description

The Fund participates in the EGID's health insurance plan, which is a non-trusted single-employer plan that provides for employee and dependent healthcare coverage from the date of retirement to age 65, provided the participant was covered by the health insurance plan before retiring.

In conjunction with providing the postretirement medical benefits through the health insurance plan, the State of Oklahoma determined that an OPEB liability existed in relation to an implicit rate subsidy. The State of Oklahoma calculated the implicit rate subsidy of health insurance OPEB liability (IRSHIP OPEB liability) for all State agencies that participate in the EGID health insurance plan and whose payroll is processed through the State's payroll system. The Fund met these criteria and therefore was one of the agencies included in the State of Oklahoma's calculation.

As previously discussed, the Fund adopted GASB 75 effective July 1, 2017, which required the recording of the Fund's allocated share of the net OPEB liability, deferred outflows, deferred inflows, and OPEB expense associated with the IRSHIP OPEB liability. The effect of implementing GASB 75 was recognized during the year ended June 30, 2018, and there was no restatement presented as of and for the year ended June 30, 2017.

The IRSHIP provides members with postretirement medical benefits until age 65 if the retiree and spouse pay the full active premium. Participation in the health insurance plan can elect to enroll in special coverage, and surviving spouses may continue in the Plan until age 65. Contributions to the health insurance plan are made by both participants and the Fund on a "pay as you go" basis. Fund contributions for the years ended June 30, 2020 and 2019, were approximately $4,200 and $5,800, respectively.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2020 and 2019, the Fund reported a liability for its proportionate share of the net IRSHIP OPEB liability. The net IRSHIP OPEB liability was measured as of June 30, 2019 and 2018, respectively, and the total IRSHIP OPEB liability used to calculate the net IRSHIP OPEB liability was determined by an actuarial valuation as of July 1, 2019 and 2018, respectively. The Fund's proportion of the net IRSHIP OPEB liability was based on the Fund's active employees as of July 1, 2019 and 2018, respectively, to all active employees of the State agencies included in the State of Oklahoma's calculation. Based upon this information, the Fund's proportion was 0.0390986% and 0.04927810% at June 30, 2020 and 2019, respectively.

See Independent Auditors' Report.

(9) OTHER POSTEMPLOYMENT EMPLOYEE BENEFITS, CONTINUED

IMPLICIT RATE SUBSIDY OF HEALTH INSURANCE OPEB LIABILITY, CONTINUED

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB, Continued

For the years ended June 30, 2020 and 2019, the Fund recognized OPEB expense of $(16,115) and $3,801, respectively. At June 30, 2020 and 2019, the Fund reported deferred outflows of resources and deferred inflows of resources related to the IRSHIP OPEB liability from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
2020		
Differences between expected and actual experience	$ -	463
Changes of assumptions	-	4,965
Fund contributions subsequent to the measurement date	4,201	-
	$ 4,201	5,428
2019		
Differences between expected and actual experience	$ -	479
Changes of assumptions	-	2,271
Fund contributions subsequent to the measurement date	5,765	-
	$ 5,765	2,750

Reported deferred outflows of resources of $4,201 related to OPEB resulting from the Fund's contributions subsequent to the measurement date will be recognized as a/an increase/decrease of the net OPEB liability in the year ending June 30, 2021. Deferred inflows of resources related to the IRSHIP OPEB liability as of June 30, 2020, will be recognized in OPEB expense as follows:

Years Ending June 30:	
2021	$ (2,610)
2022	(1,800)
2023	(1,018)
	$ (5,428)

See Independent Auditors' Report.

(9) OTHER POSTEMPLOYMENT EMPLOYEE BENEFITS, CONTINUED

IMPLICIT RATE SUBSIDY OF HEALTH INSURANCE OPEB LIABILITY, CONTINUED

Actuarial Methods and Assumptions

The total IRSHIP OPEB liability was determined based on actuarial valuations prepared using a July 1, 2019 and 2018, measurement date using the following actuarial assumptions:

- Investment return—Not applicable, as the health insurance plan is unfunded, and benefits are not paid from a qualifying trust.

- Mortality rates—

  For 2019, Pub-2010 Public Retirement Plans General Mortality Table weighted by Headcount projected by MP-2019.

  For 2018, Pub-2010 Public Retirement Plans General Mortality Table weighted by Headcount projected by MP-2018.

- Salary scale, retirement rate, withdrawal rate, and disability rate actuarial assumptions are based on rates for the various retirement systems that the health insurance plan's participants are in, including—

  - Oklahoma Public Employees Retirement System
  - Oklahoma Law Enforcement Retirement System
  - Teachers' Retirement System of Oklahoma
  - Uniform Retirement System of Justices & Judges
  - Oklahoma Department of Wildlife Conservation Defined Benefit Pension Plan

- Plan participation—40% of retired employees are assumed to participate in the health insurance plan.

(Continued)

See Independent Auditors' Report.

(9) OTHER POSTEMPLOYMENT EMPLOYEE BENEFITS, CONTINUED

IMPLICIT RATE SUBSIDY OF HEALTH INSURANCE OPEB LIABILITY, CONTINUED

Actuarial Methods and Assumptions, Continued

- Marital assumptions—

  Male participants: 25% who elect coverage are assumed to have a spouse who will receive coverage

  Female participants: 15% who elect coverage are assumed to have a spouse who will receive coverage

  Males are assumed to be 3 years older than their spouses

- Plan entry date is the date of hire

- Actuarial cost method—Entry age normal based upon salary

- Healthcare trend rate—7.10% decreasing to 4.60% for both 2019 and 2018.

The June 30, 2020, valuation is based on a measured date of July 1, 2019, with a measurement period of July 1, 2018, to July 1, 2019. The June 30, 2019, valuation is based on a measured date of July 1, 2018, with a measurement period of July 1, 2017, to July 1, 2018.

Discount Rate

The discount rate used to measure the total OPEB liability was 3.51% and 3.87% for June 30, 2020 and 2019, respectively. The discount rate was determined using the Bond Buyer Go 20-Bond Municipal Bond Index.

(9) OTHER POSTEMPLOYMENT EMPLOYEE BENEFITS, CONTINUED

IMPLICIT RATE SUBSIDY OF HEALTH INSURANCE OPEB LIABILITY, CONTINUED

Changes in the Net OPEB Liability

The following table reports the components of changes in the net OPEB liability as of and for the year ended June 30:

		2020	2019
Balance at beginning of year	$	72,045	73,578
Changes for the year:			
Service cost		2,026	2,557
Interest expense		2,203	2,615
Actual experience		(157)	(612)
Changes in assumptions		(1,727)	(668)
Benefits paid		(22,702)	(5,425)
Net changes		(20,357)	(1,533)
Balance at end of year	$	51,688	72,045

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate and Healthcare Trend Rate

Sensitivity of the net OPEB Liability to changes in the discount rate—The following presents the net IRSHIP OPEB liability of the Fund calculated using the discount rate of 3.51% and 3.87% for 2020 and 2019, respectively, as well as what the Fund's net IRSHIP OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

		1% Decrease (2.51%)	Current Discount Rate (3.51%)	1% Increase (4.51%)
June 30, 2020				
Net OPEB liability	$	55,173	51,688	48,435

		1% Decrease (2.87%)	Current Discount Rate (3.87%)	1% Increase (4.87%)
June 30, 2019				
Net OPEB liability	$	76,876	72,045	67,549

See Independent Auditors' Report.

(9) OTHER POSTEMPLOYMENT EMPLOYEE BENEFITS, CONTINUED

IMPLICIT RATE SUBSIDY OF HEALTH INSURANCE OPEB LIABILITY, CONTINUED

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate and Healthcare Trend Rate, Continued

Sensitivity of the net OPEB liability to changes in the healthcare trend rate—The following presents the net OPEB liability at June 30, 2020 and 2019, calculated using the healthcare trend rates shown in the table below for each respective year, as well as what the liability would be if it were calculated using a healthcare trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1% Decrease in Healthcare Trend Rate (4.30% decreasing to 4.00%)	Current Healthcare Trend Rate (5.30% decreasing to 5.00%)	1% Increase in Healthcare Trend Rate (6.30% decreasing to 6.00%)
2020			
Net OPEB liability	$ 47,308	51,688	56,788
2019			
Net OPEB liability	$ 65,560	72,045	79,574

A copy of the actuarial valuations for the IRSHIP OPEB liability can be obtained at the following link: http://omes.ok.gov/sites/g/files/gmc316/f/ActuarialValuationReport2020.pdf.

See Independent Auditors' Report.

(10) OKLAHOMA STATE EMPLOYEES DEFERRED COMPENSATION PLAN AND DEFERRED SAVINGS INCENTIVE PLAN

Deferred Compensation Plan

The State offers its employees a Deferred Compensation Plan as authorized by Section 457 of the Internal Revenue Code (IRC), as amended by the Tax Reform Act of 1986, and in accordance with the provisions of Sections 1701 through 1706 of Title 74 of the Oklahoma Statutes.

The supervisory authority for the management and operation of the Deferred Compensation Plan is the Board of Trustees of the Oklahoma Public Employees Retirement System (the "Board").

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

Participants may defer until future years up to the lesser of 100% of their compensation as defined by Deferred Compensation Plan documents or the maximum amount allowed each year as determined by the Internal Revenue Service.

The Deferred Compensation Plan offers a catch-up program to participants, which allows them to defer annually for the 3 years prior to their year of retirement up to twice that plan year's deferral limit. The amount of additional contributions in excess of the normal maximum contributions to the Deferred Compensation Plan is also limited to contributions for years in which the participant was eligible but did not participate in the Deferred Compensation Plan or the difference between contributions made and the maximum allowable level. To be eligible for the catch-up program, the participant must be within 3 years of retirement with no reduced benefits.

Participants age 50 or older may make additional contributions annually subject to certain limits.

Deferred compensation benefits are paid to participants or beneficiaries upon termination, retirement, death, or unforeseeable emergency. Such benefits are based on a participant's account balance and are disbursed in a lump sum or periodic payments at the option of the participant or beneficiaries in accordance with the Deferred Compensation Plan's provisions.

(10) OKLAHOMA STATE EMPLOYEES DEFERRED COMPENSATION PLAN AND DEFERRED SAVINGS INCENTIVE PLAN, CONTINUED

Deferred Compensation Plan, Continued

Effective January 1, 1998, the Board established a trust and a trust fund covering the Deferred Compensation Plan's assets, pursuant to federal legislation enacted in 1996, requiring public employers to establish such trusts for plans meeting the requirements of Section 457 of the IRC no later than January 1, 1999. Under the terms of the trust, the corpus or income of the trust fund may be used only for the exclusive benefit of the Deferred Compensation Plan's participants and their beneficiaries. Prior to the establishment of the trust, the Deferred Compensation Plan's assets were subject to the claims of general creditors of the State. The Board acts as trustee of the trust. The participants' accounts are invested in accordance with the investment elections of the participants. The Board is accountable for all deferred compensation received, but has no duty to require any compensation to be deferred or to determine that the amounts received comply with the Deferred Compensation Plan or to determine that the trust fund is adequate to provide the benefits payable pursuant to the Deferred Compensation Plan.

Further information may be obtained from the Deferred Compensation Plan's audited financial statements for the years ended June 30, 2020 and 2019. The Fund believes that it has no liabilities with respect to the Deferred Compensation Plan.

Deferred Savings Incentive Plan

Effective January 1, 1998, the State established the Oklahoma State Employees Deferred Savings Incentive Plan (the "Savings Incentive Plan") as a money purchase pension plan pursuant to IRC Section 401(a). The Savings Incentive Plan and its related trust are intended to meet the requirements of IRC Sections 401(a) and 501(a).

Any qualified participant who is a State employee who is an active participant in the Deferred Compensation Plan is eligible for a contribution of the amount determined by Oklahoma Legislature, currently the equivalent of $25 per month. Participation in the Savings Incentive Plan is automatic in the month of participation in the Deferred Compensation Plan and is not voluntary.

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

(10) OKLAHOMA STATE EMPLOYEES DEFERRED COMPENSATION PLAN AND DEFERRED SAVINGS INCENTIVE PLAN, CONTINUED

Deferred Savings Incentive Plan, Continued

Savings Incentive Plan benefits are paid to participants or beneficiaries upon termination, retirement, or death. Such benefits are based on a participant's account balance and are disbursed in a lump sum or periodic payments or may be rolled over to a qualified plan at the option of the participant or beneficiaries.

(11) OPERATING EXPENSES

The State constitutional amendment creating the Fund also provides for the payment of authorized administrative expenses of the Office of the State Treasurer and the Board of Directors. State statutes further specify that the State Treasurer shall provide any necessary staff support to the Board of Investors and may request funding for the cost of up to two full-time equivalent employees.

During 2007, State statutes were amended and specify that annual operating expenses shall not exceed 15% of certified earnings.

(12) COMMITMENTS AND CONTINGENCIES

Contracts

The Fund has entered into various contracts to assist in its program operations. The contracts are generally for a commitment of 1 year with options to renew.

Settlement Receipts

As part of the 2013 NPM Adjustment Arbitration settlement, the State agreed to take on additional responsibilities, many of which it was already performing. Major requirements of the settlement are that the State must enforce its Complementary Statute against contraband tobacco products and pay a per-stick amount for cigarette sales which have been taxed and stamped. Enforcement of the settlement is expected to require some State statutory changes. Once the agreement has been finalized, the State may receive additional funds in the future because, as part of the settlement, there will be no withholding from the State's Master Settlement Agreement (MSA) payment, which is expected to increase the State's future annual settlement receipts by an estimated additional $8 million to $10 million.

See Independent Auditors' Report.

(12) COMMITMENTS AND CONTINGENCIES, CONTINUED

COVID-19

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. TSET'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 TSET 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 TSET's future operations, the size and duration of which is difficult to predict. TSET's management will continue to actively monitor the situation and may take further actions altering operations that TSET's management determines are in the best interests of its employees and stakeholders, or as required by federal, state, or local authorities.

State Question 814

State Question 814 ('SQ 814') is a proposed amendment to the constitution of the State of Oklahoma that will appear on the November 3, 2020, ballot. If approved by voters, SQ 814 would lower the allocation that TSET receives of the State's settlement receipts from 75% to 25%, and direct the State's share of the settlement receipts to be appropriated in relation to securing federal matching funds for the State's Medicaid program. If approved, SQ 814 is expected to have a significant impact on the amount of settlement receipts received by TSET in future years.

REQUIRED SUPPLEMENTARY INFORMATION

Exhibit I

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

SCHEDULE OF THE FUND'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Oklahoma Public Employees Retirement Plan
Last 6 Fiscal Years*

	2020	2019	2018	2017	2016	2015
The Fund's proportion of the net pension liability	0.07682100%	0.09458290%	0.08440929%	0.07718124%	0.07518864%	0.06132439%
The Fund's proportionate share of the net pension liability	$ 102,316	184,477	456,370	765,816	270,441	112,570
The Fund's covered payroll	1,299,584	1,430,370	1,413,248	1,365,406	1,329,158	1,038,952
The Fund's proportionate share of the net pension liability as a percentage of its covered payroll	7.87%	12.90%	32.29%	56.09%	20.35%	10.83%
OPERS' fiduciary net position as a percentage of the total pension liability	98.63%	97.96%	94.28%	89.48%	96.00%	97.90%

* The amounts presented for each fiscal year were determined as of June 30 of the prior year.

Only the last 6 fiscal years are presented because 10-year data is not readily available.

See Independent Auditors' Report.

Exhibit II

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

SCHEDULE OF THE FUND'S CONTRIBUTIONS
Oklahoma Public Employees Retirement Plan
Last 10 Fiscal Years

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Contractually required contribution	$ 189,736	199,876	219,925	233,186	225,292	219,311	171,427	129,208	103,380	70,367
Contributions in relation to the contractually required contributions	189,736	199,876	219,925	233,186	225,292	219,311	171,427	129,208	103,380	70,367
Contribution deficiency (excess)	$ -	-	-	-	-	-	-	-	-	-
The Fund's covered payroll	$ 1,233,654	1,299,584	1,430,370	1,413,248	1,365,406	1,329,158	1,038,952	783,079	626,545	453,981
Contributions as a percentage of covered payroll*	15.38%	15.38%	15.38%	16.50%	16.50%	16.50%	16.50%	16.50%	16.50%	15.50%

*The fund implemented GASB 75 effective July 1, 2017; therefore, this amount represents the net percentage for the GASB 68 contribution to OPERS. When combined with the HISP percentage for GASB 75 contributions to OPERS, the total amount contributed to OPERS is 16.50%.

See Independent Auditors' Report.

Exhibit III

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

SCHEDULE OF THE FUND'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
Oklahoma Public Employees Health Insurance Subsidy Plan
Last 3 Fiscal Years*

	2020	2019	2018
The Fund's proportion of the net OPEB (asset) liability	0.07682100%	0.09458290%	0.08440929%
The Fund's proportionate share of the net OPEB (asset) liability	$ (29,864)	(12,240)	9,668
The Fund's covered payroll	1,299,584	1,430,370	1,413,248
The Fund's proportionate share of the net OPEB (asset) liability as a percentage of its covered payroll	(2.30)%	(.86)%	0.68%
OPERS' fiduciary net position as a percentage of the total OPEB (asset) liability	112.11%	103.94%	96.50%

* The amounts presented for each fiscal year were determined as of June 30 of the prior year.

Only the last 3 fiscal years are presented because 10-year data is not readily available.

See Independent Auditors' Report.

Exhibit IV

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

SCHEDULE OF THE FUND'S CONTRIBUTIONS
Oklahoma Public Employees Health Insurance Subsidy Plan

Last 3 Fiscal Years

	2020	2019	2018
Contractually required contribution	$ 13,817	14,620	16,086
Contributions in relation to the contractually required contributions	13,817	14,620	16,086
Contribution deficiency (excess)	$ -	-	-
The Fund's covered payroll	$ 1,233,654	1,299,584	1,430,370
Contributions as a percentage of covered payroll	1.12%	1.12%	1.12%

Only the last 3 fiscal years are presented because 10-year data is not readily available.

See Independent Auditors' Report.

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

SCHEDULE OF TSET'S CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
Implicit Rate Subsidy of Health Insurance
Last 3 Fiscal Years

	2020	2019	2018
Total OPEB liability:			
Service cost	$ 2,026	2,557	2,572
Interest	2,203	2,615	2,228
Actual experience	(157)	(612)	-
Changes in assumptions	(1,727)	(668)	(3,669)
Benefit payments, including refunds of member contributions	(22,702)	(5,425)	(6,296)
Adoption of GASB 75	-	-	78,743 *
Net change in total OPEB liability	(20,357)	(1,533)	73,578
Total OPEB liability—beginning	72,045	73,578	-
Total OPEB liability—ending	$ 51,688	72,045	73,578
Covered-employee payroll	$ 1,299,584	1,430,370	1,413,248
Total OPEB liability as a percentage of covered-employee payroll	3.98%	5.04%	5.21%

Only the last 3 fiscal years are presented because 10-year data is not readily available.

The discount rate used for 2020 and 2019 is 3.51% and 3.87%, respectively.

* Amount was recognized in the year of adoption

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*

Board of Directors and Board of Investors
Tobacco Settlement Endowment Trust Fund

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 governmental activities and the permanent fund of the Tobacco Settlement Endowment Trust Fund (the "Fund"), which is a part of the State of Oklahoma financial reporting entity, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated September 30, 2020. Our report includes an explanatory paragraph disclaiming an opinion on required supplementary information. In addition, our report also includes an explanatory paragraph to emphasize the fact that the financial statements include only that portion of the State of Oklahoma that is attributable to transactions of the Fund.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting ("internal control") as a basis for designing 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 Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund'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.

(Continued)

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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

Internal Control Over Financial Reporting, Continued

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund'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 Fund'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 Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Finley + Cook, PLLC

Shawnee, Oklahoma
September 30, 2020