

Tobacco Settlement Endowment Trust Fund

Financial Statements

June 30, 2021 and 2020
(With Independent Auditors' Report Thereon)

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

FINANCIAL STATEMENTS

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TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

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, 2021 and 2020, 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)

INDEPENDENT AUDITORS' REPORT, CONTINUED

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, 2021 and 2020, 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, 2021 and 2020, 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-16 and the schedules of the Fund's proportionate share of the net pension and OPEB liabilities and the schedules 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 29, 2021, 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 29, 2021

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

June 30, 2021 and 2020

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, 2021 and 2020. 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.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A), CONTINUED

June 30, 2021 and 2020

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 17, 2021, meeting, the Board of Investors certified \$118,859,430, reserving \$500,000 for possible audit adjustments. The estimated earnings available for certification for the period ended June 30, 2021, were \$123,243,629.

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.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A), CONTINUED

June 30, 2021 and 2020

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 2021, 2020, and 2019 fiscal years; the statements report all assets and liabilities using the accrual basis of accounting.

**Tobacco Settlement Endowment Trust Fund
Statements of Net Position**

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Assets			
Current assets	\$ 82,562,944	96,568,537	87,045,494
Investments, at fair value	1,662,239,597	1,311,796,351	1,275,118,724
Securities lending collateral—non-cash	56,934,077	35,135,707	40,676,550
Capital assets	<u>65,441</u>	<u>76,717</u>	<u>23,580</u>
Total assets	<u>1,801,802,059</u>	<u>1,443,577,312</u>	<u>1,402,864,348</u>
Deferred outflows of resources:			
Deferred amounts related to the pension and OPEB	<u>577,463</u>	<u>225,763</u>	<u>347,383</u>
Liabilities			
Current liabilities	20,596,214	18,872,577	17,705,635
Liability under securities lending	96,489,365	96,894,655	89,201,029
Noncurrent liabilities	<u>890,451</u>	<u>267,737</u>	<u>344,451</u>
Total liabilities	<u>117,976,030</u>	<u>116,034,969</u>	<u>107,251,115</u>
Deferred inflows of resources:			
Deferred amounts related to the pension and OPEB	<u>48,273</u>	<u>104,571</u>	<u>167,416</u>
Net Position			
Net investment in capital assets	65,441	76,717	23,580
Restricted for investment	1,483,034,799	1,206,810,105	1,174,234,769
Unrestricted	<u>201,254,979</u>	<u>120,776,713</u>	<u>121,534,851</u>
Total net position	<u>\$ 1,684,355,219</u>	<u>1,327,663,535</u>	<u>1,295,793,200</u>

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A), CONTINUED

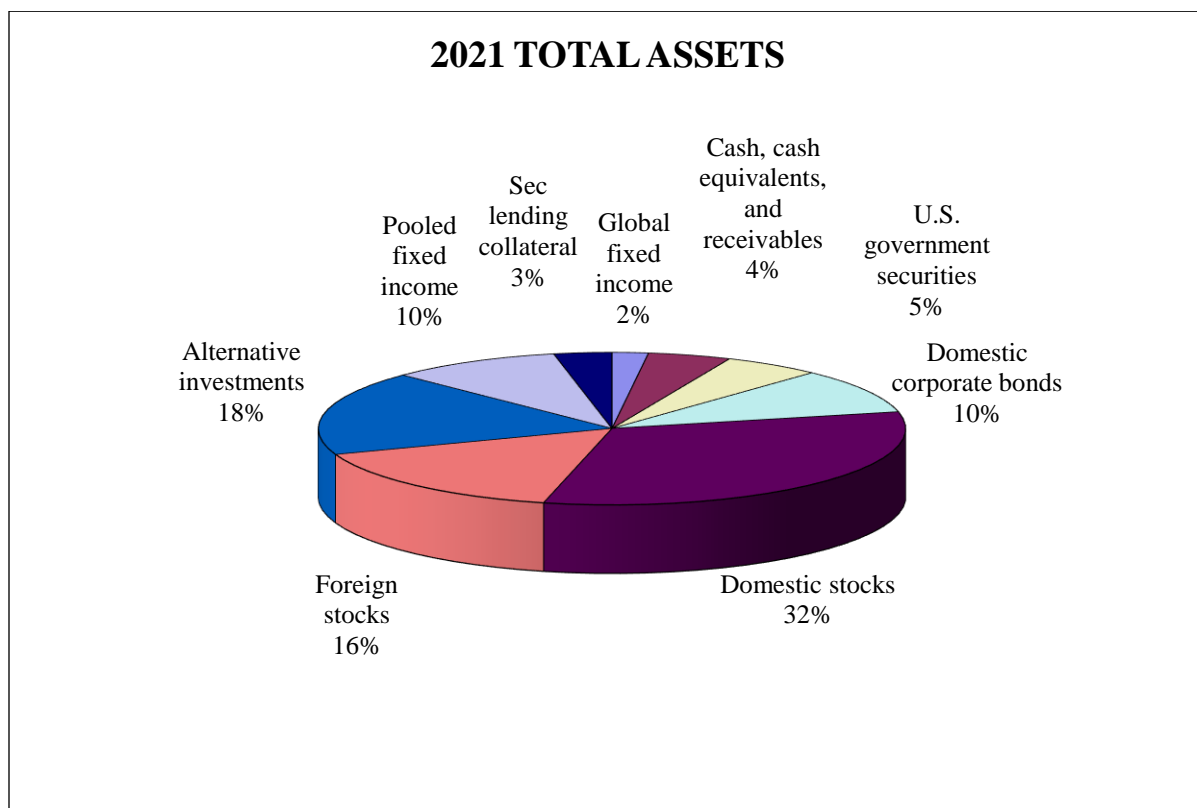
June 30, 2021 and 2020

FINANCIAL HIGHLIGHTS, CONTINUED

Statements of Net Position, Continued

The Fund's total net position increased \$356.69 million during the year, as the Fund invested an additional \$55.7 million in settlement receipts, recognized \$343 million as net investment income, and expended \$47.6 million on programs and operations. Total investments increased from \$1,311.80 million at the beginning of the year to \$1,662.24 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 \$300.7 million from the net appreciation of the fair value of the portfolio and earned \$42.1 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 \$39.6 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.



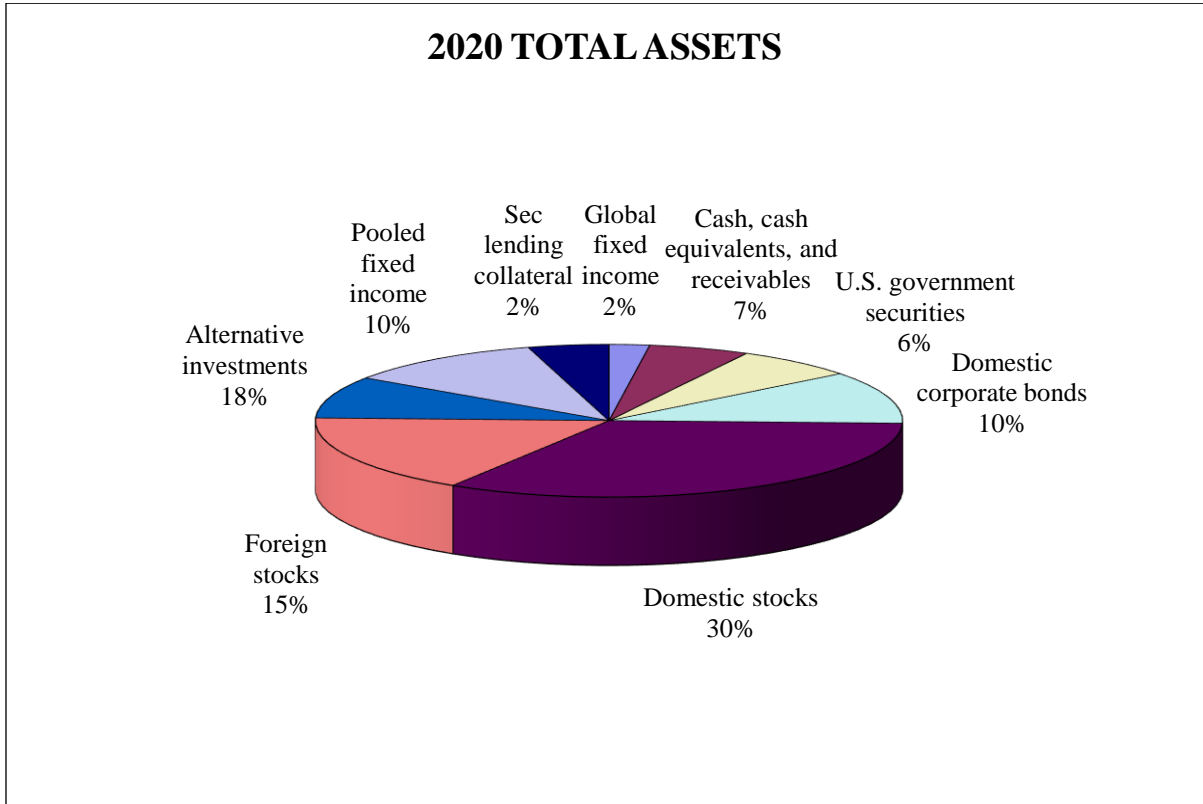
TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A), CONTINUED

June 30, 2021 and 2020

FINANCIAL HIGHLIGHTS, CONTINUED

Statements of Net Position, Continued



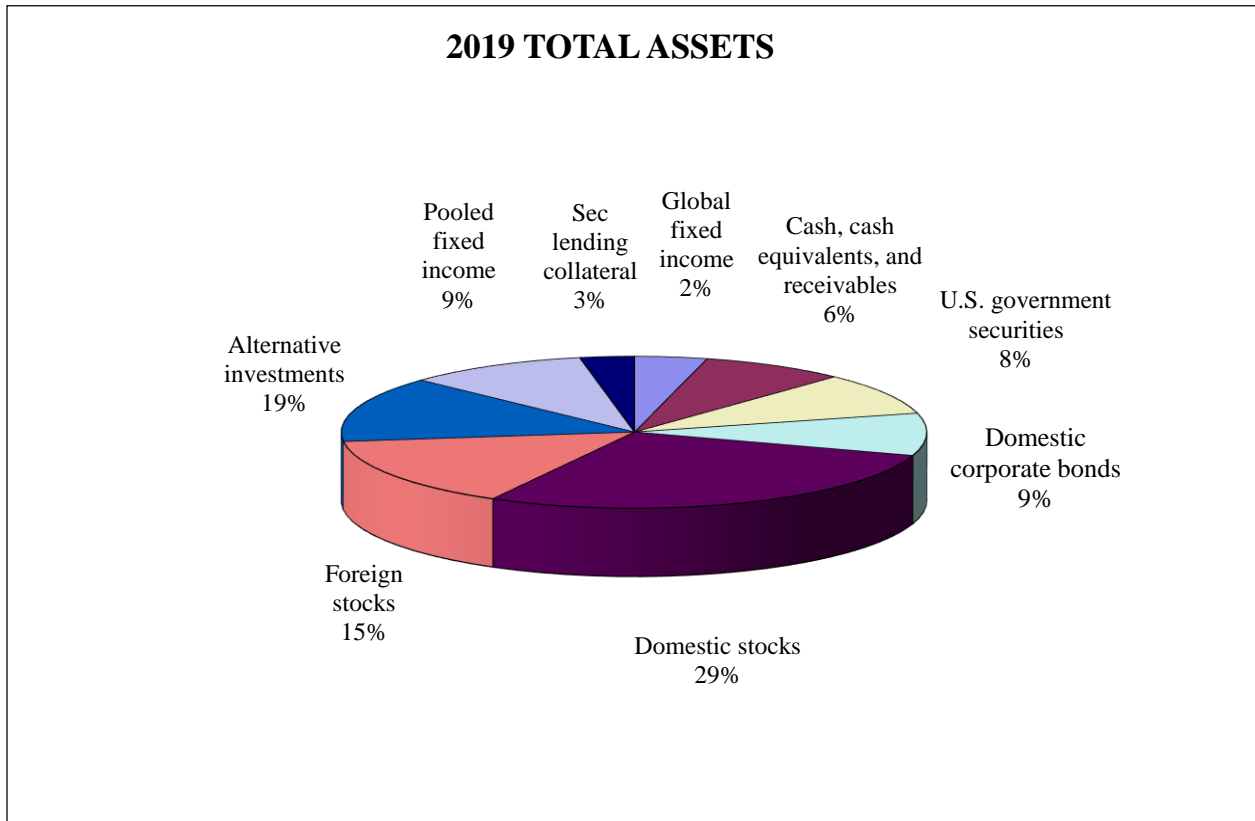
TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A), CONTINUED

June 30, 2021 and 2020

FINANCIAL HIGHLIGHTS, CONTINUED

Statements of Net Position, Continued



TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A), CONTINUED

June 30, 2021 and 2020

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

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Investment income:			
Interest and dividend income	\$ 49,025,470	44,391,351	42,939,801
Securities lending income	146,156	147,739	233,493
Net appreciation (depreciation) in fair value of investments:			
Net unrealized gains (losses)	219,728,681	(17,202,364)	4,125,668
Net realized gains	81,020,359	4,848,257	23,371,397
	<u>300,749,040</u>	<u>(12,354,107)</u>	<u>27,497,065</u>
Total investment income	349,920,666	32,184,983	70,670,359
Investment expenses	(6,948,356)	(7,896,381)	(6,334,913)
Net investment income	<u>342,972,310</u>	<u>24,288,602</u>	<u>64,335,446</u>
Other income:			
Contract income	4,853,434	4,786,777	1,917,985
Miscellaneous income	21,848	67,140	25,714
Total other income	<u>4,875,282</u>	<u>4,853,917</u>	<u>1,943,699</u>
Expenses:			
Program	46,007,660	45,543,588	45,801,808
Operating	1,622,413	1,439,156	1,514,470
Total expenses	<u>47,630,073</u>	<u>46,982,744</u>	<u>47,316,278</u>
Changes in net position before settlement receipts	300,217,519	(17,840,225)	18,962,867
Contribution to fund principal:			
Other miscellaneous receipts	752,712	-	-
Settlement receipts	55,721,453	49,710,560	52,325,117
Changes in net position	<u>356,691,684</u>	<u>31,870,335</u>	<u>71,287,984</u>
Net position, beginning of year	<u>1,327,663,535</u>	<u>1,295,793,200</u>	<u>1,224,505,216</u>
Net position, end of year	<u>\$1,684,355,219</u>	<u>1,327,663,535</u>	<u>1,295,793,200</u>

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

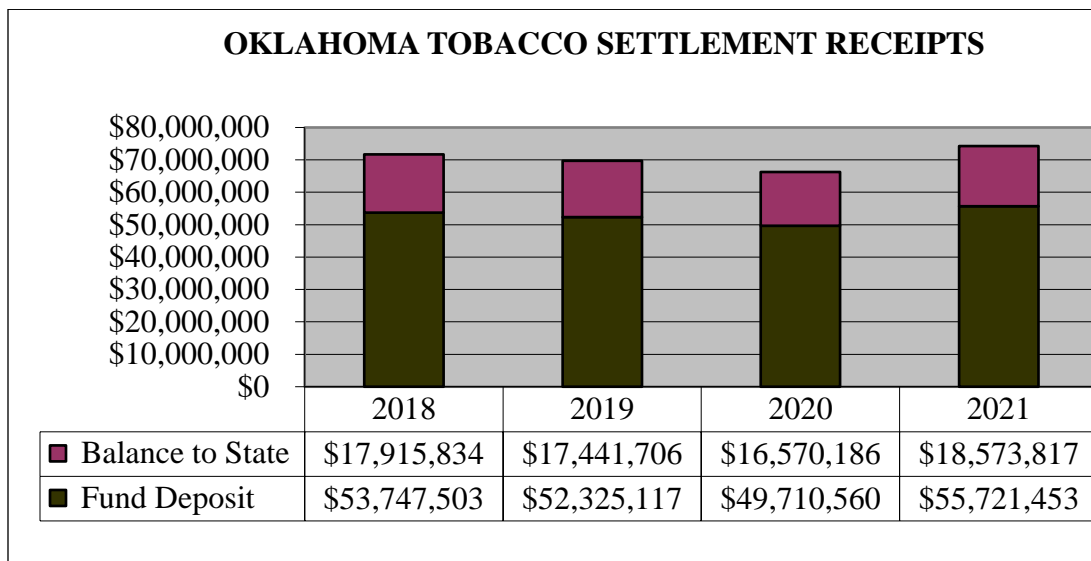
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A), CONTINUED

June 30, 2021 and 2020

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, 2021 and 2020, 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 increased by \$6,010,893 from 2020.



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, 2021, net investment income increased by \$318.7 million. Interest and dividend income increased \$4.6 million, while the net appreciation of investments in the Fund’s portfolio increased \$313.1 million. Fees paid to investment managers, consultants, and custodians decreased \$0.95 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.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A), CONTINUED

June 30, 2021 and 2020

FINANCIAL HIGHLIGHTS, CONTINUED

Overview

Established by voters, the Fund is a state grantmaking trust devoted to preventing cancer and cardiovascular disease, Oklahoma's leading causes of death. By awarding grants to schools, communities, state agencies and partner organizations, the Fund works to improve the health of Oklahoma's citizens. It also funds research and emerging opportunities in the public and private sectors. The Fund's initiatives are addressing Oklahoma's most pressing public health issues — and creating healthier places for all Oklahomans to live, work, learn, and play.

Since the Fund's inception, more than 47,000 lives have been saved and Oklahoma's smoking rate has dropped 10x faster than similar states. However, new and emerging products threaten to curb this progress and tobacco kills more than 7,500 Oklahomans each year, indicating the need for a long-term strategy to prevent young people from starting tobacco use and to help people quit.

In FY21, Oklahoma voters rejected a proposed state question that would have decreased the Fund's share of each year's payment from the Master Settlement Agreement. By an overwhelming margin, voters showed their support for the Fund, the Fund programs, and the Fund's structure as included in the Oklahoma Constitution 20 years ago.

In FY21, the Fund's total budget was \$45,998,581 with administrative costs accounting for 3.6% of the total budget. By statute, the administration budget is capped at 15% of certified earnings. The board uses a 3-year rolling average of previous years' certified earnings to guide budget decisions. The Fund's 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.

Following the 3-year strategic plan adopted by the Board of Directors in FY20, the Fund focused on programs that improve healthy behaviors, target youth, and achieve measurable improvements in the health of Oklahomans.

In FY21, the COVID pandemic continued to be a significant factor in the Fund's work. With automation, paperless processes, and virtual meeting capabilities, the Fund's programs continued to hit milestones and program objectives. Grantee work was impacted by COVID risk mitigation efforts, but the pandemic also prompted innovation in trainings, gatherings, and grantee outcomes.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A), CONTINUED

June 30, 2021 and 2020

FINANCIAL HIGHLIGHTS, CONTINUED

Improve Healthy Behaviors

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.

The Fund funds 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 among patients and clients. Over the course of the grant, more than 47,000 referrals have been made to the Oklahoma Tobacco Helpline through the Fund's work with the Oklahoma Department of Mental Health and Substance Abuse 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.

The Fund's Healthy Incentive Grants are designed to encourage school sites, districts, and communities to adopt policies that promote tobacco-free environments, good nutrition, active lifestyles and employee wellness. Grant funds can be used for a variety of projects including capital improvements, equipment, training and curriculum. In FY21, the Fund's incentive grants for schools and communities reached 61,161 community members and 56,745 students in 26 counties. To date, the Fund has awarded over \$7.2 million in incentive grants.

As part of the 5-year Healthy Living Program (HLP) grant that began in FY21, grantees worked with local groups to analyze data and choose from a menu of strategies that seek to prevent and reduce tobacco use and obesity. In FY21, the Fund's HLP mobilized 37 collaborative groups with a membership of 371 individuals and/or organizations committed to participate in the assessment, planning and implementation activities that will take place over the course of the Fund's HLP grant. The HLP budget for FY21 was \$6.4 million.

Previous community partnerships through HLP have resulted in local efforts to increase sidewalk miles, bike lanes and complete street policies in rural communities to increase opportunities for physical activity. Grantees also work with businesses to promote tobacco-free workplaces and other health promoting policies. 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.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A), CONTINUED

June 30, 2021 and 2020

FINANCIAL HIGHLIGHTS, CONTINUED

Youth

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. Oklahoma youth are also facing rising rates of obesity. To help tackle these trends, the Fund launched the Healthy Youth Initiative to educate Oklahoma teens and help them make informed choices about their health. The multifaceted statewide media campaign addresses vape and tobacco use as well as obesity among Oklahoma youth ages 13-18. "Down and Dirty" is designed to change tobacco and vape-related attitudes and behaviors among rural teens. "Behind the Haze" delivers educational content exposing the truth about e-cigarettes and discouraging teens from vape use. To help those teens already addicted to nicotine, the Fund launched My Life My Quit, a program that offers text-based cessation coaching for Oklahoma youth 13-17.

Empowering youth to make and support healthy choices is foundational to improving health in Oklahoma. Investing in youth reduces risky health behaviors before they take root.

As such, the Fund launched a new youth advocacy program in FY21. Youth Action for Health Leadership (YAHL) is a youth-led program available to high school student clubs and organizations across Oklahoma starting this fall. Through YAHL, teens will learn invaluable leadership skills and gain resources to advocate for healthy changes in their communities. In its first year, YAHL aims to recruit 40 clubs and engage 1,000 youths across Oklahoma.

Finally, the Fund's staff shared expertise in reducing childhood obesity with the Oklahoma Whole School, Whole Community, Whole Child (OK WSCC) Coalition and participation in statewide workgroups working to prevent and reduce childhood obesity.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A), CONTINUED

June 30, 2021 and 2020

FINANCIAL HIGHLIGHTS, CONTINUED

Measurable Improvements

Established in 2003, the Oklahoma Tobacco Helpline (OTH) is a free service available 24/7 to Oklahomans that are 18 years of age and older who are interested in quitting tobacco. Services through the OTH include free text or email support, mailed materials, and phone and web coaching. Coaching includes setting a quit date, developing a quit plan, stress management strategies, and a relapse prevention plan. OTH is collaboratively funded by the Fund, 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).

OTH is the top-ranked quitline in the North American Quitline Consortium for reaching tobacco users in need of treatment. The FY21 OTH budget was \$3.5 million. To date, OTH has served more than 450,000 people. Oklahoma's tobacco helpline has consistently met or exceeded national benchmarks for reaching tobacco users in need of treatment and outpaces other states in the total number of people using the free cessation services.

In addition to OTH, the Fund funds several research programs focused on decreasing the burden of cancer, supporting research and reducing the toll of tobacco and obesity-related diseases.

The Peggy and Charles Stephenson Cancer Center (SCC) grant was renewed in FY17 in the amount of \$31.3 million over five years. The FY21 budget was \$5.3 million. Thanks in part to the Fund's funding, the Stephenson Cancer Center was awarded NCI Designation in FY18. With this award, Stephenson Cancer Center joined 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. Stephenson Cancer Center is the only NCI-Designated Cancer Center in Oklahoma.

The Fund continued support of the Health Promotion Research Center (HPRC) at \$3.8 million per year. The mission of the HPRC is to reduce the burden of disease in Oklahoma by addressing modifiable health risk factors such as tobacco use, sedentary lifestyle, poor diet, and risky alcohol and other substance use through research, novel intervention development, and dissemination of research findings. The FY21 budget was \$3.7 million.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A), CONTINUED

June 30, 2021 and 2020

FINANCIAL HIGHLIGHTS, CONTINUED

Measurable Improvements, Continued

The Oklahoma Center for Adult Stem Cell Research (OCASCR), established in FY10, 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. OCASCR's mission is to promote and encourage adult stem cell and regenerative medicine research in the State of Oklahoma. Harnessing knowledge about adult stem cells to repair damaged organs could help Oklahoma scientists address prevalent diseases in our state while increasing their competitiveness for federal research funds. OCASCR's FY21 budget was \$2.9 million. For every dollar invested by the Fund in OCASCR research since the beginning of the partnership, OCASCR scientists have received five dollars from other organizations, translating into an economic impact of at least \$182 million for the State of Oklahoma.

Through a grant to the Physician Manpower Training Commission (PMTTC) the Fund helps fund the Oklahoma Medical Loan Repayment Program, which recruits physicians to practice in rural and medically underserved areas. The FY21 grant to PMTC was \$400,000 and supports 38 physicians practicing across the state. Each primary care physician in rural Oklahoma will generate an estimated \$1.9 million each year in their local economy. Since the program began, physicians have logged more than 387,459 patient visits and more than 28% of those patients are insured by SoonerCare.

Best Practices

The Fund continues to look for emerging opportunities and consistently evaluates its programs and outcomes to ensure best practices. In April 2021, the Fund hired its first epidemiologist with the goal of improving the Fund's capabilities in data gathering, data analytics, and trend analyses.

In FY21, the Fund's HLP grantees held 134 community listening sessions across the state to offer community members the opportunity to engage in important and dynamic conversations about health in their community. Overall, 901 community members participated in these discussions. Further, 10,867 community members participated in the HLP Community Needs Assessment Survey with representation across 337 cities and towns covering 40 counties. This data gathering at the local level will help to inform the implementation of grant plans over the next four years.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A), CONTINUED

June 30, 2021 and 2020

FUND HIGHLIGHTS, CONTINUED

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**

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Assets:			
Cash and cash equivalents	\$ 77,198,711	92,289,866	82,590,907
Interest and dividends receivable	3,379,032	3,282,371	3,900,871
Contract receivable	1,974,069	982,777	541,717
Securities lending receivable	11,132	13,523	11,999
Securities lending collateral—non-cash	56,934,077	35,135,707	40,676,550
Investments at fair value	<u>1,662,239,597</u>	<u>1,311,796,351</u>	<u>1,275,118,724</u>
Total assets	<u>\$1,801,736,618</u>	<u>1,443,500,595</u>	<u>1,402,840,768</u>
Liabilities:			
Net payable to brokers	\$ 11,766,333	9,144,906	8,545,728
Accounts payable	8,742,605	9,631,940	9,093,127
Liability under securities lending	<u>96,489,365</u>	<u>96,894,655</u>	<u>89,201,029</u>
Total liabilities	<u>116,998,303</u>	<u>115,671,501</u>	<u>106,839,884</u>
Fund Balances:			
Nonspendable	1,483,034,799	1,206,810,105	1,174,234,769
Assigned	78,459,887	79,528,023	61,556,337
Unassigned	<u>123,243,629</u>	<u>41,490,966</u>	<u>60,209,778</u>
Total fund balances	<u>1,684,738,315</u>	<u>1,327,829,094</u>	<u>1,296,000,884</u>
Total liabilities and fund balances	<u>\$1,801,736,618</u>	<u>1,443,500,595</u>	<u>1,402,840,768</u>

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A), CONTINUED

June 30, 2021 and 2020

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**

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Revenues:			
Restricted:			
Net appreciation (depreciation) in fair value of investments:			
Net unrealized gains (losses)	\$ 219,728,681	(17,202,364)	4,125,668
Other miscellaneous receipts	752,712	-	-
Settlement receipts	55,721,453	49,710,560	52,325,117
Miscellaneous income	21,848	67,140	25,714
Total restricted revenues	<u>276,224,694</u>	<u>32,575,336</u>	<u>56,476,499</u>
Interest and dividend income	49,025,470	44,391,351	42,939,801
Net realized gains	81,020,359	4,848,257	23,371,397
Securities lending income	146,156	147,739	233,493
Contract income	4,853,434	4,786,777	1,917,985
Total revenues	<u>411,270,113</u>	<u>86,749,460</u>	<u>124,939,175</u>
Expenditures:			
Program and grant management support	2,944,994	2,123,400	1,418,810
Statewide programs	4,672,958	5,035,261	6,237,776
Community programs	7,217,058	11,876,918	12,865,216
Evaluation services	1,603,083	1,394,240	1,532,068
Furniture and equipment	1,576	71,271	2,247
Research	12,830,100	10,387,672	12,236,256
Investment management fees	6,948,356	7,896,381	6,334,913
Health communications	16,739,467	14,726,097	11,511,682
General operations and administrative expenses	1,403,300	1,410,010	1,609,149
Total expenditures	<u>54,360,892</u>	<u>54,921,250</u>	<u>53,748,117</u>
Net changes in fund balances	356,909,221	31,828,210	71,191,058
Fund balances, beginning of year	<u>1,327,829,094</u>	<u>1,296,000,884</u>	<u>1,224,809,826</u>
Fund balances, end of year	<u>\$ 1,684,738,315</u>	<u>1,327,829,094</u>	<u>1,296,000,884</u>

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A), CONTINUED

June 30, 2021 and 2020

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

<i>June 30,</i>	<i>2021</i>	<i>2020</i>
Assets		
Cash and cash equivalents:		
Unrestricted cash	\$ 37,643,423	30,530,918
Restricted cash:		
Securities lending collateral	<u>39,555,288</u>	<u>61,758,948</u>
Total cash and cash equivalents	<u>77,198,711</u>	<u>92,289,866</u>
Receivables:		
Interest and dividends	3,379,032	3,282,371
Contract receivable	1,974,069	982,777
Securities lending receivable	<u>11,132</u>	<u>13,523</u>
Total receivables	<u>5,364,233</u>	<u>4,278,671</u>
Investments, at fair value:		
U.S. government securities	97,263,723	92,698,481
Foreign government securities	9,263,565	7,233,951
Domestic corporate bonds	173,483,875	142,260,155
Foreign corporate bonds	24,572,762	21,643,180
Domestic stocks	582,911,106	430,912,598
Foreign stocks	285,064,311	216,711,421
Pooled fixed income funds	171,878,922	139,244,888
Alternative investments	<u>317,801,333</u>	<u>261,091,677</u>
Total investments, at fair value	<u>1,662,239,597</u>	<u>1,311,796,351</u>
Securities lending collateral—non-cash	<u>56,934,077</u>	<u>35,135,707</u>
Capital assets, net of accumulated depreciation of \$242,022 and \$229,311 as of June 30, 2021 and 2020, respectively.	<u>65,441</u>	<u>76,717</u>
Total assets	<u>1,801,802,059</u>	<u>1,443,577,312</u>
Deferred outflows of resources:		
Deferred amounts related to the pension	535,129	201,299
Deferred amounts related to OPEB	<u>42,334</u>	<u>24,464</u>
	<u>577,463</u>	<u>225,763</u>

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

(Continued)

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND**STATEMENTS OF NET POSITION, CONTINUED**

<i>June 30,</i>	<i>2021</i>	<i>2020</i>
Liabilities		
Net payable to brokers	11,766,333	9,144,906
Accounts payable	8,742,605	9,631,940
Liability under securities lending	96,489,365	96,894,655
Net pension liability—amount due in more than 1 year	742,509	102,316
Net OPEB liability—amount due in more than 1 year	17,028	21,824
Compensated absences:		
Payable within 1 year	87,276	95,731
Payable after 1 year	130,914	143,597
Total liabilities	<u>117,976,030</u>	<u>116,034,969</u>
Deferred inflows of resources:		
Deferred amounts related to the pension	9,607	69,904
Deferred amounts related to OPEB	38,666	34,667
	<u>48,273</u>	<u>104,571</u>
Net Position		
Net investment in capital assets	65,441	76,717
Restricted for investment	1,483,034,799	1,206,810,105
Unrestricted	<u>201,254,979</u>	<u>120,776,713</u>
Total net position	<u>\$ 1,684,355,219</u>	<u>1,327,663,535</u>

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

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

STATEMENTS OF ACTIVITIES

<i>Years Ended June 30,</i>	<i>2021</i>	<i>2020</i>
Expenses:		
Program:		
Program and grant management support	\$ 2,944,994	2,123,400
Statewide programs	4,672,958	5,035,261
Community programs	7,217,058	11,876,918
Evaluation services	1,603,083	1,394,240
Health communications	16,739,467	14,726,097
Research	12,830,100	10,387,672
Total program expenses	<u>46,007,660</u>	<u>45,543,588</u>
Operating:		
General operations and administrative expenses	1,609,702	1,422,925
Depreciation	12,711	16,231
Total operating expenses	<u>1,622,413</u>	<u>1,439,156</u>
Total expenses	<u>47,630,073</u>	<u>46,982,744</u>
Investment income:		
Interest income	15,229,406	17,178,079
Dividend income	33,796,064	27,213,272
Securities lending income	146,156	147,739
Net appreciation (depreciation) in fair value of investments:		
Net unrealized gains (losses)	219,728,681	(17,202,364)
Net realized gains	81,020,359	4,848,257
	<u>300,749,040</u>	<u>(12,354,107)</u>
Total investment income	349,920,666	32,184,983
Investment expenses	(6,948,356)	(7,896,381)
Net investment income	<u>342,972,310</u>	<u>24,288,602</u>
Other income:		
Contract income	4,853,434	4,786,777
Miscellaneous income	21,848	67,140
Total other income	<u>4,875,282</u>	<u>4,853,917</u>
Changes in net position, before settlement receipts	<u>300,217,519</u>	<u>(17,840,225)</u>

(Continued)

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

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

STATEMENTS OF ACTIVITIES, CONTINUED

<i>Years Ended June 30,</i>	<i>2021</i>	<i>2020</i>
Contribution to fund principal:		
Other miscellaneous receipts	752,712	-
Settlement receipts	<u>55,721,453</u>	<u>49,710,560</u>
Changes in net position	356,691,684	31,870,335
Net position, beginning of year	<u>1,327,663,535</u>	<u>1,295,793,200</u>
Net position, end of year	<u><u>\$ 1,684,355,219</u></u>	<u><u>1,327,663,535</u></u>

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

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

BALANCE SHEETS—PERMANENT FUND

<i>June 30,</i>	<i>2021</i>	<i>2020</i>
Assets		
Cash and cash equivalents:		
Unrestricted cash	\$ 37,643,423	30,530,918
Restricted cash:		
Securities lending collateral	39,555,288	61,758,948
Total cash and cash equivalents	<u>77,198,711</u>	<u>92,289,866</u>
Receivables:		
Interest and dividends	3,379,032	3,282,371
Contract receivable	1,974,069	982,777
Securities lending receivable	11,132	13,523
Total receivables	<u>5,364,233</u>	<u>4,278,671</u>
Investments, at fair value:		
U.S. government securities	97,263,723	92,698,481
Foreign government securities	9,263,565	7,233,951
Domestic corporate bonds	173,483,875	142,260,155
Foreign corporate bonds	24,572,762	21,643,180
Domestic stocks	582,911,106	430,912,598
Foreign stocks	285,064,311	216,711,421
Pooled fixed income funds	171,878,922	139,244,888
Alternative investments	317,801,333	261,091,677
Total investments, at fair value	<u>1,662,239,597</u>	<u>1,311,796,351</u>
Securities lending collateral—non cash	<u>56,934,077</u>	<u>35,135,707</u>
Total assets	<u>\$ 1,801,736,618</u>	<u>1,443,500,595</u>
Liabilities and Fund Balances		
Liabilities:		
Net payable to brokers	\$ 11,766,333	9,144,906
Accounts payable	8,742,605	9,631,940
Liability under securities lending	96,489,365	96,894,655
Total liabilities	<u>116,998,303</u>	<u>115,671,501</u>
Fund balances:		
Nonspendable	1,483,034,799	1,206,810,105
Assigned	78,459,887	79,528,023
Unassigned	123,243,629	41,490,966
Total fund balances	<u>1,684,738,315</u>	<u>1,327,829,094</u>
Total liabilities and fund balances	<u>\$ 1,801,736,618</u>	<u>1,443,500,595</u>

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**

<i>June 30,</i>	<i>2021</i>	<i>2020</i>
Total fund balances, per the balance sheets—permanent fund	\$ 1,684,738,315	1,327,829,094
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.	65,441	76,717
Deferred outflows related to the pension and OPEB are not financial resources and therefore are not reported in the funds.	577,463	225,763
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	(218,190)	(239,328)
Net pension liability	(742,509)	(102,316)
Net OPEB liability	(17,028)	(21,824)
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.	<u>(48,273)</u>	<u>(104,571)</u>
Net position, per the statements of net position	<u>\$ 1,684,355,219</u>	<u>1,327,663,535</u>

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**

<i>Years Ended June 30,</i>	<i>2021</i>	<i>2020</i>
Revenues:		
Restricted:		
Net appreciation (depreciation) in fair value of investments:		
Net unrealized gains (losses)	\$ 219,728,681	(17,202,364)
Other miscellaneous receipts	752,712	-
Settlement receipts	55,721,453	49,710,560
Miscellaneous income	21,848	67,140
Total restricted revenues	<u>276,224,694</u>	<u>32,575,336</u>
Interest income	15,229,406	17,178,079
Dividend income	33,796,064	27,213,272
Net realized gains	81,020,359	4,848,257
Securities lending income	146,156	147,739
Contract income	4,853,434	4,786,777
Total revenues	<u>411,270,113</u>	<u>86,749,460</u>
Expenditures:		
Program and grant management support	2,944,994	2,123,400
Statewide programs	4,672,958	5,035,261
Community programs	7,217,058	11,876,918
Evaluation services	1,603,083	1,394,240
Furniture and equipment	1,576	71,271
Research	12,830,100	10,387,672
Investment management fees	6,948,356	7,896,381
Health communications	16,739,467	14,726,097
General operations and administrative expenses	1,403,300	1,410,010
Total expenditures	<u>54,360,892</u>	<u>54,921,250</u>
Net changes in fund balances	356,909,221	31,828,210
Fund balances, beginning of year	<u>1,327,829,094</u>	<u>1,296,000,884</u>
Fund balances, end of year	<u><u>\$ 1,684,738,315</u></u>	<u><u>1,327,829,094</u></u>

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**

<i>Years Ended June 30,</i>	<i>2021</i>	<i>2020</i>
Net changes in fund balances, per the statements of revenues, expenditures, and changes in fund balances—permanent fund	\$ 356,909,221	31,828,210
<p>Amounts reported in the statements of activities are different because:</p>		
<p>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.</p>	(11,276)	53,137
<p>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.</p>	21,139	(72,380)
<p>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.</p>	<u>(227,400)</u>	<u>61,368</u>
Changes in net position, per the statements of activities	<u>\$ 356,691,684</u>	<u>31,870,335</u>

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

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

(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.

See Independent Auditors’ Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(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.

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(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.

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(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:

	<u>Fair Value</u>	
	<u>2021</u>	<u>2020</u>
Securities loaned:		
U.S. government securities	\$ 19,559,354	10,370,977
U.S. corporate bonds	7,072,799	45,156,100
U.S. equity	47,434,164	29,603,927
Foreign	<u>18,813,617</u>	<u>8,868,320</u>
Total securities loaned	<u>\$ 92,879,934</u>	<u>93,999,324</u>
Collateral maintained for securities loaned	<u>\$ 96,489,365</u>	<u>96,894,655</u>
Percentage of collateral to securities loaned as of June 30	<u>103.89%</u>	<u>103.08%</u>

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, 2021, collateral was presented in both cash (U.S. currency), and non-cash securities. The total value of the collateral held at June 30, 2021 and 2020, was \$3,609,431 and \$2,895,331, 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.

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Securities Lending, Continued

At June 30, 2021, cash collateral was \$39,555,288 and non-cash collateral totaled \$56,934,077. Non-cash collateral consisted of the following:

<u>Description</u>	<u>Value</u>
U.S. government debt—Treasuries	\$ 29,700,414
U.S. government agencies (i.e., FNMA, GNMA, FMAC)	1,761,865
Foreign securities	<u>25,471,798</u>
	<u>\$ 56,934,077</u>

Securities lending income included as certified earnings was \$146,156 and \$147,739 for the fiscal years ended June 30, 2021 and 2020, 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.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(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.

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(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, the Fund had the following contributions to Pathfinder:

	<u>2021</u>	<u>2020</u>
Fund's portion	\$ <u>26,046</u>	<u>35,344</u>

Other Postemployment Benefits (OPEB)

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. The Fund adopted GASB 84 effective July 1, 2020, which did not have a significant impact on its financial statements.

See Independent Auditors’ Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(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. The Fund is currently evaluating the impact GASB 87 will have on its financial statements.

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

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* (GASB 89). GASB 89 directs that interest costs incurred during the construction period of an asset be expensed in the period incurred. GASB 89 changes previous guidance regarding capitalized construction costs where such costs were typically included in the capitalized cost of the asset constructed and depreciated over time. The Fund will adopt GASB 89 on July 1, 2021, for the June 30, 2022, reporting year. The Fund 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. The Fund adopted GASB 90 effective July 1, 2020, which did not have a significant impact on the financial statements.

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(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. The Fund will adopt GASB 91 effective July 1, 2022, for the June 30, 2023, reporting year. The Fund 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. The Fund is currently evaluating the impact that the adoption of GASB 92 will have on its financial statements.

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TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(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. The Fund 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. The Fund 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.

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TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(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. The Fund 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. The Fund is currently evaluating the impact that the adoption of GASB 97 will have on its financial statements.

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(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 29, 2021, 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:

	<u>2021</u>	<u>2020</u>
Cash on deposit with the State	\$ 2,510,463	5,666,723
Foreign currency	1,283,983	493,408
Collateral from securities lending—restricted cash	39,555,288	61,758,948
Cash and equivalents	9,888,769	7,890,632
Money market mutual fund	<u>23,960,208</u>	<u>16,480,155</u>
	<u>\$ 77,198,711</u>	<u>92,289,866</u>

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.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(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:

	2021	
	<u>Fair Value</u> <i>(Expressed in thousands)</i>	Moody <u>Rating</u>
U.S. government agencies (held in U.S. currency):		
U.S. Treasury bonds	\$ 2,476	AAA
U.S. Treasury notes	39,324	AAA
Federal Home Loan Mortgage Corporation	266	AAA
Federal National Mortgage Corporation	5,773	AAA
Government National Mortgage Association	102	AAA
Other	16,223	AAA
Other	7,517	AAA
Other	1,814	A1
Other	8,124	AA1
Other	7,028	AA2
Other	3,588	AA3
Other	485	BAA1
Other	4,544	NA
	<u>97,264</u>	
Corporate bonds (held in U.S. currency):		
Domestic bonds	7,793	A1
Domestic bonds	23,220	A2
Domestic bonds	3,670	A3
Domestic bonds	1,733	AA1
Domestic bonds	5,260	AA2
Domestic bonds	2,868	AA3
Domestic bonds	7,657	AAA
Domestic bonds	14,702	B1
Domestic bonds	6,648	B2
Domestic bonds	5,909	B3
Domestic bonds	8,327	BA1
Domestic bonds	17,054	BA2
Domestic bonds	15,943	BA3

(Continued)

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) CASH AND INVESTMENTS, CONTINUED

Credit Risk, Continued

	2021	
	<u>Fair Value</u> <i>(Expressed in thousands)</i>	Moody <u>Rating</u>
Corporate bonds (held in U.S. currency), Continued:		
Domestic bonds	5,766	BAA1
Domestic bonds	8,048	BAA2
Domestic bonds	16,381	BAA3
Domestic bonds	186	C
Domestic bonds	362	CA
Domestic bonds	1,760	CAA1
Domestic bonds	1,475	CAA2
Domestic bonds	375	CAA3
Domestic bonds	<u>18,347</u>	NA/NR/WR
	<u>173,484</u>	
Foreign corporate bonds (held in U.S. currency):		
Foreign bonds	1,579	A1
Foreign bonds	1,152	A3
Foreign bonds	43	AA2
Foreign bonds	2,038	B1
Foreign bonds	1,665	B2
Foreign bonds	3,320	B3
Foreign bonds	905	BA1
Foreign bonds	3,597	BA2

(Continued)

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) CASH AND INVESTMENTS, CONTINUED

Credit Risk, Continued

	2021	
	<u>Fair Value</u>	Moody
	<i>(Expressed in thousands)</i>	<u>Rating</u>
Foreign corporate bonds (held in U.S. currency), Continued:		
Foreign bonds	1,648	BA3
Foreign bonds	808	BAA1
Foreign bonds	442	BAA2
Foreign bonds	1,459	BAA3
Foreign bonds	383	CAA1
Foreign bonds	134	CAA3
Foreign bonds	898	NA
	<u>20,071</u>	
Foreign corporate bonds (held in foreign currency):		
Foreign bonds	146	B-
Foreign bonds	383	B1
Foreign bonds	992	B2
Foreign bonds	401	B3
Foreign bonds	519	BA1
Foreign bonds	754	BA2
Foreign bonds	660	BAA3
Foreign bonds	143	CAA2
Foreign bonds	503	NR
	<u>4,501</u>	

(Continued)

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) CASH AND INVESTMENTS, CONTINUED

Credit Risk, Continued

	2021	
	<u>Fair Value</u> <i>(Expressed in thousands)</i>	Moody <u>Rating</u>
Foreign government bonds (held in U.S. currency):		
Foreign government bonds	83	A3
Foreign government bonds	934	AA2
Foreign government bonds	597	B2
Foreign government bonds	204	BA2
Foreign government bonds	228	BAA2
Foreign government bonds	<u>245</u>	CA
	<u>2,291</u>	
Foreign government bonds (held in foreign currency):		
Foreign government bonds	704	A1
Foreign government bonds	258	A1U
Foreign government bonds	159	AA3U
Foreign government bonds	398	AAA
Foreign government bonds	215	B1
Foreign government bonds	223	B2
Foreign government bonds	1,562	BA2
Foreign government bonds	124	BA3
Foreign government bonds	1,560	BAA1
Foreign government bonds	1,040	BAA2
Foreign government bonds	<u>730</u>	BAA3
	<u>6,973</u>	
Total fair value of credit risk	<u>\$ 304,584</u>	

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) CASH AND INVESTMENTS, CONTINUED

Credit Risk, Continued

	2020	
	<u>Fair Value</u> <i>(Expressed in thousands)</i>	<u>Moody Rating</u>
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
	<u>92,698</u>	
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
Domestic bonds	4,885	BAA1
Domestic bonds	9,622	BAA2
Domestic bonds	5,997	BAA3

(Continued)

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) CASH AND INVESTMENTS, CONTINUED

Credit Risk, Continued

	2020	
	<u>Fair Value</u> <i>(Expressed in thousands)</i>	Moody <u>Rating</u>
Corporate bonds (held in U.S. currency), Continued:		
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	<u>10,735</u>	NA
	<u>142,260</u>	
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
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	<u>646</u>	NA
	<u>17,306</u>	

(Continued)

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) CASH AND INVESTMENTS, CONTINUED

Credit Risk, Continued

	2020	
	<u>Fair Value</u>	
	<i>(Expressed in thousands)</i>	<u>Moody Rating</u>
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
	<u>4,337</u>	
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
	<u>2,322</u>	

(Continued)

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TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) **CASH AND INVESTMENTS, CONTINUED**

Credit Risk, Continued

	2020	
	<u>Fair Value</u>	
	<i>(Expressed in thousands)</i>	<u>Moody Rating</u>
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
	<u>4,912</u>	
Total fair value of credit risk	<u>\$ 263,835</u>	

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, 2021 or 2020, except for \$171,878,922 and \$139,244,888 invested in the Pooled Fixed Income Fund at June 30, 2021 and 2020, 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%.

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(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.

	<u>2021</u>	
	<u>Fair Value</u> <i>(Expressed in thousands)</i>	Effective Duration <u>Years</u>
U.S. government securities (government guaranteed):		
U.S. Treasury bonds	\$ 2,476	18.56
U.S. Treasury notes	39,324	3.70
Federal National Mortgage Association—FHR	2,759	1.47
Federal National Mortgage Association—FNR	5,224	1.89
Government National Mortgage Association	103	1.81
GNR	1,238	3.21
Other	34,192	6.95
Foreign government securities:		
Foreign government bonds (held in U.S. currency)	2,291	6.13
Foreign government bonds (held in foreign currency)	6,973	5.32
Mortgage-backed securities:		
Federal Home Loan Mortgage Corp.	6,174	2.25
Federal National Mortgage Corp.	5,773	4.46
Corporate bonds:		
Domestic bonds (held in U.S. currency)	173,484	5.22
Foreign bonds (held in U.S. currency)	20,072	4.09
Foreign bonds (held in foreign currency)	<u>4,501</u>	5.63
Total fixed income	<u>\$ 304,584</u>	

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) CASH AND INVESTMENTS, CONTINUED

Interest Rate Risk, Continued

	2020	
	<u>Fair Value</u> <i>(Expressed in thousands)</i>	Effective Duration <u>Years</u>
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)	<u>4,337</u>	2.99
Total fixed income	<u>\$ 263,835</u>	

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(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.

	2021	
	<u>Fair Value</u>	
	<i>(Expressed in thousands)</i>	<u>Type</u>
Foreign currency:		
Argentina peso	\$ 378	Fixed Income
Australian Dollar	398	Fixed Income
Australian Dollar	8	Foreign Currency
Bermuda dollar	90	Equity
Bermuda dollar	707	Fixed Income
Brazilian real	3,230	Equity
Brazilian real	1,039	Fixed Income
Brazilian real	88	Foreign Currency
British pound sterling	47,104	Equity
British pound sterling	3,554	Fixed Income
British pound sterling	51	Foreign Currency
Canadian dollar	2,780	Fixed Income
Canadian dollar	7,099	Equity
Canadian dollar	50	Foreign Currency
Cayman dollar	22,326	Equity
Cayman dollar	682	Fixed Income
Chinese Yuan Renminbi	962	Fixed Income
Colombian peso	24	Foreign Currency
Colombian peso	87	Fixed Income
Colombian peso	6	Foreign Currency
Danish krone	4,271	Equity
Euro	81,192	Equity
Euro	9,678	Fixed Income
Euro	791	Foreign Currency
Honduran lempira	215	Fixed Income
Hong Kong dollar	10,994	Equity
Indian rupee	5,433	Equity

(Continued)

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) **CASH AND INVESTMENTS, CONTINUED**

Foreign Currency Risk, Continued

	2021	
	<u>Fair Value</u>	
	<i>(Expressed in thousands)</i>	<u>Type</u>
Foreign currency, Continued:		
Indonesian rupiah	1,268	Fixed Income
Indonesian rupiah	112	Foreign Currency
International	2,916	Fixed Income
Japanese yen	23,138	Equity
Jersey Pound	293	Equity
Mexican peso	2,354	Fixed Income
New Israeli Sheqel	151	Equity
New Taiwan Dollar	12,016	Equity
New Turkish Lira	397	Fixed Income
New Zealand dollar	3,799	Equity
Nigerian Naira	200	Fixed Income
Norwegian krone	7,762	Equity
Panamanian Balboa	439	Fixed Income
Peruvian nuevo sol	532	Fixed Income
Russian ruble	730	Fixed Income
Russian ruble	60	Foreign Currency
Saudi riyal	1,579	Fixed Income
Singaporean dollar	939	Fixed Income
South African Rand	93	Foreign Currency
South Korean Won	9,579	Equity
South Korean Won	934	Fixed Income
Swedish Krona	5,065	Equity
Swiss franc	41,522	Equity
Swiss franc	695	Fixed Income
UAE Dirham	250	Fixed Income
West African Rand	124	Fixed Income
	<u>\$ 320,184</u>	

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) **CASH AND INVESTMENTS, CONTINUED**

Foreign Currency Risk, Continued

	2020	
	<u>Fair Value</u>	
	<i>(Expressed in thousands)</i>	<u>Type</u>
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)

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) CASH AND INVESTMENTS, CONTINUED

Foreign Currency Risk, Continued

	2020	
	<u>Fair Value</u>	
	<i>(Expressed in thousands)</i>	<u>Type</u>
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
	<u>\$ 246,082</u>	

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.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(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, 2021, the average duration of the portfolio of the Pooled Fixed Income Fund was (0.9) years, the average maturity was 2.9 years, the yield to maturity was 0.4%, and the average asset quality was AA3. At June 30, 2020, the average duration of the portfolio of the Pooled Fixed Income Fund was 1.0 years, the average maturity was 6.5 years, the yield to maturity was 3.3%, and the average asset quality was A3.

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

	<u>Fixed Income Securities</u>	<u>Percentage</u>	
		<u>2021</u>	<u>2020</u>
Corporate		39%	59%
Asset-backed		6%	2%
Government related		0%	3%
Non-domestic securities		8%	2%
Cash and cash equivalents		9%	29%
Treasury		34%	0%
Mortgage-backed		4%	5%

The Fund’s investment in the Pooled Fixed Income Fund was approximately 3.16% and 3.22% of the total portfolio of the total Pooled Fixed Income Funds at June 30, 2021 and 2020, respectively.

See Independent Auditors’ Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(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:

	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>2021</u>				
<u>Investments Measured at Fair Value</u>				
U.S. government securities	\$ 97,263,723	47,709,001	49,554,722	-
Foreign government securities	9,263,565	-	8,201,293	1,062,272
Domestic corporate bonds	173,483,875	-	173,483,875	-
Foreign corporate bonds	24,572,762	-	24,572,762	-
Domestic stocks	582,911,106	582,911,106	-	-
Foreign stocks	285,064,311	285,064,311	-	-
Pooled fixed income funds	171,878,922	-	171,878,922	-
Alternative investments	145,752,304	145,752,304	-	-
	<u>1,490,190,568</u>	<u>1,061,436,722</u>	<u>427,691,574</u>	<u>1,062,272</u>
Alternative investments measured at NAV:				
Core real estate	113,810,809			
Non-real estate	<u>58,238,220</u>			
	<u>172,049,029</u>			
Total investments at fair value	<u>\$ 1,662,239,597</u>	<u>1,061,436,722</u>	<u>427,691,574</u>	<u>1,062,272</u>

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) CASH AND INVESTMENTS, CONTINUED

Investments Measured at Fair Value, Continued

		Fair Value Measurements at		
		Reporting Date Using		
		Quoted Prices	Significant	Significant
		in Active	Other	Unobservable
		Markets for	Observable	Inputs
		Identical	Inputs	Inputs
	Amounts	Assets	(Level 2)	(Level 3)
	Measured at	(Level 1)		
	<u>Fair Value</u>			
<u>2020</u>				
<u>Investments Measured at Fair Value</u>				
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	-	-
	<u>1,153,885,461</u>	<u>794,466,414</u>	<u>359,419,047</u>	<u>-</u>
Alternative investments measured at NAV:				
Core real estate	110,815,707			
Non-real estate	47,095,183			
	<u>157,910,890</u>			
Total investments at fair value	<u>\$ 1,311,796,351</u>	<u>794,466,414</u>	<u>359,419,047</u>	<u>-</u>

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.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(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 is described in Note 4.

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(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, 2021 and 2020. 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

	<u>Expiration Date</u>	<u>Long/Short</u>	<u>Notional/ Fair Value</u> <i>(Expressed in thousands)</i>
<u>2021</u>			
U.S. 10-year note	September 2021	Short	\$ (1,723)
U.S. 5-year note	September 2021	Short	\$ (4,567)
U.S. long bond	September 2021	Short	\$ (160)
Euro BUND future	September 2021	Short	\$ (1,433)
90 day Euro future	December 2021	Short	\$ (4,241)
90 day Euro future	December 2023	Long	\$ 4,202
U.S. ultra bond	September 2021	Short	\$ (1,734)
<u>2020</u>			
U.S. 10-year note	September 2020	Short	\$ (139)
U.S. 5-year note	September 2021	Short	\$ (2,138)
U.S. long bond	September 2022	Short	\$ (1,607)
Euro BUND future	September 2023	Short	\$ (1,983)

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) DERIVATIVES, CONTINUED

Foreign Currency Forward Contracts

	<u>2021</u>	<u>2020</u>
	<i>(Expressed in thousands)</i>	
Pending receivable	\$ 14,797	14,152
Pending payable	<u>(14,720)</u>	<u>(14,213)</u>
Foreign currency forward contracts net asset (liability)	<u>\$ 77</u>	<u>(61)</u>

As of June 30, 2021, the foreign currency forward contracts expire in August 2021 and September 2021. During the years ended June 30, 2021 and 2020, realized gains (losses) on foreign currency contracts were approximately \$338,000 and \$(811,000), 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.

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(4) ALTERNATIVE INVESTMENTS

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

	<u>2021</u>		
<u>Company</u>	<u>Fair Value</u>	<u>Unfunded Commitment</u>	<u>Purpose</u>
<u>Real Estate</u>			
AEW Core Property Trust, Inc.	\$ 54,306,580	-	Real estate investment trust.
AEW VII	2,553,597	690,264	Real estate investment trust.
Siguler Guff	23,476,166	4,497,500	Investments in distressed opportunities in commercial real estate.
UBS Trumbull	33,474,466	-	Real estate investment trust.
	<u>113,810,809</u>	<u>5,187,764</u>	
<u>Fund of Funds</u>			
PIMCO All Asset Fund	<u>84,223,674</u>	-	Fund invests in other PIMCO funds (A fund of funds).
<u>Other</u>			
Medley Opportunity Fund II L.P.	7,981,846	1,332,729	Investments consist of senior secured direct loans to corporate entities that meet certain criteria.
SJC Offshore II (Frontpoint)	104,740	-	Investments consist of senior secured direct loans to corporate entities that meet certain criteria.
Monroe Capital	44,648,125	7,493,699	Investments consist of senior secured direct loans to corporate entities that meet certain criteria.
Tortoise	61,528,630	-	Investments consist of limited partnerships in the oil and gas industries.
Monroe Capital IV	5,503,509	14,690,945	Investments consist of limited partnerships in the oil and gas industries.
	<u>119,766,850</u>	<u>23,517,373</u>	
Total alternative investments	<u>\$ 317,801,333</u>	<u>28,705,137</u>	

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(4) ALTERNATIVE INVESTMENTS, CONTINUED

	2020		
<u>Company</u>	<u>Fair Value</u>	<u>Unfunded Commitment</u>	<u>Purpose</u>
<u>Real Estate</u>			
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.
	<u>110,815,708</u>	<u>5,364,755</u>	
<u>Fund of Funds</u>			
PIMCO All Asset Fund	65,012,384	-	Fund invests in other PIMCO funds (A fund of funds).
<u>Other</u>			
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.
	<u>85,263,585</u>	<u>20,728,167</u>	
Total alternative investments	<u>\$ 261,091,677</u>	<u>26,092,922</u>	

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(5) CAPITAL ASSETS

The following is a summary of changes in capital assets:

	<u>Balance at June 30, 2020</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at June 30, 2021</u>
Depreciable capital assets:				
Office equipment and furnishings	\$ 306,028	1,435	-	307,463
Accumulated depreciation:				
Office equipment and furnishings	<u>(229,311)</u>	<u>(12,711)</u>	<u>-</u>	<u>(242,022)</u>
Capital assets, net	<u>\$ 76,717</u>	<u>(11,276)</u>	<u>-</u>	<u>65,441</u>

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

(6) CHANGES IN COMPENSATED ABSENCES

Compensated absence activity was as follows:

<u>Balance at June 30, 2020</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2021</u>	<u>Amounts Due Within 1 Year</u>
\$ <u>239,328</u>	<u>100,415</u>	<u>(121,553)</u>	<u>218,190</u>	<u>87,276</u>
<u>Balance at June 30, 2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2020</u>	<u>Amounts Due Within 1 Year</u>
\$ <u>166,949</u>	<u>98,168</u>	<u>(25,789)</u>	<u>239,328</u>	<u>95,731</u>

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(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 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 remaining amount of the reserve was certified by the Board of Investors at the November 12, 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.

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(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 were to be available for spending when the current year earnings calculation was below 5% of the corpus of the Fund. When future earnings calculations were below 5% of the corpus of the Fund, the reserve was reduced by the difference and certified for use. The certification of reserve funds was limited to the 5% cap, inclusive of the initial calculation based upon the constitutional language. The agreement remained in effect until the total amount of the reserve was certified by the Board of Investors at the November 12, 2020, meeting.

- 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.

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(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:

	2021			
	<u>Nonspendable</u>	Assigned Available for Expenditure and <u>Certified</u>	<u>Unassigned</u>	<u>Total</u>
Balance at June 30, 2020	\$ 1,206,810,105	79,528,023	41,490,966	1,327,829,094
Settlement receipts	55,721,453	-	-	55,721,453
Miscellaneous other receipts	752,712	-	-	752,712
Net unrealized gains on investments	219,728,681	-	-	219,728,681
Miscellaneous income	21,848	-	-	21,848
Contract income	-	-	4,853,434	4,853,434
Expendable earnings, including net realized gains/losses on investments	-	-	123,243,629	123,243,629
Program and operating expenses	-	-	(47,412,536)	(47,412,536)
Transfer—estimate of certified earnings for 2021	-	(1,068,136)	1,068,136	-
Balance at June 30, 2021	<u>\$ 1,483,034,799</u>	<u>78,459,887</u>	<u>123,243,629</u>	<u>1,684,738,315</u>

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(7) AVAILABLE EARNINGS AND FUND BALANCES, CONTINUED

Fund Balances, Continued

	2020				
	<u>Nonspendable</u>	Assigned Available for Expenditure but <u>Uncertified</u>	Assigned Available for Expenditure and <u>Certified</u>	<u>Unassigned</u>	<u>Total</u>
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	<u>\$ 1,206,810,105</u>	<u>-</u>	<u>79,528,023</u>	<u>41,490,966</u>	<u>1,327,829,094</u>

The amount of earnings available for certification for the period ended June 30, 2021, was \$123,243,629. 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.

At their August 17, 2021 meeting, the Board of Investors certified \$118,859,430, 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 2021 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.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(7) AVAILABLE EARNINGS AND FUND BALANCES, CONTINUED

Fund Balances, Continued

The transfers of fund balances during 2021 and 2020 as noted in the above reconciliation are as follows:

2021

- The transfer of \$1,068,136 was to adjust the unassigned balance to the estimate of certified earnings at June 30, 2021.

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. The Board of Investors certified this amount at the November 2020 meeting.

(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.

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).

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(8) PENSION PLAN, CONTINUED

Plan Description, Continued

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.

Benefits Provided

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.

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(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.

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(8) PENSION PLAN, CONTINUED

Contributions, Continued

For 2021, 2020, and 2019, *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 2021, 2020, and 2019 were as follows:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
\$	<u>179,346</u>	<u>189,736</u>	<u>199,876</u>

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

At June 30, 2021 and 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, 2020 and 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2020 and 2019, respectively. 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, 2020 and 2019, respectively. Based upon this information, the Fund's proportion was 0.08322578% at June 30, 2021, and 0.0768210% at June 30, 2020, respectively.

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(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, 2021 and 2020, the Fund recognized pension expense (benefit) of \$246,066 and \$(30,238), respectively. At June 30, 2021 and 2020, the Fund reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<u>2021</u>		
Differences between expected and actual experience	\$ -	4,057
Changes of assumptions	265,217	-
Proportionate changes	2,337	5,550
Net difference between projected and actual earnings on pension plan investments	88,229	-
Fund contributions subsequent to the measurement date	<u>179,346</u>	<u>-</u>
	<u>\$ 535,129</u>	<u>9,607</u>
<u>2020</u>		
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	<u>189,736</u>	<u>-</u>
	<u>\$ 201,299</u>	<u>69,904</u>

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(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 \$179,346 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, 2022. Any other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions as of June 30, 2021, will be recognized in pension expense as follows:

Years Ending June 30:	
2022	\$ 128,759
2023	139,620
2024	44,303
2025	<u>33,494</u>
	<u>\$ 346,176</u>

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(8) PENSION PLAN, CONTINUED

Actuarial Methods and Assumptions

The total pension liability was determined on an actuarial valuation prepared as of July 1, 2020 and 2019, using the following actuarial assumptions:

Investment return:	6.5% for 2020 and 7.00% for 2019, compounded annually net of investment expense and including inflation
Salary increases:	3.50% to 9.25% for 2020 and 3.5% to 9.50% for 2019
Mortality rates:	For 2020—Pub-2010 Below Media, General Membership Active/Retiree Healthy Mortality Table with base rates projected to 2030 using Scale MP-2019. Male rates are set back one year, and female rates are set forward one year. For 2019—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:	2.50% for 2020 and 2.75% for 2019
Payroll growth:	3.25% for 2020 and 3.5% for 2019
Actuarial cost method:	Entry age
Select period for the termination of employment assumptions:	10 years

The actuarial assumptions used in the July 1, 2020, valuations are based on the results of the most recent actuarial experience study, which covers the 3-year period ending June 30, 2019. The experience study report is dated May 13, 2020.

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(8) PENSION PLAN, CONTINUED

Actuarial Methods and Assumptions, Continued

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 arithmetic real rates of return for each major asset class as of June 30, are summarized in the following table:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
<u>2020</u>		
U.S. large cap equity	34.0%	4.7%
U.S. small cap equity	6.0%	5.8%
Int developed equity	23.0%	6.5%
Emerging market equity	5.0%	8.5%
Core fixed income	25.0%	0.5%
Long-term treasuries	3.5%	0.0%
US TIPS	<u>3.5%</u>	0.3%
	<u>100.0%</u>	
<u>2019</u>		
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	<u>32.0%</u>	1.4%
	<u>100.0%</u>	

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(8) PENSION PLAN, CONTINUED

Discount Rate

The discount rate used to measure the total pension liability was 6.50% and 7.00% for 2020 and 2019, respectively. 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 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 6.50% and 7.00% for 2021 and 2020, respectively, 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 (5.50%)	Current Discount Rate (6.50%)	1% Increase (7.50%)
<u>June 30, 2021</u>			
Net pension liability (asset) \$	<u>1,747,930</u>	<u>742,509</u>	<u>(107,058)</u>
	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
<u>June 30, 2020</u>			
Net pension liability (asset) \$	<u>925,100</u>	<u>102,316</u>	<u>(595,247)</u>

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.

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(9) OTHER POSTEMPLOYMENT BENEFITS

HEALTH INSURANCE SUBSIDY PLAN 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 benefit.”

The Fund accounts for HISP in accordance with GASB 75, which requires the recording of the Fund’s allocated share of the net OPEB liability, deferred outflows, deferred inflows, and OPEB expense associated with the HISP.

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 2021 and 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, 2021 and 2020, were approximately \$13,100 and \$13,800, respectively.

See Independent Auditors’ Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(9) OTHER POSTEMPLOYMENT BENEFITS, CONTINUED

HEALTH INSURANCE SUBSIDY PLAN OPEB, CONTINUED

Contributions, Continued

At June 30, 2021 and 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, 2020 and 2019, respectively, and the total OPEB asset used to calculate the net OPEB asset was determined by an actuarial valuation as of July 1, 2020 and 2019, respectively. 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, 2020 and 2019, respectively. Based upon this information, the Fund’s proportion was 0.08322578% and 0.0768210% at June 30, 2021 and 2020, respectively.

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

For the years ended June 30, 2021 and 2020, the Fund recognized OPEB expense (benefit) related to the HISP of \$(17,481) and \$(15,015), respectively. At June 30, 2021 and 2020, the Fund reported deferred outflows of resources and deferred inflows of resources related to the HISP from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<u>2021</u>		
Differences between expected and actual experience	\$ -	33,036
Changes of assumptions	13,768	-
Proportionate changes	1,484	1,866
Net difference between projected and actual earnings on OPEB investments	5,941	-
Fund contributions subsequent to the measurement date	<u>13,060</u>	<u>-</u>
	<u>\$ 34,253</u>	<u>34,902</u>

See Independent Auditors’ Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(9) OTHER POSTEMPLOYMENT BENEFITS, CONTINUED

HEALTH INSURANCE SUBSIDY PLAN OPEB, CONTINUED

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

	<u>2020</u>	
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	<u>13,817</u>	<u>-</u>
	<u>\$ 20,264</u>	<u>29,239</u>

Reported deferred outflows of resources of \$13,060 related to OPEB resulting from the Fund's contributions subsequent to the measurement date will be recognized as an increase of the net OPEB asset in the year ending June 30, 2022. Any other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB as of June 30, 2021, will be recognized in OPEB expense as follows:

Years Ending June 30:	
2022	\$ (5,967)
2023	(3,359)
2024	(1,989)
2025	(1,621)
2026 and thereafter	<u>(773)</u>
	<u>\$ (13,709)</u>

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(9) OTHER POSTEMPLOYMENT BENEFITS, CONTINUED

HEALTH INSURANCE SUBSIDY PLAN OPEB, CONTINUED

Actuarial Methods and Assumptions

The total OPEB liability was determined on an actuarial valuation prepared as of July 1, 2020 and 2019:

Investment return:	6.5% for 2020 and 7.00% for 2019, compounded annually net of investment expense and including inflation.
Salary increases:	3.50% to 9.25% for 2020 and 3.5% to 9.50% for 2019
Mortality rates:	For 2020—Pub-2010 Below Media, General Membership Active/Retiree Healthy Mortality Table with base rates projected to 2030 using Scale MP-2019. Male rates are set back one year, and female rates are set forward one year. For 2019—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:	2.50% for 2020 and 2.75% for 2019
Payroll growth:	3.25% for 2020 and 3.5% for 2019
Actuarial cost method:	Entry age
Select period for the termination of employment assumptions:	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, 2020, valuations are based on the results of the most recent actuarial experience study, which covers the 3-year period ending June 30, 2019. The experience study report is dated May 13, 2020.

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(9) OTHER POSTEMPLOYMENT BENEFITS, CONTINUED

HEALTH INSURANCE SUBSIDY PLAN 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:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
<u>2020</u>		
U.S. large cap equity	34.0%	4.7%
U.S. small cap equity	6.0%	5.8%
Int developed equity	23.0%	6.5%
Emerging market equity	5.0%	8.5%
Core fixed income	25.0%	0.5%
Long-term treasuries	3.5%	0.0%
US TIPS	<u>3.5%</u>	0.3%
	<u>100.0%</u>	
<u>2019</u>		
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	<u>32.0%</u>	1.4%
	<u>100.0%</u>	

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(9) OTHER POSTEMPLOYMENT BENEFITS, CONTINUED

HEALTH INSURANCE SUBSIDY PLAN OPEB, CONTINUED

Discount Rate

The discount rate used to measure the total pension liability was 6.50% and 7.00% for 2020 and 2019, respectively. 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) of the Fund calculated using the discount rate of 6.50% and 7.00% for 2021 and 2020, respectively, as well as what the Fund's net OPEB (asset) 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 (5.50%)	Current Discount Rate (6.50%)	1% Increase (7.50%)
<u>June 30, 2021</u>			
Net OPEB asset	\$ <u>(9,934)</u>	<u>(39,018)</u>	<u>(63,945)</u>
	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
<u>June 30, 2020</u>			
Net OPEB asset	\$ <u>(4,717)</u>	<u>(29,864)</u>	<u>(51,494)</u>

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.

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(9) OTHER POSTEMPLOYMENT BENEFITS, CONTINUED

IMPLICIT RATE SUBSIDY OF HEALTH INSURANCE PLAN 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 plan 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.

The Fund accounts for the IRSHIP OPEB liability in accordance with GASB 75, which requires the recording of the Fund’s allocated share of the net OPEB liability, deferred outflows, deferred inflows, and OPEB expense.

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 both the years ended June 30, 2021 and 2020, were approximately \$4,200.

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

At June 30, 2021 and 2020, 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, 2020 and 2019, 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, 2020 and 2019, respectively. The Fund’s proportion of the net IRSHIP OPEB liability was based on the Fund’s active employees as of July 1, 2020 and 2019, 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 0.0394437% and 0.0390986% at June 30, 2021 and 2020, respectively.

See Independent Auditors’ Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(9) OTHER POSTEMPLOYMENT BENEFITS, CONTINUED

***IMPLICIT RATE SUBSIDY OF HEALTH INSURANCE PLAN 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, 2021 and 2020, the Fund recognized OPEB expense (benefit) of \$(1,185) and \$(16,115), respectively. At June 30, 2021 and 2020, the Fund reported deferred outflows of resources and deferred inflows of resources related to the IRSHIP OPEB liability from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<u>2021</u>		
Differences between expected and actual experience	\$ -	497
Changes of assumptions	3,919	3,267
Fund contributions subsequent to the measurement date	<u>4,162</u>	<u>-</u>
	<u>\$ 8,081</u>	<u>3,764</u>
<u>2020</u>		
Differences between expected and actual experience	\$ -	463
Changes of assumptions	-	4,965
Fund contributions subsequent to the measurement date	<u>4,201</u>	<u>-</u>
	<u>\$ 4,201</u>	<u>5,428</u>

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(9) OTHER POSTEMPLOYMENT BENEFITS, CONTINUED

***IMPLICIT RATE SUBSIDY OF HEALTH INSURANCE PLAN OPEB LIABILITY,
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 \$4,162 related to OPEB resulting from the Fund's contributions subsequent to the measurement date will be recognized as a decrease of the net OPEB liability in the year ending June 30, 2022. Any other amounts reported as deferred outflows of resources and deferred inflows of resources related to the IRSHIP OPEB liability as of June 30, 2021, will be recognized in OPEB expense as follows:

Years Ending June 30:	
2022	\$ (1,175)
2023	(393)
2024	625
2025	625
2026	<u>473</u>
	<u>\$ 155</u>

Actuarial Methods and Assumptions

The total IRSHIP OPEB liability was determined based on actuarial valuations prepared using a July 1, 2020 and 2019, 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 2020, Pub-2010 Public Retirement Plans General Mortality Table weighted by Headcount projected by MP-2020.

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

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(9) OTHER POSTEMPLOYMENT BENEFITS, CONTINUED

IMPLICIT RATE SUBSIDY OF HEALTH INSURANCE PLAN OPEB LIABILITY, CONTINUED

Actuarial Methods and Assumptions, Continued

- 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.

- 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—5.30% decreasing to 5.00% and 7.10% decreasing to 4.60% for 2021 and 2020, respectively.

The June 30, 2021, valuation is based on a measured date of July 1, 2020, with a measurement period of July 1, 2019, to July 1, 2020. 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.

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(9) OTHER POSTEMPLOYMENT BENEFITS, CONTINUED

IMPLICIT RATE SUBSIDY OF HEALTH INSURANCE PLAN OPEB LIABILITY, CONTINUED

Discount Rate

The discount rate used to measure the total OPEB liability was 2.21% and 3.51% for June 30, 2021 and 2020, respectively. The discount rate was determined using the Bond Buyer GO 20-Bond Municipal Bond Index.

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:

	<u>2021</u>	<u>2020</u>
Balance at beginning of year	\$ 51,688	72,045
Changes for the year:		
Service cost	1,937	2,026
Interest expense	1,825	2,203
Changes in assumptions	5,025	(1,727)
Actual experience	(191)	(157)
Benefits paid	(4,238)	(22,702)
Net changes	<u>4,358</u>	<u>(20,357)</u>
Balance at end of year	<u>\$ 56,046</u>	<u>51,688</u>

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(9) OTHER POSTEMPLOYMENT BENEFITS, CONTINUED

IMPLICIT RATE SUBSIDY OF HEALTH INSURANCE PLAN OPEB LIABILITY, CONTINUED

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 2.21% and 3.51% for 2021 and 2020, 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 (1.21%)	Current Discount Rate (2.21%)	1% Increase (3.21%)
<u>June 30, 2021</u>			
Net OPEB liability	\$ <u>59,819</u>	<u>56,046</u>	<u>52,497</u>
	1% Decrease (2.51%)	Current Discount Rate (3.51%)	1% Increase (4.51%)
<u>June 30, 2020</u>			
Net OPEB liability	\$ <u>55,173</u>	<u>51,688</u>	<u>48,435</u>

Sensitivity of the net OPEB liability to changes in the healthcare trend rate—The following presents the net OPEB liability at June 30, 2021 and 2020, 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%)
<u>2021</u>			
Net OPEB liability	\$ <u>50,471</u>	<u>56,046</u>	<u>62,607</u>
<u>2020</u>			
Net OPEB liability	\$ <u>47,308</u>	<u>51,688</u>	<u>56,788</u>

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/ActuarialValuationReport2021.pdf>.

See Independent Auditors’ Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(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.

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(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, 2021 and 2020. 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.

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(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.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(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. The Fund’s management has considered the economic implications of the COVID-19 pandemic in making critical and significant accounting estimates included in the June 30, 2021, financial statements.

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

See Independent Auditors’ Report.

REQUIRED SUPPLEMENTARY INFORMATION

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

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

Last 7 Fiscal Years*

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
The Fund's proportion of the net pension liability	0.08322578%	0.07682100%	0.09458290%	0.08440929%	0.07718124%	0.07518864%	0.06132439%
The Fund's proportionate share of the net pension liability	\$ 742,510	102,316	184,477	456,370	765,816	270,441	112,570
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
The Fund's proportionate share of the net pension liability as a percentage of its covered payroll	60.19%	7.87%	12.90%	32.29%	56.09%	20.35%	10.83%
OPERS' fiduciary net position as a percentage of the total pension liability	91.59%	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 7 fiscal years are presented because 10-year data is not readily available.

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

SCHEDULE OF THE FUND'S CONTRIBUTIONS

Oklahoma Public Employees Retirement Plan

Last 10 Fiscal Years

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually required contribution	\$ 179,346	189,736	199,876	219,925	233,186	225,292	219,311	171,427	129,208	103,380
Contributions in relation to the contractually required contributions	<u>179,346</u>	<u>189,736</u>	<u>199,876</u>	<u>219,925</u>	<u>233,186</u>	<u>225,292</u>	<u>219,311</u>	<u>171,427</u>	<u>129,208</u>	<u>103,380</u>
Contribution deficiency (excess)	\$ <u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
The Fund's covered payroll	\$ 1,166,099	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
Contributions as a percentage of covered payroll*	15.38%	15.38%	15.38%	15.38%	16.50%	16.50%	16.50%	16.50%	16.50%	16.50%

*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.

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 4 Fiscal Years***

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
The Fund's proportion of the net OPEB (asset) liability	0.08322578%	0.07682100%	0.09458290%	0.08440929%
The Fund's proportionate share of the net OPEB (asset) liability	\$ (39,019)	(29,864)	(12,240)	9,668
The Fund's covered payroll	1,233,654	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	(3.16)%	(2.30)%	(0.86)%	0.68%
OPERS' fiduciary net position as a percentage of the total OPEB (asset) liability	114.27%	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 4 fiscal years are presented because 10-year data is not readily available.

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND**SCHEDULE OF THE FUND'S CONTRIBUTIONS
Oklahoma Public Employees Health Insurance Subsidy Plan****Last 4 Fiscal Years**

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Contractually required contribution	\$ 13,060	13,817	14,620	16,086
Contributions in relation to the contractually required contributions	<u>13,060</u>	<u>13,817</u>	<u>14,620</u>	<u>16,086</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
The Fund's covered payroll	\$ 1,166,099	1,233,654	1,299,584	1,430,370
Contributions as a percentage of covered payroll	1.12%	1.12%	1.12%	1.12%

Only the last 4 fiscal years are presented because 10-year data is not readily available.

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

SCHEDULE OF THE FUND'S CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS

Implicit Rate Subsidy of Health Insurance Plan

Last 4 Fiscal Years

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB liability:				
Service cost	\$ 1,937	2,026	2,557	2,572
Interest	1,825	2,203	2,615	2,228
Actual experience	5,025	(157)	(612)	-
Changes in assumptions	(191)	(1,727)	(668)	(3,669)
Benefit payments, including refunds of member contributions	(4,238)	(22,702)	(5,425)	(6,296)
Adoption of GASB 75	-	-	-	78,743 *
Net change in total OPEB liability	4,358	(20,357)	(1,533)	73,578
Total OPEB liability—beginning	<u>51,688</u>	<u>72,045</u>	<u>73,578</u>	<u>-</u>
Total OPEB liability—ending	<u>\$ 56,046</u>	<u>51,688</u>	<u>72,045</u>	<u>73,578</u>
Covered-employee payroll	\$ 1,233,654	1,299,584	1,430,370	1,413,248
Total OPEB liability as a percentage of covered-employee payroll	4.54%	3.98%	5.04%	5.21%

Only the last 4 fiscal years are presented because 10-year data is not readily available.

*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, 2021, 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 29, 2021. 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)

**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 29, 2021