

Tobacco Settlement Endowment Trust Fund

*The Auditors' Communication with
Those Charged with Governance*

June 30, 2022





September 28, 2022

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

We have audited the financial statements of the governmental activities and permanent fund of the Tobacco Settlement Endowment Trust Fund (the "Fund") for the year ended June 30, 2022. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States and *Government Auditing Standards* as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated March 14, 2022. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Fund are described in Note 1 to the financial statements. As discussed below, the Fund adopted new accounting policies during the year ended June 30, 2022. There were no changes to existing accounting policies during the year ended June 30, 2022. We noted no transactions entered into by the Fund during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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. The Fund adopted GASB 87 effective July 1, 2021 which did not have a significant impact on the financial statements.

Significant Audit Findings, Continued

Qualitative Aspects of Accounting Practices, Continued

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 adopted GASB 89 on July 1, 2021, which did not have a significant impact on the financial statements.

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 adopted GASB 92 effective July 1, 2021 which did not have a significant effect on the financial statements.

Significant Audit Matters, Continued

Qualitative Aspects of Accounting Practices, 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 adopted GASB 93 effective July 1, 2021 which did not have a significant effect on the financial statements.

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* (GASB 94). GASB 94 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 will adopt GASB 94 effective July 1, 2022, for the June 30, 2023, reporting year. The Fund does not expect GASB 94 to have a significant impact on the financial statements.

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 will adopt GASB 96 effective July 1, 2022, for the June 30, 2023, reporting year. The Fund does not expect GASB 96 to have a significant impact on the financial statements.

Significant Audit Matters, Continued

Qualitative Aspects of Accounting Practices, Continued

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. The Fund adopted GASB 97 effective July 1, 2021 which did not have a significant effect on the financial statements.

In October 2021, GASB issued Statement No. 98, *The Annual Comprehensive Financial Report* (GASB 98). This Statement establishes the term *annual comprehensive financial report* and its acronym *ACFR*. The new term and acronym replace instances of *comprehensive annual financial report* and its acronym in generally accepted accounting principles for state and local governments. The requirements of this Statement are effective for fiscal years ending after December 15, 2021 with earlier application encouraged. The Fund adopted GASB 98 effective July 1, 2021 which did not have a significant effect on the financial statements.

Significant Audit Matters, Continued

Qualitative Aspects of Accounting Practices, Continued

In April 2022, GASB issued Statement No. 99, *Omnibus 2022* (GASB 99). GASB 99 enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The practice issues addressed by this Statement are as follows:

- Classification and reporting of derivative instruments within the scope of Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, that do not meet the definition of either an investment derivative instrument or a hedging derivative instrument
- Clarification of provisions in Statement No. 87, *Leases*, as amended, related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives
- Clarification of provisions in Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset
- Clarification of provisions in Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability
- Extension of the period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt
- Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP)
- Disclosures related to nonmonetary transactions
- Pledges of future revenues when resources are not received by the pledging government
- Clarification of provisions in Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, as amended, related to the focus of the government-wide financial statements
- Terminology updates related to certain provisions of Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*
- Terminology used in Statement 53 to refer to resource flows statements.

Significant Audit Matters, Continued

Qualitative Aspects of Accounting Practices, Continued

The requirements of GASB 99 are effective as follows:

- The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance. The Fund adopted these requirements effective July 1, 2021 which did not have a significant impact on the financial statements.
- The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. The Fund will adopt these requirements effective July 1, 2022, for the June 30, 2023, reporting year. The Fund does not expect these requirements to have a significant impact on the financial statements.
- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter. The Fund will adopt these requirements effective July 1, 2023, for the June 30, 2024, reporting year. The Fund does not expect these requirements to have a significant impact on the financial statements.

In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections – an amendment of GASB Statement No. 62* (GASB 100). GASB 100 enhances accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. GASB 100 is effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023. Earlier application is encouraged. The adoption of GASB 100 is not expected to have a significant effect on the financial statements.

In June 2022, GASB issued Statement No. 101, *Compensated Absences* (GASB 101). GASB 101 enhances information for user of the financial statements by updating the recognition and measurement guidance for compensated absences. GASB 101 aligns the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The requirements of GASB 101 are effective for fiscal years beginning after December 15, 2023. Earlier application is encouraged. The adoption of GASB 101 by the Fund is not expected to have a significant effect on the financial statements.

Significant Audit Matters, Continued

Qualitative Aspects of Accounting Practices, Continued

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

Management's estimate of the market value of investments is based on the investment custodian. We evaluated the key factors and assumptions used to develop the estimate of the market value of the investments in determining that it is reasonable in relation to the financial statements taken as a whole.

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached schedule of uncorrected misstatements is not considered material to the June 30, 2022, financial statements.

Disagreements with Management

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

Significant Audit Matters, Continued

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 28, 2022.

Management Consultations with Other Independent Accountants

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

Other Audit Matters or Issues

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

Other Matters

We applied certain limited procedures to the management's discussion and analysis at I-1 to I-15 and the pension and OPEB schedules on pages 76 to 80, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Other Required Communications

We as independent auditors are required to:

- a. Communicate significant deficiencies and material weaknesses in internal control to the audit committee or its equivalent.
- b. Report directly to the audit committee (or equivalent) any fraud that causes a material misstatement of the financial statements and any fraud involving senior management. Fraud perpetrated by lower-level employees is also reported if it resulted in an individually significant misstatement.
- c. Report illegal acts that come to our attention (except those that are clearly inconsequential).

We have nothing to report.

Restriction on Use

This information is intended solely for the use of the Board of Directors, the Board of Investors, management of the Fund, and the State of Oklahoma and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

Finlay + Cook, PLLC

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

SUMMARY OF UNCORRECTED MISSTATEMENTS

June 30, 2022

None.