

Tobacco Settlement Endowment Trust Fund

Financial Statements

June 30, 2025 and 2024

(With Independent Auditors' Report Thereon)



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

Opinion

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, 2025 and 2024, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the permanent fund as of June 30, 2025 and 2024, and the respective changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Fund, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

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 permanent fund 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, 2025 and 2024, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States. Our opinions are not modified with respect to this matter.

(Continued)

INDEPENDENT AUDITORS' REPORT, CONTINUED

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fund's ability to continue as a going concern for a reasonable period of time.

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

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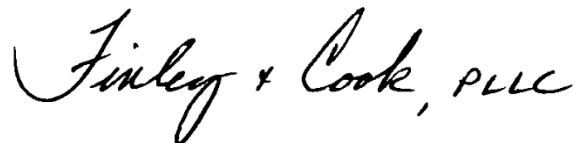
INDEPENDENT AUDITORS' REPORT, CONTINUED

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-15 and the schedule of the Fund's proportionate share of the net pension liability—Oklahoma Public Employees Retirement Plan, schedule of the Fund's contributions—Oklahoma Public Employees Retirement Plan, schedule of the Fund's proportionate share of the net OPEB liability, Oklahoma Public Employees Health Insurance Subsidy Plan, schedule of the Fund's contributions—Oklahoma Public Employees Health Insurance Subsidy Plan, schedule of the Fund's changes in total OPEB liability and related ratios—Implicit Rate Subsidy of Health Insurance Plan, and notes to the required supplementary information on pages 67 through 76 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2025, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Finley & Cook, PLLC". The signature is written in a cursive, flowing style.

Shawnee, Oklahoma
September 30, 2025

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

June 30, 2025 and 2024

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, 2025 and 2024. 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. 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 20, 2025, meeting, the Board of Investors certified \$140,588,753, reserving \$500,000 for possible audit adjustments. It is anticipated that the Board of Investors will certify additional amounts at their November 2025 meeting. The estimated earnings available for certification for the period ended June 30, 2025, were \$142,973,261.

USING THIS ANNUAL REPORT

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

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

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

June 30, 2025 and 2024

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, 2025 and 2024

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 2025, 2024, and 2023 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>2025</u>	<u>2024</u>	<u>2023</u>
Assets			
Current assets	\$ 246,316,499	192,972,413	168,403,450
Investments, at fair value	2,001,022,846	1,837,666,173	1,702,125,726
Securities lending collateral—non-cash	31,309,586	52,458,035	48,670,512
Net pension asset—settled in more than 1 year	334,794	-	-
Net OPEB asset—settled in more than 1 year	173,696	117,726	86,298
Capital assets	<u>179,349</u>	<u>240,313</u>	<u>82,023</u>
Total assets	<u>2,279,336,770</u>	<u>2,083,454,660</u>	<u>1,919,368,009</u>
Deferred outflows of resources:			
Deferred amounts related to the pension and OPEB	<u>329,427</u>	<u>740,296</u>	<u>1,072,760</u>
Liabilities			
Current liabilities	15,712,210	40,781,532	17,694,757
Liability under securities lending	172,448,068	123,277,200	158,142,260
Noncurrent liabilities	<u>154,555</u>	<u>571,066</u>	<u>848,784</u>
Total liabilities	<u>188,314,833</u>	<u>164,629,798</u>	<u>176,685,801</u>
Deferred inflows of resources:			
Deferred amounts related to the pension and OPEB	<u>268,738</u>	<u>67,120</u>	<u>102,864</u>
Net Position			
Net investment in capital assets	179,349	240,313	82,023
Restricted for investment	1,720,605,024	1,618,902,268	1,467,113,771
Unrestricted	<u>370,298,253</u>	<u>300,355,457</u>	<u>276,456,310</u>
Total net position	<u>\$ 2,091,082,626</u>	<u>1,919,498,038</u>	<u>1,743,652,104</u>

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

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

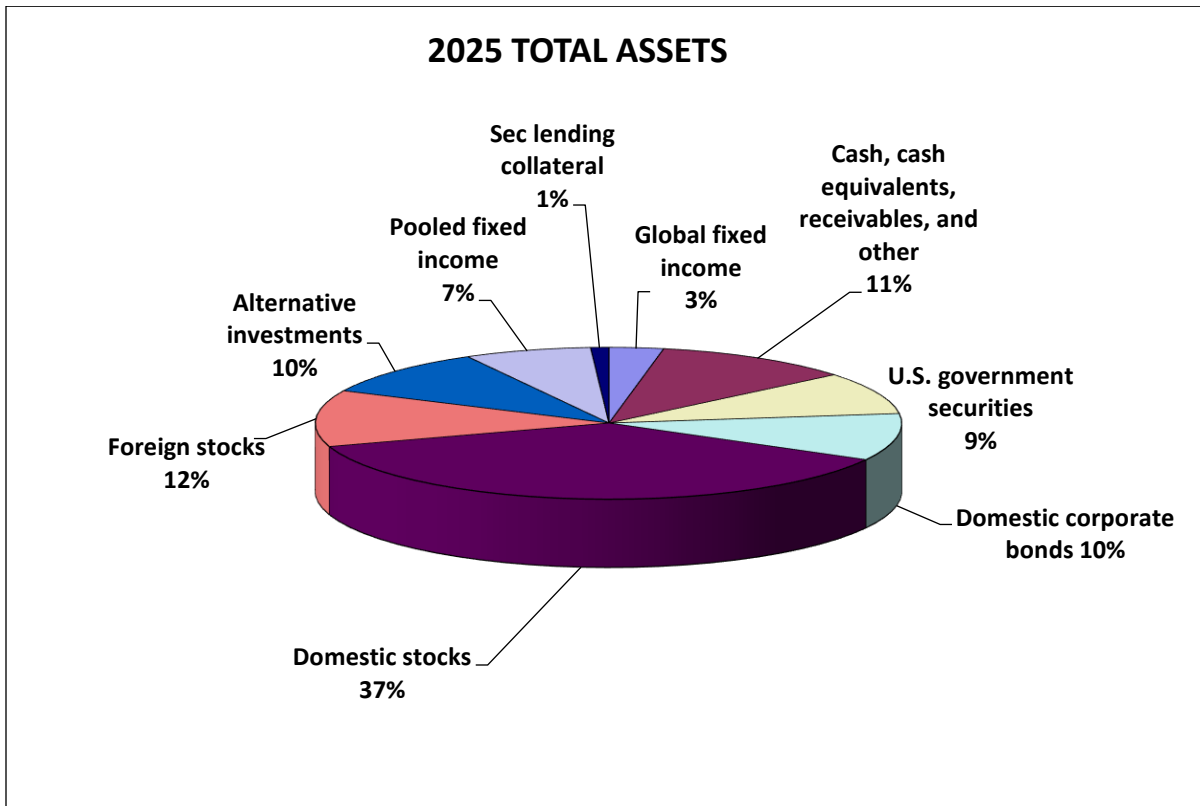
June 30, 2025 and 2024

FINANCIAL HIGHLIGHTS, CONTINUED

Statements of Net Position, Continued

The Fund’s total net position increased \$171.58 million during the year, as the Fund invested an additional \$44.15 million in settlement receipts, recognized \$199.43 million as net investment gains, and expended \$77.21 million on programs and operations. Total investments increased from \$1,837.67 million at the beginning of the year to \$2,001.02 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 \$125.69 million from the net appreciation of the fair value of the portfolio and earned \$73.24 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 \$141.14 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.



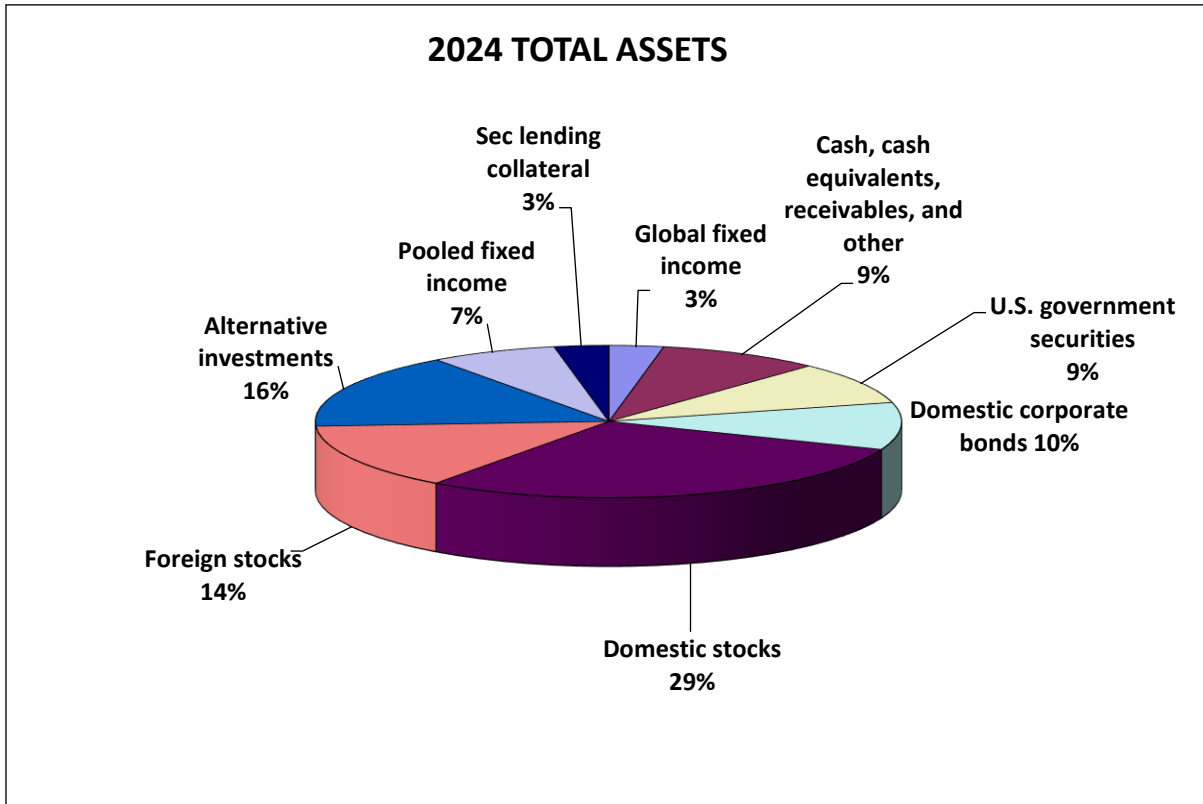
TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

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

June 30, 2025 and 2024

FINANCIAL HIGHLIGHTS, CONTINUED

Statements of Net Position, Continued



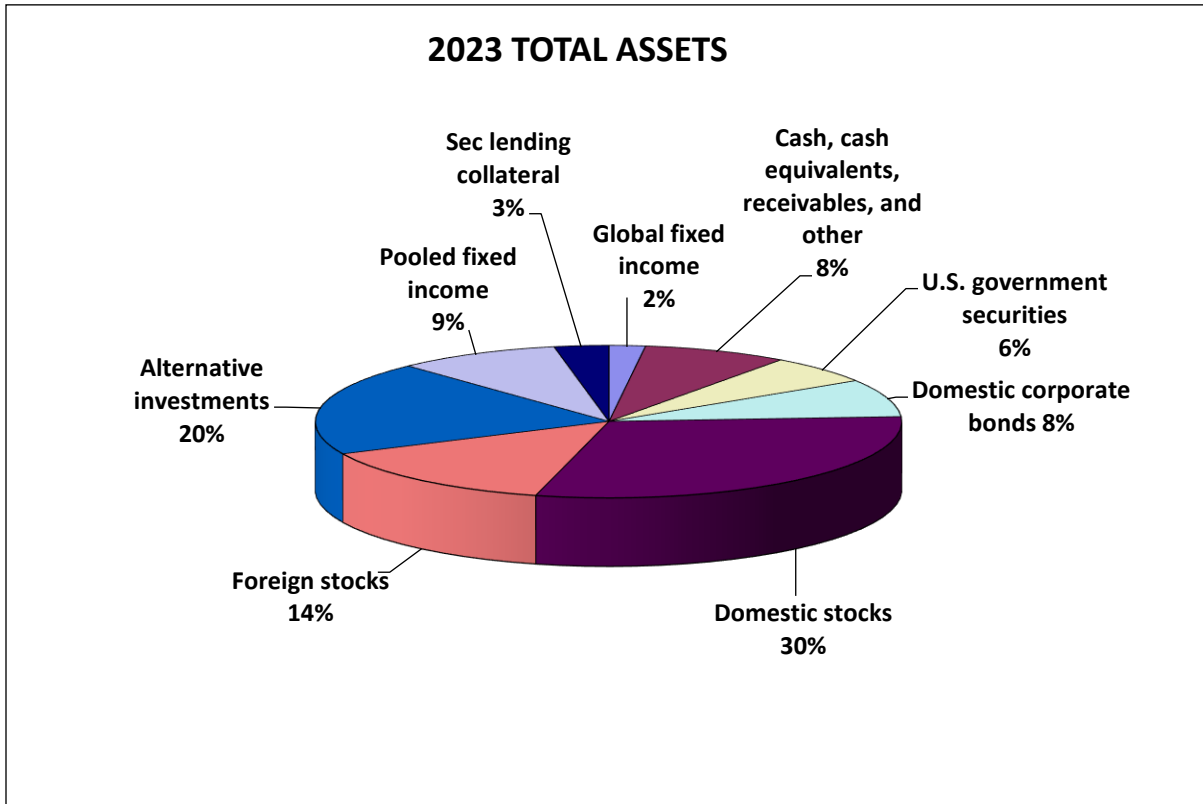
TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

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

June 30, 2025 and 2024

FINANCIAL HIGHLIGHTS, CONTINUED

Statements of Net Position, Continued



TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

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

June 30, 2025 and 2024

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>2025</u>	<u>2024</u>	<u>2023</u>
Investment income:			
Interest and dividend income	\$ 83,456,067	77,965,237	67,886,728
Securities lending income	490,040	384,658	395,062
Net appreciation in fair value of investments:			
Net unrealized gains	56,453,333	105,181,528	108,500,976
Net realized gains	69,240,511	21,085,305	8,403,088
	<u>125,693,844</u>	<u>126,266,833</u>	<u>116,904,064</u>
Total investment income	209,639,951	204,616,728	185,185,854
Investment expenses	<u>(10,213,357)</u>	<u>(10,658,224)</u>	<u>(9,981,997)</u>
Net investment income	<u>199,426,594</u>	<u>193,958,504</u>	<u>175,203,857</u>
Other income:			
Contract income	4,119,264	4,000,000	4,400,000
Miscellaneous income	700	57,899	12,188
Total other income	<u>4,119,964</u>	<u>4,057,899</u>	<u>4,412,188</u>
Expenses:			
Program	74,421,514	66,477,229	60,828,207
Operating	2,789,179	2,242,310	2,010,457
Total expenses	<u>77,210,693</u>	<u>68,719,539</u>	<u>62,838,664</u>
Changes in net position before settlement receipts	126,335,865	129,296,864	116,777,381
Contribution to fund principal:			
Other miscellaneous receipts	1,098,539	7,518	-
Settlement receipts	44,150,184	46,541,552	52,187,365
Changes in net position	<u>171,584,588</u>	<u>175,845,934</u>	<u>168,964,746</u>
Net position, beginning of year	<u>1,919,498,038</u>	<u>1,743,652,104</u>	<u>1,574,687,358</u>
Net position, end of year	<u>\$ 2,091,082,626</u>	<u>1,919,498,038</u>	<u>1,743,652,104</u>

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

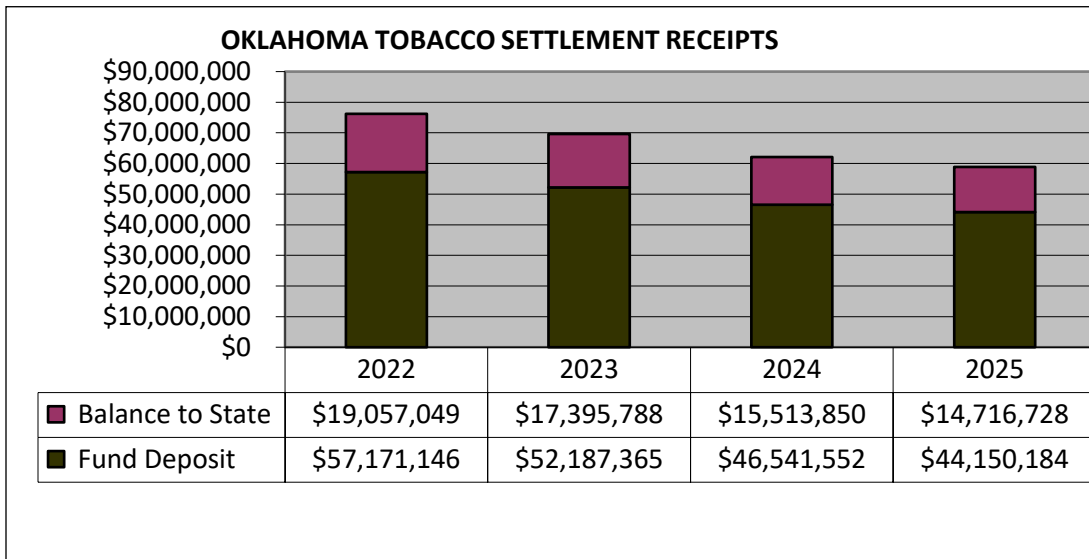
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A), CONTINUED

June 30, 2025 and 2024

FINANCIAL HIGHLIGHTS, CONTINUED

Statements of Activities—Income and Expenses, Continued

Revenues from settlement receipts are restricted for investment purposes. During both the fiscal years ended June 30, 2025 and 2024, 75% of settlement receipts paid to the State were deposited by the State into the Fund. The percentage of the State’s settlement receipts to be received by the Fund increased by 5% annually until it reached 75% during the fiscal year ended June 30, 2007, where it remains. As reflected below, settlement receipts deposited by the Fund decreased by \$2.39 million from 2024.



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 cigarette consumption.

As settlement receipts were deposited and invested and the portfolio was diversified during the fiscal year ended June 30, 2025, net investment income increased by \$5.47 million. Interest and dividend income increased \$5.49 million, while the net appreciation of investments in the Fund’s portfolio decreased \$0.57 million over the prior year. Fees paid to investment managers, consultants, and custodians decreased \$0.44 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, 2025 and 2024

FINANCIAL HIGHLIGHTS, CONTINUED

Overview

The Oklahoma Tobacco Settlement Endowment Trust (TSET) is a state grantmaking trust created by voters. TSET works to prevent cancer and cardiovascular disease, the state's leading causes of death. It funds schools, communities, state agencies, and partners to improve the health of Oklahomans. TSET also supports research and emerging opportunities in both public and private sectors. Its initiatives create healthier places for Oklahomans to live, work, learn, and play.

Since its creation, Oklahoma's smoking rate has dropped ten times faster than rates in similar states. Despite this progress, new tobacco products threaten to slow momentum. Tobacco still kills more than 7,500 Oklahomans each year, underscoring the need for long-term strategies that prevent youth from starting and help current users quit.

Operations

In FY25, the TSET's Board of Directors approved a total budget of \$85,743,625. Administrative costs made up 4.6% of the budget. By statute, administrative spending cannot exceed 15% of certified earnings. Of the total budget, \$81,755,887 was spent on programs and in support of programs to improve health and reduce the toll of tobacco.

By board governance policy, the TSET Board of Directors relies on a three-year rolling average of certified earnings to establish its budget target. This practice allows the TSET Board of Directors to confidently make funding decisions while insulating funded entities from fluctuations in earnings. The TSET Board of Directors has used this policy since FY16.

Improve Healthy Behaviors

The TSET Board of Directors invests in programs that address major risk factors for cancer and heart disease, including tobacco use, poor nutrition, physical inactivity, and obesity.

Through its Health Systems Initiative, TSET partners with the Oklahoma Health Care Authority, the Oklahoma Hospital Association, and the Oklahoma Department of Mental Health and Substance Abuse Services (ODMHSAS). Together, these organizations deliver best-practice interventions for patients. From FY21 to FY25, TSET's Healthy Systems Initiative generated 61,561 referrals to the Oklahoma Tobacco Helpline, where the average quit rate reached 28%. In partnership with ODMHSAS, Oklahoma is one of a handful of states that require its mental health system and all contract behavioral health facilities to adopt tobacco-free policies to benefit patients and staff. Tobacco use is disproportionately high among people with a behavioral health or substance abuse disorders and major contributing cause of premature death. Tobacco cessation supports recovery from other drugs, research shows.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

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

June 30, 2025 and 2024

FINANCIAL HIGHLIGHTS, CONTINUED

Improve Healthy Behaviors, Continued

TSET also awards Healthy Incentive Grants to schools and communities that adopt wellness policies. In FY25, TSET distributed \$808,500 in grants—\$560,500 to 56 schools and \$248,000 to 10 communities. Since inception, these grants have provided more than \$9.8 million statewide, improving environments that support healthy living.

In FY25, the TSET Healthy Living Program (HLP) worked in 28 counties through 27 lead agencies to promote wellness, particularly where tobacco use and obesity remain high. HLP helped 12 cities and towns adopt tobacco-free ordinances. HLP support led to the adoption of 80 wellness policies and improvements to school cafeterias, parks, and pedestrian access. Since FY22, HLP has reached nearly 1.8 million Oklahomans and engaged more than 850 partners.

TSET also funds built environment projects that promote physical activity and healthier lifestyles, such as sidewalks, trails, and parks. In FY25, TSET Built Environment Grants funded \$1.6 million in projects.

Through Tobacco Stops With Me, TSET continued to educate Oklahomans about the dangers of tobacco and secondhand smoke. In FY25, the program launched “Talk About Tobacco,” a campaign that provides parents and educators with resources to address youth vaping. FY25 survey data show strong support for the campaign, with 85% of respondents reporting the ads motivate them to protect youth.

Shape Your Future (SYF) promotes healthy habits, including eating well, staying active, sleeping better, and living tobacco-free. In FY25, SYF expanded partnerships with schools, media outlets, and cultural institutions such as Oklahoma State University (OSU), the University of Oklahoma, the First Americans Museum, the Tulsa Drillers, Oklahoma Gardening, USA Softball, and Griffin Media. Survey results showed progress: 20% of families reported filling half their plates with fruits and vegetables (up from 17% in FY24), and nearly 37% of parents ensured their children got 60 minutes of daily activity (up from 34% in FY24).

Youth Programs

Oklahoma ranks high in youth vaping and obesity. To respond, TSET created the TSET Healthy Youth Initiative to educate Oklahoma teens and help them make informed choices about their health. This initiative includes public health messaging, youth advocacy, and parent resources.

In FY25, TSET ran Behind the Haze and Down and Dirty youth tobacco prevention campaigns, which generated over 43 million views. Quit the Hit, an Instagram-based, peer group support program funded in Oklahoma by TSET, has helped more than 1,400 young people reduce or quit vaping since March 2022. FY25 survey data shows satisfaction rates above 90%. My Life, My Quit provided one-to-one cessation counseling to 71 youths.

TSET's Swap Up campaign encourages healthier choices, such as drinking water instead of soda. FY25 surveys found that campaign-aware teens were more likely to eat fruits and vegetables. Swap Up also hosted a statewide Day of Action that reached over 20,000 teens with messaging on how the foods they eat can affect the way they think, act, and feel.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

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

June 30, 2025 and 2024

FINANCIAL HIGHLIGHTS, CONTINUED

Youth Programs, Continued

Youth Action for Health Leadership (YAHL) empowers high school students to advocate for health policies now to increase their chances at a healthier future. In FY25, 1,206 students from 45 schools participated, representing 42 districts and 28 counties. YAHL members contributed more than 10,000 volunteer hours to improve nutrition, active living and tobacco-free policies in their schools and communities. Campaigns under YAHL include Elevate Student Health, which promotes nutrition and physical activity in schools, and CounterAct Tobacco, which advances retail licensing reforms. YAHL youth met with legislators, hosted dozens of events, and achieved policy changes in multiple school districts.

Through a grant to the Oklahoma Association of Youth Services, TSET also supported the Successful Futures Program. In FY25, it reached nearly 35,000 students in grades 3-8 across 22 organizations, helping youth build lifelong health skills.

Measurable Improvements

The Oklahoma Tobacco Helpline (OTH) remains one of the best quitlines in the nation, offering free 24/7 services including coaching, quit plans, and support materials. The North American Quitline Consortium rankings confirm its high quit rates and treatment reach.

TSET also funds cancer research. The Stephenson Cancer Center (SCC) received \$5.5 million in FY25 for Phase 1 clinical trials and runs a statewide network that brings advanced cancer trials to communities across Oklahoma. SCC has approximately 300 clinical trials open for patients, providing treatment options for all types and stages of cancer. With TSET's support, Stephenson achieved and maintained NCI Designation, placing it among the top 2% of cancer centers in the country.

Other TSET-funded research includes the Health Promotion Research Center (\$5.05 million annually) and the Oklahoma Center for Adult Stem Cell Research (\$3.1 million in FY25). Since 2010, OCASCR has leveraged \$40 million in TSET funds into \$474 million in outside funding.

Through the Oklahoma Health Care Workforce Training Commission, TSET funded physician loan repayment programs, supporting 42 doctors in rural communities in FY25. These physicians generated an estimated \$1.9 million each year in local economic impact by increasing access to preventative and primary care, supporting the healthcare workforce in local communities and helping Oklahomans receive primary care close to home. OSU's Project ECHO also expanded its reach, connecting rural providers to specialists through virtual consultations.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

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

June 30, 2025 and 2024

FINANCIAL HIGHLIGHTS, CONTINUED

Best Practices

In FY25, TSET advanced its technology systems by migrating data and workflows to Salesforce and Marketing Cloud. This shift improves grant management, stakeholder engagement, and data and grant reporting.

The TSET Board of Directors continues to use a funding matrix to allocate resources. The matrix directs 25–30% of funds to tobacco prevention, 20–25% to obesity prevention, 20–25% to cancer prevention and treatment, up to 5% to healthcare access, and up to 10% each for innovation and operations.

In FY25, TSET launched six Discovery Grants worth \$4.3 million, 11 Built Environment Grants totaling \$1.2 million, and the new Legacy Grant program, created to fund multiyear projects with large-scale health impacts and improved quality of life for Oklahomans. Funding for Legacy Grants is anticipated to begin in FY26.

Capacity Building

TSET launched its Capacity Building effort in FY24 to strengthen community readiness for health improvements. The program raises awareness of TSET resources, identifies barriers to health, and connects people to programs and resources that can be of benefit. By engaging directly with residents and organizations to understand their unique strengths, challenges, and service gaps, TSET can create programs to match community needs across the state. Currently, this work focuses on Bryan, McIntosh, Stephens, and Woodward counties.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

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

June 30, 2025 and 2024

FINANCIAL 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>2025</u>	<u>2024</u>	<u>2023</u>
Assets:			
Cash and cash equivalents	\$ 236,002,184	186,757,424	161,183,711
Interest and dividends receivable	5,941,972	5,774,183	4,309,232
Net receivable from brokers	4,191,963	-	-
Contract receivable	124,284	409,497	2,880,512
Securities lending receivable	56,096	31,309	29,995
Securities lending collateral—non-cash	31,309,586	52,458,035	48,670,512
Investments at fair value	<u>2,001,022,846</u>	<u>1,837,666,173</u>	<u>1,702,125,726</u>
Total assets	<u>\$ 2,278,648,931</u>	<u>2,083,096,621</u>	<u>1,919,199,688</u>
Liabilities:			
Net payable to brokers	\$ -	23,785,087	583,281
Accounts payable	15,396,737	16,713,083	16,867,681
Liability under securities lending	<u>172,448,068</u>	<u>123,277,200</u>	<u>158,142,260</u>
Total liabilities	<u>187,844,805</u>	<u>163,775,370</u>	<u>175,593,222</u>
Fund Balances:			
Nonspendable	1,720,605,024	1,618,902,268	1,467,113,771
Committed, Legacy Grants	150,000,000	-	-
Assigned, programs and operations	77,225,841	211,642,007	209,789,814
Unassigned	<u>142,973,261</u>	<u>88,776,976</u>	<u>66,702,881</u>
Total fund balances	<u>2,090,804,126</u>	<u>1,919,321,251</u>	<u>1,743,606,466</u>
Total liabilities and fund balances	<u>\$ 2,278,648,931</u>	<u>2,083,096,621</u>	<u>1,919,199,688</u>

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

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

June 30, 2025 and 2024

FINANCIAL 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>2025</u>	<u>2024</u>	<u>2023</u>
Revenues:			
Restricted:			
Net appreciation in fair value of investments:			
Net unrealized gains	\$ 56,453,333	105,181,528	108,500,976
Other miscellaneous receipts	1,098,539	7,518	-
Settlement receipts	44,150,184	46,541,552	52,187,365
Miscellaneous income	700	57,899	12,188
Total restricted revenues	<u>101,702,756</u>	<u>151,788,497</u>	<u>160,700,529</u>
Interest and dividend income	83,456,067	77,965,237	67,886,728
Net realized gains	69,240,511	21,085,305	8,403,088
Securities lending income	490,040	384,658	395,062
Contract income	4,119,264	4,000,000	4,400,000
Total revenues	<u>259,008,638</u>	<u>255,223,697</u>	<u>241,785,407</u>
Expenditures:			
Program and grant management support	4,627,720	3,636,116	2,943,465
Statewide programs	8,412,573	7,645,809	7,498,085
Community programs	18,816,876	17,001,943	12,435,816
Evaluation services	4,440,474	3,098,145	1,878,797
Furniture and equipment	8,065	198,529	32,031
Research	14,120,314	12,216,788	12,286,754
Investment management fees	10,213,357	10,658,224	9,981,997
Health communications	24,003,557	22,878,428	23,785,290
General operations and administrative expenses	2,882,827	2,174,930	2,122,176
Total expenditures	<u>87,525,763</u>	<u>79,508,912</u>	<u>72,964,411</u>
Net changes in fund balances	171,482,875	175,714,785	168,820,996
Fund balances, beginning of year	<u>1,919,321,251</u>	<u>1,743,606,466</u>	<u>1,574,785,470</u>
Fund balances, end of year	<u>\$ 2,090,804,126</u>	<u>1,919,321,251</u>	<u>1,743,606,466</u>

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

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

June 30, 2025 and 2024

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>2025</i>	<i>2024</i>
Assets		
Cash and cash equivalents:		
Unrestricted cash	\$ 94,863,702	115,938,259
Restricted cash:		
Securities lending collateral	<u>141,138,482</u>	<u>70,819,165</u>
Total cash and cash equivalents	<u>236,002,184</u>	<u>186,757,424</u>
Receivables:		
Interest and dividends	5,941,972	5,774,183
Contract receivable	124,284	409,497
Net receivable from brokers	4,191,963	-
Securities lending receivable	<u>56,096</u>	<u>31,309</u>
Total receivables	<u>10,314,315</u>	<u>6,214,989</u>
Investments, at fair value:		
U.S. government securities	207,182,384	186,309,264
Foreign government securities	16,144,548	14,041,709
Domestic corporate bonds	221,465,031	208,989,731
Foreign corporate bonds	49,673,482	44,177,008
Domestic stocks	838,977,795	599,576,991
Foreign stocks	269,123,061	299,325,810
Pooled fixed income funds	168,047,675	152,865,268
Alternative investments	<u>230,408,870</u>	<u>332,380,392</u>
Total investments, at fair value	<u>2,001,022,846</u>	<u>1,837,666,173</u>
Securities lending collateral—non-cash	<u>31,309,586</u>	<u>52,458,035</u>
Net pension asset—settled in more than 1 year	<u>334,794</u>	<u>-</u>
Net OPEB asset—settled in more than 1 year	<u>173,696</u>	<u>117,726</u>
Capital assets, net of accumulated depreciation of \$368,431 and \$302,791 as of June 30, 2025 and 2024, respectively.	<u>179,349</u>	<u>240,313</u>
Total assets	<u>2,279,336,770</u>	<u>2,083,454,660</u>
Deferred outflows of resources:		
Deferred amounts related to the pension	246,689	633,914
Deferred amounts related to OPEB	<u>82,738</u>	<u>106,382</u>
	<u>329,427</u>	<u>740,296</u>

(Continued)

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

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

STATEMENTS OF NET POSITION, CONTINUED

<i>June 30,</i>	<i>2025</i>	<i>2024</i>
Liabilities		
Net payable to brokers	-	23,785,087
Accounts payable	15,712,210	16,996,445
Liability under securities lending	172,448,068	123,277,200
Net pension liability—amount due in more than 1 year	-	415,721
Net OPEB liability—amount due in more than 1 year	154,555	155,345
Total liabilities	<u>188,314,833</u>	<u>164,629,798</u>
Deferred inflows of resources:		
Deferred amounts related to the pension	198,234	6,296
Deferred amounts related to OPEB	70,504	60,824
	<u>268,738</u>	<u>67,120</u>
Net Position		
Net investment in capital assets	179,349	240,313
Restricted for investment	1,720,605,024	1,618,902,268
Unrestricted	<u>370,298,253</u>	<u>300,355,457</u>
Total net position	<u>\$ 2,091,082,626</u>	<u>1,919,498,038</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>2025</i>	<i>2024</i>
Expenses:		
Program:		
Program and grant management support	\$ 4,627,720	3,636,116
Statewide programs	8,412,573	7,645,809
Community programs	18,816,876	17,001,943
Evaluation services	4,440,474	3,098,145
Health communications	24,003,557	22,878,428
Research	14,120,314	12,216,788
Total program expenses	<u>74,421,514</u>	<u>66,477,229</u>
Operating:		
General operations and administrative expenses	2,723,538	2,202,070
Depreciation	65,641	40,240
Total operating expenses	<u>2,789,179</u>	<u>2,242,310</u>
Total expenses	<u>77,210,693</u>	<u>68,719,539</u>
Investment income:		
Interest income	40,084,516	30,868,572
Dividend income	43,371,551	47,096,665
Securities lending income	490,040	384,658
Net appreciation in fair value of investments:		
Net unrealized gains	56,453,333	105,181,528
Net realized gains	69,240,511	21,085,305
	<u>125,693,844</u>	<u>126,266,833</u>
Total investment income	209,639,951	204,616,728
Investment expenses	<u>(10,213,357)</u>	<u>(10,658,224)</u>
Net investment income	<u>199,426,594</u>	<u>193,958,504</u>
Other income:		
Contract income	4,119,264	4,000,000
Miscellaneous income	700	57,899
Total other income	<u>4,119,964</u>	<u>4,057,899</u>
Changes in net position, before settlement receipts	<u>126,335,865</u>	<u>129,296,864</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>2025</i>	<i>2024</i>
Contribution to fund principal:		
Other miscellaneous receipts	1,098,539	7,518
Settlement receipts	<u>44,150,184</u>	<u>46,541,552</u>
Changes in net position	171,584,588	175,845,934
Net position, beginning of year	<u>1,919,498,038</u>	<u>1,743,652,104</u>
Net position, end of year	<u>\$ 2,091,082,626</u>	<u>1,919,498,038</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>2025</i>	<i>2024</i>
Assets		
Cash and cash equivalents:		
Unrestricted cash	\$ 94,863,702	115,938,259
Restricted cash:		
Securities lending collateral	141,138,482	70,819,165
Total cash and cash equivalents	<u>236,002,184</u>	<u>186,757,424</u>
Receivables:		
Interest and dividends	5,941,972	5,774,183
Contract receivable	124,284	409,497
Net Receivable from brokers	4,191,963	-
Securities lending receivable	56,096	31,309
Total receivables	<u>10,314,315</u>	<u>6,214,989</u>
Investments, at fair value:		
U.S. government securities	207,182,384	186,309,264
Foreign government securities	16,144,548	14,041,709
Domestic corporate bonds	221,465,031	208,989,731
Foreign corporate bonds	49,673,482	44,177,008
Domestic stocks	838,977,795	599,576,991
Foreign stocks	269,123,061	299,325,810
Pooled fixed income funds	168,047,675	152,865,268
Alternative investments	230,408,870	332,380,392
Total investments, at fair value	<u>2,001,022,846</u>	<u>1,837,666,173</u>
Securities lending collateral—non cash	<u>31,309,586</u>	<u>52,458,035</u>
Total assets	<u>\$ 2,278,648,931</u>	<u>2,083,096,621</u>
Liabilities and Fund Balances		
Liabilities:		
Net payable to brokers	\$ -	23,785,087
Accounts payable	15,396,737	16,713,083
Liability under securities lending	172,448,068	123,277,200
Total liabilities	<u>187,844,805</u>	<u>163,775,370</u>
Fund balances:		
Nonspendable	1,720,605,024	1,618,902,268
Committed, Legacy Grants	150,000,000	-
Assigned, programs and operations	77,225,841	211,642,007
Unassigned	142,973,261	88,776,976
Total fund balances	<u>2,090,804,126</u>	<u>1,919,321,251</u>
Total liabilities and fund balances	<u>\$ 2,278,648,931</u>	<u>2,083,096,621</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>2025</i>	<i>2024</i>
Total fund balances, per the balance sheets—permanent fund	\$ 2,090,804,126	1,919,321,251
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.	179,349	240,313
Some assets are not financial resources in the current period and therefore are not reported in the fund. Those assets consist of:		
Net pension asset	334,794	-
Net OPEB asset	19,141	-
Deferred outflows related to the pension and OPEB are not financial resources and therefore are not reported in the fund.	329,427	740,296
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	(315,473)	(283,362)
Net pension liability	-	(415,721)
Net OPEB liability	-	(37,619)
Deferred inflows related to the pension and OPEB are not due and payable in the current period and therefore are not reported in the fund.	<u>(268,738)</u>	<u>(67,120)</u>
Net position, per the statements of net position	<u>\$ 2,091,082,626</u>	<u>1,919,498,038</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>2025</i>	<i>2024</i>
Revenues:		
Restricted:		
Net appreciation in fair value of investments:		
Net unrealized gains	\$ 56,453,333	105,181,528
Other miscellaneous receipts	1,098,539	7,518
Settlement receipts	44,150,184	46,541,552
Miscellaneous income	700	57,899
Total restricted revenues	<u>101,702,756</u>	<u>151,788,497</u>
Interest income	40,084,516	30,868,572
Dividend income	43,371,551	47,096,665
Net realized gains	69,240,511	21,085,305
Securities lending income	490,040	384,658
Contract income	4,119,264	4,000,000
Total revenues	<u>259,008,638</u>	<u>255,223,697</u>
Expenditures:		
Program and grant management support	4,627,720	3,636,116
Statewide programs	8,412,573	7,645,809
Community programs	18,816,876	17,001,943
Evaluation services	4,440,474	3,098,145
Furniture and equipment	8,065	198,529
Research	14,120,314	12,216,788
Investment management fees	10,213,357	10,658,224
Health communications	24,003,557	22,878,428
General operations and administrative expenses	2,882,827	2,174,930
Total expenditures	<u>87,525,763</u>	<u>79,508,912</u>
Net changes in fund balances	171,482,875	175,714,785
Fund balances, beginning of year	<u>1,919,321,251</u>	<u>1,743,606,466</u>
Fund balances, end of year	<u>\$ 2,090,804,126</u>	<u>1,919,321,251</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>2025</i>	<i>2024</i>
Net changes in fund balances, per the statements of revenues, expenditures, and changes in fund balances—permanent fund	\$ 171,482,875	175,714,785
<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) more than depreciation in the current period.</p>	(60,964)	158,290
<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 over the amount in the prior year.</p>	(32,111)	(39,567)
<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>194,788</u>	<u>12,426</u>
Changes in net position, per the statements of activities	<u>\$ 171,584,588</u>	<u>175,845,934</u>

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

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS

June 30, 2025 and 2024

(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), as amended.

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.

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.

See Independent Auditors’ Report.

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

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

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.

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.

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Investments, Continued

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. Foreign currency translation gains and losses are reflected in the net appreciation (depreciation) in the fair value of investments. The alternative investments are adjusted to fair value based on the value of the underlying assets as determined by the managers of the limited partnerships and the changes in fair value are recognized in net appreciation (depreciation) in fair value of investments.

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>2025</u>	<u>2024</u>
Securities loaned:		
U.S. government securities	\$ 581,684	15,139,609
U.S. corporate bonds	37,739,597	15,943,924
U.S. equity	106,679,848	72,671,068
Sovereign debt	5,804,498	5,761,695
Foreign	17,087,225	11,554,065
Total securities loaned	<u>\$ 167,892,852</u>	<u>121,070,361</u>
Collateral maintained for securities loaned	<u>\$ 172,448,068</u>	<u>123,277,200</u>
Percentage of collateral to securities loaned as of June 30	<u>102.71%</u>	<u>101.82%</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, 2025 and 2024, collateral was presented in both cash (U.S. currency), and non-cash securities. The total value of the collateral held at June 30, 2025 and 2024, was \$4,555,216 and \$2,206,839, 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. As of June 30, 2024, the collateral coverage was 0.18% below the required threshold of 102%; however, the deficiency is not considered significant to the financial statements.

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, 2025 and 2024, cash collateral was \$141,138,482 and \$70,819,165, respectively, and non-cash collateral totaled \$31,309,586 and \$52,458,035, respectively. Non-cash collateral consisted of the following at June 30:

<u>Description</u>	<u>2025</u>	<u>2024</u>
U.S. government debt—Treasuries	\$ 4,127,930	28,245,337
U.S. government agencies (i.e., FNMA, GNMA, FMAC)	251,994	3,869,892
Foreign securities	<u>26,929,662</u>	<u>20,342,806</u>
	<u>\$ 31,309,586</u>	<u>52,458,035</u>

Securities lending income included as certified earnings was \$465,253 and \$384,658 for the fiscal years ended June 30, 2025 and 2024, 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.

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.

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

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.

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 matching contributions to Pathfinder:

	<u>2025</u>	<u>2024</u>
Fund's portion	\$ <u>108,771</u>	<u>83,276</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 records the Fund's allocated share of the net OPEB liability, deferred outflows, deferred inflows, and OPEB expense in accordance with GASB 75.

See Independent Auditors' Report.

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

Recent Accounting Pronouncements

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 Fund adopted GASB 101 as of July 1, 2024, which did not have a significant effect on the financial statements.

In December 2023, GASB issued Statement No. 102, *Certain Risk Disclosures* (GASB 102). GASB 102 requires certain disclosures about risks related to a government's vulnerabilities due to certain concentrations or constraints which may limit a government's ability to acquire resources or control spending. GASB 102 requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact to have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued. If a government determines that those criteria for disclosure have been met for a concentration or constraint, it should disclose information in notes to financial statements in sufficient detail to enable users of financial statements to understand the nature of the circumstances disclosed and the government's vulnerability to the risk of a substantial impact. The requirements of GASB 102 are effective for fiscal years beginning after June 15, 2024. The Fund adopted GASB 102 as of July 1, 2024, which did not have a significant effect on the financial statements.

In April 2024, GASB issued Statement No. 103, *Financial Reporting Model Improvements* (GASB 103). GASB 103 enhances and improves the quality of the analysis of changes from the prior year, which in turn enhances the relevance of that information. The requirements of this statement apply to managements' discussion and analysis presented as required supplementary information, presentation of the proprietary information fund statements of revenues, expenses, and changes in fund position, major component unit information, budgetary comparison information, as well as a discussion of unusual or infrequent items. The requirements of GASB 103 are effective for fiscal years beginning after June 15, 2025. The adoption of GASB 103 by the Fund is not expected to have a significant effect on the financial statements.

In September 2024, GASB issued Statement No. 104, *Disclosure of Certain Capital Assets* (GASB 104). The objective of GASB 104 is to provide users of government financial statements with essential information about certain types of capital assets. The requirements of this statement apply to managements' discussion and analysis presented as required supplementary information. This Statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures by major asset class. This Statement also requires additional disclosures for capital assets held for sale. The requirements of GASB 104 are effective for fiscal years beginning after June 15, 2025. The adoption of GASB 104 by the Fund is not expected to have a significant effect 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**

Annual Budget-to-Actual Comparison

The Fund is not required to adopt an annual budget. Therefore, an annual budgetary comparison as required by GASB 34 is not presented with the required supplementary information.

Reclassification

Certain 2024 amounts have been reclassified to be comparable with the 2025 presentation. The reclassifications had no effect on previously reported net positions or fund balances.

Date of Management’s Review of Subsequent Events

Management has evaluated subsequent events through September 30, 2025, 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, CASH EQUIVALENTS, AND INVESTMENTS**

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

	<u>2025</u>	<u>2024</u>
Cash on deposit with the State	\$ 12,119,445	7,731,119
Foreign currency	1,543,703	1,489,234
Collateral from securities lending—restricted cash	141,138,482	70,819,165
Cash and equivalents	419,046	20,436,119
Money market mutual fund	<u>80,781,508</u>	<u>86,281,787</u>
	<u>\$ 236,002,184</u>	<u>186,757,424</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, CASH EQUIVALENTS, 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:

	2025	
	<u>Fair Value</u> <i>(Expressed in thousands)</i>	<u>Moody Rating</u>
U.S. government securities (held in U.S. currency):		
U.S. Treasury bonds	\$ 51,681	AAA
U.S. Treasury notes	43,074	AAA
State and Municipal bonds	13,293	AAA
State and Municipal bonds	965	A1
Federal National Mortgage Association	1,149	AA1
Other	14,075	AA1
State and Municipal bonds	1,208	AA1
State and Municipal bonds	2,573	AA2
State and Municipal bonds	2,419	AA3
Other	248	BA2
Federal Home Loan Mortgage Corporation	10,403	NA
Federal National Mortgage Association	13,557	NA
Government National Mortgage Association	18,904	NA
State and Municipal bonds	3,851	NA
Other	29,782	NA
	207,182	
Corporate bonds (held in U.S. currency):		
Domestic bonds	19,022	A1
Domestic bonds	17,388	A2
Domestic bonds	3,131	A3
Domestic bonds	248	AA2
Domestic bonds	7,411	AA3
Domestic bonds	11,801	AAA
Domestic bonds	11,718	B1
Domestic bonds	8,409	B2
Domestic bonds	9,252	B3
Domestic bonds	9,290	BA1
Domestic bonds	16,960	BA2
Domestic bonds	19,948	BA3
Domestic bonds	5,560	BAA1

(Continued)

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

Credit Risk, Continued

	2025	
	<u>Fair Value</u> <i>(Expressed in thousands)</i>	<u>Moody</u> <u>Rating</u>
Corporate bonds (held in U.S. currency), Continued:		
Domestic bonds	10,730	BAA2
Domestic bonds	7,771	BAA3
Domestic bonds	145	CA
Domestic bonds	59,897	NA
Domestic bonds	<u>2,784</u>	NR
	<u>221,465</u>	
Foreign corporate bonds (held in U.S. currency):		
Foreign bonds	1,247	A3
Foreign bonds	3,283	B1
Foreign bonds	3,662	B2
Foreign bonds	1,261	B3
Foreign bonds	7,007	BA1
Foreign bonds	4,719	BA2
Foreign bonds	3,992	BA3
Foreign bonds	272	BAA1
Foreign bonds	2,139	BAA2
Foreign bonds	849	BAA3
Foreign bonds	7,023	NA
Foreign bonds	<u>1,028</u>	NR
	<u>36,482</u>	

(Continued)

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

Credit Risk, Continued

	2025	
	<u>Fair Value</u> <i>(Expressed in thousands)</i>	<u>Moody Rating</u>
Foreign corporate bonds (held in foreign currency):		
Foreign bonds	585	B1
Foreign bonds	1,111	B2
Foreign bonds	11,495	NA
	<u>13,191</u>	
Foreign government bonds (held in U.S. currency):		
Foreign government bonds	159	B3
Foreign government bonds	541	BA2
Foreign government bonds	151	BAA2
Foreign government bonds	203	NR
	<u>1,054</u>	
Foreign government bonds (held in foreign currency):		
Foreign government bonds	15,091	NR
	<u>15,091</u>	
Total fair value of credit risk	<u>\$ 494,465</u>	

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

Credit Risk, Continued

	2024	
	<u>Fair Value</u> (Expressed in thousands)	<u>Moody</u> <u>Rating</u>
U.S. government securities (held in U.S. currency):		
U.S. Treasury bonds	\$ 49,805	AAA
U.S. Treasury notes	26,865	AAA
Federal Home Loan Mortgage Corporation	18,870	AAA
Federal National Mortgage Association	24,266	AAA
Government National Mortgage Association	18,342	AAA
Federal Farm Credit Banks Funding Corporation	22,864	AAA
Other	12,684	AAA
Other	1,477	A1
Other	1,272	AA1
Other	2,584	AA2
Other	3,265	AA3
Other	303	BAA2
Other	3,712	NA
	<u>186,309</u>	
Corporate bonds (held in U.S. currency):		
Domestic bonds	18,327	A1
Domestic bonds	12,840	A2
Domestic bonds	182	AA2
Domestic bonds	4,907	AA3
Domestic bonds	13,956	AAA
Domestic bonds	13,355	B1
Domestic bonds	9,861	B2
Domestic bonds	12,066	B3
Domestic bonds	6,483	BA1
Domestic bonds	19,060	BA2
Domestic bonds	13,197	BA3
Domestic bonds	209	BAA1
Domestic bonds	4,344	BAA2

(Continued)

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

Credit Risk, Continued

	2024	
	<u>Fair Value</u> <i>(Expressed in thousands)</i>	<u>Moody Rating</u>
Corporate bonds (held in U.S. currency), Continued:		
Domestic bonds	14,344	BAA3
Domestic bonds	144	C
Domestic bonds	173	CA
Domestic bonds	1,821	CAA1
Domestic bonds	559	CAA2
Domestic bonds	371	CAA3
Domestic bonds	61,781	NA/NR
Domestic bonds	1,010	WR
	<u>208,990</u>	
Foreign corporate bonds (held in U.S. currency):		
Foreign bonds	1,139	A3
Foreign bonds	7,091	B1
Foreign bonds	2,111	B2
Foreign bonds	2,327	B3
Foreign bonds	3,897	BA1
Foreign bonds	3,372	BA2
Foreign bonds	5,866	BA3
Foreign bonds	664	BAA1
Foreign bonds	393	BAA2
Foreign bonds	1,424	BAA3
Foreign bonds	548	CAA1
Foreign bonds	44	CAA2
Foreign bonds	355	CAA3
Foreign bonds	2,439	NA
	<u>31,670</u>	

(Continued)

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

Credit Risk, Continued

	2024	
	<u>Fair Value</u> <i>(Expressed in thousands)</i>	<u>Moody Rating</u>
Foreign corporate bonds (held in foreign currency):		
Foreign bonds	689	AAA
Foreign bonds	1,106	B1
Foreign bonds	892	B2
Foreign bonds	1,050	B3
Foreign bonds	387	BA1
Foreign bonds	237	BA2
Foreign bonds	1,475	BA3
Foreign bonds	226	BAA1
Foreign bonds	609	BAA2
Foreign bonds	710	BAA3
Foreign bonds	422	BAA3U
Foreign bonds	255	CAA1
Foreign bonds	128	CAA2
Foreign bonds	4,321	NR
	<u>12,507</u>	
Foreign government bonds (held in U.S. currency):		
Foreign government bonds	192	B3
Foreign government bonds	151	BA2
Foreign government bonds	381	BA3
Foreign government bonds	145	CAA1
	<u>869</u>	

(Continued)

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

Credit Risk, Continued

	2024	
	<u>Fair Value</u> <i>(Expressed in thousands)</i>	<u>Moody</u> <u>Rating</u>
Foreign government bonds (held in foreign currency):		
Foreign government bonds	4,708	AAA
Foreign government bonds	881	AA2
Foreign government bonds	1,090	A2
Foreign government bonds	154	B3
Foreign government bonds	1,740	BA2
Foreign government bonds	412	BA3
Foreign government bonds	3,738	BAA2
Foreign government bonds	420	CA
Foreign government bonds	30	NR
	<u>13,173</u>	
Total fair value of credit risk	<u>\$ 453,518</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, 2025 or 2024, except for \$168,047,675 and \$152,865,268 invested in the Pooled Fixed Income Fund at June 30, 2025 and 2024, 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%.

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TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. 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.

	2025	
	<u>Fair Value</u> <i>(Expressed in thousands)</i>	Effective Duration <u>Years</u>
U.S. federal, state, and local government securities	\$ 207,182	12.20
Foreign government securities	16,145	7.47
Corporate bonds:		
Domestic bonds	221,465	8.16
Foreign bonds	<u>49,673</u>	6.63
Total fixed income	<u>\$ 494,465</u>	
	2024	
	<u>Fair Value</u> <i>(Expressed in thousands)</i>	Effective Duration <u>Years</u>
U.S. federal, state, and local government securities	\$ 186,309	7.20
Foreign government securities	14,042	6.03
Corporate bonds:		
Domestic bonds	208,990	4.33
Foreign bonds	<u>44,177</u>	3.23
Total fixed income	<u>\$ 453,518</u>	

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The investment policy limits foreign equity investments to 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.

	2025	
	<u>Fair Value</u> <i>(Expressed in thousands)</i>	<u>Type</u>
Foreign currency:		
Argentina - USD	\$ 684	Fixed Income
Austria - EUR	5,141	Equity
Austria - USD	187	Fixed Income
Bermuda - USD	2,184	Fixed Income
Brazil - BRL	552	Fixed Income
Canada - CAD	1,995	Equity
Canada - USD	7,980	Fixed Income
Cayman Islands - USD	1,503	Fixed Income
Colombia - USD	452	Fixed Income
Cote d'Ivoire - EUR	112	Fixed Income
Cote d'Ivoire - USD	182	Fixed Income
Denmark - DKK	2,902	Equity
Dominican Republic - USD	599	Fixed Income
Egypt - EUR	195	Fixed Income
France - EUR	1,710	Fixed Income
France - EUR	21,545	Equity
France - GBP	472	Fixed Income
France - USD	3,742	Fixed Income
Germany - EUR	9,444	Fixed Income
Germany - EUR	29,517	Equity
Germany - USD	1,461	Fixed Income
Guernsey, C.I. - EUR	710	Fixed Income
Hong Kong - HKD	8,142	Equity
Indonesia - IDR	804	Fixed Income
Indonesia - IDR	4,466	Equity
Indonesia - USD	201	Fixed Income

(Continued)

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

Foreign Currency Risk, Continued

	2025	
	<u>Fair Value</u> (Expressed in thousands)	<u>Type</u>
Foreign currency, Continued:		
Ireland - EUR	306	Fixed Income
Ireland - USD	2,355	Fixed Income
Italy - EUR	541	Fixed Income
Italy - EUR	5,394	Equity
Italy - USD	559	Fixed Income
Japan - JPY	55,982	Equity
Jersey, C.I. - USD	7	Equity
Kazakhstan - USD	173	Fixed Income
Kenya - USD	203	Fixed Income
Liberia - USD	93	Fixed Income
Luxembourg - GBP	286	Fixed Income
Luxembourg - USD	1,327	Fixed Income
Mexico - MXN	2,077	Fixed Income
Mexico - USD	571	Fixed Income
Netherlands - EUR	879	Fixed Income
Netherlands - EUR	18,286	Equity
Netherlands - USD	1,702	Fixed Income
Nigeria - USD	159	Fixed Income
Norway - NOK	5,030	Equity
Other countries - EUR	756	Fixed Income
Other countries - INR	1,325	Fixed Income
Other countries - USD	3,970	Fixed Income
Panama - USD	1,405	Fixed Income
Peru - USD	126	Fixed Income
Poland - PLN	802	Fixed Income
South Africa - USD	150	Fixed Income
South Africa - ZAR	793	Fixed Income

(Continued)

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

Foreign Currency Risk, Continued

	2025	
	<u>Fair Value</u> <i>(Expressed in thousands)</i>	<u>Type</u>
Foreign currency, Continued:		
Spain - EUR	568	Fixed Income
Spain - EUR	11,225	Equity
Sweden - EUR	392	Fixed Income
Sweden - SEK	5,864	Equity
Switzerland - CHF	32,147	Equity
Switzerland - EUR	96	Fixed Income
United Kingdom - EUR	556	Fixed Income
United Kingdom - GBP	3,586	Fixed Income
United Kingdom - GBP	55,327	Equity
United Kingdom - USD	4,029	Fixed Income
United States - EUR	1,895	Fixed Income
United States - EUR	6,153	Equity
United States - GBP	379	Fixed Income
Virgin Islands, British - USD	585	Fixed Income
	<u>\$ 334,941</u>	

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

Foreign Currency Risk, Continued

	2024	
	<u>Fair Value</u> <i>(Expressed in thousands)</i>	<u>Type</u>
Foreign currency:		
Argentina peso	\$ 995	Fixed Income
Australian Dollar	53	Foreign Currency
Bermuda dollar	2,956	Equity
Bermuda dollar	5,449	Fixed Income
Brazilian real	655	Fixed Income
Brazilian real	86	Foreign Currency
British pound sterling	67,891	Equity
British pound sterling	8,435	Fixed Income
British pound sterling	327	Foreign Currency
Canadian dollar	4,934	Equity
Canadian dollar	4,028	Fixed Income
Canadian dollar	45	Foreign Currency
Cayman dollar	13,754	Equity
Cayman dollar	3,982	Fixed Income
Colombian peso	444	Fixed Income
Colombian peso	5	Foreign Currency
Danish Krone	15,846	Equity
Dominican Peso	583	Fixed Income
Egyptian Pound	154	Fixed Income
Euro	95,417	Equity
Euro	22,975	Fixed Income
Euro	664	Foreign Currency
Indonesian rupiah	4,217	Equity
Indonesian rupiah	993	Fixed Income
Indonesian rupiah	72	Foreign Currency

(Continued)

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

Foreign Currency Risk, Continued

	2024	
	<u>Fair Value</u> (Expressed in thousands)	<u>Type</u>
Foreign currency, Continued:		
Japanese yen	38,299	Equity
Jersey Pound	8,508	Equity
Jersey Pound	461	Fixed Income
Kazakhstani Tenge	164	Fixed Income
Kenyan Shilling	192	Fixed Income
Liberian Dollar	94	Equity
Liberian Dollar	1,063	Fixed Income
Mexican peso	3,566	Fixed Income
Mexican peso	125	Foreign Currency
Moroccan Dirham	172	Fixed Income
Nigerian Naira	145	Fixed Income
Panamanian Balboa	2,631	Equity
Panamanian Balboa	795	Fixed Income
Peruvian nuevo sol	127	Fixed Income
Polish Zloty	1,090	Fixed Income
Polish Zloty	46	Foreign Currency
South African Rand	1,266	Fixed Income
South African Rand	67	Foreign Currency
South Korean Won	9,209	Equity
Swedish Krona	4,019	Equity
Swiss franc	18,744	Equity
Swiss franc	212	Fixed Income
Taiwan Dollar	12,806	Equity
West African Rand	273	Fixed Income
	<u>\$ 359,034</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, CASH EQUIVALENTS, 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, 2025, the average duration of the portfolio of the Pooled Fixed Income Fund was 3.3 years, the average maturity was 5.4 years, the yield to maturity was 5.5%, and the average asset quality was A1. At June 30, 2024, the average duration of the portfolio of the Pooled Fixed Income Fund was 5.1 years, the average maturity was 5.3 years, the yield to maturity was 4.8%, and the average asset quality was Aa2.

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

	<u>Fixed Income Securities</u>	<u>Percentage</u>	
		<u>2025</u>	<u>2024</u>
Corporate		17%	21%
Asset-backed		9%	13%
Emerging Markets		6%	4%
Cash and cash equivalents		3%	9%
Treasury		17%	25%
Mortgage-backed		48%	28%

The Fund's investment in the Pooled Fixed Income Fund was approximately 1.90% and 2.43% of the total portfolio of the total Pooled Fixed Income Funds at June 30, 2025 and 2024, respectively.

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) CASH, CASH EQUIVALENTS, 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 <u>Fair Value</u>	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets <u>(Level 1)</u>	Significant Other Observable Inputs <u>(Level 2)</u>	Significant Unobservable Inputs <u>(Level 3)</u>
<u>2025</u>				
<u>Investments Measured at Fair Value</u>				
U.S. government securities	\$ 207,182,384	109,979,364	97,203,020	-
Foreign government securities	16,144,548	-	16,144,548	-
Domestic corporate bonds	221,359,552	422,588	220,936,964	-
Foreign corporate bonds	49,673,482	-	49,673,482	-
Domestic stocks	839,083,273	839,083,273	-	-
Foreign stocks	269,123,061	269,123,061	-	-
Pooled fixed income funds	168,047,675	550,875	167,496,800	-
Alternative investments	41,218,578	41,218,578	-	-
	<u>1,811,832,553</u>	<u>1,260,377,739</u>	<u>551,454,814</u>	<u>-</u>
Alternative investments measured at NAV:				
Core real estate	104,108,552			
Non-real estate	85,081,741			
	<u>189,190,293</u>			
Total investments at fair value	<u>\$ 2,001,022,846</u>	<u>1,260,377,739</u>	<u>551,454,814</u>	<u>-</u>

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

Investments Measured at Fair Value, Continued

	Amounts Measured at <u>Fair Value</u>	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets <u>(Level 1)</u>	Significant Other Observable Inputs <u>(Level 2)</u>	Significant Unobservable Inputs <u>(Level 3)</u>
<u>2024</u>				
Investments Measured at Fair Value				
U.S. government securities	\$ 186,309,264	100,704,224	85,605,040	-
Foreign government securities	14,041,709	-	14,041,709	-
Domestic corporate bonds	208,989,731	-	208,989,731	-
Foreign corporate bonds	44,177,008	-	44,177,008	-
Domestic stocks	599,576,991	599,576,991	-	-
Foreign stocks	299,325,810	299,325,810	-	-
Pooled fixed income funds	152,865,268	-	152,865,268	-
Alternative investments	104,985,753	104,985,753	-	-
	<u>1,610,271,534</u>	<u>1,104,592,778</u>	<u>505,678,756</u>	<u>-</u>
Alternative investments measured at NAV:				
Core real estate	115,238,108			
Non-real estate	112,156,531			
	<u>227,394,639</u>			
Total investments at fair value	<u>\$ 1,837,666,173</u>	<u>1,104,592,778</u>	<u>505,678,756</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.

(2) CASH, CASH EQUIVALENTS, 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.

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, 2025 and 2024. The notional values associated with the futures and options contracts are generally not recorded in the financial statements, as they represent the obligation to purchase the futures contracts. Unrealized gains or losses are recognized daily by the investment manager and have been reflected in the Fund's financial statements. Interest risks associated with these investments are included in the interest rate risk disclosures. The Fund does not anticipate additional significant market risk from the futures, options, or currency contracts.

Futures Contracts

	Expiration Date	<u>Long/Short</u>	Notional/ Fair Value <i>(Expressed in thousands)</i>
<u>2025</u>			
U.S. 10-year note	September 2025	Short	\$ (4,821)
U.S. 5-year note	September 2025	Short	1,199
U.S. long bond	September 2025	Short	(2,425)
Long GILT future	September 2025	Short	637
Euro-BUND future	September 2025	Short	(764)
Euro-BOBL	September 2025	Short	(138)
U.S. 10-year ultra bond	September 2025	Short	(1,485)
U.S. ultra bond	September 2025	Short	(119)
<u>2024</u>			
U.S. 10-year note	September 2024	Short	\$ (2,640)
U.S. 5-year note	September 2024	Short	639
U.S. long bond	September 2024	Short	(1,656)
Long GILT future	September 2024	Short	740
Euro-BUND future	September 2024	Short	6,489
U.S. 10-year ultra bond	September 2024	Short	(341)
U.S. ultra bond	September 2024	Short	(125)

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) DERIVATIVES, CONTINUED

Foreign Currency Forward Contracts

	<u>2025</u>	<u>2024</u>
	<i>(Expressed in thousands)</i>	
Pending receivable	\$ 18,049	28,575
Pending payable	<u>(18,191)</u>	<u>(28,686)</u>
Foreign currency forward contracts net payable	<u>\$ (142)</u>	<u>(111)</u>

As of June 30, 2025, the foreign currency forward contracts expire in August 2025 and September 2025. During the years ended June 30, 2025 and 2024, realized losses on foreign currency contracts were approximately \$(426,000) and \$(1,244,000), 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>Company</u>	<u>2025</u>		<u>Purpose</u>
	<u>Fair Value</u>	<u>Unfunded Commitment</u>	
<u>Real Estate</u>			
AEW Core Property Trust, Inc.	\$ 60,216,042	-	Real estate investment trust.
AEW VII	990,492	690,264	Real estate investment trust.
Siguler Guff	10,915,269	4,497,500	Investments in distressed opportunities in commercial real estate.
UBS Trumbull	18,648,153	-	Real estate investment trust.
	<u>90,769,956</u>	<u>5,187,764</u>	
<u>Fund of Funds</u>			
PIMCO All Asset Fund	<u>41,218,578</u>	<u>-</u>	Fund invests in other PIMCO funds (A fund of funds).
<u>Other</u>			
Medley Opportunity Fund II L.P.	32,703	-	Investments consist of senior secured direct loans to corporate entities that meet certain criteria.
Monroe Capital	24,374,253	7,493,699	Investments consist of senior secured direct loans to corporate entities that meet certain criteria.
Monroe Capital IV	16,642,630	3,000,000	Investments consist of senior secured direct loans to corporate entities that meet certain criteria.
Angelo Gordon	34,463,397	2,500,000	Investments consist of senior secured direct loans to corporate entities that meet certain criteria.
Brookfield	13,338,597	-	Open-end fund investing in real estate finance-related transactions in a credit risk position that is senior to traditional equity and junior mezzanine debt and subordinate to senior debt.
Comvest	<u>9,568,756</u>	<u>40,431,244</u>	
	<u>98,420,336</u>	<u>53,424,943</u>	
Total alternative investments	<u>\$ 230,408,870</u>	<u>58,612,707</u>	

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(4) ALTERNATIVE INVESTMENTS, CONTINUED

	2024		
<u>Company</u>	<u>Fair Value</u>	<u>Unfunded Commitment</u>	<u>Purpose</u>
<u>Real Estate</u>			
AEW Core Property Trust, Inc.	\$ 59,319,826	-	Real estate investment trust.
AEW VII	860,928	690,264	Real estate investment trust.
Siguler Guff	12,419,547	4,497,500	Investments in distressed opportunities in commercial real estate.
UBS Trumbull	20,549,981	-	Real estate investment trust.
	<u>93,150,282</u>	<u>5,187,764</u>	
<u>Fund of Funds</u>			
PIMCO All Asset Fund	<u>37,815,665</u>	-	Fund invests in other PIMCO funds (A fund of funds).
<u>Other</u>			
Medley Opportunity Fund II L.P.	126,349	-	Investments consist of senior secured direct loans to corporate entities that meet certain criteria.
Monroe Capital	43,866,415	7,493,699	Investments consist of senior secured direct loans to corporate entities that meet certain criteria.
Tortoise	67,170,088	-	Investments consist of limited partnerships in the oil and gas industries.
Monroe Capital IV	17,020,803	3,000,000	Investments consist of senior secured direct loans to corporate entities that meet certain criteria.
Angelo Gordon	51,142,964	2,500,000	Investments consist of senior secured direct loans to corporate entities that meet certain criteria.
Brookfield	22,087,826	-	Open-end fund investing in real estate finance-related transactions in a credit risk position that is senior to traditional equity and junior mezzanine debt and subordinate to senior debt.
	<u>201,414,445</u>	<u>12,993,699</u>	
Total alternative investments	<u>\$ 332,380,392</u>	<u>18,181,463</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, 2024</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at June 30, 2025</u>
Depreciable capital assets:				
Office equipment and furnishings	\$ 543,104	4,677	-	547,781
Accumulated depreciation:				
Office equipment and furnishings	<u>(302,791)</u>	<u>(65,641)</u>	<u>-</u>	<u>(368,432)</u>
Capital assets, net	<u>\$ 240,313</u>	<u>(60,964)</u>	<u>-</u>	<u>179,349</u>
	<u>Balance at June 30, 2023</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at June 30, 2024</u>
Depreciable capital assets:				
Office equipment and furnishings	\$ 344,574	198,530	-	543,104
Accumulated depreciation:				
Office equipment and furnishings	<u>(262,551)</u>	<u>(40,240)</u>	<u>-</u>	<u>(302,791)</u>
Capital assets, net	<u>\$ 82,023</u>	<u>158,290</u>	<u>-</u>	<u>240,313</u>

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(6) AVAILABLE EARNINGS AND FUND BALANCES

Available Earnings

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.

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.

- Committed Fund Balance: The committed fund balance classification reflects amounts that are constrained for specific purposes by formal action of the Fund's highest level of decision-making authority. For the purposes of the committed fund balance, the Fund's Board of Directors and Board of Investors have authority to commit funds for specific purposes.

Committed by Board of Directors for Legacy Funds (Certified)

Funds that were committed to legacy grants at the May 2025 Board of Directors meeting. The amount committed of \$150,000,000 is to be used for grants with up to a three-year duration to further the Fund's mission of improving health and reducing the risk factors of preventable deaths due to cancer and cardiovascular disease.

- Assigned Fund Balance: The assigned fund balance classification reflects amounts that are constrained by the Fund's intent to be used for specific purposes, but are neither restricted or committed. 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.

(Continued)

See Independent Auditors' Report.

(6) AVAILABLE EARNINGS AND FUND BALANCES, CONTINUED

Fund Balances, 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. In 2023, the Board of Directors adopted a policy to limit yearly expenditures by the average of the previous 3 years' certified earnings, plus expected lapse funds, as defined. All the unspent amounts have previously been certified by the Board of Investors.

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

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

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

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.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(6) AVAILABLE EARNINGS AND FUND BALANCES, CONTINUED

Fund Balances, Continued

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

	2025				
	Nonspendable	Committed for Legacy Grants and Certified	Assigned Available for Expenditure and Certified	Unassigned	Total
Balance at June 30, 2024	\$1,618,902,268	-	211,642,007	88,776,976	1,919,321,251
Settlement receipts	44,150,184	-	-	-	44,150,184
Miscellaneous other receipts	1,098,539	-	-	-	1,098,539
Net unrealized gains on investments	56,453,333	-	-	-	56,453,333
Miscellaneous income	700	-	-	-	700
Contract income	-	-	-	4,119,264	4,119,264
Expendable earnings, including net realized gains/losses on investments	-	-	-	142,973,261	142,973,261
Program and operating expenses	-	-	-	(77,312,406)	(77,312,406)
Transfer—committed for Legacy Grants	-	150,000,000	(150,000,000)	-	-
Transfer—estimate of certified earnings for 2025	-	-	15,583,834	(15,583,834)	-
Balance at June 30, 2025	<u>\$1,720,605,024</u>	<u>150,000,000</u>	<u>77,225,841</u>	<u>142,973,261</u>	<u>2,090,804,126</u>

As of June 30, 2025, the nonspendable balance consisted of the following:

Settlement receipts	\$ 1,343,911,369
Accumulated unrealized gains and miscellaneous income, net	<u>376,693,655</u>
Total nonspendable	<u>\$ 1,720,605,024</u>

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(6) AVAILABLE EARNINGS AND FUND BALANCES, CONTINUED

Fund Balances, Continued

	2024			
	<u>Nonspendable</u>	Assigned Available for Expenditure and <u>Certified</u>	<u>Unassigned</u>	<u>Total</u>
Balance at June 30, 2023	\$ 1,467,113,771	209,789,814	66,702,881	1,743,606,466
Settlement receipts	46,541,552	-	-	46,541,552
Miscellaneous other receipts	7,518	-	-	7,518
Net unrealized gains on investments	105,181,528	-	-	105,181,528
Miscellaneous income	57,899	-	-	57,899
Contract income	-	-	4,000,000	4,000,000
Expendable earnings, including net realized gains/losses on investments	-	-	88,776,976	88,776,976
Program and operating expenses	-	-	(68,850,688)	(68,850,688)
Transfer—estimate of certified earnings for 2024	-	1,852,193	(1,852,193)	-
Balance at June 30, 2024	<u>\$ 1,618,902,268</u>	<u>211,642,007</u>	<u>88,776,976</u>	<u>1,919,321,251</u>

As of June 30, 2024, the nonspendable balance consisted of the following:

Settlement receipts	\$ 1,299,761,185
Accumulated unrealized gains and miscellaneous income, net	<u>319,141,083</u>
Total nonspendable	<u>\$ 1,618,902,268</u>

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(6) AVAILABLE EARNINGS AND FUND BALANCES, CONTINUED

Fund Balances, Continued

The amount of earnings available for certification for the years ended June 30, 2025 and 2024, was \$142,973,261 and \$88,776,976, respectively.

At their August 20, 2025, meeting, the Board of Investors certified \$140,588,753, 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 2025 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.

The transfer of fund balances noted in the above reconciliation of \$15,583,834 and \$1,852,193 during 2025 and 2024, respectively, was to adjust the unassigned balance to the estimate of certified earnings for each respective year.

(7) 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).

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.

See Independent Auditors' Report.

(7) **PENSION PLAN, CONTINUED**

Plan Description, Continued

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.

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.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(7) PENSION PLAN, CONTINUED

Benefits Provided, Continued

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.

For 2025, 2024, and 2023, state agency employers contributed 16.50% on all salary, and state employees contributed 3.50% on all salary.

Members have the option to elect to increase the benefit computation factor for all future service from 2.00% to 2.50%. 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 2025, 2024, and 2023 were as follows:

	<u>2025</u>	<u>2024</u>	<u>2023</u>
\$	<u>197,111</u>	<u>187,737</u>	<u>189,066</u>

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(7) PENSION PLAN, CONTINUED

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

At June 30, 2025 and 2024, the Fund reported an (asset) liability for its proportionate share of the net pension (asset) liability for each year. The net pension (asset) liability was measured as of June 30, 2025 and 2024, and the total pension (asset) liability used to calculate the net pension (asset) liability was determined by an actuarial valuation as of July 1, 2024 and 2023, respectively. The Fund's proportion of the net pension liability and asset for each year 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, 2024 and 2023, respectively. Based upon this information, the Fund's proportion was 0.10089073% and 0.09086419% at June 30, 2025 and 2024, respectively.

For the years ended June 30, 2025 and 2024, the Fund recognized pension benefit of \$171,353 and \$19,128, respectively. At June 30, 2025 and 2024, 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>2025</u>		
Differences between expected and actual experience	\$ 35,406	-
Changes of assumptions	14,169	-
Proportionate changes	3	1,288
Net difference between projected and actual earnings on pension plan investments	-	196,946
Fund contributions subsequent to the measurement date	<u>197,111</u>	<u>-</u>
	<u>\$ 246,689</u>	<u>198,234</u>
<u>2024</u>		
Differences between expected and actual experience	\$ 11,405	6,296
Changes of assumptions	87,823	-
Proportionate changes	1,372	-
Net difference between projected and actual earnings on pension plan investments	345,577	-
Fund contributions subsequent to the measurement date	<u>187,737</u>	<u>-</u>
	<u>\$ 633,914</u>	<u>6,296</u>

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(7) 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 \$197,111 related to pensions resulting from the Fund's contributions subsequent to the measurement date will be recognized as an increase of the net pension liability in the year ending June 30, 2026. Any other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions as of June 30, 2025, will be recognized in pension expense as follows:

Years Ending June 30:	
2026	\$ (57,314)
2027	234,881
2028	(203,618)
2029	<u>(122,605)</u>
	<u>\$ (148,656)</u>

Actuarial Methods and Assumptions

The total pension (asset) liability was determined on an actuarial valuation prepared as of July 1, 2024 and 2023, using the following actuarial assumptions:

<u>2024</u>	
Investment return:	6.50% net of investment expense and including inflation.
Salary increases:	3.25% to 9.25%
Mortality rates:	Pub-2010 Below Media, General Membership Active/Retiree Healthy Mortality Table with base rates projected to 2030 using Scale MP-2019. Male rates are unadjusted, and female rates are set forward two years.
Municipal Bond Index Rate:	Prior Measurement Date 3.66%; Measurement Date 3.90%
Assumed inflation rate:	2.50%
Payroll growth:	3.25% for 2024 and 2023
Actuarial cost method:	Entry age
Single Equivalent Interest Rate, net of plan investment expense, including price inflation:	Prior Measurement Date 6.50%; Measurement Date 6.50%

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(7) PENSION PLAN, CONTINUED

Actuarial Methods and Assumptions, Continued

2023

Investment return:	6.50% compounded annually net of investment expense and including inflation.
Salary increases:	3.50% to 9.25%
Mortality rates:	Pub-2010 Below Media, General Membership Active/Retiree Healthy Mortality Table with base rates projected to 2030 using Scale MP-2019. Male rates are unadjusted, and female rates are set forward two years.
Annual post-retirement benefit increases:	None
Assumed inflation rate:	2.50%
Payroll growth:	3.25%
Actuarial cost method:	Entry age
Select period for the termination of employment assumptions:	10 years

The actuarial assumptions used in the July 1, 2024, valuations are based on the results of the most recent actuarial experience study, which covers the 3-year period ending June 30, 2022. The experience study report is dated April 12, 2023.

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.

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(7) PENSION PLAN, CONTINUED

Actuarial Methods and Assumptions, Continued

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class as used in the June 30, 2022, experience study, 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.S. large cap equity	34.0%	5.1%
U.S. small cap equity	6.0%	5.1%
Global equity (excluding U.S.)	28.0%	8.2%
Core fixed income	25.0%	1.9%
Long-term treasuries	3.5%	2.1%
US TIPS	<u>3.5%</u>	1.8%
	<u>100.0%</u>	

Discount Rate

The discount rate used to measure the total pension (asset) liability was 6.50% for 2024 and 2023. 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 (asset) liability for each year. The discount rate determined does not use a municipal bond rate.

See Independent Auditors' Report.

(8) **OTHER POSTEMPLOYMENT BENEFITS, CONTINUED**

HEALTH INSURANCE SUBSIDY PLAN OPEB, CONTINUED

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 2025 and 2024, *state agency employers* contributed 16.50% for OPERS programs on all salaries.

Contributions to OPERS for the HISP by the Fund for years ended June 30, 2025 and 2024, were approximately \$14,400 and \$13,700, respectively.

At June 30, 2025 and 2024, the Fund reported an asset for its proportionate share of the net OPEB asset. The net OPEB asset was measured as of June 30, 2025 and 2024, respectively, and the total OPEB asset used to calculate the net OPEB asset was determined by an actuarial valuation as of July 1, 2024 and 2023, 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, 2024 and 2023, respectively. Based upon this information, the Fund's proportion was 0.10089073% and 0.09086419% at June 30, 2025 and 2024, respectively.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(8) 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**

For the years ended June 30, 2025 and 2024, the Fund recognized OPEB benefit related to the HISP of \$35,132 and \$24,619, respectively. At June 30, 2025 and 2024, 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>2025</u>		
Differences between expected and actual experience	\$ -	44,696
Changes of assumptions	4,972	-
Proportionate changes	170	13,977
Net difference between projected and actual earnings on OPEB investments	10,869	-
Fund contributions subsequent to the measurement date	<u>14,354</u>	<u>-</u>
	<u>\$ 30,365</u>	<u>58,673</u>
<u>2024</u>		
Differences between expected and actual experience	\$ -	42,159
Changes of assumptions	7,610	-
Proportionate changes	274	8,887
Net difference between projected and actual earnings on OPEB investments	22,021	-
Fund contributions subsequent to the measurement date	<u>13,671</u>	<u>-</u>
	<u>\$ 43,576</u>	<u>51,046</u>

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(8) 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**

Reported deferred outflows of resources of \$14,354 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, 2026. Any other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB as of June 30, 2025, will be recognized in OPEB expense as follows:

Years Ending June 30:	
2026	\$ (14,176)
2027	(3,506)
2028	(13,753)
2029	(9,167)
2030 and thereafter	<u>(2,060)</u>
	<u>\$ (42,662)</u>

Actuarial Methods and Assumptions

The total OPEB liability was determined on an actuarial valuation prepared as of July 1, 2024 and 2023 as follows:

<u>2024</u>	
Investment return:	6.50% net of investment expense and including price inflation.
Salary increases:	3.25% to 9.25%
Mortality rates:	Pub-2010 Below Media, General Membership Active/Retiree Healthy Mortality Table with base rates projected to 2030 using Scale MP-2019. Male rates are unadjusted, and female rates are set forward two years.
Municipal Bond Index Rate:	Prior Measurement Date 3.66%; Measurement Date 3.90%
Assumed inflation rate:	2.50%
Single Equivalent Interest Rate, net of plan investment expense, including price inflation:	Prior Measurement Date 6.50%; Measurement Date 6.50%

See Independent Auditors’ Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(8) OTHER POSTEMPLOYMENT BENEFITS, CONTINUED

HEALTH INSURANCE SUBSIDY PLAN OPEB, CONTINUED

Actuarial Methods and Assumptions, Continued

2023

Investment return:	6.50% compounded annually net of investment expense and including inflation.
Salary increases:	3.50% to 9.25%
Mortality rates:	Pub-2010 Below Media, General Membership Active/Retiree Healthy Mortality Table with base rates projected to 2030 using Scale MP-2019. Male rates are unadjusted, and female rates are set forward two years.
Annual post-retirement benefit increases:	None
Assumed inflation rate:	2.50%
Payroll growth:	3.25%
Actuarial cost method:	Entry age
Select period for the termination of employment assumptions:	10 years

The actuarial assumptions used in the July 1, 2024, valuations are based on the results of the most recent actuarial experience study, which covers the 3-year period ending June 30, 2022. The experience study report is dated April 12, 2023.

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.

See Independent Auditors' Report.

(8) **OTHER POSTEMPLOYMENT BENEFITS, CONTINUED**

HEALTH INSURANCE SUBSIDY PLAN OPEB, CONTINUED

Actuarial Methods and Assumptions, Continued

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class as used in the June 30, 2023, experience study, 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.S. large cap equity	34.0%	5.1%
U.S. small cap equity	6.0%	5.1%
Global equity (excluding U.S.)	28.0%	8.2%
Core fixed income	25.0%	1.9%
Long-term treasuries	3.5%	2.1%
US TIPS	<u>3.5%</u>	1.8%
	<u>100.0%</u>	

Discount Rate

The discount rate used to measure the total pension liability and asset was 6.50% for 2024 and 2023. 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 and asset for each year. The discount rate determined does not use a municipal bond rate.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(8) OTHER POSTEMPLOYMENT BENEFITS, CONTINUED

HEALTH INSURANCE SUBSIDY PLAN OPEB, CONTINUED

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

The following presents the net pension (asset) of the Fund calculated using the discount rate of 6.50% for 2025 and 2024, 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 <u>(5.50%)</u>	Current Discount Rate <u>(6.50%)</u>	1% Increase <u>(7.50%)</u>
<u>June 30, 2025</u>			
Net OPEB asset	\$ <u>(140,190)</u>	<u>(173,696)</u>	<u>(202,184)</u>
<u>June 30, 2024</u>			
Net OPEB asset	\$ <u>(85,087)</u>	<u>(117,726)</u>	<u>(142,299)</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.

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.

See Independent Auditors’ Report.

(8) **OTHER POSTEMPLOYMENT BENEFITS, CONTINUED**

IMPLICIT RATE SUBSIDY OF HEALTH INSURANCE PLAN OPEB LIABILITY, CONTINUED

Description, Continued

The IRSHIP provides members with postretirement medical benefits until age 65 if the retiree and spouse pay the full active premium. Participation in the health insurance plan can elect to enroll in special coverage, and surviving spouses may continue in the Plan until age 65. Contributions to the health insurance plan are made by both participants and the Fund on a “pay as you go” basis. Fund contributions for the years ended June 30, 2025 and 2024, were approximately \$8,000 and \$7,778, respectively.

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

At June 30, 2025 and 2024, 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, 2025 and 2024, 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, 2024 and 2023, respectively. The Fund’s proportion of the net IRSHIP OPEB liability was based on the Fund’s active employees as of July 1, 2024 and 2023, 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 0.0773277% and 0.0777565% at June 30, 2025 and 2024, respectively.

For the years ended June 30, 2025 and 2024, the Fund recognized OPEB expense of \$11,696 and \$31,322, respectively. At June 30, 2025 and 2024, 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>2025</u>		
Differences between expected and actual experience	\$ -	3,869
Changes of assumptions	44,373	7,962
Fund contributions subsequent to the measurement date	8,000	-
	<u>\$ 52,373</u>	<u>11,831</u>

See Independent Auditors’ Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(8) 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**

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<u>2024</u>		
Differences between expected and actual experience	\$ -	3,072
Changes of assumptions	55,028	6,706
Fund contributions subsequent to the measurement date	<u>7,778</u>	<u>-</u>
	<u>\$ 62,806</u>	<u>9,778</u>

Reported deferred outflows of resources of \$8,000 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, 2026. Any other amounts reported as deferred outflows of resources and deferred inflows of resources related to the IRSHIP OPEB liability as of June 30, 2025, will be recognized in OPEB expense as follows:

Years Ending June 30:	
2026	\$ 9,131
2027	8,640
2028	9,007
2029	6,280
2030	<u>(516)</u>
	<u>\$ 32,542</u>

Actuarial Methods and Assumptions

The total IRSHIP OPEB liability was determined based on actuarial valuations prepared using a July 1, 2024 and 2023, 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.

(Continued)

See Independent Auditors’ Report.

(8) OTHER POSTEMPLOYMENT BENEFITS, CONTINUED

*IMPLICIT RATE SUBSIDY OF HEALTH INSURANCE PLAN OPEB LIABILITY,
CONTINUED*

Actuarial Methods and Assumptions, Continued

- Mortality rates—

For 2024 and 2023, Pub-2010 Public Retirement Plans General Mortality Table weighted by Headcount projected by MP-2021 as of July 1, 2023.
- 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—For both 2024 and 2023, 65% 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 4 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—For both 2024 and 2023, 7.80% decreasing to 4.45%.

The June 30, 2025, valuation is based on a measured date of July 1, 2024, with a measurement period of July 1, 2023, to July 1, 2024. The June 30, 2024, valuation is based on a measurement date of July 1, 2023, with a measurement period of July 1, 2022 to July 1, 2023.

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(8) 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 3.93% and 3.65% for June 30, 2025 and 2024, 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>2025</u>	<u>2024</u>
Balance at beginning of year	\$ 155,345	73,688
Changes for the year:		
Service cost	6,875	3,705
Interest expense	5,750	3,491
Changes in assumptions	8,456	7,610
Net change in deferred outflows/inflows	(13,317)	75,366
Actual experience	(819)	(652)
Benefits paid	(7,735)	(7,863)
Net changes	<u>(790)</u>	<u>81,657</u>
Balance at end of year	<u>\$ 154,555</u>	<u>155,345</u>

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

Sensitivity of the net OPEB liability to changes in the discount rate—The following presents the net IRSHIP OPEB liability of the Fund calculated using the discount rate of 3.93% and 3.65% for 2025 and 2024, 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 <u>(2.93%)</u>	Current Discount Rate <u>(3.93%)</u>	1% Increase <u>(4.93%)</u>
<u>June 30, 2025</u>			
Net OPEB liability	<u>\$ 166,206</u>	<u>154,555</u>	<u>144,446</u>

See Independent Auditors’ Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(8) **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, Continued

	1% Decrease (2.65%)	Current Discount Rate (3.65%)	1% Increase (4.65%)
<u>June 30, 2024</u>			
Net OPEB liability	\$ <u>167,065</u>	<u>155,345</u>	<u>144,350</u>

Sensitivity of the net OPEB liability to changes in the healthcare trend rate—The following presents the net OPEB liability at June 30, 2025 and 2024, 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 (6.80% decreasing to <u>3.45%</u>)	Current Healthcare Trend Rate (7.80% decreasing to <u>4.45%</u>)	1% Increase in Healthcare Trend Rate (8.80% decreasing to <u>5.45%</u>)
<u>2025</u>			
Net OPEB liability	\$ <u>138,919</u>	<u>154,555</u>	<u>173,844</u>
<u>2024</u>			
Net OPEB liability	\$ <u>139,875</u>	<u>155,345</u>	<u>173,490</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/ActuarialValuationReport2025.pdf>.

(9) **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”).

See Independent Auditors’ Report.

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

Deferred Compensation Plan, Continued

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.

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, 2025 and 2024. The Fund believes that it has no liabilities with respect to the Deferred Compensation Plan.

See Independent Auditors' Report.

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

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.

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.

(10) **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.

(11) **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.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

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 10 Fiscal Years*

	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
The Fund's proportion of the net pension liability	0.10089073%	0.09086419%	0.09221134%	0.08097220%	0.08322578%	0.07682100%	0.09458290%	0.08440929%	0.07718124%	0.07518864%
The Fund's proportionate share of the net pension (asset) liability	\$ (334,794)	415,721	775,095	(1,086,778)	742,510	102,316	184,477	456,370	765,816	270,441
The Fund's covered payroll	1,220,657	1,229,298	1,126,339	1,166,099	1,233,654	1,299,584	1,430,370	1,413,248	1,365,406	1,329,158
The Fund's proportionate share of the net pension (asset) liability as a percentage of its covered payroll	(27.43)%	33.82%	68.82%	(93.20)%	60.19%	7.87%	12.90%	32.29%	56.09%	20.35%
OPERS' fiduciary net position as a percentage of the total pension liability	102.91%	95.91%	92.24%	112.51%	91.59%	98.63%	97.96%	94.28%	89.48%	96.00%

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

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>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually required contribution	\$ 197,111	187,737	189,066	173,231	179,346	189,736	199,876	219,925	233,186	225,292
Contributions in relation to the contractually required contributions	<u>197,111</u>	<u>187,737</u>	<u>189,066</u>	<u>173,231</u>	<u>179,346</u>	<u>189,736</u>	<u>199,876</u>	<u>219,925</u>	<u>233,186</u>	<u>225,292</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	\$ 1,281,606	1,220,657	1,229,298	1,126,339	1,166,099	1,233,654	1,299,584	1,430,370	1,413,248	1,365,406
Contributions as a percentage of covered payroll*	15.38%	15.38%	15.38%	15.38%	15.38%	15.38%	15.38%	15.38%	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 8 Fiscal Years*

	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
The Fund's proportion of the net OPEB liability	0.10089073%	0.09086419%	0.09221134%	0.08097220%	0.08322578%	0.07682100%	0.09458290%	0.08440929%
The Fund's proportionate share of the net OPEB (asset) liability	\$ (173,696)	(117,726)	(86,298)	(111,322)	(39,019)	(29,864)	(12,240)	9,668
The Fund's covered payroll	1,220,657	1,229,298	1,126,339	1,166,099	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	(14.23)%	(9.58)%	(7.66)%	(9.55)%	(3.16)%	(2.30)%	(0.86)%	0.68%
OPERS' fiduciary net position as a percentage of the total OPEB liability	157.20%	141.38%	130.01%	142.87%	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 8 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 8 Fiscal Years

	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Contractually required contribution	\$ 14,354	13,671	13,768	12,615	13,060	13,817	14,620	16,086
Contributions in relation to the contractually required contributions	<u>14,354</u>	<u>13,671</u>	<u>13,768</u>	<u>12,615</u>	<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>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
The Fund's covered payroll	\$ 1,281,606	1,220,657	1,229,298	1,126,339	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%	1.12%	1.12%	1.12%	1.12%

Only the last 8 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 8 Fiscal Years

	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB liability:								
Service cost	\$ 6,875	3,705	3,567	3,659	1,937	2,026	2,557	2,572
Interest	5,750	3,491	1,775	1,862	1,825	2,203	2,615	2,228
Actual experience	(819)	(652)	(251)	(294)	5,025	(157)	(612)	-
Changes in assumptions and deferred items	(4,861)	82,976	(8,272)	27,816	(190)	(1,727)	(668)	(3,669)
Benefit payments, including refunds of member contributions	(7,735)	(7,863)	(6,007)	(6,214)	(4,238)	(22,702)	(5,425)	(6,296)
Adoption of GASB 75	-	-	-	-	-	-	-	78,743 *
Net change in total OPEB liability	(790)	81,657	(9,188)	26,829	4,359	(20,357)	(1,533)	73,578
Total OPEB liability—beginning	155,345	73,688	82,876	56,047	51,688	72,045	73,578	-
Total OPEB liability—ending	<u>\$ 154,555</u>	<u>155,345</u>	<u>73,688</u>	<u>82,876</u>	<u>56,047</u>	<u>51,688</u>	<u>72,045</u>	<u>73,578</u>
Covered-employee payroll	\$ 1,220,657	1,229,298	1,126,339	1,166,099	1,233,654	1,299,584	1,430,370	1,413,248
Total OPEB liability as a percentage of covered-employee payroll	12.66%	12.64%	6.54%	7.11%	4.54%	3.98%	5.04%	5.21%

*Amount was recognized in the year of adoption.

Only the last 8 fiscal years are presented because 10-year data is not readily available.

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2025 and 2024

(1) PENSION PLAN—OKLAHOMA EMPLOYEES RETIREMENT PLAN

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”).

At June 30, 2025 and 2024, the Fund reported a liability for its proportionate share of the net pension liability of OPERS. The total pension liability was determined on an actuarial valuation prepared as of July 1, 2024 and 2023, using the following actuarial assumptions:

2024

Investment return:	6.50% net of investment expense and price including inflation.
Salary increases:	3.25% to 9.25%
Mortality rates:	Pub-2010 Below Media, General Membership Active/Retiree Healthy Mortality Table with base rates projected to 2030 using Scale MP-2019. Male rates are unadjusted, and female rates are set forward two years.
Municipal Bond Index Rate:	Prior Measurement Date 3.66%; Measurement Date 3.90%
Assumed inflation rate:	2.50%
Single Equivalent Interest Rate, net of plan investment expense, including price inflation:	Prior Measurement Date 6.50%; Measurement Date 6.50%

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2025 and 2024

(1) PENSION PLAN—OKLAHOMA EMPLOYEES RETIREMENT PLAN, CONTINUED

2023

Investment return:	6.50% compounded annually net of investment expense and including inflation.
Salary increases:	3.50% to 9.25%
Mortality rates:	Pub-2010 Below Media, General Membership Active/Retiree Healthy Mortality Table with base rates projected to 2030 using Scale MP-2019. Male rates are unadjusted, and female rates are set forward two years.
Annual post-retirement benefit increases:	None
Assumed inflation rate:	2.50%
Payroll growth:	3.25%
Actuarial cost method:	Entry age
Select period for the termination of employment assumptions:	10 years

(2) **OTHER POSTEMPLOYMENT BENEFITS (OPEB)—HEALTH INSURANCE SUBSIDY**

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 the System.

At June 30, 2025 and 2024, the Fund reported an asset for its proportionate share of the net OPEB asset of HISP. The total OPEB asset was determined on an actuarial valuation prepared as of July 1, 2024 and 2023, using the following actuarial assumptions:

2024

Investment return:	6.50% net of investment expense and price including inflation.
Salary increases:	3.25% to 9.25%
Mortality rates:	Pub-2010 Below Media, General Membership Active/Retiree Healthy Mortality Table with base rates projected to 2030 using Scale MP-2019. Male rates are unadjusted, and female rates are set forward two years.
Municipal Bond Index Rate:	Prior Measurement Date 3.66%; Measurement Date 3.90%
Assumed inflation rate:	2.50%
Single Equivalent Interest Rate, net of plan investment expense, including price inflation:	Prior Measurement Date 6.50%; Measurement Date 6.50%

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION, CONTINUED

(2) OTHER POSTEMPLOYMENT BENEFITS (OPEB)—HEALTH INSURANCE SUBSIDY, CONTINUED

2023

Investment return:	6.50% compounded annually net of investment expense and including inflation.
Salary increases:	3.50% to 9.25%
Mortality rates:	Pub-2010 Below Media, General Membership Active/Retiree Healthy Mortality Table with base rates projected to 2030 using Scale MP-2019. Male rates are unadjusted, and female rates are set forward two years.
Annual post-retirement benefit increases:	None
Assumed inflation rate:	2.50%
Payroll growth:	3.25%
Actuarial cost method:	Entry age
Select period for the termination of employment assumptions:	10 years

(3) OTHER POSTEMPLOYMENT BENEFITS (OPEB)—IMPLICIT RATE SUBSIDY

The Fund participates in the State of Oklahoma Employees Group Insurance Division (EGID) 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. No assets have been accumulated in trust to pay the related benefits.

At June 30, 2025 and 2024, the Fund reported a liability for its proportionate share of the net OPEB liability for participation in the EGID. The total OPEB liability was determined on an actuarial valuation prepared as of July 1, 2024 and 2023, 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 2024 and 2023, Pub-2010 Public Retirement Plans General Mortality Table weighted by Headcount projected by MP-2021 as of July 1, 2023.
- 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—For both 2024 and 2023, 65% 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 4 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—For both 2024 and 2023, 7.80% decreasing to 4.45%.

**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, 2025, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated September 30, 2025. 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.

Report on 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.

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

(Continued)

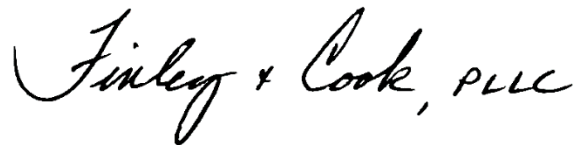
**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS, CONTINUED**

Report on 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.

A handwritten signature in cursive script that reads "Finley & Cook, PLLC".

Shawnee, Oklahoma
September 30, 2025