

Tobacco Settlement Endowment Trust Fund

*The Auditors' Communication with
Those Charged with Governance*

June 30, 2024



September 30, 2024

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

We have audited the financial statements of the governmental activities and permanent fund of the Tobacco Settlement Endowment Trust Fund (the “Fund”) for the year ended June 30, 2024. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States and *Government Auditing Standards* as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated February 2, 2024. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Fund are described in Note 1 to the financial statements. As discussed below, the Fund adopted new accounting policies during the year ended June 30, 2024. There were no changes to existing accounting policies during the year ended June 30, 2024. We noted no transactions entered into by the Fund during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

- Classification and reporting of derivative instruments within the scope of Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, that do not meet the definition of either an investment derivative instrument or a hedging derivative instrument.
- Clarification of provisions in Statement No. 87, *Leases*, as amended, related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives.
- Clarification of provisions in Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset.

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Significant Audit Matters, Continued

Qualitative Aspects of Accounting Practices, Continued

- Clarification of provisions in Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability.
- Extension of the period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt.
- Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP).
- Disclosures related to nonmonetary transactions.
- Pledges of future revenues when resources are not received by the pledging government.
- Clarification of provisions in Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, as amended, related to the focus of the government-wide financial statements.
- Terminology updates related to certain provisions of Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.
- Terminology used in Statement 53 to refer to resource flows statements.

The requirements of GASB 99 are effective as follows:

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

(Continued)

Significant Audit Matters, Continued

Qualitative Aspects of Accounting Practices, Continued

- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter. The Fund adopted these requirements effective July 1, 2023, which did not have a significant impact on the financial statements.

In June 2022, GASB issued Statement No. 100, Accounting Changes and Error Corrections—an amendment of GASB Statement No. 62 (GASB 100). GASB 100 enhances accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. GASB 100 is effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023. Earlier application is encouraged. The Fund adopted these requirements effective July 1, 2023, which did not have a significant effect on the financial statements.

In June 2022, GASB issued Statement No. 101, *Compensated Absences* (GASB 101). GASB 101 enhances information for user of the financial statements by updating the recognition and measurement guidance for compensated absences. GASB 101 aligns the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The requirements of GASB 101 are effective for fiscal years beginning after December 15, 2023. Earlier application is encouraged. The Fund will adopt GASB 101 as of July 1, 2024, for the June 30, 2025 reporting year. The adoption of GASB 101 by the Fund is not expected to 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 will adopt GASB 102 as of July 1, 2024, for the June 30, 2025, reporting year. The adoption of GASB 102 by the Fund is not expected to have a significant effect on the financial statements.

Significant Audit Matters, Continued

Qualitative Aspects of Accounting Practices, Continued

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.

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

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

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

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

Significant Audit Matters, Continued

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 30, 2024.

Management Consultations with Other Independent Accountants

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

Other Audit Matters or Issues

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

Other Matters

We applied certain limited procedures to the management’s discussion and analysis at I-1 to I-18 and the pension and OPEB schedules on pages 71 to 78 which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Operating and Administrative Expenses

The Fund is limited to having annual operating and administrative expenses of no more than 15% of certified earnings. We performed testwork on the operating and administrative expenses for the year ended June 30, 2024, and determined that operating and administrative expenses were approximately 2.53% of certified earnings, and therefore the Fund was determined to be in compliance with the 15% limitation.

Other Required Communications

We as independent auditors are required to:

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

We have nothing to report.

Restriction on Use

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

Sincerely,

Finley + Cook, PLLC

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

SUMMARY OF UNCORRECTED MISSTATEMENTS

June 30, 2024

None.