# Tobacco Settlement Endowment Trust Fund

*Financial Statements*

June 30, 2018 and 2017
(With Independent Auditors' Report Thereon)

FINLEY & COOK
CERTIFIED PUBLIC ACCOUNTANTS

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**INDEPENDENT AUDITORS' REPORT**

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and the permanent fund of the Tobacco Settlement Endowment Trust Fund (the "Fund"), which is a part of the State of Oklahoma financial reporting entity, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

(Continued)



1421 East 45th Street • Shawnee, OK 74804
P: 405.878.7300 • www.finley-cook.com • F: 405.395.3300

## *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the permanent fund of the Fund as of June 30, 2018 and 2017, and the respective changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States.

## *Emphasis of Matter*

*Component-Unit-Only Financial Statements*

As discussed in Note 1, the financial statements of the Fund, a permanent fund of the State of Oklahoma, are intended to present the financial position and the changes in financial position of only that portion of the governmental activities and governmental funds of the State of Oklahoma that is attributable to the transactions of the Fund. They do not purport to, and do not, present fairly the financial position of the State of Oklahoma as of June 30, 2018 and 2017, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States. Our opinion is not modified with respect to this matter.

## *Other Matters*

*Required Supplementary Information*

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages I-1 through I-17 and the schedule of the Fund's proportionate share of the net pension and OPEB liabilities and the schedule of the Fund's contributions on pages 76 through 81, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

(Continued)

**INDEPENDENT AUDITORS' REPORT, CONTINUED**

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2018, on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

Finley + Cook, PLLC

Shawnee, Oklahoma
September 28, 2018

**TOBACCO SETTLEMENT ENDOWMENT TRUST FUND**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**

**June 30, 2018 and 2017**

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, 2018 and 2017. The intent of the MD&A is to look at the Fund's financial performance as a whole. It should, therefore, be read in conjunction with the Fund's financial statements and the notes thereto.

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

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

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

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

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

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

At their August 23, 2018, meeting, the Board of Investors certified $64,771,764, reserving $500,000 for possible audit adjustments. The estimated earnings available for certification for the period ended June 30, 2018, were $65,262,313.

### USING THIS ANNUAL REPORT

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

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

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

## FINANCIAL HIGHLIGHTS

### Statements of Net Position

The statements of net position provide an indication of the Fund's financial condition at the end of the 2018, 2017, and 2016 fiscal years; the statements report all assets and liabilities using the accrual basis of accounting.

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

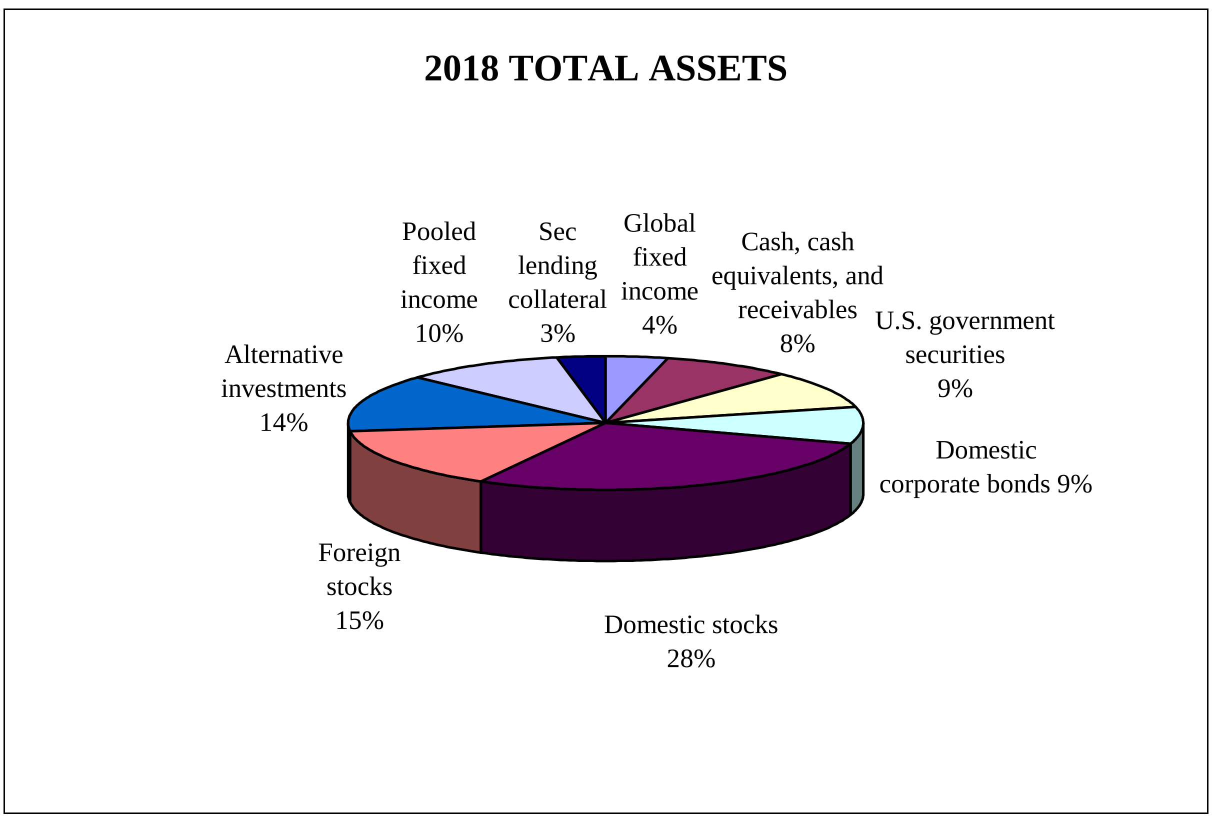
| | 2018 | 2017 | 2016 |
|---|---|---|---|
| **Assets** | | | |
| Current assets | $ 108,497,619 | 117,755,910 | 121,256,739 |
| Investments, at fair value | 1,204,542,742 | 1,117,092,450 | 1,001,295,395 |
| Securities lending collateral—non-cash | 46,612,924 | 66,221,973 | 39,803,195 |
| Capital assets | 43,292 | 53,410 | 58,520 |
| Total assets | 1,359,696,577 | 1,301,123,743 | 1,162,413,849 |
| Deferred outflows of resources: | | | |
| Deferred amounts related to the pension and OPEB | 502,530 | 962,220 | 532,465 |
| **Liabilities** | | | |
| Current liabilities | 24,732,760 | 24,811,123 | 21,019,502 |
| Liability under securities lending | 110,177,570 | 139,787,505 | 122,292,462 |
| Noncurrent liabilities | 639,923 | 852,322 | 368,870 |
| Total liabilities | 135,550,253 | 165,450,950 | 143,680,834 |
| Deferred inflows of resources: | | | |
| Deferred amounts related to the pension and OPEB | 143,638 | 270,393 | 376,012 |
| **Net Position** | | | |
| Net investment in capital assets | 43,292 | 53,410 | 58,520 |
| Restricted for investment | 1,117,758,270 | 1,044,101,129 | 914,652,652 |
| Unrestricted | 106,703,654 | 92,210,081 | 104,178,296 |
| Total net position | $ 1,224,505,216 | 1,136,364,620 | 1,018,889,468 |

## FINANCIAL HIGHLIGHTS, CONTINUED

### Statements of Net Position, Continued

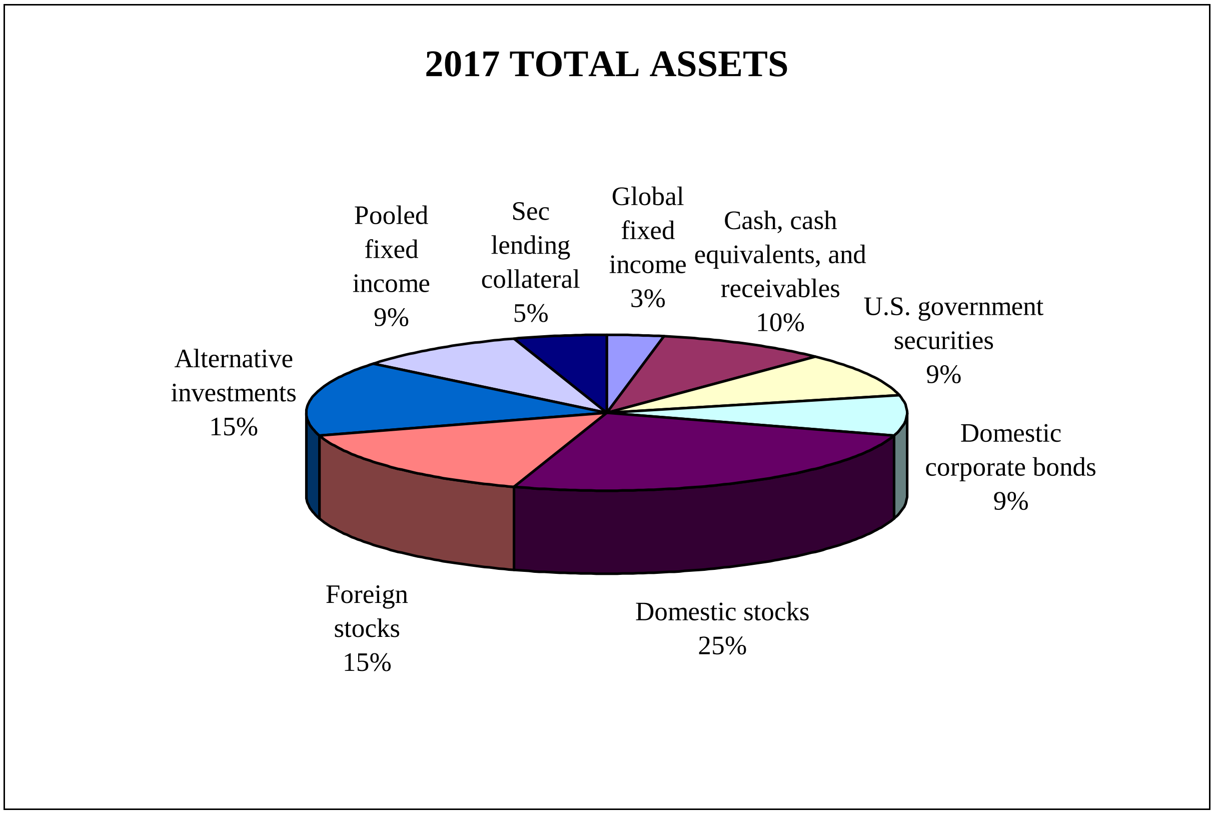
The Fund's total net position increased $88.14 million during the year, as the Fund invested an additional $53.7 million in settlement receipts, recognized $85.2 million as net investment income, and expended $51.8 million on programs and operations. Total investments increased from $1,117.1 million at the beginning of the year to $1,204.5 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 $54.9 million from the net appreciation of the fair value of the portfolio and earned $30.0 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 $63.6 million, which represents cash collateral presented to the Fund by security borrowers through the Board of Investors' securities lending effort. Use of this cash is restricted unless the borrowers were to default in the return of the securities borrowed.



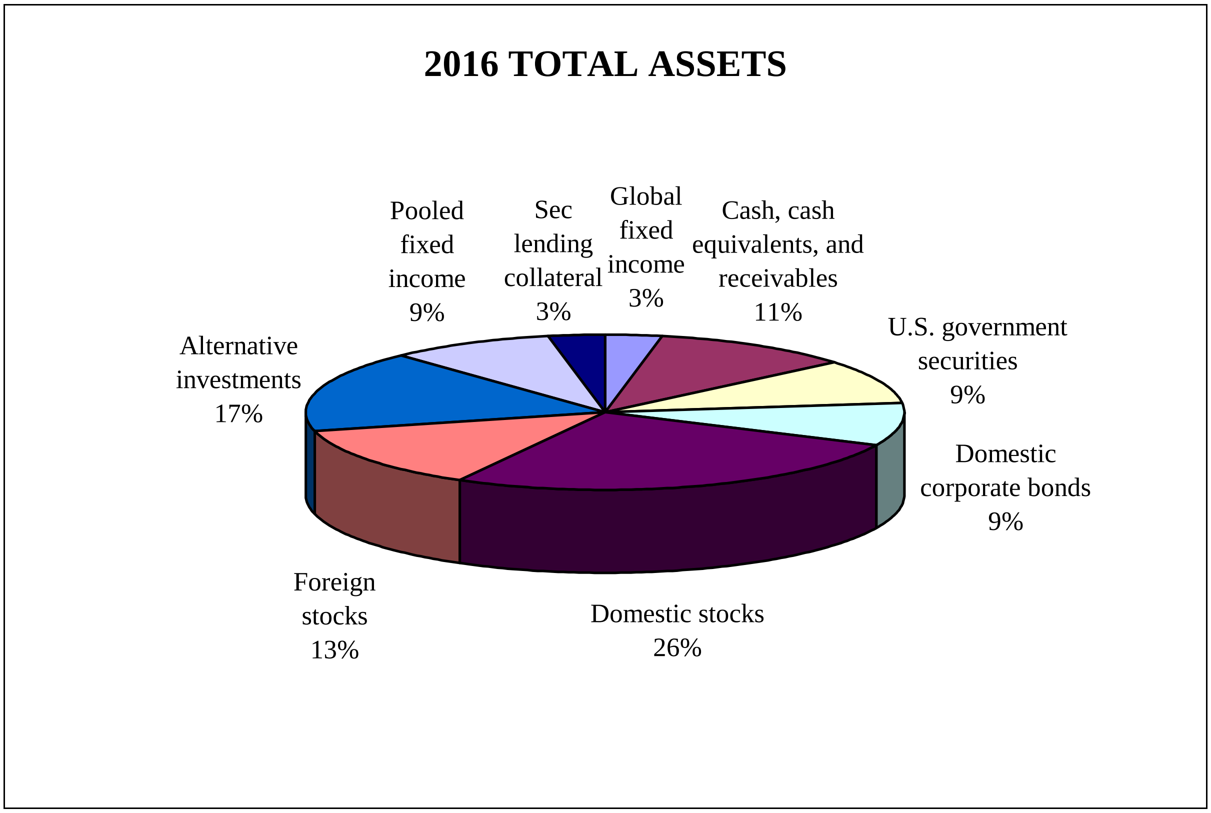
**FINANCIAL HIGHLIGHTS, CONTINUED**

**Statements of Net Position, Continued**



## FINANCIAL HIGHLIGHTS, CONTINUED

### Statements of Net Position, Continued



**FINANCIAL HIGHLIGHTS, CONTINUED**

**Statements of Activities—Income and Expenses**

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

**Tobacco Settlement Endowment Trust Fund**
**Statements of Activities**

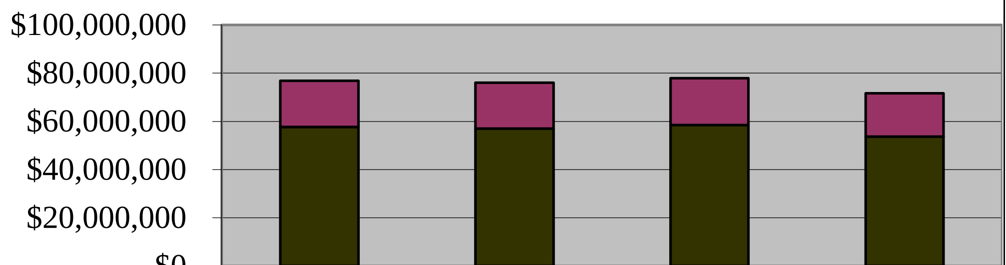
| | 2018 | 2017 | 2016 |
|---|---|---|---|
| **Investment income:** | | | |
| Interest and dividend income | $ 36,049,742 | 32,553,851 | 34,158,974 |
| Securities lending income | 255,288 | 230,362 | 212,847 |
| Net appreciation (depreciation) in fair value of investments: | | | |
| Net unrealized gains and losses | 19,897,296 | 70,870,942 | (14,027,159) |
| Net realized gains and losses | 35,042,469 | 12,739,782 | (1,204,386) |
| | 54,939,765 | 83,610,724 | (15,231,545) |
| Total investment income | 91,244,795 | 116,394,937 | 19,140,276 |
| Investment expenses | (6,085,185) | (5,787,580) | (6,007,660) |
| Net investment income | 85,159,610 | 110,607,357 | 13,132,616 |
| **Other income:** | | | |
| Contract income | 1,005,201 | 882,949 | 1,745,641 |
| Miscellaneous income | 12,342 | 112,751 | 57,237 |
| Total other income | 1,017,543 | 995,700 | 1,802,878 |
| **Expenses:** | | | |
| Program | 50,048,120 | 50,935,124 | 48,426,413 |
| Operating | 1,735,940 | 1,657,565 | 1,483,983 |
| Total expenses | 51,784,060 | 52,592,689 | 49,910,396 |
| Changes in net position before settlement receipts | 34,393,093 | 59,010,368 | (34,974,902) |
| **Contribution to fund principal:** | | | |
| Settlement receipts | 53,747,503 | 58,464,784 | 57,006,973 |
| Changes in net position | 88,140,596 | 117,475,152 | 22,032,071 |
| Net position, beginning of year | 1,136,364,620 | 1,018,889,468 | 996,857,397 |
| Net position, end of year | $ 1,224,505,216 | 1,136,364,620 | 1,018,889,468 |

## FINANCIAL HIGHLIGHTS, CONTINUED

### Statements of Activities—Income and Expenses, Continued

Revenues from settlement receipts are restricted for investment purposes. During the fiscal years ended June 30, 2018 and 2017, 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 $4,717,281 from 2017.

**OKLAHOMA TOBACCO SETTLEMENT RECEIPTS**




| | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|
| Balance to State | $19,215,100 | $19,002,324 | $19,488,261 | $17,915,834 |
| Fund Deposit | $57,645,300 | $57,006,973 | $58,464,784 | $53,747,503 |

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

As settlement receipts were deposited and invested and the portfolio was diversified during the fiscal year ended June 30, 2018, net investment income decreased by $25.4 million. Interest and dividend income increased $3.5 million, while the net appreciation of investments in the Fund's portfolio decreased $28.7 million. Fees paid to investment managers, consultants, and custodians increased $0.30 million.

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

## FINANCIAL HIGHLIGHTS, CONTINUED

### Statements of Activities—Income and Expenses, Continued

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

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

For the year ended June 30, 2018, the Board of Directors decreased program funding by just over $0.9 million from $50,935,124 to $50,048,120. After a significant decrease in earnings in FY16 and forecasted market volatility in endowment earnings, the TSET Board of Directors adopted a 3-year rolling average budget target. The policy was used in FY18 to ensure there were available funds to fund current commitments and programs. Grantee budgets were adjusted throughout the fiscal year to capture unspent funds to ensure funds could be used for future grants. Unspent funds remain in the endowment to be used for investment and future funding of grants and programs.

FY18 marked a slight increase in endowment earnings over the previous year's earnings. FY18 earnings from the endowment fund investments totaled $65.3 million – an increase of more than $25.6 million compared to the previous year. The administration budget was 4.3% of the agency's total budget. By statute, the administration budget is capped at 15% of certified earnings.

## FINANCIAL HIGHLIGHTS, CONTINUED

### Statements of Activities—Income and Expenses, Continued

FY18 also marked the second year that the target spending limit policy was put into practice for the TSET annual budget. In January 2016, the Board of Directors amended its "Allocation of Earnings and Reserve Fund" policy to establish a *target spending limit* as "the average of the preceding three years" certified earnings, plus expected lapse.

In addition, the policy was further amended to continue to add a portion of earnings to reserve to account for years when earnings would decrease or insulate the agency's programs and grants from budget cuts that could devastate progress in health improvements. The Board of Directors has a policy to put unspent earnings into the reserve fund with a target reserve balance equal to two years of expenses. The same process is used to replenish the reserve when needed. The balance of the reserve fund as of June 30, 2018 was $36,232,449.

### *Prevention*

As a result of TSET investments in tobacco control, smoking prevalence among high school youth dropped from 12.5% in 2002 to 6.5% in 2017, according to the Youth Risk Behavior Surveillance System. Smoking prevalence among adults dropped from 26.6% in 2002 to 20.1% in 2017. In Oklahoma, smoking is decreasing ten-times faster compared to other states with a similar policy and pricing environment, according to a recent published study. The study credited TSET's sustained investment in best-practice tobacco control programs. Additionally, per capita cigarette consumption among Oklahoma adults declined 40% from 102 packs per person per year in 2002 to 60.5 packs per person in 2017. In 2017, there were 50 million fewer packs of cigarettes sold in Oklahoma compared to 2009. This progress comes after more than a decade of best-practice, evidence-based tobacco control programs and media campaigns to educate the public. Programs include community-based grants, evidence-based health system change and cessation services, and constant collaboration to ensure that best practices are implemented to prevent and reduce tobacco use in Oklahoma.

The Oklahoma Tobacco Helpline offered expanded services for enrollees to include telephone coaching as well as web, email and text services. In FY18, 29,885 tobacco users registered for services, and 18,214 referrals were made to Oklahoma Tobacco Helpline through partnerships with health care providers, behavioral health facilities and other entities that have instituted real-time referrals to the Oklahoma Tobacco Helpline. The Helpline is collaboratively funded by the TSET, the Oklahoma State Department of Health (OSDH), Centers for Disease Control and Prevention (CDC), the Oklahoma Employees Group Insurance Division (EGID) and the Oklahoma Health Care Authority (OHCA).

In FY18, the Oklahoma Tobacco Helpline was top ranked by the North American Quitline Consortium for reaching tobacco users in need of treatment. In FY18, Optum also continued to employ Oklahoma workers as "Quit Coaches" to assist tobacco users in 26 states (and Guam) and over 750 commercial clients.

## FINANCIAL HIGHLIGHTS, CONTINUED

### Statements of Activities—Income and Expenses, Continued

#### *Prevention, Continued*

In FY18, the Board of Directors continued to invest in best practice health communication interventions and continued the *Tobacco Stops With Me* and *Shape Your Future* campaigns to encourage Oklahomans to eat better, move more, and be tobacco-free. Media products also promote the Oklahoma Tobacco Helpline to Oklahomans. Through a continuing agreement with the OHCA, matching funds for the *SoonerQuit for Women* campaign were $1 million over the past three fiscal years.

The TSET Healthy Living Program, a 5-year community-based program to address and integrate the issues of tobacco use and obesity prevention, promoting good nutrition, physical activity, and tobacco-free living entered its third year working with businesses, community organizations, city governments and schools within each community.

The TSET Healthy Living program grants work 49 lead agencies to serve 63 of Oklahoma's 77 counties, or 94% of the state's population. The program promotes sustainable change through policy adoption. To date, policies have been adopted at twice the rate of policy adoption under the Communities of Excellence grants, which ended in FY15. Grantees working across sectors have passed more than 1,500 policies that seek to prevent and reduce tobacco use and obesity in an effort to reduce the leading causes of death in Oklahoma, cancer and cardiovascular disease.

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

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

## FINANCIAL HIGHLIGHTS, CONTINUED

### Statements of Activities—Income and Expenses, Continued

#### *Prevention, Continued*

Three Health Systems Initiative (HSI) grantees entered their fourth year of a five-year continuation grant beginning FY14. Under the HSI program, the Oklahoma Health Care Authority, the Oklahoma Hospital Association, and the Oklahoma Department of Mental Health and Substance Abuse Services work to implement best practice interventions to address tobacco, nutrition, and physical activity (as appropriate) among patients in inpatient hospitals or outpatient care in a hospital affiliated clinic, Medicaid beneficiaries, and within routine mental health and substance abuse treatment inpatient and outpatient programs. Over the course of the grant, more than 30,000 referrals have been made to the Oklahoma Tobacco Helpline through TSET's work with the Oklahoma Department of Mental Health and Substance Abuses Services. TSET also provided one-time funding to the Department of Human Services for senior nutrition services and the Oklahoma Department of Mental Health and Substance Abuse Services for mobile mental health crisis teams for children in FY18 to offset budget cuts to the agencies.

#### *Research*

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

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

Nearly every county in Oklahoma was represented in the clinical trial patient census, and the TSET Phase I Clinical Trials program is ranked among the top three in the country for the number of patients enrolled in Phase I clinical trials. In addition to receiving care at Stephenson Cancer Center, patients can also be enrolled in trial locations in Altus, Lawton, Duncan, Tulsa, Bartlesville, Stillwater and McAlester. This provides statewide coverage and allows patients to receive care surrounded by friends and family. The FY18 budget was $5.5 million.

## FINANCIAL HIGHLIGHTS, CONTINUED

### Statements of Activities—Income and Expenses, Continued

#### *Research, Continued*

The Oklahoma Tobacco Research Center (OTRC), a program of the Stephenson Cancer Center, was funded for a new, five-year grant cycle beginning FY16. OTRC continues to recruit scientists with external funding, funding research projects in population, regulatory, and clinical science, and to inform efforts to prevent and reduce cancer and other tobacco related diseases in Oklahoma. The FY18 budget was $3.8 million.

The Oklahoma Center for Adult Stem Cell Research (OCASCR), which was established in FY10, entered the third year of a five-year continuation grant to advance regenerative medicine through the use of adult stem cells. OCASCR is governed by the research directors of the Oklahoma Medical Research Foundation, the University of Oklahoma, and Oklahoma State University, with the Oklahoma Medical Research Foundation serving as the fiscal agent. In FY 15 the Board of Directors committed up to $3 million per year or $15 million over five years. The FY 18 budget was $3 million.

#### *Emerging Opportunities*

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

A grant to the Oklahoma State University—Center for Health Sciences was made beginning FY16, to expand medical residencies for rural and underserved areas of Oklahoma. Oklahoma experiences a severe shortage of primary care physicians and this $3.8 million, six-year program is one step toward addressing that issue. This program has supported the training of 52 new osteopathic doctors with residency programs in Lawton and Norman. In FY18, the residency program at Comanche Memorial Hospital and Norman Regional Hospital became self-sustaining.

In FY18, the grant to the Physician Manpower Training Commission (PMTC) was renewed for the sixth year of a ten-year grant. The grant to PMTC helps to fund the Oklahoma Medical Loan Repayment Program, which recruits physicians to practice in rural and medically underserved areas. There are currently 32 physicians practicing across the state. Since the program began, physicians have logged more than 200,000 patient visits and more than 30% of patients have been insured by SoonerCare.

## FINANCIAL HIGHLIGHTS, CONTINUED

### Statements of Activities—Income and Expenses, Continued

#### *Emerging Opportunities, Continued*

Physicians can earn up to $160,000 in loan repayment assistance if they practice in a rural area for up to four years. When this program is fully matured, approximately 72 physicians will have gone through the program with a total anticipated loan repayment at $6.89 million during the 10-year period, which includes TSET funds and leveraged dollars. To date, all 8 physicians that have graduated from the program have elected to continue practicing medicine in their respective rural areas, helping to reduce the shortage and scarcity of doctors in rural and underserved areas of Oklahoma.

#### *Conference Sponsorships*

In FY10, the Board of Directors established a conference sponsorship process whereby organizations could apply for sponsorship funds for training and conferences that are statewide and address the Board's strategic plan or any area related to the constitutional mission. In FY18, 13 conference and training grants were awarded for a total of $25,000.

## FUND HIGHLIGHTS

### Governmental Fund—Balance Sheets

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

**Tobacco Settlement Endowment Trust Fund**
**Balance Sheets—Permanent Fund**

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| **Assets:** | | | |
| Cash and cash equivalents | $ 103,514,613 | 113,712,842 | 116,663,252 |
| Interest and dividends receivable | 4,288,167 | 3,563,833 | 3,479,330 |
| Contract receivable | 668,266 | 458,901 | 1,091,373 |
| Securities lending receivable | 26,573 | 20,334 | 22,784 |
| Securities lending collateral—non-cash | 46,612,924 | 66,221,973 | 39,803,195 |
| Investments at fair value | 1,204,542,742 | 1,117,092,450 | 1,001,295,395 |
| Total assets | $ 1,359,653,285 | 1,301,070,333 | 1,162,355,329 |
| **Liabilities:** | | | |
| Net payable to brokers | $ 14,909,285 | 14,068,257 | 12,384,335 |
| Accounts payable | 9,756,604 | 10,685,196 | 8,569,548 |
| Liability under securities lending | 110,177,570 | 139,787,505 | 122,292,461 |
| Total liabilities | 134,843,459 | 164,540,958 | 143,246,344 |
| **Fund Balances:** | | | |
| Nonspendable | 1,117,758,270 | 1,044,101,129 | 914,652,652 |
| Assigned | 41,789,243 | 52,691,831 | 77,296,558 |
| Unassigned | 65,262,313 | 39,736,415 | 27,159,775 |
| Total fund balances | 1,224,809,826 | 1,136,529,375 | 1,019,108,985 |
| Total liabilities and fund balances | $ 1,359,653,285 | 1,301,070,333 | 1,162,355,329 |

## FUND HIGHLIGHTS, CONTINUED

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

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

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| **Revenues:** | | | |
| Restricted: | | | |
| Net appreciation (depreciation) in fair value of investments: | | | |
| Net unrealized gains and losses | $ 19,897,296 | 70,870,942 | (14,027,159) |
| Net realized gains and losses | 35,042,469 | 12,739,782 | (1,204,386) |
| | 54,939,765 | 83,610,724 | (15,231,545) |
| Settlement receipts | 53,747,503 | 58,464,784 | 57,006,973 |
| Miscellaneous income | 12,342 | 112,751 | 57,237 |
| Total restricted revenues | 108,699,610 | 142,188,259 | 41,832,665 |
| Interest and dividend income | 36,049,742 | 32,553,851 | 34,158,974 |
| Securities lending income | 255,288 | 230,362 | 212,847 |
| Contract income | 1,005,201 | 882,949 | 1,745,641 |
| Total revenues | 146,009,841 | 175,855,421 | 77,950,127 |
| **Expenditures:** | | | |
| Program and grant management support | 3,310,965 | 2,835,371 | 3,293,917 |
| Statewide programs | 7,891,662 | 6,790,436 | 6,712,285 |
| Community programs | 15,350,946 | 12,818,574 | 11,795,132 |
| Evaluation services | 1,264,263 | 1,423,777 | 1,368,503 |
| Furniture and equipment | 347 | 28,608 | 43,783 |
| Research | 12,206,540 | 13,282,591 | 10,599,515 |
| Investment management fees | 6,085,185 | 5,787,580 | 6,007,660 |
| Health communications | 10,023,744 | 13,784,375 | 14,657,061 |
| General operations and administrative expenses | 1,595,738 | 1,683,719 | 1,630,290 |
| Total expenditures | 57,729,390 | 58,435,031 | 56,108,146 |
| Net changes in fund balances | 88,280,451 | 117,420,390 | 21,841,981 |
| Fund balances, beginning of year | 1,136,529,375 | 1,019,108,985 | 997,267,004 |
| Fund balances, end of year | $ 1,224,809,826 | 1,136,529,375 | 1,019,108,985 |

### REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Fund's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Lisa Murray, Chief Investment Officer, Office of the Oklahoma State Treasurer, 2300 North Lincoln Boulevard, Room 217, Oklahoma City, Oklahoma 73105-4895.

## TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

## STATEMENTS OF NET POSITION

| *June 30,* | *2018* | *2017* |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents: | | |
| Unrestricted cash | $ 39,949,967 | 40,147,310 |
| Restricted cash: | | |
| Securities lending collateral | 63,564,646 | 73,565,532 |
| Total cash and cash equivalents | 103,514,613 | 113,712,842 |
| Receivables: | | |
| Interest and dividends | 4,288,167 | 3,563,833 |
| Contract receivable | 668,266 | 458,901 |
| Securities lending receivable | 26,573 | 20,334 |
| Total receivables | 4,983,006 | 4,043,068 |
| Investments, at fair value: | | |
| U.S. government securities | 119,897,999 | 121,649,364 |
| Foreign government securities | 17,872,825 | 15,828,160 |
| Domestic corporate bonds | 122,341,800 | 110,028,308 |
| Foreign corporate bonds | 36,235,030 | 29,217,304 |
| Domestic stocks | 377,207,472 | 330,978,137 |
| Foreign stocks | 205,531,194 | 191,927,259 |
| Pooled fixed income funds | 139,159,177 | 121,855,413 |
| Alternative investments | 186,297,245 | 195,608,505 |
| Total investments, at fair value | 1,204,542,742 | 1,117,092,450 |
| Securities lending collateral—non-cash | 46,612,924 | 66,221,973 |
| Capital assets, net of accumulated depreciation of $193,368 and $171,082 as of June 30, 2018 and 2017, respectively. | 43,292 | 53,410 |
| Total assets | 1,359,696,577 | 1,301,123,743 |
| Deferred outflows of resources: | | |
| Deferred amounts related to the pension | 473,114 | 962,220 |
| Deferred amounts related to OPEB | 29,416 | - |
| | 502,530 | 962,220 |

(Continued)

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

## TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

## STATEMENTS OF NET POSITION, CONTINUED

| *June 30,* | *2018* | *2017* |
|---|---|---|
| **Liabilities** | | |
| Net payable to brokers | 14,909,285 | 14,068,257 |
| Accounts payable | 9,756,604 | 10,685,196 |
| Liability under securities lending | 110,177,570 | 139,787,505 |
| Net pension liability—amount due in more than 1 year | 456,370 | 765,816 |
| Net OPEB liability—amount due in more than 1 year | 83,246 | - |
| Compensated absences: | | |
| Payable within 1 year | 66,871 | 57,670 |
| Payable after 1 year | 100,307 | 86,506 |
| Total liabilities | 135,550,253 | 165,450,950 |
| Deferred inflows of resources: | | |
| Deferred amounts related to the pension | 118,417 | 270,393 |
| Deferred amounts related to OPEB | 25,221 | - |
| | 143,638 | 270,393 |
| **Net Position** | | |
| Net investment in capital assets | 43,292 | 53,410 |
| Restricted for investment | 1,117,758,270 | 1,044,101,129 |
| Unrestricted | 106,703,654 | 92,210,081 |
| Total net position | $ 1,224,505,216 | 1,136,364,620 |

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

## TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

## STATEMENTS OF ACTIVITIES

| *Years Ended June 30,* | *2018* | *2017* |
|---|---|---|
| **Expenses:** | | |
| Program: | | |
| Program and grant management support | $ 3,310,965 | 2,835,371 |
| Statewide programs | 7,891,662 | 6,790,436 |
| Community programs | 15,350,946 | 12,818,574 |
| Evaluation services | 1,264,263 | 1,423,777 |
| Health communications | 10,023,744 | 13,784,375 |
| Research | 12,206,540 | 13,282,591 |
| Total program expenses | 50,048,120 | 50,935,124 |
| Operating: | | |
| General operations and administrative expenses | 1,713,654 | 1,636,173 |
| Depreciation | 22,286 | 21,392 |
| Total operating expenses | 1,735,940 | 1,657,565 |
| Total expenses | 51,784,060 | 52,592,689 |
| **Investment income:** | | |
| Interest income | 14,300,748 | 11,399,541 |
| Dividend income | 21,748,994 | 21,154,310 |
| Securities lending income | 255,288 | 230,362 |
| Net appreciation in fair value of investments: | | |
| Net unrealized gains and losses | 19,897,296 | 70,870,942 |
| Net realized gains and losses | 35,042,469 | 12,739,782 |
| | 54,939,765 | 83,610,724 |
| Total investment income | 91,244,795 | 116,394,937 |
| Investment expenses | (6,085,185) | (5,787,580) |
| Net investment income | 85,159,610 | 110,607,357 |

(Continued)

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

## TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

## STATEMENTS OF ACTIVITIES, CONTINUED

| *Years Ended June 30,* | *2018* | *2017* |
|---|---|---|
| **Other income:** | | |
| Contract income | 1,005,201 | 882,949 |
| Miscellaneous income | 12,342 | 112,751 |
| Total other income | 1,017,543 | 995,700 |
| Changes in net position, before settlement receipts | 34,393,093 | 59,010,368 |
| **Contribution to fund principal:** | | |
| Settlement receipts | 53,747,503 | 58,464,784 |
| Changes in net position | 88,140,596 | 117,475,152 |
| Net position, beginning of year | 1,136,364,620 | 1,018,889,468 |
| Net position, end of year | $ 1,224,505,216 | 1,136,364,620 |

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

**TOBACCO SETTLEMENT ENDOWMENT TRUST FUND**

**BALANCE SHEETS—PERMANENT FUND**

| *June 30,* | *2018* | *2017* |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents: | | |
| Unrestricted cash | $ 39,949,967 | 40,147,310 |
| Restricted cash: | | |
| Securities lending collateral | 63,564,646 | 73,565,532 |
| Total cash and cash equivalents | 103,514,613 | 113,712,842 |
| Receivables: | | |
| Interest and dividends | 4,288,167 | 3,563,833 |
| Contract receivable | 668,266 | 458,901 |
| Securities lending receivable | 26,573 | 20,334 |
| Total receivables | 4,983,006 | 4,043,068 |
| Investments, at fair value: | | |
| U.S. government securities | 119,897,999 | 121,649,364 |
| Foreign government securities | 17,872,825 | 15,828,160 |
| Domestic corporate bonds | 122,341,800 | 110,028,308 |
| Foreign corporate bonds | 36,235,030 | 29,217,304 |
| Domestic stocks | 377,207,472 | 330,978,137 |
| Foreign stocks | 205,531,194 | 191,927,259 |
| Pooled fixed income funds | 139,159,177 | 121,855,413 |
| Alternative investments | 186,297,245 | 195,608,505 |
| Total investments, at fair value | 1,204,542,742 | 1,117,092,450 |
| Securities lending collateral—non cash | 46,612,924 | 66,221,973 |
| Total assets | $ 1,359,653,285 | 1,301,070,333 |
| **Liabilities and Fund Balances** | | |
| Liabilities: | | |
| Net payable to brokers | $ 14,909,285 | 14,068,257 |
| Accounts payable | 9,756,604 | 10,685,196 |
| Liability under securities lending | 110,177,570 | 139,787,505 |
| Total liabilities | 134,843,459 | 164,540,958 |
| Fund balances: | | |
| Nonspendable | 1,117,758,270 | 1,044,101,129 |
| Assigned | 41,789,243 | 52,691,831 |
| Unassigned | 65,262,313 | 39,736,415 |
| Total fund balances | 1,224,809,826 | 1,136,529,375 |
| Total liabilities and fund balances | $ 1,359,653,285 | 1,301,070,333 |

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

**TOBACCO SETTLEMENT ENDOWMENT TRUST FUND**

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

| *June 30,* | *2018* | *2017* |
|---|---|---|
| Total fund balances, per the balance sheets—permanent fund | $ 1,224,809,826 | 1,136,529,375 |
| 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. | 43,292 | 53,410 |
| Deferred outflows related to the pension and OPEB are not financial resources and therefore are not reported in the funds. | 502,530 | 962,220 |
| 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 | (167,178) | (144,176) |
| Net pension liability | (456,370) | (765,816) |
| Net OPEB liability | (83,246) | - |
| Deferred inflows related to the pension and OPEB are not due and payable in the current period and therefore are not reported in the funds. | (143,638) | (270,393) |
| Net position, per the statements of net position | $ 1,224,505,216 | 1,136,364,620 |

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

**TOBACCO SETTLEMENT ENDOWMENT TRUST FUND**

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

| *Years Ended June 30,* | *2018* | *2017* |
|---|---|---|
| **Revenues:** | | |
| Restricted: | | |
| Net appreciation in fair value of investments: | | |
| Net unrealized gains and losses | $ 19,897,296 | 70,870,942 |
| Net realized gains and losses | 35,042,469 | 12,739,782 |
| | 54,939,765 | 83,610,724 |
| Settlement receipts | 53,747,503 | 58,464,784 |
| Miscellaneous income | 12,342 | 112,751 |
| Total restricted revenues | 108,699,610 | 142,188,259 |
| Interest income | 14,300,748 | 11,399,541 |
| Dividend income | 21,748,994 | 21,154,310 |
| Securities lending income | 255,288 | 230,362 |
| Contract income | 1,005,201 | 882,949 |
| Total revenues | 146,009,841 | 175,855,421 |
| **Expenditures:** | | |
| Program and grant management support | 3,310,965 | 2,835,371 |
| Statewide programs | 7,891,662 | 6,790,436 |
| Community programs | 15,350,946 | 12,818,574 |
| Evaluation services | 1,264,263 | 1,423,777 |
| Furniture and equipment | 347 | 28,608 |
| Research | 12,206,540 | 13,282,591 |
| Investment management fees | 6,085,185 | 5,787,580 |
| Health communications | 10,023,744 | 13,784,375 |
| General operations and administrative expenses | 1,595,738 | 1,683,719 |
| Total expenditures | 57,729,390 | 58,435,031 |
| Net changes in fund balances | 88,280,451 | 117,420,390 |
| Fund balances, beginning of year | 1,136,529,375 | 1,019,108,985 |
| Fund balances, end of year | $ 1,224,809,826 | 1,136,529,375 |

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

**TOBACCO SETTLEMENT ENDOWMENT TRUST FUND**

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

| *Years Ended June 30,* | | *2018* | *2017* |
|---|---|---|---|
| Net changes in fund balances, per the statements of revenues, expenditures, and changes in fund balances—permanent fund | $ | 88,280,451 | 117,420,390 |
| Amounts reported in the statements of activities are different because: | | | |
| Governmental funds report capital outlays as expenditures. However, in the statements of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays were less than depreciation in the current period. | | (10,118) | (5,110) |
| Some expenses reported in the statements of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This amount represents the amount by which unused compensated absences (increased) decreased over the amount in the prior year. | | (23,002) | 19,873 |
| 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. | | (106,735) | 39,999 |
| Changes in net position, per the statements of activities | $ | 88,140,596 | 117,475,152 |

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

## (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Reporting Entity

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

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

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

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

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

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

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

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

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

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

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

### Investments

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

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

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

### Investments, Continued

Generally accepted accounting principles establish a fair value hierarchy for the determination and measurement of fair value. This hierarchy is based on the type of valuation inputs needed to measure the fair value of an asset. The hierarchy generally is as follows:

Level 1—Unadjusted quoted prices in active markets for identical assets.

Level 2—Quoted prices for similar assets, or inputs that are observable or other forms of market corroborated inputs.

Level 3—Pricing based on best available information, including primarily unobservable inputs and assumptions market participants would use in pricing the asset.

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

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

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

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

### Securities Lending

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

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

| | Fair Value 2018 | Fair Value 2017 |
|---|---|---|
| Securities loaned: | | |
| U.S. government securities | $ 10,135,114 | 46,870,437 |
| U.S. corporate bonds | 32,825,740 | 39,258,714 |
| U.S. equity | 61,318,668 | 49,469,931 |
| Sovereign Debt | 1,257,066 | - |
| Foreign | - | 367,689 |
| Total securities loaned | $ 105,536,588 | 135,966,771 |
| Collateral maintained for securities loaned | $ 110,177,570 | 139,787,505 |
| Percentage of collateral to securities loaned as of June 30 | 104.40% | 102.81% |

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, 2018, collateral was presented in both cash (U.S. currency), and non-cash securities. The total value of the collateral held at June 30, 2018 and 2017, was $4,640,982 and $3,820,734, 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 on the balance sheet, with an offsetting liability for the return of the collateral.

See Independent Auditors' Report.

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

### Securities Lending, Continued

At June 30, 2018, cash collateral was $63,564,646 and non-cash collateral totaled $46,612,924. Non-cash collateral consisted of the following:

| Description | Value |
|---|---|
| U.S. government debt—Treasuries | $ 15,445,112 |
| U.S. government agencies (i.e., FNMA, GNMA, FMAC) | 10,294,638 |
| Foreign securities | 20,873,174 |
| | $ 46,612,924 |

Securities lending income included as certified earnings was $255,288 and $230,362 for the fiscal years ended June 30, 2018 and 2017, respectively.

### Capital Assets

Office equipment and furnishings which have 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.

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

### Risks and Uncertainties

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

### Compensated Absences

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

### Advertising Costs

All costs associated with advertising are expensed as incurred.

### Pensions

*Defined Benefit Plan*

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

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

### Pensions, Continued

*Defined Contribution Plan*

Effective November 1, 2015, OPERS established the Pathfinder Defined Contribution Plan ("Pathfinder"), a mandatory defined contribution plan for eligible state employees who first become employed by a participating employer on or after November 1, 2015, and have no prior participation in OPERS. Under Pathfinder, members will choose a contribution rate which will be matched by their employer up to 7%. During the years ended June 30, 2018 and 2017, the Fund had the following contributions to Pathfinder.

| | 2018 | 2017 |
|---|---|---|
| Fund's portion | $ 15,331 | 16,335 |

### Other Postemployment Employee Benefits

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

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

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

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

### Recent Accounting Pronouncements

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). GASB 75 addresses employer and governmental non-employer contributing entities' accounting and financial reporting when participating in an OPEB plan. This statement requires proper recognition of OPEB liabilities by employers and requires a more comprehensive measure of OPEB expense. More robust disclosures will also improve transparency and accountability. GASB 75 is effective for financial statements for the periods beginning after June 15, 2017. The Fund adopted GASB 75 effective July 1, 2017, for the June 30, 2018, reporting year. The adoption of GASB 75 resulted in additional disclosures but did not have a significant impact on the financial statements.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements* (GASB 81). GASB 81 provides recognition and measurement guidance for situations in which a government is one of the beneficiaries of an irrevocable split-interest agreement. Irrevocable split-interest agreements are a type of giving by a donor to provide resources to two or more beneficiaries, including governments. GASB 81 provides the recognition and reporting requirements applicable when a government is one of the parties to such an agreement. The Fund adopted GASB 81 effective July 1, 2017. The adoption of GASB 81 did not have a significant impact on the financial statements.

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations* (GASB 83). An asset retirement obligation (ARO) is a legally enforceable liability associated with the retirement of a tangible capital asset. GASB 83 establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. GASB 83 also requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is permitted. The Fund does not expect GASB 83 to have a significant impact on the financial statements.

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

### Recent Accounting Pronouncements, Continued

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities* (GASB 84). GASB 84 establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. GASB 84 describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria. GASB 84 also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets. The requirements of GASB 84 are effective for reporting periods beginning after December 15, 2018. Earlier application is permitted. The Fund does not expect GASB 84 to have a significant impact on the financial statements.

In March 2017, GASB issued Statement No 85, *Omnibus 2017* (GASB 85). GASB 85 clarified several practice issues identified during the application of earlier GASB pronouncements. GASB 85 addresses topics including the blending of component units, goodwill and negative goodwill, fair value measurement and application, employer accounting and reporting for pensions and OPEB, and reporting by OPEB plans. The Fund adopted GASB 85 effective July 1, 2017. The adoption of GASB 85 did not have a significant impact on the financial statements.

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

### Recent Accounting Pronouncements, Continued

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues* (GASB 86). GASB 86 provides guidance regarding the in-substance defeasance of debt. Normally, a government will issue new debt at favorable rates and place the proceeds in trust to eliminate the liability of an existing debt. GASB 86 provides accounting and reporting guidance for situations where a government irrevocably sets aside cash and other assets to defease an existing debt. Guidance also addresses prepaid insurance related to extinguished debt and the financial valuation and disclosure of other assets used to defease debt. The Fund adopted GASB 86 effective July 1, 2017. The adoption of GASB 86 did not have a significant impact on the financial statements.

In June 2017, GASB issued Statement No. 87, *Leases* (GASB 87). GASB 87 defines a lease as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. GASB 87 improves accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The Fund has not determined the impact of GASB 87 on the financial statements.

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

### Recent Accounting Pronouncements, Continued

In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements* (GASB 88). GASB 88 improves disclosures related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. GASB 88 defines debt as a liability that arises from a contractual obligation to pay cash (or other assets) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. GASB 88 also requires additional essential information related to debt be disclosed in the notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default, significant termination events, and significant acceleration clauses. The requirements of GASB 88 are effective for reporting periods beginning after June 15, 2018. The Fund does not expect GASB 88 to have a significant impact on the financial statements.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period* (GASB 89). GASB 89 enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. This statement supersedes paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of GASB 89 are effective for reporting periods beginning after December 15, 2019. The Fund does not expect GASB 89 to have a significant impact on the financial statements.

### Annual Budget-to-Actual Comparison

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

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

### Date of Management's Review of Subsequent Events

Management has evaluated subsequent events through September 28, 2018, the date which the financial statements were available to be issued, and determined that no subsequent events have occurred that require adjustment to or disclosure in the financial statements.

## (2) CASH AND INVESTMENTS

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

| | 2018 | 2017 |
|---|---|---|
| Cash on deposit with the State | $ 2,939,322 | 9,391,244 |
| Foreign currency | 1,090,985 | 1,002,215 |
| Collateral from securities lending—restricted cash | 63,564,646 | 73,565,532 |
| Cash and equivalents | 12,494,232 | 14,799,274 |
| Money market mutual fund | 23,425,428 | 14,954,577 |
| | $ 103,514,613 | 113,712,842 |

### 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.

## (2) CASH AND INVESTMENTS, CONTINUED

### Credit Risk

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

| | 2018 | |
|---|---|---|
| | Fair Value *(Expressed in thousands)* | Moody Rating |
| **U.S. government agencies (held in U.S. currency):** | | |
| U.S. Treasury bonds | $ 18,357 | AAA |
| U.S. Treasury notes | 44,036 | AAA |
| U.S. Treasury Inflation Index | 5,862 | AAA |
| Federal Home Loan Mortgage Corp. | 10,792 | AAA |
| Federal National Mortgage Corp. | 2,677 | AAA |
| Government National Mortgage Association | 59 | AAA |
| Other | 4,693 | AA1 |
| Other | 1,958 | AA2 |
| Other | 1,393 | AA3 |
| Other | 25,594 | AAA |
| Other | 1,235 | A1 |
| Other | 1,485 | A2 |
| Other | 731 | A3 |
| Other | 1,026 | BAA3 |
| | 119,898 | |
| **Corporate bonds (held in U.S. currency):** | | |
| Domestic bonds | 1,108 | A1 |
| Domestic bonds | 3,380 | A2 |
| Domestic bonds | 7,509 | A3 |
| Domestic bonds | 1,335 | AA1 |
| Domestic bonds | 1,199 | AA2 |
| Domestic bonds | 715 | AA3 |
| Domestic bonds | 3,999 | AAA |
| Domestic bonds | 13,518 | B1 |
| Domestic bonds | 10,389 | B2 |
| Domestic bonds | 8,657 | B3 |
| Domestic bonds | 9,496 | BA1 |
| Domestic bonds | 17,085 | BA2 |
| Domestic bonds | 18,518 | BA3 |

(Continued)

## (2) CASH AND INVESTMENTS, CONTINUED

### Credit Risk, Continued

| | 2018 | |
|---|---|---|
| | Fair Value *(Expressed in thousands)* | Moody Rating |
| **Corporate bonds (held in U.S. currency), Continued:** | | |
| Domestic bonds | 1,693 | BAA1 |
| Domestic bonds | 4,595 | BAA2 |
| Domestic bonds | 4,396 | BAA3 |
| Domestic bonds | 358 | C |
| Domestic bonds | 699 | CA |
| Domestic bonds | 4,362 | CAA1 |
| Domestic bonds | 2,649 | CAA2 |
| Domestic bonds | 1,490 | CAA3 |
| Domestic bonds | 5,179 | NA/NR |
| Domestic bonds | 13 | DFLT |
| | 122,342 | |
| **Foreign corporate bonds (held in U.S. currency):** | | |
| Foreign bonds | 1,354 | A1 |
| Foreign bonds | 236 | A2 |
| Foreign bonds | 2,844 | B1 |
| Foreign bonds | 2,296 | B2 |
| Foreign bonds | 3,740 | B3 |
| Foreign bonds | 3,141 | BA1 |
| Foreign bonds | 2,610 | BA2 |
| Foreign bonds | 4,056 | BA3 |

(Continued)

## (2) CASH AND INVESTMENTS, CONTINUED

### Credit Risk, Continued

| | 2018 | |
|---|---|---|
| | Fair Value *(Expressed in thousands)* | Moody Rating |
| **Foreign corporate bonds (held in U.S. currency), Continued:** | | |
| Foreign bonds | 501 | BAA1 |
| Foreign bonds | 1,601 | BAA2 |
| Foreign bonds | 4,717 | BAA3 |
| Foreign bonds | 455 | CA |
| Foreign bonds | 1,388 | CAA1 |
| Foreign bonds | 781 | CAA2 |
| Foreign bonds | 2,625 | NA |
| | 32,345 | |
| **Foreign corporate bonds (held in foreign currency):** | | |
| Foreign bonds | 561 | B1 |
| Foreign bonds | 232 | B2 |
| Foreign bonds | 120 | B3 |
| Foreign bonds | 1,105 | BA1 |
| Foreign bonds | 321 | BA2 |
| Foreign bonds | 487 | BAA3 |
| Foreign bonds | 244 | CAA1 |
| Foreign bonds | 821 | NR |
| | 3,891 | |

(Continued)

## (2) CASH AND INVESTMENTS, CONTINUED

### Credit Risk, Continued

| | 2018 | |
|---|---|---|
| | Fair Value *(Expressed in thousands)* | Moody Rating |
| **Foreign government bonds (held in U.S. currency):** | | |
| Foreign government bonds | 863 | AA2 |
| Foreign government bonds | 429 | B1 |
| Foreign government bonds | 1,213 | B2 |
| Foreign government bonds | 648 | B3 |
| Foreign government bonds | 2,676 | BA2 |
| Foreign government bonds | 317 | BAA2 |
| | 6,146 | |
| **Foreign government bonds (held in foreign currency):** | | |
| Foreign government bonds | 3,055 | A3 |
| Foreign government bonds | 149 | Aa2u |
| Foreign government bonds | 972 | B2 |
| Foreign government bonds | 2,502 | BA1 |
| Foreign government bonds | 3,621 | BA2 |
| Foreign government bonds | 723 | BAA2 |
| Foreign government bonds | 704 | BAA3 |
| | 11,726 | |
| Total fair value of credit risk | $ 296,348 | |

See Independent Auditors' Report.

## (2) CASH AND INVESTMENTS, CONTINUED

### Credit Risk, Continued

| | 2017 | |
|---|---|---|
| | Fair Value (Expressed in thousands) | Moody Rating |
| **U.S. government agencies (held in U.S. currency):** | | |
| U.S. Treasury bonds | $ 19,590 | AAA |
| U.S. Treasury notes | 51,957 | AAA |
| Federal Home Loan Mortgage Corp. | 13,527 | AAA |
| Federal National Mortgage Corp. | 3,090 | AAA |
| Government National Mortgage Association | 72 | AAA |
| Other | 2,463 | AA1 |
| Other | 1,618 | AA2 |
| Other | 1,317 | AA3 |
| Other | 26,809 | AAA |
| Other | 1,206 | NA/NR |
| | 121,649 | |
| **Corporate bonds (held in U.S. currency):** | | |
| Domestic bonds | 2,319 | A1 |
| Domestic bonds | 2,528 | A2 |
| Domestic bonds | 2,829 | A3 |
| Domestic bonds | 1,935 | AA1 |
| Domestic bonds | 211 | AA2 |
| Domestic bonds | 738 | AA3 |
| Domestic bonds | 161 | AAA |
| Domestic bonds | 16,902 | B1 |
| Domestic bonds | 7,937 | B2 |
| Domestic bonds | 7,717 | B3 |
| Domestic bonds | 6,723 | BA1 |
| Domestic bonds | 15,607 | BA2 |
| Domestic bonds | 20,756 | BA3 |

(Continued)

See Independent Auditors' Report.

## (2) CASH AND INVESTMENTS, CONTINUED

### Credit Risk, Continued

| | 2017 | |
|---|---|---|
| | Fair Value *(Expressed in thousands)* | Moody Rating |
| **Corporate bonds (held in U.S. currency), Continued:** | | |
| Domestic bonds | 2,406 | BAA1 |
| Domestic bonds | 1,526 | BAA2 |
| Domestic bonds | 4,430 | BAA3 |
| Domestic bonds | 731 | C |
| Domestic bonds | 780 | CA |
| Domestic bonds | 72 | CAA |
| Domestic bonds | 2,736 | CAA1 |
| Domestic bonds | 1,946 | CAA2 |
| Domestic bonds | 1,584 | CAA3 |
| Domestic bonds | 7,441 | NA/NR |
| Domestic bonds | 13 | DFLT |
| | 110,028 | |
| **Foreign corporate bonds (held in U.S. currency):** | | |
| Foreign bonds | 266 | A1 |
| Foreign bonds | 3,207 | B1 |
| Foreign bonds | 2,084 | B2 |
| Foreign bonds | 2,514 | B3 |
| Foreign bonds | 4,401 | BA1 |
| Foreign bonds | 926 | BA2 |
| Foreign bonds | 5,230 | BA3 |

(Continued)

See Independent Auditors' Report.

## (2) CASH AND INVESTMENTS, CONTINUED

### Credit Risk, Continued

| | 2017 | |
|---|---|---|
| | Fair Value *(Expressed in thousands)* | Moody Rating |
| **Foreign corporate bonds (held in U.S. currency), Continued:** | | |
| Foreign bonds | 301 | BAA1 |
| Foreign bonds | 631 | BAA2 |
| Foreign bonds | 2,146 | BAA3 |
| Foreign bonds | 737 | CAA1 |
| Foreign bonds | 212 | CAA2 |
| Foreign bonds | 1,753 | NA |
| | 24,408 | |
| **Foreign corporate bonds (held in foreign currency):** | | |
| Foreign bonds | 87 | A3 |
| Foreign bonds | 861 | B1 |
| Foreign bonds | 473 | B2 |
| Foreign bonds | 121 | B3 |
| Foreign bonds | 873 | BA1 |
| Foreign bonds | 341 | BA2 |
| Foreign bonds | 241 | BA3 |
| Foreign bonds | 171 | BAA1 |
| Foreign bonds | 224 | BAA3 |
| Foreign bonds | 127 | CAA1 |
| Foreign bonds | 1,290 | NR |
| | 4,809 | |

(Continued)

## (2) CASH AND INVESTMENTS, CONTINUED

### Credit Risk, Continued

| | 2017 | |
|---|---|---|
| | Fair Value (Expressed in thousands) | Moody Rating |
| **Foreign government bonds (held in U.S. currency):** | | |
| Foreign government bonds | 532 | AA2 |
| Foreign government bonds | 215 | B1 |
| Foreign government bonds | 248 | B2 |
| Foreign government bonds | 1,165 | B3 |
| Foreign government bonds | 442 | BA2 |
| Foreign government bonds | 1,147 | BAA2 |
| Foreign government bonds | 1,351 | BAA3 |
| | 5,100 | |
| **Foreign government bonds (held in foreign currency):** | | |
| Foreign government bonds | 1,478 | A3 |
| Foreign government bonds | 220 | B1 |
| Foreign government bonds | 222 | B2 |
| Foreign government bonds | 1,658 | B3 |
| Foreign government bonds | 1,834 | BA1 |
| Foreign government bonds | 5,311 | BA2 |
| Foreign government bonds | 5 | BAA2 |
| | 10,728 | |
| Total fair value of credit risk | $ 276,722 | |

### 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, 2018 or 2017, except for $139,159,177 and $121,855,413 invested in the Pooled Fixed Income Fund at June 30, 2018 and 2017, respectively. While the investment is over 5% of the net position, the Fund has a share of each individual security of the Pooled Fixed Income Fund and no ownership interest in a single security would exceed 5%.

See Independent Auditors' Report.

## (2) CASH AND INVESTMENTS, CONTINUED

### Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Mortgage-backed securities are highly sensitive to interest rate changes. The investment policy manages interest rate risk by limiting the effective duration of an actively managed fixed-income portfolio. Excluding U.S. government guaranteed securities, effective duration is not to exceed 7 years.

| | 2018 | |
|---|---|---|
| | Fair Value *(Expressed in thousands)* | Effective Duration Years |
| **U.S. government securities (government guaranteed):** | | |
| U.S. Treasury bonds | $ 18,357 | 19.85 |
| U.S. Treasury notes | 44,036 | 2.91 |
| US Treasury Inflation Index (in US Currency) | 5,862 | 4.63 |
| Federal National Mortgage Association—FHR | 6,553 | 0.43 |
| Federal National Mortgage Association—FNR | 9,171 | 4.61 |
| Government National Mortgage Association | 59 | 3.31 |
| GNR | 1,948 | 5.00 |
| Other | 21,639 | 3.17 |
| **Foreign government securities:** | | |
| Foreign government bonds (held in U.S. currency) | 6,147 | 8.79 |
| Foreign government bonds (held in foreign currency) | 11,726 | 5.97 |
| **Mortgage-backed securities:** | | |
| Federal Home Loan Mortgage Corp. | 9,595 | 2.32 |
| Federal National Mortgage Corp. | 2,677 | 2.83 |
| **Corporate bonds:** | | |
| Domestic bonds (held in U.S. currency) | 122,342 | 4.50 |
| Foreign bonds (held in U.S. currency) | 32,345 | 5.05 |
| Foreign bonds (held in foreign currency) | 3,891 | 3.35 |
| Total fixed income | $ 296,348 | |

See Independent Auditors' Report.

## (2) CASH AND INVESTMENTS, CONTINUED

### Interest Rate Risk, Continued

| | 2017 | |
|---|---|---|
| | Fair Value *(Expressed in thousands)* | Effective Duration Years |
| **U.S. government securities (government guaranteed):** | | |
| U.S. Treasury bonds | $ 19,590 | 20.77 |
| U.S. Treasury notes | 51,957 | 2.69 |
| Federal National Mortgage Association—FHR | 12,062 | 3.86 |
| Federal National Mortgage Association—FNR | 13,681 | 3.84 |
| Government National Mortgage Association | 72 | 3.27 |
| GNR | 447 | 7.71 |
| Other | 7,224 | 6.38 |
| **Foreign government securities:** | | |
| Foreign government bonds (held in U.S. currency) | 5,100 | 9.60 |
| Foreign government bonds (held in foreign currency) | 10,728 | 6.01 |
| **Mortgage-backed securities:** | | |
| Federal Home Loan Mortgage Corp. | 13,527 | 1.40 |
| Federal National Mortgage Corp. | 3,089 | 2.41 |
| **Corporate bonds:** | | |
| Domestic bonds (held in U.S. currency) | 110,028 | 4.70 |
| Foreign bonds (held in U.S. currency) | 24,408 | 4.89 |
| Foreign bonds (held in foreign currency) | 4,809 | 3.58 |
| Total fixed income | $ 276,722 | |

See Independent Auditors' Report.

## (2) CASH AND INVESTMENTS, CONTINUED

### Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The investment policy limits foreign equity investments to 10% of total net position through its asset allocation policy. Investment in foreign equities and fixed income is shown by monetary unit to indicate possible foreign currency risk.

| | 2018 | |
|---|---|---|
| | Fair Value *(Expressed in thousands)* | Type |
| Foreign currency: | | |
| Argentina peso | $ 2,086 | Fixed income |
| Argentina peso | 165 | Foreign currency |
| Armenian dram | 215 | Fixed income |
| Australian dollar | 3,112 | Equity |
| Australian dollar | 130 | Fixed income |
| Australian dollar | 97 | Foreign currency |
| Bermuda dollar | 6,400 | Equity |
| Bermuda dollar | 1,384 | Fixed income |
| Brazilian real | 1,306 | Equity |
| Brazilian real | 3,402 | Fixed income |
| Brazilian real | 7 | Foreign currency |
| British pound sterling | 32,880 | Equity |
| British pound sterling | 7,575 | Fixed income |
| British pound sterling | 301 | Foreign currency |
| Canadian dollar | 4,094 | Equity |
| Canadian dollar | 4,580 | Fixed income |
| Canadian dollar | 48 | Foreign currency |
| Cayman dollar | 13,947 | Equity |
| Cayman dollar | 1,555 | Fixed income |
| Colombian peso | 1,541 | Fixed income |
| Colombian peso | 1 | Foreign currency |
| Euro | 71,064 | Equity |
| Euro | 14,261 | Fixed income |
| Euro | 82 | Foreign currency |
| Ghana Cedi | 244 | Fixed income |
| Honduran lempira | 214 | Fixed income |
| Hong Kong dollar | 5,003 | Equity |

(Continued)

## (2) CASH AND INVESTMENTS, CONTINUED

### Foreign Currency Risk, Continued

| | 2018 | |
|---|---|---|
| | Fair Value *(Expressed in thousands)* | Type |
| Foreign currency, Continued: | | |
| Hong Kong dollar | 34 | Foreign currency |
| Indonesian rupiah | 1,974 | Fixed income |
| Indonesian rupiah | 46 | Foreign currency |
| Japanese yen | 22,825 | Equity |
| Jersey Pound | 230 | Equity |
| Jersey Pound | 689 | Fixed income |
| Kenyan shilling | 424 | Fixed income |
| Korean Won | 4,869 | Equity |
| Korean Won | 863 | Fixed income |
| Liberian Dollar | 1,293 | Fixed income |
| Mexican peso | 4,496 | Fixed income |
| Mexican peso | 221 | Foreign currency |
| Moroccan dirham | 525 | Fixed income |
| Multiple | 1,054 | Fixed income |
| Netherlands Antilles | 2,679 | Equity |
| New Taiwan dollar | 5,022 | Equity |
| Nigerian Naira | 182 | Fixed income |
| Norwegian krone | 5,289 | Equity |
| Peruvian nuevo sol | 501 | Fixed income |
| Philippines peso | 220 | Fixed income |
| Russian ruble | 2,502 | Fixed income |
| Russian ruble | 18 | Foreign currency |
| Singaporean dollar | 3,240 | Equity |
| South African Rand | 1,022 | Fixed income |
| Swedish krona | 6,183 | Equity |

(Continued)

## (2) CASH AND INVESTMENTS, CONTINUED

### Foreign Currency Risk, Continued

| | 2018 | |
|---|---|---|
| | Fair Value *(Expressed in thousands)* | Type |
| Foreign currency, Continued: | | |
| Swiss franc | 13,360 | Equity |
| Kazahstan Tenge | 442 | Fixed income |
| Thai baht | 1,802 | Equity |
| Turkish new lira | 508 | Fixed income |
| Turkish new lira | 71 | Foreign currency |
| Uae Dirham | 225 | Fixed income |
| Yuan Renminbi | 2,227 | Equity |
| | $ 260,730 | |

See Independent Auditors' Report.

## (2) CASH AND INVESTMENTS, CONTINUED

### Foreign Currency Risk, Continued

| | 2017 | |
|---|---|---|
| | Fair Value *(Expressed in thousands)* | Type |
| Foreign currency: | | |
| Argentina peso | $ 2,968 | Fixed income |
| Argentina peso | 32 | Foreign currency |
| Armenian dram | 220 | Fixed income |
| Australian dollar | 3,040 | Equity |
| Australian dollar | 341 | Fixed income |
| Australian dollar | 101 | Foreign currency |
| Bermuda dollar | 8,521 | Equity |
| Bermuda dollar | 1,377 | Fixed income |
| Brazilian real | 3,887 | Equity |
| Brazilian real | 3,208 | Fixed income |
| Brazilian real | 77 | Foreign currency |
| British pound sterling | 26,106 | Equity |
| British pound sterling | 5,436 | Fixed income |
| British pound sterling | 147 | Foreign currency |
| Canadian dollar | 5,569 | Equity |
| Canadian dollar | 2,386 | Fixed income |
| Cayman dollar | 9,568 | Equity |
| Cayman dollar | 1,518 | Fixed income |
| Colombian peso | 1,358 | Fixed income |
| Colombian peso | 1 | Foreign currency |
| Ecuador | 432 | Fixed income |
| Euro | 48,949 | Equity |
| Euro | 16,106 | Fixed income |
| Euro | 503 | Foreign currency |
| Honduran lempira | 470 | Fixed income |
| Hong Kong dollar | 5,592 | Equity |

(Continued)

See Independent Auditors' Report.

## (2) CASH AND INVESTMENTS, CONTINUED

### Foreign Currency Risk, Continued

| | 2017 | |
|---|---|---|
| | Fair Value *(Expressed in thousands)* | Type |
| Foreign currency, Continued: | | |
| Hong Kong dollar | 34 | Foreign currency |
| Indian Rupee | 3,379 | Equity |
| Indonesian rupiah | 2,263 | Equity |
| Indonesian rupiah | 1,351 | Fixed income |
| Japanese yen | 32,611 | Equity |
| Jersey Pound | 249 | Equity |
| Jersey Pound | 418 | Fixed income |
| Kenyan shilling | 215 | Fixed income |
| Kuwaiti dinar | 532 | Fixed income |
| Mexican peso | 1,502 | Equity |
| Mexican peso | 2,482 | Fixed income |
| Mexican peso | 51 | Foreign currency |
| Moroccan dirham | 556 | Fixed income |
| Multiple | 1,296 | Fixed income |
| Israeli new shekel | 3,969 | Equity |
| New Taiwan dollar | 4,555 | Equity |
| Norwegian krone | 5,011 | Equity |
| Peruvian nuevo sol | 301 | Fixed income |
| Philippines peso | 240 | Fixed income |
| Russian ruble | 947 | Fixed income |
| Russian ruble | 55 | Foreign currency |
| Singaporean dollar | 4,244 | Equity |
| South Korean won | 2,667 | Equity |
| Swedish krona | 6,328 | Equity |
| Swiss franc | 12,083 | Equity |
| Thai baht | 1,832 | Equity |
| Turkish new lira | 887 | Fixed income |
| Virgin Islands | 4 | Equity |
| | $ 237,975 | |

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

See Independent Auditors' Report.

## (2) CASH AND INVESTMENTS, CONTINUED

### Pooled Fixed Income Funds

The pooled fixed income funds consisted of an investment in the Reams Asset Management, Unconstrained Fixed Income Composite (the "Pooled Fixed Income Fund"), a commingled fund. The Pooled Fixed Income Fund seeks to maximize risk-adjusted total return by systematically pursuing relative value opportunities throughout all sectors of the fixed income market. At June 30, 2018, the average duration of the portfolio of the Pooled Fixed Income Fund was 3.2 years, the average maturity was 5.9 years, the yield to maturity was 2.90%, and the average asset quality was AA2. At June 30, 2017, the average duration of the portfolio of the Pooled Fixed Income Fund was 1.2 years, the average maturity was 2.7 years, the yield to maturity was 1.60%, and the average asset quality was AA2.

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

| Fixed Income Securities | Percentage | |
|---|---|---|
| | 2018 | 2017 |
| Corporate | 18% | 23% |
| Asset-backed | 1% | 2% |
| Cash and cash equivalents | 8% | 20% |
| Treasury | 67% | 49% |
| Mortgage-backed | 6% | 6% |

The Fund's investment in the Pooled Fixed Income Fund was approximately 2.45% and 1.83% of the total portfolio of the total Pooled Fixed Income Funds at June 30, 2018 and 2017, respectively.

## (2) CASH AND INVESTMENTS, CONTINUED

### Investments Measured at Fair Value

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

| 2018<br>**Investments Measured at Fair Value** | Amounts Measured at Fair Value | Fair Value Measurements at Reporting Date Using<br>Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| U.S. government securities | $ 119,897,999 | 79,742,722 | 40,155,277 | - |
| Foreign government securities | 17,872,825 | - | 17,872,825 | - |
| Domestic corporate bonds | 122,341,800 | - | 121,358,239 | 983,561 |
| Foreign corporate bonds | 36,235,030 | - | 36,235,030 | - |
| Domestic stocks | 377,207,472 | 377,184,480 | 22,992 | - |
| Foreign stocks | 205,531,194 | 205,520,748 | - | 10,446 |
| Pooled fixed income funds | 139,159,177 | - | - | 139,159,177 |
| Alternative investments | 54,469,375 | 54,469,375 | - | - |
| | 1,072,714,872 | 716,917,325 | 215,644,363 | 140,153,184 |
| Alternative investments measured at NAV: | | | | |
| Core real estate | 94,127,620 | | | |
| Non-real estate | 37,700,250 | | | |
| | 131,827,870 | | | |
| Total investments at fair value | $1,204,542,742 | 716,917,325 | 215,644,363 | 140,153,184 |

See Independent Auditors' Report.

## (2) CASH AND INVESTMENTS, CONTINUED

### Investments Measured at Fair Value, Continued

| 2017 | Amounts Measured at Fair Value | Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| **Investments Measured at Fair Value** | | | | |
| U.S. government securities | $ 121,649,364 | 85,533,366 | 36,115,998 | - |
| Foreign government securities | 15,828,160 | - | 15,828,160 | - |
| Domestic corporate bonds | 110,028,308 | - | 108,853,477 | 1,174,831 |
| Foreign corporate bonds | 29,217,304 | - | 29,217,304 | - |
| Domestic stocks | 330,978,137 | 330,951,988 | 2,362 | 23,787 |
| Foreign stocks | 191,927,259 | 189,490,857 | - | 2,436,402 |
| Pooled fixed income funds | 121,855,413 | - | - | 121,855,413 |
| Alternative investments | 52,251,759 | 52,251,759 | - | - |
| | 973,735,704 | 658,227,970 | 190,017,301 | 125,490,433 |
| Alternative investments measured at NAV: | | | | |
| Core real estate | 90,769,546 | | | |
| Non-real estate | 52,587,200 | | | |
| | 143,356,746 | | | |
| Total investments at fair value | $1,117,092,450 | 658,227,970 | 190,017,301 | 125,490,433 |

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

See Independent Auditors' Report.

## (2) CASH AND INVESTMENTS, CONTINUED

### Investments Measured at Fair Value, Continued

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

*Fair Value of Private Equity*—The Fund participates in a number of private equity partnerships as a limited partner. Private equity investments are structured to be operated by a general partner, usually highly experienced in the specific focus of the partnership, who calls for investments from the limited partners when a suitable investment opportunity arises. As such, investments in private equity can generally never be redeemed, but instead participate in distributions from the partnership as liquidation of the underlying assets are realized.

The Fund's private equity (PE) investments have a long investment horizon of 5 to 10 years, are not liquid, and the Fund generally holds this type of investment to maturity. Depending on the type of holdings within a given partnership, the investment horizon can be extended if the general partner deems the remaining investments in the fund still hold significant future value and a majority of limited partners concur. The Fund's PE general partners typically make fair value determinations on the investments in each of their respective funds quarterly using a variety of pricing techniques including, but not limited to, observable transaction values for similar investments, third-party bids, appraisals of both properties and businesses, and public market capitalization of similar or like businesses. Each PE fund then calculates the fair value of the Fund's ownership of the partners' capital on a quarterly basis. Although most PE interests are marketable in a secondary market, the Fund generally does not sell its interests early at values less than its interest in the partnership.

Additional information on alternative investments are described in Note 4.

## (3) DERIVATIVES

Derivative instruments are financial contracts whose values depend on the values of one or more underlying assets, reference rates, or financial indexes. They include futures contracts, swap contracts, options contracts, and forward foreign currency exchange. The Fund's derivatives policy identifies and allows common derivative investments and strategies which are consistent with applicable law and the Investment Policy Statement and requires investment managers to petition for the inclusion of additional derivative instruments and strategies. The guidelines also require investment managers to follow certain controls and documentation and risk management procedures. The Fund enters into these certain derivative instruments primarily to enhance the performance and reduce the volatility of its portfolio. It enters futures contracts to gain or hedge exposure to certain markets and to manage interest rate risk and uses forward foreign exchange contracts primarily to hedge foreign currency exposure. The tables below summarize the various contracts in the portfolio as of June 30, 2018 and 2017. 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*

| 2018 | Expiration Date | Long/Short | Notional/ Fair Value *(Expressed in thousands)* |
|---|---|---|---|
| U.S. 10-year note | September 2018 | Short | $ (3,005) |
| U.S. 5-year note | September 2018 | Short | $ 3,749 |
| Euro BUXL 30-year bond | September 2018 | Short | $ (207) |
| U.S. long bond | September 2018 | Short | $ (1,450) |
| 90 Day Euro | December 2019 | Short | $ 21,105 |
| Euro BUND future | September 2018 | Short | $ (4,745) |

See Independent Auditors' Report.

## (3) DERIVATIVES, CONTINUED

*Futures Contracts, Continued*

| | Expiration Date | Long/Short | Notional/ Fair Value *(Expressed in thousands)* |
|---|---|---|---|
| 2017 | | | |
| U.S. 10-year note | September 2017 | Short | $ (10,545) |
| U.S. 5-year note | September 2017 | Short | $ 8,131 |
| Euro BUXL 30-year bond | September 2017 | Short | $ (187) |
| U.S. long bond | September 2017 | Short | $ (1,537) |
| U.S. Ultra bond | September 2017 | Short | $ (1,161) |
| Euro BUND future | September 2017 | Short | $ (2,585) |

*Options Contracts*

| | Expiration Date | Long/Short | Notional/ Fair Value *(Expressed in thousands)* |
|---|---|---|---|
| 2018 | | | |
| Foreign exchange contracts | July 2018 | Short | $ (725) |
| Foreign exchange contracts | August 2018 | Short | $ (541) |
| 2017 | | | |
| U.S. bond fund | July 2017 | Short | $ (2,655) |

*Foreign Currency Forward Contracts*

| | 2018 | 2017 |
|---|---|---|
| | *(Expressed in thousands)* | |
| Pending receivable | $ 22,403 | 20,805 |
| Pending payable | (20,834) | (20,836) |
| Foreign currency forward contracts asset (liability) | $ 1,569 | (31) |

See Independent Auditors' Report.

## (3) DERIVATIVES, CONTINUED

As of June 30, 2018, the foreign currency forward contracts expire in July and August 2018. During the years ended June 30, 2018 and 2017, realized (losses) gains on foreign currency contracts were approximately $(271,000) and $114,000, respectively.

The Fund invests in mortgage-backed securities, which are reported at fair value in the statements of net position and the balance sheets and are based on the cash flows from interest and principal payments by the underlying mortgages. As a result, they are sensitive to prepayments by mortgagees, which are likely in declining interest rate environments, thereby reducing the values of these securities. The Fund invests in mortgage-backed securities to diversify the portfolio and increase the return while minimizing the extent of risk. Details regarding interest rate risks for these investments are included under the interest rate risk disclosures.

## (4) ALTERNATIVE INVESTMENTS

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

| 2018 | | | |
|---|---|---|---|
| Company | Fair Value | Unfunded Commitment | Purpose |
| Real Estate | | | |
| AEW Core Property Trust, Inc. | $ 35,388,209 | - | Real estate investment trust. |
| AEW VII | 7,129,554 | 867,255 | Real estate investment trust. |
| Siguler Guff | 26,878,633 | 7,140,000 | Investments in distressed opportunities in commercial real estate. |
| UBS Trumbull | 24,731,224 | - | Real estate investment trust. |
| | 94,127,620 | 8,007,255 | |
| Fund of Funds | | | |
| PIMCO All Asset Fund | 54,469,375 | - | Fund invests in other PIMCO funds (A fund of funds). |
| Other | | | |
| Medley Opportunity Fund II L.P. | 23,551,226 | 1,332,729 | Investments consist of senior secured direct loans to corporate entities that meet certain criteria. |
| SJC Offshore (Frontpoint) | 43,792 | 2,292,987 | Investments consist of senior secured direct loans to corporate entities that meet certain criteria. |
| SJC Offshore II (Frontpoint) | 4,655,214 | 1,600,213 | Investments consist of senior secured direct loans to corporate entities that meet certain criteria. |
| SJC Onshore | 9,291,729 | 3,099,511 | Investments consist of senior secured direct loans to corporate entities that meet certain criteria. |
| Monroe Capital | 158,289 | 50,000,000 | Investments consist of senior secured direct loans to corporate entities that meet certain criteria. |
| | 37,700,250 | 58,325,440 | |
| Total alternative investments | $ 186,297,245 | 66,332,695 | |

See Independent Auditors' Report.

## (4) ALTERNATIVE INVESTMENTS, CONTINUED

| 2017 | | | |
|---|---|---|---|
| Company | Fair Value | Unfunded Commitment | Purpose |
| Real Estate | | | |
| AEW Core Property Trust, Inc. | $ 33,047,110 | - | Real estate investment trust. |
| AEW VII | 6,802,535 | 2,762,830 | Real estate investment trust. |
| Siguler Guff | 27,746,475 | 8,995,000 | Investments in distressed opportunities in commercial real estate. |
| UBS Trumbull | 23,173,426 | - | Real estate investment trust. |
| | 90,769,546 | 11,757,830 | |
| Fund of Funds | | | |
| PIMCO All Asset Fund | 52,251,759 | - | Fund invests in other PIMCO funds (A fund of funds). |
| Other | | | |
| Medley Opportunity Fund II L.P. | 31,030,195 | 1,332,729 | Investments consist of senior secured direct loans to corporate entities that meet certain criteria. |
| SJC Offshore (Frontpoint) | 696,999 | 2,292,987 | Investments consist of senior secured direct loans to corporate entities that meet certain criteria. |
| SJC Offshore II (Frontpoint) | 6,945,570 | 1,600,213 | Investments consist of senior secured direct loans to corporate entities that meet certain criteria. |
| SJC Onshore | 13,914,436 | 3,099,511 | Investments consist of senior secured direct loans to corporate entities that meet certain criteria. |
| | 52,587,200 | 8,325,440 | |
| Total alternative investments | $ 195,608,505 | 20,083,270 | |

See Independent Auditors' Report.

## (5) CAPITAL ASSETS

The following is a summary of changes in capital assets:

| | Balance at June 30, 2017 | Additions | Disposals | Balance at June 30, 2018 |
|---|---|---|---|---|
| Depreciable capital assets: | | | | |
| Office equipment and furnishings | $ 224,492 | 12,168 | - | 236,660 |
| Accumulated depreciation: | | | | |
| Office equipment and furnishings | (171,082) | (22,286) | - | (193,368) |
| Capital assets, net | $ 53,410 | (10,118) | - | 43,292 |

| | Balance at June 30, 2016 | Additions | Disposals | Balance at June 30, 2017 |
|---|---|---|---|---|
| Depreciable capital assets: | | | | |
| Office equipment and furnishings | $ 208,210 | 16,282 | - | 224,492 |
| Accumulated depreciation: | | | | |
| Office equipment and furnishings | (149,690) | (21,392) | - | (171,082) |
| Capital assets, net | $ 58,520 | (5,110) | - | 53,410 |

## (6) CHANGES IN COMPENSATED ABSENCES

Compensated absence activity was as follows:

| Balance at June 30, 2017 | Additions | Reductions | Balance at June 30, 2018 | Amounts Due Within 1 Year |
|---|---|---|---|---|
| $ 144,176 | 108,699 | (85,697) | 167,178 | 66,871 |

| Balance at June 30, 2016 | Additions | Reductions | Balance at June 30, 2017 | Amounts Due Within 1 Year |
|---|---|---|---|---|
| $ 164,049 | 121,553 | (141,426) | 144,176 | 57,670 |

See Independent Auditors' Report.

## (7) AVAILABLE EARNINGS AND FUND BALANCES

### Available Earnings

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

### Fund Balances

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

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

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

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

## (7) AVAILABLE EARNINGS AND FUND BALANCES, CONTINUED

### Fund Balances, Continued

- Assigned Fund Balance, Continued:

  *Assigned by Board of Directors (Certified)*

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

  *Assigned by Board of Investors (Uncertified)*

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

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

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

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

See Independent Auditors' Report.

## (7) AVAILABLE EARNINGS AND FUND BALANCES, CONTINUED

### Fund Balances, Continued

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

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

| | 2018 | | | | |
|---|---|---|---|---|---|
| | Nonspendable | Assigned Available for Expenditure but Uncertified | Assigned Available for Expenditure and Certified | Unassigned | Total |
| Balance at June 30, 2017 | $ 1,044,101,129 | 2,258,971 | 50,432,860 | 39,736,415 | 1,136,529,375 |
| Settlement receipts | 53,747,503 | - | - | - | 53,747,503 |
| Net unrealized gains on investments | 19,897,296 | - | - | - | 19,897,296 |
| Miscellaneous income | 12,342 | - | - | - | 12,342 |
| Contract income | - | - | - | 1,005,201 | 1,005,201 |
| Expendable earnings, including net realized gains/losses on investments | - | - | - | 65,262,313 | 65,262,313 |
| Program and operating expenses | - | - | - | (51,644,204) | (51,644,204) |
| Transfer—estimate of certified earnings for 2018 | - | - | (10,902,588) | 10,902,588 | - |
| Balance at June 30, 2018 | $ 1,117,758,270 | 2,258,971 | 39,530,272 | 65,262,313 | 1,224,809,826 |

See Independent Auditors' Report.

## (7) AVAILABLE EARNINGS AND FUND BALANCES, CONTINUED

### Fund Balances, Continued

| | 2017 | | | | |
|---|---|---|---|---|---|
| | Nonspendable | Assigned Available for Expenditure but Uncertified | Assigned Available for Expenditure and Certified | Unassigned | Total |
| Balance at June 30, 2016 | $ 914,652,652 | 11,614,942 | 65,681,616 | 27,159,775 | 1,019,108,985 |
| Adjustment | - | 3,748,215 | (3,748,215) | - | - |
| Estimated transfer—2017—5% cap | - | (13,104,186) | 13,104,186 | - | - |
| Settlement receipts | 58,464,784 | - | - | - | 58,464,784 |
| Net unrealized gains on investments | 70,870,942 | - | - | - | 70,870,942 |
| Miscellaneous income | 112,751 | - | - | - | 112,751 |
| Contract income | - | - | - | 882,949 | 882,949 |
| Expendable earnings, including net realized gains/losses on investments | - | - | - | 39,736,415 | 39,736,415 |
| Program and operating expenses | - | - | - | (52,647,451) | (52,647,451) |
| Transfer—estimate of certified earnings for 2017 | - | - | (24,604,727) | 24,604,727 | - |
| Balance at June 30, 2017 | $ 1,044,101,129 | 2,258,971 | 50,432,860 | 39,736,415 | 1,136,529,375 |

The amount of earnings available for certification for the period ended June 30, 2018, was $65,262,313, which is above 5% of the corpus of the Fund.

At their August 23, 2018, meeting, the Board of Investors certified $64,771,764, 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 2018 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.

## (7) AVAILABLE EARNINGS AND FUND BALANCES, CONTINUED

### Fund Balances, Continued

The transfers of fund balances during 2018 and 2017 as noted in the above reconciliation are as follows:

2018

- The transfer of $10,902,588 was to adjust the unassigned balance to the estimate of certified earnings at June 30, 2018, before the 5% cap adjustment.

2017

- The adjustment of $3,748,215 was to adjust the uncertified reserve fund balance to equal to the actual available balance after the November 30, 2016, Board Meeting. The balance of the uncertified reserve was recalculated to be equal to $15,363,157.
- The transfer of $13,104,186 was to adjust the certification to equal the 5% cap for 2017.
- The transfer of $24,604,727 was to adjust the unassigned balance to the estimate of certified earnings at June 30, 2017, before the 5% cap adjustment.

## (8) PENSION PLAN

### Plan Description

The Fund contributes to the Oklahoma Public Employees Retirement Plan (OPERS), a cost-sharing, multiple-employer defined benefit public employee retirement plan administered by the Oklahoma Public Employees Retirement System (the “System”). OPERS provides retirement, disability, and death benefits to plan members and beneficiaries. The benefit provisions are established and may be amended by the Oklahoma Legislature. Title 74 of the Oklahoma Statutes, Sections 901–943, as amended, assigns the authority for management and operation of OPERS to the Board of Trustees of the System. The System issues a publicly available annual financial report that includes financial statements and required supplementary information for OPERS. That annual report may be obtained by writing to the Oklahoma Public Employees Retirement System, 5400 N. Grand Blvd., Suite 400, Oklahoma City, Oklahoma 73112 or by calling 1-800-733-9008, or can be obtained at www.opers.ok.gov/websites/opers/images/pdfs/CAFR-2018-OPERS.pdf.

## (8) PENSION PLAN, CONTINUED

### Benefits Provided

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

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

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

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

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

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

## (8) PENSION PLAN, CONTINUED

### Benefits Provided, Continued

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

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

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

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

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

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

### Contributions

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

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

## (8) PENSION PLAN, CONTINUED

### Contributions, Continued

For 2018, 2017, and 2016, *state agency employers* contributed 16.5% on all salary, and *state employees* contributed 3.5% on all salary.

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

Contributions to OPERS for the pension plan by the Fund for 2018, 2017, and 2016, were as follows:

| 2018 | 2017 | 2016 |
|---|---|---|
| $ 219,925 | 233,186 | 225,292 |

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

At June 30, 2018, the Fund reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2017. The Fund's proportion of the net pension liability was based on the Fund's contributions received by OPERS relative to the total contributions received by OPERS for all participating employers as of June 30, 2017. Based upon this information, the Fund's proportion was 0.08440929%.

## (8) PENSION PLAN, CONTINUED

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

For the years ended June 30, 2018 and 2017, the Fund recognized pension expense of $247,609 and $193,187, respectively. At June 30, 2018 and 2017, the Fund reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| **2018** | | |
| Differences between expected and actual experience | $ - | 36,805 |
| Changes of assumptions | 202,602 | - |
| Proportionate changes | 30,200 | - |
| Net difference between projected and actual earnings on pension plan investments | 20,387 | 81,612 |
| Fund contributions subsequent to the measurement date | 219,925 | - |
| | $ 473,114 | 118,417 |
| **2017** | | |
| Differences between expected and actual experience | $ - | 33,653 |
| Changes of assumptions | 122,431 | - |
| Proportionate changes | 49,425 | - |
| Net difference between projected and actual earnings on pension plan investments | 557,178 | 236,740 |
| Fund contributions subsequent to the measurement date | 233,186 | - |
| | $ 962,220 | 270,393 |

See Independent Auditors' Report.

## (8) PENSION PLAN, CONTINUED

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

Reported deferred outflows of resources of $219,925 related to pensions resulting from the Fund's contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ending June 30, 2019. Any other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions as of June 30, 2018, will be recognized in pension expense as follows:

| Years Ending June 30: | | |
|---|---|---|
| 2019 | $ | 152,659 |
| 2020 | | 101,211 |
| 2021 | | (10,933) |
| 2022 | | (108,165) |
| | $ | 134,772 |

See Independent Auditors' Report.

## (8) PENSION PLAN, CONTINUED

### Actuarial Methods and Assumptions

The total pension liability was determined on an actuarial valuation prepared as of July 1, 2017 and 2016, using the following actuarial assumptions:

| | |
|---|---|
| Investment return: | 7.00% for 2017 and 7.25% for 2016, compounded annually net of investment expense and including inflation |
| Salary increases: | 3.5% to 9.5% per year for 2017 and 4.5% to 8.4% per year for 2016, including inflation |
| Mortality rates: | For 2017 Calculation—Active participants and nondisabled pensioners: RP-2014 Mortality Table projected to 2025 by Scale MP-2016 (disabled pensioners set forward 12 years).<br><br>For 2016 Calculation—Active participants and nondisabled pensioners: RP-2000 Mortality Table projected to 2010 by Scale AA (disabled pensioners set forward 15 years). |
| Annual post-retirement benefit increases: | None |
| Assumed inflation rate: | 2.75% for 2017 and 3.00% for 2016 |
| Payroll growth: | 3.5% per year for 2017 and 4% per year for 2016 |
| Actuarial cost method: | Entry age |
| Select period for the termination | 10 years |

## (8) PENSION PLAN, CONTINUED

### Actuarial Methods and Assumptions, Continued

The actuarial assumptions used in the July 1, 2017, valuations are based on the results of the most recent actuarial experience study, which covers the 3-year period ending June 30, 2016. The experience study report is dated April 13, 2017. The long-term rate of return was modified by the Board of Trustees of the System during 2017.

The actuarial assumptions used in July 1, 2016, valuations are based on the results of the most recent actuarial experience study, which covers the 3-year period ending June 30, 2013. The experience study report is dated May 9, 2014. The long-term rate of return was modified by the Board of Trustees of the System during 2016.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target asset allocation and best estimates of geometric real rates of return for each major asset class as of June 30, 2017 and 2016, are summarized in the following table:

| Asset Class | Target Asset Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| U.S. large cap equity | 38.0% | 5.3% |
| U.S. small cap equity | 6.0% | 5.6% |
| U.S. fixed income | 25.0% | 0.7% |
| International stock | 18.0% | 5.6% |
| Emerging market stock | 6.0% | 6.4% |
| TIPS | 3.5% | 0.7% |
| Rate anticipation | 3.5% | 1.5% |
| | **100.0%** | |

See Independent Auditors' Report.

## (8) PENSION PLAN, CONTINUED

### Discount Rate

The discount rate used to measure the total pension liability was 7.00% for 2017 and 7.25% for 2016. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and the employers will be made at the current contribution rate as set out in state statute. Based on those assumptions, OPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determined does not use a municipal bond rate.

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

The following presents the net pension liability of the employer calculated using the discount rate of 7.00% for 2017 and 7.25% for 2016, as well as what the Fund's net pension (asset) liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

| | 1% Decrease (6.00%) | Current Discount Rate (7.00%) | 1% Increase (8.00%) |
|---|---|---|---|
| June 30, 2018 | | | |
| Net pension (asset) liability | $ 1,348,820 | 456,370 | (299,326) |

| | 1% Decrease (6.25%) | Current Discount Rate (7.25%) | 1% Increase (8.25%) |
|---|---|---|---|
| June 30, 2017 | | | |
| Net pension liability | $ 1,567,661 | 765,816 | 85,118 |

### Pension Plan Fiduciary Net Position

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

## (9) OTHER POSTEMPLOYMENT EMPLOYEE BENEFITS

### *HEALTH INSURANCE SUBSIDY OPEB*

#### Description

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

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

#### Benefits Provided

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

#### Contributions

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

Each member participates based on their qualifying gross salary earned, excluding overtime. There is no cap on the qualifying gross salary earned, subject to Internal Revenue Service (IRS) limitations on compensation. Only employers contribute to the HISP. For 2018 *state agency employers* contributed 16.5% on all salary.

Contributions to OPERS for the HISP by the Fund for year ended June 30, 2018, were approximately $16,100.

## (9) OTHER POSTEMPLOYMENT EMPLOYEE BENEFITS, CONTINUED

### *HEALTH INSURANCE SUBSIDY OPEB, CONTINUED*

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

At June 30, 2018, the Fund reported a liability for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of July 1, 2017. The Fund's proportion of the net OPEB liability was based on the Fund's contributions received by OPERS relative to the total contributions received by OPERS for all participating employers as of June 30, 2017. Based upon this information, the Fund's proportion was 0.08440929%.

For the year ended June 30, 2018, the Fund recognized OPEB expense related to the HISP of $24,143. At June 30, 2018, the Fund reported deferred outflows of resources and deferred inflows of resources related to the HISP from the following sources:

| 2018 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ - | 11,917 |
| Changes of assumptions | 7,875 | - |
| Net difference between projected and actual earnings on OPEB investments | - | 10,433 |
| Fund contributions subsequent to the measurement date | 16,086 | - |
| | $ 23,961 | 22,350 |

See Independent Auditors' Report.

## (9) OTHER POSTEMPLOYMENT EMPLOYEE BENEFITS, CONTINUED

### *HEALTH INSURANCE SUBSIDY OPEB, CONTINUED*

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

Reported deferred outflows of resources of $16,086 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, 2019. Any other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB as of June 30, 2018, will be recognized in OPEB expense as follows:

| Years Ending June 30: | | |
|---|---|---|
| 2019 | $ | (3,364) |
| 2020 | | (3,567) |
| 2021 | | (3,567) |
| 2022 | | (3,567) |
| 2023 | | (410) |
| | $ | (14,475) |

See Independent Auditors' Report.

## (9) OTHER POSTEMPLOYMENT EMPLOYEE BENEFITS, CONTINUED

### *HEALTH INSURANCE SUBSIDY OPEB, CONTINUED*

### Actuarial Methods and Assumptions

The total OPEB liability was determined on an actuarial valuation prepared as of July 1, 2017:

| | |
|---|---|
| Investment return: | 7.00% compounded annually net of investment expense and including inflation |
| Salary increases: | 3.5% to 9.5% per year, including inflation |
| Mortality rates: | Active participants and nondisabled pensioners: RP-2014 Mortality Table projected to 2025 by Scale MP-2016 (disabled pensioners set forward 12 years). |
| Annual post-retirement benefit increases: | None |
| Assumed inflation rate: | 2.75% per year |
| Payroll growth: | 3.5% per year |
| Actuarial cost method: | Entry age |
| Select period for the termination | 10 years |
| Health care trend rate | Not applicable based on how OPERS is structured and benefit payments are made. |

## (9) OTHER POSTEMPLOYMENT EMPLOYEE BENEFITS, CONTINUED

### *HEALTH INSURANCE SUBSIDY OPEB, CONTINUED*

#### Actuarial Methods and Assumptions, Continued

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

The long-term expected rate of return on OPEB plan investments was determined using a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target asset allocation and best estimates of geometric real rates of return for each major asset class as of June 30, 2017, are summarized in the following table:

| Asset Class | Target Asset Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| U.S. large cap equity | 38.0% | 5.3% |
| U.S. small cap equity | 6.0% | 5.6% |
| U.S. fixed income | 25.0% | 0.7% |
| International stock | 18.0% | 5.6% |
| Emerging market stock | 6.0% | 6.4% |
| TIPS | 3.5% | 0.7% |
| Rate anticipation | 3.5% | 1.5% |
| | **100.0%** | |

#### Discount Rate

The discount rate used to measure the total OPEB liability was 7.00% for 2017. The projection of cash flows used to determine the discount rate assumed that contributions from the employers will be made at the current contribution rate as set out in state statute. Based on those assumptions, OPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability. The discount rate determined does not use a municipal bond rate.

## (9) OTHER POSTEMPLOYMENT EMPLOYEE BENEFITS, CONTINUED

### *HEALTH INSURANCE SUBSIDY OPEB, CONTINUED*

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

The following presents the net OPEB liability of the Fund calculated using the discount rate of 7.00% for 2017, as well as what the Fund's net OPEB (asset) liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

| | 1% Decrease (6.00%) | Current Discount Rate (7.00%) | 1% Increase (8.00%) |
|---|---|---|---|
| June 30, 2018 | | | |
| Net OPEB liability (asset) | $ 38,189 | 9,668 | (14,825) |

#### 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 OPEB LIABILITY*

#### Description

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

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

## (9) OTHER POSTEMPLOYMENT EMPLOYEE BENEFITS, CONTINUED

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

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

The IRSHIP provides members with postretirement medical benefits until age 65 if the retiree and spouse pay the full active premium. Participation in the health insurance plan can elect to enroll in special coverage, and surviving spouses may continue in the Plan until age 65. Contributions to the health insurance plan are made by both participants and the Fund on a "pay as you go" basis. Fund contributions for the year ended June 30, 2018, were approximately $5,500.

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

At June 30, 2018, 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, 2017, and the total IRSHIP OPEB liability used to calculate the net IRSHIP OPEB liability was determined by an actuarial valuation as of July 1, 2017. The Fund's proportion of the net IRSHIP OPEB liability was based on the Fund's active employees as of July 1, 2017, 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 0.04954850%.

For the year ended June 30, 2018, the Fund recognized OPEB expense of $70,994. At June 30, 2018, the Fund reported deferred outflows of resources and deferred inflows of resources related to the IRSHIP OPEB liability from the following sources:

| 2018 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Changes of assumptions | $ - | 2,871 |
| Fund contributions subsequent to the measurement date | 5,455 | - |
| | $ 5,455 | 2,871 |

See Independent Auditors' Report.

## (9) OTHER POSTEMPLOYMENT EMPLOYEE BENEFITS, CONTINUED

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

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

Reported deferred outflows of resources of $5,455 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, 2019. Deferred inflows of resources related to the IRSHIP OPEB liability as of June 30, 2018, will be recognized in OPEB expense as follows:

| Years Ending June 30: | | |
|---|---|---|
| 2019 | $ | (1,104) |
| 2020 | | (1,104) |
| 2021 | | (663) |
| | $ | (2,871) |

**Actuarial Methods and Assumptions**

The total IRSHIP OPEB liability was determined based on actuarial valuations prepared using a July 1, 2017, measurement date using the following actuarial assumptions:

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

- Mortality rates—RP-2006 Combined Healthy Mortality Table, with a fully generational projection using Scale MP-2017

- 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

See Independent Auditors' Report.

## (9) OTHER POSTEMPLOYMENT EMPLOYEE BENEFITS, CONTINUED

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

#### Actuarial Methods and Assumptions, Continued

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

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

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

  Males are assumed to be 3 years older than their spouses

- Plan entry date is the date of hire

- Actuarial cost method—Entry age normal based upon salary

- Healthcare trend rate—7.10% decreasing to 4.60%

The June 30, 2018, valuation is based on a measured date of July 1, 2018, with a measurement period of July 1, 2016, to July 1, 2017.

#### Discount Rate

The discount rate used to measure the total OPEB liability was 3.58% for June 30, 2018. The discount rate was determined using the Bond Buyer Go 20-Bond Municipal Bond Index.

## (9) OTHER POSTEMPLOYMENT EMPLOYEE BENEFITS, CONTINUED

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

#### Discount Rate

The discount rate used to measure the total OPEB liability was 3.58% for June 30, 2018. The discount rate was determined using the Bond Buyer Go 20-Bond Municipal Bond Index.

#### 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 3.58% for 2018, as well as what the Fund's net IRSHIP OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

| | 1% Decrease (2.58%) | Current Discount Rate (3.58%) | 1% Increase (4.58%) |
|---|---|---|---|
| June 30, 2018 | | | |
| Net OPEB liability | $ 78,534 | 73,578 | 68,962 |

*Sensitivity of the net OPEB liability to changes in the healthcare trend rate*—The following presents the net OPEB liability at June 30, 2018, calculated using the healthcare trend rate of 7.10% decreasing to 4.60%, 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 (6.10% decreasing to 3.60%) | Current Healthcare Trend Rate (7.10% decreasing to 4.60%) | 1% Increase in Healthcare Trend Rate (8.10% decreasing to 5.60%) |
|---|---|---|---|
| Net OPEB liability | $ 67,530 | 73,578 | 80,582 |

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/ActuarialValuationReport2018.pdf

See Independent Auditors' Report.

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

### Deferred Compensation Plan

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

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

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

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

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

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

### Deferred Compensation Plan, Continued

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, 2018 and 2017. The Fund believes that it has no liabilities with respect to the Deferred Compensation Plan.

## (10) 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.

## (11) OPERATING EXPENSES

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

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

See Independent Auditors' Report.

## (12) COMMITMENTS AND CONTINGENCIES

### Contracts

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

### Settlement Receipts

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

# REQUIRED SUPPLEMENTARY INFORMATION

**Exhibit I**

## TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

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

**Last 4 Fiscal Years**

| | 2018 * | 2017 * | 2016 * | 2015 * |
|---|---|---|---|---|
| The Fund's proportion of the net pension liability | 0.08440929% | 0.07718124% | 0.07518864% | 0.06132439% |
| The Fund's proportionate share of the net pension liability | $ 456,370 | 765,816 | 270,441 | 112,570 |
| The Fund's covered payroll | 1,413,248 | 1,365,406 | 1,329,158 | 1,038,952 |
| The Fund's proportionate share of the net pension liability as a percentage of its covered payroll | 32.29% | 56.09% | 20.35% | 10.83% |
| OPERS' fiduciary net position as a percentage of the total pension liability | 94.28% | 89.48% | 96.00% | 97.90% |

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

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

See Independent Auditors' Report.

**Exhibit II**

**TOBACCO SETTLEMENT ENDOWMENT TRUST FUND**

**SCHEDULE OF THE FUND'S CONTRIBUTIONS**
**Oklahoma Public Employees Retirement Plan**
**Last 8 Fiscal Years**

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

Only the last 8 fiscal years are presented because 10-year data is not readily available.
* - The fund implemented GASB 75 effective July 1, 2017; therefore, this amount represents the net percentage for the GASB 68 contribution to OPERS. When combined with the HISP percentage for GASB 75 contributions to OPERS the total amount contributed to OPERS is 16.50%.

See Independent Auditors' Report.

**Exhibit III**

**TOBACCO SETTLEMENT ENDOWMENT TRUST FUND**

**SCHEDULE OF THE FUND'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY**
**Oklahoma Public Employees Health Insurance Subsidy Plan**
**June 30, 2018**

| | 2018 * |
|---|---|
| The Fund's proportion of the net OPEB liability | 0.08440929% |
| The Fund's proportionate share of the net OPEB liability | $ 9,668 |
| The Fund's covered payroll | 1,413,248 |
| The Fund's proportionate share of the net OPEB liability as a percentage of its covered payroll | 0.68% |
| OPERS' fiduciary net position as a percentage of the total OPEB liability | 96.50% |

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

Only the last fiscal year is 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**
**June 30, 2018**

| | 2018 |
|---|---|
| Contractually required contribution | $ 16,086 |
| Contributions in relation to the contractually required contributions | 16,086 |
| Contribution deficiency (excess) | $ - |
| The Fund's covered payroll | $ 1,430,370 |
| Contributions as a percentage of covered payroll | 1.12% |

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

See Independent Auditors' Report.

**TOBACCO SETTLEMENT ENDOWMENT TRUST FUND**

**SCHEDULE OF THE FUND'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY**
**Implicit Rate Subsidy of Health Insurance OPEB Liability**

**June 30, 2018**

| | 2018 * |
|---|---|
| The Fund's proportion of the net OPEB liability | 0.04954850% |
| The Fund's proportionate share of the net OPEB liability | $ 73,578 |
| The Fund's covered payroll | 1,413,248 |
| The Fund's proportionate share of the net OPEB liability as a percentage of its covered payroll | 5.21% |
| Fiduciary net position as a percentage of the total OPEB liability | 0.00% |

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

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

See Independent Auditors' Report.

**Exhibit VI**

**TOBACCO SETTLEMENT ENDOWMENT TRUST FUND**

**SCHEDULE OF THE FUND'S CONTRIBUTIONS**
**Implicit Rate Subsidy of Health Insurance OPEB Liability**
**June 30, 2018**

| | 2018 |
|---|---|
| Contractually required contribution | $ 5,455 |
| Contributions in relation to the contractually required contributions | 5,455 |
| Contribution deficiency (excess) | $ - |
| The Fund's covered payroll | $ 1,430,370 |
| Contributions as a percentage of covered payroll | 0.38% |

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

See Independent Auditors' Report.

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the permanent fund of the Tobacco Settlement Endowment Trust Fund (the "Fund"), which is a part of the State of Oklahoma financial reporting entity, as of and for the year ended June 30, 2018, 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 28, 2018. Our report includes an explanatory paragraph disclaiming an opinion on required supplementary information. In addition, our report also includes an explanatory paragraph to emphasize the fact that the financial statements include only that portion of the State of Oklahoma that is attributable to transactions of the Fund.

## Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

(Continued)



1421 East 45th Street • Shawnee, OK 74804
P: 405.878.7300 • www.finley-cook.com • F: 405.395.3300

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

## Internal Control Over Financial Reporting, Continued

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

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Finley + Cook, PLLC

Shawnee, Oklahoma
September 28, 2018