

**OKLAHOMA TOBACCO SETTLEMENT ENDOWMENT
TRUST FUND BOARD OF INVESTORS**

**REQUEST FOR PROPOSALS (RFP)
FOR
AUDITING SERVICES**

OTSET RFP No. 08-03

December 17, 2007

**OKLAHOMA TOBACCO SETTLEMENT ENDOWMENT
TRUST FUND BOARD OF INVESTORS
c/o Oklahoma State Treasurer
2300 N. Lincoln Boulevard, Room 217
Oklahoma City, OK 73105**

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1. GENERAL INFORMATION

1.1 Introduction

In November 2000, the people of the State of Oklahoma enacted Article X, Section 40 to the State Constitution. This new provision created the Tobacco Settlement Endowment Trust Fund into which a substantial portion of the State's share of the national tobacco settlement payments would be deposited. The investment management of this Trust Fund is vested in a five person Board of Investors chaired by the State Treasurer. The remaining members of the Board are appointed by the Governor, State Auditor and Inspector, the President Pro-Tempore of the Senate and the Speaker of the House of Representatives.

Earnings from the Trust Fund may be expended for research to fight cancer and other tobacco-related diseases, tobacco prevention and cessation, programs to promote public health, programs to enhance the provision of health care, a variety of education programs, and programs to enhance the health and well being of senior citizens. A different board, called the Board of Directors of the Tobacco Settlement Endowment Trust Fund, makes all spending decisions for the earnings.

1.2 Background

A. Legal Authorization (Appendix A)

The Board of Investors is charged with the investment of the Trust Fund. In addition to Article X, § 40 of the Oklahoma Constitution, the investment authorization is set forth in Section 6 of House Bill 1003 of the 2001 Legislative session (codified as title 62, § 2306 of the Oklahoma Statutes.)

B. Support Services

The Board of Investors is staffed by the Oklahoma State Treasurer's office. The Board has retained New England Pension Consultants as its Investment Consultant, the Bank of Oklahoma as its custodian bank and is currently using eight investment managers.

As our custodian, Bank of Oklahoma has presented to the Board an unqualified opinion in their SAS 70 examination dated September 30, 2006 performed by Ernst & Young LLP.

1.3 Description of Services

A. Purpose

The purpose of this Request for Proposal (RFP) is to solicit bids from qualified independent auditors having sufficient governmental accounting and auditing experience in performing an audit in accordance with Government Auditing Standards.

The specific details shown herein shall be considered minimum unless otherwise shown. The specifications, terms and conditions included with this RFP shall govern in any resulting contract unless approved otherwise in writing by the Board of Investors of the Oklahoma Tobacco Settlement Endowment Trust.

B. Type of Audit

The audit is to be conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

1.4 Minimum Qualifications

Respondents to the RFP must meet all of the following minimum qualifications and requirement to be given further consideration. FAILURE TO SATISFY ALL OF THE FOLLOWING WILL RESULT IN THE REJECTION OF A PROPOSAL.

- A. The audit firm must be a professional certified public accounting firm showing evidence of good standing for the principal auditor (copy of annual permit issued by the Oklahoma Accountancy Board) and registered with the Oklahoma Accountancy Board as qualified to perform governmental audits in accordance with Government Auditing Standards.
- B. The audit firm must have conducted, within the last five (5) years, at least three (3) audits of State governmental agencies and/or similar Endowment Trust Funds.
- C. The audit firm must be technically and professionally capable of providing services with adequate levels of staffing and supervision.
- D. The audit firm must show its independence by addressing any known or potential conflicts of interest.

1.5 Scope of Services

- A. The initial audit will be for the period beginning July 1, 2007 and ending June 30, 2008. Terms of the contract may extend auditing services for four additional one-year terms.
- B. The audit will consist of the combined statements of the investment activities of the Board of Investors and the spending activities of the Board of Directors.
- C. The audit shall be conducted in accordance with Government Auditing Standards and any other applicable procedures for the audit of a government's financial statements prepared in accordance with Generally Accepted Accounting Principles.
- D. As a major fund of the State of Oklahoma, the Tobacco Settlement Endowment Fund is presented as a separate column in the State of Oklahoma's Comprehensive Annual Financial Report. Accordingly, GASB 34 must be followed.
- E. It is anticipated that the staff of the State Treasurer will provide support in both the preparation of audit schedules along with the preparation of combined financial statement drafts for final processing by the auditor.
- F. Any pertinent State Agency and the Office of the State Auditor and Inspector will have the right to examine audit work papers and other records relevant to the examination.
- G. The audit firm will be responsible for delivering 20 bound copies of the audit report and the financial statements to the State Treasurer's Office. Additionally, the audit firm will be required to present the results of the audit to the Board at their November meeting. Audits of fiscal years must be completed by September 30.
- H. The audit firm will be required to retain all work papers and other records relevant to the examination for a period of three years following the completion of the contract term.

1.6 RFP Responses

- A. Audit firms may submit questions in writing as to the intent or clarity of this RFP by 3:30 PM Central Standard Time (CST) January 11, 2008. All written questions should be addressed to Susan.Bateman@osf.ok.gov or

Oklahoma Tobacco Settlement Endowment Trust
c/o Ms. Susan Bateman
Oklahoma State Treasurer
2300 North Lincoln Boulevard, Room 217
Oklahoma City, OK 73105

Written responses to all audit firm written questions will be emailed by January 18, 2008.

- B. All cost of preparation and presentation material associated with any response to this RFP will be the responsibility of the audit firm.
- C. Each audit firm shall deliver six (6) hard copies of the proposal and one (1) copy of the proposal on a CD by 3:30 PM Central Standard Time (CST) February 1, 2008. Proposals must be signed by an individual with the authority to commit the audit firm, and the authority of the individual signing must be stated with the signature. Additional copies of the proposal may be required from firms selected for interviews or presentations to the Board, which must be exact duplicates of the original response. Proposals should be sent to:

Oklahoma Tobacco Settlement Endowment Trust
c/o Ms. Susan Bateman
Oklahoma State Treasurer
2300 North Lincoln Boulevard, Room 217
Oklahoma City, OK 73105

2. BASIC CONTRACT TERMS

2.1 Term of Contract

The contract will be for one year, with an option to renew the contract for each of the next four years. The initial contract period will be for fiscal year ending June 30, 2008 (FY08).

2.2 General Terms and Conditions

- A. This solicitation and any resulting contract shall be governed in all respects by the laws of the State of Oklahoma, and any litigation with respect thereto shall be brought in the District Court of Oklahoma County, Oklahoma. The auditing firm shall comply with all applicable federal, state, and local laws, rules and regulations.
- B. The State of Oklahoma and its agencies are constitutionally barred from limiting the liability of a private vendor. Agencies are similarly prohibited from holding a private entity harmless from liability or providing indemnity to a private entity. The contract between the successful auditing firm and the Oklahoma Tobacco Settlement Endowment Trust will not have any such terms.

2.3 Termination of Contract

The contract may be terminated by either party upon written notice 30 days before termination.

3. PROPOSAL REQUIREMENTS AND INFORMATION

3.1 Proposals must include:

- A. Affirmation of understanding of the audit scope and required completion date.
- B. Evidence of good standing (copy of annual permit card issued by the Oklahoma Accountancy Board for principal partner or engagement manager)
- C. Nature and extent of the firm’s governmental auditing experience.
- D. A copy of the audit firm’s most recent external quality control review report.
- E. At least 3 firm references that are similar to the Oklahoma Tobacco Settlement Endowment Trust or other governmental agencies that can be contacted as a reference.
- F. Confirmation that the firm meets the independence standards of the AICPA.
- G. Disclose any current litigation including any findings or referrals to the State Society Ethics Committee.
- H. Disclose the current insurance coverage held by the firm.
- I. Composition of the audit team including relevant experience and hourly billing rates of team members.
- J. Estimated number of hours to complete the audit.
- K. Completed bid form (Appendix C) The audit fee for the current year and the four subsequent years. Although there is no commitment on the state’s part for the four subsequent years, these will be considered in reviewing and selecting the best value.
- L. Completed non-collusion affidavit. (Appendix D)

3.2 Proposal Timeline

<u>ACTION</u>	<u>RESPONSIBILTYY</u>	<u>DATE</u>
1. Release of RFP	Treasurer’s Staff	December 17,2007
2. Deadline for questions	Audit Firm	January 11, 2008
3. Responses to questions	Treasurer’s Staff	January 18, 2008
4. Submission of Proposal	Audit Firm	February 1, 2008
5. Evaluation of Proposals	Treasurer’s Staff	Feb 4 – February 8, 2008
6. Finalist Interviews	Board	February 13,2008
7. Selection of Audit Firm	Board	February 13, 2008
8. Contract Negotiations	Board/Audit Firm	Upon Selection

Appendix A

Oklahoma Tobacco Settlement Endowment Trust Fund Act

Article 10 – Revenue And Taxation

Public Indebtedness

Section Article 10 section 40 – Tobacco Settlement Endowment Trust Fund

Cite as: OKCONST O.S. § Article 10 section 40 (OSCN 2007), Public Indebtedness

§ 40. Tobacco Settlement Endowment Trust Fund

A. There is hereby created a trust fund to be known as the “ Tobacco Settlement Endowment Trust Fund”. The trust fund principal shall consist of the portion of monies which are received by the State of Oklahoma on or after July 1, 2001, pursuant to any settlement with or judgment against any tobacco company or companies as provided by subsection B of this section, and any other monies that may be appropriated or otherwise directed to the trust fund by the Legislature.

B. 1. Deposits into the trust fund from monies which are received by the State of Oklahoma pursuant to any settlement with or judgment against any tobacco company or companies shall be based on the following schedule:

<u>Fiscal Year</u>	<u>Minimum Percentage of Payments</u>
Ending June 30, 2002	50%
Ending June 30, 2003	55%
Ending June 30, 2004	60%
Ending June 30, 2005	65%
Ending June 30, 2006	70%
Ending June 30, 2007	75%

2. Deposits into the trust fund in subsequent fiscal years shall never be less than seventy-five percent (75%) of the payments.

3. The monies received by the State of Oklahoma pursuant to any settlement with or judgment against any tobacco company or companies after June 30, 2001, not deposited into the trust fund as provided in this section, shall be deposited into a special fund established by the Legislature solely for the purpose of receiving the payments; provided, the Legislature may, by law, direct a certain portion of such monies to the Office of the Attorney General. The special fund shall be subject to legislative appropriations.

C. There is hereby created the Board of Investors of the Tobacco Settlement Endowment Trust Fund. The Board of Investors shall have the duty of investing monies in the trust fund, subject to restrictions and limitations provided by law for and in accordance with laws applicable to the investment of monies in state retirement funds.

The Board of Investors shall consist of five (5) members as follows:

1. The State Treasurer who shall be the chair;

2. An appointee of the Governor;
3. An appointee of the Speaker of the House of Representatives;
4. An appointee of the President Pro Tempore of the Senate; and
5. An appointee of the State Auditor and Inspector.

The initial appointees shall serve staggered terms of office as provided for by law. Thereafter, appointees shall serve four-year terms of office. No more than two appointees shall be appointed from any single congressional district. All appointed members shall have demonstrated expertise in public or private investment funds management.

D. There is hereby created the Board of Directors of the Tobacco Settlement Endowment Trust Fund. The Board of Directors shall consist of seven (7) members, one appointed by each of the following appointing authorities:

1. The Governor;
2. The President Pro Tempore of the Senate;
3. The Speaker of the House of Representatives;
4. The Attorney General;
5. The State Treasurer;
6. The State Auditor and Inspector; and
7. The State Superintendent of Public Instruction.

The initial appointed members shall serve staggered terms of office as provided for by law. Thereafter, the appointed members of the Board of Directors shall serve seven-year terms of office. At least one appointee shall be appointed from each congressional district, and not more than two appointees shall be appointed from any single congressional district. Not more than four appointees shall be members of the same political party. An appointee shall have been a member of the political party to which the appointee belongs for at least one (1) year prior to the date of appointment . Appointees shall have demonstrated expertise in public or private health care or programs related to or for the benefit of children or senior adults.

The Board of Directors shall meet at least one time each calendar quarter.

E. Earnings from the trust fund, including but not limited to interest, dividends, and realized capital gains from investments of the trust fund shall be expended as provided in subsection F of this section for the following purposes:

1. Clinical and basic research and treatment efforts in Oklahoma for the purpose of enhancing efforts to prevent and combat cancer and other tobacco-related diseases;
2. Cost-effective tobacco prevention and cessation programs;

3. Programs other than those specified in paragraph 1 of this subsection designed to maintain or improve the health of Oklahomans or to enhance the provision of health care services to Oklahomans, with particular emphasis on such programs for children;
 4. Programs and services for the benefit of the children of Oklahoma, with particular emphasis on common and higher education, before- and after-school and pre-school programs, substance abuse prevention and treatment programs and other programs and services designed to improve the health and quality of life of children;
 5. Programs designed to enhance the health and well-being of senior adults; and
 6. Authorized administrative expenses of the Office of the State Treasurer and the Board of Directors.
- F. Each fiscal year, the Board of Directors may expend the amount of earnings which actually accrued to the trust fund during the preceding fiscal year. Any amount not so expended shall remain in the trust fund. The Board shall direct specific expenditures to be made for the purposes specified in subsection E of this section.
- G. The Legislature may enact laws to further implement the provisions of this section.

Title 62. Public Finance

Chapter 15 – Tobacco Settlement Endowment Trust Fund Act

Section 2306 – Duties of the Board of Investors of the Tobacco Settlement Endowment Trust Fund

Cite as: O.S. §, __ __

- A. The Board of Investors of the Tobacco Settlement Endowment Trust Fund shall discharge their duties as trustees of the Tobacco Settlement Endowment Trust Fund:
1. With the care, skill, prudence, and diligence, under the circumstances then prevailing, that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims;
 2. By diversifying the investments in the trust fund so as to minimize the risk of large losses, unless, under the circumstances, it is clearly prudent not to do so; and
 3. In accordance with the laws, documents, and instruments governing the trust fund.
- B. The Board of Investors shall retain qualified investment managers to provide for the investment of the monies of the trust fund. The investment managers shall be chosen by a solicitation of proposals on a competitive basis pursuant to standards set by the Board of Investors. The investment managers shall manage those monies of the trust fund allocated to the investment managers in compliance with the overall investment guidelines set by the Board of Investors. The monies of the trust fund allocated to the investment managers shall be managed by the investment managers in accordance with the investment guidelines and other directions of the Board of Investors. The investment managers may sell investments and realize losses if such action is considered advantageous to longer-term return maximization. Because of the total return objective, no distinction shall be made for management and performance evaluation purposes between realized and unrealized capital gains and losses. The Board of Investors may have the State Treasurer manage those monies not specifically allocated to the investment managers.
- C. The trust fund may be invested in the manner in which a prudent person would invest it and consistent with the manner that state retirement funds are invested.

D. The Board of Investors shall select a custodial bank to settle transactions involving the investment of funds in the trust fund and to hold custody of the securities in the trust fund portfolio. The custodian shall be a bank or trust company offering pension fund master trustee and master custodial services. The custodian shall be chosen by a solicitation of proposals on a competitive basis pursuant to standards set by the Board of Investors. The Board of Investors may also select professional investment consultants, auditors, and actuaries to assist the Board of Investors in carrying out its fiduciary responsibilities. All these professionals shall be selected by a solicitation of proposals on a competitive basis pursuant to standards set by the Board of Investors.

E. The Board of Investors shall choose the professional custodians and managers of the assets of the trust fund, shall establish investment and fund management guidelines, and shall adopt an investment policy. The selection of investment managers, investment consultants, auditors, and actuaries, and a custodian bank shall be exempt from the provisions of the Oklahoma Central Purchasing Act.

F. The Board of Investors shall set aside cash reserves from the earnings of the Tobacco Settlement Endowment Trust Fund if requested by the Board of Directors of the Tobacco Settlement Endowment Trust Fund pursuant to subsection B of Section 10 of this act.

G. The State Treasurer shall provide any necessary staff support to the Board of Investors. The cost of up to two full-time-equivalent employees for the Office of the State Treasurer may be considered as an administrative expense of the trust fund. However, the amount provided to the State Treasurer for this purpose shall be determined by the Board of Directors of the Tobacco Settlement Endowment Trust Fund.

Appendix B
Audit Report

Tobacco Settlement Endowment Trust Fund

Financial Statements

June 30, 2007 and 2006
(With Independent Auditors' Report Thereon)



TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities and permanent fund of the Tobacco Settlement Endowment Trust Fund (the "Fund"), as of and for the years ended June 30, 2007 and 2006, which collectively comprise the Fund's basic financial statements as listed in the table of contents. The Fund is a part of the reporting entity of the State of Oklahoma. These financial statements are the responsibility of the Fund's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

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 changes in financial position of only that portion of the governmental activities and governmental funds of the State of Oklahoma that are 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, 2007 and 2006, and the changes in the State of Oklahoma's financial position for the years then ended in conformity with accounting principles generally accepted in the United States.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and permanent fund of the Fund as of June 30, 2007 and 2006, and the respective changes in financial position thereof for the years then ended in conformity with accounting principles generally accepted in the United States.

(Continued)

INDEPENDENT AUDITORS' REPORT, CONTINUED

Our audit was made for the purpose of forming opinions on the financial statements taken as a whole. The required supplementary information contained in the Management's Discussion and Analysis is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 21, 2007, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Shawnee, Oklahoma
September 21, 2007

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

June 30, 2007 and 2006

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, 2007 and 2006. 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 dividends and interest, less fees to manage the Fund, 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 investment of the Fund and to annually certify the earnings that are available for program expenditures. A Board of Directors was created to oversee Fund operating and program expenditures.

USING THIS ANNUAL REPORT

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

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

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

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

June 30, 2007 and 2006

FINANCIAL HIGHLIGHTS

Statements of Net Assets

The statements of net assets provide an indication of the Fund's financial condition at the end of the 2007 and 2006 fiscal years; the statements report all assets and liabilities using the accrual basis of accounting.

Tobacco Settlement Endowment Trust Fund
Statements of Net Assets

	<u>2007</u>	<u>2006</u>
Assets		
Current assets	\$ 84,230,959	64,060,896
Investments, at fair value	368,883,597	266,618,097
Capital assets	29,137	25,596
Total assets	<u>453,143,693</u>	<u>330,704,589</u>
Liabilities		
Current liabilities	12,170,441	2,906,150
Liability under securities lending	64,673,908	30,367,838
Noncurrent liabilities	17,657	18,479
Total liabilities	<u>76,862,006</u>	<u>33,292,467</u>
Net Assets		
Invested in capital assets	29,137	25,596
Restricted for investment	363,275,447	287,701,209
Unrestricted	12,977,103	9,685,317
Total net assets	<u>\$ 376,281,687</u>	<u>297,412,122</u>

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

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

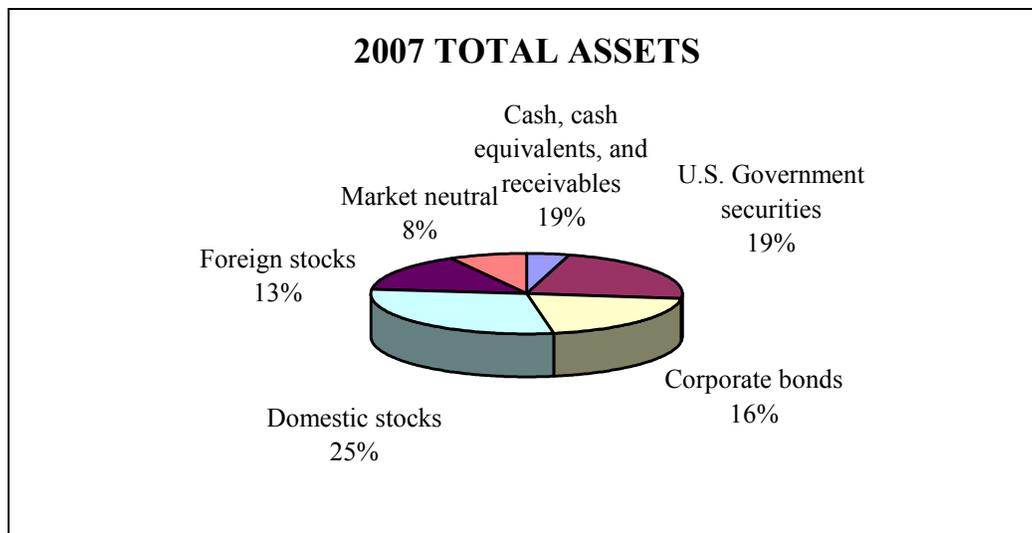
June 30, 2007 and 2006

FINANCIAL HIGHLIGHTS, CONTINUED

Statements of Net Assets, Continued

The Fund's total net assets increased \$78.9 million during the year, as the Fund invested an additional \$47.6 million in settlement receipts, recognized an additional \$38.4 million as net investment income, and expended \$8.3 million on programs and operations. Total investments increased from \$266.6 million at the beginning of the year to \$368.9 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 \$28 million from the net appreciation of the fair value of the portfolio and earned \$10.4 million in interest and dividends, net of investment management fees which were certified by the Board of Investors for FY2008 funding. 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 in excess of \$64 million which represents cash collateral presented to the fund by security borrowers through the Board's securities lending effort. Use of this cash is restricted unless the borrowers were to default in the return of the securities borrowed.



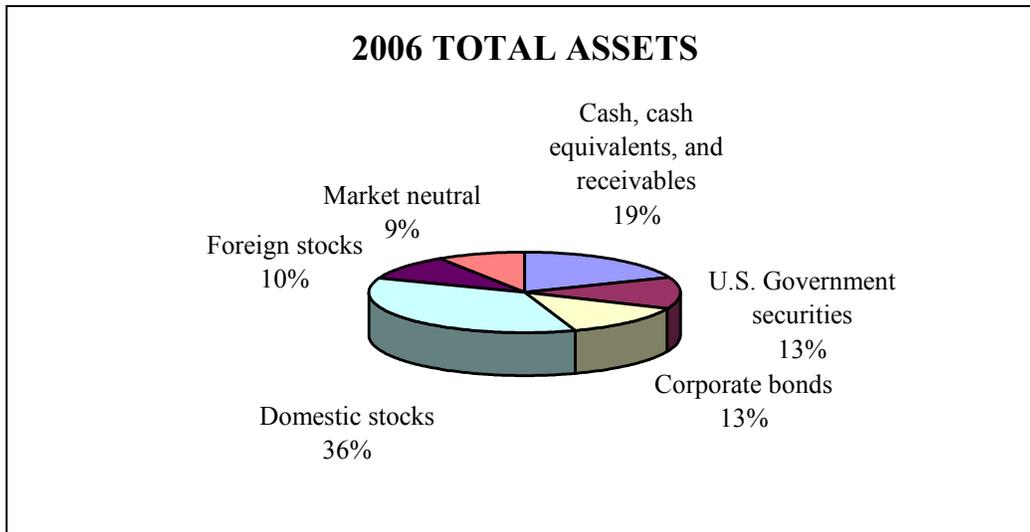
TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

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

June 30, 2007 and 2006

FINANCIAL HIGHLIGHTS, CONTINUED

Statements of Net Assets, Continued



TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

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

June 30, 2007 and 2006

FINANCIAL HIGHLIGHTS, CONTINUED

Statements of Activities—Income and Expenses

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

Tobacco Settlement Endowment Trust Fund
Statements of Activities

	<u>2007</u>	<u>2006</u>
Investment income:		
Interest and dividend income	\$ 11,959,491	8,461,166
Securities lending income	55,298	8,412
Net appreciation in fair value of investments	<u>27,993,559</u>	<u>7,737,441</u>
Total investment income	40,008,348	16,207,019
Investment expenses	<u>(1,656,271)</u>	<u>(1,617,784)</u>
Net investment income	<u>38,352,077</u>	<u>14,589,235</u>
 Other income:		
Contract income	1,250,000	1,250,000
Miscellaneous income	<u>670</u>	<u>-</u>
Total other income	<u>1,250,670</u>	<u>1,250,000</u>
 Expenses:		
Program	7,836,614	5,775,871
Operating	<u>484,989</u>	<u>487,652</u>
Total expenses	<u>8,321,603</u>	<u>6,263,523</u>
 Increase in net assets before settlement receipts	 31,281,144	 9,575,712
 Contribution to fund principal:		
Settlement receipts	<u>47,588,421</u>	<u>42,434,293</u>
Increase in net assets	78,869,565	52,010,005
 Net assets, beginning of year	 <u>297,412,122</u>	 <u>245,402,117</u>
 Net assets, end of year	 <u>\$ 376,281,687</u>	 <u>297,412,122</u>

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

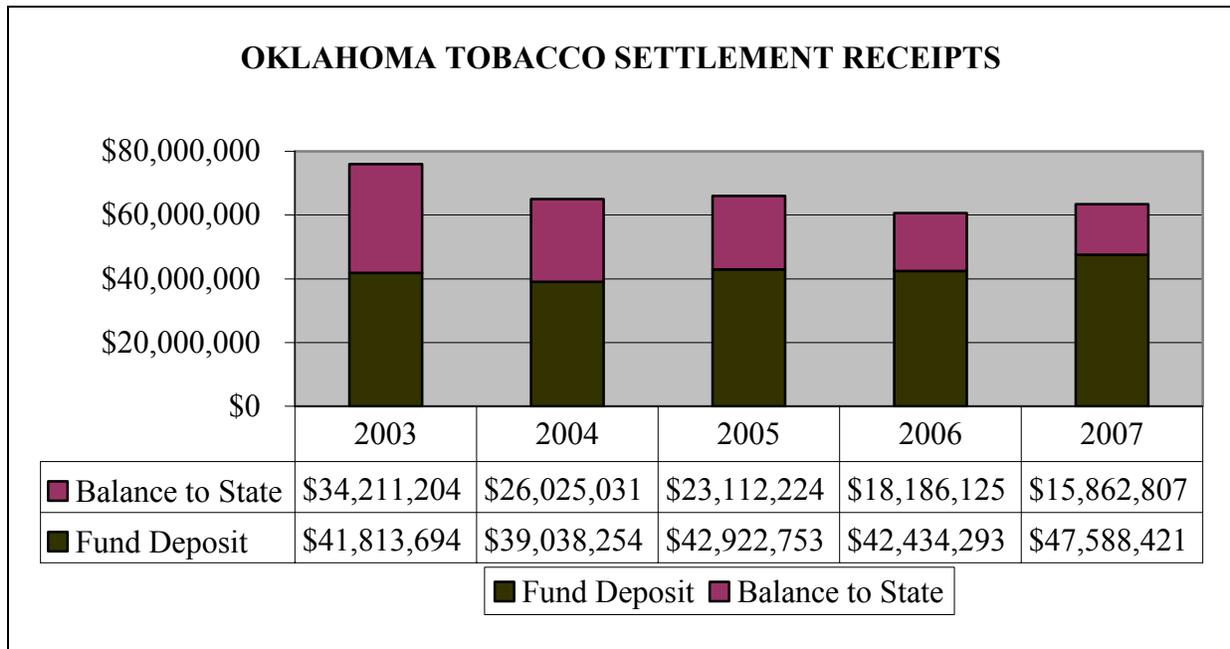
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A), CONTINUED

June 30, 2007 and 2006

FINANCIAL HIGHLIGHTS, CONTINUED

Statements of Activities—Income and Expenses, Continued

Revenues continue to be dominated by settlement receipts which are restricted for investment purposes. During the fiscal years ended June 30, 2007 and 2006, 75% and 70%, respectively, 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 has increased by 5% annually until it reached 75% during the fiscal year ending June 30, 2007, where it remains thereafter. As reflected below, settlement receipts deposited by the Fund increased by \$5,154,128 from 2006.



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.

Previous studies of tobacco consumption reported by the National Association of Attorneys General showed a continued long-term decline in cigarette sales in the United States since the state Attorneys General negotiated the Tobacco Master Settlement Agreement in 1998. A downward trend in consumption was reported through 2005. The Centers for Disease Control and Prevention states that recent research indicates that the more spent on comprehensive tobacco control programs, the greater the reduction in smoking. However, recent surveys indicate that the rate of decline may have stalled in youth and adults, due in large part to the fact that only three states are funding tobacco prevention programs at the minimum levels recommended by the CDC. In FY2007, funding for Oklahoma’s tobacco prevention programs was just over half the minimum amount recommended by the CDC.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

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

June 30, 2007 and 2006

FINANCIAL HIGHLIGHTS, CONTINUED

Statements of Activities—Income and Expenses, Continued

Since 1998, increasing numbers of new tobacco manufacturers, not participating in the Master Settlement Agreement, have entered the market. These new tobacco manufacturers impact the market share of the participating manufacturers and this, in turn, reduces the amount of the settlement payments to the states. As shown below, a significant amount of the payment from the April 15, 2007, calculation was not received by the settling states and has been deposited in disputed accounts.

	FY-2007				FY-2006			
	Final Calculation	%	Deposit to Trust—75%	%	Final Calculation	%	Deposit to Trust—70%	%
Independent Auditor's Oklahoma Final Calculation	\$ 69,930,243	100.0%	52,447,682	100.0%	68,058,917	100.0%	47,641,242	100.0%
Received	<u>63,451,228</u>	<u>90.7%</u>	<u>47,588,421</u>	<u>90.7%</u>	<u>60,620,418</u>	<u>89.1%</u>	<u>42,434,293</u>	<u>89.1%</u>
Amount Not Received	<u>\$ 6,479,015</u>	<u>9.3%</u>	<u>4,859,261</u>	<u>9.3%</u>	<u>7,438,499</u>	<u>10.9%</u>	<u>5,206,949</u>	<u>10.9%</u>

A participating manufacturer who disputes the final calculation may pay the disputed amount into the disputed payments accounts to avoid any accrual of interest until the issue is resolved. Noted disputes during the FY2007 calculation include various computation interpretations and completeness or accuracy of data; however, significant disputes involve the application of the non-participating manufacturer adjustment in 2003 and 2004. Subsequent disputes are anticipated for the 2005, 2006, and probably the 2007 calculation. These participating manufacturers maintain that they are entitled to withhold, whether by means of offset or otherwise, from their 2007 payment or to place in the disputed payments account the amount attributable to the nonparticipating manufacturers adjustment for the year disputed. The settling states do not agree with this position and litigation is pending in this matter.

As settlement receipts were deposited and invested and the portfolio was diversified during the fiscal year ended June 30, 2007, net investment income increased by \$23.8 million over the \$14.6 million recognized during the 2006 fiscal year. Interest and dividend income increased \$3.5 million while the net appreciation of investment in the Funds' portfolio increased \$20.3 million. Fees paid to investment managers, consultants, and custodians increased \$38.5 thousand.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

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

June 30, 2007 and 2006

FINANCIAL HIGHLIGHTS, CONTINUED

Statements of Activities—Income and Expenses, Continued

As previously noted, the Fund's principal is restricted for investment purposes only. The dividend and interest income earned, less the fees spent to manage 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 maintain or improve the health of Oklahomans with a particular emphasis on children and senior adults. The Board of Directors has adopted a strategic plan to maximize the impact of the limited earnings available in the early years by focusing on reducing tobacco use in Oklahoma.

During the fiscal year ended June 30, 2007, the Board of Directors increased program funding by more than \$2 million. Additional funding was provided to meet the growing demand for the Oklahoma Tobacco Helpline, a toll-free statewide phone line, 1-800-QUIT-NOW, to meet the growing demand for telephone-based tobacco cessation counseling. The Board of Directors continued to fund a youth prevention counter-marketing campaign. FY2007 campaigns included ads to educate youth on the hazardous ingredients contained in tobacco products and the harmful effects of secondhand smoke.

During 2007, the Board of Directors also increased funding for 16 comprehensive community-based programs across the state of Oklahoma to implement programs to prevent initiation to tobacco products among youth, to promote quitting among youth and adults, to reduce exposure to secondhand smoke, and to reduce tobacco-related health disparities. These 16 grantees provide services in 25 counties and three tribal nations.

A new grant program, "Addressing Tobacco in Specific Populations," was initiated in FY2007. Four grantees were awarded funding to plan and implement programs to reduce and prevent tobacco use among the low socioeconomic status, deaf and hard of hearing, college-age, and rural youth populations.

In FY2007, the Board of Directors continued an agreement with the Oklahoma State Department of Health to provide additional funding to meet the increasing demand for the statewide telephone-based Oklahoma Tobacco Helpline. According to the terms of the contract, OSDH agrees to pay the Board of Directors at the beginning of the contract period up to 31 days of estimated Helpline costs, and reimburse additional Helpline expenses paid out of the beginning deposit throughout the year. Total revenue from this contract was \$1,250,000 for 2007 and 2006. Adjustments to the cash balance are requested by the Board of Directors through pro forma invoices monthly. These funds are restricted for the purpose of the Helpline.

During the fiscal years ended June 30, 2006 and 2007, operating expenses decreased by \$2,663 from \$487,652 to \$484,989. Personnel, accounting, and other office-related operating expenses initiated during the 2006 fiscal year were incurred for a full 12-month period during the fiscal year ended June 30, 2007. Effective July 1, 2006, the Office of the State Treasurer requested, and both Boards approved, that \$114,000 be provided to the State Treasurer as funding for staff support to the Board of Investors for FY2007. Operating expenses includes salaries, travel, and other operating expenses of the Board of Directors and the Board of Investors. During 2007, the maximum amount allowed for operating expenses was changed from \$500,000 to 15% of certified earnings in any fiscal year.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

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

June 30, 2007 and 2006

FUND HIGHLIGHTS, CONTINUED

Governmental Fund—Balance Sheets

The Fund is classified as a permanent fund, as the principal funds are restricted by law for investment purposes only. The dividend and interest earnings, less fees to manage the Fund, 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 reserved for investment purposes and balances which are unreserved that are expendable for operations and programs of the Fund.

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

	<u>2007</u>	<u>2006</u>
Assets:		
Cash and cash equivalents	\$ 82,087,588	60,824,847
Interest and dividends receivable	2,133,343	1,401,206
Securities lending receivable	10,028	3,550
Net receivable from brokers	-	1,831,293
Investments at fair value	<u>368,883,597</u>	<u>266,618,097</u>
Total assets	<u>\$ 453,114,556</u>	<u>330,678,993</u>
Liabilities:		
Net payable to brokers	\$ 9,627,408	-
Accounts payable	2,531,262	2,893,830
Liability under securities lending	<u>64,673,908</u>	<u>30,367,838</u>
Total liabilities	<u>76,832,578</u>	<u>33,261,668</u>
Fund Balances:		
Reserved for investment	363,275,447	287,701,209
Unreserved	<u>13,006,531</u>	<u>9,716,116</u>
Total fund balances	<u>376,281,978</u>	<u>297,417,325</u>
Total liabilities and fund balances	<u>\$ 453,114,556</u>	<u>330,678,993</u>

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

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

June 30, 2007 and 2006

FUND HIGHLIGHTS, CONTINUED

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

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

	<u>2007</u>	<u>2006</u>
Revenues:		
Restricted:		
Net appreciation in fair value of investments	\$ 27,993,559	7,737,441
Settlement receipts	47,588,421	42,434,293
Miscellaneous income	670	-
Total restricted revenues	<u>75,582,650</u>	<u>50,171,734</u>
Interest and dividend income	11,959,491	8,461,166
Contract income	1,250,000	1,250,000
Securities lending income	55,298	8,412
Total revenues	<u>88,847,439</u>	<u>59,891,312</u>
Expenditures:		
Personnel and administrative	423,615	426,245
Counseling services	3,454,732	2,793,937
Health communication and program promotion	1,947,615	1,368,462
Community programs	2,160,839	1,273,017
Evaluation services	273,150	339,899
Investment management fees	1,656,271	1,617,784
Equipment	15,174	4,686
Other	51,390	46,673
Total expenditures	<u>9,982,786</u>	<u>7,870,703</u>
Net changes in fund balances	78,864,653	52,020,609
Fund balances, beginning of year	<u>297,417,325</u>	<u>245,396,716</u>
Fund balances, end of year	<u>\$ 376,281,978</u>	<u>297,417,325</u>

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

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

June 30, 2007 and 2006

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 Dr. James Wilbanks, Director of Revenue & Fiscal Policy, 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 ASSETS

<i>June 30,</i>	<i>2007</i>	<i>2006</i>
Assets		
Cash and cash equivalents:		
Unrestricted cash	\$ 17,413,680	30,207,008
Restricted cash	-	250,001
Securities lending collateral—restricted cash	64,673,908	30,367,838
Total cash and cash equivalents	<u>82,087,588</u>	<u>60,824,847</u>
Receivables:		
Interest and dividends	2,133,343	1,401,206
Net receivable from brokers	-	1,831,293
Securities lending receivable	10,028	3,550
Total receivables	<u>2,143,371</u>	<u>3,236,049</u>
Investments, at fair value:		
U.S. Government securities	85,855,809	41,682,352
Domestic corporate bonds	72,889,035	43,543,212
Foreign corporate bonds	2,366,543	3,972,063
Market neutral commingled funds	36,687,856	30,887,662
Domestic stocks	112,786,602	115,949,897
Foreign stocks	58,297,752	30,582,911
Total investments, at fair value	<u>368,883,597</u>	<u>266,618,097</u>
Capital assets, net of accumulated depreciation of \$23,536 and \$16,049 as of June 30, 2007 and 2006, respectively.	29,137	25,596
Total assets	<u>453,143,693</u>	<u>330,704,589</u>
Liabilities		
Net payable to brokers	9,627,408	-
Accounts payable	2,531,262	2,893,830
Liability under securities lending	64,673,908	30,367,838
Compensated absences:		
Payable within 1 year	11,771	12,320
Payable after 1 year	17,657	18,479
Total liabilities	<u>76,862,006</u>	<u>33,292,467</u>
Net Assets		
Invested in capital assets	29,137	25,596
Restricted for investment	363,275,447	287,701,209
Unrestricted	12,977,103	9,685,317
Total net assets	<u>\$ 376,281,687</u>	<u>297,412,122</u>

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

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

STATEMENTS OF ACTIVITIES

<i>Years Ended June 30,</i>	<i>2007</i>	<i>2006</i>
Expenses:		
Program:		
Counseling services	\$ 3,454,732	2,793,937
Health communication and program promotion	1,947,615	1,368,462
Community programs	2,160,839	1,273,017
Evaluation services	273,150	339,899
Depreciation	278	556
Total program expenses	<u>7,836,614</u>	<u>5,775,871</u>
Operating:		
Personnel and administrative	422,244	431,099
Other	55,536	49,628
Depreciation	7,209	6,925
Total operating expenses	<u>484,989</u>	<u>487,652</u>
Total expenses	<u>8,321,603</u>	<u>6,263,523</u>
Investment income:		
Interest income	7,267,466	5,353,583
Dividend income	4,692,025	3,107,583
Securities lending income	55,298	8,412
Net appreciation in fair value of investments	27,993,559	7,737,441
Total investment income	40,008,348	16,207,019
Investment expenses	(1,656,271)	(1,617,784)
Net investment income	<u>38,352,077</u>	<u>14,589,235</u>
Other income:		
Contract income	1,250,000	1,250,000
Miscellaneous income	670	-
Total other income	<u>1,250,670</u>	<u>1,250,000</u>
Contribution to fund principal:		
Settlement receipts	47,588,421	42,434,293
Changes in net assets	78,869,565	52,010,005
Net assets, beginning of year	<u>297,412,122</u>	<u>245,402,117</u>
Net assets, end of year	<u>\$ 376,281,687</u>	<u>297,412,122</u>

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

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

BALANCE SHEETS—PERMANENT FUND

<i>June 30,</i>	<i>2007</i>	<i>2006</i>
Assets		
Cash and cash equivalents:		
Unrestricted cash	\$ 17,413,680	30,207,008
Restricted cash	-	250,001
Securities lending collateral—restricted cash	64,673,908	30,367,838
Total cash and cash equivalents	<u>82,087,588</u>	<u>60,824,847</u>
Receivables:		
Interest and dividends	2,133,343	1,401,206
Securities lending receivable	10,028	3,550
Net receivable from brokers	-	1,831,293
Total receivables	<u>2,143,371</u>	<u>3,236,049</u>
Investments, at fair value:		
U.S. Government securities	85,855,809	41,682,352
Domestic corporate bonds	72,889,035	43,543,212
Foreign corporate bonds	2,366,543	3,972,063
Market neutral commingled funds	36,687,856	30,887,662
Domestic stocks	112,786,602	115,949,897
Foreign stocks	58,297,752	30,582,911
Total investments, at fair value	<u>368,883,597</u>	<u>266,618,097</u>
Total assets	<u>\$ 453,114,556</u>	<u>330,678,993</u>
Liabilities and Fund Balances		
Liabilities:		
Net payable to brokers	\$ 9,627,408	-
Accounts payable	2,531,262	2,893,830
Liability under securities lending	64,673,908	30,367,838
Total liabilities	<u>76,832,578</u>	<u>33,261,668</u>
Fund balances:		
Reserved for investment	363,275,447	287,701,209
Unreserved	13,006,531	9,716,116
Total fund balances	<u>376,281,978</u>	<u>297,417,325</u>
Total liabilities and fund balances	<u>\$ 453,114,556</u>	<u>330,678,993</u>

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

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

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

<i>June 30,</i>	<i>2007</i>	<i>2006</i>
Total fund balances	\$ 376,281,978	297,417,325
<p>Amounts reported in the statements of net assets are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund.</p>	29,137	25,596
<p>Some liabilities are not due and payable in the current period and therefore are not reported in the fund. Those liabilities consist of:</p>		
Compensated absences	<u>(29,428)</u>	<u>(30,799)</u>
Net assets	<u>\$ 376,281,687</u>	<u>297,412,122</u>

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

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

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

<i>Years Ended June 30,</i>	<i>2007</i>	<i>2006</i>
Revenues:		
Restricted:		
Net appreciation in fair value of investments	\$ 27,993,559	7,737,441
Settlement receipts	47,588,421	42,434,293
Miscellaneous income	670	-
Total restricted revenues	<u>75,582,650</u>	<u>50,171,734</u>
Interest income	7,267,466	5,353,583
Dividend income	4,692,025	3,107,583
Securities lending income	55,298	8,412
Contract income	<u>1,250,000</u>	<u>1,250,000</u>
Total revenues	<u>88,847,439</u>	<u>59,891,312</u>
Expenditures:		
Personnel and administrative	423,615	426,245
Counseling services	3,454,732	2,793,937
Health communication and program promotion	1,947,615	1,368,462
Community programs	2,160,839	1,273,017
Evaluation services	273,150	339,899
Investment management fees	1,656,271	1,617,784
Equipment	15,174	4,686
Other	51,390	46,673
Total expenditures	<u>9,982,786</u>	<u>7,870,703</u>
Net changes in fund balances	78,864,653	52,020,609
Fund balances, beginning of year	<u>297,417,325</u>	<u>245,396,716</u>
Fund balances, end of year	<u>\$ 376,281,978</u>	<u>297,417,325</u>

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

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

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

<i>Years Ended June 30,</i>	<i>2007</i>	<i>2006</i>
Net changes in fund balances	\$ 78,864,653	52,020,609
<p>Amounts reported in the statements of activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures. However, in the statements of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays were greater than (less than) depreciation in the current period.</p>	3,540	(5,750)
<p>Some expenses reported in the statements of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This amount represents the cost of compensated absences earned but not used in the current year.</p>	<u>1,372</u>	<u>(4,854)</u>
<p style="padding-left: 40px;">Changes in net assets, per statements of activities</p>	<u>\$ 78,869,565</u>	<u>52,010,005</u>

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

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS

June 30, 2007 and 2006

(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 ending June 30, 2007, where it remains thereafter. 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 dividends and interest, less fees to manage the Fund, are expended for 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

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

See Independent Auditors’ Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

Governmental Fund Financial Statements—As a permanent fund, the Fund is reported in the governmental fund financial statements using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Since the Fund predominantly accounts for financial resources, revenue recognition is generally consistent between the accrual and 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 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 the funds invested in an SEC registered money market mutual fund, 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.

The Fund invests in various traditional financial instruments that fall under the broad definition of derivatives. The Fund's derivatives include U.S. Treasury strips, collateralized mortgage obligations, asset-backed securities, 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 in the fair value of investments, interest income, dividend income, securities lending income, and investment expenses, which includes investment management and custodial fees and all other significant investment-related costs.

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Securities Lending

The investment policy authorizes the Board of Investors to contract with their custodian to act as their securities lending agent. Policy requires the securities lending agent to provide indemnification against borrower default, have written agreements with each borrower, not to 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 market values of securities loaned and cash collateral maintained for those securities at June 30 were:

	<u>Market Value</u>	
	<u>2007</u>	<u>2006</u>
U.S. Government securities	\$ 31,393,151	10,552,532
U.S. corporate bonds	1,220,401	2,330,785
Foreign corporate bonds	-	147,469
U.S. equity	30,104,228	16,061,723
Foreign equity	-	555,034
	<u>\$ 62,717,780</u>	<u>29,647,543</u>
Cash collateral maintained for securities loaned	<u>\$ 64,673,908</u>	<u>30,367,838</u>

Borrowers were required to deliver and maintain collateral for each loan with a market value equal to 102% of the current market value of the loaned securities. Collateral delivered in non U.S. currency is required to be equal to 105% of the market value of the securities loaned; however, at June 30, 2007 and 2006, all collateral was presented as cash in U.S. currency. The total value of the collateral held at June 30, 2007 and 2006, was \$ 1,956,128 and \$720,295, respectively, more than the current market value of the securities loaned; thus, no credit risk existed at the balance sheet date from these transactions. Collateral was unmatched to the securities loaned with a one-day maturity. Collateral cannot be used by the Trust except in the event of default.

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Securities Lending, Continued

During fiscal year 2006, securities lending income was not considered certifiable earnings and was included in net assets as restricted for investments. The Fund subsequently determined that securities lending income should be treated as interest income and included in certifiable earnings. Therefore, securities lending income received for fiscal year 2006 in the amount of \$8,412 has been transferred from net assets restricted for investment to unrestricted net assets.

Capital Assets

Furniture, fixtures, and equipment 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 4- to 12-year periods for computer systems and office furniture and fixtures, respectively.

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.

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 5 to 10 years, 13.33 hours per month for service of 10 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.

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Compensated Absences, Continued

The amount of accrued compensated absences considered current was determined based on the amount used during the current year.

Advertising Costs

All costs associated with advertising are expensed as incurred.

(2) CASH AND INVESTMENTS

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

	<u>2007</u>	<u>2006</u>
Cash on deposit with the State	\$ 142,660	11,579
Contractual restricted cash	-	250,001
Collateral from securities lending—restricted cash	64,673,908	30,367,838
Money market mutual fund	<u>17,271,020</u>	<u>30,195,429</u>
	<u>\$ 82,087,588</u>	<u>60,824,847</u>

Restricted Cash—Contractual restricted cash represents the net cash balance of funds advanced to the Board of Directors for the reimbursement of the program expenses related to the Oklahoma Tobacco Helpline. According to contract terms, the Oklahoma State Department of Health (OSDH) pays the Board of Directors up to 31 days of estimated Helpline costs at the beginning of the contract. OSDH agrees to reimburse additional Helpline expenses throughout the year funded through monthly pro forma invoicing. Total revenue from this contract was \$1,250,000 for 2007 and 2006. Cash collateral from securities lending activity is identified as restricted cash as it cannot be used by the Trust 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 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 counterparty or the counterparty’s trust department but not in the name of the Fund. The investment policy requires that all deposits be invested in a fully collateralized interest-bearing account. Policy also provides that investment collateral be held by a third-party custodian with whom the Fund has a current custodial agreement in the Fund’s name.

See Independent Auditors’ Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) CASH AND INVESTMENTS, CONTINUED

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

	<u>2007</u>	
	<u>Fair Value</u>	<u>Moody</u>
	<i>(Expressed in</i>	<u>Rating</u>
	<i>thousands)</i>	
U.S. Government agencies:		
U.S. Treasury bonds	\$ 5,492	(1)
U.S. Treasury notes	21,157	(1)
Federal Home Loan Bank	11,090	AAA
Federal Home Loan Mortgage Corp.	20,684	AAA
Federal National Mortgage Corp.	25,989	AAA
Other	<u>1,443</u>	Other
	<u>85,855</u>	
Corporate bonds:		
Domestic bonds	2,695	A
Domestic bonds	1,765	AA
Domestic bonds	31,679	AAA
Domestic bonds	20,308	B
Domestic bonds	13,453	BA
Domestic bonds	2,566	BAA
Domestic bonds	43	BBB
Domestic bonds	207	CAA
Domestic bonds	<u>174</u>	Other
	<u>72,890</u>	
Foreign bonds	501	A
Foreign bonds	313	AAA
Foreign bonds	285	B
Foreign bonds	1,110	BA
Foreign bonds	<u>157</u>	BAA
	<u>2,366</u>	
Total fair value of credit risk	<u>\$ 161,111</u>	

(1) Backed by full faith and credit of the U.S. Government.

See Independent Auditors’ Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) CASH AND INVESTMENTS, CONTINUED

Credit Risk—Continued

	2006	
	<u>Fair Value</u>	<u>Moody</u>
	<i>(Expressed in thousands)</i>	<u>Rating</u>
U.S. Government agencies:		
U.S. Treasury bonds	\$ 5,231	(1)
U.S. Treasury notes	11,836	(1)
Federal Home Loan Bank	3,066	AAA
Federal Home Loan Mortgage Corp.	8,250	AAA
Federal National Mortgage Corp.	12,306	AAA
Other	993	Other
	41,682	
Corporate bonds:		
Domestic bonds	2,546	A
Domestic bonds	1,912	AA
Domestic bonds	9,434	AAA
Domestic bonds	12,661	B
Domestic bonds	12,769	BA
Domestic bonds	3,703	BAA
Domestic bonds	44	BBB
Domestic bonds	398	CAA
Domestic bonds	76	Other
	43,543	
Foreign bonds	521	A
Foreign bonds	270	AA
Foreign bonds	845	AAA
Foreign bonds	1,048	B
Foreign bonds	1,168	BA
Foreign bonds	120	BAA
	3,972	
Total fair value of credit risk	\$ 89,197	

(1) Backed by full faith and credit of the U.S. Government.

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) CASH AND INVESTMENTS, CONTINUED

Concentration of Credit Risk—The Fund limits its exposure to concentration 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, represent 5% or more of the Fund’s net assets at June 30, 2007 and 2006.

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

	<u>2007</u>	
	<u>Fair Value</u>	<u>Effective Duration</u>
	<u>Years</u>	
	<i>(Expressed in thousands)</i>	
U.S. Government securities		
(government guaranteed):		
U.S. Treasury bonds	\$ 5,492	11.78
U.S. Treasury notes	21,157	6.78
Federal Home Loan Bank	11,090	1.6
GNMA	744	5.34
SLMA	699	4.82
Mortgage-backed securities:		
Federal Home Loan Mortgage Corp.	20,684	3.31
Federal National Mortgage Corp.	25,989	3.47
Corporate bonds:		
Domestic bonds	72,890	6.14
Foreign bonds	<u>2,366</u>	4.4
Total fixed income	<u>\$ 161,111</u>	

See Independent Auditors’ Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) CASH AND INVESTMENTS, CONTINUED

Interest Rate Risk—Continued

	<u>2006</u>	
	<u>Fair Value</u>	<u>Effective Duration Years</u>
	<i>(Expressed in thousands)</i>	
U.S. Government securities		
(government guaranteed):		
U.S. Treasury bonds	\$ 5,231	12.94
U.S. Treasury notes	11,836	5.35
Federal Home Loan Bank	3,066	3.1
GNMA	211	16.66
SLMA	782	3.87
Mortgage-backed securities:		
Federal Home Loan Mortgage Corp.	8,250	3.18
Federal National Mortgage Corp.	12,306	3.05
Corporate bonds:		
Domestic bonds	43,543	6.35
Foreign bonds	<u>3,972</u>	5.64
Total fixed income	<u>\$ 89,197</u>	

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) CASH AND INVESTMENTS, CONTINUED

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

	2007	
	<u>Fair Value</u>	<u>Type</u>
	<i>(Expressed in thousands)</i>	
Foreign currency:		
Australian dollar	\$ 1,575	Equity
British pound sterling	12,673	Equity
Canadian dollar	545	Equity
Canadian dollar	393	FX Inc
Cayman dollar	971	FX Inc
Danish kroner	1,029	Equity
Euro	24,975	Equity
Euro	553	FX Inc
Hong Kong dollar	1,013	Equity
Israeli shekel	763	Equity
Japanese yen	9,811	Equity
Korean won	1,038	Equity
Mexican peso	53	Equity
Norwegian krone	1,631	Equity
Singapore dollar	750	Equity
Singapore dollar	450	FX Inc
Swedish krona	1,639	Equity
Swiss franc	802	Equity
	<u>\$ 60,664</u>	

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) CASH AND INVESTMENTS, CONTINUED

Foreign Currency Risk—Continued

	2006	
	<u>Fair Value</u>	<u>Type</u>
	<i>(Expressed in thousands)</i>	
Foreign currency:		
Australian dollar	\$ 533	Equity
Bermuda dollar	200	FX Inc
British pound sterling	5,128	Equity
British pound sterling	127	FX Inc
Canadian dollar	503	Equity
Canadian dollar	1,299	FX Inc
Cayman dollar	287	FX Inc
Danish kroner	716	Equity
Egyptian pound	227	FX Inc
Euro	12,495	Equity
Euro	893	FX Inc
Hong Kong dollar	877	Equity
Israeli shekel	1,990	Equity
Israeli shekel	303	FX Inc
Japanese yen	5,376	Equity
Korean won	314	Equity
Mexican peso	82	FX Inc
New Taiwan dollar	277	Equity
New Zealand dollar	299	Equity
Norwegian krone	432	Equity
Singapore dollar	413	Equity
Singapore dollar	554	FX Inc
South Korean won	130	Equity
Swedish krona	263	Equity
Swiss franc	837	Equity
	<u>\$ 34,555</u>	

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) FUND BALANCES

Principal funds that are reserved for investment purposes only are composed of settlement receipts and the net appreciation or depreciation in the fair value of invested funds. Annual earnings that are available for expenditure are defined by law as dividends and interest, less fees to manage the Fund, and are recorded as additions to the unreserved fund balance. The Board of Directors manages program and operating expenses that are expended from the unreserved fund balance. Contract revenue is the reimbursement of program expenses related to the Oklahoma Tobacco Helpline and is considered a reduction to unreserved expenses. Operating expenses include salaries, travel, and other operating expenses of the Board of Investors and the Board of Directors. During 2007, the maximum amount allowed for operating expenses was changed from \$500,000 to 15% of certified earnings in any fiscal year. Operating expenses do not include program expenses or investment management expenses. A reconciliation of the reserved and unreserved components of the fund balances is as follows:

	2007		
	<u>Reserved for</u> <u>Investment</u>	<u>Unreserved</u>	<u>Total</u>
Balance, June 30, 2006	\$ 287,701,209	9,716,116	297,417,325
Settlement receipts	47,588,421	-	47,588,421
Net appreciation in fair value of investments	27,993,559	-	27,993,559
Reclassification or transfer of securities lending income (see <u>Securities Lending</u> at Note 1)	(8,412)	8,412	-
Miscellaneous income	670	-	670
Contract income	-	1,250,000	1,250,000
Expendable earnings	-	10,358,518	10,358,518
Program and operating expenses	-	(8,326,515)	(8,326,515)
Balances, June 30, 2007	<u>\$ 363,275,447</u>	<u>13,006,531</u>	<u>376,281,978</u>

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

(3) FUND BALANCES, CONTINUED

	<u>2006</u>		
	<u>Reserved for</u> <u>Investment</u>	<u>Unreserved</u>	<u>Total</u>
Balance, June 30, 2005	\$ 237,521,063	7,875,653	245,396,716
Settlement receipts	42,434,293	-	42,434,293
Net appreciation in fair value of investments	7,737,441	-	7,737,441
Securities lending income, reclassified in 2007	8,412	-	8,412
Contract income		1,250,000	1,250,000
Expendable earnings	-	6,843,382	6,843,382
Program and operating expenses	-	<u>(6,252,919)</u>	<u>(6,252,919)</u>
Balances, June 30, 2006	<u>\$ 287,701,209</u>	<u>9,716,116</u>	<u>297,417,325</u>

The Board of Directors has determined that 10% of the unreserved fund balance be designated as a reserve for future periods should annual earnings prove insufficient to cover expenses.

(4) PENSION PLAN**Plan Description**

The Fund contributes to the Oklahoma Public Employees Retirement Plan (the "Plan"), a multiple-employer, cost-sharing public employee retirement plan, which is a defined benefit pension plan administered by the Oklahoma Public Employees Retirement System (OPERS). Benefit provisions are established and can be amended by the State Legislature. The Plan provides retirement, disability, and death benefits. Title 74 of the Oklahoma Statutes, Sections 901 through 943, as amended, provides more complete information about the Plan. OPERS issues a publicly-available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to OPERS, P.O. Box 53007, Oklahoma City, Oklahoma 73152, or by calling 1-800-733-9008.

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(4) PENSION PLAN, CONTINUED

Funding Policy

The contribution rates for each member category of the Plan are established by and can be amended by the State Legislature and are based on actuarial calculation which is performed to determine the adequacy of contribution rates. The contribution rates applied to each participating State employee's salary for the fiscal years ended June 30 are listed below:

	State Employees' Contributions		State Agencies' Contributions	
	<u>First \$25,000</u>	<u>Above \$25,000</u>	<u>All Salaries</u>	<u>All Salaries</u>
2007	-	-	3.5%	12.5%
2006	3.0%	3.5%	-	11.5%

The Fund's contribution of \$28,489, \$21,228, and \$16,088 to the Plan for the years ended June 30, 2007, 2006, and 2005, respectively, was equal to the Fund's established required contribution.

(5) 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.

Effective July 1, 2006, both Boards have approved that \$114,000 be provided to the Office of the State Treasurer as funding for staff support to the Board of Investors for FY2007. During 2007, State statutes were amended and specify that annual operating expenses shall not exceed 15% of certified earnings. Previously, State statutes specified that annual operating expenses could not exceed \$500,000.

See Independent Auditors' Report.

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(6) 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 permitted by the Master Settlement Agreement between the State of Oklahoma and the participating manufacturers, the participating manufacturers have disputed the amount due to the State of Oklahoma based on the final calculation and have placed the disputed funds in an escrow account. For the years ended June 30, 2007 and 2006, the Fund's portion of the disputed final calculation was approximately \$4,900,000 and \$5,200,000, respectively. These amounts were deposited in the escrow account for each of the respective years.

See Independent Auditors' Report.

**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 the financial statements of the governmental activities and permanent fund of the Tobacco Settlement Endowment Trust Fund (the "Fund") as of and for the year ended June 30, 2007, and have issued our report thereon dated September 21, 2007. The Fund is a part of the reporting entity of the State of Oklahoma. Our report includes an explanatory paragraph to emphasize the fact that the financial statements included only that portion of the State of Oklahoma that was attributable to the transactions of the Fund and an explanatory paragraph disclaiming an opinion on required supplementary information. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

(Continued)

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of 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*.

This report is intended solely for the information and use of the management of the Fund, the Oklahoma State Treasurer's Office, and the State of Oklahoma Office of the Auditor and Inspector and is not intended to be and should not be used by anyone other than these specified parties.

Shawnee, Oklahoma
September 21, 2007

Appendix C
Audit Services Bid Form

DRAFT AUDIT SERVICES BID FORM

Description	Year One	Year Two*	Year Three*	Year Four*	Year Five*
Number of hours estimated to complete the audit					
Hourly billing rate					
Cost of the audit**					

* these years are subject to renewal upon mutual agreement as indicated in the request for proposal

** this amount will be considered all inclusive and not to exceed

Appendix D
Non-Collusion Affidavit



**State of Oklahoma
Department of Central Services
Central Purchasing**

**CONTRACT
NON-COLLUSION
AFFIDAVIT**

In accordance with 74 O.S. § 85.23, _____, of lawful age, being first duly sworn, on oath says:

1. (S)he is the duly authorized agent of _____ (vendor), the contractor under the contract which is attached to this statement, for the purpose of certifying the facts pertaining to the giving of things of value to government personnel in order to procure said contract;
2. (S)he is fully aware of the facts and circumstances surrounding the making of the contract to which this statement is attached and has been personally and directly involved in the proceedings leading to the procurement of said contract;
3. Neither the contractor nor anyone subject to the contractor's direction or control has paid, given or donated or agreed to pay, give or donate to any officer or employee of the State of Oklahoma any money or other thing of value, either directly or indirectly, in procuring the contract to which this statement is attached; and

In accordance with 74 O.S. § 85.42.B, the contractor further certifies that no person who has been involved in any manner in the development of that contract while employed by the State of Oklahoma shall be employed to fulfill any of the services provided for under said contract.

In accordance with 74 O.S. § 85.41.F.1., if this contract is for professional services as defined in 74 O.S. § 85.2.25, **and** if the final product is a written proposal, report, or study, the contractor further certifies that (s)he has not previously provided the state agency or any other state agency with a final product that is a substantial duplication of the final product of the proposed contract.

_____ Signature	_____ Date
_____ Printed Name	_____ Title

State of _____

County of _____

Subscribed and sworn to before me this _____ day of _____, 20 _____.

My Commission Expires: _____

My Commission Number: _____

Notary Public