Tobacco Settlement Endowment Trust Fund

Financial Statements

June 30, 2009 and 2008
(With Independent Auditors' Report Thereon)

FINLEY & COOK
CERTIFIED PUBLIC ACCOUNTANTS

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 the permanent fund of the Tobacco Settlement Endowment Trust Fund (the "Fund") as of and for the years ended June 30, 2009 and 2008, 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 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, 2009 and 2008, and the changes in its financial position or, where applicable, its cash flows 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 respective financial position of the governmental activities and the permanent fund of the Fund as of June 30, 2009 and 2008, 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)

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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 29, 2009, 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.

Finley & Cook, PLLC

Shawnee, Oklahoma
September 29, 2009

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

June 30, 2009 and 2008

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, 2009 and 2008. 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 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 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 Assets

The statements of net assets provide an indication of the Fund's financial condition at the end of the 2009 and 2008 fiscal years; the statements report all assets and liabilities using the accrual basis of accounting.

Tobacco Settlement Endowment Trust Fund
Statements of Net Assets

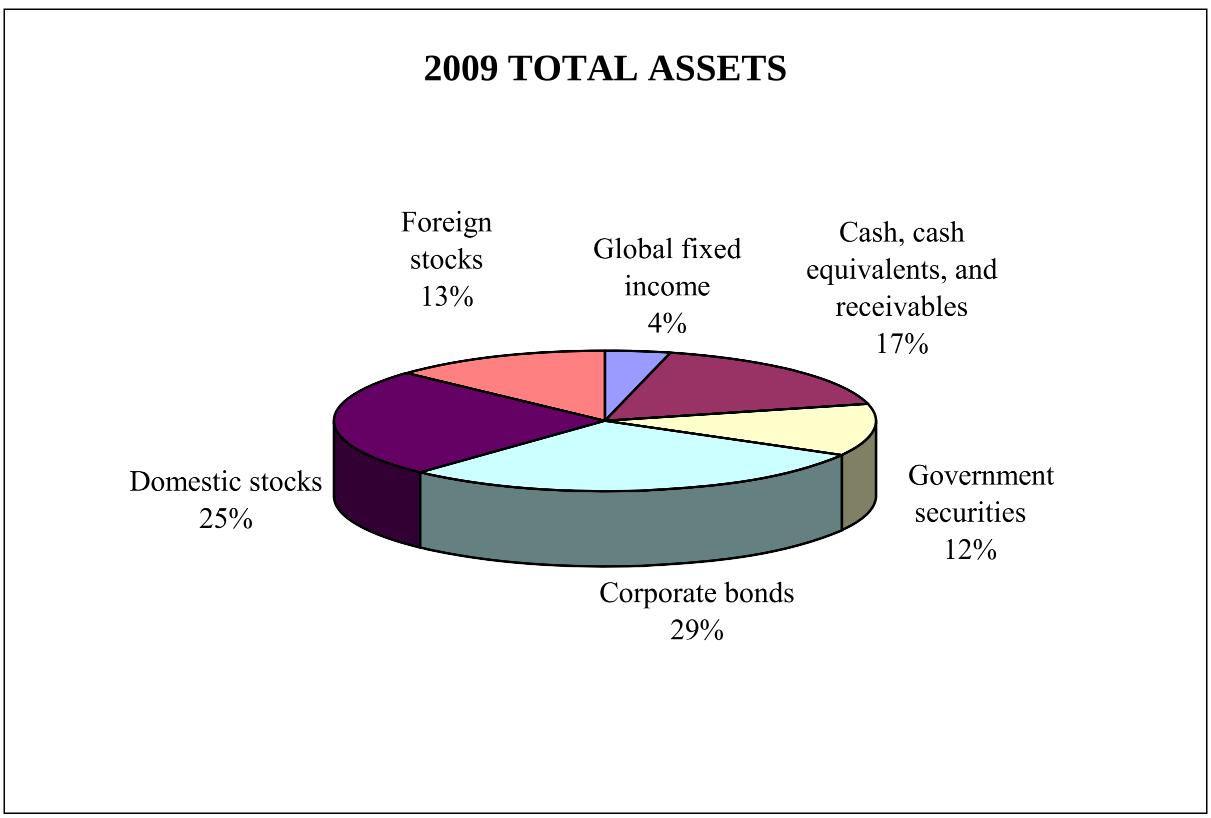
	2009	2008
Assets		
Current assets	$ 82,550,070	102,173,153
Investments, at fair value	405,890,246	390,291,116
Capital assets	45,581	31,605
Total assets	488,485,897	492,495,874
Liabilities		
Current liabilities	3,211,844	27,838,977
Liability under securities lending	56,888,947	49,067,239
Noncurrent liabilities	27,616	27,851
Total liabilities	60,128,407	76,934,067
Net Assets		
Invested in capital assets	45,581	31,605
Restricted for investment	406,342,739	397,567,206
Unrestricted	21,969,170	17,962,996
Total net assets	$ 428,357,490	415,561,807

FINANCIAL HIGHLIGHTS, CONTINUED

Statements of Net Assets, Continued

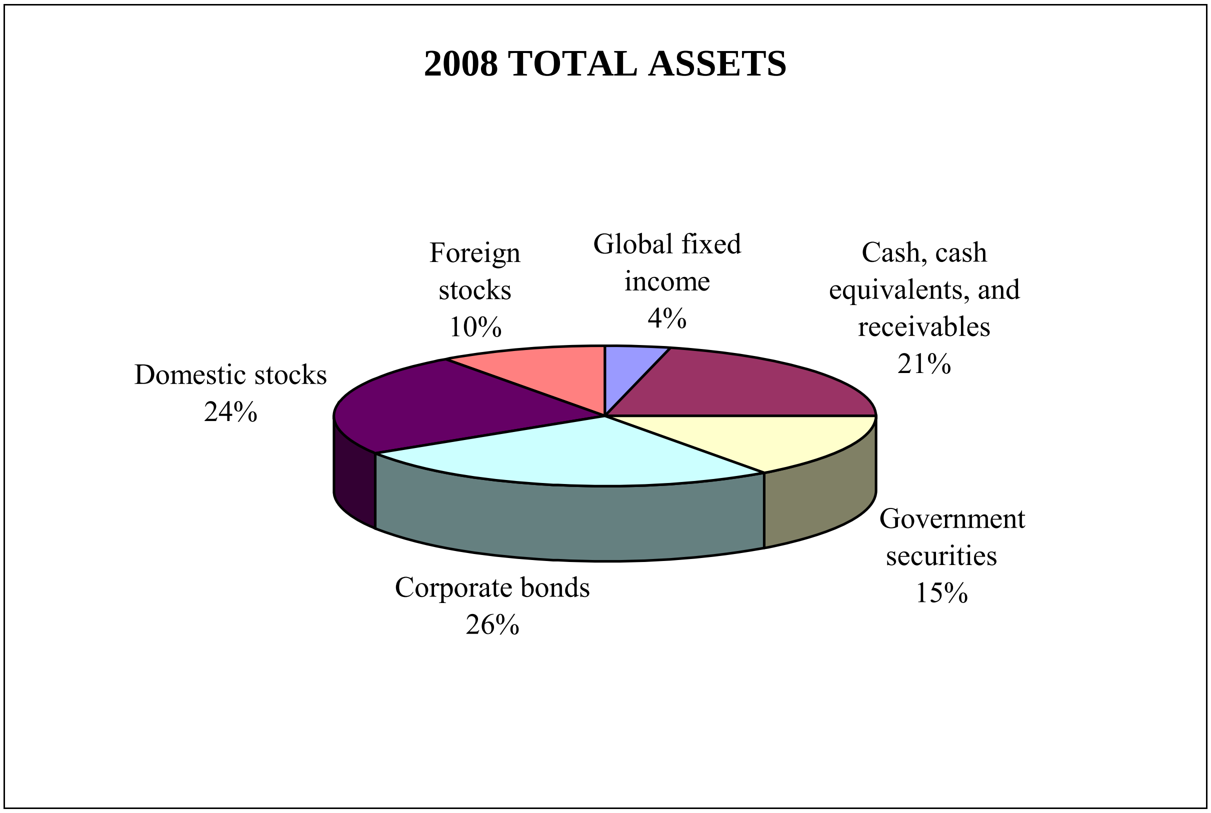
The Fund's total net assets increased $12.8 million during the year, as the Fund invested an additional $72.1 million in settlement receipts, recognized a loss of $45.4 million as net investment income, and expended $15.3 million on programs and operations. Total investments increased from $390.3 million at the beginning of the year to $405.9 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 $63.4 million from the net depreciation of the fair value of the portfolio and earned $18.0 million in interest and dividends, net of investment management fees which were certified by the Board of Investors for FY2010 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 $56 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 Assets, 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

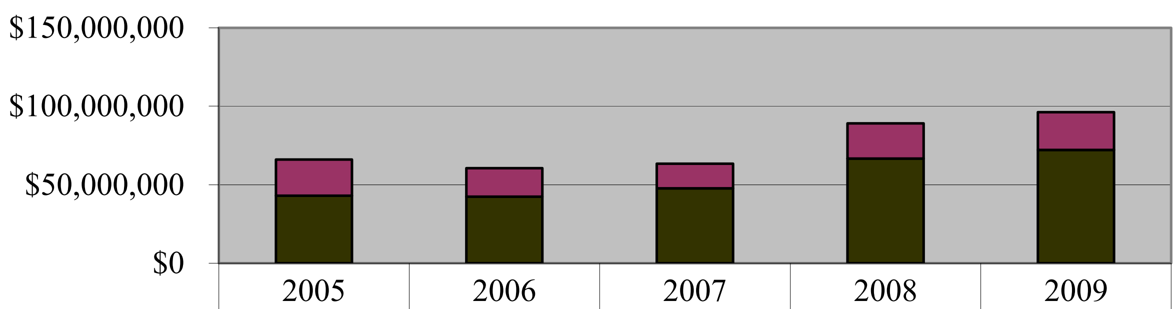
	2009	2008
Investment income (loss):		
Interest and dividend income	$ 19,087,471	16,791,746
Securities lending income	403,341	349,284
Net depreciation in fair value of investments	(63,433,606)	(32,455,219)
Total investment loss	(43,942,794)	(15,314,189)
Investment expenses	(1,468,031)	(1,610,209)
Net investment loss	(45,410,825)	(16,924,398)
Other income:		
Contract income	1,338,730	1,270,452
Miscellaneous income	75,981	20,518
Total other income	1,414,711	1,290,970
Expenses:		
Program	14,542,917	11,357,363
Operating	798,444	455,549
Total expenses	15,341,361	11,812,912
Decrease in net assets before settlement receipts	(59,337,475)	(27,446,340)
Contribution to fund principal:		
Settlement receipts	72,133,158	66,726,460
Increase in net assets	12,795,683	39,280,120
Net assets, beginning of year	415,561,807	376,281,687
Net assets, end of year	$ 428,357,490	415,561,807

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, 2009 and 2008, 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 ending June 30, 2007, where it remains. As reflected below, settlement receipts deposited by the Fund increased by $5,406,698 from 2008.

OKLAHOMA TOBACCO SETTLEMENT RECEIPTS



	2005	2006	2007	2008	2009
Balance to State	$23,112,224	$18,186,125	$15,862,807	$22,242,153	$24,044,386
Fund Deposit	$42,922,753	$42,434,293	$47,588,421	$66,726,460	$72,133,158

Fund Deposit Balance to State

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.

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, 2009, calculation was not received by the settling states and has been deposited in disputed accounts.

	FY–2009				FY–2008			
	Final Calculation	%	Deposit to Trust—75%	%	Final Calculation	%	Deposit to Trust—75%	%
Independent Auditor's Oklahoma Final Calculation	$101,662,042	100.00%	76,246,532	100.00%	95,207,523	100.00%	71,405,642	100.00%
Received	96,177,544	94.61%	72,133,158	94.61%	88,968,613	93.45%	66,726,460	93.45%
Amount Not Received	$ 5,484,498	5.39%	4,113,374	5.39%	6,238,910	6.55%	4,679,182	6.55%

	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	100.00%	52,447,682	100.00%	68,149,565	100.00%	47,704,695	100.00%
Received	63,451,228	90.74%	47,588,421	90.74%	59,878,586	87.86%	41,915,010	87.86%
Amount Not Received	$ 6,479,015	9.26%	4,859,261	9.26%	8,270,979	12.14%	5,789,685	12.14%

FINANCIAL HIGHLIGHTS, CONTINUED

Statements of Activities—Income and Expenses, Continued

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 FY2009 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, 2007, 2008, and probably the 2009 calculation. These participating manufacturers maintain that they are entitled to withhold, whether by means of offset or otherwise, from their 2009 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, 2009, net investment income decreased by $28.5 million over the $17 million loss recognized during the 2008 fiscal year. Interest and dividend income increased $2.3 million while the net depreciation of investment in the Funds' portfolio increased $31 million. Fees paid to investment managers, consultants, and custodians decreased $142 thousand.

As previously noted, the Fund's principal is restricted for investment purposes only. The dividends 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, 2009, the Board of Directors increased program funding by more than $3.2 million. Additional funding was provided 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, particularly as a result of the tobacco industry price increase and federal tobacco tax increase in March and April 2009. Over 13,000 Oklahomans called the Helpline within that 2-month period alone.

In FY2009, the Board of Directors continued an agreement with the Oklahoma State Department of Health (OSDH) 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 $1,338,730 for 2009 and $1,270,452 for 2008. Adjustment to the cash balance is requested by the Board of Directors through pro forma invoices monthly. These funds are restricted for the purpose of the Helpline.

FINANCIAL HIGHLIGHTS, CONTINUED

Statements of Activities—Income and Expenses, Continued

The Board of Directors also expanded health communications funding to continue the "Tobacco Stops With Me" campaign addressing secondhand smoke and prevention for youth and young adults, and a separate campaign to promote the Oklahoma Tobacco Helpline and "Become an Ex" web-based cessation program.

During 2009, the Board of Directors also expanded funding for 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. Through FY2009, 38 counties and 3 tribal nations were served under the comprehensive community grants program.

The "Addressing Tobacco in Specific Populations" program was initiated in FY2007 and continued in FY2009. 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 addition, in FY2009 the Board of Directors continued funding for the Oklahoma Tobacco Research Center (OTRC), a program of the OU Cancer Center Institute. The purpose of the OTRC is to reduce the burden of tobacco-related health problems in Oklahoma by stimulating the generation and dissemination of knowledge and the implementation and diffusion of effective practices. Over the course of the 5-year grant, the OTRC is expected to fund research projects and obtain additional research funding from the National Cancer Institute and other federal, state, and private resources.

The Board of Directors funded its first unsolicited proposal in FY2009. Under this new grant initiative, organizations may submit a proactive application for funding instead of reactively applying for funding in response to a Request for Proposals. The first unsolicited proposal to receive funding is a 3-year program designed to improve fitness and nutrition using an evidence-based program (Coordinated Approach to Child Health – CATCH) in 12 elementary schools in Tulsa County. A special emphasis was placed on serving schools with a higher population of American Indian students from lower income families.

During the fiscal years ended June 30, 2008 and 2009, operating expenses increased by $342,895 from $455,549 to $798,444. Personnel, accounting, and other office-related operating expenses were incurred for a full 12-month period during the fiscal year ended June 30, 2009. Effective July 1, 2008, the Office of the State Treasurer requested, and both Boards approved, that $93,000 be provided to the State Treasurer as funding for staff support to the Board of Investors for FY2009. Operating expenses include some staff 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.

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 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

	2009	2008
Assets:		
Cash and cash equivalents	$ 78,723,145	98,936,162
Interest and dividends receivable	3,493,577	3,188,699
Contract receivable	126,047	20,452
Net receivable from brokers	182,800	-
Securities lending receivable	24,501	27,840
Investments at fair value	405,890,246	390,291,116
Total assets	$ 488,440,316	492,464,269
Liabilities:		
Net payable to brokers	$ -	23,445,497
Accounts payable	3,193,434	4,374,913
Liability under securities lending	56,888,947	49,067,239
Total liabilities	60,082,381	76,887,649
Fund Balances:		
Reserved for investment	406,342,739	397,567,206
Unreserved	22,015,196	18,009,414
Total fund balances	428,357,935	415,576,620
Total liabilities and fund balances	$ 488,440,316	492,464,269

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

	2009	2008
Revenues:		
Restricted:		
Net depreciation in fair value of investments	$ (63,433,606)	(32,455,219)
Settlement receipts	72,133,158	66,726,460
Miscellaneous income	75,981	20,518
Total restricted revenues	8,775,533	34,291,759
Interest and dividend income	19,087,471	16,791,746
Contract income	1,338,730	1,270,452
Securities lending income	403,341	349,284
Total revenues	29,605,075	52,703,241
Expenditures:		
Personnel and administrative	723,222	373,166
Health communication and program promotion	9,067,083	7,020,909
Community programs	4,362,298	3,443,913
Evaluation services	606,838	674,943
Research	506,698	217,598
Investment management fees	1,468,031	1,610,209
Equipment	29,073	11,901
Other	60,517	55,960
Total expenditures	16,823,760	13,408,599
Net changes in fund balances	12,781,315	39,294,642
Fund balances, beginning of year	415,576,620	376,281,978
Fund balances, end of year	$ 428,357,935	415,576,620

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 Mr. Travis Monroe, Director of Agency Services, 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

June 30,	*2009*	*2008*
Assets		
Cash and cash equivalents:		
Unrestricted cash	$ 21,834,198	49,868,923
Securities lending collateral—restricted cash	56,888,947	49,067,239
Total cash and cash equivalents	78,723,145	98,936,162
Receivables:		
Interest and dividends	3,493,577	3,188,699
Contract receivable	126,047	20,452
Net receivable from brokers	182,800	-
Securities lending receivable	24,501	27,840
Total receivables	3,826,925	3,236,991
Investments, at fair value:		
U.S. government securities	55,825,943	73,330,944
Foreign government securities	4,271,571	3,994,193
Domestic corporate bonds	142,227,921	125,962,041
Foreign corporate bonds	14,537,817	19,704,161
Domestic stocks	123,668,356	119,809,381
Foreign stocks	65,358,638	47,490,396
Total investments, at fair value	405,890,246	390,291,116
Capital assets, net of accumulated depreciation of $35,940 and $30,662 as of June 30, 2009 and 2008, respectively.	45,581	31,605
Total assets	488,485,897	492,495,874
Liabilities		
Net payable to brokers	-	23,445,497
Accounts payable	3,193,434	4,374,913
Liability under securities lending	56,888,947	49,067,239
Compensated absences:		
Payable within 1 year	18,410	18,567
Payable after 1 year	27,616	27,851
Total liabilities	60,128,407	76,934,067
Net Assets		
Invested in capital assets	45,581	31,605
Restricted for investment	406,342,739	397,567,206
Unrestricted	21,969,170	17,962,996
Total net assets	$ 428,357,490	415,561,807

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

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

STATEMENTS OF ACTIVITIES

Years Ended June 30,	*2009*	*2008*
Expenses:		
Program:		
Health communication and program promotion	$ 9,067,083	7,020,909
Community programs	4,362,298	3,443,913
Evaluation services	606,838	674,943
Research	506,698	217,598
Total program expenses	14,542,917	11,357,363
Operating:		
Personnel and administrative	722,830	390,156
Other	70,336	58,267
Depreciation	5,278	7,126
Total operating expenses	798,444	455,549
Total expenses	15,341,361	11,812,912
Investment income (loss):		
Interest income	14,933,845	12,508,145
Dividend income	4,153,626	4,283,601
Securities lending income	403,341	349,284
Net depreciation in fair value of investments	(63,433,606)	(32,455,219)
Total investment loss	(43,942,794)	(15,314,189)
Investment expenses	(1,468,031)	(1,610,209)
Net investment loss	(45,410,825)	(16,924,398)
Other income:		
Contract income	1,338,730	1,270,452
Miscellaneous income	75,981	20,518
Total other income	1,414,711	1,290,970
Contribution to fund principal:		
Settlement receipts	72,133,158	66,726,460
Changes in net assets	12,795,683	39,280,120
Net assets, beginning of year	415,561,807	376,281,687
Net assets, end of year	$ 428,357,490	415,561,807

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

TOBACCO SETTLEMENT ENDOWMENT TRUST FUND

BALANCE SHEETS—PERMANENT FUND

June 30,	*2009*	*2008*
Assets		
Cash and cash equivalents:		
Unrestricted cash	$ 21,834,198	49,868,923
Securities lending collateral—restricted cash	56,888,947	49,067,239
Total cash and cash equivalents	78,723,145	98,936,162
Receivables:		
Interest and dividends	3,493,577	3,188,699
Contract receivable	126,047	20,452
Net receivable from brokers	182,800	-
Securities lending receivable	24,501	27,840
Total receivables	3,826,925	3,236,991
Investments, at fair value:		
U.S. government securities	55,825,943	73,330,944
Foreign government securities	4,271,571	3,994,193
Domestic corporate bonds	142,227,921	125,962,041
Foreign corporate bonds	14,537,817	19,704,161
Domestic stocks	123,668,356	119,809,381
Foreign stocks	65,358,638	47,490,396
Total investments, at fair value	405,890,246	390,291,116
Total assets	$ 488,440,316	492,464,269
Liabilities and Fund Balances		
Liabilities:		
Net payable to brokers	$ -	23,445,497
Accounts payable	3,193,434	4,374,913
Liability under securities lending	56,888,947	49,067,239
Total liabilities	60,082,381	76,887,649
Fund balances:		
Reserved for investment	406,342,739	397,567,206
Unreserved	22,015,196	18,009,414
Total fund balances	428,357,935	415,576,620
Total liabilities and fund balances	$ 488,440,316	492,464,269

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

June 30,	*2009*	*2008*
Total fund balances	$ 428,357,935	415,576,620
Amounts reported in the statements of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund.	45,581	31,605
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	(46,026)	(46,418)
Net assets	$ 428,357,490	415,561,807

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,	*2009*	*2008*
Revenues:		
Restricted:		
Net depreciation in fair value of investments	$ (63,433,606)	(32,455,219)
Settlement receipts	72,133,158	66,726,460
Miscellaneous income	75,981	20,518
Total restricted revenues	8,775,533	34,291,759
Interest income	14,933,845	12,508,145
Dividend income	4,153,626	4,283,601
Securities lending income	403,341	349,284
Contract income	1,338,730	1,270,452
Total revenues	29,605,075	52,703,241
Expenditures:		
Personnel and administrative	723,222	373,166
Health communication and program promotion	9,067,083	7,020,909
Community programs	4,362,298	3,443,913
Evaluation services	606,838	674,943
Research	506,698	217,598
Investment management fees	1,468,031	1,610,209
Equipment	29,073	11,901
Other	60,517	55,960
Total expenditures	16,823,760	13,408,599
Net changes in fund balances	12,781,315	39,294,642
Fund balances, beginning of year	415,576,620	376,281,978
Fund balances, end of year	$ 428,357,935	415,576,620

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

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

Years Ended June 30,		*2009*	*2008*
Net changes in fund balances	$	12,781,315	39,294,642
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 greater than depreciation in the current period.		13,976	2,468
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.		392	(16,990)
Changes in net assets, per statements of activities	$	12,795,683	39,280,120

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 was 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. 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, 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

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.

(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, 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 cash collateral maintained for those securities at June 30 were:

	Fair Value 2009	Fair Value 2008
U.S. government securities	$ 19,194,269	13,716,858
U.S. corporate bonds	10,397,352	6,122,996
U.S. equity	26,570,070	27,350,188
	$ 56,161,691	47,190,042
Cash collateral maintained for securities loaned	$ 56,888,947	49,067,239
Percentage of cash collateral to securities loaned as of June 30	101.29%	103.98%

Borrowers were required to deliver and maintain 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; however, at June 30, 2009 and 2008, all collateral was presented as cash in U.S. currency. The total value of the collateral held at June 30, 2009 and 2008, was $727,256 and $1,877,197, respectively, more than the current fair value of the securities loaned. Thus, no credit risk existed at the balance sheet date from these transactions. 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.

Securities lending income included as certified earnings was $403,341and $349,284 for the fiscal years ended June 30, 2009 and 2008, respectively.

See Independent Auditors' Report.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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.

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.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

New Accounting Pronouncements

On June 30, 2008, the Governmental Accounting Standards Board issued Statement No. 53, *Accounting for Financial Reporting for Derivative Instruments* (GASB 53), which provides guidance to governments to improve the reporting of derivative instruments in their financial statements. GASB 53 applies to all state and local governments and is effective for financial statements for periods beginning after June 15, 2009. The effect of implementing GASB 53 is not anticipated to have a material impact on the financial reporting of the Fund.

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54), which provides guidance to governments to:

- Improve the consistency in reporting fund balance components;
- Enhance fund balance presentation;
- Improve the usefulness of fund balance information; and
- Clarify the definitions of the governmental fund types.

GASB 54 is effective for financial statements for periods beginning after June 15, 2010, with early implementation encouraged. GASB 54 will require the Fund to review its definitions of fund balances. The overall effect of GASB 54 upon the Fund's financial reporting has not been determined, but is not expected to have a material impact on the financial statements of the Fund.

(2) CASH AND INVESTMENTS

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

	2009	2008
Cash on deposit with the State	$ 2,333,699	81,477
Foreign currency	626,924	416,183
Collateral from securities lending—restricted cash	56,888,947	49,067,239
Certificates of deposit	3,202,056	-
Money market mutual fund	15,671,519	49,371,263
	$ 78,723,145	98,936,162

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 (the "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 $1,338,730 for 2009 and $1,270,452 for 2008. As of June 30, 2009 and 2008, there was no restricted cash related to the OSDH contract.

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 a 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.

(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:

	2009	
	Fair Value (Expressed in thousands)	Moody Rating
U.S. government agencies (held in U.S. currency):		
U.S. Treasury bonds	$ 697	(1)
U.S. Treasury notes	30,078	(1)
Federal Farm Credit	998	AAA
Federal Home Loan Bank	430	AAA
Federal Home Loan Mortgage Corp.	9,354	AAA
Federal National Mortgage Corp.	12,283	AAA
Government National Mortgage Association	451	AAA
Other	1,535	Other
	55,826	
Corporate bonds (held in U.S. currency):		
Domestic bonds	28,189	A
Domestic bonds	9,048	AA
Domestic bonds	17,111	AAA
Domestic bonds	28,005	B
Domestic bonds	21,791	BA
Domestic bonds	24,829	BAA
Domestic bonds	199	BB
Domestic bonds	483	BBB
Domestic bonds	170	C
Domestic bonds	708	CA
Domestic bonds	10,064	CAA
Domestic bonds	20	CC
Domestic bonds	1,129	CCC
Domestic bonds	482	Other
	142,228	
Corporate bonds (held in foreign currency):		
Domestic bonds	267	AAA

(Continued)

See Independent Auditors' Report.

(2) CASH AND INVESTMENTS, CONTINUED

Credit Risk—Continued

	2009	
	Fair Value (Expressed in thousands)	Moody Rating
Foreign corporate bonds (held in U.S. currency):		
Foreign bonds	1,154	A
Foreign bonds	2,797	B
Foreign bonds	877	BA
Foreign bonds	3,486	BAA
Foreign bonds	78	CA
	8,392	
Foreign government bonds (held in U.S. currency):		
Foreign government bonds	69	B
Foreign government bonds	1,226	BA
Foreign government bonds	177	BAA
	1,472	
Foreign government bonds (held in foreign currency):		
Foreign government bonds	2,800	AAA
Foreign corporate bonds (held in foreign currency):		
Foreign bonds	1,590	A
Foreign bonds	892	AA
Foreign bonds	665	AAA
Foreign bonds	1,103	B
Foreign bonds	417	BA
Foreign bonds	630	BAA
Foreign bonds	39	BBB
Foreign bonds	331	CAA
Foreign bonds	75	C
Foreign bonds	136	CCC
	5,878	
Total fair value of credit risk	$ 216,863	

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

See Independent Auditors' Report.

(2) CASH AND INVESTMENTS, CONTINUED

Credit Risk—Continued

	2008	
	Fair Value *(Expressed in thousands)*	Moody Rating
U.S. government agencies (held in U.S. currency):		
U.S. Treasury bonds	$ 1,292	(1)
U.S. Treasury notes	17,466	(1)
Federal Home Loan Bank	6,876	AAA
Federal Home Loan Mortgage Corp.	9,805	AAA
Federal National Mortgage Corp.	36,006	AAA
Government National Mortgage Association	958	AAA
Other	928	Other
	73,331	
Corporate bonds (held in U.S. currency):		
Domestic bonds	6,609	A
Domestic bonds	7,692	AA
Domestic bonds	51,863	AAA
Domestic bonds	29,917	B
Domestic bonds	15,813	BA
Domestic bonds	9,635	BAA
Domestic bonds	332	BBB
Domestic bonds	2,583	CAA
Domestic bonds	1,518	Other
	125,962	
Foreign corporate bonds (held in U.S. currency):		
Foreign bonds	1,615	A
Foreign bonds	509	AAA
Foreign bonds	2,272	B
Foreign bonds	2,977	BA
Foreign bonds	1,754	BAA
Foreign bonds	363	Other
	9,490	

(Continued)

See Independent Auditors' Report.

(2) CASH AND INVESTMENTS, CONTINUED

Credit Risk—Continued

	2008	
	Fair Value *(Expressed in thousands)*	Moody Rating
Foreign government bonds (held in U.S. currency):		
Foreign government bonds	100	B
Foreign government bonds	797	BA
Foreign government bonds	9	BAA
	906	
Foreign government bonds (held in foreign currency):		
Foreign government bonds	1,576	AAA
Foreign government bonds	1,512	Other
	3,088	
Foreign corporate bonds (held in foreign currency):		
Foreign bonds	3,156	A
Foreign bonds	949	AA
Foreign bonds	2,629	AAA
Foreign bonds	1,122	B
Foreign bonds	600	BA
Foreign bonds	499	BAA
Foreign bonds	114	BBB
Foreign bonds	398	CAA
Foreign bonds	747	Other
	10,214	
Total fair value of credit risk	$ 222,991	

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

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, 2009 and 2008.

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.

	2009	
	Fair Value *(Expressed in thousands)*	Effective Duration Years
U.S. government securities (government guaranteed):		
U.S. Treasury bonds	$ 697	13.49
U.S. Treasury notes	30,078	4.24
Federal Farm Credit	998	4.68
Federal Home Loan Bank	430	8.64
Government National Mortgage Association	451	2.90
Other	1,535	10.91
Foreign government securities:		
Foreign government bonds (held in U.S. currency)	1,472	6.88
Foreign government bonds (held in foreign currency)	2,800	9.33
Mortgage-backed securities:		
Federal Home Loan Mortgage Corp.	9,354	2.32
Federal National Mortgage Corp.	12,283	2.85
Corporate bonds:		
Domestic bonds (held in U.S. currency)	142,228	6.69
Domestic bonds (held in foreign currency)	267	20.39
Foreign bonds (held in U.S. currency)	8,392	4.14
Foreign bonds (held in foreign currency)	5,878	3.50
Total fixed income	$ 216,863	

See Independent Auditors' Report.

(2) CASH AND INVESTMENTS, CONTINUED

Interest Rate Risk—Continued

	2008	
	Fair Value (Expressed in thousands)	Effective Duration Years
U.S. government securities (government guaranteed):		
U.S. Treasury bonds	$ 1,292	10.78
U.S. Treasury notes	17,466	5.22
Federal Home Loan Bank	6,876	2.42
Government National Mortgage Association	958	7.81
Other	928	10.02
Foreign government securities:		
Foreign government bonds (held in U.S. currency)	906	9.73
Foreign government bonds (held in foreign currency)	3,088	3.32
Mortgage-backed securities:		
Federal Home Loan Mortgage Corp.	9,805	2.17
Federal National Mortgage Corp.	36,006	4.08
Corporate bonds:		
Domestic bonds (held in U.S. currency)	125,962	7.49
Foreign bonds (held in U.S. currency)	9,490	5.94
Foreign bonds (held in foreign currency)	10,214	5.18
Total fixed income	$ 222,991	

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 assets through its asset allocation policy. Investment in foreign equities and fixed income is shown by monetary unit to indicate possible foreign currency risk.

	2009	
	Fair Value *(Expressed in thousands)*	Type
Foreign currency:		
Argentine peso	$ 116	Fixed income
Bermuda dollar	571	Fixed income
Brazilian real	1,174	Equity
British pound sterling	99	Foreign currency
British pound sterling	11,725	Equity
British pound sterling	1,851	Fixed income
Canadian dollar	1,296	Fixed income
Cayman dollar	1,034	Equity
Cayman dollar	669	Fixed income
Czech koruna	960	Equity
Euro	517	Foreign currency
Euro	18,327	Equity
Euro	11,467	Fixed income
Hong Kong dollar	3,893	Equity
Indian rupee	92	Fixed income
Japanese yen	11	Foreign currency
Japanese yen	12,603	Equity
Japanese yen	366	Fixed income
New Israeli shequel	1,263	Equity
New Taiwan dollar	832	Equity
North Korean won	936	Equity
Norwegian krone	851	Equity
Russian ruble	1,086	Fixed income
Singapore dollar	1,094	Equity
Swedish krona	10,667	Equity
	$ 83,500 [1]	

[1]Total does not include investment in foreign securities held in U.S. currency.

See Independent Auditors' Report.

(2) CASH AND INVESTMENTS, CONTINUED

Foreign Currency Risk—Continued

	2008	
	Fair Value *(Expressed in thousands)*	Type
Foreign currency:		
Argentine peso	$ 163	Fixed income
Australian dollar	11	Foreign currency
Australian dollar	1,204	Equity
Australian dollar	371	Fixed income
Bermuda dollar	101	Fixed income
Brazilian real	565	Equity
Brazilian real	606	Fixed income
British pound sterling	116	Foreign currency
British pound sterling	8,721	Equity
British pound sterling	1,825	Fixed income
Canadian dollar	628	Equity
Canadian dollar	1,401	Fixed income
Cayman dollar	2,574	Fixed income
Chinese renminbi	554	Equity
Colombian peso	150	Fixed income
Danish kroner	604	Equity
Danish kroner	98	Fixed income
Euro	287	Foreign currency
Euro	19,264	Equity
Euro	11,736	Fixed income
Hong Kong dollar	826	Equity
Hungarian forint	948	Fixed income
Indian rupee	525	Equity
Indian rupee	324	Fixed income

(Continued)

(2) CASH AND INVESTMENTS, CONTINUED

Foreign Currency Risk—Continued

	2008	
	Fair Value *(Expressed in thousands)*	Type
Foreign currency, continued:		
Japanese yen	3	Foreign currency
Japanese yen	9,941	Equity
Japanese yen	368	Fixed income
Mexican peso	1	Foreign currency
Mexican peso	280	Equity
Mexican peso	565	Fixed income
Norwegian krone	2,050	Equity
Peruvian nuevo sol	41	Fixed income
Russian ruble	544	Fixed income
Singapore dollar	809	Equity
Singapore dollar	310	Fixed income
South African rand	65	Fixed income
Swedish krona	851	Equity
Swedish krona	225	Fixed income
Swiss franc	667	Equity
Thai baht	153	Fixed income
Turkish lira	537	Fixed income
Venezuelan bolivar	593	Fixed income
	$ 71,605	

See Independent Auditors' Report.

(3) CAPITAL ASSETS

The following is a summary of changes in capital assets as of June 30:

	2009			
	Balance at June 30, 2008	Additions	Disposals	Balance at June 30, 2009
Depreciable capital assets:				
Office equipment and furnishings	$ 62,267	19,254	-	81,521
Accumulated depreciation:				
Office equipment and furnishings	(30,662)	(5,278)	-	(35,940)
Net capital assets	$ 31,605	13,976	-	45,581

	2008			
	Balance at June 30, 2007	Additions	Disposals	Balance at June 30, 2008
Depreciable capital assets:				
Office equipment and furnishings	$ 52,673	9,594	-	62,267
Accumulated depreciation:				
Office equipment and furnishings	(23,536)	(7,126)	-	(30,662)
Net capital assets	$ 29,137	2,468	-	31,605

(4) CHANGES IN COMPENSATED ABSENCES

Compensated absence activity was as follows:

	Balance at July 1, 2008	Additions	Reductions	Balance at June 30, 2009	Amounts due within 1 year
Compensated absences	$ 46,418	24,947	(25,339)	46,026	18,410

	Balance at July 1, 2007	Additions	Reductions	Balance at June 30, 2008	Amounts due within 1 year
Compensated absences	$ 29,428	25,001	(8,011)	46,418	18,567

See Independent Auditors' Report.

(5) 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 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:

	2009		
	Reserved for Investment	Unreserved	Total
Balance, June 30, 2008	$ 397,567,206	18,009,414	415,576,620
Settlement receipts	72,133,158	-	72,133,158
Net depreciation in fair value of investments	(63,433,606)	-	(63,433,606)
Miscellaneous income	75,981	-	75,981
Contract income		1,338,730	1,338,730
Expendable earnings	-	18,022,781	18,022,781
Program and operating expenses	-	(15,355,729)	(15,355,729)
Balance, June 30, 2009	$ 406,342,739	22,015,196	428,357,935

Subsequent to June 30, 2009, the Board of Investors certified $17,801,484 of earnings for the 2010 operations. The Board of Investors intends to certify an additional $221,297 of earnings for 2010 operations at a future date, which would bring the total certified earnings for 2010 operations to $18,022,781.

(5) FUND BALANCES, CONTINUED

	2008		
	Reserved for Investment	Unreserved	Total
Balance, June 30, 2007	$ 363,275,447	13,006,531	376,281,978
Settlement receipts	66,726,460	-	66,726,460
Net depreciation in fair value of investments	(32,455,219)	-	(32,455,219)
Miscellaneous income	20,518	-	20,518
Contract income	-	1,270,452	1,270,452
Expendable earnings	-	15,530,821	15,530,821
Program and operating expenses	-	(11,798,390)	(11,798,390)
Balance, June 30, 2008	$ 397,567,206	18,009,414	415,576,620

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.

(6) PENSION PLAN

Plan Description

The Fund contributes to the Oklahoma Public Employees Retirement Plan (the “Retirement Plan”), a cost-sharing, multiple-employer public employee retirement system administered by the Oklahoma Public Employees Retirement System (the “System”). The Retirement Plan 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 the Retirement Plan 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 the Retirement Plan. That annual report may be obtained by writing to the Oklahoma Public Employees Retirement System, 5801 N. Broadway Extension, Suite 400, Oklahoma City, Oklahoma 73118 or by calling 1-800-733-9008.

(6) PENSION PLAN, CONTINUED

Funding Policy

Retirement Plan members and the Fund are required to contribute at a rate set by statute. The contribution requirements of Retirement Plan members and the Fund are established and may be amended by the Oklahoma Legislature. The contribution rates are as follows:

Fiscal Year 2009	
State Employees	The Fund
All Salaries	All Salaries
3.5%	14.5%

Fiscal Year 2008	
State Employees	The Fund
All Salaries	All Salaries
3.5%	13.5%

The Fund's contributions to the Retirement Plan for the years ended June 30, 2009, 2008, and 2007, were $51,967, $40,268, and $28,489, respectively, and were equal to its required contributions for each year.

(7) OKLAHOMA STATE EMPLOYEES DEFERRED COMPENSATION PLAN AND DEFERRED SAVINGS INCENTIVE PLAN

Deferred Compensation Plan

The State offers its employees a Deferred Compensation Plan (the "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 Plan is the Board of Trustees of the Oklahoma Public Employees Retirement System (the "Board").

The 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 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.

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

Deferred Compensation Plan, Continued

Participants may defer until future years up to the lesser of 100% of their compensation as defined by Plan documents or the maximum amount allowed each year as determined by the Internal Revenue Service, currently $15,500.

The 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 Plan are also limited to contributions for years in which the participant was eligible but did not participate in the Plan or the difference between contributions made and the maximum allowable level. To be eligible for the catch-up program, the participant must be within 3 years of retirement with no reduced benefits.

Participants age 50 or older may make additional contributions of up to $5,000 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 Plan's provisions.

Effective January 1, 1998, the Board established a Trust and a Trust Fund covering the 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 Plan's participants and their beneficiaries. Prior to the establishment of the Trust, the 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 Plan or to determine that the Trust Fund is adequate to provide the benefits payable pursuant to the Plan.

Further information may be obtained from the Plan's audited financial statements for the years ended June 30, 2009 and 2008. The Fund believes that it has no liabilities with respect to the Plan.

(7) 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 that is an active participant in the 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 Plan and is not voluntary.

Upon cessation of contributions to the 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.

(8) 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, 2008, both Boards have approved that $93,000 be provided to the Office of the State Treasurer as funding for staff support to the Board of Investors for FY2009. 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.

(9) 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 and participating manufacturers, the participating manufacturers have disputed the amount due to the State based on the final calculation and have placed the disputed funds in an escrow account. For the years ended June 30, 2009 and 2008, the Fund's portion of the disputed final calculation was approximately $4,100,000 and $4,700,000, respectively. These amounts were deposited in the escrow account for each of the respective years.

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 the permanent fund of the Tobacco Settlement Endowment Trust Fund (the "Fund") as of and for the year ended June 30, 2009, and have issued our report thereon dated September 29, 2009. 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)

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

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.

Finley + Cook, PLLC

Shawnee, Oklahoma
September 29, 2009