





Mission

The mission of the Board of Directors of the Tobacco Settlement Endowment Trust fund is to improve the health and quality of life of all Oklahomans through accountable programs and services that address the hazards of tobacco use and other health issues.

Values & Behaviors

To encourage programs and initiatives that are based on the best research available, follow practices with proven results, and provide the best opportunity for success.

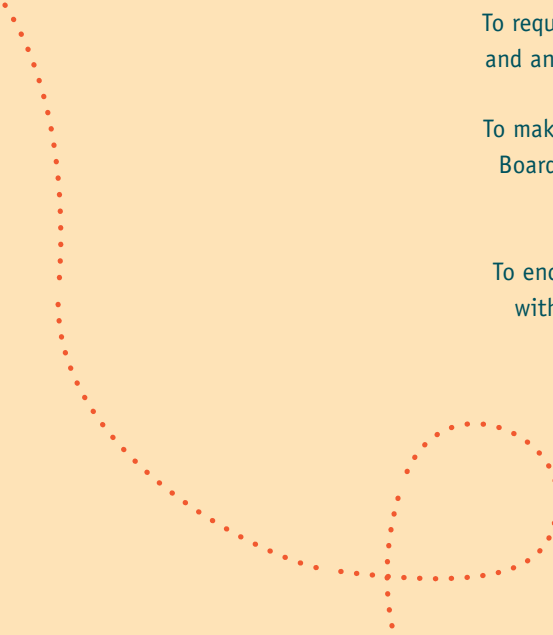
To work cooperatively with other public and private organizations and funders to support joint efforts that will use funds efficiently, avoid duplication, minimize administrative expense, and provide the opportunity for sustained activity.

To plan and encourage community-based comprehensive services for all areas of Oklahoma, including urban and rural communities.

To require measurable outcomes, appropriate evaluation, and annual evaluation reporting of all funded programs.

To make funding decisions based on the priorities of the Board and the merits of the proposal, independent of political influence and conflict of interest.

To encourage grantees to match grant monies awarded with monetary commitments and in-kind matches.





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Board of Directors Message

We are pleased to report that during fiscal year 2005, the Oklahoma Tobacco Settlement Endowment Trust (TSET), together with our government and community partners, made significant progress toward the goals of substantially reducing the health and economic impact of tobacco use in Oklahoma.

We expanded the Oklahoma Tobacco Helpline (1-800-QUIT-NOW) and served over 12,000 tobacco users in the telephone-based cessation counseling program. For those Helpline callers who were uninsured or on Medicare, we made available Nicotine Replacement Therapy (NRT – nicotine patches and gum) to increase the effectiveness of callers' attempts to quit using tobacco. In a six-month follow up survey, 46% of participants receiving the NRT and counseling reported they had quit using tobacco. This is an outstanding success rate. By comparison, only about 5% of tobacco users successfully quit without assistance.

We also continued funding the truth[®] counter-marketing media campaign, which has been proven effective in preventing tobacco use among youth ages 12-17. In addition to the cost savings realized from using pre-produced ads, this program received a 1:1 funding match from the American Legacy Foundation.

To promote comprehensive, community-based tobacco control programs, we awarded "planning grants" to diverse coalitions across the state. Led by local hospitals, county health departments, tribal nations, private non-profits, and other qualified lead agencies, the coalitions followed the "Communities of Excellence" model to assess the needs of their communities and prepare strategic plans to implement comprehensive tobacco control programs for their particular communities. In future years, we will provide additional grants to assist in the implementation of these programs.

Since TSET can only spend the earnings from the Endowment to fulfill its programs, we depend on the synergy created by the efforts of our voluntary, private, and government partners to achieve the state goal of substantially reducing the toll of tobacco use. The momentum is clearly building. Greater numbers of school districts, public and private hospitals, and government

agencies are adopting 24/7 tobacco free campus policies; restaurants are becoming smoke-free; cities and towns are passing local ordinances to reduce exposure to secondhand smoke and limit youth access to tobacco; local coalitions are advancing public education, school based programs and youth empowerment programs; and many private and public health systems are adopting clinical treatment protocols for effectively addressing tobacco use with their patients.

As Oklahomans, we have shown that working together we can solve seemingly insurmountable problems. Together we can again succeed, and improve the health and quality of life in our great state!



Susan Walters Bizé, Chair, Board of Directors



Tracey Strader, Executive Director

Board of Investors Message

I am pleased to report the Oklahoma Tobacco Settlement Endowment Trust Fund is fully invested, earning money to fund programs to help Oklahomans stop smoking and to keep others from starting.

The members of the Fund's Board of Investors are working to safely invest Oklahoma's share of the National Tobacco Settlement to put that money permanently to work to generate money for cessation and prevention programs.

As the balance in the fund grows, more earnings are being made to pay for increased efforts to combat tobacco addiction in Oklahoma.

More than five years ago, the voters of Oklahoma wisely approved a constitutional amendment to create the endowment trust fund. This permanent investment means funding will be generated for generations to come.

I am most appreciative of the positive spirit of cooperation that exists between the two boards created by the constitutional amendment. We

continue working together to generate income and to make sure it is effectively spent.

I look forward to more success in the years to come!



Scott Meacham, Oklahoma State Treasurer
Chair, Board of Investors

Board of Directors

The Board of Directors is responsible for directing the earnings from the Trust to fund programs to improve the health and well-being of all Oklahomans, especially children and senior adults.

Initial appointed members serve staggered terms of office, and subsequent appointed members serve seven-year terms. As specified in the Constitution, at least one appointee must be appointed from each Congressional district, and not more than two appointees may be appointed from any single Congressional district. In addition, not more than four appointees may be from any one political party. All appointees must have demonstrated expertise in public or private health care or programs related to or for the benefit of children or senior adults.



Susan Walters Bizé, appointed by the State Auditor and Inspector, was elected Chair in November 2003 after two years of service as an active board member. She is an Assistant Professor of Accounting at the University of Central Oklahoma and Of Counsel to the law firm of Lester, Loving & Davies. Ms. Bizé practiced for many years as a CPA and attorney in the public and private sectors, primarily in the areas of tax and business law. She worked with numerous state legislatures and Congress while serving as Senior Government Relations Counsel for J.C. Penney, Company, Inc., in Dallas and Washington, D.C. Upon returning to Oklahoma, Ms. Bizé served as Regional Vice-President for the American Cancer Society where she oversaw the implementation of programs in western Oklahoma. She is a member of the Oklahoma and Texas Bar Associations, the Oklahoma Society of CPA's, and volunteers for many charitable and civic organizations.



D. Robert McCaffree, MD, appointed by the Attorney General, was elected Vice Chair in February 2004 after having served two terms as founding Chair from August 2001 to November 2003. Dr. McCaffree is a physician specializing in diseases of the lung and critical illness. He is Professor of Medicine in the Pulmonary Disease and Critical Care Section of the OU College of Medicine. Administratively, Dr. McCaffree is Chief of Staff at the Oklahoma City VA Medical Center and Associate Dean for Veterans' Affairs for the College of Medicine. He is Past-Chair of the Oklahoma Coalition on Health and Tobacco. He is also Past-President of the American College of Chest Physicians, in which role he was a member of the Koop-Kessler Congressional Advisory Committee on Health and Tobacco and has testified before Congress on tobacco issues. Dr. McCaffree is also a member of the Board of Directors of the American Lung Association of Oklahoma and serves on the national ALA Council.



Donald Cooper, MD, appointed by the Governor, is Emeritus Director of the Oklahoma State University Student Health Center. With over thirty years experience in sports medicine, Dr. Cooper is known throughout the state as the "Jock Doc." He was an active member of the President's Council on Physical Fitness and Sports under Presidents Regan and Bush, a U.S. Olympic team physician for the XIX Olympiad, and a sports medicine consultant to the NCAA Football Rules Committee. Dr. Cooper has served on numerous state and national boards and committees, testified before Congress, appeared on national television shows, and studied and lectured on sports medicine in China and the Soviet Union. In November 1999, Dr. Cooper was inducted into the Oklahoma Hall of Fame, and was featured in the *Journal of the Oklahoma State Medical Association* as a "Leader in Medicine."



George E. Foster, OD, appointed by the Speaker of the House, is Dean of the College of Optometry at Northeastern State University and Chairman of the Cherokee County Health Services Council. He is President of the Association of Schools and Colleges of Optometry, a member of the Leadership Oklahoma Class VII, National Rural Health Association, Oklahoma Academy for State Goals, an Associate member of the American Public Health Association, and is an active member of a number of other state and national professional associations and civic organizations. Dr. Foster brings to the Board of Directors over 40 years of experience in the public health sector, working with the state and local governments in the areas of education, public health, and program development and implementation. Dr. Foster is committed to assuring that access, accountability and affordability with dignity are the hallmarks of health care delivery in the rural setting.



Casey Killblane, appointed by the State Superintendent of Public Instruction, resides in Davis, Oklahoma with her husband and two sons on the Flying L Ranch. In addition to being a mom and housewife, Ms. Killblane owns an oil and gas company, Wentz Production, LLC. She received her B.S. in Finance from Oklahoma State University, and has had a very successful career in philanthropy working as Director of Annual Giving and Women's Services for Sharp HealthCare Foundation in San Diego, and as Director of Community Relations for the San Diego Community Foundation. Ms. Killblane also served as Mrs. Barbara Bush's personal aide from 1987 to 1989. She currently serves on the Davis Public School Foundation, the Murray County Election Board, and the Board of Trustees for the Davis Methodist Church. Ms. Killblane previously served on the Board of Regents for Murray State College and the State Board of Education.



Suzanne Olive, MD, appointed by the State Treasurer, is a physician in private practice with the Tulsa Pulmonary and Allergy Consultants, Inc. She is also Clinical Professor of Medicine with the University of Oklahoma Health Science Center. Dr. Olive is Board Certified in Internal Medicine, Pulmonary Medicine, Allergy and Immunology, and Critical Care. She is a member of the American Medical Association, Oklahoma State Medical Association, and Tulsa County Medical Society.



Kenneth D. Rowe, appointed by the President Pro Tempore of the Senate, currently serves the University of Oklahoma Health Sciences Center as the Vice President for Administrative Affairs. He also serves on the not-for-profit Health Sciences Facility, Inc. Board. Prior to this position, he worked for two years as the Director of Internal Auditing for the University of Oklahoma, directing the internal audit activities for OU, Cameron University, and Rogers State University. Preceding this role, he had thirteen years of experience in the banking industry where he conducted fraud investigations and internal audits for large bank holding companies. Ken earned a Bachelor of Science degree in Accounting from East Central University and a Master of Accountancy from the University of Oklahoma. In addition to being a licensed C.P.A., he is also a Certified Fraud Examiner, and is a member of the American Institute of Certified Public Accountants.

Board of Investors

The Board of Investors is responsible for safely and effectively investing the money entrusted to the Trust fund to ensure a steady and growing flow of earnings to fund the programs initiated by the Board of Directors.

Initial appointed members serve staggered terms of office, and subsequent appointed members serve four-year terms. As specified in the Constitution, no more than two appointees may be appointed from any single Congressional district. All appointees must have demonstrated expertise in public or private investment funds management.



Honorable Scott Meacham, State Treasurer of Oklahoma. The constitutional amendment approved by Oklahoma voters in November 2000 establishes the state treasurer as the chairman of the Board of Investors. Meacham became state treasurer on June 1, 2005, appointed by Governor Brad Henry to fill the unexpired term of Robert Butkin. Prior to becoming treasurer, Meacham served as Director of the Office of State Finance. He continues to serve on the governor's cabinet as Secretary of Finance and Revenue. A Certified Financial Planner, Meacham formerly served as Chief Executive Officer for First National Bank & Trust of Elk City. Under his direction, the bank almost tripled in size and saw its profits increase by 175%.



David Rainbolt, appointed by the Speaker of House, serves as Vice-Chair of the Board and is the Chief Executive Officer of BancFirst Corporation. He previously served as Chief Financial Officer of BancFirst and is past president of the Oklahoma Bankers Association, Last Frontier Council Boy Scouts of American and the Oklahoma Health Center Foundation. Mr. Rainbolt serves on the executive committee of the Oklahoma State Chamber and is a trustee of the Oklahoma Industrial and Cultural Facilities Trust. His philanthropic memberships include the Presbyterian Health Foundation, Dean A. McGee Eye Institute, Oklahoma Medical Research Foundation and the State Fair of Oklahoma.



Phil Tholen, CPA, appointed by the Senate President Pro Tempore, is Executive Vice President and Member of the Board of Directors for Samson Investment Company and its subsidiaries. He also serves as Managing Member and Consultant to Baltic Resources LLC. Mr. Tholen's civic involvement includes past service on the Board of Managers for the State Insurance Fund of Oklahoma that provides workers compensation insurance to more than 50 percent of the state market and the Legislative Task Force on Judicial Selection that made recommendations for improvement of Oklahoma's judicial selection methods.



Steve Tinsley, CPA, appointed by the State Auditor, is a Deputy State Auditor. He also serves on the Oklahoma State Pension Commission, the Oklahoma College Savings Plan board, the Commissioners of the Land Office Investment Committee, and is a past Chair of the Southwest Intergovernmental Audit Forum, a five-state region encompassing federal, state and local governmental auditors. Mr. Tinsley's past experience includes public accounting and private industry. He has more than 12 years of classroom experience, teaching evening classes as an instructor for the University of Oklahoma, Rose State College and Oklahoma City University.



Jimmy Williams, CPA, appointed by the Governor, is founder and managing director of Jimmy J. Williams & Co., P.C., a certified public accounting and consulting firm in McAlester. His firm specializes in the areas of litigation support, business valuation and taxation. Mr. Williams also serves as co-founder and CEO of Asset & Investment Advisors, Inc., a registered investment advisory firm. The firm specializes in retirement, education, investment and financial planning services. He is Chief Investment Officer and Treasurer for the McAlester Regional Health Center Foundation and he formerly served as Vice President of the McAlester Chamber of Commerce.

Background

As a result of the 1998 Master Settlement Agreement between 46 states and the tobacco industry, the Oklahoma Tobacco Settlement Endowment Trust was established in 2000 through a voter-approved Constitutional amendment.

The Constitutional amendment assures that an increasing proportion of each tobacco settlement payment to the State of Oklahoma is placed in the endowment from 50% in FY 2001 up to 75% in FY 2007 and each year thereafter. The remaining balance of each payment is available for appropriation by the Oklahoma State Legislature.

The constitutional amendment created a Board of Investors to invest the endowment trust funds, and a Board of Directors to expend only the earnings from the endowment's investments to fund programs in the following areas:

- 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;

- Cost-effective tobacco prevention and cessation programs;

- Programs 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;

- Programs and services for the benefit of the children of Oklahoma, with particular emphasis on common and higher education, before- and after-school programs, substance abuse prevention and treatment programs and services designed to improve the health and quality of life of children; and

- Programs designed to enhance the health and well-being of senior adults.

Tobacco settlement payments to the states, including Oklahoma, have been lower than originally projected as a result of our nation's declining tobacco use rates and other factors. In contrast, the earnings from the endowment continue to increase gradually with each passing year.

Eventually the annual earnings from the endowment will be greater than the annual deposits from the tobacco settlement payments. This steadily increasing flow of earnings provides an opportunity for the Board of Directors to strategically fund programs that will address Oklahoma's devastating tobacco use problem in the early years, and begin to fund other health initiatives over time.

Fiscal Year 2005 Highlights

With increased funding available for fiscal year 2005, the Board of Directors established community-based programs throughout the state, continued funding for the youth prevention counter-marketing campaign, and increased support for the Oklahoma Tobacco Helpline.

Infrastructure

As specified in the Tobacco Settlement Endowment Trust Fund Act, the agency operates under a \$500,000 cap on operating expenses which includes up to two FTE in the State Treasurer's Office. The agency currently consists of three full-time staff and one full-time staff in the State Treasurer's Office. Many essential operating services are provided through contracts with a variety of state agencies. For example, financial management services are provided through the Office of State Finance, legal services are provided through the Attorney General's Office, and purchasing services related to grants and program contracts are provided through the Department of Central Services.

Program Funding Strategy

The Board of Directors has made a commitment to dedicate all of the earnings in the early years of the Endowment to effective tobacco use prevention and cessation initiatives, based on the following:

- It was the intent of the Master Settlement Agreement that states would use settlement funds to reduce tobacco use and tobacco-caused illness and death.
- Tobacco use remains Oklahoma's leading cause of preventable death,

killing about 6,000 Oklahomans and costing Oklahoma over \$2 billion in direct and indirect costs each year.

- While the Centers for Disease Control and Prevention (CDC) recommends that between \$22 million and \$56 million is needed to fund an effective, statewide tobacco prevention program to significantly reduce tobacco use and tobacco-caused disease and death in Oklahoma, such programs have received less than \$3 million per year in other state appropriated funding.
- Earnings from the endowment alone will not be sufficient to fully fund a statewide tobacco prevention program for at least ten years.

In an effort to help fulfill the Oklahoma State Plan for Tobacco Use Prevention and Cessation, the Board's strategic action plans include:

- Continue support for the Oklahoma Tobacco Helpline operations as needed to meet the demand for services, and assure ongoing support for promotion and evaluation of the Helpline.
- Implement comprehensive community programs and increase funding authorizations for community-based programs over a five year period as new earnings become available, in order to fully implement comprehensive tobacco control programs in counties and tribes throughout the state.

- Initiate and maintain counter-marketing campaigns with a primary focus on youth prevention, in partnership with the American Legacy Foundation and other partners as appropriate.

- Initiate funding for statewide public education campaigns, as funds are available

- Initiate support for tobacco control programs that address specific populations such as pregnant women, college students, spit tobacco users, racial and ethnic minorities, senior adults and others.

- Initiate a strategic planning process to prioritize subsequent program areas and strategies for funding to begin in fiscal year 2010.

Policies and Resolutions

The most effective tobacco control programs promote and work within the context of public, private and organizational policies that de-normalize the use of tobacco products.

The Board of Investors has maintained a policy that does not allow the investment of endowment funds in securities of companies engaged in the manufacture of tobacco or tobacco products. In addition the Board of Directors has required a "Certification of Non-Acceptance of Tobacco Funds" for its grantees and program contractors.

In fiscal year 2005, the Board of Directors adopted a resolution commending the Oklahoma Department of Corrections' "Tobacco-Free Environment Policy," which prohibits all tobacco use in facilities and on the grounds of all DOC sites.

The Board also adopted a resolution commending school districts and the Oklahoma State School Boards Association for supporting the adoption of "24/7" tobacco-free campus policies by school districts throughout Oklahoma.

Programs Funded

Oklahoma Tobacco Helpline

The Oklahoma Tobacco Helpline is a professional telephone-based tobacco cessation counseling service, provided at no charge to Oklahomans with a desire to quit smoking or using other tobacco products. Participants engage in a series of counseling calls with the

same "Quit Coach" throughout their quitting process.

Proactive telephone-based cessation counseling services have shown strong evidence of effectiveness in reaching large numbers of tobacco users with an effective program to help them successfully quit tobacco. Helplines reduce the barriers found in traditional programs as they require no transportation, or child care, and the services are available at the participant's convenience and tailored to their individual needs.

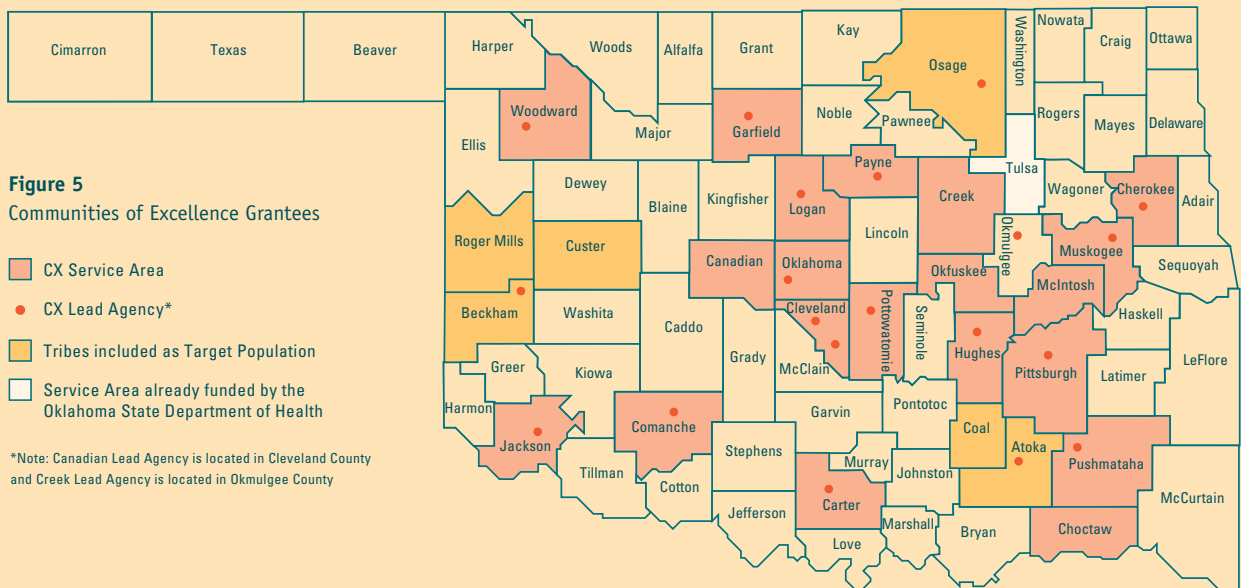
In fiscal year 2005, the Helpline's telephone number changed from 1-866-PITCH-EM to the national portal number, 1-800-QUIT-NOW (or 1-800-748-8669). This change provides several advantages as the number is easy to remember, and as part of a national network of quitlines, Oklahoma can enjoy the benefits of national media campaigns to promote the Helpline.

A separate number (1-800-793-1552) was also instituted for Spanish speaking callers.

In fiscal year 2005, TSET funding for the Helpline increased threefold to provide services to over 12,000 Oklahomans, and add a new service in which free nicotine patches or gum (NRT) were offered to the uninsured and Medicare participants who enrolled in the program. Additional Helpline funding was also provided by the Oklahoma State Department of Health using a combination of federal grant monies and revenue generated by the tobacco tax increase approved by state voters in November 2004.

Communities of Excellence in Tobacco Control

In October 2004, the Board of Directors recommended grant awards for 20 coalitions to plan and implement comprehensive, community-based tobacco prevention and cessation programs



within 25 counties and three tribal nations. Additional funding has been allocated to provide coordination, training, and technical assistance to grantees and an independent evaluation of the program.

The Communities of Excellence grantees completed a planning year in which they assessed the needs of their communities, and prepared strategic plans to guide their activities over the next four years. Grantees will make inroads in each goal area: preventing youth initiation to tobacco, promoting cessation among youth and adults, reducing exposure to secondhand smoke, and eliminating disparities in tobacco use among populations.

Public Education Counter-Marketing Campaigns

In partnership with the American Legacy Foundation, youth ages 12-17 throughout Oklahoma received a “heavy dose” of truth[®] television and radio ads. The truth[®] campaign, created by the American Legacy Foundation, is the largest national youth-focused anti-tobacco education campaign and a central element of Oklahoma’s youth counter-marketing initiative. Because the majority of smokers begin smoking prior to the age of 18, the ads target youth aged 12 to 17 years. The objective of truth[®] is to change social norms and reduce youth smoking.

Mass media campaigns, when combined with other activities to reduce tobacco use, have shown strong evidence of effectiveness in reducing

youth initiation of tobacco use, reducing consumption of tobacco products, and increasing cessation among tobacco users.

Pre-produced ads are provided at no charge to the TSET and the Legacy Foundation provides a dollar-for-dollar match on all media buys.

Program Support

Program support services such as coordination, communications, technical assistance and training are essential to assuring successful outcomes for each program initiative. Program support services for the endowment’s tobacco control programs are provided by the Oklahoma State Department of Health (OSDH), Tobacco Use Prevention Service. This partnership leverages the expertise and resources of the OSDH, avoids duplication, and assures that programs funded by the Board of Directors are coordinated with other initiatives of the Oklahoma Tobacco Control Program.

Program Evaluation

Evaluation is critical to the endowment’s progress as it enables the Board of Directors to assess program outcomes, improve program effectiveness, and use the data to inform decisions about future program development. The University of Oklahoma, College of Public Health, through the OU Cancer Institute, provides an external evaluation of TSET-funded tobacco control programs. Through a sub-contract, media initiatives are evaluated by the Oklahoma State University, Department of Marketing.

Looking Ahead

The Board of Directors will begin fiscal year 2006 by further expanding the Oklahoma Tobacco Helpline’s services to reach an even greater number of people and provide nicotine replacement products for Helpline participants who are totally uninsured or on Medicare. Promotional efforts will target African Americans, Native Americans, and the Latino populations. Additional funding from the Oklahoma State Department of Health and the Oklahoma Health Care Authority will assure that the Helpline reaches more of the populations in greatest need of cessation services.

The truth[®] campaign and other counter-marketing initiatives will continue to reach Oklahoma’s vulnerable youth with effective messages. An analysis of Oklahoma’s youth market segments will be conducted to help guide future media efforts aimed at preventing youth tobacco use.

The Communities of Excellence grantees will embark on the first year of a four-year implementation phase of their grants to implement comprehensive tobacco control programs in communities across the state.

A new grant initiative will be launched in which projects will address tobacco in specific populations such as pregnant women, spit tobacco users, college students, and other populations at greatest risk for tobacco use and tobacco caused disease and death.

Program Results

The University of Oklahoma Health Sciences Center, College of Public Health, Department of Biostatistics and Epidemiology is the independent evaluator for the Oklahoma Tobacco Helpline and external evaluator for the youth counter-marketing campaign and Communities of Excellence programs.

Oklahoma Tobacco Helpline: Reach

From July 1, 2004 through June 30, 2005, a total of 12,367 Oklahoma tobacco users registered with the Oklahoma Tobacco Helpline to receive tobacco cessation services. Of these, 7,723 (62.4%) enrolled in the 5-call cessation counseling program, while 3,956 (32.0%) requested the 1-call program. Among those tobacco users enrolling in the 5-call program, 76.4% (n=5,899) received nicotine replacement therapy (NRT) as well.

There were 688 (5.6%) individuals who requested tobacco cessation self-help materials only. An additional 147 health care providers and 310 friends

and family members (proxy) accessed the Helpline for tobacco cessation information.

The Oklahoma Tobacco Helpline is reaching smokers in nearly all parts of Oklahoma (see map). Tobacco users from 76 Oklahoma counties have contacted the Helpline for services. Nearly 40% of all calls have come from residents in Oklahoma (n=2,637) and Tulsa (n=2,105) counties.

As is typical with most tobacco quit-lines, nearly two-thirds of all callers to the Oklahoma Tobacco Helpline are female (66.0%).

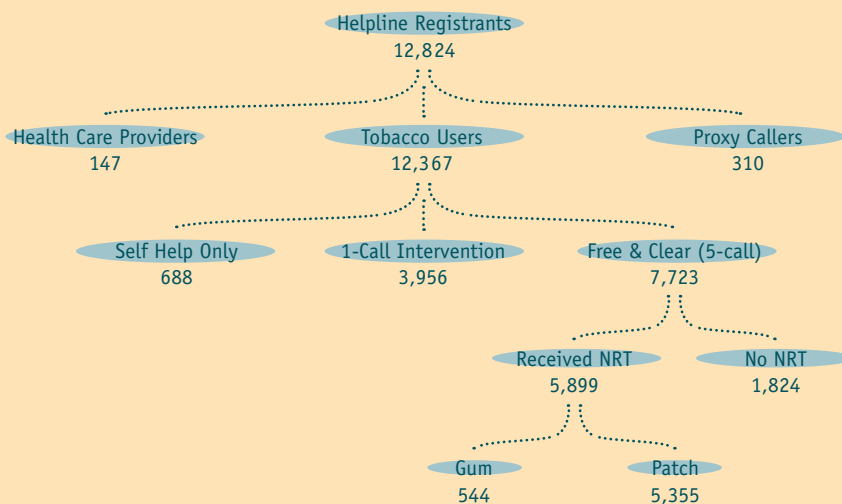
Callers to the Oklahoma Tobacco Helpline represent all race/ethnic

groups including Native American (8.6%), African American (6.3%), and Caucasian (80.0%) residents. Only 3.2% of callers report that they are of Hispanic ethnicity.

It is noteworthy that almost two-thirds of Helpline registrants (67%) have incomes of \$20,000 or less, and 24% have less than a high school education. In addition, 10% of callers were Medicaid recipients. During FY 05, 754 tobacco users age 65 and older utilized the Helpline.

The Helpline also appears to be providing services to “heavy” tobacco users. Among those who answered the question, 96% reported having used tobacco for six or more years, and 57% report using tobacco within five minutes after waking in the morning.

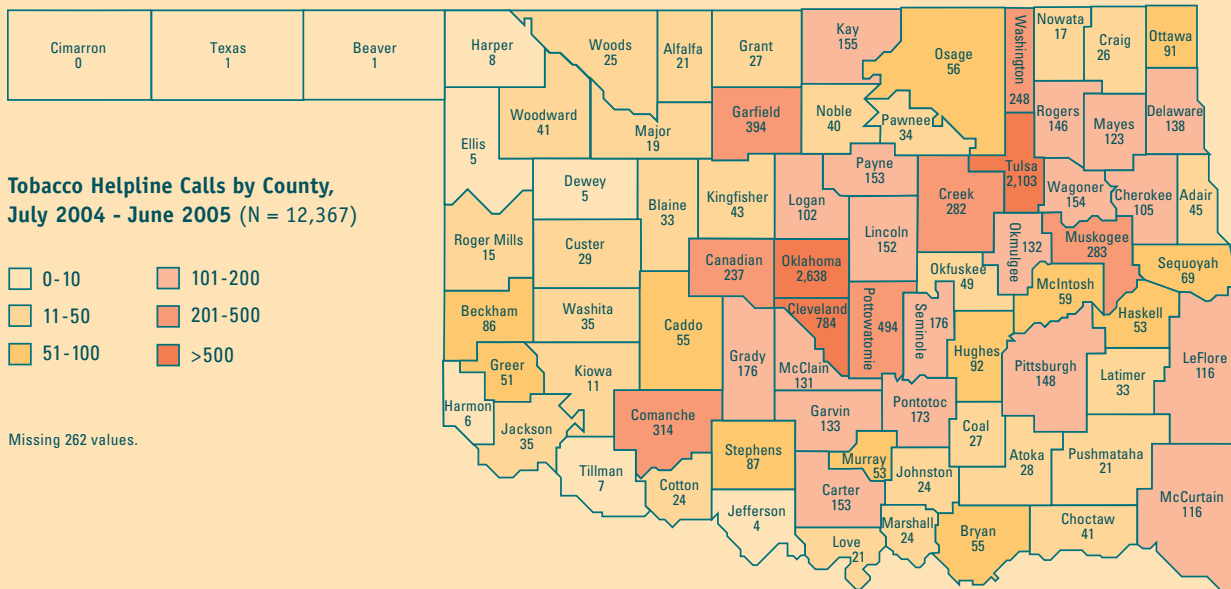
Flow Chart of Helpline Registrants, July 1, 2004 - June 30, 2005



Oklahoma Tobacco Helpline: Outcomes

The evaluation team collects data to evaluate participant satisfaction with the Oklahoma Tobacco Helpline and their quit progress at three, six, and 12 month intervals.

Tobacco users who called the Helpline report being satisfied with the services. Among the 1329 tobacco users completing the 3-month telephone follow-up survey during fiscal year 2005, 91% report being somewhat or very



satisfied and 76% reported the number of calls received as “just right.”

Eighty-seven percent reported having made at least one serious quit attempt since calling the Helpline.

One measure of the effectiveness of the Oklahoma Tobacco Helpline is 30-day abstinence rates. At the 3-month follow-up survey, 38.2% of participants receiving the 5-call

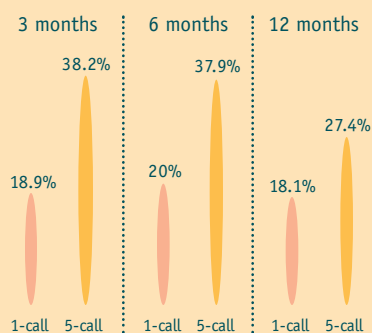
intervention report not smoking for one month or longer. This proportion remains relatively unchanged at the 6-month follow-up (37.9%), but drops to 27.4% at the 12-month follow-up.

It’s important to note that the 12-month follow-up data do not include Helpline registrants who also received Nicotine Replacement Therapy (NRT). Among NRT recipients, the 30-day

abstinence rate was 42.6% at the 3-month follow-up and 45.7% at the 6-month follow-up. 12-month follow-up data for Helpline registrants who received NRT will be available in fiscal year 2006.

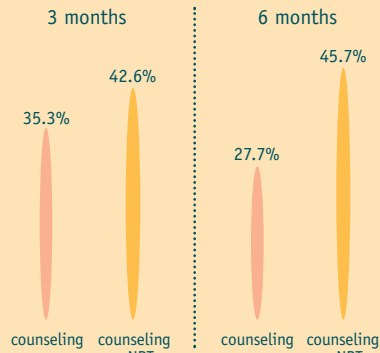
While the 30-day abstinence rates are somewhat lower for registrants receiving only the 1-call intervention, they are impressive with 18.1% reporting 30-day abstinence 12-months following registration with the Helpline.

Tobacco Helpline Participants Abstinent 30 or More Days by Intervention Type



* 12-month data do not include participants who received NRT.

Tobacco Helpline “5-Call” Participants Abstinent 30 or More Days by NRT Status



Youth Counter-Marketing Campaign

National evaluation studies have demonstrated that the truth® campaign was associated with significant declines in youth smoking prevalence from 1999-2002. Launched in Oklahoma in May and June 2005, the campaign is estimated to have reached 47% of Oklahoma teens an average of 5.5 times.

During fiscal year 2005, evaluation planning was conducted for the youth-counter marketing initiative in Oklahoma. The proposed evaluation for fiscal year 2006 includes collaboration with the Oklahoma State Department of Health Tobacco Use Prevention Service, Oklahoma State University and the American Legacy Foundation.

Fiscal year 2006 evaluation of the Oklahoma youth counter-marketing campaign will rely on both the evidence base from the national evaluation and Oklahoma-specific Youth Tobacco Survey data. In addition, researchers at OSU will further advance our understanding of youth counter marketing strategies by identifying at-risk youth segments and examining their responses to anti-tobacco messages.

Communities of Excellence

During fiscal year 2005, the evaluation team began the process of externally evaluating the Communities of Excellence grantees and statewide program. An overall evaluation design was created, and partial evaluation data for the planning phase were collected and synthesized.

The Semi-Annual Report was designed to collect information essential to the monitoring of the planning phase performance indicators as outlined in the Request for Proposals (RFP). Based on grantee reports, progress toward the planning phase performance indicators was significant. Nineteen community grantees were actively engaged in mobilizing their community partners

to strategically plan for a comprehensive tobacco control program.

Staff development was assessed through reported trainings, conferences, and continuing education events. Participation in technical assistance meetings and video-conferences was substantial. Grantees also participated in meetings targeting specific aspects of tobacco control such as youth prevention and cessation.

A variety of community interventions also occurred during the first half of the planning year. Activities focused on the following:

- Sponsorship of youth activities
- Recognition of smokefree restaurants
- Great American Smokeout activities
- Kick Butts Day activities
- Speaking engagements
- Community assessments
- Strategic Planning

Of note is that eleven grantees aided in the facilitation of the Youth Tobacco Survey, a school-based survey sponsored by the Centers for Disease Control and Oklahoma State Department of Health. These data will be essential in evaluating the progress of tobacco use prevention and cessation efforts over time.

Overall, grantees reported a great deal of enthusiasm within the coalition and community for implementing tobacco control programs in their communities.

In June 2005, a Coalition Satisfaction and Functioning Survey (CSFS) assessed satisfaction among coalition members with program planning,

involvement of the community, implementation, quality of services and progress made by coalition members.

The survey was administered via the web, with mailed surveys sent to members without internet capability. The overall response rate was low, 41%, with a wide range among the 19 coalitions (12%-100%).

Overall satisfaction with the coalitions was high with 94.3% reporting that they were somewhat or very satisfied with the coalition. The element of satisfaction garnering the most "very satisfied" responses was ability to carry out planned activities, with 59.2% selecting this option.

Although the response rate was low and may not be representative of all coalition members, community members responding to the coalition survey were satisfied with the progress made and optimistic about the success of the Communities of Excellence program.

These preliminary data from the planning phase of the Communities of Excellence program indicate significant activity within the coalitions to engage partners, leverage resources, assess tobacco-related community indicators and assets, and strategically plan for a comprehensive program.

In fiscal year 2006, evaluation of the grantees will expand with a complete analysis of the planning phase, and the monitoring of changes in community-level tobacco-related indicators as activities are implemented.

Tobacco Settlement Payments and Schedule of Deposits by Fiscal Year

Fiscal Year Ending	Tobacco Settlement Payments to Oklahoma	Deposits to State Legislature	Deposits to Tobacco Settlement Endowment
2000	\$86,951,878	100%	0%
2001	\$64,897,381	100%	0%*
2002	\$75,872,921	50%	50%
2003	\$76,024,898	45%	55%
2004	\$65,062,578	40%	60%
2005	\$66,034,977	35%	65%
2006		30%	70%
2007 (and all subsequent years)		25%	75%

Distribution of Oklahoma's Tobacco Settlement Payments

Fiscal Year 2005

\$66,034,977

State Legislature
Tobacco Settlement Fund

\$21,305,722

Tobacco Settlement
Endowment Trust

\$42,922,753

Attorney General's Office
Evidence Fund

\$1,806,502

Distribution of Oklahoma's Tobacco Settlement Payments (Cumulative)

October 6, 1999 - June 30, 2005

\$434,844,633

State Legislature
Tobacco Settlement Fund

\$216,089,833

Tobacco Settlement
Endowment Trust

\$211,680,337

Attorney General's Office
Evidence Fund

\$7,074,463

\$45.3 million of the \$216.1 million available to the State Legislature was placed in the general revenue fund prior to November 2000. The remaining \$170.8 million was placed in the state's Tobacco Settlement Fund and has been appropriated for various health and human services programs as detailed in the "Appropriations by the Oklahoma State Legislature from the Tobacco Settlement Fund" table on page 15. These funds are not part of the Endowment.

The \$211.6 million is the amount of the tobacco settlement payments that have been deposited in the Tobacco Settlement Endowment Trust Fund and invested by the Board of Investors. *This includes an initial \$50 million in settlement funds that were directed to the Endowment's principal by the Oklahoma State Legislature during the 2001 legislative session. Only the interest and dividend earnings on these investments may be spent on programs.

By law, a small percentage of the settlement payments are directed to the Attorney General's Evidence Fund to be used for legal battles to pay for expert witnesses and other costs.

Appropriations by the Oklahoma State Legislature from the Oklahoma Tobacco Settlement Fund

Agency Name & Purpose	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	Agency Total	Percent
Health Care Authority Duties of the agency	\$27,814,025	\$23,428,344	\$9,834,659	\$9,002,276	\$16,408,305	\$86,487,609	46.8%
Dept. of Human Services Prater Willie, Child Welfare, Senior Nutrition, Oklahoma Healthcare Initiatives, duties of the agency	\$14,386,582	\$10,152,604	\$19,669,318	\$15,610,837	\$4,345,788	\$64,165,129	40.0%
Univ. Hospitals Authority Duties of the agency	\$5,921,414	\$4,178,739	0	0	0	\$10,100,153	6.8%
Dept. of Health Tobacco prevention, health	\$1,833,333	\$1,725,000	\$1,966,933	0	0	\$5,525,266	3.7%
Dept. of Mental Health & Substance Abuse Services Duties of the agency	\$1,490,561	\$1,051,888	\$1,129,552	0	0	\$3,672,001	2.5%
Dept. of Veteran's Affairs Duties of the agency	0	\$275,000	0	0	0	\$275,000	.2%
TOTALS	\$51,445,915	\$40,811,575	\$32,600,462	\$24,613,113	\$20,754,093	\$170,225,158	100%

Tobacco Settlement Endowment Trust Earnings Certified by the Board of Investors

FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
\$651,619	\$1,442,846	\$2,757,686	\$3,449,455	\$4,593,794

In fiscal years 2001 and 2002, investment management fees were paid out of certified earnings. Earnings in subsequent years were certified net of fees. Operating expenses of the Tobacco Settlement Endowment Trust are paid out of certified earnings.

Each year Master Settlement Agreement payments from the tobacco companies to the State of Oklahoma have been lower than originally predicted because the payments are tied to market share, volume of sales and a number of other factors. Declining rates of tobacco use nationally, new tobacco manufacturers

that have entered the market but do not participate in the Master Settlement Agreement, and the tobacco industry's ongoing legal battles, impact the unpredictable nature of the annual tobacco industry payments to the State of Oklahoma, and as a result, the eventual earnings from the endowment.

To account for this unpredictability, the Board of Investors uses a "look back" method when certifying earnings from the endowment. This assures that the Board of Directors does not authorize funding for grant programs until the funds are actually available for use.

Once funds are authorized, Requests for Proposals are developed, proposals are received and reviewed, and grants are awarded. Based on this "look back" method, it is likely that that funds certified in one year may not be expended until the following year.

The endowment is a long-term strategy in which the earnings from investments will continue to increase gradually with each passing year. Eventually the annual earnings from the endowment will be greater than the annual deposits from the tobacco settlement payments.

FY 2005 Program Grants* Communities of Excellence

Grantee Name	Location	Amount	Coalition	Counties/Tribes Served
Atoka County Health Dept.	Atoka	\$75,000	Atoka/Coal Partnership for Change	Atoka & Coal Counties & Choctaw Nation of Okla.
Bill Willis Community Mental Health Center	Tahlequah	\$71,558	Community Health Coalition of Cherokee County	Cherokee County
City of Elk City	Elk City	\$75,000	Western Oklahoma Coalition for Community Strengthening	Beckham, Roger Mills & Custer Counties and the Cheyenne-Arapaho Tribe
Comanche County Memorial Hospital	Lawton	\$75,000	Southwest Tobacco Free Oklahoma Coalition	Comanche County
Community Children's Shelter & Family Service Center, Inc.	Ardmore	\$69,910	Carter County Turning Point	Carter County
Gateway to Prevention and Recovery	Shawnee	\$62,192	Shawnee Asset Building Alliance	Pottawatomie County
John Crow IV Foundation	Dustin	\$74,746	Rural Community Substance Abuse Prevention Coalition	Hughes, McIntosh & Okfuskee Counties
Muskogee County Health Dept.	Muskogee	\$75,000	Muskogee Turning Point	Muskogee County
NAIC Center for Oklahoma Alcohol & Drug Services, Inc.	Norman	\$68,157	Canadian County Coalition for Children and Families	Canadian County
Norman Regional Hospital	Norman	\$75,000	Cleveland County Turning Point	Cleveland County
Northwest Center for Behavioral Health	Woodward	\$64,125	Partners Acting as Change Agents	Woodward County
Oklahoma City-County Health Dept.	OKC	\$75,000	Oklahoma County Tobacco Use Prevention Coalition	Oklahoma County
Osage Tribe of Indians	Pawhuska	\$75,000	Osage County Community Partnership Board	Osage County and Osage Tribe of Indians
Pan OK Area Prevention Center: OSU Center for Health Sciences	Stillwater	\$75,000	Stillwater Mayor's Wellness Committee	Payne County
Pittsburg County Health Department	McAlester	\$75,000	SouthEast Tobacco-Free Oklahoma Coalition	Pittsburg County
Preventionworkz, Inc.	Enid	\$72,188	Northwest Oklahoma Tobacco Free Coalition	Garfield County
Preventionworkz, Inc.	Guthrie	\$70,738	Guthrie Students Working Against Tobacco (SWAT)	Logan County
Pushmataha County Health Dept.	Antlers	\$75,000	Pushmataha County Turning Point Coalition & Choctaw County Consortium	Pushmataha and Choctaw Counties
Southwest OK Community Action Group, Inc.	Altus	\$75,000	Jackson County Community Health Action Team	Jackson County
Tri-County Area Prevention Resource Center: OSU Center for Health Sciences	Morris	\$75,000	Child Abuse Prevention Task Force District XI, Creek County Chapter	Creek County

* FY 2005 was a planning year. Increased funding will be made available throughout the four-year implementation phase.

FY 2005 Program Contracts

Oklahoma Tobacco Helpline

Free & Clear, Inc.
Seattle, Washington

\$2,151,814

Provide a telephone-based tobacco cessation behavioral counseling service at no-charge to all Oklahomans who are ready to quit smoking or using other tobacco products. Also provide consultation to Oklahoma health care professionals regarding effective tobacco dependence treatment. TSET funds to Free & Clear, Inc., \$1,570,491 through June 30, 2005. OSDH funds to Free & Clear, Inc., \$581,323 through June 30, 2005.

Evaluation

Board of Regents of the
University of Oklahoma
Health Sciences Center
Oklahoma City, OK

\$190,364

Subcontractor:
Oklahoma State
University
Stillwater, OK

Evaluation of the Oklahoma Tobacco Helpline, media promotion of the Helpline, youth prevention counter-marketing campaign and the Communities of Excellence Program. TSET funds to the University of Oklahoma, \$165,364. TSET funds to subcontractor: Oklahoma State University, \$25,000 through June 30, 2005.

Counter-Marketing

Oklahoma State
Department of Health
Oklahoma City, OK

\$964,260

Subcontractor:
Brothers & Co.
Tulsa, OK

Coordinate media promotion of the Oklahoma Tobacco Helpline, and a youth prevention counter-marketing campaign. TSET funds to the OSDH \$77,077. TSET funds to subcontractor: Brothers & Co., \$887,253 through June 30, 2005. Potential matching funds from the American Legacy Foundation, \$547,253.

Program Support, Training & Technical Assistance

Oklahoma State
Department of Health
Oklahoma City, OK

\$230,466

Provide technical assistance and training to the TSET Board, staff, and grantees on effective tobacco prevention interventions. Oversee the day-to-day activities of TSET grantees in tobacco control, assuring financial accountability and progress toward objectives. TSET funds to the OSDH, \$230,466 through June 30, 2005. Additional services provided in-kind by staff funded by the CDC.

Independent Auditors' Report

We have audited the accompanying financial statements of the Tobacco Settlement Endowment Trust Fund (the "Fund"), as of and for the years ended June 30, 2005 and 2004, 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 an opinion 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 audits 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 opinion.

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, 2005 and 2004, 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 Fund as of June 30, 2005 and 2004, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States.

Our audit was made for the purpose of forming an opinion 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 9, 2005, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing on 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.



September 9, 2005

Management's Discussion and Analysis

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, 2005 and 2004. 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 principal 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 a statement of net assets and a statement 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 sheet and statement 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

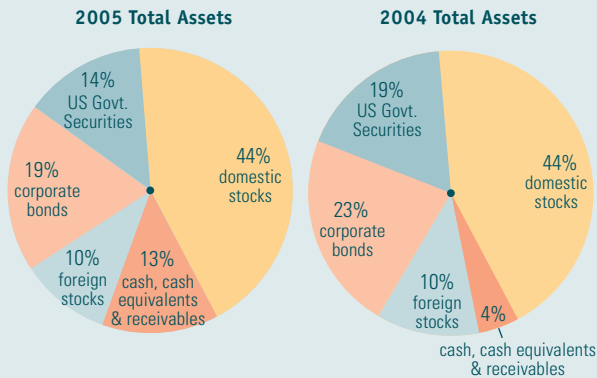
Statements of Net Assets

The statements of net assets provide an indication of the Fund's financial condition at the end of the 2005 and 2004 fiscal years; the statements report all assets and liabilities using the accrual basis of accounting.

Statements of Net Assets

	2005	2004
<i>Assets</i>		
Current Assets	\$31,780,847	8,162,793
Investments (at fair value)	215,316,517	181,767,120
Capital Assets	31,346	8,368
Total Assets	247,128,710	189,938,281
<i>Liabilities</i>		
Current Liabilities	1,711,026	1,340,098
Noncurrent Liabilities	15,567	8,954
Total Liabilities	1,726,593	1,349,052
<i>Net Assets</i>		
Invested in Capital Assets	31,346	8,368
Restricted for Investment	237,521,063	181,858,002
Unrestricted	7,849,708	6,722,859
Total Net Assets	\$245,402,117	188,589,229

The Fund's total net assets increased \$56.8 million during the year, as the Fund invested an additional \$42.9 million in settlement receipts, recognized an additional \$17.3 million as net investment income, and expended \$4 million on programs and operations. Total investments increased from \$182 million at the beginning of the year to \$215 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. A portion of the cash held at June 30, 2005, represents funds retained to establish a new asset allocation, Market Neutral, which was approved by the Board of Investors on February 17, 2005. Funding of this asset category is estimated to be \$24.5 million which is 10% of the total net assets and is expected to be competed early in FY-2006 pending current contract negotiations. The Fund recognized an additional \$12.7 million from the net appreciation of the fair value of the portfolio. 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.



Statements of Activities – Income and Expenses

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

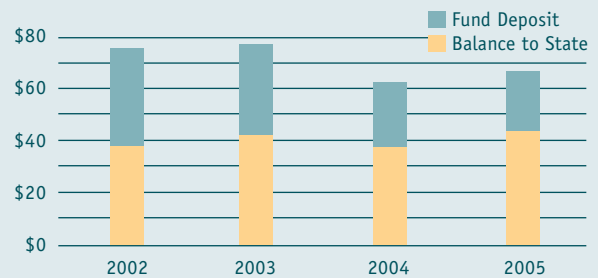
Statements of Activities

	2005	2004
<i>Investment Income</i>		
Interest and Dividend Income	\$5,842,629	4,424,905
Net Appreciation in Fair Value of Investments	12,740,308	12,011,159
Total Investment Income	18,582,937	16,436,064
Investment Expenses	(1,289,343)	(919,743)
Net Investment Income	17,293,594	15,516,321
<i>Other Income</i>		
Contract Income	581,323	-
<i>Expenses</i>		
Program	3,549,528	1,100,697
Operating	435,254	258,863
Total Expenses	3,984,782	1,359,560
Increase in Net Assets before Settlement Receipts	13,890,135	14,156,761
<i>Contribution to Fund Principal</i>		
Settlement Receipts	42,922,753	39,038,254
Increase in Net Assets	56,812,888	53,195,015
Net Assets - Beginning of Year	188,589,229	135,394,214
Net Assets - End of Year	\$245,402,117	188,589,229

Revenues continue to be dominated by settlement receipts which are restricted for investment purposes. During the fiscal years ended June 30, 2005 and 2004, 65% and 60%, 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 continues to increase by 5% annually until it reaches 75% during the fiscal year ending June 30, 2007, where it remains thereafter. As reflected below, settlement receipts deposited by the Fund increased by \$3.9 million from 2004 to 2005. According to the National Association of Attorneys General, since the Master Settlement Agreement between the tobacco companies and

the states took effect, youth smoking rates nationally have dropped by more than 25% and overall smoking has declined nearly 20%. Accordingly, the decline in settlement receipts from original projections may be attributable to the decline in smoking. In addition, 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. There are no guarantees regarding the State's continued receipt of funds in settlement of claims against the tobacco companies.

Oklahoma Tobacco Settlement Receipts in Millions



As settlement receipts were deposited and invested and the portfolio was diversified during the fiscal year ended June 30, 2005, net investment income increased by \$1.8 million over the \$15.5 million recognized during the 2004 fiscal year. This increase over the previous year includes \$1.4 million in additional interest and dividend income, and a \$.7 million increase in the net appreciation of investments in the Fund's portfolio as of June 30, 2005, that were offset by a \$370,000 increase in fees paid to investment managers, consultants, and custodians.

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 or to enhance health care services provided to 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 these early years by focusing on reducing tobacco use in Oklahoma. During the fiscal year ended June 30, 2005, the Board of Directors increased program funding by more than \$2.4 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. The Board of Directors continued to fund a youth prevention counter-marketing campaign, nationally

referred to as truth®. The American Legacy Foundation matches these funds dollar-for-dollar through the Oklahoma State Department of Health (OSDH). During 2005, the Board of Directors funded 20 comprehensive community-based programs across the state of Oklahoma to prevent initiation to tobacco products among youth, promote quitting among youth and adults, reduce exposure to secondhand smoke, and reduce tobacco-related health disparities.

Effective April 15, 2005, the Board of Directors entered into an agreement with OSDH. The purpose of this contract is to partner with OSDH 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 for 2005 was \$581,323 and it is estimated to reach \$1,250,000 for 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. At June 30, 2005, the restricted cash balance for this contract was \$211,121.

During the fiscal years ended June 30, 2004 and 2005, operating expenses increased by \$176,000 from \$259,000 to \$435,000. Personnel, accounting, and other office-related operating expenses initiated during the 2004 fiscal year were incurred for a full 12-month period during the fiscal year ended June 30, 2005. In addition, accounting expenses increased as a result of the 20 new community programs. Effective July 1, 2004, the Office of the State Treasurer requested, and both Boards approved, that \$65,000 be provided to the State Treasurer as funding for staff support to the Board of Investors for 2005. Operating expenses, including salaries, travel, and other operating expenses of the Board of Directors and the Board of Investors, may not exceed \$500,000 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.

Balance Sheets - Permanent Fund

	2005	2004
<i>Assets</i>		
Cash and Cash Equivalents	\$27,956,277	7,278,553
Interest & Dividends Receivable	1,116,523	884,240
Contract Receivable	359,238	-
Net Receivable from Brokers	2,348,809	-
Investments at Fair Value	215,316,517	181,767,120
Total Assets	\$247,097,364	189,929,913
<i>Liabilities</i>		
Accounts Payable	1,700,648	710,871
Net Payable to Brokers	-	623,258
Total Liabilities	1,700,648	1,334,129
<i>Fund Balances</i>		
Reserved	237,521,063	181,858,002
Unreserved	7,875,653	6,737,782
Total Fund Balances	245,396,716	188,595,784
Total Liabilities & Fund Balances	\$247,097,364	189,929,913

Revenues, Expenditures & Changes in Fund Balances - Permanent Fund

	2005	2004
<i>Revenues</i>		
Restricted:		
· Net Appreciation in Fair Value of Investments	\$12,740,308	12,011,159
· Settlement Receipts	42,922,753	39,038,254
Total Restricted Revenues	55,663,061	51,049,413
Interest & Dividend Income	5,842,629	4,424,905
Contract Income	581,323	-
Total Revenues	62,087,013	55,474,318
<i>Expenditures</i>		
Personnel & Administrative	360,709	218,697
Counseling Services	1,699,370	459,915
Media & Program Promotion	959,011	571,460
Community Programs	713,511	-
Evaluation Services	177,080	68,766
Investment Management Fees	1,289,343	919,743
Equipment	32,567	3,670
Other	54,490	29,020
Total Expenditures	5,286,081	2,271,271
Net Changes in Fund Balances	56,800,932	53,203,047
Fund Balances, Beginning of Year	188,595,784	135,392,737
Fund Balances, End of Year	\$245,396,716	188,595,784

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. James Wilbanks, Director of Revenue & Policy, Office of the Oklahoma State Treasurer, 2300 North Lincoln Boulevard, Room 217, Oklahoma City, Oklahoma 73105-4895.

Financial Statements

Statements of Net Assets

	2005	2004
<i>Assets</i>		
Cash & Cash Equivalents	\$27,956,277	7,278,553
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Receivables:		
· Interest & Dividends	1,116,523	884,240
· Net Receivable from Brokers	2,348,809	–
· Contract Receivable	359,238	–
<hr/>		
Total Receivables	3,824,570	884,240
<hr/>		
Investments (at Fair Value):		
· US Government Securities	34,588,399	35,223,772
· Domestic Corporate Bonds	44,708,830	44,362,503
· Foreign Corporate Bonds	2,694,188	–
· Domestic Stocks	109,928,973	83,778,309
· Foreign Stocks	23,396,127	18,402,536
<hr/>		
Total Investments, at Fair Value	215,316,517	181,767,120
<hr/>		
Capital Assets, Net of Accumulated Depreciation of \$8,569 and \$3,857 as of June 30, 2005 and 2004, respectively.	31,346	8,368
<hr/>		
Total Assets	247,128,710	189,938,281
<hr/>		
<i>Liabilities</i>		
Net Payable to Brokers	–	623,258
Accounts Payable	1,582,733	710,871
Deferred Contract Income	117,915	–
Compensated Absences:		
· Payable Within One Year	10,378	5,969
· Payable After One Year	15,567	8,954
<hr/>		
Total Liabilities	1,726,593	1,349,052
<hr/>		
<i>Net Assets</i>		
Invested in Capital Assets	31,346	8,368
Restricted for Investment	237,521,063	181,858,002
Unrestricted	7,849,708	6,722,859
<hr/>		
Total Net Assets	\$245,402,117	188,589,229

Statements of Activities

	2005	2004
<i>Expenses</i>		
Program:		
· Counseling Services	\$1,699,370	459,915
· Media & Program Promotion	959,011	571,460
· Community Programs	713,511	–
· Evaluation Services	177,080	68,766
· Depreciation	556	556
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Total Program Expenses	3,549,528	1,100,697
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Operating:		
· Personnel Services	371,731	224,763
· Other	59,367	32,027
· Depreciation	4,156	2,073
<hr/>		
Total Operating Expenses	435,254	258,863
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Total Expenses	3,984,782	1,359,560
<hr/>		
<i>Investment Income</i>		
Interest Income	4,233,466	3,052,825
Dividend Income	1,609,163	1,372,080
Net appreciation in Fair Value of Investments	12,740,308	12,011,159
<hr/>		
Total Investment Income	18,582,937	16,436,064
Investment Expenses	(1,289,343)	(919,743)
<hr/>		
Net Investment Income	17,293,594	15,516,321
<hr/>		
<i>Other Income</i>		
Contract Income	581,323	–
<hr/>		
<i>Contribution to Fund Principal</i>		
Settlement Receipts	42,922,753	39,038,254
<hr/>		
Change in Net Assets	56,812,888	53,195,015
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Net Assets, Beginning of Year	188,589,229	135,394,214
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Net Assets, End of Year	\$245,402,117	188,589,229

Balance Sheets - Permanent Fund

	2005	2004
Assets		
Cash & Cash Equivalents	\$27,956,277	7,278,553
Receivables:		
· Interest & Dividends	1,116,523	884,240
· Net Receivable from Brokers	2,348,809	-
· Contract Receivable	359,238	-
Total Receivables	3,824,570	884,240
Investments (at Fair Value):		
· US Government Securities	34,588,399	35,223,772
· Domestic Corporate Bonds	44,708,830	44,362,503
· Foreign Corporate Bonds	2,694,188	-
· Domestic Stocks	109,928,973	83,778,309
· Foreign Stocks	23,396,127	18,402,536
Total Investments	215,316,517	181,767,120
Total Assets	\$247,097,364	189,929,913
Liabilities & Fund Balances		
Liabilities:		
· Net Payable to Brokers	-	623,258
· Accounts Payable	1,582,733	710,871
· Deferred Contract Income	117,915	-
Total Liabilities	1,700,648	1,334,129
Fund Balances:		
· Reserved for Investment	237,521,063	181,858,002
· Unreserved	7,875,653	6,737,782
Total Fund Balances	245,396,716	188,595,784
Total Liabilities & Fund Balances	\$247,097,364	189,929,913

Reconciliation of Balance Sheets - Permanent Fund to the Statements of Net Assets

	2005	2004
Total Fund Balances - Permanent Fund	\$245,396,716	188,595,784
Amounts Reported in the Statement of Net Assets are Different Because:		
· Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the fund.	31,346	8,368
· 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	(25,945)	(14,923)
Net Assets	\$245,402,117	188,589,229

Statements of Revenues, Expenditures and Changes in Fund Balances - Permanent Fund

	2005	2004
Revenues		
Restricted:		
· Net Appreciation in Fair Value of Investments	\$12,740,308	12,011,159
· Settlement Receipts	42,922,753	39,038,254
Total Restricted Revenues	55,663,061	51,049,413
Interest Income	4,233,466	3,052,825
Dividend Income	1,609,163	1,372,080
Contract Income	581,323	-
Total Revenues	62,087,013	55,474,318
Expenditures		
Personnel & Administrative	360,709	218,697
Counseling Services	1,699,370	459,915
Media & Program Promotion	959,011	571,460
Community Programs	713,511	-
Evaluation Services	177,080	68,766
Investment Management Fees	1,289,343	919,743
Equipment	32,567	3,670
Other	54,490	29,020
Total Expenditures	5,286,081	2,271,271
Net Changes in Fund Balances	56,800,932	53,203,047
Fund Balances, Beginning of Year	188,595,784	135,392,737
Fund Balances, End of Year	\$245,396,716	188,595,784

Reconciliation of the Statements of Revenues, Expenditures, and Changes in Fund Balances - Permanent Fund to the Statements of Activities

	2005	2004
Net Changes in Fund Balances: Permanent Fund	\$56,800,932	53,203,047
Amounts Reported in the Statement of Activities are Different Because:		
· Governmental funds report capital outlays as expenditures. However, in the statement 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.	22,978	(914)
· Some expenses reported in the statement 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.	(11,022)	(7,118)
Changes in Net Assets, Per Statements of Activities	\$56,812,888	53,195,015

Notes to Financial Statements

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 increases by 5% annually until it reaches 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 are 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.

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, a reconciliation is presented which briefly explains 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, 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, and investment expenses, which includes investment management and custodial fees and all other significant investment-related costs.

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.

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.

CASH AND INVESTMENTS

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

	2005	2004
Cash on Deposit with the State	\$90,309	57,531
Contractual Restricted Cash	211,121	-
Money Market Mutual Fund	27,654,847	7,221,022
Total	\$27,956,277	7,278,553

Cash invested in money market mutual funds is intended for the use of establishing a Market Neutral Manager. The Board of Investors approved the addition of this asset class on February 17, 2005, subject to contract negotiations. An executed contract is expected early in fiscal year 2006.

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 \$581,323 for 2005 and is expected to reach \$1,250,000 for the fiscal year ending June 30, 2006.

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.

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, 2005, was as follows:

	Fair Value	Moody Rating
<i>US Government Agencies</i>		
US Treasury Bonds	\$3,897,000	(1)
US Treasury Notes	4,135,000	(1)
Federal Home Loan Bank	2,791,000	AAA
Federal Home Loan Mortgage Corp.	10,216,000	AAA
Federal National Mortgage Corp.	13,299,000	AAA
Other	250,000	Other
<i>Corporate Bonds</i>		
Domestic Bonds	4,242,000	A
Domestic Bonds	3,352,000	AA
Domestic Bonds	8,992,000	AAA
Domestic Bonds	9,783,000	B
Domestic Bonds	11,447,000	BA
Domestic Bonds	5,273,000	BAA
Domestic Bonds	430,000	CAA
Domestic Bonds	1,190,000	Other
Foreign Bonds	217,000	A
Foreign Bonds	370,000	AAA
Foreign Bonds	802,000	B
Foreign Bonds	767,000	BA
Foreign Bonds	538,000	BAA
Total Fair Value of Credit Risk	\$81,991,000	

(1) Securities are not rated.

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, 2005.

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.

	Fair Value	Effective Duration Years
<i>US Government Securities (government guaranteed):</i>		
· US Treasury Bonds	\$3,897,000	14.65
· US Treasury Notes	4,135,000	3.87
· Federal Home Loan Bank	2,791,000	1.34
· Other	250,000	0.55
<i>Mortgage-backed Securities</i>		
· Federal Home Loan Mortgage Corp.	10,216,000	2.38
· Federal National Mortgage Corp.	13,299,000	2.80
<i>Corporate Bonds</i>		
· Domestic Bonds	44,709,000	6.26
· Foreign Bonds	2,694,000	4.93
Total Fixed Income	\$81,991,000	

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.

Foreign Currency	Fair Value	Type
Australian Dollar	\$551,000	Equity
Bermuda Dollar	358,000	FX Inc
British Pound Sterling	4,983,000	Equity
British Pound Sterling	133,000	FX Inc
Canadian Dollar	371,000	Equity
Canadian Dollar	762,000	FX Inc
Cayman Dollar	219,000	FX Inc
Danish Kroner	301,000	Equity
Euro	9,672,000	Equity
Euro	732,000	FX Inc
Hong Kong Dollar	484,000	Equity
Indian Rupee	208,000	Equity
Indonesian Rupiah	170,000	Equity
Israeli Shekel	219,000	Equity
Israeli Shekel	151,000	FX Inc
Japanese Yen	4,855,000	Equity
Mexican Peso	84,000	FX Inc
New Taiwan Dollar	40,000	Equity
Norwegian Krone	394,000	Equity
Singapore Dollar	255,000	FX Inc
Swiss Franc	1,148,000	Equity
	\$26,090,000	

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 and may not exceed \$500,000 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:

	Reserved for Investment	Unreserved	Total
Balance, June 30, 2004	\$181,858,002	6,737,782	188,595,784
Settlement Receipts	42,922,753	-	42,922,753
Net Appreciation in Fair Value of Investments	12,740,308	-	12,740,308
Contract Income	-	581,323	581,323
Expendable Earnings	-	4,553,286	4,553,286
Program & Operating Expenses	-	(3,996,738)	(3,996,738)
Balance, June 30, 2005	\$237,521,063	7,875,653	245,396,716
Balance, June 30, 2003	\$130,808,589	4,584,148	135,392,737
Settlement Receipts	39,038,254	-	39,038,254
Net Appreciation in Fair Value of Investments	12,011,159	-	12,011,159
Expendable Earnings	-	3,505,162	3,505,162
Program & Operating Expenses	-	(1,351,528)	(1,351,528)
Balance, June 30, 2004	\$181,858,002	6,737,782	188,595,784

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.

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.

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, 2005 and 2004, are listed below:

State Employees' Contributions		State Agencies' Contributions
First \$25,000	Above \$25,000	All Salaries
3.0%	3.5%	10.0%

The Fund's contribution of \$16,088, \$11,297, and \$8,377 to the Plan for the years ended June 30, 2005, 2004, and 2003, respectively, was equal to the Fund's established required contribution.

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. From inception through the fiscal year ending June 30, 2004, the Office of the State Treasurer has not sought reimbursement for such administrative expenses. Accordingly, operating expenses as reflected in the accompanying financial statements may not provide a basis for future comparison.

Effective July 1, 2004, both Boards have approved that \$65,000 be provided to the Office of the State Treasurer as funding for staff support to the Board of Investors for 2005. State statutes specify that annual operating expenses shall not exceed \$500,000.

COMMITMENTS AND CONTINGENCIES

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.

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

We have audited the financial statements of the Tobacco Settlement Endowment Trust Fund (the "Fund") as of and for the year ended June 30, 2005, and have issued our report thereon dated September 9, 2005. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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.



September 9, 2005



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