



# STATE OF OKLAHOMA OFFICE OF THE STATE AUDITOR & INSPECTOR

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## OFFICE OF THE STATE TREASURER

FINANCIAL STATEMENTS AND INDEPENDENT  
AUDITOR'S REPORTS

*FOR THE FISCAL YEAR ENDED JUNE 30, 2004*



**JEFF A. McMAHAN, CFE**  
**OKLAHOMA STATE AUDITOR & INSPECTOR**

Office of the State Treasurer  
Financial Statements and Independent Auditor's Reports  
For the Fiscal Year Ended June 30, 2004

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STATE OF OKLAHOMA  
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN  
State Auditor and Inspector

August 18, 2005

**TO THE HONORABLE BRAD HENRY  
GOVERNOR OF THE STATE OF OKLAHOMA**

Transmitted herewith are the Office of State Treasurer, State of Oklahoma, audit reports and financial statements for the fiscal year ended June 30, 2004. The audit was conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States.

We wish to take this opportunity to express our appreciation for the assistance and cooperation extended to our office during the course of our engagement.

The Office of the State Auditor and Inspector is committed to serving the public interest by providing independent oversight and issuing reports that serve as a management tool to the State to ensure a government which is accountable to the people of the State of Oklahoma.

Sincerely,

A handwritten signature in blue ink that reads "Jeff A. McMahan".

JEFF A. McMAHAN  
State Auditor and Inspector

**OFFICE OF THE STATE TREASURER  
 FINANCIAL STATEMENTS AND INDEPENDENT  
 AUDITOR'S REPORTS  
 FOR THE YEAR ENDED JUNE 30, 2004**

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**OFFICE OF THE STATE TREASURER  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
JUNE 30, 2004**

The Management's Discussion and Analysis of the Office of the State Treasurer of Oklahoma provides an overview and overall review of the Treasurer's financial activities for the fiscal year ending June 30, 2004. The intent of the MD&A is to look at the Treasurer's Office financial performance as a whole. It should, therefore, be read in conjunction with the Treasurer's financial statements and the notes thereto.

**FINANCIAL HIGHLIGHTS**

**Statements of Net Assets and Changes in Net Assets**

The Statement of Net Assets provides an indication of the Treasurer's financial condition at the end of the 2004 fiscal year; the statement reports all assets and liabilities using the accrual basis of accounting. The Statement of Changes in Net Assets reports all of the revenues and expenses during the time periods indicated.

As of June 30, 2004, the Office of the State Treasurer's current assets increased, while capital assets declined. The 16% increase in current assets, the result of an increase in cash at year end, is due to replenishment of revolving funds after a decline in recent years and the resolution of outstanding payables in banking services.

OFFICE OF THE STATE TREASURER  
NET ASSETS

	2004	2003
Current Assets		
Cash	\$ 1,393,258	\$ 1,204,316
Due from other agencies	158,797	
Non-Current Assets		
Capital assets	352,554	423,767
Total Assets	1,904,609	1,628,083
Current Liabilities	539,408	422,119
Non-Current Liabilities	60,834	85,962
Total Liabilities	600,242	508,011
Invested in capital assets	352,554	423,767
Unrestricted	951,813	696,305
Total Net Assets	\$ 1,304,367	\$ 1,120,072

A transfer correction was performed after year end in the amount of \$158,797. One of the Unclaimed Property transfers in support of administrative expenses was erroneously deposited into the state's general revenue fund.

Capital assets declined from the FY 2003 level by almost 17% due to depreciation continuing to exceed new acquisitions; more expensive, out-dated technology is being replaced with less costly, yet more efficient, equipment. Specifically, in FY 2004, the agency was able to decommission a MICR reader/sorter as a result of the warrant imaging project. The reader/sorter was used in the reconciliation process of warrants presented by its operating bank to be redeemed, finding and pulling exceptions for special handling, and micro-filming the warrants for archive purposes. Warrants are now cleared and digitally imaged through the Federal Reserve. All exceptions are worked on-line from the image files. Servers, back up devices, and storage were acquired in FY 2003. The MICR reader sorter was not disposed of until after 07/01/2004. More detailed information about capital assets can be found in the notes to the financial statements.

See Independent Auditor's Report

Other liabilities, including vendor accounts payable, grew by 28% in FY 2004. Several banking service invoices were resolved after year end. These payables drew down the excess cash that was encumbered but not yet spent at June 30. These payables represent wholesale lock box charges that were transferred to other state agencies during fiscal year 2004. Due to contract timing issues, the State Treasurer's Office agreed to pay for the remainder of the FY04 charges. The payments drew down the excess cash that had been encumbered by the Treasurer's Office but not yet spent at June 30.

Compensated absences represent the dollar value of Treasurer's staff annual leave balances and are reflected in noncurrent liabilities. Employee annual leave is used as vacation time or must be reimbursed if a staff member separates from agency service. This dollar value changes as employees use their leave balance or receive reimbursement payments as they leave service.

Investments in capital assets continue to decline thanks to technology trends. The change in unrestricted assets is a direct result of the decline in capital assets. Net assets, calculated as assets less liabilities, increased by over 16% from FY 2003 to FY 2004. This increase (\$184,295) is primarily due to growth of the Unclaimed Property revolving fund balance.

#### **Changes in Net Assets - Revenues and Expenses**

Operating revenues of the Office of State Treasurer are largely dependent upon State General Revenue appropriations. Other sources of general revenues are dominated by two new responsibilities within the office. Securities lending was authorized in response to the initial 5% appropriation reduction to the office and is limited to \$425,000 annually. This new responsibility allowed the Treasurer's office to realize not only greater securities income to offset an appropriations reduction, but also benefited from an expense reduction for master custodial services. Securities lending income is deposited into a revolving fund and used to finance bank fees.

Unclaimed Property, concluding its third year, generates an ever larger portion of the revenue necessary for its administration. Four percent of property accruing to the state under the Uniform Unclaimed Property Act is deposited into a revolving fund and used to support Unclaimed Property expenses. The revolving fund will eventually fund all administrative expenses.

On-line claims filing, introduced in November 2002, contribute to the reduction of data-entry functions associated with claims processing. On-line holder filing was developed in FY 2004 and will be launched in FY 2005. This automated process, along with outreach and amnesty efforts, generates new owner records, resulting in more claims to process. Claims initiated and paid continue to trend upward while the activity institutes these efficiency measures designed to impact effectiveness.

The 16% increase in net assets from FY 2003 is largely related to self-funding of Unclaimed Property.

OFFICE OF THE STATE TREASURER  
CHANGES IN NET ASSETS

	2004	2003
<b>Expenses</b>		
Personnel Services	4,797,729	4,560,204
Travel	19,820	14,001
Administrative Expenses	143,125	157,105
Contracted Services	299,534	286,315
Payments to Other Agencies	164,253	308,081
Equipment	33,418	126,854
Other	39,573	8,174
Bank Service Charges	970,714	905,230
Payments to Counties	97,500	97,500
Depreciation	156,393	159,087
Total Expenses	6,722,059	6,622,551
 <b>General Revenues</b>		
Appropriations	4,377,639	4,923,142
Transfers	-	(101,634)
Unclaimed Property	2,034,012	1,105,616
Service Charges	66,811	52,729
Securities Lending	425,000	425,000
Other Income	2,892	2,453
Total General Revenues	6,906,354	6,407,306
Special Item -Warrant Imaging	-	(122,462)
Increase(Decrease) in Net Assets	184,295	(337,707)
Net Assets Beginning Balance	1,120,072	1,457,779
Net Assets Ending Balance	\$ 1,304,367	\$ 1,120,072

**Fund Highlights:**

**Governmental Fund - Fund Balance**

The Office of the State Treasurer has a legally adopted budget that is established by the Legislature. The fiscal year 2004 initial budget was not changed through June 30, 2004 – the end of the fiscal year.

The final budget level exceeded actual expenses for the fiscal year by 8%. This variance is to direct expenses associated with the Unclaimed Property program. Program audit and advertising expenses are difficult to predict with any degree of accuracy and are typically over-budgeted since they are revolving funds.

## **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 Office of the State Treasurer as a whole. The government-wide financial statements of the Office of the State Treasurer 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 Office of the State Treasurer's overall financial status.

### **Fund statements:**

The fund financial statements include the Governmental Fund's Balance Sheet and Statement of Revenue, Expenditures, and Changes in Fund Balance. In the fund financial statements the revenues and expenditures of the Office of the State Treasurer 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.

The Office of the State Treasurer provides banking and investment services for state agencies. The deposits and investments held by the Office of the State Treasurer on behalf of the State are reported in the Fiduciary Fund.

This financial report is designed to provide a general overview of the Office of the State Treasurer's finances for all of Oklahoma's citizens, taxpayers, customers, and investors and creditors. This financial report seeks to demonstrate the Office's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Susan Reed, Comptroller  
2300 N. Lincoln Blvd.  
Room 217  
Oklahoma City, OK 734105



STATE OF OKLAHOMA  
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN  
State Auditor and Inspector

**INDEPENDENT AUDITOR'S REPORT**

**TO THE HONORABLE SCOTT MEACHAM  
STATE TREASURER OF OKLAHOMA**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Office of the State Treasurer (the Office), a part of the primary government of the State of Oklahoma, as of and for the year ended June 30, 2004, which collectively comprise the Office's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Office's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the Office are intended to present the financial position, the changes in financial position, and the budgetary comparison for the General Fund, of only that portion of the governmental activities, each major fund, and the aggregate remaining funds of the State of Oklahoma that is attributable to the transactions of the Office. They do not purport to, and do not, present fairly the financial position of the State of Oklahoma as of June 30, 2004, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Office of the State Treasurer, as of June 30, 2004, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 20, 2005, on our consideration of the Office's internal control over financial reporting and on 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 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.

The Management's Discussion and Analysis on pages 1 through 4 is not a required part of the basic 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 required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Office's basic financial statements. The supplemental schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplemental schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Sincerely,



JEFF A. McMAHAN  
State Auditor and Inspector

May 20, 2005



**OFFICE OF THE STATE TREASURER**  
**STATEMENT OF NET ASSETS**  
**June 30, 2004**

**Assets**

Cash	\$	1,393,258
Due from other agencies		158,797
Capital assets, net of accumulated depreciation		
Furniture, fixtures, and equipment		352,554
Total Assets		1,904,609

**Liabilities**

Accounts payable vendors		352,239
Compensated absences:		
Payable within one year		187,169
Payable after one year		60,834
Total Liabilities		600,242

**Net Assets**

Invested in capital assets		352,554
Unrestricted		951,813
Total Net Assets	\$	1,304,367

The notes to the financial statements are an integral part of this statement.

**OFFICE OF THE STATE TREASURER  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2004**

**Expenses**

**Governmental Activities - General Government:**

Personnel Services	\$	4,797,729
Travel		19,820
Administrative Expenses		143,125
Contracted Services		299,534
Payments to Other Agencies		164,253
Equipment		33,418
Other		39,573
Bank Service Charges		970,714
Payments to Counties		97,500
Depreciation		156,393
Total Expenses		<u>6,722,059</u>

**General Revenues**

Appropriations	4,377,639
Unclaimed Property	2,034,012
Service Charges	66,811
Securities Lending	425,000
Other Income	2,892
Total General Revenues	<u>6,906,354</u>

Increase (Decrease) in Net Assets	184,295
Net Assets, July 1, 2003	<u>1,120,072</u>
Net Assets, June 30, 2004	<u>\$ 1,304,367</u>

The notes to the financial statements are an integral part of this statement.

**OFFICE OF THE STATE TREASURER  
BALANCE SHEET  
GOVERNMENTAL FUND  
June 30, 2004**

		<u>General Fund</u>
<b>Assets</b>		
Cash	\$	1,393,258
Due from the agency fund		158,797
Total Assets	\$	<u>1,552,055</u>
 <b>Liabilities and Fund Balance</b>		
<b>Liabilities</b>		
Accounts payable vendors	\$	<u>352,239</u>
Total Liabilities		<u>352,239</u>
 <b>Fund Balance</b>		
Reserved for encumbrances		43,242
Unreserved		1,156,574
Total Fund Balance		<u>1,199,816</u>
Total Liabilities and Fund Balances	\$	<u>1,552,055</u>

The notes to the financial statements are an integral part of this statement.

**OFFICE OF THE STATE TREASURER**  
**RECONCILIATION OF THE GOVERNMENTAL FUND**  
**BALANCE SHEET TO THE STATEMENT OF NET ASSETS**  
**June 30, 2004**

Total Fund Balance - Governmental Fund	\$	1,199,816
Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund.		352,554
Long term liabilities are not due and payable in the current period and therefore are not reported in the fund.		
Compensated absences		<u>(248,003)</u>
Net assets of governmental activities	\$	<u><u>1,304,367</u></u>

The notes to the financial statements are an integral part of this statement.

**OFFICE OF THE STATE TREASURER  
STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUND  
FOR THE YEAR ENDED JUNE 30, 2004**

		<u>General Fund</u>
<b>Revenues</b>		
Unclaimed Property	\$	2,034,012
Service Charges		66,811
Securities Lending		425,000
Other Income		2,892
Total Revenues		<u>2,528,715</u>
<b>Expenditures</b>		
Personnel Services		4,805,907
Travel		19,820
Administrative Expenses		143,125
Contracted Services		299,534
Payments to Other Agencies		164,253
Equipment		132,492
Other		25,678
Bank Service Charges		970,714
Payments to Counties		97,500
Total Expenditures		<u>6,659,023</u>
Revenues Over (Under) Expenditures		<u>(4,130,308)</u>
Other Financing Sources (Uses)		
Appropriations		<u>4,377,639</u>
Net Change In Fund Balance		247,331
Fund Balance, July 1, 2003		<u>952,485</u>
Fund Balance, June 30, 2004	\$	<u><u>1,199,816</u></u>

The notes to the financial statements are an integral part of this statement.

**OFFICE OF THE STATE TREASURER  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCE OF THE  
GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR END JUNE 30, 2004**

Net Change in Fund Balance - Governmental Fund	\$	247,331
<p>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 depreciation exceeded capital outlays in the current period.</p>		
		(57,317)
<p>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.</p>		
<p>This amount represents the cost of compensated absences earned but not used in the current year.</p>		
		8,176
<p>This amount represents the carrying value of the capital assets that were transferred for disposal.</p>		
		<u>(13,895)</u>
Change in net assets of governmental activities	\$	<u><u>184,295</u></u>

The notes to the financial statements are an integral part of this statement.

**OFFICE OF THE STATE TREASURER**  
**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES**  
**FIDUCIARY FUND**  
**June 30, 2004**

		<u>Agency Fund</u>
<b>Assets</b>		
Cash:		
Cash On Hand	\$	465,114
Cash In Banks		60,593,898
Total Cash		<u>61,059,012</u>
Investments:		
Treasurer's Portfolio		2,940,730,487
State Agency Portfolio		
Treasury Funds		125,097,337
Agency Special Accounts		9,298,921
Securities Lending Investments		889,676,909
Total Investments		<u>3,964,803,654</u>
Interest Receivable:		
Treasurer's Portfolio		6,898,705
State Agency Portfolio		
Treasury Funds		1,033,068
Agency Special Accounts		138,043
Total Interest Receivable		<u>8,069,816</u>
Total Assets	\$	<u><u>4,033,932,482</u></u>
 <b>Liabilities</b>		
Balance Due Depositors:		
State Agency Portfolio		.
Treasury Funds	\$	2,179,884,292
Agency Special Accounts		963,747,370
Cashier		465,114
Payable Under Securities Lending Agreements		889,676,909
Total Due Depositors		<u>4,033,773,685</u>
Due to the General Fund		<u>158,797</u>
Total Liabilities	\$	<u><u>4,033,932,482</u></u>

The notes to the financial statements are an integral part of this statement.

**OFFICE OF THE STATE TREASURER**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (BUDGETARY BASIS)**  
**GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2004**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Unclaimed Property	\$ 2,317,200	\$ 2,317,200	2,020,115	\$ (297,085)
Service Charges	44,000	44,000	50,639	6,639
Securities Lending	425,000	425,000	425,000	-
Other Income	1,100	1,100	2,892	1,792
Total Revenues	<u>2,787,300</u>	<u>2,787,300</u>	<u>2,498,646</u>	<u>(288,654)</u>
<b>Expenditures</b>				
Personnel Services	5,408,275	5,408,275	4,805,905	602,370
Travel	27,900	27,900	19,820	8,080
Administrative Expenses	180,271	205,271	143,649	61,622
Contracted Services	302,850	277,850	307,077	(29,227)
Payments to other Agencies	263,297	263,297	168,849	94,448
Equipment	71,347	71,347	131,133	(59,786)
Other	-	-	25,678	(25,678)
Bank Service Charges	950,000	950,000	998,387	(48,387)
Payment to Counties	97,500	97,500	97,500	-
Total Expenditures	<u>7,301,440</u>	<u>7,301,440</u>	<u>6,697,998</u>	<u>603,442</u>
Excess of revenues over (under) expenditures	<u>(4,514,140)</u>	<u>(4,514,140)</u>	<u>(4,199,352)</u>	<u>314,788</u>
<b>Other financing sources (uses)</b>				
Appropriations	<u>4,377,639</u>	<u>4,377,639</u>	<u>4,377,639</u>	<u>-</u>
Net change in fund balance	(136,501)	(136,501)	178,287	314,788
Fund balance, July 1, 2003	<u>971,166</u>	<u>971,166</u>	<u>971,166</u>	<u>-</u>
Fund balance, June 30, 2004	<u>\$ 834,665</u>	<u>\$ 834,665</u>	<u>\$ 1,149,453</u>	<u>\$ 314,788</u>

The notes to the financial statements are an integral part of this statement.



**OFFICE OF THE STATE TREASURER  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2004**

**1. Summary of Significant Accounting Policies**

**A. Reporting Entity**

The Office of the State Treasurer (the Office) is established under authority of the Constitution of Oklahoma as an agency of the State. The State Treasurer performs duties as designated by the Constitution or prescribed by law. The Office is a part of the primary government of the State of Oklahoma.

The State Treasurer is elected every four years and takes office the second Monday in January following the election for the position in November. On January 9, 1995, the Honorable Robert A. Butkin assumed the position of State Treasurer. Mr. Butkin was unopposed in the 2002 election and began his third term of office January 13, 2003. Robert Butkin resigned effective May 31, 2005, to become Dean of the Law School at the University of Tulsa. Scott Meacham was appointed by Governor Henry to fill the remaining unexpired term and was sworn in on June 1, 2005.

The primary functions of the Office are the maintenance of bank accounts for the receipt and disbursement of state funds, the prudent investment of certain state funds, the recording and servicing of the long-term debt of the State, and the administration of the State's Unclaimed Property program. Additionally, the Office performs safekeeping and investment functions for state agencies, and other entities as authorized by state statute. Various activities of the Office include receipt of warrants, vouchers, and debt instruments, management of cash and investments, and the reconciliation of account balances and transactions with the various state agencies.

**B. Basis of Presentation, Measurement Focus and Basis of Accounting**

**Government-wide Financial Statements**

The government-wide financial statements are presented using the accrual basis of accounting and the economic resources measurement focus. All of the functions of the Office are presented together as general government activities, and financial information for funds that are not available to finance these activities are not included; consequently, the government-wide financial statements exclude fiduciary assets and liabilities.

Using the economic resources measurement focus, all assets and liabilities, both current and long-term, associated with the operation of Office activities are presented in the statement of net assets. Under the accrual basis of accounting revenues are recognized as they are earned and expenses are recognized as they are incurred. General revenues include charges for banking services rendered by this Office to individual state agencies. Additionally, the Office receives reimbursement for certain costs incurred in connection with the recovery, advertisement, and sale of unclaimed property. The Office also receives up to 4% of unclaimed property receipts to offset certain capital and administrative costs incurred in connection with the administration of the State's unclaimed property program.

**Fund Financial Statements**

The fund financial statements report the detailed activities of the Office by fund type for governmental and fiduciary funds as described below.

## **Governmental Fund**

**General Fund** - The General Fund is the primary operating fund of the Office. This fund is used to account for all financial transactions and resources except those required to be accounted for in another fund. The general fund financial statements are presented using the modified accrual basis of accounting and the current financial resources measurement focus. Using the current financial resources measurement focus, only current assets and current liabilities are included on the balance sheet in the general fund financial statements. The modified accrual basis of accounting provides for the recognition of revenues when they become both measurable and available. The Office is entitled to reimbursement for certain costs incurred in connection with administration of the Unclaimed Property Program. These revenues are recognized when the related expenditures are incurred. The Office also receives 4% of the monies accruing to the State according to state statute as service charges. Revenues for these service charges are recognized based on the monies that are remitted to the State. Expenditures are generally recognized when the related liability is incurred except for compensated absences where vested annual leave is recorded as an expenditure when utilized.

Since the general 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.

## **Fiduciary Fund**

**Agency Fund** - This fund is used to account for assets held by the Office in a trustee or agency capacity. The Office is the official depository for all agencies of the State and, accordingly, receives and disburses all monies of the State. The Agency Fund is accounted for using the accrual basis of accounting.

### **C. Investment Holdings and Basis**

Investments are generally stated at fair value, except for investments in SEC-registered money market mutual funds and in nonparticipating interest-earning investment contracts (e.g. nonnegotiable certificates of deposit and repurchase agreements) which are stated at cost, or amortized cost which approximates market value. Investments held by the SEC-registered money market mutual funds may include U.S. Government securities that have variable or floating rates that are based on money market indices and that reset frequently at par.

### **D. Capital Assets**

All furniture, fixtures, and equipment costing more than \$500 and that may be used repeatedly without material impairment of its physical condition which has a calculable period of service of more than one year are recorded as capital assets. Capital assets are recorded at cost when purchased or estimated cost as determined by available records maintained by the Office. Donated capital assets are recorded at their fair value on the date of donation. The financial statements reflect an investment in capital assets of \$352,554.

Depreciation is recorded on capital assets in the government-wide financial statements. Depreciation is calculated on a straight line basis over the following estimated useful lives.

	<u>Years</u>
Information systems	4 - 7
Office furniture, fixtures and equipment	6 - 12

No provision for depreciation is recorded in the general fund financial statements as expenditures for capital assets are recorded as period costs when the capital assets are purchased.

### **E. Compensated Absences**

Employees of the Office entering State service 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, 13.3 hours per month for service of 10 to 20 years, and 16.66 hours per month for over 20 years of service. Unused annual leave may be accumulated to a

maximum of 240 hours for those with service of up to 5 years. After 5 years of service the maximum number of hours that can be accumulated and carried into the next year is 480 hours. All accrued annual leave is payable upon termination, resignation, retirement, or death. The following is a summary of the changes in compensated absences for the year ended June 30, 2004.

	Balance June 30, 2003	Increases	Decreases	Balance June 30, 2004
Compensated Absences	\$ 256,179	193,207	201,383	\$ 248,003

## 2. Budgetary Reporting and Fund Balance Restatement

The Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Budgetary Basis) presents comparisons of the legally adopted budget with actual data on a budgetary basis. This statement includes all funds, both appropriated and non-budgeted.

The legal level of control is established by the Legislature in its annual appropriation bills. The appropriation bills are deemed to be the legal level of control as this level is statutory. Certain funds are not appropriated annually by the Legislature, and are subject to administrative budgetary controls only.

Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles (GAAP), a reconciliation of resulting differences in the excess of revenues over (under) expenditures and other financing sources (uses) between budgetary and GAAP presentations for the year ended June 30, 2004, is presented as follows:

General Fund Balance, Budgetary Basis	\$ 1,149,453
Basis Differences:	
Add: Net Service Charges	16,172
Net Unclaimed Property	13,895
Encumbrances recognized as expenses	43,242
Subtract: Prior years Encumbrances	(4,265)
Difference in July 1, 2003 GAAP basis fund balance, compared to budget basis fund balance	(18,681)
Total General Fund Balance - GAAP Basis	\$ <u>1,199,816</u>

## 3. Deposits

In accordance with Title 62 O.S. § 72.4, the State Treasurer requires financial institutions to pledge collateral securities and/or provide collateral instruments in an amount not less than the deposits of the State in each such institution. The amount of collateral securities to be pledged and/or coverage to be provided by collateral instruments is established by rules promulgated by the State Treasurer. In accordance with the rules established by the State Treasurer, the market value of collateral securities pledged by financial institutions combined with the coverage provided by additional collateral instruments, if any, is equal to or greater than 110% of the amount on deposit, less any federal insurance coverage. If only collateral instruments are provided, the coverage is equal to or greater than the amount on deposit, less any federal insurance coverage. Collateral securities are held in a restricted account by an agent of the State Treasurer (i.e., a Federal Reserve Bank, a Federal Home Loan Bank, or a third-party safekeeping bank approved by the State Treasurer) in the name of the State of Oklahoma or State Treasurer.

## 4. Investments and Securities Lending

## **Investments**

The Office maintains two investment portfolios as follows: Treasurer's Portfolio --for the investments of all state monies that are under the control of the Treasurer for which the earnings accrue to the general fund of the State; and State Agency Portfolio -- for the investments of a limited number of state agencies which are specifically authorized by statute to direct the investment activities of certain funds and accounts for which the investment earnings accrue to those funds and accounts

The Treasurer or his investment officer is authorized to invest the state monies under his control in the types of securities specified in Title 62 O.S. § 89.2. The Treasurer's Portfolio investments during the year have included U.S. Treasury bills, notes and bonds, U.S. agency and instrumentality obligations, repurchase agreements, SEC-registered money market mutual funds and certificates of deposit.

The types of investments in which specific state agencies are authorized to invest are established by law or by their boards or commissions. Generally, the investments of the state agencies are the same types as the Treasurer's investments, except for one agency which invests in equity mutual funds. The types of investments in which specific non-state entities are authorized to invest are established by law or by their governing boards.

Three significant changes occurred during Fiscal Year 2004 with regards to the State Agency Portfolios and the Non-State Portfolio. The Non-State Portfolio no longer exists. That program was discontinued. The State Agency Portfolios, as of December 31, 2003, were no longer invested in a single overnight repurchase agreement provider. As of June 30, 2004, there is no longer an external investment pool as a result of these changes. The cash management portion of the State Agency Portfolios was blended with the Treasurer's Portfolio components that are cash management in nature. Those components include the money market mutual funds, the overnight repurchase agreement, and a negotiated short term investment with the Treasurer's operating bank. This blending is a transition to an internal investment pool. During Fiscal Year 2004 it was decided to add the securities component to the blended internal investment pool. Studies showed the daily liquidation requirements of both investment portfolios were essentially the same combined as they were separate. This allowed a reallocation of investment assets to a higher yielding mix. The repositioning of the portfolios to the new mix began during Fiscal Year 2004 and will be completed during Fiscal Year 2005.

GAAP defines three levels of custodial risk applicable to investments, excluding mutual funds which are not categorized. Category 1 includes investments that are insured, registered, or are held by the State or its agent in the name of the State. Category 2 includes uninsured and unregistered investments, which are held by the counterparties' trust departments or agents in the name of the State. Category 3 includes uninsured and unregistered investments, held by counter parties, or their trust departments or agents, but not in the name of the State.

All investments held by this Office are insured, registered, or held by the Treasurer's agent in the name of the State Treasurer of Oklahoma, and are classified in the category of least custodial credit risk, category 1, excluding the investments in mutual funds and the U.S. Treasury instruments on securities loan (cash collateral).

## **Securities Lending**

The Treasurer is authorized by state statutes to participate in securities lending transactions. The Treasurer has authorized the custodial bank to act as a securities lending agent, lending securities to approved broker-dealers and banks. There are no restrictions regarding the amount of securities which may be lent.

During the fiscal year ended June 30, 2004, the securities lending agent lent U.S. government securities it held on behalf of the Treasurer and received U.S. government securities and cash as collateral. Borrowers were required to deliver and maintain collateral for each loan with a market value that is not less than 100 percent of the market value of the loaned security. All securities loans can be terminated on demand by either the Treasurer or the borrower. At June 30, 2004, the maturity of these loans was three (3) days. Cash collateral is invested in instruments of the same type the Treasurer is allowed to invest in by statute. At year-end, 64 percent of the cash investments had an average maturity of one (1) day, with the overall average maturity being thirteen (13) days.

The Treasurer did not have the ability to pledge or sell collateral securities absent a borrower default. The securities lending agent provides indemnification if the borrowers fail to return the underlying securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the Treasurer for income distributions by the securities' issuers while the securities are on loan. There were no failures by any borrowers to return loaned securities or pay related income distributions during the fiscal year.

At year-end, the Treasurer has no credit risk exposure to borrowers because the amounts the Treasurer owes the borrowers exceed the amounts the borrowers owe the Treasurer.

At year-end, the carrying amount (amortized cost) and fair value of the underlying securities on loan was, respectively: \$1,083,769,867 and \$1,078,607,599.

The following schedule compares the cost or amortized cost to the fair value of investments held in the Fiduciary Funds at June 30, 2004:

TYPES OF INVESTMENT	Amortized Cost	Fair Value	Fair Value	
			Not Categorized	Category I
<b>Treasurer's Portfolio</b>				
U.S. Treasury	\$1,116,823,227	\$1,111,438,716		
U.S. Agencies	21,486,000	21,376,397		
Repurchase Agreements	697,070,000	697,070,000		
Certificates of Deposit	380,608,805	380,608,805		
State Bond Issues	100,159,131	100,159,131		
Money Market Mutual Fund	630,077,438	630,077,438		
<b>Total Treasurer's Investments</b>	<b>\$2,946,221,601</b>	<b>\$2,940,730,487</b>		
<b>State Agency Portfolio Funds</b>				
U.S. Treasury	\$ 8,138,182	\$ 8,166,970		
Certificates of Deposit	116,930,367	116,930,367		
<b>Total Funds Investments</b>	<b>\$ 125,068,549</b>	<b>\$ 125,097,337</b>		
<b>Special Accounts</b>				
U.S. Treasury	\$ 174,741	\$ 205,520		
U.S. Agencies	0	0		
Certificates of Deposit	8,000,000	8,000,000		
Equity Mutual Funds	686,747	1,093,401		
<b>Total Special Accounts Investment</b>	<b>\$ 8,861,488</b>	<b>\$ 9,298,921</b>		
<b>Total State Agency Portfolio</b>	<b>\$ 133,930,037</b>	<b>\$ 134,396,258</b>		
<b>INVESTMENTS SUMMARY:</b>				
U.S. Treasury	\$1,125,136,150	\$1,119,811,206		
Not on Securities Loan				\$ 41,203,607
On Securities Loan – Bonds Borrowed				210,961,181
On Securities Loan – Cash Collateral Securities Lending – FV of Investments			\$ 867,646,418	
Purchased with Cash Collateral				889,676,909
U.S. Agencies	21,483,000	21,376,397		21,376,397
Repurchase Agreements	697,070,000	697,070,000		697,070,000
Certificates of Deposit	505,539,172	505,539,172		505,539,172
State Bond Issues	100,159,131	100,159,131		100,159,131
Equity Mutual Funds	686,747	1,093,401	1,093,401	
Money Market Mutual Fund	630,077,438	630,077,438	630,077,438	
<b>TOTAL INVESTMENTS</b>	<b>\$3,080,151,638</b>	<b>\$3,075,126,745</b>	<b>\$1,498,817,257</b>	<b>\$ 2,465,986,397</b>

**5. Interfund Accounts**

**Due from Other Agencies / Due from the Agency Fund**

Various charges are applied to individual state agencies for certain banking services rendered by this Office. Additionally, the Office receives reimbursement for certain costs incurred in connection with the recovery, advertisement, custody, and sale of unclaimed property. The Office also receives up to 4% of unclaimed property receipts to offset certain capital and administrative costs incurred in connection with the administration of the State's unclaimed property program. The balance of unpaid service charges and unclaimed property revenues at year end are reflected as Due from Other Agencies /Due from the Agency Fund, net of an allowance for doubtful accounts of \$368.

**6. Capital Assets**

Capital assets accounted for in the government-wide financial statements are recorded at cost net of accumulated depreciation using the straight line method. The following is a summary of the changes in capital assets for the year ended June 30, 2004.

	Balance June 30, 2003	Capital Acquisitions	Sales or Other Dispositions	Balance June 30, 2004
Furniture, fixtures, and office equipment	\$ 1,719,984	99,074	408,091	\$ 1,410,967
Less accumulated depreciation	<u>1,296,217</u>	156,393	394,197	<u>1,058,413</u>
Total	\$ <u>423,767</u>			\$ <u>352,554</u>

**7. Bank Service Fees**

During the year, the Office incurred fees for services rendered by various financial institutions. Service charges of \$970,714 were paid, as reflected in the financial statements, other charges were off-set by earnings calculated on the compensating cash balances maintained in various banks.

**8. Risk Management**

The Risk Management Division of the State's Department of Central Services is responsible for the acquisition and administration of all insurance purchased by the State and for administration of self-insurance plans and programs adopted for use by the State.

The Risk Management Division is authorized to settle claims of the State and oversee the dispensation and/or settlement of claims against a political subdivision. In no event shall self-insurance coverage provided to the State, an agency or other covered entity exceed the limitations on the maximum dollar amount of liability specified by the Oklahoma Governmental Tort Claims Act. The Risk Management Division oversees the collection of liability claims owed to the State incurred as the result of a loss through the wrongful or negligent act of a private person or other entity. The Risk Management Division is also charged with the responsibility to immediately notify the Attorney General of any claims against the State presented to the Risk Management Division.

**9. Pension Plan**

**Plan Description.** The Office contributes to the Oklahoma Public Employees Retirement 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 Oklahoma 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 Oklahoma Legislature and are based on an 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 year ended June 30, 2004, are listed below. Elected officials must select an employee contribution rate of 4.5%, 6.0%, 7.5%, 8.5%, 9.0% or 10%.

<u>State Employee Contribution</u>		<u>State Agency Contribution</u>
First <u>\$25,000</u>	Above <u>\$25,000</u>	<u>All Salaries</u>
3.0%	3.5%	10.0%

The Office's contributions to the Plan for the years June 30, 2004 - \$263,147; June 30, 2003 - \$267,984; June 30, 2002 - \$271,496; were equal to the established required contributions for each year.

**10. Other Postemployment Benefits**

In addition to the pension benefits described in Note 9, employees of the Office are provided post-retirement health care benefits through their membership in the Oklahoma Public Employees Retirement System (OPERS). OPERS pays the Medicare supplement premium or \$105 per month, whichever is less, for all retirees who elect coverage at time of retirement through the Oklahoma State and Education Employee Group Insurance.

OPERS funds postemployment health care benefits as part of the overall retirement requirement. OPEB expenditure and participant information is available for the state as a whole; however, information specific to the Oklahoma State Treasurer is not available or reasonably estimable.



**OFFICE OF THE STATE TREASURER  
SUPPLEMENTAL SCHEDULE  
EXPENDITURES BY OBJECT CODE-(BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

OBJECT CODE	CATEGORY	AMOUNT
1100	Salary Expense	\$ 3,709,702
1200	Insurance	9,556
1300	FICA and Retirement	1,203
1500	Professional Services	1,031,938
1900	Inter/Intra Agency Payments Professional Services	53,506
2100	Travel-Reimbursement	10,848
2200	Travel-Direct Expense	8,972
3100	Miscellaneous Administrative Expense	50,527
3100	Bank Service Charges	998,387
3200	Rent Expense	122,259
3300	Maintenance and Repair Expense	184,818
3600	Office Expense	93,122
3900	Inter/Intra Agency Payments for Administrative Expense	168,849
4100	Office Furniture and Equipment	131,133
5100	Social Services and Assistance	19,098
5300	Refunds, Indemnities, and Restitution	6,435
6100	Employee Reimbursements	145
6200	County Treasurers	97,500
Total		\$ 6,697,998

See independent auditor's report.

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**REPORT ON INTERNAL CONTORL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS**



STATE OF OKLAHOMA  
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN  
State Auditor and Inspector

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS**

**TO THE HONORABLE SCOTT MEACHAM  
STATE TREASURER OF OKLAHOMA**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Office of the State Treasurer (the Office), a part of the primary government of the State of Oklahoma, as of and for the year ended June 30, 2004, which collectively comprise the Office's basic financial statements, and have issued our report thereon dated May 20, 2005. The report includes an explanatory paragraph stating that the basic financial statements of the Office are intended to present the financial position and results of operations of only that portion of the State of Oklahoma attributable to the transactions of the Office. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Office's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions 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 Office'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 Office of the State Treasurer and is not intended to be and should not be used by anyone other than this specified party.

However, the Oklahoma Open Records Act states that all records of public bodies and public officials shall be open to any person, except as specifically exempted. The purpose of this Act is to ensure and facilitate the public's right of access to and review of government records so they may efficiently and intelligently exercise their inherent political power. Therefore, this report is a matter of public record and its distribution is in no way limited or restricted.

Sincerely,



JEFF A. McMAHAN  
State Auditor and Inspector

May 20, 2005



## Office of the State Auditor and Inspector

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