

FINANCIAL AUDIT

# OFFICE OF THE STATE TREASURER

For the fiscal year ended June 30, 2014



*Independently serving the citizens of  
Oklahoma by promoting the  
accountability and fiscal integrity of  
governmental funds.*



Oklahoma State  
Auditor & Inspector  
Gary A. Jones, CPA, CFE

**OFFICE OF THE STATE TREASURER OF OKLAHOMA  
FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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# Oklahoma State Auditor & Inspector

2300 N. Lincoln Blvd. • State Capitol, Room 100 • Oklahoma City, OK 73105 • Phone: 405.521.3495 • Fax: 405.521.3426

January 9, 2015

**TO THE HONORABLE KEN MILLER  
STATE TREASURER OF OKLAHOMA**

This is the audit report of the Office of the State Treasurer for the year ended June 30, 2014. The goal of the State Auditor and Inspector is to promote accountability and fiscal integrity in state and local government. Maintaining our independence as we provide this service to the taxpayers of Oklahoma is of utmost importance.

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

Sincerely,

A handwritten signature in blue ink, reading "Gary A. Jones".

GARY A. JONES, CPA, CFE  
OKLAHOMA STATE AUDITOR AND INSPECTOR

**OFFICE OF THE STATE TREASURER OF OKLAHOMA  
FINANCIAL STATEMENTS AND INDEPENDENT  
AUDITOR'S REPORTS  
FOR THE YEAR ENDED JUNE 30, 2014**

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# Oklahoma State Auditor & Inspector

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## INDEPENDENT AUDITOR'S REPORT

**TO THE HONORABLE KEN MILLER  
STATE TREASURER OF OKLAHOMA**

### **Report on the Financial Statements**

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, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Office of the State Treasurer's basic financial statements as listed in the table of contents.

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

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

### ***Auditor's Responsibility***

Our responsibility is to express opinions 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 from material misstatement.

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

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

### ***Opinion***

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, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matters***

As discussed in Note 1, the financial statements of the Office of the State Treasurer are intended to present the financial position and the changes in financial position of only that portion of the State of Oklahoma that is attributable to the transactions of the Office of the State Treasurer. They do not purport to, and do not, present fairly the financial position of the State of Oklahoma as of June 30, 2014, the changes in its financial position, or where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Office of the State Treasurer's basic financial statements. The Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual (Budgetary Basis) and Expenditures by Object Code (Budgetary Basis) schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual (Budgetary Basis) and Expenditures by Object Code (Budgetary Basis) schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2014, on our consideration of the Office of the State Treasurer's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Office of the State Treasurer's internal control over financial reporting and compliance.

A handwritten signature in blue ink, reading "Gary A. Jones". The signature is fluid and cursive, with the first name "Gary" and last name "Jones" clearly distinguishable.

GARY A. JONES, CPA, CFE  
OKLAHOMA STATE AUDITOR AND INSPECTOR

December 31, 2014

Office of the State Treasurer of Oklahoma  
Management's Discussion and Analysis (MD&A)  
June 30, 2014

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Management of the Office of the State Treasurer of Oklahoma provides this Management's Discussion and Analysis as an overview and overall review of the Office of the State Treasurer's financial activities for the fiscal year ended June 30, 2014. The intent of the MD&A is to look at the Office of the State Treasurer's financial performance as a whole. It should, therefore, be read in conjunction with the financial statements and accompanying notes.

## FINANCIAL HIGHLIGHTS

### Statement of Net Position

The Statement of Net Position provides an indication of the Office of the State Treasurer's financial condition at the end of the 2014 fiscal year; the statement reports all assets and liabilities using the accrual basis of accounting. The Statement of Changes in Net Position reports all of the revenues and expenses during the time periods indicated.

OFFICE OF THE STATE TREASURER  
NET POSITION

	<u>2014</u>	<u>2013</u>
Current Assets	\$ 7,740,639	\$ 9,158,828
Capital assets	279,634	10,466
Capital assets - Development in Progress	<u>1,525,515</u>	<u>1,727,762</u>
Total Assets	<u>9,545,788</u>	<u>10,897,056</u>
Other Liabilities	683,642	965,638
Noncurrent Liabilities	<u>68,551</u>	<u>63,191</u>
Total Liabilities	<u>752,193</u>	<u>1,028,829</u>
Invested in capital assets	1,805,149	1,738,228
Unrestricted	<u>6,988,446</u>	<u>8,129,999</u>
Total Net Position	\$ <u><u>8,793,595</u></u>	\$ <u><u>9,868,227</u></u>

As of June 30, 2014, the Office of the State Treasurer's decrease in net current assets was attributable to the transfer of \$4,500,000 from the unclaimed property administration fund to the State's General Fund, offset by increases from net revenues received and accrued for the administration of the unclaimed property program. Capital assets increased due to the completion of a new deposits processing application placed in service during the year. Capitalized costs associated with the remaining development and implementation of web based disbursements processing and cash management applications remained relatively unchanged as these projects were placed on hold by the Office of Management and Enterprise Services Information Systems Division pending the upgrade of the State's financial accounting systems. The systems under development will replace COBOL based systems that have reached the end of their product life cycle and are no longer supported by the software vendors.

These projects are expected to resume before June 30, 2015.

Compensated absences represent the dollar value of employee annual leave balances and are reflected in both Other and Noncurrent Liabilities. Employee annual leave is used as vacation time or must be reimbursed if an employee separates from agency service. This dollar value changes as employees use their leave or receive reimbursement payments as they leave the service of the Office.

Unrestricted net position primarily consists of funds received for the administration of the Unclaimed Property Program and for certain banking and investment management services provided to state agencies. Net position also includes securities lending revenues used for the payment of bank fees pursuant to state statute. It also includes other funding internally designated for development of a statewide financial education and outreach program and for capital projects like systems development and hardware replacement. The decrease in unrestricted net position of 14% during the fiscal year is attributable to the transfer of \$4,500,000 from the unclaimed property administration fund to the State's General Fund offset by the increase in net revenues from the administration of the Unclaimed Property Program and the continued use of compensating balances to offset certain banking fees.

#### **Statement of Activities - Revenues and Expenses**

Except for revenues received for the administration of the Unclaimed Property Program, operating revenues of the Office of the State Treasurer are largely dependent upon state General Revenue appropriation. The Office of the State Treasurer requested and received a 5% decrease in appropriation for fiscal year 2014.

Securities lending revenues and related bank service charges for lending agent fees and borrower rebates decreased by approximately \$224,000 and \$190,000, respectively, during the fiscal year ended June 30, 2014. Pursuant to state law securities lending revenue is used by the Office of the State Treasurer to pay bank service charges. The 37% reduction in securities lending revenues was generally attributable to a decline in the demand for securities held in the Treasurer's portfolio due to the restrictions placed on cash collateral reinvestment and the consistently low interest rate environment.

During fiscal year 2014, the Office of the State Treasurer completed a multi-year project to increase usable workspace in the Capitol consolidating all office operations in one location for better management and greater efficiency.

Four percent of all property relinquished to the state under the Uniform Unclaimed Property Act is recognized as revenue by the Office of the State Treasurer and used to finance certain Unclaimed Property Program expenses. Additionally, program revenues include transfers from the Unclaimed Property Fund to pay for personnel services charges associated with property recovery and advertising services. Increases in revenues for administration of the Unclaimed Property Program of \$2.9 million were somewhat offset by related increases in personnel services expenses for fees paid for property recovery and advertising.

**OFFICE OF THE STATE TREASURER  
STATEMENT OF ACTIVITIES**

	2014	2013
<b>General Revenues</b>		
Appropriations	\$ 3,553,873	\$ 3,743,873
Unclaimed Property	6,588,944	3,687,609
Service Charges	58,747	58,890
Administrative Charges	453,667	515,177
Securities Lending	385,267	608,912
Other Income	1,423	2,249
Total General Revenues	<u>11,041,921</u>	<u>8,616,710</u>
<b>Expenses</b>		
Personnel Services	6,804,543	5,434,802
Travel	39,083	31,029
Administrative Expenses	123,797	152,852
Building Renovation	22,205	128,801
Contracted Services	47,153	274,341
Equipment	17,612	109,433
Other	779	1,173
Bank Service Charges	320,267	347,595
Bank Service Charges Securities Lending	57,934	248,099
Payments to Counties	100,000	93,000
Depreciation	33,633	14,200
Total Expenses	<u>7,567,006</u>	<u>6,835,325</u>
Excess Before Transfers	3,474,915	1,781,385
<b>Transfers</b>	<u>(4,549,547)</u>	<u>(26,860)</u>
Increase (Decrease) in Net Position	(1,074,632)	1,754,525
Net Position Beginning Balance	<u>9,868,227</u>	<u>8,113,702</u>
Net Position Ending Balance	<u>\$ 8,793,595</u>	<u>\$ 9,868,227</u>

**Fund Highlights:**

**Governmental Fund - Fund Balance**

The Office of the State Treasurer has a legally adopted budget that is established by the Legislature. The final budget for fiscal year 2014 included carryover funds not available at the time the original budget was adopted. The final budgeted expenses exceeded actual expenses for the fiscal year by almost \$3 million. During 2014 a multi-year project to replace outdated systems was placed on hold by the Office of Management and Enterprise Services Information Systems Division pending the upgrade of the State's financial accounting systems. Additionally, unclaimed property recovery and advertising expenses have been difficult to predict with any degree of accuracy because they are largely driven by the services of third parties who locate and recover property for the state.

## **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 Position 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 Treasurer'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 Nicewander, Chief Deputy State Treasurer  
2300 N. Lincoln Blvd. Room 217  
Oklahoma City, OK 73105

Sherian Kerlin, Director of Portfolio Accounting & Reporting  
2300 N. Lincoln Blvd. Room 217  
Oklahoma City, OK 73105

**OFFICE OF THE STATE TREASURER**  
**STATEMENT OF NET POSITION**  
**June 30, 2014**

**ASSETS**

Cash	\$ 7,418,699
Due from the Fiduciary Fund	321,940
Capital assets, net of accumulated depreciation	
Furniture, fixtures, and equipment	279,634
Capital assets - development in progress	<u>1,525,515</u>
Total Assets	<u>9,545,788</u>

**LIABILITIES**

Accounts payable vendors	487,625
Compensated absences:	
Payable within one year	196,017
Payable after one year	<u>68,551</u>
Total Liabilities	<u>752,193</u>

**NET ASSETS**

Invested in capital assets	1,805,149
Unrestricted	<u>6,988,446</u>
Total Net Position	<u>\$ 8,793,595</u>

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, 2014**

**Expenses**

**Governmental Activities - General Government:**

Personnel Services	\$ 6,804,543
Travel	39,083
Administrative Expenses	123,797
Building Renovation	22,205
Contracted Services	47,153
Equipment	17,612
Other	779
Bank Service Charges	320,267
Bank Service Charges Securities Lending	57,934
Payments to Counties	100,000
Depreciation	<u>33,633</u>
Total Expenses	<u>7,567,006</u>

**General Revenues**

Appropriations	3,553,873
Unclaimed Property	6,588,944
Service Charges	58,747
Administrative Charges	453,667
Securities Lending	385,267
Other Income	<u>1,423</u>
Total General Revenues	<u>11,041,921</u>

**Transfers**

(4,549,547)

Change in Net Position (1,074,632)

Net Position, July 1, 2013 9,868,227

Net Position, June 30, 2014 \$ 8,793,595

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

**OFFICE OF THE STATE TREASURER  
BALANCE SHEET  
GOVERNMENTAL FUND  
June 30, 2014**

	<b><u>GENERAL FUND</u></b>
<b>ASSETS</b>	
Cash	\$ 7,418,699
Due from the Fiduciary Fund	321,940
Total Assets	<u>7,740,639</u>
<b>LIABILITIES AND FUND BALANCE</b>	
<b>Liabilities</b>	
Accounts payable vendors	487,625
Total Liabilities	<u>487,625</u>
<b>Fund Balance</b>	
Committed to:	
Unclaimed property program administration	2,725,248
Banking fees	684,821
Assigned to:	
Compensated absences and succession planning	764,569
Financial education and outreach	645,000
Hardware replacement and systems development	2,433,376
Total Fund Balance	<u>7,253,014</u>
Total Liabilities and Fund Balance	\$ <u>7,740,639</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 POSITION  
June 30, 2014**

Total Fund Balance - Governmental Fund	\$ 7,253,014
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Capital assets used in governmental activities  
are not financial resources and therefore are  
not reported in the fund.

Furniture, fixtures, and equipment	279,634
Development in progress	1,525,515

Long term liabilities are not due and payable  
in the current period and therefore are not  
reported in the fund.

Compensated absences	<u>(264,568)</u>
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Net position of governmental activities	\$ <u><u>8,793,595</u></u>
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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, 2014**

	<b>GENERAL FUND</b>
<b>Revenues</b>	
Unclaimed Property	\$ 6,588,944
Service Charges	58,747
Administrative Charges	453,667
Securities Lending	385,267
Other Income	1,423
Total Revenues	<u>7,488,048</u>
<b>Expenditures</b>	
Personnel Services	6,792,966
Travel	39,083
Administrative Expenses	123,797
Building Renovation	22,205
Contracted Services	47,153
Capital Outlay - Systems Development	80,950
Equipment	37,217
Other	779
Bank Service Charges	320,268
Bank Service Charges Securities Lending	57,934
Payments to Counties	100,000
Total Expenditures	<u>7,622,352</u>
Revenues Over (Under) Expenditures	<u>(134,304)</u>
Other Financing Sources (Uses)	
Appropriations	3,553,873
Transfers	(4,549,547)
Total Other Financing Sources (Uses)	<u>(995,674)</u>
Net Change In Fund Balance	(1,129,978)
Fund Balance, July 1, 2013	<u>8,382,992</u>
Fund Balance, June 30, 2014	<u><u>\$ 7,253,014</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, 2014**

Net Change in Fund Balance - Governmental Fund	\$ (1,129,978)
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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 exceeded depreciation in the current period.

66,922

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 in prior years, used in the current year.

(11,576)

Change in net position of governmental activities	<div style="border-top: 1px solid black; border-bottom: 3px double black; padding: 2px 0;">\$ (1,074,632)</div>
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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, 2014**

	<u>Agency Fund</u>
<b>ASSETS</b>	
Cash	
Cash On Hand	\$ 499,807
Cash In Banks	54,941,771
Total Cash	<u>55,441,578</u>
Investments	
Treasurer's Portfolio	
OKinvest	6,441,429,588
General Revenue	61,200,000
State Agency Portfolio	2,470,099
Total Investments	<u>6,505,099,687</u>
Interest Receivable	
OKinvest Portfolio	27,525,729
General Revenue Portfolio	170,543
Agency Directed Portfolio	1,541
Total Interest Receivable	<u>27,697,813</u>
 Total Assets	 <u><u>6,588,239,078</u></u>
 <b>LIABILITIES</b>	
Balance Due Depositors	
State Government Entities	6,585,445,498
State Government Entities Investments	2,471,640
Total Due Depositors	<u>6,587,917,138</u>
Due to the General Fund	<u>321,940</u>
 Total Liabilities	 \$ <u><u>6,588,239,078</u></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, 2014**

**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 10, 2011 the Honorable Ken Miller assumed the position of State Treasurer.

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. The Treasurer's office is also responsible for accounting functions associated with the Tobacco Settlement Endowment Trust Fund.

**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 available to finance the Office are presented together as general government activities. Financial information for funds that are not available to finance these activities is 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 the Office activities are presented in the statement of net position. 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.

GASB Statement No. 63 provides guidance for the reporting of deferred outflows of resources, deferred inflows of resources and net position in a statement of financial position and related disclosures. The pronouncement will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. As of June 30, 2014 there were no deferred outflows or inflows of resources to be reported.

### **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. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the state considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. 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 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, reconciliation is presented which briefly explains the adjustments necessary to reconcile the fund and government-wide presentations.

#### **Governmental Fund – Fund Balance Reserves and Designations**

The governmental fund financial statement presents fund balance in the categories defined by GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The Office fund balance does not contain any non spendable or restricted amounts. Committed fund balance is presented for each respective function of the Office as directed by Oklahoma law. Pursuant to Title 60 Section 668 of the Oklahoma Statutes, the Office receives 4% of the funds accruing to the state under the Uniform Unclaimed Property Act to be used to defray the administrative costs of the program. Pursuant to Title 62 Section 90 of the Oklahoma Statutes the Office receives funds from the securities lending program to pay banking fees.

Along with ratification by the Governor, the Senate and the House of Representatives write, prepare and approve legislative bills to allocate the state's available resources each fiscal year. The Office receives an appropriation from this legislative process over which the Treasurer is authorized to assign amounts to specific purposes. The Office is in the midst of several multi-year projects to replace outdated unsupported systems and related hardware for better management and greater efficiency. Additional projects are underway for succession planning to reasonably ensure the success of continuing operations and for coordinating financial literacy and financial education resources to ensure all Oklahomans have access to information and tools to help them reach their financial goals. It is expected that the costs of these ongoing efforts will



exceed the Office's remaining fund balance as of June 30, 2014, accordingly, the entire amount has been reflected as assigned.

The committed and assigned fund balances are considered to be unrestricted fund balance. Generally when the Office has both restricted and unrestricted resources available, the restricted balances will be used first as expenditures are incurred as long as conditions that created the restriction are met. When unrestricted fund balance is used, the order of use would generally be committed and then assigned.

### **Fiduciary Fund**

Fiduciary 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 \$2,500, information systems equipment over \$500 and that may be used repeatedly without material impairment of its physical condition that 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.

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, 2014.

	Balance June 30, 2013	Increases	Decreases	Balance June 30, 2014
Compensated Absences	\$ 252,992	160,348	148,772	\$ 264,568

## 2. Deposits

The **custodial credit risk** for deposits is the risk that in the event of a bank failure, the State's deposits may not be recovered. In accordance with Title 62 O.S. § 72.4, the State Treasurer minimizes custodial credit risk by requiring 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).

## 3. 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 or state agencies; 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, certificates of deposit and foreign bonds.

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 State Treasurer operates an internal investment pool, OK Invest, for state funds and state agencies. Only those agencies and funds that are considered to be part of the State's reporting entity in the State's Comprehensive Annual Financial Report and who have funds deposited with the State Treasurer may participate in OK Invest.

### **Investment Policy**

The State Treasurer has a formal investment policy which was updated in June 2014. This policy applies to all funds of the State entrusted to the Treasurer by specific statutory investment authority as delineated in Title 62 O.S. § 89.2. This policy also applies to the investments of state agencies when they request that the Treasurer act as their agent. Only investment transactions relating to the following are covered by this policy: U.S. Treasury Bills, Notes and Bonds, U.S. Government Agency Securities, collateralized or insured Certificates of Deposit and other evidences of deposit, negotiable Certificates of Deposit, Banker's acceptances, Commercial paper, obligations of state and local governments, including obligations of Oklahoma State public trusts, repurchase agreements and tri-party repurchase agreements, money market mutual funds, short term bond funds and foreign government bonds.

**Credit Risk** is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Generally, the State's investing activities are managed under the custody of the State Treasurer. The following table details credit ratings that are set by the State Treasurer's Investment Policy to mitigate this risk.

**Custodial Credit Risk** is the risk that in the event of the failure of a counterparty, the State 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, not registered in the name of the State, or held by the counterparty or its trust department but not in the State's name.

**Concentration of Credit Risk** is the risk of loss attributed to the magnitude of the Treasurer's investments in a single issuer. As the following table depicts, the State Treasurer's Investment Policy places limits on the total dollar amount that may be invested in each investment type as well as a limit on the amount placed with each issuer or counterparty.

**Interest Rate Risk** is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. Investments made by the State Treasurer are covered by the State Treasurer's Investment Policy. This policy dictates that the Treasurer's portfolio will not have an average maturity greater than four (4) years. Investments are made based upon prevailing market conditions at the time of the transaction with the intent to hold the instrument until maturity. In accordance with the Treasurer's Investment Policy, interest rate risk is managed by imposing maturity limitations by investment types.

The State Treasurer's Investment Policy uses diversification as a means to reduce overall portfolio risk. Investments are diversified by security type, institution and maturity. With the exception of U.S. Treasury securities, no more than 50% of the State's total funds available for investment will be invested in a single security type or with a single financial institution. The Treasurer's portfolio will not have an average maturity greater than four (4) years, unless otherwise designated by the Treasurer. Individual security type limits are shown in the following table. All investments held by the State Treasurer's office are insured, registered, or held in the name of the State Treasurer of Oklahoma.

The following table outlines the diversification limits to control different types of risk placed on the Treasurer's portfolio as detailed in the State Treasurer's Investment Policy:

Office of the State Treasurer of Oklahoma  
Financial Statement Report  
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<u>Investment Type Limitations</u>	<u>Percentage of Total Invested</u>	<u>By Issuer</u>	<u>Maturity Limit</u>	<u>Rating</u>
U.S. Government Agency Securities	50%	35%	10 years	Aaa or AAA
U.S. Government Agency Mortgage Backed Securities – Passthroughs (as a % of U.S. Government Agency)	45% of U.S. Government Agency Securities	No Limit	(7)	Aaa or AAA
Collateralized or Insured Certificates of Deposit	Limit of \$35,000,000 per financial institution		365 days (1) (4)	
Negotiable Certificates of Deposit	7.5%	2.5%	180 days (1)	A-1 or P-1
Banker's Acceptance	7.5%	2.5%	270 days	A-1 & P-1
Commercial Paper	7.5%	2.5%	180 days	A-1 & P-1
State & Local Government Obligations	10%	5%	30 years	(2) (6)
Repurchase Agreements and Tri-party Repurchase Agreements	30%	10% (per counterparty)	14 days (1) (4)	(3)
Money Market Mutual Funds	30%	10%	1 day (1) (5)	AAA
Foreign Government Bonds	2.5%	2.5%	5 years	A-/A3 or better

- (1) Excluding weekends and holidays
- (2) Must possess the highest rating from at least one nationally recognized statistical rating organization.
- (3) Counterparties must have a minimum short-term debt rating of A-1, or the equivalent by Moody's Investor Service and Standard and Poor's.
- (4) Collateralized according to Title 62 O.S. § 72.5.
- (5) Investments made by Money Market Mutual Funds which consist of repurchase agreements are collateralized by obligations of U.S. government and its agencies and instrumentalities.
- (6) Interest rate of variable rate securities must be tied to one of the following indices: LIBOR, Fed Funds, Treasury Bills or Commercial Paper and must reset no less frequently than quarterly.
- (7) Average life not to exceed seven (7) years based on Bloomberg Prepayment Speed using street consensus at the time of purchase.

**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. Securities under loan are maintained in the State's financial records. Corresponding liabilities are recorded at fair value.

During the fiscal year ended June 30, 2014, 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. Cash collateral is invested in instruments of the same type the Treasurer is allowed to invest in by statute. 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 fails 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. As of June 30, 2014, no securities were on loan, therefore there was no underlying collateral.

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Office of the State Treasurer of Oklahoma  
Financial Statement Report  
For the Year Ended June 30, 2014

The following schedule compares the cost or amortized cost to the fair value of investments held in the Fiduciary Funds at June 30, 2014:

TYPE OF INVESTMENT	FAIR VALUE	AMORTIZED COST	AVERAGE CREDIT QUALITY RATING (1)	WEIGHTED AVERAGE MATURITY (DAYS) (2)
<b>TREASURER'S PORTFOLIO</b>				
<b><u>POOLED INVESTMENTS</u></b>				
U.S. TREASURY TIPS	\$ 93,803,075	\$ 75,774,517	AA+ (5)	1,034
SECURITIES LENDING COLLATERAL POOL	0	0	NR	
U.S. AGENCIES	2,914,435,450	2,920,112,868	AA+ (5)	543
MORTGAGE BACKED AGENCIES	2,668,601,543	2,614,650,088	AA+ (5)	1,912
FOREIGN BONDS	50,000,000	50,000,000	NR	945
MUNICIPAL BONDS	108,140,161	97,644,316	(6)	2,012
CERTIFICATES OF DEPOSIT	165,216,000	165,216,000	NR	68
END OF DAY COMMERCIAL PAPER SWEEP	133,937,469	133,937,469	A-1	1
MONEY MARKET MUTUAL FUND	307,295,890	307,295,890	AAA	1
	<u>\$ 6,441,429,588</u>	<u>\$ 6,364,631,148</u>		
<b><u>NON-POOLED INVESTMENTS</u></b>				
STATE BOND ISSUE	61,200,000	61,200,000	(4)	51
	<u>\$ 61,200,000</u>	<u>\$ 61,200,000</u>		
<b>TOTAL TREASURER'S INVESTMENTS</b>	<u><u>\$ 6,502,629,588</u></u>	<u><u>\$ 6,425,831,148</u></u>		
<b>STATE AGENCY PORTFOLIO</b>				
U.S. TREASURY	\$ 191,622	\$ 170,791	AA+ (3)	1,050
MUTUAL FUND	2,278,477	1,108,894	N/A (3)	N/A
<b>TOTAL STATE AGENCY PORTFOLIO</b>	<u><u>\$ 2,470,099</u></u>	<u><u>\$ 1,279,685</u></u>		

Office of the State Treasurer of Oklahoma  
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	FAIR VALUE	AMORTIZED COST
<b>INVESTMENTS SUMMARY</b>		
U.S. TREASURY		\$ 75,945,308
NOT ON SECURITIES LOAN	\$ 93,994,697	
U.S. AGENCIES		5,534,762,956
NOT ON SECURITIES LOAN	5,583,036,993	
COMMERCIAL PAPER		
INVESTMENTS		
CERTIFICATES OF DEPOSIT	165,216,000	165,216,000
END OF DAY CP SWEEP	133,937,469	133,937,469
FOREIGN BONDS	50,000,000	50,000,000
STATE BOND ISSUE	61,200,000	61,200,000
MUNICIPAL BONDS	108,140,161	97,644,316
MUTUAL FUND	2,278,477	1,108,894
MONEY MARKET MUTUAL FUND	307,295,890	307,295,890
<b>TOTAL INVESTMENTS</b>	<b>\$ 6,505,099,687</b>	<b>\$ 6,427,110,833</b>

(1) Ratings are provided where applicable to indicate associated Credit Risk. N/A indicates not applicable.

(2) Interest Rate Risk is estimated using weighted average days to maturity.

(3) These agency directed investments are not covered by the State Treasurer's Investment Policy.

(4) State Bond issues are comprised of \$21,200,000 Oklahoma Student Loan Authority municipal bond with no rating. The interest rate resets quarterly and is tied to the average bond equivalent rates of the quotes of the 3-month commercial paper rate. Also included is \$40,000,000 Oklahoma Industrial Finance Authority State of Oklahoma Taxable General Obligation Refunding Bonds. These rates, adjusted quarterly, are tied to the 3 month LIBOR rate and are private placement.

(5) These securities are implicitly or explicitly guaranteed by the U.S. Government.

(6) All Municipal Bonds possessed a AAA rating when purchased. As of June 30, 2014, 13.26% had a rating of AAA, 33.75% were rated AA+, 27.34% were rated AA, 9.22% were rated AA-, and 16.43% were rated A+.

**4. Interfund Accounts**

**Due to the Fiduciary Fund/ Due from the General 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 Office pays the Office of Management and Enterprise Services for payroll, purchasing, accounts payable and information technology services. The balance of unpaid service charges and unclaimed property revenues at year end are netted against the amount due to other state agencies and reflected as Due from the fiduciary fund/Due to the general fund.

**5. Operating Leases**

The Office of the State Treasurer has entered into an operating lease agreement for the copy machines used for the operations of the agency. The lease on the copy machines is effective until June 30, 2015 and the payments are based on usage; therefore, future payments are estimated based on historical information and the agency expects the payments to be \$25,000 for the period ended June 30, 2015.

**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, 2014. Capital Assets increased with the purchase and implementation of cash management and web based disbursement and deposit processing applications. These systems replace COBOL based systems that had reached the end of their product life cycle and were no longer supported by the application software vendors.

	Balance June 30, 2013	Capital Acquisitions	Completed Development	Balance June 30, 2014
Capital assets not being depreciated	\$ 1,727,762	80,949	(283,196)	\$1,525,515
Development in progress				
Capital assets being depreciated	67,796	19,605	283,196	370,597
Furniture, fixtures, and office equipment				
Less: accumulated depreciation	(57,330)	(33,633)	(-)	(90,963)
Total	<u>\$1,738,228</u>	<u>66,921</u>	<u>-</u>	<u>\$1,805,149</u>

**7. Bank Service Fees**

During the year, the Office incurred fees for services rendered by various financial institutions. Service charges of \$320,267 were paid, as reflected in the financial statements; other charges were offset by earnings calculated on the compensating cash balances maintained in various



banks. The current interest rate environment where overnight rates at times were zero percent and the decline in securities lending revenue caused the Treasurer's Office to use earnings credit to offset bank service fees. The total bank fees offset in the current year was approximately \$375,000.

**8. Risk Management**

The Division of Capital Assets Management of OMES 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 Division of Capital Assets Management 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 Division of Capital Assets Management 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 Division of Capital Assets Management is also charged with the responsibility to immediately notify the Attorney General of any claims against the State presented to the Division of Capital Assets Management.

**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 issue 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, 2014, are listed below: Elected officials must select an employee contribution rate of 4.5%, 6.0%, 7.5%, 8.5%, 9.0% or 10%. Officials first elected or appointed after November 1, 2011 the employee contribution rate is 3.5%

<u>State Employee Contribution</u>	<u>State Agencies' Contribution</u>
<u>All Salaries</u>	<u>All Salaries</u>
3.5%	16.5%

The Office's contributions to the Plan for the years June 30, 2014 - \$358,142; June 30, 2013 - \$357,053; June 30, 2012 - \$389,146; were equal to the established required contributions for each year.

**10. Other Post Employment Benefits (OPEB)**

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 post employment 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.

**11. Interagency Services Agreement**

The Office entered into an agreement with the Office of Management and Enterprise Services (OMES) to obtain all information technology and telecommunication services. Pursuant to this agreement the Office transferred all information technology and telecommunications assets, including completed implementation projects. The cost of this agreement for fiscal year 2014 is \$940,910.



**OFFICE OF THE STATE TREASURER**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (BUDGETARY BASIS)**  
**GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Budgeted Amounts</u>			<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues</b>				
Unclaimed Property	\$ 3,930,284	\$ 5,080,284	\$ 6,229,280	\$ 1,148,996
Service Charges	41,000	41,000	60,933	19,933
Administrative Charges	288,000	288,000	468,841	180,841
Securities Lending	600,000	600,000	380,367	(219,633)
Other Income	1,000	1,000	1,423	423
Total Revenues	<u>4,860,284</u>	<u>6,010,284</u>	<u>7,140,844</u>	<u>1,130,560</u>
<b>Expenditures</b>				
Personnel Services	6,953,443	8,674,287	6,735,295	(1,938,992)
Travel	76,139	76,139	39,083	(37,056)
Administrative Expenses	168,007	168,009	128,665	(39,344)
Building Renovation	0	0	6,380	6,380
Contracted Services	360,160	375,160	52,234	(322,926)
Capital Outlay - Systems Development	0	0	80,950	80,950
Equipment	100,145	375,145	35,346	(339,799)
Other	0	0	779	779
Bank Service Charges	700,000	700,000	337,218	(362,782)
Bank Service Charges - Securities Lending	0	0	57,934	57,934
Payment to Counties	100,000	100,000	100,000	0
Total Expenditures	<u>8,457,894</u>	<u>10,468,740</u>	<u>7,573,884</u>	<u>(2,894,856)</u>
Excess of revenues over (under) expenditures	<u>(3,597,610)</u>	<u>(4,458,456)</u>	<u>(433,041)</u>	<u>4,025,415</u>
<b>Other financing sources (uses)</b>				
Appropriations	3,553,873	3,553,873	3,553,873	-
Transfers	0	0	(4,549,547)	(4,549,547)
Total other financing sources (uses)	<u>3,553,873</u>	<u>3,553,873</u>	<u>(995,674)</u>	<u>(4,549,547)</u>
Net change in fund balance	(43,737)	(904,583)	(1,428,715)	(524,132)
Fund balance, July 1, 2013	<u>7,558,234</u>	<u>7,558,234</u>	<u>7,558,234</u>	<u>-</u>
Fund balance, June 30, 2014	\$ <u><u>7,514,497</u></u>	\$ <u><u>6,653,651</u></u>	\$ <u><u>6,129,519</u></u>	\$ <u><u>(524,132)</u></u>

Office of the State Treasurer of Oklahoma  
Financial Statement Report  
For the Year Ended June 30, 2014

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The Schedule 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, 2014, is presented as follows:

General Fund Balance, Budgetary Basis	6,129,519
Basis Differences:	
Add: Net Service and Administrative Charges	(17,360)
Net increase in accrued Unclaimed Property revenue	359,663
Encumbrances recognized as expenses	122,769
Net increase in accrued securities lending revenue	4,900
 Difference in July 1, 2013 GAAP basis fund balance, compared to budget basis fund balance	 824,758
Subtract: Prior years Encumbrances	<u>(171,236)</u>
 Total General Fund Balance – GAAP Basis	 <u>\$7,253,014</u>

**OFFICE OF THE STATE TREASURER  
SUPPLEMENTAL SCHEDULE  
EXPENDITURES BY OBJECT CODE-(BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

<b>OBJECT CODE</b>	<b>CATEGORY</b>	<b>AMOUNT</b>
1100	Salary Expense	\$ 2,294,839
1200	Insurance	492,692
1300	FICA & Retirement	541,372
1500	Professional Services	3,405,527
1900	Inter/Intra Agency Payments Professional Services	866
2100	Travel-Reimbursement	11,334
2200	Travel-Direct Expense	27,750
3100	Miscellaneous Administrative Expense	112,281
3100	Bank Service Charges	337,218
3100	Bank Service Charges Securities Lending	57,934
3200	Rent Expense	29,393
3300	Maintenance and Repair Expense	22,841
3600	Office Expense	16,384
4100	Office Furniture and Equipment	35,346
4600	Building Renovation	6,380
5200	Employee Recognition Awards	510
5300	Refunds, Indemnities and Restitution	247
5400	Capital Outlay – System Development	80,950
6100	Employee Reimbursements	20
6200	County Treasurers	100,000
Total		\$ 7,573,884



# Oklahoma State Auditor & Inspector

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## **INDEPENDENT AUDITOR'S 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**

### **TO THE HONORABLE KEN MILLER STATE TREASURER OF OKLAHOMA**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Office of the State Treasurer, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Office of the State Treasurer's basic financial statements, and have issued our report thereon dated December 31, 2014. The report includes an emphasis of matter paragraph stating that the financial statements of the Office of the State Treasurer are intended to present the financial position and results of daily operations of only that portion of the State of Oklahoma attributable to the transactions of the Office of the State Treasurer.

### **Internal Control Over Financial Reporting**

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

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

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

## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

This report is also a public document pursuant to the Open Records Act (51 O.S. § 24A.1 et seq.), and shall be open to any person for inspection and copying.



GARY A. JONES, CPA, CFE  
OKLAHOMA STATE AUDITOR AND INSPECTOR

December 31, 2014





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