



OFFICE OF THE STATE TREASURER

Financial Audit

For the fiscal year ended June 30, 2020

Cindy Byrd, CPA
State Auditor & Inspector

**OFFICE OF THE STATE TREASURER OF OKLAHOMA
FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**



Cindy Byrd, CPA | State Auditor & Inspector

2300 N. Lincoln Blvd., Room 123, Oklahoma City, OK 73105 | 405.521.3495 | www.sai.ok.gov

December 16, 2021

**TO THE HONORABLE KEVIN STITT
GOVERNOR OF THE STATE OF OKLAHOMA**

This is the audit report and the financial statements of the Office of the State Treasurer for the year ended June 30, 2020. 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.

This report is 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.

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 that reads "Cindy Byrd". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

CINDY BYRD, CPA
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, 2020**

	Page
Independent Auditor's Report	1
Management's Discussion and Analysis	4
Basic Financial Statements	
Government-wide Statement of Net Position	10
Government-wide Statement of Activities	11
Balance Sheet – Governmental Fund	12
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position	13
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Fund	14
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of the Governmental Fund to the Statement of Activities	15
Statement of Fiduciary Fund Net Position	16
Notes to the Financial Statements	17
Required Supplementary Information	
Schedule of Related Ratios – Oklahoma Public Employees Retirement Plan	42
Schedule of Contributions – Oklahoma Public Employees Retirement Plan	43
Schedule of Proportionate Share of the Net OPEB Liability – Oklahoma Public Employees Health Insurance Subsidy Plan	44
Schedule of Contributions – Oklahoma Public Employees Health Insurance Subsidy Plan ...	45
Schedule of Proportionate Share of the Total Net OPEB Liability – Implicit Rate Subsidy of Health Insurance OPEB Liability	46
Other Information	
Expenditures by Object Code – General Fund	48
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	49



Cindy Byrd, CPA | State Auditor & Inspector

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INDEPENDENT AUDITOR'S REPORT

**TO THE HONORABLE RANDY MCDANIEL
STATE TREASURER OF OKLAHOMA**

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Office of the State Treasurer (OST), as of and for the year ended June 30, 2020, 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 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 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Office of the State Treasurer, as of June 30, 2020, 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 Matter

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 general fund 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, 2020, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity 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, the pension schedules and related ratios, and OPEB schedules and related ratios as listed in the table of contents 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 Expenditures by Object Code schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Expenditures by Object Code schedule has 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 it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2021, 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 solely 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 effectiveness of the Office of the State Treasurer's 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.



CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR AND INSPECTOR

November 1, 2021

MANAGEMENT'S DISCUSSION & ANALYSIS

Office of the State Treasurer of Oklahoma
Management's Discussion and Analysis
June 30, 2020

Management of the Office of the State Treasurer of Oklahoma provides this Management's Discussion and Analysis (MD&A) as an overview of the Office of the State Treasurer's financial activities for the fiscal year ended June 30, 2020. 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 2020 fiscal year; the statement reports all assets, deferred outflows, liabilities, and deferred inflows, using the accrual basis of accounting. The Statement of Activities reports all of the revenues and expenses during the time periods indicated.

OFFICE OF THE STATE TREASURER
NET POSITION

	2020	2019
Current Assets	\$ 15,980,666	\$ 13,698,467
Capital Assets	2,006,117	1,856,760
Other Noncurrent Assets	56,931	18,059
Total Assets	<u>18,043,714</u>	<u>15,573,286</u>
 Deferred Outflows – Pension and OPEB	 <u>439,113</u>	 <u>516,511</u>
 Current Liabilities	 517,158	 618,047
Noncurrent Liabilities	<u>430,558</u>	<u>491,426</u>
Total Liabilities	<u>947,716</u>	<u>1,109,473</u>
 Deferred Inflows – Pension and OPEB	 <u>207,405</u>	 <u>252,991</u>
 Invested in capital assets	 2,006,117	 1,856,760
Unrestricted	<u>15,321,589</u>	<u>12,870,573</u>
Total Net Position	\$ <u>17,327,706</u>	\$ <u>14,727,333</u>

As of June 30, 2020, the Office of the State Treasurer's increase in current and total assets was primarily attributable to an increase in cash position as a result of yearly program revenues exceeding program expenditures.

Unrestricted Net Position primarily includes funds received for the administration of the Unclaimed Property Program in excess of program expenses, funds received from securities lending for the payment of bank fees pursuant to state statute in excess of amounts expended for bank fees, and funds received for bond advisory services in excess of expenses related to bond oversight. Also included is other funding internally designated for capital projects such as systems development and hardware replacement. The increase in unrestricted net position in FY 2020 is primarily attributable to net revenues from the administration of the Unclaimed Property Program in excess of program expenditures, the continued use of compensating balances to offset certain banking fees, and ongoing efforts to minimize expenses in response to statewide budgetary failures.

Statement of Activities - Revenues and Expenses

Four percent (4%) 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. Gross receipts to the unclaimed property administration fund decreased by approximately \$2 million from FY 2019 to FY 2020 resulting in a \$100,000 decrease in agency revenues for program administration.

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 received a 2.78% increase in the FY 2020 General Revenue appropriation.

Banking fees net of the offset increased from approximately \$127,000 in FY 2019 to \$258,000 in FY 2020.

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OFFICE OF THE STATE TREASURER
STATEMENT OF ACTIVITIES

	2020	2019
General Revenues		
Appropriations	\$ 2,856,928	\$ 2,779,268
Unclaimed Property	5,379,692	5,479,258
Administrative Charges	1,327,900	899,396
Service Charges	26,211	19,565
Securities Lending	220,331	208,360
Total General Revenues	<u>9,811,062</u>	<u>9,385,847</u>
Expenses		
Personnel Services	6,355,474	6,408,663
Contracted Services	238,907	142,152
Administrative Expenses	152,457	227,644
Bank Service Charges	258,238	127,180
Bank Service Charges Sec. Lending	44,065	41,896
Travel	23,012	37,674
Equipment	30,715	20,229
Other	1,336	855
Payments to Counties	95,000	95,000
Depreciation	11,485	49,942
Total Expenses	<u>7,210,689</u>	<u>7,151,235</u>
Excess Before Transfers	2,600,373	2,234,612
Transfers	<u>0</u>	<u>(190)</u>
Increase (Decrease) in Net Position	2,600,373	2,234,422
Net Position Beginning Balance	<u>14,727,333</u>	<u>12,492,911</u>
Net Position Ending Balance	<u>\$ 17,327,706</u>	<u>\$ 14,727,333</u>

Fund Highlights:

Governmental Fund - Fund Balance

The Office of the State Treasurer transferred \$0 and \$0 in excess funds after June 30, 2019 and 2020 respectively, from the unclaimed property administration fund to the State's Special Cash Fund.

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 an economic resources

measurement focus and a full accrual basis of accounting 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 Financial Statements

The fund financial statements include the Governmental Fund 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 and administers the Oklahoma Unclaimed Property Program. 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 of the State 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:

Kiranmaye Nallayahgari, Assistant Treasurer for Operations or
Phyllis Chan, Director of Portfolio Accounting & Reporting
2300 N. Lincoln Blvd. Room 217
Oklahoma City, OK 73105

BASIC FINANCIAL STATEMENTS

OFFICE OF THE STATE TREASURER
Government-Wide
Statement of Net Position
June 30, 2020

<u>Assets</u>	
Cash	\$ 15,165,808
Due from the Fiduciary Fund	814,858
Total current assets	<u>15,980,666</u>
Capital Assets, net of Accumulated Depreciation	
Furniture, Fixtures, and Equipment	7,141
Capital Assets - Development in Progress	1,998,976
Net OPEB HISP Asset	56,931
Total noncurrent assets	<u>2,063,048</u>
Total assets	<u>18,043,714</u>
Deferred outflows of resources:	
Deferred amounts related to the pension	387,927
Deferred amounts related to OPEB HISP	41,119
Deferred amounts related to OPEB IRSHIP	10,067
Total deferred outflows	<u>439,113</u>
<u>Liabilities</u>	
Accounts Payable Vendors	358,614
Accrued Payroll Expenses	4,861
Compensated Absences-payable within one year	153,683
Total current liabilities	<u>517,158</u>
Net Pension Liability - Noncurrent	195,051
Total IRSHIP OPEB Liability - Noncurrent	107,450
Compensated Absences-payable after one year	128,057
Total noncurrent liabilities	<u>430,558</u>
Total liabilities	<u>947,716</u>
<u>Deferred inflows of resources:</u>	
Deferred amounts related to the pension	104,752
Deferred amounts related to OPEB HISP	74,045
Deferred amounts related to OPEB IRSHIP	28,608
Total deferred inflows	<u>207,405</u>
<u>Net Position</u>	
Invested in Capital Assets	2,006,117
Unrestricted	15,321,589
Total Net Position	<u>\$ 17,327,706</u>

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

OFFICE OF THE STATE TREASURER
Government-Wide
Statement of Activities
June 30, 2020

Expenses

Governmental Activities - General Government:

Personnel Services	\$ 6,355,474
Travel	23,012
Administrative Expenses	152,457
Contracted Services	238,907
Equipment	30,715
Other	1,336
Bank Service Charges	258,238
Bank Service Charges Securities Lending	44,065
Payments to Counties	95,000
Depreciation	11,485
Total Expenses	<u>7,210,689</u>

General Revenues

Appropriations	2,856,928
Unclaimed Property	5,379,692
Service Charges	26,211
Administrative Charges	1,327,900
Securities Lending	220,331
Total General Revenues	<u>9,811,062</u>

Change in Net Position	2,600,373
Net Position, July 1, 2019	14,727,333
Net Position, June 30, 2020	<u>\$ 17,327,706</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, 2020

	<u>General Fund</u>
<u>Assets</u>	
Cash	\$ 15,165,808
Due from the Fiduciary Fund	814,858
Total Assets	<u>15,980,666</u>
<u>Liabilities and Fund Balance</u>	
Liabilities	
Accounts Payable Vendors	358,614
Accrued Payroll Expenses	4,861
Total Liabilities	<u>363,475</u>
Fund Balance	
Committed to:	
Unclaimed Property Program Administration	8,388,113
Banking Fees	632,793
Bond Oversight	167,873
Assigned to:	
Compensated Absences and Succession Planning	322,000
Hardware Replacement and Systems Development	6,106,412
Total Fund Balance	<u>15,617,191</u>
Total Liabilities and Fund Balance	<u>\$ 15,980,666</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, 2020

Total Fund Balance - Governmental Fund	\$	15,617,191
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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		7,141
Development in Progress		1,998,976

Long-term assets not available to pay current
fund liabilities and therefore, are deferred or
not reported in the fund.

Net OPEB HISP Asset		56,931
Pension Related Deferred Outflows		387,927
OPEB HISP Related Deferred Outflows		41,119
OPEB IRSHIP Related Deferred Outflows		10,067

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

Compensated Absences		(281,740)
Net Pension Liability		(195,051)
Total IRSHIP OPEB Liability		(107,450)

Deferred inflows related to the pension and
OPEB are not due and payable in the
current period and therefore are not reported
in the fund.

(207,405)

Net Position of Governmental Activities	\$	<div style="border-top: 1px solid black; border-bottom: 3px double black; display: inline-block; padding: 2px 10px;">17,327,706</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 Revenues, Expenditures
and Changes in Fund Balance
Governmental Fund
June 30, 2020

	<u>General Fund</u>
<u>Revenues</u>	
Unclaimed Property	\$ 5,379,692
Service Charges	26,211
Administrative Charges	1,327,900
Securities Lending	220,331
Total Revenues	<u>6,954,134</u>
<u>Expenditures</u>	
Personnel Services	6,432,771
Travel	23,012
Administrative Expenses	152,457
Contracted Services	238,907
Equipment	191,556
Other	1,336
Bank Service Charges	258,238
Bank Service Charges Securities Lending	44,065
Payments to Counties	95,000
Total Expenditures	<u>7,437,342</u>
<u>Revenues Over (Under) Expenditures</u>	<u>(483,208)</u>
Other Financing Sources (Uses)	
Appropriations	<u>2,856,928</u>
Total Other Financing Sources (Uses)	2,856,928
Net Change In Fund Balance	2,373,720
Fund Balance, July 1, 2019	<u>13,243,471</u>
Fund Balance, June 30, 2020	\$ <u>15,617,191</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
June 30, 2020

Net Change in Fund Balance - Governmental Fund	\$	2,373,720
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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.		149,356
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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.		(41,030)
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This amount represents the increase in the net pension and OPEB liabilities \$202,687, the increase in deferred outflows (\$77,397) and the decrease in deferred inflows (\$6,963) during the current period.		118,327
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Change in net position of governmental activities	\$	2,600,373
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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 Net Position
Fiduciary Fund
June 30, 2020

	<u>Agency Fund</u>
<u>Assets</u>	
Cash	
Cash and Cash Equivalents	\$ 1,650,188,881
Investments	
Treasurer's Portfolio	
OK Invest Portfolio	7,508,821,895
OIFA Bonds	30,000,000
Escrow Funds	1,585,580
State Agency Portfolio	2,338,711
Total Investments	<u>7,542,746,186</u>
Interest Receivable	
OK Invest Portfolio	26,854,697
Money Market Mutual Funds	151,517
General Revenue Portfolio	855
Total Interest Receivable	<u>27,007,069</u>
Total Assets	<u>\$ 9,219,942,136</u>
<u>Liabilities</u>	
Balance Due Depositors	
State Government Entities	\$ 8,022,235,576
State Government Entities - Escrow	1,585,580
State Government Entities Investments	2,338,711
CARES Act	1,194,597,127
Total Due Depositors	<u>9,220,756,994</u>
Due to the General Fund	(814,858)
Total Liabilities	<u>\$ 9,219,942,136</u>

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

FOOTNOTES TO THE FINANCIAL STATEMENTS

OFFICE OF THE STATE TREASURER
Notes to the Financial Statements
For the State Fiscal Year Ended June 30, 2020

1. Summary of Significant Accounting Policies

The accompanying financial statements of the Office of the Oklahoma State Treasurer (the Office) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

The accompanying financial statements are intended to present the financial position and results of operations of only that portion of the State of Oklahoma that is attributable to the transactions of the Office.

A. Reporting Entity

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. In January 2019 the Honorable Randy McDaniel 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 monitors the collateralization of state funds on deposit in state banks and performs 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 banks and with the various state agencies. The 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, debt management, and investment services rendered by the 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.

OFFICE OF THE STATE TREASURER
Notes to the Financial Statements
For the State Fiscal Year Ended June 30, 2020

Fund Financial Statements

The fund financial statements present the 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 Office 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 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.

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 O.S. § 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 O.S. § 90 of the Oklahoma Statutes the Office receives funds from the securities lending program to pay banking fees. Pursuant to Title 62 § 695.8 the Office receives funds from the proceeds of bond issues approved by the Council of Bond Oversight for expenses related to the Oklahoma Bond Oversight and Reform Act.

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 State Treasurer is authorized to assign amounts to specific purposes. The Office is in the midst of several multi-year projects to upgrade or replace outdated unsupported systems and related hardware for better management and greater efficiency. Additionally, some Office employees may retire in the next few years,

OFFICE OF THE STATE TREASURER
Notes to the Financial Statements
For the State Fiscal Year Ended June 30, 2020

consequently succession planning is underway to reasonably ensure the success of continuing operations. It is expected that the costs of these ongoing efforts will exceed the Office's remaining fund balance as of June 30, 2020, accordingly, the entire amount has been reflected as assigned.

The committed and assigned fund balances are unrestricted fund balances. 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. Cash and Cash Equivalents

The State uses a pooled cash concept in maintaining its bank accounts and other cash equivalents. All cash is pooled for operating and investment purposes and the Office has relative equity in the pooled amount. Interest earned on the Office's equity is allocated to the State's General Fund. Cash equivalents are defined as short-term, highly liquid investments with a maturity of three months or less that are readily convertible to cash.

D. Investment Holdings and Basis

Investments are generally stated at fair value, except for investments in nonparticipating interest-earning investment contracts (e.g. nonnegotiable certificates of deposit) which are stated at cost, or amortized cost which approximates market value. The Office categorizes its fair value measurements within a specified fair value hierarchy as further described in Note 3. The \$35.6 million conversion revaluation from FY18 is being carried forward until it is offset by future inflows. With \$2.5 million offset during FY20, the amount being carried forward on 6/30/2020 is \$33.1 million.

E. Capital Assets

All furniture, fixtures, and equipment costing more than \$2,500 and information systems equipment over \$500 that may be used repeatedly without material impairment of its physical condition and 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

OFFICE OF THE STATE TREASURER
Notes to the Financial Statements
For the State Fiscal Year Ended June 30, 2020

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.

F. 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, 2020.

	Balance June 30, 2019	Increases	Decreases	Balance June 30, 2020
Compensated Absences	\$ 240,709	176,634	135,603	\$ 281,740

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 and a temporary CARES Act balance:

- Treasurer's Portfolio – for the investments of all state monies under the control of the Treasurer for which the earnings accrue to the General Fund of the State or state agencies;
- 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;
- CARES Act balance – At June 30, 2020 the State of Oklahoma had a balance of approximately \$1.2 billion provided to the State from the Coronavirus Aid, Relief and Economic Security Act. These funds are earmarked for pandemic related expenditures and are invested in overnight government money market mutual funds.

OFFICE OF THE STATE TREASURER
Notes to the Financial Statements
For the State Fiscal Year Ended June 30, 2020

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 securities, U.S. agency and instrumentality obligations, SEC-registered money market mutual funds, Certificates of Deposit, municipal 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. State agency's investments are generally of 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 June 30, 2020. 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, 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, unless otherwise designated by the Treasurer. Investments are

OFFICE OF THE STATE TREASURER
Notes to the Financial Statements
For the State Fiscal Year Ended June 30, 2020

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 obligations fully insured or unconditionally guaranteed as to the payment of principal and interest by the U.S. government, 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. 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:

Security	Maximum			
	Allowable Investment	Issuer	Maturities	Rating
Treasuries	No Limit	No Limit	10 Years	Aaa, AAA
Agencies	50%	35%	10 Years	Aaa, AAA
Mortgage-Backed Securities	45%	No Limit	7 Years ^D	Aaa, AAA
Certificate of Deposit (Collateralized/Insured)	No Limit	\$20 Million ^A	365 Days ^E	No Limit
Certificate of Deposit (Negotiable)	7.5%	2.5%	180 Days ^E	A-1 & P-1
Commercial Paper	3%	2.5% ^B	180 Days	A-1 & P-1
State & Local Government Obligations	10%	5%	30 Years	F
Repurchase & Tri-Party Repurchase Agreements	10%	5% ^C	14 Days ^E	G
Money Market Mutual Funds	30%	10%	I	AAAm
Foreign Bonds	2.5%	H	5 Years	A-/A3 or better

- A. Subject to the discretion of the State Treasurer to approve a greater amount per financial institution
- B. No more than 5% of outstanding commercial paper of an issuing corporation can be purchased
- C. Per Counterparty
- D. Average life should not exceed 7 years based on Bloomberg Prepayment Speed using street consensus at the time of purchase
- E. Excluding weekends and holidays
- F. Securities must not be less than investment grade at purchase
- G. Counterparties must have a minimum short-term debt rating of A-1, or the equivalent by

OFFICE OF THE STATE TREASURER
Notes to the Financial Statements
For the State Fiscal Year Ended June 30, 2020

- Moody's Investor Service and Standard & Poor's
- H. Must be listed as an industrialized country by the International Monetary Fund
- I. SEC registered 2(A)7 – Weighted average maturity cannot exceed 60 days

Fair Value Measurement

The Office categorizes its fair value measurements, except for investment in nonparticipating interest earning investment contracts (e.g. nonnegotiable certificates of deposit) which are considered cash equivalents, within the fair value hierarchy established by generally accepted accounting principles. Fair value measurement is provided by the custodian for assets they hold using guidelines that recognize a three-tiered fair value hierarchy. The portfolio has the following recurring fair value measurements as of June 30, 2020:

Investment Measured at Fair Value (\$ million)

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	*Valued at Cost, Not Rated by Custodian
Treasurer's Portfolio					
Pooled Investments					
US Treasury Notes	2,509.62	2,509.62			
US Agencies	1,807.74		1,807.74		
Mortgage Backed Agencies	2,987.70		2,987.70		
Foreign Bonds	79.94			79.94	
Municipal Bonds	10.21		10.21		
	7,395.21	2,509.62	4,805.65	79.94	-
Non-Pooled Investments					
State Bond Issue	30.00				30.00
	30.00	-	-	-	30.00
Total Treasurer's Portfolio	7,425.21	2,509.62	4,805.65	79.94	30.00
State Agency Portfolio					
Mutual Funds	2.34	2.34			
Total State Agency Portfolio	2.34	2.34	-	-	-

- Level 1 securities are valued using prices quoted in an active market
- Level 2 securities are comprised of observable market-based inputs, such as a matrix pricing technique inclusive of an evaluated bid methodology
- Level 3 securities are comprised of unobservable inputs

*Valued at cost securities are physical securities held by the Treasurer and not priced by the custodian.

Fair value focuses particular attention on the price that would be received to sell the asset and not the price that would be required to acquire the asset (entry price). The valuation technique used was the "market approach" using prices and other relevant information generated by market transactions involving identical or similar assets, liabilities, or groups of assets and liabilities.

Stated fair value in the financial statements is determined by the custodial relationship existing at June 30, 2020. The custodian's hierarchy level for fixed income is classified as a level 2 assessment due to fair value observable inputs using market-based pricing and an evaluated price provided by an independent pricing vendor or broker/dealer. Reporting at the lowest input level when fair value inputs are from more than one level is guidance from GASB 72.

OFFICE OF THE STATE TREASURER
Notes to the Financial Statements
For the State Fiscal Year Ended June 30, 2020

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. Pursuant to a Securities Lending Agreement, the securities lending agent provides indemnification against borrower default, has written agreements with each borrower, and requires acceptable collateralization of the fair value of the securities loaned. There are no restrictions regarding the amount of securities which may be lent. The maturities of the investments made with cash collateral generally do not match the maturities of the securities loaned. Cash collateral is invested in an investment pool and non-cash collateral is accepted and held by the securities lending agent in the form of obligations issued or guaranteed by the United States Government, its agencies and instrumentalities. The collateral pool is included as an asset on the balance sheet with an offsetting liability for the return of the collateral.

During the fiscal year ended June 30, 2020, the securities lending agent lent U.S. Government Securities on behalf of the Treasurer and received non-cash securities as collateral in the amount of 102% of the fair value of the securities loaned. All security loans could be terminated on demand by either the Treasurer or the borrower. The average maturity on these loans was approximately 207 days. There were no failures by any borrowers to return loaned securities or pay related income distributions during fiscal year 2020.

The fair value of securities loaned at June 30, 2020 was \$244,786,139 collateralized by non-cash securities with a fair value of \$249,839,560. Gross securities lending income for the period ending June 30, 2020 was \$220,331. Related bank fees in the amount of \$44,065 resulted in net securities income in the amount of \$176,266.

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OFFICE OF THE STATE TREASURER
Notes to the Financial Statements
For the State Fiscal Year Ended June 30, 2020

The following schedule compares book value to the fair value of investments held in the Fiduciary Funds at June 30, 2020:

Investment Type	Book Value	Fair Value	Average Credit Quality Rating (1)	Weighted Average Days to Maturity (2)
<u>Pooled Investments</u>				
U.S. Treasury Notes	\$ 2,403,317,498	\$ 2,463,666,150	AAA (5)	548
Securities Lending Col Bonds	241,912,000	244,786,139	AAA/ AA+	0
U.S. Agencies	1,587,622,130	1,608,905,694	AA+ (5)	532
Mortgage Backed Agencies	2,860,474,416	2,987,704,423	AGY(5)	1,109
Foreign Bonds	80,000,000	79,936,340	Not rated	618
Municipal Bonds	9,870,000	10,206,150	(6)	334
Certificates of Deposit	113,617,000	113,617,000	Not rated	62
	<u>\$ 7,296,813,044</u>	<u>\$ 7,508,821,896</u>		
<u>Non-pooled Investments</u>				
State Bond Issues	\$ 30,000,000	\$ 30,000,000	(4)	2,041
	<u>\$ 30,000,000</u>	<u>\$ 30,000,000</u>		
<u>Total Treasurer's Investment</u>	<u>\$ 7,326,813,044</u>	<u>\$ 7,538,821,896</u>		
<u>State Agency Portfolio</u>	<u>\$ 1,108,894</u>	<u>\$ 2,338,710</u>	(3)	
	<u>\$ 1,108,894</u>	<u>\$ 2,338,710</u>		

See explanations following chart on next page.

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OFFICE OF THE STATE TREASURER
Notes to the Financial Statements
For the State Fiscal Year Ended June 30, 2020

Investments Summary

<u>Investment Type</u>	<u>Book Value</u>	<u>Fair Value</u>
US Treasury		
Not on Securities Loan	2,403,317,498	2,463,666,150
On Securities Loan – Bonds Borrowed	45,000,000	45,954,541
On Securities Loan	0	0
US Agency Bonds		
Not on Securities Loan	4,448,096,546	4,596,610,117
On Securities Loan – Bonds Borrowed	196,912,000	198,831,598
On Securities Loan	0	0
Investments Purchased with Cash Collateral	0	0
Repurchase Agreements	0	0
Certificates of Deposit	113,617,000	113,617,000
Foreign Bonds	80,000,000	79,936,340
State Bond Issue	30,000,000	30,000,000
Municipal Bonds	9,870,000	10,206,150
Mutual Fund	1,108,894	2,338,710
	<u>\$ 7,327,921,938</u>	<u>\$ 7,541,160,606</u>

- (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 State of Oklahoma, Oklahoma Industrial Finance Authority, taxable general obligation bonds. Rates adjust quarterly and are tied to the Prime Rate as published in the Wall Street Journal, less a rate ranging of from 2.7% to 2.9% and with a floor of either 1.65% or 2.50%. They are private placement.
- (5) These securities are implicitly or explicitly guaranteed by the U.S. Government and currently a rating is not provided by the nationally recognized statistical rating organization. GASB rating provided by Northern Trust, custodian was Aaa, TSY or AGY
- (6) All Municipal Bonds were rated AA when purchased. As of June 30, 2020, 100% were rated AA-

4. Due from the Fiduciary Fund/ Due to the General Fund

Various charges are applied to individual state agencies for certain banking, debt management, and investment 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 (OMES) for payroll, purchasing, accounts payable and information technology services as further discussed in Note 11. The Office also pays the Offices of the State Auditor and Inspector and the Attorney General for professional 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

OFFICE OF THE STATE TREASURER
Notes to the Financial Statements
For the State Fiscal Year Ended June 30, 2020

as Due from the Fiduciary Fund/Due to the General Fund.

5. Operating Leases

The Office is party to an operating lease for multi-function printing, scanning and copying machines used by the agency, the cost of which depends on usage. FY20 expenditures for these leases was about \$11,000 and \$17,000 is the estimated FY21 expenditure. The Office is also a party to leases of personal computers and laptops for an estimate of \$26,000 in FY21. Unclaimed Property operates from leased office space costing an estimate of \$115,000 for FY21.

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, 2020.

	Balance June 30, 2019	Capital Acquisitions	Sales/ Dispositions	Balance June 30, 2020
Cap. assets not being depreciated	\$1,841,449	157,527	0	\$1,998,976
Development in progress				
Capital assets being depreciated	458,871	3,315	(2,345)	459,841
Furniture, fixtures, and office equipment				
Less accumulated depreciation	<u>(443,560)</u>	<u>(11,485)</u>	<u>2,345</u>	<u>(452,700)</u>
Total	\$1,856,760	149,357	0	\$2,006,117

As further discussed in Note 11, the Office contracts with OMES for technology services. During FY 2020 the office contracted with OMES for \$45,000 to continue the upgrade and development of an application that will be used to process certain electronic banking transactions and for printing checks statewide at implementation in FY2021. All additions to Capital Assets and Development in Progress reflected above were incurred in connection with this contract.

7. Bank Service Fees

During the year, the Office incurred fees for services rendered by various financial institutions. Service charges of approximately \$258,000 were incurred, as reflected in the financial statements; other charges were offset by earnings calculated on compensating cash balances in various banks. Low overnight interest rates and low securities lending revenue caused the Office to use earnings credit to offset bank service fees. Bank fee offset in the current year was approximately \$368,000.

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.

OFFICE OF THE STATE TREASURER
Notes to the Financial Statements
For the State Fiscal Year Ended June 30, 2020

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.

9. Pension Plans

Defined Contribution Plan Description. Employees who begin their employment with the Office on or after November 1, 2015, and do not have prior service credit with the Oklahoma Public Employees Retirement System (OPERS), participate in Pathfinder, a defined contribution retirement savings plan. In a defined contribution plan, no specific benefit is promised to a plan participant. The amount a participant has at retirement under a defined contribution plan is dependent upon how much was contributed and invested over his/her career, how well those investments performed, and how quickly distributions are taken in retirement. During the year ended June 30, 2020 there were 19 Office employees participating in this plan.

Participating employees make a mandatory contribution of 4.5% of their annual salary and the Office contributes 6.0%. Employees may increase their contribution rate to 7.0% of their salary and the Office will contribute 7.0%. Contributions and any earnings grow tax-deferred until money is withdrawn. Participating employees are immediately vested in their contributions and begin vesting in matching employer contributions at 20% after one year of service increasing by 20% each year until reaching 100% after 5 years of service. For the year ended June 30, 2020, the Office contributed \$45,543 and eligible employees contributed \$42,729 to the defined contribution program. Annual financial reporting for Pathfinder is available from OPERS as reflected below.

Defined Benefit Plan Description. The Office contributes to a cost-sharing, multi-employer public employee retirement plan, which is a defined benefit pension plan that is also administered by OPERS. OPERS provides retirement, disability, and death benefits to plan members and beneficiaries. Benefit provisions are established and can be amended by the Oklahoma Legislature. Title 74 of the Oklahoma Statutes, Sections 901 through 943, as amended, provides more complete information about the Plan. OPERS issues a publicly available annual financial report that includes financial statements and required supplementary information for OPERS. That report may be obtained by writing to OPERS, P.O. Box 53007, Oklahoma City, Oklahoma 73152 or by calling 1-800-733-9008, or can be obtained at <http://www.opers.ok.gov/>.

Benefits

OPERS provides members with full retirement benefits at their specified normal retirement age or, for any person who became a member prior to July 1, 1992, when the sum of the member's age and years of credited service equals or exceeds 80 (Rule of 80), and for any person who became a member after June 30, 1992, when the member's age and years of credited service equals or exceeds 90 (Rule of 90).

Normal retirement date is further qualified to require that all members employed on or after January 1, 1983 must have 6 or more years of full-time equivalent employment with a participating

OFFICE OF THE STATE TREASURER
Notes to the Financial Statements
For the State Fiscal Year Ended June 30, 2020

employer before being eligible to receive benefits. Credited service is the sum of participating and prior service. Prior service includes nonparticipating service before January 1, 1975, or the entry date of the employer and active wartime military service. Normal retirement age under the Plan is 62 or Rule of 80/90 if the participant became a member prior to November 1, 2011, or age 65 or Rule of 90 and 60 years of age if the participant became a member on or after November 1, 2011.

A member with a minimum of 10 years of participating service may elect early retirement with reduced benefits beginning at age 55 if the participant became a member prior to November 1, 2011, or age 60 if the participant became a member on or after November 1, 2011.

Disability retirement benefits are available for members having 8 years of credited service whose disability status has been certified as being within 1 year of the last day on the job by the Social Security Administration. Disability retirement benefits are determined in the same manner as retirement benefits, but payable immediately without an actuarial reduction.

For state agency employees, benefits are determined at 2% of the average annual salary received during the highest 36 months of the last 10 years of participating service, but not to exceed the applicable annual salary cap, multiplied by the number of years of credited service. Members who join OPERS on or after July 1, 2013, will have their salary averaged over the highest 60 months of the last 10 years.

Members who elect to pay the additional contribution rate, which became available in January 2004, will receive benefits using a 2.5% computation factor for each full year the additional contributions are made. In 2004, legislation was enacted to provide an increased benefit to retiring members who were not yet eligible for Medicare. The Medicare Gap benefit option became available to members under age 65 who retired on or after May 1, 2006. Members may elect to receive a temporary increased benefit to cover the cost of health insurance premiums until the member is eligible to receive Medicare. After the member becomes eligible for Medicare, the retirement benefit will be permanently reduced by an actuarially determined amount. The option is irrevocable, chosen prior to retirement, and is structured to have a neutral actuarial cost to the plan.

Members become eligible to vest fully upon termination of employment after attaining 8 years of credited service, or the members' contributions may be withdrawn upon termination of employment.

For elected officials, benefits are determined as the greater of the calculation described above or, based on the official's contribution election, either 1.9% or 4.0% of the highest annual covered compensation received as an elected official, but not to exceed the applicable annual salary cap, multiplied by the number of years of credited service. For members elected prior to November 1, 2011, normal retirement age under the Plan is 60 with 6 years of participation as an elected official or Rule of 80. For members elected on or after November 1, 2011, the normal retirement age is 62 with 10 years of participation as an elected official or 65 with 8 years of participation as an elected official. Members elected prior to November 1, 2011 become eligible to vest fully upon termination of employment after attaining 6 years of participating service as an elected official. Members elected on or after November 1, 2011 become eligible to vest fully upon termination of employment after attaining 8 years of participating service as an elected official. The members' contributions may be withdrawn upon termination of employment.

OFFICE OF THE STATE TREASURER
Notes to the Financial Statements
For the State Fiscal Year Ended June 30, 2020

Upon the death of an active member, the accumulated contributions of the member are paid to the member's named beneficiary(ies) in a single lump sum payment. If a retired member elected a joint annuitant survivor option or an active member was eligible to retire with either reduced or unreduced benefits or eligible to vest the retirement benefit at the time of death, benefits can be paid in monthly payments over the life of the spouse if the spouse so elects.

Benefits are payable to the surviving spouse of an elected official only if the elected official had at least 6 years of participating elected service and was married at least 3 years immediately preceding death. Survivor benefits are terminated upon death of the named survivor and, for elected officials, remarriage of the surviving spouse. Upon the death of a retired member, with no survivor benefits payable, the member's beneficiary(ies) are paid the excess, if any, of the member's accumulated contributions over the sum of all retirement benefit payments made.

Upon the death of a retired member, OPERS will pay a \$5,000 death benefit to the member's beneficiary or estate of the member if there is no living beneficiary. The death benefit will be paid in addition to any excess employee contributions or survivor benefits due to the beneficiary.

Legislation was enacted in 1999 which provided a limited additional benefit for certain terminated members eligible to vest as of July 1, 1998. This limited benefit is payable as an additional \$200 monthly benefit upon the member's retirement up to the total amount of certain excess contributions paid by the participant to the Plan. In April 2001, limited benefit payments began for qualified retired members.

Contributions

The contribution rates for each member category of OPERS 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 such contribution rates.

Each member participates based on their qualifying gross salary earned, excluding overtime. There is no cap on the qualifying gross salary earned, subject to IRS limitations on compensation.

Members have the option to elect to increase the benefit computation factor for all future service from 2.0% to 2.5%. The election is irrevocable, binding for all future employment under OPERS, and applies only to full years of service. Those who make the election pay the standard contribution rate plus an additional contribution rate, 2.91% which is actuarially determined. The election is available for all state government employees except elected officials and hazardous duty members. The contribution rates applied to each participating state employee's salary for the fiscal year ended June 30, 2020, are listed below. For officials elected prior to November 1, 2011, the official must select an employee contribution rate of 4.5%, 6.0%, 7.5%, 8.5%, 9.0% or 10.0%. For officials first elected or appointed after November 1, 2011, the contribution rate is 3.5%

For 2020, state agency employers contributed 16.5% on all salary and state employees contributed 3.5% on all salary. The Office's contributions to the Plan for the years June 30, 2020 - \$397,391, June 30, 2019 - \$384,823; June 30, 2018 - \$351,174; June 30, 2017 - \$347,621; June 30, 2016 - \$351,075; June 30, 2015 - \$397,767; were equal to the established required contributions for each year.

OFFICE OF THE STATE TREASURER
Notes to the Financial Statements
For the State Fiscal Year Ended June 30, 2020

Pension Liabilities, Pension Expense, and Deferred Outflows and Inflows of Resources Related to Pensions

At June 30, 2020, the Office reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2019. The Office's proportion of the net pension liability was based on the Office's contributions received by OPERS relative to the total contributions received by OPERS for all participating employers as of June 30, 2019. Based upon this information, the Office's proportion was 0.14644751%.

For the year ended June 30, 2020, the Office recognized pension expense of \$323,667. At June 30, 2020, the Office reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflow of Resources</u>
Difference between expected and actual experience	\$ -	45,898
Net difference between projected and actual plan investment earnings		58,854
Changes in proportionate share	(9,464)	
Changes in assumptions	-	-
Contributions made since measurement date	397,391	-
	<u>\$ 387,927</u>	<u>104,752</u>

Reported deferred outflows of resources of \$397,391, related to pensions resulting from the Office's contributions subsequent to the measurement date, will be recognized as a decrease of the net pension liability in the year ending June 30, 2021. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Years Ending June 30:</u>	<u>Dollars</u>
2021	\$ 6,285
2022	(143,839)
2023	(6,038)
2024	29,375
	<u>\$ (114,217)</u>

Actuarial Assumptions

The total pension liability was determined in an actuarial valuation prepared as of July 1, 2019, using the following actuarial assumptions:

Investment return:	7.00% compounded annually net of investment expense and including inflation
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OFFICE OF THE STATE TREASURER
Notes to the Financial Statements
For the State Fiscal Year Ended June 30, 2020

Salary increases:	3.5% to 9.5% per year including inflation
Mortality rates:	Active participants and nondisabled pensioners: RP-2014 Mort. Table projected to 2025 by Scale MP-2016 (disabled pensioners set forward 12 years)
Annual post-retirement benefit increases:	None
Assumed inflation rate:	2.75%
Payroll growth:	3.5% per year
Actuarial cost method:	Entry age
Select period for the termination of employment assumptions:	10 years
Percent of married employees:	85% Males; 85% Females
Spouse age difference:	Males 4 years older than females
Turnover:	Varies from 1% - 24%
Date of last experience study:	April 13, 2017 for the 3 year period from July 1, 2013 to June 30, 2016

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target asset allocation and best estimates of geometric real rates of return for each major asset class as of June 30, 2019, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Large Cap Equity	38.0%	3.8%
U.S. Small Cap Equity	6.0%	4.9%
Non-US Equity	24.0%	9.2%
U.S. Fixed Income	32.0%	1.4%
Total	100.0%	

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and the employers will be made at the current contribution rate as set out in state statute. Based on those assumptions, OPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determined does not use a municipal bond rate.

OFFICE OF THE STATE TREASURER
Notes to the Financial Statements
For the State Fiscal Year Ended June 30, 2020

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the employer calculated using the discount rate of 7.00%, as well as what the Office's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Net Pension Liability (asset)	\$ 1,763,562	195,051	(1,134,748)

Detailed information about OPERS' fiduciary net position is available in the separately issued financial report of OPERS which can be located at www.opers.ok.gov.

Legal and Accounting Liability

Attorney General opinions as well as the Oklahoma Supreme Court have implied that the State of Oklahoma is legally responsible for any pension liability over the employers' set contribution amount. However, GASB Statement 68 requires that the net pension liability be accounted for and reported by the entity that created the liability. Therefore, the Office's portion of the State's net pension liability has been recorded and reported.

10. Other Post-Employment Benefits (OPEB)

Health Insurance Subsidy Plan (HISP). 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). HISP is a cost-sharing, multi-employer defined benefit public employee health insurance subsidy retirement plan, which is administered by OPERS.

Benefits

HISP provides a health insurance premium subsidy for retirees who elect to maintain health insurance with the Oklahoma Employees Group Insurance Division (EGID) or other qualified insurance plan provided by the employer. The HISP subsidy is capped at \$105 per month per retiree. This subsidy continues until the retiree terminates health insurance coverage with EGID or other qualified plan, or until death. The subsidy is only for the retiree, not joint annuitants or beneficiaries.

At June 30, the Office's membership consisted of:

Inactive members or their beneficiaries currently receiving benefits	29
Inactive members entitled to but not currently receiving benefits	5
Active members	<u>27</u>
Total	61

Contributions

The contribution rates for each member category of OPERS 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 such contribution rates. Each member participates based on their

OFFICE OF THE STATE TREASURER
Notes to the Financial Statements
For the State Fiscal Year Ended June 30, 2020

qualifying gross salary earned, excluding overtime. There is no cap on the qualifying gross salary earned, subject to Internal Revenue Service limitations on compensation.

For 2020 state agency employers contributed 16.5% on all salary. Contributions to OPERS for the HISP by the Office for the year ended June 30, 2020, were approximately \$28,301.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2020, the Office reported a liability for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of July 1, 2019. The Office's proportion of the net OPEB liability was based on the Office's contributions received by OPERS relative to the total contributions received by OPERS for all participating employers as of June 30, 2019. Based upon this information, the Office's proportion was 0.14644751%.

For the year ended June 30, 2020, the Office recognized OPEB expense related to the HISP of \$(6,371). At June 30, 2020, the Office reported deferred outflows of resources and deferred inflows of resources related to the HISP from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Differences between expected and actual experience	\$ -	46,262
Changes of assumptions	8,555	
Net difference between projected and actual earnings on OPEB investments	-	6,151
Changes in proportionate share	4,263	21,632
Fund contributions subsequent to the measurement date	28,301	-
	\$ 41,119	74,045

Reported deferred outflows of resources of \$28,301 related to OPEB resulting from the Office's contributions subsequent to the measurement date will be recognized as a decrease of the net OPEB liability in the year ending June 30, 2021. Any other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB as of June 30, 2020, will be recognized in OPEB expense as follows:

<u>Years Ending June 30:</u>	<u>Dollars</u>
2021	\$ (15,972)
2022	(15,972)
2023	(11,447)
2024	(9,592)
2025	(8,243)
thereafter	-
	\$ (61,226)

OFFICE OF THE STATE TREASURER
Notes to the Financial Statements
For the State Fiscal Year Ended June 30, 2020

Actuarial Assumptions

The total OPEB liability was determined on an actuarial valuation prepared as of July 1, 2019:

Investment return:	7.00% compounded annually net of investment expense and including inflation
Salary increases:	3.5% to 9.5% per year, including inflation
Mortality rates:	Active participants and nondisabled pensioners: RP-2014 Mort. Table projected to 2025 by Scale MP-2016 (disabled pensioners set forward 12 years)
Annual post-retirement benefit increases:	None
Assumed inflation rate:	2.75%
Payroll growth:	3.5% per year
Actuarial cost method:	Entry age
Select period for the termination of employment assumptions:	10 years
Health care trend rate	Not applicable based on how OPERS is structured and benefit payments are made.
Date of last experience study:	April 13, 2017 for the 3 year period from July 1, 2013 to June 30, 2016

The long-term expected rate of return on OPEB plan investments was determined using a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target asset allocation and best estimates of geometric real rates of return for each major asset class as of June 30, 2019, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Large Cap Equity	38.0%	3.8%
U.S. Small Cap Equity	6.0%	4.9%
Non-US Equity	24.0%	9.2%
U.S. Fixed Income	32.0%	1.4%
Total	100.0%	

Discount Rate

The discount rate used to measure the total OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and the employers will be made at the current contribution rate as set out in state statute. Based on those assumptions, OPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability. The discount rate determined does not use a municipal bond rate.

OFFICE OF THE STATE TREASURER
Notes to the Financial Statements
For the State Fiscal Year Ended June 30, 2020

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the employer calculated using the discount rate of 7.00% for 2019, as well as what the Office's net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Net OPEB liability (asset)	\$ (8,992)	(56,931)	(98,166)

Detailed information about OPERS' fiduciary net position is available in the separately issued financial report of OPERS which can be located at www.opers.ok.gov.

Implicit Rate Subsidy of Health Insurance Plan (IRSHIP). An OPEB liability for the IRSHIP is associated with certain State agencies that participate in the Employee Group Insurance Division's (EGID) health insurance plan. The Office participates in the EGID's plan, a non-trusted single-employer plan that provides for employee and dependent healthcare coverage from the date of retirement to age 65, provided the participant was covered by the health insurance plan before retiring. The IRSHIP provides members with postretirement medical benefits until age 65 if the retiree and spouse pay the full active premium. Participants in the health insurance plan can elect to enroll in special coverage, and surviving spouses may continue in the Plan until age 65.

Contributions to the health insurance plan are made by both participants and the Office on a "pay as you go" basis. The Office contributed \$8,733 for the year ended June 30, 2020.

At June 30, the Office's participant data for the Plan is as follows:

<u>Active Participants:</u>	
Number	25
Average age	46.1
Average years of service	11
<u>Inactive Participants:</u>	
Retirees and surviving spouses	2
Average age	60
Covered spouses	1
Average age	<u>58.7</u>
Total participants	<u>28</u>

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2020, the Office reported a liability for its proportionate share of the total IRSHIP OPEB liability. The total IRSHIP OPEB liability was measured as of June 30, 2019, and the total IRSHIP OPEB liability used to calculate the total IRSHIP OPEB liability was determined by an actuarial valuation as of July 1, 2019. The Office's proportion of the total IRSHIP OPEB liability was based on the Office's active employees as of July 1, 2019, relative to the total number of active

OFFICE OF THE STATE TREASURER
Notes to the Financial Statements
For the State Fiscal Year Ended June 30, 2020

employees of the state agencies included in the total liability calculation. Based upon this information, the Office's proportion was 0.08127850%.

For the year ended June 30, 2020, the Office recognized OPEB expense of \$(1,198). At June 30, 2020, the Office reported deferred outflows of resources and deferred inflows of resources related to the IRSHIP OPEB liability from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Differences between expected and actual experience	\$ -	962
Changes of assumptions	-	10,321
Changes in proportionate share	1,334	17,325
Fund contributions subsequent to the measurement date	8,733	-
	\$ 10,067	28,608

Reported deferred outflows of resources of \$8,733 related to OPEB resulting from the Office's contributions subsequent to the measurement date will be recognized as a decrease of the total OPEB liability in the year ending June 30, 2021. Deferred inflows of resources related to the IRSHIP OPEB liability as of June 30, 2020, will be recognized in OPEB expense as follows:

<u>Years Ending June 30:</u>	<u>Dollars</u>
2021	\$ (9,988)
2022	(9,427)
2023	(6,369)
2024	(1,490)
	\$ (27,274)

Actuarial Assumptions

The total IRSHIP OPEB liability was determined based on actuarial valuations prepared using a July 1, 2019, measurement date using the following actuarial assumptions:

Investment return:	Not applicable, as the health insurance plan is unfunded and benefits are not paid from a qualifying trust
Salary scale, retirement, withdrawal, and disability rates:	Based on rates for the various retirement systems that the health insurance plan's participants are in, including: <ul style="list-style-type: none"> ◦ Oklahoma Public Employees Retirement System ◦ Oklahoma Law Enforcement Retirement System ◦ Teachers' Retirement System of Oklahoma ◦ Uniform Retirement System of Justices & Judges ◦ Oklahoma Department of Wildlife Conservation Defined Benefit Pension Plan
Mortality rates:	Pub-2010 Public Retirement Plans General Mortality Table, weighted by Headcount projected by Scale MP-2019
Plan participation:	40% of retired employees

OFFICE OF THE STATE TREASURER
Notes to the Financial Statements
For the State Fiscal Year Ended June 30, 2020

Marital assumptions:	Male participants - 25% electing coverage are assumed to have a spouse who will receive coverage Female participants – 15% electing coverage are assumed to have a spouse who will receive coverage Males are assumed to be 3 years older than their spouses
Plan entry date:	Date of hire
Actuarial cost method:	Entry age normal based upon salary
Health care trend rate:	5.30% decreasing to 5.00%

The June 30, 2020, valuation is based on a measured date of July 1, 2019, with a measurement period of July 1, 2018, to July 1, 2019.

Discount Rate

The discount rate used to measure the total OPEB liability was 3.51% for June 30, 2020. The discount rate was determined using the Bond Buyer Go 20-Bond Municipal Bond Index.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate and Healthcare Trend Rate

Sensitivity of the total OPEB Liability to changes in the discount rate - The following presents the total IRSHIP OPEB liability of the Office at June 30, 2020, calculated using the healthcare trend rate of 5.30% decreasing to 5.00%, as well as what the liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current rate:

	1% Decrease (2.51%)	Current Discount Rate (3.51%)	1% Increase (4.51%)
Total OPEB liability	\$ 114,695	107,450	100,686

Sensitivity of the total OPEB liability to changes in the healthcare trend rate – The following presents the total IRSHIP OPEB liability of the Office at June 30, 2020, calculated using the healthcare trend rate of 5.30% decreasing to 5.00%, as well as what the liability would be if it were calculated using a healthcare trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1% Decrease (4.30% decreasing to 4.00%)	Current Healthcare Trend Rate (5.30% decreasing to 5.00%)	1% Increase (6.30% decreasing to 6.00%)
Total OPEB liability	\$ 98,343	107,450	118,051

A copy of the actuarial valuations for the IRSHIP OPEB liability can be obtained at <http://www.omes.ok.gov/sites/g/files/gmc316/f/ActuarialValuationReport2020.pdf>.

OFFICE OF THE STATE TREASURER
Notes to the Financial Statements
For the State Fiscal Year Ended June 30, 2020

11. Interagency Services Agreement

The Office contracts for shared services with the Office of Management and Enterprise Services (OMES). The shared services provided by OMES to the Office include purchasing support, invoice and payroll processing, printing and mailing, information technology, and telecommunication services. The cost of this agreement for fiscal year 2020 was \$1,400,000.

REQUIRED SUPPLEMENTARY INFORMATION

OFFICE OF THE STATE TREASURER
Schedule of Related Ratios
Oklahoma Public Employees Retirement Plan

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Proportion of the net pension liability	0.14644751%	0.13954611%	0.12093642%	0.11816894%	0.13637030%	0.12821044%
Proportional share of the net pension liability	\$ 195,051	272,175	653,859	1,172,509	490,501	235,349
Covered payroll	\$ 2,618,967	2,269,265	2,188,066	2,074,377	2,233,320	2,206,105
Net pension liability as percentage of covered payroll	7.45%	11.99%	29.88%	56.52%	21.96%	10.67%
OPERS fiduciary net position as a percentage of total pension liability	98.63%	97.96%	94.28%	89.48%	96.00%	97.90%

Notes:

- Amounts are as of June 30.
- Only the 6 most recent years are presented because 10 year data is not readily available.

OFFICE OF THE STATE TREASURER
Schedule of Contributions
Oklahoma Public Employees Retirement Plan

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required employer contributions	\$ 397,391	384,823	351,174	347,621	351,075	397,767	358,401
Actual employer contributions	\$ 397,391	384,823	351,174	347,621	351,075	397,767	358,401
Annual contribution deficiency (excess)	\$ -	-	-	-	-	-	-
Covered payroll	\$2,669,316	2,618,967	2,269,265	2,188,066	2,074,377	2,233,320	2,206,105
Contributions as a percentage of covered payroll	14.89%	14.69%	15.48%	15.89%	16.92%	17.81%	16.25%

Notes:

- Amounts are as of June 30.
- Only the 7 most recent years are presented because 10 year data is not readily available.
- Contributions on payroll associated with employees hired after Nov. 1, 2015 are limited to 9.5% to 10.5%.

OFFICE OF THE STATE TREASURER
Schedule of Proportionate Share of the Net OPEB Liability
Oklahoma Public Employees Health Insurance Subsidy Plan

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Proportion of the net OPEB liability	0.14644751%	0.13954611%	0.12093642%
Proportional share of the net OPEB liability	\$ (56,931)	(18,059)	13,851
Covered employee payroll	\$ 2,622,628	2,592,874	2,199,066
Net OPEB liability as a percentage of covered employee payroll	-2.17%	-0.70%	0.63%
OPERS fiduciary net position as a percentage of the total OPEB liability	112.11%	103.94%	96.50%

Notes:

- Amounts are as of June 30.
- Only the 3 most recent years are presented because 10 year data is not readily available.

OFFICE OF THE STATE TREASURER
Schedule of Contributions
Oklahoma Public Employees Health Insurance Subsidy Plan

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Contractually required employer contributions	\$ 28,301	28,417	24,580
Actual employer contributions	\$ 28,301	28,417	24,580
Annual contribution deficiency (excess)	\$ -	-	-
Covered payroll	\$ 2,669,316	2,618,967	2,269,265
Contributions as a percentage of covered payroll	1.06%	1.09%	1.08%

Notes:

- Amounts are as of June 30.
- Only the 3 most recent years are presented because 10 year data is not readily available.

OFFICE OF THE STATE TREASURER
Schedule of Proportionate Share of the Total OPEB Liability
Implicit Rate Subsidy of Health Insurance OPEB Liability

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Proportion of the net OPEB liability	0.08127850%	0.09684740%	0.09709260%
Implicit rate subsidy (OPERS)	\$ 107,451	141,593	144,179
Covered employee payroll	\$ 2,622,628	2,592,874	2,199,066
Net OPEB liability as a percentage of covered employ	4.10%	5.46%	6.56%

Notes

- Amounts are as of June 30.
- Only the 3 most recent years are presented because 10 year data is not readily available.

OTHER INFORMATION

OFFICE OF THE STATE TREASURER
SUPPLEMENTAL SCHEDULE
EXPENDITURES BY OBJECT CODE
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
UNAUDITED

Object Code	Expenditure Category	Amount
1100	Salary Expense	2,798,039
1200	Insurance	551,735
1300	FICA & Retirement	568,735
1500	Professional Services	2,433,230
1900	Inter/Intra Agency Payments Professional Services	3,734
2100	Travel-Reimbursement	13,084
2200	Travel-Direct Expenditures	9,928
3100	Miscellaneous Administrative Expense	138,795
3100	Bank Service Charges	258,239
3100	Bank Service Charges Securities Lending	44,065
3200	Rent Expense	19,015
3300	Maintenance and Repair Expense	219,893
3600	Office Expense	13,662
4100	Office Furniture and Equipment	30,715
5200	Employee Recognition Awards	377
6100	Employee Reimbursements	959
6200	County Treasurers	95,000
	Total	<u>7,199,205</u>

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

**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 RANDY MCDANIEL
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 and each major fund of the Office of the State Treasurer, as of and for the year ended June 30, 2020, 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 November 1, 2021. 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 general fund 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 opinion 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 were not 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.



CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR AND INSPECTOR

November 1, 2021



Cindy Byrd, CPA | State Auditor & Inspector

2300 N. Lincoln Blvd., Room 123, Oklahoma City, OK 73105 | 405.521.3495 | www.sai.ok.gov