

OFFICE OF THE STATE TREASURER

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORTS

FOR THE FISCAL YEAR ENDED

JUNE 30, 2009



FINANCIAL AUDIT



Oklahoma State Auditor
& Inspector

**OFFICE OF THE STATE TREASURER
FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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STATE AUDITOR AND INSPECTOR

STEVE BURRAGE, CPA
State Auditor

MICHELLE R. DAY, ESQ.
Chief Deputy



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December 14, 2009

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

Transmitted herewith is the Office of the State Treasurer, State of Oklahoma, audit report and financial statements for the fiscal year ended June 30, 2009. The audit was conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

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

Sincerely,

A handwritten signature in blue ink, reading "Steve Burrage", is positioned above the printed name.

STEVE BURRAGE, CPA
STATE AUDITOR & INSPECTOR

**OFFICE OF THE STATE TREASURER
FINANCIAL STATEMENTS AND INDEPENDENT
AUDITOR'S REPORTS
FOR THE YEAR ENDED JUNE 30, 2009**

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Office of the State Treasurer of Oklahoma
Management's Discussion and Analysis (MD&A)
June 30, 2009

The Management's Discussion and Analysis of the Office of the State Treasurer of Oklahoma provides an overview and overall review of the Treasurer's financial activities for the fiscal year ending June 30, 2009. The intent of the MD&A is to look at the Treasurer's Office financial performance as a whole. It should, therefore, be read in conjunction with the Treasurer's financial statements and the notes thereto.

FINANCIAL HIGHLIGHTS

Government-wide Statement of Net Assets

The Statement of Net Assets provides an indication of the Treasurer's financial condition at the end of the 2009 fiscal year; the statement reports all assets and liabilities using the accrual basis of accounting. The Statement of Changes in Net Assets reports all of the revenues and expenses during the time periods indicated.

OFFICE OF THE STATE TREASURER
NET ASSETS

	<u>2009</u>	<u>2008</u>
Current Assets	\$ 6,855,547	\$ 6,160,790
Capital assets	<u>145,338</u>	<u>251,292</u>
Total Assets	<u>7,000,885</u>	<u>6,412,082</u>
Other Liabilities	616,440	574,987
Noncurrent Liabilities	<u>134,033</u>	<u>132,524</u>
Total Liabilities	<u>750,473</u>	<u>707,511</u>
Invested in capital assets	145,338	251,292
Restricted for taxpayer relief	25,000	235,529
Unrestricted	<u>6,080,074</u>	<u>5,217,750</u>
Total Net Assets	\$ <u><u>6,250,412</u></u>	\$ <u><u>5,704,571</u></u>

As of June 30, 2009, the Office of the State Treasurer's current assets increased by 11% as a result of General Revenue appropriations and Unclaimed Property revenues exceeding expenses. Appropriations are determined by legislation, while Unclaimed Property revenues are linked to the amount of property recovered for the state.

Compensated absences represent the dollar value of Treasurer's staff annual leave balances and are reflected in both Other and Noncurrent Liabilities. Employee annual leave is used as vacation time or must be reimbursed if a staff member separates from agency service. This dollar value changes as employees use their leave or receive reimbursement payments as they leave service. Noncurrent liabilities did not change significantly during the fiscal year.

Unrestricted assets primarily consist of Unclaimed Property Program funds dedicated to the administration of the program; the category increased by 17% as a result of end of year cash balance increases. Net assets increased by

10% from FY 2008 to FY 2009. This \$545,841 increase is due primarily to Unclaimed Property Program revenues in excess of expenditures and end of year appropriated general revenue balance.

Taxpayer Relief funds were transferred to the state's Special Cash Fund as a result of legislation. The funds have remained in the Treasurer's accounts as a restricted fund and used to administer the tax payer refund of 2005. \$25,000 will remain to support storage and destruction costs of the warrants.

Changes in Net Assets - Revenues and Expenses

Except for revenues generated from administration of the Unclaimed Property Program, operating revenues of the Office of State Treasurer are largely dependent upon state General Revenue appropriations.

The first \$425,000 received in securities lending income is directed to the Office of State Treasurer. This portion of securities lending income is used to pay bank service charges, allowing the Treasurer's office to continue maximizing earnings on state deposits. Securities lending revenue in excess of \$425,000 is currently deposited to the state's General Fund as investment income.

Four percent of all property relinquished to the state under the Uniform Unclaimed Property Act is recognized as revenue by the Office of State Treasurer and used to finance Unclaimed Property Program expenses. Additionally, general revenues include transfers from the Unclaimed Property account within the state's General Fund to pay for professional service charges associated with property recovery and advertising services.

Unclaimed property deposits of \$38.2 million in FY2009 were slightly less than in FY2008 (\$38.9 million). Stock sales within the program were discontinued due to market anomalies in late 2008 and early 2009. As a result, the UP program did not receive 4% from stock sales proceeds and total Unclaimed Property revenue declined for the fiscal year.

Revenue from administrative charges increased over the FY08 amount as a result of increased support provided for both the Tobacco Settlement Endowment Trust Fund and the Economic Development Generating Excellence Fund. The office administers both funds and receives reimbursement for personnel, professional and other expenses.

Personnel services expense increased due to mandated retirement contributions and health insurance costs for employees. Advertising costs, also considered a personnel expense, increased in FY2009 for the Unclaimed Property program. This expense is directly related to the number of property owners reported to the state.

The Unclaimed Property document imaging project was the primary contributor in the equipment expense increase from the previous fiscal year. This project eliminated duplicate data entry, paper files, storage and microfilming. It also generated greater efficiency and reduced risk associated with the auditing and payment of property claims.

Banking service charges declined in FY 2009 after negotiating a reduced rate for electronic funds transfer with the state's operating bank. Transferring funds electronically is a more efficient method of moving funds between accounts and paying state's expenses. This new rate saves the state 80% from the previous contracted rate. The Treasurer's office also cut warrant clearing expenses by 50% when it converted to the banking industry standard Check 21 process for clearing warrant payments with the Federal Reserve. Check 21 relies on the transmission of an electronic image rather than physical transfer of printed paper warrants.

Transfers increased as a result of legislation requiring the office to reduce 2005 taxpayer relief funds retained for warrant storage and disposal expenses. Additionally, any remaining appropriated operating funds from the previous fiscal year must be returned to the state's General Revenue account.

The 10% increase in ending net assets is the result of revenue generated by the Unclaimed Property Program as previously noted.

**OFFICE OF THE STATE TREASURER
CHANGES IN NET ASSETS**

	<u>2009</u>	<u>2008</u>
General Revenues		
Appropriations	\$ 4,663,243	\$ 4,668,763
Unclaimed Property	2,877,332	3,707,499
Service Charges	46,085	52,145
Administrative Charges	239,063	136,663
Securities Lending	425,000	425,000
Other Income	9,854	2,845
Total General Revenues	<u>8,260,577</u>	<u>8,992,915</u>
Expenses		
Personnel Services	6,053,126	5,909,046
Travel	42,655	41,082
Administrative Expenses	171,471	146,779
Contracted Services	267,299	319,260
Equipment	221,134	88,719
Other	3,378	3,310
Bank Service Charges	536,122	648,524
Payments to Counties	100,000	100,000
Depreciation	107,645	129,590
Total Expenses	<u>7,502,830</u>	<u>7,386,310</u>
Excess Before Transfers	757,747	1,606,605
Transfers	<u>(211,906)</u>	<u>(121,391)</u>
Increase (Decrease) in Net Assets	545,841	1,485,214
Net Assets Beginning Balance	<u>5,704,571</u>	<u>4,219,357</u>
Net Assets Ending Balance	<u>\$ 6,250,412</u>	<u>\$ 5,704,571</u>

Fund Highlights:

Governmental Fund - Fund Balance

The Office of the State Treasurer has a legally adopted budget that is established by the Legislature. The FY 2009 final budget included carryover funds not available at the time of the original budget. The final budget expenses exceeded actual expenses for the fiscal year by \$3,683,032 or 33%. Unclaimed Property recovery and advertising expenses have been difficult to predict with any degree of accuracy because they are largely driven by the services of third parties who locate and recover property for the state.

USING THIS ANNUAL REPORT

The basic financial statements presented in the annual report include both government-wide and fund financial statements.

Government-wide statements:

Government-wide statements include a Statement of Net Assets and a Statement of Activities. These statements display information about the Office of the State Treasurer as a whole. The government- wide financial statements of the Office of the State Treasurer are presented on a full accrual economic resource basis which includes all assets and liabilities whether current or non-current. These statements provide both short-term and long-term information about the Office of the State Treasurer's overall financial status.

Fund statements:

The fund financial statements include the Governmental Fund's Balance Sheet and Statement of Revenue, Expenditures, and Changes in Fund Balance. In the fund financial statements the revenues and expenditures of the Office of the State Treasurer are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Under these accounting methods, revenues and assets are recognized when they become both measurable and available, and expenditures and liabilities are recognized when obligations are incurred as a result of the receipt of goods or services.

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

This financial report is designed to provide a general overview of the Office of the State Treasurer's finances for all of Oklahoma's citizens, taxpayers, customers, and investors and creditors. This financial report seeks to demonstrate the 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:

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Suite 106
Oklahoma City, OK 73105

Susan Reed, Comptroller
2300 N. Lincoln Blvd.
Room 217
Oklahoma City, OK 73105

STATE AUDITOR AND INSPECTOR

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INDEPENDENT AUDITOR'S REPORT

TO THE HONORABLE SCOTT MEACHAM STATE TREASURER OF OKLAHOMA

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Office of State Treasurer, as of and for the year ended June 30, 2009, which collectively comprise the Office of the State Treasurer's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Office of the State Treasurer's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the Office of the State Treasurer are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, each major fund, and the remaining fund information 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, 2009, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Office of State Treasurer, as of June 30, 2009, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2009 on our consideration of the Office of the State Treasurer's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 1 through 4 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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



STEVE BURRAGE, CPA
STATE AUDITOR & INSPECTOR

December 7, 2009

OFFICE OF THE STATE TREASURER
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
June 30, 2009

ASSETS

Cash	\$ 6,588,492
Due from other agencies	267,055
Capital assets, net of accumulated depreciation	
Furniture, fixtures, and equipment	<u>145,338</u>
Total Assets	<u><u>7,000,885</u></u>

LIABILITIES

Accounts payable vendors	417,358
Compensated absences:	
Payable within one year	199,082
Payable after one year	<u>134,033</u>
Total Liabilities	<u><u>750,473</u></u>

NET ASSETS

Invested in capital assets	145,338
Restricted for taxpayer relief	25,000
Unrestricted	<u>6,080,074</u>
Total Net Assets	<u><u>\$ 6,250,412</u></u>

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

**OFFICE OF THE STATE TREASURER
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009**

Expenses

Governmental Activities - General Government:

Personnel Services	\$ 6,053,126
Travel	42,655
Administrative Expenses	171,471
Contracted Services	267,299
Equipment	221,134
Other	3,378
Bank Service Charges	536,122
Payments to Counties	100,000
Depreciation	<u>107,645</u>
Total Expenses	<u>7,502,830</u>

General Revenues

Appropriations	4,663,243
Unclaimed Property	2,877,332
Service Charges	46,085
Administrative Charges	239,063
Securities Lending	425,000
Other Income	<u>9,854</u>
Total General Revenues	<u>8,260,577</u>

Transfers	<u>(211,906)</u>
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Increase (Decrease) in Net Assets	545,841
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Net Assets, July 1, 2008	<u>5,704,571</u>
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Net Assets, June 30, 2009	<u>\$ 6,250,412</u>
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The notes to the financial statements are an integral part of this statement.

**OFFICE OF THE STATE TREASURER
BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2009**

	<u>GENERAL FUND</u>
ASSETS	
Cash	\$ 6,588,492
Due from the agency fund	<u>267,055</u>
Total Assets	\$ <u><u>6,855,547</u></u>
LIABILITIES AND FUND BALANCE	
Liabilities	
Accounts payable vendors	\$ <u>417,358</u>
Total Liabilities	<u>417,358</u>
Fund Balance	
Reserved for encumbrances	49,228
Reserved for taxpayer relief	25,000
Unreserved	<u>6,363,961</u>
Total Fund Balance	<u>6,438,189</u>
Total Liabilities and Fund Balance	\$ <u><u>6,855,547</u></u>

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

**OFFICE OF THE STATE TREASURER
RECONCILIATION OF THE GOVERNMENTAL FUND
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
June 30, 2009**

Total Fund Balance - Governmental Fund	\$ 6,438,189
Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund.	145,338
Long term liabilities are not due and payable in the current period and therefore are not reported in the fund.	
Compensated absences	<u>(333,115)</u>
Net assets of governmental activities	\$ <u><u>6,250,412</u></u>

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

**OFFICE OF THE STATE TREASURER
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2009**

	GENERAL FUND
Revenues	
Unclaimed Property	\$ 2,877,332
Service Charges	46,085
Administrative Charges	239,063
Securities Lending	425,000
Other Income	9,854
Total Revenues	<u>3,597,334</u>
Expenditures	
Current:	
Personnel Services	6,048,768
Travel	42,655
Administrative	171,471
Contracted Services	267,299
Equipment	224,785
Other	1,419
Bank Service Charges	536,122
Payments to Counties	100,000
Total Expenditures	<u>7,392,519</u>
Revenues Over (Under) Expenditures	<u>(3,795,185)</u>
Other Financing Sources (Uses)	
Appropriations	4,663,243
Transfers	(211,906)
Total Other Financing Sources (Uses)	<u>4,451,337</u>
Net Change In Fund Balance	656,152
Fund Balance, July 1, 2008	<u>5,782,037</u>
Fund Balance, June 30, 2009	\$ <u><u>6,438,189</u></u>

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

**OFFICE OF THE STATE TREASURER
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE OF THE
GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR END JUNE 30, 2009**

Net Change in Fund Balance - Governmental Fund	\$ 656,152
Governmental funds report capital outlays as expenditures. However, in the statement of activities the costs of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	(103,995)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
This amount represents the cost of compensated absences earned but not used in the current year.	(4,356)
This amount represents the carrying value of the capital assets that were transferred for disposal.	(1,960)
	<hr/>
Change in net assets of governmental activities	\$ <u>545,841</u>

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

OFFICE OF THE STATE TREASURER
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUND
June 30, 2009

	<u>Agency Fund</u>
ASSETS	
Cash	
Cash On Hand	\$ 338,701
Cash In Banks	36,201,833
Total Cash	<u>36,540,534</u>
Investments	
Treasurer's Portfolio	5,458,265,559
State Agency Portfolio	
Treasury Funds	3,056,053
Agency Special Accounts	4,080,579
Securities Lending Investments	739,354,156
Total Investments	<u>6,204,756,347</u>
Interest Receivable	
Treasurer's Portfolio	25,635,762
State Agency Portfolio	
Treasury Funds	11,784,028
Agency Special Accounts	2,079,907
Total Interest Receivable	<u>39,499,697</u>
Total Assets	\$ <u><u>6,280,796,578</u></u>
LIABILITIES	
Balance Due Depositors	
State Agency Portfolio	
Treasury Funds	\$ 4,322,126,457
Agency Special Accounts	1,218,710,209
Cashier	338,701
Payable Under Securities Lending Agreements	739,354,156
Total Due Depositors	<u>6,280,529,523</u>
Due to the General Fund	<u>267,055</u>
Total Liabilities	\$ <u><u>6,280,796,578</u></u>

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

OFFICE OF THE STATE TREASURER
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2009

	<u>Budgeted Amounts</u>			<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>with Final</u>
Revenues				Budget
Unclaimed Property	\$ 4,300,000	\$ 4,300,000	\$ 3,094,310	\$ (1,205,690)
Service Charges	276,800	276,800	50,575	(226,225)
Administrative Charges	191,900	191,900	240,063	48,163
Securities Lending	425,000	425,000	425,000	-
Other Income	-	-	9,854	9,854
Total Revenues	<u>5,193,700</u>	<u>5,193,700</u>	<u>3,819,802</u>	<u>(1,373,898)</u>
Expenditures				
Personnel Services	7,181,691	7,981,691	6,066,448	1,915,243
Travel	81,220	81,220	42,655	38,565
Administrative	259,440	1,093,380	167,843	925,537
Contracted Services	375,720	375,720	279,947	95,773
Equipment	636,140	636,140	243,685	392,455
Other	1,000	1,000	1,419	(419)
Bank Service Charges	852,000	852,000	536,122	315,878
Payment to Counties	100,000	100,000	100,000	-
Total Expenditures	<u>9,487,211</u>	<u>11,121,151</u>	<u>7,438,119</u>	<u>3,683,032</u>
Excess of revenues over (under) expenditures	<u>(4,293,511)</u>	<u>(5,927,451)</u>	<u>(3,618,317)</u>	<u>2,309,134</u>
Other financing sources (uses)				
Appropriations	4,663,243	4,663,243	4,663,243	-
Transfers	-	-	(211,906)	(211,906)
Total other financing sources (uses)	<u>4,663,243</u>	<u>4,663,243</u>	<u>4,451,337</u>	<u>(211,906)</u>
Net change in fund balance	369,732	(1,264,208)	833,020	2,097,228
Fund balance, July 1, 2008	<u>5,573,045</u>	<u>5,573,045</u>	<u>5,573,045</u>	<u>-</u>
Fund balance, June 30, 2009	\$ <u><u>5,942,777</u></u>	\$ <u><u>4,308,837</u></u>	\$ <u><u>6,406,065</u></u>	\$ <u><u>2,097,228</u></u>

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

**OFFICE OF THE STATE TREASURER
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

1. Summary of Significant Accounting Policies

A. Reporting Entity

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

The State Treasurer is elected every four years and takes office the second Monday in January following the election for the position in November. On January 8, 2007 the Honorable Scott Meacham assumed the position of State Treasurer.

The primary functions of the Office are the maintenance of bank accounts for the receipt and disbursement of state funds, the prudent investment of certain state funds, the recording and servicing of the long-term debt of the State, and the administration of the State's Unclaimed Property program. Additionally, the Office performs safekeeping and investment functions for state agencies, and other entities as authorized by state statute. Various activities of the Office include receipt of warrants, vouchers, and debt instruments, management of cash and investments, and the reconciliation of account balances and transactions with the various state agencies. The Treasurer's office is also responsible for accounting functions associated with the Tobacco Settlement Endowment Trust Fund, and the Economic Development Generating Excellence 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 are not included; consequently, the government-wide financial statements exclude fiduciary assets and liabilities.

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

Fund Financial Statements

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

Governmental Fund

General Fund - The General Fund is the primary operating fund of the Office. This fund is used to account for all financial transactions and resources except those required to be accounted for in another fund. The general fund financial statements are presented using the modified accrual basis of accounting and the current financial resources measurement focus. Using the current financial resources measurement focus,

only current assets and current liabilities are included on the balance sheet in the general fund financial statements. The modified accrual basis of accounting provides for the recognition of revenues when they become both measurable and available. 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.

Fiduciary Fund

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

C. Investment Holdings and Basis

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

D. Capital Assets

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

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

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

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

E. Compensated Absences

Employees of the Office entering State service earn annual vacation leave at the rate of 10 hours per month for the first 5 years of service, 12 hours per month for service of 5 to 10 years, 13.3 hours per month for service of 10 to 20 years, and 16.66 hours per month for over 20 years of service. Unused annual leave may be accumulated to a maximum of 240 hours for those with service of up to 5 years. After 5 years of service, the maximum number of hours that can be accumulated and carried into the next year is 480 hours. All

accrued annual leave is payable upon termination, resignation, retirement, or death. The following is a summary of the changes in compensated absences for the year ended June 30, 2009.

	Balance June 30, 2008	Increases	Decreases	Balance June 30, 2009
Compensated Absences	\$ 328,758	221,215	216,858	\$ 333,115

2. **Budgetary Reporting**

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

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

Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles (GAAP), a reconciliation of resulting differences in the excess of revenues over (under) expenditures and other financing sources (uses) between budgetary and GAAP presentations for the year ended June 30, 2009, is presented as follows:

General Fund Balance, Budgetary Basis	\$ 6,406,065
Basis Differences:	
Add: Net Service and Administrative Charges	(5,490)
Net Unclaimed Property	(216,978)
Encumbrances recognized as expenditures	49,227
Difference in July 1, 2008 GAAP basis fund balance, compared to budget basis fund balance	208,992
Subtract: Prior years Encumbrances	<u>(3,627)</u>
Total General Fund Balance - GAAP Basis	\$ <u>6,438,189</u>

3. **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).

4. **Investments and Securities Lending**

Investments

The Office maintains two investment portfolios as follows: Treasurer's Portfolio for the investments of all state monies that are under the control of the Treasurer for which the earnings accrue to the general fund of the State or state agencies; and State Agency Portfolio for the investments of a limited number of state

agencies which are specifically authorized by statute to direct the investment activities of certain funds and accounts for which the investment earnings accrue to those funds and accounts.

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

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

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

Investment Policy

The State Treasurer has a formal investment policy which was updated in June 2007. This policy applies to all funds of the State entrusted to the Treasurer by specific statutory investment authority as delineated in Title 62 O.S. § 89.2. This policy also applies to the investments of state agencies when they request that the Treasurer act as their agent. Only investment transactions relating to the following are covered by this policy: U.S. Treasury Bills, Notes and Bonds, U.S. Government Agency Securities, collateralized or insured Certificates of Deposit and other evidences of deposit, negotiable Certificates of Deposit, Banker's acceptances, Commercial paper, obligations of state and local governments, including obligations of Oklahoma State public trusts, repurchase agreements and tri-party repurchase agreements, money market mutual funds, short term bond funds and foreign government bonds.

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

Custodial Credit Risk is the risk that in the event of the failure of counterparty, the State will not be able to recover the value of its investments. Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. Investment securities are exposed to custodial credit risk if they are uninsured, not registered in the name of the State, or held by the counterparty or its trust department but not in the State's name.

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

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

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

security type limits are shown in the following table. All investments held by the State Treasurer's office are insured, registered, or held in the name of the State Treasurer of Oklahoma.

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

<u>Investment Type Limitations</u>	<u>Percentage of Total Invested</u>	<u>By Issuer</u>	<u>Maturity Limit</u>	<u>Rating</u>
U.S. Government Agency Securities	70%	35%	10 years	AAA
U.S. Government Agency Mortgage Backed Securities – Passthroughs (as a % of U.S. Government Agency)	25% of U.S. Government Agency Securities		7 years(7)	AAA
Collateralized or Insured Certificates of Deposit	Limit of \$35,000,000 per financial institution		365 days(1)(4)	
Negotiable Certificates of Deposit	7.5%	2.5%	180 days(1)	A-1 & P-1
Banker's Acceptance	7.5%	2.5%	270 days	A-1 & P-1
Commercial Paper	7.5%	2.5%	180 days	A-1 & P-1
State & Local Government Obligations	10%	5%	30 years	(2)(6)
Repurchase Agreements and Tri-party Repurchase Agreements	30%	10% (per counterparty)	14 days(1)(4)	(3)
Money Market Mutual Funds	30%	10%	(1)(5)	AAA
Foreign Government Bonds	2.5%		5 years	A-/A3 or better

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

Securities Lending

The Treasurer is authorized by state statutes to participate in securities lending transactions. The Treasurer has authorized the custodial bank to act as a securities lending agent, lending securities to approved broker-dealers and banks. There are no restrictions regarding the amount of securities which may be lent. Securities under loan are maintained in the State's financial records. Corresponding liabilities are recorded at fair value.

During the fiscal year ended June 30, 2009, the securities lending agent lent U.S. government securities held on behalf of the Treasurer and received U.S. government securities and cash as collateral. Borrowers were required to deliver and maintain collateral for each loan with a market value that is not less than 100 percent of the market value of the loaned security. All securities loans can be terminated on demand by either the Treasurer or the borrower. At June 30, 2009, the maturity of these loans was eighty-two (82) days. Cash collateral is invested in instruments of the same type the Treasurer is allowed to invest in by statute. At year-end, 58 percent of the cash investments had an average maturity of one (1) day, with the overall average maturity being forty (40) days. The Treasurer did not have the ability to pledge or sell collateral securities absent a borrower default. The securities lending agent provides indemnification if the borrowers fail to return the underlying securities (and if the collateral is inadequate to replace the securities lent) or fails to pay the Treasurer for income distributions by the securities' issuers while the securities are on loan. There were no failures by any borrowers to return loaned securities or pay related income distributions during the fiscal year.

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

At year-end, the fair value of the underlying securities was \$719,487,347.

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The following schedule compares the cost or amortized cost to the fair value of investments held in the Fiduciary Funds at June 30, 2009:

TYPE OF INVESTMENT	FAIR VALUE	AMORTIZED COST	AVERAGE CREDIT QUALITY RATING (1)	WEIGHTED AVERAGE MATURITY (DAYS) (2)
TREASURER'S PORTFOLIO				
<u>POOLED INVESTMENTS</u>				
U.S. TREASURY NOTES	\$ 433,914,790	\$ 417,112,188	AAA	295
U.S. TREASURY TIPS	79,250,420	78,727,051	AAA	2,860
SECURITIES LENDING COLLATERAL POOL	739,354,156	739,354,156	NR	
U.S. AGENCIES	2,379,344,400	2,310,119,427	AAA	487
MORTGAGE BACKED AGENCIES	1,204,648,363	1,190,221,912	AAA (7)	998
REPURCHASE AGREEMENTS	410,000,000	410,000,000	A-1+/P-1 (6)	1
FOREIGN BONDS	10,000,000	10,000,000	NR	336
MUNICIPAL BONDS	85,100,994	84,409,255	(8)	3,726
CERTIFICATES OF DEPOSIT	334,537,000	334,537,000	NR	58
MONEY MARKET MUTUAL FUND	413,854,580	413,854,580	AAAm	1
	<u>\$ 6,090,004,703</u>	<u>\$ 5,988,335,569</u>		
<u>NON-POOLED INVESTMENTS</u>				
U.S. AGENCIES	\$ 2,539,162	\$ 2,532,000	AAA	144
CERTIFICATES OF DEPOSIT - AG/BUS/RUR LINK	13,315,850	13,315,850	NR (5)	182
STATE BOND ISSUE	91,760,000	91,760,000	(4)	65
	<u>\$ 107,615,012</u>	<u>\$ 107,607,850</u>		
TOTAL TREASURER'S INVESTMENTS	<u>\$ 6,197,619,715</u>	<u>\$ 6,095,943,419</u>		
STATE AGENCY PORTFOLIO FUNDS				
U.S. TREASURY	\$ 2,745,338	\$ 2,649,446	AAA (3)	57
MUTUAL FUND	310,715	422,147	N/A (3)	N/A
TOTAL FUNDS INVESTMENTS	<u>\$ 3,056,053</u>	<u>\$ 3,071,593</u>		
SPECIAL ACCOUNTS				
U.S. TREASURY	\$ 3,220,181	\$ 3,189,055	AAA (3)	914
MUTUAL FUNDS	860,398	686,747	N/A (3)	N/A
TOTAL SPECIAL ACCOUNTS INVESTMENTS	<u>\$ 4,080,579</u>	<u>\$ 3,875,802</u>		
TOTAL STATE AGENCY PORTFOLIO	<u>\$ 7,136,632</u>	<u>\$ 6,947,395</u>		

	FAIR VALUE	AMORTIZED COST
INVESTMENTS SUMMARY		
U.S. TREASURY		\$ 501,677,739
NOT ON SECURITIES LOAN	\$ 104,999,789	
ON SECURITIES LOAN - BONDS BORROWED	0	
ON SECURITIES LOAN - CASH COLLATERAL	414,130,940	
U.S. AGENCIES		3,502,873,339
NOT ON SECURITIES LOAN	3,281,175,517	
ON SECURITIES LOAN - BONDS BORROWED	0	
ON SECURITIES LOAN - CASH COLLATERAL	305,356,408	
INVESTMENTS		
PURCHASED W/CASH COLLATERAL	739,354,156	739,354,156
REPURCHASE AGREEMENTS	410,000,000	410,000,000
CERTIFICATES OF DEPOSIT	347,852,850	347,852,850
FOREIGN BONDS	10,000,000	10,000,000
STATE BOND ISSUE	91,760,000	91,760,000
MUNICIPAL BONDS	85,100,994	84,409,255
MUTUAL FUND	1,171,113	1,108,894
MONEY MARKET MUTUAL FUND	413,854,580	413,854,580
TOTAL INVESTMENTS	\$ 6,204,756,347	\$ 6,102,890,813

- (1) Ratings are provided where applicable to indicate associated Credit Risk. N/A indicates not applicable.
- (2) Interest Rate Risk is estimated using weighted average days to maturity.
- (3) These agency directed investments are not covered by the State Treasurer's Investment Policy.
- (4) State Bond issues are comprised of \$50,000,000 Oklahoma Student Loan Authority municipal bond with a credit rating of AAA. The interest rate resets quarterly and is tied to the average bond equivalent rates of the quotes of the 3-month commercial paper rate. Also included is \$40,000,000 Oklahoma Industrial Finance Authority State of Oklahoma Taxable General Obligation Refunding Bonds. These rates, adjusted quarterly, are tied to the 3 month LIBOR rate and are private placement. \$1,760,000 in Oklahoma Capitol Improvement Authority Series 1994B, AAA rated and these bonds are registered in the State Treasurer's name and were private placement.
- (5) Ag Link, Business Link and Rural Link Certificate of Deposits are outside the scope of the State Treasurer's Investment Policy. These investments are established by Title 2 O.S. § 5-81, Title 62 O.S. § 88.1 and 91.1-9. These certificates of deposit are collateralized with the collateral held in the State Treasurer's name at an approved safekeeping bank or with surety bonds or letters of credit.
- (6) Credit ratings are provided for the counterparties to the repurchase agreement.
- (7) These ratings are implicitly or explicitly guaranteed by the U.S. Government and currently a rating is not provided by the nationally recognized statistical rating organization. The rating agencies normally do not rate government debt and therefore they have an implied AAA rating.
- (8) All Municipal Bonds possessed a AAA rating when purchased. As of June 30, 2009, 83% had a rating of AAA, 11% were rated AA+, and 6% were rated AA-.

5. **Interfund Accounts**

Due from Other Agencies / Due from the Agency Fund

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

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, 2009.

	Balance June 30, 2008	Capital Acquisitions	Sales or Other Dispositions	Balance June 30, 2009
Furniture, fixtures, and office equipment	\$ 1,421,885	3,650	78,434	\$ 1,347,101
Less accumulated depreciation	1,170,593	107,645	76,475	1,201,763
Total	\$ <u>251,292</u>			\$ <u>145,338</u>

7. **Bank Service Fees**

During the year, the Office incurred fees for services rendered by various financial institutions. Service charges of \$536,122 were paid, as reflected in the financial statements, other charges were off-set by earnings calculated on the compensating cash balances maintained in various banks.

8. **Risk Management**

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

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

9. **Pension Plan**

Plan Description. The Office contributes to the Oklahoma Public Employees Retirement Plan, a multiple employer, cost sharing public employee retirement plan, which is a defined benefit pension plan administered by the Oklahoma Public Employees Retirement System (OPERS). Benefit provisions are established and can be amended by the Oklahoma Legislature. The Plan provides retirement, disability, and death benefits. Title 74 of the Oklahoma Statutes, Sections 901 through 943, as amended, provides more complete information about the Plan. OPERS issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to OPERS, P.O. Box 53007, Oklahoma City, Oklahoma 73152 or by calling 1-800-733-9008.

Funding Policy. The contribution rates for each member category of the Plan are established by and can be amended by the Oklahoma Legislature and are based on an actuarial calculation which is performed to determine the adequacy of contribution rates. The contribution rates applied to each participating state employee's salary for the fiscal year ended June 30, 2009, are listed below: Elected officials must select an employee contribution rate of 4.5%, 6.0%, 7.5%, 8.5%, 9.0% or 10%.

<u>State Employee Contribution</u>	<u>State Agencies' Contribution</u>
<u>All Salaries</u>	<u>All Salaries</u>
3.5%	14.5%

The Office's contributions to the Plan for the years June 30, 2009 - \$448,450.40; June 30, 2008 - \$394,291.71; June 30, 2007 - \$378,685 were equal to the established required contributions for each year.

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

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

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

11. **Taxpayer Relief Program**

The State Treasurer's office administered Oklahoma's first Taxpayer Relief payment. This program was authorized by H.B. 1193 on legislation enacted June 5, 2005 and represented the distribution of surplus state revenue collected during fiscal year 2005.

More than 1.2 million checks totaling almost \$92 million were processed. All Oklahoma residents who filed Oklahoma tax returns for 2004, with limited exceptions, were eligible. For taxpayers filing as an individual or married filing separately in 2004, the payments were \$45 each. For taxpayers filing as a surviving spouse, head of household or married filing jointly in 2004 the payment was \$90.

Checks not deposited or cashed by the end of February 2006 were cancelled by statute and the names and addresses of those who never cashed their checks were turned over to the Treasurer's Unclaimed Property Division.

**OFFICE OF THE STATE TREASURER
SUPPLEMENTAL SCHEDULE
EXPENDITURES BY CLASS-FUNDING (BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED June 30, 2009**

CLASS FUNDING	CATEGORY	AMOUNT
511000	Salary Expense	\$ 4,524,408
512000	Insurance	13,056
515000	Professional Services	1,525,899
519000	Inter/Intra Agency Payments Professional Services	3,085
521000	Travel-Reimbursement	15,797
522000	Travel-Direct Expense	26,858
531000	Miscellaneous Administrative Expense	105,710
531000	Bank Service Charges	536,122
532000	Rent Expense	105,943
533000	Maintenance and Repair Expense	174,004
535000	Production and Safety	1,189
536000	Office Expense	60,944
541000	Office Furniture and Equipment	243,685
552000	Employee Recognition Awards	1,419
562000	County Treasurers	100,000
Total		<u>\$ 7,438,119</u>

STATE AUDITOR AND INSPECTOR

STEVE BURRAGE, CPA
State Auditor

MICHELLE R. DAY, ESQ.
Chief Deputy



2300 N. Lincoln Boulevard State Capitol, Room 100 Oklahoma City, OK 73105-4801 Phone (405) 521-3495 Fax (405) 521-3426 www.sai.ok.gov

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

TO THE HONORABLE SCOTT MEACHAM STATE TREASURER OF OKLAHOMA

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Office of State Treasurer, as of and for the year ended June 30, 2009, which collectively comprise the Office of the State Treasurer's basic financial statements, and have issued our report thereon dated December 7, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Office of the State Treasurer's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the agency's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of the management of the Office of the State Treasurer and should not be used for any other purpose. This report is also a public document pursuant to the Open Records Act (51 O.S. § 24A.1 et seq.), and shall be open to any person for inspection and copying.



STEVE BURRAGE, CPA
STATE AUDITOR & INSPECTOR

December 7, 2009



OFFICE OF THE STATE AUDITOR & INSPECTOR

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