

FINANCIAL AUDIT

# OFFICE OF THE STATE TREASURER

FINANCIAL STATEMENT AND  
INDEPENDENT AUDITOR'S REPORT

For the fiscal year ended June 30, 2011



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



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

**OFFICE OF THE STATE TREASURER  
FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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# Oklahoma State Auditor & Inspector

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

December 29, 2011

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

This is the audit report of the Office of the State Treasurer for the year ended June 30, 2011. The goal of the State Auditor and Inspector is to promote accountability and fiscal integrity in state and local government. Maintaining our independence as we provide this service to the taxpayers of Oklahoma is of utmost importance.

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

Sincerely,

A handwritten signature in blue ink that reads "Gary A. Jones". The signature is fluid and cursive, with a long horizontal stroke at the end.

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

**OFFICE OF THE STATE TREASURER  
FINANCIAL STATEMENTS AND INDEPENDENT  
AUDITOR'S REPORTS  
FOR THE YEAR ENDED JUNE 30, 2011**

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Office of the State Treasurer of Oklahoma  
Management's Discussion and Analysis (MD&A)  
June 30, 2011

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The Management's Discussion and Analysis of the Office of the State Treasurer of Oklahoma provides an overview and analysis of the Treasurer's financial activities for the fiscal year ending June 30, 2011. 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 accompanying notes.

## FINANCIAL HIGHLIGHTS

### Statement of Net Assets

The Statement of Net Assets provides an indication of the Treasurer's financial condition at the end of the 2011 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>2011</u>	<u>2010</u>
Current Assets	\$ 6,691,921	\$ 8,093,060
Capital Assets	76,872	112,993
Total Assets	<u>6,768,793</u>	<u>8,206,053</u>
Other Liabilities	374,853	610,325
Noncurrent Liabilities	107,170	77,678
Total Liabilities	<u>482,023</u>	<u>688,003</u>
Invested in Capital Assets	76,872	112,993
Restricted for Taxpayer Relief	25,000	25,000
Unrestricted	6,184,898	7,380,057
Total Net Assets	<u>\$ 6,286,770</u>	<u>\$ 7,518,050</u>

As of June 30, 2011, the Office of the State Treasurer's Current Assets decreased by 17% as the result of a \$2 million transfer from the funds dedicated to the administration of the state's Unclaimed Property Program to the state's Special Cash Fund as required by Senate Bill 1561, section 63 from the 2010 Oklahoma legislative session.

The decrease in Other Liabilities was due to a reduction in payables outstanding at the end of the fiscal year. The amount owed by the Treasurer's Office for bank service charges at the end of the fiscal year declined by \$175,000 due to the use of compensating balances to offset charges as further discussed below. Additionally, the amount owed by the Treasurer's Office to unclaimed property recovery services providers was \$52,000 less than at the end of FY 2010.

Compensated absences represents the dollar value of Treasurer's staff annual leave balances and is 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 the service of the office. Noncurrent liabilities increased by 38% as employee leave usage declined and available balances expected to be used beyond the current fiscal year grew in FY 2011.

Unrestricted Net Assets primarily consists of funds dedicated to the administration of the Unclaimed Property Program. This asset category decreased by 16%, as did Net Assets, due to the mandated balance transfer mentioned earlier.

### **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. Appropriated dollars increased in FY 2010 by \$2 million as a one-time influx of cash to the state land reimbursement program, listed as Payments to Counties. The program received \$2.1 million in FY 2010 but the appropriation was reduced to \$100,000 in FY 2011. The General Revenue appropriation that supports the operations of the agency was reduced by 3% in FY 2011 for an overall net decrease in appropriations of \$2,120,713 in FY 2011.

Pursuant to state law, securities lending revenue may be used by the Office of State Treasurer to pay bank service charges. Revenue from securities lending declined 38% in FY 2011 due to a sharp decrease in the demand for the relatively stable securities held in the Treasurer's portfolio. In response to the decline in revenues, the Treasurer's Office used compensating balances to generate earnings credits to offset \$355,000 of bank service charges prior to year end.

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, program revenues include transfers from the Unclaimed Property Fund to pay for personnel services charges associated with property recovery and advertising services.

Personnel services, travel, administrative expenses and contracted services remained relatively unchanged from FY 2010. Desktop computer replacement was the largest contributor to the equipment expense increase in FY 2011. The planned replacement of computer equipment is an annual effort when funds are available.

The significant increase in Transfers of \$2 million is due to the mandated transfer from the Treasurer's Unclaimed Property account to the State's Special Cash Fund, as discussed above. The 16% decrease in ending Net Assets is a combination of the \$2 million Unclaimed Property Program funds transfer to the Special Cash Fund and Unclaimed Property fiscal year revenues exceeding expenses.

OFFICE OF THE STATE TREASURER  
CHANGES IN NET ASSETS

	2011	2010
<b>General Revenues</b>		
Appropriations	\$ 3,903,089	\$ 6,023,802
Unclaimed Property	3,198,790	3,397,321
Service Charges	64,772	42,140
Administrative Charges	236,773	281,007
Securities Lending	262,046	425,000
Other Income	377	7,118
Total General Revenues	7,665,847	10,176,388
<b>Expenses</b>		
Personnel Services	5,926,185	5,672,915
Travel	25,935	21,219
Administrative Expenses	147,777	140,386
Contracted Services	295,374	309,234
Equipment	99,624	19,375
Other	10,416	14,168
Bank Service Charges	233,135	544,708
Payments to Counties	100,000	2,100,000
Depreciation	54,134	91,552
Total Expenses	6,892,580	8,913,557
Excess Before Transfers	773,267	1,262,831
<b>Transfers</b>	(2,004,547)	4,807
Net Assets Beginning Balance	7,518,050	6,250,412
Net Assets Ending Balance	\$ 6,286,770	\$ 7,518,050

**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 2011 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 \$4,530,734 or 40%. 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. Additionally, this year the accumulated appropriations from FY 2010 were budgeted in FY 2011 for a financial systems upgrade, but only a small portion of these funds were spent prior to the end of the fiscal year. The remaining funds were carried forward to FY 2012 to continue the project.



## **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, 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:

Travis Monroe, Director of Budget & Finance  
2300 N. Lincoln Blvd. Room 217  
Oklahoma City, OK 73105

Sam Moore, Accounting Manager  
2300 N. Lincoln Blvd. Room 217  
Oklahoma City, OK 73105

Sherian Kerlin, Securities Operations Manager  
2300 N. Lincoln Blvd. Room 217  
Oklahoma City, OK 73105



# Oklahoma State Auditor & Inspector

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

## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Office of the State Treasurer, as of and for the year ended June 30, 2011, 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 statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the Office 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 aggregate 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, 2011, 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 the State Treasurer, as of June 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Effective July 1, 2010, the Office of the State Treasurer implemented Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). As more fully discussed in Note 1, the effect of implementing GASB 54 resulted in certain changes to the presentation of fund balances.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2011 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.

A handwritten signature in blue ink that reads "Gary A. Jones". The signature is fluid and cursive, with a long horizontal stroke at the end.

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

December 29, 2011



**OFFICE OF THE STATE TREASURER**  
**GOVERNMENT-WIDE STATEMENT OF NET ASSETS**  
**June 30, 2011**

<b>ASSETS</b>	
Cash	\$ 6,256,774
Due from other agencies	435,147
Capital assets, net of accumulated depreciation	
Furniture, fixtures, and equipment	<u>76,872</u>
Total Assets	<u>6,768,793</u>
<b>LIABILITIES</b>	
Accounts payable	162,271
Compensated absences:	
Payable within one year	212,582
Payable after one year	<u>107,170</u>
Total Liabilities	<u>482,023</u>
<b>NET ASSETS</b>	
Invested in capital assets	76,872
Unrestricted	<u>6,209,898</u>
Total Net Assets	<u>\$ 6,286,770</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, 2011**

**Expenses**

**Governmental Activities - General Government:**

Personnel Services	\$ 5,926,185
Travel	25,935
Administrative Expenses	147,777
Contracted Services	295,374
Equipment	99,264
Other	10,416
Bank Service Charges	233,135
Payments to Counties	100,000
Depreciation	<u>54,134</u>
Total Expenses	<u>6,892,580</u>

**General Revenues**

Appropriations	3,903,089
Unclaimed Property	3,198,790
Service Charges	64,772
Administrative Charges	236,773
Securities Lending	262,046
Other Income	<u>377</u>
Total General Revenues	<u>7,665,847</u>

**Transfers** (2,004,547)

Increase (Decrease) in Net Assets (1,231,280)

Net Assets, July 1, 2010 7,518,050

Net Assets, June 30, 2011 \$ 6,286,770

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

**OFFICE OF THE STATE TREASURER  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2011**

	<b><u>GENERAL FUND</u></b>
<b>ASSETS</b>	
Cash	\$ 6,256,774
Due from the agency fund	435,147
Total Assets	<u>\$ 6,691,921</u>
 <b>LIABILITIES AND FUND BALANCE</b>	
<b>Liabilities</b>	
Accounts payable	\$ <u>162,271</u>
Total Liabilities	<u>162,271</u>
 <b>Fund Balance</b>	
Committed for taxpayer relief	25,000
Unassigned	<u>6,504,650</u>
Total Fund Balance	<u>6,529,650</u>
Total Liabilities and Fund Balance	<u>\$ 6,691,921</u>

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

**OFFICE OF THE STATE TREASURER  
RECONCILIATION OF THE GOVERNMENTAL FUNDS  
BALANCE SHEET TO THE STATEMENT OF NET ASSETS  
June 30, 2011**

Total Fund Balance - Governmental Fund	\$ 6,529,650
Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund.	76,872
Long term liabilities are not due and payable in the current period and therefore are not reported in the fund.	
Compensated absences	<u>(319,752)</u>
Net assets of governmental activities	\$ <u><u>6,286,770</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 FUNDS  
FOR THE YEAR ENDED JUNE 30, 2011**

	<b>GENERAL FUND</b>
<b>Revenues</b>	
Unclaimed Property	\$ 3,198,789
Service Charges	64,772
Administrative Charges	236,773
Securities Lending	262,046
Other Income	377
Total Revenues	3,762,757
<b>Expenditures</b>	
<b>Current:</b>	
Personnel Services	5,900,302
Travel	25,935
Administrative	147,777
Contracted Services	295,374
Equipment	117,635
Other	10,416
Bank Service Charges	233,135
Payments to Counties	100,000
Total Expenditures	6,830,574
Revenues Over (Under) Expenditures	(3,067,817)
<b>Other Financing Sources (Uses)</b>	
Appropriations	3,903,089
Transfers	(2,004,547)
Total Other Financing Sources (Uses)	1,898,542
Net Change In Fund Balance	(1,169,275)
<b>Fund Balance, July 1, 2010</b>	<b>7,698,925</b>
<b>Fund Balance, June 30, 2011</b>	<b>\$ 6,529,650</b>

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, 2011**

Net Change in Fund Balance - Governmental Fund	\$ (1,169,275)
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.	(36,122)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
This amount represents the cost of compensated absences earned in the prior year, used in the current year.	(25,883)
	<hr/>
Change in net assets of governmental activities	\$ <u>(1,231,280)</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, 2011**

		<u>Agency Fund</u>
<b>ASSETS</b>		
Cash		
Cash On Hand	\$	382,703
Cash In Banks		70,236,754
Total Cash		<u>70,619,457</u>
Investments		
Treasurer's Portfolio		
OKinvest		5,504,464,157
General Revenue		79,700,000
State Agency Portfolio		4,359,301
Securities Lending Investments		435,077,675
Total Investments		<u>6,023,601,133</u>
Interest Receivable		
OKinvest Portfolio		25,613,536
General Revenue Portfolio		179,204
Agency Directed Portfolio		2,693
Total Interest Receivable		<u>25,795,433</u>
Total Assets	\$	<u><u>6,120,016,023</u></u>
<b>LIABILITIES</b>		
Balance Due Depositors		
State Government Entities	\$	5,680,141,207
State Government Entities Investments		4,361,994
Payable Under Securities Lending Agreements		435,077,675
Total Due Depositors		<u>6,119,580,876</u>
Due to the General Fund		<u>435,147</u>
Total Liabilities	\$	<u><u>6,120,016,023</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, 2011**

**1. Summary of Significant Accounting Policies**

**A. Reporting Entity**

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

The State Treasurer is elected every four years and takes office the second Monday in January following the election for the position in November. On January 10, 2011 the Honorable Ken Miller assumed the position of State Treasurer.

The primary functions of the Office are the maintenance of bank accounts for the receipt and disbursement of state funds, the prudent investment of certain state funds, the recording and servicing of the long-term debt of the State, and the administration of the State's Unclaimed Property program. Additionally, the Office performs safekeeping and investment functions for state agencies, and other entities as authorized by state statute. Various activities of the Office include receipt of warrants, vouchers, and debt instruments, management of cash and investments, and the reconciliation of account balances and transactions with the various state agencies. The Treasurer's office is also responsible for accounting functions associated with the Tobacco Settlement Endowment Trust Fund, 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 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 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 state considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. The Office is entitled to reimbursement for certain costs incurred in connection with administration of the Unclaimed Property Program. These revenues are recognized when the related expenditures are incurred. The Office also receives 4% of the monies accruing to the State according to state statute as service charges. Revenues for these service charges are recognized based on the monies that are remitted to the State. Expenditures are generally recognized when the related liability is incurred except for compensated absences where vested annual leave is recorded as expenditure when utilized.

Since the general fund financial statements are presented on a different measurement focus and basis of accounting than the government-wide financial statements, a reconciliation is presented which briefly explains the adjustments necessary to reconcile the fund and government-wide presentations.

The governmental fund financial statement presents fund balance in the categories defined by GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Committed fund balance represents the remaining amount of surplus state revenues collected during fiscal year 2005 that were designated by the legislature for distribution to Oklahoma taxpayers. Pursuant to legislation enacted in fiscal year 2011 the remaining balance of these funds on June 30, 2012 shall be transferred to the State's Special Cash Fund. Unassigned fund balance represents funds that have not been restricted, committed, or assigned.

### **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 \$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

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, 2011.

	<u>Balance</u>			<u>Balance</u>
	June 30, 2010	Increases	Decreases	June 30, 2011
Compensated Absences	\$ 293,869	192,320	166,437	\$ 319,752

**2. Budgetary Reporting and Fund Balance Restatement**

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

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

Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles (GAAP), a reconciliation of resulting differences in the excess of revenues over (under) expenditures and other financing sources (uses) between budgetary and GAAP presentations for the year ended June 30, 2011, is presented as follows:

General Fund Balance, Budgetary Basis	\$ 6,305,257
Basis Differences:	
Add: Net Service and Administrative Charge	12,779
Net Unclaimed Property	(50,789)
Encumbrances recognized as expenses	73,404
Difference in July 1, 2010 GAAP basis fund balance, compared to budget basis fund balance	245,785
Subtract: Prior years Encumbrance	(56,786)
Total General Fund Balance - GAAP Basis	\$ <u>6,529,650</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.

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

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

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

The State Treasurer's investment policy uses diversification as a means to reduce overall portfolio risk. Investments are diversified by security type, institution and maturity. With the exception of U.S. Treasury securities, no more than 50% of the State's total funds available for investment will be invested in a single security type or with a single financial institution. The Treasurer's portfolio will not have an average maturity greater than four (4) years, unless 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>Percentage of Total by Issuer</u>	<u>Maturity Limit</u>	<u>Rating</u>
U.S. Government Agency Securities	50%	35%	10 years	AAA
U.S. Government Agency Mortgage Backed Securities – Passthroughs (as a % of U.S. Government Agency)	40% of U.S. Government Agency Securities		(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, 2011, the securities lending agent lent U.S. government securities it held on behalf of the Treasurer and received U.S. government securities and cash as collateral. Borrowers were required to deliver and maintain collateral for each loan with a market value that is not less than 100 percent of the market value of the loaned security. All securities loans can be terminated on demand by either the Treasurer or the borrower. At June 30, 2011, the maturity of these loans was one day. All loans are contracted on an open basis resetting daily. Cash collateral is invested in instruments of the same type that the Treasurer is allowed to invest in by statute. Interest rate sensitivity for the cash collateral was seventeen (17) 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 \$423,709,626.

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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, 2011;

TYPE OF INVESTMENT	FAIR VALUE	AMORTIZED COST	AVERAGE CREDIT QUALITY RATING (1)	WEIGHTED AVERAGE MATURITY (DAYS) (2)
<b>TREASURER'S PORTFOLIO</b>				
<b><u>POOLED INVESTMENTS</u></b>				
U.S. TREASURY NOTES	\$ -	\$ -	AAA	
U.S. TREASURY TIPS	91,959,025	77,609,951	AAA	2,130
SECURITIES LENDING COLLATERAL POOL	435,077,675	435,077,675	NR	
U.S. AGENCIES	1,980,456,225	1,964,704,486	AAA	576
MORTGAGE BACKED AGENCIES	2,037,522,255	1,951,341,746	AAA (6)	1,608
REPURCHASE AGREEMENTS	363,000,000	363,000,000	A-1+/P-1 (5)	1
COMMERCIAL PAPER	49,999,400	49,994,667	A-1+	5
FOREIGN BONDS	20,000,000	20,000,000	NR	596
MUNICIPAL BONDS	116,108,693	107,220,099	(7)	3,368
CERTIFICATES OF DEPOSIT	253,995,000	253,995,000	NR	67
MONEY MARKET MUTUAL FUND	591,423,559	591,423,559	AAAm	1
	<u>\$ 5,939,541,832</u>	<u>\$ 5,814,367,183</u>		
<b><u>NON-POOLED INVESTMENTS</u></b>				
STATE BOND ISSUE	79,700,000	79,700,000	(4)	60
	<u>\$ 79,700,000</u>	<u>\$ 79,700,000</u>		
<b>TOTAL TREASURER'S INVESTMENTS</b>	<u>\$ 6,019,241,832</u>	<u>\$ 5,894,067,183</u>		
<b>STATE AGENCY PORTFOLIO</b>				
U.S. TREASURY	\$ 2,726,150	\$ 2,671,781	AAA (3)	202
MUTUAL FUND	1,633,151	1,108,894	N/A (3)	N/A
<b>TOTAL STATE AGENCY PORTFOLIO</b>	<u>\$ 4,359,301</u>	<u>\$ 3,780,675</u>		

	FAIR VALUE	AMORTIZED COST
<b>INVESTMENTS SUMMARY</b>		
U.S. TREASURY	\$	\$ 77,609,951
NOT ON SECURITIES LOAN		
ON SECURITIES LOAN - BONDS BORROWED		
ON SECURITIES LOAN - CASH COLLATERAL	91,959,025	
U.S. AGENCIES		3,918,718,013
NOT ON SECURITIES LOAN	3,688,954,029	
ON SECURITIES LOAN - BONDS BORROWED		
ON SECURITIES LOAN - CASH COLLATERAL	331,750,601	
COMMERCIAL PAPER	49,999,400	49,994,667
INVESTMENTS		
PURCHASED W/CASH COLLATERAL	435,077,675	435,077,675
REPURCHASE AGREEMENTS	363,000,000	363,000,000
CERTIFICATES OF DEPOSIT	253,995,000	253,995,000
FOREIGN BONDS	20,000,000	20,000,000
STATE BOND ISSUE	79,700,000	79,700,000
MUNICIPAL BONDS	116,108,693	107,220,099
MUTUAL FUND	1,633,151	1,108,894
MONEY MARKET MUTUAL FUND	591,423,559	591,423,559
<b>TOTAL INVESTMENTS</b>	<b>\$ 6,023,601,133</b>	<b>\$ 5,897,847,858</b>

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

(2) Interest rate risk is estimated using weighted average days to maturity.

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

(4) State bond issues are comprised of \$39,700,000 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.

(5) Credit ratings are provided for the counterparties to the repurchase agreement.

(6) 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.

(7) All municipal bonds possessed a AAA rating when purchased. As of June 30, 2011, 32% had a rating of AAA, 41% were rated AA+, 22% were rated AA, and 5% 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, 2011.

	Balance June 30, 2010	Capital Acquisitions	Sales or Other Dispositions	Balance June 30, 2011
Furniture, fixtures, and office equipment	\$ 1,319,772	18,012	349,147	\$ 988,637
Less accumulated depreciation	1,206,779	54,133	349,147	911,765
Total	\$ <u>112,993</u>	\$ <u>(36,121)</u>	\$ <u>(0.00)</u>	\$ <u>76,872</u>

7. **Bank Service Fees**

During the year, the Office incurred fees for services rendered by various financial institutions. Service charges of \$233,135 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. The current interest rate environment where overnight rates at times were zero percent and the decline in securities lending revenue caused the Treasurer's Office to use earnings credit to offset bank service fees. The totals of bank fees offset in the current year were \$355,000

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, 2011, 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%	15.5%

The Office’s contributions to the Plan for the years June 30, 2011-\$434,384.64; June 30, 2010 - \$461,031.81; June 30, 2009 - \$448,450.40; 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, retired employees of the Office are offered post-retirement health care benefits through their membership in the Oklahoma Public Employees Retirement System (OPERS). OPERS pays the Medicare supplement premium or \$105 per month, whichever is less, for all retirees who elect coverage at time of retirement through the Oklahoma State and Education Employee Group Insurance.

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



**11. Fund Balance Committed for the 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. This legislative action is the highest level of decision making and similar action is required to modify or rescind this legislation.

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.

Effective November 1, 2011, SB 571 transfers the \$25,000 committed fund balance in the Oklahoma Taxpayer Relief Revolving Fund to the Special Cash Fund.

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**REQUIRED SUPPLEMENTAL INFORMATION**

**OFFICE OF THE STATE TREASURER  
SCHEDULE OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (BUDGETARY BASIS)  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Budgeted Amounts</u>			<b>Variance with Final Budget</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues</b>				
Unclaimed Property	\$ 5,000,000	\$ 5,000,000	\$ 3,249,579	\$ (1,750,421)
Service Charges	80,000	80,000	64,922	(15,078)
Administrative Charges	224,594	224,594	223,844	(750)
Securities Lending	425,000	425,000	262,046	(162,954)
Other Income	-	-	377	377
Total Revenues	<u>5,729,594</u>	<u>5,729,594</u>	<u>3,800,768</u>	<u>(1,928,826)</u>
<b>Expenditures</b>				
Personnel Services	7,856,227	9,598,467	5,926,609	3,671,858
Travel	72,600	72,600	25,935	46,665
Administrative Expenses	248,560	248,560	155,885	92,675
Contracted Services	387,800	387,800	295,974	91,826
Equipment	254,500	254,500	99,035	155,465
Other	1,000	1,000	10,620	(9,620)
Bank Service Charges	715,000	715,000	233,135	481,865
Payment to Counties	100,000	100,000	100,000	0
Total Expenditures	<u>9,635,687</u>	<u>11,377,927</u>	<u>6,847,193</u>	<u>4,530,734</u>
Excess of revenues over (under) expenditures	<u>(3,906,093)</u>	<u>(5,648,333)</u>	<u>(3,046,425)</u>	<u>2,601,908</u>
<b>Other financing sources (uses)</b>				
Appropriations	3,903,089	3,903,089	3,903,089	-
Transfers	-	-	(2,004,547)	(2,004,547)
Total other financing sources (uses)	<u>3,903,089</u>	<u>3,903,089</u>	<u>1,898,542</u>	<u>(2,004,547)</u>
Net change in fund balance	(3,004)	(1,745,244)	(1,147,883)	597,361
Fund balance, July 1, 2010	<u>7,453,140</u>	<u>7,453,140</u>	<u>7,453,140</u>	<u>-</u>
Fund balance, June 30, 2011	<u>\$ 7,450,136</u>	<u>\$ 5,707,896</u>	<u>\$ 6,305,257</u>	<u>\$ 597,361</u>

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



**OFFICE OF THE STATE TREASURER  
SUPPLEMENTAL SCHEDULE  
EXPENDITURES BY OBJECT CODE-(BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED June 30, 2011**

<b>OBJECT CODE</b>	<b>CATEGORY</b>	<b>AMOUNT</b>
1100	Salary Expense	\$ 4,202,784
1200	Insurance	17,946
1300	FICA & Retirement	13,645
1500	Professional Services	1,689,056
1900	Inter/Intra Agency Payments Professional Services	3,179
2100	Travel-Reimbursement	6,659
2200	Travel-Direct Expense	19,276
3100	Miscellaneous Administrative Expense	103,616
3100	Bank Service Charges	233,135
3200	Rent Expense	92,649
3300	Maintenance and Repair Expense	203,325
3500	Production and Safety	158
3600	Office Expense	52,110
4100	Office Furniture and Equipment	99,035
4600	Building Renovation	9,150
5200	Employee Recognition Awards	1,412
6100	Employee Reimbursements	58
6200	County Treasurers	100,000
Total		<u>\$ 6,847,193</u>

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



# Oklahoma State Auditor & Inspector

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

## **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Office of the State Treasurer, as of and for the year ended June 30, 2011, which collectively comprise the Office of the State Treasurer's basic financial statements and have issued our report thereon dated December 29, 2011, which includes an explanatory paragraph stating that the financial statements of the Office of the State Treasurer are intended to present the financial position and results of daily operations of only that portion of the State of Oklahoma attributable to the transactions of the Office of the State Treasurer. In addition, our report included a paragraph noting the Office of State Treasurer's implementation of GASB 54. 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**

Management of the Office of the State Treasurer is responsible for establishing and maintaining effective 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 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Office of the State Treasurer's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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, and contracts, 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 Oklahoma Open Records Act (51 O.S., § 24A.1 et seq.), and shall be open to any person for inspection and copying.

A handwritten signature in blue ink, appearing to read "Gary A. Jones". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

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

December 29, 2011





OFFICE OF THE STATE AUDITOR AND INSPECTOR

2300 N. LINCOLN BOULEVARD, ROOM 100

OKLAHOMA CITY, OK 73105-4896

[WWW.SAI.OK.GOV](http://WWW.SAI.OK.GOV)