

FINANCIAL AUDIT

OFFICE OF THE STATE TREASURER

For the fiscal year ended June 30, 2013



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



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

**OFFICE OF THE STATE TREASURER OF OKLAHOMA
FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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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 31, 2013

**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, 2013. The goal of the State Auditor and Inspector is to promote accountability and fiscal integrity in state and local government. Maintaining our independence as we provide this service to the taxpayers of Oklahoma is of utmost importance.

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

Sincerely,

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

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

**OFFICE OF THE STATE TREASURER OF OKLAHOMA
FINANCIAL STATEMENTS AND INDEPENDENT
AUDITOR'S REPORTS
FOR THE YEAR ENDED JUNE 30, 2013**

	Page
Independent Auditor's Report	1
Management's Discussion and Analysis	4
Basic Financial Statements	
Government-wide Statement of Net Position	8
Government-wide Statement of Activities	9
Balance Sheet – Governmental Fund	10
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position	11
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Fund	12
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of the Governmental Fund to the Statement of Activities	13
Statement of Fiduciary Assets and Liabilities	14
Notes to the Financial Statements	15
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual (Budgetary Basis) – General Fund	27
Supplemental Schedule –Expenditures by Object Code–(Budgetary Basis)–General Fund.....	30
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	32



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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Office of the State Treasurer, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Office of the State Treasurer's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

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, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the financial statements of the Office of the State Treasurer are intended to present the financial position and the changes in financial position of only that portion of the State of Oklahoma that is attributable to the transactions of the Office of the State Treasurer. They do not purport to, and do not, present fairly the financial position of the State of Oklahoma as of June 30, 2013, the changes in its financial position, or where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

In addition, as discussed in Note 1, the Office of the State Treasurer has adopted the provisions of GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, effective July 1, 2012. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4-7 and 28-29 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Office of the State Treasurer's basic financial statements. The Expenditures by Object Code (Budgetary Basis) schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Expenditures by Object Code (Budgetary Basis) schedule has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2013, 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* in considering the Office of the State Treasurer's internal control over financial reporting and compliance.

A handwritten signature in blue ink, appearing to read "Gary A. Jones", with a stylized flourish at the end.

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

December 31, 2013

Office of the State Treasurer of Oklahoma
Management's Discussion and Analysis (MD&A)
June 30, 2013

Management of the Office of the State Treasurer of Oklahoma provides this Management's Discussion and Analysis as an overview of the Office of the State Treasurer's financial activities for the fiscal year ended June 30, 2013. The intent of the MD&A is to look at the Office of the State Treasurer's financial performance as a whole. It should, therefore, be read in conjunction with the financial statements and accompanying notes.

FINANCIAL HIGHLIGHTS

Statement of Net Position

The Statement of Net Position provides an indication of the Office of the State Treasurer's financial condition at the end of the 2013 fiscal year. The statement reports all assets and liabilities using the accrual basis of accounting. The Statement of Changes in Net Position reports all of the revenues and expenses during the time periods indicated.

OFFICE OF THE STATE TREASURER NET POSITION

	2013	2012
Current Assets	\$ 9,158,828	\$ 7,535,898
Capital assets	10,466	43,297
Capital assets - Development in Progress	1,727,762	1,038,519
Total Assets	<u>10,897,056</u>	<u>8,617,714</u>
Other Liabilities	965,638	488,655
Noncurrent Liabilities	63,191	15,357
Total Liabilities	<u>1,028,829</u>	<u>504,012</u>
Invested in capital assets	1,738,228	1,081,816
Unrestricted	8,129,999	7,031,886
Total Net Position	<u>\$ 9,868,227</u>	<u>\$ 8,113,702</u>

As of June 30, 2013, the Office of the State Treasurer's increase in current assets was attributable to funds to be used for payment of the agency's liability to the Office of Management and Enterprise Services (OMES) for information services provided during fiscal year 2013. Additional increases were also recognized from net revenues received for the administration of the unclaimed property program and securities lending revenue used for the payment of bank fees. Capital assets increased due to the capitalization of costs incurred with the ongoing development and implementation of web based disbursement and deposit processing and cash management applications. The new systems replace COBOL based systems that had reached the end of their product life cycle and were no longer supported by the software vendors.

The increase in other liabilities was due to additional payables outstanding at the end of the fiscal year associated with the contract for information services, as noted above, and the ongoing systems development and implementation projects.

Compensated absences represent the dollar value of employee annual leave balances and are reflected in both other and noncurrent liabilities. Employee annual leave is used as vacation time or must be reimbursed if an employee separates from agency service. This dollar value changes as employees use their leave or receive reimbursement payments as they leave the service of the Office. The noncurrent liabilities increase is attributable to a reduction in the amount of leave used in the current fiscal year.

Unrestricted net position primarily consists of funds received for the administration of the Unclaimed Property Program and received from securities lending for the payment of bank fees pursuant to state statute. It also includes other funding internally designated for capital projects like systems development and hardware replacement. The increase in unrestricted net position of 16% during the fiscal year is attributable to an increase in net revenues from the administration of the Unclaimed Property Program and the continued use of compensating balances to offset certain banking fees.

Statement of Activities - Revenues and Expenses

Except for revenues received for the administration of the Unclaimed Property Program, operating revenues of the Office of the State Treasurer are largely dependent upon state general revenue appropriation. The general revenue appropriation increased \$114,000, or 3% for fiscal year 2013. This one time increase in funding was provided by the legislature to offset administrative expenses associated with the dissolution of the Economic Development Generating Excellence, EDGE Fund and the transfer of EDGE Fund principal and interest to other entities as specified by the legislature.

Prior to the fiscal year ended June 30, 2013, the Office of the State Treasurer reported securities lending revenue net of lending agent fees and borrower rebates. Accounting standards prescribe that these amounts be reported in “gross” rather than “net” terms even though there is no impact on the change in net position. Securities lending revenues and bank service charges for securities lending were reported in the net amount of \$410,698 for the fiscal year ended June 30, 2012.

After consideration of all securities lending fees when doing a year-to-year comparison below, securities lending revenue decreased by \$262,150 and bank service charges for securities lending decreased by \$212,265 from June 30, 2012 to June 30, 2013. Revenues and expenses from securities lending declined in FY 2013 due to a decrease in the demand for securities held in the Treasurer’s portfolio, a direct result of our restrictive asset allocation. Pursuant to state statute, securities lending revenue may be used by the Office of the State Treasurer to pay bank service charges.

Four percent of all property relinquished to the state under the Uniform Unclaimed Property Act is recognized as revenue by the Office of the State Treasurer and used to finance certain Unclaimed Property Program expenses. Additionally, program revenues include transfers from the Unclaimed Property Fund to pay for personnel services charges associated with property recovery and advertising services.

Contracted services costs increased due to maintenance costs associated with new applications implemented to replace unsupported COBOL based programs.

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

	<u>2013</u>	<u>2012</u>
General Revenues		
Appropriations	\$ 3,743,873	\$ 3,629,873
Unclaimed Property	3,687,609	3,545,466
Service Charges	58,890	59,996
Administrative Charges	515,177	601,597
Securities Lending	608,912	410,698
Other Income	2,249	2,665
Total General Revenues	<u>8,616,710</u>	<u>8,250,295</u>
Expenses		
Personnel Services	5,434,802	5,408,259
Travel	31,029	38,430
Administrative Expenses	152,852	159,326
Building Renovation	128,801	155,662
Contracted Services	274,341	137,770
Equipment	109,433	38,488
Other	1,173	2,536
Bank Service Charges	347,595	301,512
Bank Service Charges Securities Lending	248,099	0
Payments to Counties	93,000	93,000
Depreciation	14,200	35,202
Total Expenses	<u>6,835,325</u>	<u>6,370,185</u>
Excess Before Transfers	1,781,385	1,880,110
Transfers	<u>(26,860)</u>	<u>(53,178)</u>
Increase (Decrease) in Net Position	1,754,525	1,826,932
Net Position Beginning Balance	<u>8,113,702</u>	<u>6,286,770</u>
Net Position Ending Balance	<u>\$ 9,868,227</u>	<u>\$ 8,113,702</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 2013 final budget included carryover funds not available at the time of the original budget. The final budgeted expenses exceeded actual expenses for the fiscal year by almost \$2 million. Unclaimed Property recovery and advertising expenses have been difficult to predict with any degree of accuracy because they are largely driven by the services of third parties who locate and recover property for the state.

USING THIS ANNUAL REPORT

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

Government-wide statements:

Government-wide statements include a Statement of Net Position and a Statement of Activities. These

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

Fund statements:

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

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

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

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

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

OFFICE OF THE STATE TREASURER
GOVERNMENT-WIDE STATEMENT OF NET POSITION
JUNE 30, 2013

ASSETS

Cash	\$ 9,105,794
Accounts receivable securities lending	53,034
Capital assets, net of accumulated depreciation	
Furniture, fixtures, and equipment	10,466
Capital assets - development in progress	<u>1,727,762</u>
Total Assets	<u>10,897,056</u>

LIABILITIES

Accounts payable vendors	276,252
Due to the Fiduciary Fund	499,584
Compensated absences:	
Payable within one year	189,802
Payable after one year	<u>63,191</u>
Total Liabilities	<u>1,028,829</u>

NET POSITION

Invested in capital assets	1,738,228
Unrestricted	<u>8,129,999</u>
Total Net Position	<u>\$ 9,868,227</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, 2013**

Expenses

Governmental Activities - General Government:

Personnel Services	\$ 5,434,802
Travel	31,029
Administrative Expenses	152,852
Building Renovation	128,801
Contracted Services	274,341
Equipment	109,433
Other	1,173
Bank Service Charges	347,595
Bank Service Charges Securities Lending	248,099
Payments to Counties	93,000
Depreciation	14,200
Total Expenses	<u>6,835,325</u>

General Revenues

Appropriations	3,743,873
Unclaimed Property	3,687,609
Service Charges	58,890
Administrative Charges	515,177
Securities Lending	608,912
Other Income	2,249
Total General Revenues	<u>8,616,710</u>

Transfers	<u>(26,860)</u>
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Change in Net Position	1,754,525
Net Position, July 1, 2012	<u>8,113,702</u>

Net Position, June 30, 2013	<u>\$ 9,868,227</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, 2013**

GENERAL FUND

ASSETS

Cash	\$ 9,105,794
Accounts receivable securities lending	<u>53,034</u>
Total Assets	<u>\$ 9,158,828</u>

LIABILITIES AND FUND BALANCE

Liabilities

Accounts payable vendors	\$ 276,252
Due to the Fiduciary Fund	<u>499,584</u>
Total Liabilities	<u>775,836</u>

Fund Balance

Committed to:	
Unclaimed property program administration	5,635,334
Banking fees	576,710
Assigned to:	
Compensated absences	189,802
Systems development	<u>1,981,146</u>
Total Fund Balance	<u>8,382,992</u>
Total Liabilities and Fund Balance	<u>\$ 9,158,828</u>

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

**OFFICE OF THE STATE TREASURER
RECONCILIATION OF THE GOVERNMENTAL FUND
BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2013**

Total Fund Balance - Governmental Fund	\$ 8,382,992
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Capital assets used in governmental activities
are not financial resources and therefore are
not reported in the fund.

Furniture, fixtures, and equipment	10,466
Development in progress	1,727,762

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

Compensated absences	<u>(252,993)</u>
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Net position of governmental activities	\$ <u><u>9,868,227</u></u>
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The notes to the financial statements are an integral part of this statement.

**OFFICE OF THE STATE TREASURER
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2013**

	GENERAL FUND
Revenues	
Unclaimed Property	\$ 3,687,609
Service Charges	58,890
Administrative Charges	515,177
Securities Lending	608,912
Other Income	2,249
Total Revenues	<u>4,872,837</u>
Expenditures	
Personnel Services	5,420,172
Travel	31,029
Administrative Expenses	152,852
Building Renovation	128,801
Contracted Services	274,341
Capital Outlay - Systems Development	689,242
Equipment	117,664
Other	1,173
Bank Service Charges	347,595
Bank Service Charges Securities Lending	248,099
Payments to Counties	93,000
Total Expenditures	<u>7,503,968</u>
Revenues Over (Under) Expenditures	<u>(2,631,131)</u>
Other Financing Sources (Uses)	
Appropriations	<u>3,743,873</u>
Total Other Financing Sources (Uses)	3,743,873
Net Change In Fund Balance	1,112,742
Fund Balance, July 1, 2012	<u>7,270,250</u>
Fund Balance, June 30, 2013	\$ <u><u>8,382,992</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, 2013**

Net Change in Fund Balance - Governmental Fund	\$ 1,112,742
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	683,272
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

This amount represents the cost of compensated absences earned in prior years, used in the current year.	(14,629)
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This amount represents the carrying value of the capital assets that were transferred for disposal or to another agency.	(26,860)
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Change in net position of governmental activities	\$ <u><u>1,754,525</u></u>
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The notes to the financial statements are an integral part of this statement.

OFFICE OF THE STATE TREASURER
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUND
JUNE 30, 2013

	<u>Agency Fund</u>
ASSETS	
Cash	
Cash On Hand	\$ 558,345
Cash In Banks	<u>47,690,117</u>
Total Cash	<u>48,248,462</u>
Investments	
Treasurer's Portfolio	
OKinvest	6,361,143,986
General Revenue	68,000,000
State Agency Portfolio	2,138,680
Securities Lending Investments	<u>211,014,669</u>
Total Investments	<u>6,642,297,335</u>
Interest Receivable	
OKinvest Portfolio	27,321,039
General Revenue Portfolio	173,647
Agency Directed Portfolio	<u>1,541</u>
Total Interest Receivable	<u>27,496,227</u>
Due from the General Fund	<u>499,584</u>
Total Assets	\$ <u><u>6,718,541,608</u></u>
LIABILITIES	
Balance Due Depositors	
State Government Entities	\$ 6,505,385,928
State Government Entities Investments	2,141,011
Payable Under Securities Lending Agreements	<u>211,014,669</u>
Total Due Depositors	<u>6,718,541,608</u>
Total Liabilities	\$ <u><u>6,718,541,608</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, 2013**

1. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

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

B. Basis of Presentation, Measurement Focus and Basis of Accounting Government-wide Financial Statements

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

Using the economic resources measurement focus, all assets and liabilities, both current and long-term, associated with the operation of the Office activities are presented in the statement of net 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.

Recent pronouncement GASB Statement No. 63 provides guidance for the reporting of deferred outflows of resources, deferred inflows of resources and net position in a statement of financial position and related disclosures. The pronouncement will improve financial reporting by

standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. As of June 30, 2013 there were no deferred outflows or inflows of resources to be reported.

Fund Financial Statements

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

Governmental Fund

General Fund - The General Fund is the primary operating fund of the Office. This fund is used to account for all financial transactions and resources except those required to be accounted for in another fund. The general fund financial statements are presented using the modified accrual basis of accounting and the current financial resources measurement focus. Using the current financial resources measurement focus, only current assets and current liabilities are included on the balance sheet in the general fund financial statements. The modified accrual basis of accounting provides for the recognition of revenues when they become both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the state considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. The Office is entitled to reimbursement for certain costs incurred in connection with administration of the Unclaimed Property Program. These revenues are recognized when the related expenditures are incurred. The Office also receives 4% of the monies accruing to the State according to state statute as service charges. Revenues for these service charges are recognized based on the monies that are remitted to the State. Expenditures are generally recognized when the related liability is incurred except for compensated absences where vested annual leave is recorded as expenditure when utilized.

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

Governmental Fund – Fund Balance Reserves and Designations

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

Along with ratification by the Governor, the Senate and the House of Representatives write, prepare and approve legislative bills to allocate the state's available resources each fiscal year. The Office receives an appropriation from this legislative process over which the Treasurer is authorized to assign amounts to specific purposes. The Office is in the midst of several multi-year projects to replace outdated unsupported systems and to consolidate office operations for

better management and greater efficiency. It is expected that the costs of these ongoing efforts will exceed the Office's remaining fund balance as of June 30, 2013, accordingly, the entire amount has been reflected as assigned.

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

Fiduciary Fund

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 costing more than \$500, with a calculable period of service of more than one year and that may be used repeatedly without material impairment of physical condition, is 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, 2013.

	Balance June 30, 2012	Increases	Decreases	Balance June 30, 2013
Compensated Absences	\$ 238,366	167,986	153,359	\$ 252,993

2. **Deposits**

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

3. **Investments and Securities Lending**

Investments

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

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

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

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

the State Treasurer may participate in OK Invest.

Investment Policy

The State Treasurer has a formal investment policy which was updated in June 2013. This policy applies to all funds of the State entrusted to the Treasurer by specific statutory investment authority as delineated in Title 62 O.S. § 89.2. This policy also applies to the investments of state agencies when they request that the Treasurer act as their agent. Only investment transactions relating to the following are covered by this policy: U.S. Treasury Bills, Notes and Bonds, U.S. Government Agency Securities, collateralized or insured Certificates of Deposit and other evidences of deposit, negotiable Certificates of Deposit, Banker's acceptances, Commercial paper, obligations of state and local governments, including obligations of Oklahoma State public trusts, repurchase agreements and tri-party repurchase agreements, money market mutual funds, short term bond funds and foreign government bonds.

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

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

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

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

The State Treasurer's investment policy uses diversification as a means to reduce overall portfolio risk. Investments are diversified by security type, institution and maturity. With the exception of U.S. Treasury securities, no more than 50% of the State's total funds available for investment will be invested in a single security type or with a single financial institution. The Treasurer's portfolio will not have an average maturity greater than four (4) years, unless 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	50%	35%	10 years	Aaa, AAA
U.S. Government Agency Mortgage Backed Securities – Passthroughs (as a % of U.S. Government Agency)	45% of U.S. Government Agency Securities		(7)	Aaa, 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, 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, 2013, 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, 2013, the maturity of these loans was one day as loans are contracted on an open basis resetting daily. Cash collateral is invested in instruments of the same type the Treasurer is allowed to invest in by statute. The Treasurer did not have the ability to pledge or sell collateral securities absent a borrower default. The securities lending agent provides indemnification if the borrowers fail to return the underlying securities (and if the collateral is inadequate to replace the securities lent) or fails to pay the Treasurer for income distributions by the securities' issuers while the securities are on loan. There were no failures by any borrowers to return loaned securities or pay related income distributions during the fiscal year.

At year-end, the fair value of the securities on loan was \$205,297,648. The underlying collateral for these securities had a fair value of approximately \$211,014,669.

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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, 2013:

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 TIPS	93,218,100	76,387,445	AA+ (5)	1,399
SECURITIES LENDING COLLATERAL POOL	211,014,669	211,014,669	NR	
U.S. AGENCIES	2,477,737,110	2,488,256,875	AA+ (5)	597
MORTGAGE BACKED AGENCIES	2,733,423,475	2,720,069,975	AA+ (5)	1,835
FOREIGN BONDS	49,970,200	50,000,000	NR	1,310
MUNICIPAL BONDS	118,044,630	106,641,382	(6)	2,316
CERTIFICATES OF DEPOSIT	161,706,000	161,706,000	NR	70
END OF DAY COMMERCIAL PAPER SWEEP	133,047,814	133,047,814	NR	1
MONEY MARKET MUTUAL FUND	593,996,657	593,996,657	AAAm	1
	<u>\$ 6,572,158,655</u>	<u>\$ 6,541,120,817</u>		
<u>NON-POOLED INVESTMENTS</u>				
STATE BOND ISSUE	68,000,000	68,000,000	(4)	58
	<u>\$ 68,000,000</u>	<u>\$ 68,000,000</u>		
TOTAL TREASURER'S INVESTMENTS	<u><u>\$ 6,640,158,655</u></u>	<u><u>\$ 6,609,120,817</u></u>		
STATE AGENCY PORTFOLIO				
U.S. TREASURY	\$ 202,035	\$ 171,186	AAA (3)	1,050
MUTUAL FUND	1,936,645	1,108,894	N/A (3)	N/A
TOTAL STATE AGENCY PORTFOLIO	<u><u>\$ 2,138,680</u></u>	<u><u>\$ 1,280,080</u></u>		

	FAIR VALUE	AMORTIZED COST
INVESTMENTS SUMMARY		
U.S. TREASURY		\$ 76,558,630
NOT ON SECURITIES LOAN	\$ 93,420,134	
ON SECURITIES LOAN - BONDS BORROWED		
ON SECURITIES LOAN - CASH COLLATERAL		
U.S. AGENCIES		5,208,326,850
NOT ON SECURITIES LOAN	5,005,862,937	
ON SECURITIES LOAN - BONDS BORROWED		
ON SECURITIES LOAN - CASH COLLATERAL	205,297,648	
COMMERCIAL PAPER		
INVESTMENTS		
PURCHASED W/CASH COLLATERAL	211,014,669	211,014,669
REPURCHASE AGREEMENTS	0	0
CERTIFICATES OF DEPOSIT	161,706,000	161,706,000
END OF DAY CP SWEEP	133,047,814	133,047,814
FOREIGN BONDS	49,970,200	50,000,000
STATE BOND ISSUE	68,000,000	68,000,000
MUNICIPAL BONDS	118,044,630	106,641,383
MUTUAL FUND	1,936,646	1,108,894
MONEY MARKET MUTUAL FUND	593,996,657	593,996,657
TOTAL INVESTMENTS	\$ 6,642,297,335	\$ 6,610,400,897

- (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 \$28,000,000 Oklahoma Student Loan Authority municipal bond with no rating. The interest rate resets quarterly and is tied to the average bond equivalent rates of the quotes of the 3-month commercial paper rate. Also included is \$40,000,000 Oklahoma Industrial Finance Authority State of Oklahoma Taxable General Obligation Refunding Bonds. These rates, adjusted quarterly, are tied to the 3 month LIBOR rate and are private placement.
- (5) These 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. GASB rating provided JPM, Custodian was AA+.
- (6) All Municipal Bonds possessed a AAA rating when purchased. As of June 30, 2013, 12% had a rating of AAA, 25% were rated AA+, 25% were rated AA, 10% were rated AA-, 15% were rated A+, and 6% were rated A and 7% were not rated.

4. Interfund Accounts

Due to the Fiduciary Fund/ Due from the General Fund

Various charges are applied to individual state agencies for certain banking services rendered by this Office. Additionally, the Office receives reimbursement for certain costs incurred in connection with the recovery, advertisement, custody, and sale of unclaimed property. The Office also receives up to 4% of unclaimed property receipts to offset certain capital and administrative costs incurred in connection with the administration of the State's unclaimed property program. The Office pays the Office of Management and Enterprise Services for payroll, purchasing, accounts payable and information technology services. The balance of unpaid service charges and unclaimed property revenues at year end are netted against the amount due to other state agencies and reflected as Due to the fiduciary fund/Due from the general fund.

5. Operating Leases

The Office of the State Treasurer has entered into an operating lease agreement for the copy machines used for the operations of the agency. The lease on the copy machines is effective until June 30, 2014 and the payments are based on usage; therefore, future payments are estimated based on historical information and the agency expects the payments to be \$26,000 for the period ended June 30, 2014.

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, 2013. Capital Assets increased with the purchase and implementation of cash management and web based disbursement and deposit processing applications. These systems replace COBOL based systems that had reached the end of their product life cycle and were no longer supported by the application software vendors.

	Balance June 30, 2012	Capital Acquisitions	Sales or Other Dispositions	Balance June 30, 2013
Capital assets not being depreciated	\$ 1,038,519	689,243	-	\$1,727,762
Development in progress				
Capital assets being depreciated	984,785	8,230	925,217	67,796
Furniture, fixtures, and office equipment				
Less accumulated depreciation	<u>941,488</u>	14,200	898,358	<u>57,330</u>
Total	<u>\$1,081,816</u>			<u>\$1,738,228</u>

7. **Bank Service Fees**

During the year, the Office incurred fees for services rendered by various financial institutions. Service charges of \$595,694 were paid, as reflected in the financial statements; other charges were offset by earnings calculated on the compensating cash balances maintained in various banks. The current interest rate environment where overnight rates at times were zero percent and the decline in securities lending revenue caused the Treasurer's Office to use earnings credit to offset bank service fees. The totals of bank fees offset in the current year were approximately \$366,000.

8. **Risk Management**

The Division of Capital Assets Management of the State's Office of Management and Enterprise 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 Division of Capital Assets Management is authorized to settle claims of the State and oversee the dispensation and/or settlement of claims against a political subdivision. In no event shall self-insurance coverage provided to the state, an agency or other covered entity exceed the limitations on the maximum dollar amount of liability specified by the Oklahoma Governmental Tort Claims Act. The 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, 2013, are listed below: Elected officials must select an employee contribution rate of 4.5%, 6.0%, 7.5%, 8.5%, 9.0% or 10%. For officials first elected or appointed after November 1, 2011 the employee contribution rate is 3.5%.

State Employee Contribution

State Agencies' Contribution

All Salaries

All Salaries

3.5%

16.5%

The Office's contributions to the Plan for the years June 30, 2013 - \$357,053; June 30, 2012 - \$389,146; June 30, 2011 - \$434,384.64; were equal to the established required contributions for each year.

10. Other Post Employment Benefits (OPEB)

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

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

11. Interagency Services Agreement

The Office entered into an agreement with the Office of Management and Enterprise Services (OMES) to obtain all information technology and telecommunication services. Pursuant to this agreement the Office transferred all information technology and telecommunications assets, including completed implementation projects. The cost of this agreement for fiscal year 2013 is \$947,737.

**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, 2013**

	<u>Budgeted Amounts</u>			Variance with Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Unclaimed Property	\$ 3,763,043	\$ 3,793,543	\$ 3,192,547	\$ (600,996)
Service Charges	40,000	40,000	55,474	15,474
Administrative Charges	421,651	421,651	646,066	224,415
Securities Lending	450,000	450,000	571,295	121,295
Other Income	0	0	2,249	2,249
Total Revenues	<u>4,674,694</u>	<u>4,705,194</u>	<u>4,467,631</u>	<u>(237,563)</u>
Expenditures				
Personnel Services	6,861,116	7,672,585	5,420,454	2,252,131
Travel	101,139	101,139	31,029	70,110
Administrative Expenses	168,007	203,007	150,257	52,750
Building Renovation	0	145,000	131,224	13,776
Contracted Services	360,160	375,160	274,211	100,949
Capital Outlay - Systems Development	0	0	689,242	(689,242)
Equipment	130,145	225,645	171,933	53,712
Other	5,000	5,000	1,173	3,827
Bank Service Charges	700,000	700,000	313,087	386,913
Bank Service Charges Securities Lending	0	0	263,516	(263,516)
Payment to Counties	93,000	93,000	93,000	0
Total Expenditures	<u>8,418,567</u>	<u>9,520,536</u>	<u>7,539,126</u>	<u>1,981,410</u>
Excess of revenues over (under) expenditures	<u>(3,743,873)</u>	<u>(4,815,342)</u>	<u>(3,071,495)</u>	<u>1,743,847</u>
Other financing sources (uses)				
Appropriations	3,743,873	3,743,873	3,743,873	-
Transfers	0	0	0	0
Total other financing sources (uses)	<u>3,743,873</u>	<u>3,743,873</u>	<u>3,743,873</u>	<u>0</u>
Net change in fund balance	0	(1,071,469)	672,378	1,743,847
Fund balance, July 1, 2012	<u>6,885,856</u>	<u>6,885,856</u>	<u>6,885,856</u>	<u>-</u>
Fund balance, June 30, 2013	\$ <u>6,885,856</u>	\$ <u>5,814,387</u>	\$ <u>7,558,234</u>	\$ <u>1,743,847</u>

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

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

Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles (GAAP), a reconciliation of resulting differences in the excess of revenues over (under) expenditures and other financing sources (uses) between budgetary and GAAP presentations for the year ended June 30, 2013, is presented as follows:

General Fund Balance, Budgetary Basis	\$7,558,234
Basis Differences:	
Add: Net Service and Administrative Charges	(127,473)
Net Unclaimed Property	495,060
Encumbrances recognized as expenses	223,636
Accrued securities lending revenue	53,034
 Difference in July 1, 2012 GAAP basis fund balance, compared to budget basis fund balance	 384,394
Subtract: Prior years Encumbrances	(203,893)
 Total General Fund Balance – GAAP Basis	 \$8,382,992

**OFFICE OF THE STATE TREASURER
SUPPLEMENTAL SCHEDULE
EXPENDITURES BY OBJECT CODE-(BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED June 30, 2013**

OBJECT CODE	CATEGORY	AMOUNT
1100	Salary Expense	\$ 2,360,594
1200	Insurance	513,368
1300	FICA & Retirement	550,919
1500	Professional Services	1,991,982
1900	Inter/Intra Agency Payments Professional Services	3,591
2100	Travel-Reimbursement	7,890
2200	Travel-Direct Expense	23,140
3100	Miscellaneous Administrative Expense	95,969
3100	Bank Service Charges	313,087
3100	Bank Service Charges Securities Lending	263,516
3200	Rent Expense	106,084
3300	Maintenance and Repair Expense	168,126
3500	Production and Safety	806
3600	Office Expense	53,482
4100	Office Furniture and Equipment	171,933
4600	Building Renovation	131,224
5200	Employee Recognition Awards	893
5300	Refunds, Indemnities and Restitution	280
5400	Capital Outlay – System Development	689,242
6200	County Treasurers	93,000
Total		<u>\$ 7,539,126</u>



Oklahoma State Auditor & Inspector

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO THE HONORABLE KEN MILLER STATE TREASURER OF OKLAHOMA

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Office of the State Treasurer, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Office of the State Treasurer's basic financial statements, and have issued our report thereon dated December 31, 2013. The report includes an emphasis of matter paragraph stating that the financial statements of the Office of the State Treasurer are intended to present the financial position and results of daily operations of only that portion of the State of Oklahoma attributable to the transactions of the Office of the State Treasurer.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

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

A handwritten signature in blue ink, appearing to read "Gary A. Jones", with a stylized, flowing script.

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

December 31, 2013



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