

**OFFICE OF THE STATE TREASURER  
FINANCIAL STATEMENTS AND INDEPENDENT  
AUDITOR'S REPORTS  
FOR THE YEAR ENDED JUNE 30, 2003**



STATE OF OKLAHOMA  
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN  
State Auditor and Inspector

April 29, 2004

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

Transmitted herewith are the Office of State Treasurer, State of Oklahoma, audit reports and financial statements for the fiscal year ended June 30, 2003. The audit was conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States.

We are especially appreciative of the cooperation extended to our office by Robert Butkin and his staff. Our requests for information and assistance have been handled in a timely and professional manner. This has enabled our office to issue our reports on the State Treasurer to the people of the State of Oklahoma in a timely manner.

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

Sincerely,

  
JEFF A. McMAHAN  
State Auditor and Inspector

**OFFICE OF THE STATE TREASURER  
 FINANCIAL STATEMENTS AND INDEPENDENT  
 AUDITOR'S REPORTS  
 FOR THE YEAR ENDED JUNE 30, 2003**

**Table of Contents**

	<b>Page</b>
Management's Discussion and Analysis.....	1
Report of State Auditor and Inspector .....	5
<b>Basic Financial Statements</b>	
Statement of Net Assets .....	7
Statement of Activities.....	8
Balance Sheet—Governmental Fund.....	9
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Assets .....	10
Statement of Revenues, Expenditures, and Changes in Fund Balance—Governmental Fund .....	11
Reconciliation of the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities .....	12
Statement of Fiduciary Assets and Liabilities—Fiduciary Fund .....	13
Statement of Revenues, Expenditures, and Changes in Fund Balance—Budget and Actual (Budgetary Basis)—General Fund .....	14
Notes to the Financial Statements.....	15
Supplemental Schedule—Expenditures by Object Code—Budgetary Basis—General Fund .....	24
Report on Compliance and on Internal Control over Financial Reporting .....	25



**OFFICE OF THE STATE TREASURER  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
JUNE 30, 2003**

The Management's Discussion and Analysis of the Office of the State Treasurer of Oklahoma provides an overview and overall review of the Treasurer's financial activities for the fiscal year ending June 30, 2003. The intent of the MD&A is to look at the Treasurer's Office financial performance as a whole. It should, therefore, be read in conjunction with the Treasurer's financial statements and the notes thereto.

**FINANCIAL HIGHLIGHTS**

**Statements of Net Assets and Changes in Net Assets**

The Statement of Net Assets provides an indication of the Treasurer's financial condition at the end of the 2003 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.

As of June 30, 2003, the Office of the State Treasurer's total assets declined in both current assets and capital assets categories. The 15% decrease in current assets, comprised of cash and amounts due from other agencies, is due to several factors: a 7.85% (\$406,048) mid-fiscal year appropriation reduction, depletion of FY-2002 carryover funds budgeted in FY 2003 and increased use of revolving funds. The increased use of revolving funds is directly the result of appropriations reductions due to a state revenue shortfall.

OFFICE OF THE STATE TREASURER  
NET ASSETS

	2003	2002
Current Assets	\$ 1,204,316	\$ 1,422,190
Capital Assets	423,767	469,240
Total Assets	1,628,083	1,891,430
Noncurrent Liabilities	85,892	145,077
Other Liabilities	422,119	288,574
Total Liabilities	508,011	433,651
Invested in Capital Assets	423,767	469,240
Unrestricted	696,305	988,539
Total Net Assets	\$ 1,120,072	\$ 1,457,779

Capital assets declined from the FY-2002 level by almost 10% due to the fact that depreciation continues to exceed new acquisitions; more expensive, out-dated technology is being replaced with less costly, yet more efficient, equipment.

Current liabilities, including vendor accounts payable, grew by 46% in FY 2003. Projects and associated purchases were delayed until the end of the fiscal year in anticipation of continued and larger budget cuts. These delays contributed to the increase in amounts due vendors at year end.

Net Assets declined by 23% primarily as a result of appropriation reductions and technology trends.

See independent auditor's report.

### **Changes in Net Assets - Revenues and Expenses**

Operating revenues of the Office of State Treasurer are largely dependent upon State General Revenue appropriations. Appropriations are not considered revenue in this reporting, but are reflected in the General Revenue section of the statement.

Program revenues are dominated by two new programs within the office. The securities lending income program was authorized in response to the initial 5% appropriation reduction to the office and is limited to \$425,000 annually. This new program allowed the Treasurer's office to realize not only greater securities income to offset an appropriations reduction, but also benefited from an expense reduction for master custodial services. Securities lending income is deposited into a revolving fund and used to finance bank fees.

The Unclaimed Property program, now in its second year, generates a portion of the revenue necessary for program administration. One percent of property accruing to the state under the Uniform Unclaimed Property Act is deposited into a revolving fund and used to support program expenses. As program expense continues to grow (claims grew by 53% in FY 2003) the revolving fund will be used to finance a greater portion of the administrative expenses.

On-line claims filing, introduced in November 2002, contributed to the growth of initiated claims as well as the reduction of data-entry functions associated with claims processing. On-line holder filing will be launched in FY 2004. This automated process, along with outreach and amnesty efforts, generates new owner records, resulting in more claims to process. Claims initiated and paid continue to grow as the program institutes these efficiency measures designed to impact program effectiveness as well as budgetary growth.

General operating expenses grew slightly despite the budget reductions and state revenue shortfall at the beginning and mid-fiscal year. Offsetting revenue sources in securities lending and the use of FY 2002 carryover funds helped the office transition to the reduced appropriations level. Increases in equipment expenses were significant and due, in part, to timing issues associated with planned office workstation replacement; payments for two fiscal years occurred in FY 2003.

The large negative Net Expense represents the extent to which General Revenue appropriations support general operations. The 4.5% change from FY 2002 is directly related to securities lending program revenues. These revenues are deposited into an operations revolving fund and represent a funding switch from appropriated dollars to program revenues, resulting in the change reflected in net expenses.

General revenue funding declined by 8.6% from FY 2002 due to the appropriation reductions experienced at the beginning of and during the fiscal year.

The warrant imaging joint venture, a special item, was a direct purchase and transfer of computer equipment and software to the Office of State Finance. The new system, installed in January 2003, will reduce rental expense for statutorily required hard-copy storage while creating greater efficiency for state agencies in tracking warrants.

OFFICE OF THE STATE TREASURER  
CHANGES IN NET ASSETS

	2003	2002
Program Revenues		
Unclaimed Property	\$ 1,105,616	\$ 1,114,805
Service Charges	52,729	45,008
Securities Lending	425,000	-
Other Income	2,453	1,500
Total Program Revenues	1,585,798	1,161,313
Expenses		
Personnel Services	4,560,204	4,478,149
Travel	14,001	42,093
Administrative Expenses	157,105	188,741
Contracted Services	286,315	276,331
Payments to Other Agencies	308,081	240,780
Equipment	126,854	15,585
Other	8,174	3,868
Bank Service Charges	905,230	936,761
Payments to Counties	97,500	97,500
Depreciation	159,087	156,579
Total Expenses	6,622,551	6,436,387
Net Expenses	(5,036,753)	(5,275,074)
General Revenues		
Appropriations	4,923,142	5,330,905
Transfers	(101,634)	(56,346)
Total General Revenues	4,821,508	5,274,559
Special Item - Warrant Imaging	(122,462)	-
Decrease in Net Assets	(337,707)	(515)
Net Assets Beginning Balance	1,457,779	1,458,294
Net Assets Ending Balance	\$ 1,120,072	\$ 1,457,779

**Fund Highlights:**

**Governmental Fund – Fund Balance**

The Office of the State Treasurer has a legally adopted budget that is established by the Legislature. The fiscal year 2003 initial budget exceeded the final budget by 3% due to the net effect of the aforementioned budget cuts and introduction of FY 2002 carryover funds at mid-year.

The final budget level exceeded actual expenses for the fiscal year by 12%. The largest portion (8%) of this variance is due to direct expenses associated with the Unclaimed Property program. Program audit and advertising expenses are unpredictable. Conservative spending for the regular operations of the Treasurer's office account for the remaining 4% budget variance. Position vacancies remained unfilled, travel was held in check and operating

See independent auditor's report.

expenses were reduced to create ending fund balances that will be used to transition the office through initial fiscal year 2004 appropriation reductions.

## **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 Revenues, 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.

## **Contacting the Office's Financial Management**

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

Bill Fankhouser, Comptroller  
2300 Lincoln Boulevard, Room 217  
Oklahoma City, Ok 73105

Phone: (405) 521-3191



STATE OF OKLAHOMA  
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN  
State Auditor and Inspector

**INDEPENDENT AUDITOR'S REPORT**

**TO THE HONORABLE ROBERT BUTKIN  
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 (the Office), a part of the primary government of the State of Oklahoma, as of and for the year ended June 30, 2003, which collectively comprise the Office's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Office'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 are intended to present the financial position, the changes in financial position, and the budgetary comparison for the General Fund, of only that portion of the governmental activities, each major fund, and the aggregate remaining funds of the State of Oklahoma that is attributable to the transactions of the Office. They do not purport to, and do not, present fairly the financial position of the State of Oklahoma as of June 30, 2003, and the changes in its financial position 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, 2003, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2004, on our consideration of the Office's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering 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 the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily 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'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 supplemental 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.

Sincerely,



JEFF A. McMAHAN  
State Auditor and Inspector

February 6, 2004



**OFFICE OF THE STATE TREASURER**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2003**

<b>ASSETS</b>	
Cash	\$ 1,123,737
Due from Other Agencies	80,579
Capital assets, net of accumulated depreciation	
Furniture, fixtures, and equipment	423,767
Total Assets	<u>1,628,083</u>
 <b>LIABILITIES</b>	
Accounts payable vendors	251,831
Compensated absences:	
Payable within one year	170,288
Payable after one year	85,892
Total Liabilities	<u>508,011</u>
 <b>NET ASSETS</b>	
Invested in capital assets	423,767
Unrestricted	696,305
Total Net Assets	<u>\$ 1,120,072</u>

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

**OFFICE OF THE STATE TREASURER  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2003**

**Expenses**

**Governmental Activities - General Government:**

Personnel Services	\$ 4,560,204
Travel	14,001
Administrative Expenses	157,105
Contracted Services	286,315
Payments to Other Agencies	308,081
Equipment	126,854
Other	8,174
Bank Service Charges	905,230
Payments to Counties	97,500
Depreciation	<u>159,087</u>
Total Expenses	<u>6,622,551</u>

**Program Revenues**

Unclaimed Property	1,105,616
Service Charges	52,729
Securities Lending	425,000
Other Income	<u>2,453</u>
Total Program Revenues	<u>1,585,798</u>
Net Program Expenses	<u>(5,036,753)</u>

**General Revenues**

Appropriations	4,923,142
Transfers	<u>(101,634)</u>
Total General Revenues	<u>4,821,508</u>

Special Item - Warrant Imaging (122,462)

Increase (Decrease) in Net Assets (337,707)

Net Assets, July 1, 2002 1,457,779

Net Assets, June 30, 2003 \$ 1,120,072

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

**OFFICE OF THE STATE TREASURER  
BALANCE SHEET  
GOVERNMENTAL FUND  
JUNE 30, 2003**

**GENERAL FUND**

**ASSETS**

Cash	\$	1,123,737
Due from the Agency Fund		<u>80,579</u>
Total Assets	\$	<u><u>1,204,316</u></u>

**LIABILITIES AND FUND BALANCES**

**Liabilities**

Accounts payable vendors	\$	<u>251,831</u>
Total Liabilities		<u>251,831</u>

**Fund Balance**

Reserved for encumbrances		4,265
Unreserved		<u>948,220</u>
Total Fund Balance		<u>952,485</u>
Total Liabilities and Fund Balances	\$	<u><u>1,204,316</u></u>

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

**OFFICE OF THE STATE TREASURER  
RECONCILIATION OF THE GOVERNMENTAL FUND  
BALANCE SHEET TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2003**

Total Fund Balance - Governmental Fund	\$	952,485
Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund.		423,767
Long term liabilities are not due and payable in the current period and therefore are not reported in the fund.		
Compensated absences		<u>(256,180)</u>
Net assets of governmental activities	\$	<u><u>1,120,072</u></u>

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

**OFFICE OF THE STATE TREASURER  
STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUND  
FOR THE YEAR ENDED JUNE 30, 2003**

		<u>GENERAL FUND</u>
<b>Revenues</b>		
Unclaimed Property	\$	1,105,616
Service Charges		52,729
Securities Lending		425,000
Other Income		2,453
Total Revenues		<u>1,585,798</u>
<b>Expenditures</b>		
Personnel Services		4,549,919
Travel		14,001
Administrative Expenses		157,105
Contracted Services		286,315
Payments to Other Agencies		308,081
Equipment		248,524
Other		116
Bank Service Charges		905,230
Payments to Counties		97,500
Total Expenditures		<u>6,566,791</u>
Revenues Over (Under) Expenditures		<u>(4,980,993)</u>
<b>Other Financing Sources (Uses)</b>		
Appropriations		4,923,142
Transfers		(101,634)
Total Other Financing Sources (Uses)		<u>4,821,508</u>
Special Item - Warrant Imaging		<u>(122,462)</u>
Net Change In Fund Balance		(281,947)
Fund Balance, July 1, 2002		<u>1,234,432</u>
Fund Balance, June 30, 2003	\$	<u><u>952,485</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, 2003**

Net Change in Fund Balance - Governmental Fund	\$	(281,947)
<p>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 depreciation exceeded capital outlays in the current period.</p>		
		(37,416)
<p>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.</p>		
<p>This amount represents the cost of compensated absences earned but not used in the current year.</p>		
		(10,286)
<p>This amount represents the carrying value of the capital assets that were transferred for disposal.</p>		
		<u>(8,058)</u>
Change in net assets of governmental activities	\$	<u><u>(337,707)</u></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, 2003**

	<u>Agency Fund</u>
<b>ASSETS</b>	
Cash	
Cash On Hand	\$ 223,528
Cash In Banks	68,617,409
Total Cash	68,840,937
Investments	
Treasurer's Portfolio	1,586,131,243
State Agency Portfolio	
Treasury Funds	901,516,272
Agency Special Accounts	300,774,364
Non-State Portfolio	4,724,037
Securities Lending Investments	219,969,047
Total Investments	3,013,114,963
Interest Receivable	
Treasurer's Portfolio	6,570,385
State Agency Portfolio	
Treasury Funds	788,858
Agency Special Accounts	120,271
Non-State Portfolio	2,971
Total Interest Receivable	7,482,485
Total Assets	\$ 3,089,438,385
<b>LIABILITIES</b>	
Balance Due Depositors	
State Agency Portfolio	
Treasury Funds	\$ 1,960,901,089
Agency Special Accounts	903,537,134
Non-State Portfolio	4,727,008
Cashier	223,528
Payable Under Securities Lending Agreements	219,969,047
Total Due Depositors	3,089,357,806
Due to the General Fund	80,579
Total Liabilities	\$ 3,089,438,385

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 - BUDGET AND ACTUAL (BUDGETARY BASIS)  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2003**

	<u>Budgeted Amounts</u>			<b>Variance with Final Budget</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues</b>				
Unclaimed Property	\$ 1,739,490	\$ 1,739,490	\$ 1,144,271	\$ (595,219)
Service Charges	44,000	44,000	58,705	14,705
Securities Lending	425,000	425,000	425,000	0
Other Income	1,100	1,100	2,453	1,353
<b>Total Revenues</b>	<u>2,209,590</u>	<u>2,209,590</u>	<u>1,630,429</u>	<u>(579,161)</u>
<b>Expenditures</b>				
Personnel Services	5,425,613	5,315,790	4,542,715	773,075
Travel	70,012	56,012	14,001	42,011
Administrative Expenses	228,851	228,392	153,282	75,110
Contracted Services	338,279	328,449	284,132	44,317
Payments to other Agencies	277,988	257,988	257,494	494
Equipment	84,025	84,025	141,963	(57,938)
Other	-	-	116	(116)
Bank Service Charges	1,080,781	1,020,781	905,202	115,579
Payment to Counties	97,500	97,500	97,500	0
<b>Total Expenditures</b>	<u>7,603,049</u>	<u>7,388,937</u>	<u>6,396,405</u>	<u>992,532</u>
Excess of revenues over (under) expenditures	<u>(5,393,459)</u>	<u>(5,179,347)</u>	<u>(4,765,976)</u>	<u>413,371</u>
<b>Other financing sources (uses)</b>				
Appropriations	5,172,592	4,766,544	4,923,142	156,598
Transfers	(100,000)	(100,000)	(101,634)	(1,634)
Total other financing sources (uses)	<u>5,072,592</u>	<u>4,666,544</u>	<u>4,821,508</u>	<u>154,964</u>
Special Item - Warrant Imaging	-	-	(122,462)	(122,462)
Net change in fund balance	(320,867)	(512,803)	(66,930)	445,874
Fund balance, July 1, 2002	<u>1,038,096</u>	<u>1,038,096</u>	<u>1,038,096</u>	<u>-</u>
Fund balance, June 30, 2003	<u>\$ 717,229</u>	<u>\$ 525,293</u>	<u>\$ 971,166</u>	<u>\$ 445,873</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, 2003**

**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 9, 1995, the Honorable Robert A. Butkin assumed the position of State Treasurer. Mr. Butkin was unopposed in the 2002 election and began his third term of office January 13, 2003.

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.

**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 of the Office are presented together as general government activities and financial information for funds that are not available to finance these activities are not included; consequently, the government-wide financial statements exclude fiduciary assets and liabilities.

Using the economic resources measurement focus, all assets and liabilities, both current and long-term, associated with the operation of 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. Program 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 1% 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 in 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. 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 1% of the monies accruing to the State according to state statute as service charges. Revenues for these service charges are recognized based on the monies that are remitted to the State. Expenditures are generally recognized when the related liability is incurred except for compensated absences where vested annual leave is recorded as an expenditure when utilized.

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

### **Fiduciary Fund**

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

### **C. Investment Holdings and Basis**

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

### **D. Capital Assets**

All furniture, fixtures, equipment, and information systems costing more than \$500 and that may be used repeatedly without material impairment of its physical condition which 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. The financial statements reflect an investment in capital assets of \$423,767, which includes estimated costs of \$171.

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, 2003.

	<u>Balance June 30, 2002</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2003</u>
Compensated Absences	\$245,893	187,321	177,034	\$256,180

**2. Budgetary Reporting**

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

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

Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles (GAAP), a reconciliation of resulting differences in the excess of revenues over (under) expenditures and other financing sources (uses) between budgetary and GAAP presentations for the year ended June 30, 2003, is presented as follows:

General Fund Balance, Budgetary Basis	971,166
Basis Differences:	
Add: Net Service Charges	(5,976)
Net Unclaimed Property	(38,655)
Encumbrances recognized as expenses	4,265
Difference in July 1, 2002 GAAP basis fund balance, compared to budget basis fund balance	196,336
Subtract: Prior Year Encumbrances	<u>(174,651)</u>
Total General Fund Balance - GAAP Basis	<u><u>952,485</u></u>

**3. Deposits**

In accordance with 62 O.S., § 72.4, the State Treasurer requires 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). For all balances, the deposits are collateralized in the name of the State Treasurer of Oklahoma.

#### 4. **Investments and Securities Lending**

##### **Investments**

The Office maintains three 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; 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; and Non-State Portfolio --for the investments of various non-state entities that have deposited funds with the Office for safekeeping or investment purposes.

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. 1991, § 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 and certificates of deposit.

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 types of investments in which specific non-state entities are authorized to invest are established by law or by their governing boards.

Portions of the Treasurer's and State Agency Portfolios and all of the Non-State Portfolio are included in an external investment pool administered by this Office. All of the assets of the pool are invested pursuant to overnight repurchase agreements and are collateralized by U.S. Government obligations held by an independent third party custodian. The market value of underlying securities transferred to the custodian equals 102% of the funds invested. The external investment pool of \$616,426,087 includes \$4,727,008 invested in a repurchase agreement, which along with the related interest receivable at June 30, 2003, belongs to legally separate entities reported as the Non-State Portfolio in the Fiduciary Funds. Account balances in the internal portion of the external investment pool are reported to pool participants for inclusion in the State's Comprehensive Annual Financial Report. Investment transactions of the pool are included in reports to the Executive Review Committee of the State's Cash Management and Investment Oversight Commission.

GAAP defines three levels of custodial risk applicable to investments, excluding mutual funds which are not categorized. Category 1 includes investments that are insured, registered, or are held by the State or its agent in the name of the State. Category 2 includes uninsured and unregistered investments, which are held by the counterparties' trust departments or agents in the name of the State. Category 3 includes uninsured and unregistered investments, held by counterparties, or their trust departments or agents, but not in the name of the State.

All investments held by this Office, excluding the investments in mutual funds and the U.S. Treasury instruments on securities loan (cash collateral), are insured, registered, or held by the Treasurer's agent in the name of the State Treasurer of Oklahoma, and are classified in the category of least custodial credit risk, category 1.

### **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.

During the fiscal year ended June 30, 2003, 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, 2003, the maturity of these loans was one (1) day. Cash collateral is invested in instruments of the same type the Treasurer is allowed to invest in by statute. At year-end, 33 percent of the cash investments had an average maturity of one (1) day, with the overall average maturity being twelve (12) 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 fail 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 carrying amount (amortized cost) and fair value of the underlying securities was, respectively: \$464,024,476 and \$464,199,154.

The following schedule compares the cost or amortized cost to the fair value of investments held in the Fiduciary Funds at June 30, 2003:

TYPES OF INVESTMENT	Amortized Cost	Fair Value	Fair Value	
			Not Categorized	Category I
<b>Treasurer's Portfolio</b>				
U.S. Treasury	\$ 673,512,859	\$ 673,431,405		
U.S. Agencies	39,534,000	39,592,339		
Repurchase Agreements	164,422,000	164,422,000		
Certificates of Deposit	391,689,365	391,689,365		
State Bond Issues	101,731,352	101,731,352		
Money Market Mutual Fund	215,264,782	215,264,782		
<b>Total Treasurer's Investments</b>	<b>\$ 1,586,154,358</b>	<b>1,586,131,243</b>		
<b>State Agency Portfolio Funds</b>				
U.S. Treasury	\$ 311,921,554	\$ 312,070,002		
Repurchase Agreements	315,769,386	315,769,386		
Money Market Mutual Funds	179,560,494	179,560,494		
Certificates of Deposit	94,116,390	94,116,390		
<b>Total Funds Investments</b>	<b>\$ 901,367,824</b>	<b>901,516,272</b>		
<b>Special Accounts</b>				
U.S. Treasury	\$ 175,137	\$ 226,117		
Repurchase Agreements	295,614,066	295,614,066		
Certificates of Deposit	4,000,000	4,000,000		
Equity Mutual Funds	686,747	934,181		
<b>Total Special Accounts Investments</b>	<b>\$ 300,475,950</b>	<b>300,774,364</b>		
<b>Total State Agency Portfolio</b>	<b>\$ 1,201,843,774</b>	<b>1,202,290,636</b>		
<b>Non-State Portfolio</b>				
Repurchase Agreements	\$ 4,724,037	\$ 4,724,037		
<b>Total Non-State Investments</b>	<b>\$ 4,724,037</b>	<b>4,724,037</b>		
<b>INVESTMENTS SUMMARY:</b>				
U.S. Treasury	\$ 985,609,550	\$ 985,727,524		
Not on Securities Loan				\$ 521,528,370
On Securities Loan - Bonds Borrowed				250,186,346
On Securities Loan - Cash Collateral			\$ 214,012,808	
Securities Lending - FV of Investments Purchased with Cash Collateral				219,969,047
U.S. Agencies	39,534,000	39,592,339		39,592,339
Repurchase Agreements	780,529,489	780,529,489		780,529,489
Certificates of Deposit	489,805,755	489,805,755		489,805,755
State Bond Issues	101,731,352	101,731,352		101,731,352
Equity Mutual Funds	686,747	934,181	934,181	
Money Market Mutual Fund	394,825,276	394,825,276	394,825,276	
<b>TOTAL INVESTMENTS</b>	<b>\$ 2,792,722,169</b>	<b>2,793,145,916</b>	<b>\$ 609,772,265</b>	<b>\$ 2,403,342,698</b>

5. **Interfund Accounts and Transfers**

**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 1% 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, net of an allowance for doubtful accounts of \$1,060.

**Transfers In / Out**

Transfers include lapsed funds and carry over reductions returned to the State. The following is a summary of the Transfers In / Out for the year ended June 30, 2003:

FUND AND DESCRIPTION	BALANCE
191 – Fiscal year '01 General Revenue Fund	(4,824)
192 – Fiscal year '02 General Revenue Fund	3,190
200 – OST Revolving Fund	(100,000)
	-----
Net Transfers In / Out	(101,634)

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, 2003.

	<u>Balance</u> <u>June 30, 2002</u>	<u>Capital</u> <u>Acquisitions</u>	<u>Sales</u> <u>or Other</u> <u>Dispositions</u>	<u>Balance</u> <u>June 30, 2003</u>
Furniture, fixtures, and office equipment	\$ 1,688,523	121,670	90,209	\$ 1,719,984
Less accumulated depreciation	<u>1,219,283</u>	159,087	82,153	<u>1,296,217</u>
Total	\$ <u>469,240</u>			\$ <u>423,767</u>

7. **Bank Service Fees**

During the year, the Office incurred fees for services rendered by various financial institutions. Service charges of \$905,230 were paid, as reflected in the financial statements. Other charges were offset by earnings calculated on the compensating cash balances maintained in various banks.

8. **Risk Management**

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

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

9. **Pension Plan**

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

**Funding Policy.** The contribution rates for each member category of the Plan are established by and can be amended by the Oklahoma Legislature and are based on an actuarial calculation which is performed to determine the adequacy of contribution rates. The contribution rates applied to each participating state employee’s salary for the fiscal year ended June 30, 2003, 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>
First \$25,000	Above \$25,000	<u>All Salaries</u>
3.0%	3.5%	10.0%

The Office’s contributions to the Plan for the years June 30, 2003 - \$267,984; June 30, 2002 - \$271,496; June 30, 2001- \$247,268; were equal to the established required contributions for each year.

**10. Other Postemployment Benefits**

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 postemployment 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. Warrant Imaging Special Item**

In October 2002 the Office, with the Office of State Finance (OSF) and the Oklahoma Tax Commission (OTC), established a warrant imaging service that will provide imaged document archive and retrieval services for the Office and OTC. The Office incurred expenses of \$122,462 for this item. Per the contract, all hardware and software will be the property of and on the inventory of OSF. The Office accounted for this cost as an other financing use in the financial statements.



**OFFICE OF THE STATE TREASURER  
SUPPLEMENTAL SCHEDULE  
EXPENDITURES BY OBJECT CODE - (BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

OBJECT CODE	CATEGORY	AMOUNT
1100	Salary Expense	\$ 3,573,237
1200	Insurance	12,258
1300	FICA and Retirement	615
1500	Professional Services	900,286
1900	Inter/Intra Agency Payments Professional Services	56,319
2100	Travel - Reimbursement	6,366
2200	Travel - Direct Expense	7,635
3100	Miscellaneous Administrative Expense	45,459
3100	Bank Service Charges	905,202
3200	Rent Expense	106,573
3300	Maintenance and Repair Expense	177,559
3500	Production and Safety	129
3600	Office Expense	107,694
3900	Inter/Intra Agency Payments Administrative Expense	243,079
4100	Office Furniture and Equipment	141,963
5200	Scholarship, Tuition & Other Incentives	38
5900	Core Project	14,415
6100	Employee Reimbursements	78
6200	County Treasurers	97,500
Total		\$ 6,396,405

See independent auditor's report.

---

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



STATE OF OKLAHOMA  
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN  
State Auditor and Inspector

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

**TO THE HONORABLE ROBERT BUTKIN  
STATE TREASURER OF OKLAHOMA**

We have audited the financial statements of the Office of the State Treasurer (the Office), a part of the primary government of the State of Oklahoma, as of and for the year ended June 30, 2003, and have issued our report thereon dated February 6, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the Office's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Office's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

The American Institute of Certified Public Accountants' Statement on Auditing Standards No. 87 requires the inclusion of the following paragraph in this report:

This report is intended solely for the information and use of management of the Office of the State Treasurer and is not intended to be and should not be used by anyone other than this specified party.

However, the Oklahoma Open Records Act states that all records of public bodies and public officials shall be open to any person, except as specifically exempted. The purpose of this Act is to ensure and facilitate the public's right

of access to and review of government records so they may efficiently and intelligently exercise their inherent political power. Therefore, this report is a matter of public record and its distribution is in no way limited or restricted.

Sincerely,

A handwritten signature in cursive script that reads "Jeff A. McMAHAN". The signature is written in black ink and is positioned above the printed name.

JEFF A. McMAHAN  
State Auditor and Inspector

February 6, 2004