

**OFFICE OF THE
STATE TREASURER**

**FINANCIAL STATEMENTS
AND INDEPENDENT
AUDITOR'S REPORTS**

**FOR THE FISCAL YEAR
ENDED JUNE 30, 2010**



**FINANCIAL
AUDIT**



Oklahoma State Auditor
& Inspector

**OFFICE OF THE STATE TREASURER
FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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STATE AUDITOR AND INSPECTOR

STEVE BURRAGE, CPA
State Auditor

MICHELLE R. DAY, ESQ.
Chief Deputy



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

January 7, 2011

**TO THE HONORABLE SCOTT MEACHAM
STATE TREASURER OF OKLAHOMA**

Transmitted is the Office of the State Treasurer, State of Oklahoma, audit report and financial statements for the fiscal year ended June 30, 2010. The audit was conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

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

Sincerely,

A handwritten signature in blue ink that reads "Steve Burrage".

STEVE BURRAGE, CPA
STATE AUDITOR & INSPECTOR

**OFFICE OF THE STATE TREASURER
 FINANCIAL STATEMENTS AND INDEPENDENT
 AUDITOR'S REPORTS
 FOR THE YEAR ENDED JUNE 30, 2010**

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Office of the State Treasurer of Oklahoma
Management's Discussion and Analysis (MD&A)
June 30, 2010

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, 2010. 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

The Statement of Net Assets provides an indication of the Treasurer's financial condition at the end of the 2010 fiscal year; the statement reports all assets and liabilities using the accrual basis of accounting. The Statement of Changes in Net Assets reports all of the revenues and expenses during the time periods indicated.

OFFICE OF THE STATE TREASURER
NET ASSETS

	2010	2009
Current Assets	\$ 8,093,060	\$ 6,855,547
Capital assets	112,993	145,338
Total Assets	8,206,053	7,000,885
Other Liabilities	610,325	616,440
Noncurrent Liabilities	77,678	134,033
Total Liabilities	688,003	750,473
Invested in capital assets	112,993	145,338
Restricted for taxpayer relief	25,000	25,000
Unrestricted	7,380,057	6,080,074
Total Net Assets	\$ 7,518,050	\$ 6,250,412

As of June 30, 2010, the Office of the State Treasurer's current assets increased by 18% primarily as a result of the Unclaimed Property revenues exceeding expenses. Unclaimed Property revenues are linked to the amount of property recovered and deposited in the state's Unclaimed Property Fund. FY 2010 deposits increased over the prior year by \$15.7 million to \$53.9 million. The increase in deposits resulted from both an increase in receipts from holders and a resumption of stock sales. Property transferred to the state in the form of stocks is regularly liquidated and held as cash. This process was placed on hold in FY 2009 when the equity markets experienced historic declines and resumed in FY 2010 once the markets recovered. Additionally, appropriations continued to exceed expenses but by only \$53,000.

Compensated absences represent the dollar value of Treasurer's staff annual leave balances and are reflected in both Other and Noncurrent Liabilities. Employee annual leave is used as vacation time or must be reimbursed if a staff member separates from agency service. This dollar value changes as employees use their leave or receive reimbursement payments as they leave service. Noncurrent liabilities declined as employees separated from the office.

Unrestricted assets primarily consist of Unclaimed Property Program funds dedicated to the administration of the program; the category increased by 21% as a result of end of year cash balance increases in this and other funds. Net assets increased by 20% from FY 2009 to FY 2010. This \$1,299,983 increase is due primarily to Unclaimed Property Program revenues in excess of expenditures.

Changes in Net Assets - Revenues and Expenses

Except for revenues generated from administration of the Unclaimed Property Program, operating revenues of the Office of State Treasurer are largely dependent upon state General Revenue appropriations. Appropriated dollars increased by \$2 million as a one-time influx of cash to the state land reimbursement program. The program annually receives a \$100,000 appropriation, but the amount was increased to \$2.1 million for FY 2010. These expenditures are referred to as Payments to Counties. The General Revenue appropriation that supports the operations of the agency were reduced at the beginning of the fiscal year and then declined again during the fiscal year when the state experienced a revenue shortfall. The combination of the one-time \$2 million increase discussed above offset by operating funding reductions of \$639,441 resulted in the net change in appropriations of \$1,360,559.

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

Four percent of all property relinquished to the state under the Uniform Unclaimed Property Act is recognized as revenue by the Office of State Treasurer and used to finance Unclaimed Property Program expenses. Additionally, revenues include transfers from the Unclaimed Property account within the state's General Fund to pay for professional service charges associated with property recovery and advertising services. As mentioned previously, deposits increased by \$15.7 million in FY 2010, increasing Unclaimed Property revenue.

Revenue from administrative charges increased in FY 2010 due to revenue from the SEED program. The Treasurer's Office administers the SEED program, a college savings incentive study, and receives reimbursement for personnel and other expenses.

Personnel services expense decreased due to staff reductions. Advertising costs, also considered a personnel expense, decreased in FY 2010 for the Unclaimed Property program. This expense is directly related to the number of property owners reported to the state. Although the amount of property reported to Unclaimed Property increased in FY 2010 the number of names decreased, and the overall advertising expense was reduced from FY 2009.

The Unclaimed Property document imaging project was the primary contributor to the equipment expense increase in FY 2009. This project eliminated duplicate data entry, paper files, storage and microfilming. It also generated greater efficiency and reduced risk associated with the auditing and payment of property claims. Equipment purchases decreased to previous levels.

Banking service charges leveled off in FY 2010 after declining in FY 2009 due to negotiated rate reductions for electronic funds transfer with the state's operating bank. Transferring funds electronically is a more efficient method of moving funds between accounts and paying state's expenses. Cost reductions achieved in FY 2009 offset by significant increases in FDIC fees during FY 2010.

Transfers increased as a result of the return of previously reduced appropriations due to the state's revenue shortfall during the fiscal year. The Office of State Finance must return the excess appropriations not required to meet a revenue shortfall. Transfers are typically from account balances or lapsed appropriations to the state's General Fund and show as reductions to Net Assets.

The 20% increase in ending net assets is the result of revenue generated by the Unclaimed Property Program and excess General Revenue appropriations accumulated to finance the financial systems upgrades.

OFFICE OF THE STATE TREASURER
CHANGES IN NET ASSETS

	2010	2009
General Revenues		
Appropriations	\$ 6,023,802	\$ 4,663,243
Unclaimed Property	3,397,321	2,877,332
Service Charges	42,140	46,085
Administrative Charges	281,007	239,063
Securities Lending	425,000	425,000
Other Income	7,118	9,854
Total General Revenues	10,176,388	8,260,577
Expenses		
Personnel Services	5,672,915	6,053,126
Travel	21,219	42,655
Administrative Expenses	140,386	171,471
Contracted Services	309,234	267,299
Equipment	19,375	221,134
Other	14,168	3,378
Bank Service Charges	544,708	536,122
Payments to Counties	2,100,000	100,000
Depreciation	91,552	107,645
Total Expenses	8,913,557	7,502,830
Excess Before Transfers	1,262,831	757,747
Transfers	4,807	(211,906)
Increase (Decrease) in Net Assets	1,267,638	545,841
Net Assets Beginning Balance	6,250,412	5,704,571
Net Assets Ending Balance	\$ 7,518,050	\$ 6,250,412

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 2010 final budget included carryover funds not available at the time of the original budget. The final budget expenses exceeded actual expenses for the fiscal year by \$4,437,955 or 33%. Unclaimed Property recovery and advertising expenses have been difficult to predict with any degree of accuracy because they are largely driven by the services of third parties who locate and recover property for the state. Additionally, this year the accumulated appropriations from FY 2009 were budgeted in FY 2010 for a financial systems upgrade but only a small portion of these funds were spent prior to the end of the fiscal year. The remaining funds were carried forward to FY 2011 to continue the project.

USING THIS ANNUAL REPORT

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

Government-wide statements:

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

Fund statements:

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

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

This financial report is designed to provide a general overview of the Office of the State Treasurer’s finances for all of Oklahoma’s citizens, taxpayers, customers, 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:

Travis Monroe, Director of Agency Services
2300 N. Lincoln Blvd. Room 217
Oklahoma City, OK 73105

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

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

STATE AUDITOR AND INSPECTOR

STEVE BURRAGE, CPA
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INDEPENDENT AUDITOR'S REPORT

TO THE HONORABLE SCOTT MEACHAM STATE TREASURER OF OKLAHOMA

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Office of the State Treasurer, as of and for the year ended June 30, 2010, which collectively comprise the Office of the State Treasurer's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Office of the State Treasurer's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 1, the financial statements of the Office of the State Treasurer are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Oklahoma that is attributable to the transactions of the Office of the State Treasurer. They do not purport to, and do not, present fairly the financial position of the State of Oklahoma as of June 30, 2010, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Office of the State Treasurer, as of June 30, 2010, 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 January 7, 2011 on our consideration of the Office of the State Treasurer's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial

reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 2 through 5 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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



STEVE BURRAGE, CPA
STATE AUDITOR & INSPECTOR

January 7, 2011

OFFICE OF THE STATE TREASURER
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
June 30, 2010

ASSETS

Cash	\$ 7,619,903
Due from other agencies	473,157
Capital assets, net of accumulated depreciation	
Furniture, fixtures, and equipment	<u>112,993</u>
Total Assets	<u>8,206,053</u>

LIABILITIES

Accounts payable vendors	394,135
Compensated absences:	
Payable within one year	216,190
Payable after one year	<u>77,678</u>
Total Liabilities	<u>688,003</u>

NET ASSETS

Invested in capital assets	112,993
Restricted for taxpayer relief	25,000
Unrestricted	<u>7,380,057</u>
Total Net Assets	<u>\$ 7,518,050</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, 2010**

Expenses

Governmental Activities - General Government:

Personnel Services	\$ 5,672,915
Travel	21,219
Administrative Expenses	140,386
Contracted Services	309,234
Equipment	19,375
Other	14,168
Bank Service Charges	544,708
Payments to Counties	2,100,000
Depreciation	<u>91,552</u>
Total Expenses	<u>8,913,557</u>

General Revenues

Appropriations	6,023,802
Unclaimed Property	3,397,321
Service Charges	42,140
Administrative Charges	281,007
Securities Lending	425,000
Other Income	<u>7,118</u>
Total General Revenues	<u>10,176,388</u>

Transfers

	<u>4,807</u>
Increase (Decrease) in Net Assets	1,267,638
Net Assets, July 1, 2009	<u>6,250,412</u>
Net Assets, June 30, 2010	<u>\$ 7,518,050</u>

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

**OFFICE OF THE STATE TREASURER
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2010**

	<u>GENERAL FUND</u>
ASSETS	
Cash	\$ 7,619,903
Due from the agency fund	<u>473,157</u>
Total Assets	<u><u>\$ 8,093,060</u></u>
 LIABILITIES AND FUND BALANCE	
Liabilities	
Accounts payable vendors	\$ <u>394,135</u>
Total Liabilities	<u>394,135</u>
 Fund Balance	
Reserved for encumbrances	56,786
Reserved for taxpayer relief	25,000
Unreserved	<u>7,617,139</u>
Total Fund Balance	<u>7,698,925</u>
Total Liabilities and Fund Balance	<u><u>\$ 8,093,060</u></u>

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

**OFFICE OF THE STATE TREASURER
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
June 30, 2010**

Total Fund Balance - Governmental Fund	\$	7,698,925
Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund.		112,993
Long term liabilities are not due and payable in the current period and therefore are not reported in the fund.		
Compensated absences		<u>(293,868)</u>
Net assets of governmental activities	\$	<u><u>7,518,050</u></u>

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

**OFFICE OF THE STATE TREASURER
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010**

	GENERAL FUND
Revenues	
Unclaimed Property	\$ 3,397,321
Service Charges	42,140
Administrative Charges	281,007
Securities Lending	425,000
Other Income	7,118
Total Revenues	4,152,586
Expenditures	
Current:	
Personnel Services	5,712,161
Travel	21,219
Administrative	140,386
Contracted Services	309,234
Equipment	88,140
Other	4,611
Bank Service Charges	544,708
Payments to Counties	2,100,000
Total Expenditures	8,920,459
Revenues Over (Under) Expenditures	(4,767,873)
Other Financing Sources (Uses)	
Appropriations	6,023,802
Transfers	4,807
Total Other Financing Sources (Uses)	6,028,609
Net Change In Fund Balance	1,260,736
Fund Balance, July 1, 2009	6,438,189
Fund Balance, June 30, 2010	\$ 7,698,925

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, 2010**

Net Change in Fund Balance - Governmental Fund	\$	1,260,736
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the costs of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.</p>		
		(22,787)
<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 in prior year, used in the current year.</p>		
		39,246
<p>This amount represents the carrying value of the capital assets that were transferred for disposal.</p>		
		(9,557)

Change in net assets of governmental activities	\$	<u><u>1,267,638</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, 2010

		<u>Agency Fund</u>
ASSETS		
Cash		
Cash On Hand	\$	638,593
Cash In Banks		66,857,820
Total Cash		<u>67,496,413</u>
Investments		
Treasurer's Portfolio		5,204,874,872
State Agency Portfolio		
Treasury Funds		474,728
Agency Special Accounts		4,189,934
Securities Lending Investments		234,502,735
Total Investments		<u>5,444,042,269</u>
Interest Receivable		
Treasurer's Portfolio		17,882,027
State Agency Portfolio		
Treasury Funds		9,735,073
Agency Special Accounts		1,279,555
Total Interest Receivable		<u>28,896,655</u>
Total Assets	\$	<u><u>5,540,435,337</u></u>
LIABILITIES		
Balance Due Depositors		
State Agency Portfolio		
Treasury Funds	\$	3,817,597,611
Agency Special Accounts		1,487,223,241
Cashier		638,593
Payable Under Securities Lending Agreements		234,502,735
Total Due Depositors		<u>5,539,962,180</u>
Due to the General Fund		<u>473,157</u>
Total Liabilities	\$	<u><u>5,540,435,337</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 - BUDGET AND ACTUAL (BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Budgeted Amounts</u>			Variance with Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Unclaimed Property	\$ 4,800,000	\$ 4,800,000	\$ 3,283,077	\$ (1,516,923)
Service Charges	233,269	233,269	40,933	(192,336)
Administrative Charges	200,000	200,000	190,356	(9,644)
Securities Lending	425,000	425,000	425,000	0
Other Income	-	-	7,118	7,118
Total Revenues	<u>5,658,269</u>	<u>5,658,269</u>	<u>3,946,484</u>	<u>(1,711,785)</u>
Expenditures				
Personnel Services	7,952,810	7,763,033	5,730,231	2,032,803
Travel	72,600	72,600	21,219	51,381
Administrative Expenses	255,560	1,770,040	140,386	1,629,654
Contracted Services	404,800	404,800	296,587	108,213
Equipment	254,500	254,500	90,276	164,224
Other	1,000	1,000	4,611	(3,611)
Bank Service Charges	1,000,000	1,000,000	544,708	455,292
Payment to Counties		<u>2,100,000</u>	<u>2,100,000</u>	<u>0</u>
Total Expenditures	<u>9,941,270</u>	<u>13,365,973</u>	<u>8,928,018</u>	<u>4,437,955</u>
Excess of revenues over (under) expenditures	<u>(4,283,001)</u>	<u>(7,707,704)</u>	<u>(4,981,534)</u>	<u>2,726,170</u>
Other financing sources (uses)				
Appropriations	6,023,802	6,023,802	6,023,802	-
Transfers	-	-	4,807	4,807
Total other financing sources (uses)	<u>6,023,802</u>	<u>6,023,802</u>	<u>6,028,609</u>	<u>4,807</u>
Net change in fund balance	1,740,801	(1,683,902)	1,047,075	2,730,977
Fund balance, July 1, 2009	<u>6,406,065</u>	<u>6,406,065</u>	<u>6,406,065</u>	<u>-</u>
Fund balance, June 30, 2010	<u>\$ 8,146,866</u>	<u>\$ 4,722,163</u>	<u>\$ 7,453,140</u>	<u>\$ 2,730,977</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, 2010**

1. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

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

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

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

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

Fund Financial Statements

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

Governmental Fund

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

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

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

Fiduciary Fund

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

C. Investment Holdings and Basis

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

D. Capital Assets

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

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

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

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

E. Compensated Absences

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

accrued annual leave is payable upon termination, resignation, retirement, or death. The following is a summary of the changes in compensated absences for the year ended June 30, 2010.

	Balance June 30, 2009	Increases	Decreases	Balance June 30, 2010
Compensated Absences	\$ 333,115	215,207	254,454	\$ 293,868

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, 2010, is presented as follows:

General Fund Balance, Budgetary Basis	\$ 7,453,140
Basis Differences:	
Add: Net Service and Administrative Charges	91,858
Net Unclaimed Property	114,245
Encumbrances recognized as expenses	56,786
Difference in July 1, 2009 GAAP basis fund balance, compared to budget basis fund balance	32,124
Subtract: Prior years Encumbrance	(49,228)
Total General Fund Balance - GAAP Basis	<u>\$ 7,698,925</u>

3. Deposits

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

4. **Investments and Securities Lending**

Investments

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

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

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

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

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Investment Policy

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

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

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

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

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

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

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

<u>Investment Type Limitations</u>	<u>Percentage of Total Invested</u>	<u>By Issuer</u>	<u>Maturity Limit</u>	<u>Rating</u>
U.S. Government Agency Securities	50%	35%	10 years	AAA
U.S. Government Agency Mortgage Backed Securities – Passthroughs (as a % of U.S. Government Agency)	40% of U.S. Government Agency Securities	No Limit	7 years (7)	AAA
Collateralized or Insured Certificates of Deposit	Limit of \$35,000,000 per financial institution		365 days (1) (4)	N/A
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)	A-1 (3)
Money Market Mutual Funds	30%	10%	(1) (5)	AAA
Foreign Government Bonds	2.5%		5 years	A-/A3 or better

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

Securities Lending

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

During the fiscal year ended June 30, 2010, 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, 2010, the maturity of these loans was one hundred twenty seven (127) days. Cash collateral is invested in instruments of the same type the Treasurer is allowed to invest in by statute. At year-end, 19 percent of the cash investments had an average maturity of one (1) day, with the overall average maturity being thirty four (34) days. The Treasurer did not have the ability to pledge or sell collateral securities absent a borrower default. The securities lending agent provides indemnification if the borrowers fail to return the underlying securities (and if the collateral is inadequate to replace the securities lent) or fails to pay the Treasurer for income distributions by the securities' issuers while the securities are on loan. There were no failures by any borrowers to return loaned securities or pay related income distributions during the fiscal year.

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

At year-end, the fair value of the underlying securities was \$226,130,353.

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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, 2010;

TYPE OF INVESTMENT	FAIR VALUE	AMORTIZED COST	AVERAGE CREDIT QUALITY RATING (1)	WEIGHTED AVERAGE MATURITY (DAYS) (2)
TREASURER'S PORTFOLIO				
<u>POOLED INVESTMENTS</u>				
U.S. TREASURY NOTES	\$ 66,933,561	\$ 66,317,371	AAA	169
U.S. TREASURY TIPS	86,058,862	78,221,205	AAA	2,495
SECURITIES LENDING COLLATERAL POOL	234,502,735	234,502,735	NR	
U.S. AGENCIES	1,943,975,199	1,911,874,644	AAA	455
MORTGAGE BACKED AGENCIES	1,841,972,133	1,765,271,986	AAA (7)	1,193
REPURCHASE AGREEMENTS	320,000,000	320,000,000	A-1+/P-1 (6)	1
FOREIGN BONDS	19,776,400	20,000,000	NR	961
MUNICIPAL BONDS	115,274,979	107,510,184	(8)	3,412
CERTIFICATES OF DEPOSIT	283,810,000	283,810,000	NR	65
MONEY MARKET MUTUAL FUND	436,757,863	436,757,863	AAAm	1
	<u>\$ 5,349,061,732</u>	<u>\$ 5,224,265,988</u>		
<u>NON-POOLED INVESTMENTS</u>				
CERTIFICATES OF DEPOSIT - AG/BUS/RUR LINK	\$ 315,875	\$ 315,875	NR (5)	80
STATE BOND ISSUE	90,000,000	90,000,000	(4)	63
	<u>\$ 90,315,875</u>	<u>\$ 90,315,875</u>		
TOTAL TREASURER'S INVESTMENTS	<u>\$ 5,439,377,607</u>	<u>\$ 5,314,581,863</u>		
STATE AGENCY PORTFOLIO FUNDS				
U.S. TREASURY	\$ 133,904	\$ 133,860	AAA (3)	171
MUTUAL FUND	340,824	422,147	N/A (3)	N/A
TOTAL FUNDS INVESTMENTS	<u>\$ 474,728</u>	<u>\$ 556,007</u>		
SPECIAL ACCOUNTS				
U.S. TREASURY	\$ 3,245,987	\$ 3,188,660	AAA (3)	350
MUTUAL FUNDS	943,947	686,747	N/A (3)	N/A
TOTAL SPECIAL ACCOUNTS INVESTMENTS	<u>\$ 4,189,934</u>	<u>\$ 3,875,407</u>		
TOTAL STATE AGENCY PORTFOLIO	<u>\$ 4,664,662</u>	<u>\$ 4,431,414</u>		

	FAIR VALUE	AMORTIZED COST
INVESTMENTS SUMMARY		
U.S. TREASURY		\$ 147,861,096
NOT ON SECURITIES LOAN	\$ 60,857,591	
ON SECURITIES LOAN - BONDS BORROWED	0	
ON SECURITIES LOAN - CASH COLLATERAL	95,514,723	
U.S. AGENCIES		3,677,146,630
NOT ON SECURITIES LOAN	3,655,331,702	
ON SECURITIES LOAN - BONDS BORROWED	0	
ON SECURITIES LOAN - CASH COLLATERAL	130,615,630	
INVESTMENTS		
PURCHASED W/CASH COLLATERAL	234,502,735	234,502,735
REPURCHASE AGREEMENTS	320,000,000	320,000,000
CERTIFICATES OF DEPOSIT	284,125,875	284,125,875
FOREIGN BONDS	19,776,400	20,000,000
STATE BOND ISSUE	90,000,000	90,000,000
MUNICIPAL BONDS	115,274,979	107,510,184
MUTUAL FUND	1,284,771	1,108,894
MONEY MARKET MUTUAL FUND	436,757,863	436,757,863
	<hr/>	<hr/>
TOTAL INVESTMENTS	\$ 5,444,042,269	\$ 5,319,013,277

- (1) Ratings are provided where applicable to indicate associated Credit Risk. N/A indicates not applicable.
- (2) Interest Rate Risk is estimated using weighted average days to maturity.
- (3) These agency directed investments are not covered by the State Treasurer's Investment Policy.
- (4) State Bond issues are comprised of \$50,000,000 Oklahoma Student Loan Authority municipal bond with a credit rating of AAA. The interest rate resets quarterly and is tied to the average bond equivalent rates of the quotes of the 3-month commercial paper rate. Also included is \$40,000,000 Oklahoma Industrial Finance Authority State of Oklahoma Taxable General Obligation Refunding Bonds. These rates, adjusted quarterly, are tied to the 3 month LIBOR rate and are private placement.
- (5) Ag Link, Business Link and Rural Link Certificate of Deposits are outside the scope of the State Treasurer's Investment Policy. These investments are established by Title 2 O.S. § 5-81, Title 62 O.S. § 88.1 and 91.1-9. These certificates of deposit are collateralized with the collateral held in the State Treasurer's name at an approved safekeeping bank or with surety bonds or letters of credit.
- (6) Credit ratings are provided for the counterparties to the repurchase agreement.
- (7) These ratings are implicitly or explicitly guaranteed by the U.S. Government and currently a rating is not provided by the nationally recognized statistical rating organization. The rating agencies normally do not rate government debt and therefore they have an implied AAA rating.
- (8) All Municipal Bonds possessed a AAA rating when purchased. As of June 30, 2010, 71% had a rating of AAA, 10% were rated AA+, 15% were rated AA, and 4% were rated AA-.

5. **Interfund Accounts**

Due from Other Agencies / Due from the Agency Fund

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

6. **Capital Assets**

Capital assets accounted for in the government-wide financial statements are recorded at cost net of accumulated depreciation using the straight line method. The following is a summary of the changes in capital assets for the year ended June 30, 2010.

	Balance June 30, 2009	Capital Acquisitions	Sales or Other Dispositions	Balance June 30, 2010
Furniture, fixtures, and office equipment	\$ 1,347,101	68,765	96,094	\$ 1,319,772
Less accumulated depreciation	1,201,763	91,552	86,536	1,206,779
Total	\$ <u>145,338</u>			\$ <u>112,993</u>

7. **Bank Service Fees**

During the year, the Office incurred fees for services rendered by various financial institutions. Service charges of \$544,708 were paid, as reflected in the financial statements; other charges were off-set by earnings calculated on the compensating cash balances maintained in various banks.

8. **Risk Management**

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

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

9. **Pension Plan**

Plan Description. The Office contributes to the Oklahoma Public Employees Retirement Plan, a multiple employer, cost sharing public employee retirement plan, which is a defined benefit pension plan administered by the Oklahoma Public Employees Retirement System (OPERS). Benefit provisions are established and can be amended by the Oklahoma Legislature. The Plan provides retirement, disability,

and death benefits. Title 74 of the Oklahoma Statutes, Sections 901 through 943, as amended, provides more complete information about the Plan. OPERS issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to OPERS, P.O. Box 53007, Oklahoma City, Oklahoma 73152 or by calling 1-800-733-9008.

Funding Policy. The contribution rates for each member category of the Plan are established by and can be amended by the Oklahoma Legislature and are based on an actuarial calculation which is performed to determine the adequacy of contribution rates. The contribution rates applied to each participating state employee's salary for the fiscal year ended June 30, 2010, are listed below: Elected officials must select an employee contribution rate of 4.5%, 6.0%, 7.5%, 8.5%, 9.0% or 10%.

<u>State Employee Contribution</u>	<u>State Agencies' Contribution</u>
<u>All Salaries</u>	<u>All Salaries</u>
3.5%	15.5%

The Office's contributions to the Plan for the years June 30, 2010 - \$461,031.81; June 30, 2009 - \$448,450.40; June 30, 2008 - \$394,291.71; were equal to the established required contributions for each year.

Members have the option to elect to increase the benefit computation factor for all future service from 2.0% to 2.5%. The election is irrevocable, binding for all future employment under OPERS, and applies only to full years of service. Those who make the election pay the standard contribution rate plus an additional contribution rate, 2.91% which is actuarially determined. The election is available for all state, county and local government employees, except for elected officials and hazardous duty members.

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. Taxpayer Relief Program

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

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

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

**OFFICE OF THE STATE TREASURER
SUPPLEMENTAL SCHEDULE
EXPENDITURES BY CLASS-FUNDING (BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED June 30, 2010**

CLASS FUNDING	CATEGORY	AMOUNT
1100	Salary Expense	\$ 4,409,151
1200	Insurance	15,302
1300	FICA & Retirement	944
1500	Professional Services	1,301,859
1900	Inter/Intra Agency Payments Professional Services	2,974
2100	Travel-Reimbursement	7,436
2200	Travel-Direct Expense	13,783
3100	Miscellaneous Administrative Expense	101,482
3100	Bank Service Charges	544,708
3200	Rent Expense	108,016
3300	Maintenance and Repair Expense	188,571
3500	Production and Safety	2,262
3600	Office Expense	36,642
4100	Office Furniture and Equipment	90,276
5200	Employee Recognition Awards	1,101
5300	Refunds, Indemnities and Restitution	3,510
6200	County Treasurers	2,100,000
Total		\$ 8,928,017

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

STATE AUDITOR AND INSPECTOR

STEVE BURRAGE, CPA
State Auditor

MICHELLE R. DAY, ESQ.
Chief Deputy



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

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

**TO THE HONORABLE SCOTT MEACHAM
STATE TREASURER OF OKLAHOMA**

We have audited the 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, 2010, which collectively comprise the Office of the State Treasurer's basic financial statements and have issued our report thereon dated January 7, 2011, which includes an explanatory paragraph stating that the financial statements of the Office of the State Treasurer are intended to present the financial position and results of daily operations of only that portion of the State of Oklahoma attributable to the transactions of the Office of the State Treasurer. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting, [10-740-001, 10-740-003]. 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.

Compliance and Other Matters

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

The Office of the State Treasurer's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Office of the State Treasurer's response and, accordingly, we express no opinion on it.

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



STEVE BURRAGE, CPA
STATE AUDITOR & INSPECTOR

January 7, 2011

Schedule of Findings and Responses

Reference Number: 10-740-001

State Agency: Office of the State Treasurer

Fund Type: General Fund

Other Information: Expenditures – Bank Service Charges

Criteria/Condition: A basic objective of Generally Accepted Accounting Principles (GAAP) is to provide accurate and reliable information.

A basic component of adequate internal controls is the timely review/approval of reports and/or transactions.

While documenting internal controls related to bank service charges, we were unable to determine that a review was being performed related to the volume of items being charged by the bank at the time the payment was being made by OST.

Cause/Effect: OST appears to performing more of an analytical review of the volume of items received by comparing the totals to prior periods, instead of actually reviewing documentation from the other areas related to the volume of banking service charges.

The lack of an adequate review of the volume of items shown on the bank analysis statement could result in an overpayment and may not be detected in a timely manner.

Recommendation: We recommend the agency strengthen the review process related to the bank analysis statement to ensure that a system is in place to adequately review the volume of items being reported by the banks at the time of payment to ensure bank charges being made are correct.

Agency Management Response: Current process volumes for daily electronic and paper based receipts and disbursements are tracked by OST systems. System outputs are summarized manually to various spreadsheets. OST performs a quantitative analysis of monthly volumes reported in the Account Analysis statements received from each bank. Comparative analysis is also performed of the summarized volumes from system outputs. Additionally detailed analysis is performed to the transaction level as necessary to reasonably substantiate unexplained variances in reported activity. OST obtained credits from various banks of \$29,677.84, \$3,751.72, and \$927.81 during FY'08, FY'09 and FY'10 respectively from the performance of such reviews.

OST will retain readily available documentation of the performance of such comparative and in depth reviews to adequately demonstrate the effectiveness of these controls. Additionally, OST plans to pursue the acquisition of automated systems that interface with receipts and disbursements systems as well as with financial institutions capturing and comparing this data electronically more efficiently and with greater accuracy.

Reference Number: 10-740-003

State Agency: Office of the State Treasurer

Fund Type: Fiduciary Fund

Other Information: Investments

Criteria/Condition: According to GASB No. 28, government entities should report collateral received as part of securities lending transactions on their balance sheet. In relation to OST, which receives cash collateral for securities on loan, GASB No. 28 states, "Cash received as collateral on securities lending transactions and investments made with that cash should be reported as assets."

Northern Trust, which acted as the custodial bank for OST during fiscal year 2010, reports the cash collateral held for securities on loans in a year-end report. OST failed to report the correct amount for securities lending on its

balance sheet for both assets and liabilities in the form of the line-item “Securities Lending Investments” for assets and “Payable Under Securities Lending Agreements” for liabilities.

Northern Trust reported Securities Lending Investments of \$234,502,735 and the Office of the State Treasurer reported \$233,561,709 per the Statement of Fiduciary Assets and Liabilities.

Cause/Effect: Management failed to use the correct cash collateral number that was provided by Northern Trust. Additionally, a review of the supporting documentation should have uncovered the error prior to financial statement completion. As a result of the error, Securities Lending was under-reported by \$941,026 on OST’s Statement of Fiduciary Assets and Liabilities.

Recommendation: We recommend management strengthen its review process related to securities lending line items to ensure the amount recorded per the financial statement agrees with the custodial banks supporting documentation.

Agency Management Response: The objective of controls established by OST over the preparation of financial statements is to produce financial statements that are fairly stated in all material respects in conformity with generally accepted accounting principles and we have achieved this result. When recorded, the amount noted above increases both an asset and an offsetting liability by the same amount and has no impact on operating results. This amount represents .4% of the related asset and liability accounts and .017% of total assets and liabilities. We will continue to encourage all personnel involved in the review of financial statements to ensure that an adequate and thorough review is performed.



**OFFICE OF THE STATE AUDITOR AND INSPECTOR
2300 N. LINCOLN BOULEVARD, ROOM 100
OKLAHOMA CITY, OK 73105-4896**

WWW.SAI.OK.GOV