

Office of the State Treasurer  
Financial Statements and Independent Auditor's Reports  
For the Fiscal Year Ended June 30, 2006

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STATE OF OKLAHOMA  
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN  
State Auditor and Inspector

February 5, 2007

**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, 2006. 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 cursive script that reads "Jeff A. McMahon".

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, 2006**

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Office of the State Treasurer of Oklahoma  
Management's Discussion and Analysis (MD&A)  
June 30, 2006

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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, 2006. 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 2006 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.

The Taxpayer Relief project established by HB 1193, 2005 Special Legislative Session, and in Title 68 O.S. § 2355.2, was the cause for much of the change in the 2006 financial statements. The Treasurer's office was directed to administer printing and distributing 1.2 million checks to Oklahoma citizens in the amounts of forty-five and ninety dollars.

As of June 30, 2006, the Office of the State Treasurer's current assets increased, while payments due from other agencies declined. The 16% increase in current assets is a result of funds remaining for the Taxpayer Relief project (\$236,818) as well as other cash balance increases.

### OFFICE OF THE STATE TREASURER NET ASSETS

	2006	2005
Current Assets	\$ 3,064,958	\$ 2,636,182
Due from other agencies	379,906	565,872
Capital assets	280,548	261,261
Total Assets	<u>3,725,412</u>	<u>3,463,315</u>
Other Liabilities	366,144	857,516
Noncurrent Liabilities	84,381	74,978
Total Liabilities	<u>450,525</u>	<u>932,494</u>
Invested in capital assets	280,549	261,261
Taxpayer relief	236,818	0
Unrestricted	2,757,520	2,269,560
Total Net Assets	<u>\$ 3,274,887</u>	<u>\$ 2,530,821</u>

Property located and recovered on behalf of the state from life insurance company demutualization resulted in a large cash deposit for the Unclaimed Property Program in FY 2005. Balances in the Other Liabilities and the Due from other agencies asset categories decreased from the FY 2005 level when, in FY 2006, the expenses associated with property recovery returned to historic levels.

The Unclaimed Property program contracts for property recovery services; recovery expenses are reimbursed to the Treasurer's office from the Unclaimed Property account within the state's general fund. Accounts payable, included in other liabilities at the end of the year, have a direct relationship with the amount due from other agencies, in this case the Unclaimed Property account.

Compensated absences represent the dollar value of Treasurer's staff annual leave balances and are reflected in 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.

The 21% increase in unrestricted assets is a result of operating fund cash balance increases. Net assets increased by over 29% from FY 2005 to FY 2006. This \$744,066 increase is due primarily to year to year growth of the Unclaimed Property Program revenues in excess of expenses and Taxpayer Relief project assets remaining in the Treasurer's account for payment of claims, storage and disposal of paid checks, as well as a new college savings project grant.

#### **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. General Revenue funds increased in FY2006 as a result of the Taxpayer Relief program. This one-time project to return tax dollars to the citizens of Oklahoma was administered by the Treasurer's office. Refunds to citizens as well as the administrative costs were provided in this appropriation increase.

Securities lending income of \$425,000 annually is directed to the Office of State Treasurer. 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 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, program revenues include transfers from the Unclaimed Property account within the state's general fund to pay for professional service charges associated with property recovery services.

An exceptional amount of property was located through professional service contracts and transferred to the State in FY 2005; this was due to the identification of \$9.3 million in demutualized insurance. The FY 2006 revenue decrease was directly related to the decline in property located by professional property recovery firms. This decline is reflected in both the Unclaimed Property revenue and Personal Services expense categories.

Administrative Expenses and Equipment increased from fiscal year 2005 due to the administration of the Taxpayer Relief project. These one-time expenses were for printing and delivery of checks to citizens. Additionally, OST was required to reprint citizen relief payments that were incorrectly processed in the original check printing service contract.

Banking service charges increased in FY 2006 also due to the Taxpayer Relief contract to provide check printing and processing.

Service and Administrative Charges revenue increased over the FY 2005 level as a result of contracts with the Tobacco Settlement Endowment Trust and the Office of State Finance to provide administrative services.

The 29% increase in ending net assets from FY 2005 is the result of revenue generated by the Unclaimed Property Program and Taxpayer Relief effort as noted above.

OFFICE OF THE STATE TREASURER  
CHANGES IN NET ASSETS

	2006	2005
<b>General Revenues</b>		
Appropriations	\$ 97,393,708	\$ 4,926,592
Unclaimed Property	3,091,216	5,194,521
Service Charges	173,094	51,001
Administrative Charges	122,524	65,000
Securities Lending	425,000	425,000
Other Income	50,327	2,059
Total General Revenues	<u>101,255,869</u>	<u>10,664,173</u>
<b>Expenses</b>		
Personnel Services	6,158,375	7,712,607
Travel	28,181	22,055
Administrative Expenses	552,599	184,549
Contracted Services	367,367	335,755
Equipment	59,834	25,026
Payments to Other Agencies	2,578	91,164
Other	2,875	18,443
Tax Payer Relief	91,869,210	-
Bank Service Charges	1,096,163	807,702
Payments to Counties	100,000	100,000
Depreciation	126,087	140,418
Total Expenses	<u>100,363,269</u>	<u>9,437,719</u>
Excess before Transfers	892,600	1,226,454
<b>Transfers</b>	<u>(148,534)</u>	<u>-</u>
Increase (Decrease) in Net Assets	744,066	1,226,454
Net Assets Beginning Balance	<u>2,530,821</u>	<u>1,304,367</u>
Net Assets Ending Balance	<u>\$ 3,274,887</u>	<u>\$ 2,530,821</u>

**Fund Highlights:**

**Governmental Fund - Fund Balance**

The Office of the State Treasurer has a legally adopted budget that is established by the Legislature. The fiscal year 2006 initial budget was increased mid-year to fund the Taxpayer Relief project. Other budget increases included: an extension to the cost containment project begun in FY 2005, a small increase in administration of tobacco funds, and a special project grant for the College Savings Plan.

The final budget level exceeded actual expenses for the fiscal year by 3% (\$3,336,118). This variance is due to direct expenses associated with the Unclaimed Property Program for property recover and advertising. These expenses are difficult to predict with any degree of accuracy



because they are largely driven by the services of third parties who locate and recover property for the state.

## **USING THIS ANNUAL REPORT**

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

### **Government-wide statements:**

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

### **Fund statements:**

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

The Office of the State Treasurer provides banking and investment services for state agencies. The deposits and investments held by the Office of the State Treasurer on behalf of the State are reported in a 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 Budget & Policy  
4545 N. Lincoln Blvd.  
Suite 106  
Oklahoma City, OK 73105

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



STATE OF OKLAHOMA  
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN  
State Auditor and Inspector

**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 (the Office), a part of the primary government of the State of Oklahoma, as of and for the year ended June 30, 2006, 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, 2006, 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, 2006, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2006, 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, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 1 through 5 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.

A handwritten signature in black ink, reading "Jeff A. McMAHAN". The signature is stylized with a large, flowing "J" and "M".

JEFF A. McMAHAN  
State Auditor and Inspector

December 28, 2006



**OFFICE OF THE STATE TREASURER**  
**STATEMENT OF NET ASSETS**  
**June 30, 2006**

**ASSETS**

Cash	\$ 3,064,958
Due from other agencies	379,906
Capital assets, net of accumulated depreciation	
Furniture, fixtures, and equipment	<u>280,548</u>
Total Assets	<u>3,725,412</u>

**LIABILITIES**

Accounts payable vendors	169,331
Compensated absences:	
Payable within one year	196,813
Payable after one year	<u>84,381</u>
Total Liabilities	<u>450,525</u>

**NET ASSETS**

Invested in capital assets	280,549
Taxpayer relief	236,818
Unrestricted	<u>2,757,520</u>
Total Net Assets	<u>\$ 3,274,887</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, 2006**

**Expenses**

**Governmental Activities - General Government:**

Personnel Services	\$ 6,158,375
Travel	28,181
Administrative Expenses	552,599
Contracted Services	367,367
Equipment	59,834
Payments to Other Agencies	2,578
Other	2,875
Taxpayer Relief	91,869,210
Bank Service Charges	1,096,163
Payments to Counties	100,000
Depreciation	<u>126,087</u>
Total Expenses	<u>100,363,269</u>

**General Revenues**

Appropriations	97,393,708
Unclaimed Property	3,091,216
Service Charges	173,094
Administrative Charges	122,524
Securities Lending	425,000
Other Income	<u>50,327</u>
Total General Revenues	<u>101,255,869</u>

**Transfers**

(148,534)

Increase (Decrease) in Net Assets	744,066
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Net Assets, July 1, 2005	<u>2,530,821</u>
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Net Assets, June 30, 2006	\$ <u><u>3,274,887</u></u>
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The notes to the financial statements are an integral part of this statement.

**OFFICE OF THE STATE TREASURER  
BALANCE SHEET  
GOVERNMENTAL FUND  
June 30, 2006**

**GENERAL FUND**

**ASSETS**

Cash	\$ 3,064,958
Due from the agency fund	<u>379,906</u>
Total Assets	<u>\$ 3,444,864</u>

**LIABILITIES AND FUND BALANCE**

**Liabilities**

Accounts payable vendors	\$ <u>169,331</u>
Total Liabilities	<u>169,331</u>

**Fund Balance**

Reserved for encumbrances	11,652
Reserved for taxpayer relief	236,817
Unreserved	<u>3,027,064</u>
Total Fund Balance	<u>3,275,533</u>
Total Liabilities and Fund Balance	<u>\$ 3,444,864</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, 2006**

Total Fund Balance - Governmental Fund	\$ 3,275,533
Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund.	280,548
Long term liabilities are not due and payable in the current period and therefore are not reported in the fund.	
Compensated absences	<u>(281,194)</u>
Net assets of governmental activities	\$ <u><u>3,274,887</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, 2006**

	<b>GENERAL FUND</b>
<b>Revenues</b>	
Unclaimed Property	\$ 3,091,216
Service Charges	173,094
Administrative Charges	122,524
Securities Lending	425,000
Other Income	50,327
Total Revenues	<u>3,862,161</u>
<b>Expenditures</b>	
Personnel Services	6,146,662
Travel	28,181
Administrative Expenses	552,599
Contracted Services	367,366
Equipment	206,421
Payments to Other Agencies	2,578
Other	1,662
Tax Payer Relief	91,869,210
Bank Service Charges	1,096,163
Payments to Counties	100,000
Total Expenditures	<u>100,370,843</u>
Revenues Over (Under) Expenditures	<u>(96,508,682)</u>
Other Financing Sources (Uses)	
Appropriations	97,393,708
Transfers	<u>(148,534)</u>
Total Other Financing Sources (Uses)	97,245,174
Net Change In Fund Balance	736,492
Fund Balance, July 1, 2005	<u>2,539,041</u>
Fund Balance, June 30, 2006	\$ <u><u>3,275,533</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, 2006**

Net Change in Fund Balance - Governmental Fund	\$	736,492
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		20,502
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This amount represents the cost of compensated absences earned but not used in the current year.		(11,713)
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This amount represents the carrying value of the capital assets that were transferred for disposal.		<u>(1,215)</u>
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Change in net assets of governmental activities	\$	<u><u>744,066</u></u>
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The notes to the financial statements are an integral part of this statement.

**OFFICE OF THE STATE TREASURER**  
**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES**  
**FIDUCIARY FUND**  
**June 30, 2006**

	<u>Agency Fund</u>
<b>ASSETS</b>	
Cash	
Cash On Hand	\$ 194,852
Cash In Banks	58,619,559
Total Cash	<u>58,814,411</u>
Investments	
Treasurer's Portfolio	4,507,443,740
State Agency Portfolio	
Treasury Funds	589,003,158
Agency Special Accounts	1,776,765
Securities Lending Investments	<u>1,526,980,458</u>
Total Investments	<u>6,625,204,121</u>
Interest Receivable	
Treasurer's Portfolio	24,758,234
State Agency Portfolio	
Treasury Funds	9,213,271
Agency Special Accounts	<u>1,877,056</u>
Total Interest Receivable	<u>35,848,561</u>
Total Assets	<u>\$ 6,719,867,093</u>
<b>LIABILITIES</b>	
Balance Due Depositors	
State Agency Portfolio	
Treasury Funds	\$ 3,887,026,541
Agency Special Accounts	1,305,285,335
Cashier	194,853
Payable Under Securities Lending	
Agreements	<u>1,526,980,458</u>
Total Due Depositors	<u>6,719,487,187</u>
Due to the General Fund	<u>379,906</u>
Total Liabilities	<u>\$ 6,719,867,093</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, 2006**

	<u>Budgeted Amounts</u>			<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues</b>				
Unclaimed Property	\$ 4,803,200	\$ 4,803,200	\$ 3,301,629	\$ (1,501,571)
Service Charges	62,553	62,553	153,941	91,388
Administrative Charges	120,000	120,000	117,524	(2,476)
Securities Lending	425,000	425,000	425,000	0
Other Income	900	900	50,327	49,427
Total Revenues	<u>5,411,653</u>	<u>5,411,653</u>	<u>4,048,421</u>	<u>(1,363,232)</u>
<b>Expenditures</b>				
Personnel Services	8,643,719	8,716,429	6,130,796	2,585,633
Travel	47,724	52,524	28,181	24,343
Administrative Expenses	218,285	1,000,835	549,957	450,878
Contracted Services	346,104	665,366	363,486	301,880
Equipment	43,184	243,184	167,387	75,797
Payments to Other Agencies	-	-	2,578	(2,578)
Other	2,200	2,200	1,662	538
Tax Payer Relief	-	92,000,000	91,869,210	130,790
Bank Service Charges	865,000	865,000	1,096,163	(231,163)
Payment to Counties	100,000	100,000	100,000	0
Total Expenditures	<u>10,266,216</u>	<u>103,645,538</u>	<u>100,309,420</u>	<u>3,336,118</u>
Excess of revenues over (under) expenditures	<u>(4,854,563)</u>	<u>(98,233,885)</u>	<u>(96,260,999)</u>	<u>1,972,886</u>
<b>Other financing sources (uses)</b>				
Appropriations	4,524,498	97,393,708	97,393,708	-
Transfers	-	-	(148,534)	(148,534)
Total other financing sources (uses)	<u>4,524,498</u>	<u>97,393,708</u>	<u>97,245,174</u>	<u>(148,534)</u>
Net change in fund balance	(330,065)	(840,177)	984,175	1,824,352
Fund balance, July 1, 2005	<u>2,183,566</u>	<u>2,183,566</u>	<u>2,183,566</u>	<u>-</u>
Fund balance, June 30, 2006	\$ <u>1,853,501</u>	\$ <u>1,343,389</u>	\$ <u>3,167,741</u>	\$ <u>1,824,352</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, 2006**

**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 Honorable Scott Meacham was sworn in as State Treasurer on June 1, 2005. Treasurer Meacham was appointed by Governor Henry to fill the remaining unexpired term of Robert Butkin.

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

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

The government-wide financial statements are presented using the accrual basis of accounting and the economic resources measurement focus. All of the functions available to finance the Office are presented together as general government activities. Financial information for funds that are not available to finance these activities 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. 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. The Office is entitled to reimbursement for certain costs incurred in connection with administration of the Unclaimed Property Program. These revenues are recognized when the related expenditures are incurred. The Office also receives 4% of the monies accruing to the State according to state statute as service charges. Revenues for these service charges are recognized based on the monies that are remitted to the State. Expenditures are generally recognized when the related liability is incurred except for compensated absences where vested annual leave is recorded as an expenditure when utilized.

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

### **Fiduciary Fund**

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

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

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

#### **D. Capital Assets**

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

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

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

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

#### **E. Compensated Absences**

Employees of the Office entering State service earn annual vacation leave at the rate of 10 hours per month for the first 5 years of service, 12 hours per month for service of 5 to 10 years, 13.3 hours per month for service of 10 to 20 years, and 16.66 hours per month for over 20 years of service. Unused annual leave may be accumulated to a maximum of 240 hours for those with service of up to 5 years. After 5 years of service the maximum number of hours that can be accumulated and carried into the next year is 480 hours. All accrued annual leave is payable upon termination, resignation, retirement, or death. The following is a summary of the changes in compensated absences for the year ended June 30, 2006.

	<u>Balance</u> <u>June 30, 2005</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2006</u>
Compensated Absences	\$ 269,481	220,026	208,313	\$ 281,194

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

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

The legal level of control is established by the Legislature in its annual appropriation bills. The appropriation bills are deemed to be the legal level of control as this level is statutory.



Certain funds are not appropriated annually by the Legislature, and are subject to administrative budgetary controls only.

Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles (GAAP), a reconciliation of resulting differences in the excess of revenues over (under) expenditures and other financing sources (uses) between budgetary and GAAP presentations for the year ended June 30, 2006, is presented as follows:

General Fund Balance, Budgetary Basis	\$ 3,167,741
Basis Differences:	
Add: Net Service and Administrative Charges	24,153
Net Unclaimed Property	(210,413)
Encumbrances recognized as expenses	11,652
Difference in July 1, 2005 GAAP basis fund balance, compared to budget basis fund balance	355,475
Subtract: Prior years Encumbrances	<u>73,075</u>
Total General Fund Balance - GAAP Basis	\$ <u>3,275,533</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; 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 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.

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 2006. 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 and short term bond funds.

**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.

**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	10%	2.5%	3 years	AAA
Collateralized or Insured Certificates of Deposit	Limit of \$20,000,000 per financial institution		90 days(1)(4)	
	Not to exceed \$100,000,000 and not more than \$5,000,000 per financial institution		180 days(1)(4)	
Negotiable Certificates of Deposit	7.5%	2.5%	180 days(1)	A-1 & P-1
Banker's Acceptance	7.5%	2.5%	270 days	A-1 & P-1
Commercial Paper	7.5%	2.5%	180 days	A-1 & P-1
State & Local Government Obligations	5%	2.5%	10 years	(2)
Repurchase Agreements and Tri-party Repurchase Agreements	30%	15% (per counterparty)	1 day(1)(4)	(3)
Money Market Mutual Funds	30%	15%	1 day (1)(5)	AAA

- (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.

### **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, 2006, 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, 2006, the maturity of these loans was three (3) days. Cash collateral is invested in instruments of the same type the Treasurer is allowed to invest in by statute. At year-end, 59 percent of the cash investments had an average maturity of three (3) days, with the overall average maturity being fifteen (15) 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 \$1,846,355,921.

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The following schedule compares the cost of amortized cost to the fair value of investments held in Fiduciary Funds at June 30, 2006

TYPE OF INVESTMENT	FAIR VALUE	AMORTIZED COST	AVERAGE CREDIT QUALITY RATING (1)	WEIGHTED AVERAGE MATURITY (DAYS) (2)
<b>TREASURER'S PORTFOLIO</b>				
<b>POOLED INVESTMENTS</b>				
U.S. TREASURY	\$ 854,762,783	\$ 864,326,783	AAA	354
SECURITIES LENDING COLLATERAL POOL	1,526,980,458	1,526,980,458		
U.S. AGENCIES	1,923,445,597	1,937,578,583	AAA	547
REPURCHASE AGREEMENTS (6)	738,000,000	738,000,000	A-1, P-1	1
MONEY MARKET MUTUAL FUND	508,193,042	508,193,042	AAAm	1
	<u>\$ 5,551,381,880</u>	<u>\$ 5,575,078,866</u>		
<b>NON-POOLED INVESTMENTS</b>				
U.S. AGENCIES	\$ 3,822,412	\$ 3,848,000	AAA	731
CERTIFICATES OF DEPOSIT	360,635,000	360,635,000	N/A	106
CERTIFICATES OF DEPOSIT – AG/BUS/RUR LINK (5)	21,894,752	21,894,752	NR	727
STATE BOND ISSUE	96,690,154	96,690,154	(4)	112
	<u>\$ 483,042,318</u>	<u>\$ 483,067,906</u>		
<b>TOTAL TREASURER'S INVESTMENTS</b>	<u>\$ 6,034,424,198</u>	<u>\$ 6,058,146,772</u>		
<b>STATE AGENCY PORTFOLIO FUNDS</b>				
U.S. TREASURY (3)	\$ 502,406,428	\$ 501,733,940	AAA	287
CERTIFICATES OF DEPOSIT	0	0	N/A	-
MONEY MARKET MUTUAL FUND	86,028,577	86,028,577	AAAm	1
MUTUAL FUNDS (3)	568,153	422,147	N/A	N/A
	<u>\$ 589,003,158</u>	<u>\$ 588,184,664</u>		
<b>TOTAL FUNDS INVESTMENTS</b>	<u>\$ 589,003,158</u>	<u>\$ 588,184,664</u>		
<b>SPECIAL ACCOUNTS</b>				
U.S. TREASURY (3)	\$ 495,165	\$ 473,201	AAA	1,785
CERTIFICATES OF DEPOSIT	0	0	N/A	-
MUTUAL FUNDS (3)	1,281,600	686,747		
	<u>\$ 1,776,765</u>	<u>\$ 1,159,948</u>		
<b>TOTAL SPECIAL ACCOUNTS INVESTMENTS</b>	<u>\$ 1,776,765</u>	<u>\$ 1,159,948</u>		
<b>TOTAL STATE AGENCY PORTFOLIO</b>	<u>\$ 590,779,923</u>	<u>\$ 589,344,612</u>		

	FAIR VALUE	AMORITIZED COST
<b>INVESTMENTS SUMMARY</b>		
U.S. TREASURY		\$ 1,366,533,924
NOT ON SECURITIES LOAN	198,020,096	
ON SECURITIES LOAN – BONDS BORROWED	2,303,829	
ON SECURITIES LOAN – CASH COLLATERAL	1,157,340,451	
U.S. AGENCIES		1,941,426,583
NOT ON SECURITIES LOAN	1,240,556,369	
ON SECURITIES LOAN – BONDS BORROWED	362,750,864	
ON SECURITIES LOAN – CASH COLLATERAL	323,960,776	
INVESTMENTS		
PURCHASED W/CASH COLLATERAL	1,526,980,458	1,526,980,458
REPURCHASE AGREEMENTS	738,000,000	738,000,000
CERTIFICATES OF DEPOSIT	382,529,752	382,529,752
STATE BOND ISSUE	96,690,154	96,690,154
MUTUAL FUND	1,849,753	1,108,894
MONEY MARKET MUTUAL FUND	594,221,619	594,221,619
<b>TOTAL INVESTMENTS</b>	<b>\$ 6,625,204,121</b>	<b>\$6,647,491,384</b>

- (1) Ratings are provided where applicable to indicate Credit Risk. N/A indicates not applicable.
- (2) Interest Rate Risk is estimated using weighted 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 General Obligation Refunding Bonds. These rates, adjusted quarterly, are tied to the 3 month LIBOR rate and are private placement. The remainder of the State Bond issues is made up of \$7,730,000 in Oklahoma Capitol Improvement Authority bonds Series 1994B. These bonds are registered in the State Treasurer's name and were private placement. The remaining \$750,977.32 are Oklahoma Capitol Improvement Authority bonds Series 1986 purchased and privately placed with the State Treasurer's office.
- (5) Ag Link, Business Link and Rural Link Certificates 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 of with surety bonds or letters of credit.
- (6) Credit ratings are provided for the counterparties to the repurchase agreement.

## 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, 2006.

	Balance June 30, 2005	Capital Acquisitions	Sales or Other Dispositions	Balance June 30, 2006
Furniture, fixtures, and office equipment	\$ 1,250,100	146,586	18,308	\$ 1,378,378
Less accumulated depreciation	988,839	126,085	17,094	1,097,830
Total	\$ <u>261,261</u>			\$ <u>280,548</u>

**7. Bank Service Fees**

During the year, the Office incurred fees for services rendered by various financial institutions. Service charges of \$1,096,163 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, 2006, are listed below: Elected officials must select an employee contribution rate of 4.5%, 6.0%, 7.5%, 8.5%, 9.0% or 10%. Effective July 1, 2006 the contribution rate for state employees is 3.5% of all allowable compensation. The employer contribution rate increases to 12.5%.

<u>State Employee Contribution</u>		<u>State Agencies' Contribution</u>
<u>First</u> <u>\$25,000</u>	<u>Above</u> <u>\$25,000</u>	<u>All Salaries</u>
3.0%	3.5%	11.5%

The Office's contributions to the Plan for the years June 30, 2006 - \$346,235.69; June 30, 2005 - \$269,442; June 30, 2004 - \$263,147; were equal to the established required contributions for each year.

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

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

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

#### **11. 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 OBJECT CODE-(BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED June 30, 2006**

OBJECT CODE	CATEGORY	AMOUNT
1100	Salary Expense	\$ 4,287,900
1200	Insurance	11,421
1300	FICA and Retirement	16,838
1500	Professional Services	1,809,423
1900	Inter/Intra Agency Payments Professional Services	5,214
2100	Travel-Reimbursement	11,537
2200	Travel-Direct Expense	16,643
3100	Miscellaneous Administrative Expense	413,732
3100	Bank Service Charges	1,096,163
3200	Rent Expense	135,072
3300	Maintenance and Repair Expense	228,414
3500	Production and Safety	1,341
3600	Office Expense	134,885
3900	Inter/Intra Agency Payments Administrative Expense	2,578
4100	Office Furniture and Equipment	167,387
4600	Building Renovations	1,386
5200	Employee Recognition Awards	163
6100	Employee Reimbursements	113
6200	County Treasurers	100,000
6200	Taxpayer Relief	91,869,210
Total		\$ 100,309,420





STATE OF OKLAHOMA  
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN  
State Auditor and Inspector

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Office of 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, 2006, which collectively comprise the Office's basic financial statements, and have issued our report thereon dated December 28, 2006. Our report includes an explanatory paragraph stating that the basic financial statements of the Office are intended to present the financial position and results of operations of only that portion of the State of Oklahoma attributable to the transactions of the Office. 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's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion 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 reportable 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 caused by error or fraud 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.

**Compliance and Other Matters**

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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



JEFF A. McMAHAN  
State Auditor and Inspector

December 28, 2006