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State Auditor & Inspector

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EDGE Fund

Economic Development Generating Excellence

Financial Statements

June 30, 2011 and 2010

(With Independent Auditors' Report Thereon)

**EDGE FUND
ECONOMIC DEVELOPMENT GENERATING EXCELLENCE**

FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

Policy Board and
Board of Investors
EDGE Fund

We have audited the accompanying financial statements of the governmental activities and the general fund of the EDGE Fund [Economic Development Generating Excellence] (the "Fund") as of and for the years ended June 30, 2011 and 2010, which collectively comprise the Fund's basic financial statements as listed in the table of contents. The Fund is a part of the reporting entity of the State of Oklahoma. These financial statements are the responsibility of the Fund's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States 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 audits 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 audits provide a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the Fund are intended to present the financial position and the changes in financial position of only that portion of the governmental activities and each major fund of the State of Oklahoma that is attributable to the transactions of the Fund. They do not purport to, and do not, present fairly the financial position of the State of Oklahoma as of June 30, 2011 and 2010, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of the Fund as of June 30, 2011 and 2010, and the respective changes in financial position thereof for the years then ended in conformity with accounting principles generally accepted in the United States.

Effective July 1, 2010, the Fund implemented Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). As more fully discussed in Note 2, the effect of implementing GASB 54 resulted in certain changes to the presentation of fund balances, and certain 2010 fund balances were renamed to conform to the 2011 presentation.

(Continued)

INDEPENDENT AUDITORS' REPORT, CONTINUED

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2011, on our consideration of the Fund'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 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.

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages I-1 through I-9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Finley & Cook, PLLC

Shawnee, Oklahoma
October 19, 2011

EDGE FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

June 30, 2011 and 2010

The Management's Discussion and Analysis (MD&A) of the EDGE Fund (the "Fund") provides an overview and overall review of the Fund's financial activities for the fiscal years ended June 30, 2011 and 2010. The intent of the MD&A is to look at the Fund's financial performance as a whole. It should, therefore, be read in conjunction with the Fund's financial statements and the notes thereto.

The Fund was established in June 2006 when the Oklahoma Legislature passed Senate Bill 99XX. This legislation created Sections 47 and 52 of Title 62 of the Oklahoma Statutes. These new provisions created a fund for Economic Development Generating Excellence, to be known as the EDGE Fund. The investment management of this fund is administered by a five-person Board of Investors chaired by the State Treasurer. The remaining members of the Board of Investors are appointed by the Governor, the State Auditor and Inspector, the President Pro Tem of the Senate, and the Speaker of the House of Representatives.

The Oklahoma Legislature contributed the first \$150 million to the Fund. State leaders are committed to building the Fund over the years to the \$1 billion goal. At this level, the Fund is expected to generate between \$40 and \$50 million dollars each year to be invested in the goals of the EDGE program. Research results supported by the Fund will be directed toward innovation that will strengthen current Oklahoma businesses and create businesses that are likely to remain in the state.

Earnings from the Fund may be expended for projects and programs which will increase private and public applied research and development, technology transfer, and technology commercialization in Oklahoma. A different board, the EDGE Fund Policy Board, makes all spending decisions for the earnings.

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

Fund Statements: The fund financial statements include the governmental fund's balance sheets and the statements of revenues, expenditures, and changes in fund balances. In the fund financial statements, the revenues and expenditures of the Fund 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.

EDGE FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A), CONTINUED

June 30, 2011 and 2010

FINANCIAL HIGHLIGHTS

Statements of Net Assets

The statements of net assets provide an indication of the Fund's financial condition at the end of the 2011 and 2010 fiscal years; the statements report all assets and liabilities using the accrual basis of accounting.

EDGE Fund
Statements of Net Assets

	<u>2011</u>	<u>2010</u>
Assets		
Current assets	\$ 11,867,222	8,337,175
Investments, at fair value	165,011,269	140,831,184
Capital assets	<u>1,557</u>	<u>2,479</u>
Total assets	<u>176,880,048</u>	<u>149,170,838</u>
Liabilities		
Current liabilities	1,200,206	1,854,845
Liability under securities lending	<u>8,157,471</u>	<u>2,008,000</u>
Total liabilities	<u>9,357,677</u>	<u>3,862,845</u>
Net Assets		
Restricted for investment	151,003,988	129,422,486
Unrestricted	<u>16,518,383</u>	<u>15,885,507</u>
Total net assets	<u>\$ 167,522,371</u>	<u>145,307,993</u>

The initial contribution of \$150 million to the Fund was deposited into OK INVEST on July 1, 2006. OK INVEST is a commingled account managed by the State Treasurer of Oklahoma, which is governed by Oklahoma statutes and the State Treasurer's investment policy. Funds were used from the OK INVEST account to fund active management as the Board of Investors hired and funded the portfolio's asset allocation. A diversified portfolio was completed according to the Board of Investors' adopted investment policy during FY2008.

EDGE FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A), CONTINUED

June 30, 2011 and 2010

FINANCIAL HIGHLIGHTS, CONTINUED

Statements of Net Assets, Continued

The Board of Investors is responsible for the overall management of the Fund. They are responsible for evaluating, hiring, and terminating investment managers, custodial banks, transition managers, and consultants. At June 30, 2008, the Board of Investors had completed the allocation of assets to its long-term target allocation as described in the Board of Investors' investment policy. This board certifies each year the amount of funds available for expenditure by the EDGE Fund Policy Board.

The Fund's total net assets increased approximately \$22.2 million during the year. Net investment income of approximately \$28.8 million was primarily the result of the recognition of approximately \$5.5 million in interest and dividends and a net appreciation in assets of approximately \$23.9 million. The Fund's investment policy establishes investment goals and objectives and provides specific investment guidelines for investment managers.

On November 3, 2008, the Board of Investors approved the addition of a tactical asset allocation to the investment policy. The Opportunistic Bond Portfolio (OBP) was a temporary investment taking advantage of extremely low valuations of high yield bonds. The OBP was funded from the fixed-income allocation of the Fund in November 2008. On the recommendation of the investment consultant, this strategy was converted from a temporary to a permanent investment strategy in the June 28, 2011, Board of Investors meeting.

Cash balances also include restricted cash in excess of \$8.2 million, which represents cash collateral presented to the Fund by security borrowers through the Board of Investors' securities lending effort. Use of this cash is restricted unless the borrowers were to default in the return of the securities borrowed.

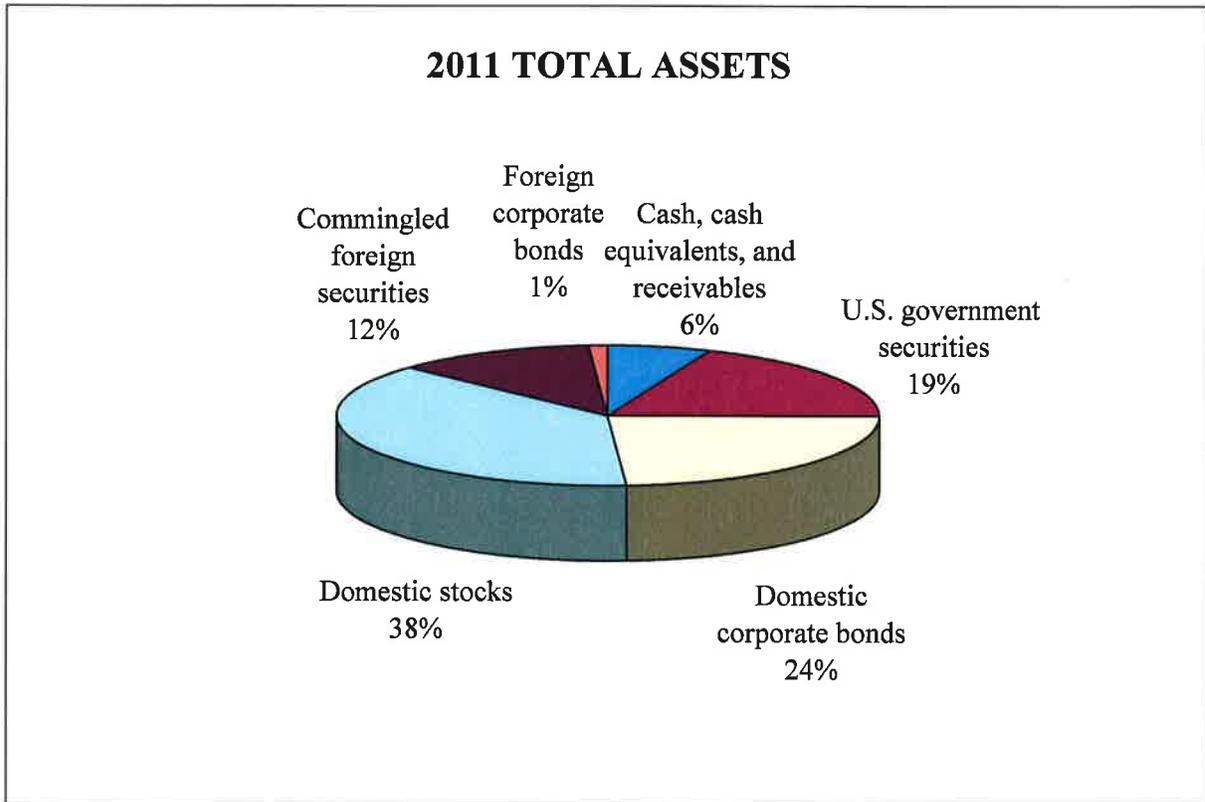
EDGE FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A), CONTINUED

June 30, 2011 and 2010

FINANCIAL HIGHLIGHTS, CONTINUED

Statements of Net Assets, Continued



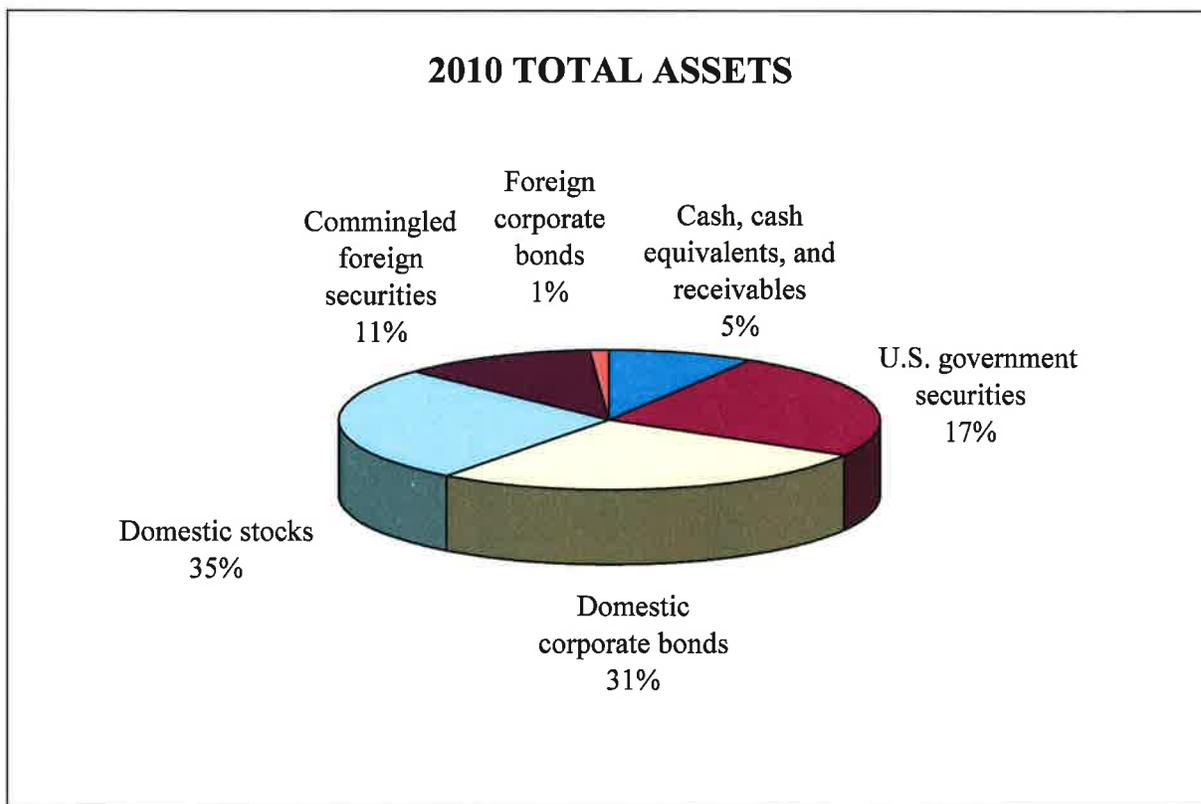
EDGE FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A), CONTINUED

June 30, 2011 and 2010

FINANCIAL HIGHLIGHTS, CONTINUED

Statements of Net Assets, Continued



EDGE FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A), CONTINUED

June 30, 2011 and 2010

FINANCIAL HIGHLIGHTS, CONTINUED

Statements of Activities—Income and Expenses

The statements of activities report all of the income and expenses during the time periods indicated.

EDGE Fund Statements of Activities

	<u>2011</u>	<u>2010</u>
Investment income:		
Interest and dividend income	\$ 5,497,572	5,497,257
Securities lending income	10,347	20,370
Net appreciation in fair value of investments	<u>23,933,727</u>	<u>14,634,548</u>
Total investment income	29,441,646	20,152,175
Investment expenses	<u>(646,040)</u>	<u>(595,934)</u>
Net investment income	<u>28,795,606</u>	<u>19,556,241</u>
Expenses:		
Program contracts	6,067,470	5,594,068
Operating	<u>513,758</u>	<u>447,856</u>
Total expenses	<u>6,581,228</u>	<u>6,041,924</u>
Changes in net assets	22,214,378	13,514,317
Net assets, beginning of year	<u>145,307,993</u>	<u>131,793,676</u>
Net assets, end of year	<u>\$ 167,522,371</u>	<u>145,307,993</u>

The Board of Investors manages the assets of the Fund. Governed by an adopted investment policy, the assets of the Fund are invested in a manner in which a prudent person would invest. The Board of Investors certifies the earnings to be spent by the EDGE Fund Policy Board.

The EDGE Fund Policy Board makes all spending decisions for the certified earnings. During the fiscal year ended June 30, 2011, the EDGE Fund Policy Board received 63 pre-proposals, and after review, 13 projects were invited to provide more detailed information in a formal request for proposal format. These are currently being reviewed. A final decision on funding will be presented to the EDGE Fund Policy Board in November 2011.

Three projects were funded for the fiscal year ending June 30, 2011, totaling approximately \$5.4 million. Each quarter, these projects provide the EDGE Fund Policy Board with a review of their status. An annual review is due in November 2011.

EDGE FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A), CONTINUED

June 30, 2011 and 2010

FINANCIAL HIGHLIGHTS, CONTINUED

Governmental Fund—Balance Sheets

The fund balance at year-end includes balances which are committed for investment purposes and balances which are unassigned that are expendable for operations and programs of the Fund.

EDGE Fund
Balance Sheets—General Fund

	<u>2011</u>	<u>2010</u>
Assets:		
Cash and cash equivalents	\$ 11,136,640	7,646,608
Interest and dividends receivable	512,329	567,802
Securities lending receivable	1,712	524
Net due from brokers	216,541	122,241
Investments, at fair value	<u>165,011,269</u>	<u>140,831,184</u>
 Total assets	 <u>\$ 176,878,491</u>	 <u>149,168,359</u>
Liabilities:		
Accounts payable	\$ 1,200,206	1,854,845
Liability under securities lending	<u>8,157,471</u>	<u>2,008,000</u>
Total liabilities	<u>9,357,677</u>	<u>3,862,845</u>
Fund balances:		
Committed	151,003,988	129,422,486
Unassigned	<u>16,516,826</u>	<u>15,883,028</u>
Total fund balances	<u>167,520,814</u>	<u>145,305,514</u>
 Total liabilities and fund balances	 <u>\$ 176,878,491</u>	 <u>149,168,359</u>

EDGE FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A), CONTINUED

June 30, 2011 and 2010

FUND HIGHLIGHTS, CONTINUED

Governmental Fund—Revenues, Expenditures, and Changes in Fund Balances

**EDGE Fund
Statements of Revenues, Expenditures, and
Changes in Fund Balances—General Fund**

	<u>2011</u>	<u>2010</u>
Revenues:		
Net appreciation in fair value of investments	\$ 23,933,727	14,634,548
Interest and dividend income	5,497,572	5,497,257
Securities lending income	10,347	20,370
Total revenues	<u>29,441,646</u>	<u>20,152,175</u>
Expenditures:		
Professional services	230,363	244,229
Travel	7,101	1,221
Administrative	264,515	191,186
Rent	8,657	8,233
Supplies	2,200	2,153
Equipment	-	700
Investment management fees	646,040	595,934
Program contracts	<u>6,067,470</u>	<u>5,594,068</u>
Total expenditures	<u>7,226,346</u>	<u>6,637,724</u>
Net changes in fund balances	22,215,300	13,514,451
Fund balances, beginning of year	<u>145,305,514</u>	<u>131,791,063</u>
Fund balances, end of year	<u>\$ 167,520,814</u>	<u>145,305,514</u>

EDGE FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A), CONTINUED

June 30, 2011 and 2010

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Fund's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Mr. Travis Monroe, Director of Budget and Policy, Office of the Oklahoma State Treasurer, 2300 North Lincoln Boulevard, Room 217, Oklahoma City, Oklahoma 73105-4895.

EDGE FUND
ECONOMIC DEVELOPMENT GENERATING EXCELLENCE

STATEMENTS OF NET ASSETS

<i>June 30,</i>	<i>2011</i>	<i>2010</i>
Assets		
Cash and cash equivalents:		
Unrestricted cash	\$ 2,979,169	5,638,608
Securities lending collateral—restricted cash	8,157,471	2,008,000
Total cash and cash equivalents	<u>11,136,640</u>	<u>7,646,608</u>
Receivables:		
Interest and dividends	512,329	567,802
Securities lending	1,712	524
Net due from brokers	216,541	122,241
Total receivables	<u>730,582</u>	<u>690,567</u>
Investments, at fair value:		
U.S. government securities	33,292,278	24,813,664
Domestic corporate bonds	24,309,961	28,176,489
Foreign corporate bonds	1,017,968	299,478
Domestic stocks	67,265,609	52,001,129
Opportunistic Bond Portfolio	17,856,679	18,374,156
Commingled foreign securities	21,268,774	17,166,268
Total investments, at fair value	<u>165,011,269</u>	<u>140,831,184</u>
Capital assets, net of accumulated depreciation of \$2,129 and \$1,207 as of June 30, 2011 and 2010, respectively.	<u>1,557</u>	<u>2,479</u>
Total assets	<u>176,880,048</u>	<u>149,170,838</u>
Liabilities		
Accounts payable—within 1 year	1,200,206	1,854,845
Liability under securities lending	8,157,471	2,008,000
Total liabilities	<u>9,357,677</u>	<u>3,862,845</u>
Net Assets		
Restricted for investment	151,003,988	129,422,486
Unrestricted	16,518,383	15,885,507
Total net assets	<u>\$ 167,522,371</u>	<u>145,307,993</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

EDGE FUND
ECONOMIC DEVELOPMENT GENERATING EXCELLENCE

STATEMENTS OF ACTIVITIES

<i>Years Ended June 30,</i>	<i>2011</i>	<i>2010</i>
Expenses:		
Program contracts	\$ 6,067,470	5,594,068
Operating:		
Professional services	230,363	244,229
Travel	7,101	1,221
Administrative	264,515	191,186
Rent	8,657	8,233
Supplies	2,200	2,153
Depreciation	922	834
Total operating expenses	<u>513,758</u>	<u>447,856</u>
Total expenses	<u>6,581,228</u>	<u>6,041,924</u>
Investment income:		
Interest income	4,050,201	4,055,782
Dividend income	1,447,371	1,441,475
Securities lending income	10,347	20,370
Net appreciation in fair value of investments	<u>23,933,727</u>	<u>14,634,548</u>
Total investment income	29,441,646	20,152,175
Investment expenses	<u>(646,040)</u>	<u>(595,934)</u>
Net investment income	<u>28,795,606</u>	<u>19,556,241</u>
Changes in net assets	22,214,378	13,514,317
Net assets, beginning of year	<u>145,307,993</u>	<u>131,793,676</u>
Net assets, end of year	<u>\$ 167,522,371</u>	<u>145,307,993</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

**EDGE FUND
ECONOMIC DEVELOPMENT GENERATING EXCELLENCE**

BALANCE SHEETS—GENERAL FUND

<i>June 30,</i>	<i>2011</i>	<i>2010</i>
Assets		
Cash and cash equivalents:		
Unrestricted cash	\$ 2,979,169	5,638,608
Securities lending collateral—restricted cash	<u>8,157,471</u>	<u>2,008,000</u>
Total cash and cash equivalents	<u>11,136,640</u>	<u>7,646,608</u>
Receivables:		
Interest and dividends	512,329	567,802
Securities lending	1,712	524
Net due from brokers	<u>216,541</u>	<u>122,241</u>
Total receivables	<u>730,582</u>	<u>690,567</u>
Investments, at fair value:		
U.S. government securities	33,292,278	24,813,664
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Foreign corporate bonds	1,017,968	299,478
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Opportunistic Bond Portfolio	17,856,679	18,374,156
Commingled foreign securities	<u>21,268,774</u>	<u>17,166,268</u>
Total investments, at fair value	<u>165,011,269</u>	<u>140,831,184</u>
Total assets	<u>\$ 176,878,491</u>	<u>149,168,359</u>
Liabilities and Fund Balances		
Liabilities:		
Accounts payable—within 1 year	\$ 1,200,206	1,854,845
Liability under securities lending	<u>8,157,471</u>	<u>2,008,000</u>
Total liabilities	<u>9,357,677</u>	<u>3,862,845</u>
Fund balances:		
Committed	151,003,988	129,422,486
Unassigned	<u>16,516,826</u>	<u>15,883,028</u>
Total fund balances	<u>167,520,814</u>	<u>145,305,514</u>
Total liabilities and fund balances	<u>\$ 176,878,491</u>	<u>149,168,359</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

**EDGE FUND
ECONOMIC DEVELOPMENT GENERATING EXCELLENCE**

**RECONCILIATION OF THE BALANCE SHEETS—GENERAL FUND TO
THE STATEMENTS OF NET ASSETS**

<i>June 30,</i>	<i>2011</i>	<i>2010</i>
Total fund balances	\$ 167,520,814	145,305,514
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the fund	<u>1,557</u>	<u>2,479</u>
Net assets	<u>\$ 167,522,371</u>	<u>145,307,993</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

**EDGE FUND
ECONOMIC DEVELOPMENT GENERATING EXCELLENCE**

**STATEMENTS OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES—GENERAL FUND**

<i>Years Ended June 30,</i>	<i>2011</i>	<i>2010</i>
Revenues:		
Net appreciation in fair value of investments	\$ 23,933,727	14,634,548
Interest income	4,050,201	4,055,782
Dividend income	1,447,371	1,441,475
Securities lending income	10,347	20,370
Total revenues	29,441,646	20,152,175
Expenditures:		
Professional services	230,363	244,229
Travel	7,101	1,221
Administrative	264,515	191,186
Rent	8,657	8,233
Supplies	2,200	2,153
Equipment	-	700
Investment management fees	646,040	595,934
Program contracts	6,067,470	5,594,068
Total expenditures	7,226,346	6,637,724
Net changes in fund balances	22,215,300	13,514,451
Fund balances, beginning of year	145,305,514	131,791,063
Fund balances, end of year	\$ 167,520,814	145,305,514

See Independent Auditors' Report.
See accompanying notes to financial statements.

**EDGE FUND
ECONOMIC DEVELOPMENT GENERATING EXCELLENCE**

**RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES—GENERAL FUND TO
THE STATEMENTS OF ACTIVITIES**

<i>Years Ended June 30,</i>	<i>2011</i>	<i>2010</i>
Net changes in fund balances	\$ 22,215,300	13,514,451
Governmental funds report capital outlays as expenditures while government-wide activities report depreciation expense over the lives of the assets:		
Depreciation expense	(922)	(834)
Capital assets capitalized	<u>-</u>	<u>700</u>
Changes in net assets	<u>\$ 22,214,378</u>	<u>13,514,317</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

**EDGE FUND
ECONOMIC DEVELOPMENT GENERATING EXCELLENCE**

NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The EDGE Fund [Economic Development Generating Excellence] (the “Fund”) was established in June 2006 when the Oklahoma Legislature passed Senate Bill 99XX. This legislation created Sections 47 and 52 of Title 62 of the Oklahoma Statutes. These new provisions created a fund for Economic Development Generating Excellence, to be known as the EDGE Fund. The investment management of this fund is administered by a five-person Board of Investors chaired by the State Treasurer. The remaining members of the Board of Investors are appointed by the Governor, the State Auditor and Inspector, the President Pro Tem of the Senate, and the Speaker of the House of Representatives.

Pursuant to the statutes of the State of Oklahoma (the “State”), the Board of Investors was created to manage the investment of the principal of the Fund and to annually certify the earnings that are available for program expenditures. The EDGE Fund Policy Board was created to oversee the Fund’s operating and program expenditures. The Fund is a part of the State’s financial reporting entity and is included in the State’s Comprehensive Annual Financial Report as a part of the general fund.

The financial statements of the Fund are intended to present the financial position and the changes in financial position of only that portion of the governmental activities and governmental funds of the State that is attributable to the transactions of the Fund, and not those of the entire State.

Basis of Presentation, Measurement Focus, and Basis of Accounting

The financial statements have been prepared in accordance with Governmental Accounting Standards Board Statement No. 34 (GASB 34).

Government-Wide Financial Statements—The statements of net assets and the statements of activities are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Investment purchases and sales are recorded as of their trade dates.

See Independent Auditors’ Report.

**EDGE FUND
ECONOMIC DEVELOPMENT GENERATING EXCELLENCE**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Basis of Presentation, Measurement Focus, and Basis of Accounting, Continued

Fund Financial Statements—The Fund is reported in the fund financial statements using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Since the Fund predominantly accounts for financial resources, revenue recognition is generally consistent between the accrual basis and the modified accrual basis of accounting.

Investment purchases and sales are recorded as of their trade dates. Expenditures generally are recorded when a liability is incurred.

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

Investments

The Fund is authorized to invest in eligible investments as approved by the Board of Investors and set forth in its investment policy.

Fund investments are reported at fair value, as determined by the Fund's custodial agent, using pricing services or prices quoted by independent brokers based on the latest reported sales prices at current exchange rates for securities traded on national or international exchanges.

The Fund invests in various traditional financial instruments that fall under the broad definition of derivatives. The Fund's derivatives may include U.S. Treasury strips, collateralized mortgage obligations, asset-backed securities, and variable-rate instruments. These investments do not increase investment risk beyond allowable limits specified in the Fund's investment policy.

Net investment income includes net appreciation in the fair value of investments, interest income, dividend income, securities lending income, and investment expenses, which includes investment management and custodial fees and all other significant investment-related costs.

See Independent Auditors' Report.

**EDGE FUND
ECONOMIC DEVELOPMENT GENERATING EXCELLENCE**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Derivatives and Other Financial Instruments

Derivative instruments are financial contracts whose values depend on the values of one or more underlying assets, reference rates, or financial indexes. They include futures contracts, swap contracts, options contracts, and forward foreign currency exchange. The Fund's investment policy establishes derivative guidelines which identify and allow common derivative investments and strategies which are consistent with applicable law and the Investment Policy Statement. These guidelines require investment managers to request the inclusion of additional derivative instruments and strategies. The guidelines require investment managers to follow certain controls, documentation, and risk management procedures. As of June 30, 2011, there were no direct derivative contracts.

The Fund invests in mortgage-backed securities, which are reported at fair value in the statements of net assets and the balance sheets, and are based on the cash flows from interest and principal payments by the underlying mortgages. As a result, they are sensitive to prepayments by mortgagees, which are likely in declining interest rate environments, thereby reducing the values of these securities. The Fund invests in mortgage-backed securities to diversify the portfolio and increase the return while minimizing the extent of risk. Details regarding interest rate risks for these investments are included under the interest rate risk disclosures.

Securities Lending

The investment policy authorizes the Board of Investors to contract with their custodian to act as their securities lending agent. Policy requires the securities lending agent to provide indemnification against borrower default, have written agreements with each borrower, not loan securities until acceptable collateral is received and monitor that collateral on a daily basis, and review and monitor the approved borrowers in order to minimize risk.

See Independent Auditors' Report.

**EDGE FUND
ECONOMIC DEVELOPMENT GENERATING EXCELLENCE**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Securities Lending, Continued

The fair values of securities loaned and cash collateral maintained for those securities at June 30 were as follows:

	<u>2011</u>	<u>2010</u>
Securities loaned:		
U.S. Treasury notes and bonds	\$ 5,905,807	1,009,340
U.S. corporate bonds	309,933	-
Domestic equity	<u>1,765,526</u>	<u>950,396</u>
	<u>\$ 7,981,266</u>	<u>1,959,736</u>
Cash collateral maintained for securities loaned	<u>\$ 8,157,471</u>	<u>2,008,000</u>
Percentage of cash collateral maintained to securities loaned	<u>102%</u>	<u>102%</u>

Borrowers were required to deliver and maintain collateral for each loan with a fair value equal to 102% of the current fair value of the loaned securities. Collateral delivered in non-U.S. currency is required to be equal to 105% of the fair value of the securities loaned; however, at June 30, 2011 and 2010, all collateral was presented as cash in U.S. currency. The total value of the collateral held at June 30, 2011 and 2010, exceeded the current fair value of the securities loaned by \$176,205 and \$48,264, respectively; thus, no credit risk existed at the balance sheet date from these transactions. Collateral was unmatched to the securities loaned with a 1-day maturity. Collateral cannot be used by the Fund except in the event of default.

Capital Assets

Office equipment and furnishings which have an expected useful life of more than 1 year are recorded as capital assets. Capital assets are recorded at cost when purchased. Depreciation is recorded on capital assets in the government-wide financial statements. Depreciation is calculated on a straight-line basis over a 4-year period.

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

See Independent Auditors' Report.

**EDGE FUND
ECONOMIC DEVELOPMENT GENERATING EXCELLENCE**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Compensated Absences

The fund financial statements record expenditures when employees are paid for leave. The government-wide financial statements present the cost of accumulated vacation leave as a liability. The liability is valued based on the current rate of pay. The Fund had no employees at June 30, 2011 or 2010; therefore, no liability for compensated absences was required.

Annual Budget-to-Actual Comparison

The Fund is not required to prepare an annual budget. Therefore, an annual budget-to-actual comparison as required by GASB 34 is not presented.

Advertising Costs

All costs associated with advertising are expensed as incurred.

Recent Accounting Pronouncements

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements* (GASB 62). The objective of GASB 62 is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements.

- (a) Financial Accounting Standards Board (FASB) Statements and Interpretations.
- (b) Accounting Principles Board Opinions.
- (c) Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedures.

See Independent Auditors' Report.

**EDGE FUND
ECONOMIC DEVELOPMENT GENERATING EXCELLENCE**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Recent Accounting Pronouncements, Continued

The requirements in GASB 62 will improve financial reporting by contributing to GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. GASB 62 is effective for financial statements for periods beginning after December 15, 2011, with earlier application encouraged. The provisions of GASB 62 are required to be applied retroactively for all periods presented.

(2) IMPLEMENTATION OF GASB STATEMENT NO. 54

Effective July 1, 2010, the Fund implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54), which provides guidance to governments to:

- Improve the consistency in reporting fund balance components;
- Enhance fund balance presentation;
- Improve the usefulness of fund balance information; and
- Clarify the definitions of governmental fund types.

Implementation of GASB 54 resulted in renaming certain 2010 fund balances to conform to the 2011 presentation. The overall effect of implementing GASB 54 upon the Fund's financial reporting was not material to the financial statements of the Fund.

(3) CASH AND INVESTMENTS

At June 30, cash and cash equivalents were composed of the following:

	<u>2011</u>	<u>2010</u>
Securities lending collateral—restricted cash	\$ 8,157,471	2,008,000
OK INVEST	261	222
Money market mutual fund	<u>2,978,908</u>	<u>5,638,386</u>
	<u>\$ 11,136,640</u>	<u>7,646,608</u>

See Independent Auditors' Report.

**EDGE FUND
ECONOMIC DEVELOPMENT GENERATING EXCELLENCE**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) CASH AND INVESTMENTS, CONTINUED

Restricted Cash

Cash collateral from securities lending activity is identified as restricted cash, as it cannot be used by the Fund unless there is default in the return of the securities loaned.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of the failure of a counterparty, the Fund 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, are not registered in the name of the Fund, and are held by a counterparty or the counterparty's trust department but not in the name of the Fund. The investment policy requires that all deposits be invested in a fully collateralized interest-bearing account. Policy also provides that investment collateral be held by a third-party custodian with whom the Fund has a current custodial agreement in the Fund's name.

The cash investment in OK INVEST is controlled by the State and, as the balances change on a daily basis, they are considered cash equivalents. The balances are overnight funds consisting of U.S. agencies, U.S. Treasury notes, tri-party repurchase agreements, certificates of deposit, money market mutual funds, and other investments as allowed by Oklahoma statutes and the State Treasurer's investment policy.

The cash investment in the money market mutual funds represents monies invested with registered investment companies. As the balances change on a daily basis, they are considered cash equivalents.

See Independent Auditors' Report.

**EDGE FUND
ECONOMIC DEVELOPMENT GENERATING EXCELLENCE**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) CASH AND INVESTMENTS, CONTINUED

Credit Risk

Fixed-income securities are subject to credit risk. A bond's credit quality rating is one method of assessing the ability of the issuer to meet its obligation. Exposure to credit risk as of June 30 was as follows:

	2011		2010	
	Fair Value	Moody	Fair Value	Moody
	<i>(000's omitted)</i>	Rating	<i>(000's omitted)</i>	Rating
U.S. government securities:				
U.S. Treasury notes	\$ 19,554	(1)	15,002	(1)
U.S. Treasury bonds	2,933	(1)	-	
Federal Home Loan Bank	549	(1)	2,054	(1)
Federal Home Loan Mortgage Corporation	2,596	AAA	3,419	AAA
Federal National Mortgage Association	6,045	AAA	3,294	AAA
Other	1,253	A	1,045	A
Other	362	AAA	-	AAA
	33,292		24,814	
Corporate bonds:				
Domestic bonds	8,014	A	10,070	A
Domestic bonds	2,663	AA	4,984	AA
Domestic bonds	2,540	AAA	2,977	AAA
Domestic bonds	56	B	1,083	B
Domestic bonds	3,118	BAA	1,298	BAA
Domestic bonds	320	BB	792	BB
Domestic bonds	2,656	CAA	3,158	CAA
Domestic bonds	551	CC	-	CC
Domestic bonds	167	CCC	71	CCC
Foreign bonds	1,018	NR	299	NR
Other	4,225	NR	3,744	NR
	25,328		28,476	
Total fair value of investments subject to credit risk	\$ 58,620		53,290	

(1) Backed by full faith and credit of the U.S. government.
NR--Not rated.

See Independent Auditors' Report.

**EDGE FUND
ECONOMIC DEVELOPMENT GENERATING EXCELLENCE**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) CASH AND INVESTMENTS, CONTINUED

Concentration of Credit Risk

The Fund limits its exposure to concentrations of credit risk through its investment policy and asset allocation policy. Within asset classes, individual securities are limited to not more than 6% of the investment manager's portfolio; however, securities of one issuer could be represented in more than one asset class. No investments in any one organization, excluding those guaranteed by the U.S. government, represent 5% or more of the Fund's net assets at June 30, 2011 or 2010.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Mortgage-backed securities are highly sensitive to interest rate changes. The investment policy manages interest rate risk by limiting the effective duration of an actively managed fixed-income portfolio. As shown below as of June 30, effective duration was not to exceed 7 years, excluding U.S. government guaranteed securities:

	2011		2010	
	Fair Value	Effective Duration	Fair Value	Effective Duration
	<i>(000's omitted)</i>	<i>Years</i>	<i>(000's omitted)</i>	<i>Years</i>
U.S. government securities (government guaranteed):				
U.S. Treasury notes	\$ 19,554	5.61	15,002	5.75
U.S. Treasury bonds	2,933	17.63	-	N/A
Federal Home Loan Bank	549	0.53	2,054	0.97
Other	1,615	6.88	1,045	8.51
Mortgage-backed securities:				
Federal Home Loan Mortgage	2,596	- ⁽¹⁾	3,419	- ⁽¹⁾
Federal National Mortgage Association	6,045	2.36	3,294	0.71
Corporate bonds:				
Domestic bonds	24,310	3.75	28,177	5.27
Foreign bonds	1,018	2.38	299	3.48
Total fixed income securities	\$ 58,620		53,290	

⁽¹⁾No effective duration is shown due to the nature of mortgage-backed securities having no effective maturities.

See Independent Auditors' Report.

EDGE FUND
ECONOMIC DEVELOPMENT GENERATING EXCELLENCE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) CASH AND INVESTMENTS, CONTINUED

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The investment policy limits foreign equity investments to a maximum of 23% of total net assets. Foreign securities of the Fund at June 30, 2011 and 2010, were held in a commingled fund, the Artio International Equity Fund, LLC. The commingled fund invests in international equity securities. The commingled fund's allocation of investment by country is as follows:

<u>Country</u>	<u>Percent of Investment</u>	
	<u>2011</u>	<u>2010</u>
Australia	2.41%	1.17%
Austria	1.22%	1.44%
Belgium	0.00%	0.27%
Brazil	1.39%	1.82%
Canada	6.78%	7.21%
China	10.11%	3.55%
Czech Republic	0.72%	1.14%
Denmark	2.37%	0.81%
Finland	0.89%	1.08%
France	7.01%	5.53%
Germany	7.21%	6.55%
Greece	0.48%	0.33%
Hong Kong	4.05%	0.11%
Hungary	0.00%	0.62%
India	5.76%	3.16%
Indonesia	0.00%	0.17%
Ireland	1.67%	0.15%
Israel	0.33%	0.50%
Italy	1.65%	0.83%
Japan	8.43%	9.70%
Korea	0.79%	1.52%

(Continued)

See Independent Auditors' Report.

**EDGE FUND
ECONOMIC DEVELOPMENT GENERATING EXCELLENCE**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) CASH AND INVESTMENTS, CONTINUED

Foreign Currency Risk, Continued

<u>Country</u>	<u>Percent of Investment</u>	
	<u>2011</u>	<u>2010</u>
Luxembourg	0.43%	0.25%
Mexico	0.46%	1.47%
Netherlands	1.56%	4.91%
Norway	0.27%	1.14%
Peru	0.01%	0.11%
Poland	0.00%	1.54%
Portugal	0.19%	0.21%
Russia	7.19%	5.52%
South Africa	0.56%	2.35%
Spain	0.00%	0.19%
Sweden	1.76%	1.05%
Switzerland	3.69%	6.97%
Taiwan	2.28%	2.81%
Thailand	0.00%	0.10%
Ukraine	0.00%	0.10%
United Kingdom	15.35%	13.67%
United States	<u>0.04%</u>	<u>3.67%</u>
Investment by country	97.06%	93.72%
Cash	<u>2.94%</u>	<u>6.28%</u>
	<u>100.00%</u>	<u>100.00%</u>

During 2011, an additional allocation of approximately \$1,018,000 was held in foreign corporate bonds in the fixed-income account. The country of origin for this security is the United Kingdom.

See Independent Auditors' Report.

**EDGE FUND
ECONOMIC DEVELOPMENT GENERATING EXCELLENCE**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) CASH AND INVESTMENTS, CONTINUED

Opportunistic Bond Portfolio

The Opportunistic Bond Portfolio is comprised of three mutual funds, which invest primarily in high yield lower credit rated bonds. General information on the three mutual funds as of June 30 is as follows:

- a) Artio Global High Income Fund—Invests primarily in the United States of America and Canada, in corporate bonds and loans. The credit ratings of the securities invested in were approximately 54% B and 17% BB. The duration for the securities are generally from 1 to 10 years, with 33% being less than 1 year and 38% being 3–5 years.
- b) Loomis Sayles Institutional High Income Fund—Invests principally in the United States of America and Canada in high yield credit and convertible debt. The credit ratings of the securities invested in by the fund were approximately 76% B or higher. The range of duration of the securities was 4% being less than a year, 26% being 10 or more years, and 24% being 5–7 years.
- c) Principal High Yield Institutional Fund—Invests primarily in the United States of America (74% at June 30, 2011) and in high yield corporate bonds. Approximately 74% of the investments of the fund at June 30, 2011, were rated B or higher with approximately 1% below B and 7% not rated. The average duration for the investments was approximately 4 years.

(4) CAPITAL ASSETS

The following is a summary of changes in capital assets:

	<u>Balance at</u> <u>June 30, 2010</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at</u> <u>June 30, 2011</u>
Depreciable capital assets:				
Office equipment and furnishings	\$ 3,686	-	-	3,686
Accumulated depreciation:				
Office equipment and furnishings	<u>(1,207)</u>	<u>(922)</u>	<u>-</u>	<u>(2,129)</u>
Net capital assets	<u>\$ 2,479</u>	<u>(922)</u>	<u>-</u>	<u>1,557</u>

See Independent Auditors' Report.

**EDGE FUND
ECONOMIC DEVELOPMENT GENERATING EXCELLENCE**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(4) CAPITAL ASSETS, CONTINUED

	<u>Balance at June 30, 2009</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at June 30, 2010</u>
Depreciable capital assets:				
Office equipment and furnishings	\$ 2,986	700	-	3,686
Accumulated depreciation:				
Office equipment and furnishings	<u>(373)</u>	<u>(834)</u>	<u>-</u>	<u>(1,207)</u>
Net capital assets	<u>\$ 2,613</u>	<u>(134)</u>	<u>-</u>	<u>2,479</u>

(5) FUND BALANCES

Fund balance refers to the difference between assets and liabilities in the balance sheets—general fund. Fund balance, as defined in GASB 54, as applicable to the Fund, consists of the following two categories:

- **Committed Fund Balance:** The committed fund balance classification includes amounts that have a constraint on use imposed by the highest level of decision-making authority. The constraint can only be removed by taking the same action that created the constraint.

The committed fund balances are amounts that are considered to be held for investment purposes by the Board of Investors. The amounts committed for investment purposes are primarily composed of state appropriations, the net appreciation/depreciation in the fair value of invested funds, and net investment earnings, less earnings certified by the Board of Investors.

- **Unassigned Fund Balance:** The unassigned fund balance essentially consists of excess funds that have not been classified in the above fund balance category.

The unassigned fund balance consists of annual earnings that have been certified by the Board of Investors as available for expenditures of approved programs and operations, less program and operational expenses.

See Independent Auditors' Report.

**EDGE FUND
ECONOMIC DEVELOPMENT GENERATING EXCELLENCE**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(5) FUND BALANCES, CONTINUED

The EDGE Fund Policy Board manages program and operating expenses that are expended from the unassigned fund balance. A reconciliation of the committed and unassigned components of the fund balances is as follows:

	2011		
	<u>Committed</u>	<u>Unassigned</u>	<u>Total</u>
Balance, June 30, 2010	\$ 129,422,486	15,883,028	145,305,514
Net appreciation in fair value of investments	23,933,727	-	23,933,727
Interest and dividend income	5,497,572	-	5,497,572
Securities lending income	10,347	-	10,347
Investment expenses	(646,040)	-	(646,040)
Earnings certification for fiscal year 2012	(7,214,104)	7,214,104	-
Program and operating expenses	<u>-</u>	<u>(6,580,306)</u>	<u>(6,580,306)</u>
Balance, June 30, 2011	<u>\$ 151,003,988</u>	<u>16,516,826</u>	<u>167,520,814</u>
	2010		
	<u>Committed</u>	<u>Unassigned</u>	<u>Total</u>
Balance, June 30, 2009	\$ 116,017,682	15,773,381	131,791,063
Net appreciation in fair value of investments	14,634,548	-	14,634,548
Interest and dividend income	5,497,257	-	5,497,257
Securities lending income	20,370	-	20,370
Investment expenses	(595,934)	-	(595,934)
Earnings certification for fiscal year 2011	(6,151,437)	6,151,437	-
Program and operating expenses	<u>-</u>	<u>(6,041,790)</u>	<u>(6,041,790)</u>
Balance, June 30, 2010	<u>\$ 129,422,486</u>	<u>15,883,028</u>	<u>145,305,514</u>

See Independent Auditors' Report.

EDGE FUND
ECONOMIC DEVELOPMENT GENERATING EXCELLENCE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(6) OPERATING EXPENSES

State statutes provide for the payment of authorized administrative expenses of the Office of the State Treasurer. State statutes specify that the State Treasurer shall provide any necessary staff support to the Board of Investors and may request funding for the cost of up to two full-time equivalent employees, provided that such cost shall be determined by the EDGE Fund Policy Board.

(7) COMMITMENTS AND CONTINGENCIES

Contracts

The Fund has entered into various contracts to assist in its program operations. The contracts are generally for a commitment of 2 years with options to renew. The following is a summary of all current contracts as of June 30, 2011:

<u>Number of Current Contracts</u>	<u>Total Amount Funded</u>	<u>Unfunded Commitment at June 30, 2011</u>
<u>15</u>	<u>\$ 15,879,926</u>	<u>9,933,378</u>

(8) SUBSEQUENT EVENTS

Market Fluctuations

Subsequent to June 30, 2011, the United States financial market has had considerable downward fluctuation. The long-term ratings of U.S. government and federal agencies were lowered from AAA to AA+ by Standard & Poor's rating agency. As the investments of the Fund are at market value, these values have varied considerably and may continue to vary.

See Independent Auditors' Report.

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

Policy Board and
Board of Investors
EDGE Fund

We have audited the financial statements of the governmental activities and each major fund of the EDGE Fund [Economic Development Generating Excellence] (the "Fund") as of and for the year ended June 30, 2011, and have issued our report thereon dated October 19, 2011. The Fund is a part of the reporting entity of the State of Oklahoma. Our report includes an explanatory paragraph to emphasize the fact that the financial statements included only that portion of the State of Oklahoma that was attributable to the transactions of the Fund and an explanatory paragraph disclaiming an opinion on required supplementary information. Our report also includes an explanatory paragraph noting the Fund's adoption of GASB 54. We conducted our audit in accordance with auditing standards generally accepted in the United States 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 Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund'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 a 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.

(Continued)

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund'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 Fund, the Oklahoma State Treasurer's Office, and the State of Oklahoma Office of the Auditor and Inspector and is not intended to be and should not be used by anyone other than these specified parties.

Finley + Cook, PLLC

Shawnee, Oklahoma
October 19, 2011