



**STATE OF OKLAHOMA**  
**OFFICE OF THE STATE AUDITOR & INSPECTOR**

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**OFFICE OF THE STATE TREASURER**

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

*FOR THE FISCAL YEAR ENDED JUNE 30, 2005*



**JEFF A. McMAHAN, CFE**  
**OKLAHOMA STATE AUDITOR & INSPECTOR**

Office of the State Treasurer  
Financial Statements and Independent Auditor's Reports  
For the Fiscal Year Ended June 30, 2005

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This publication is printed and issued by the State Auditor and Inspector, as required by 74 O.S. § 212. Pursuant to 74 O.S. §3105, 50 copies have been prepared and distributed at a cost of \$156.17. Copies have been deposited with the Publications Clearinghouse of the Oklahoma Department of Libraries.



STATE OF OKLAHOMA  
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN  
State Auditor and Inspector

September 8, 2006

**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, 2005. 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,

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, 2005**

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Office of the State Treasurer  
Management's Discussion and Analysis (MD&A)  
June 30, 2005

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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, 2005. The intent of the MD&A is to look at the Treasurer's Office financial performance as a whole. It should, therefore, be read in conjunction with the Treasurer's financial statements and the notes thereto.

**FINANCIAL HIGHLIGHTS**

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

The Statement of Net Assets provides an indication of the Treasurer's financial condition at the end of the 2005 fiscal year; the statement reports all assets and liabilities using the accrual basis of accounting. The Statement of Changes in Net Assets reports all of the revenues and expenses during the time periods indicated.

As of June 30, 2005, the Office of the State Treasurer's current assets increased, while capital assets declined. The 89% increase in current assets is a direct result of increased revenue experienced in the Unclaimed Property Program and the receipt of \$500,000 for a long-term project initiated in FY 2005.

OFFICE OF THE STATE TREASURER  
NET ASSETS

	2005		2004
Current Assets	\$ 2,636,182	\$	1,393,258
Due from other agencies	565,872		158,797
Capital assets	261,261		352,554
<b>Total Assets</b>	<b>3,463,315</b>		<b>1,904,609</b>
Noncurrent Liabilities	74,978		60,834
Other Liabilities	857,516		539,408
<b>Total Liabilities</b>	<b>932,494</b>		<b>600,242</b>
Invested in capital assets	261,261		352,554
Unrestricted	2,269,560		951,813
<b>Total Net Assets</b>	<b>\$ 2,530,821</b>	\$	<b>1,304,367</b>

Property located and recovered on behalf of the state from the demutualization of life insurance companies resulted in a large influx of cash for the Unclaimed Property Program. Other

liabilities and due from other agencies also increased by amounts accrued to compensate firms contracting with the Treasurer's office for property recovery. These expenses are reimbursed to the Treasurer's office from the property recovered and remitted to the state.

Capital assets declined from the FY 2004 level by almost 26% due to depreciation continuing to exceed new acquisitions; more expensive, out-dated technology is being replaced with less costly, yet more efficient equipment.

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 balance or receive reimbursement payments as they leave service.

The 26% decline in unrestricted assets is a direct result of the continued depreciation of capital assets and a decline in the purchase of new equipment. Nets assets, calculated as assets less liabilities, increased by over 94% from FY 2004 to FY 2005. This increase of \$1,226,454 is primarily due to growth of the Unclaimed Property Program revenues and the receipt of \$500,000 for a long-term project initiated in FY 2005.

#### **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.

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 deposited to the General Fund as investment income.

During the fiscal year ended June 30, 2005, the Unclaimed Property Program continued generating an ever larger portion of the revenue necessary to support operations. Four percent of property accruing 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. Program revenues increased \$3.16 million in FY 2005. Cash and stock with a combined value of approximately \$16.45 million was reported and remitted to the state associated with the demutualization of life insurance companies. This property was reported by third party firms contracting with the Treasurer's office to locate, recover and remit unclaimed property to the state for a fee. The increase in revenue also resulted in a direct increase in personnel services expenses to pay the firms who recovered the additional property.

On-line claims filing, introduced in November 2002, contributes to the reduction of data-entry functions associated with claims processing. Claims initiated and paid to return property to its rightful owner continue to trend upward while the Treasurer's office institutes these efficiency measures designed to impact Unclaimed Property Program effectiveness. Banking service charges declined in FY2005 as lockbox charges, previously paid through this office, were

transitioned to the non-appropriated agencies requiring these services. The cost of these services is no longer supported by General Revenue appropriations.

General Revenues increased in FY2005 primarily as a result of a one-time \$500,000 appropriation for professional services related to a cost containment project initiated by the state. The study resulted in a projected savings to the state of over \$11 million.

The 94% increase in net assets from FY 2004 is largely related to the revenue generated by the Unclaimed Property Program and the receipt of \$500,000 for the long-term project noted above.



OFFICE OF THE STATE TREASURER  
CHANGES IN NET ASSETS

	2005	2004
<b>Program Revenues</b>		
Unclaimed Property	\$ 5,194,521	\$ 2,034,012
Service Charges	51,001	66,811
Administrative Charges	65,000	-
Securities Lending	425,000	425,000
Other Income	2,059	2,892
Total Program Revenues	5,737,581	2,528,715
<b>Expenses</b>		
Personnel Services	7,712,607	4,797,729
Travel	22,055	19,820
Administrative Expenses	184,549	143,125
Contracted Services	335,755	299,534
Payments to Other Agencies	91,164	164,253
Equipment	25,026	33,418
Other	18,443	39,573
Bank Service Charges	807,702	970,714
Payments to Counties	100,000	97,500
Depreciation	140,418	156,393
Total Expenses	9,437,719	6,722,059
Net Expenses	(3,700,138)	(4,193,344)
General Revenues	4,926,592	4,377,639
Transfers	-	-
Total General Revenues	4,926,592	4,377,639
Special Item -Warrant Imaging	-	-
Increase (Decrease) in Net Assets	1,226,454	184,295
Net Assets Beginning Balance	1,304,367	1,120,072
Net Assets Ending Balance	\$ 2,530,821	\$ 1,304,367

**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 2005 initial budget was increased mid-year to fund the personnel services expenses associated with unclaimed property recovered for the state, including property from the demutualization of life insurance companies as noted above. A one-time appropriation

was also budgeted mid-year for the previously mentioned cost-containment project. These two increases accounted for the \$3,500,000 increase.

The final budget level exceeded actual expenses for the fiscal year by 14%. 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 since they are largely driven by the services of third parties who locate and recover property for the state. Additionally, a \$500,000 appropriation was budgeted for the capital project; but the funds were not expended until fiscal year 2006.

## **USING THIS ANNUAL REPORT**

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

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

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

### **Fund statements:**

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

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

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

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, 2005, 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 an opinion 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, 2005, 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, 2005, 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 July 11, 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.



JEFF A. McMAHAN  
State Auditor and Inspector

July 11, 2006

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BASIC FINANCIAL STATEMENTS

**OFFICE OF THE STATE TREASURER**  
**STATEMENT OF NET ASSETS**  
**June 30, 2005**

<b>ASSETS</b>	
Cash	\$ 2,636,182
Due from other agencies	565,872
Capital assets, net of accumulated depreciation	
Furniture, fixtures, and equipment	<u>261,261</u>
Total Assets	<u>3,463,315</u>
<b>LIABILITIES</b>	
Accounts payable vendors	663,013
Compensated absences:	
Payable within one year	194,503
Payable after one year	<u>74,978</u>
Total Liabilities	<u>932,494</u>
<b>NET ASSETS</b>	
Invested in capital assets	261,261
Unrestricted	<u>2,269,560</u>
Total Net Assets	<u>\$ 2,530,821</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, 2005**

**Expenses**

**Governmental Activities - General Government:**

Personnel Services	\$	7,712,607
Travel		22,055
Administrative Expenses		184,549
Contracted Services		335,755
Equipment		25,026
Payments to Other Agencies		91,164
Other		18,443
Bank Service Charges		807,702
Payments to Counties		100,000
Depreciation		140,418
Total Expenses		<u>9,437,719</u>

**General Revenues**

Appropriations	4,926,592
Unclaimed Property	5,194,521
Service Charges	51,001
Administrative Charges	65,000
Securities Lending	425,000
Other Income	2,059
Total General Revenues	<u>10,664,173</u>

Increase (Decrease) in Net Assets	1,226,454
Net Assets, July 1, 2004	<u>1,304,367</u>
Net Assets, June 30, 2005	\$ <u><u>2,530,821</u></u>

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

**OFFICE OF THE STATE TREASURER  
BALANCE SHEET  
GOVERNMENTAL FUND  
June 30, 2005**

GENERAL FUND

**ASSETS**

Cash	\$	2,636,182
Due from the agency fund		565,872
Total Assets	\$	<u><u>3,202,054</u></u>

**LIABILITIES AND FUND BALANCES**

**Liabilities**

Accounts payable vendors	\$	663,013
Total Liabilities		<u>663,013</u>

**Fund Balance**

Reserved for encumbrances		73,075
Unreserved		2,465,966
Total Fund Balance		<u>2,539,041</u>
Total Liabilities and Fund Balances	\$	<u><u>3,202,054</u></u>

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



**OFFICE OF THE STATE TREASURER  
RECONCILIATION OF THE GOVERNMENTAL FUND  
BALANCE SHEET TO THE STATEMENT OF NET ASSETS  
June 30, 2005**

Total Fund Balance - Governmental Fund	\$	2,539,041
Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund.		261,261
Long term liabilities are not due and payable in the current period and therefore are not reported in the fund.		
Compensated absences		(269,481)
Net assets of governmental activities	\$	2,530,821

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, 2005**

		<u>GENERAL FUND</u>
<b>Revenues</b>		
Unclaimed Property	\$	5,194,521
Service Charges		51,001
Administrative Charges		65,000
Securities Lending		425,000
Other Income		2,059
Total Revenues		<u>5,737,581</u>
<b>Expenditures</b>		
Personnel Services		7,691,129
Travel		22,055
Administrative Expenses		184,549
Contracted Services		335,755
Equipment		80,191
Payments to Other Agencies		91,164
Other		12,403
Bank Service Charges		807,702
Payments to Counties		100,000
Total Expenditures		<u>9,324,948</u>
Revenues Over (Under) Expenditures		(3,587,367)
Other Financing Sources (Uses)		
Appropriations		<u>4,926,592</u>
Net Change In Fund Balance		1,339,225
Fund Balance, July 1, 2004		<u>1,199,816</u>
Fund Balance, June 30, 2005	\$	<u><u>2,539,041</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, 2005**

Net Change in Fund Balance - Governmental Fund	\$	1,339,225
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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 depreciation exceeded capital outlays in the current period.

		(85,253)
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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.

		(21,478)
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This amount represents the carrying value of the capital assets that were transferred for disposal.

		<u>(6,040)</u>
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Change in net assets of governmental activities	\$	<u><u>1,226,454</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, 2005**

		<u>Agency Fund</u>
<b>ASSETS</b>		
Cash		
Cash On Hand	\$	210,532
Cash In Banks		35,427,704
Total Cash		<u>35,638,236</u>
Investments		
Treasurer's Portfolio		3,579,468,228
State Agency Portfolio		
Treasury Funds		153,969,155
Agency Special Accounts		9,376,711
Securities Lending Investments		1,489,317,790
Total Investments		<u>5,232,131,884</u>
Interest Receivable		
Treasurer's Portfolio		10,954,919
State Agency Portfolio		
Treasury Funds		3,023,620
Agency Special Accounts		838,321
Total Interest Receivable		<u>14,816,860</u>
Total Assets	\$	<u><u>5,282,586,980</u></u>
<b>LIABILITIES</b>		
Balance Due Depositors		
State Agency Portfolio		
Treasury Funds	\$	2,620,661,932
Agency Special Accounts		1,171,830,854
Cashier		210,532
Payable Under Securities Lending Agreements		1,489,317,790
Total Due Depositors		<u>5,282,021,108</u>
Due to the General Fund		<u>565,872</u>
Total Liabilities	\$	<u><u>5,282,586,980</u></u>

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

**OFFICE OF THE STATE TREASURER  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (BUDGETARY BASIS)  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2005**

	<u>Budgeted Amounts</u>			<b>Variance with Final Budget</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues</b>				
Unclaimed Property	\$ 2,237,200	\$ 5,237,200	\$ 4,917,392	\$ (319,808)
Service Charges	54,000	54,000	69,102	15,102
Administrative Charges	65,000	65,000	48,750	(16,250)
Securities Lending	425,000	425,000	425,000	-
Other Income			2,059	2,059
Total Revenues	<u>2,781,200</u>	<u>5,781,200</u>	<u>5,462,303</u>	<u>(318,897)</u>
<b>Expenditures</b>				
Personnel Services	5,727,784	9,247,784	7,706,995	1,540,789
Travel	29,320	29,320	22,055	7,265
Administrative Expenses	238,901	268,246	187,125	81,121
Contracted Services	370,814	370,814	332,092	38,722
Equipment	72,550	72,550	130,072	(57,522)
Payments to Other Agencies	-	-	91,164	(91,164)
Other	-	-	5,251	(5,251)
Bank Service Charges	850,000	800,665	780,028	20,637
Payment to Counties	100,000	100,000	100,000	-
Total Expenditures	<u>7,389,369</u>	<u>10,889,379</u>	<u>9,354,782</u>	<u>1,534,597</u>
Excess of revenues over (under) expenditures	(4,608,169)	(5,108,179)	(3,892,479)	1,215,700
<b>Other financing sources (uses)</b>				
Appropriations	<u>4,926,592</u>	<u>4,926,592</u>	<u>4,926,592</u>	<u>-</u>
Net change in fund balance	318,423	(181,587)	1,034,113	1,215,700
Fund balance, July 1, 2004	<u>1,149,453</u>	<u>1,149,453</u>	<u>1,149,453</u>	<u>-</u>
Fund balance, June 30, 2005	\$ <u>1,467,876</u>	\$ <u>967,866</u>	\$ <u>2,183,566</u>	\$ <u>1,215,700</u>

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

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NOTES TO THE FINANCIAL STATEMENTS

**OFFICE OF THE STATE TREASURER  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005**

**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 who resigned May 31, 2005, to become Dean of the Law School at the University of Tulsa.

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

Using the economic resources measurement focus, all assets and liabilities, both current and long-term, associated with the operation of Office activities are presented in the statement of net assets. Under the accrual basis of accounting revenues are recognized as they are earned and expenses are recognized as they are incurred. 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 in governmental and fiduciary funds as described below.

### **Governmental Fund**

General Fund - The General Fund is the primary operating fund of the Office. This fund is used to account for all financial transactions and resources except those required to be accounted for in another fund. The general fund financial statements are presented using the modified accrual basis of accounting and the current financial resources measurement focus. Using the current financial resources measurement focus, only current assets and current liabilities are included on the balance sheet in the general fund financial statements. The modified accrual basis of accounting provides for the recognition of revenues when they become both measurable and available. The Office is entitled to reimbursement for certain costs incurred in connection with administration of the Unclaimed Property Program. These revenues are recognized when the related expenditures are incurred. The Office also receives 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 which has a calculable period of service of more than one year are recorded as capital assets. Capital assets are recorded at cost when purchased or estimated cost as determined by available records maintained by the Office. Donated capital assets are recorded at their fair value on the date of donation. The financial statements reflect an investment in capital assets of \$261,261.

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, 2004.

	<u>Balance</u>			<u>Balance</u>
	<u>June 30, 2004</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2005</u>
Compensated Absences	\$ 248,003	202,220	180,742	\$ 269,481

**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, 2005, is presented as follows:

General Fund Balance, Budgetary Basis	\$ 2,183,566
Basis Differences:	
Add: Net Service Charges	(1,851)
Net Unclaimed Property	277,130
Encumbrances recognized as expenses	73,075
 Difference in July 1, 2004 GAAP basis fund balance, compared to budget basis fund balance	 50,363
 Subtract: Prior years Encumbrances	 <u>43,242</u>
 Total General Fund Balance - GAAP Basis	 \$ <u>2,539,041</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.

## **Investment Policy**

The State Treasurer has a formal investment policy which was updated in June 2005. 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, 2005, 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, 2005, the maturity of these loans was one (1) day. Cash collateral is invested in instruments of the same type the Treasurer is allowed to invest in by statute. At year-end, 71 percent of the cash investments had an average maturity of one (1) day, with the overall average maturity being eight (8) 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 carrying amount (amortized cost) and fair value of the underlying securities was, respectively: \$1,624,041,392 and \$1,611,126,317.

The following schedule compares the cost or amortized cost to the fair value of investments held in the Fiduciary Funds at June 30, 2005:

TYPE OF INVESTMENT	FAIR VALUE	AMORTIZED COST	AVERAGE CREDIT QUALITY RATING (1)	WEIGHTED AVERAGE MATURITY (DAYS) (2)
<b>TREASURER'S PORTFOLIO</b>				
<b><u>POOLED INVESTMENTS</u></b>				
U.S. TREASURY	\$ 1,625,843,699	\$ 1,632,347,671	AAA	397
SECURITIES LENDING COLLATERAL POOL	1,489,317,790	1,489,317,790		
U.S. AGENCIES	114,336,500	114,997,500	AAA	597
REPURCHASE AGREEMENTS (6)	879,156,000	879,156,000	A-1, P-1	1
MONEY MARKET MUTUAL FUND	463,078,048	463,078,048	AAAm	1
	<u>4,571,732,037</u>	<u>4,578,897,009</u>		
<b><u>NON-POOLED INVESTMENTS</u></b>				
U.S. AGENCIES	442,861	457,000	NR	658
CERTIFICATES OF DEPOSIT	388,355,000	388,355,000	N/A	51
CERTIFICATES OF DEPOSIT - AG & BUS LINK (5)	9,775,143	9,775,143	NR	729
STATE BOND ISSUE	98,480,977	98,480,977	(4)	136
	<u>497,053,981</u>	<u>497,068,120</u>		
TOTAL TREASURER'S PORTFOLIO	<u>\$ 5,068,786,018</u>	<u>\$ 5,075,965,129</u>		
<b>STATE AGENCY PORTFOLIO</b>				
<b><u>FUND INVESTMENTS</u></b>				
U.S. TREASURY (3)	\$ 44,260,275	\$ 44,016,078	AAA	97
CERTIFICATES OF DEPOSIT	109,386,022	109,386,022	N/A	142
MUTUAL FUND (3)	322,858	322,947	N/A	N/A
TOTAL FUNDS INVESTMENTS	<u>153,969,155</u>	<u>153,725,047</u>		
<b><u>SPECIAL ACCOUNTS</u></b>				
U.S. TREASURY (3)	217,687	174,346	AAA	3,987
CERTIFICATES OF DEPOSIT	8,000,000	8,000,000	N/A	91
MUTUAL FUNDS (3)	1,159,024	686,747	N/A	N/A
TOTAL SPECIAL ACCOUNTS INVESTMENTS	<u>9,376,711</u>	<u>8,861,093</u>		
TOTAL STATE AGENCY PORTFOLIO	<u>\$ 163,345,866</u>	<u>\$ 162,586,140</u>		

**INVESTMENTS SUMMARY**

U.S. TREASURY		\$ 1,676,538,095
NOT ON SECURITIES LOAN	\$ 59,195,344	
ON SECURITIES LOAN - BONDS BORROWED	162,379,252	
ON SECURITIES LOAN - CASH COLLATERAL	1,448,747,065	
SECURITIES LENDING-FV OF INVESTMENTS		
PURCHASED W/CASH COLLATERAL	1,489,317,790	1,489,317,790
U.S. AGENCIES	114,779,361	115,454,500
REPURCHASE AGREEMENTS	879,156,000	879,156,000
CERTIFICATES OF DEPOSIT	515,516,165	515,516,165
STATE BOND ISSUE	98,480,977	98,480,977
MUTUAL FUND	1,481,882	1,009,694
MONEY MARKET MUTUAL FUND	463,078,048	463,078,048

**TOTAL INVESTMENTS**

**\$ 5,232,131,884    \$ 5,238,551,269**

- (1) Ratings are provided where applicable to indicate associated Credit Risk. N/A indicates not applicable.
- (2) Interest Rate Risk is estimated using weighted average days to maturity.
- (3) These agency directed investments are not covered by the State Treasurer's Investment Policy.
- (4) State Bond issues are comprised of \$50,000,000 Oklahoma Student Loan Authority municipal bond with a credit rating of AAA. The interest rate resets quarterly and is tied to the average bond equivalent rates of the quotes of the 3-month commercial paper rate. Also included is \$40,000,000 Oklahoma Industrial Finance Authority State of Oklahoma Taxable General Obligation Refunding Bonds. These rates, adjusted quarterly, are tied to the 3 month LIBOR rate and are private placement. 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 and Business Link Certificate of Deposits are outside the scope of the State Treasurer's Investment Policy. These investments are established by Title 2 O.S. § 5-81 and Title 62 O.S. § 88.1. These certificates of deposit are collateralized with the collateral held in the State Treasurer's name at an approved safekeeping bank or with surety bonds or letters of credit.
- (6) Credit ratings are provided for the counterparties to the repurchase agreement.



**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 included as Due from Other Agencies /Due from the Agency Fund, net of an allowance for doubtful accounts of \$9,557.

**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, 2005.

	<u>Balance</u> <u>June 30, 2004</u>	<u>Capital</u> <u>Acquisitions</u>	<u>Sales</u> <u>or Other</u> <u>Dispositions</u>	<u>Balance</u> <u>June 30, 2005</u>
Furniture, fixtures, and office equipment	\$ 1,410,966	55,165	216,031	\$ 1,250,100
Less accumulated depreciation	1,058,412	140,418	209,991	988,839
Total	\$ <u>352,554</u>			\$ <u>261,261</u>

**7. Bank Service Fees**

During the year, the Office incurred fees for services rendered by various financial institutions. Service charges of \$807,702 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, 2005, are listed below: Elected officials must select an employee contribution rate of 4.5%, 6.0%, 7.5%, 8.5%, 9.0% or 10%.

<u>State Employee Contribution</u>		<u>State Agency Contribution</u>
First \$25,000	Above \$25,000	<u>All Salaries</u>
3.0%	3.5%	10.0%

The Office's contributions to the Plan for the years June 30, 2005 - \$269,442; June 30, 2004 - \$263,147; June 30, 2003 - \$267,984; were equal to the established required contributions for each year.

**10. Other Post Employment Benefits**

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



**OFFICE OF THE STATE TREASURER  
SUPPLEMENTAL SCHEDULE  
EXPENDITURES BY OBJECT CODE-(BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED June 30, 2005**

<b>OBJECT CODE</b>	<b>CATEGORY</b>	<b>AMOUNT</b>
1100	Salary Expense	\$ 3,756,662
1200	Insurance	10,437
1300	FICA and Retirement	8,481
1500	Professional Services	3,931,416
2100	Travel-Reimbursement	7,287
2200	Travel-Direct Expense	14,768
3100	Miscellaneous Administrative Expense	51,754
3100	Bank Service Charges	780,028
3200	Rent Expense	136,304
3300	Maintenance and Repair Expense	195,788
3500	Production and Safety	1,484
3600	Office Expense	133,886
4100	Office Furniture and Equipment	221,236
5100	Employee Recognition Awards	901
5300	Refunds, Indemnities, and Restitution	3,876
6100	Employee Reimbursements	474
6200	County Treasurers	100,000
Total		\$ 9,354,782

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



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, 2005, which collectively comprise the Office's basic financial statements, and have issued our report thereon dated July 11, 2006. The 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**

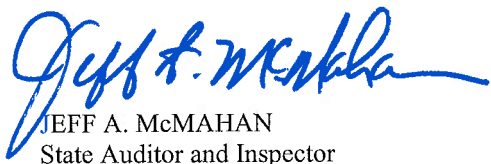
In planning and performing our audit, we considered the Office's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. 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 is not intended to be and should not be used by anyone other than this specified party.

However, the Oklahoma Open Records Act states that all records of public bodies and public officials shall be open to any person, except as specifically exempted. The purpose of this Act is to ensure and facilitate the public's right of access to and review of government records so they may efficiently and intelligently exercise their inherent political power. Therefore, this report is a matter of public record and its distribution is in no way limited or restricted.



JEFF A. McMAHAN  
State Auditor and Inspector

July 11, 2006





## Office of the State Auditor and Inspector

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