



Susan Montee, CPA  
Missouri State Auditor

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April 2007

# Office of the State Treasurer

## Year Ended June 30, 2006



Office Of  
Missouri State Auditor  
Susan Montee, CPA

April 2007

**The following report is our audit of the Office of the State Treasurer.**

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The Office of State Treasurer (STO) is an elective office as provided in the Missouri Constitution. The duties of the State Treasurer are to be the custodian of all state funds; to determine the amount of state monies not needed for current operating expenses; and to invest such monies as allowed by state law. The Office of State Treasurer operates in four major functional areas: 1) accounting and banking services; 2) disbursements and records; 3) investments and deposit programs; and 4) unclaimed property.

We had no findings on the Office of State Treasurer.

**All reports are available on our website: [www.auditor.mo.gov](http://www.auditor.mo.gov)**

YELLOW SHEET

OFFICE OF STATE TREASURER

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OFFICE OF STATE TREASURER

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FINANCIAL SECTION

State Auditor's Reports



**SUSAN MONTEE, CPA**  
**Missouri State Auditor**

INDEPENDENT AUDITOR'S REPORT ON  
THE FINANCIAL STATEMENTS

Honorable Sarah Steelman, State Treasurer  
Jefferson City, MO 65102

We have audited the accompanying financial statements of the Treasurer's General Operations Fund, Treasurer's Information Fund, Central Check Mailing Service Revolving Fund, and Abandoned Fund Account Fund of the Office of State Treasurer as of and for the years ended June 30, 2006 and 2005. 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 the 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 opinion.

As discussed in Note 1.A., the financial statements of the Office of State Treasurer are intended to present the financial position and the changes in financial position and, where applicable, cash flows of only that portion of governmental activities, the business-type activities, and each major fund of the State of Missouri that is attributable to the transactions of the Office of the State Treasurer. They do not purport to, and do not, present fairly the financial position of the State of Missouri as of June 30, 2006 and 2005, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. However, the State of Missouri issued a Comprehensive Annual Financial Report for the State of Missouri for the fiscal years ended June 30, 2006 and 2005, and those reports were prepared in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Treasurer's General Operations Fund, Treasurer's Information Fund, Central Check Mailing Service Revolving Fund, and Abandoned Fund Account Fund of the Office of State Treasurer, as of June 30, 2006 and 2005, and the changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we also have issued our report dated January 11, 2007, on our consideration of the office's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 and the budgetary comparison information as listed in the table of contents, are not a required part of the financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements, taken as a whole, that are referred to in the first paragraph. The supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements, taken as a whole.

The accompanying History, Organization, and Statistical Information is presented for informational purposes. This information was obtained from the office's management and was not subjected to the auditing procedures applied in the audit of the financial statements referred to above. Accordingly, we express no opinion on the information.



Susan Montee, CPA  
State Auditor

January 11, 2007

The following auditors participated in the preparation of this report:

Director of Audits:	Kenneth W. Kuster, CPA
Audit Manager:	Jeannette Eaves, CPA
In-Charge Auditor:	Christina Davis
Audit Staff:	Heather Stiles
	Carrie Rasmussen



**SUSAN MONTEE, CPA**  
**Missouri State Auditor**

INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS

Honorable Sarah Steelman, State Treasurer  
Jefferson City, MO 65102

We have audited the financial statements of the Office of State Treasurer as of and for the years ended June 30, 2006 and 2005, and have issued our report thereon dated January 11, 2007. 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 of the financial statements of the Office of State Treasurer, we considered the office's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide 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 financial statements of the Office of State Treasurer are free of material misstatement, we performed tests of the office's 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 for the information and use of the management of the Office of State Treasurer and other applicable government officials. However, pursuant to Section 29.270, RSMo, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink that reads "Susan Montee". The signature is written in a cursive, flowing style.

Susan Montee, CPA  
State Auditor

January 11, 2007

## Management's Discussion and Analysis

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a discussion and analysis of the Office of the Missouri State Treasurer's (the Treasurer's Office) financial activities for the fiscal year ended June 30, 2006.

### HIGHLIGHTS

- The assets of the Treasurer's Office exceeded its liabilities by \$1,007,800. The entire amount may be used to meet the office's ongoing obligations.
- The office's total net assets increased by \$663,395. This increase is primarily attributable to the creation of the Treasurer's General Operations Fund in Senate Bill 270 and the receipts deposited to the fund to offset the costs of administering Chapter 30 of the Missouri Revised Statutes.
- As of the close of the current fiscal year, the Treasurer's Office governmental funds reported combined ending fund balances of \$927,880, an increase of \$691,249 in comparison with the prior year. The total amount is available for spending as of July 1, 2006, at the discretion of the Treasurer's Office within the purposes and limits of the office's appropriation authority.

### OVERVIEW OF THE FINANCIAL STATEMENTS

The Treasurer's Office basic financial statements comprise two components: 1) fund financial statements, and 2) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

#### **Fund Financial Statements:**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Treasurer's Office, like the State of Missouri, uses fund accounting to ensure and demonstrate compliance with statutory requirements. All of the funds of the Treasurer's Office can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

*Governmental funds.* Governmental funds are used to account for most of the basic services provided by the Treasurer's Office. Unlike the government-wide financial statements prepared by the State of Missouri, governmental fund financial statements focus on short-term inflows and outflows of current financial resources and utilize the modified accrual basis of accounting. This presentation focuses on when cash will be received and disbursed making the statements useful in evaluating a government's financing requirements in the near future.

The Treasurer's Office maintains two individual governmental funds, specifically special revenue funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the Treasurer's Information Fund and the Treasurer's General Operations Fund.

*Proprietary Funds.* Proprietary Funds are used to account for activities similar to private businesses in which goods and services are sold for specified fees and utilize the full accrual

basis of accounting. The Treasurer’s Office maintains one proprietary fund, the Central Check Mailing Service Revolving Fund. This fund is an internal service fund, used as an accounting device to accumulate and allocate costs for centralized check mailing services provided by the Treasurer’s Office to other state agencies.

*Fiduciary Funds.* Fiduciary funds are used to account for resources held for the benefit of parties outside the state government and also utilize the full accrual basis of accounting. The Treasurer’s Office maintains one fiduciary fund, the Abandoned Fund Account Fund, to account for unclaimed property turned over to the state in accordance with state statute.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information (RSI) including a budgetary comparison schedule for the Treasurer's General Operations Fund and the Treasurer’s Information Fund.

**FUND STATEMENT ANALYSIS**

**Governmental Funds:**

At the end of fiscal year 2006, the Treasurer’s Office governmental funds reported combined ending fund balances of \$927,880, an increase of \$691,249 over fiscal year 2005. This entire amount is available for spending at the discretion of the Treasurer’s Office within the purposes and limits of the office’s appropriation authority.

Fund balances for the governmental funds are as follows:

	Treasurer’s General Operations Fund	Treasurer’s Information Fund	Total
Unreserved	\$917,920	\$9,960	\$927,880

The Treasurer’s General Operations Fund was the primary operating fund for the Treasurer’s Office in fiscal year 2006. At the end of fiscal year 2006, the Treasurer’s General Operations Fund reported a total fund balance of \$917,920. The net increase in fund balance during fiscal year 2006 was \$702,418. Revenues of the Treasurer’s General Operations Fund totaled \$2,789,214, and expenditures of the Treasurer’s General Operations Fund totaled \$2,086,341. Contributing factors follow:

- Senate Bill 270 created the Treasurer’s General Operations Fund in Section 30.605 RSMo, and primary funding for the office’s cost of administering Chapter 30 of the Missouri Revised Statutes was moved from the State General Revenue Fund and the Treasurer’s Information Fund to the Treasurer’s General Operations Fund in the state’s fiscal year 2006 appropriations budget.

- Pursuant to Senate Bill 270, the Treasurer's Office began depositing a portion of the state's interest earnings to the Treasurer's General Operations Fund to offset the costs of administering Chapter 30 of the Missouri Revised Statutes.

The Treasurer's Information Fund was the secondary operating fund for the Treasurer's Office in fiscal year 2006. At the end of fiscal year 2006, the Treasurer's Information Fund reported a total fund balance of \$9,960. The net decrease in fund balance during fiscal year 2006 was \$11,169. Revenues of the Treasurer's Information Fund totaled \$29,757, and transfers in from other funds resulting from the state's cost allocation plan totaled \$131,516. Expenditures of the Treasurer's Information Fund totaled \$172,442 in fiscal year 2006. Contributing factors follow:

- The Treasurer's Information Fund ceased being a recipient of the state's cost allocation plan after transfers to the fund in fiscal year 2006 provided sufficient funding for the office's remaining appropriations from the fund. This plan is calculated by the Office of Administration and used to allocate the costs of services provided by certain agencies to the funds of the state. Costs are allocated based on how the funds create work for the agencies in the pool. The costs of the State Treasurer's Office were allocated based on receipts into the fund.
- By the end of fiscal year 2006, the Treasurer's Information Fund returned to its original function of receiving funds for the preparation, reproduction, or dissemination of information or publications of the State Treasurer's Office.

### **Proprietary Funds:**

The Treasurer's Office has one proprietary fund, the Central Check Mailing Service Revolving Fund. This fund is an internal service fund, used as an accounting device to accumulate and allocate costs for centralized check mailing services provided by the Treasurer's Office to other state agencies.

The Central Check Mailing Service Revolving Fund's net assets decreased by \$27,854. This is primarily due to an increase in personal service expenditures.

The Treasurer's Office investment in capital assets as of June 30, 2006, was \$3,492 (net of accumulated depreciation). This investment in capital assets represents equipment owned solely by the Central Check Mailing Service Revolving Fund.

### **NEXT YEAR'S BUDGET**

The Treasurer's Office budget for fiscal year 2007 continued the same appropriation levels as the fiscal year 2006 budget with two exceptions. The first was a 4% increase in salaries and related increases to the associated fringe benefits pursuant to the Governor's recommendations in the state budget. The second was a decrease in funding from the supplemental appropriations request in 2006 to fund the expanded linked deposit program.

Events taking place after the fiscal year end include:

- The contract for the state's General Disbursement Services was awarded to UMB Bank for the period March 1, 2007 through February 28, 2009. The contract contains two, one-year renewal options.

Fund Financial Statements

**OFFICE OF STATE TREASURER  
COMPARATIVE BALANCE SHEET  
TREASURER'S GENERAL OPERATIONS  
FUND 0164**

	June 30,	
	2006	2005
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 340,674	86,851
Investments	667,741	214,141
 Total Assets	 \$ 1,008,415	 300,992
<b>LIABILITIES AND FUND BALANCES</b>		
Liabilities:		
Accounts Payable	\$ 11,292	3,252
Accrued Payroll	56,686	58,440
Due to Other Funds	22,517	23,798
 Total Liabilities	 90,495	 85,490
Fund Balances:		
Unreserved	917,920	215,502
 Total Fund Balances	 917,920	 215,502
 Total Liabilities and Fund Balances	 \$ 1,008,415	 300,992

The accompanying Notes to the Fund Financial Statements are an integral part of this statement.

**OFFICE OF STATE TREASURER**  
**COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**TREASURER'S GENERAL OPERATIONS**  
**FUND 0164**

	Year Ended June 30,	
	2006	2005
<b>Revenues:</b>		
Value of Investments	\$ (2,995)	(697)
Interest	2,651,728	301,689
Contributions and intergovernmental	140,417	0
Cost Reimbursement/Miscellaneous	64	0
	<u>2,789,214</u>	<u>300,992</u>
<b>Expenditures:</b>		
Current:		
General Government	2,086,341	85,490
	<u>2,086,341</u>	<u>85,490</u>
Excess Revenues (Expenditures)	702,873	215,502
<b>Other Financing Sources (Uses):</b>		
Transfers Out	(455)	0
Total Other Financing Sources (Uses)	<u>(455)</u>	<u>0</u>
Excess Expenditures and Net Change in Fund Balances	702,418	215,502
Fund Balances - Beginning	<u>215,502</u>	<u>0</u>
Fund Balances - Ending	<u>\$ 917,920</u>	<u>215,502</u>

The accompanying Notes to the Fund Financial Statements are an integral part of this statement.

**OFFICE OF STATE TREASURER  
COMPARATIVE BALANCE SHEET  
TREASURER'S INFORMATION  
FUND 0255**

	June 30,	
	2006	2005
<b>Assets</b>		
Cash and Cash Equivalents	\$ 3,773	6,118
Investments	7,395	15,084
<b>Total Assets</b>	<b>\$ 11,168</b>	<b>21,202</b>
<b>Liabilities And Fund Balances</b>		
Liabilities:		
Accounts Payable	\$ 1,208	10
Accrued Payroll	0	21
Due to Other Funds	0	42
<b>Total Liabilities</b>	<b>1,208</b>	<b>73</b>
Unreserved	9,960	21,129
<b>Total Fund Balances</b>	<b>9,960</b>	<b>21,129</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 11,168</b>	<b>21,202</b>

The accompanying Notes to the Fund Financial Statements are an integral part of this statement.

**OFFICE OF STATE TREASURER**  
**COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS**  
**TREASURER'S INFORMATION**  
**FUND 0255**

	Year Ended June 30,	
	2006	2005
<b>Revenues:</b>		
Sales	\$ 0	311
Investment Earnings:		
Net Increase (Decrease) in the Fair Value of Investments	8	(30)
Contributions and Intergovernmental	28,084	300,000
Cost Reimbursement/Miscellaneous	1,665	1,493
Total Revenues	<u>29,757</u>	<u>301,774</u>
<b>Expenditures:</b>		
Current:		
General Government	172,442	560,043
Total Expenditures	<u>172,442</u>	<u>560,043</u>
Excess Revenues (Expenditures)	<u>(142,685)</u>	<u>(258,269)</u>
<b>Other Financing Sources (Uses):</b>		
Transfers In	132,742	273,046
Transfers Out	(1,226)	(680)
Total Other Financing Sources (Uses)	<u>131,516</u>	<u>272,366</u>
Net Change in Fund Balances	(11,169)	14,097
Fund Balances - Beginning	<u>21,129</u>	<u>7,032</u>
Fund Balances - Ending	<u>\$ 9,960</u>	<u>21,129</u>

The accompanying Notes to the Fund Financial Statements are an integral part of this statement.

**OFFICE OF STATE TREASURER  
COMPARATIVE STATEMENT OF NET ASSETS  
CENTRAL CHECK MAILING SERVICE REVOLVING  
FUND 0515**

	June 30,	
	2006	2005
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 14,777	16,694
Investments	28,965	41,161
Accounts Receivable, Net	1,397	4,946
Due from Other Funds	36,007	39,350
Noncurrent Assets:		
Restricted Assets:		
Equipment	38,054	38,054
Less Accumulated Depreciation	(34,562)	(30,411)
Total Capital Assets (Net of Accumulated Depreciation)	3,492	7,643
Total Assets	84,638	109,794
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable	3,010	6
Accrued Payroll	830	831
Due to Other Funds	496	448
Noncurrent Liabilities:		
Compensated Absences	381	735
Total Liabilities	4,717	2,020
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	3,492	7,643
Unrestricted	76,428	100,131
Total Net Assets	\$ 79,920	107,774

The accompanying Notes to the Fund Financial Statements are an integral part of this statement.

**OFFICE OF STATE TREASURER**  
**COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**CENTRAL CHECK MAILING SERVICE REVOLVING**  
**FUND 0515**

	Year Ended June 30,	
	2006	2005
<b>Operating Revenues</b>		
Charges for Services	\$ 138,200	147,796
Cost Reimbursement/Miscellaneous	0	450
Total Operating Revenues	<u>138,200</u>	<u>148,246</u>
<b>Operating Expenses</b>		
Personal Service	32,368	2,013
Operations	127,002	119,128
Inventories	878	778
Depreciation	4,151	4,598
Total Operating Expenses	<u>164,399</u>	<u>126,517</u>
Operating Income (Loss)	<u>(26,199)</u>	<u>21,729</u>
<b>Non-Operating Revenues (Expenses)</b>		
Investment Earnings:		
Net Increase (Decrease) in the Fair Value of Investments	<u>(26)</u>	<u>(134)</u>
Total Non-Operating Revenues (Expenses)	<u>(26)</u>	<u>(134)</u>
Income (Loss) Before Transfers	<u>(26,225)</u>	<u>21,595</u>
Transfers Out	<u>(1,629)</u>	<u>0</u>
Change in Net Assets	(27,854)	21,595
Total Net Assets - Beginning	<u>107,774</u>	<u>86,179</u>
Total Net Assets - Ending	<u>\$ 79,920</u>	<u>107,774</u>

The accompanying Notes to the Fund Financial Statements are an integral part of this statement.

**OFFICE OF STATE TREASURER  
COMPARATIVE STATEMENT OF CASH FLOWS  
CENTRAL CHECK MAILING SERVICE REVOLVING  
FUND 0515**

	June 30,	
	2006	2005
<b>Cash Flows from Operating Activities</b>		
Receipts from Customers and Users	\$ 141,749	144,632
Payments to Suppliers	(123,998)	(127,247)
Payments to Employees	(33,552)	(447)
Other Receipts (Payments)	0	450
Net Cash Provided (Used) by Operating Activities	<u>(15,801)</u>	<u>17,388</u>
<b>Cash Flows from Noncapital Operating Activities</b>		
Due to/ Due from Other Funds	3,343	176
Transfers to (from) Other Funds	(1,629)	0
Net Cash Provided (Used) by Noncapital Operating Activities	<u>1,714</u>	<u>176</u>
<b>Cash Flows from Investing Activities</b>		
Purchase of Investments	12,170	(12,518)
Net Cash Provided (Used) by Investing Activities	<u>12,170</u>	<u>(12,518)</u>
Net Increase (Decrease) in Cash	(1,917)	5,046
Cash and Cash Equivalents, Beginning of Year	16,694	11,648
Cash and Cash Equivalents, End of Year	<u>14,777</u>	<u>16,694</u>
<b>Reconciliation of Operating Income of Net Cash</b>		
<b>Provided (Used) by Operating Activities</b>		
Operating Income	(26,199)	23,511
Depreciation Expense	4,151	4,598
Changes in Assets and Liabilities:		
Accounts Receivable	3,549	(4,946)
Accounts Payable	3,004	(7,341)
Compensated Absences Payable	(354)	735
Due to Other Funds	48	831
Net Cash Provided (Used) by Operating Activities	<u>\$ (15,801)</u>	<u>17,388</u>

The accompanying Notes to the Fund Financial Statements are an integral part of this statement.

**OFFICE OF STATE TREASURER  
COMPARATIVE STATEMENT OF FIDUCIARY NET ASSETS  
ABANDONED FUND ACCOUNT  
FUND 0863**

	June 30,	
	2006	(Restated) 2005
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 14,595,344	5,706,648
Investments at Fair Value	28,607,690	14,070,397
Inventory	1,591	0
Capital Assets:		
Equipment	18,344	23,895
Less: Accumulated Depreciation	(11,049)	(17,623)
Total Capital Assets, Net	<u>7,295</u>	<u>6,272</u>
 Total Assets	 <u>43,211,920</u>	 <u>19,783,317</u>
<b>LIABILITIES</b>		
Accounts Payable	20,404	23,770
Due to Other Funds	<u>8,040</u>	<u>12,047</u>
 Total Liabilities	 <u>28,444</u>	 <u>35,817</u>
<b>NET ASSETS</b>		
Net Assets Held in Trust for Other Purposes	\$ <u>43,183,476</u>	<u>19,747,500</u>

The accompanying Notes to the Fund Financial Statements are an integral part of this statement.

**OFFICE OF STATE TREASURER  
COMPARATIVE STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
ABANDONED FUND ACCOUNT  
FUND 0863**

	Year Ended June 30,	
	2006	(Restated) 2005
<b>Additions</b>		
Increase/Decrease in Appreciation of Assets	\$ (112,392)	(30,342)
Total Investment Earnings	(112,392)	(30,342)
Unclaimed Property	25,871,100	15,221,923
 Total Additions	 25,758,708	 15,191,581
<b>Deductions</b>		
Administrative Expenses	2,320,078	1,209,432
Depreciation	2,874	2,167
 Total Deductions	 2,322,952	 1,211,599
 Change in Net Assets	 23,435,756	 13,979,982
Net Assets - Beginning	19,747,500	5,767,518
Net Assets - Ending	\$ 43,183,256	19,747,500

The accompanying Notes to the Fund Financial Statements are an integral part of this statement.

Notes to the Fund Financial Statements

OFFICE OF STATE TREASURER  
NOTES TO THE FUND FINANCIAL STATEMENTS

1. Significant Accounting Policies

A. Financial Statements and Reporting Entity

The accompanying fund financial statements of the Office of State Treasurer have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The State Treasurer's Office has elected not to follow the Financial Accounting Standards Board's pronouncements issued after November 30, 1989, for proprietary activities.

The financial statements present the financial position, and the changes in financial position and where applicable, cash flows, of only the transactions of the Office of State Treasurer. They do not present the financial position of the State of Missouri as of June 30, 2006, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with GAAP. However, the State of Missouri issued a comprehensive Annual Financial Report for the State of Missouri for the fiscal year ended June 30, 2006, in conformity with GAAP.

B. Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds.

The governmental fund financial statements are presented using the current financial resources measurement focus and modified accrual basis of accounting. With the current financial resources measurement focus, only current assets and current liabilities are included on the balance sheet. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to pay current period liabilities. Operating statements of governmental funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in fund balance. All major sources of revenue, including taxes, licenses, fees, permits, and governmental contributions are susceptible to accrual when available within 60 days. Expenditures are recognized when the related fund liability is incurred except for compensated absences (accumulated vacation and compensatory time) and sick pay are recorded as expenditures when paid.

The proprietary and private-purpose trust fund financial statements are presented using the economic resources measurement focus and accrual basis of accounting. With the economic resources measurement focus, assets and liabilities associated with the operation of these funds are included on the Statement of Net Assets.

Under the accrual basis of accounting, revenues are recognized in the period earned and expenses are recognized in the period incurred. Proprietary fund-type operating statements present revenues and expenses in total net assets. Operating revenues and expenses in proprietary funds are classified as those activities that make up the primary ongoing operations associated with those funds. Non-operating revenues and expenses in proprietary funds are classified as those activities that are deemed incidental or unusual for those funds.

C. Basis of Presentation

The Office of State Treasurer's financial practices are based upon fund accounting concepts. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and fund balances, and changes therein, that are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

The accompanying financial statements are structured into three categories of funds:

- 1) Governmental Funds include the special revenue funds. These funds account for the revenues and expenditures, capital outlay, and certain debt service of the state. The Treasurer's General Operations Fund and the Treasurer's Information Fund are governmental funds.
- 2) Proprietary Funds include internal service funds. These funds account for the cost of certain services provided by the state. The Central Check Mailing Service Revolving Fund is a proprietary fund.
- 3) Fiduciary Funds include private-purpose trust funds. These funds account for assets held by the state in a trustee capacity or as an agent for individuals, other governments, and other funds. The Abandoned Fund Account Fund is a fiduciary fund.

D. Cash and Cash Equivalents

For reporting purposes, cash and cash equivalents include bank accounts, petty cash, and all investments with an original maturity of three months or less, such as certificates of deposit, money market certificates, and repurchase agreements. Cash and cash equivalents on the Central Check Mailing Service Revolving Fund Statement of Cash Flows are also reported under this definition. Cash balances of the Central Check Mailing Service Revolving Fund, Abandoned Fund Account Fund, Treasurer's Information Fund, and Treasurer's General Operations Fund are pooled with other state funds and invested by the State Treasurer.

E. Investments

These are long-term investments which are expected to be held to maturity and redeemed at face value. All investments are reported at fair value.

F. Interfund Receivables/Payables

The state makes various transactions between funds to distribute interest earnings, finance operations, provide services, service debt, and acquire capital assets. These receivables at June 30 are classified as "due from other funds" on the Balance Sheet and Statements of Net Assets. Payables are classified as "due to other funds" on the Balance Sheet and Statement of Net Assets.

G. Capital Assets

Capital assets, which include equipment, are valued at historical cost or estimated historical cost if actual historical cost is not available. The estimate of historical cost was based on current appraised value indexed to the date of acquisition. Donated capital assets are reported at estimated fair value at the time received. Capital assets acquired through lease agreements are capitalized at the inception of the agreement.

The capitalization threshold for all equipment is \$1,000.

Equipment is depreciated using the straight-line method of depreciation over a useful life of 5 years.

H. Long-Term Debt

Long-term liabilities that will be financed from governmental funds are not reported on the fund financial statements since they are presented on the modified accrual basis of accounting. These long-term liabilities include the following:

Compensated absences include accumulated unpaid vacation and compensatory time accruals and related employer payroll taxes. These amounts are not accrued in the governmental funds but are recorded as expenditures when paid.

Vacation leave is accumulated at a rate of 10 to 14 hours per month depending on the number of years of employment. Accumulated vacation leave cannot exceed twice the number of vacation hours earned annually. Compensatory time is accumulated as earned by an individual employee.

Sick leave is accumulated at a rate of 10 hours per month with no limit to the amount which can be accumulated. Accumulated sick leave is not paid upon employee termination and does not represent a liability of the state.

2. Deposits, Investments and Securities Lending Program

The Office of State Treasurer maintains a cash and short-term investment pool that is used by substantially all state funds. These funds do not include accrued interest. Described below is the portfolio that represents the "Cash and Cash Equivalents", "Investments", "Restricted Assets - Cash and Cash Equivalents", and "Restricted Assets - Investments" as reported at June 30, 2006.

A. Deposits

The state minimizes custodial credit risk by restrictions set forth in state law. Custodial credit risk is risk associated with the failure of a depository financial institution. In the event of a depository financial institution's failure, the State would not be able to recover its deposits or collateralized securities that are in the possession of the outside parties. Statutes restrict the State Treasurer to deposit funds in financial institutions that are physically located in Missouri which are selected based on financial stability and community involvement. The financial institution's loan to deposit ratio must exceed 50 percent at the time of deposit and deposits must be collateralized at least 100 percent with approved securities. Deposits must have a maturity of five years or less and earn interest at a rate equal to that paid on U.S. Treasury securities with equivalent maturities.

B. Investments

Statutes authorize the State Treasurer to invest in U.S. Treasury or Agency securities maturing within five years, commercial paper and banker's acceptances maturing within 180 days, or in repurchase agreements maturing within ninety days secured by U.S. Treasury or Agency securities of any maturity. There have been no violations of these investment restrictions during fiscal year 2006.

The State Treasurer minimizes credit risk, the risk of loss due to the failure of the security issuer or backer, by establishing a pre-approved list of financial institutions and companies that will be used to purchase commercial paper. The State Treasurer also conducts regular credit monitoring, pre-qualifies the financial institutions and brokers/dealers with which the Treasurer's Office will do business for broker services and repurchase agreements, and diversifies the portfolio to reduce potential losses on individual securities.

The investments include certain short-term cash equivalents, various long-term items, and restricted assets by maturity in years. The State Treasurer minimizes the risk of the market value of securities falling due to changes in interest rates by

maintaining an effective duration of less than 1.5 years, and holding at least 40 percent of the portfolio's total market value in securities with a maturity of 12 months or less.

The state minimizes concentration of credit risk, the risk attributed to the magnitude of an investment in a single issuer. State statute prohibits the State Treasurer from investing more than 5 percent of the total investment portfolio into any single financial institution or issuer, excluding U.S. securities and repurchase agreements. There are no restrictions in the amount that can be invested in U.S. securities, however, there can be no more than 15 percent of the total portfolio invested in repurchase agreements. During fiscal year 2006, the State did not have more than 5% of total investments in a single issuer.

The State Treasurer requires investments in commercial paper and bankers' acceptances have the highest letter and numerical ranking (A1/P1) as rated by Moody's Investor Service, Inc. (Moody's) and Standard & Poor's Corporation (S & P). The Treasurer does not have any additional policies regarding credit ratings of investments.

The State Treasurer does not have a policy regarding foreign currency risk, which is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit, however the State Treasurer's Office does not have any deposits or investments in foreign currency.

#### C. Securities Lending Program

The Missouri State Treasurer's Office participates in a securities lending program to augment investment income. Authority to participate rests in Section 30.260.5 RSMo. As of October 2004, Bank of New York began acting as the State Treasurer's custodial bank and securities lending agent. For securities which are received as collateral under a bonds borrowed program, at least 75 percent of the collateral received must match the maturities of the securities lent with a maximum duration gap between loans and investments of 15 days. The maximum life of term loans shall be 90 days.

Collateral may be in the form of cash, securities issued or guaranteed by the United States Government or its agencies, or bank letters of credit or equivalent obligation if pre-approved by the State Treasurer's Office. Collateral must be provided in the amount of 102 percent of the then market value of the loaned securities and accrued interest, if any. The Custodian provides for full indemnification to the State Treasurer's Office for any losses that might occur in the program due to borrower default, insolvency, or failure to return loaned securities.

3. Capital Assets

Capital asset activity for the year ended June 30, 2006, was as follows:

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Governmental Activities:				
Equipment, Governmental Funds	\$ 1,699	\$ 46,734	\$ 0	\$ 48,433
Equipment, Proprietary Funds	<u>38,054</u>	<u>0</u>	<u>0</u>	<u>38,054</u>
Total Equipment	39,753	46,734	0	86,487
Less Accumulated Depreciation for:				
Equipment, Governmental Funds	(632)	(6,246)	0	(6,878)
Equipment, Proprietary Funds	<u>(30,411)</u>	<u>(4,151)</u>	<u>0</u>	<u>(34,562)</u>
Total Accumulated Depreciation	<u>(31,043)</u>	<u>(10,397)</u>	<u>0</u>	<u>(41,440)</u>
Governmental Activities Capital Assets, Net	<u>\$ 8,710</u>	<u>\$ 36,337</u>	<u>\$ 0</u>	<u>\$ 45,047</u>

4. Changes in Long-Term Liabilities

The following is a summary of changes in long-term liabilities for the year ended June 30, 2006:

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006	Due Within One Year
Governmental Activities: Compensated Absences	\$ <u>127,719</u>	\$ <u>161,312</u>	\$ <u>155,298</u>	\$ <u>133,733</u>	\$ <u>133,733</u>
Total Governmental Activities	<u>\$ 127,719</u>	<u>\$ 161,312</u>	<u>\$ 155,298</u>	<u>\$ 133,733</u>	<u>\$ 133,733</u>

5. Payables and Receivables

A summary of accounts payable and accounts receivable at June 30, 2006, is shown below:

	Governmental Funds	Proprietary Fund	Balance June 30, 2006
<u>Accounts Payable:</u>			
Vendors	\$ 12,500	\$ 3,010	\$ 15,510
Employees	<u>56,686</u>	<u>830</u>	<u>57,516</u>
 Total Accounts Payable	 <u>\$ 69,186</u>	 <u>\$ 3,840</u>	 <u>\$ 73,026</u>
<u>Accounts Receivable:</u>			
Customers	\$ <u>0</u>	\$ <u>1,397</u>	\$ <u>1,397</u>
 Total Accounts Receivable	 <u>\$ 0</u>	 <u>\$ 1,397</u>	 <u>\$ 1,397</u>

6. Interfund Assets and Liabilities

A summary of interfund assets and liabilities at June 30, 2006, is shown below :

	<u>Due To/From Other Funds</u>		
	Treasurer's General Operations Fund	Central Check Mailing Service Revolving Fund	Totals
<u>Due to Other Funds:</u>			
Fringe Benefits	\$ 22,517	\$ 496	\$ 23,013
 Totals	 <u>\$ 22,517</u>	 <u>\$ 496</u>	 <u>\$ 23,013</u>
<u>Due From Other Funds:</u>			
General Government	\$ <u>0</u>	\$ <u>36,007</u>	\$ <u>36,007</u>
 Totals	 <u>\$ 0</u>	 <u>\$ 36,007</u>	 <u>\$ 36,007</u>

Interfund assets do not equal interfund liabilities because only funds related to the State Treasurer's Office are being presented, not all state funds.

7. Restatement

During fiscal year 2006, additional information became available which required the restatement of Net Asset amounts in the Abandoned Fund Account Fund from \$10,262,604 to \$19,747,500 as of June 30, 2005. The restatement was a decrease in advance to other funds of \$61,606,645, a decrease to escheat/unclaimed property liability of \$71,091,694, and an increase in depreciation expense of \$153 due to a change in accounting principle. Transfers In and Transfers Out of the Abandoned Fund Account Fund have been netted with Unclaimed Property Additions and the net amount has been presented.

8. Subsequent Event

The contract for the state's General Disbursement Services was awarded to UMB Bank for the period March 1, 2007 through February 28, 2009. The contract contains two, one-year renewal options.

Required Supplementary Information

**OFFICE OF STATE TREASURER  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
GOVERNMENTAL FUNDS  
Year Ended June 30, 2006**

	Treasurer's General Operations Fund				Treasurer's Information Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget	Original Budget	Final Budget	Actual	Variance with Final Budget
Beginning Budgetary Fund Balance	\$ 301,689	\$ 301,689	\$ 301,689	\$ 0	\$ 21,251	\$ 21,251	\$ 21,251	\$ 0
Resources (Inflows):								
Interest	2,300,000	2,300,000	2,637,750	337,750	0	0	0	0
Cost Reimbursement	0	0	0	0	1,400	1,400	15,707	14,307
Intergovernmental	0	0	154,458	154,458	0	0	14,042	14,042
Transfers In	0	0	0	0	139,620	139,620	132,742	(6,878)
Total Resources (Inflows)	<u>2,300,000</u>	<u>2,300,000</u>	<u>2,792,208</u>	<u>492,208</u>	<u>141,020</u>	<u>141,020</u>	<u>162,491</u>	<u>21,471</u>
Amount Available for Appopriation	<u>2,601,689</u>	<u>2,601,689</u>	<u>3,093,897</u>	<u>492,208</u>	<u>162,271</u>	<u>162,271</u>	<u>183,742</u>	<u>21,471</u>
Charges to Appropriations (Outflows):								
General Government	1,529,855	1,580,091	1,574,013	6,078	114,691	114,691	91,776	22,915
Transfers Out	688,460	688,460	507,778	180,682	88,167	88,167	80,758	7,409
Total Charges to Appropriations	<u>2,218,315</u>	<u>2,268,551</u>	<u>2,081,791</u>	<u>186,760</u>	<u>202,858</u>	<u>202,858</u>	<u>172,534</u>	<u>30,324</u>
Ending Budgetary Fund Balance	<u>\$ 383,374</u>	<u>\$ 333,138</u>	<u>\$ 1,012,106</u>	<u>\$ 678,968</u>	<u>\$ (40,587)</u>	<u>\$ (40,587)</u>	<u>\$ 11,208</u>	<u>\$ 51,795</u>
Reconciling Items:								
Reclassifying Cash Equivalents as Investments			(671,432)				(7,435)	
Investments at Fair Value			667,741				7,395	
Accounts Payable			(11,292)				(1,208)	
Accrued Payroll			(56,686)				0	
Due to Other Funds			(22,517)				0	
Fund Balance - GAAP Basis			<u>\$ 917,920</u>				<u>\$ 9,960</u>	

The accompanying Notes to the Required Supplementary Information are an integral part of this schedule.

**OFFICE OF STATE TREASURER  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
GOVERNMENTAL FUNDS  
Year Ended June 30, 2005**

	State Treasurer's General Operations				State Treasurer's Information Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget	Original Budget	Final Budget	Actual	Variance with Final Budget
Beginning Budgetary Fund Balance	\$ 0	\$ 0	\$ 0	\$ 0	\$ 7,119	\$ 7,119	\$ 7,119	\$ 0
Resources (Inflows):								
Interest	0	0	301,689	301,689				
Cost Reimbursement	0	0	0	0	1,400	1,400	1,493	93
Intergovernmental	0	0	0	0	300,000	300,000	300,000	0
Transfers In	0	0	0	0	272,680	272,680	273,357	677
Total Resources (Inflows)	<u>0</u>	<u>0</u>	<u>301,689</u>	<u>301,689</u>	<u>574,080</u>	<u>574,080</u>	<u>574,850</u>	<u>770</u>
Amount Available for Appopriation	<u>0</u>	<u>0</u>	<u>301,689</u>	<u>301,689</u>	<u>581,199</u>	<u>581,199</u>	<u>581,969</u>	<u>770</u>
Charges to Appropriations (Outflows):								
General Government	0	0	0	0	504,135	504,135	411,319	92,816
Transfers Out	0	0	0	0	94,041	172,601	149,399	23,202
Total Charges to Appropriations	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>598,176</u>	<u>676,736</u>	<u>560,718</u>	<u>116,018</u>
Ending Budgetary Fund Balance	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 301,689</u>	<u>\$ 301,689</u>	<u>\$ (16,977)</u>	<u>\$ (95,537)</u>	<u>\$ 21,251</u>	<u>\$ 116,788</u>
Reconciling Items:								
Reclassifying Cash Equivalents as Investments			(214,838)				(15,133)	
Investments at Fair Value			214,141				15,084	
Accounts Payable			(3,252)				(10)	
Accrued Payroll			(58,440)				(21)	
Due to Other Funds			<u>(23,798)</u>				<u>(42)</u>	
Fund Balance - GAAP Basis			<u>\$ 215,502</u>				<u>\$ 21,129</u>	

The accompanying Notes to the Required Supplementary Information are an integral part of this schedule.

OFFICE OF STATE TREASURER  
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

The Budgetary Comparison Schedule in Required Supplementary Information (RSI) presents comparisons of the original and revised legally adopted budgets with actual data on a budgetary basis for the Treasurer's General Operations Fund and the Treasurer's Information Fund.

The Budgetary Comparison Schedule reports revenues and expenditures on a budgetary basis where "actual" revenues are recognized when cash is received, and "actual" expenditures are recognized for cash disbursements. The accounting principles applied for reporting on a budgetary basis differ from those used to present the financial statements in accordance with GAAP. A reconciliation of the two for the fiscal year ended June 30, 2006, has been presented at the bottom of the Budgetary Comparison Schedule shown on the previous page of RSI and includes data presented, on this basis, for the fiscal year, and for adjustments made in the one-month lapse period, July 1 through July 31.

The "original budget" expenditures and transfers represent the amounts originally appropriated for each fund. The "final budget" expenditures and transfers include increases to appropriations during the fiscal year.

In accordance with state statute, all state funds must have an appropriation before amounts can be expended or transferred to another state fund, therefore variances between "budgeted" and "actual" expenditures and transfers on the budgetary schedule will always be positive.

## Supplementary Information

Schedule 1

OFFICE OF STATE TREASURER  
COMPARATIVE STATEMENT OF APPROPRIATIONS AND EXPENDITURES

	Year Ended June 30,					
	2006			2005		
	Appropriation Authority	Expenditures	Lapsed Balances	Appropriation Authority	Expenditures	Lapsed Balances
<b>GENERAL REVENUE FUND</b>						
Issuing duplicate/outlawed checks	\$ 1,000,000	936,628	63,372	2,875,000	2,859,264	15,736
Lease and utility expense	0	0	0	2,867	345	2,522
Personal service	0	0	0	1,439,812	1,439,106	706
Expense and equipment	0	0	0	289,505	289,092	413
Refunds of excess interest from the linked deposit program	3,000	0	3,000	3,000	38	2,962
Total General Revenue Fund	1,003,000	936,628	66,372	4,610,184	4,587,845	22,339
<b>TREASURER'S GENERAL OPERATIONS FUND</b>						
Personal service	1,337,950	1,334,149	3,801	0	0	0
Expense and equipment	238,641	236,364	2,277	0	0	0
Overtime	3,500	3,500	0	0	0	0
Total Treasurer's General Operations Fund	1,580,091	1,574,013	6,078	0	0	0
<b>TREASURER'S INFORMATION FUND</b>						
Personal service	89,691	89,660	31	479,135	409,919	69,216
Expense and equipment	25,000	2,116	22,884	25,000	1,400	23,600
Total Treasurer's Information Fund	114,691	91,776	22,915	504,135	411,319	92,816
<b>CENTRAL CHECK MAILING SERVICE REVOLVING FUND</b>						
Personal service	20,826	20,826	0	0	0	0
Expense and equipment	225,000	125,126	99,874	225,000	118,915	106,085
Total Central Check Mailing Service Revolving Fund	245,826	145,952	99,874	225,000	118,915	106,085
<b>SECOND INJURY FUND</b>						
Personal service	37,875	37,875	0	37,875	37,874	1
Expense and equipment	3,280	3,280	0	3,280	3,280	0
Total Second Injury Fund	41,155	41,155	0	41,155	41,154	1
<b>ABANDONED FUND ACCOUNT FUND</b>						
Personal service	455,480	445,527	9,953	0	0	0
Expense and equipment	98,600	95,051	3,549	580,000	579,461	539
Overtime	14,000	13,907	93	0	0	0
Advertising and auctions	513,001	508,412	4,589	0	0	0
Payment of claims for abandoned property	20,000,000	19,462,594	537,406	19,750,000	19,432,004	317,996
Total Abandoned Fund Account Fund	21,081,081	20,525,491	555,590	20,330,000	20,011,465	318,535
Total All Funds	\$ 24,065,844	23,315,015	750,829	25,710,474	25,170,698	539,776

The accompanying Notes to the Supplementary Information are an integral part of this statement.

Schedule 2

OFFICE OF STATE TREASURER  
 COMPARATIVE STATEMENT OF EXPENDITURES (FROM APPROPRIATIONS)

	Year Ended June 30,	
	2006	2005
Personal service	\$ 1,945,444	1,886,899
Travel	7,639	6,371
Expense and equipment	255,730	206,507
Communications expense	39,322	38,120
Professional services	504,580	584,516
Equipment repairs and maintenance	86,335	64,943
Equipment and software purchases	76,743	92,036
Abandoned fund claim payments	19,462,594	19,432,004
Replacement of outlawed checks	936,628	2,859,264
Refunds of excess interest from the linked deposit program	0	38
Total Expenditures	\$ <u>23,315,015</u>	<u>25,170,698</u>

The accompanying Notes to the Supplementary Information are an integral part of this statement.

Schedule 3

OFFICE OF STATE TREASURER  
 STATEMENT OF CHANGES IN GENERAL CAPITAL ASSETS  
 YEAR ENDED JUNE 30, 2006

	Furniture and Equipment	Motor Vehicles	Total General Fixed Assets
Balance, June 30, 2005	\$ 853,565	16,582	870,147
Additions	49,996	0	49,996
Dispositions	(162,433)	0	(162,433)
Balance, June 30, 2006	<u>\$ 741,128</u>	<u>16,582</u>	<u>757,710</u>

Fund of Acquisition	Balance June 30, 2006
General Revenue Fund-State	\$ 650,786
Treasurer's General Operations Fund	46,734
Central Check Mailing Service Revolving Fund	38,054
Second Injury Fund	2,093
Abandoned Fund Account Fund	18,344
Treasurer's Information Fund	1,699
Total All Funds	<u>\$ 757,710</u>

The accompanying Notes to the Supplementary Information are an integral part of this statement.

## Schedule 4

OFFICE OF STATE TREASURER  
COMPARATIVE STATEMENT OF FUNDS IN CUSTODY OF STATE TREASURER

	June 30,				
	2006	2005	2004	2003	2002
<b>APPROPRIATED FUNDS</b>					
Demand Deposits:					
US Bank	\$ 200,000	372,704	12,247,705	(5,845,909)	2,576,463
Central Bank	(124,548,876)	(130,664,664)	(58,532,570)	(133,946,937)	(138,593,954)
Premier Bank	26,350	70,273	58,705	17,025	43,795
Commerce Bank	330,495	0	0	0	0
Collection bank accounts	4,417,807	5,570,434	3,953,086	3,640,880	4,938,377
Bank of New York Midwest	27,739	(153,823)	0	0	0
Total Demand Deposits	<u>(119,546,485)</u>	<u>(124,805,076)</u>	<u>(42,273,074)</u>	<u>(136,134,941)</u>	<u>(131,035,319)</u>
Pooled Investments:					
Time deposits	550,500,850	410,099,652	373,397,355	326,995,334	367,178,643
U.S. government securities	1,332,339,487	1,517,146,443	1,678,892,718	1,701,713,339	1,447,407,896
Commercial paper and banker acceptances	927,024,030	511,579,780	516,179,983	516,971,919	694,144,369
Repurchase agreements	306,261,001	256,490,000	356,298,000	361,795,000	527,329,300
Total Pooled Investments	<u>3,116,125,368</u>	<u>2,695,315,875</u>	<u>2,924,768,056</u>	<u>2,907,475,592</u>	<u>3,036,060,208</u>
Total Demand Deposits and Pooled Investments	<u>2,996,578,883</u>	<u>2,570,510,799</u>	<u>2,882,494,982</u>	<u>2,771,340,651</u>	<u>2,905,024,889</u>
Special Fund Dedicated Investments:					
U.S. government securities	23,582,012	22,490,817	22,307,523	19,513,106	17,611,544
Donated corporate stock	5,130	5,130	5,130	5,130	5,130
Total Special Fund Dedicated Investments	<u>23,587,142</u>	<u>22,495,947</u>	<u>22,312,653</u>	<u>19,518,236</u>	<u>17,616,674</u>
Total Appropriated Funds	<u>3,020,166,025</u>	<u>2,593,006,746</u>	<u>2,904,807,635</u>	<u>2,790,858,887</u>	<u>2,922,641,563</u>
<b>NONAPPROPRIATED FUNDS</b>					
Demand deposits	3,880	12,690,878	12,326,160	36,701	184,828
Repurchase agreements	2,911,106	5,694,294	8,329,000	19,406,000	96,338,000
US government securities	0	0	15,105,450	64,522,948	65,418,122
Total Nonappropriated Funds	<u>2,914,986</u>	<u>18,385,172</u>	<u>35,760,610</u>	<u>83,965,649</u>	<u>161,940,950</u>
Total Cash and Investments	<u>\$ 3,023,081,011</u>	<u>2,611,391,918</u>	<u>2,940,568,245</u>	<u>2,874,824,536</u>	<u>3,084,582,513</u>

The accompanying Notes to the Supplementary Information are an integral part of this statement.

Schedule 5

OFFICE OF STATE TREASURER  
 COMPARATIVE STATEMENT OF INTEREST RECEIVED ON POOLED INVESTMENTS

	Year Ended June 30,				
	2006	2005	2004	2003	2002
<b>INTEREST RECEIPTS</b>					
General and special funds	\$ 97,587,051	38,422,115	31,319,021	42,302,336	63,208,154
Debt retirement funds	12,820,914	1,828,999	1,684,923	2,320,783	4,176,019
Total Appropriated Funds	110,407,965	40,251,114	33,003,944	44,623,119	67,384,173
Trust funds	187,649	273,652	754,646	2,290,124	4,444,474
Total Interest Receipts	\$ 110,595,614	40,524,766	33,758,590	46,913,243	71,828,647

The accompanying Notes to the Supplementary Information are an integral part of this statement.

Notes to the Supplementary Information

OFFICE OF STATE TREASURER  
NOTES TO THE SUPPLEMENTARY INFORMATION

1. General Capital Assets

Capital assets, which include equipment, are valued at historical cost or estimated historical cost if actual historical cost is not available. The estimate of historical cost was based on current appraised value indexed to the date of acquisition. Donated capital assets are reported at estimated fair value at the time received. Capital assets acquired through lease agreements are capitalized at the inception of the agreement.

The capitalization threshold for all equipment is \$1,000.

Equipment is depreciated using the straight-line method of depreciation over a useful life of 5 years. Accumulated depreciation on general capital assets at June 30, 2006, was \$635,728.

2. Basis of Presentation

The amounts presented in Schedules 4 and 5 represent all funds in the state treasury and all trust funds in the custody of the State Treasurer.

State treasury funds are subject to appropriation; trust funds are not. The schedules do not include any funds or investments that are not in the custody of the State Treasurer.

3. Cash and Investments

Article IV, Section 15 of the Missouri Constitution establishes the State Treasurer as custodian of all state funds and funds received from the U.S. government. This section further authorizes the State Treasurer to place all such monies on time deposit, bearing interest, in Missouri banking institutions selected by the State Treasurer and approved by the Governor and the State Auditor, or in obligations of the U.S. government or any agency or instrumentality thereof maturing or becoming payable not more than five years from the date of purchase. In addition, the State Treasurer may enter into repurchase agreements maturing and becoming payable within ninety days secured by U.S. Treasury obligations or obligations of U.S. government agencies or instrumentalities of any maturity, as provided by law. The State Treasurer may also invest in banker's acceptances issued by domestic commercial banks possessing the highest rating issued by a nationally recognized rating agency and in commercial paper, issued by domestic corporations, which has received the highest rating issued by a nationally recognized rating agency. Investments in banker's acceptances and commercial paper shall mature and become payable not more than ninety days from the date of purchase, maintain the highest rating throughout the duration of the investment and meet any other requirements provided by law. The State Treasurer shall prepare, maintain, and adhere to a written investment policy which shall include an asset allocation plan limiting the total amount of state money which may be invested in each investment category authorized by law.

## Deposits

The State Treasurer maintains approximately 941 bank accounts throughout the state. These accounts include time deposits, collection accounts which are demand deposit accounts for various state agencies, and the state's primary operating accounts which are also demand deposit accounts. Cash balances in the state's operating accounts which are not needed for immediate use are invested.

The State Treasurer's deposits at June 30, 2006, were entirely covered by federal depository insurance or by collateral securities held by the custodial banks in the State Treasurer's name.

To protect the safety of state deposits, Sections 30.270 and 110.020, RSMo, require depositories to pledge collateral securities to secure deposits not insured by the Federal Deposit Insurance Corporation.

## Investments

The State Treasurer's investments at June 30, 2006, are listed by type below to give an indication of the level of risk assumed by the state at year end. All investments are insured or registered, or have collateral held by the State Treasurer or a custodial bank in the state's name.

	<u>Reported Amount</u>	<u>Fair Value</u>
Repurchase agreements	\$ 306,261,000	306,261,000
U.S. government securities	1,332,339,487	1,324,841,156
Commercial paper	929,930,189	929,652,387
Other investments	23,587,142	23,701,285
Total Investments	<u>\$ 2,592,117,818</u>	<u>2,584,455,828</u>

Investments are recorded at acquisition cost except "other" investments which are recorded at par. Investments in repurchase agreements are acquired at face value and earn a stated interest rate. Investments in U.S. government securities are acquired at fair value and mature at face value.

#### 4. Demand Deposit and Collection Accounts

The demand deposits with US Bank on Schedule 4 consist of two central demand accounts at June 30, 2006, four at June 30, 2005, twenty-three at June 30, 2004, and twenty-two at June 30, 2003 and 2002. The demand deposits with Central Bank consist of thirty-four central demand accounts at June 30, 2006, thirty-three at June 30, 2005, fourteen at June 30, 2004, thirteen at June 30, 2003, and fourteen at June 30, 2002. The demand deposits with Premier Bank consist of two central demand accounts at June 30, 2006, 2005, 2004, 2003, and 2002. The demand deposits with Bank of New York Midwest consist of eight central

demand accounts at June 30, 2006, and two at June 30, 2005. The demand deposits with Commerce Bank consist of five central demand accounts at June 30, 2006. Demand deposit bank balances were \$200,000, \$418,917, \$20,388,987, \$11,072,902, and \$15,131,904 at June 30, 2006, 2005, 2004, 2003, and 2002 for US Bank and \$16,490,088, \$11,720,611, \$77,114,881, \$85,274,839, and \$73,227,111 at June 30, 2006, 2005, 2004, 2003, and 2002 for Central Bank, and \$26,347, \$71,568, \$58,800, \$17,018, and \$43,463 at June 30, 2006, 2005, 2004, 2003, and 2002 for Premier Bank and \$0 at June 30, 2006 and 2005 for Bank of New York Midwest, and \$408,003 at June 30, 2006 for Commerce Bank.

The collection bank accounts on Schedule 4 consist of three master concentration accounts and their related collection accounts at various banks throughout the state. The General Concentration and Conservation Concentration Accounts were at Central Bank at June 30, 2006, 2005, 2004, 2003, and 2002. The Lottery Concentration Account was at Central Bank at June 30, 2006, and 2005 and at US Bank at June 30, 2004, 2003, and 2002. Collection account bank balances were approximately \$4,448,114, \$6,038,641, \$4,889,141, \$4,420,803, and \$4,818,162 at June 30, 2006, 2005, 2004, 2003, and 2002.

Banking service agreements on the central demand accounts allow the State Treasurer to invest outstanding checks up until the checks clear the bank, thereby investing an amount in excess of book balances. The negative balances at June 30 (Schedule 4) for the appropriated funds demand deposits represent the book balance net of amounts invested.

#### 5. Special Fund Dedicated Investments

Due to a change in the state's accounting system, as of July 1, 1999, the State Treasurer was assigned the authority for recording direct investments of special funds in the accounting system. The amounts presented as special fund dedicated investments in the appropriated funds on Schedule 4 represent specific investments made or held by the State Treasurer on behalf of the Pansey Johnson-Travis Memorial State Gardens Trust Fund and the State Public School Fund. The State Treasurer is responsible for purchasing, custodial, income collection, and distribution, and record-keeping duties related to the investments of these funds.

The investments of the Pansey Johnson-Travis Memorial State Gardens Trust Fund are maintained in the instruments which were transferred to the State Treasurer from the previous trustee of the fund. The investment purchases for the State Public School Fund are made in accordance with the instructions of the State Public School Fund investment committee.

Prior to July 1, 1999, the investments of the Pansey Johnson-Travis Memorial State Gardens were recorded as a cash asset in the state's accounting system. Prior to July 1, 1999, the investments of the Public School Fund were not recorded in the state's accounting system.

MANAGEMENT ADVISORY REPORT SECTION

## Follow-Up on Prior Audit Findings

OFFICE OF STATE TREASURER  
FOLLOW-UP ON PRIOR AUDIT FINDINGS

In accordance with *Government Auditing Standards*, this section reports the auditor's follow-up on action taken by the Office of the State Treasurer on the finding in the Management Advisory Report (MAR) of our prior audit report issued for the year ended June 30, 2005.

Inadequate Reconciliations

The Office of State Treasurer-Internal Audit Section did not perform adequate reconciliations of the unclaimed property receipts and disbursements recorded in the Wagers system and the Statewide Advantage System for Missouri (SAM II). Because differences were not investigated by the STO, errors were not detected and amounts calculated for the state's Comprehensive Annual Financial Report (CAFR) were not correct.

Recommendation:

The STO establish procedures to ensure the Internal Audit Section investigates and resolves discrepancies noted in the reconciliations they perform. In addition, someone independent of the Internal Audit Section should review the reconciliations to ensure an adequate follow-up was performed and documented.

Status:

Partially implemented. The State Treasurer's Office began performing an independent review of monthly reconciliations between the WAGERS system and the SAM II. The State Treasurer's Office is able to reconcile current receipts and disbursements, but not historical data. The State Treasurer's Office and WAGERS system representatives should continue to improve the reconciliation. Although not repeated in the current MAR, our recommendation remains as stated above.

STATISTICAL SECTION

History, Organization, and  
Statistical Information

OFFICE OF STATE TREASURER  
HISTORY, ORGANIZATION,  
AND STATISTICAL INFORMATION

The Office of State Treasurer is an elective office as provided in the Missouri Constitution. The duties of the State Treasurer as defined by Article IV Section 15 are to be the custodian of all state funds; to determine the amount of state monies not needed for current operating expenses; and to invest such monies in interest-bearing time deposits, in Missouri banking institutions selected by the State Treasurer and approved by the Governor and State Auditor, in short-term U. S. government securities, or in certain allowable commercial paper and banker's acceptances.

The Office of State Treasurer operates in four major functional areas: 1) accounting and banking services; 2) disbursements and records; 3) investments and deposit programs; and 4) unclaimed property.

The accounting and banking services area: 1) maintains a fund accounting system to fulfill a statutory responsibility to keep separate accounts of the funds of the state and to allocate investment interest to funds; 2) maintains ledger controls on fund balances and appropriations to assure that no check is issued that exceeds the lawful appropriated balances; 3) controls receipt of state monies collected by state agencies and deposited in local banks throughout the state; 4) reconciles bank activity to receipt and disbursement activity reflected on the state books; 5) determines the amount of state monies not needed for current operating expenses, and 6) confirms daily disbursements with the bank as certified by the Office of Administration.

The disbursements and records area provides processing support to other departments of the State Treasurer's office, as follows: 1) provides storage and retrieval of state checks; and 2) controls and processes outlawed checks and processes and verifies claims for replacement checks.

The investments area places state monies not needed for current operating expenses in interest-bearing time deposits, U.S. government and agency securities, commercial paper, banker's acceptances, and repurchase agreements. This area also administers the State Treasurer's statutory linked deposit program and monitors and accounts for the collateralization of state funds.

The Unclaimed Property Division administers Missouri's Unclaimed Property Act (Chapter 447 RSMo). The Unclaimed Property Division is responsible for: 1) ensuring unclaimed property is reported; 2) receiving and recording reports of unclaimed property; 3) depositing unclaimed funds to the Abandoned Fund Account Fund; 4) maintaining custody and safekeeping of abandoned or unclaimed physical property; and 5) processing owner claims for abandoned funds or physical property.

Sarah Steelman became Missouri's forty-fourth State Treasurer when she took the oath of office on January 10, 2005. Her term will expire in January 2009.

As of June 30, 2006, the office had forty-three full-time positions and six part-time positions to assist in the accomplishment of its mission. An organization chart follows.

OFFICE OF STATE TREASURER  
 ORGANIZATION CHART  
 JUNE 30, 2006

