



Susan Montee, CPA  
Missouri State Auditor

---

# Office of State Treasurer

## Year Ended June 30, 2007



---

May 2008

Report No. 2008-32

---

[auditor.mo.gov](http://auditor.mo.gov)



Office of  
Missouri State Auditor  
Susan Montee, CPA

May 2008

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

---

During the period January 23 through April 15, 2008, the Deputy State Treasurer indicated that he performed work on the State Treasurer's campaign for Governor and took vacation leave from his state job when working on the campaign. During the period January 23 through March 31, 2008, the Deputy did not submit any official signed or completed time sheets as required by State Treasurer's Office (STO) policies. However, in April 2008, completed time sheets were provided by the Deputy for the abovementioned period.

Using the completed time sheets, on April 17, 2008, the STO recorded 173 hours of vacation leave taken and 16 hours of sick leave taken on the state's payroll system for the Deputy State Treasurer during the period of January 23 through March 31, 2008. This leave was recorded by processing numerous prior period adjustments. On this same date, 52 hours of vacation leave taken and 32 hours of sick leave taken was recorded for the period April 1 through April 15, 2008. When questioned, the Deputy State Treasurer indicated that his leave had not been reported timely but he stated his leave was reported accurately. Had all leave taken by the Deputy State Treasurer been reported timely and accurately, no prior period adjustments would have been necessary.

State funds totaling \$277,854 were not covered by collateral securities as of June 30, 2007. The STO has time deposits and collection accounts in banks throughout the state. Prior to the deposit of monies into the banks, the banks must have adequate securities pledged to cover the deposits, which are recorded in the STO collateral security system. Internal audits of the collateral securities system by the STO have not ensured that collateral securities are pledged in accordance with STO policies.

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

YELLOW SHEET

OFFICE OF STATE TREASURER

TABLE OF CONTENTS

	<u>Page</u>
<hr/> <u>FINANCIAL SECTION</u> <hr/>	
State Auditor's Reports: .....	2-7
Independent Auditor's Report on the Financial Statements .....	3-5
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards .....	6-7
Management's Discussion and Analysis .....	8-12
Fund Financial Statements:.....	13-22
Treasurer's General Operations Fund: .....	14-15
Comparative Balance Sheet .....	14
Comparative Statement of Revenues, Expenditures and Changes in Fund Balance ...	15
Treasurer's Information Fund: .....	16-17
Comparative Balance Sheet .....	16
Comparative Statement of Revenues, Expenditures and Changes in Fund Balance ...	17
Central Check Mailing Service Revolving Fund:.....	18-20
Comparative Statement of Net Assets .....	18
Comparative Statement of Revenues, Expenses and Changes in Fund Net Assets.....	19
Comparative Statement of Cash Flows.....	20
Abandoned Fund Account Fund: .....	21-22
Comparative Statement of Fiduciary Net Assets .....	21
Comparative Statement of Changes in Fiduciary Net Assets .....	22
Notes to the Fund Financial Statements .....	23-30
Required Supplementary Information: .....	31-34
Budgetary Comparison Schedule Governmental Funds .....	32-33
Notes to the Required Supplementary Information .....	34

OFFICE OF STATE TREASURER

TABLE OF CONTENTS

	<u>Page</u>
<u>FINANCIAL SECTION</u>	
Supplementary Information: .....	35-40
<u>Schedule</u>	
1 Comparative Statement of Appropriations and Expenditures, Years Ended June 30, 2007 and 2006.....	36
2 Comparative Statement of Expenditures (From Appropriations), Years Ended June 30, 2007 and 2006 .....	37
3 Statement of Changes in General Capital Assets, Year Ended June 30, 2007 .....	38
4 Comparative Statement of Funds in Custody of State Treasurer, June 30, 2007, 2006, 2005, 2004, and 2003 .....	39
5 Comparative Statement of Interest Received on Pooled Investments, Five Years Ended June 30, 2007 .....	40
Notes to the Supplementary Information.....	41-44
<u>MANAGEMENT ADVISORY REPORT SECTION</u> .....	45-49
<u>Number</u>	<u>Description</u>
1	Collateral Securities.....
2	State Resources.....
	46 48
<u>STATISTICAL SECTION</u>	
History, Organization, and Statistical Information .....	51-53

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, Missouri

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, 2007 and 2006. These financial statements are the responsibility of the office's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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 the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Missouri that is attributable to the transactions of the Office of State Treasurer. They do not purport to, and do not, present fairly the financial position of the State of Missouri as of June 30, 2007 and 2006, the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. However, the State of Missouri issued its Comprehensive Annual Financial Report for the years ended June 30, 2007 and 2006, and those reports were prepared 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 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, 2007 and 2006, and the changes in financial position and, where applicable, cash flows 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 April 23, 2008, 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 opinions 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 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

April 23, 2008

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, CPA
	Patrick Pullins
	David Rothermich
	Tina Gildehaus



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

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

Honorable Sarah Steelman, State Treasurer  
Jefferson City, Missouri

We have audited the financial statements of the Office of State Treasurer as of and for the years ended June 30, 2007 and 2006, and have issued our report thereon dated April 23, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the office's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting

principles such that there is more than a remote likelihood that a misstatement of the office's financial statements that is more than inconsequential will not be prevented or detected by the office's internal control. We consider the deficiencies described as finding numbers 1 and 2 in the accompanying Management Advisory Report to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the office's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies referred to above are 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Management Advisory Report as finding numbers 1 and 2.

The responses of the Office of State Treasurer to the findings identified in our audit are described in the accompanying Management Advisory Report. We did not audit the office's responses and, accordingly, we express no opinion on them.

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.



Susan Montee, CPA  
State Auditor

April 23, 2008

## 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, 2007.

### HIGHLIGHTS

- The assets of the Treasurer's Office exceeded its liabilities by \$479,032. The entire amount may be used to meet the office's ongoing obligations.
- The office's total net assets decreased by \$528,768. The decrease in net assets was caused by a decrease in the revenues received in FY 2007 and an increase in the expenditures made in FY 2007 as compared to both revenues and expenditures from FY 2006.
- As of the close of the current fiscal year, the Treasurer's Office governmental funds reported combined ending fund balances of \$441,108, a decrease of \$486,772 in comparison with the prior year. The total amount is available for spending as of July 1, 2007, 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 State Treasurer's Information Fund and the State 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 2007, the Treasurer's Office governmental funds reported combined ending fund balances of \$441,108, a decrease of \$486,772 over fiscal year 2006. 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	\$436,546	\$4,562	\$441,108

The Treasurer's General Operations Fund was the primary operating fund for the Treasurer's Office in fiscal year 2007. At the end of fiscal year 2007, the Treasurer's General Operations Fund reported a total fund balance of \$436,546. The net decrease in fund balance during fiscal year 2007 was \$481,374. Revenues of the Treasurer's General Operations Fund totaled \$1,961,289, and expenditures of the Treasurer's General Operations Fund totaled \$2,440,844. Contributing factors follow:

- In fiscal year 2007, the second year of operation, the Treasurer's Office revised the calculations used when depositing a portion of the state's interest earnings into the Treasurer's General Operations Fund pursuant to Section 30.605 RSMo, and subsequently decreased the amount of revenues to the fund to utilize a portion of the ending fund balance as of June 30, 2006.
- In fiscal year 2007, approximately \$166,000 in personal service and fringe benefit expenditures transferred from the Treasurer's Information Fund to the Treasurer's General Operations Fund.

- In fiscal year 2007, the State Treasurer's General Operations Fund experienced an increase of approximately \$100,500 in personal service and fringe benefit expenditures related to a 3 percent increase of state employee pay submitted by the Governor's Office in the state budget for fiscal year 2007.
- In fiscal year 2007, the State Treasurer's General Operations Fund was charged approximately \$176,000 for the leasing of space in state office buildings that was previously paid out of the General Revenue Fund.

The Treasurer's Information Fund was the secondary operating fund for the Treasurer's Office in fiscal year 2007. At the end of fiscal year 2007, the Treasurer's Information Fund reported a total fund balance of \$4,562. The net decrease in fund balance during fiscal year 2007 was \$5,398. Revenues of the Treasurer's Information Fund totaled \$1,028. Expenditures of the Treasurer's Information Fund totaled \$1,257 in fiscal year 2007. 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 \$41,996. This is primarily due to an increase in personal service expenditures and a decrease in outstanding receivables.

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

The Treasurer's Office budget for fiscal year 2008 continued the same appropriation levels as the fiscal year 2007 budget with two exceptions. The first was a 3 percent 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 2007 to fund the expanded linked deposit program.

Events taking place after the fiscal year end include:

- The contract for the state's General Depository Services expired December 31, 2007. The State Treasurer's Office has exercised its 1<sup>st</sup> renewal option for the period January 1, 2008 through December 31, 2008.



Fund Financial Statements

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

	June 30,	
	2007	2006
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 108,509	340,674
Investments	463,112	667,741
 Total Assets	 \$ 571,621	 1,008,415
<b>LIABILITIES AND FUND BALANCES</b>		
Liabilities:		
Accounts Payable	\$ 30,342	11,292
Accrued Payroll	57,766	56,686
Due to Other Funds	46,967	22,517
 Total Liabilities	 135,075	 90,495
Fund Balances:		
Unreserved	436,546	917,920
 Total Fund Balances	 436,546	 917,920
 Total Liabilities and Fund Balances	 \$ 571,621	 1,008,415

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,	
	2007	2006
<b>Revenues:</b>		
Value of Investments	\$ (514)	(2,995)
Interest	1,956,167	2,651,728
Contributions and intergovernmental	0	140,417
Cost Reimbursement/Miscellaneous	5,636	64
	1,961,289	2,789,214
<b>Expenditures:</b>		
Current:		
General Government	2,440,844	2,086,341
	2,440,844	2,086,341
Excess Revenues (Expenditures)	(479,555)	702,873
<b>Other Financing Sources (Uses):</b>		
Transfers Out	(1,819)	(455)
Total Other Financing Sources (Uses)	(1,819)	(455)
Excess Expenditures and Net Change in Fund Balances	(481,374)	702,418
Fund Balances - Beginning	917,920	215,502
Fund Balances - Ending	\$ 436,546	917,920

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,	
	2007	2006
<b>Assets</b>		
Cash and Cash Equivalents	\$ 941	3,773
Investments	4,016	7,395
Total Assets	\$ 4,957	11,168
<b>Liabilities And Fund Balances</b>		
Liabilities:		
Accounts Payable	\$ 395	1,208
Total Liabilities	395	1,208
Unreserved	4,562	9,960
Total Fund Balances	4,562	9,960
Total Liabilities and Fund Balances	\$ 4,957	11,168

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 INFORMATION**  
**FUND 0255**

	Year Ended June 30,	
	2007	2006
<b>Revenues:</b>		
Investment Earnings:		
Net Increase (Decrease) in the Fair Value of Investments	\$ 37	8
Contributions and Intergovernmental	0	28,084
Cost Reimbursement/Miscellaneous	991	1,665
Total Revenues	<u>1,028</u>	<u>29,757</u>
<b>Expenditures:</b>		
Current:		
General Government	1,257	172,442
Total Expenditures	<u>1,257</u>	<u>172,442</u>
Excess Revenues (Expenditures)	<u>(229)</u>	<u>(142,685)</u>
<b>Other Financing Sources (Uses):</b>		
Transfers In	0	132,742
Transfers Out	(5,169)	(1,226)
Total Other Financing Sources (Uses)	<u>(5,169)</u>	<u>131,516</u>
Net Change in Fund Balances	(5,398)	(11,169)
Fund Balances - Beginning	<u>9,960</u>	<u>21,129</u>
Fund Balances - Ending	<u>\$ 4,562</u>	<u>9,960</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,	
	2007	2006
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 1,968	14,777
Investments	8,399	28,965
Accounts Receivable, Net	1,376	1,397
Due from Other Funds	31,508	36,007
Noncurrent Assets:		
Restricted Assets:		
Equipment	38,054	38,054
Less Accumulated Depreciation	(38,054)	(34,562)
Total Capital Assets (Net of Accumulated Depreciation)	0	3,492
Total Assets	43,251	84,638
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable	3,062	3,010
Accrued Payroll	864	830
Due to Other Funds	495	496
Noncurrent Liabilities:		
Compensated Absences	906	381
Total Liabilities	5,327	4,717
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	0	3,492
Unrestricted	37,924	76,428
Total Net Assets	\$ 37,924	79,920

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,	
	2007	2006
<b>Operating Revenues</b>		
Charges for Services	\$ 124,012	138,200
Total Operating Revenues	<u>124,012</u>	<u>138,200</u>
<b>Operating Expenses</b>		
Personal Service	35,155	32,368
Operations	125,635	127,002
Inventories	773	878
Depreciation	3,492	4,151
Total Operating Expenses	<u>165,055</u>	<u>164,399</u>
Operating Income (Loss)	<u>(41,043)</u>	<u>(26,199)</u>
<b>Non-Operating Revenues (Expenses)</b>		
Investment Earnings:		
Net Increase (Decrease) in the Fair Value of Investments	<u>151</u>	<u>(26)</u>
Total Non-Operating Revenues (Expenses)	<u>151</u>	<u>(26)</u>
Income (Loss) Before Transfers	(40,892)	(26,225)
Transfers Out	<u>(1,104)</u>	<u>(1,629)</u>
Change in Net Assets	(41,996)	(27,854)
Total Net Assets - Beginning	<u>79,920</u>	<u>107,774</u>
Total Net Assets - Ending	<u>\$ 37,924</u>	<u>79,920</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,	
	2007	2006
<b>Cash Flows from Operating Activities</b>		
Receipts from Customers and Users	\$ 124,033	141,749
Payments to Suppliers	(126,356)	(123,998)
Payments to Employees	(34,598)	(33,552)
Net Cash Provided (Used) by Operating Activities	<u>(36,921)</u>	<u>(15,801)</u>
<b>Cash Flows from Noncapital Operating Activities</b>		
Due to/ Due from Other Funds	4,499	3,343
Transfers to (from) Other Funds	(1,104)	(1,629)
Net Cash Provided (Used) by Noncapital Operating Activities	<u>3,395</u>	<u>1,714</u>
<b>Cash Flows from Investing Activities</b>		
Purchase of Investments	20,717	12,170
Net Cash Provided (Used) by Investing Activities	<u>20,717</u>	<u>12,170</u>
Net Increase (Decrease) in Cash	(12,809)	(1,917)
Cash and Cash Equivalents, Beginning of Year	14,777	16,694
Cash and Cash Equivalents, End of Year	<u>1,968</u>	<u>14,777</u>
<b>Reconciliation of Operating Income of Net Cash Provided (Used) by Operating Activities</b>		
Operating Income	(41,043)	(26,199)
Depreciation Expense	3,492	4,151
Changes in Assets and Liabilities:		
Accounts Receivable	21	3,549
Accounts Payable	52	3,004
Accrued Payroll	33	0
Compensated Absences Payable	525	(354)
Due to Other Funds	(1)	48
Net Cash Provided (Used) by Operating Activities	<u>\$ (36,921)</u>	<u>(15,801)</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,	
	2007	2006
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 2,597,746	14,595,344
Investments at Fair Value	11,087,091	28,607,690
Inventory	0	1,591
Capital Assets:		
Equipment	36,537	18,344
Less: Accumulated Depreciation	(17,125)	(11,049)
Total Capital Assets, Net	<u>19,412</u>	<u>7,295</u>
 Total Assets	 <u>13,704,249</u>	 <u>43,211,920</u>
<b>LIABILITIES</b>		
Accounts Payable	279,826	1,949
Accrued Payroll Payable	19,590	18,455
Due to Other Funds	<u>8,759</u>	<u>8,040</u>
 Total Liabilities	 <u>308,175</u>	 <u>28,444</u>
<b>NET ASSETS</b>		
Net Assets Held in Trust for Other Purposes	\$ <u>13,396,074</u>	<u>43,183,476</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,	
	2007	2006
<b>Additions</b>		
Increase/Decrease in Appreciation of Assets	\$ 145,862	(112,392)
Total Investment Earnings	145,862	(112,392)
Unclaimed Property	(27,669,252)	25,871,320
Total Additions	(27,523,390)	25,758,928
<b>Deductions</b>		
Administrative Expenses	2,257,937	2,320,078
Depreciation	5,271	2,874
Total Deductions	2,263,208	2,322,952
Change in Net Assets	(29,786,598)	23,435,976
Net Assets - Beginning	43,183,476	19,747,500
Prior Period Adjustment	(804)	
Net Assets - Ending	\$ 13,396,074	43,183,476

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, 2007, 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, 2007, 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, 2007.

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 2007.

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 2007, the State did not have more than 5 percent 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, 2007, was as follows:

	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007
Governmental Activities:				
Equipment, Governmental Funds	\$ 48,433	\$ 81,828	\$ 0	\$ 130,261
Equipment, Proprietary Funds	38,054	0	0	38,054
Total Equipment	<u>86,487</u>	<u>81,828</u>	<u>0</u>	<u>168,315</u>
Less Accumulated Depreciation for:				
Equipment, Governmental Funds	(6,878)	(33,040)	0	(39,918)
Equipment, Proprietary Funds	<u>(34,562)</u>	<u>(3,492)</u>	<u>        </u>	<u>(38,054)</u>
Total Accumulated Depreciation	<u>(41,440)</u>	<u>(36,532)</u>	<u>0</u>	<u>(77,972)</u>
Governmental Activities Capital Assets, Net	\$ <u>45,047</u>	\$ <u>45,296</u>	\$ <u>0</u>	\$ <u>90,343</u>

4. Changes in Long-Term Liabilities

The following is a summary of changes in long-term liabilities for the year ended June 30, 2007:

	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007	Due Within One Year
Governmental Activities:					
Compensated Absences	\$ <u>133,733</u>	\$ <u>165,036</u>	\$ <u>153,781</u>	\$ <u>144,988</u>	\$ <u>144,988</u>
Total Governmental Activities	\$ <u>133,733</u>	\$ <u>165,036</u>	\$ <u>153,781</u>	\$ <u>144,988</u>	\$ <u>144,988</u>

5. Payables and Receivables

A summary of accounts payable and accounts receivable at June 30, 2007, is shown below:

	Governmental Funds	Proprietary Fund	Balance June 30, 2007
<u>Accounts Payable:</u>			
Vendors	\$ 30,737	\$ 3,062	\$ 33,799
Employees	<u>57,766</u>	<u>864</u>	<u>58,630</u>
 Total Accounts Payable	 <u>\$ 88,503</u>	 <u>\$ 3,926</u>	 <u>\$ 92,429</u>
<u>Accounts Receivable:</u>			
Customers	\$ <u>0</u>	\$ <u>1,376</u>	\$ <u>1,376</u>
 Total Accounts Receivable	 <u>\$ 0</u>	 <u>\$ 1,376</u>	 <u>\$ 1,376</u>

6. Interfund Assets and Liabilities

A summary of interfund assets and liabilities at June 30, 2007, 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	\$ <u>46,967</u>	\$ <u>495</u>	\$ <u>47,462</u>
 Totals	 <u>\$ 46,967</u>	 <u>\$ 495</u>	 <u>\$ 47,462</u>
<u>Due From Other Funds:</u>			
General Government	\$ <u>0</u>	\$ <u>31,508</u>	\$ <u>31,508</u>
 Totals	 <u>\$ 0</u>	 <u>\$ 31,508</u>	 <u>\$ 31,508</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. Subsequent Events: Events taking place after the fiscal year end include:

The contract for the state's General Depository Services expires December 31, 2007. The State Treasurer's Office has exercised its 1<sup>st</sup> renewal option for the period January 1, 2008 through December 31, 2008.

Required Supplementary Information

**OFFICE OF STATE TREASURER  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
GOVERNMENTAL FUNDS  
Year Ended June 30, 2007**

	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	\$ 1,012,106	\$ 1,012,106	\$ 1,012,106	\$ 0	\$ 11,208	\$ 11,208	\$ 11,208	\$ 0
Resources (Inflows):								
Interest	2,369,000	2,369,000	1,958,344	(410,656)	0	0	0	0
Intergovernmental	0	0	3,459	3,459	3,200	3,200	991	(2,209)
Total Resources (Inflows)	<u>2,369,000</u>	<u>2,369,000</u>	<u>1,961,803</u>	<u>(407,197)</u>	<u>3,200</u>	<u>3,200</u>	<u>991</u>	<u>(2,209)</u>
Amount Available for Appropriation	<u>3,381,106</u>	<u>3,381,106</u>	<u>2,973,909</u>	<u>(407,197)</u>	<u>14,408</u>	<u>14,408</u>	<u>12,199</u>	<u>(2,209)</u>
Charges to Appropriations (Outflows):								
General Government	1,905,865	1,918,865	1,831,902	86,963	8,000	8,000	2,454	5,546
Transfers Out	641,393	642,554	569,873	72,681	4,799	4,799	4,784	15
Total Charges to Appropriations	<u>2,547,258</u>	<u>2,561,419</u>	<u>2,401,775</u>	<u>159,644</u>	<u>12,799</u>	<u>12,799</u>	<u>7,238</u>	<u>5,561</u>
Ending Budgetary Fund Balance	<u>\$ 833,848</u>	<u>\$ 819,687</u>	<u>\$ 572,134</u>	<u>\$ (247,553)</u>	<u>\$ 1,609</u>	<u>\$ 1,609</u>	<u>\$ 4,961</u>	<u>\$ 3,352</u>
Reconciling Items:								
Reclassifying Cash Equivalents as Investments			(463,627)				(4,020)	
Investments at Fair Value			463,112				4,016	
Accounts Payable			(30,342)				(395)	
Accrued Payroll			(57,766)				0	
Due to Other Funds			(46,967)				0	
Fund Balance - GAAP Basis			<u>\$ 436,544</u>				<u>\$ 4,562</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, 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 Appropriation	<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  
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, 2007, 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,					
	2007			2006		
	Appropriation Authority	Expenditures	Lapsed Balances	Appropriation Authority	Expenditures	Lapsed Balances
<b>GENERAL REVENUE FUND</b>						
Issuing duplicate/outlawed checks	\$ 1,000,000	866,674	133,326	1,000,000	936,628	63,372
Refunds of excess interest from the linked deposit program	100	0	100	3,000	0	3,000
Total General Revenue Fund	1,000,100	866,674	133,426	1,003,000	936,628	66,372
<b>TREASURER'S GENERAL OPERATIONS FUND</b>						
Personal service	1,457,149	1,402,659	54,490	1,337,950	1,334,149	3,801
Expense and equipment	270,655	251,182	19,473	238,641	236,364	2,277
Overtime	1,940	1,940	0	3,500	3,500	0
Treasurer State Owned Building	176,121	176,121	0	0	0	0
Total Treasurer's General Operations Fund	1,905,865	1,831,902	73,963	1,580,091	1,574,013	6,078
<b>TREASURER'S INFORMATION FUND</b>						
Personal service	0	0	0	89,691	89,660	31
Expense and equipment	8,000	2,454	5,546	25,000	2,116	22,884
Total Treasurer's Information Fund	8,000	2,454	5,546	114,691	91,776	22,915
<b>CENTRAL CHECK MAILING SERVICE REVOLVING FUND</b>						
Personal service	21,659	21,659	0	20,826	20,826	0
Expense and equipment	225,000	126,437	98,563	225,000	125,126	99,874
Total Central Check Mailing Service Revolving Fund	246,659	148,096	98,563	245,826	145,952	99,874
<b>SECOND INJURY FUND</b>						
Personal service	39,390	39,390	0	37,875	37,875	0
Expense and equipment	3,280	3,280	0	3,280	3,280	0
Total Second Injury Fund	42,670	42,670	0	41,155	41,155	0
<b>ABANDONED FUND ACCOUNT FUND</b>						
Personal service	446,055	436,138	9,917	455,480	445,527	9,953
Expense and equipment	98,600	76,145	22,455	98,600	95,051	3,549
Overtime	41,645	41,645	0	14,000	13,907	93
Advertising and auctions	561,000	551,691	9,309	513,001	508,412	4,589
Payment of claims for abandoned property	23,200,000	21,635,424	1,564,576	20,000,000	19,462,594	537,406
Total Abandoned Fund Account Fund	24,347,300	22,741,043	1,606,257	21,081,081	20,525,491	555,590
Total All Funds	\$ 27,550,594	25,632,839	1,917,755	24,065,844	23,315,015	750,829

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,	
	2007	2006
Personal service	\$ 1,943,431	1,945,444
Travel	14,752	7,639
Expense and equipment	403,642	255,730
Communications expense	39,305	39,322
Professional services	518,410	504,580
Equipment repairs and maintenance	63,620	86,335
Equipment and software purchases	147,581	76,743
Abandoned fund claim payments	21,635,424	19,462,594
Replacement of outlawed checks	866,674	936,628
Total Expenditures	<u>\$ 25,632,839</u>	<u>23,315,015</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, 2007

	Furniture and Equipment	Motor Vehicles	Total General Fixed Assets
Balance, June 30, 2006	\$ 741,128	16,582	757,710
Additions	100,020	0	100,020
Dispositions	(20,052)	0	(20,052)
Balance, June 30, 2007	<u>\$ 821,096</u>	<u>16,582</u>	<u>837,678</u>

Fund of Acquisition	Balance June 30, 2007
General Revenue Fund-State	\$ 630,733
Treasurer's General Operations Fund	128,562
Central Check Mailing Service Revolving Fund	38,054
Second Injury Fund	2,093
Abandoned Fund Account Fund	36,537
Treasurer's Information Fund	1,699
Total All Funds	<u>\$ 837,678</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,				
	2007	2006	2005	2004	2003
<b>APPROPRIATED FUNDS</b>					
Demand Deposits:					
US Bank	\$ 1,260,314	200,000	372,704	12,247,705	(5,845,909)
Central Bank	(17,643,721)	(124,548,876)	(130,664,664)	(58,532,570)	(133,946,937)
Premier Bank	28,400	26,350	70,273	58,705	17,025
Commerce Bank	46,689	330,495	0	0	0
Collection bank accounts	5,100,011	4,417,807	5,570,434	3,953,086	3,640,880
Bank of New York Midwest	63,555	27,739	(153,823)	0	0
UMB Bank	(157,866,914)	0	0	0	0
Total Demand Deposits	<u>(169,011,666)</u>	<u>(119,546,485)</u>	<u>(124,805,076)</u>	<u>(42,273,074)</u>	<u>(136,134,941)</u>
Pooled Investments:					
Time deposits	725,919,659	550,500,850	410,099,652	373,397,355	326,995,334
U.S. government securities	1,881,814,564	1,332,339,487	1,517,146,443	1,678,892,718	1,701,713,339
Commercial paper and banker acceptances	1,083,140,450	927,024,030	511,579,780	516,179,983	516,971,919
Repurchase agreements	142,474,000	306,261,001	256,490,000	356,298,000	361,795,000
Total Pooled Investments	<u>3,833,348,673</u>	<u>3,116,125,368</u>	<u>2,695,315,875</u>	<u>2,924,768,056</u>	<u>2,907,475,592</u>
Total Demand Deposits and Pooled Investments	<u>3,664,337,007</u>	<u>2,996,578,883</u>	<u>2,570,510,799</u>	<u>2,882,494,982</u>	<u>2,771,340,651</u>
Special Fund Dedicated Investments:					
U.S. government securities	31,849,243	23,582,012	22,490,817	22,307,523	19,513,106
Donated corporate stock	5,130	5,130	5,130	5,130	5,130
Total Special Fund Dedicated Investments	<u>31,854,373</u>	<u>23,587,142</u>	<u>22,495,947</u>	<u>22,312,653</u>	<u>19,518,236</u>
Total Appropriated Funds	<u>3,696,191,380</u>	<u>3,020,166,025</u>	<u>2,593,006,746</u>	<u>2,904,807,635</u>	<u>2,790,858,887</u>
<b>NONAPPROPRIATED FUNDS</b>					
Demand deposits	20,328	3,880	12,690,878	12,326,160	36,701
Repurchase agreements	21,996,084	2,911,106	5,694,294	8,329,000	19,406,000
US government securities	4,910,938	0	0	15,105,450	64,522,948
Commercial Paper and banker acceptances	24,977,950	0	0	0	0
Time deposits	50,000,000	0	0	0	0
Total Nonappropriated Funds	<u>101,905,300</u>	<u>2,914,986</u>	<u>18,385,172</u>	<u>35,760,610</u>	<u>83,965,649</u>
Total Cash and Investments	<u>\$ 3,798,096,680</u>	<u>3,023,081,011</u>	<u>2,611,391,918</u>	<u>2,940,568,245</u>	<u>2,874,824,536</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,				
		2007	2006	2005	2004	2003
<b>INTEREST RECEIPTS</b>						
General and special funds	\$	146,727,651	97,587,051	38,422,115	31,319,021	42,302,336
Debt retirement funds		15,978,846	12,820,914	1,828,999	1,684,923	2,320,783
Total Appropriated Funds		162,706,497	110,407,965	40,251,114	33,003,944	44,623,119
Trust funds		4,025,495	187,649	273,652	754,646	2,290,124
Total Interest Receipts	\$	166,731,992	110,595,614	40,524,766	33,758,590	46,913,243

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 five years. Accumulated depreciation on general capital assets at June 30, 2007, was \$710,882.

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 1242 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.

Except for \$277,854, the State Treasurer's deposits at June 30, 2007, were entirely covered by federal depositary 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 depositaries to pledge collateral securities to secure deposits not insured by the Federal Deposit Insurance Corporation.

## Investments

The State Treasurer's investments at June 30, 2007, 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.

	Reported Amount	Fair Value
Repurchase agreements	\$ 164,486,000	164,486,000
U.S. government securities	1,886,725,800	1,900,174,477
Commercial paper	1,108,125,671	1,107,758,043
Other investments	31,854,373	31,604,421
Total Investments	\$ <u>3,191,191,844</u>	<u>3,204,022,941</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 one central demand account at June 30, 2007, two at June 30, 2006, four at June 30, 2005, and twenty-three at June 30, 2004. The demand deposits with Central Bank consist of thirty-one central demand accounts at June 30, 2007, thirty-four at June 30, 2006, thirty-three at June 30, 2005, fourteen at June 30, 2004, and thirteen at June 30, 2003. The demand deposits with Premier Bank consist of two central demand accounts at June 30, 2007, 2006, 2005, 2004, and 2003. The demand

deposits with Bank of New York consist of two central demand accounts at June 30, 2007, eight 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, 2007 and 2006. The demand deposits with UMB Bank consist of five central demand accounts at June 30, 2007. Demand deposit bank balances were \$17,418, \$200,000, \$418,917, \$20,388,987, and \$11,072,902 at June 30, 2007 2006, 2005, 2004, and 2003 for US Bank; and \$13,586,834, \$16,490,088, \$11,720,611, \$77,114,881, and \$85,274,839 at June 30, 2007, 2006, 2005, 2004, and 2003 for Central Bank; and \$29,362, \$26,347, \$71,568, \$58,800, and \$17,018 at June 30, 2007, 2006, 2005, 2004, and 2003 for Premier Bank; and \$253 at June 30, 2007 and \$0 at June 30, 2006 and 2005 for Bank of New York Midwest; and \$10,974 at June 30, 2007 for UMB Bank; and \$163,448 and \$408,003 at June 30, 2007 and 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, 2007, 2006, 2005, 2004, and 2003. The Lottery Concentration Account was at Central Bank at June 30, 2007, 2006, and 2005 and at US Bank at June 30, 2004 and 2003. Collection account bank balances were approximately \$5,107,667, \$4,448,114, \$6,038,641, \$4,889,141, and \$4,420,803 at June 30, 2007, 2006, 2005, 2004, and 2003.

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, 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.



MANAGEMENT ADVISORY REPORT -  
STATE AUDITOR'S FINDINGS

OFFICE OF STATE TREASURER  
MANAGEMENT ADVISORY REPORT -  
STATE AUDITOR'S FINDINGS

**1.**

**Collateral Securities**

State funds totaling \$277,854 were not covered by collateral securities as of June 30, 2007. The State Treasurer's Office (STO) has time deposits and collection accounts in banks throughout the state. Prior to the deposit of monies into the banks, the banks must have adequate securities pledged to cover the deposits. Those securities are recorded in the STO collateral security system. Internal audits of the collateral securities system by the STO have not ensured that collateral securities are pledged in accordance with STO policies.

- A. We noted time deposits in one bank were under collateralized by \$55,773. This under collateralization was not detected in a timely manner by the STO because internal audits of the collateral securities system were not being performed in accordance with established policies and procedures.

We reviewed the audits performed by the STO Internal Audit Section of four custodial banks for the quarter ended June 30, 2007. The under collateralization we noted occurred because one of the STO's custodial banks released collateral without the consent or notification of the STO. According to the STO's contracts with the custodial banks, securities held for the STO cannot be released, transferred, liquidated, or disposed of without the written authorization of the STO. Replacement of securities requires the STO's prior verbal consent. After we noted this situation, the STO contacted the bank to inform them this was not in accordance with the contract.

Section 30.270, RSMo, requires the market value of securities pledged to be at least equal to the monies on deposit in the bank, less any Federal Deposit Insurance Corporation (FDIC) coverage. The STO's Internal Audit section is responsible for performing audits of the collateral security system to ensure the collateral securities held by the custodial banks agree to the STO's records of pledged collateral security. Each custodial bank is audited each quarter by comparing collateral listings received from the custodial banks with STO records. In September 2007, the STO discovered the collateral security audits were not being performed according to established policies and procedures. This problem allowed the situation noted above to go undetected for several months. Since September 2007, the STO has taken steps to ensure the internal audits of collateral security are performed correctly in accordance with policies and procedures.

- B. In another instance, one of the banks was under collateralized by \$222,081 as of June 30, 2007. This under collateralization was due to the book balance on the STO's system being understated because a planned withdrawal was put on hold

by the bank. The STO collateral system is supposed to generate a daily exception listing for banks that appear to be under collateralized which would have brought this problem to their attention if the balance on the STO system was accurate. However, no exception listing was generated for this bank, and the STO was not aware this bank was under collateralized until we brought it to their attention.

To ensure the state's funds are adequately secured in the event of a bank failure, the STO should ensure the above noted problems are corrected and policies and procedures are improved to allow the STO to discover and correct these problems in a more timely manner.

A situation similar to part A was noted in our 2004 audit. The STO appeared to have made improvements in this area, but we again noted discrepancies while performing the current audit.

**WE RECOMMEND** the STO:

- A. Ensure collateral security audits are being performed adequately to ensure under collateralizations are discovered in a timely manner. In addition, the office should ensure custodial banks adhere to contractual obligations.
- B. Establish procedures to ensure the balance per the STO's collateral security computer system is in agreement with the bank's balance and potential collateral issues are identified timely.

**AUDITEE'S RESPONSE**

- A. *We concur with this finding and recommendation. The STO made comprehensive revisions of policies and procedures for the Internal Audit Section's collateral security reviews which became effective as of September 30, 2007. We anticipate no further problems in the performance of these audits.*

*We would also note that, pursuant to protections within our contracts with custodial banks, any time a custodial bank releases a security without proper authorization from our office, as was the case in this finding, the custodial bank is liable for any loss that might otherwise have been incurred.*

- B. *We concur with this finding and recommendation. We identified an application error within our collateral security computer system that was immediately corrected by our Information Technology division, and controls have also been implemented allowing the collateral security computer system to be more closely monitored.*

*We again would note that, pursuant to protections within our contracts with depositary and pledging banks, any time a depositary or pledging bank does not maintain at least one hundred percent collateral on deposits, the bank is liable for any loss that might otherwise have been incurred.*

Leave taken by the Deputy State Treasurer to work on the State Treasurer's campaign for Governor was not reported in a timely manner.

During the period January 23 through April 15, 2008, the Deputy State Treasurer indicated that he performed work on the State Treasurer's campaign for Governor and took vacation leave from his state job when working on the campaign. During this time period, he remained an active state employee and received his full salary and benefits, including the accrual of vacation and sick leave. Although the Deputy State Treasurer was working on political activity, he reported no vacation leave taken during the period of January 23 through March 31, 2008, to the office's payroll section. The office's policies and practices generally require all employees (except the State Treasurer) to submit semi-monthly time sheets indicating hours worked and leave taken to support the office's payroll expenditures. During the period January 23 through March 31, 2008, the Deputy did not submit any official signed or completed time sheets. However, in April 2008, completed time sheets were provided by the Deputy for the abovementioned period.

Using the completed time sheets, on April 17, 2008, the STO recorded 173 hours of vacation leave taken and 16 hours of sick leave taken on the state's payroll system for the Deputy State Treasurer during the period of January 23 through March 31, 2008. This leave was recorded by processing numerous prior period adjustments. On this same date, 52 hours of vacation leave taken and 32 hours of sick leave taken was recorded for the period April 1 through April 15, 2008. When leave was not taken during these periods, the Deputy was apparently working at his state job. Had all leave taken by the Deputy State Treasurer been reported timely and accurately, no prior period adjustments would have been necessary.

We questioned the Deputy State Treasurer about his untimely reporting of leave. The Deputy indicated that his leave had not been reported timely but he stated his leave was reported accurately. Considering the timing of when the Deputy's leave was ultimately reported, it appears these actions may have been prompted in part by inquiries from the media.

All state employees should report all time worked and leave taken accurately and timely for the applicable pay period to reduce the need for prior period adjustments and eliminate the reliance on recollection of hours worked and leave taken weeks or months after the actual occurrence. Furthermore, there is no provision that exists in state law that allows any state official to use state resources for non-official (personal or political) purposes. When staff are splitting time between official and non-official functions, the State Treasurer must ensure that state appropriations and all other state resources are used only for official duties of the office.

**WE RECOMMEND** the State Treasurer ensure employees accurately report the time worked on state business and leave taken, ensure all appropriate and necessary adjustments have been made for past non-official duties performed by office staff, and ensure that state appropriations and all other state resources of the office are used only for official duties.

**AUDITEE'S RESPONSE**

*We concur with this finding and recommendation.*

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, 2007, the office had forty-seven full-time positions and five part-time positions to assist in the accomplishment of its mission. An organization chart follows.



OFFICE OF STATE TREASURER  
 ORGANIZATION CHART  
 JUNE 30, 2007

