



**OKLAHOMA  
DEPARTMENT OF  
SECURITIES**

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

**AS OF AND FOR THE FISCAL YEAR ENDED  
JUNE 30, 2019 AND 2018**

**OKLAHOMA  
DEPARTMENT OF SECURITIES**

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**OKLAHOMA DEPARTMENT OF SECURITIES  
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## INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners  
Oklahoma Department of Securities  
Oklahoma Securities Commission

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Oklahoma Department of Securities (the "Department"), a department of the State of Oklahoma, as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Department, as of June 30, 2019 and 2018, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note A, the financial statements present only the financial position, changes in financial position and cash flows of the Oklahoma Department of Securities and do not purport to, and do not present fairly the financial position of the State of Oklahoma as of June 30, 2019 and 2018, the changes in its financial position, or its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

***Other Matters***

***Required Supplementary Information***

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

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2020, on our consideration of the Department’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department’s internal control over financial reporting and compliance.



March 15, 2020

## **Management's Discussion and Analysis – Unaudited**

The discussion and analysis section of the financial statements of the Oklahoma Department of Securities (the "Department") provides an overview of the Department's financial activities for the fiscal years ended June 30, 2019 and June 30, 2018. Since this discussion and analysis section is designed to focus on current activities, resulting changes and current known facts, please read it in conjunction with the Department's financial statements and footnotes. A comparative analysis of the prior years' financial data is provided.

## **Financial Highlights**

### **Statements of Net Position and Statements of Revenues, Expenses, and Changes in Net Position**

The Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Net Position report the Department's net position and how it has changed. Net position – the residual difference of assets, deferred outflows, liabilities and deferred inflows – is one way to measure the Department's financial health. Non-financial factors are also important to consider, such as changes in Oklahoma laws.

These statements include all assets, deferred outflows, liabilities and deferred inflows using the accrual basis of accounting. All of the year's revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid.

Schedule A is prepared from the Department's Statements of Net Position, and summarizes the Department's assets, liabilities, and net position as of June 30, 2019, with comparative totals at June 30, 2018 and 2017, respectively. The Department currently does not have any transactions that meet the definitions of deferred inflows and deferred outflows and therefore, no deferrals are reported on the Statements of Net Position.



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**Schedule A**  
**Net Position at June 30, 2019**  
**With Comparative Totals at June 30, 2018 and 2017**

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Current assets	\$ 6,675,675	\$ 6,075,883	\$ 6,950,978
Noncurrent assets	79,764	106,074	122,234
Total assets	<u>\$ 6,755,439</u>	<u>\$ 6,181,957</u>	<u>\$ 7,073,212</u>
Current liabilities	\$ 536,683	\$ 442,185	\$ 294,483
Noncurrent liabilities	673,973	838,431	719,605
Total liabilities	1,210,656	1,280,616	1,014,088
Net position			
Investment in capital assets	79,764	106,074	122,234
Restricted net position - expendable	909,105	391,835	387,889
Unrestricted net position	4,555,914	4,403,432	5,549,001
Total net position	<u>\$ 5,544,783</u>	<u>\$ 4,901,341</u>	<u>\$ 6,059,124</u>

For the year ended June 30, 2019, current assets increased due to penalties received from a large multi-state settlement. As a result of the settlement, restricted cash increased approximately \$495,000 or 127%.

Also, for the year ended June 30, 2019, current liabilities increased primarily due to an increase in accrued compensated absences. Two additional employees becoming eligible for retirement and two employees scheduled to retire within one year contributed to an increase in current accrued compensated absences of \$86,591, or a 46% increase from the year ended June 30, 2018.

For the year ended June 30, 2018, current assets decreased due to a legislatively mandated transfer to the State's general revenue fund. As a result of the transfer, unrestricted cash decreased approximately \$760,000 or 12%.

Also, for the year ended June 30, 2018, current liabilities increased primarily due to an increase in accrued compensated absences. Market adjustments to employee salaries made in FY18 resulted in an increase in accrued compensated absences of \$107,178, or a 134% increase from the year ended June 30, 2017.

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Schedule B is prepared from the Department's Statements of Revenues, Expenses, and Changes in Net Position for the year ended June 30, 2019, with comparative totals for the years ended June 30, 2018 and 2017, respectively.

**Schedule B  
Operating Results for the Year Ended June 30, 2019  
With Comparative Totals for the Years Ended June 30, 2018 and 2017**

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Operating revenues			
Registration fees	\$ 23,071,767	\$ 23,061,673	\$ 23,083,873
Fines, penalties, and other	599,309	22,581	28,511
Operating expenses	<u>(5,185,052)</u>	<u>(4,412,948)</u>	<u>(4,571,165)</u>
Net operating income	18,486,024	18,671,306	18,541,219
Nonoperating revenues (expenses)			
Interest income	12,485	7,134	7,573
Transfers to and due to State of Oklahoma	(17,855,067)	(17,836,223)	(17,615,723)
Legislatively mandated transfer to			
General Revenue	<u>-</u>	<u>(2,000,000)</u>	<u>(3,900,000)</u>
Net nonoperating revenues (expenses)	(17,842,582)	(19,829,089)	(21,508,150)
Change in net position	643,442	(1,157,783)	(2,966,931)
Net position - beginning	<u>4,901,341</u>	<u>6,059,124</u>	<u>9,026,055</u>
Net position - ending	<u>\$ 5,544,783</u>	<u>\$ 4,901,341</u>	<u>\$ 6,059,124</u>

**Expenses**

In 2019, salaries, wages and benefits increased \$394,696 or 10% as the result of market adjustments to employee salaries made at the end of FY18. Additionally, there was no legislatively mandated transfer to the State's general revenue fund in FY19.

In 2018, transfers to and due to State of Oklahoma decreased approximately \$1,680,000. This is primarily due to the legislatively mandated transfer to the State's general revenue fund decreasing from \$3.9 million in FY17 to \$2.0 million in FY18.

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Schedule C summarizes the Department's operating expenses for the years ended June 30, 2019, 2018 and 2017, respectively.

**Schedule C**  
**Operating Expenses for the Year Ended June 30, 2019**  
**With Comparative Totals for the Years Ended June 30, 2018 and 2017**

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Salaries, wages, and benefits	\$4,218,568	\$3,823,872	\$3,864,516
Rent expense	295,965	301,330	283,593
Contracted and professional services	346,592	67,799	61,167
Depreciation	50,577	46,841	65,801
Investor education professional services	95,716	23,026	131,748
Other general and administrative expenses	177,634	150,080	164,340
	<u>\$5,185,052</u>	<u>\$4,412,948</u>	<u>\$4,571,165</u>

General and administrative expenses include travel, telecommunication services, software, maintenance, supplies, insurance premiums, membership dues, library resources, furniture and equipment.

**Statements of Cash Flows**

The primary purpose of the Statements of Cash Flows is to provide information about the cash receipts and disbursements of an entity during a period. These statements also aid in the assessment of an entity's ability to generate future net cash flows, ability to meet obligations as they come due, and needs for external financing.

Schedule D is prepared from the Department's Statements of Cash Flows, and summarizes the Department's cash flow for the year ended June 30, 2019, with comparative totals for the years ended June 30, 2018, and 2017, respectively.

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**Schedule D**  
**Cash Flows for the Year Ended June 30, 2019**  
**With Comparative Totals for the Years Ended June 30, 2018 and 2017**

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Cash provided by (used in):			
Operating activities	\$ 18,464,649	\$ 19,144,424	\$ 18,530,956
Noncapital activities	(17,895,387)	(19,891,903)	(21,776,293)
Capital and related financing activities	(24,267)	(30,681)	(8,128)
Investing activities	11,227	7,059	7,697
Net increase (decrease) in cash	<u>556,222</u>	<u>(771,101)</u>	<u>(3,245,768)</u>
Cash - beginning of year	<u>6,055,528</u>	<u>6,826,629</u>	10,072,397
Cash - end of year	<u>\$ 6,611,750</u>	<u>\$ 6,055,528</u>	<u>\$ 6,826,629</u>

### Other Financial Information

#### Economic Outlook

The Department's Revolving Fund is a continuing fund, not subject to limitations, consisting of fees and other charges collected by the Administrator as set forth in 71 O.S. §1-612(E). With legislative authorization, such funds may be budgeted and expended by the Department as may be necessary to perform the duties imposed upon the Department by law. The ability of the Department to fund operations necessary to meet its mission depends on the amount of cash deposited in the Revolving Fund that in turn depends on the amount of fees that are statutorily authorized by the Legislature for deposit in the Revolving Fund. For 2019, there were sufficient revenues deposited in the Revolving Fund for Department operations. There is no assurance, however, that a change in the fee structure by the Legislature will be sufficient to fund future operations.

During the 2017 legislative session, the Oklahoma Legislature directed the transfer of \$2,000,000 from the Department's revolving fund to the State's general revenue fund. The transfer occurred in July 2017.

During the 2016 legislative session, the Oklahoma Legislature directed the transfer of \$3,900,000 from the Department's revolving fund to the State's general revenue fund. The transfer occurred in July 2016.

The following items could potentially affect the Department's future operations:

- Legislative mandates in connection with the administration and enforcement of the *Oklahoma Securities Act*, *Subdivided Land Sales Code*, *Business Opportunity Sales Act* and the *Take-Over Disclosure Act*.
- Reduction or elimination of carry-over funds from one fiscal year to another.
- The economic climate.
- Federal legislation.
- Any legislation changing the fee allocations to the Department's Revolving Fund.

### **Investor Education**

During the fiscal year 2003, the Department received \$574,000 as a part of a multi-state settlement with a major broker-dealer and the Legislature established the Department of Securities Investor Education Revolving Fund to segregate the funds for investor education. These designated amounts are to be used exclusively for the specific purposes of research for education and education of Oklahoma residents in matters concerning securities laws and general investor protection.

A subsequent settlement with nine broker-dealer firms resulted in the receipt of \$4,121,091 during fiscal years 2003 and 2004. Settlements of \$597,000, \$19,838, and \$25,000 were received during fiscal years 2019, 2018, and 2017, respectively. Interest earned on the restricted funds was \$12,485, \$7,134, and \$7,573 for the years ended June 30, 2019, 2018, and 2017, respectively.

Invest Ed® is a multi-component investor education program. The programs are created to provide unbiased investment and anti-fraud information to Oklahomans of all ages. The 2019 Invest Ed® programs included the continuation of the high school investor education and teacher training through the STARS (Students Tracking and Researching the Stock Market) program and other outreach efforts.

For additional information or to access a variety of available resources, visit the Invest Ed® Internet Site at [www.investedok.org](http://www.investedok.org).

### **Contacting the Department's Financial Management**

This financial report is designed to provide a general overview of the Department's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Administrator, 204 North Robinson, Suite 400, Oklahoma City, OK 73102.

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**BASIC FINANCIAL STATEMENTS – STATEMENTS OF NET POSITION, CHANGES IN NET  
POSITION AND CASH FLOWS**

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**Statements of Net Position – June 30, 2019 and 2018**

	2019	2018
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 5,726,129	\$ 5,665,198
Cash restricted for investor education	885,621	390,330
Accrued interest restricted for investor education	1,925	667
Accounts receivable-investor education	62,000	838
Accounts receivable	-	18,850
Total current assets	6,675,675	6,075,883
Long-term assets		
Capital assets, net	79,764	106,074
Total assets	\$ 6,755,439	\$ 6,181,957
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	\$ 150,737	\$ 142,951
Due to State of Oklahoma	71,780	112,100
Accrued compensated absences	273,725	187,134
Accounts payable from restricted assets	40,441	-
Total current liabilities	536,683	442,185
Long-term liabilities		
Accrued compensated absences	673,973	838,431
Total liabilities	1,210,656	1,280,616
<b>NET POSITION</b>		
Investment in capital assets	79,764	106,074
Restricted net position - expendable	909,105	391,835
Unrestricted net position	4,555,914	4,403,432
Total net position	5,544,783	4,901,341
Total liabilities and net position	\$ 6,755,439	\$ 6,181,957

See notes to financial statements

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**Statements of Revenues, Expenses and Changes in Net Position – Years Ended June 30, 2019 and 2018**

	2019	2018
<b>OPERATING REVENUES</b>		
Securities registration fees	\$ 14,563,587	\$ 14,692,913
Securities professionals' registration fees	8,508,180	8,368,760
Fines, penalties, and administrative fees	597,000	19,838
Other revenue	2,309	2,743
Total operating revenues	23,671,076	23,084,254
<b>OPERATING EXPENSES</b>		
Salaries, wages, and benefits	4,218,568	3,823,872
Rent expense	295,965	301,330
Contracted and professional services	346,592	67,799
Depreciation	50,577	46,841
Investor education professional services	95,716	23,026
Other general and administrative expenses	177,634	150,080
Total operating expenses	5,185,052	4,412,948
Net operating income	18,486,024	18,671,306
<b>NONOPERATING REVENUE (EXPENSE)</b>		
Interest income	12,485	7,134
Transfers to and due to State of Oklahoma	(17,855,067)	(17,836,223)
Legislatively mandated transfer to General Revenue	-	(2,000,000)
Net nonoperating revenue (expense)	(17,842,582)	(19,829,089)
Change in net position	643,442	(1,157,783)
Net position - beginning	4,901,341	6,059,124
Net position - ending	\$ 5,544,783	\$ 4,901,341

See notes to financial statements



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**Statements of Cash Flows – Years Ended June 30, 2019 and 2018**

	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Registration of professionals and securities	\$ 23,090,617	\$ 23,164,080
Fines, penalties, and other	538,147	24,243
Payments to suppliers	(867,680)	(446,031)
Compensation and benefits	(4,296,435)	(3,597,868)
Net cash provided by operating activities	18,464,649	19,144,424
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Payments to State's general fund	(17,895,387)	(17,891,903)
Legislatively mandated transfer to State's general fund	-	(2,000,000)
Net cash provided by (used in) noncapital financing activities	(17,895,387)	(19,891,903)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of capital assets	(24,267)	(30,681)
Net cash provided by (used in) capital and related financing activities	(24,267)	(30,681)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	11,227	7,059
Net cash provided by investing activities	11,227	7,059
<b>Net increase (decrease) in cash and cash equivalents</b>	556,222	(771,101)
<b>Balances - beginning of year</b>	6,055,528	6,826,629
<b>Balances - end of year</b>	\$ 6,611,750	\$ 6,055,528
<b>Reconciliation to Statement of Net Position</b>		
Cash and cash equivalents	\$ 5,726,129	\$ 5,665,198
Cash restricted for investor education	885,621	390,330
Total cash and cash equivalents - end of year	\$ 6,611,750	\$ 6,055,528
<b>Reconciliation of net operating income to net cash provided by operating activities</b>		
Net operating income	\$ 18,486,024	\$ 18,671,306
Adjustment to reconcile net operating income to net cash provided by operating activities		
Depreciation	50,577	46,841
Changes in operating assets and liabilities		
Accounts receivable	18,850	102,407
Accounts receivable, restricted for investor education	(61,162)	1,662
Accounts payable	48,227	96,204
Accrued compensated absences	(77,867)	226,004
Net cash provided by operating activities	\$ 18,464,649	\$ 19,144,424

See notes to financial statements

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**NOTES TO THE FINANCIAL STATEMENTS**

**NOTES TO THE FINANCIAL STATEMENTS:**

**NOTE A—NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Operations**

The Oklahoma Department of Securities (the “Department”) and its governing body, the Oklahoma Securities Commission (the “Commission”), were established by the 1959 Oklahoma Legislature. The Department’s primary objective is to protect investors through the administration and enforcement of the Oklahoma Uniform Securities Act of 2004 (OUSA of 2004). This act prohibits fraud in securities transactions and requires the registration of broker-dealers, agents, investment advisers, and investment adviser representatives, and the registration of securities. The Department also administers the Oklahoma Business Opportunity Sales Act, the Oklahoma Subdivided Land Sales Code, and the Oklahoma Take-Over Disclosure Act of 1985.

The primary duties of the Department are detailed in Title 71 of the Oklahoma Statutes and include registration and examination of broker-dealers, agents, investment advisers, and investment adviser representatives; registration of securities and securities transactions; investigation and enforcement; and investor education.

The Department is governed by the Commission that consists of five members appointed by the Governor. The Commission appoints and fixes the salary of the Administrator of the Department.

**Financial Statement Presentation**

The Department’s financial statements are reported as an enterprise fund. The bulk of the Department’s revenue is derived from fees paid by external users.

**Reporting Entity**

The financial reporting entity, as defined by Governmental Accounting Standards Board (“GASB”) Statement No. 14, *The Financial Reporting Entity*, and as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, and Statement 61, *The Financial Reporting Entity*, consists of the primary government, organizations that the primary government is financially accountable for, and other organizations that the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete.

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The accompanying financial statements include the accounts and funds of the Department. The Department is included in the State of Oklahoma (the "State") financial reporting entity. The Department's transactions are included as a part of the General Fund-Regulatory Services.

**Basis of Accounting**

The financial statements have been reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

**Cash and Cash Equivalents**

For purposes of the Statements of Cash Flows, the Department considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. The cash and cash equivalents are on deposit with the Oklahoma State Treasurer. Certain funds received from settlements, fines, and judgments are restricted for investor education. Interest earned on the restricted cash carries the same restriction. Restricted cash and interest (net of accounts payable from restricted assets) are reported as restricted net position – expendable at June 30, 2019 and 2018, in the accompanying Statements of Net Position.

**Accounts Receivable**

Starting in 2019 the Department no longer records deposits in transit as accounts receivable. For 2018, accounts receivable consist primarily of deposits in transit. All deposits in transit subsequently posted in July 2018.

**Capital Assets**

Capital assets, with an individual cost of \$500 or more, are capitalized at cost at the date of acquisition. Depreciation is computed on the straight-line method over the useful life of the asset, generally three, five, and ten years. When assets are disposed of, the cost and related accumulated depreciation are removed from the accounts, and any gain or loss is reflected in the results from operations in the period of disposal.

**Due to State of Oklahoma**

Due to State of Oklahoma consists of the portion of registration and filing fees that are required by state statute to be transferred into the State's General Fund and, as of the end of the year, had not been transferred. All amounts due to the state were transferred subsequent to year end.

### **Compensated Absences**

Employees' compensated absences are accrued at year-end for financial statement purposes. The liability and expense incurred are recorded as accrued compensated absences in the Statements of Net Position, and as an expense in the Statements of Revenues, Expenses, and Changes in Net Position. Employees earn vacation at the rate of 10 hours per month for the first four years, 12 hours per month during the fifth through ninth year, 13.33 hours per month during the tenth to nineteenth year, and 16.66 hours per month, thereafter. A maximum of 240 hours of vacation may be accrued during the first four years of employment and a maximum of 480 hours may be accrued thereafter.

### **Net Position**

The Department's net position is classified as follows:

*Investment in capital assets* – This represents the Department's total investment in capital assets. The Department has no outstanding debt related to the capital assets as of June 30, 2019 and 2018.

*Restricted net position – expendable* – This includes resources that the Department is legally and contractually obligated to spend in accordance with restrictions imposed by external third parties. As of June 30, 2019 and 2018, this balance consisted of cash, accrued interest restricted for investor education, and accounts receivable-investor education.

*Unrestricted* – Unrestricted net position represents all other resources not classified as invested in capital assets or restricted. These resources are used for transactions relating to the general operations of the Department and may be used at the discretion of the Administrator to meet current expenses for any authorized purpose.

When the budget is adopted, a decision is made as to whether restricted or unrestricted resources are used to fund an expense. Generally, the Department's policy is to first charge the expense toward restricted resources, if appropriate, and then toward unrestricted resources.

### **Classifications of Revenues**

The Department has classified its revenues as either operating or non-operating according to the following criteria:

*Operating revenue* – Operating revenues include activities that have the characteristics of exchange transactions, such as fees.

*Non-operating revenue* – Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources, such as interest income, that are defined as non-operating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting*, and investment income as defined by GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

### **Estimates**

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

## **NOTE B—CASH AND INVESTMENTS**

### **Cash**

*Custodial credit risk* for deposits is the risk that in the event of a bank failure, the Department's deposits may not be returned or the Department will not be able to recover collateral securities in the possession of an outside party. The Department deposits its funds with the Office of the State Treasurer (OST). Oklahoma statutes require OST to ensure that all state funds either be insured by Federal Deposit Insurance, collateralized by securities held by the cognizant Federal Reserve Bank, or invested in U.S. government obligations. The Department's deposits with the State Treasurer are pooled with the funds of other State agencies and then, in accordance with statutory limitations, placed in financial institutions or invested as the Treasurer may determine, in the State's name.

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As of June 30, 2019 and 2018, the carrying amounts of the Department's deposits with the State Treasurer were \$6,611,750 and \$6,055,028 respectively.

**Investments**

Investor Education Revolving Fund deposits with the State Treasurer are placed in the State Treasurer's internal investment pool *OK INVEST*. Of funds on deposit with the State Treasurer, amounts invested in *OK INVEST* total \$888,862 and \$390,330 as of June 30, 2019 and 2018, respectively.

For financial reporting purposes, deposits with the State Treasurer that are invested in *OK INVEST* are classified as cash equivalents. At June 30, the State Treasurer reports the Department's proportionate share of *OK INVEST* to be:

OK INVEST Portfolio	2019		2018	
	Cost	Fair Value	Cost	Fair Value
U.S. Agency securities	\$ 275,402	\$ 277,109	\$ 177,834	\$ 176,969
Money market mutual funds	88,462	88,462	38,099	38,098
Certificates of deposit	19,653	19,653	14,674	14,674
Mortgage-backed agency securities	357,155	364,594	154,189	153,730
Municipal bonds	1,579	1,649	2,359	2,414
Foreign bonds	3,682	3,626	1,411	1,510
U.S. Treasury Obligations	142,929	144,802	1,764	2,053
	<u>\$ 888,862</u>	<u>\$ 899,895</u>	<u>\$ 390,330</u>	<u>\$ 389,448</u>

The Department implemented GASB Statement No. 72, Fair Value Measurement and Application, during the fiscal year ended June 30, 2016. Fair value according to GASB 72 focuses particular attention on the price that would be required to acquire the asset (entry price). The valuation technique used was the "market approach" using prices and other relevant information generated by market transactions involving identical or similar assets, liabilities, or groups of assets and liabilities.

Except for investment in nonparticipating interest earning investment contracts (e.g. nonnegotiable certificates of deposit) which are considered cash equivalents, the Department categorizes its fair value measurement within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

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Stated fair value in the financial statements is determined by the custodial relationship existing at June 30, 2019. The custodian's hierarchy level for fixed income is classified as a Level 2 assessment due to fair value observable inputs using market based pricing and an evaluated price provided by an independent pricing vendor or broker-dealer. Per GASB 72, the assets are reported at the lowest input level when fair value inputs are from more than one level. As reported to the Department by the State Treasurer, the Department's portfolio has the following recurring fair value measurements as of June 30, 2019:

	<u>Fair Value</u>	<u>Categories</u>	<u>Average Credit Quality Rating (1)</u>	<u>Weighted Average Maturity (Days) (2)</u>
U.S. Agency securities	\$ 277,109	Level 2	AA+ (3)	379
Money market mutual funds	88,462	-	AAA	1
Certificates of deposit	19,653	-	not rated	60
Mortgage-backed agency securities	364,594	Level 2	AGY(3)	1433
Municipal bonds	1,649	Level 2	(4)	537
Foreign bonds	3,626	Level 2	not rated	682
U.S. Treasury Obligations	144,802	Level 2	AAA	696
	<u>\$ 899,895</u>			

- (1) Ratings are provided where applicable to indicate associated Credit Risk.
- (2) Interest Rate Risk is estimated using weighted average days to maturity.
- (3) These securities are implicitly or explicitly guaranteed by the U.S. Government and currently a rating is not provided by the nationally recognized statistical rating organization. GASB rating provided by Custodian Bank, Northern Trust, is TSY or AGY.
- (4) All Municipal Bonds possessed a AA rating when purchased. As of June 30, 2019, 100% had a rating of AA-.



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As reported to the Department by the State Treasurer, the Department's portfolio had the following recurring fair value measurements as of June 30, 2018:

	<u>Fair Value</u>	<u>Categories</u>	<u>Average Credit Quality Rating (1)</u>	<u>Weighted Average Maturity (Days) (2)</u>
U.S. Agency securities	\$ 176,969	Level 2	AA+ (3)	410
Money market mutual funds	38,098	-	AAA	1
Certificates of deposit	14,674	-	not rated	55
Mortgage-backed agency securities	153,730	Level 2	AGY(3)	1932
Municipal bonds	2,414	Level 2	(4)	397
Foreign bonds	1,510	Level 2	not rated	1006
U.S. Treasury Obligations	2,053	Level 2	TSY (3)	15
	<u>\$ 389,448</u>			

- (1) Ratings are provided where applicable to indicate associated Credit Risk.  
(2) Interest Rate Risk is estimated using weighted average days to maturity.  
(3) These securities are implicitly or explicitly guaranteed by the U.S. Government and currently a rating is not provided by the nationally recognized statistical rating organization. GASB rating provided by Custodian Bank, Northern Trust, is TSY or AGY.  
(4) All Municipal Bonds possessed a AAA rating when purchased. As of June 30, 2018, 37.38% had a rating of AAA, 9.01% had a rating of AA+, 15.11% had a rating of AA, 38.51% had a rating of AA-.

Agencies and funds that are considered to be part of the State's reporting entity in the State's Comprehensive Annual Financial Report are allowed to participate in *OK INVEST*. Oklahoma statutes and the State Treasurer establish the primary objectives and guidelines governing the investment of funds in *OK INVEST*. Safety, liquidity, and return on investment are the objectives that establish the framework for the day to day *OK INVEST* management with an emphasis on safety of the capital and the probable income to be derived and meeting the State's daily cash flow requirements. Guidelines in the State Treasurer's Investment Policy address credit quality requirements, diversification percentages and the types and maturities of allowable investments.

The specifics regarding these policies can be found on the State Treasurer's website at <http://www.ok.gov/treasurer>. The State Treasurer, at his discretion, may further limit or restrict such investments on a day to day basis. *OK INVEST* includes a substantial investment in securities with an overnight maturity as well as in U.S. government securities with a maturity of up to ten years. *OK INVEST* maintains an overall weighted average maturity of no more than four years.

Participants in *OK INVEST* maintain an interest in its underlying investments and, accordingly, may be exposed to certain risks. As stated in the *OK INVEST* Information Statement as of July 2014, the main risks are interest rate risk, credit/default risk, liquidity risk, and U.S. government securities risk. Interest rate risk is the risk that during periods of rising interest rates, the yield and market value of the securities will tend to be lower than prevailing market rates; in periods of falling interest rates, the yield will tend to be higher. Credit/default risk is the risk that an issuer or guarantor of a security, or a bank or other financial institution that has entered into a repurchase agreement, may default on its payment obligations. Liquidity risk is the risk that *OK INVEST* will be unable to pay redemption proceeds within the stated time period because of unusual market conditions, an unusually high volume of redemption requests, or other reasons. U.S. Government securities risk is the risk that the U.S. government will not provide financial support to U.S. government agencies, instrumentalities or sponsored enterprises if it is not obligated to do so by law. Various investment restrictions and limitations are enumerated in the State Treasurer's Investment Policy to mitigate those risks; however, any interest in *OK INVEST* is not insured or guaranteed by the State, the FDIC or any other government agency.

#### **NOTE C—FEES**

As to securities, state statutes specify fee amounts and assessments for registrations, examinations, exemptions, and investment company notices.

The registration of securities requires that a filing fee of one-tenth of one percent, but not less than \$200 or more than \$2,500, of the aggregate offering price of the registered securities be remitted to the Department. The Department is required to remit all of the filing fees to the State's General Fund. Registration statement filings, according to state statute, require an examination fee of \$200 that is to be deposited into the Department's Revolving Fund.

A filing fee of \$500 is required for all investment company notice filings. According to state statute, \$350 is required to be remitted to the State's General Fund and \$150 is to be remitted to the

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Department's Revolving Fund. Issuers filing a request for an order of exemption or an exemption notification are required by state statute to remit a fee of \$250 to the Department. This fee is required to be remitted to the State's General Fund. There has been no fee or allocation change during fiscal years 2019 or 2018.

The Department charges registration or notice filing fees to broker-dealers, broker-dealer agents, investment advisers and investment adviser representatives on an annual basis. Such fees range from \$10 to \$300 and are remitted to the State's General Fund or the Department's Revolving Fund, as mandated by state statutes.

Civil or administrative penalties, fines, and costs are determined by either court order or the Administrator.

**NOTE D—CAPITAL ASSETS**

The following is a summary of the changes in capital assets for the year ended June 30, 2019:

	Balance at June 30, 2018	Additions	Retirements	Balance at June 30, 2019
Capital assets:				
Depreciable:				
Computer hardware	\$ 369,864	\$ 24,267	\$ -	\$ 394,131
Computer software	110,661	-	-	110,661
Furniture and equipment	81,111	-	-	81,111
Telephone equipment	59,276	-	-	59,276
Total depreciable capital assets	<u>620,912</u>	<u>24,267</u>	<u>-</u>	<u>645,179</u>
Accumulated depreciation:				
Computer hardware	(358,352)	(13,512)	-	(371,864)
Computer software	(57,257)	(19,272)	-	(76,529)
Furniture and equipment	(62,287)	(7,666)	-	(69,953)
Telephone equipment	(36,942)	(10,127)	-	(47,069)
Total accumulated depreciation	<u>(514,838)</u>	<u>(50,577)</u>	<u>-</u>	<u>(565,415)</u>
Net capital assets	<u>\$ 106,074</u>	<u>\$ (26,310)</u>	<u>\$ -</u>	<u>\$ 79,764</u>

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The following is a summary of the changes in capital assets for the year ended June 30, 2018:

	Balance at June 30, 2017	Additions	Retirements	Balance at June 30, 2018
Capital assets:				
Depreciable:				
Computer hardware	\$ 369,864	\$ -	\$ -	\$ 369,864
Computer software	81,478	29,183	-	110,661
Furniture and equipment	80,424	687	-	81,111
Telephone equipment	58,465	811	-	59,276
Total depreciable capital assets	<u>590,231</u>	<u>30,681</u>	<u>-</u>	<u>620,912</u>
Accumulated depreciation:				
Computer hardware	(344,586)	(13,766)	-	(358,352)
Computer software	(42,849)	(14,408)	-	(57,257)
Furniture and equipment	(53,653)	(8,634)	-	(62,287)
Telephone equipment	(26,909)	(10,033)	-	(36,942)
Total accumulated depreciation	<u>(467,997)</u>	<u>(46,841)</u>	<u>-</u>	<u>(514,838)</u>
Net capital assets	<u>\$ 122,234</u>	<u>\$ (16,160)</u>	<u>\$ -</u>	<u>\$ 106,074</u>

**NOTE E—COMPENSATED ABSENCES**

The following is a summary of changes in compensated absences of the Department for the years ended June 30:

2019				
Balance at June 30, 2018	Additions	Deductions	Balance at June 30, 2019	Current Portion June 30, 2019
<u>\$ 1,025,565</u>	<u>\$ 374,330</u>	<u>\$ 452,197</u>	<u>\$ 947,698</u>	<u>\$ 273,725</u>
2018				
Balance at June 30, 2017	Additions	Deductions	Balance at June 30, 2018	Current Portion June 30, 2018
<u>\$ 799,561</u>	<u>\$ 673,832</u>	<u>\$ 447,828</u>	<u>\$ 1,025,565</u>	<u>\$ 187,134</u>

**NOTE F—RETIREMENT PLAN**

The Department provides a retirement benefit for all of its permanent employees through the Oklahoma Public Employees Retirement System (OPERS), a statewide cost-sharing plan. All full-time employees as of October 31, 2015, are eligible and are required to participate in the OPERS DB plan. OPERS DB is a defined benefit plan that provides benefits based on the members' final compensation, age, and term of service. OPERS DB also provides death and disability benefits to its members. The plan's provisions are set by Title 74 of the Oklahoma State Statutes. The employees' required contribution rate was 3.50% for 2019 and 2018. The Department's required contribution rate was 16.50% for 2019 and 2018. Members may elect to contribute an additional contribution rate to increase the benefit calculating factor upon retirement. Members become 100% vested in the plan after eight years of accredited service. As stated in Title 74, Section 921, of the Oklahoma Statutes, administrative expenses are paid by OPERS.

Unless previous OPERS participants, employees who become employed by the Department on or after November 1, 2015, are required to participate in Pathfinder, a defined contribution plan administered by OPERS. Under this plan, employees have a mandatory contribution rate of 4.5% that will be matched by the Department at 6%. Employees can receive an additional 1% matching contribution when they make a voluntary contribution of 2.5%. Additionally, the Department is required to remit the difference between the match amount and the required OPERS contribution rate, currently 16.50%, in accordance with Title 74, Section 920 of the Oklahoma Statutes. Members become progressively vested in the matching employer contributions according to a vesting schedule, and are fully vested after 5 years of accredited service. As of June 30, 2019, one Department employee participates in Pathfinder.

A copy of the OPERS financial statements can be obtained from Oklahoma Public Employees Retirement System, Post Office Box 53007, Oklahoma City, Oklahoma 73152-3007.

*Summary of Contributions:*

<u>Fiscal</u> <u>Year</u>	<u>Required</u> <u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>
2017	\$ 462,000	100%
2018	\$ 421,000	100%
2019	\$ 516,000	100%

The Department's employees who participate in OPERS are also eligible to participate in the SoonerSave Deferred Compensation Plan (SoonerSave Plan) offered through OPERS. This plan's provisions are established by Title 74 of the Oklahoma State Statutes.

In the SoonerSave Plan, employees invest a portion of their pay with a minimum contribution of \$25. The State of Oklahoma matches the first \$25 per month by contributing to the Deferred Savings Incentive 401(a) Plan. Participants are immediately 100% vested in their accounts and they may direct the investment of their contributions in the available investment options. All interest, dividends, and investment fees are allocated to the participants' accounts. Pathfinder participants are not eligible to participate in SoonerSave.

#### **NOTE G—OPERATING LEASES**

The Department leases office space, parking, and equipment under annual renewable operating leases. As of June 30, 2019 and 2018, there were no significant operating lease commitments outstanding. Lease expense for 2019 and 2018 was approximately \$296,000 and \$301,000, respectively.

#### **NOTE H—CONTINGENCIES**

The Department is a party to various legal proceedings and threatened litigation. The financial statements do not include accruals or provisions for loss contingencies that may result from these proceedings. While the outcome of the proceedings or threatened litigation cannot be predicted, due to the insurance coverage maintained by the Department, the Department feels that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the Department.

**NOTE I—SUBSEQUENT EVENTS**

In December 2019, a novel strain of coronavirus was reported to have surfaced in China. The spread of the virus to the United States is reported to have begun in February 2020, causing business disruption through temporary business closures throughout the country resulting in the Internal Revenue Service extending the personal income tax return deadline to July 15, 2020 and subsequently the State of Oklahoma extending state filing deadlines to match, shifting those tax collections to FY21. Therefore, while the Department expects this matter to negatively impact both Department and State of Oklahoma revenue collections, the impact and duration cannot be reasonably estimated at this time.



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*

To the Board of Commissioners  
Oklahoma Department of Securities  
Oklahoma Securities Commission

We have audited, in accordance with the 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, the financial statements of the Oklahoma Department of Securities (the "Department"), a department of the State of Oklahoma, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated March 15, 2020.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Arledge & Associates, P.C.*

March 15, 2020