

Audited Financial Statements

**OKLAHOMA
DEPARTMENT
OF SECURITIES**

June 30, 2007

OKLAHOMA DEPARTMENT OF SECURITIES

June 30, 2007

AUDITED FINANCIAL STATEMENTS

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Independent Auditors' Report

We have audited the accompanying balance sheet of the Oklahoma Department of Securities (the "Department") as of June 30, 2007, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note A, the financial statements of the Department are intended to present the financial position and changes in financial position of only that portion of the business-type activities that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of Oklahoma as of June 30, 2007, and the changes in its financial position for the year ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note A, the Department changed the presentation of its financial statements for the year ended June 30, 2007. Previous financial statements were presented using the governmental fund (governmental activities) reporting model. The Department's June 30, 2007 financial statements are presented using the proprietary fund (enterprise fund) presentation.

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, 2007, and the changes in its net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.



Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2010 on our consideration of the Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on the internal control over financial reporting and 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.

Cole & Reed P.C.

Oklahoma City, Oklahoma
September 16, 2010

Management's Discussion and Analysis (Unaudited)
OKLAHOMA DEPARTMENT OF SECURITIES
June 30, 2007

Introduction

As management of the Department of Securities, we offer readers of the Department's financial statements this narrative overview and analysis of the financial activities of the Department for the year ended June 30, 2007. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Department's financial statements that follow this narrative.

Understanding the Department's Financial Statements

The Department, an instrumentality of the State of Oklahoma, is accounted for as an enterprise fund that reports all assets and liabilities using the accrual basis of accounting, much like a private business entity. The Department is a non-appropriated agency wholly self-financed through fees paid by the securities industry. A portion of the Department's fee revenue is required to be transferred to the State's General Fund. Due to a multi-state settlement in 2003 with a major broker-dealer, the Investor Education Revolving Fund was established for the specific purpose of research for education and education of Oklahoma residents in matters concerning securities laws and general investor protection (see page 11 for additional details). Cash within this fund and the related accrued interest are therefore reported as restricted assets.

In accordance with accounting principles generally accepted in the United States of America, this report consists of a series of financial statements, along with explanatory notes to the financial statements. The financial statements immediately follow this Management's Discussion and Analysis and are designed to highlight the Department's net assets and changes to those assets resulting from the Department's operations.

The Department's financial statements are comprised of a balance sheet, a statement of revenues, expenses and changes in net assets, a statement of cash flows, and notes to the financial statements.

The balance sheet presents information on the Department's assets and liabilities and the resulting net assets. This statement reflects the Department's cash, capital assets, other assets and liabilities as of June 30, 2007.

The statement of revenues, expenses and changes in net assets presents information on the Department's operating and nonoperating revenues and expenses for the year ended June 30, 2007, and ultimately shows how the Department's net assets changed during the year.

Management's Discussion and Analysis (Unaudited)--Continued
OKLAHOMA DEPARTMENT OF SECURITIES
June 30, 2007

Understanding the Department's Financial Statements--Continued

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

Management formerly presented the Department's financial statements under the governmental fund (governmental activities) accounting presentation. Due to a change in accounting policy, management now presents the Department's financial statements utilizing the enterprise fund accounting presentation; therefore, certain prior period information contained in Management's Discussion and Analysis has been reclassified to conform to the current year presentation.

Financial Highlights

- For the fiscal year ended June 30, 2007, the Department's assets exceeded its liabilities by \$8,003,847. Of this amount, \$4,590,297 in unrestricted net assets may be used to meet the Department's ongoing obligations to citizens and creditors.
- Total net assets increased by \$326,493 or 4.3%, principally due to increases in securities registration and securities professionals' registration revenues.
- Operating revenues were \$18,060,193 for the year ended June 30, 2007, an increase of \$1,639,854 or 10% from the prior year.
- During the year, operating expenses were \$4,608,834, an increase of \$613,328 or 15.4% from fiscal year 2006.
- Transfers to the State General Fund for the year ended June 30, 2007 were \$13,285,299, an increase of \$899,845 or 7.3% from the prior year.

Management's Discussion and Analysis (Unaudited)--Continued
OKLAHOMA DEPARTMENT OF SECURITIES
June 30, 2007

Financial Highlights--Continued

The following table summarizes the Department's Balance Sheets as of June 30:

	<u>2007</u>	<u>2006</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 5,603,450	\$ 4,952,022
Cash restricted for investor education	3,413,971	3,594,473
Accrued interest restricted for investor education	12,926	7,496
Accounts receivable	<u>1,425</u>	<u>12,556</u>
TOTAL CURRENT ASSETS	<u>9,031,772</u>	<u>8,566,547</u>
NONCURRENT ASSETS		
Capital assets, net	<u>82,148</u>	<u>101,806</u>
TOTAL ASSETS	<u>\$ 9,113,920</u>	<u>\$ 8,668,353</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 314,139	\$ 581,048
Accrued compensated absences, current portion	204,252	156,500
Accounts payable from restricted assets	<u>95,495</u>	<u>-</u>
TOTAL CURRENT LIABILITIES	613,886	737,548
LONG-TERM LIABILITIES		
Accrued compensated absences, net	<u>496,187</u>	<u>253,451</u>
TOTAL LIABILITIES	<u>\$ 1,110,073</u>	<u>\$ 990,999</u>
NET ASSETS		
Invested in capital assets, net	\$ 82,148	\$ 101,806
Restricted net assets - expendable	3,331,402	3,358,065
Unrestricted net assets	<u>4,590,297</u>	<u>4,217,483</u>
TOTAL NET ASSETS	<u>8,003,847</u>	<u>7,677,354</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 9,113,920</u>	<u>\$ 8,668,353</u>

Management's Discussion and Analysis (Unaudited)--Continued
OKLAHOMA DEPARTMENT OF SECURITIES
June 30, 2007

Financial Highlights--Continued

The following table summarizes the Department's Statements of Revenues, Expenses and Changes in Net Assets for the years ended June 30:

	<u>2007</u>	<u>2006</u>
REVENUES		
Securities registration fees	\$ 11,303,703	\$ 10,608,511
Securities professionals' registration fee	6,179,560	5,784,780
Fines, penalties and administrative costs	574,481	24,279
Other	<u>2,449</u>	<u>2,769</u>
TOTAL REVENUES	18,060,193	16,420,339
OPERATING EXPENSES		
Salaries, wages and benefits	3,433,582	2,785,674
Rent expense	111,104	96,094
Contracted and professional services	52,677	22,584
Depreciation	32,896	49,950
Investor education professional services	755,487	860,771
Other general and administrative	<u>223,088</u>	<u>180,433</u>
TOTAL OPERATING EXPENSES	<u>4,608,834</u>	<u>3,995,506</u>
OPERATING INCOME	13,451,359	12,424,833
NONOPERATING REVENUE (EXPENSE)		
Interest income	160,433	146,685
Transfers to and due to the State General Fund	<u>(13,285,299)</u>	<u>(12,385,454)</u>
NET NONOPERATING EXPENSE	<u>(13,124,866)</u>	<u>(12,238,769)</u>
CHANGE IN NET ASSETS	326,493	186,064
NET ASSETS, BEGINNING OF YEAR	<u>7,677,354</u>	<u>7,491,290</u>
NET ASSETS, END OF YEAR	<u>\$ 8,003,847</u>	<u>\$ 7,677,354</u>

Management's Discussion and Analysis (Unaudited)--Continued
OKLAHOMA DEPARTMENT OF SECURITIES
June 30, 2007

Financial Highlights--Continued

Cash balances account for the majority of the Department's total assets at June 30, 2007. As indicated earlier, net assets may serve over time as a useful indicator of a government's financial position. The Department's assets exceeded its liabilities by \$8,003,847 at June 30, 2007, compared to \$7,677,354 at June 30, 2006. The increase in net assets during fiscal year 2007 of \$326,493, or 4.3%, reflects an overall improvement in the Department's financial position.

The \$8,003,847 net asset amount consists of \$82,148 invested in capital assets, \$3,331,402 restricted net assets - expendable and \$4,590,297 that is unrestricted. The restricted assets of cash and accrued interest are restricted for the purposes of investor education and research. The \$4,590,297 unrestricted net asset balance may be used to meet the government's ongoing obligations.

The largest single source of revenue is registration fees paid by securities issuers in connection with the submission of securities registration applications, notice filings, no-action letters and opinions ("Securities Registration Fees"). The second largest source of revenues are securities professionals' fees for initial and renewal of registrations for brokers-dealers, broker-dealer agents, issuer agents, investment advisers, and investment adviser representatives and investment adviser notice filings ("Securities Professionals' Registration Fees").

During 2007, the Securities Registration Fees and Securities Professionals' Registration Fees were \$11,303,703 and \$6,179,560, respectively. This is compared to registration fees of \$10,608,511 and \$5,784,780 during 2006 which are increases of 6.6% and 6.8%, respectively. The increase in registration fees is primarily attributable to increased activity in the securities industry on a global scale.

Fines, penalties and administrative costs were \$574,481 during 2007 compared to \$24,279 in the prior year. The increase is primarily due to one-time multi-state settlements relating to conflicts of interest involving research analysts with certain of the major brokerage firms.

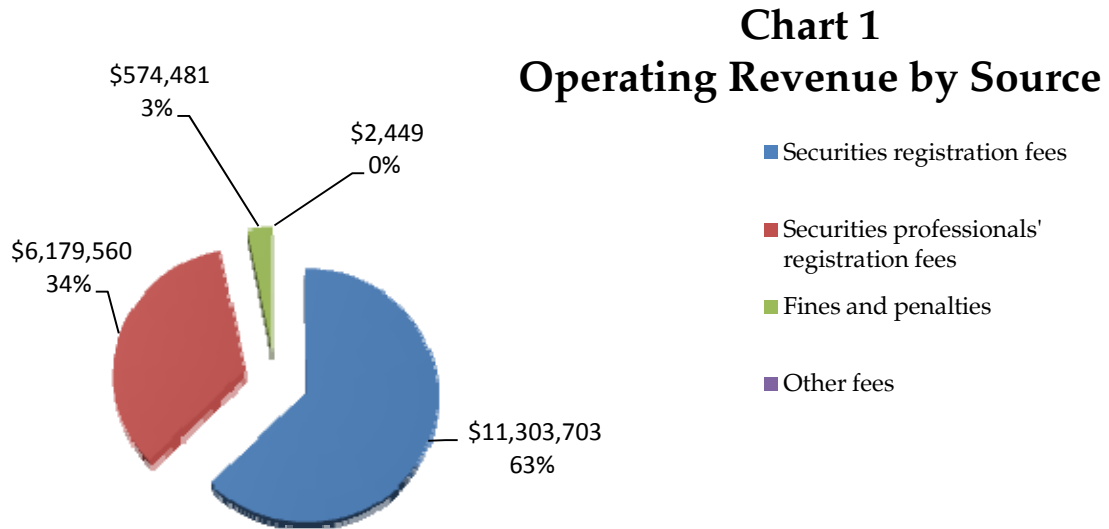
Operating expenses increased from \$3,995,506 in 2006 to \$4,608,834 during 2007. This 15.4% increase in the Department's operating expenses is primarily attributable to an increase in salaries, wages and benefits of \$647,908, or 23.3%. This is the result of a 5% pay increase authorized by the Legislature and completion of the implementation of the Department's salary upgrades for unclassified employees.

Transfers to the State's General Fund were \$13,285,299 during fiscal year 2007, compared to \$12,385,454 during the prior year. The increase in transfers is a result of the increase in securities registration and securities professionals' registration fees discussed above.

Management's Discussion and Analysis (Unaudited)--Continued
OKLAHOMA DEPARTMENT OF SECURITIES
June 30, 2007

Financial Highlights--Continued

Chart 1 illustrates fiscal year 2007 operating revenue amounts by source and expresses them as percentages of total operating revenues. The securities registration and securities professionals' registration fees make up 97.0% of the Department's total operating revenues. The majority of operating revenue, \$13,285,299 or 73.6% for fiscal year 2007, as compared to \$12,385,454 or 75.4% for 2006, is transferred to the State General Fund with the remainder deposited to the Department's Revolving Fund and Investor Education Revolving Fund. The sources of operating revenues as percentages of total operating revenues for fiscal year 2007 are shown in Chart 1.



Management's Discussion and Analysis (Unaudited)--Continued
OKLAHOMA DEPARTMENT OF SECURITIES
June 30, 2007

Financial Highlights--Continued

The Oklahoma Securities Act specifies the funds to which the Department's fee revenues are to be deposited. The following summarizes the fund deposits and expresses them as percentages of total operating revenues. Nonoperating revenue consists solely of interest income for the year ended June 30, 2007, and relates to the Investor Education Revolving Fund.

Fund allocation	Amount	% of total operating revenues
State General Fund	\$ 13,285,299	73.6%
Revolving Fund	4,206,503	23.3%
Investor Education Revolving Fund	568,391	3.1%
TOTALS	\$ 18,060,193	100.0%

The following is a condensed version of the Department's Statements of Cash Flows for the years ended June 30:

	2007	2006
Cash provided (used) by:		
Operating activities	\$ 13,612,513	\$ 12,668,974
Noncapital activities	(13,288,412)	(12,385,454)
Capital and related financing activities	(13,238)	(46,267)
Investing activities	160,063	146,685
Net increase in cash	470,926	383,938
Cash at beginning of year	8,546,495	8,162,557
Cash at end of year	\$ 9,017,421	\$ 8,546,495

Management's Discussion and Analysis (Unaudited)--Continued
OKLAHOMA DEPARTMENT OF SECURITIES
June 30, 2007

Economic Factors

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 allocated by the Legislature to be deposited in the Revolving Fund. For 2007, there were sufficient allocations. There is no assurance, however, that such allocations by the Legislature will be sufficient to fund future operations.

The Department has not experienced material fluctuations in liquidity during recent years; however, the federal government has over the last decade taken steps toward a nationalization of certain aspects of the financial markets involving registration of securities professionals and registration of mutual funds. Although it is not anticipated, at some point in the near future, the federal government could preempt states from regulating securities professionals that operate across state lines and nationally distributed mutual fund offerings. If the state is so preempted and not allowed to collect registration or notice fees, the Department's liquidity will be adversely affected. The following items could also potentially affect the Department's future operations:

- Legislative mandates to administer and enforce the *Oklahoma Securities Act*, *Subdivided Land Sales Code*, *Business Opportunity Sales Act* and the *Take-Over Disclosure Act*.
- A significant portion of revenues is paid at December 31 each year.
- Department revenues are economically sensitive in that a change in economic climate may have an adverse impact on revenues.
- Federal legislation could have an adverse impact on Department revenues.
- As a non-appropriated agency the Department is wholly dependent on the fees allocated to the Department's Revolving Fund; thus, any legislation changing the fee allocations could have an adverse impact on Department operations.

Management's Discussion and Analysis (Unaudited)--Continued
OKLAHOMA DEPARTMENT OF SECURITIES
June 30, 2007

Investor Education

During fiscal year 2003, the Department received \$574,000 as 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 \$567,912 were received during fiscal year 2007, in connection with cases relating to conflicts of interest involving research analysts with certain of the major brokerage firms. Interest earned on the restricted funds was \$160,433 for the year ended June 30, 2007.

The Department has joined with the University of Oklahoma OUTREACH, College of Continuing Education to develop and implement a comprehensive investor education outreach program, Invest Ed®.

Invest Ed® is a multi-component investor education program produced by the Oklahoma Securities Commission and the University of Oklahoma OUTREACH, College of Continuing Education. Invest Ed® programs are created to provide unbiased investment and anti-fraud information to Oklahomans of all ages. The 2007 programs included Securities Fraud Education Month, town hall meetings, anti-fraud documentaries, "The Investment Minute" radio series, and a high school student project to track and research capital markets and professional development programs for high school teachers.

For additional information to access a variety of available resources visit the Invest Ed® Internet site at 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 Chief Financial Officer, 120 North Robinson, Suite 860, Oklahoma City, OK 73102.

BALANCE SHEET

OKLAHOMA DEPARTMENT OF SECURITIES

June 30, 2007

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$	5,603,450
Cash restricted for investor education		3,413,971
Accrued interest restricted for investor education		12,926
Accounts receivable		<u>1,425</u>
		TOTAL CURRENT ASSETS
		9,031,772

CAPITAL ASSETS, net

		<u>82,148</u>
	TOTAL ASSETS	<u>\$ 9,113,920</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$	314,139
Accrued compensated absences, current portion		204,252
Accounts payable from restricted assets		<u>95,495</u>
		TOTAL CURRENT LIABILITIES
		613,886

ACCRUED COMPENSATED ABSENCES, net

		<u>496,187</u>
	TOTAL LIABILITIES	1,110,073

NET ASSETS

Invested in capital assets, net		82,148
Restricted net assets - expendable		3,331,402
Unrestricted net assets		<u>4,590,297</u>
		TOTAL NET ASSETS
		<u>8,003,847</u>

	TOTAL LIABILITIES AND NET ASSETS	<u>\$ 9,113,920</u>
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See notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

OKLAHOMA DEPARTMENT OF SECURITIES

Year Ended June 30, 2007

REVENUES

Securities registration fees	\$ 11,303,703
Securities professionals' registration fees	6,179,560
Fines, penalties and administrative costs	574,481
Other revenue	<u>2,449</u>
TOTAL REVENUES	18,060,193

OPERATING EXPENSES

Salaries, wages and benefits	3,433,582
Rent expense	111,104
Contracted and professional services	52,677
Depreciation	32,896
Investor education professional services	755,487
Other general and administrative expenses	<u>223,088</u>
TOTAL OPERATING EXPENSES	4,608,834
OPERATING INCOME	13,451,359

NONOPERATING REVENUE (EXPENSE)

Interest income	160,433
Transfers to and due to State of Oklahoma	<u>(13,285,299)</u>
NET NONOPERATING EXPENSE	(13,124,866)

CHANGE IN NET ASSETS

	326,493
NET ASSETS, beginning of year	<u>7,677,354</u>
NET ASSETS, end of year	<u>\$ 8,003,847</u>

See notes to financial statements.

STATEMENT OF CASH FLOWS

OKLAHOMA DEPARTMENT OF SECURITIES

Year ended June 30, 2007

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from registration of professionals and securities	\$ 17,489,335
Cash received from fines, penalties and other	576,930
Cash payments to suppliers for goods and services	(1,310,658)
Cash payments to employees for services	<u>(3,143,094)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	13,612,513

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Payments to State's General Fund	<u>(13,288,412)</u>
NET CASH USED IN NONCAPITAL FINANCING ACTIVITIES	(13,288,412)

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchase of capital assets	<u>(13,238)</u>
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(13,238)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received	<u>160,063</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>160,063</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS

470,926

CASH AND CASH EQUIVALENTS, beginning of year

8,546,495

CASH AND CASH EQUIVALENTS, end of year

\$ 9,017,421

OPERATING ACTIVITIES

Operating income	\$ 13,451,359
Adjustment to reconcile operating income to net cash provided by (used in) operating activities	
Depreciation	32,896
Changes in operating assets and liabilities	
Accrued interest - restricted and accounts receivable	6,072
Accounts payable	(168,302)
Accrued compensated absences	<u>290,488</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 13,612,513</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

OKLAHOMA DEPARTMENT OF SECURITIES

June 30, 2007

NOTE A--FINANCIAL REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity: The Oklahoma Securities Commission (the "Commission") as well as the Oklahoma Department of Securities (the "Department") were created by the Oklahoma Legislature in 1959. The Commission is the policy making and governing authority of the Department. The primary mission of the Oklahoma Securities Commission and the Department is investor protection through the administration and enforcement of the Oklahoma Securities Act (the "Act"), an act prohibiting fraud in securities transactions and requiring the registration of broker-dealers, agents, investment advisers and investment adviser representatives and securities. The Department also administers and enforces the Subdivided Land Sales Code, Business Opportunity Sales Act and the Take Over Disclosure Act.

The Department has the following primary duties as specified in the Oklahoma statutes, Title 71:

- Registration of broker-dealers, agents, investment advisers and investment adviser representatives
- Registration of securities
- Investigation enforcement, and
- Investor education

The Department's internet site hosts an array of resources such as statutes, rules and instructions; downloadable licensing, registrations and complaint forms; links to related sites; and many other useful tools. The Internet site also provides guidelines such as "checking out a stockbroker or brokerage firm" and "online investing tips"; news releases and investor alerts warning investors to current fraud schemes; and the ability for the online review of public orders issued by the Department.

The Department is included in the State of Oklahoma (the "State") financial reporting entity. The State reports the Department's transactions as a part of the General Fund--Regulatory Services.

Method of Accounting: Since the majority of the Department's revenues are derived from fees charged to external users, the Department's financial statements are accounted for as an enterprise fund. Enterprise funds are used to account for activities that are financed and operated in a manner similar to private business enterprises.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA DEPARTMENT OF SECURITIES

June 30, 2007

NOTE A--FINANCIAL REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Method of Accounting--Continued: The Governmental Accounting Standards Board ("GASB") is responsible for establishing generally accepted accounting principles ("GAAP") for state and local governments. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board ("FASB") issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. In accordance with GASB Statement No. 20, the Department has elected not to implement FASB Statements after the applicable date. The more significant accounting policies established in GAAP and used by the Department to prepare its financial statements are discussed below.

Basis of Accounting: The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under this method, revenues are recognized when they are earned and expenses are recognized when they are incurred.

Department Operations: The primary operating revenues of the Department are registration fees related to securities and securities professionals. These fees are considered earned at the time of application. Revenues related to fines and penalties are recorded when an enforceable legal claim arises or when cash is received, whichever occurs first. Nonoperating income consists of interest income. The Department's operating expenses include expenses incurred as normal costs of carrying out its mission. These include but are not limited to personnel costs, rent and repairs, office supplies, contracted and professional expenses, depreciation, and other general and administrative costs. Nonoperating expenses consist of transfers to the State's General Fund.

The operations of the Department are recorded in the following funds:

Revolving Fund: This fund is used to account for the Department's expendable financial resources and related liabilities. All transactions related to the general administration of the Department are accounted for in this fund.

Investor Education Revolving Fund: This fund was created by the Oklahoma Legislature to restrict the use of funds derived pursuant to court order or judgment, and multi-state settlements. Such proceeds are restricted for the purposes of investor education and research.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA DEPARTMENT OF SECURITIES

June 30, 2007

NOTE A--FINANCIAL REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Department Operations--Continued:

The Commission, together with the University of Oklahoma OUTREACH, College of Continuing Education, has developed a comprehensive investor education outreach program known as Invest Ed®. The Invest Ed® Internet site at www.investedok.org offers resources for increasing Oklahoma's investment knowledge and fraud protection.

Cash and Cash Equivalents: The Department's cash and cash equivalents are considered to be cash on-hand and interest bearing demand deposits held by the Oklahoma State Treasurer.

Restricted Cash: As previously mentioned, the Investor Education Revolving Fund was established to restrict certain funds from settlements, fines and judgments. Cash reported in this fund is restricted exclusively for the specific purposes of research for education and education of Oklahoma residents in matters concerning securities laws and general investor protection. Interest earned on restricted cash carries the same restriction. Accordingly, cash and accrued interest (net of accounts payable from restricted assets) are reported in expendable restricted net assets at June 30, 2007, in the accompanying Balance Sheet.

Capital Assets, Net: Capital assets, consisting of software, computer equipment, and other office equipment, are stated at cost less accumulated depreciation. The Department capitalizes all property and equipment purchases of \$500 or more. Depreciation is computed on the straight-line method over the estimated useful lives of three, five and ten years. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in the results from operations in the period of disposal.

Compensated Absences: Employees earn the right to be compensated during absences for vacation, illness, enforced leave and compensatory time. Unused annual leave benefits, up to 480 hours, are paid to employees upon separation from service. Additionally, certain sick leave amounts may be used as credit towards eligible employees' retirement service. The cost of vacation and compensatory time is accrued in the period in which it is earned. The cost of converting sick leave to retirement credit is accrued when employees are eligible to retire.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA DEPARTMENT OF SECURITIES

June 30, 2007

NOTE A--FINANCIAL REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Net Assets: The Department's net assets are classified as follows:

Invested in capital assets, net: This represents the Department's total investment in capital assets. The Department has no outstanding debt obligations related to such capital assets.

Restricted net assets - expendable: This represents resources that the Department is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties. At June 30, 2007, this amount was entirely made up of cash and accrued interest (net of accounts payable from restricted assets) restricted for investor education and research.

Unrestricted net assets: Unrestricted net assets represent resources derived from fees. 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.

Use of 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.

Risk Management: The Department is exposed to various risks of loss related to torts, destruction of assets due to theft or damage, errors and omissions, injuries to employees, and natural disasters. The Department has coverage to substantially cover these risks through a self-insured pool for agencies of the State of Oklahoma. This coverage is administered by the Risk Management Division of the Department of Central Services for the State of Oklahoma.

Change in Financial Statement Presentation: Historically, the Department's financial statements were accounted for using the governmental fund (governmental activities) presentation, that is, the Department presented governmental fund as well as government-wide financial statements. The June 30, 2007 financial statements are presented in a format applicable to enterprise funds which differs from previous formats. This change in presentation had no effect on the Department's financial position or change in net assets.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA DEPARTMENT OF SECURITIES

June 30, 2007

NOTE B--CASH BALANCES

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Department does not have a deposit policy for custodial credit risk. However, all of the Department's bank deposits are held by the Oklahoma State Treasurer ("OST"). Oklahoma State Statutes require that all State funds be either insured by federal deposit insurance, collateralized by securities held by the Federal Reserve Bank, or invested in United States government obligations. The Department's deposits with the OST are pooled with the funds of other State agencies and then, in accordance with statutory limitations, placed in financial institutions or invested as the OST may determine, in the State's name. As such, the Department was not exposed to custodial credit risk. At June 30, 2007, the carrying amount of the Department's deposits with the OST was \$9,017,421 and the bank balance was \$8,992,271.

NOTE C--FEES

State statutes specify fee amounts and assessment methods for registrations, examination, exemption and investment company notices. Civil or administrative penalties, fines and costs are determined by either courts or the Administrator.

The Department charges registration 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 required to be remitted to the State's General Fund or the Department's Revolving Fund, as mandated by state statutes.

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. Any person filing a registration statement is required by state statute to pay an examination fee of \$200 to the Department that pursuant to statute is deposited to the Department's Revolving Fund.

Investment company notice filings require a \$500 filing fee and pursuant to state statute, \$350 is required to be remitted to the State's General Fund and \$150 is remitted to the Department's Revolving Fund. Issuers filing a request for exemption or an exemption notification are required by state statute to remit a fee of \$250 to the Department, that is required to be remitted to the State's General Fund. There were no fee changes during fiscal year 2007.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA DEPARTMENT OF SECURITIES

June 30, 2007

NOTE D--CAPITAL ASSETS

The following summarizes the activity in capital assets during the year:

<u>2007</u>	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets:				
Computer hardware	\$ 292,862	\$ 9,901	\$ -	\$ 302,763
Computer software	122,133	573	-	122,706
Furniture and equipment	154,710	2,764	-	157,474
Telephone equipment	<u>82,172</u>	<u>-</u>	<u>-</u>	<u>82,172</u>
Total capital assets	<u>\$ 651,877</u>	<u>\$ 13,238</u>	<u>\$ -</u>	<u>\$ 665,115</u>
Accumulated depreciation:				
Computer hardware	\$ 246,429	\$ 19,871	\$ -	\$ 266,300
Computer software	103,301	5,108	-	108,409
Furniture and equipment	143,573	1,740	-	145,313
Telephone equipment	<u>56,768</u>	<u>6,177</u>	<u>-</u>	<u>62,945</u>
Total accumulated depreciation	<u>\$ 550,071</u>	<u>\$ 32,896</u>	<u>\$ -</u>	<u>\$ 582,967</u>
Net capital assets	<u>\$ 101,806</u>	<u>\$ (19,658)</u>	<u>\$ -</u>	<u>\$ 82,148</u>

NOTE E--COMPENSATED ABSENCES

The following is a summary of changes in the Department's liability for compensated absences during the year ended June 30, 2007:

<u>Beginning Balance</u>	<u>Increase</u>	<u>Paid</u>	<u>Ending Balance</u>	<u>Current Portion</u>
<u>\$ 409,951</u>	<u>\$ 446,688</u>	<u>\$ 156,200</u>	<u>\$ 700,439</u>	<u>\$ 204,252</u>

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA DEPARTMENT OF SECURITIES

June 30, 2007

NOTE F--RETIREMENT PLAN

The Department contributes to the Oklahoma Public Employees Retirement System ("OPERS"), a multiple-employer, cost-sharing public employee retirement plan, which is a defined benefit plan. OPERS was established in 1964 by the Oklahoma Legislature and covers substantially all employees of the State except those covered by six other State sponsored plans and also covers employees of participating counties and local agencies. The plan provides that all eligible persons, except those specifically excluded, shall become members of OPERS as a condition of their employment. The supervisory authority for the management and operation of OPERS is its Board of Trustees.

OPERS offers retirement and disability benefits, periodic cost of living adjustments, life insurance benefits and survivor benefits. The Plan's provisions are established under Title 74 of the Oklahoma Statutes.

The following is a recap of OPERS' mandated contribution rates as a percentage of salary for fiscal years:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Employer contributions	12.50%	11.50%	10.00%
Additional % for members electing step-up	2.91%	2.91%	2.91%
Employee contributions-salaries up to \$25,000	3.50%	3.00%	3.00%
Employee contributions-salaries over \$25,000	3.50%	3.50%	3.50%

For the years ended June 30, 2007, 2006 and 2005 the Department's contributions to OPERS were \$299,000, \$229,000 and \$158,000. All employer contributions were equal to the required contribution rates for the years shown.

A comprehensive annual financial report containing financial statements and required supplementary information for the Oklahoma Public Employees Retirement System is issued and publicly available by writing the Oklahoma Public Employees Retirement System, Post Office Box 53007, Oklahoma City, Oklahoma 73152-3007.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA DEPARTMENT OF SECURITIES

June 30, 2007

NOTE G--OPERATING LEASES

The Department leases certain office space, parking and equipment that meet the qualifications of operating leases. By state regulations, all leases are made through and with the permission of the Department of Central Services, Central Purchasing Division, for a period not to exceed 12 months. Accordingly, the Department has no long-term commitments under operating leases as of June 30, 2007. Rent expense under all operating leases was approximately \$111,000 for the year ended June 30, 2007.

NOTE H--CONTINGENCIES

The Department is subject to litigation in the ordinary course of its operations. In the opinion of the Department's management and its legal counsel, the outcome of such litigation will not have a material impact on the financial position or cash flows of the Department for the year ended June 30, 2007.

Independent Auditors' Report on Compliance and Other Matters and on Internal Control
Over Financial Reporting Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

To the Oklahoma Securities Commission
Oklahoma Department of Securities
Oklahoma City, Oklahoma

We have audited the financial statements of the Oklahoma Department of Securities (the "Department"), State of Oklahoma, as of and for the year ended June 30, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department'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 Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We noted certain matters that we consider to be material weaknesses as described above. Such matters are included in the Schedule of Reportable Findings and Responses as Findings 2007-01 through 2007-04.

The Department's responses to the findings identified in our audit are described in the accompanying Schedule of Reportable Findings and Responses. We did not audit the Department's responses and, accordingly, we express no opinion on them.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and 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 test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Oklahoma State Auditor and Inspector, the Department's Commissioners and management, and others within the Oklahoma Department of Securities and is not intended to be and should not be used by anyone other than these specified parties.

Cole & Reed P.C.

Oklahoma City, Oklahoma
September 16, 2010

SCHEDULE OF REPORTABLE FINDINGS AND RESPONSES

OKLAHOMA DEPARTMENT OF SECURITIES

June 30, 2007

Findings Required to be Reported by Government Auditing Standards

FINDING 2007-01

Financial Reporting (Material Weakness)

Criteria: Appropriately designed controls should incorporate adequate entity level, transaction and year-end financial statement closing processes to ensure that financial statements are complete and accurate and the related footnote disclosures are prepared in accordance with GAAP.

Condition: For the fiscal year ended June 30, 2007, the Department was not able to prepare its financial statements and related disclosures in accordance with accounting principles generally accepted in the United States of America.

Cause: The Department essentially has one person responsible for all of the accounting and reporting duties. This employee's duties are more focused on operational and internal accounting and reporting rather than external financial reporting.

Effect: Certain required disclosures could be omitted and account balances misstated by management in the preparation of the financial statements and related footnote disclosures.

Recommendation: We recommend the Department place a higher priority on preparing and reviewing its financial statements and related footnote disclosures. The use of a disclosure checklist as well as our recommendations in Finding 2007-03 will help to address this finding.

View of Responsible Official: The Department has engaged an outside accounting firm, Crawford & Associates, to assist with the preparation and review of its financial statements. Further, the Department will use the disclosure checklist recommended by the auditors and develop month-end and year-end closing schedules.

FINDING 2007-02

Segregation of Duties (Material Weakness)

Criteria: The segregation of duties and responsibilities between different individuals for custody of assets, recordkeeping for those assets, and reconciliation of those asset accounts is an important control activity needed to adequately protect the entity's assets and ensure accurate financial reporting.

SCHEDULE OF REPORTABLE FINDINGS AND RESPONSES--Continued

OKLAHOMA DEPARTMENT OF SECURITIES

June 30, 2007

FINDING 2007-02

Segregation of Duties (Material Weakness)--Continued

Condition: During our audit we noted an overriding lack of segregations of duties within the accounting and reporting function. Based on our procedures, it seems reasonably possible that material entries could be made to account balances by the Chief Financial Officer ("CFO") with no secondary review or approval. We found an overall lack of review and reconciliation in many areas of the accounting and finance functions. Additionally, there was very limited knowledge within the Department of the accounting processes and the location of accounting information other than the CFO.

Cause: The Department essentially has one person responsible for all of the accounting and reporting duties. This employee's duties are more focused on operational and internal accounting and reporting rather than external reporting. The majority of the accounting and finance duties performed by the Chief Financial Officer require no review or approval by another member of management.

Effect: There are several negative effects that result when one person is responsible for the entire accounting and reporting function. First, in the event the CFO is no longer employed by the Department, no one within the agency understands all of the accounting information or where it is located. Additionally, without required review and approvals, erroneous or fraudulent transactions or journal entries may not be detected in a timely manner if at all. The lack of formal required review can also result in required reconciliations and periodic closing procedures never being performed or being performed inaccurately which ultimately could result in misstated financial statements.

Recommendation: We recommend the Department 1) develop documented and well-defined accounting policies and procedures, 2) segregate incompatible duties within the accounting department, 3) require formal monthly approvals of internal financial statements, journal entries, bank reconciliations, etc., and 4) initiate periodic reviews of the accounting department personnel to determine if employees are performing their respective responsibilities at adequate levels and within required timeframes.

View of Responsible Official: The Department has engaged an outside accounting firm, Crawford & Associates, to assist with the development of documented and well-defined accounting policies and procedures including, but not limited to, segregation of incompatible duties within the accounting division; formal monthly approvals of interim financial statements, journal entries, and bank reconciliations; and periodic reviews of accounting department personnel to determine if employees are performing their respective responsibilities at adequate levels and within required timeframes.

SCHEDULE OF REPORTABLE FINDINGS AND RESPONSES--Continued

OKLAHOMA DEPARTMENT OF SECURITIES

June 30, 2007

FINDING 2007-03

Audit Planning and Assistance and Formal Closing Schedules (Material Weakness)

Criteria: Orderly accounting records and supporting document files should be maintained on a consistent basis, so this information is readily available. Financial statements should be well supported by the corresponding back up information that is included in these records. Additionally, timely accurate reconciliations (which require review and approval) are necessary components of strong internal control over the accounting and reporting function.

Condition: The Department's accounting records, supporting schedules, documents and other files were not well organized. In certain instances, detailed schedules supporting general ledger account balances did not exist or did not agree to the account balances.

Cause: The Department essentially has one person responsible for all of the accounting and reporting duties. This employee's duties are more focused on operational and internal accounting and reporting rather than external reporting. Additionally, the Department does not currently utilize a comprehensive general ledger system that contains all of its accounting information in sufficient detail for a financial statement audit.

Effect: Certain required disclosures could be omitted and account balances misstated by management in the preparation of the financial statements and related footnote disclosures.

Recommendation: We recommend the Department develop formal month-end and year-end closing schedules that indicate specific personnel responsibilities and corresponding time requirements. One key function to include is the timely and accurate preparation (and review) of detailed supporting schedules that agree or have been reconciled to general ledger amounts. Strict adherence to this closing schedule should be required because this will allow for the year end work and audit preparation to be a much less time consuming and arduous process. Such an approach would detail all the critical steps in the year end close as well as the account analysis and schedule preparation that is required for the audit. Due dates would also be monitored so that the process stays on target for the established time deadline.

View of Responsible Official: The Department has engaged an outside accounting firm, Crawford & Associates, to assist with the development of month-end and year-end closing schedules.

SCHEDULE OF REPORTABLE FINDINGS AND RESPONSES--Continued

OKLAHOMA DEPARTMENT OF SECURITIES

June 30, 2007

FINDING 2007-04

Accounting System and Chart of Accounts (Material Weakness)

Criteria: The use of an appropriate accounting system which leaves a documented audit trail would enable the Department to independently produce a trial balance, general ledger, cash receipts and disbursement journals, and financial statements. This would also greatly ease the duties of the accountant, who could then assist in perhaps more critical areas where financial analysis is needed.

Condition: The Department did not utilize an accounting system that left adequate documentation or a complete audit trail. The Department's original trial balance did not balance due to its reliance on spreadsheets. The difficulty in producing a documented audit trail ultimately resulted in a significantly longer than expected time to produce financial statements than would be the case with detailed and accurate supporting information.

Cause: The Department does not currently use a general ledger accounting system that contains all data required for the preparation of its financial statements. Therefore, the Department must gather information from several sources in order to prepare its financial statements.

Effect: The main effects are 1) accounting department inefficiencies in its daily duties, 2) increased time to prepare financial statements, and 3) opportunity for account balance misstatements to occur due to the reliance on spreadsheets (and the lack of controls inherent in a spreadsheet environment).

Recommendation: We recommend the Department utilize an appropriate accounting system which leaves a documented audit trail that would enable the Department to independently produce a trial balance, general ledger, cash receipts and disbursement journals, and financial statements.

View of Responsible Official: The Department has engaged an outside accounting firm, Crawford & Associates, to assist with the selection and implementation of an appropriate accounting system that will independently produce a trial balance, general ledger, cash receipts and disbursements journal and financial statements.