

**OKLAHOMA DEPARTMENT OF
SECURITIES**

JUNE 30, 2010

OKLAHOMA DEPARTMENT OF SECURITIES

June 30, 2010

INDEPENDENT AUDITORS' REPORT.....	3
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited).....	5
FINANCIAL STATEMENTS	
Statements of Net Assets.....	12
Statements of Revenues, Expenses, and Changes in Net Assets.....	13
Statements of Cash Flows.....	14
Notes to Financial Statements.....	15
REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS	
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 <i>Government Auditing Standards</i>	28
Schedule of Reportable Findings and Responses.....	30

Independent Auditors' Report

We have audited the accompanying statements of net assets of the Oklahoma Department of Securities (the "Department") as of June 30, 2010 and 2009, and the related statements of revenues, expenses and changes in net assets and cash flows for the years 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 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 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 audits provide 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, 2010 and 2009, and the changes in its financial position for the years ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Department as of June 30, 2010 and 2009, and the changes in its net assets and cash flows for the years 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 June 29, 2011 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
June 29, 2011

**Oklahoma Department of Securities
Management's Discussion and Analysis - Unaudited
For the Year Ended June 30, 2010**

Management's Discussion and Analysis

The discussion and analysis of the Oklahoma Department of Securities' (the "Department") financial statements provides an overview of the Department's financial activities for the year ended June 30, 2010. Since this discussion and analysis 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 year financial data is provided.

Using This Report

In June 1999, the Governmental Accounting Standards Board (GASB) released statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. Changes in statement No. 34 require a comprehensive one-column look at the entity as a whole and capitalization of assets and depreciation. The State of Oklahoma elected early implementation of this standard beginning with the year ended June 30, 2001.

Financial Highlights

Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets report the Department's net assets and how they have changed. Net assets – the difference between assets and liabilities – is one way to measure the Department's financial health. Non-financial factors are also important to consider, such as changes in Oklahoma State laws.

These statements include all assets and liabilities 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 Statement of Net Assets, and summarizes the Department's assets, liabilities, and net assets as of June 30, 2010, with comparative totals at June 30, 2009 and 2008, respectively.

**Oklahoma Department of Securities
Management's Discussion and Analysis - Unaudited - continued
For the Year Ended June 30, 2010**

Schedule A
Net Assets at June 30, 2010
With Comparative Totals at June 30, 2009 and 2008

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Current assets	\$ 8,968,623	\$ 9,583,861	\$ 9,095,052
Noncurrent assets	61,539	76,435	80,573
Total assets	<u>\$ 9,030,162</u>	<u>\$ 9,660,296</u>	<u>\$ 9,175,625</u>
Current liabilities	\$ 791,963	\$ 622,122	\$ 794,683
Noncurrent liabilities	697,597	743,636	658,259
Total liabilities	<u>\$ 1,489,560</u>	<u>\$ 1,365,758</u>	<u>\$ 1,452,942</u>
Net assets			
Invested in capital assets	\$ 61,539	\$ 76,435	\$ 80,573
Restricted net assets - expendable	2,490,886	1,974,265	2,205,132
Unrestricted net assets	<u>4,988,177</u>	<u>6,243,838</u>	<u>5,436,978</u>
Total net assets	<u>\$ 7,540,602</u>	<u>\$ 8,294,538</u>	<u>\$ 7,722,683</u>

At the year ended June 30, 2010, accounts receivable restricted for investor education decreased approximately \$377,000 or 100%. Civil penalties were awarded in a class action lawsuit at the end of 2009 that were collected in 2010. As of June 30, 2010, all civil penalties awarded during the year had been collected. In prior years, the Invest Ed® expenses were paid from restricted resources. In 2010, these expenses were primarily paid from unrestricted funds. Accounts payable increased approximately \$324,000 or 83% and accounts payable from restricted resources decreased approximately \$149,000 or 100% due to the change in how Invest Ed® expenses were paid. The overall increase in Invest Ed® accounts payable at year end was due to an increase in the work performed on certain investor education video projects which were put on hold in 2009. Restricted cash increased approximately \$744,000 due primarily to the collection of the 2009 accounts receivable and the decrease in the Invest Ed® expenses paid from restricted funds in the current year. Due from other funds increased approximately \$239,000 or 100% in the current year due to increased transfers to the State's general fund.

At the year ended June 30, 2009, accounts receivable increased approximately \$377,000 due to civil penalties awarded in a class action lawsuit. Accounts payable from restricted assets decreased approximately \$218,000 or 59% due to a decrease in the work performed on certain investor education video projects which were put on hold. Work resumed on these projects in 2010.

Oklahoma Department of Securities
Management's Discussion and Analysis - Unaudited - continued
For the Year Ended June 30, 2010

Schedule B is prepared from the Department's Statement of Revenues, Expenses, and Changes in Net Assets for the year ended June 30, 2010, with comparative totals for the years ended June 30, 2009 and 2008, respectively.

Schedule B
Operating Results for the Year Ended June 30, 2010
With Comparative Totals for the Years Ended June 30, 2009 and 2008

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Operating revenues (expenses)			
Registration fees	\$ 16,734,794	\$ 18,484,580	\$ 18,411,828
Fines, penalties, and other	572,150	883,732	92,439
Less: operating expenses	<u>(5,347,376)</u>	<u>(4,843,108)</u>	<u>(4,890,909)</u>
Net operating income	\$ 11,959,568	\$ 14,525,204	\$ 13,613,358
Nonoperating revenues (expenses)			
Interest income	\$ 61,031	\$ 75,832	\$ 142,456
Transfers to and due to State of Oklahoma	<u>(12,774,535)</u>	<u>(14,029,181)</u>	<u>(14,036,978)</u>
Net nonoperating revenues	\$ (12,713,504)	\$ (13,953,349)	\$ (13,894,522)
Increase (decrease) in net assets	<u>\$ (753,936)</u>	<u>\$ 571,855</u>	<u>\$ (281,164)</u>

Revenue

In 2010, securities registration fees decreased approximately \$1,719,000 or 14% due to the manner in which filing fees were recorded. In prior years, all filing fees were recorded as initial filing fees. When a filer paid early in subsequent years, the prior filing lapsed. In the current year, the Department granted credit equal to the prorated days until the prior year filing expired. In future years, the fees should return to the normal amount. The decrease in revenue also caused a decrease in transfers to and due to the State of Oklahoma of approximately \$1,255,000 or 9% as they are directly related to funds received. Fines, penalties, and administrative costs are awarded to the Department by the court system and vary annually. In 2010, these awards resulted in a decrease in fines, penalties, and administrative costs of approximately \$318,000 or 36%.

Interest revenue decreased approximately \$15,000 or 20% in 2010. Current market conditions adversely affected the return on the Department's investments.

**Oklahoma Department of Securities
Management's Discussion and Analysis - Unaudited - continued
For the Year Ended June 30, 2010**

In 2009, fines, penalties, and administrative costs increased approximately \$794,000 or 914% from 2008. This increase is primarily due to one-time, multi-state settlements with major brokerage houses related to the sale of auction rate securities.

Interest revenue decreased approximately \$67,000 or 47% in 2009. Current market conditions adversely affected the return on the Department's investments.

Expenses

Contracted and professional services increased approximately \$63,000 or 152% in 2010 due to the increase in accounting and auditing costs associated with preparing financial statements for 2008 and 2009.

In 2010, investor education professional services increased approximately \$486,000 or 42% from 2009. This increase is primarily due to the increase of work performed on certain video projects. These projects were put on hold in 2009 and work resumed in 2010.

In 2009, investor education professional services decreased approximately \$166,000 or 12% from 2008. This decrease is primarily due to the decrease of work performed on certain video projects. These projects were put on hold in 2009.

Schedule C summarizes the Department's operating expenses for the years ended June 30, 2010, 2009 and 2008, respectively.

Schedule C
Operating Expenses for the Year Ended June 30, 2010
With Comparative Totals for the Years Ended June 30, 2009 and 2008

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Salaries, wages, and benefits	\$3,207,706	\$3,266,724	\$3,136,742
Rent expense	134,781	136,975	125,253
Contracted and professional services	104,230	41,418	39,083
Depreciation	24,348	28,412	23,061
Investor education professional services	1,647,775	1,162,108	1,327,709
Other general and administrative expenses	228,536	207,471	239,061
	<u>\$5,347,376</u>	<u>\$4,843,108</u>	<u>\$4,890,909</u>

Oklahoma Department of Securities
Management's Discussion and Analysis - Unaudited - continued
For the Year Ended June 30, 2010

Statement of Cash Flows

The primary purpose of the Statement of Cash Flows is to provide information about the cash receipts and disbursements of an entity during a period. This statement also aids 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 Statement of Cash Flows, and summarizes the Department's cash flow for the year ended June 30, 2010, with comparative totals for the years ended June 30, 2009, and 2008, respectively.

Schedule D
Cash Flows for the Year Ended June 30, 2010
With Comparative Totals for the Years Ended June 30, 2009 and 2008

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Cash provided (used) by:			
Operating activities	\$ 12,822,940	\$ 13,990,269	\$ 14,025,910
Noncapital activities	(13,381,771)	(13,928,881)	(14,058,618)
Capital and related financing activities	(9,452)	(25,533)	(45,042)
Investing activities	<u>60,293</u>	<u>79,555</u>	<u>146,597</u>
Net increase (decrease) in cash	\$ (507,990)	\$ 115,410	\$ 68,847
Cash at beginning of year	<u>\$ 9,201,678</u>	<u>\$ 9,086,268</u>	<u>\$ 9,017,421</u>
Cash at end of year	<u>\$ 8,693,688</u>	<u>\$ 9,201,678</u>	<u>\$ 9,086,268</u>

Oklahoma Department of Securities
Management's Discussion and Analysis - Unaudited - continued
For the Year Ended June 30, 2010

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 allocated by the Legislature to be deposited in the Revolving Fund. For 2010, 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 nationalized 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 received at December 31 each year.
- Department revenues are economically sensitive in that a change in the 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.

Oklahoma Department of Securities
Management's Discussion and Analysis - Unaudited - continued
For the Year Ended June 30, 2010

Investor Education

During the fiscal year 2003, the Department received \$574,000 as a part 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 \$920,313, \$478,287, and \$58,871 were received during fiscal years 2010, 2009, and 2008, respectively, in connection with cases relating to conflicts of interest involving research analysts and sales of auction rate securities with certain of the major brokerage firms. Interest earned on the restricted funds was \$61,031, \$75,832, and \$142,456 for the years ended June 30, 2010, 2009, and 2008, respectively.

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 2010 Invest Ed® programs included the continuation of the high school investor education and teacher training through S.T.A.R.S. and other outreach efforts and media distributions.

For additional information or 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.

STATEMENTS OF NET ASSETS

OKLAHOMA DEPARTMENT OF SECURITIES

	June 30, 2010	June 30, 2009
	<u> </u>	<u> </u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 6,208,601	\$ 7,460,580
Cash restricted for investor education	2,485,087	1,741,098
Accrued interest restricted for investor education	5,799	5,061
Due from State	239,386	-
Accounts receivable	29,750	-
Accounts receivable restricted for investor education, net	-	377,122
Total current assets	<u>\$ 8,968,623</u>	<u>\$ 9,583,861</u>
Capital assets, net	<u>\$ 61,539</u>	<u>\$ 76,435</u>
	<u>TOTAL ASSETS \$ 9,030,162</u>	<u>\$ 9,660,296</u>
LIABILITIES		
Current liabilities		
Accounts payable	\$ 714,452	\$ 390,480
Accrued compensated absences, current portion	77,511	82,626
Accounts payable from restricted assets	-	149,016
Total current liabilities	<u>\$ 791,963</u>	<u>\$ 622,122</u>
Accrued compensated absences, net	<u>\$ 697,597</u>	<u>\$ 743,636</u>
	<u>TOTAL LIABILITIES \$ 1,489,560</u>	<u>\$ 1,365,758</u>
NET ASSETS		
Invested in capital assets, net	\$ 61,539	\$ 76,435
Restricted net assets - expendable	2,490,886	1,974,265
Unrestricted net assets	4,988,177	6,243,838
	<u>TOTAL NET ASSETS \$ 7,540,602</u>	<u>\$ 8,294,538</u>
	<u>TOTAL LIABILITIES AND NET ASSETS \$ 9,030,162</u>	<u>\$ 9,660,296</u>

See notes to financial statements

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

OKLAHOMA DEPARTMENT OF SECURITIES
YEARS ENDED JUNE 30

	<u>2010</u>	<u>2009</u>
OPERATING REVENUES		
Securities registration fees	\$ 10,345,194	\$ 12,063,840
Securities professionals' registration fees	6,389,600	6,420,740
Fines, penalties, and administrative costs	563,691	881,409
Other revenue	8,459	2,323
TOTAL OPERATING REVENUES	<u>\$ 17,306,944</u>	<u>\$ 19,368,312</u>
OPERATING EXPENSES		
Salaries, wages, and benefits	\$ 3,207,706	\$ 3,266,724
Rent expense	134,781	136,975
Contracted and professional services	104,230	41,418
Depreciation	24,348	28,412
Investor education professional services	1,647,775	1,162,108
Other general and administrative expenses	228,536	207,471
TOTAL OPERATING EXPENSES	<u>\$ 5,347,376</u>	<u>\$ 4,843,108</u>
OPERATING INCOME	\$ 11,959,568	\$ 14,525,204
NONOPERATING REVENUE (EXPENSE)		
Interest income	\$ 61,031	\$ 75,832
Transfers to and due to State of Oklahoma	<u>(12,774,535)</u>	<u>(14,029,181)</u>
NET NONOPERATING EXPENSE	<u>\$ (12,713,504)</u>	<u>\$ (13,953,349)</u>
NET CHANGE IN NET ASSETS	\$ (753,936)	\$ 571,855
NET ASSETS, BEGINNING OF YEAR	<u>\$ 8,294,538</u>	<u>\$ 7,722,683</u>
NET ASSETS, END OF YEAR	<u><u>\$ 7,540,602</u></u>	<u><u>\$ 8,294,538</u></u>

See notes to financial statements

STATEMENTS OF CASH FLOWS

OKLAHOMA DEPARTMENT OF SECURITIES
YEARS ENDED JUNE 30

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Registration of professionals and securities	\$ 16,705,044	\$ 18,484,580
Fines, penalties, and other	949,272	506,610
Payments to suppliers	(1,572,516)	(1,829,058)
Compensation and benefits	(3,258,860)	(3,171,863)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 12,822,940</u>	<u>\$ 13,990,269</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Payments to State's general fund	\$ (13,381,771)	\$ (13,928,881)
NET CASH (USED) IN NONCAPITAL FINANCING ACTIVITIES	<u>\$ (13,381,771)</u>	<u>\$ (13,928,881)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	\$ (9,452)	\$ (25,533)
NET CASH (USED) IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>\$ (9,452)</u>	<u>\$ (25,533)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	\$ 60,293	\$ 79,555
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>\$ 60,293</u>	<u>\$ 79,555</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ (507,990)	\$ 115,410
CASH AND CASH EQUIVALENTS, beginning of year	<u>\$ 9,201,678</u>	<u>\$ 9,086,268</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 8,693,688</u></u>	<u><u>\$ 9,201,678</u></u>
OPERATING ACTIVITIES		
Operating income	\$ 11,959,568	\$ 14,525,204
Adjustment to reconcile operating income to net cash provided by operating activities		
Depreciation	24,348	28,412
Loss on disposal of capital assets	-	1,259
Changes in operating assets and liabilities		
Accounts receivable, restricted for investor education	377,122	(377,122)
Accounts receivable	(29,750)	-
Accounts payable	542,806	(282,347)
Accrued compensated absences	(51,154)	94,863
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 12,822,940</u></u>	<u><u>\$ 13,990,269</u></u>

See notes to financial statements

NOTES TO FINANCIAL STATEMENTS

OKLAHOMA DEPARTMENT OF SECURITIES

June 30, 2010

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 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 of broker-dealers, agents, investment advisers, and investment adviser representatives, registration of securities, 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 the Administrator of the Department.

Financial Statement Presentation: The Department’s financial statements are reflected as an enterprise fund. The majority 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*, consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which 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.

NOTES TO FINANCIAL STATEMENTS—Continued

OKLAHOMA DEPARTMENT OF SECURITIES

June 30, 2010

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

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 presented 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.

The Department has the option to apply all FASB pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The Department has elected to not apply FASB pronouncements issued after the applicable date.

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 assets – expendable at June 30, 2010 and 2009, in the accompanying Statement of Net Assets.

Due From State: Due from State consists of overpayments of fees made to the State of Oklahoma’s general fund.

Accounts Receivable: The accounts receivable consists of payments pending from licensees.

Accounts Receivable, Restricted: The accounts receivable restricted for investor education consist of judgments imposed upon violators of the Oklahoma Securities Act. Receivables not collected within one year are offset by the allowance for doubtful accounts. Accounts receivable are restricted for investor education.

NOTES TO FINANCIAL STATEMENTS—Continued

OKLAHOMA DEPARTMENT OF SECURITIES

June 30, 2010

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

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.

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 assets, and as an expense in the statements of revenues, expenses, and changes in net assets. 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 year 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 Assets: The Department's net assets are classified as follows:

Invested 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, 2010 and 2009.

Restricted net assets – expendable – This includes resources in which the Department is legally and contractually obligated to spend in accordance with restrictions imposed by external third parties. As of June 30, 2010 and 2009, this balance was comprised of cash and accrued interest and accounts receivable (net of accounts payable from restricted assets) restricted for investor education and research.

Unrestricted – 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 for any purpose.

NOTES TO FINANCIAL STATEMENTS—Continued

OKLAHOMA DEPARTMENT OF SECURITIES

June 30, 2010

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

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 apply 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 revenues 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 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.

NOTES TO FINANCIAL STATEMENTS—Continued

OKLAHOMA DEPARTMENT OF SECURITIES

June 30, 2010

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. Generally, 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.

As of June 30, 2010 and 2009, the carrying amounts of the Department's deposits with the State Treasurer were \$8,693,688 and \$9,201,678, respectively.

Investments: Some deposits with the State Treasurer are placed in the State Treasurer's internal investment pool *OK INVEST*. *OK INVEST* pools the resources of all state funds and agencies and invests them in (a) U.S. treasury securities that are explicitly backed by the full faith and credit of the U.S. government; (b) U.S. agency securities that carry an implicit guarantee of the full faith and credit of the U.S. government; (c) money market mutual funds that participate in investments, either directly or indirectly, in securities issued by the U.S. Treasury and/or agency and repurchase agreements relating to such securities; and (d) investments related to tri-party repurchase agreements that are collateralized at 102% and, whereby, the collateral is held by a third party in the name of the State Treasurer.

Of funds on deposit with the State Treasurer, amounts invested in *OK INVEST* total \$2,239,979 and \$1,741,098 as of June 30, 2010 and 2009, respectively.

NOTES TO FINANCIAL STATEMENTS—Continued

OKLAHOMA DEPARTMENT OF SECURITIES

June 30, 2010

NOTE B—CASH AND INVESTMENTS—Continued

For financial reporting purposes, deposits with the State Treasurer that are invested in *OK INVEST* are classified as cash equivalents. At June 30, the distribution of deposits in *OK INVEST* is as follows:

OK INVEST Portfolio	2010		2009	
	Cost	Market Value	Cost	Market Value
U.S. Agency securities	\$ 858,269	\$ 872,679	\$ 766,083	\$ 789,796
Money market mutual funds	196,067	196,067	137,547	136,661
Certificates of deposit	127,406	127,406	111,430	110,039
Tri-party repurchase agreements	143,653	143,653	135,806	136,661
Mortgage-backed agency securities	792,457	826,889	395,229	399,335
Municipal bonds	48,263	51,749	27,858	28,397
Foreign bonds	8,978	8,878	3,482	3,550
U.S. Treasury Obligations	64,886	68,680	163,663	170,383
	<u>\$2,239,979</u>	<u>\$ 2,296,001</u>	<u>\$1,741,098</u>	<u>\$ 1,774,822</u>

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 and its funds' and agencies' daily cash flow requirements. Guidelines in the 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.treasurer.state.ok.us/>. 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 three years. *OK INVEST* maintains an overall weighted average maturity of less than 270 days.

NOTES TO FINANCIAL STATEMENTS—Continued

OKLAHOMA DEPARTMENT OF SECURITIES

June 30, 2010

NOTE B—CASH AND INVESTMENTS—Continued

Participants in *OK INVEST* maintain an interest in its underlying investments and, accordingly, may be exposed to certain risks. As stated in the State Treasurer information statement, 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

State statutes specify fee amounts and assessments for registrations, examination, exemptions, and investment company notices. Civil or administrative penalties, fines, and costs are determined by either court order 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 remitted to the State's General Fund or the Department's Revolving Fund, as mandated by state statutes.

NOTES TO FINANCIAL STATEMENTS—Continued

OKLAHOMA DEPARTMENT OF SECURITIES

June 30, 2010

NOTE C—FEES—Continued

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, which 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 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. This fee is required to be remitted to the State's General Fund. There has been no fee change during fiscal years 2010 or 2009.

NOTES TO FINANCIAL STATEMENTS—Continued

OKLAHOMA DEPARTMENT OF SECURITIES

June 30, 2010

NOTE D—CAPITAL ASSETS

The following is a summary of the changes in capital assets for the year ended June 30, 2010:

	Balance at June 30, 2009	Additions	Retirements	Balance at June 30, 2010
Capital assets:				
Computer hardware	\$ 296,143	\$ 5,375	\$ -	\$ 301,518
Computer software	43,489	-	-	43,489
Furniture and equipment	72,419	4,077	-	76,496
Telephone equipment	35,287	-	-	35,287
Total capital assets	<u>\$ 447,338</u>	<u>\$ 9,452</u>	<u>\$ -</u>	<u>\$ 456,790</u>
	Balance at June 30, 2009	Additions	Retirements	Balance at June 30, 2010
Accumulated depreciation:				
Computer hardware	\$ (243,156)	\$(15,348)	\$ -	\$ (258,504)
Computer software	(41,073)	(564)	-	(41,637)
Furniture and equipment	(61,768)	(2,045)	-	(63,813)
Telephone equipment	(24,906)	(6,391)	-	(31,297)
Total accumulated depreciation	<u>\$ (370,903)</u>	<u>\$ (24,348)</u>	<u>\$ -</u>	<u>\$ (395,251)</u>
Net capital assets	<u>\$ 76,435</u>	<u>\$ (14,896)</u>	<u>\$ -</u>	<u>\$ 61,539</u>

NOTES TO FINANCIAL STATEMENTS—Continued

OKLAHOMA DEPARTMENT OF SECURITIES

June 30, 2010

NOTE D—CAPITAL ASSETS—Continued

The following is a summary of the changes in capital assets for the year ended June 30, 2009:

	Balance at June 30, 2008	Additions	Retirements	Balance at June 30, 2009
Capital assets:				
Computer hardware	\$ 275,559	\$ 20,584	\$ -	\$ 296,143
Computer software	48,937	-	(5,448)	43,489
Furniture and equipment	71,406	1,013	-	72,419
Telephone equipment	31,351	3,936	-	35,287
Total capital assets	<u>\$ 427,253</u>	<u>\$ 25,533</u>	<u>\$ (5,448)</u>	<u>\$ 447,338</u>
	Balance at June 30, 2008	Additions	Retirements	Balance at June 30, 2009
Accumulated depreciation:				
Computer hardware	\$ (223,621)	\$ (19,535)	\$ -	\$ (243,156)
Computer software	(44,119)	(1,143)	4,189	(41,073)
Furniture and equipment	(59,554)	(2,214)	-	(61,768)
Telephone equipment	(19,386)	(5,520)	-	(24,906)
Total accumulated depreciation	<u>\$ (346,680)</u>	<u>\$ (28,412)</u>	<u>\$ 4,189</u>	<u>\$ (370,903)</u>
 Net capital assets	 <u>\$ 80,573</u>	 <u>\$ (2,879)</u>	 <u>\$ (1,259)</u>	 <u>\$ 76,435</u>

NOTES TO FINANCIAL STATEMENTS—Continued

OKLAHOMA DEPARTMENT OF SECURITIES

June 30, 2010

NOTE E—COMPENSATED ABSENCES

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

2010				
Balance at June 30, 2009	Additions	Deductions	Balance at June 30, 2010	Current Portion June 30, 2010
\$ 826,262	\$ 324,634	\$ (375,788)	\$ 775,108	\$ 77,511

2009				
Balance at June 30, 2008	Additions	Deductions	Balance at June 30, 2009	Current Portion June 30, 2009
\$ 731,399	\$ 346,667	\$ (251,804)	\$ 826,262	\$ 82,626

NOTE F—RETIREMENT PLAN

The Department provides a pension benefit for all of its permanent employees through the Oklahoma Public Employees Retirement System (OPERS), a statewide cost-sharing plan. OPERS is a defined benefit plan that provides benefits based on the members' final compensation, age, and term of service. OPERS also provides death and disability benefits to its members. OPERS covers substantially all employees of the State of Oklahoma (the State) except those covered by the six other plans sponsored by the State and also covers employees of participating counties and local agencies. All full-time employees are eligible and are required to participate in the plan. The plan's provisions are set by Title 74 of the Oklahoma State Statutes. The employees' required contribution rate was 3.50% for 2010 and 2009. The Department's required contribution rate was 15.50% and 14.50% for 2010 and 2009, respectively. 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 funds provided by the operations of the plan.

NOTES TO FINANCIAL STATEMENTS—Continued

OKLAHOMA DEPARTMENT OF SECURITIES

June 30, 2010

NOTE F—RETIREMENT PLAN—Continued

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:

2008	\$	311,000	100%
2009	\$	336,000	100%
2010	\$	359,000	100%

The Department's employees are also eligible to participate in the deferred savings incentive plan offered through OPERS. This plan's provisions are established by Title 74 of the Oklahoma State Statutes.

In the deferred compensation plan, employees invest a portion of their pay with a minimum contribution of \$25. The State of Oklahoma matches the first \$25. 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.

NOTE G—OPERATING LEASES

The Department leases office space, parking, and equipment under annual renewable operating leases. As of June 30, 2010 and 2009, there were no significant operating lease commitments outstanding. Lease expense for 2010 and 2009 was approximately \$135,000 and \$137,000, respectively.

NOTES TO FINANCIAL STATEMENTS—Continued

OKLAHOMA DEPARTMENT OF SECURITIES

June 30, 2010

NOTE H—CONTINGENCIES

The Department is subject to litigation in the normal course of business. For the years ended June 30, 2010 and 2009, there is no litigation pending.

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, 2010. 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.

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. We noted a deficiency in the Department's internal control that we consider to be a significant deficiency. The significant deficiency is included in the Schedule of Reportable Findings and Responses as Finding 2010-01.

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.



The Department's response to the finding identified in our audit is described in the accompanying Schedule of Reportable Findings and Responses. We did not audit the Department's response and, accordingly, we express no opinion on it.

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
June 29, 2011

SCHEDULE OF REPORTABLE FINDINGS AND RESPONSES

OKLAHOMA DEPARTMENT OF SECURITIES

June 30, 2010

Findings Required to be Reported by Government Auditing Standards

FINDING 2010-01

Accounting System and Formal Close Process (Significant Deficiency)

Criteria: An effective accounting system would leave a documented audit trail as well as enable the Department to independently produce a trial balance, general ledger, cash receipts and disbursement journals, and financial statements.

Condition: The Department relies heavily on Excel spreadsheets in summarizing transactions and activities that are used in the preparation of financial statements. Cash reconciliations are not prepared and reviewed timely. Transfers are not determined and made timely. The trial balance is prepared in Excel based on information from multiple sources. Journal entries are made without the review of a second individual.

Cause: The Department is unable to utilize the State's PeopleSoft accounting system to produce detailed trial balances sufficient to create complete financial statements. Therefore, the Department must gather information from several sources in order to prepare its financial statements. Trial balances are prepared in Excel and numerous "top-side" entries are made within the spreadsheet. Additionally, certain monthly transaction and/or account level controls are missing that would prevent or detect problems or misstatements in the Department's financial statements.

Effect: We noted the following errors in the initial trial balance provided to us all of which have been corrected in the Department's 2010 financial statements:

- Cash was overstated by approximately \$834,000
- Accounts receivable was understated by approximately \$269,000 (approximately \$239,000 of this amount relates to excess transfers during 2010 by the Department to the State's General Revenue Fund)
- Accounts payable was overstated by approximately \$553,000
- Transfers due and to the State were understated by approximately \$12,000

Recommendation: We recommend the Department continue to explore the feasibility of utilizing another accounting system, such as QuickBooks, or a similar system, to prepare and support its accrual financial statements. Until such time as it is feasible, however, we recommend that the Department include the following as part of its monthly closing process:

- Timely completion of cash account reconciliations
- Timely completion of transfer determination and processing
- Preparation of monthly accrual financial statements
- Required review by someone other than the preparer of all monthly closing schedules and reconciliations

SCHEDULE OF REPORTABLE FINDINGS AND RESPONSES—Continued

OKLAHOMA DEPARTMENT OF SECURITIES

June 30, 2010

Findings Required to be Reported by *Government Auditing Standards*

FINDING 2010-01--Continued

Accounting System and Formal Close Process (Significant Deficiency)

View of Responsible Official: The Department has engaged an outside accounting firm to assist the Department in preparing its annual financial statements and developing a documented audit trail, and to determine the feasibility and cost/benefit of acquiring and utilizing an accounting system separate from the State's accounting system. However, at the current time, we feel that the process of utilizing the outside accounting firm to extract financial data from the State's accounting system and then use that data to both prepare the financial statement amounts and disclosures is the most cost effective approach.