

**OKLAHOMA DEPARTMENT OF
SECURITIES**

JUNE 30, 2011

OKLAHOMA DEPARTMENT OF SECURITIES

June 30, 2011

INDEPENDENT AUDITORS' REPORT.....3

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited).....5

FINANCIAL STATEMENTS

Statements of Net Assets.....13

Statements of Revenues, Expenses, and Changes in Net Assets.....14

Statements of Cash Flows.....15

Notes to Financial Statements.....16

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 *Government Auditing Standards*.....29

Independent Auditors' Report

We have audited the accompanying statements of net assets of the Oklahoma Department of Securities (the "Department") as of June 30, 2011 and 2010, 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, 2011 and 2010, 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, 2011 and 2010, 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 November 8, 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
November 8, 2011

**Oklahoma Department of Securities
Management's Discussion and Analysis - Unaudited
For the Year Ended June 30, 2011**

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, 2011. 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.

Oklahoma Department of Securities
Management's Discussion and Analysis - Unaudited - continued
For the Year Ended June 30, 2011

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, 2011, with comparative totals at June 30, 2010 and 2009, respectively.

Schedule A
Net Assets at June 30, 2011
With Comparative Totals at June 30, 2010 and 2009

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Current assets	\$ 10,535,028	\$ 8,968,623	\$ 9,583,861
Noncurrent assets	59,322	61,539	76,435
Total assets	<u>\$ 10,594,350</u>	<u>\$ 9,030,162</u>	<u>\$ 9,660,296</u>
Current liabilities	\$ 2,019,143	\$ 791,963	\$ 622,122
Noncurrent liabilities	718,184	697,597	743,636
Total liabilities	<u>\$ 2,737,327</u>	<u>\$ 1,489,560</u>	<u>\$ 1,365,758</u>
Net assets			
Invested in capital assets	\$ 59,322	\$ 61,539	\$ 76,435
Restricted net assets - expendable	2,661,549	2,490,886	1,974,265
Unrestricted net assets	5,136,152	4,988,177	6,243,838
Total net assets	<u>\$ 7,857,023</u>	<u>\$ 7,540,602</u>	<u>\$ 8,294,538</u>

At the year ended June 30, 2011, Due from State decreased approximately \$239,000 or 100% due to the correction of the transfers that created the receivable. In addition, Due to State increased approximately \$1,748,000 or 100% due to transfers to the State's General Fund made subsequent to year end. Accounts payable decreased approximately \$523,000 or 73% due in large part to the decrease in Invest Ed® accounts payable of approximately \$535,000 and an increase in other payables of approximately \$12,000. These changes in accounts payable were created by timing differences of the payment of expenses. Cash and cash equivalents increased approximately \$1,558,000 or 25% due to the increase in accounts payable and the decrease in the amounts Due from State.

Oklahoma Department of Securities
Management's Discussion and Analysis - Unaudited - continued
For the Year Ended June 30, 2011

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.

Schedule B is prepared from the Department's Statement of Revenues, Expenses, and Changes in Net Assets for the year ended June 30, 2011, with comparative totals for the years ended June 30, 2010 and 2009, respectively.

Schedule B
Operating Results for the Year Ended June 30, 2011
With Comparative Totals for the Years Ended June 30, 2010 and 2009

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating revenues (expenses)			
Registration fees	\$ 19,096,480	\$ 16,734,794	\$ 18,484,580
Fines, penalties, and other	302,837	572,150	883,732
Less: operating expenses	<u>(4,539,562)</u>	<u>(5,347,376)</u>	<u>(4,843,108)</u>
Net operating income	\$ 14,859,755	\$ 11,959,568	\$ 14,525,204
Nonoperating revenues (expenses)			
Interest income	\$ 62,246	\$ 61,031	\$ 75,832
Transfers to and due to State of Oklahoma	<u>(14,605,580)</u>	<u>(12,774,535)</u>	<u>(14,029,181)</u>
Net nonoperating revenues	\$ (14,543,334)	\$ (12,713,504)	\$ (13,953,349)
Increase (decrease) in net assets	<u>\$ 316,421</u>	<u>\$ (753,936)</u>	<u>\$ 571,855</u>

Oklahoma Department of Securities
Management's Discussion and Analysis - Unaudited - continued
For the Year Ended June 30, 2011

Revenue

In 2011, securities registration fees increased approximately \$1,759,000 or 17% which is a return to the normal level after a decrease in the prior year. Fines, penalties, and administrative costs are awarded to the Department by the court system or the Administrator and the aggregate amount varies annually. In 2011, these awards resulted in a decrease in fines, penalties, and administrative costs of approximately \$269,000 or 47%.

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 or the Administrator and the aggregate amount varies 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.

Expenses

Contracted and professional services increased approximately \$100,000 or 96% in 2011 due to the increase in accounting and auditing costs associated with preparing financial statements for fiscal years 2008, 2009, and 2010.

In 2011, investor education professional services decreased approximately \$980,000 or 59% from 2010. This decrease is primarily due to the increased work performed on certain video projects in 2010, which was not performed in 2011.

In 2010, contracted and professional services increased approximately \$63,000 or 152% 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.

**Oklahoma Department of Securities
Management's Discussion and Analysis - Unaudited - continued
For the Year Ended June 30, 2011**

Schedule C summarizes the Department's operating expenses for the years ended June 30, 2011, 2010 and 2009, respectively.

Schedule C
Operating Expenses for the Year Ended June 30, 2011
With Comparative Totals for the Years Ended June 30, 2010 and 2009

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Salaries, wages, and benefits	\$3,287,334	\$3,207,706	\$3,266,724
Rent expense	146,694	134,781	136,975
Contracted and professional services	204,000	104,230	41,418
Depreciation	28,159	24,348	28,412
Investor education professional services	667,953	1,647,775	1,162,108
Other general and administrative expenses	205,422	228,536	207,471
	<u>\$4,539,562</u>	<u>\$5,347,376</u>	<u>\$4,843,108</u>

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, 2011, with comparative totals for the years ended June 30, 2010, and 2009, respectively.

**Oklahoma Department of Securities
Management's Discussion and Analysis - Unaudited - continued
For the Year Ended June 30, 2011**

Schedule D
Cash Flows for the Year Ended June 30, 2011
With Comparative Totals for the Years Ended June 30, 2010 and 2009

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Cash provided (used) by:			
Operating activities	\$ 14,371,095	\$ 12,822,940	\$ 13,990,269
Noncapital activities	(12,618,660)	(13,381,771)	(13,928,881)
Capital and related financing activities	(25,942)	(9,452)	(25,533)
Investing activities	62,108	60,293	79,555
Net increase (decrease) in cash	<u>\$ 1,788,601</u>	<u>\$ (507,990)</u>	<u>\$ 115,410</u>
 Cash at beginning of year	 <u>\$ 8,693,688</u>	 <u>\$ 9,201,678</u>	 <u>\$ 9,086,268</u>
 Cash at end of year	 <u><u>\$ 10,482,289</u></u>	 <u><u>\$ 8,693,688</u></u>	 <u><u>\$ 9,201,678</u></u>

Other Financial Information

Economic Outlook

The Department's Revolving Fund is a continuing fund, not subject to limitations, consisting of fees and other charges collected by the Administrator as set forth in 71 O.S. §1-612(E). With legislative authorization, such funds may be budgeted and expended by the Department as may be necessary to perform the duties imposed upon the Department by law. The ability of the Department to fund operations necessary to meet its mission depends on the amount of cash deposited in the Revolving Fund that in turn depends on the amount of fees that are allocated by the Legislature to be deposited in the Revolving Fund. For 2011, 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:

Oklahoma Department of Securities
Management's Discussion and Analysis - Unaudited - continued
For the Year Ended June 30, 2011

- 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.

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 \$280,643, \$920,313, and \$478,287 were received during fiscal years 2011, 2010, and 2009, 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 \$62,246, \$61,031, and \$75,832 for the years ended June 30, 2011, 2010, and 2009, respectively.

The Department has joined with the University of Oklahoma OUTREACH, College of Continuing Education to develop and implement an investor education outreach program.

Oklahoma Department of Securities
Management's Discussion and Analysis - Unaudited - continued
For the Year Ended June 30, 2011

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 2011 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 Deputy Administrator, 120 North Robinson, Suite 860, Oklahoma City, OK 73102.

STATEMENTS OF NET ASSETS

OKLAHOMA DEPARTMENT OF SECURITIES

	June 30, 2011	June 30, 2010
	<u>2011</u>	<u>2010</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 7,766,751	\$ 6,208,601
Cash restricted for investor education	2,715,538	2,485,087
Accrued interest restricted for investor education	5,939	5,799
Due from State	-	239,386
Accounts receivable	46,800	29,750
Total current assets	<u>\$ 10,535,028</u>	<u>\$ 8,968,623</u>
Capital assets, net	\$ 59,322	\$ 61,539
TOTAL ASSETS	<u>\$ 10,594,350</u>	<u>\$ 9,030,162</u>
LIABILITIES		
Current liabilities		
Accounts payable	\$ 131,883	\$ 714,452
Due to State	1,747,534	-
Accrued compensated absences, current portion	79,798	77,511
Accounts payable from restricted assets	59,928	-
Total current liabilities	<u>\$ 2,019,143</u>	<u>\$ 791,963</u>
Accrued compensated absences, net	\$ 718,184	\$ 697,597
TOTAL LIABILITIES	<u>\$ 2,737,327</u>	<u>\$ 1,489,560</u>
NET ASSETS		
Invested in capital assets, net	\$ 59,322	\$ 61,539
Restricted net assets - expendable	2,661,549	2,490,886
Unrestricted net assets	5,136,152	4,988,177
TOTAL NET ASSETS	<u>\$ 7,857,023</u>	<u>\$ 7,540,602</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 10,594,350</u>	<u>\$ 9,030,162</u>

See notes to financial statements

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

OKLAHOMA DEPARTMENT OF SECURITIES
YEARS ENDED JUNE 30

	<u>2011</u>	<u>2010</u>
OPERATING REVENUES		
Securities registration fees	\$ 12,103,900	\$ 10,345,194
Securities professionals' registration fees	6,992,580	6,389,600
Fines, penalties, and administrative costs	297,143	563,691
Other revenue	5,694	8,459
TOTAL OPERATING REVENUES	<u>\$ 19,399,317</u>	<u>\$ 17,306,944</u>
OPERATING EXPENSES		
Salaries, wages, and benefits	\$ 3,287,334	\$ 3,207,706
Rent expense	146,694	134,781
Contracted and professional services	204,000	104,230
Depreciation	28,159	24,348
Investor education professional services	667,953	1,647,775
Other general and administrative expenses	205,422	228,536
TOTAL OPERATING EXPENSES	<u>\$ 4,539,562</u>	<u>\$ 5,347,376</u>
OPERATING INCOME	\$ 14,859,755	\$ 11,959,568
NONOPERATING REVENUE (EXPENSE)		
Interest income	\$ 62,246	\$ 61,031
Transfers to and due to State of Oklahoma	<u>(14,605,580)</u>	<u>(12,774,535)</u>
NET NONOPERATING EXPENSE	<u>\$ (14,543,334)</u>	<u>\$ (12,713,504)</u>
NET CHANGE IN NET ASSETS	\$ 316,421	\$ (753,936)
NET ASSETS, BEGINNING OF YEAR	<u>\$ 7,540,602</u>	<u>\$ 8,294,538</u>
NET ASSETS, END OF YEAR	<u><u>\$ 7,857,023</u></u>	<u><u>\$ 7,540,602</u></u>

See notes to financial statements

STATEMENTS OF CASH FLOWS

OKLAHOMA DEPARTMENT OF SECURITIES
YEARS ENDED JUNE 30

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Registration of professionals and securities	\$ 19,079,430	\$ 16,705,044
Fines, penalties, and other	302,837	949,272
Payments to suppliers	(1,758,389)	(1,572,516)
Compensation and benefits	(3,252,783)	(3,258,860)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 14,371,095	\$ 12,822,940
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Payments to State's general fund	\$ (12,618,660)	\$ (13,381,771)
NET CASH (USED) IN NONCAPITAL FINANCING ACTIVITIES	\$ (12,618,660)	\$ (13,381,771)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	\$ (25,942)	\$ (9,452)
NET CASH (USED) IN CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (25,942)	\$ (9,452)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	\$ 62,108	\$ 60,293
NET CASH PROVIDED BY INVESTING ACTIVITIES	\$ 62,108	\$ 60,293
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ 1,788,601	\$ (507,990)
CASH AND CASH EQUIVALENTS, beginning of year	\$ 8,693,688	\$ 9,201,678
CASH AND CASH EQUIVALENTS, end of year	\$ 10,482,289	\$ 8,693,688
OPERATING ACTIVITIES		
Operating income	\$ 14,859,755	\$ 11,959,568
Adjustment to reconcile operating income to net cash provided by operating activities		
Depreciation	28,159	24,348
Changes in operating assets and liabilities		
Accounts receivable	(17,050)	347,372
Accounts payable	(522,643)	542,806
Accrued compensated absences	22,874	(51,154)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 14,371,095	\$ 12,822,940

See notes to financial statements

NOTES TO FINANCIAL STATEMENTS

OKLAHOMA DEPARTMENT OF SECURITIES

June 30, 2011

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 and securities transactions, investigation and enforcement, and investor education.

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

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

Reporting Entity: The financial reporting entity, as defined by Governmental Accounting Standards Board (“GASB”) Statement No. 14, *The Financial Reporting Entity*, and as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, 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, 2011

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, 2011 and 2010, in the accompanying Statements 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, 2011

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.

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

Compensated Absences: Employees' compensated absences are accrued at year-end for financial statement purposes. The liability and expense incurred are recorded as accrued compensated absences in the statements of net 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, 2011 and 2010.

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, 2011 and 2010, this balance was made up of cash and accrued interest (net of accounts payable from restricted assets) restricted for investor education and research.

NOTES TO FINANCIAL STATEMENTS—Continued

OKLAHOMA DEPARTMENT OF SECURITIES

June 30, 2011

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

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.

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, 2011

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, 2011 and 2010, the carrying amounts of the Department's deposits with the State Treasurer were \$10,482,289 and \$8,693,688, respectively and the bank balances were \$10,471,539 and \$8,693,488, 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 \$2,710,485 and \$2,239,979 as of June 30, 2011 and 2010, respectively.

NOTES TO FINANCIAL STATEMENTS—Continued

OKLAHOMA DEPARTMENT OF SECURITIES

June 30, 2011

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	2011		2010	
	Cost	Market Value	Cost	Market Value
U.S. Agency securities	\$ 989,964	\$ 997,901	\$ 858,269	\$ 872,679
Money market mutual funds	298,003	298,003	196,067	196,067
Certificates of deposit	127,982	127,982	127,406	127,406
Tri-party repurchase agreements	182,906	182,906	143,653	143,653
Mortgage-backed agency securities	983,231	1,026,655	792,457	826,889
Municipal bonds	54,025	58,504	48,263	51,749
Foreign bonds	10,077	10,077	8,978	8,878
Commercial paper	25,191	25,193	-	-
U.S. Treasury Obligations	39,106	46,336	64,886	68,680
	<u>\$2,710,485</u>	<u>\$ 2,773,557</u>	<u>\$2,239,979</u>	<u>\$ 2,296,001</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, 2011

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

As to securities, 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, 2011

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 2011 or 2010.

NOTES TO FINANCIAL STATEMENTS—Continued

OKLAHOMA DEPARTMENT OF SECURITIES

June 30, 2011

NOTE D—CAPITAL ASSETS

The following is a summary of the changes in capital assets for the year ended June 30, 2011:

	Balance at June 30, 2010	Additions	Retirements	Balance at June 30, 2011
Capital assets:				
Computer hardware	\$ 301,518	\$ 21,867	\$ -	\$ 323,385
Computer software	43,489	-	-	43,489
Furniture and equipment	76,496	4,075	-	80,571
Telephone equipment	35,287	-	-	35,287
Total capital assets	<u>\$ 456,790</u>	<u>\$ 25,942</u>	<u>\$ -</u>	<u>\$ 482,732</u>
	Balance at June 30, 2010	Additions	Retirements	Balance at June 30, 2011
Accumulated depreciation:				
Computer hardware	\$ (258,504)	\$ (23,991)	\$ -	\$ (282,495)
Computer software	(41,637)	(143)	-	(41,780)
Furniture and equipment	(63,813)	(2,075)	-	(65,888)
Telephone equipment	(31,297)	(1,950)	-	(33,247)
Total accumulated depreciation	<u>\$ (395,251)</u>	<u>\$ (28,159)</u>	<u>\$ -</u>	<u>\$ (423,410)</u>
 Net capital assets	 <u>\$ 61,539</u>	 <u>\$ (2,217)</u>	 <u>\$ -</u>	 <u>\$ 59,322</u>

NOTES TO FINANCIAL STATEMENTS—Continued

OKLAHOMA DEPARTMENT OF SECURITIES

June 30, 2011

NOTE D—CAPITAL ASSETS—Continued

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, 2011

NOTE E—COMPENSATED ABSENCES

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

2011				
Balance at June 30, 2010	Additions	Deductions	Balance at June 30, 2011	Current Portion June 30, 2011
\$ 775,108	\$ 323,174	\$ (300,300)	\$ 797,982	\$ 79,798

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

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 2011 and 2010. The Department's required contribution rate was 15.50% and 15.50% for 2011 and 2010, 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, 2011

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:

<u>Fiscal</u> <u>Year</u>	<u>Required</u> <u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>
2009	\$ 336,000	100%
2010	\$ 359,000	100%
2011	\$ 360,000	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, 2011 and 2010, there were no significant operating lease commitments outstanding. Lease expense for 2011 and 2010 was approximately \$147,000 and \$135,000, respectively.

NOTES TO FINANCIAL STATEMENTS—Continued

OKLAHOMA DEPARTMENT OF SECURITIES

June 30, 2011

NOTE H—CONTINGENCIES

The Department is subject to litigation in the normal course of business. For the years ended June 30, 2011 and 2010, 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, 2011. 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 did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

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
November 8, 2011