

**OKLAHOMA DEPARTMENT OF  
SECURITIES**

**JUNE 30, 2012**

OKLAHOMA DEPARTMENT OF SECURITIES

June 30, 2012

INDEPENDENT AUDITORS' REPORT.....	2
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited).....	4
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> .....	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, 2012 and 2011, 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, 2012 and 2011, 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, 2012 and 2011, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on page 4 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2012, 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 15, 2012

**Oklahoma Department of Securities  
Management's Discussion and Analysis - Unaudited  
For the Year Ended June 30, 2012**

**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, 2012. 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, 2012**

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, 2012, with comparative totals at June 30, 2011 and 2010, respectively.

Schedule A  
Net Assets at June 30, 2012  
With Comparative Totals at June 30, 2011 and 2010

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Current assets	\$ 8,677,891	\$ 10,535,028	\$ 8,968,623
Noncurrent assets	<u>146,578</u>	<u>59,322</u>	<u>61,539</u>
Total assets	\$ 8,824,469	\$ 10,594,350	\$ 9,030,162
Current liabilities	\$ 859,468	\$ 2,019,143	\$ 791,963
Noncurrent liabilities	<u>673,779</u>	<u>718,184</u>	<u>697,597</u>
Total liabilities	\$ 1,533,247	\$ 2,737,327	\$ 1,489,560
Net assets			
Invested in capital assets	\$ 146,578	\$ 59,322	\$ 61,539
Restricted net assets - expendable	2,022,004	2,661,549	2,490,886
Unrestricted net assets	<u>5,122,640</u>	<u>5,136,152</u>	<u>4,988,177</u>
Total net assets	\$ 7,291,222	\$ 7,857,023	\$ 7,540,602

At the year ended June 30, 2012, Due to State (See Note A) decreased approximately \$1,490,000 or 85% due to transfers to the State's General Fund related to prior year revenue made in the current year. In the current year, the Department had only one month's transfer that was due at year end. Accounts payable increased approximately \$336,000 or 175% due in large part to the increase in Invest Ed® accounts payable of approximately \$349,000. These changes in accounts payable were created by timing differences of the payment of expenses. Cash and cash equivalents decreased approximately \$1,819,000 or 17% due to the increase in work performed on Invest Ed® projects and the decrease in the amounts Due to State.

Capital assets, net increased approximately \$87,000 or 147% due to the development of new software for the Department that is included in construction in progress.

**Oklahoma Department of Securities**  
**Management's Discussion and Analysis - Unaudited - continued**  
**For the Year Ended June 30, 2012**

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.

Schedule B is prepared from the Department's Statement of Revenues, Expenses, and Changes in Net Assets for the year ended June 30, 2012, with comparative totals for the years ended June 30, 2011 and 2010, respectively.

**Schedule B**  
**Operating Results for the Year Ended June 30, 2012**  
**With Comparative Totals for the Years Ended June 30, 2011 and 2010**

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating revenues (expenses)			
Registration fees	\$ 19,547,480	\$ 19,096,480	\$ 16,734,794
Fines, penalties, and other	224,685	302,837	572,150
Less: operating expenses	<u>(5,394,339)</u>	<u>(4,539,562)</u>	<u>(5,347,376)</u>
Net operating income	\$ 14,377,826	\$ 14,859,755	\$ 11,959,568
Nonoperating revenues (expenses)			
Interest income	\$ 62,883	\$ 62,246	\$ 61,031
Transfers to and due to State of Oklahoma	<u>(15,006,510)</u>	<u>(14,605,580)</u>	<u>(12,774,535)</u>
Net nonoperating revenues	\$ (14,943,627)	\$ (14,543,334)	\$ (12,713,504)
Increase (decrease) in net assets	<u>\$ (565,801)</u>	<u>\$ 316,421</u>	<u>\$ (753,936)</u>

**Oklahoma Department of Securities**  
**Management's Discussion and Analysis - Unaudited - continued**  
**For the Year Ended June 30, 2012**

**Revenue**

In 2012, fines, penalties, and administrative costs decreased approximately \$77,000 or 26%. 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, 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 vary annually. In 2011, there was a decrease in fines, penalties, and administrative costs of approximately \$269,000 or 47%.

**Expenses**

In 2012, investor education professional services increased approximately \$969,000 or 145% from 2011. This increase is primarily due to the increased work performed on certain video projects in 2012, which was not performed in 2011. Contracted and professional services decreased approximately \$99,000 or 48% from 2011 due to the decrease in accounting and auditing costs. In 2011, audits were performed for fiscal years 2008, 2009, and 2010.

In 2011, contracted and professional services increased approximately \$100,000 or 96% 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.

**Oklahoma Department of Securities**  
**Management's Discussion and Analysis - Unaudited - continued**  
**For the Year Ended June 30, 2012**

Schedule C summarizes the Department's operating expenses for the years ended June 30, 2012, 2011 and 2010, respectively.

Schedule C  
Operating Expenses for the Year Ended June 30, 2012  
With Comparative Totals for the Years Ended June 30, 2011 and 2010

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Salaries, wages, and benefits	\$3,262,402	\$3,287,334	\$3,207,706
Rent expense	143,811	146,694	134,781
Contracted and professional services	105,413	204,000	104,230
Depreciation	28,568	28,159	24,348
Investor education professional services	1,637,138	667,953	1,647,775
Other general and administrative expenses	217,007	205,422	228,536
	<u>\$5,394,339</u>	<u>\$4,539,562</u>	<u>\$5,347,376</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, 2012, with comparative totals for the years ended June 30, 2011, and 2010, respectively.

**Oklahoma Department of Securities  
Management's Discussion and Analysis - Unaudited - continued  
For the Year Ended June 30, 2012**

Schedule D  
Cash Flows for the Year Ended June 30, 2012  
With Comparative Totals for the Years Ended June 30, 2011 and 2010

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Cash provided (used) by:			
Operating activities	\$ 14,729,398	\$ 14,371,095	\$ 12,822,940
Noncapital activities	(16,496,794)	(12,618,660)	(13,381,771)
Capital and related financing activities	(115,824)	(25,942)	(9,452)
Investing activities	64,227	62,108	60,293
Net increase (decrease) in cash	<u>\$ (1,818,993)</u>	<u>\$ 1,788,601</u>	<u>\$ (507,990)</u>
 Cash at beginning of year	 <u>\$ 10,482,289</u>	 <u>\$ 8,693,688</u>	 <u>\$ 9,201,678</u>
 Cash at end of year	 <u><u>\$ 8,663,296</u></u>	 <u><u>\$ 10,482,289</u></u>	 <u><u>\$ 8,693,688</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 2012, there were sufficient allocations. There is no assurance, however, that such allocations by the Legislature will be sufficient to fund future operations.

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.

**Oklahoma Department of Securities  
Management's Discussion and Analysis - Unaudited - continued  
For the Year Ended June 30, 2012**

- 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 \$219,703, \$280,643, and \$920,313 were received during fiscal years 2012, 2011, and 2010, 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 \$62,883, \$62,246, and \$61,031 for the years ended June 30, 2012, 2011, and 2010, respectively.

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

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 2012 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](http://www.investedok.org).

**Oklahoma Department of Securities  
Management's Discussion and Analysis - Unaudited - continued  
For the Year Ended June 30, 2012**

**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, 2012	June 30, 2011
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 6,360,273	\$ 7,766,751
Cash restricted for investor education	2,303,023	2,715,538
Accrued interest restricted for investor education	4,595	5,939
Accounts receivable	10,000	46,800
Total current assets	<u>\$ 8,677,891</u>	<u>\$ 10,535,028</u>
Capital assets, net	\$ 146,578	\$ 59,322
TOTAL ASSETS	<u><u>\$ 8,824,469</u></u>	<u><u>\$ 10,594,350</u></u>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	\$ 241,740	\$ 131,883
Due to State	257,250	1,747,534
Accrued compensated absences, current portion	74,864	79,798
Accounts payable from restricted assets	285,614	59,928
Total current liabilities	<u>\$ 859,468</u>	<u>\$ 2,019,143</u>
Accrued compensated absences, net	\$ 673,779	\$ 718,184
TOTAL LIABILITIES	<u>\$ 1,533,247</u>	<u>\$ 2,737,327</u>
<b>NET ASSETS</b>		
Invested in capital assets, net	\$ 146,578	\$ 59,322
Restricted net assets - expendable	2,022,004	2,661,549
Unrestricted net assets	5,122,640	5,136,152
TOTAL NET ASSETS	<u>\$ 7,291,222</u>	<u>\$ 7,857,023</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 8,824,469</u></u>	<u><u>\$ 10,594,350</u></u>

See notes to financial statements

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

OKLAHOMA DEPARTMENT OF SECURITIES  
YEARS ENDED JUNE 30

	<u>2012</u>	<u>2011</u>
<b>OPERATING REVENUES</b>		
Securities registration fees	\$ 12,431,660	\$ 12,103,900
Securities professionals' registration fees	7,115,820	6,992,580
Fines, penalties, and administrative costs	219,703	297,143
Other revenue	4,982	5,694
TOTAL OPERATING REVENUES	<u>\$ 19,772,165</u>	<u>\$ 19,399,317</u>
<b>OPERATING EXPENSES</b>		
Salaries, wages, and benefits	\$ 3,262,402	\$ 3,287,334
Rent expense	143,811	146,694
Contracted and professional services	105,413	204,000
Depreciation	28,568	28,159
Investor education professional services	1,637,138	667,953
Other general and administrative expenses	217,007	205,422
TOTAL OPERATING EXPENSES	<u>\$ 5,394,339</u>	<u>\$ 4,539,562</u>
OPERATING INCOME	\$ 14,377,826	\$ 14,859,755
<b>NONOPERATING REVENUE (EXPENSE)</b>		
Interest income	\$ 62,883	\$ 62,246
Transfers to and due to State of Oklahoma	(15,006,510)	(14,605,580)
NET NONOPERATING EXPENSE	<u>\$ (14,943,627)</u>	<u>\$ (14,543,334)</u>
CHANGE IN NET ASSETS	\$ (565,801)	\$ 316,421
NET ASSETS, BEGINNING OF YEAR	<u>\$ 7,857,023</u>	<u>\$ 7,540,602</u>
NET ASSETS, END OF YEAR	<u>\$ 7,291,222</u>	<u>\$ 7,857,023</u>

See notes to financial statements

STATEMENTS OF CASH FLOWS

OKLAHOMA DEPARTMENT OF SECURITIES  
YEARS ENDED JUNE 30

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Registration of professionals and securities	\$ 19,584,280	\$ 19,079,430
Fines, penalties, and other	224,685	302,837
Payments to suppliers	(1,767,826)	(1,758,389)
Compensation and benefits	(3,311,741)	(3,252,783)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 14,729,398	\$ 14,371,095
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Payments to State's general fund	\$ (16,496,794)	\$ (12,618,660)
NET CASH USED IN NONCAPITAL FINANCING ACTIVITIES	\$ (16,496,794)	\$ (12,618,660)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	\$ (115,824)	\$ (25,942)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (115,824)	\$ (25,942)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	\$ 64,227	\$ 62,108
NET CASH PROVIDED BY INVESTING ACTIVITIES	\$ 64,227	\$ 62,108
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ (1,818,993)	\$ 1,788,601
CASH AND CASH EQUIVALENTS, beginning of year	\$ 10,482,289	\$ 8,693,688
CASH AND CASH EQUIVALENTS, end of year	\$ 8,663,296	\$ 10,482,289
OPERATING ACTIVITIES		
Operating income	\$ 14,377,826	\$ 14,859,755
Adjustment to reconcile operating income to net cash provided by operating activities		
Depreciation	28,568	28,159
Changes in operating assets and liabilities		
Accounts receivable	36,800	(17,050)
Accounts payable	335,543	(522,643)
Accrued compensated absences	(49,339)	22,874
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 14,729,398	\$ 14,371,095

See notes to financial statements

## NOTES TO FINANCIAL STATEMENTS

### OKLAHOMA DEPARTMENT OF SECURITIES

June 30, 2012

#### 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, 2012

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

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, 2012 and 2011, in the accompanying Statements of Net Assets.

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

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.

NOTES TO FINANCIAL STATEMENTS—Continued

OKLAHOMA DEPARTMENT OF SECURITIES

June 30, 2012

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

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, 2012 and 2011.

*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, 2012 and 2011, this balance consisted of cash and accrued interest (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, 2012

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, such as interest income, that are defined as non-operating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting*, and investment income as defined by GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

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

NOTES TO FINANCIAL STATEMENTS—Continued

OKLAHOMA DEPARTMENT OF SECURITIES

June 30, 2012

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, 2012 and 2011, the carrying amounts of the Department's deposits with the State Treasurer were \$8,662,796 and \$10,482,289, respectively and the bank balances were \$8,662,796 and \$10,471,539, 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 \$2,303,023 and \$2,710,485 as of June 30, 2012 and 2011, respectively.

NOTES TO FINANCIAL STATEMENTS—Continued

OKLAHOMA DEPARTMENT OF SECURITIES

June 30, 2012

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	2012		2011	
	Cost	Market Value	Cost	Market Value
U.S. Agency securities	\$ 814,236	\$ 816,629	\$ 989,964	\$ 997,901
Money market mutual funds	315,239	315,239	298,003	298,003
Certificates of deposit	74,386	74,386	127,982	127,982
Tri-party repurchase agreements	-	-	182,906	182,906
Mortgage-backed agency securities	1,016,519	1,080,009	983,231	1,026,655
Municipal bonds	41,309	47,129	54,025	58,504
Foreign bonds	11,589	11,589	10,077	10,077
Commercial paper	-	-	25,191	25,193
U.S. Treasury Obligations	29,745	37,109	39,106	46,336
	<u>\$ 2,303,023</u>	<u>\$ 2,382,090</u>	<u>\$ 2,710,485</u>	<u>\$ 2,773,557</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, 2012

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, 2012

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 2012 or 2011.

NOTES TO FINANCIAL STATEMENTS—Continued

OKLAHOMA DEPARTMENT OF SECURITIES

June 30, 2012

NOTE D—CAPITAL ASSETS

The following is a summary of the changes in capital assets for the year ended June 30, 2012:

	Balance at June 30, 2011	Additions	Retirements	Balance at June 30, 2012
Capital assets:				
Non-depreciable:				
Construction in progress	\$ -	\$ 93,226	\$ -	\$ 93,226
Total non-depreciable capital assets	<u>-</u>	<u>93,226</u>	<u>-</u>	<u>93,226</u>
Depreciable:				
Computer hardware	323,385	19,192	-	342,577
Computer software	43,489	-	-	43,489
Furniture and equipment	80,571	3,406	-	83,977
Telephone equipment	35,287	-	-	35,287
Total depreciable capital assets	<u>482,732</u>	<u>22,598</u>	<u>-</u>	<u>505,330</u>
Accumulated depreciation:				
Computer hardware	(282,495)	(25,566)	-	(308,061)
Computer software	(41,780)	-	-	(41,780)
Furniture and equipment	(65,888)	(1,941)	-	(67,829)
Telephone equipment	(33,247)	(1,061)	-	(34,308)
Total accumulated depreciation	<u>(423,410)</u>	<u>(28,568)</u>	<u>-</u>	<u>(451,978)</u>
Net capital assets	<u>\$ 59,322</u>	<u>\$ 87,256</u>	<u>\$ -</u>	<u>\$ 146,578</u>

NOTES TO FINANCIAL STATEMENTS—Continued

OKLAHOMA DEPARTMENT OF SECURITIES

June 30, 2012

NOTE D—CAPITAL ASSETS—Continued

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 depreciable capital assets	<u>456,790</u>	<u>25,942</u>	<u>-</u>	<u>482,732</u>
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, 2012

NOTE E—COMPENSATED ABSENCES

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

2012				
Balance at June 30, 2011	Additions	Deductions	Balance at June 30, 2012	Current Portion June 30, 2012
\$ 797,982	\$ 315,635	\$ (364,974)	\$ 748,643	\$ 74,864

  

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

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 2012 and 2011. The Department's required contribution rate was 16.50% and 15.50% for 2012 and 2011, 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, 2012

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>
2010	\$ 359,000	100%
2011	\$ 360,000	100%
2012	\$ 387,000	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, 2012 and 2011, there were no significant operating lease commitments outstanding. Lease expense for 2012 and 2011 was approximately \$144,000 and \$147,000, respectively.

NOTES TO FINANCIAL STATEMENTS—Continued

OKLAHOMA DEPARTMENT OF SECURITIES

June 30, 2012

NOTE H—CONTINGENCIES

The Department is subject to litigation in the normal course of business. For the years ended June 30, 2012 and 2011, there is no litigation pending.

NOTE I—NEW ACCOUNTING PRONOUNCEMENTS

The GASB has issued several new accounting pronouncements that will be effective to the Department in subsequent years. A description of the new accounting pronouncements, the fiscal year in which they are effective, and the Department's consideration of the impact of these pronouncements are described below:

*Fiscal Year Ended June 30, 2013*

- *Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements –* GASB No. 60 addresses issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. This Statement applies only to those arrangements in which specific criteria determining whether a transferor has control over the facility are met. The Department will only be required to adopt the provisions of GASB No. 60 if it enters into an SCA, and it currently has not entered into any such arrangements.
- *Statement No. 61, The Financial Reporting Entity: Omnibus – An Amendment of GASB Statements No. 14 and No. 34.*

GASB No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity and also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. Earlier application is encouraged. The Department does not believe that the adoption of GASB No. 61 will have a significant impact on its financial statement presentation.

NOTES TO FINANCIAL STATEMENTS—Continued

OKLAHOMA DEPARTMENT OF SECURITIES

June 30, 2012

NOTE I—NEW ACCOUNTING PRONOUNCEMENTS—Continued

- Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.*

GASB No. 62 is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain FASB and AICPA pronouncements. The Department does not believe that the adoption GASB No. 62 will have a significant impact on its financial position, activities or cash flows, or its financial statement presentation.

- Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.*

GASB No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Adoption of this statement will require the Department to make changes in its financial statement presentation.

*Fiscal Year Ended June 30, 2014*

- Statement No. 65, *Items Previously Reported as Assets and Liabilities.*

GASB No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources (expenses) or inflows of resources (revenues), certain items that were previously recognized as assets and liabilities. The Department has not quantified the effects of adoption of GASB No. 65 on its net position.

NOTES TO FINANCIAL STATEMENTS—Continued

OKLAHOMA DEPARTMENT OF SECURITIES

June 30, 2012

NOTE I—NEW ACCOUNTING PRONOUNCEMENTS—Continued

*Fiscal Year Ended June 30, 2015*

- *Statement No. 68, Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27*

GASB No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and pension expenses. GASB No. 68 also details the recognition and disclosure requirements for employers with liabilities to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. Defined benefit pensions are further classified by GASB No. 68 as single employer plans, agent employer plans and cost-sharing plans, and recognition and disclosure requirements are addressed for each classification. GASB No. 68 was issued in June 2012, and the Department has not yet determined the impact that implementation of GASB No. 68 will have on its net position.

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, 2012. 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

Management of the Department is responsible for establishing and maintaining effective 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 tests 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 15, 2012