Oklahoma Department of Securities

ANNUAL FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORTS

AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2013

OKLAHOMA
DEPARTMENT OF SECURITIES

ANNUAL FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORTS

AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2013

THIS PAGE INTENTIONALLY LEFT BLANK

TABLE OF CONTENTS

THIS PAGE INTENTIONALLY LEFT BLANK

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying statements of net position of the Oklahoma Department of Securities (the "Department"), as of June 30, 2013, and 2012, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

531 Couch Drive
Oklahoma City
73102-2251
TEL 405.239.7961
FAX 405.235.0042
WEB www.coleandreed.com

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Oklahoma Department of Securities as of June 30, 2013, and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note A, the financial statements 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, 2013 and 2012, and the changes in its financial position for the years ended in conformity with accounting principles generally accepted in the United States of America.

Other Matter

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated November 1, 2013, 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 and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

Cole & Reed P.C.

Oklahoma City, Oklahoma
November 1, 2013

Management's Discussion and Analysis—Unaudited

The discussion and analysis section of the financial statements of the Oklahoma Department of Securities (the "Department") provides an overview of the Department's financial activities for the year ended June 30, 2013. Since this discussion and analysis section is designed to focus on current activities, resulting changes and current known facts, please read it in conjunction with the Department's financial statements and footnotes. A comparative analysis of the prior years' financial data is provided.

Financial Highlights

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

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

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

Schedule A is prepared from the Department's Statement of Net Position, and summarizes the Department's assets, liabilities, and net position as of June 30, 2013, with comparative totals at June 30, 2012 and 2011, respectively. The Department currently does not have any transactions that meet the definitions of deferred inflows and deferred outflows and therefore, no deferrals are reported on the Statement of Net Position.

Schedule A
Net Position at June 30, 2013
With Comparative Totals at June 30, 2012 and 2011

	2013	2012	2011
Current assets	$ 8,275,430	$ 8,677,891	$ 10,535,028
Noncurrent assets	112,859	146,578	59,322
Total assets	$ 8,388,289	$ 8,824,469	$ 10,594,350
Current liabilities	$ 787,844	$ 859,468	$ 2,019,143
Noncurrent liabilities	723,462	673,779	718,184
Total liabilities	$ 1,511,306	$ 1,533,247	$ 2,737,327
Net position			
Investment in capital assets	$ 112,859	$ 146,578	$ 59,322
Restricted net position - expendable	1,183,875	2,022,004	2,661,549
Unrestricted net position	5,580,249	5,122,640	5,136,152
Total net position	$ 6,876,983	$ 7,291,222	$ 7,857,023

For the year ended June 30, 2013, current assets decreased primarily due to restricted cash. Cash restricted for Invest Ed® decreased approximately $777,000 or 34%. This decrease is due to a significant decrease in fine revenue and interest income. The decrease in liabilities is due to timing differences in the payment of expenses.

Also, for the year ended June 30, 2013, noncurrent assets decreased. This decrease is due to capital asset depreciation of approximately $47,000, a 66% increase from $28,000 for the year ended June 30, 2012.

At the year ended June 30, 2012, Due to State 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. 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.

Also, at the year ended June 30, 2012, 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.

Schedule B is prepared from the Department's Statement of Revenues, Expenses, and Changes in Net Position for the year ended June 30, 2013, with comparative totals for the years ended June 30, 2012 and 2011, respectively.

Schedule B
Operating Results for the Year Ended June 30, 2013
With Comparative Totals for the Years Ended June 30, 2012 and 2011

	2013	2012	2011
Operating revenues (expenses)			
Registration fees	$ 19,889,144	$ 19,547,480	$ 19,096,480
Fines, penalties, and other	150,560	224,685	302,837
Operating expenses	(5,214,207)	(5,394,339)	(4,539,562)
Net operating income	$ 14,825,497	$ 14,377,826	$ 14,859,755
Nonoperating revenues (expenses)			
Interest income	$ 41,698	$ 62,883	$ 62,246
Transfers to and due to State of Oklahoma	(15,281,434)	(15,006,510)	(14,605,580)
Net nonoperating revenues (expenses)	$ (15,239,736)	$ (14,943,627)	$ (14,543,334)
Increase (decrease) in net position	$ (414,239)	$ (565,801)	$ 316,421

Revenue

In 2013, fines, penalties, and administrative costs decreased approximately $86,000 or 39%. Fines, penalties, and administrative costs are awarded to the Department by the court system or the Administrator and the aggregate amount varies annually.

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.

Expenses

In 2013, salaries, wages, and benefits increased approximately $501,000 or 15% due to lump sum performance based payments. Investor education professional services decreased approximately $703,000 or 43% that is primarily due to decreased work on certain video projects.

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 that 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.

Schedule C summarizes the Department's operating expenses for the years ended June 30, 2013, 2012 and 2011, respectively.

Schedule C
Operating Expenses for the Year Ended June 30, 2013
With Comparative Totals for the Years Ended June 30, 2012 and 2011

	2013	2012	2011
Salaries, wages, and benefits	$ 3,763,317	$ 3,262,402	$ 3,287,334
Rent expense	148,862	143,811	146,694
Contracted and professional services	116,317	105,413	204,000
Depreciation	47,305	28,568	28,159
Investor education professional services	934,245	1,637,138	667,953
Other general and administrative expenses	204,161	217,007	205,422
	$ 5,214,207	$ 5,394,339	$ 4,539,562

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, 2013, with comparative totals for the years ended June 30, 2012, and 2011, respectively.

Schedule D
Cash Flows for the Year Ended June 30, 2013
With Comparative Totals for the Years Ended June 30, 2012 and 2011

	2013	2012	2011
Cash provided by (used in):			
Operating activities	$ 14,828,652	$ 14,729,398	$ 14,371,095
Noncapital activities	(15,290,274)	(16,496,794)	(12,618,660)
Capital and related financing activities	(13,587)	(115,824)	(25,942)
Investing activities	43,756	64,227	62,108
Net increase (decrease) in cash	$ (431,453)	$ (1,818,993)	$ 1,788,601
Cash - beginning of year	$ 8,663,296	$ 10,482,289	$ 8,693,688
Cash - end of year	$ 8,231,843	$ 8,663,296	$ 10,482,289

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 for deposit in the Revolving Fund. For 2013, there were sufficient allocations by the legislature for deposit. There is no assurance, however, that a change in 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 in connection with the administration and enforcement of the *Oklahoma Securities Act, Subdivided Land Sales Code, Business Opportunity Sales Act* and the *Take-Over Disclosure Act.*
- Reduction or elimination of carry-over funds from one fiscal year to another.
- Department revenues are sensitive due to the economic climate.
- Federal legislation.
- Any legislation changing the fee allocations to the Department's Revolving Fund.

Investor Education

During the fiscal year 2003, the Department received $574,000 as a part 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 $133,513, $219,703, and $280,643 were received during fiscal years 2013, 2012, and 2011, respectively, in connection with cases relating to conflicts of interest involving research analysts or sales of auction rate securities with certain of the major brokerage firms. Interest earned on the restricted funds was $41,698, $62,883, and $62,246 for the years ended June 30, 2013, 2012, and 2011, 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 2013 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.

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

Statement of Net Position – June 30, 2013 and 2012

	2013	2012
ASSETS		
Current assets		
Cash and cash equivalents	$ 6,706,130	$ 6,360,273
Cash restricted for investor education	1,525,713	2,303,023
Accrued interest restricted for investor education	2,537	4,595
Accounts receivable	41,050	10,000
Total current assets	$ 8,275,430	$ 8,677,891
Long-term assets		
Capital assets, net	$ 112,859	$ 146,578
Total assets	$ 8,388,289	$ 8,824,469
LIABILITIES		
Current liabilities		
Accounts payable	$ 54,431	$ 241,740
Due to State	248,410	257,250
Accrued compensated absences	140,628	74,864
Accounts payable from restricted assets	344,375	285,614
Total current liabilities	$ 787,844	$ 859,468
Long-term liabilities		
Accrued compensated absences	$ 723,462	$ 673,779
Total liabilities	$ 1,511,306	$ 1,533,247
NET POSITION		
Investment in capital assets	$ 112,859	$ 146,578
Restricted net position - expendable	1,183,875	2,022,004
Unrestricted net position	5,580,249	5,122,640
Total net position	$ 6,876,983	$ 7,291,222
Total liabilities and net position	$ 8,388,289	$ 8,824,469

See notes to financial statements

Statement of Revenues, Expenses and Changes in Net Position – Years Ended June 30, 2013 and 2012

	2013	2012
OPERATING REVENUES		
Securities registration fees	$ 12,815,894	$ 12,431,660
Securities professionals' registration fees	7,073,250	7,115,820
Fines, penalties, and administrative costs	133,513	219,703
Other revenue	17,047	4,982
Total operating revenues	$ 20,039,704	$ 19,772,165
OPERATING EXPENSES		
Salaries, wages, and benefits	$ 3,763,317	$ 3,262,402
Rent expense	148,862	143,811
Contracted and professional services	116,317	105,413
Depreciation	47,305	28,568
Investor education professional services	934,245	1,637,138
Other general and administrative expenses	204,161	217,007
Total operating expenses	$ 5,214,207	$ 5,394,339
Net operating income	$ 14,825,497	$ 14,377,826
NONOPERATING REVENUE (EXPENSE)		
Interest income	$ 41,698	$ 62,883
Transfers to and due to State of Oklahoma	(15,281,434)	(15,006,510)
Net nonoperating revenue (expense)	$ (15,239,736)	$ (14,943,627)
Change in net position	$ (414,239)	$ (565,801)
Net position - beginning	$ 7,291,222	$ 7,857,023
Net position - ending	$ 6,876,983	$ 7,291,222

See notes to financial statements

Statement of Cash Flows – Years Ended June 30, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Registration of professionals and securities	$ 19,858,094	$ 19,584,280
Fines, penalties, and other	150,560	224,685
Payments to suppliers	(1,532,132)	(1,767,826)
Compensation and benefits	(3,647,870)	(3,311,741)
Net cash provided by (used in) operating activities	$ 14,828,652	$ 14,729,398
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITES		
Payments to State's general fund	$ (15,290,274)	$ (16,496,794)
Net cash provided by (used in) noncapital financing activities	$ (15,290,274)	$ (16,496,794)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	$ (13,587)	$ (115,824)
Net cash provided by (used in) capital and related financing activities	$ (13,587)	$ (115,824)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	$ 43,756	$ 64,227
Net cash provided by investing activities	$ 43,756	$ 64,227
Net increase (decrease) in cash and cash equivalents	$ (431,453)	$ (1,818,993)
Balances - beginning of year	$ 8,663,296	$ 10,482,289
Balances - end of year	$ 8,231,843	$ 8,663,296
Reconciliation to Statement of Net Position		
Cash and cash equivalents	$ 6,706,130	$ 6,360,273
Cash restricted for investor education	1,525,713	2,303,023
Total cash and cash equivalents - end of year	$ 8,231,843	$ 8,663,296
Reconciliation of net operating income to net cash provided by operating activities		
Net operating income	$ 14,825,497	$ 14,377,826
Adjustment to reconcile net operating income to net cash provided by operating activities		
Depreciation	47,305	28,568
Changes in operating assets and liabilities		
Accounts receivable	(31,050)	36,800
Accounts payable	(128,548)	335,543
Accrued compensated absences	115,448	(49,339)
Net cash provided by operating activities	$ 14,828,652	$ 14,729,398

See notes to financial statements

FOOTNOTES TO THE FINANCIAL STATEMENTS

FOOTNOTES TO THE FINANCIAL STATEMENTS:

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 and examination of broker-dealers, agents, investment advisers, and investment adviser representatives, registration of securities and securities transactions, investigation and enforcement, and investor education.

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

Financial Statement Presentation

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

Reporting Entity

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

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.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Department considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. The cash and cash equivalents are on deposit with the Oklahoma State Treasurer. Certain funds received from settlements, fines, and judgments are restricted for investor education. Interest earned on the restricted cash carries the same restriction. Restricted cash and interest (net of accounts payable from restricted assets) are reported as restricted net position – expendable at June 30, 2013 and 2012, in the accompanying Statements of Net Position.

Accounts Receivable

The accounts receivable primarily consists of payments pending for fines and civil penalties.

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.

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

Compensated Absences

Employees' compensated absences are accrued at year-end for financial statement purposes. The liability and expense incurred are recorded as accrued compensated absences in the statements of net position, and as an expense in the statements of revenues, expenses, and changes in net position. Employees earn vacation at the rate of 10 hours per month for the first four years, 12 hours per month during the fifth through ninth year, 13.33 hours per month during the tenth 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 Position

The Department's net position is classified as follows:

Investment in capital assets – This represents the Department's total investment in capital assets. The Department has no outstanding debt related to the capital assets as of June 30, 2013 and 2012.

Restricted net position – expendable – This includes resources that the Department is legally and contractually obligated to spend in accordance with restrictions imposed by external third parties. As of June 30, 2013 and 2012, this balance consisted of cash and accrued interest (net of accounts payable from restricted assets) restricted for investor education and research.

Unrestricted – Unrestricted net position represents 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.

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

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.

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, 2013 and 2012, the carrying amounts of the Department's deposits with the State Treasurer were $8,231,343 and $8,662,796, respectively and the bank balances were $8,231,343 and $8,662,796, 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 $1,525,713 and $2,303,023 as of June 30, 2013 and 2012, respectively.

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:

	2013		2012	
OK INVEST Portfolio	Cost	Market Value	Cost	Market Value
U.S. Agency securities	$ 599,732	$ 597,196	$ 814,236	$ 816,629
Money market mutual funds	143,168	143,168	315,239	315,239
End of day commercial paper sweep	32,068	32,068	-	-
Certificates of deposit	38,975	38,975	74,386	74,386
Mortgage-backed agency securities	655,605	658,823	1,016,519	1,080,009
Municipal bonds	25,703	28,452	41,309	47,129
Foreign bonds	12,051	12,044	11,589	11,589
U.S. Treasury Obligations	18,411	22,468	29,745	37,109
	$ 1,525,713	$ 1,533,194	$ 2,303,023	$ 2,382,090

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.

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.

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

NOTE C—FEES—Continued

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 or allocation change during fiscal years 2013 or 2012.

NOTE D—CAPITAL ASSETS

The following is a summary of the changes in capital assets for the year ended June 30, 2013:

	Balance at June 30, 2012	Additions	CIP Transfers	Retirements	Balance at June 30, 2013
Capital assets:					
Non-depreciable:					
Construction in progress	$ 93,226	$ -	$ (93,226)	$ -	-
Total non-depreciable capital assets	93,226	-	(93,226)	-	-
Depreciable:					
Computer hardware	342,577	9,190	93,226	-	444,993
Computer software	43,489	-	-	-	43,489
Furniture and equipment	83,977	4,396	-	(2,764)	85,609
Telephone equipment	35,287	-	-	-	35,287
Total depreciable capital assets	505,330	13,586	93,226	(2,764)	609,378
Accumulated depreciation:					
Computer hardware	(308,061)	(35,555)	-	-	(343,616)
Computer software	(41,780)	(451)	-	-	(42,231)
Furniture and equipment	(67,829)	(10,403)	-	2,764	(75,468)
Telephone equipment	(34,308)	(896)	-	-	(35,204)
Total accumulated depreciation	(451,978)	(47,305)	-	2,764	(496,519)
Net capital assets	$ 146,578	$ (33,719)	$ -	$ -	$ 112,859

NOTE D—CAPITAL ASSETS—Continued

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	-	93,226	-	93,226
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	482,732	22,598	-	505,330
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	(423,410)	(28,568)	-	(451,978)
Net capital assets	$ 59,322	$ 87,256	$ -	$ 146,578

NOTE E—COMPENSATED ABSENCES

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

2013

Balance at June 30, 2012	Additions	Deductions	Balance at June 30, 2013	Current Portion June 30, 2013
$ 748,643	$ 416,569	$ (301,122)	$ 864,090	$ 140,628

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

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 2013 and 2012. The Department's required contribution rate was 16.50% for 2013 and 2012. 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.

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.

NOTE F—RETIREMENT PLAN—Continued

Summary of Contributions:

Fiscal Year	Required Contribution	Percentage Contributed
2011	$ 360,000	100%
2012	$ 387,000	100%
2013	$ 430,000	100%

The Department's employees are also eligible to participate in the Deferred Compensation 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 per month by contributing to the Deferred Savings Incentive 401(a) Plan. Participants are immediately 100% vested in their accounts and they may direct the investment of their contributions in the available investment options. All interest, dividends, and investment fees are allocated to the participants' accounts.

NOTE G—OPERATING LEASES

The Department leases office space, parking, and equipment under annual renewable operating leases. As of June 30, 2013 and 2012, there were no significant operating lease commitments outstanding. Lease expense for 2013 and 2012 was approximately $149,000 and $144,000, respectively.

NOTE H—CONTINGENCIES

The Department is subject to litigation in the normal course of business. For the years ended June 30, 2013 and 2012, there is no litigation pending.

NOTE I—NEW ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board ("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 that they are effective and the Department's considerations of the impact of these pronouncements are described below:

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. Based on current and prior years' operations, the Department does not anticipate any material impact by the adoption of GASB No. 65 on its net position.

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 2013. Based on current and prior years' operations, the Department does not anticipate any material impact by the adoption of GASB No. 68 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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Oklahoma Department of Securities (the "Department") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated November 1, 2013.

Internal Control over Financial Reporting

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

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

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

531 Couch Drive
Oklahoma City
73102-2251
TEL 405.239.7961
FAX 405.235.0042
WEB www.coleandreed.com

Compliance and Other Matters

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

Purpose of this Report

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

Cole & Reed P.C.

Oklahoma City, Oklahoma
November 1, 2013