



**OKLAHOMA  
DEPARTMENT OF  
SECURITIES**

**ANNUAL FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORTS**

**AS OF AND FOR THE FISCAL YEAR ENDED  
JUNE 30, 2020**

**OKLAHOMA  
DEPARTMENT OF SECURITIES**

**ANNUAL FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORTS**

**AS OF AND FOR THE FISCAL YEAR ENDED  
JUNE 30, 2020**

OKLAHOMA DEPARTMENT OF SECURITIES  
ANNUAL FINANCIAL REPORT  
As of and for the Year Ended June 30, 2020

---

**THIS PAGE INTENTIONALLY LEFT BLANK**

OKLAHOMA DEPARTMENT OF SECURITIES  
ANNUAL FINANCIAL REPORT  
As of and for the Year Ended June 30, 2020

---

**TABLE OF CONTENTS**

	<b>Page</b>
INDEPENDENT AUDITOR'S REPORT.....	5-6
MANAGEMENT'S DISCUSSION AND ANALYSIS (Other Information) .....	7-11
<b>FINANCIAL STATEMENTS</b>	
Statement of Net Position (Modified Cash Basis).....	13
Statement of Revenues, Expenses, and Changes in Net Position (Modified Cash Basis).....	14
Statement of Cash Flows (Modified Cash Basis) .....	15
Notes to Financial Statements.....	17-26
<b>REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS</b>	
Independent Auditor's 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> .....	29-30

OKLAHOMA DEPARTMENT OF SECURITIES  
ANNUAL FINANCIAL REPORT  
As of and for the Year Ended June 30, 2020

---

**THIS PAGE INTENTIONALLY LEFT BLANK**



## INDEPENDENT AUDITOR'S REPORT

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

### **Opinion**

We have audited the accompanying modified cash basis financial statements of the Oklahoma Department of Securities (the "Department"), a department of the State of Oklahoma, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the modified cash basis financial position of the Department, as of June 30, 2020, and the changes in modified cash basis financial position and cash flows thereof for the years then ended in accordance with the modified cash basis of accounting, a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

### **Basis for Opinions**

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 of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Department, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Emphasis of Matter – Basis of Accounting**

As discussed in Note A, the financial statements present only the financial position, changes in financial position and cash flows of the Oklahoma Department of Securities and do not purport to, and do not present fairly the financial position of the State of Oklahoma as of June 30, 2020, the changes in its financial position, or its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting, a comprehensive basis of accounting other than 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 Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Department's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Department's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### **Other Matters**

#### *Other Information*

Management is responsible for the other information included in the annual report. The other information comprises the management's discussion and analysis but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connections with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

### **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated May 31, 2023, on our consideration of the Department's internal control over financial reporting and on 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 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.



Edmond, OK  
May 31, 2023



## **Management's Discussion and Analysis**

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 fiscal year ended June 30, 2020. 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.

## **Financial Highlights**

### **Statement of Net Position (Modified Cash Basis) and Statement of Revenues, Expenses, and Changes in Net Position (Modified Cash Basis)**

The Statement of Net Position (Modified Cash Basis) and the Statement of Revenues, Expenses, and Changes in Net Position (Modified Cash Basis) report the Department's net position and how it has changed. Net position – the residual difference of 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 laws.

As further described in Note A, Basis of Accounting, these statements include all assets and liabilities using the modified cash basis of accounting. All of the year's revenues and expenses are recognized when cash is received or paid. This report will represent the first fiscal year the Department has utilized the modified cash basis special financial reporting framework. Therefore, no comparatives are shown in the financial statement presentation or the management discussion and analysis.

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, 2020.



OKLAHOMA DEPARTMENT OF SECURITIES  
ANNUAL FINANCIAL REPORT  
As of and for the Year Ended June 30, 2020

---

**Schedule A**  
**Net Position at June 30, 2020 (Modified Cash Basis)**

Current assets	\$ 7,019,352
Noncurrent assets	54,526
Total assets	<u>\$ 7,073,878</u>
Net position	
Investment in capital assets	\$ 54,526
Restricted net position	956,060
Unrestricted net position	6,063,292
Total net position	<u>\$ 7,073,878</u>

Schedule B is prepared from the Department's Statement of Revenues, Expenses, and Changes in Net Position for the year ended June 30, 2020.

**Schedule B**  
**Operating Results for the Year Ended June 30, 2020 (Modified Cash Basis)**

Operating revenues	
Registration fees	\$ 22,666,296
Fines, penalties and other	1,506,173
Operating expenses	<u>(4,826,690)</u>
Net operating income	19,345,779
Nonoperating revenues (expenses)	
Interest income	24,647
Transfers to State of Oklahoma	<u>(17,694,875)</u>
Net operating revenues (expenses)	(17,670,228)
Change in net position	1,675,551
Net position - beginning, restated	<u>5,398,327</u>
Net position - ending	<u>\$ 7,073,878</u>

OKLAHOMA DEPARTMENT OF SECURITIES  
ANNUAL FINANCIAL REPORT  
As of and for the Year Ended June 30, 2020

---

Schedule C summarizes the Department's operating expenses for the year ended June 30, 2020.

**Schedule C**  
**Operating Expenses for the Year Ended June 30, 2020 (Modified Cash Basis)**

Salaries, wages, and benefits	\$4,098,700
Rent expense	286,490
Contracted and professional services	177,690
Depreciation	43,004
Investor education professional services	60,777
Other general and administrative expenses	160,029
	<u>\$4,826,690</u>

General and administrative expenses include travel, telecommunication services, software, maintenance, supplies, insurance premiums, membership dues, library resources, furniture and equipment.

**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 the specified 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 ability to determine 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, 2020.

**Schedule D**  
**Cash Flows for the Year Ended June 30, 2020 (Modified Cash Basis)**

Cash provided by (used in):	
Operating activities	\$ 18,097,570
Noncapital activities	(17,694,875)
Capital and related financing activities	(17,766)
Investing activities	22,673
Net increase in cash	<u>407,602</u>
Cash - beginning of year	<u>6,611,750</u>
Cash - end of year	<u><u>\$ 7,019,352</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 statutorily authorized by the Legislature for deposit in the Revolving Fund. For 2020, there were sufficient revenues deposited in the Revolving Fund for Department operations. There is no assurance, however, that a change in the fee structure by the Legislature will be sufficient to fund future operations.

The following items could potentially affect the Department's future operations:

- Legislative mandates in connection with the administration and enforcement of the *Oklahoma Uniform Securities Act*, *Subdivided Land Sales Code*, *Business Opportunity Sales Act* and the *Take-Over Disclosure Act of 2004*.
- Reduction or elimination of carry-over funds from one fiscal year to another.
- The economic climate.
- Federal legislation.

- Any legislation changing the fee allocations to the Department's Revolving Fund.

### **Investor Education**

During fiscal year 2003, the Department received \$574,000 as a part of a multi-state settlement with a major broker-dealer and the Legislature established the Department of Securities Investor Education Revolving Fund to segregate the funds for investor education. These designated amounts are to be used exclusively for the specific purposes of research for education and education of Oklahoma residents in matters concerning securities laws and general investor protection. Subsequent settlements with nine broker-dealer firms resulted in the receipt of \$4,121,091 during fiscal years 2003 and 2004.

Civil penalties of \$91,368 were received during fiscal year 2020. Interest received on the restricted funds was \$24,647 for the year ended June 30, 2020.

Invest Ed® is a multi-component investor education program. The programs are created to provide unbiased investment and anti-fraud information to Oklahomans of all ages. The 2020 Invest Ed® programs included the continuation of the high school investor education and teacher training through the STARS (Students Tracking and Researching the Stock Market) program and other outreach efforts.

For additional information or to access a variety of available investor education resources, visit the Invest Ed® Internet Site at [www.investedok.org](http://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 Administrator, 204 North Robinson, Suite 400, Oklahoma City, OK 73102.

OKLAHOMA DEPARTMENT OF SECURITIES  
ANNUAL FINANCIAL REPORT  
As of and for the Year Ended June 30, 2020

---

**BASIC FINANCIAL STATEMENTS – STATEMENTS OF NET POSITION, CHANGES IN NET  
POSITION AND CASH FLOWS (MODIFIED CASH BASIS)**

OKLAHOMA DEPARTMENT OF SECURITIES  
ANNUAL FINANCIAL REPORT  
As of and for the Year Ended June 30, 2020

---

**Statement of Net Position (Modified Cash Basis)– June 30, 2020**

**ASSETS**

Current assets

Cash and cash equivalents	\$ 6,063,292
Cash restricted for general revenue	21,425
Cash restricted for investor education	934,635
Total current assets	<u>7,019,352</u>

Long-term assets

Capital assets, net	54,526
Total assets	<u><u>\$ 7,073,878</u></u>

**NET POSITION**

Investment in capital assets	\$ 54,526
Restricted - general revenue	21,425
Restricted - investor education	934,635
Unrestricted net position	<u>6,063,292</u>
Total net position	<u><u>\$ 7,073,878</u></u>

OKLAHOMA DEPARTMENT OF SECURITIES  
ANNUAL FINANCIAL REPORT  
As of and for the Year Ended June 30, 2020

---

**Statement of Revenues, Expenses and Changes in Net Position (Modified Cash Basis) – Year Ended June 30, 2020**

**OPERATING REVENUES**

Securities registration fees	\$ 14,092,916
Securities professionals' registration fees	8,573,380
Fines, penalties, and administrative fees	91,368
Other revenue	1,414,805
Total operating revenues	<u>24,172,469</u>

**OPERATING EXPENSES**

Salaries, wages, and benefits	4,098,700
Rent expense	286,490
Contracted and professional services	177,690
Depreciation	43,004
Investor education professional services	60,777
Other general and administrative expenses	160,029
Total operating expenses	<u>4,826,690</u>

Net operating income 19,345,779

**NONOPERATING REVENUE (EXPENSE)**

Interest income	24,647
Transfers to State of Oklahoma	<u>(17,694,875)</u>
Net nonoperating revenue (expense)	<u>(17,670,228)</u>

Change in net position 1,675,551

Net position - beginning, restated 5,398,327

Net position - ending \$ 7,073,878

OKLAHOMA DEPARTMENT OF SECURITIES  
ANNUAL FINANCIAL REPORT  
As of and for the Year Ended June 30, 2020

**Statement of Cash Flows (Modified Cash Basis) – Year Ended June 30, 2020**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Registration of professionals and securities	\$ 22,666,296
Fines, penalties, and other	214,960
Payments to suppliers	(684,986)
Compensation and benefits	(4,098,700)
Net cash provided by operating activities	<u>18,097,570</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Payments to State's general fund	<u>(17,694,875)</u>
Net cash provided by (used in) noncapital financing activities	(17,694,875)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Purchase of capital assets	<u>(17,766)</u>
Net cash provided by (used in) capital and related financing activities	(17,766)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest received	<u>22,673</u>
Net cash provided by investing activities	22,673
<b>Net increase in cash and cash equivalents</b>	407,602
<b>Balance - beginning of year</b>	<u>6,611,750</u>
<b>Balance - end of year</b>	<u>\$ 7,019,352</u>
<b>Reconciliation to Statement of Net Position</b>	
Cash and cash equivalents	\$ 6,063,292
Cash restricted for general revenue	21,425
Cash restricted for investor education	934,635
Total cash and cash equivalents - end of year	<u>\$ 7,019,352</u>
<b>Reconciliation of net operating income to net cash provided by operating activities</b>	
Net operating income	\$ 19,345,779
Adjustments to reconcile net operating income to net cash provided by operating activities	
Depreciation	43,004
Insurance reimbursement	(1,291,213)
Net cash provided by operating activities	<u>\$ 18,097,570</u>



OKLAHOMA DEPARTMENT OF SECURITIES  
ANNUAL FINANCIAL REPORT  
As of and for the Year Ended June 30, 2020

---

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTES TO THE FINANCIAL STATEMENTS:**

**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 primary objective is to protect investors through the administration and enforcement of the Oklahoma Uniform Securities Act 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 and fixes the salary of 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 for, 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.

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 statements of net position and changes in net position are reported on a modified cash basis of accounting. The modified cash basis of accounting is based on the recording of cash and cash equivalents and changes therein, and only recognizes revenues, expenses, assets and liabilities resulting from cash transactions adjusted for modifications that have substantial support in generally accepted accounting. These modifications include adjustments for the following balances arising from cash transactions:

- capital assets and the depreciation of those assets, where applicable
- investments

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

### **Cash and Cash Equivalents**

For purposes of the Statement 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. Funds received from settlements, fines, and judgments are restricted for investor education. Interest collected on the restricted cash carries the same restriction. Restricted cash and interest collected are reported as restricted net position at June 30, 2020.

### **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.

### **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, 2020.

*Restricted net position* – 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, 2020, this balance consisted of cash restricted for investor education and cash restricted for general revenue.

*Unrestricted* – Unrestricted net position represents all other resources not classified as invested in capital assets or restricted. 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 authorized 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 charge 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 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 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.

### **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. 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, 2020, the carrying amounts of the Department's deposits with the State Treasurer were \$7,019,352.

#### Investments

Investor Education Revolving Fund deposits with the State Treasurer are placed in the State Treasurer's internal investment pool *OK INVEST*. Of funds on deposit with the State Treasurer, amounts invested in *OK INVEST* total \$933,718 as of June 30, 2020.

For financial reporting purposes, deposits with the State Treasurer that are invested in *OK INVEST* are classified as cash equivalents. At June 30, 2020 the State Treasurer reports the Department's proportionate share of *OK INVEST* to be:

OKLAHOMA DEPARTMENT OF SECURITIES  
ANNUAL FINANCIAL REPORT  
As of and for the Year Ended June 30, 2020

<u>OK INVEST Portfolio</u>	Cost and Carrying Value	Fair Value
U.S. Agency securities	\$ 216,441	\$ 219,255
Money market mutual funds	48,710	48,710
Certificates of deposit	13,780	13,780
Mortgage-backed agency securities	346,938	362,370
Municipal bonds	1,197	1,238
Foreign bonds	9,703	9,695
U.S. Treasury Obligations	296,949	304,384
	<u>\$ 933,718</u>	<u>\$ 959,432</u>

For disclosure purposes only, the Department implemented GASB Statement No. 72, *Fair Value Measurement and Application*, during the fiscal year ended June 30, 2016. Fair value according to GASB 72 focuses particular attention on the price that would be required to acquire the asset (entry price). The valuation technique used was the “market approach” using prices and other relevant information generated by market transactions involving identical or similar assets, liabilities, or groups of assets and liabilities.

Except for investment in nonparticipating interest earning investment contracts (e.g. nonnegotiable certificates of deposit) which are considered cash equivalents, the Department categorizes its fair value measurement within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Carrying value in the financial statements is at cost. As reported to the Department by the State Treasurer, the Department’s portfolio has the following recurring fair value measurements as of June 30, 2020:

**OKLAHOMA DEPARTMENT OF SECURITIES  
ANNUAL FINANCIAL REPORT  
As of and for the Year Ended June 30, 2020**

	<u>Fair Value</u>	<u>Categories</u>	<u>Average Credit Quality Rating (1)</u>	<u>Weighted Average Maturity (Days) (2)</u>
U.S. Agency securities	\$219,255	Level 2	AA+ (3)	532
Money market mutual funds	48,710	-	AAA	1
Certificates of deposit	13,780	-	not rated	62
Mortgage-backed agency securities	362,370	Level 2	AGY(3)	1109
Municipal bonds	1,238	Level 2	(4)	334
Foreign bonds	9,695	Level 2	not rated	618
U.S. Treasury Obligations	304,384	Level 2	AAA	548
	<u>\$959,432</u>			

(1) Ratings are provided where applicable to indicate associated Credit Risk.

(2) Interest Rate Risk is estimated using weighted average days to maturity.

(3) These ratings are implicitly or explicitly guaranteed by the U.S. Government and currently a rating is not provided by the nationally recognized statistical rating organization. GASB rating provided by Custodian Bank, Northern Trust, is TSY or AGY.

(4) All Municipal Bonds possessed a AA rating when purchased. As of June 30, 2020, 100% had a rating of AA-.

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's daily cash flow requirements. Guidelines in the State Treasurer's 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.ok.gov/treasurer>. 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 ten years. *OK INVEST* maintains an overall weighted average maturity of no more than four years.

Participants in *OK INVEST* maintain an interest in its underlying investments and, accordingly, may be exposed to certain risks. As stated in the *OK INVEST* Information Statement as of July 2014, 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, examinations, exemptions, and investment company notices.

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.

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 an order of 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 was no fee or allocation change during fiscal year 2020.

The Department charges registration or notice filing 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.



**OKLAHOMA DEPARTMENT OF SECURITIES  
ANNUAL FINANCIAL REPORT  
As of and for the Year Ended June 30, 2020**

The imposition and amount of civil or administrative penalties, fines, and costs are determined by a court in a civil proceeding and the Administrator in an administrative proceeding.

**NOTE D—CAPITAL ASSETS**

The following is a summary of the changes in capital assets for the year ended June 30, 2020:

	Balance at June 30, 2019	Additions	Retirements	Balance at June 30, 2020
Capital assets:				
Depreciable:				
Computer hardware	\$ 394,131	\$ -	\$ -	\$ 394,131
Computer software	110,661	-	-	110,661
Furniture and equipment	81,111	16,836	-	97,947
Telephone equipment	59,276	930	-	60,206
Total depreciable capital assets	<u>645,179</u>	<u>17,766</u>	<u>-</u>	<u>662,945</u>
Accumulated depreciation:				
Computer hardware	(371,864)	(11,467)	-	(383,331)
Computer software	(76,529)	(15,337)	-	(91,866)
Furniture and equipment	(69,953)	(6,073)	-	(76,026)
Telephone equipment	(47,069)	(10,127)	-	(57,196)
Total accumulated depreciation	<u>(565,415)</u>	<u>(43,004)</u>	<u>-</u>	<u>(608,419)</u>
Net capital assets	<u>\$ 79,764</u>	<u>\$ (25,238)</u>	<u>\$ -</u>	<u>\$ 54,526</u>

**NOTE F—RETIREMENT PLAN**

The Department provides a retirement benefit for all of its permanent employees through the Oklahoma Public Employees Retirement System (OPERS), a statewide cost-sharing plan. All full-time employees as of October 31, 2015, are eligible and are required to participate in the OPERS DB plan. OPERS DB is a defined benefit plan that provides benefits based on the members' final compensation, age, and term of service. OPERS DB also provides death and disability benefits to its members. The plan's provisions are set by Title 74 of the Oklahoma State Statutes. The employees' required contribution rate was 3.50% for 2020. The Department's required contribution rate was 16.50% for 2020. Members may elect to contribute an additional contribution rate to increase the benefit calculating factor upon retirement. Members become 100% vested in the plan

OKLAHOMA DEPARTMENT OF SECURITIES  
ANNUAL FINANCIAL REPORT  
As of and for the Year Ended June 30, 2020

---

after eight years of accredited service. As stated in Title 74, Section 921, of the Oklahoma Statutes, administrative expenses are paid by OPERS.

Unless previous OPERS participants, employees who become employed by the Department on or after November 1, 2015, are required to participate in Pathfinder, a defined contribution plan administered by OPERS. Under this plan, employees have a mandatory contribution rate of 4.5% that will be matched by the Department at 6%. Employees can receive an additional 1% matching contribution when they make a voluntary contribution of 2.5%. Additionally, the Department is required to remit the difference between the match amount and the required OPERS contribution rate, currently 16.50%, in accordance with Title 74, Section 920 of the Oklahoma Statutes. Members become progressively vested in the matching employer contributions according to a vesting schedule, and are fully vested after 5 years of accredited service. As of June 30, 2020, one Department employee participates in Pathfinder.

A copy of the OPERS financial statements can be obtained from the 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>
2018	\$ 421,000	100%
2019	\$ 516,000	100%
2020	\$ 477,000	100%

The Department's employees who participate in OPERS are also eligible to participate in the SoonerSave Deferred Compensation Plan (SoonerSave Plan) offered through OPERS. This plan's provisions are established by Title 74 of the Oklahoma State Statutes.

In the SoonerSave 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. Pathfinder participants are not eligible to participate in SoonerSave.

**NOTE G – OPERATING LEASES**

The Department leases office space, parking, and equipment under annual renewable operating leases. As of June 30, 2020, there were no significant operating lease commitments outstanding. Lease expense for 2020 was approximately \$286,000.

**NOTE H – CONTINGENCIES**

The Department is a party to various legal proceedings and threatened litigation. Due to the use of the modified cash basis, the financial statements do not include accruals or provisions for loss contingencies that may result from these proceedings. While the outcome of the proceedings or threatened litigation cannot be predicted, due to the insurance coverage maintained by the Department, the Department feels that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the Department.

**NOTE I – PRIOR PERIOD ADJUSTMENTS**

The Department converted to the Modified Cash Basis of accounting beginning FY2020.

	<b>Total</b>	<b>General Revenue</b>	<b>Investor Education</b>
Beginning Balance per previous audit	5,544,783	4,635,678	909,105
<b>Prior period adjustments:</b>			
<b>Conversion to Modified Cash Basis of Accounting</b>			
Other receivable	(1,353,213)	(1,291,213)	(62,000)
Interest receivable	(3,898)		(3,898)
Accounts payable	191,177	150,737	40,440
Due to Other Funds	71,780	71,780	
Compensated Absences	947,698	947,698	
<b>Total prior period adjustments:</b>	<b>(146,456)</b>	<b>(120,998)</b>	<b>(25,458)</b>
<b>Restated Beginning Fund Balance</b>	<b>5,398,327</b>	<b>4,514,680</b>	<b>883,647</b>

**OKLAHOMA DEPARTMENT OF SECURITIES  
ANNUAL FINANCIAL REPORT  
As of and for the Year Ended June 30, 2020**

---

**INTERNAL CONTROL AND COMPLIANCE**

OKLAHOMA DEPARTMENT OF SECURITIES  
ANNUAL FINANCIAL REPORT  
As of and for the Year Ended June 30, 2020

---

**THIS PAGE INTENTIONALLY LEFT BLANK**



---

INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

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 modified cash basis financial statements of the Oklahoma Department of Securities (the “Department”), a department of the State of Oklahoma, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Department’s basic financial statements, and have issued our report thereon dated May 31, 2023. Our report included an emphasis-of-matter paragraph related to the Department’s use of a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

**Report on 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.

**Report on 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 Department'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 Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Arledge & Associates PC*

Edmond, OK  
May 31, 2023

