

# *Texas State Securities Board*



## **ANNUAL FINANCIAL REPORT TO THE GOVERNOR**

For The  
**FISCAL YEAR**  
**SEPTEMBER 1, 2022 – AUGUST 31, 2023**

# *Texas State Securities Board*

## **ANNUAL FINANCIAL REPORT**

**For the Year Ended August 31, 2023**

TRAVIS J. ILES  
SECURITIES COMMISSIONER



CLINTON EDGAR  
DEPUTY SECURITIES COMMISSIONER

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## *Texas State Securities Board*

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E. WALLY KINNEY  
CHAIR

ROBERT BELT  
MEMBER

MELISSA TYROCH  
MEMBER

EJIKE E. OKPA II  
MEMBER

DAVID B. MONTGOMERY  
MEMBER

November 18, 2023

Honorable Greg Abbott, Governor  
Honorable Glenn Hegar, Texas Comptroller  
Jerry McGinty, Director, Legislative Budget Board  
Lisa R. Collier, State Auditor

Ladies and Gentlemen:

We are pleased to submit the annual financial report of the Texas State Securities Board for the year ended August 31, 2023, in compliance with Texas Government Code Annotated, Section 2101.011, and in accordance with the requirements established by the Comptroller of Public Accounts.

Due to the statewide requirements embedded in Governmental Accounting Standards Board (GASB) 34, the Comptroller of Public Accounts does not require the accompanying annual financial report to comply with all the requirements in this statement. The financial report will be considered for audit by the state auditor as part of the audit of the State of Texas *Annual Comprehensive Financial Report* (ACFR); therefore, an opinion has not been expressed on the financial statements and related information contained in this report.

If you have any questions, please contact Derek Lauterjung, at (512) 305-8321. Thank you for your time, consideration, and service.

Sincerely,

A handwritten signature in blue ink, appearing to read "T. J. Iles".

Travis J. Iles  
Securities Commissioner

Enclosure  
TI/dl

# *Texas State Securities Board*

## ANNUAL FINANCIAL REPORT

For the Year Ended August 31, 2023

### MEMBERS OF THE BOARD

August 31, 2023

E. Wally Kinney, Chair.....	Comfort
Kenny Konkaba, Member.....	Friendswood
Robert R. Belt, Member.....	Houston
Melissa Tyroch, Member.....	Belton
Ejike E. Okpa, Member.....	Dallas

# STATE SECURITIES BOARD

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### IV. ADDENDA

**I. COMBINED FINANCIAL STATEMENTS**

- A.     Exhibit I:             Combined Balance Sheet/Statement of Net Assets - Governmental Funds**
  
- B.     Exhibit II:            Combined Statement of Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities - Governmental Funds**
  
- C.     Exhibit VI:             Combined Statement of Fiduciary Net Assets**

**STATE SECURITIES BOARD (312)****Exhibit I – Combined Balance Sheet/Statement of Net Assets – Governmental Funds**

August 31, 2023

General  
Funds**ASSETS**

Current Assets:	
Cash and Cash Equivalents:	
Cash in State Treasury	1,205.89
Legislative Appropriations	<u>1,267,569.60</u>
Total Current Assets	<u>1,268,775.49</u>
Non-Current Assets:	
Capital Assets Note 2:	
Depreciable:	
Furniture and Equipment	
Less Accumulated Depreciation	
Amortizable:	
Computer Software-Intangible	
Less Accumulated Amortization	
Right To Use Asset - Buildings	
Less Accumulated Amortization	
Total Non-Current Assets	<u>0.00</u>
Total Assets	<u>1,268,775.49</u>

**LIABILITIES AND FUND BALANCES**

Liabilities:	
Current Liabilities:	
Accounts Payable	45,059.70
Payroll Payable	683,243.64
Other Current Liabilities	5,924.71
Employees Compensable Leave (Note 5)	0.00
Right to Use Lease Obligations	<u>0.00</u>
Total Current Liabilities	<u>734,228.05</u>
Non-Current Liabilities:	
Employees Compensable Leave (Note 5)	
Right to Use Lease Obligations	
Total Non-Current Liabilities	<u>0.00</u>
Total Liabilities	<u>734,228.05</u>

**FUND FINANCIAL STATEMENT**

Fund Balances (Deficits)	
Assigned	0.00
Unassigned	425,518.87
Unreserved/Undesignated	0.00
Other Changes	<u>109,028.57</u>
Total Fund Balances	<u>534,547.44</u>
Total Liabilities and Fund Balances	<u>1,268,775.49</u>

**GOVERNMENT-WIDE STATEMENT OF NET ASSETS**

Net Assets:	
Invested in Capital Assets, Net of Related Debt	
Unrestricted	
Total Net Assets	

**STATE SECURITIES BOARD (312)****Exhibit I – Combined Balance Sheet/Statement of Net Assets – Governmental Funds****August 31, 2023**

<u>Capital Assets Adjustments</u>	<u>Long-Term Liabilities Adjustments</u>	<u>Other Adjustments</u>	<u>Statement Of Net Assets</u>
			1,205.89
			<u>1,267,569.60</u>
			<u>1,268,775.49</u>
82,138.64			82,138.64
(79,643.27)			(79,643.27)
9,073.80			9,073.80
(9,073.80)			(9,073.80)
227,632.02			227,632.02
(107,120.88)			(107,120.88)
<u>123,006.51</u>			<u>123,006.51</u>
<u>123,006.51</u>			<u>1,391,782.00</u>
			45,059.70
			683,243.64
	34.76		5,959.47
	558,639.08		558,639.08
	<u>53,613.72</u>		<u>53,613.72</u>
	<u>612,287.56</u>		<u>1,346,515.61</u>
	452,534.70		452,534.70
	<u>67,282.62</u>		<u>67,282.62</u>
	<u>519,817.32</u>		<u>519,817.32</u>
	<u>1,132,104.88</u>		<u>1,866,332.93</u>
			0.00
			425,518.87
			0.00
			<u>109,028.57</u>
			<u>534,547.44</u>
123,006.51			123,006.51
	(1,132,104.88)		(1,132,104.88)
			<u>(474,550.93)</u>

**STATE SECURITIES BOARD (312)****Exhibit II – Combined Statement of Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities – Governmental Funds****For the Fiscal Year Ended August 31, 2023**

	General Funds
<b>REVENUES</b>	
Legislative Appropriations:	
Original Appropriations (GR)	7,653,508.00
Additional Appropriations	1,721,455.75
Licenses, Fees and Permits	5,762.71
Interest, Dividend, & Other Income	0.00
Sales of Goods and Services	0.00
Other	0.00
Total Revenues	<u>9,369,201.04</u>
<b>EXPENDITURES</b>	
Salaries and Wages	6,602,782.09
Payroll Related Costs	1,766,307.49
Professional Fees and Services	175,402.32
Travel	79,609.04
Materials and Supplies	125,114.40
Communication and Utilities	168,289.37
Repairs and Maintenance	173,711.78
Rentals and Leases	97,809.85
Printing and Reproduction	504.00
Other Expenditures	34,838.90
Debt Service – Principal - Leases	53,427.34
Capital Outlay	0.00
Total Expenditures/Expenses	<u>9,277,796.58</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>91,404.46</u>
<b>OTHER FINANCING SOURCES (USES)</b>	
Transfers-Out	0.00
Increase In Obligations – Leases	0.00
Legislative Financing Uses	0.00
Total Other Financing Sources (USES)	0.00
<b>FUND FINANCIAL STATEMENT - FUND BALANCES</b>	
Net Change in Fund Balances/Net Position	91,404.46
Fund Balances, September 1, 2022	425,518.87
Appropriations Lapsed / Backouts / Restatements	17,624.11
Fund Balances, August 31, 2023	<u>534,547.44</u>
<b>GOVERNMENT-WIDE STATEMENT - NET POSITION</b>	
Net Position/Net Change in Net Position	
Net Position, September 1, 2022	
Appropriations Lapsed / Backouts / Restatements	
Net Position, August 31, 2023	

**STATE SECURITIES BOARD (312)****Exhibit II– Combined Statement of Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities – Governmental Funds****For the Fiscal Year Ended August 31, 2023**

<u>Capital Assets Adjustments</u>	<u>Long-Term Liabilities Adjustments</u>	<u>Statement Of Activities</u>
		7,653,508.00
		1,721,455.75
		5,762.71
		0.00
		0.00
		0.00
<u>0.00</u>	<u>0.00</u>	<u>9,369,201.04</u>
	183,902.09	6,786,684.18
		1,766,307.49
		175,402.32
		79,609.04
		125,114.40
		168,289.37
		173,711.78
		97,809.85
		504.00
	(15.37)	34,823.53
	(53,427.34)	0.00
<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
<u>0.00</u>	<u>130,459.38</u>	<u>9,408,255.96</u>
<u>0.00</u>	<u>(130,459.38)</u>	<u>(39,054.92)</u>
	0.00	0.00
	0.00	0.00
	<u>0.00</u>	<u>0.00</u>
	0.00	0.00
		91,404.46
		425,518.87
		17,624.11
		<u>534,547.44</u>
<u>0.00</u>	<u>(130,459.38)</u>	<u>(130,459.38)</u>
<u>177,718.59</u>	<u>(1,001,645.50)</u>	<u>(823,926.91)</u>
<u>(54,712.08)</u>	<u>0.00</u>	<u>(54,712.08)</u>
<u>123,006.51</u>	<u>(1,132,104.88)</u>	<u>(1,009,098.37)</u>
		<u>(474,550.93)</u>

**STATE SECURITIES BOARD (312)**  
**Exhibit VI – Combined Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
August 31, 2023

	Agency Funds (Ex J-1)
<b>ASSETS</b>	
Cash in State Treasury	1,205.89
Total Assets	<u>1,205.89</u>
<b>LIABILITIES</b>	
Payroll Deduction / Return Liability	1,205.89
Total Liabilities	<u>1,205.89</u>
<b>NET ASSETS</b>	
Total Net Assets	<u>0.00</u> <u>0.00</u>

## **II. NOTES TO THE FINANCIAL STATEMENTS**

**STATE SECURITIES BOARD (312)****NOTES TO THE FINANCIAL STATEMENTS****NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****A. ENTITY**

The State Securities Board is an agency of the State of Texas, and its financial records comply with state statutes and regulations. This includes compliance with the Texas Comptroller of Public Accounts' *Reporting Requirements for Annual Financial Reports of State Agencies and Universities*.

The State Securities Board was created in 1957 pursuant to "The Securities Act" passed by the 55<sup>th</sup> Legislature. This Act provides for the regulation of the sale of securities and the regulation of dealers, investment advisers, and their agents and representatives who sell securities or render investment advice. The State Securities Board is responsible for administering and enforcing the provisions contained in the Act. (For detailed information about the Board, refer to Section IV of this report.)

Due to the statewide requirements embedded in Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, the Comptroller of Public Accounts does not require the accompanying annual financial report to comply with all the requirements in this Statement. The financial report is considered for audit by the State Auditor as part of the audit of the State of *Texas Comprehensive Annual Financial Report*, therefore, an opinion has not been expressed on the financial statements and related information contained in this report.

**B. FUND STRUCTURE**

The accompanying financial statements are presented on the basis of fund type, each of which is considered a separate accounting entity.

**GOVERNMENTAL FUND TYPES**General Fund (GAAP Fund Type 01)

The General Revenue Fund is used to account for all financial resources of the state except those required to be accounted for in another fund.

## STATE SECURITIES BOARD (312)

### Capital Asset Adjustment Fund Type

The Capital Assets Adjustment fund is used to convert governmental fund types' capital assets from modified accrual to full accrual.

### Long-Term Liabilities Adjustment Fund Type

Long-Term Liabilities Adjustment fund is used to convert governmental fund types' debt from modified accrual to full accrual.

## FIDUCIARY FUND TYPES

### Agency Funds (GAAP Fund Type 09)

Agency funds are used to account for assets the government holds on behalf of others in a purely custodial capacity. Agency funds involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

## COMPONENT UNITS

The State Securities Board has no component units.

## C. BASIS OF ACCOUNTING

The basis of accounting determines when revenues and expenditures or expenses are recognized in the accounts reported in the financial statements. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

Governmental fund types that build the fund financial statements are accounted for using the modified accrual basis of accounting. Under the modified accrual basis, revenues are recognized in the period that they become both measurable and available to finance operations of the fiscal year or liquidate liabilities existing at fiscal year-end.

The State of Texas considers receivables collected within 60 days after year-end to be available and recognizes them as revenues of the current year for Fund Financial statements prepared on the modified accrual basis. Expenditures and other uses of financial resources are recognized when the related liability is incurred.

Governmental adjustment fund types that will build the government-wide financial statements are accounted for using the full accrual basis of accounting. The following activities are recognized in these fund types:

- Capital assets
- Accumulated depreciation
- Unpaid employee compensable leave

**STATE SECURITIES BOARD (312)**

- The unmatured debt service on general long-term liabilities
- Long-term capital leases
- Long-term claims and judgments
- Full accrual revenues and expenses

**D. BUDGETS AND BUDGETARY ACCOUNTING**

The budget is prepared biennially and represents appropriations authorized by the Legislature and approved by the Governor (*the General Appropriations Act*).

Unencumbered appropriations are generally subject to lapse 60 days after the end of the fiscal year for which they were appropriated.

**E. ASSETS, LIABILITIES, AND FUND BALANCES/NET ASSETS****ASSETS**Capital Assets

Assets with an initial, individual cost of more than \$5,000 and an estimated useful life beyond one year are capitalized. These assets are capitalized at cost or, if any are purchased, as appraised fair value as of the date of acquisition. Purchases of assets by governmental funds are reported as expenditures. Depreciation is reported on all "exhaustible" assets. Assets are depreciated over the estimated useful life of the asset using the straight-line method.

**LIABILITIES**Accounts Payable

Accounts Payable represents the liability for the value of assets or services received at the balance sheet date for which payment is pending.

Employees' Compensable Leave Balances

Employees' Compensable Leave Balances represent the liability that becomes "due" upon the occurrence of relevant events such as resignations, retirements, and uses of leave balances by covered employees. Liabilities are reported separately as either current or non-current in the statement of net assets.

## STATE SECURITIES BOARD (312)

### FUND BALANCE/NET ASSETS

The difference between fund assets and liabilities is “Net Assets” on the government-wide, proprietary, and fiduciary fund statements, and the “Fund Balance” is the difference between fund assets and liabilities on the governmental fund statements.

#### Fund Balance Components

Fund balances for governmental funds are classified as nonspendable, restricted, committed, assigned or unassigned in the fund financial statements.

#### Nonspendable Fund Balance Component

The nonspendable fund balance includes amounts not available to be spent because they are either not in spendable form or legally or contractually required to be maintained intact.

#### Restricted Fund Balance Component

The restricted fund balance includes those resources that have constraints placed on their use through external parties or by law through constitutional provisions.

#### Committed Fund Balance Component

The committed fund balance can be used only for specific purposes pursuant to constraints imposed by a formal action of the Texas Legislature, the state’s highest level of decision making authority.

#### Assigned Fund Balance Component

The assigned fund balance includes amounts constrained by the state’s intent to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by the Texas Legislature or a body (for example, a budget or finance committee) or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes.

#### Unassigned Fund Balance Component

The unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that was not assigned to other funds and was not restricted, committed or assigned to specific purposes within the general fund.

### INTERFUND ACTIVITIES AND TRANSACTIONS

The Agency has the following types of transactions between funds:

1. Transfers: Legally required transfers that are reported when incurred as ‘Transfers In’ by the recipient fund and ‘Transfers Out’ by the disbursing fund.

**STATE SECURITIES BOARD (312)**

2. Reimbursements: Reimbursements are repayments from funds responsible for expenditures or expenses to funds that made the actual payment. Reimbursements of expenditures made by one fund to another are recorded as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund. Reimbursements are not displayed in the financial statements.
3. Interfund receivables and payables: Interfund loans are reported as interfund receivables and payables. If repayment is due during the current year or soon thereafter it is classified as "Current"; repayment for two (or more) years is classified as "Non-Current."
4. Interfund Sales and Purchases: Charges or collections for services rendered by one fund to another that are recorded as revenues of the recipient fund and expenditures or expenses of the disbursing fund. The composition of the Agency's interfund activities and balances are presented in Note 12.

**NOTE 2: CAPITAL ASSETS**

Changes in Capital Assets for the year ended August 31, 2023:

**Governmental Activities**

Depreciable/Amortizable Asset Type	Balance 9/1/22	Adjustments	Additions	Deletions	Balance 8/31/23
Furniture and Equipment	\$82,138.64	-	-	-	\$82,138.64
Less Accumulated Depreciation	(\$78,491.63)	-	(\$1,151.64)	-	(\$79,643.27)
Computer Software	\$9,073.80	-	-	-	\$9,073.80
Less Accumulated Amortization	(\$9,073.80)	-	-	-	(\$9,073.80)
Right To Use Asset-Buildings	\$227,632.02	-	-	-	\$227,632.02
Right To Use Asset-Buildings-Amortization	(\$53,560.44)	-	(\$53,560.44)	-	(\$107,120.88)
Governmental Activities, Capital Assets	\$177,718.59	-	(\$54,712.08)	-	\$123,006.51

**NOTE 3: DEPOSITS, INVESTMENTS, AND REPURCHASE AGREEMENTS**

(Not applicable to this Agency.)

**STATE SECURITIES BOARD (312)****NOTE 4: SHORT-TERM DEBT**

(Not applicable to this Agency.)

**NOTE 5: LONG-TERM LIABILITIES**

The Agency has no long-term notes or loans payable, claims or judgments outstanding or pending, pollution remediation obligations, or liabilities payable from restricted assets.

**Employees Compensable Leave**

If a state employee has had continuous employment with the state for at least six months, the state employee is entitled to be paid for all unused vacation time accrued in the event of the employee's resignation, dismissal, or separation from State employment. Expenditures for accumulated annual leave balances are recognized in the period paid or taken in governmental fund types. For these fund types, the liability for unpaid benefits is recorded in the Statement of Net Assets. Both an expense and a liability for business-type activities are recorded in the proprietary funds as the benefits accrue to employees. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits. This obligation is usually paid from the same funding source(s) from which the employee's salary or wage compensation was paid.

The Agency's monetary liability for compensable future absences as of August 31, 2023, as computed by multiplying the ending balances by the year-end average hourly salary rate for all employees, were as follows:

	<u>Balance</u> <u>8-31-22</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>8-31-23</u>	<u>Due Within</u> <u>One Year</u>	<u>Due</u> <u>Thereafter</u>
Right To Use Obligations	\$174,323.68	-	(\$53,427.34)	\$120,896.34	\$53,613.72	\$67,282.62
Compensable Leave	\$827,271.69	\$799,298.74	(\$615,396.65)	\$1,011,173.78	\$558,639.08	\$452,534.70
Other	-	\$34.76	-	\$34.76	\$34.76	-
Total Long-Term Liabilities	\$1,001,595.37	\$799,333.50	(\$668,823.99)	\$1,132,104.88	\$612,287.56	\$519,817.32

**NOTE 6: BONDED INDEBTEDNESS**

(Not applicable to this Agency.)

**STATE SECURITIES BOARD (312)****NOTE 7: DERIVATIVE INSTRUMENTS**

(Not applicable to this Agency.)

**NOTE 8: LEASES****LEASE LIABILITY**

Included in the expenditures reported in the financial statements are the following amounts of rent paid or due under operating lease obligations:

Fund Type	Amount
General Revenue	\$53,951.88

Future lease payments – Primary Government / Governmental Activities:

YEAR	PRINCIPAL	INTEREST	TOTAL
2024	\$53,613.72	\$338.15	\$53,951.87
2025	\$53,802.58	\$149.30	\$53,951.88
2026	\$13,480.04	\$7.93	\$13,487.97
2027	\$0	\$0	\$0
2028	\$0	\$0	\$0
BEYOND 2028	\$0	\$0	\$0
<b>TOTAL</b>	<b>\$120,896.34</b>	<b>\$495.38</b>	<b>\$121,391.72</b>

- The Agency has no lease amounts to report in the categories of Primary Government / Business-Type Activities or Discretely Presented Component Units.

**NOTE 9: PENSION PLANS AND DEFINED CONTRIBUTION PLAN**

The State has joint contributory retirement plans for a vast majority of its employees. The Agency participates in the plans administered by the Employees Retirement System of Texas. Future pension costs are the liabilities of the Retirement System. The System does not account for each state agency separately. Annual financial reports prepared by the System include audited financial statements and actuarial assumptions and conclusions.

**STATE SECURITIES BOARD (312)****NOTE 10: DEFERRED COMPENSATION**

State employees may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in the TEX. GOV'T CODE ANN., Chapter 609. Two plans are available for employees' deferred compensation plans. Each plan is administered by the Employees Retirement System.

**NOTE 11: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS**

(Not applicable to this Agency.)

**NOTE 12: INTERFUND ACTIVITY AND TRANSACTIONS**

As explained in Note 1, in the portion titled, Interfund Activities and Balances, there are numerous transactions between funds and agencies. At year-end, amounts to be received or paid, relative to this agency, are reported as:

- Interfund Receivables or Interfund Payables
- Due from other Agencies or due to other Agencies
- Legislative Transfers In or Legislative Transfers Out

Individual balances and activity at August 31, 2023:

Current Portion	Current Interfund Receivable	Current Interfund Payable
GENERAL (01)	-0-	-0-
Non-Current Portion	Non-Current Interfund Receivable	Non-Current Interfund Payable
GENERAL (01)	-0-	-0-
	Due From Other Agencies	Due To Other Agencies
GENERAL (01)	-0-	-0-

**NOTE 13: CONTINUANCE SUBJECT TO REVIEW**

Pursuant to the Texas Sunset Act, the Agency will be abolished effective September 1, 2031 unless continued in existence as provided by the Act. If abolished, the Agency may continue until September 1, 2032 to close out its operations.

**NOTE 14: ADJUSTMENTS TO FUND BALANCES AND NET POSITION**

(Not applicable to this Agency.)

**STATE SECURITIES BOARD (312)****NOTE 15: CONTINGENCIES AND COMMITMENTS**

(Not applicable to this Agency.)

**NOTE 16: SUBSEQUENT EVENTS**

(Not applicable to this Agency.)

**NOTE 17: RISK MANAGEMENT**

The State Securities Board is exposed to a variety of potential civil claims resulting from the performance of its duties. The Agency assumes substantially all risks associated with tort and liability claims due to the performance of its duties. Currently there is no purchase of commercial insurance nor is the Agency involved in any risk pools with other government agencies. The agency does participate in the Statewide Automobile Insurance Program and Statewide Property Insurance Program facilitated by the State Office of Risk Management.

The Agency's liabilities are reported when it is both probable that a loss has occurred, and the amount of that loss can be reasonably estimated.

**NOTE 18: MANAGEMENT'S DISCUSSION AND ANALYSIS**

This Agency has no special or extraordinary items to report.

**NOTE 19: THE FINANCIAL REPORTING ENTITY**

(Not applicable to this Agency.)

**NOTE 20: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

(Not applicable to this Agency.)

**NOTE 21: N/A****NOTE 22: DONOR RESTRICTED ENDOWMENTS**

(Not applicable to this Agency.)

**STATE SECURITIES BOARD (312)****NOTE 23: EXTRAORDINARY AND SPECIAL ITEMS**

This Agency has no special or extraordinary items to report.

**NOTE 24: DISAGGREGATION OF RECEIVABLE AND PAYABLE BALANCES**

(Not applicable to this Agency.)

**NOTE 25: TERMINATION BENEFITS**

(Not applicable to this Agency.)

**NOTE 26: SEGMENT INFORMATION**

(Not applicable to this Agency.)

**NOTE 27: SERVICE CONCESSION ARRANGEMENTS**

(Not applicable to this Agency.)

**NOTE 28: DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES**

(Not applicable to this Agency.)

**NOTE 29: TROUBLED DEBT RESTRUCTURING**

(Not applicable to this Agency.)

**NOTE 30: NON-EXCHANGE FINANCIAL GUARANTEES**

(Not applicable to this Agency.)

**NOTE 31: TAX ABATEMENTS**

(Not applicable to this Agency.)

**NOTE 32: GOVERNMENTAL FUND BALANCES**

(Not applicable to this Agency.)

### **III. COMBINING STATEMENTS**

**STATE SECURITIES BOARD (312)****Exhibit J-1 – Combining Statement of Changes in Assets and Liabilities****Agency Funds**

August 31, 2023

	<u>Beginning Balance</u> <u>September 1, 2022</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u> <u>August 31, 2023</u>
UNAPPROPRIATED RECEIPTS				
<u>Child Support Deduction (0807)</u> <u>U/F (0807)</u>				
<b>ASSETS</b>				
Cash in Treasury	<u>\$840.00</u>	<u>\$12,275.34</u>	<u>\$11,909.45</u>	<u>\$1,205.89</u>
Total Assets	<u>\$840.00</u>	<u>\$12,275.34</u>	<u>\$11,909.45</u>	<u>\$1,205.89</u>
<b>LIABILITIES</b>				
Funds Held for Others	<u>\$840.00</u>	<u>\$12,275.34</u>	<u>\$11,909.45</u>	<u>\$1,205.89</u>
Total Liabilities	<u>\$840.00</u>	<u>\$12,275.34</u>	<u>\$11,909.45</u>	<u>\$1,205.89</u>
TOTALS – ALL AGENCY FUNDS				
<b>ASSETS</b>				
Cash in State Treasury	<u>\$840.00</u>	<u>\$12,275.34</u>	<u>\$11,909.45</u>	<u>\$1,205.89</u>
Total Assets	<u>\$840.00</u>	<u>\$12,275.34</u>	<u>\$11,909.45</u>	<u>\$1,205.89</u>
<b>LIABILITIES</b>				
Funds Held for Others	<u>\$840.00</u>	<u>\$12,275.34</u>	<u>\$11,909.45</u>	<u>\$1,205.89</u>
Total Liabilities	<u>\$840.00</u>	<u>\$12,275.34</u>	<u>\$11,909.45</u>	<u>\$1,205.89</u>

#### **IV. ADDENDA**

## I. Agency Overview

### Governing Board

The Texas State Securities Board is a leader among state securities regulators. Its law enforcement program has decades long been recognized as a criminal justice agency by the Texas Department of Public Safety and the Federal Bureau of Investigation. We place a premium on what is important – results for our constituents. This sentiment is attributed in large part to the dedicated staff’s commitment to serving our investors, businesses, and licensees – doing so in a fair and thoughtful; aggressive, when appropriate<sup>1</sup>; accessible; and transparent way.

The Securities Board was created with the Texas Securities Act (or the Act) by the 55<sup>th</sup> Legislature in 1957. The agency is overseen by a governing board comprised of five members appointed by Governor Abbott, with the advice and consent of the Senate, for six-year staggered terms. The Board establishes the policies of the agency and meets periodically to update agency rules to ensure that investors remain adequately protected while preventing unreasonable burdens or barriers on legitimate capital formation.

The Board appoints a Securities Commissioner who serves at the pleasure of the Board and is charged with the administration of the Act and management of the day-to-day operations of the agency. Travis J. Iles was appointed as the Securities Commissioner in 2017 and has served Texas investors and businesses in various capacities across agency programs for the past 22 years.

Members of the Board serving Texas as of August 31, 2023:

<b>Board Member</b>	<b>City</b>	<b>Term Expiry</b>
E. Wally Kinney, Chair	Comfort	January, 2025
Kenny Koncaba <sup>2</sup>	Friendswood	January, 2023
Robert R. Belt <sup>3</sup>	Houston	January, 2023
Melissa Tyroch	Belton	January, 2025
Ejike E. Okpa II	Dallas	January, 2027

### Statute

Under the requirements of The Securities Act, Tex. Gov’t Code §§ 4001.001- 4008.105 (formerly Tex. Rev. Civ. Stat. Ann. arts. 581-1 to 581- 45), the mission of the State Securities Board is to protect investors.<sup>4</sup> Consistent with that mission, the agency seeks to encourage capital formation, job formation, free and competitive securities markets and to minimize burdens on issuers and persons subject to the Act, especially our small businesses.

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<sup>1</sup> Austin Real Estate Scammer Sentenced to 40 Years in Prison – <https://www.ssb.texas.gov/news-publications/austin-real-estate-scammer-sentenced-40-years-prison>.

<sup>2</sup> Mr. Koncaba, whose term expired, was replaced by David B. Montgomery on October 5, 2023. Mr. Montgomery’s appointment is for a term to expire January 20, 2029.

<sup>3</sup> Mr. Belt’s term expired in January 2023. Governor Abbott reappointed Mr. Belt for a term to expire January 20, 2029.

<sup>4</sup> The Texas Legislative Council completed a non-substantive revision of the Texas Securities Act pursuant to Tex. Gov’t Code § 323.007. The agency greatly appreciates the Council’s diligence and good work on the multi-year project. The expertise of the agency’s General Counsel, Marlene Sparkman (the agency’s Library of Congress), was also instrumental in effectuating the codification of the Texas Securities Act. The codification became effective January 1, 2022.

A healthy and productive capital market requires the agency maintain a carefully balanced and measured regulatory approach. A harsh and unyielding regulatory system limits incentives for businesses to raise capital in Texas and creates barriers for Texas businesses to access funds necessary to grow their businesses and create new jobs. Conversely, an overly lenient regulatory system fosters an environment in which unscrupulous promoters can damage investor confidence, inhibit investments in the state, and erode legitimate businesses’ access to needed capital.

Texas is an exceptionally large and robust market for securities issuers, securities dealers, agents, and investment advisers. Long-term customer demands for the services provided by the State Securities Board continue to increase, due to the strength of the Texas economy and its growing population.

The public’s dependence on the securities markets to meet personal financial goals is continuing a trend of increasing numbers of firms and individuals seeking registration. The great majority of firm and individual registrants are not in Texas but seek registration to access Texas’ vibrant economy and investors.

As Comptroller Hegar reported to Governor Abbott and the 88<sup>th</sup> Legislature in October 2023, the Texas economy is doing well, particularly so when compared to other states. “The state’s rate of job growth was the highest among the 10 most populous and the second highest among all states.”<sup>5</sup>

The Texas economy also makes Texas investors an attractive target for promoters of fraudulent investment schemes. These contrivances divert capital that would otherwise be available for legitimate economic development and impair public confidence in securities markets and securities professionals.

Banks are robbed – it’s where the money is.<sup>6</sup> The same holds true as to why so many criminal opportunists flock to the Lone Star State to prey upon Texas investors. The ability of legitimate Texas businesses seeking capital to grow their businesses and create Texas jobs is eroded by such criminal activity. Unscrupulous promoters recognize economic uncertainty and market losses as a “business opportunity,” making many investors more vulnerable to their schemes. Bad actors are adept at following media headlines and exploiting investor emotion and fear.

## **II. Agency Programs**

The State Securities Board implements the Securities Act by executing strategies for: 1) Law enforcement; 2) Registration of securities; 3) Registration of securities dealers, agents, investment advisers, and investment adviser representatives; and 4) Inspections of registered dealers and investment advisers.

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<sup>5</sup> Source – Texas Comptroller of Public Accounts, *2024-2025 Certification Revenue Estimate* – October 2023.

<sup>6</sup> An adage attributed to “Slick Willie” Sutton an infamous bank robber and one of the first fugitives to crack the FBI’s Top Ten List – <https://www.fbi.gov/history/famous-cases/willie-sutton>.

The law enforcement program maintains a primary focus on investigating unregistered criminal opportunists who all too often stalk our retirees and elderly.

The agency’s registration and inspections and compliance programs provide key gatekeeper and ongoing oversight functions for our registered community.

#### The Law Enforcement Program

The State Securities Board places a premium on proactive efforts to detect and prevent violations of the Act, including fraud committed in connection with the sale of securities by unregistered dealers. The agency aggressively pursues administrative, civil, and/or criminal actions against firms or individuals who have violated provisions of the Act.

In assessing the need for and type of enforcement action, consideration is given to several factors, including the offense, violation, or deficiency; the extent and persistence of the conduct; the harm to the public; cooperation in resolving the matter; efforts to mitigate harm; the history of previous violations; the need to deter similar conduct; and the ability to restore investor status quo and provide justice. The same assessments are made in our other vital programs’ enforcement efforts.

The agency allocates significant resources to the criminal prosecution of individuals who engage in fraud in connection with the sale of securities, while continuing to effectively execute its other regulatory responsibilities.

In the Sunset Advisory Commission’s Staff Report for the 86<sup>th</sup> Legislature, the agency was found to dedicate “appropriated resources in a responsible manner that supports prosecution of securities crimes while being mindful of its other statutory responsibilities.”<sup>7</sup>

The agency refers criminal matters to district attorneys and United States attorneys in Texas. Agency attorneys are routinely appointed as special prosecutors to assist in drafting indictments, present cases to grand juries, and conduct felony trials for securities fraud and related penal offenses.

Agency financial examiners and accountants regularly perform source and use analyses of voluminous and complex financial records and testify as fact, expert, and summary witnesses in these prosecutions as a matter of course. But for the work of the law enforcement program, many criminal opportunists would never be brought to justice.<sup>8</sup>

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<sup>7</sup> See Sunset Report with Commission Decisions, page 13 - [https://www.ssb.texas.gov/sites/default/files/State%20Securities%20Board%20Staff%20Report%20with%20Commission%20Decisions\\_1-17-19.pdf](https://www.ssb.texas.gov/sites/default/files/State%20Securities%20Board%20Staff%20Report%20with%20Commission%20Decisions_1-17-19.pdf).

<sup>8</sup> See Sunset Staff Report – October 2000, page 44.

The Act provides the agency with valuable tools – administrative, civil, and criminal – to effectively redress any number of schemes, no matter the form they take. The agency continues its effective use of these tools.

Scams run the gamut – oil & gas pipe dreams, real estate subterfuges; hollow promissory notes, precious metals skullduggery<sup>9</sup>, bunco equities, and myriad sham promotions tied to digital assets – to name but a few.

Much of the good enforcement work of the agency is circulated in news release content. These releases not only speak to the agency’s effectiveness in protecting our investors but also reflect the leadership role the Texas State Securities Board plays among its state and federal regulatory counterparts.<sup>10</sup>

### The Registration Program

The agency’s registration staff reviews all applications to register securities for sale in Texas. The primary function of this review is to ensure that investors have access to full and fair disclosure of all material investment information to inform the investor’s decision-making process; the issuer and investor share in the results of the venture; prices being asked for the securities are reasonable; conflicts of interest are minimized; and promotional expenses are reasonable. For issuers seeking a multi-state registration of securities, the agency participates in a coordinated review program administered by the North American Securities Administrators Association (NASAA). Besides establishing uniform review standards, coordinated review expedites the registration process, saving time and money for the issuer. The agency also processes a much larger volume of filings to permit securities to be sold in Texas where registration is not required under the Act. Throughout agency programs, staff provide leadership roles within NASAA, and the agency maximizes resources through its active participation in the association, which provides numerous training and educational opportunities for agency staff at little to no taxpayer cost.

Besides reviewing securities registrations and filings, the registration program also reviews and processes the applications for registration and renewal for firms and individuals selling securities or rendering investment advice in Texas. This process includes a thorough examination of each application with an emphasis on the proposed plan of business, financial condition, and disciplinary history of the applicants. For the agency to maintain proper oversight, each registrant must timely amend its registration information when an event occurs that causes a previous response provided on the application to become inaccurate, disclosure of investor-initiated complaints against the registrant.

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<sup>9</sup> Texas Leads Nationwide Action Against Precious Metals Firm – <https://www.ssb.texas.gov/index.php/news-publications/texas-leads-nationwide-action-against-precious-metals-firm> & Don’t Mess with Texas, She Has a Lot of Friends – The CFTC, Texas, and 29 Other States Join Forces to Stop \$185 Million Precious Metals IRA and Bullion Coin Scheme Targeting Seniors – <https://www.ssb.texas.gov/news-publications/don%25E2%2580%2599t-mess-texas-she-has-lot-friends-%25E2%2580%2593-cftc-texas-and-29-other-states-join-0>.

<sup>10</sup> Agency News Release content – <https://www.ssb.texas.gov/news-publications/news-releases?page=0>.

The agency participates in the Central Registration Depository and Investment Adviser Registration Depository systems. Together, these systems, developed by NASAA, the U.S. Securities and Exchange Commission, and the Financial Industry Regulatory Authority (FINRA), allow dealers and investment advisers to apply electronically for registration of their agents and representatives in all desired states via a single form filed at a central location. Texas was a leader in developing these systems and Texas registrants benefit greatly by having access to the systems, including the ability to pay registration and renewal-related fees electronically. The agency’s use of these registration systems provides industry stakeholders with essentially instantaneous licensing outcomes.

#### The Inspections & Compliance Program

Financial examiners in the agency’s inspections program conduct periodic compliance examinations of the activities and books and records of registered firms. The primary focus of this important work is conducted on firms not subject to oversight by other regulatory authorities, which are approximately 1550 state-registered investment advisers (those having up to \$100 million in investor assets under management), with main offices in Texas, and securities dealers who are not members of FINRA.

While the majority of Texas registrants work for the benefit of their clients, registrants who act to their clients’ detriment harm not only those investors but also foster a disparate competitive playing field for other registrants. Indeed, there are instances, albeit rare, where registrant misconduct necessitates the revocation of their license or the denial of an applicant’s request for licensure.

### III. Agency Performance & Licensing Fee Structure

#### Agency Performance - Fiscal Year 2023:

Enforcement	<b>422</b> law enforcement investigations opened; <b>100%</b> of law enforcement actions successful
Registration	<b>56,664</b> securities registration and notice filings reviewed (FY 22 - 66,002) (FY 21 - 66,097); <b>595,685</b> securities dealer, agent, investment adviser, and investment adviser representative registration and notice filings reviewed (FY 22 - 561,849) (FY 21 - 527,678)
Inspections	<b>307</b> registered dealer and investment adviser firms examined out of the <b>1540+</b> dealer and investment adviser firms examined solely by agency [as of August 31, 2023] <sup>11</sup>
Deposits made to General Revenue Fund	<b>~\$154,005,983.01 [-\$40.2M from fiscal 2022]</b>
Expenditures in administering and enforcing the Act	<b>~\$7,315,700.00</b>

#### Licensing Structure & Fees

The agency deposits substantial funds to the General Revenue Fund (GR) yearly. The Board has also been ever diligent in monitoring and reducing the fees assessed to its registrants. The Act’s five § 4006.001, Tex. Gov’t Code (§ 35.A of the Act, pre-codification), fees must offset funds appropriated for the administration and enforcement of the Act. Texas Gov’t Code, Section 316.045.

Since 2015, the Board has been proactive in reducing fees paid by its occupational licensees. The § 4006.001.(2), (3), (4), & (5) fees, our fees pertaining to registered dealers, investment advisers, and their agents and representatives, are at their statutory minimums. The remaining § 4006.001.(1) fee was reduced by Board action in May 2018 by 30%.

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<sup>11</sup> Per GAA, dealer and investment adviser firms examined solely by the agency are inspected on an approximate 18% yearly cycle (current biennium inspection cycle – 19%).

#### Registrant Original & Renewal Fees<sup>12</sup>

<b>Fee Description / Registrant Type / Statutory Citation</b>	<b>Current Fee / Statutory Maximum</b>	<b>Fee Revenue Deposit – 100%</b>
<i>Original Dealer/Investment Adviser Application:</i> Act § 4006.001.(2)	<b>\$75 / \$100</b>	General Revenue Fund
<i>Dealer/Investment Adviser Renewal:</i> Act § 4006.001.(3)	<b>\$40 / \$100</b>	General Revenue Fund
<i>Original Agent / Investment Adviser Representative Application:</i> Act § 4006.001.(4)	<b>\$35 / \$100</b>	General Revenue Fund
<i>Agent / Investment Adviser Representative Renewal:</i> Act § 4006.001.(5)	<b>\$20 / \$100</b>	General Revenue Fund

A measured and fair regulatory approach also requires the fees for occupational licensees be fair and measured. Each of these registrant fees are not only at their statutory minimum, as set by the 77<sup>th</sup> Legislature in 2001, but also reflect 1991 registrant fee levels.

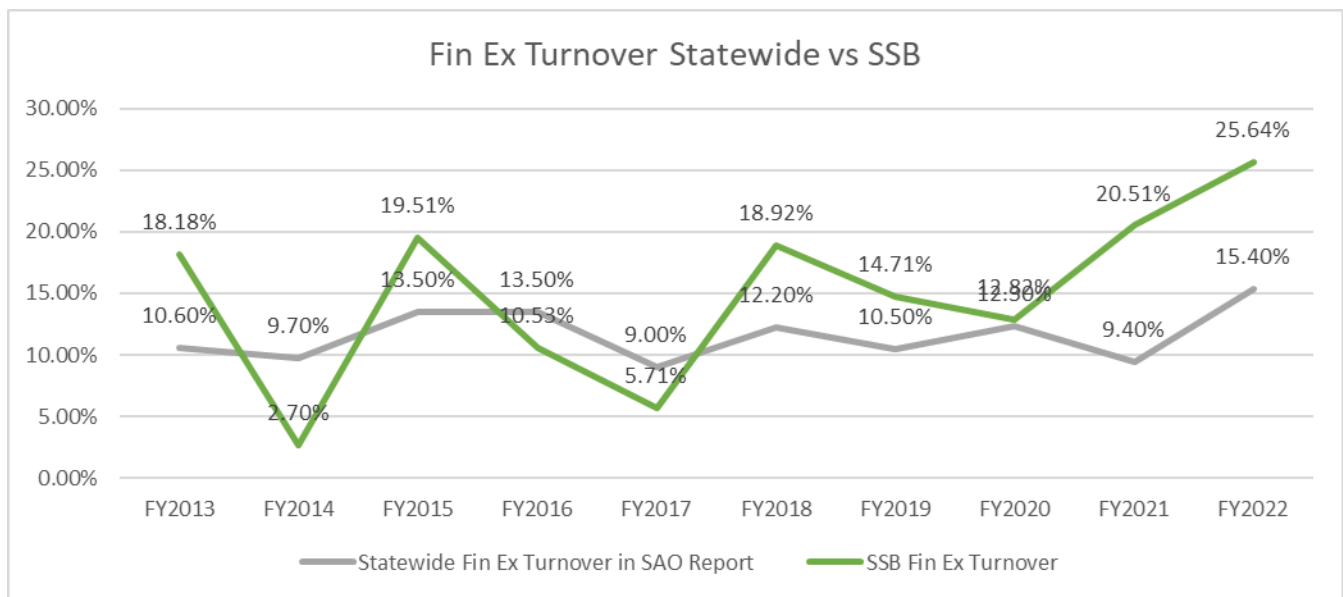
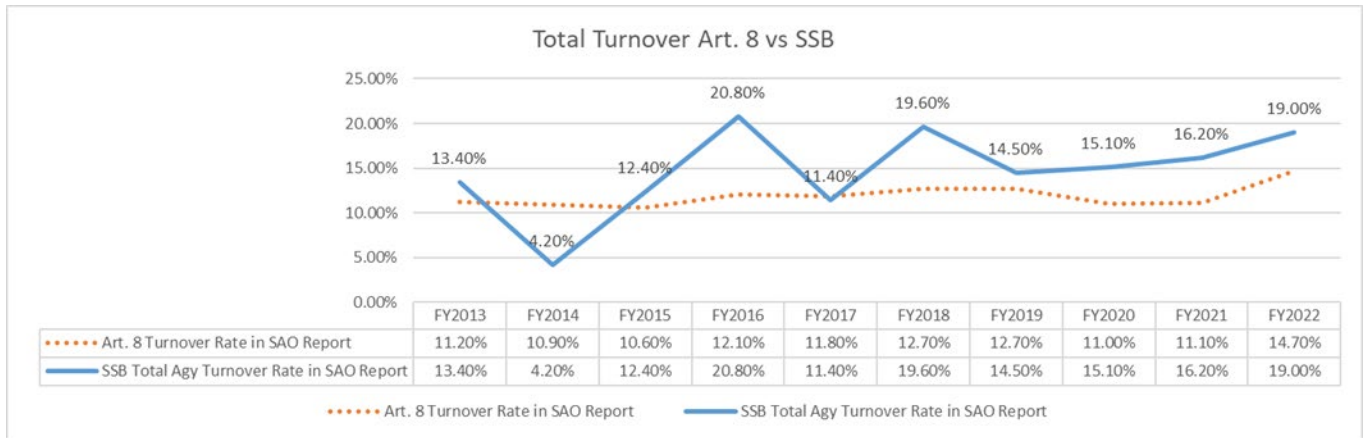
Texas has the lowest initial and renewal fees in the country. For example, 45 states have initial firm fees in excess of \$200 (Texas - \$75). The agency is proud to count its fees for securities industry professionals amongst the very lowest and fairest in the country.

#### IV. Agency Turnover

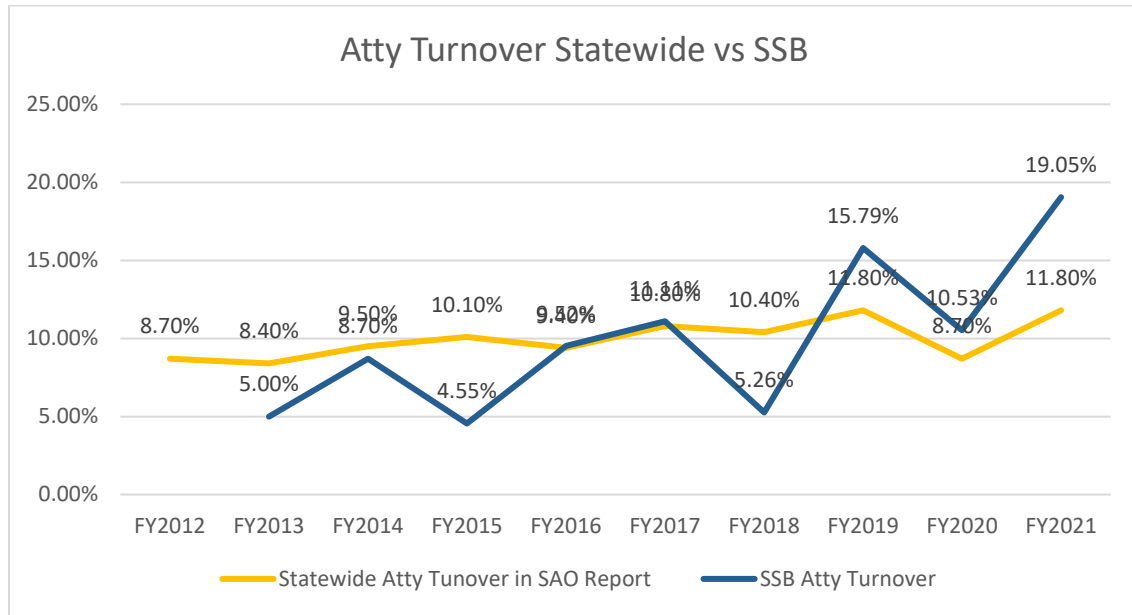
The State Auditor’s Office turnover analyses for agencies have shown continued attrition over a number of years, specific to the agency. The following tables and charts reflect the challenges faced by the agency due to continued turnover. The 88<sup>th</sup> Legislature took meaningful steps to address economic difficulties that contribute to these staffing challenges. Anecdotally, the agency has experienced a slight improvement in staffing levels in the early months of Fiscal 2024.

Employee Turnover	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
Statewide Turnover Rate in SAO Report	17.60%	17.50%	18.00%	17.60%	18.60%	19.30%	20.30%	18.60%	21.50%	22.70%
Art. 8 Turnover Rate in SAO Report	11.20%	10.90%	10.60%	12.10%	11.80%	12.70%	12.70%	11.00%	11.10%	14.70%
Statewide Fin Ex Turnover in SAO Report	10.60%	9.70%	13.50%	13.50%	9.00%	12.20%	10.50%	12.30%	9.40%	15.40%
Statewide Atty Tunover in SAO Report	8.40%	9.50%	10.10%	9.40%	10.80%	10.40%	11.80%	8.70%	11.80%	14.10%
<b>SSB Total Agy Turnover Rate in SAO Report</b>	<b>13.40%</b>	<b>4.20%</b>	<b>12.40%</b>	<b>20.80%</b>	<b>11.40%</b>	<b>19.60%</b>	<b>14.50%</b>	<b>15.10%</b>	<b>16.20%</b>	<b>19.00%</b>
SSB Fin Ex Turnover	18.18%	2.70%	19.51%	10.53%	5.71%	18.92%	14.71%	12.82%	20.51%	25.64%
SSB Atty Turnover	5.00%	8.70%	4.55%	9.52%	11.11%	5.26%	15.79%	10.53%	19.05%	15.79%

<sup>12</sup> More detailed information on the agency’s licensing fees is contained in the agency’s *Report on Occupational-Licensing Rules* to Governor Abbott’s office, dated November 26, 2019 – available on request.



The turnover obstacle is stark. In fact, since fiscal year 2021, the inspections program has realized over 50% in actual turnover. As reflected in the chart to follow, legal profession turnover is on the uptick as well.



Note – The foregoing tables and charts are drawn from SAO reports containing data through FY22: *SAO Annual Report on Classified Turnover*, released December 9, 2022; & *SAO Summary Report on Full-time Equivalent State Employees*, released December 29, 2022.

Current staffing levels are at approximately **79** full-time employees. In May 2020, the agency was staffed with **86** FTEs. For further comparison, in August 1998, the agency had 80 FTEs. The following chart provides additional context to a trend that, if continued, will imperil the agency’s ability to effectively execute its core responsibilities of protecting Texas investors and fostering an attractive climate for economic growth.

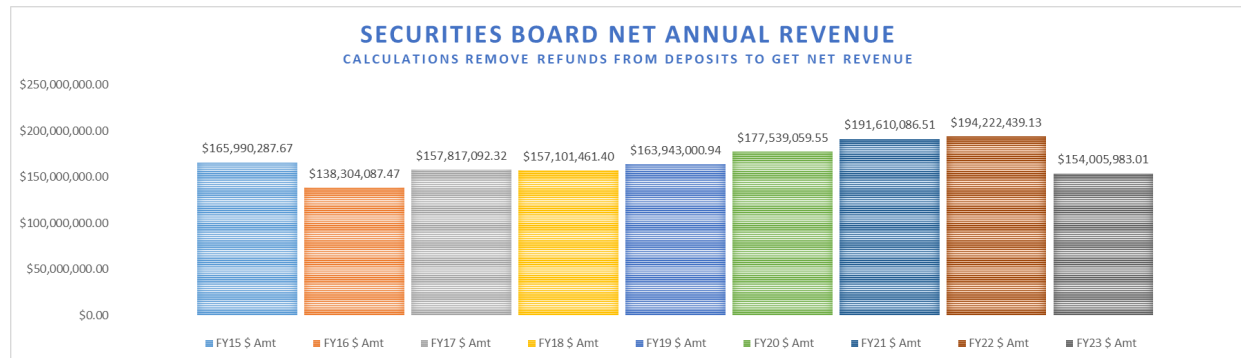
Agency FTE Count Summary - Source – SAO Reports

FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
96.4	96.9	97.4	92.1	88.1	82.1	84.3	86.6	80.6	79.3

40-year inflationary records exacerbate staffing difficulties, particularly in Austin where lucky few can afford to reside near their workplace.

The agency is sensitive to its need to preserve institutional knowledge of long tenured staff and cultivating experience and expertise with our new team members. 28 staff have served the agency for 15 or more years. For comparison, 11 staff have served less than one year and 31 team members have been with the agency less than five years.

## V. Agency Contributions to General Revenue



The agency’s FY23 deposits to the General Revenue Fund (GR) were **\$154,013,108.14**.

### Top 10 Article VIII Agencies – Appropriations/GR Deposits Comparison

Article VIII Agencies	2023 Appropriations (All Funds)	2023 Total Revenue	Rev Minus Appns	Rev vs Appn %
Securities Board	\$7,653,508.00	\$154,013,108.14	\$146,359,600	2012.32%
Racing Commission	\$6,622,496.00	\$35,149,932.36	\$28,527,436	530.77%
Executive Council of Physical Therapy & Occupational Therapy Examiners	\$1,393,824.00	\$5,891,640	\$4,497,816	422.70%
Medical Board	\$14,378,319.00	\$39,923,803	\$25,545,484	277.67%
Department of Insurance	\$144,851,129.00	\$361,598,147	\$216,747,018	249.63%
Optometry Board	\$518,007.00	\$1,200,401.08	\$682,394	231.73%
Funeral Service Commission	\$875,156.00	\$2,010,075	\$1,134,919	229.68%
Board of Dental Examiners	\$4,548,074.00	\$9,877,751	\$5,329,677	217.19%
Behavioral Health Executive Council	\$4,779,174.00	\$8,830,475	\$4,051,301	184.77%
Board of Plumbing Examiners	\$2,942,284.00	\$5,252,488	\$2,310,204	178.52%

Source of appropriation numbers: General Appropriations Act

Source revenue numbers: CPA Transparency website – department transfers were removed from the revenue numbers.

## VI. No Significant Changes to SSB Policy

The agency is pleased to report there have been no significant changes to policy. The agency has effectively transitioned over the past couple years with new Board Members replacing valued prior leadership and/or assuming new roles.

The Board continues its good work in stewarding the agency staff through thoughtful policy direction under Chair Kinney’s leadership. The entire Board’s engagement, oversight, and enthusiasm for the agency’s important work helps to catalyze the best-of-class results the agency continues to achieve for our stakeholders.

## VII. Significant Changes in Service Delivery

The SSB reports no substantive changes to its performance of statutory responsibilities. The agency’s scope of work across programs has continued to increase, and the agency continues to leverage and enhance the use of technology to enhance efficiencies.

### Workload

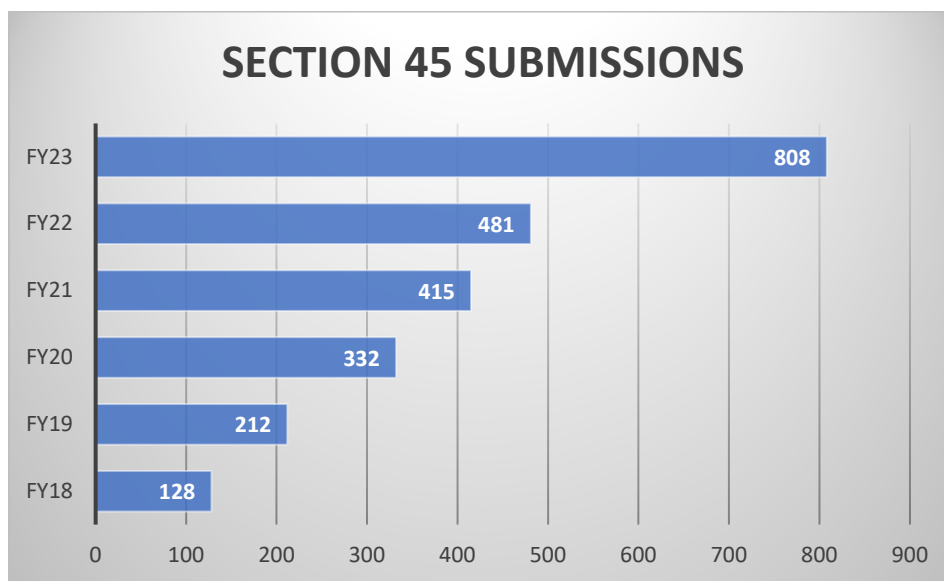
As reflected above, the agency’s deposits to GR continue to be substantial among Article VIII agencies. This is no doubt a reflection of leadership’s sound economic policies and the strength of the Texas economy. The agency’s workload similarly exceeds prior years in both volume and complexity.

Economic uncertainty and market losses have made many investors across demographics more susceptible to bad actors and their nefarious schemes.

## VIII. Other Significant Externalities

An increase in long-term customer demands for the State Securities Board’s services is expected to continue, driven by the strength of the Texas economy, population growth, and the increasing public participation in the securities markets to help meet personal savings, retirement, or other financial goals.

Governor Abbott and the 85<sup>th</sup> Legislature enacted important legislation establishing Section 45 of the Securities Act (now codified as § 4004, Tex. Gov’t Code), effective September 1, 2017, designed to enhance protections for vulnerable investor victims. These protections require our registered firms to report to the agency where they believe their investor customer may be the victim of financial exploitation. Industry stakeholders and their regulatory counterparts widely supported the enhanced investor protections. The volume of reports has increased significantly.



Submissions processed during each fiscal year.

Fraudulent securitized digital asset schemes promoted to the Texas investing public emerged in significant fashion during fiscal 2018 and have continued in an elevated way to present day. The Texas Securities Board was the first state securities regulator to enter an enforcement action against a cryptocurrency firm in December 2017 and continues to lead its state and federal counterparts with measured oversight in the digital asset space. The agency’s overwhelming focus has been to halt fraudulent schemes.

In addition to these emergency actions, the agency has identified and pursued administrative remedies through the State Office of Administrative Hearings to address registration infirmities, to state matters politely, within the securitized digital asset space, e.g., interest-bearing digital asset accounts.<sup>13</sup>

The initial peril was re-invigorated by the economic disruption arising from the prevalence of economic uncertainties. Social media has fostered a boon or blight for folks and their interactivity with others – it is a boon for criminals reaching millions of prospective investors with a click of a button rather than by “dialing for dollars.”

The sustained volatility in the digital marketplace coupled with promises of overnight riches has continued to fuel the threat to an ever-increasing expanse of retail investors – the blight.

The convergence of bad actors in this market and the successful implementation of vulnerable victim reporting requirements taxes agency resources, while more traditional investment scams effort to keep pace. As the price for oil has markedly increased since 2020, we anticipate the existence of increased fraudulent activity in the oil patch.

## **IX. Administrator Statement Miscellanea Items**

### **Background Checks**

Under the authority of the Texas Government Code, Section 411.139, the State Securities Board is authorized to obtain criminal history record information to evaluate the qualifications of applicants for registration under the Texas Securities Act, evaluate the conduct of persons registered under the Texas Securities Act, and evaluate the qualifications of applicants for employment.

The agency obtains such information directly from the Texas Department of Public Safety (DPS) through a secure DPS website using usernames and passwords allocated by DPS. Access is restricted to certain employees within the agency having specific job duties related to evaluating application and registration information. Information obtained under this procedure is protected from disclosure to unauthorized personnel or to the public under state law.

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<sup>13</sup> See generally BlockFi Lending, LLC, 2022 - <https://www.ssb.texas.gov/news-publications/texas-state-securities-board-joins-other-state-regulators-settle-digital-asset>, & [https://www.ssb.texas.gov/sites/default/files/2021-07/Blockfi\\_NOH\\_final.pdf](https://www.ssb.texas.gov/sites/default/files/2021-07/Blockfi_NOH_final.pdf); Voyager Digital LTD., et al., 2022 - [https://www.ssb.texas.gov/sites/default/files/2022-04/20220412\\_FINAL\\_Voyager\\_NOH\\_312-22-2244.pdf](https://www.ssb.texas.gov/sites/default/files/2022-04/20220412_FINAL_Voyager_NOH_312-22-2244.pdf); & Celsius Network, Inc., et al., 2021 - [https://www.ssb.texas.gov/sites/default/files/2021-09/20210917\\_FINAL\\_Celsius\\_NOH\\_is\\_signed.pdf](https://www.ssb.texas.gov/sites/default/files/2021-09/20210917_FINAL_Celsius_NOH_is_signed.pdf).

Pursuant to changes to Chapter 53, Texas Occupations Code (Consequences of Criminal Conviction) agency rules were amended, and a link was placed on the agency’s website for the SAO Applicant Best Practices Guide.<sup>14</sup>

#### Statewide ERP (CAPPS) System

The State Securities Board completed its transition to the Centralized Accounting and Payroll/Personnel System (CAPPS) in fiscal year 2022. This complete transition included the Financials module as well as the Human Resources module. Costs associated with the CAPPS conversion were absorbed by the agency with no additional appropriations requested.

However, the CAPPS system has increased many staff responsibilities for processes related to payroll processing, staff new-hires, staff terminations, accounts payables, purchasing, budgeting, financial accounting, and asset management.

#### HB 4018 (87<sup>th</sup> Leg.) & HB 1 (88<sup>th</sup> Leg.) – IT Improvement & Modernization

The agency has reached a point of critical need for information technology modernization. For more than 20 years the agency has maintained its information technology needs with a mere three IT staff members.

The tremendous growth in the use of information technology over that period has created a dire need for additional IT staff members. The technological advances in cybersecurity, computer networking, and cloud computing have also heightened the need for the agency to modernize its legacy systems. There is a clear need for additional IT staff, improved cybersecurity, and modern computing systems, as well as the opportunity to create improved efficiencies for the agency’s substantive work.

The 88<sup>th</sup> legislature provided significant resources to the agency as a result of the exceptional item request process. The agency is fast at work deploying these resources to increase both staff levels and technologies. The agency is grateful for these and other resources that will better position the agency to maintain its success in serving our investors, licensees, and businesses.

#### Recodification of The Securities Act

As noted in footnote 2, effective January 1, 2022, the Securities Act was revised and relocated from the Texas Revised Civil Statutes to Title 12 of the Texas Government Code. The Board completed rulemaking to signal this change to industry participants and made available a disposition chart to track the non-substantive changes made through the codification process. The Legislative Council and the agency’s Office of General Counsel worked tirelessly and expertly on this multi-year project.

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<sup>14</sup> Agency info on the consequences of criminal convictions – <https://www.ssb.texas.gov/securities-professionals/dealer-adviser-registration>.

## **X. Report for Attorney General Review**

The agency’s law enforcement program has decades long been recognized as a “criminal justice agency” by the Texas Department of Public Safety and the Federal Bureau of Investigation.

Effective administration and enforcement of The Securities Act requires the agency’s law enforcement program assist prosecutorial offices. The agency only investigates and provides assistance in matters within its jurisdictional authority under the Act.

Without the agency’s work, criminal opportunists would not be held accountable for their crimes and their victims would not receive their day in court.<sup>15</sup> Sadly, these crimes frequently wipe out Texas investors’ life savings, college funds, and nest eggs. All too often the victims of these predators are retirees and elderly Texans with limited opportunities to recoup their losses.

As a result of the Sunset Advisory Commission’s review of the agency for the 86<sup>th</sup> Legislature, new agency reporting requirements were created relating to the agency’s provision of prosecutorial assistance. These statutory changes may be found in §§ 4002.163 and 4007.001, Tex. Gov’t Code, (formerly §§ 2.J and 3 of the Act).

The Sunset Advisory Commission report to the 86th Legislature recommended the new reporting requirement to “ensure the agency continues to use its appropriated resources in a responsible manner that supports prosecution of securities crimes while being mindful of its other statutory responsibilities.”<sup>16</sup>

The agency is required to provide information for the Attorney General to review, at least biennially, the agency’s assistance to state prosecutorial offices. The agency has elected to provide this information on an annual basis. This year’s report is designed to continue the agency’s fulsome reporting efforts.

The spreadsheet to follow reflects the universe of cases resolved, or newly initiated during fiscal 2023 for all matters in which the agency is providing assistance. We have included our assistance in state and federal prosecutions to complete the case roster.

For prosecutorial assistance provided in new criminal matters initiated or commenced after August 31, 2019, assistance provided by the agency’s law enforcement program was done in conformity with § 4007.001, Tex. Gov’t Code (formerly § 3 of the Act). Agency assistance in prosecutions during the most recently concluded fiscal year was done in a manner to ensure the agency had requisite resources to initiate or continue assistance in the criminal matter with respect to staffing levels and other resource needs.

The law enforcement program has implemented a process to make resource assessments at the time a decision to provide prosecutorial assistance is made and documents this determination as

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<sup>15</sup> See Sunset Staff Report – October 2000, page 44, and generally, Sunset Report with Commission Decisions – January 2019, [https://www.ssb.texas.gov/sites/default/files/State%20Securities%20Board%20Staff%20Report%20with%20Commission%20Decisions\\_1-17-19.pdf](https://www.ssb.texas.gov/sites/default/files/State%20Securities%20Board%20Staff%20Report%20with%20Commission%20Decisions_1-17-19.pdf).

<sup>16</sup> See Sunset Report with Commission Decisions – January 2019, at page 13.

well as any change in circumstances dictating a reconsideration of the original resource assessment.

A general overview of the law enforcement program’s effective use of appropriated funds in pursuit of its execution of administrative, civil, and criminal redress for Texas victims can be found at - <https://www.ssb.texas.gov/news-publications/news-releases>, <https://www.ssb.texas.gov/news-publications/enforcement-actions-administrative>, and <https://www.ssb.texas.gov/news-publications/enforcement-actions-criminal-civil>.

The agencies application of resources in its law enforcement program is also determined by the General Appropriations Act allocations of funds across agency strategies and programs in furtherance of its performance goals of protecting Texas investors and ensuring access to capital for legitimate Texas businesses.

The law enforcement program’s good work has been a major contributor to Texas being considered a preeminent state securities regulator by our state and federal counterparts.

## **XI. Coda**

In closing, it would appear a great many have taken to heart Davy Crockett’s famous quote on his relocation to the Lone Star State. The regulated Texas population as well as continuing financial necessities of the Texas investing public, make clear the continued need for future securities regulation.

The growth in the economy and the ever changing, myriad investment opportunities offered to the public as well as the complexities associated with identifying and holding accountable the purveyors of rogue “opportunities” dictate that the agency remain adaptable and proactive in its fair and measured regulatory approach.

The continued success of the Texas State Securities Board as the leading state securities regulator will be largely predicated on its ability to effectively address its primary challenges – the adequacy of agency resources and the ability to attract and retain high quality, professional public servants in the financial services sector.

The State Securities Board appreciates the time, consideration, and service of state leadership during these exciting times as Texas continues to provide an exemplar to our securities regulatory counterparts.

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Addenda to Addenda Follows – Sections 4002.163 & 4007.001, Tex. Gov’t Code (formerly Sections 2.J & 3 of the Act) – *Agency Case Roster of Criminal Matters Assisted – Fiscal 2023*.

Addenda to Addenda Follows – Sections 4002.163 & 4007.001, Tex. Gov’t Code (formerly Sections 2.J & 3 of the Act) –  
*Agency Case Roster of Criminal Matters Assisted – Fiscal 2023*

DEFENDANT	INDICTMENT DATE(S)	CONVICTION DATE	DOLLAR AMOUNT PROSECUTED	COUNTY	NUMBER OF SP APPOINTED	NUMBER OF FE ASSISTING	NUMBER OF ATTORNEYS ASSISTING	PENALTY/NOTES
Anthony Gary Garza	12/10/20	10/17/22	*Already counted under Mark Andrew Simon	Nueces	1	0	2	Cause Number 20FC-5322H in the 347th District Court of Nueces County pled guilty and convicted on 1 aggregated count of Theft including 75 transactions and 1 count of Engaging in Organized Criminal Activity. Sentence to serve 10 years TDCJ confinement for each count which will run concurrently. Note: Original transaction count entered for IND was incorrect. I entered 75 by mistake instead of 76.
Adriana Pastor	4/7/2021	11/21/22	Already Reported. See Juan Enrique Kramer.	FED/SAN ANTONIO	0	0	2	Cause Number SA521CR00154FB(2) in the United States District Court Western District of Texas, San Antonio Division on pled guilty and convicted on 1 count of Aiding and Assisting in filing a False Tax Return. Sentenced to serve 18 months incarceration in the Federal Bureau of Prisons and 3 years of supervised release. Also ordered to pay \$727,936.42 jointly and severally with co-defendant Juan Kramer to the IRS. Note: All other counts dismissed.
Juan Enrique Kramer	4/7/2021	11/21/22	\$1,095,000.00	FED/SAN ANTONIO	0	0	2	Cause Number SA21CR0154FB(1) in the United States District Court Western District of Texas, San Antonio Division on pled guilty and convicted to 1 aggregated count of conspiracy to commit wire fraud 1 aggregated count of failure to file individual tax return. Sentenced to serve 36 months incarceration in the Federal Bureau of Prisons on the conspiracy to commit wire fraud count along with 3 years supervised release and 12 months incarceration in the Federal Bureau of Prisons on the failure to file individual tax return along with 1 year supervised release. These terms will run concurrently. Ordered to pay \$1,739,034.42 in restitution with \$727,936.42 of that amount being paid jointly and severally with co-defendant Adriana Pastor to the IRS. Note: All other counts dismissed.
Christopher John Pettit	12/7/2022	TBD	N/A	FBI/San Antonio	0	0	1	Cause Number: SA:22-CR-00653-OLG in the United States District Court, Western District of Texas, San Antonio Division on 5 counts of Wire Fraud and 3 counts of Engaging in Monetary Transactions in Property Derived from Specified Unlawful Activity. Note: Criminal Referral was not done to the U.S. Attorney's Office as this investigation was worked jointly with the FBI's white-collar crime Division in San Antonio, Texas. Update: Christopher John Pettit pleaded guilty to 3 counts of Wire Fraud and 3 counts of Money Laundering. He is currently scheduled to be sentenced on 1/11/2024.
Karina Hernandez	04/07/21	12/14/2022	Already Reported. See Juan Enrique Kramer.	FBI/San Antonio	0	0	2	Cause Number 5:21-CR-00154-FB in the United States District court, Western District of Texas, San Antonio Division pled guilty and convicted on 1 aggregated count of wire fraud including 4 transactions and was sentenced to serve 27 months incarceration in the Federal Bureau of Prisons and 3 years of supervised release which will run concurrently with the term imposed in case 5:21-cr-00533. Also ordered to pay \$32,944.78 in restitution. All other charges.
Karina Hernandez	12/01/21	12/14/2022	Already Reported. See Juan Enrique Kramer.	FBI/San Antonio	0	0	2	Cause Number 5:21-CR-00533-FB in the United States District court, Western District of Texas, San Antonio Division pled guilty and convicted on 1 aggregated count of Encouraging and Inducing Illegal Immigration for the Purpose of Private Financial Gain including 4 transactions. and was sentenced to serve 27 months incarceration in the Federal Bureau of Prisons and 3 years of supervised release which will run concurrently with the term imposed in case 5:21-cr-00154. Also ordered to pay \$145,833.27 in restitution.

Addenda to Addenda Follows – Sections 4002.163 & 4007.001, Tex. Gov’t Code (formerly Sections 2.J & 3 of the Act) –  
*Agency Case Roster of Criminal Matters Assisted – Fiscal 2023*

Ataa Shadi	05/22/23	TBD	N/A	FT BEND	2	1	0	Cause Numbers 23-DCR-103683 through 23-DCR-103685 in the 434th District Court of Ft. Bend County on 1 aggregated count of Money Laundering including 2 transactions, 1 aggregated count of Theft including 72 transactions, and 1 aggregated count of Securities Fraud including 72 transactions. NOTE: Indictments are sealed at this time and are not public information.
Zain Kahn	05/22/23	TBD	N/A	FT BEND	2	1	0	Cause Numbers 23-DCR-103679 through 23-DCR-103680 in the 458th District Court of Ft. Bend County on 1 count of False Statement; 1 aggregated count of Theft including 80 transactions, 1 aggregated count of Money Laundering including 3 transactions, and 1 aggregated count of Securities Fraud including 80 transactions.
Jesus Nelson Christian aka Nelson Christian	12/1/2021	05/15/23	*Already counted under Mark Andrew Simon	NUECES	1	0	2	Cause Number 20FC-5320H in the 347th District Court of Nueces pled guilty and convicted County on 1 aggregated count of Theft including 160 transactions. Sentenced to serve 18 years TDCJ confinement. Note: all other charges were dismissed.
Marco Aparicio	12/15/21	05/23/23	\$9,800.00	BEXAR	0	0	1	Cause Number 2021-CR11501 in the 227th District Court of Bexar County pled guilty on 1 aggregated count of Securities Fraud including 3 transactions and sentenced to serve 2 years deferred adjudication and pay \$93,000.00 in restitution of which \$78,600. was paid at time of sentencing. The remaining amount of 14,400.00 was paid shortly after sentencing. Therefore, full restitution has been paid back to the investor as \$5,000.00 had already been paid back prior to sentencing. Note: all other charges were dismissed.
Steven Lamonte Holland	05/23/23	TBD	N/A	DALLAS	0	1	1	*REPORTED LATE*ACTUAL DATE* 05/23/2023* Cause Number F23-00354 in the 265th District Court of Dallas County on 1 aggregated count of theft including 3 transactions.
Natin Paul	06/06/23	TBD	N/A	FED/AUS	0	1	0	Cause Number 1:23_CR-100-DAE in the United States District Court, Western District of Texas on 1 aggregated count of False Statements to Lenders including 8 transactions. Update: On 11/07/23 Cause Number a-23-CR-100 for Superseding Indictments in the United States District Court, Western District of Texas on 1 aggregated count of Conspiracy to Commit Wire Fraud including 1 transaction, 1 aggregated count of Wire Fraud including 3 transactions, and 1 aggregated count of False Statements to Lenders including 8 transactions.

Addenda to Addenda Follows – Sections 4002.163 & 4007.001, Tex. Gov’t Code (formerly Sections 2.J & 3 of the Act) –  
*Agency Case Roster of Criminal Matters Assisted – Fiscal 2023*

Jose Eliud Cavazos	01/10/23	TBD	N/A	HILALGO	1	1	1	REPORTED LATE. ACTUAL DATE 01/10/2023. Cause Numbers CR-0025-23-E through CR-0028-23-E in the 464th District Court of Hidalgo County on 1 aggregated count of Theft including 157 transactions, 1 aggregated count of Money Laundering including 2 transactions, 1 aggregated count of Missapplication of Fiduciary Property including 157 transactions, and 1 aggregated count of Securities Fraud including 157 transactions.
David Phillip Munoz	06/29/23	TBD	N/A	COLLIN	2	1	1	Cause Number 199-83694-2023 on 1 aggregated count of Securities Fraud including 14 transactions.
Lorenzo Dave Aytes	06/29/23	TBD	N/A	COLLIN	2	1	1	Cause Numbers 199-83691-2023, 199-83692-2023, & 199-83693-2023 on 1 aggregated count of Theft including 31 transactions, 1 aggregated count of Money Laundering including 2 transactions, and 1 aggregated count of Securities Fraud including 31 transactions. Case associated with Munoz proceeded indicted on same date.
Clifford McCrary	10/14/20	06/13/23	\$72,000.00	DALLAS	0	1	2	Cause No. F2000469-S in the 282nd District Court of Dallas County pled guilty and convicted 1 aggregated count of Securities Fraud including 4 and Sentenced to serve 10 years TDCJ confinement for each count, however, the sentence of confinement was suspended, the defendant was placed on community supervision for ten years. Ordered to pay \$72, 000.00 in restitution. Note: all other charges were dismissed.