

Texas State Securities Board



ANNUAL FINANCIAL REPORT TO THE GOVERNOR

For The
FISCAL YEAR
SEPTEMBER 1, 2017 – AUGUST 31, 2018

Texas State Securities Board

ANNUAL FINANCIAL REPORT

For the Year Ended August 31, 2018

TRAVIS J. ILES
SECURITIES COMMISSIONER



CLINTON EDGAR
DEPUTY SECURITIES COMMISSIONER

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Texas State Securities Board

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BETH ANN BLACKWOOD
CHAIR

E. WALLY KINNEY
MEMBER

DAVID A. APPELBY
MEMBER

ALAN WALDROP
MEMBER

MIGUEL ROMANO, JR.
MEMBER

October 15, 2018

Honorable Greg Abbott, Governor
Honorable Glenn Hegar, Texas Comptroller
Ursula Parks, Director, Legislative Budget Board
Lisa Collier, First Assistant 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, 2018, 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) Statement No. 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 *Comprehensive Annual Financial Report (CAFR)*; 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.

Sincerely,

A handwritten signature in black ink, appearing to read "T. J. Iles", written over a faint circular stamp.

Travis J. Iles
Securities Commissioner

Enclosure
TI/dl

Texas State Securities Board

ANNUAL FINANCIAL REPORT

For the Year Ended August 31, 2018

MEMBERS OF THE BOARD

August 31, 2018

Beth Ann Blackwood, Chair.....Dallas
E. Wally Kinney, Member.....Dripping Springs
David A. Appleby, Member.....El Paso
Alan Waldrop, Member.....Austin
Miguel Romano, Jr., Member.....Austin

STATE SECURITIES BOARD

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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, 2018

General
Funds**ASSETS**

Current Assets:	
Cash and Cash Equivalents:	
Legislative Appropriations	766,218.63
Consumable Inventories	<u>28,499.30</u>
Total Current Assets	<u>794,717.93</u>
Non-Current Assets:	
Capital Assets Note 2:	
Depreciable:	
Furniture and Equipment	
Less Accumulated Depreciation	
Amortizable:	
Computer Software-Intangible	
Less Accumulated Amortization	
Total Non-Current Assets	<u>0.00</u>
Total Assets	<u>794,717.93</u>

LIABILITIES AND FUND BALANCES

Liabilities:	
Current Liabilities:	
Payables From:	
Accounts	151,005.00
Payroll	584,135.33
Due to Other Agencies	<u>0.00</u>
Employees Compensable Leave (Note 5)	
Total Current Liabilities	<u>735,140.33</u>
Non-Current Liabilities:	
Employees Compensable Leave (Note 5)	
Total Non-Current Liabilities	<u>0.00</u>
Total Liabilities	<u>735,140.33</u>

FUND FINANCIAL STATEMENT

Fund Balances (Deficits)	
Nonspendable	28,499.30
Assigned	0.00
Unassigned	283,835.97
Other Changes	<u>(252,757.67)</u>
Total Fund Balances	<u>59,577.60</u>
Total Liabilities and Fund Balances	<u>794,717.93</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, 2018

<u>Capital Assets Adjustments</u>	<u>Long-Term Liabilities Adjustments</u>	<u>Other Adjustments</u>	<u>Statement Of Net Assets</u>
			766,218.63
			<u>28,499.30</u>
			<u>794,717.93</u>
108,027.76			108,027.76
(86,131.31)			(86,131.31)
9,073.80			9,073.80
<u>(9,073.80)</u>			<u>(9,073.80)</u>
<u>21,896.45</u>			<u>21,896.45</u>
<u>21,896.45</u>			<u>816,614.38</u>
			151,005.00
			584,135.33
			0.00
	<u>415,327.40</u>		<u>415,327.40</u>
	<u>415,327.40</u>		<u>1,150,467.73</u>
	<u>299,260.39</u>		<u>299,260.39</u>
	<u>299,260.39</u>		<u>299,260.39</u>
	<u>714,587.79</u>		<u>1,449,728.12</u>
			28,499.30
			0.00
			283,835.97
			<u>(252,757.67)</u>
			<u>59,577.60</u>
21,896.45			21,896.45
	(714,587.79)		(714,587.79)
			<u>(633,113.74)</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, 2018

	General <u>Funds</u>
REVENUES	
Legislative Appropriations:	
Original Appropriations (GR)	7,014,450.00
Additional Appropriations	1,577,994.61
Licenses, Fees and Permits	0.00
Sales of Goods and Services	185.37
Other (GR)	0.00
Total Revenues	<u>8,592,629.98</u>
EXPENDITURES	
Salaries and Wages	5,716,261.97
Payroll Related Costs	1,655,753.35
Professional Fees and Services	96,511.69
Travel	126,577.93
Materials and Supplies	163,059.04
Communication and Utilities	187,040.37
Repairs and Maintenance	21,532.31
Rentals and Leases	206,281.91
Printing and Reproduction	2,819.17
Claims and Judgements	0.00
Other Expenditures	53,568.44
Capital Outlay	0.00
Depreciation Expense	0.00
Total Expenditures/Expenses	<u>8,229,406.18</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>363,223.80</u>
OTHER FINANCING SOURCES (USES)	
Gain (Loss) on Sale of Capital Assets	
Total Other Financing Sources (uses)	
Net Change in Fund Balances/Net Position	<u>363,223.80</u>
FUND FINANCIAL STATEMENT-FUND BALANCES	
Fund Balances, September 1, 2017	312,335.27
Appropriations Lapsed	<u>(615,981.47)</u>
Fund Balances, August 31, 2018	<u>59,577.60</u>
GOVERNMENT-WIDE STATEMENT-NET POSITION	
Net Position/Net Change in Net Position	
Net Position, September 1, 2017	
Net Position, August 31, 2018	<u>59,577.60</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, 2018

<u>Capital Assets Adjustments</u>	<u>Long-Term Liabilities Adjustments</u>	<u>Statement Of Activities</u>
		7,014,450.00
		1,577,994.61
		0.00
		185.37
		<u>0.00</u>
<u>0.00</u>	<u>0.00</u>	<u>8,592,629.98</u>
	1,935.14	5,718,197.11
		1,655,753.35
		96,511.69
		126,577.93
		163,059.04
		187,040.37
		21,532.31
		206,281.91
		2,819.17
		0.00
		53,568.44
		0.00
<u>8,116.80</u>		<u>8,116.80</u>
<u>8,116.80</u>	<u>1,935.14</u>	<u>8,239,458.12</u>
<u>(8,116.80)</u>	<u>(1,935.14)</u>	<u>353,171.86</u>
<u>0.00</u>		<u>0.00</u>
<u>0.00</u>		<u>0.00</u>
		<u>363,223.80</u>
		312,335.27
		<u>(615,981.47)</u>
		<u>59,577.60</u>
<u>(8,116.80)</u>	<u>(1,935.14)</u>	<u>(10,051.94)</u>
<u>30,013.25</u>	<u>(712,652.65)</u>	<u>(682,639.40)</u>
<u>21,896.45</u>	<u>(714,587.79)</u>	<u>(633,113.74)</u>

STATE SECURITIES BOARD (312)
Exhibit VI – Combined Statement of Fiduciary Net Assets
Fiduciary Funds
 August 31, 2018

	Agency Funds (Ex J-1)
ASSETS	
Cash in State Treasury	0.00
Total Assets	<u>0.00</u>
LIABILITIES	
Funds Held for Others	0.00
Total Liabilities	<u>0.00</u>
NET ASSETS	
Total Net Assets	<u><u>0.00</u></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 55th 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 TYPESGeneral 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 unmature 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**Consumable Inventories

Consumable inventories include supplies and postage on hand at year end. The consumption method of accounting is used to account for inventories and prepaid items that appear in the governmental fund types. The cost of these items is expensed when the items are consumed.

Capital Assets

Assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of 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.

LIABILITIESAccounts 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, 2018:
Governmental Activities

Depreciable/Amortizable Asset Type	Balance 9/1/17	Adjustments	Additions	Deletions	Balance 8/31/18
Furniture and Equipment	\$108,027.76	-	-	-	\$108,027.76
Less Accumulated Depreciation	(\$78,014.51)	-	(\$8,116.80)	-	(\$86,131.31)
Computer Software	\$15,073.80	-	-	(\$6,000.00)	\$9,073.80
Less Accumulated Amortization	(\$15,073.80)	-	-	\$6,000.00	(\$9,073.80)
Governmental Activities, Capital Assets	<u>\$30,013.25</u>	=	<u>(\$8,116.80)</u>	=	<u>\$21,896.45</u>

NOTE 3: DEPOSITS, INVESTMENTS, AND REPURCHASE AGREEMENTS

(Not applicable to this Agency.)

NOTE 4: SHORT-TERM DEBT

(Not applicable to this Agency.)

STATE SECURITIES BOARD (312)

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, 2018, 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>8-31-17</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>8-31-18</u>	<u>Due Within</u> <u>One Year</u>	<u>Due</u> <u>Thereafter</u>
Compensable Leave:	\$712,652.65	\$629,594.05	(\$627,658.91)	\$714,587.79	\$415,327.40	\$299,260.39

NOTE 6: BONDED INDEBTEDNESS

(Not applicable to this Agency.)

NOTE 7: DERIVATIVE INSTRUMENTS

(Not applicable to this Agency.)

STATE SECURITIES BOARD (312)

NOTE 8: LEASES

OPERATING LEASES

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	\$146,125.37

Future minimum lease rental payments under non-cancelable operating leases having an initial term in excess of one year are as follows:

Year Ended	August 31, 2019	134,594.64
Year Ended	August 31, 2020	130,614.84
Year Ended	August 31, 2021	99,681.84
Year Ended	August 31, 2022	99,681.84
Year Ended	August 31, 2023	92,060.18
5 Year Increment	September 1, 2023 to August 31, 2028	121,391.73
Total Minimum Future Lease Rental Payments:		<u>\$678,025.07</u>

- The Agency has multiple lease obligations. As of August 31, 2018, the Agency's longest lease obligation is set to expire on November 30, 2025.

CAPITAL LEASES

The Agency has no current long-term capital leases.

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.

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.

STATE SECURITIES BOARD (312)

NOTE 11: POSTEMPLOYMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

(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, 2018:

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, 2019 unless continued in existence as provided by the Act. If abolished, the Agency may continue until September 1, 2020 to close out its operations.

NOTE 14: ADJUSTMENTS TO FUND BALANCES AND NET POSITION

(Not applicable to this Agency.)

NOTE 15: CONTINGENCIES AND COMMITMENTS

(Not applicable to this Agency.)

STATE SECURITIES BOARD (312)**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 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.)

NOTE 23: EXTRAORDINARY AND SPECIAL ITEMS

This Agency has no special or extraordinary items to report.

STATE SECURITIES BOARD (312)

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, 2018

	<u>Beginning Balance</u> <u>September 1, 2017</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u> <u>August 31, 2018</u>
UNAPPROPRIATED RECEIPTS				
<u>Child Support Deduction (0807)</u>				
<u>U/F (0807)</u>				
ASSETS				
Cash in Treasury	\$860.00	\$1,999.10	\$2,859.10	\$0.00
Total Assets	<u>\$860.00</u>	<u>\$1,999.10</u>	<u>\$2,859.10</u>	<u>\$0.00</u>
LIABILITIES				
Funds Held for Others	\$860.00	\$1,999.10	\$2,859.10	\$0.00
Total Liabilities	<u>\$860.00</u>	<u>\$1,999.10</u>	<u>\$2,859.10</u>	<u>\$0.00</u>
 TOTALS – ALL AGENCY FUNDS				
ASSETS				
Cash in State Treasury	\$860.00	\$1,999.10	\$2,859.10	\$0.00
Total Assets	<u>\$860.00</u>	<u>\$1,999.10</u>	<u>\$2,859.10</u>	<u>\$0.00</u>
LIABILITIES				
Funds Held for Others	\$860.00	\$1,999.10	\$2,859.10	\$0.00
Total Liabilities	<u>\$860.00</u>	<u>\$1,999.10</u>	<u>\$2,859.10</u>	<u>\$0.00</u>

IV. ADDENDA

STATE SECURITIES BOARD (312)**ADDENDA****Administration of the Securities Act**

The State Securities Board was created pursuant to requirements in the Texas Securities Act. The agency is overseen by a governing board comprised of five members who are appointed by the Governor, 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 and that unreasonable burdens on legitimate capital formation are avoided. The Board appoints a Securities Commissioner who serves at the pleasure of the Board and is charged with the administration of the provisions of the Act and management of the day-to-day operations of the agency. Travis J. Iles was appointed to the position of Securities Commissioner in 2017.

The members of the Board who were serving at August 31, 2018 are listed here:

<u>Board Member</u>	<u>Address</u>	<u>Term Expires</u>
Beth Ann Blackwood, Chair	Dallas	January, 2019
E. Wally Kinney, Member	Dripping Springs	January, 2019
David A. Appleby, Member	El Paso	January, 2017
Alan Waldrop, Member	Austin	January, 2017
Miguel Romano, Jr., Member	Austin	January, 2021

The Act provides for the registration of securities, registration of firms and individuals who sell securities or render investment advice, examination of registered firms, and enforcement of the Act through administrative, civil, and criminal actions.

The mission of the State Securities Board is to protect Texas investors. Consistent with that mission, the agency seeks to encourage capital formation, job formation, free and competitive securities markets, and minimize burdens on issuers and persons subject to the Act, especially small businesses. A healthy and productive capital market requires the State Securities Board to maintain a

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carefully balanced approach to regulation. A harsh and unyielding regulatory system limits incentives for businesses to raise capital in Texas. An overly lenient regulatory system fosters an environment in which unscrupulous promoters can damage investor confidence and inhibit investments in the state.

The agency's primary strategies of Enforcement, Securities Registration, Dealer Registration, and Inspections reflect a deliberate attempt to retain a flat management structure with compact strategies that are interdependent – working closely with each other to share information and coordinate actions to effectively achieve the agency's mission. The agency's approach to regulation also implements operational efficiencies whenever possible, such as through improvements in technology, to manage an increasing workload.

The main office of the State Securities Board is located at 208 E. 10th Street in Austin. The agency also maintains offices in Corpus Christi, Dallas, Houston, and Lubbock, and a field presence in San Antonio to facilitate the agency's law enforcement and inspections functions and provide services to issuers, registrants, and to the public in each geographic region of the state.

Enforcement

Since its inception, the State Securities Board has placed a strong emphasis on proactive efforts to detect and prevent violations of the Act, including fraud committed in connection with the sale of securities, illegal sales of unregistered securities, and sales of securities by unregistered dealers. The agency also aggressively pursues administrative, civil, or criminal action against firms or individuals who have violated provisions of the Act where appropriate. In assessing the need for enforcement action, consideration is given to the nature of the offense, extent and persistence of the conduct, harm to the public, cooperation in resolving the matter, efforts to mitigate harm, history of previous violations, the need to deter similar conduct and other factors.

The agency allocates significant resources to the criminal prosecution of individuals who engage in fraud in connection with the sale of securities. Criminal referrals are made to district attorneys and United States attorneys in Texas, and agency attorneys are frequently appointed as special prosecutors to assist in drafting indictments, presenting cases to grand juries, and conducting felony trials for securities fraud and related offenses. Agency financial examiners and accountants routinely perform source and use analyses of voluminous and complex financial records and testify as fact, expert, and summary witnesses in these prosecutions. But for the work of the enforcement program, many perpetrators of financial fraud would never be brought to justice.

STATE SECURITIES BOARD (312)**Registration**

The agency's 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, that the issuer and investor share in the results of the venture, that prices being asked for the securities are reasonable, conflicts of interest are minimized, and that 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). In addition to establishing uniform review standards, coordinated review expedites the registration process, saving the issuer time and money. The agency processes a much larger volume of filings to permit securities to be sold in the state where registration is not required under the law.

The agency also reviews and processes the applications for registration and renewal of registration for firms and individuals selling securities or offering 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. In order for the agency to maintain proper oversight, each registrant is required to timely amend its registration information when an event occurs that causes an answer to a question on the application to be incorrect. The agency participates in the Central Registration Depository system and Investment Adviser Registration Depository system. 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 for registration of their agents and investment adviser representatives in all desired states via a single form filed at a central location.

Inspections

The agency's financial examiners conduct periodic compliance examinations of the activities and books and records of registered firms. The primary focus of this work is on the approximate 1400 state-registered investment advisers (those having up to \$100 million in investor assets under management), who have main offices in Texas as well as securities dealers who are not members of FINRA. These firms are not subject to oversight by any other regulatory authority. During the current biennium, the agency will seek to examine approximately 18% of these firms.

STATE SECURITIES BOARD (312)**Statistical Information**
Fiscal Year 2018

Enforcement	402 law enforcement investigations opened 90% of law enforcement actions successful
Registration	63,336 securities registration and notice filings reviewed 469,523 securities dealer, agent, investment adviser, and investment adviser representative registration and notice filings reviewed
Inspections	312 registered securities dealers and investment advisers examined
Deposits made to General Revenue Fund	\$156,924,600.77
Expenditures	\$8,229,406.18

Plans and Needs for Future Securities Regulation

Texas is an exceptionally large and growing 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, driven by the growth of the Texas economy and population generally as well as a trend of increasing numbers of firms and individuals seeking registration to address the dependence by the public on the securities markets to help meet personal financial goals, including retirement.

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

As members of the public have increased their direct participation in, and dependence on, the securities markets to fund financial goals, there has been a corresponding increase in the amount of investment-related information presented to investors in public forums such as social media, radio, television, and the Internet. These trends will require the agency to continue to commit substantial resources to proactively detecting and stopping fraudulent investment schemes. The trends also highlight the necessity for proactive efforts in investor education to ensure that Texans are well-equipped to make informed investment decisions and avoid fraud.

Because much of the evidence of modern fraudulent investment schemes resides on computers and other electronic storage devices and is often

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voluminous, the agency must continue to maintain up-to-date equipment, software, and investigation methodologies and to coordinate with other law enforcement and regulatory authorities to effectively obtain, analyze, and preserve this information.

The work of the State Securities Board requires a professional staff that is knowledgeable and adequately trained to make prompt and accurate decisions regarding complex fraudulent schemes, illegal sales practices, compliance with regulatory requirements, and plans of business for firms and individuals dealing in securities and rendering investment advice to the public. The agency invests significant time and resources training professionals to perform the legal and financial analysis work necessary in enforcement, inspections, and registration. Ensuring that these employees are able to efficiently perform this work benefits not only the agency, the State, and taxpayers – but the applicants, registrants, and firms that are inspected by the agency as well. Although the agency is authorized for 97 employees, in recent years an inadequate salary structure has prevented it from doing an effective job of retaining experienced front-line professionals for its inspections, enforcement, and registration strategies. As a result, staffing levels have been negatively impacted.

The continued growth in the industry has fostered a favorable job market for compliance professionals with experience in securities regulation. Such regulation in the United States is comprised of federal, state, and self-regulatory entities employing legal, analytical, inspection, and investigation professionals. This regulatory structure lends itself to movement of staff between the regulators and into the private sector based on compensation packages. The agency has had unacceptable levels of turnover in its professional staff as it has lost qualified, experienced attorneys and financial examiners to other regulators and private industry based on its inadequate salary levels. This is directly attributable to an appropriations process that has failed to provide sufficient funds to permit the agency to provide competitive salaries and effectively use the existing state salary structure to create a career ladder for front-line attorneys and financial examiners based on years of experience, advanced training, and higher levels of competence, responsibility, and expertise. Responsible management of the agency requires that this issue be addressed.

The agency will be challenged in the next five years as approximately twenty percent of its workforce becomes eligible for retirement. The agency's current succession planning focuses on cross-training of employees to help ensure an appropriate redundancy of experience and skills. However the success of this effort will depend in part on the ability of the agency to retain younger experienced professionals so they can develop the institutional knowledge to move into leadership positions.

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The securities industry is technologically advanced and dynamic. Training programs designed to achieve necessary knowledge by the staff to effectively perform the work of the State Securities Board remain a high priority. The agency will continue to coordinate the use of its resources with those of other regulators to achieve cost savings, leverage resources, and realize other efficiencies whenever possible. With the emergence of new securitized cryptocurrency markets and the implementation of vulnerable victim legislation, the agency's need to maximize technology and training opportunities will continue to be of vital importance.

The State Securities Board's key functions continue to be necessary for the long-term health and viability of the capital markets in Texas. Each agency program is an inter-related and key component of a regulatory structure that protects investors and facilitates the transparency, efficiency, and integrity of the capital markets in Texas, thereby maintaining investor confidence and promoting capital formation in the state.