

# **Oklahoma Capital Investment Board**

## *Financial Statements*

June 30, 2016 and 2015  
(With Independent Auditors' Report Thereon)



**OKLAHOMA CAPITAL INVESTMENT BOARD**

**FINANCIAL STATEMENTS**

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## **INDEPENDENT AUDITORS' REPORT**

Board of Trustees  
Oklahoma Capital Investment Board

### **Report on the Financial Statements**

We have audited the accompanying statements of net position of the Oklahoma Capital Investment Board (OCIB), which is a component unit of the State of Oklahoma financial reporting entity, as of June 30, 2016 and 2015, and the related statements of changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise OCIB's basic financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

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

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

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

(Continued)

## **INDEPENDENT AUDITORS' REPORT, CONTINUED**

### **Opinion**

In our opinion, based on our audits, the financial statements referred to above present fairly, in all material respects, the net position of OCIB as of June 30, 2016 and 2015, and the changes in net position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States.

### **Emphasis of Matters**

#### *Adoption of New Accounting Pronouncement*

Effective July 1, 2015, OCIB was required to implement the provisions of Statement No. 72 of the Governmental Accounting Standards Board (GASB 72). As more fully described in Note 2, the adoption of GASB 72 required the restatement of the 2015 financial statements to reflect the investment interests at fair value. Our opinion is not modified with respect to this matter.

#### *Investment Interests at Fair Value*

As discussed in Notes 1 and 5, the investment interests included in the financial statements are reported at fair value. As the fair values of the investment interests are not readily determinable, estimates have been used to determine the fair value. There exists an inherent uncertainty that the estimated values may differ significantly from the values that would have been used had a market for the investment interests existed, and the differences could be material. Our opinion is not modified with respect to this matter.

### **Other Matter**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages I-1 through I-4 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

(Continued)

**INDEPENDENT AUDITORS' REPORT, CONTINUED**

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 7, 2016, on our consideration of OCIB's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering OCIB's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Finley & Cook, PLLC". The signature is written in a cursive style with a large, looping initial 'F'.

Shawnee, Oklahoma  
September 7, 2016

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Oklahoma Capital Investment Board (OCIB), our discussion and analysis of its financial performance provides an overview of OCIB's activities for the fiscal years ended June 30, 2016 and 2015. Please read it in conjunction with OCIB's financial statements which begin on page 4. The financial statements of OCIB include the operations of the Oklahoma Capital Formation Company, LLC (OCFC). As noted elsewhere, the financial information for 2015 has been restated for the required adoption of GASB 72, requiring investment interests to be reflected at fair value.

### **FINANCIAL HIGHLIGHTS**

- In FY-2016, OCIB (OCFC) made \$249,000 in aggregate contributions to its Venture Investment Program to fund commitments;
- In FY-2016, OCIB (OCFC) received \$504,324 in distributions from its Venture Investment Program (proceeds were applied to the OCFC line of credit); and
- In FY-2016, the funds supported by the OCIB Venture Investment Program provided more than \$5.8 million of equity funding for Oklahoma companies.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual financial report consists of two parts: Management's Discussion and Analysis (this section) and the basic financial statements. OCIB is a public trust of the State of Oklahoma and follows enterprise fund reporting; accordingly, the financial statements are presented using the economic measurement focus and the accrual basis of accounting. Enterprise fund statements offer short-term and long-term financial information about the activities and operations of OCIB. These statements are presented in a manner similar to those of a private business.

### **LEGISLATIVE AMENDMENT—SENATE BILL NO. 1159**

During the FY-2012 legislative session, Senate Bill No. 1159 (SB 1159) was signed into law. The language within SB 1159 affects OCIB in the following areas:

- SB 1159 extended OCIB's tax credit authorization from June 30, 2015, to June 30, 2020;
- SB 1159 provides an unlimited tax credit carryover period for OCIB's tax credit consortium members; and
- SB 1159 ended OCIB's ability to enroll new or extend existing loans within the Oklahoma Capital Access Program (OCAP).

## MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

### FINANCIAL ANALYSIS OF OCIB

#### *Net Position*

The following table summarizes the net position at June 30:

	<u>2016</u>	<u>2015</u>
Current assets	\$ 20,008,997	20,011,316
Noncurrent assets	<u>61,658,457</u>	<u>61,216,575</u>
Total assets	<u>81,667,454</u>	<u>81,227,891</u>
Liabilities	<u>15,710,811</u>	<u>15,146,226</u>
Net position	<u>\$ 65,956,643</u>	<u>66,081,665</u>

Assets at both June 30, 2016 and 2015, principally consisted of \$69,085,000 of tax credits, of which \$20,000,000, was current and \$49,085,000 was noncurrent at both June 30, 2016 and 2015. Assets also included investment interests of \$12,573,457 and \$12,131,575 as of June 30, 2016 and 2015, respectively.

#### *Operating Activities*

The operations of OCIB are dependent upon the results of the investments made. During 2016 and 2015, no new investment interests were established. A summary of operating results for 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Operating expenses:		
Management fees	\$ (360,000)	(360,000)
Accounting, legal, and consultants	(51,806)	(63,784)
Other	<u>(5,517)</u>	<u>(2,480)</u>
Total operating expenses	<u>(417,323)</u>	<u>(426,264)</u>
Other expenses:		
Interest expense	(398,389)	(366,143)
Other	<u>(6,516)</u>	<u>(114,196)</u>
Total other expenses	<u>(404,905)</u>	<u>(480,339)</u>
Net changes in fair value of investment interests	<u>697,206</u>	<u>1,278,445</u>
Change in net position	<u>\$ (125,022)</u>	<u>371,842</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

### FINANCIAL ANALYSIS OF OCIB, CONTINUED

#### *Operating Activities, Continued*

Cash flows from investment interests for 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Cash payments for investment interests	\$ (249,000)	(367,705)
Cash distributions from investment interests	<u>504,324</u>	<u>1,132,108</u>
Net cash flows provided by investment interests	<u>\$ 255,324</u>	<u>764,403</u>

A significant part of the overall operations of OCIB is its transferable tax credits. At both June 30, 2016 and 2015, OCIB had \$69,085,000 of transferable tax credits recorded as assets in its financial statements; for both 2016 and 2015, \$20,000,000 of the tax credits were recognized as current and the remainder as noncurrent. During 2012, the expiration date of the tax credits was extended to June 30, 2020. No tax credits were sold in 2016 or 2015. OCIB has agreements with four corporations to purchase up to an aggregate of \$8,000,000 per year of tax credits in conjunction with a legitimate call on an OCIB guarantee. The agreements to purchase the tax credits have been assigned as collateral for the \$25,000,000 revolving line of credit which OCIB has guaranteed for OCFC as of June 30, 2016.

As more fully explained in the notes to the financial statements, OCIB has conducted a program entitled OCAP. Under OCAP, Oklahoma depository institutions pay a fee, or premium, to OCIB to enroll qualified loans in OCAP. OCIB, in return for the premium paid, establishes a reserve account equal to the amount of the fee plus an obligation by OCIB for a predetermined portion of the loan. Cash, up to the amount of the reserve account, may then be paid to the institution if the institution suffers a loss on a loan in the OCAP portfolio and submits a claim to OCIB. OCIB is not guaranteeing the entire loan portfolio, but only an amount in the established reserve account. In no event is OCIB's exposure more than the balance in the reserve account as defined in the OCAP agreement. As of June 30, 2016 and 2015, the maximum amount of exposure for OCIB was approximately \$612,000 and \$618,000, respectively. Total loans covered by the program were approximately \$34,172,000 at both June 30, 2016 and 2015.

As of June 30, 2016 and 2015, OCIB's commitment for unfunded investment interests was approximately \$3,735,000 and \$3,984,000, respectively. It is anticipated that at least \$2,000,000 of the outstanding commitments will not be drawn (see Note 5 to the financial statements).

## MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

### FINANCIAL ANALYSIS OF OCIB, CONTINUED

#### *Debt Payable*

To fund investment interests, OCIB had a \$25,000,000 line of credit with a local financial institution during 2015. The line of credit was renewed with a \$23,000,000 line of credit during August 2016. Activity of the debt for 2016 and 2015 was as follows:

	2016			
	<u>Beginning Balance</u>	<u>Advances</u>	<u>Repayments</u>	<u>Ending Balance</u>
Line of credit	<u>\$ 15,070,168</u>	<u>1,060,785</u>	<u>(509,927)</u>	<u>15,621,026</u>
	2015			
	<u>Beginning Balance</u>	<u>Advances</u>	<u>Repayments</u>	<u>Ending Balance</u>
Line of credit	<u>\$ 14,925,507</u>	<u>1,276,769</u>	<u>(1,132,108)</u>	<u>15,070,168</u>

As further discussed in the notes to the financial statements, the debt is secured by the specific assignment of agreements with four corporations to purchase tax credits from OCIB. The revolving line of credit is presently due August 26, 2017.

#### **REQUEST FOR INFORMATION**

This financial report is designed to provide a general overview of OCIB's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Oklahoma Capital Investment Board, 13905 Quail Pointe Drive, Suite A, Oklahoma City, Oklahoma 73134.

**OKLAHOMA CAPITAL INVESTMENT BOARD**

**STATEMENTS OF NET POSITION**

<i>June 30,</i>	<i>2016</i>	<i>2015</i> <i>(Restated)</i>
<b>Assets</b>		
Current assets:		
Cash	\$ 8,997	11,316
Transferable tax credits, current	<u>20,000,000</u>	<u>20,000,000</u>
Total current assets	<u>20,008,997</u>	<u>20,011,316</u>
Investment interests at fair value (Note 5):		
Acorn Growth Capital Fund III, L.L.C.	2,453,000	1,753,000
Blue Sage Capital, L.P.	640,089	1,369,972
Davis, Tuttle Venture Partners, L.P.	52,583	52,458
Mesa Oklahoma Growth Fund I, L.P.	286,824	315,330
Oklahoma Equity Partners, LLC	853,929	815,062
Oklahoma Life Sciences Fund II, L.L.C.	1,023,846	862,012
Oklahoma Seed Capital Fund, L.L.C.	1,125,010	1,043,586
Prolog Capital II, L.P.	1,685,204	1,145,772
SSM Venture Partners III, L.P.	1,812,975	2,000,850
Tullis-Dickerson Capital Focus III, L.P.	<u>2,639,997</u>	<u>2,773,533</u>
Total investment interests	<u>12,573,457</u>	<u>12,131,575</u>
Transferable tax credits, less current portion	<u>49,085,000</u>	<u>49,085,000</u>
Total assets	<u>\$ 81,667,454</u>	<u>81,227,891</u>

(Continued)

See Independent Auditors' Report.  
See accompanying notes to financial statements.

**OKLAHOMA CAPITAL INVESTMENT BOARD**

**STATEMENTS OF NET POSITION, CONTINUED**

<i>June 30,</i>	<i>2016</i>	<i>2015</i>
		<i>(Restated)</i>
<b>Liabilities and Net Position</b>		
Current liabilities:		
Accrued interest payable	\$ 85,785	76,058
Total current liabilities	<u>85,785</u>	<u>76,058</u>
Long-term debt payable	<u>15,625,026</u>	<u>15,070,168</u>
Total liabilities	<u>15,710,811</u>	<u>15,146,226</u>
Unrestricted net position	<u>65,956,643</u>	<u>66,081,665</u>
Total liabilities and net position	<u>\$ 81,667,454</u>	<u>81,227,891</u>

See Independent Auditors' Report.  
See accompanying notes to financial statements.

**OKLAHOMA CAPITAL INVESTMENT BOARD**

**STATEMENTS OF CHANGES IN NET POSITION**

<i>Years Ended June 30,</i>	<i>2016</i>	<i>2015</i> <i>(Restated)</i>
Operating (expenses) income:		
Management fees	\$ (360,000)	(360,000)
Accounting, legal, and consultants	(51,806)	(63,784)
Venture investing	(2,365)	(2,895)
Other	(3,152)	415
Total operating expenses	(417,323)	(426,264)
Other expenses:		
Interest expense	(398,389)	(366,143)
OCAP claims paid in excess of cumulative premiums collected	(6,516)	(113,148)
Other	-	(1,048)
Total other expenses	(404,905)	(480,339)
Operating loss before net financial earnings from investment interests—equity basis	(822,228)	(906,603)
Changes in fair value of investment interests, (Note 5):		
Acorn Growth Capital Fund III, L.L.C.	700,000	783,023
Blue Sage Capital, L.P.	(264,663)	429,888
Davis, Tuttle Venture Partners, L.P.	125	(360)
Emergent Technologies Oklahoma, L.P.	-	33,547
Intersouth Partners III, L.P.	-	(8,004)
Mesa Oklahoma Growth Fund I, L.P.	8,994	2,076
Oklahoma Equity Partners, LLC	38,867	29,915
Oklahoma Life Sciences Fund II, L.L.C.	(13,166)	(11,266)
Oklahoma Seed Capital Fund, L.L.C.	29,424	28,126
Prolog Capital II, L.P.	517,432	(356,858)
Rocky Mountain Mezzanine Fund II, L.P.	1,604	-
SSM Venture Partners III, L.P.	(187,875)	87,287
Tullis-Dickerson Capital Focus III, L.P.	(133,536)	261,071
Total changes in fair value of investment interests	697,206	1,278,445
Net (decrease) increase in net position	(125,022)	371,842
Net position, beginning of year	66,081,665	65,709,823
Net position, end of year	\$ 65,956,643	66,081,665

See Independent Auditors' Report.  
See accompanying notes to financial statements.

**OKLAHOMA CAPITAL INVESTMENT BOARD**

**STATEMENTS OF CASH FLOWS**

**Increase (Decrease) in Cash and Cash Equivalents**

<i>Years Ended June 30,</i>	<i>2016</i>	<i>2015</i>
<b>Cash flows from operating activities:</b>		
Cash paid to suppliers	\$ (51,806)	(63,784)
Management fees paid	(360,000)	(360,000)
General and administrative expenses paid	(5,517)	(2,480)
Cash paid for interest expense	(388,662)	(365,917)
OCAP expenses paid	(6,516)	(113,148)
Other	-	(1,048)
Net cash used in operating activities	(812,501)	(906,377)
<b>Cash flows from noncapital and related financing activities:</b>		
Advances from debt	1,060,785	1,276,769
Repayments of debt	(505,927)	(1,132,108)
Net cash provided by noncapital and related financing activities	554,858	144,661
<b>Cash flows from investing activities:</b>		
Cash payments for investment interests	(249,000)	(367,705)
Cash distributions from investment interests	504,324	1,132,108
Net cash provided by investing activities	255,324	764,403
<b>Net (decrease) increase in cash and cash equivalents</b>	(2,319)	2,687
Cash and cash equivalents at beginning of year	11,316	8,629
Cash and cash equivalents at end of year	\$ 8,997	11,316
<b>Reconciliation of operating loss to net cash used in operating activities:</b>		
Operating loss	\$ (822,228)	(906,603)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Increase in accrued interest payable	9,727	226
Net cash used in operating activities	\$ (812,501)	(906,377)

See Independent Auditors' Report.  
See accompanying notes to financial statements.

# OKLAHOMA CAPITAL INVESTMENT BOARD

## NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

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### (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Nature of Operations

The Oklahoma Capital Investment Board (OCIB) is a public trust of the State of Oklahoma (the "State") pursuant to the Oklahoma Public Trust Act. OCIB was created to serve as the State's tool to mobilize sources of equity and near equity capital (as defined in the Trust Indenture) for Oklahoma businesses. The program is designed to catalyze investment in Oklahoma projects by experienced investment professionals. Specific initiatives utilized by OCIB include the Oklahoma Capital Access Program (OCAP) (Note 7) and the Venture Investment Program (described in Note 5).

OCIB is a component unit of the State and is included in the State's annual financial report.

#### Reporting Entity

The financial statements also include the operations of the Oklahoma Capital Formation Company, LLC (OCFC), formerly the Oklahoma Capital Formation Corporation. During the year ended June 30, 2006, OCIB purchased 100% of the ownership of OCFC. OCFC invests funds in qualified risk capital pools approved by OCIB.

#### Financial Statement Presentation and Basis of Accounting

OCIB complies with accounting principles generally accepted in the United States. Accounting principles generally accepted in the United States include all relevant Governmental Accounting Standards Board (GASB) pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent sections of this note.

The accompanying financial statements are presented on the enterprise fund basis using the economic measurement focus and the accrual basis of accounting, whereby revenues are recorded in the period earned and expenses are recorded in the period incurred.

All transactions between OCIB and OCFC have been eliminated in the preparation of these financial statements.

#### Cash Balances

All cash balances are maintained in financial institutions insured by the Federal Deposit Insurance Corporation up to \$250,000. As of June 30, 2016 and 2015, there were no balances exceeding the \$250,000 insured amount.

See Independent Auditors' Report.

**OKLAHOMA CAPITAL INVESTMENT BOARD**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**Equipment**

Capitalized equipment is depreciated using the straight-line method of depreciation over its estimated useful life. OCIB had fully depreciated all of its fixed assets as of June 30, 2016 and 2015. All equipment is currently provided by the managing entity.

**Income Taxes**

As a public trust, OCIB is exempt from federal and state income taxes.

**Advertising Costs**

All costs associated with advertising are expensed as incurred. Most advertising costs, including website creation and maintenance, are paid by the managing entity.

**Cash and Cash Equivalents**

For purposes of the statements of cash flows, cash and cash equivalents consist of the caption on the statements of net position described as "Cash."

**Investment Interests**

Investment interests represent investments made by OCFC in limited partnerships, limited liability companies, and other types of entities. Investment interests are recorded at fair value. Any material amounts of known impairment have been considered in the amounts reflected.

**Use of Estimates in Preparing Financial Statements**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are significant to the financial statements relate to the value of the investment interests.

See Independent Auditors' Report.

**OKLAHOMA CAPITAL INVESTMENT BOARD**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**New Accounting Pronouncements**

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application* (GASB 72). GASB 72 addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GASB 72 provides guidance for determining a fair value measurement for financial reporting purposes. GASB 72 also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of GASB 72 will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. GASB 72 also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. OCIB adopted this statement on July 1, 2015. Adoption of this statement resulted in presentation changes to the financial statements and revised disclosures related to the financial statements. In addition, the adoption also resulted in OCIB having to use fair value for all its investment interests. This resulted in the restatement of its June 30, 2015, financial statements.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (GASB 76). GASB 76 identifies accounting resources used to prepare state and local government financial statements in conformity with GAAP, and established a GAAP hierarchy of these resources. This Statement improves financial reporting by raising the category of GAAP Implementation Guides in the GAAP hierarchy, by emphasizing the importance of analogies to authoritative literature when an accounting event is not specified in authoritative GAAP, and by requiring the consideration of consistency with GASB Concept Statements when evaluating accounting treatments in non-authoritative GAAP. OCIB adopted this statement on July 1, 2015. The adoption had no significant impact on OCIB's financial statements.

**Date of Management's Review of Subsequent Events**

Management has evaluated subsequent events through September 7, 2016, the date which the financial statements were available to be issued, and determined that no subsequent events have occurred that require adjustment to or disclosure in the financial statements.

See Independent Auditors' Report.

**OKLAHOMA CAPITAL INVESTMENT BOARD**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(2) RESTATEMENT**

The June 30, 2015, financial statements have been restated to reflect the implementation of GASB 72, which requires the investment interests to be reflected at fair value. The effect of the restatement is as follows:

	<u>As Previously Reported</u>	<u>As Restated</u>	<u>Effect of Changes</u>
Total investment interests, June 30, 2015	\$ 10,661,622	12,131,575	1,469,953
Total assets, June 30, 2015	79,757,938	81,227,891	1,469,953
Changes in fair value of investment interests	(191,508)	1,278,445	1,469,953
Net position, June 30, 2015	64,611,712	66,081,665	1,469,953

**(3) INVESTMENT OPERATIONS**

OCIB, in order to mobilize investment in business ventures, guarantees the funds borrowed by OCFC for such investments. Prior to 2006, OCFC was considered a third-party corporation which contracted with OCIB to invest OCIB-guaranteed funds in qualified risk capital pools. As noted previously, OCFC was purchased by OCIB during 2006. All intercompany activity between OCIB and OCFC has been eliminated in preparing these financial statements.

**(4) TRANSFERABLE TAX CREDITS**

As a trust, part of the estate of OCIB was State of Oklahoma tax credits in an original amount of \$100,000,000. The credits may be sold by OCIB at its sole discretion. Presently, OCIB's rights to sell the tax credits expire if not utilized by June 30, 2020. Credits which have been sold may be exercised until fully utilized.

See Independent Auditors' Report.

**OKLAHOMA CAPITAL INVESTMENT BOARD**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(4) TRANSFERABLE TAX CREDITS, CONTINUED**

As of June 30, 2016, \$30,915,000 of the credits had been sold for face value and the cash proceeds were used to reduce debt. The credits were sold during the following years ended June 30:

2007	\$	8,000,000
2008		4,700,000
2010		6,815,000
2011		8,000,000
2012		3,400,000
2013		-
2014		-
2015		-
2016		-
		<hr/>
	\$	<u>30,915,000</u>

Four corporations have signed agreements to purchase up to an aggregate of \$8,000,000 per year of the tax credits, in conjunction with a legitimate call on an OCIB guarantee. Up to \$20,000,000 of the tax credits may be sold by OCIB in a year. The remaining \$69,085,000 of tax credits at both June 30, 2016 and 2015, were not considered impaired at June 30, 2016 or 2015, as there was sufficient time remaining for the tax credits to be utilized before they expire on June 30, 2020.

The \$69,085,000 of transferable tax credits at both June 30, 2016 and 2015, are included in OCIB's net position.

See Independent Auditors' Report.

# OKLAHOMA CAPITAL INVESTMENT BOARD

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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### (5) FAIR VALUE OF INVESTMENT INTERESTS

In accordance with GAAP authoritative guidance on fair value measurements and disclosures, OCIB's investment interests measured and reported at fair value are classified according to the following hierarchical input levels:

- Level 1—inputs are unadjusted, quoted prices in active markets for identical investments that the reporting entity has the ability to access at the measurement date.
- Level 2—inputs are directly or indirectly observable inputs for the investment (other than quoted prices included in Level 1). These include quoted prices for similar investments in active markets, quoted prices for identical or similar investments in markets that are not active, inputs other than quoted prices that are observable for the investment, or inputs that are derived principally from observable market data by correlation or other means.
- Level 3—inputs are unobservable inputs for the investment. These inputs reflect management's best estimates of what market participants would use in pricing the investment in an orderly transaction at the measurement date. The inputs into the determination of fair value require significant management judgment or estimation. Unobservable inputs are used to measure fair value to the extent that observable inputs are not readily available.

In certain cases, the inputs used to measure fair value may fall into different levels of the hierarchy. In such cases, the level has been determined based on the lowest level of significant input to the fair value measurement.

As noted previously, OCIB (OCFC) invests in limited partnerships, limited liability companies, and other types of entities. The investment entities in turn invest in portfolio companies. The underlying assets of the investment entities are the various portfolio companies.

The following summarizes OCIB's (OCFC's) investments according to the fair value hierarchy levels at June 30, 2016 and 2015:

	2016			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investment interests	\$ <u>12,573,457</u>	<u>-</u>	<u>-</u>	<u>12,573,457</u>
	2015			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investment interests	\$ <u>12,131,575</u>	<u>-</u>	<u>-</u>	<u>12,131,575</u>

See Independent Auditors' Report.

## OKLAHOMA CAPITAL INVESTMENT BOARD

### NOTES TO FINANCIAL STATEMENTS, CONTINUED

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#### (5) FAIR VALUE OF INVESTMENT INTERESTS, CONTINUED

OCIB receives and evaluates information received from the investment managers on a regular basis. Fair values of Level 3 hierarchy investment interests are determined by the investment managers using a combination of the market, income, and cost approaches. Investments are initially recorded at transaction value (i.e. cost). Due to the illiquid, non-publicly traded, startup nature of some of the portfolio companies, many of the companies are either pre-revenue or lack sufficient operating history to be effectively valued using typical quantitative valuation methodologies. As such, techniques used to value the portfolio companies by the investment managers include, but are not limited to:

- Actual performance to budgeted or expected performance,
- Recent round of financing,
- Discounted cash flows,
- Liquidation analysis, and
- Sales of similar companies.

In addition, some of the investment managers review the overall portfolio for known impairments and make such adjustments when determined. If there are no known impairments, the carrying amount is considered fair value, as there is no substantive evidence of a change in value. Due to the nature of the investments, there are significant unobservable inputs, such as discounts for lack of marketability, price per share, and established time frame for liquidation.

These investments can never be redeemed. Instead, the nature of the investments is that distributions are received through the liquidation of the portfolio companies. Eventually, the portfolio companies are liquidated and the investment interest is closed.

Since the investments do not have a readily determinable fair value, there exists an inherent uncertainty that the estimated values may differ significantly from the values that would have been used had a market for the investments existed, and the differences could be material.

See Independent Auditors' Report.

**OKLAHOMA CAPITAL INVESTMENT BOARD**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(5) FAIR VALUE OF INVESTMENT INTERESTS, CONTINUED**

A summary of the changes in investment interests for the years ended June 30 is as follows:

Balance at June 30, <u>2015</u>	Advances Made	Changes in Fair Value <u>Recognized</u>	Distributions Received	Balance at June 30, <u>2016</u>
<u>\$ 12,131,575</u>	<u>249,000</u>	<u>697,206</u>	<u>(504,324)</u>	<u>12,573,457</u>
Balance at June 30, <u>2014</u>	Advances Made	Changes in Fair Value <u>Recognized</u>	Distributions Received	Balance at June 30, <u>2015</u>
<u>\$ 11,617,533</u>	<u>367,705</u>	<u>1,278,445</u>	<u>(1,132,108)</u>	<u>12,131,575</u>

See Independent Auditors' Report.

**OKLAHOMA CAPITAL INVESTMENT BOARD**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

**(5) FAIR VALUE OF INVESTMENT INTERESTS, CONTINUED**

OCFC had committed to making the following investments as of June 30, 2016:

<u>Entity</u>	<u>Amount of Commitment</u>	<u>Commitment Funded as of June 30, 2016</u>	<u>Unfunded Commitment</u>
Acorn Growth Capital Fund III, L.L.C.	\$ 1,000,000	1,000,000	-
Blue Sage Capital, L.P.	2,000,000	1,527,055	472,945 <sup>(1)</sup>
Chisholm Private Capital Partners, L.P.	3,385,700	3,385,700	-
Davis, Tuttle Venture Partners, L.P.	5,000,000	5,000,000	-
Dolphin Communications Fund II, L.P.	6,000,000	6,000,000	- <sup>(4)</sup>
Emergent Technologies Oklahoma, L.P.	1,380,435	1,380,435	-
Intersouth Partners III, L.P.	4,000,000	4,000,000	-
Mesa Oklahoma Growth Fund I, L.P.	3,000,000	2,745,000	255,000
Oklahoma Equity Partners, LLC	7,500,000	6,015,387	1,484,613 <sup>(2)</sup>
Oklahoma Life Sciences Fund II, L.L.C.	1,750,000	1,592,500	157,500
Oklahoma Seed Capital Fund, L.L.C.	1,000,000	922,000	78,000
Pacesetter Growth Fund, L.P.	3,500,000	3,500,000	-
Prolog Capital II, L.P.	5,000,000	4,959,467	40,533
Richland Ventures, L.P.	4,000,000	3,680,000	320,000 <sup>(1)</sup>
Richland Ventures II, L.P.	1,000,000	974,040	25,960 <sup>(1)</sup>
Rocky Mountain Mezzanine Fund II, L.P.	3,000,000	3,000,000	-
SSM Venture Partners III, L.P.	7,500,000	6,600,000	900,000 <sup>(3)</sup>
Tullis-Dickerson Capital Focus III, L.P.	7,500,000	7,500,000	-
Ventures Medical II, L.P.	2,000,000	2,000,000	-
	<u>\$ 69,516,135</u>	<u>65,781,584</u>	<u>3,734,551</u>

<sup>(1)</sup> The unfunded commitment will not be used.

<sup>(2)</sup> A large majority of this commitment is not expected to be used.

<sup>(3)</sup> 5%, or \$375,000, of the original commitment will not be used.

<sup>(4)</sup> While the commitment was \$6,000,000, Dolphin Communications Fund II, L.P. (“Dolphin”) had the right to recall amounts that had been distributed to OCIB; \$1,855,306 was recalled by Dolphin and paid by OCIB.

See Independent Auditors’ Report.

## OKLAHOMA CAPITAL INVESTMENT BOARD

### NOTES TO FINANCIAL STATEMENTS, CONTINUED

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#### (6) MANAGEMENT SERVICES AGREEMENT

OCIB entered into a management services agreement with Institutional Equity Associates, LLC (IEA) effective January 1, 2001. Per the agreement, IEA is to perform all of the management functions for OCIB, as well as provide the personnel, office space, equipment, and supplies needed to operate OCIB's program. As such, effective February 1, 2001, OCIB has no employees. The agreement was to last for a period of 15 years. The original agreement required an annual fee of \$443,500 to be paid to IEA, as well as a variable annual fee equal to 0.35% of the amount of each commitment by OCFC to a new venture capital fund. The variable fee would be phased out over a period of time as specified in the agreement.

On July 1, 2010, OCIB and IEA elected to amend the management services agreement in order to reduce the annual fee. During both 2016 and 2015, fees of \$360,000 were paid to IEA in accordance with the amended management agreement.

On July 15, 2015, OCIB's Board of Trustees approved the extension of the agreement with IEA to perform the management services until September 30, 2020.

IEA also performs management oversight for Oklahoma Equity Partners, LLC, a partnership in which OCFC has invested. No additional compensation has been paid to IEA for this service.

#### (7) OKLAHOMA CAPITAL ACCESS PROGRAM (OCAP)

As part of its overall purpose, OCIB initiated OCAP during fiscal year 1992. Under OCAP, Oklahoma depository institutions pay a fee or premium to OCIB to enroll qualified loans in OCAP. OCIB, in return for the premium paid, establishes a reserve account equal to the amount of fee paid plus an obligation by OCIB for a predetermined portion of the loan. Cash, up to the amount of the reserve account, may then be paid to an institution if that institution suffers a loss on a loan in the OCAP portfolio and submits a claim to OCIB. OCIB is not guaranteeing the entire loan portfolio but only an amount equal to the reserve account. In no event is OCIB's exposure more than the balance in the reserve account as defined in the OCAP agreement.

As further discussed in Note 9, OCIB presently cannot enroll any new loan or make an amendment to any existing loans currently enrolled in OCAP. Loans currently enrolled in the program will remain covered until the maturity dates of the loans. The total reserve account balance should gradually decrease, as no fee or premium will be collected and claims, if any, will be paid. Reserve accounts will remain in place until such time as the active banks have no more enrolled loans in the program.

See Independent Auditors' Report.

**OKLAHOMA CAPITAL INVESTMENT BOARD**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

**(7) OKLAHOMA CAPITAL ACCESS PROGRAM (OCAP), CONTINUED**

Fees paid to OCIB in excess of claims paid and recoveries received are not recognized as income, but reflected on the statements of net position as “OCAP premiums collected in excess of claims paid.” No new loans were enrolled and one claim was paid in the OCAP program in both 2016 and 2015. A summary of OCAP’s activities as of June 30, 2016 and 2015, is as follows:

	<u>Cumulative Fees Received</u>	<u>Cumulative OCIB Allocation</u>	<u>Cumulative Claims Paid, Net</u>	<u>Total Reserve Account</u>	<u>Total Loans by Institutions</u>	<u>Loans Covered by OCAP</u>
June 30, 2016	<u>\$ 1,305,510</u>	<u>1,576,425</u>	<u>2,269,993</u>	<u>611,942</u>	<u>48,670,231</u>	<u>34,171,984</u>
June 30, 2015	<u>\$ 1,305,510</u>	<u>1,576,425</u>	<u>2,263,477</u>	<u>618,458</u>	<u>48,670,231</u>	<u>34,171,984</u>

During 2016 and 2015, OCIB paid \$6,516 and \$113,148, respectively, of claims to institutions in the OCAP program. These claims were paid in cash from OCIB resources. OCIB has the right to sell tax credits in the future, subject to annual and program caps, to reimburse itself for the cash paid out.

Under the OCAP program, OCIB’s total loss exposure at June 30, 2016 and 2015, was \$611,942 and \$618,458, respectively, which would come from the unrestricted net position.

**(8) DEBT PAYABLE**

For both of the years ended June 30, 2016 and 2015, OCIB had a line of credit provided by the Bank of Oklahoma of \$25,000,000. The debt matured on August 27, 2016, and the maturity date was extended to August 26, 2017. The amount of the line of credit renewed at \$23,000,000.

At June 30, the balance due was as follows:

	<u>2016</u>		
	<u>Commitment</u>	<u>Balance Outstanding</u>	<u>Maturity</u>
Line of credit, as renewed	<u>\$ 23,000,000</u>	<u>15,625,026</u>	August 26, 2017
	<u>2015</u>		
	<u>Commitment</u>	<u>Balance Outstanding</u>	<u>Maturity</u>
Line of credit	<u>\$ 25,000,000</u>	<u>15,070,168</u>	August 27, 2016

See Independent Auditors’ Report.

## OKLAHOMA CAPITAL INVESTMENT BOARD

### NOTES TO FINANCIAL STATEMENTS, CONTINUED

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#### (8) DEBT PAYABLE, CONTINUED

The debt payable is classified as either long-term or short-term based on the maturity date. Although the current debt agreement was executed after June 30, 2016, the maturity date was used to classify the debt as long-term.

The line of credit has a fluctuating interest rate equal to the 30-day LIBOR plus 2.25% per annum (2.715% at June 30, 2016), with a 364-day termination date. Interest is payable quarterly, and repayment of outstanding principal may be made without premium or penalty.

The line of credit is secured by the specific assignment of tax credit purchase obligations. As of June 30, 2016, OCIB had \$69,085,000 of available State of Oklahoma tax credits and agreements with four corporations for them to purchase up to an aggregate of \$8,000,000 per year of tax credits in conjunction with a legitimate call on an OCIB guarantee.

Changes in the debt payable during 2016 and 2015 were as follows:

	2016			
	<u>Beginning Balance</u>	<u>Advances</u>	<u>Repayments</u>	<u>Ending Balance</u>
Line of credit	<u>\$ 15,070,168</u>	<u>1,060,785</u>	<u>(505,927)</u>	<u>15,625,026</u>
	2015			
	<u>Beginning Balance</u>	<u>Advances</u>	<u>Repayments</u>	<u>Ending Balance</u>
Line of credit	<u>\$ 14,925,507</u>	<u>1,276,769</u>	<u>(1,132,108)</u>	<u>15,070,168</u>

#### (9) COMMITMENTS AND CONTINGENCIES

##### Legal

From time to time, OCIB is involved in certain legal proceedings arising in the normal course of business. In the opinions of management and counsel, the ultimate disposition of such proceedings will not have a material effect on OCIB's financial statements.

##### Legislative/Regulatory

An amendment was made to the Oklahoma Capital Formation Act, effective June 8, 2012 (the "Amendment"). The Amendment extended the expiration date of all tax credits of OCIB to June 30, 2020, and limited OCIB's ability to make any new investments or incur any obligations subsequent to June 9, 2012. As of June 30, 2016, management believes OCIB is in compliance with all requirements of the Amendment.

See Independent Auditors' Report.



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

Board of Trustees  
Oklahoma Capital Investment Board

We have audited, in accordance with the auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Oklahoma Capital Investment Board (OCIB), which is a part of the State of Oklahoma financial reporting entity, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise OCIB's basic financial statements, and have issued our report thereon dated September 7, 2016. Our report includes an explanatory paragraph disclaiming an opinion on required supplementary information. Our report also includes a paragraph to note the adoption of GASB 72 and the restatement of the 2015 financial statement as a result of the adoption.

**Internal Control Over Financial Reporting**

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

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

(Continued)

**INDEPENDENT AUDITORS' REPORT ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON  
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS, CONTINUED**

**Internal Control Over Financial Reporting, Continued**

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

**Compliance and Other Matters**

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

**Purpose of This Report**

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

*Finley + Cook, PLLC*

Shawnee, Oklahoma  
September 7, 2016