



Report for the Year Ending
June 30, 2016

Mobilizing Sources of Equity Capital for Oklahoma
Businesses



May 25, 2017

Governor Mary Fallin
Lt. Governor Todd Lamb
President Pro Tempore Mike Schulz
Speaker Charles McCall
Members of the Legislature
Director of Commerce Deby Snodgrass
Economic Development Officials

The Oklahoma Capital Investment Board (OCIB or Board) was created in the late 1980's to be a key resource for the development and support of the state's risk capital industry. OCIB's mission has been to mobilize capital for investment in Oklahoma companies. OCIB's programs were designed to leverage a small amount of state investment to create a large economic impact for the state. OCIB was charged with accomplishing its mission without appropriations or significant financial support from the state. The results of OCIB's investment activity have and continue to create jobs that help diversify and stabilize the state's economy.

For more than two decades OCIB has helped develop and attract sources of capital for Oklahoma entrepreneurs through its Venture Capital and Capital Access programs. OCIB has operated its programs with the belief that a long-term focus utilizing prudent, merit based investing practices would help the Board fulfill its mission of providing access to capital for Oklahoma companies. The Board hopes to continue these efforts until Oklahoma's private capital industry is capable of financing companies throughout the risk spectrum, from early stage start-ups to later stage expansions.

Even with the help of programs like OCIB's, statistics continue to confirm that in order for Oklahoma to remain competitive with other states it must continue to support the growth of Oklahoma's risk capital industry. Pricewaterhouse Coopers in its NVCA Money Tree Report concludes that Oklahoma is lagging behind its surrounding states. The report shows that over the last six years Oklahoma ranks 37th out of 51 states in terms of the number of venture deals completed on an annual basis and 40th out of 51 in terms of venture dollars invested. While Oklahoma averages 6 deals per year Kansas and Texas average 19 and 161 respectively.

OCIB programs have always allowed the private sector to drive the investment process by having it select the companies of interest and set market based terms and conditions. OCIB has been able to maintain its investment discipline even with the expectation that OCIB achieve a large economic impact with limited investment by the state. The legislature did not provide appropriations, but allocated \$100 million of contingent tax credits (not incentive credits) to the Board. This allocation has allowed OCIB to have more than a \$1.9 billion impact on the state's economy.

A handwritten signature in black ink, appearing to read "Devon L. Sauzek".

Devon L. Sauzek
President

A handwritten signature in black ink, appearing to read "Michael Mitchelson".

Michael Mitchelson
Chairperson

ABOUT OCIB

The Oklahoma Capital Investment Board launched its first program in 1992 and has been working since then to develop and support the state's risk capital industry. More specifically, for more than two decades, OCIB has worked to establish a venture capital industry capable of supporting Oklahoma's best and brightest entrepreneurs. These efforts have focused on supporting the growth of local venture capital firms and on recruiting outside venture capital firms to the state. The successful recruitment of firms has not only brought outside capital to our state, but also needed investment expertise. The sharing of knowledge and other resources is key to the development of Oklahoma's venture capital industry and the Oklahoma companies it supports.

Executive Summary

The **mission** of the Oklahoma Capital Investment Board (OCIB or Board) is to mobilize equity and near-equity investment capital in a manner that will encourage job creation and help stabilize the economy of the State of Oklahoma. The method by which the Board addresses this task is to encourage and support the growth of a local capital industry capable of financing companies looking for capital. Board supported companies have ranged from early stage start-ups to later stage expansions.

As of June 2016, the Board's programs had attracted more than \$171.3 million in venture capital, \$48.7 million in development loans and participated in a \$10 million revenue guarantee resulting in \$230 million of reported capital for Oklahoma companies. It is also estimated that more than \$340 million of leveraged debt was available to the venture backed companies due to the \$171.3 million in equity capital invested in them. OCIB's total direct impact is currently estimated to be \$547 million of risk capital provided for Oklahoma projects. Although the Board's programs have exceeded their original impact goal of mobilizing \$500 million of new financing for Oklahoma businesses, there has been some unintended cost to the state. OCIB had to draw upon \$30 million in state resources, approximately \$1 million per year, to cover shortfalls in OCIB's investment programs due to investing through two economic recessions. Even with the use of \$30 million in state resources, OCIB's program results of \$61 in benefit for every \$1 in cost compares favorably to any other state program.

Since March of 1993, the Board, through its Venture Investment Program (VIP), has built three portfolios, comprised of \$69.5 million in aggregate commitments to 19 venture capital funds. The Board's most recent portfolio (third) contains 11 funds representing total commitments of \$43.6 million. The funds in the three portfolios have made direct investments in 38 Oklahoma companies.

In April of 1992, the Board began to make capital available to small Oklahoma businesses through the Oklahoma Capital Access Program (OCAP), a tool similar to credit insurance, designed to help local depository institutions stretch to make marginally higher risk loans to Oklahoma businesses. Since the program's inception, it has enrolled more than 1,500 loans totaling more than \$48.7 million. Loans have varied in size from \$1,100 to \$728,000 and have primarily been used for working capital and equipment purchases for rural businesses.

Although OCIB has not been making new fund investments or enrolling additional loans in OCAP, the Board continues to manage its current portfolio of investments for the benefit of the state. As the Board's investments mature they continue to return capital to the state. OCIB has received approximately \$20.5 million in distributions over the last seven years. We anticipate distributions for FY' 18 to equal or exceed the FY' 17 level of \$1.9 million.

Vision

The Oklahoma Capital Investment Board encourages and supports the growth of a broadly diversified and sophisticated financial industry capable of providing the necessary risk capital to Oklahoma entrepreneurial companies from early stage start-ups to later stage expansions. OCIB's current programs were designed to enable Oklahoma businesses to have access to more than \$500 million of new capital. This expectation was based upon the Board's current level of approximately \$70 million in venture commitments. The increase in the capital base strengthens and supports the growth of companies that are the engines of economic growth, that create jobs, and that diversify and stabilize the state's economy.

A diversified investment strategy is what allows OCIB to deliver its impactful programs with very limited investment by the state. OCIB's combined programs have ensured that the Board exceeded the statutory minimum of two dollars being invested in Oklahoma businesses and projects for every one dollar of principal guaranteed. To the Board's knowledge, this statutory requirement exceeds that of any development program within the state. To date, the Board's Venture Investment Program has attracted private equity capital in excess of 2.6 to 1, while its Oklahoma Capital Access Program has achieved leverage of better than 25 to 1.

By supporting investments in a number of risk capital funds, each with its own team of investment professionals, the Board has brought to Oklahoma a broad range of professional talent to serve the diverse needs for investment capital within the state. Likewise, by making a credit insurance type of tool available to dozens of banks, it engages individual bankers across the state in creating solutions for small business borrowers.

The VIP has supported investments in 19 private, professionally managed venture capital firms that had a history of producing solid returns for investors and that had a sound strategy for finding investment opportunities in Oklahoma. During the current year, OCIB supported funds and their syndicates have invested an additional \$5.8 million in equity capital in Oklahoma companies. This brings the investment totals (as of December 31, 2016) for OCIB's venture investing program to more than \$171 million in equity capital to 38 Oklahoma companies. In addition, OCIB's impact numbers as reported by Venture Economics, a research firm located in Phoenix Arizona, shows that the venture funds OCIB has supported have provided approximately 607 annual jobs and approximately \$329 million in cumulative Oklahoma payroll. Over the years, the Board's Oklahoma Capital Access Program has supported approximately \$48 million in loans to more than 1,500 Oklahoma businesses. Over the life of the OCAP, it has supported companies which have provided more than 1,514 new jobs and \$46 million in payroll.

Operating Principles

OCIB programs are based on principles that emphasize the use of private sector expertise and traditional investment disciplines. In building new capital companies in the state, ones that will endure for many years, there is no substitute for a careful investment process that seeks out the best talent available to serve the needs of Oklahoma businesses. The following are basic principles pursued by the Board:

- ◆ Risk capital is necessary to generate and support the growth of entrepreneurial firms, which in turn create jobs and provide economic growth.
 - ◆ Risk capital is best provided and managed by qualified, professional investment groups.
 - ◆ A responsive state program can demonstrate to potential investors the high level of commitment Oklahoma has for entrepreneurial ventures.
 - ◆ The pursuit of a market rate of return provides the best discipline for using limited resources to generate the greatest economic impact.
 - ◆ The risks of making venture capital investments in Oklahoma can best be managed by diversification through a number of investments in separate venture capital funds with proven track records.
 - ◆ Successful investing requires the highest of ethical standards. OCIB uses its best efforts to demand these standards for its trustees, managers, and vendors, and seeks to invest only with professionals who employ the same high ethical standards.
 - ◆ The successful targeting of venture investments to the state requires the careful selection of fund managers who can demonstrate the ability to successfully invest in economic sectors that are indigenous to or developing within the state. Such managers must commit to marketing their resources aggressively, to being highly visible to their primary markets within the state and to taking actions that help build the permanent presence of venture capital talent within Oklahoma.
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ORGANIZATION

The Board is a state-beneficiary public trust. There are five Trustees, appointed by the Governor with the advice and consent of the Senate. Trustees are selected based upon their outstanding knowledge and leadership, and for their experience in managing venture investments. The Board at fiscal year end 2016 included:

BOARD MEMBER

FY'16 OFFICE

Gerald G. Austin
Executive Vice President, retired
Fleming Companies, Inc.
Oklahoma City, OK

John A. Brock
Owner
Rockford Exploration
Tulsa, OK

Secretary/Treasurer

Michael Mitchelson
Attorney
Oklahoma City, OK

Chairperson

Michael Oonk
Senior Vice President
American Bank & Trust
Tulsa, OK

Vice Chairperson/
Assistant Secretary

Patrick Sullivan
Vice President
Argonaut Private Equity
Tulsa, OK

Secretary

The Board retains Institutional Equity Associates, LLC to provide investment management and administrative services. The principals of this firm are Robert G. Heard and Devon L. Sauzek. Mr. Sauzek serves as OCIB president and Diana K. Mooney as administrative officer. General Counsel for the Board is Robert A. Curry of the firm Conner & Winters, Tulsa. The CPA firm of Finley & Cook, Shawnee, performed the annual audit.

Contacts

For further information contact:
OKLAHOMA CAPITAL INVESTMENT BOARD
Devon Sauzek or Diana Mooney
405/848-9456

AUDIT

The annual audit was performed for OCIB by Finley & Cook, Shawnee, and is on file with the State Auditor and Inspector. The audited financial statements are attached.

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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.

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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.

Finley + Cook, PLLC

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

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> |
| Assets | | |
| 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> |
| Liabilities and Net Position | | |
| 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 | <u>(3,152)</u> | <u>415</u> |
| Total operating expenses | <u>(417,323)</u> | <u>(426,264)</u> |
| Other expenses: | | |
| Interest expense | (398,389) | (366,143) |
| OCAP claims paid in excess of cumulative premiums collected | (6,516) | (113,148) |
| Other | <u>-</u> | <u>(1,048)</u> |
| Total other expenses | <u>(404,905)</u> | <u>(480,339)</u> |
| Operating loss before net financial earnings from investment interests—equity basis | <u>(822,228)</u> | <u>(906,603)</u> |
| 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. | <u>(133,536)</u> | <u>261,071</u> |
| Total changes in fair value of investment interests | <u>697,206</u> | <u>1,278,445</u> |
| Net (decrease) increase in net position | (125,022) | 371,842 |
| Net position, beginning of year | <u>66,081,665</u> | <u>65,709,823</u> |
| Net position, end of year | <u>\$ 65,956,643</u> | <u>66,081,665</u> |

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> |
|---|---------------------|--------------------|
| Cash flows from operating activities: | | |
| 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 | <u>-</u> | <u>(1,048)</u> |
| Net cash used in operating activities | <u>(812,501)</u> | <u>(906,377)</u> |
| Cash flows from noncapital and related financing activities: | | |
| Advances from debt | 1,060,785 | 1,276,769 |
| Repayments of debt | <u>(505,927)</u> | <u>(1,132,108)</u> |
| Net cash provided by noncapital and related financing activities | <u>554,858</u> | <u>144,661</u> |
| Cash flows from investing activities: | | |
| 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 provided by investing activities | <u>255,324</u> | <u>764,403</u> |
| Net (decrease) increase in cash and cash equivalents | (2,319) | 2,687 |
| Cash and cash equivalents at beginning of year | <u>11,316</u> | <u>8,629</u> |
| Cash and cash equivalents at end of year | <u>\$ 8,997</u> | <u>11,316</u> |
| Reconciliation of operating loss to net cash used in operating activities: | | |
| Operating loss | \$ (822,228) | (906,603) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | | |
| Increase in accrued interest payable | <u>9,727</u> | <u>226</u> |
| Net cash used in operating activities | <u>\$ (812,501)</u> | <u>(906,377)</u> |

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

OKLAHOMA CAPITAL INVESTMENT BOARD

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

(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

(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

(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

(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

(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 | | - |
| | | <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

(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

(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

(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 Recognized | 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 Recognized | 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 ⁽¹⁾ |
| 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 | - ⁽⁴⁾ |
| 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 ⁽²⁾ |
| 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 ⁽¹⁾ |
| Richland Ventures II, L.P. | 1,000,000 | 974,040 | 25,960 ⁽¹⁾ |
| 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 ⁽³⁾ |
| 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> |

⁽¹⁾ The unfunded commitment will not be used.

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

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

⁽⁴⁾ 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

(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

(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.

A handwritten signature in black ink that reads "Finley & Cook, PLLC". The signature is written in a cursive, flowing style.

Shawnee, Oklahoma
September 7, 2016

For further information contact:
OKLAHOMA CAPITAL INVESTMENT BOARD
Devon Sauzek or Diana Mooney
405-848-9456