

# **Oklahoma Capital Investment Board**

## *Financial Statements*

June 30, 2012 and 2011  
(With Independent Auditors' Report Thereon)



**OKLAHOMA CAPITAL INVESTMENT BOARD**

**FINANCIAL STATEMENTS**

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*Table of Contents*

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	<u>Page</u>
<u>Independent Auditors' Report</u> .....	1
<u>Management's Discussion and Analysis</u> .....	I-1
<u>Financial Statements:</u>	
Statements of Net Assets .....	3
Statements of Changes in Net Assets.....	5
Statements of Cash Flows.....	6
Notes to Financial Statements.....	7
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in <u>Accordance with Government Auditing Standards</u> .....	16



## **INDEPENDENT AUDITORS' REPORT**

Board of Trustees  
Oklahoma Capital Investment Board

We have audited the accompanying statements of net assets of the Oklahoma Capital Investment Board (OCIB), a part of the financial reporting entity of the State of Oklahoma, as of June 30, 2012 and 2011, and the related statements of changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of OCIB's management. 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of OCIB as of June 30, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2012, 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* and should be considered in assessing the results of our audit.

(Continued)

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

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 audit 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.

*Finley & Cook, PLLC*

Shawnee, Oklahoma  
September 10, 2012

## **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, 2012 and 2011. Please read it in conjunction with OCIB's financial statements which begin on page 3. The financial statements of OCIB include the operations of the Oklahoma Capital Formation Company, LLC (OCFC).

### **FINANCIAL HIGHLIGHTS**

- In FY-2012, OCIB made \$1,193,668 in aggregate contributions to its Venture Investment Program to fund commitments;
- In FY-2012, OCIB (OCFC) received \$5,200,906 in distributions from its Venture Investment Program (proceeds were applied to the OCFC line of credit);
- In FY-2012, the Oklahoma Capital Access Program (OCAP) enrolled 29 new loans totaling \$1.2 million; and
- In FY-2012, the OCIB Venture Investment Program resulted in more than \$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 will affect 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 its OCAP program.

## MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

### FINANCIAL ANALYSIS OF OCIB

#### *Net Assets*

The following table summarizes the net assets at June 30:

	<u>2012</u>	<u>2011</u>
Current assets	\$ 20,202,162	20,143,898
Noncurrent assets	<u>64,448,456</u>	<u>70,675,616</u>
Total assets	<u>84,650,618</u>	<u>90,819,514</u>
Liabilities	<u>19,672,263</u>	<u>26,031,340</u>
Net assets	<u>\$ 64,978,355</u>	<u>64,788,174</u>

Assets at June 30, 2012 and 2011, principally consisted of \$69,085,000 and \$72,485,000 of tax credits, respectively, of which \$20,000,000 was current for both years, and \$49,085,000 and \$52,485,000 was noncurrent for 2012 and 2011, respectively. Assets also included investment interests of \$15,363,456 and \$18,190,616 as of June 30, 2012 and 2011, respectively.

#### *Operating Activities*

The operations of OCIB are dependent upon the results of the investments made. During 2012 and 2011, no new investment interests were established. A summary of operating results for 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Operating expenses:		
Management fees	\$ (360,000)	(360,000)
Accounting, legal, and consultants	(70,690)	(34,796)
Other	<u>(2,201)</u>	<u>-</u>
Total operating expenses	<u>(432,891)</u>	<u>(394,796)</u>
Other expenses:		
Interest expense	(555,870)	(461,102)
Other	<u>(1,136)</u>	<u>(760)</u>
Total other expenses	<u>(557,006)</u>	<u>(461,862)</u>
Net financial earnings (losses) from investment interests—equity basis	<u>1,180,078</u>	<u>(1,352,141)</u>
Change in net assets	<u>\$ 190,181</u>	<u>(2,208,799)</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

### FINANCIAL ANALYSIS OF OCIB, CONTINUED

#### *Operating Activities, Continued*

Cash flows from investment interests for 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>
Cash payments for investment interests	\$ (1,193,668)	(1,013,974)
Cash distributions from investment interests	<u>5,200,906</u>	<u>3,852,596</u>
Net cash flows provided by investment interests	<u>\$ 4,007,238</u>	<u>2,838,622</u>

A significant part of the overall operations of OCIB is its transferable tax credits. As of June 30, 2012 and 2011, OCIB had \$69,085,000 and \$72,485,000, respectively, of transferable tax credits recorded as assets in its financial statements; for both 2012 and 2011, \$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. During 2012 and 2011, \$3,400,000 and \$8,000,000, respectively, of tax credits were sold. OCIB has 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. The agreements to purchase the tax credits have been assigned as collateral for the \$19,644,169 revolving line of credit which OCIB has guaranteed for OCFC as of June 30, 2012.

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 reserve account established. 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, 2012 and 2011, the maximum amount of exposure for OCIB was approximately \$1,269,000 and \$1,270,000, respectively. Total loans covered by the program were approximately \$34,172,000 and \$33,743,000 at June 30, 2012 and 2011, respectively.

As of June 30, 2012 and 2011, OCIB's commitment for unfunded investment interests was approximately \$5,400,000 and \$6,594,000, respectively. It is anticipated that at least \$2.2 million 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 \$38,000,000 line of credit with a local financial institution during 2011. The line of credit was renewed with a \$30,000,000 line of credit during 2012. Activity of the debt for 2012 and 2011 was as follows:

	2012				
	<u>Beginning Balance</u>	<u>Advances</u>	<u>Repayments</u>	<u>Ending Balance</u>	
Line of credit	<u>\$ 25,980,309</u>	<u>2,179,258</u>	<u>(8,515,398)</u>	<u>19,644,169</u>	
	2011				
	<u>Beginning Balance</u>	<u>Refinancing</u>	<u>Advances</u>	<u>Repayments</u>	<u>Ending Balance</u>
Line of credit	\$ 2,570,031	25,204,655	1,967,854	(3,762,231)	25,980,309
Term note	<u>33,257,878</u>	<u>(25,204,655)</u>	<u>-</u>	<u>(8,053,223)</u>	<u>-</u>
	\$ 35,827,909	-	1,967,854	(11,815,454)	25,980,309

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 31, 2013.

### 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 ASSETS

<i>June 30,</i>	<i>2012</i>	<i>2011</i>
<b>Assets</b>		
Current assets:		
Cash	\$ 202,162	143,898
Transferable tax credits, current	20,000,000	20,000,000
Total current assets	<u>20,202,162</u>	<u>20,143,898</u>
Investment interests (Note 5):		
Acorn Growth Capital Fund III, L.L.C.	545,859	466,363
Blue Sage Capital, L.P.	2,363,384	2,013,526
Davis, Tuttle Venture Partners, L.P.	274,267	1,082,757
Dolphin Communications Fund II, L.P.	381,366	1,252,886
Emergent Technologies Oklahoma, L.P.	-	142,717
Intersouth Partners III, L.P.	251,499	247,412
Mesa Oklahoma Growth Fund I, L.P.	555,781	1,266,865
Oklahoma Equity Partners, L.L.C.	1,903,977	1,573,921
Oklahoma Life Sciences Fund II, L.L.C.	707,260	371,379
Oklahoma Seed Capital Fund, L.L.C.	957,162	733,760
Prolog Capital II, L.P.	2,162,621	2,941,154
Richland Ventures II, L.P.	2,131	7,178
Rocky Mountain Mezzanine Fund II, L.P.	52,543	94,206
SSM Venture Partners III, L.P.	2,898,047	2,973,195
Tullis-Dickerson Capital Focus III, L.P.	2,307,559	3,023,297
Total investment interests	<u>15,363,456</u>	<u>18,190,616</u>
Transferable tax credits, less current portion	<u>49,085,000</u>	<u>52,485,000</u>
Total assets	<u>\$ 84,650,618</u>	<u>90,819,514</u>

(Continued)

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

# OKLAHOMA CAPITAL INVESTMENT BOARD

## STATEMENTS OF NET ASSETS, CONTINUED

<i>June 30,</i>	<i>2012</i>	<i>2011</i>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable	\$ 6,484	-
Interest payable	-	2,719
OCAP premiums collected in excess of claims paid	21,610	48,312
Short-term debt payable	<u>-</u>	<u>25,980,309</u>
Total current liabilities	<u>28,094</u>	<u>26,031,340</u>
Long-term debt payable	<u>19,644,169</u>	<u>-</u>
Total liabilities	<u>19,672,263</u>	<u>26,031,340</u>
Unrestricted net assets	<u>64,978,355</u>	<u>64,788,174</u>
Total liabilities and net assets	<u>\$ 84,650,618</u>	<u>90,819,514</u>

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

# OKLAHOMA CAPITAL INVESTMENT BOARD

## STATEMENTS OF CHANGES IN NET ASSETS

<i>Years Ended June 30,</i>	<i>2012</i>	<i>2011</i>
Operating expenses:		
Management fees	\$ (360,000)	(360,000)
Accounting, legal, and consultants	(70,690)	(34,796)
Venture investing	(1,928)	-
Other	(273)	-
Total operating expenses	<u>(432,891)</u>	<u>(394,796)</u>
Other expenses:		
Interest expense	(555,870)	(461,102)
Other	<u>(1,136)</u>	<u>(760)</u>
Total other expenses	<u>(557,006)</u>	<u>(461,862)</u>
Operating loss before net financial earnings (losses) from investment interests—equity basis	<u>(989,897)</u>	<u>(856,658)</u>
Financial earnings (losses) from investment interests—equity basis (Note 5):		
Acorn Growth Capital Fund III, L.L.C.	(1,985)	(11,640)
Blue Sage Capital, L.P.	577,628	344,296
Davis, Tuttle Venture Partners, L.P.	(552,239)	3,838
Dolphin Communications Fund II, L.P.	(249,964)	(704,860)
Emergent Technologies Oklahoma, L.P.	(142,717)	(23,779)
Intersouth Partners III, L.P.	4,087	632
Mesa Oklahoma Growth Fund I, L.P.	(11,084)	(197,370)
Oklahoma Equity Partners, L.L.C.	10,369	(417,016)
Oklahoma Life Sciences Fund II, L.L.C.	(31,619)	(55,386)
Oklahoma Seed Capital Fund, L.L.C.	23,402	21,309
Prolog Capital II, L.P.	(621,389)	254,199
Richland Ventures II, L.P.	(3,640)	6,587
Rocky Mountain Mezzanine Fund II, L.P.	162,752	56,278
SSM Venture Partners III, L.P.	1,672,352	(573,014)
Tullis-Dickerson Capital Focus III, L.P.	<u>344,125</u>	<u>(56,215)</u>
Total net financial earnings (losses) from investment interests—equity basis	<u>1,180,078</u>	<u>(1,352,141)</u>
Net increase (decrease) in net assets	190,181	(2,208,799)
Net assets, beginning of year	<u>64,788,174</u>	<u>66,996,973</u>
Net assets, end of year	<u>\$ 64,978,355</u>	<u>64,788,174</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>2012</i>	<i>2011</i>
<b>Cash flows from operating activities:</b>		
Cash paid to suppliers	\$ (3,337)	(760)
Management fees paid	(360,000)	(360,000)
General and administrative expenses paid	(64,206)	(35,638)
Cash paid for interest expense	(558,589)	(556,830)
Cash received from sale of tax credits	3,400,000	8,000,000
Net cash provided by operating activities	<u>2,413,868</u>	<u>7,046,772</u>
<b>Cash flows from noncapital and related financing activities:</b>		
Proceeds from debt	2,179,258	1,967,854
Payments on debt	(8,515,398)	(11,815,454)
Payments received for OCAP	17,135	30,037
Claims paid for OCAP	<u>(43,837)</u>	<u>(30,261)</u>
Net cash used in noncapital and related financing activities	<u>(6,362,842)</u>	<u>(9,847,824)</u>
<b>Cash flows from investing activities:</b>		
Cash payments for investment interests	(1,193,668)	(1,013,974)
Cash distributions from investment interests	<u>5,200,906</u>	<u>3,852,596</u>
Net cash provided by investing activities	<u>4,007,238</u>	<u>2,838,622</u>
<b>Net increase in cash and cash equivalents</b>	58,264	37,570
Cash and cash equivalents at beginning of year	<u>143,898</u>	<u>106,328</u>
Cash and cash equivalents at end of year	<u>\$ 202,162</u>	<u>143,898</u>
<b>Reconciliation of operating loss to net cash provided by operating activities:</b>		
Operating loss	\$ (989,897)	(856,658)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Decrease in tax credits	3,400,000	8,000,000
Decrease in interest payable	(2,719)	(95,728)
Increase (decrease) in accounts payable	<u>6,484</u>	<u>(842)</u>
Net cash provided by operating activities	<u>\$ 2,413,868</u>	<u>7,046,772</u>

See Independent Auditors' Report.

See accompanying notes to financial statements.

# OKLAHOMA CAPITAL INVESTMENT BOARD

## NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

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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 2).

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 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's financial statements are prepared in accordance with accounting principles generally accepted in the United States. The Governmental Accounting Standards Board (GASB) is responsible for establishing the accounting principles generally accepted in the United States for state and local governments through its pronouncements (Statements and Interpretations). Governments and their components are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. In accordance with GASB Statement No. 20, OCIB's financial statements are prepared using applicable GASB statements and not FASB pronouncements issued after November 30, 1989.

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.

See Independent Auditors' Report.

## OKLAHOMA CAPITAL INVESTMENT BOARD

### NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

##### 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, 2012, there were no balances over the \$250,000 insured amount.

##### 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, 2012 and 2011. OCIB has not purchased any new equipment since January 2001. All equipment is 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 assets described as "Cash."

Interest paid totaled \$558,589 and \$556,830 for 2012 and 2011, respectively.

##### Investment Interests

Investment interests represent investments made by OCFC in limited partnerships, limited liability companies, and other types of entities. Investment interests are recorded using the equity method of accounting based upon the most recent audited financial statements and/or the tax returns for the investment interests, or other reliable financial information. Some of the entities reflect the investments which they own at other than fair value. As such, the investment interests are reflected using the basis of accounting of the entity. In all instances any material amounts of known impairment have been considered in the amounts reflected.

See Independent Auditors' Report.

## OKLAHOMA CAPITAL INVESTMENT BOARD

### NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

##### 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.

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

Management has evaluated subsequent events through September 10, 2012, 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.

#### (2) 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.

#### (3) OKLAHOMA CAPITAL FORMATION ACT AMENDMENT

Effective June 8, 2012, an amendment was made to the Oklahoma Capital Formation Act (the "Amendment"). The Amendment created the following changes:

- The expiration date for all transferable tax credits of OCIB was extended from June 30, 2015, to June 30, 2020.
- OCIB may not enter into any contract authorizing or requiring the investment of any funds or binding commitments to make any investment of funds in addition to those investment agreements currently outstanding. Also, no modifications shall be made to any existing investment agreement that would have the effect of increasing the amount of OCIB's existing commitment to a fund.
- OCIB may not enter into any new contracts for the purpose of guaranteeing the repayment of obligations owed by a business entity (other than a subsidiary of OCIB) in connection with any loan of money from a financial institution or any other entity. Also, no modifications shall be made to any currently outstanding guarantee in a manner that would increase or extend OCIB's existing obligation.

See Independent Auditors' Report.

## OKLAHOMA CAPITAL INVESTMENT BOARD

### NOTES TO FINANCIAL STATEMENTS, CONTINUED

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#### (3) OKLAHOMA CAPITAL FORMATION ACT AMENDMENT, CONTINUED

As of June 30, 2012, management believes that OCIB is in compliance with all requirements of the Amendment.

#### (4) TRANSFERABLE TAX CREDITS

As a trust, part of the estate of OCIB was \$100,000,000 of State of Oklahoma tax credits. The credits can be transferred by OCIB at its sole discretion. As stated in Note 3, OCIB's rights to transfer the tax credits expire if not utilized by June 30, 2020. Credits which have been sold may be exercised until fully utilized.

As of June 30, 2012, \$30,915,000 of the credits had been sold for \$30,915,000 and the cash was 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		<u>3,400,000</u>
	\$	<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 can be sold by OCIB in a year. The remaining \$69,085,000 of tax credits were not considered impaired at June 30, 2012, as there was sufficient time remaining for the tax credits to be utilized before they expire on June 30, 2020.

The \$69,085,000 and \$72,485,000 of transferable tax credits at June 30, 2012 and 2011, respectively, are included in OCIB's net assets.

See Independent Auditors' Report.



# OKLAHOMA CAPITAL INVESTMENT BOARD

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

### (5) INVESTMENT INTERESTS

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

Balance at June 30, <u>2011</u>	Advances Made	Net Financial Earnings <u>Recognized</u>	Capital Distributions <u>Received</u>	Balance at June 30, <u>2012</u>
\$ 18,190,616	1,193,668	1,180,078	(5,200,906)	15,363,456
Balance at June 30, <u>2010</u>	Advances Made	Net Financial Losses <u>Recognized</u>	Capital Distributions <u>Received</u>	Balance at June 30, <u>2011</u>
\$ 22,381,379	1,013,974	(1,352,141)	(3,852,596)	18,190,616

Subsequent to June 30, 2012, distributions totaling approximately \$318,000 were received from one investment interest.

*Other Information—Unaudited:* The investment interests in the various entities are reflected using the equity method of accounting. Some of the entities reflect the investments which they own at the lower of cost or fair value. The general partners which have estimated the value of their investments at the lower of cost or fair value have provided unaudited fair value estimates for their investments. At June 30, 2012 and 2011, had such estimated fair values been utilized, the investment interests would have increased approximately \$3,782,000 and \$4,248,000, respectively. These estimates are based solely on information provided by the general partners and are unaudited.

See Independent Auditors' Report.

# OKLAHOMA CAPITAL INVESTMENT BOARD

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

### (5) INVESTMENT INTERESTS, CONTINUED

OCFC had committed to making the following investment interests as of June 30, 2012:

<u>Entity</u>	<u>Amount of Commitment</u>	<u>Commitment Funded as of June 30, 2012</u>	<u>Unfunded Commitment</u>
Acorn Growth Capital Fund III, L.L.C.	\$ 1,000,000	(571,118)	428,882
Blue Sage Capital, L.P.	2,000,000	(1,527,055)	472,945 <sup>(1)</sup>
Davis, Tuttle Venture Partners, L.P.	5,000,000	(5,000,000)	-
Dolphin Communications Fund II, L.P.	6,000,000	(6,000,000)	-
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, L.L.C.	7,500,000	(5,717,763)	1,782,237 <sup>(2)</sup>
Oklahoma Life Sciences Fund II, L.L.C.	1,750,000	(927,500)	822,500
Oklahoma Seed Capital Fund, L.L.C.	1,000,000	(870,000)	130,000
Prolog Capital II, L.P.	5,000,000	(4,417,467)	582,533
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
Tullis-Dickerson Capital Focus III, L.P.	<u>7,500,000</u>	<u>(7,500,000)</u>	<u>-</u>
	<u>\$ 56,630,435</u>	<u>(51,230,378)</u>	<u>5,400,057</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.

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 (“EDGE”) effective January 1, 2001. Per the agreement, EDGE 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, OCIB had no employees effective February 1, 2001. The agreement is to last for a period of 15 years. The original agreement required an annual fee of \$443,500 to be paid to EDGE, 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 EDGE elected to amend the management services agreement in order to reduce the annual fee. Based on the amended agreement, a fixed amount of \$30,000 in management fees is paid to EDGE monthly. During both 2012 and 2011, \$360,000 of fees were paid to EDGE in accordance with the amended management agreement.

EDGE also performs management oversight for Oklahoma Equity Partners, L.L.C., a partnership in which OCFC has invested. No additional compensation has been paid to EDGE 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 an 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 stated in Note 3, the Amendment prohibits the issuance of any new loan or an amendment to any existing loans currently enrolled in OCAP. Loans currently enrolled in the program will remain covered until the maturity date of the loan. The reserve account balance should gradually decrease as no fee or premium will be collected and claims, if any, are paid.

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 assets as “OCAP premiums collected in excess of claims paid.” As of June 30, a summary of OCAP activities is as follows:

<u>Year</u>	<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>
2012	<u>\$ 1,305,810</u>	<u>1,818,893</u>	<u>1,864,044</u>	<u>1,260,659</u>	<u>48,670,231</u>	<u>34,171,984</u>
2011	<u>\$ 1,288,675</u>	<u>1,801,758</u>	<u>1,820,207</u>	<u>1,270,224</u>	<u>47,424,870</u>	<u>33,743,326</u>

During 2012 and 2011, OCIB paid \$43,837 and \$30,261, respectively, of claims to institutions in the OCAP program. These claims were paid in cash from OCIB resources. During 2012 and 2011, claims paid exceeded fees collected by \$26,702 and \$224, respectively. 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, 2012 and 2011, was \$1,260,659 and \$1,270,224, respectively, which would come from unrestricted net assets.

### (8) DEBT PAYABLE

As of June 30, 2012 and 2011, OCIB had a line of credit provided by the Bank of Oklahoma of \$30,000,000 and \$38,000,000, respectively. The debt matured on June 29, 2012, and the maturity date was subsequently extended to August 30, 2013.

At June 30, the balance due was as follows:

<u>2012</u>		
	<u>Balance</u>	
<u>Commitment</u>	<u>Outstanding</u>	<u>Maturity</u>
Line of credit	<u>\$ 30,000,000</u>	<u>19,644,169</u> August 31, 2013
<u>2011</u>		
	<u>Balance</u>	
<u>Commitment</u>	<u>Outstanding</u>	<u>Maturity</u>
Line of credit	<u>\$ 38,000,000</u>	<u>25,980,309</u> June 29, 2012

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, 2012, 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 (2.49% at June 30, 2012), 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, 2012, 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 during 2012 and 2011 were as follows:

		2012				
		<u>Beginning Balance</u>	<u>Advances</u>	<u>Repayments</u>	<u>Ending Balance</u>	
Line of credit		<u>\$ 25,980,309</u>	<u>2,179,258</u>	<u>(8,515,398)</u>	<u>19,644,169</u>	
		2011				
		<u>Beginning Balance</u>	<u>Refinancing</u>	<u>Advances</u>	<u>Repayments</u>	<u>Ending Balance</u>
Line of credit		\$ 2,570,031	25,204,655	1,967,854	(3,762,231)	25,980,309
Term note		<u>33,257,878</u>	<u>(25,204,655)</u>	<u>-</u>	<u>(8,053,223)</u>	<u>-</u>
		\$ 35,827,909	-	1,967,854	(11,815,454)	25,980,309

### (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 opinion of management and counsel, the ultimate disposition of such proceedings will not have a material effect on OCIB's financial statements.

See Independent Auditors' Report.



**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 the financial statements of the Oklahoma Capital Investment Board (OCIB), a part of the financial reporting entity of the State of Oklahoma, as of and for the year ended June 30, 2012, and have issued our report thereon dated September 10, 2012. Our report also contains an explanatory paragraph disclaiming an opinion on Management's Discussion and Analysis, presented as required supplementary information. We conducted our audit 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.

**Internal Control Over Financial Reporting**

Management of OCIB is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered OCIB's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of OCIB's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

(Continued)

**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**

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether OCIB's financial statements are free of 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*.

This report is intended solely for the information and use of the Board of Trustees, management of OCIB, and the Office of the Oklahoma State Auditor and Inspector and is not intended to be and should not be used by anyone other than these specified parties.

*Finley & Cook, PLLC*

Shawnee, Oklahoma  
September 10, 2012