

**EDGE Fund as Administered by
the Oklahoma State Treasurer**

Financial Statements

May 31, 2015
(With Independent Auditors' Report Thereon)



**EDGE FUND AS ADMINISTERED BY
THE OKLAHOMA STATE TREASURER**

FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

To the Oklahoma State Treasurer
Administrator (Trustee) of the EDGE Fund

Report on the Financial Statements

We have audited the accompanying financial statements of the EDGE Fund as Administered by the Oklahoma State Treasurer (EDGE), which is a part of the State of Oklahoma financial reporting entity, which comprise the statement of fiduciary net position as of May 31, 2015, and the related statement of changes in fiduciary net position for the 35-month period (from July 1, 2012) then ended, and the related notes to the 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 audit. 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. Those standards require that we plan and perform the audit 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, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of EDGE as of May 31, 2015, and the changes in fiduciary net position of EDGE for the period then ended in accordance with accounting principles generally accepted in the United States.

Emphasis of Matter

EDGE-Only Financial Statements

As discussed in Note 1, the financial statements of EDGE are intended to present the fiduciary net position and the changes in fiduciary position of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Oklahoma that is attributable to the transactions of EDGE. They do not purport to, and do not, present fairly the financial position of the State of Oklahoma as of May 31, 2015, and the changes in its financial position for the period then ended in conformity with accounting principles generally accepted in the United States. Our opinion is not modified with respect to this matter.

Change of Operations

As also discussed in Note 1, the financial statements are presented as a fiduciary fund, as the Oklahoma State Treasurer was charged with the responsibility of administrating as a trustee the activities of EDGE after Senate Bill 1969 (the "Bill") was passed on May 25, 2012. The Bill abolished the Board of Investors and transferred their powers and duties to the Oklahoma State Treasurer. The Oklahoma State Treasurer was charged with transferring the assets of EDGE to certain other state agencies after satisfying contract commitments which were in existence at that time.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

(Continued)

INDEPENDENT AUDITORS' REPORT, CONTINUED

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2015, on our consideration of the Plan'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 the Plan's internal control over financial reporting and compliance.

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

Shawnee, Oklahoma
June 24, 2015

**EDGE FUND AS ADMINISTERED BY
THE OKLAHOMA STATE TREASURER**

STATEMENT OF FIDUCIARY NET POSITION

May 31, 2015

Assets

Cash and cash equivalents	\$ 2,629,190
Total assets	<u>2,629,190</u>

Liabilities

Accounts payable—Finley & Cook, PLLC	9,000
Accounts payable—Oklahoma State Regents for Higher Education	<u>2,620,190</u>
Total liabilities	<u>2,629,190</u>
Fiduciary net position restricted for others	<u><u>\$ -</u></u>

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

**EDGE FUND AS ADMINISTERED BY
THE OKLAHOMA STATE TREASURER**

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

35-Month Period (from July 1, 2012) Ended May 31, 2015

Additions:

Transfer of net position from EDGE Fund to the Oklahoma State Treasurer	\$ 159,402,340
Investment income:	
Interest and dividend income	879,177
Realized gains on transfers of securities	<u>3,847,045</u>
Total investment income	4,726,222
Investment expenses	<u>(104,932)</u>
Net investment income	<u>4,621,290</u>
 Total additions	 <u>164,023,630</u>

Deductions:

Program contracts	8,411,480
Transfer to Quick Action Closing Fund (Governor's Office)	6,725,049
Transfer to Oklahoma State Regents for Higher Education	148,763,624
Administrative and other expenses	<u>123,477</u>
Total deductions	<u>164,023,630</u>

Changes in fiduciary net position -

Fiduciary net position, beginning of period -

Fiduciary net position, end of period \$ -

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

**EDGE FUND AS ADMINISTERED BY
THE OKLAHOMA STATE TREASURER**

NOTES TO FINANCIAL STATEMENTS

May 31, 2015

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

During the 53rd legislative session of the State of Oklahoma, Senate Bill No. 1969 (the “Bill”) was passed on May 25, 2012. The Bill abolished the Board of Investors of the EDGE Fund [Economic Development Generating Excellence] (the “Fund”) and transferred its powers and duties to the Oklahoma State Treasurer to assume a fiduciary role. The Bill requires the transfer of the assets of the Fund to other state agencies and repeals Section 52 of Title 62 which originally established EDGE Policy Board. The Bill became effective on August 23, 2012. As a result of the Bill, the Oklahoma State Treasurer entered into an agreement (the “Agreement”) with the State Regents of Higher Education (the “Regents”) and the Governor as the trustee of the Quick Action Closing Fund regarding the administration and ultimate transfer of remaining assets to the Regents. The financial statements represent the net fiduciary position and changes in net fiduciary position after the Oklahoma State Treasurer assumed responsibilities of the Fund.

Originally, the Fund was established in June 2006 when the Oklahoma Legislature passed Senate Bill 99XX. This legislation created Sections 47 and 52 of Title 62 of the Oklahoma Statutes. Those provisions created a fund for Economic Development Generating Excellence, to be known as the EDGE Fund. The investment management of the fund was administered by a five-person Board of Investors chaired by the Oklahoma State Treasurer. The remaining members of the Board of Investors were appointed by the Governor, the State Auditor and Inspector, the President Pro Tem of the Senate, and the Speaker of the House of Representatives.

The EDGE Fund as Administered by the Oklahoma State Treasurer (EDGE) represents the transfer of the net position of the Fund to EDGE to be administered by the Oklahoma State Treasurer for the benefit of others as noted below. In accordance with the Bill, the Fund ceased purchasing new investments on July 1, 2012; therefore, EDGE had no investment purchases subsequent to June 30, 2012. The significant transfers of the assets of EDGE in accordance with the Bill are as follows:

- The State Treasurer’s duties included administering the remaining encumbrances of the Fund in a fiduciary capacity. The most significant remaining encumbrances were related to the contract commitments of the Fund. Subsequent to the effective date of the Bill, EDGE recognized expenditures for the commitments on the contracts totaling \$8,411,480. No remaining commitments existed as of May 31, 2015. EDGE also recognized approximately \$124,000 of administrative and other expenditures in compliance with the Agreement.

See Independent Auditors’ Report.

**EDGE FUND AS ADMINISTERED BY
THE OKLAHOMA STATE TREASURER**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Reporting Entity, Continued

- In connection with administration of EDGE the Oklahoma State Treasurer used the Oklahoma Center for the Advancement of Science and Technology (OCAST) to assist in monitoring the contracts EDGE had with certain contractors. Fees incurred by OCAST for this administration were approximately \$69,000.
- During this period, EDGE also paid approximately \$27,519 to the Oklahoma State Treasurer for administrative services.
- An audit of EDGE was commenced during the period of which the audit firm of Finley & Cook, PLLC, incurred total fees of \$15,750, of which \$9,000 was owed as of May 31, 2015.
- The Governor, as Trustee of the Quick Action Closing Fund, received all remaining unspent and unencumbered interest and proceeds of the Fund earned through June 30, 2012, representing \$6,725,049.
- The Regents, as Trustee of the Oklahoma State Regents Endowment Trust Fund, are to receive the remainder of the Fund assets after contractual and administrative commitments have been met. Such amounts totaled approximately \$148,764,000, of which \$2,620,190 was payable to the Regents as of May 31, 2015. An initial transfer of investments was made to the Regents in 2012.

The financial statements of EDGE are intended to present the fiduciary net position and the changes in fiduciary net position of only that portion of the governmental activities and governmental funds of the State that is attributable to the transactions of EDGE, and not those of the entire State.

Basis of Presentation, Measurement Focus, and Basis of Accounting

The financial statements have been prepared on the accrual basis as a fiduciary fund in accordance with Governmental Accounting Standards Board Statement No. 34 (GASB 34). The statement of fiduciary net position and the statement of changes in fiduciary net position are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

See Independent Auditors' Report.

**EDGE FUND AS ADMINISTERED BY
THE OKLAHOMA STATE TREASURER**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Investments

As previously noted, in accordance with the Bill, the Fund ceased purchasing new investments as of July 1, 2012; therefore, EDGE had no investment purchases subsequent to June 30, 2012.

Net investment income includes realized gains of approximately \$3,847,000 on the appreciation in the fair value of investments transferred to the Regents. The realized gains were computed based on the month-end balance of the month preceding the transfer date.

Interest income, dividend income, and investment expenses, which includes investment management and custodial fees, and all other significant investment-related costs are also included in net investment income.

Annual Budget-to-Actual Comparison

EDGE is not required to prepare an annual budget. Therefore, an annual budget-to-actual comparison as required by GASB 34 is not presented.

Date of Management's Review of Subsequent Events

Management has evaluated subsequent events through June 24, 2015, 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) CASH AND CASH EQUIVALENTS

At May 31, 2015, cash and cash equivalents were composed of amounts deposited in the State's OK INVEST account amounting to \$2,629,190.

The cash investment in OK INVEST is controlled by the State and, as the balances change on a daily basis, they are considered cash equivalents. The balances are overnight funds consisting of U.S. agencies, U.S. Treasury notes, tri-party repurchase agreements, certificates of deposit, money market mutual funds, and other investments as allowed by Oklahoma statutes and the Oklahoma State Treasurer's investment policy.

Interest is earned monthly on the cash balances. Interest income has been recorded through May 31, 2015. There may be additional interest earned.

See Independent Auditors' Report.

**EDGE FUND AS ADMINISTERED BY
THE OKLAHOMA STATE TREASURER**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) ADMINISTRATION

As previously discussed, the Bill authorized the Oklahoma State Treasurer to administer the transfer of assets and settlement of liabilities of the Fund in a fiduciary capacity in accordance with the Bill. These administrative functions have been presented in the activities of EDGE in accordance with the Bill and the Agreement.

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**

To the Oklahoma State Treasurer,
Administrator (Trustee) of the EDGE Fund

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 EDGE Fund as Administered by the Oklahoma State Treasurer (EDGE), which is a part of the State of Oklahoma financial reporting entity, which comprise the statement of fiduciary net position as of May 31, 2015, and the related statement of changes in fiduciary net position for the 35-month period (from July 1, 2012) then ended, and the related notes to the financial statements, and have issued our report thereon dated June 24, 2015. Our report includes an explanatory paragraph disclaiming an opinion on required supplementary information. Our report also includes an explanatory paragraph to emphasize that the financial statements of EDGE do not purport to, and do not, present fairly the financial position of the State of Oklahoma as of May 31, 2015, or the changes in its financial position for the period then ended. In addition, our report includes an explanatory paragraph noting that the financial statements reflect the fiduciary operations of EDGE since the Oklahoma State Treasurer was given the responsibility to administer its operations.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered EDGE'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 EDGE's internal control. Accordingly, we do not express an opinion on the effectiveness of EDGE'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.

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**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 EDGE'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 EDGE's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering EDGE's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Finley + Cook, PLLC

Shawnee, Oklahoma
June 24, 2015



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
THE PROVISIONS OF SENATE BILL NO. 1969 AND
THE "AGREEMENT AND RELEASE OF ALL CLAIMS"**

To the Oklahoma State Treasurer,
Administrator (Trustee) of the EDGE Fund

Report on Compliance for the Administration of the EDGE Fund

We have audited the Oklahoma State Treasurer's compliance in his administration of the EDGE Fund with the requirements described in Senate Bill No. 1969 (the "Bill") and the Agreement and Release of All Claims (the "Agreement") entered into by and between the Oklahoma State Regents for Higher Education, the Oklahoma State Treasurer, and the Governor as Trustee of the Quick Action Closing Fund that could have a direct and material effect on the financial statements of EDGE for the 35-month period (from July 1, 2012) ended May 31, 2015.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, and contracts applicable to the Bill and the Agreement.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance with the Bill and the Agreement by the Treasurer based on our audit of the compliance requirements referred to above.

We conducted our audit of compliance 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 noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the EDGE financial statements occurred. An audit includes examining, on a test basis, evidence about the Treasurer's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the Treasurer's activities in connection with his administration of EDGE. However, our audit does not provide a legal determination of the Treasurer's compliance.

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
THE PROVISIONS OF SENATE BILL NO. 1969 AND
THE "AGREEMENT AND RELEASE OF ALL CLAIMS," CONTINUED**

Opinion on Compliance with the Bill and the Agreement

In our opinion, the Treasurer complied, in all material respects, with the Bill and the Agreement that could have a direct and material effect on the financial statements of EDGE for the 35-month period ended May 31, 2015.

Finley + Cook, PLLC

Shawnee, Oklahoma
June 24, 2015