

Oklahoma Capital Investment Board

Financial Statements

June 30, 2015 and 2014
(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 part of the State of Oklahoma financial reporting entity, as of June 30, 2015 and 2014, 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 did not audit the financial statements of certain of the investment interests, which represent approximately \$6,603,940 and \$8,556,000 of total investment interests as of June 30, 2015 and 2014, respectively. The financial statements of these certain investment interests were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for certain investment interests, is based on the reports of the other auditors. 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.

(Continued)

INDEPENDENT AUDITORS' REPORT, CONTINUED

Auditors' Responsibility, Continued

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.

Opinion

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the net position of OCIB as of June 30, 2015 and 2014, 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

Restatement of Previously Reported Balances

As discussed in Note 2, the 2014 financial statements have been restated to correct an error in recording income from the investment interests. Our opinion is not modified with respect to this matter.

Investment Interests at Fair Market Value

As discussed in Notes 1 and 5, the investment interests included in the financial statements are reported using the equity method of accounting using the most recent audited financial statements, K-1 tax return information, or the most recent reliable data. In some cases, the financial statements of the investment interest are prepared on a basis of accounting which may not report the interest at estimated fair value. As such, there exists an inherent uncertainty that the reported values may differ significantly from the values that would have been used had a fair value estimate been used, and such differences could be material. Our opinion is not modified with respect to this matter.

(Continued)

INDEPENDENT AUDITORS' REPORT, CONTINUED

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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2015, on our consideration of OCIB's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering OCIB's internal control over financial reporting and compliance.

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

Shawnee, Oklahoma
September 8, 2015

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, 2015 and 2014. 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).

FINANCIAL HIGHLIGHTS

- In FY-2015, OCIB made \$367,705 in aggregate contributions to its Venture Investment Program to fund commitments;
- In FY-2015, OCIB (OCFC) received \$1,132,108 in distributions from its Venture Investment Program (proceeds were applied to the OCFC line of credit);
- In FY-2015, the funds supported by the OCIB Venture Investment Program provided more than \$14.9 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>2015</u>	<u>2014</u> (Restated)
Current assets	\$ 20,011,316	20,008,629
Noncurrent assets	59,746,622	60,702,533
Total assets	<u>79,757,938</u>	<u>80,711,162</u>
Liabilities	<u>15,146,226</u>	<u>15,001,339</u>
Net position	<u>\$ 64,611,712</u>	<u>65,709,823</u>

Assets at June 30, 2015 and 2014, principally consisted of \$69,085,000 of tax credits, of which \$20,000,000 was current for both years and \$49,085,000 was noncurrent for both years. Assets also included investment interests of \$10,661,622 and \$11,617,533 as of June 30, 2015 and 2014, respectively.

Operating Activities

The operations of OCIB are dependent upon the results of the investments made. During 2015 and 2014, no new investment interests were established. A summary of operating results for 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u> (Restated)
Operating expenses:		
Management fees	\$ (360,000)	(360,000)
Accounting, legal, and consultants	(63,784)	(37,882)
Other	<u>(2,480)</u>	<u>(7,459)</u>
Total operating expenses	<u>(426,264)</u>	<u>(405,341)</u>
Other expenses:		
Interest expense	(366,143)	(434,270)
Other	<u>(114,196)</u>	<u>(1,256)</u>
Total other expenses	<u>(480,339)</u>	<u>(435,526)</u>
Net financial (losses) earnings from investment interests—equity basis	<u>(191,508)</u>	<u>548,367</u>
Change in net position	<u>\$ (1,098,111)</u>	<u>(292,500)</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

FINANCIAL ANALYSIS OF OCIB, CONTINUED

Operating Activities, Continued

Cash flows from investment interests for 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Cash payments for investment interests	\$ (367,705)	(757,418)
Cash distributions from investment interests	<u>1,132,108</u>	<u>4,629,014</u>
Net cash flows provided by investment interests	<u>\$ 764,403</u>	<u>3,871,596</u>

A significant part of the overall operations of OCIB is its transferable tax credits. As of June 30, 2015 and 2014, OCIB had \$69,085,000 of transferable tax credits recorded as assets in its financial statements; for each 2015 and 2014, \$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 2015 or 2014. 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, 2015.

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, 2015 and 2014, the maximum amount of exposure for OCIB was approximately \$618,000 and \$732,000, respectively. Total loans covered by the program were approximately \$34,172,000 at both June 30, 2015 and 2014.

As of June 30, 2015 and 2014, OCIB's commitment for unfunded investment interests was approximately \$3,984,000 and \$4,351,000, respectively. It is anticipated that at least \$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 \$30,000,000 line of credit with a local financial institution during 2011. The line of credit was renewed with a \$25,000,000 line of credit during August 2015. Activity of the debt for 2015 and 2014 was as follows:

	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>
	2014			
	<u>Beginning Balance</u>	<u>Advances</u>	<u>Repayments</u>	<u>Ending Balance</u>
Line of credit	<u>\$ 17,897,398</u>	<u>1,657,123</u>	<u>(4,629,014)</u>	<u>14,925,507</u>

As further discussed in the notes to the financial statements, the debt is secured by the specific assignment of agreements with four corporations to purchase tax credits from OCIB. The revolving line of credit is presently due August 27, 2016.

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>2015</i>	<i>2014</i>
Assets		
Current assets:		
Cash	\$ 11,316	8,629
Transferable tax credits, current	20,000,000	20,000,000
Total current assets	<u>20,011,316</u>	<u>20,008,629</u>
Investment interests (Note 5):		
Acorn Growth Capital Fund III, L.L.C.	969,233	969,977
Blue Sage Capital, L.P.	1,238,703	1,492,979
Davis, Tuttle Venture Partners, L.P.	52,458	100,030
Intersouth Partners III, L.P.	-	17,611
Mesa Oklahoma Growth Fund I, L.P.	315,330	313,254
Oklahoma Equity Partners, LLC	815,062	739,942
Oklahoma Life Sciences Fund II, L.L.C.	862,012	698,278
Oklahoma Seed Capital Fund, L.L.C.	1,043,586	1,015,460
Prolog Capital II, L.P.	1,145,772	1,355,130
SSM Venture Partners III, L.P., restated	1,445,933	2,078,563
Tullis-Dickerson Capital Focus III, L.P.	2,773,533	2,836,309
Total investment interests, restated	<u>10,661,622</u>	<u>11,617,533</u>
Transferable tax credits, less current portion	<u>49,085,000</u>	<u>49,085,000</u>
Total assets, as restated	<u>\$ 79,757,938</u>	<u>80,711,162</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>2015</i>	<i>2014</i>
Liabilities and Net Position		
Current liabilities:		
Accrued interest payable	\$ 76,058	75,832
Total current liabilities	<u>76,058</u>	<u>75,832</u>
Long-term debt payable	<u>15,070,168</u>	<u>14,925,507</u>
Total liabilities	<u>15,146,226</u>	<u>15,001,339</u>
Unrestricted net position, as restated	<u>64,611,712</u>	<u>65,709,823</u>
Total liabilities and net position, as restated	<u>\$ 79,757,938</u>	<u>80,711,162</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>2015</i>	<i>2014</i>
Operating (expenses) income:		
Management fees	\$ (360,000)	(360,000)
Accounting, legal, and consultants	(63,784)	(37,882)
Venture investing	(2,895)	(7,661)
Other	415	202
Total operating expenses	<u>(426,264)</u>	<u>(405,341)</u>
Other expenses:		
Interest expense	(366,143)	(434,270)
OCAP claims paid in excess of cumulative premiums collected	(113,148)	-
Other	(1,048)	(1,256)
Total other expenses	<u>(480,339)</u>	<u>(435,526)</u>
Operating loss before net financial earnings from investment interests—equity basis	<u>(906,603)</u>	<u>(840,867)</u>
Financial (losses) earnings from investment interests—equity basis (Note 5):		
Acorn Growth Capital Fund III, L.L.C.	(744)	(1,243)
Blue Sage Capital, L.P.	298,619	(38,629)
Davis, Tuttle Venture Partners, L.P.	(360)	(1,227)
Emergent Technologies Oklahoma, L.P.	33,547	289,565
Intersouth Partners III, L.P.	(8,004)	(24,112)
Mesa Oklahoma Growth Fund I, L.P.	2,076	(316,442)
Oklahoma Equity Partners, LLC	29,915	(1,485,166)
Oklahoma Life Sciences Fund II, L.L.C.	(11,266)	(274,141)
Oklahoma Seed Capital Fund, L.L.C.	28,126	28,415
Prolog Capital II, L.P.	(356,858)	(953,502)
Richland Ventures II, L.P.	-	(69)
Rocky Mountain Mezzanine Fund II, L.P.	-	2,675
SSM Venture Partners III, L.P., restated	(467,630)	2,904,156
Tullis-Dickerson Capital Focus III, L.P.	261,071	418,087
Total net financial (losses) earnings from investment interests—equity basis	<u>(191,508)</u>	<u>548,367</u>
Net decrease in net position, as restated	(1,098,111)	(292,500)
Net position, beginning of year, as restated	<u>65,709,823</u>	<u>66,002,323</u>
Net position, end of year, as restated	<u>\$ 64,611,712</u>	<u>65,709,823</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>2015</i>	<i>2014</i>
Cash flows from operating activities:		
Cash paid to suppliers	\$ (63,784)	(37,882)
Management fees paid	(360,000)	(360,000)
General and administrative expenses paid	(2,480)	(7,459)
Cash paid for interest expense	(365,917)	(490,705)
OCAP expenses paid	(113,148)	-
Other	(1,048)	(1,256)
Net cash used in operating activities	<u>(906,377)</u>	<u>(897,302)</u>
Cash flows from noncapital and related financing activities:		
Advances from debt	1,276,769	1,657,123
Repayments of debt	<u>(1,132,108)</u>	<u>(4,629,014)</u>
Net cash provided by (used in) noncapital and related financing activities	<u>144,661</u>	<u>(2,971,891)</u>
Cash flows from investing activities:		
Cash payments for investment interests	(367,705)	(757,418)
Cash distributions from investment interests	<u>1,132,108</u>	<u>4,629,014</u>
Net cash provided by investing activities	<u>764,403</u>	<u>3,871,596</u>
Net increase in cash and cash equivalents	2,687	2,403
Cash and cash equivalents at beginning of year	<u>8,629</u>	<u>6,226</u>
Cash and cash equivalents at end of year	<u>\$ 11,316</u>	<u>8,629</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (906,603)	(840,867)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Increase (decrease) in accrued interest payable	<u>226</u>	<u>(56,435)</u>
Net cash used in operating activities	<u>\$ (906,377)</u>	<u>(897,302)</u>

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

OKLAHOMA CAPITAL INVESTMENT BOARD

NOTES TO FINANCIAL STATEMENTS

June 30, 2015 and 2014

(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 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, 2015 and 2014, 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, 2015 and 2014. 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 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.

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 March 2012, GASB issued Statement No. 66, *Technical Corrections—2012—An Amendment of GASB Statements No. 10 and No. 62* (GASB 66). GASB 66 improves accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. OCIB adopted this statement effective July 1, 2013. The adoption had no significant impact on the financial statements of OCIB.

In April 2013, GASB issued Statement No 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* (GASB 70). GASB 70 requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows expected to be incurred as a result of the guarantee. When there is no best estimate but a range of the estimated future outflows can be established, the amount of the liability to be recognized should be the discounted present value of the minimum amount within the range. A government that has issued an obligation guaranteed in a nonexchange transaction is to report the obligation until legally released as an obligor. This statement also provides additional guidance for intra-entity nonexchange financial guarantees involving blended component units. This statement specifies the information required to be disclosed by governments that extend nonexchange financial guarantees. This statement requires new information to be disclosed by governments that receive nonexchange financial guarantees. OCIB adopted this statement effective July 1, 2014. The adoption had no significant impact on the financial statements of OCIB.

Date of Management’s Review of Subsequent Events

Management has evaluated subsequent events through September 8, 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.

See Independent Auditors’ Report.

OKLAHOMA CAPITAL INVESTMENT BOARD

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) RESTATEMENT

The June 30, 2014, financial statements have been restated to correct an error in recording income from investment interests. During April 2014, one of the investment interests, SSM, paid a large distribution to OCIB. The entire distribution was considered earnings and should not have been. The restatement corrects this error. The effect of the restatement is as follows:

	As Previously <u>Reported</u>	<u>As Restated</u>	Effect of <u>Changes</u>
Total investment interests, June 30, 2014	\$ 12,410,849	11,617,533	(793,316)
Total assets, June 30, 2014	81,504,478	80,711,162	(793,316)
Financial earnings from investment interests—equity basis 2014	1,341,683	548,367	(793,316)
Net position, June 30, 2014	66,503,139	65,709,823	(793,316)

(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.

As of June 30, 2015, \$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	-
	<u>\$ 30,915,000</u>

See Independent Auditors' Report.

OKLAHOMA CAPITAL INVESTMENT BOARD

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(4) TRANSFERABLE TAX CREDITS, CONTINUED

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 were not considered impaired at June 30, 2015 or 2014, 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 June 30, 2015 and 2014, are included in OCIB's net position.

(5) INVESTMENT INTERESTS

A summary of the changes in investment interests, as accounted for using the equity method of accounting, for the years ended June 30 is as follows:

Balance at June 30, <u>2014</u>	Advances Made	Net Financial Earnings (Losses) <u>Recognized</u>	Capital Distributions <u>Received</u>	Balance at June 30, <u>2015</u>
\$ 11,617,533	367,705	(191,508)	(1,132,108)	10,661,622
Balance at June 30, <u>2013</u>	Advances Made	Net Financial Earnings <u>Recognized</u> (Restated)	Capital Distributions <u>Received</u>	Balance at June 30, <u>2014</u> (Restated)
\$ 14,940,762	757,418	548,367	(4,629,014)	11,617,533

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, 2015, had such estimated fair values been utilized, the investment interests would have increased approximately \$686,000. 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, 2015:

<u>Entity</u>	<u>Amount of Commitment</u>	<u>Commitment Funded as of June 30, 2015</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	1,417,500	332,500
Oklahoma Seed Capital Fund, L.L.C.	1,000,000	870,000	130,000
Pacesetter Growth Fund, L.P.	3,500,000	3,500,000	-
Prolog Capital II, L.P.	5,000,000	4,937,467	62,533
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>65,532,584</u>	<u>3,983,551</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 2015 and 2014, 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 2015. No new loans were enrolled and no claims were paid in 2014. A summary of OCAP’s activities as of June 30, 2015 and 2014, 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, 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>
June 30, 2014	<u>\$ 1,305,510</u>	<u>1,576,425</u>	<u>2,150,329</u>	<u>731,606</u>	<u>48,670,231</u>	<u>34,171,984</u>

During 2015, OCIB paid \$113,148 of claims to institutions in the OCAP program. These claims were paid in cash from OCIB resources. During 2014, OCIB did not pay any claims to institutions in the OCAP program. 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, 2015 and 2014, was \$618,458 and \$731,606, respectively, which would come from the unrestricted net position.

(8) DEBT PAYABLE

For the years ended June 30, 2015 and 2014, OCIB had a line of credit provided by the Bank of Oklahoma of \$25,000,000 and \$30,000,000, respectively. The debt matured on August 28, 2015, and the maturity date was extended to August 27, 2016. The amount of the line of credit renewed at \$25,000,000.

At June 30, the balance due was as follows:

	<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
	<u>2014</u>		
	<u>Commitment</u>	<u>Balance Outstanding</u>	<u>Maturity</u>
Line of credit	<u>\$ 30,000,000</u>	<u>14,925,507</u>	August 28, 2015

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, 2015, 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 (2.44% at June 30, 2015), 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, 2015, 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 2015 and 2014 were as follows:

	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>
	2014			
	<u>Beginning Balance</u>	<u>Advances</u>	<u>Repayments</u>	<u>Ending Balance</u>
Line of credit	<u>\$ 17,897,398</u>	<u>1,657,123</u>	<u>(4,629,014)</u>	<u>14,925,507</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 8, 2012. As of June 30, 2015, 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, 2015, and the related notes to the financial statements, which collectively comprise OCIB's basic financial statements, and have issued our report thereon dated September 8, 2015. Our report includes an explanatory paragraph disclaiming an opinion on required supplementary information. Our report also includes an explanatory paragraph noting the restatement of the June 30, 2014, financial statements. Our report includes a reference to other auditors who audited certain of the investment interests, as described in our report on OCIB's financial statements. The financial statements of the investment interests audited by other auditors were not audited in accordance with *Government Auditing Standards*. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

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 8, 2015