

Oklahoma Capital Investment Board

Financial Statements

June 30, 2022 and 2021
(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

Opinion

We have audited the accompanying statements of net position of the Oklahoma Capital Investment Board (OCIB), which is a component unit of the State of Oklahoma financial reporting entity, as of June 30, 2022 and 2021, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of OCIB as of June 30, 2022 and 2021, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of OCIB, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

Investment Interests at Fair Value

As discussed in Notes 1 and 4, the investment interests included in the financial statements are reported at fair value. As the fair values of the investment interests are not readily determinable, estimates have been used to determine the fair value. There exists an inherent uncertainty that the estimated values may differ significantly from the values that would have been used had a market for the investment interests existed, and the differences could be material. Our opinion is not modified with respect to this matter.

INDEPENDENT AUDITORS' REPORT, CONTINUED

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about OCIB's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 OCIB's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about OCIB's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

INDEPENDENT AUDITORS' REPORT, CONTINUED

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-3 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2022, 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 solely 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 the effectiveness of the OCIB's 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.

Shawnee, Oklahoma
September 22, 2022

Finley + Cook, PLLC

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, 2022 and 2021. 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-2022, OCIB (OCFC) received \$291,917 in distributions from its Venture Investment Program.

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 provided 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>2022</u>	<u>2021</u>
Current assets	\$ 1,645,896	1,534,939
Noncurrent assets	<u>7,606,925</u>	<u>8,821,720</u>
Total assets	<u>9,252,821</u>	<u>10,356,659</u>
Liabilities	<u>-</u>	<u>16,525</u>
Net position	<u>\$ 9,252,821</u>	<u>10,340,134</u>

Assets at June 30, 2022 and 2021, principally consisted of \$7,606,925 and \$8,821,720, respectively, of investment interests (see Note 3).

Operating Activities

The operations of OCIB are dependent upon the results of the investments made. During 2022 and 2021, no new investment interests were established. A summary of operating results for 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Operating expenses:		
Management fees	\$ (154,000)	(224,000)
Accounting, legal, and consultants	(12,000)	(28,920)
Other	<u>(18)</u>	<u>(1,048)</u>
Total operating expenses	<u>(166,018)</u>	<u>(253,968)</u>
Other (expenses) income:		
Loss on settlements of investment interests	(21,796)	-
Interest income	<u>1,583</u>	<u>257</u>
Total other (expenses) income	<u>(20,213)</u>	<u>257</u>
Net changes in fair value of investment interests	<u>(907,336)</u>	<u>2,400,836</u>
Distribution revenue	<u>6,254</u>	<u>224,277</u>
Change in net position	<u>\$ (1,087,313)</u>	<u>2,371,402</u>

MANAGEMENT’S DISCUSSION AND ANALYSIS, CONTINUED

FINANCIAL ANALYSIS OF OCIB, CONTINUED

Operating Activities, Continued

Cash flows from investment interests for 2022 and 2021 were as follows:

	<u>2022</u>	<u>2021</u>
Cash distributions from investment interests	\$ <u>291,917</u>	<u>1,645,516</u>

As of June 30, 2022, OCIB had no remaining commitment for unfunded investment interests.

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>2022</i>	<i>2021</i>
Assets		
Current assets:		
Cash	\$ 1,645,896	1,534,939
Total current assets	<u>1,645,896</u>	<u>1,534,939</u>
Investment interests, at fair value (Note 3):		
Acorn Growth Capital Fund III, L.L.C.	235,000	952,622
InnovAlarm Corporation	895,577	895,577
Mesa Oklahoma Growth Fund I, L.P.	268,085	268,160
Oklahoma Equity Partners, LLC	-	-
Oklahoma Life Sciences Fund II, L.L.C.	3,181,784	2,928,090
Prolog Capital II, L.P.	-	-
SSM Venture Partners III, L.P.	74,175	76,050
Tullis-Dickerson Capital Focus III, L.P.	<u>2,952,304</u>	<u>3,701,221</u>
Total investment interests	<u>7,606,925</u>	<u>8,821,720</u>
 Total assets	 <u>\$ 9,252,821</u>	 <u>10,356,659</u>
Liabilities and Net Position		
Current liabilities:		
Accounts payable	\$ -	16,525
Total current liabilities	<u>-</u>	<u>16,525</u>
 Total liabilities	 <u>-</u>	 <u>16,525</u>
 Unrestricted net position	 <u>9,252,821</u>	 <u>10,340,134</u>
 Total liabilities and net position	 <u>\$ 9,252,821</u>	 <u>10,356,659</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>2022</i>	<i>2021</i>
Operating expenses:		
Management fees	\$ (154,000)	(224,000)
Accounting, legal, and consulting	(12,000)	(28,920)
Other	(18)	(1,048)
Total operating expenses	<u>(166,018)</u>	<u>(253,968)</u>
Other (expense) income:		
Loss on settlements of investment interests	(21,796)	-
Interest income	<u>1,583</u>	<u>257</u>
Total other (expense) income	<u>(20,213)</u>	<u>257</u>
Operating loss before changes in fair value of investment interests	<u>(186,231)</u>	<u>(253,711)</u>
Changes in fair value of investment interests (Note 3):		
Acorn Growth Capital Fund III, L.L.C.	(717,622)	384
Mesa Oklahoma Growth Fund I, L.P.	(75)	(1,610)
Oklahoma Equity Partners, LLC	-	(2,784)
Oklahoma Life Sciences Fund II, L.L.C.	253,694	582,615
SSM Venture Partners III, L.P.	(1,875)	46,050
Tullis-Dickerson Capital Focus III, L.P.	<u>(441,458)</u>	<u>1,776,181</u>
Net changes in fair value of investment interests	<u>(907,336)</u>	<u>2,400,836</u>
Distribution revenue	<u>6,254</u>	<u>224,277</u>
Change in net position	(1,087,313)	2,371,402
Net position, beginning of year	<u>10,340,134</u>	<u>7,968,732</u>
Net position, end of year	<u>\$ 9,252,821</u>	<u>10,340,134</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>2022</i>	<i>2021</i>
Cash flows from operating activities:		
Cash paid to suppliers	\$ (28,525)	(40,396)
Management fees paid	(154,000)	(224,000)
General and administrative expenses paid	(18)	(1,048)
Cash received for interest income	<u>1,583</u>	<u>257</u>
Net cash used in operating activities	<u>(180,960)</u>	<u>(265,187)</u>
Cash flows from investing activities:		
Cash distributions from investment interests	<u>291,917</u>	<u>1,645,516</u>
Net cash provided by investing activities	<u>291,917</u>	<u>1,645,516</u>
Net increase in cash and cash equivalents	110,957	1,380,329
Cash and cash equivalents at beginning of year	<u>1,534,939</u>	<u>154,610</u>
Cash and cash equivalents at end of year	<u><u>\$ 1,645,896</u></u>	<u><u>1,534,939</u></u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (186,231)	(253,711)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Decrease in accounts payable	(16,525)	(11,476)
Loss on settlements of investment interests	<u>21,796</u>	<u>-</u>
Net cash used in operating activities	<u><u>\$ (180,960)</u></u>	<u><u>(265,187)</u></u>

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

OKLAHOMA CAPITAL INVESTMENT BOARD

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

(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.

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). During the year ended June 30, 2006, OCIB purchased 100% of the ownership of OCFC, which has invested 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. Cash balances in excess of amounts insured by Federal Deposit Insurance Corporation are secured by investments pledged by the financial institutions. As of June 30, 2022 and 2021, the Authority had no cash balances exposed to custodial credit risk.

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 capitalized equipment as of June 30, 2022 and 2021. All equipment is currently provided by the managing entity.

Income Taxes

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

Advertising Costs

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

Cash and Cash Equivalents

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

Investment Interests

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

Use of Estimates in Preparing Financial Statements

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

See Independent Auditors' Report.

OKLAHOMA CAPITAL INVESTMENT BOARD

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Recent Accounting Pronouncements

In June 2017, GASB issued Statement No. 87, *Leases* (GASB 87). GASB 87 defines a lease as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. GASB 87 improves accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. OCIB adopted GASB 87 effective July 1, 2021, which did not have a significant impact on the financial statements.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* (GASB 89). GASB 89 directs that interest costs incurred during the construction period of an asset be expensed in the period incurred. GASB 89 changes previous guidance regarding capitalized construction costs where such costs were typically included in the capitalized cost of the asset constructed and depreciated over time. OCIB adopted GASB 89 on July 1, 2021, which did not have a significant impact on the financial statements.

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations* (GASB 91). GASB 91 provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligation, and (3) related note disclosures. OCIB will adopt GASB 91 effective July 1, 2022, for the June 30, 2023, reporting year. OCIB does not expect GASB 91 to have a significant impact on the financial statements.

See Independent Auditors' Report.

OKLAHOMA CAPITAL INVESTMENT BOARD

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Recent Accounting Pronouncements, Continued

In January 2020, GASB issued Statement No. 92, *Omnibus 2020* (GASB 92). GASB 92 addresses a variety of topics and includes specific provisions relating to (1) interim financial reporting requirements of GASB 87 and Implementation Guide 2019-3, (2) reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan, (3) the applicability of Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and *Amendments to Certain Provisions of GASB Statements 67 and 68*, as amended, and No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, to reporting assets accumulated for postemployment benefits, (4) the applicability of certain requirements of GASB 84 to postemployment benefit arrangements, (5) measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition, (6) reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers, (7) reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature, and (8) terminology used to refer to derivative instruments. The requirements of GASB 92 are effective upon issuance in relation to the provisions impacting GASB 87 and Implementation Guide 2019-3 and are effective for periods beginning after June 15, 2021, for all other provisions. OCIB adopted GASB 92 effective July 1, 2021, which did not have a significant effect on the financial statements.

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates Activities* (GASB 93). GASB 93 addresses various accounting and other issues arising from the result of the replacement of an interbank offered rate (IBOR) by (1) providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment, (2) clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate, (3) clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable, (4) removing the London Interbank Offered Rate (LIBOR) as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap, (5) identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap, and (6) clarifying the definition of *reference rate*, as it is used in Statement 53, as amended. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021 and the remaining requirements of GASB 93 are effective for periods beginning after June 15, 2021, for all other provisions. OCIB adopted GASB 93 effective July 1, 2021, which did not have a significant effect on the financial statements.

See Independent Auditors' Report.

OKLAHOMA CAPITAL INVESTMENT BOARD

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Recent Accounting Pronouncements, Continued

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* (GASB 94). GASB 94 improves accounting and financial reporting by addressing various issues relating to public-private and public-public partnership arrangements (PPPs). This includes the requirement that PPPs that meet the definition of a lease apply the guidance in GASB 87 and establishes the accounting and financial reporting requirements for all other PPPs. The requirements of GASB 94 are effective for periods beginning after June 15, 2022. OCIB will adopt GASB 94 effective July 1, 2022, for the June 30, 2023, reporting year. OCIB does not expect GASB 94 to have a significant impact on the financial statements.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements* (GASB 96). GASB 96 provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users. GASB 96 (1) defines a SBITA, (2) establishes that SBITA results in a right-to-use subscription intangible asset and a corresponding subscription liability, (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of SBITA, and (4) requires note disclosures regarding SBITA. The requirements of GASB 96 are effective for periods beginning after June 15, 2022. OCIB will adopt GASB 96 effective July 1, 2022, for the June 30, 2023, reporting year. OCIB does not expect GASB 96 to have a significant impact on the financial statements.

See Independent Auditors' Report.

OKLAHOMA CAPITAL INVESTMENT BOARD

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Recent Accounting Pronouncements, Continued

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32* (GASB 97). The primary objectives of GASB 97 are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform, (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements, and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The requirements of GASB 97 that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective at the date of issuance of GASB 97. The requirements of GASB 97 that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of GASB 97 that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. OCIB adopted GASB 97 effective July 1, 2021, which did not have a significant effect on the financial statements.

In October 2021, GASB issued Statement No. 98, *The Annual Comprehensive Financial Report* (GASB 98). This Statement establishes the term *annual comprehensive financial report* and its acronym *ACFR*. The new term and acronym replace instances of *comprehensive annual financial report* and its acronym in generally accepted accounting principles for state and local governments. The requirements of this Statement are effective for fiscal years ending after December 15, 2021, with earlier application encouraged. OCIB adopted GASB 98 effective July 1, 2021, which did not have a significant effect on the financial statements.

See Independent Auditors' Report.

OKLAHOMA CAPITAL INVESTMENT BOARD

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Recent Accounting Pronouncements, Continued

In April 2022, GASB issued Statement No. 99, *Omnibus 2022* (GASB 99). GASB 99 enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The practice issues addressed by this Statement are as follows:

- Classification and reporting of derivative instruments within the scope of Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, that do not meet the definition of either an investment derivative instrument or a hedging derivative instrument
- Clarification of provisions in Statement No. 87, *Leases*, as amended, related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives
- Clarification of provisions in Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset
- Clarification of provisions in Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability
- Extension of the period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt
- Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP)
- Disclosures related to nonmonetary transactions
- Pledges of future revenues when resources are not received by the pledging government
- Clarification of provisions in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as amended, related to the focus of the government-wide financial statements
- Terminology updates related to certain provisions of Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*
- Terminology used in Statement 53 to refer to resource flows statements

See Independent Auditors' Report.

OKLAHOMA CAPITAL INVESTMENT BOARD

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Recent Accounting Pronouncements, Continued

The requirements of GASB 99 are effective as follows:

- The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance. OCIB adopted these requirements effective July 1, 2021, which did not have a significant impact on the financial statements.
- The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. OCIB will adopt these requirements effective July 1, 2022, for the June 30, 2023, reporting year. OCIB does not expect these requirements to have a significant impact on the financial statements.
- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter. OCIB will adopt these requirements effective July 1, 2023, for the June 30, 2024, reporting year. OCIB does not expect these requirements to have a significant impact on the financial statements.

In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections—an amendment of GASB Statement No. 62* (GASB 100). GASB 100 enhances accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. GASB 100 is effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023. Earlier application is encouraged. The adoption of GASB 100 by OCIB is not expected to have a significant effect on the financial statements.

In June 2022, GASB issued Statement No. 101, *Compensated Absences* (GASB 101). GASB 101 enhances information for user of the financial statements by updating the recognition and measurement guidance for compensated absences. GASB 101 aligns the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The requirements of GASB 101 are effective for fiscal years beginning after December 15, 2023. Earlier application is encouraged. The adoption of GASB 101 by OCIB is not expected to have a significant effect on the financial statements.

See Independent Auditors' Report.

OKLAHOMA CAPITAL INVESTMENT BOARD

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

Date of Management's Review of Subsequent Events

Management has evaluated subsequent events through September 22, 2022, 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**

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) **FAIR VALUE OF INVESTMENT INTERESTS**

In accordance with accounting principles generally accepted in the United States authoritative guidance on fair value measurements and disclosures, OCIB's investment interests measured and reported at fair value are classified according to the following hierarchical input levels:

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

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

See Independent Auditors' Report.

OKLAHOMA CAPITAL INVESTMENT BOARD

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) FAIR VALUE OF INVESTMENT INTERESTS, CONTINUED

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

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

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>2022</u>				
Investment interests	\$ <u>7,606,925</u>	<u>-</u>	<u>-</u>	<u>7,606,925</u>
<u>2021</u>				
Investment interests	\$ <u>8,821,720</u>	<u>-</u>	<u>-</u>	<u>8,821,720</u>

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

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

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

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

See Independent Auditors' Report.

OKLAHOMA CAPITAL INVESTMENT BOARD

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) FAIR VALUE OF INVESTMENT INTERESTS, CONTINUED

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

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

Balance at June 30, <u>2021</u>	Loss on Settlements	Changes in Fair Value Recognized	Contributions Received	Distributions Received	Balance at June 30, <u>2022</u>
\$ 8,821,720	(21,796)	(907,336)	6,254	(291,917)	7,606,925
Balance at June 30, <u>2020</u>	Advances Made	Changes in Fair Value Recognized	Contributions Received	Distributions Received	Balance at June 30, <u>2021</u>
\$ 7,842,123	-	2,400,836	224,277	(1,645,516)	8,821,720

OCIB (OCFC) had no remaining unfunded investment commitments as of June 30, 2022.

(4) MANAGEMENT SERVICES AGREEMENT

OCIB entered into a management services agreement with Institutional Equity Associates, LLC (IEA) in January 2001. The management services agreement with IEA has been subsequently extended and the required payment terms amended several times, with the most recent extension occurring in September 2021. The current management services agreement was extended through September 30, 2022, and continues on a month-to-month basis with a 90-day cancellation provision. The management services agreement requires annual fees of \$168,000.

For 2022, and 2021, OCIB paid fees of \$154,000 and \$224,000, respectively, to IEA in accordance with the terms of the amended management services agreement.

See Independent Auditors' Report.

OKLAHOMA CAPITAL INVESTMENT BOARD

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(5) 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, 2022, management believes OCIB is in compliance with all requirements of the Amendment.

(6) CONTINGENT INVESTMENT INTERESTS

During 2021, Emergent Technologies ceased operations and liquidated the investment holdings. OCIB (OCFC)'s investment in Emergent Technologies was previously written off and considered fully impaired. As part of the process of liquidation, OCIB was assigned 381.323 units of ownership in Pure Protein L.L.C. and 1,076.583 units of ownership in Heparinex L.L.C. As the value of these investments could not be reasonably estimated, no amounts were recorded for either investment. Though OCIB (OCFC) may receive proceeds from the investments in the future, such amounts, if any, cannot be reasonably estimated and therefore are not reflected in the accompanying financial statements. OCIB (OCFC) will evaluate the investments on an annual basis.

During 2021, OCIB (OCFC) received a distribution of \$834,650 from Prolog Capital II, L.P. (Prolog). The distribution was the result of Prolog winding down operations and resulted in a gain of approximately \$224,000. The only remaining asset of Prolog is the right to receive a proportionate share of future escrow releases and milestone payments. During 2022, OCIB (OCFC) received a distribution of \$6,254 from Prolog Capital II, L.P.

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 component unit of the State of Oklahoma financial reporting entity, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise OCIB's basic financial statements, and have issued our report thereon dated September 22, 2022. Our report includes an emphasis of matter paragraph in relation to the fair value of OCIB's investment interests. Our report also includes an explanatory paragraph disclaiming an opinion on required supplementary information.

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") as a basis for designing 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.

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.

(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**

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 financial statements. 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.

Finlay + Cook, PLLC

Shawnee, Oklahoma
September 22, 2022