

Oklahoma Capital Investment Board

Financial Statements

June 30, 2021 and 2020
(With Independent Auditors' Report Thereon)



OKLAHOMA CAPITAL INVESTMENT BOARD

FINANCIAL STATEMENTS

Table of Contents

	<u>Page</u>
<u>Independent Auditors’ Report</u>	1
<u>Management’s Discussion and Analysis</u>	I-1
<u>Financial Statements:</u>	
Statements of Net Position.....	3
Statements of Changes in Net Position.....	4
Statements of Cash Flows.....	5
Notes to Financial Statements.....	6
Independent Auditors’ Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in <u>Accordance with <i>Government Auditing Standards</i></u>	18



INDEPENDENT AUDITORS' REPORT

Board of Trustees
Oklahoma Capital Investment Board

Report on the Financial Statements

We have audited the accompanying statements of net position of the Oklahoma Capital Investment Board (OCIB), which is a component unit of the State of Oklahoma financial reporting entity, as of June 30, 2021 and 2020, and the related statements of changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise OCIB's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

(Continued)

INDEPENDENT AUDITORS' REPORT, CONTINUED

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of OCIB as of June 30, 2021 and 2020, 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 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.

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-3 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 7, 2021, on our consideration of OCIB's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering OCIB's internal control over financial reporting and compliance.

Finley + Cook, PLLC

Shawnee, Oklahoma
September 7, 2021

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, 2021 and 2020. Please read it in conjunction with OCIB’s financial statements which begin on page 3. The financial statements of OCIB include the operations of the Oklahoma Capital Formation Company, LLC (OCFC).

FINANCIAL HIGHLIGHTS

- In FY-2021, OCIB (OCFC) received \$1,645,516 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>2021</u>	<u>2020</u>
Current assets	\$ 1,534,939	154,610
Noncurrent assets	<u>8,821,720</u>	<u>7,842,123</u>
Total assets	<u>10,356,659</u>	<u>7,996,733</u>
Liabilities	<u>16,525</u>	<u>28,001</u>
Net position	<u>\$ 10,340,134</u>	<u>7,968,732</u>

Assets at June 30, 2021 and 2020, principally consisted of \$8,821,720 and \$7,842,123, respectively, of investment interests (see Note 4).

Operating Activities

The operations of OCIB are dependent upon the results of the investments made. During 2021 and 2020, no new investment interests were established. A summary of operating results for 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Operating expenses:		
Management fees	\$ (224,000)	(336,000)
Accounting, legal, and consultants	(28,920)	(28,748)
Other	<u>(1,048)</u>	<u>(1,608)</u>
Total operating expenses	<u>(253,968)</u>	<u>(366,356)</u>
Other income (expenses):		
Interest income	257	-
Interest expense	<u>-</u>	<u>(18,459)</u>
Total other income (expenses)	<u>257</u>	<u>(18,459)</u>
Net changes in fair value of investment interests	<u>2,400,836</u>	<u>(2,388,345)</u>
Distribution revenue	<u>224,277</u>	<u>895,577</u>
Tax credit expiration provision	<u>-</u>	<u>(16,000,000)</u>
Change in net position	<u>\$ 2,371,402</u>	<u>(17,877,583)</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

FINANCIAL ANALYSIS OF OCIB, CONTINUED

Operating Activities, Continued

Cash flows from investment interests for 2021 and 2020 were as follows:

	<u>2021</u>	<u>2020</u>
Cash payments for investment interests	\$ -	(2,750)
Cash distributions from investment interests	<u>1,645,516</u>	<u>535,655</u>
Net cash flows provided by investment interests	<u>\$ 1,645,516</u>	<u>532,905</u>

As of June 30, 2021, OCIB had no remaining commitment for unfunded investment interests.

Debt Payable

To fund investment interests, OCIB had a line of credit with a local financial institution which was closed June 30, 2020. Activity of the debt for the fiscal year ended June 30, 2020, was as follows:

	<u>Beginning Balance</u>	<u>Advances</u>	<u>Repayments</u>	<u>Ending Balance</u>
Line of credit	<u>\$ 3,972,414</u>	<u>572,534</u>	<u>(4,544,948)</u>	<u>-</u>

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>2021</i>	<i>2020</i>
Assets		
Current assets:		
Cash	\$ 1,534,939	154,610
Transferable tax credits, current (Note 3)	<u>-</u>	<u>-</u>
Total current assets	<u>1,534,939</u>	<u>154,610</u>
Investment interests, at fair value (Note 4):		
Acorn Growth Capital Fund III, L.L.C.	952,622	952,238
InnovAlarm Corporation	895,577	895,577
Mesa Oklahoma Growth Fund I, L.P.	268,160	269,770
Oklahoma Equity Partners, LLC	-	3,609
Oklahoma Life Sciences Fund II, L.L.C.	2,928,090	2,345,475
Prolog Capital II, L.P.	-	610,373
SSM Venture Partners III, L.P.	76,050	30,000
Tullis-Dickerson Capital Focus III, L.P.	<u>3,701,221</u>	<u>2,735,081</u>
Total investment interests	<u>8,821,720</u>	<u>7,842,123</u>
Transferable tax credits, less current portion and net of expiration provision of \$56,785,000 in 2020 (Note 3)	<u>-</u>	<u>-</u>
Total assets	<u>\$ 10,356,659</u>	<u>7,996,733</u>
Liabilities and Net Position		
Current liabilities:		
Accounts payable	\$ 16,525	28,001
Total current liabilities	<u>16,525</u>	<u>28,001</u>
Total liabilities	<u>16,525</u>	<u>28,001</u>
Unrestricted net position	<u>10,340,134</u>	<u>7,968,732</u>
Total liabilities and net position	<u>\$ 10,356,659</u>	<u>7,996,733</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>2021</i>	<i>2020</i>
Operating expenses:		
Management fees	\$ (224,000)	(336,000)
Accounting, legal, and consulting	(28,920)	(28,748)
Other	(1,048)	(1,608)
Total operating expenses	<u>(253,968)</u>	<u>(366,356)</u>
Other income (expenses):		
Interest income	257	-
Interest expense	-	(18,459)
Total other income and expenses	<u>257</u>	<u>(18,459)</u>
Operating loss before changes in fair value of investment interests	<u>(253,711)</u>	<u>(384,815)</u>
Changes in fair value of investment interests (Note 4):		
Acorn Growth Capital Fund III, L.L.C.	384	(1,737,262)
Blue Sage Capital, L.P.	-	(35,656)
Mesa Oklahoma Growth Fund I, L.P.	(1,610)	(1,428)
Oklahoma Equity Partners, LLC	(2,784)	(898,542)
Oklahoma Life Sciences Fund II, L.L.C.	582,615	351,962
Prolog Capital II, L.P.	-	(121,289)
SSM Venture Partners III, L.P.	46,050	(469,125)
Tullis-Dickerson Capital Focus III, L.P.	1,776,181	522,995
Net changes in fair value of investment interests	<u>2,400,836</u>	<u>(2,388,345)</u>
Distribution revenue	224,277	895,577
Tax credit expiration provision (Note 3)	-	(16,000,000)
Change in net position	2,371,402	(17,877,583)
Net position, beginning of year	<u>7,968,732</u>	<u>25,846,315</u>
Net position, end of year	<u>\$ 10,340,134</u>	<u>7,968,732</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>2021</i>	<i>2020</i>
Cash flows from operating activities:		
Cash paid to suppliers	\$ (40,396)	(28,748)
Management fees paid	(224,000)	(308,000)
General and administrative expenses paid	(1,048)	(1,608)
Cash received for interest income	257	-
Cash paid for interest expense	-	(83,567)
Cash received from sale of transferable tax credits	-	4,000,000
Net cash (used in) provided by operating activities	<u>(265,187)</u>	<u>3,578,077</u>
Cash flows from noncapital and related financing activities:		
Advances from debt	-	572,534
Repayments of debt	-	(4,544,948)
Net cash used in noncapital and related financing activities	<u>-</u>	<u>(3,972,414)</u>
Cash flows from investing activities:		
Cash payments for investment interests	-	(2,750)
Cash distributions from investment interests	1,645,516	535,655
Net cash provided by investing activities	<u>1,645,516</u>	<u>532,905</u>
Net increase in cash and cash equivalents	1,380,329	138,568
Cash and cash equivalents at beginning of year	<u>154,610</u>	<u>16,042</u>
Cash and cash equivalents at end of year	<u>\$ 1,534,939</u>	<u>154,610</u>
Reconciliation of operating loss to net cash (used in) provided by operating activities:		
Operating loss	\$ (253,711)	(384,815)
Adjustments to reconcile operating loss to net cash (used in) provided by operating activities:		
(Decrease) increase in accounts payable	(11,476)	28,001
Decrease in accrued interest payable	-	(65,109)
Transferable tax credit payments received	-	4,000,000
Net cash (used in) provided by operating activities	<u>\$ (265,187)</u>	<u>3,578,077</u>

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

OKLAHOMA CAPITAL INVESTMENT BOARD

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

(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 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, 2021 and 2020, there were no balances exceeding the \$250,000 insured amount.

Equipment

Capitalized equipment is depreciated using the straight-line method of depreciation over its estimated useful life. OCIB had fully depreciated all of its capitalized equipment as of June 30, 2021 and 2020. All equipment is currently provided by the managing entity.

See Independent Auditors' Report.

OKLAHOMA CAPITAL INVESTMENT BOARD

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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.

New Accounting Pronouncements

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities* (GASB 84). GASB 84 improves guidance regarding the recognition and reporting of fiduciary activities. GASB 84 identifies four types of reportable fiduciary fund types, including 1) pension (and other employee benefit) trust funds, 2) investment trust funds, 3) private-purpose trust funds, and 4) custodial funds. GASB 84 outlines the accounting and disclosure requirements for operating structures that qualify as a fiduciary activity. OCIB adopted GASB 84 effective July 1, 2020, which did not have a significant impact on its financial statements.

See Independent Auditors’ Report.

OKLAHOMA CAPITAL INVESTMENT BOARD

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

New Accounting Pronouncements, Continued

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. Earlier application is encouraged. OCIB is currently evaluating the impact GASB 87 will have on its financial statements.

In March 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* (GASB 88). GASB 88 provides certain clarifications regarding debt as a liability and identifies additional required disclosures related to debt, including direct borrowings and direct placements of debt. OCIB adopted GASB 88 on July 1, 2020, 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 will adopt GASB 89 on July 1, 2021, for the June 30, 2022, reporting year. OCIB does not expect GASB 89 to significantly impact the financial statements.

In August 2018, GASB issued Statement No. 90, *Majority Equity Interest* (GASB 90). GASB 90 improves the consistency and comparability of reporting government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. OCIB adopted GASB 90 effective July 1, 2020, which did not 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

New Accounting Pronouncements, Continued

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.

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 is currently evaluating the impact that the adoption of GASB 92 will have on its 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 is currently evaluating the impact that the adoption of GASB 93 will have on its financial statements.

See Independent Auditors' Report.

OKLAHOMA CAPITAL INVESTMENT BOARD

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

New 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 is currently evaluating the impact that the adoption of GASB 94 will have on its financial statements.

In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* (GASB 95). GASB 95 postpones the effective dates of certain provisions in existing GASB Statements and Implementation Guides that are scheduled to become effective for periods beginning after June 15, 2018, and later. This includes GASB 83, GASB 84, GASB 87, GASB 88, GASB 90, GASB 91, GASB 92, GASB 93, Implementation Guide 2018-1, Implementation Guide 2019-1, Implementation Guide 2019-2, and Implementation Guide 2019-3.

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 is currently evaluating the impact that the adoption of GASB 96 will have on its financial statements.

See Independent Auditors' Report.

OKLAHOMA CAPITAL INVESTMENT BOARD

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

New 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. Earlier application of those requirements is encouraged and permitted by requirement as specified within GASB 97. OCIB is currently evaluating the impact that the adoption of GASB 97 will have on its 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 7, 2021, 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) 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 were available to be sold by OCIB at its sole discretion, up to a maximum of \$20,000,000 of the tax credits in a year. OCIB's rights to sell the tax credits expired on July 1, 2020. Credits which have been sold may be exercised until fully utilized.

As of June 30, 2020, \$43,215,000 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
2009		-
2010		6,815,000
2011		8,000,000
2012		3,400,000
2013		-
2014		-
2015		-
2016		-
2017		-
2018		2,800,000
2019		5,500,000
2020		4,000,000
		<u>4,000,000</u>
	\$	<u>43,215,000</u>

See Independent Auditors' Report.

OKLAHOMA CAPITAL INVESTMENT BOARD

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) TRANSFERABLE TAX CREDITS, CONTINUED

Four corporations previously 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. The remaining unsold tax credits are presented net of an allowance for expiring tax credits in the accompanying statements of net position at June 30, 2020, as follows:

Unsold transferrable tax credits	\$ 56,785,000
Allowance for expiring transferable tax credits	<u>(56,785,000)</u>
	<u><u>\$ -</u></u>

The allowance is required due to 1) OCIB's limit of selling a maximum of \$20,000,000 of the tax credits in a year and 2) that OCIB's right to sell the tax credits expired effective July 1, 2020.

As noted previously, OCIB is considered a component unit of the State of Oklahoma and is included in the State's Comprehensive Annual Financial Report (CAFR). For consolidation purposes, the State does not recognize the tax credits as an asset. Because the State does not recognize the tax credits as an asset, as the credits expire and are reflected as an expiration loss in OCIB's statements of changes in net position, as required by accounting principles generally accepted in the United States, the expiration loss has no impact on the State's CAFR.

(4) 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.

See Independent Auditors' Report.

OKLAHOMA CAPITAL INVESTMENT BOARD

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(4) FAIR VALUE OF INVESTMENT INTERESTS, CONTINUED

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

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

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

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>2021</u>				
Investment interests	\$ <u>8,821,720</u>	<u>-</u>	<u>-</u>	<u>8,821,720</u>
<u>2020</u>				
Investment interests	\$ <u>7,842,123</u>	<u>-</u>	<u>-</u>	<u>7,842,123</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.

See Independent Auditors’ Report.

OKLAHOMA CAPITAL INVESTMENT BOARD

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(4) FAIR VALUE OF INVESTMENT INTERESTS, CONTINUED

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

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

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

Balance at June 30, <u>2020</u>	Advances Made	Changes in Fair Value <u>Recognized</u>	Contributions Received	Distributions Received	Balance at June 30, <u>2021</u>
\$ <u>7,842,123</u>	<u>-</u>	<u>2,400,836</u>	<u>224,277</u>	<u>(1,645,516)</u>	<u>8,821,720</u>
Balance at June 30, <u>2019</u>	Advances Made	Changes in Fair Value <u>Recognized</u>	Contributions Received	Distributions Received	Balance at June 30, <u>2020</u>
\$ <u>9,867,796</u>	<u>2,750</u>	<u>(2,388,345)</u>	<u>895,577</u>	<u>(535,655)</u>	<u>7,842,123</u>

During 2020, OCIB received a distribution of an investment from Oklahoma Equity Partners, LLC (OEP) of OEP's investment in InnovAlarm, Inc. The transfer was the result of OEP ceasing operations.

OCIB (OCFC) had no remaining unfunded investment commitments as of June 30, 2021.

(5) 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 had 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.

See Independent Auditors' Report.

OKLAHOMA CAPITAL INVESTMENT BOARD

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(5) MANAGEMENT SERVICES AGREEMENT, CONTINUED

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. Beginning July 1, 2018, the management fee was reduced to \$336,000.

On May 12, 2020, OCIB's Board of Trustees approved the extension of the agreement with IEA to perform the management services until September 30, 2021. Beginning October 1, 2020, the management fee was reduced to \$168,000.

During 2021 and 2020, fees of \$224,000 and \$336,000, respectively, were paid to IEA in accordance with the amended management agreement.

(6) OKLAHOMA CAPITAL ACCESS PROGRAM (OCAP)

As part of its overall purpose, OCIB initiated OCAP during fiscal year 1992. Under OCAP, Oklahoma depository institutions paid a fee, or premium, to OCIB to enroll qualified loans in OCAP. OCIB, in return for the premium paid, established 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, could be paid to an institution if that institution suffered a loss on a loan in the OCAP portfolio and submitted a claim to OCIB. OCIB was not guaranteeing the entire loan portfolio but only an amount equal to the reserve account. In no event was OCIB's exposure more than the balance in the reserve account as defined in the OCAP agreement.

During 2020, the remaining loans in the OCAP program had reached their term or were closed; therefore, effective May 12, 2020, the OCAP program was closed with no remaining obligations or commitments.

(7) DEBT PAYABLE

For the year ended June 30, 2020, OCIB had a line of credit provided by the Bank of Oklahoma of \$4,000,000. The debt matured and was paid off on June 30, 2020.

The line of credit was secured by the specific assignment of tax credit purchase obligations. As of June 30, 2020, OCIB had no State of Oklahoma tax credits available for sale.

Changes in the debt payable during 2020 were as follows:

	<u>Beginning Balance</u>	<u>Advances</u>	<u>Repayments</u>	<u>Ending Balance</u>
Line of credit	\$ 3,972,414	572,534	(4,544,948)	-

See Independent Auditors' Report.

OKLAHOMA CAPITAL INVESTMENT BOARD

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(8) 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, 2021, management believes OCIB is in compliance with all requirements of the Amendment.

COVID-19

The novel coronavirus ("COVID-19"), which was declared a global health emergency in January 2020 and a pandemic in March 2020, has caused significant changes in political and economic conditions around the world, including disruptions and volatility in the global capital markets. In response, the State of Oklahoma and local municipalities have taken various preventative or protective actions, such as imposing restrictions on business operations and advising or requiring individuals to limit or forgo their time outside of their homes. OCIB's management has considered the economic implications of the COVID-19 pandemic in making critical and significant accounting estimates included in the June 30, 2021 and 2020, financial statements.

The extent to which the COVID-19 pandemic may impact OCIB will depend on future developments which are uncertain, such as the duration of the outbreak, additional governmental mandates issued to mitigate the spread of the disease, business closures, economic disruptions, and the effectiveness of actions taken to contain and treat the virus. Accordingly, the COVID-19 pandemic may have a negative impact on OCIB's future operations, the size and duration of which is difficult to predict. OCIB's management will continue to actively monitor the situation and may take further actions altering operations that OCIB's management determines are in the best interests of its employees and stakeholders, or as required by federal, state, or local authorities.

See Independent Auditors' Report.

OKLAHOMA CAPITAL INVESTMENT BOARD

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(9) 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. Though OCIB (OCFC) may receive future proceeds from Prolog, such amounts, if any, could not be reasonably estimated and therefore, are not reflected in the accompanying financial statements.

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, 2021, and the related notes to the financial statements, which collectively comprise OCIB's basic financial statements, and have issued our report thereon dated September 7, 2021. Our report 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 7, 2021