



Report for the Year Ending
June 30, 2020

Mobilizing Sources of Equity Capital for Oklahoma
Businesses



May 24, 2021

Governor Kevin Stitt
Lt. Governor Matt Pinnell
President Pro Tempore Greg Treat
Speaker Charles McCall
Members of the Legislature
Secretary of Commerce Scott Mueller
Economic Development Officials

The Oklahoma Capital Investment Board (OCIB or Board) was created more than three decades ago along with the Oklahoma Center for the Advancement of Science and Technology, Oklahoma Development Finance Authority and the Oklahoma Department of Commerce. These entities were created to play specific roles in supporting the development of Oklahoma businesses. In the late 80's the state leaders knew they needed organizations like these to allow Oklahoma companies to be competitive in a global market place. Each entity was designed so that their combined efforts would support companies at all stages of development and capital needs. OCIB's key role was to be a resource for the development and support of the state's risk capital industry.

OCIB's mission has been to mobilize capital for investment in Oklahoma companies. This capital has taken the form of both dollars and professional expertise needed to support the growth of Oklahoma companies. OCIB's programs were long term in focus and utilized prudent, merit based investment practices. The belief has always been that this type of investing would ensure OCIB fulfilled its mission of providing access to capital for Oklahoma companies. OCIB's programs were launched in the early 90's. For three decades OCIB's Venture Capital and Capital Access programs supported Oklahoma entrepreneurs. OCIB was launched without allocations, appropriations or significant financial support from the state. OCIB has been able to achieve approximately a \$2 billion impact on the state's economy. The cost-to-benefit ratio for OCIB's programs is currently estimated to be 47 to 1.

Even with the help of programs like OCIB's, statistics continue to confirm that in order for Oklahoma to remain competitive with other states it must continue to support the growth of Oklahoma's risk capital industry. With limited resources, Oklahoma should continue to utilize programs like OCIB's which support Oklahoma entrepreneurs without giving away state resources.

A handwritten signature in black ink, appearing to read "Devon L. Sauzek".

Devon L. Sauzek
President

A handwritten signature in black ink, appearing to read "Michael Mitchelson".

Michael Mitchelson
Chairperson

ABOUT OCIB

The Oklahoma Capital Investment Board launched its first program in 1992 and has been working since then to develop and support the state's risk capital industry. More specifically, for more than two decades, OCIB has worked to establish a venture capital industry capable of supporting Oklahoma's best and brightest entrepreneurs. These efforts have focused on supporting the growth of local venture capital firms and on recruiting outside venture capital firms to the state. The successful recruitment of firms has not only brought outside capital to our state, but also needed investment expertise. The sharing of knowledge and other resources is key to the development of Oklahoma's venture capital industry and the Oklahoma companies it supports.

Executive Summary

The **mission** of the Oklahoma Capital Investment Board (OCIB or Board) is to mobilize equity and near-equity investment capital in a manner that will encourage job creation and help stabilize the economy of the State of Oklahoma. The method by which the Board addresses this task is to encourage and support the growth of a local capital industry capable of financing companies looking for capital. Board supported companies have ranged from early stage start-ups to later stage expansions.

As of June 2020, the Board's programs had attracted more than \$171.3 million in venture capital, \$48.7 million in development loans and participated in a \$10 million revenue guarantee resulting in \$230 million of reported capital for Oklahoma companies. It is also estimated that more than \$340 million of leveraged debt was available to the venture backed companies due to the \$171.3 million in equity capital invested in them. OCIB's total direct impact is currently estimated to be \$547 million of risk capital provided for Oklahoma projects. Although the Board's programs have exceeded their original impact goal of mobilizing \$500 million of new financing for Oklahoma businesses, there has been some unintended cost to the state. OCIB had to draw upon \$43.2 million in state resources, slightly more than \$1 million per year, to cover shortfalls in OCIB's investment programs due to investing through two economic recessions. Even with the use of \$43.2 million in state resources, OCIB's program results of \$47 in benefit for every \$1 in cost compares favorably to other state programs. This cost to benefit ratio will continue to improve as OCIB's investments mature and resources are returned to the state.

Since March of 1993, the Board, through its Venture Investment Program (VIP), has built three portfolios, comprised of \$69.5 million in aggregate commitments to 19 venture capital funds. The Board's most recent portfolio (third) contains 11 funds representing total commitments of \$43.6 million. The funds in the three portfolios have made direct investments in 38 Oklahoma companies.

In April of 1992, the Board began to make capital available to small Oklahoma businesses through the Oklahoma Capital Access Program (OCAP), a tool similar to credit insurance, designed to help local depository institutions stretch to make marginally higher risk loans to Oklahoma businesses. Since the program's inception, it has enrolled more than 1,500 loans totaling more than \$48.7 million. Loans have varied in size from \$1,100 to \$728,000 and have primarily been used for working capital and equipment purchases for rural businesses.

Although OCIB has not been making new fund investments or enrolling additional loans in OCAP, the Board continues to manage its current portfolio of investments for the benefit of the state. As these investments mature they continue to return capital to the state. OCIB has received approximately \$7 million in distributions over the last five years. FY'20 distributions of \$535,000 were down from prior years but OCIB anticipates that FY'21 distributions will exceed this amount. As OCIB's remaining investments mature, OCIB will continue to receive distributions which will ultimately be returned to the general fund.

Vision

The Oklahoma Capital Investment Board encourages and supports the growth of a broadly diversified and sophisticated financial industry capable of providing the necessary risk capital to Oklahoma entrepreneurial companies from early stage start-ups to later stage expansions. OCIB's current programs were designed to enable Oklahoma businesses to have access to more than \$500 million of new capital. This expectation was based upon the Board's current level of approximately \$70 million in venture commitments. The increase in the capital base strengthens and supports the growth of companies that are the engines of economic growth, that create jobs, and that diversify and stabilize the state's economy.

A diversified investment strategy is what allows OCIB to deliver its impactful programs with very limited investment by the state. OCIB's combined programs have ensured that the Board exceeded the statutory minimum of two dollars being invested in Oklahoma businesses and projects for every one dollar of principal guaranteed. To the Board's knowledge, this statutory requirement exceeds that of any development program within the state. To date, the Board's Venture Investment Program has attracted private equity capital in excess of 2.6 to 1, while its Oklahoma Capital Access Program has achieved leverage of better than 25 to 1.

By supporting investments in a number of risk capital funds, each with its own team of investment professionals, the Board has brought to Oklahoma a broad range of professional talent to serve the diverse needs for investment capital within the state. Likewise, by making a credit insurance type of tool available to dozens of banks, it engages individual bankers across the state in creating solutions for small business borrowers.

The VIP has supported investments in 19 private, professionally managed venture capital firms that had a history of producing solid returns for investors and that had a sound strategy for finding investment opportunities in Oklahoma. OCIB supported funds and their syndicates have invested more than \$171 million in equity capital into 38 Oklahoma companies. The following impact numbers are reported by Venture Economics, a research firm located in Phoenix, Arizona. This firm is hired by OCIB every two to three years to analyze and summarize the impact results OCIB's programs have been able to achieve. Venture Economics latest report was published in October of 2015. Although this report is dated and the current cumulative impact number will be larger, the report shows that the venture funds OCIB has supported have provided approximately 607 annual jobs and approximately \$329 million in cumulative Oklahoma payroll. Over the years, the Board's Oklahoma Capital Access Program has supported approximately \$48 million in loans to more than 1,500 Oklahoma businesses. Over the life of the OCAP, it has supported companies which have provided more than 1,514 new jobs and \$46 million in payroll.

Operating Principles

OCIB programs are based on principles that emphasize the use of private sector expertise and traditional investment disciplines. In building new capital companies in the state, ones that will endure for many years, there is no substitute for a careful investment process that seeks out the best talent available to serve the needs of Oklahoma businesses. The following are basic principles pursued by the Board:

- ◆ Risk capital is necessary to generate and support the growth of entrepreneurial firms, which in turn create jobs and provide economic growth.
- ◆ Risk capital is best provided and managed by qualified, professional investment groups.
- ◆ A responsive state program can demonstrate to potential investors the high level of commitment Oklahoma has for entrepreneurial ventures.
- ◆ The pursuit of a market rate of return provides the best discipline for using limited resources to generate the greatest economic impact.
- ◆ The risks of making venture capital investments in Oklahoma can best be managed by diversification through a number of investments in separate venture capital funds with proven track records.
- ◆ Successful investing requires the highest of ethical standards. OCIB uses its best efforts to demand these standards for its trustees, managers, and vendors, and seeks to invest only with professionals who employ the same high ethical standards.
- ◆ The successful targeting of venture investments to the state requires the careful selection of fund managers who can demonstrate the ability to successfully invest in economic sectors that are indigenous to or developing within the state. Such managers must commit to marketing their resources aggressively, to being highly visible to their primary markets within the state and to taking actions that help build the permanent presence of venture capital talent within Oklahoma.

ORGANIZATION

The Board is a state-beneficiary public trust. There are four Trustees, appointed by the Governor with the advice and consent of the Senate. Trustees are selected based upon their outstanding knowledge and leadership, and for their experience in managing venture investments. The Board at fiscal year end 2020 included:

| BOARD MEMBER | FY'20 OFFICE |
|---|--|
| John A. Brock Owner Rockford Exploration Tulsa, OK | Secretary/Treasurer |
| Michael Mitchelson Attorney Oklahoma City, OK | Chairperson |
| Michael Oonk Senior Vice President American Bank & Trust Tulsa, OK | Vice Chairperson/ Assistant Secretary |
| Patrick Sullivan Vice President Argonaut Private Equity Tulsa, OK | Secretary |

The Board retains Institutional Equity Associates, LLC to provide investment management and administrative services. The principals of this firm are Robert G. Heard and Devon L. Sauzek. Mr. Sauzek serves as OCIB president and Diana K. Mooney as administrative officer. General Counsel for the Board is Robert A. Curry of the firm Conner & Winters, Tulsa. The CPA firm of Finley & Cook, Shawnee, performed the annual audit.

Contacts

For further information contact:
OKLAHOMA CAPITAL INVESTMENT BOARD
Devon Sauzek or Diana Mooney
405/848-9456

AUDIT

The annual audit was performed for OCIB by Finley & Cook, Shawnee, and is on file with the State Auditor and Inspector. The audited financial statements are attached.

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Oklahoma Capital Investment Board

Financial Statements

June 30, 2020 and 2019
(With Independent Auditors' Report Thereon)

OKLAHOMA CAPITAL INVESTMENT BOARD

FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Oklahoma Capital Investment Board

Report on the Financial Statements

We have audited the accompanying statements of net position of the Oklahoma Capital Investment Board (OCIB), which is a component unit of the State of Oklahoma financial reporting entity, as of June 30, 2020 and 2019, 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, 2020 and 2019, 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-4 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

(Continued)

INDEPENDENT AUDITORS' REPORT, CONTINUED

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2020, 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.

Finlay + Cook, PLLC

Shawnee, Oklahoma
September 29, 2020

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, 2020 and 2019. 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-2020, OCIB (OCFC) made \$2,750 in aggregate contributions to its Venture Investment Program to fund commitments;
- In FY-2020, OCIB (OCFC) received \$535,655 in distributions from its Venture Investment Program (proceeds were applied to the OCFC line of credit).

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual financial report consists of two parts: Management's Discussion and Analysis (this section) and the basic financial statements. OCIB is a public trust of the State of Oklahoma and follows enterprise fund reporting; accordingly, the financial statements are presented using the economic measurement focus and the accrual basis of accounting. Enterprise fund statements offer short-term and long-term financial information about the activities and operations of OCIB. These statements are presented in a manner similar to those of a private business.

LEGISLATIVE AMENDMENT—SENATE BILL NO. 1159

During the FY-2012 legislative session, Senate Bill No. 1159 (SB 1159) was signed into law. The language within SB 1159 affects OCIB in the following areas:

- SB 1159 extended OCIB's tax credit authorization from June 30, 2015, to June 30, 2020;
- SB 1159 provides an unlimited tax credit carryover period for OCIB's tax credit consortium members; and
- SB 1159 ended OCIB's ability to enroll new or extend existing loans within the Oklahoma Capital Access Program (OCAP).

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

FINANCIAL ANALYSIS OF OCIB

Net Position

The following table summarizes the net position at June 30:

| | <u>2020</u> | <u>2019</u> |
|-------------------|---------------------|-------------------|
| Current assets | \$ 154,610 | 20,016,042 |
| Noncurrent assets | <u>7,842,123</u> | <u>9,867,796</u> |
| Total assets | <u>7,996,733</u> | <u>29,883,838</u> |
| Liabilities | <u>28,001</u> | <u>4,037,523</u> |
| Net position | <u>\$ 7,968,732</u> | <u>25,846,315</u> |

Assets at June 30, 2020, principally consisted of \$7,842,123 of investment interests (see Note 4). Assets at June 30, 2019, principally consisted of \$20,000,000 of tax credits, net of an expiration provision of \$40,785,000. As of June 30, 2019, \$20,000,000 were current (see Note 3 to the financial statements). Assets also included investment interests of \$9,867,796 at June 30, 2019.

Operating Activities

The operations of OCIB are dependent upon the results of the investments made. During 2020 and 2019, no new investment interests were established. A summary of operating results for 2020 and 2019 is as follows:

| | <u>2020</u> | <u>2019</u> |
|---|------------------------|---------------------|
| Operating expenses: | | |
| Management fees | \$ (336,000) | (336,000) |
| Accounting, legal, and consultants | (28,748) | (25,942) |
| Other | <u>(1,608)</u> | <u>(2,399)</u> |
| Total operating expenses | <u>(366,356)</u> | <u>(364,341)</u> |
| Other expenses: | | |
| Interest expense | <u>(18,459)</u> | <u>(457,201)</u> |
| Total other expenses | <u>(18,459)</u> | <u>(457,201)</u> |
| Net changes in fair value of investment interests | <u>(2,388,345)</u> | <u>2,164,707</u> |
| Distribution revenue | <u>895,577</u> | <u>-</u> |
| Tax credit expiration provision | <u>(16,000,000)</u> | <u>(14,500,000)</u> |
| Change in net position | <u>\$ (17,877,583)</u> | <u>(13,156,835)</u> |

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

FINANCIAL ANALYSIS OF OCIB, CONTINUED

Operating Activities, Continued

Cash flows from investment interests for 2020 and 2019 were as follows:

| | <u>2020</u> | <u>2019</u> |
|---|-------------------|------------------|
| Cash payments for investment interests | \$ (2,750) | (2,750) |
| Cash distributions from investment interests | <u>535,655</u> | <u>2,049,613</u> |
| Net cash flows provided by investment interests | <u>\$ 532,905</u> | <u>2,046,863</u> |

A significant part of the overall operations of OCIB was its transferable tax credits. At June 30, 2020 and 2019, OCIB had a net balance of \$0 and \$20,000,000, respectively, of transferable tax credits recorded as assets in its financial statements; for both 2020 and 2019, \$0 and \$20,000,000 of the tax credits were recognized as current, respectively, and the remainder as noncurrent. During 2012, the expiration date of the tax credits was extended to June 30, 2020. Tax credits sold were \$4,000,000 and \$5,500,000 in 2020 and 2019, respectively. OCIB had agreements with four corporations to purchase up to an aggregate of \$8,000,000 per year of tax credits in conjunction with a legitimate call on an OCIB guarantee. The agreements to purchase the tax credits were assigned as collateral for the revolving line of credit which OCIB guaranteed for OCFC through June 30, 2020 (see Note 3 to the financial statements).

As more fully explained in the notes to the financial statements, OCIB had conducted a program entitled OCAP. 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 the fee 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 the institution if the 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 in the established reserve account. In no event was OCIB's exposure more than the balance in the reserve account as defined in the OCAP agreement. As of June 30, 2019, the maximum amount of exposure for OCIB was approximately \$612,000 and loans covered by the program were approximately \$34,172,000. 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.

As of June 30, 2020 and 2019, OCIB's commitment for unfunded investment interests was approximately \$366,944 and \$3,641,000, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

FINANCIAL ANALYSIS OF OCIB, CONTINUED

Debt Payable

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

| | <u>Beginning Balance</u> | <u>Advances</u> | <u>Repayments</u> | <u>Ending Balance</u> |
|----------------|------------------------------|-----------------|--------------------|---------------------------|
| <u>2020</u> | | | | |
| Line of credit | <u>\$ 3,972,414</u> | <u>572,534</u> | <u>(4,544,948)</u> | <u>-</u> |
| <u>2019</u> | | | | |
| Line of credit | <u>\$ 10,683,435</u> | <u>838,592</u> | <u>(7,549,613)</u> | <u>3,972,414</u> |

As further discussed in the notes to the financial statements, prior to the closing in June 2020, the debt was secured by the specific assignment of agreements with four corporations to purchase tax credits from OCIB.

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>2020</i> | <i>2019</i> |
|---|---------------------|-------------------|
| Assets | | |
| Current assets: | | |
| Cash | \$ 154,610 | 16,042 |
| Transferable tax credits, current (Note 3) | <u>-</u> | <u>20,000,000</u> |
| Total current assets | <u>154,610</u> | <u>20,016,042</u> |
| Investment interests, at fair value (Note 4): | | |
| Acorn Growth Capital Fund III, L.L.C. | 952,238 | 2,689,500 |
| Blue Sage Capital, L.P. | - | 84,946 |
| InnovAlarm Corporation | 895,577 | - |
| Mesa Oklahoma Growth Fund I, L.P. | 269,770 | 271,198 |
| Oklahoma Equity Partners, LLC | 3,609 | 899,401 |
| Oklahoma Life Sciences Fund II, L.L.C. | 2,345,475 | 2,085,217 |
| Prolog Capital II, L.P. | 610,373 | 731,662 |
| SSM Venture Partners III, L.P. | 30,000 | 574,125 |
| Tullis-Dickerson Capital Focus III, L.P. | <u>2,735,081</u> | <u>2,531,747</u> |
| Total investment interests | <u>7,842,123</u> | <u>9,867,796</u> |
| Transferable tax credits, less current portion and net of expiration provision of \$56,785,000 and \$40,785,000 in 2020 and 2019, respectively (Note 3) | <u>-</u> | <u>-</u> |
| Total assets | <u>\$ 7,996,733</u> | <u>29,883,838</u> |

(Continued)

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

OKLAHOMA CAPITAL INVESTMENT BOARD

STATEMENTS OF NET POSITION, CONTINUED

| <i>June 30,</i> | <i>2020</i> | <i>2019</i> |
|-------------------------------------|---------------------|-------------------|
| Liabilities and Net Position | | |
| Current liabilities: | | |
| Accounts Payable | \$ 28,001 | - |
| Accrued interest payable | - | 65,109 |
| Total current liabilities | <u>28,001</u> | <u>65,109</u> |
| Long-term debt payable | - | 3,972,414 |
| Total liabilities | <u>28,001</u> | <u>4,037,523</u> |
| Unrestricted net position | <u>7,968,732</u> | <u>25,846,315</u> |
| Total liabilities and net position | <u>\$ 7,996,733</u> | <u>29,883,838</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>2020</i> | <i>2019</i> |
|---|---------------------|---------------------|
| Operating expenses: | | |
| Management fees | \$ (336,000) | (336,000) |
| Accounting, legal, and consultants | (28,748) | (25,942) |
| Venture investing | (908) | - |
| Other | (700) | (2,399) |
| Total operating expenses | <u>(366,356)</u> | <u>(364,341)</u> |
| Other expenses: | | |
| Interest expense | <u>(18,459)</u> | <u>(457,201)</u> |
| Total other revenues & expenses | <u>(18,459)</u> | <u>(457,201)</u> |
| Operating loss before changes in fair value of investment interests | <u>(384,815)</u> | <u>(821,542)</u> |
| Changes in fair value of investment interests (Note 4): | | |
| Acorn Growth Capital Fund III, L.L.C. | (1,737,262) | 926,500 |
| Blue Sage Capital, L.P. | (35,656) | (69,615) |
| Davis, Tuttle Venture Partners, L.P. | - | - |
| Mesa Oklahoma Growth Fund I, L.P. | (1,428) | (1,788) |
| Oklahoma Equity Partners, LLC | (898,542) | (3,074) |
| Oklahoma Life Sciences Fund II, L.L.C. | 351,962 | 1,282,995 |
| Prolog Capital II, L.P. | (121,289) | (207,857) |
| Rocky Mountain Mezzanine Fund II, L.P. | - | - |
| SSM Venture Partners III, L.P. | (469,125) | (8,775) |
| Tullis-Dickerson Capital Focus III, L.P. | 522,995 | 246,321 |
| Net changes in fair value of investment interests | <u>(2,388,345)</u> | <u>2,164,707</u> |
| Distribution revenue | 895,577 | - |
| Tax credit expiration provision (Note 3) | <u>(16,000,000)</u> | <u>(14,500,000)</u> |
| Change in net position | (17,877,583) | (13,156,835) |
| Net position, beginning of year | <u>25,846,315</u> | <u>39,003,150</u> |
| Net position, end of year | <u>\$ 7,968,732</u> | <u>25,846,315</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>2020</i> | <i>2019</i> |
|--|---------------------|--------------------|
| Cash flows from operating activities: | | |
| Cash paid to suppliers | \$ (28,748) | (25,942) |
| Management fees paid | (308,000) | (336,000) |
| General and administrative expenses paid | (1,608) | (2,399) |
| Cash paid for interest expense | (83,567) | (469,839) |
| Cash received from sale of transferable tax credits | <u>4,000,000</u> | <u>5,500,000</u> |
| Net cash provided by operating activities | <u>3,578,077</u> | <u>4,665,820</u> |
| Cash flows from noncapital and related financing activities: | | |
| Advances from debt | 572,534 | 838,592 |
| Repayments of debt | <u>(4,544,948)</u> | <u>(7,549,613)</u> |
| Net cash used in noncapital and related financing activities | <u>(3,972,414)</u> | <u>(6,711,021)</u> |
| Cash flows from investing activities: | | |
| Cash payments for investment interests | (2,750) | (2,750) |
| Cash distributions from investment interests | <u>535,655</u> | <u>2,049,613</u> |
| Net cash provided by investing activities | <u>532,905</u> | <u>2,046,863</u> |
| Net increase in cash and cash equivalents | 138,568 | 1,662 |
| Cash and cash equivalents at beginning of year | <u>16,042</u> | <u>14,380</u> |
| Cash and cash equivalents at end of year | <u>\$ 154,610</u> | <u>16,042</u> |
| Reconciliation of operating income (loss) to net cash provided by operating activities: | | |
| Operating loss | \$ (384,815) | (821,542) |
| Adjustments to reconcile operating loss to net cash provided by operating activities: | | |
| Increase in accounts payable | 28,001 | |
| Decrease in accrued interest payable | (65,109) | (12,638) |
| Transferable tax credit payments received | <u>4,000,000</u> | <u>5,500,000</u> |
| Net cash provided by operating activities | <u>\$ 3,578,077</u> | <u>4,665,820</u> |

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

OKLAHOMA CAPITAL INVESTMENT BOARD

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Oklahoma Capital Investment Board (OCIB) is a public trust of the State of Oklahoma (the "State") pursuant to the Oklahoma Public Trust Act. OCIB was created to serve as the State's tool to mobilize sources of equity and near equity capital (as defined in the Trust Indenture) for Oklahoma businesses. The program is designed to catalyze investment in Oklahoma projects by experienced investment professionals. Specific initiatives utilized by OCIB include the Oklahoma Capital Access Program (OCAP) (Note 6) and the Venture Investment Program (Note 4).

OCIB is a component unit of the State and is included in the State's annual financial report.

Reporting Entity

The financial statements also include the operations of the Oklahoma Capital Formation Company, LLC (OCFC), formerly the Oklahoma Capital Formation Corporation. During the year ended June 30, 2006, OCIB purchased 100% of the ownership of OCFC. OCFC invests funds in qualified risk capital pools approved by OCIB.

Financial Statement Presentation and Basis of Accounting

OCIB complies with accounting principles generally accepted in the United States. Accounting principles generally accepted in the United States include all relevant Governmental Accounting Standards Board (GASB) pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent sections of this note.

The accompanying financial statements are presented on the enterprise fund basis using the economic measurement focus and the accrual basis of accounting, whereby revenues are recorded in the period earned and expenses are recorded in the period incurred.

All transactions between OCIB and OCFC have been eliminated in the preparation of these financial statements.

Cash Balances

All cash balances are maintained in financial institutions insured by the Federal Deposit Insurance Corporation up to \$250,000. As of June 30, 2020 and 2019, there were no balances exceeding the \$250,000 insured amount.

See Independent Auditors' Report.

OKLAHOMA CAPITAL INVESTMENT BOARD

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Equipment

Capitalized equipment is depreciated using the straight-line method of depreciation over its estimated useful life. OCIB had fully depreciated all of its capitalized equipment as of June 30, 2020 and 2019. 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

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 will adopt GASB 84 effective July 1, 2020, for the June 30, 2021, reporting year. OCIB does not expect GASB 84 to have a significant impact on the financial statements.

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 has not determined the impact of GASB 87 on the 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 will adopt GASB 88 on July 1, 2020, for the June 30, 2021, reporting year. OCIB does not expect GASB 88 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

New Accounting Pronouncements, Continued

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 will adopt GASB 90 effective July 1, 2020, for the June 30, 2021, reporting year. OCIB does not expect GASB 90 to 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.

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.

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. 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.

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.

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 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.

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 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

Date of Management's Review of Subsequent Events

Management has evaluated subsequent events through September 29, 2020, the date which the financial statements were available to be issued.

(2) INVESTMENT OPERATIONS

OCIB, in order to mobilize investment in business ventures, guarantees the funds borrowed by OCFC for such investments. Prior to 2006, OCFC was considered a third-party corporation which contracted with OCIB to invest OCIB-guaranteed funds in qualified risk capital pools. As noted previously, OCFC was purchased by OCIB during 2006. All intercompany activity between OCIB and OCFC has been eliminated in preparing these financial statements.

(3) 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 as follows:

| | <u>2020</u> | <u>2019</u> |
|---|---------------------|---------------------|
| Unsold transferrable tax credits | \$ 56,785,000 | 60,785,000 |
| Allowance for expiring transferable tax credits | <u>(56,785,000)</u> | <u>(40,785,000)</u> |
| | <u>\$ -</u> | <u>20,000,000</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>2020</u> | | | | |
| Investment interests | \$ <u>7,842,123</u> | <u>-</u> | <u>-</u> | <u>7,842,123</u> |
| <u>2019</u> | | | | |
| Investment interests | \$ <u>9,867,796</u> | <u>-</u> | <u>-</u> | <u>9,867,796</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>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> |

| Balance at June 30, <u>2018</u> | Advances Made | Changes in Fair Value <u>Recognized</u> | Contributions Received | Distributions Received | Balance at June 30, <u>2019</u> |
|---------------------------------------|------------------|---|---------------------------|---------------------------|---------------------------------------|
| \$ <u>9,749,952</u> | <u>2,750</u> | <u>2,164,707</u> | <u>-</u> | <u>(2,049,613)</u> | <u>9,867,796</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 committed to making the following investments as of June 30, 2020:

| <u>Entity</u> | <u>Amount of Commitment</u> | <u>Commitment Funded as of June 30, 2020</u> | <u>Unfunded Commitment</u> |
|-------------------------------------|---------------------------------|--|--------------------------------|
| Mesa Oklahoma Growth Fund I, L.P. | \$ 3,000,000 | 2,745,000 | 255,000 ⁽¹⁾ |
| Oklahoma Life Sciences Fund II, LLC | 1,750,000 | 1,658,589 | 91,411 ⁽¹⁾ |
| Prolog Capital II, L.P. | <u>5,000,000</u> | <u>4,979,467</u> | <u>20,533</u> ⁽¹⁾ |
| | <u>\$ 9,750,000</u> | <u>9,383,056</u> | <u>366,944</u> |

⁽¹⁾ A large majority of this commitment is not expected to be used.

See Independent Auditors' Report.

OKLAHOMA CAPITAL INVESTMENT BOARD

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(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.

On July 1, 2010, OCIB and IEA elected to amend the management services agreement in order to reduce the annual fee. During 2020 and 2019, fees of \$336,000 were paid to IEA in accordance with the amended management agreement.

On July 15, 2015, OCIB's Board of Trustees approved the extension of the agreement with IEA to perform the management services until September 30, 2020. 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.

IEA also performed management oversight for Oklahoma Equity Partners, LLC, a partnership in which OCFC was invested. No additional compensation was paid to IEA for this service.

(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 suffers 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.

As further discussed in Note 8, OCIB could not enroll any new loans or make an amendment to any existing loans currently enrolled in OCAP. Loans currently enrolled in the program would remain covered until the maturity dates of the loans. The total reserve account balance could gradually decrease, as no fee or premium would be collected and claims, if any, would be paid. Reserve accounts remained in place until such time as the active banks had no more enrolled loans in the program.

See Independent Auditors' Report.

OKLAHOMA CAPITAL INVESTMENT BOARD

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(6) OKLAHOMA CAPITAL ACCESS PROGRAM (OCAP), CONTINUED

Fees paid to OCIB in excess of claims paid and recoveries received were not recognized as income, but reflected on the statements of net position as “OCAP premiums collected in excess of claims paid.” As of June 30, 2019, cumulative claims paid exceeded cumulative fees received. During 2019, no new loans were enrolled and no claims were paid. A summary of OCAP’s activities as of June 30, 2019, is as follows:

| | Cumulative Fees <u>Received</u> | Cumulative OCIB <u>Allocation</u> | Cumulative Claims <u>Paid, Net</u> | Total Reserve <u>Account</u> | Total Loans by <u>Institutions</u> | Loans Covered by <u>OCAP</u> |
|------|---------------------------------------|---|--|------------------------------------|--|------------------------------------|
| 2019 | <u>\$1,305,510</u> | <u>1,576,425</u> | <u>2,269,993</u> | <u>611,942</u> | <u>48,670,231</u> | <u>34,171,984</u> |

During 2020 and 2019, OCIB did not pay any claims to institutions in the OCAP program.

Under the OCAP program, OCIB’s maximum amount of loss exposure at June 30, 2019, was \$611,942, which would come from the unrestricted net position.

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 years ended June 30, 2020 and 2019, OCIB had a line of credit provided by the Bank of Oklahoma of \$4,000,000 and \$16,000,000, respectively. The debt matured and was paid off on June 30, 2020. As of June 30, 2019, OCIB had outstanding advances of \$3,972,414.

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 and 2019 were as follows:

| | Beginning <u>Balance</u> | <u>Advances</u> | <u>Repayments</u> | Ending <u>Balance</u> |
|----------------|-----------------------------|-----------------|--------------------|--------------------------|
| <u>2020</u> | | | | |
| Line of credit | <u>\$ 3,972,414</u> | <u>572,534</u> | <u>(4,544,948)</u> | <u>-</u> |
| <u>2019</u> | | | | |
| Line of credit | <u>\$ 10,683,435</u> | <u>838,592</u> | <u>(7,549,613)</u> | <u>3,972,414</u> |

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, 2020, 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, 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.

(9) INVESTMENT IN EMERGENT TECHNOLOGIES

At June 30, 2020 and 2019, OCIB (OCFC) had an investment in Emergent Technologies that was fully impaired. Though OCIB (OCFC) may receive recoveries of the investment in the future, 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, 2020, and the related notes to the financial statements, which collectively comprise OCIB's basic financial statements, and have issued our report thereon dated September 29, 2020. 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 the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of OCIB's internal control. Accordingly, we do not express an opinion on the effectiveness of OCIB's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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.



**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.

Finley + Cook, PLLC

Shawnee, Oklahoma
September 29, 2020

