Oklahoma Capitol Improvement Authority
A Component Unit of the State of Oklahoma

Financial Report
June 30, 2016

Contents

RSM US LLP

Independent Auditor's Report

The Board of Trustees
Oklahoma Capitol Improvement Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the Oklahoma Capitol Improvement Authority (the Authority), a component unit of the State of Oklahoma, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

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 of America; 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.

Auditor's 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 of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 auditor's 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 auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Oklahoma Capitol Improvement Authority as of June 30, 2016 and 2015, and the changes in its financial position, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards,* we have also issued a report for the year ended June 30, 2016 dated December 8, 2016 and our report for the year ended June 30, 2015 dated May 20, 2016, on our consideration of the Authority's internal control over financial reporting and on 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, and other auditors, testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

RSM US LLP

Oklahoma City, Oklahoma
December 8, 2016

Overview of Financial Statements and Financial Analysis

The Oklahoma Capitol Improvement Authority (the Authority) is pleased to present this Management's Discussion and Analysis for fiscal year 2016, with selected comparative information for fiscal years 2015 and 2014. Management's Discussion and Analysis is required supplementary information and is designed to focus on current activities, resulting changes, and current known facts, so it should be read in conjunction with the Authority's financial statements and footnotes. In addition to Management's Discussion and Analysis, the Authority's basic financial statements consist of the statement of net position; statement of revenues, expenses, and changes in net position; statement of cash flows; and notes to the financial statements. Condensed financial information is presented in this analysis that summarizes the statement of net position and the statement of revenues, expenses, and changes in net position. This discussion and analysis of the Authority's financial statements provides an overview of its financial activities for the year.

The Authority administers the funds generated by bond issuance and utilized in the construction of governmental buildings, highways, college campuses, and other projects. Additionally, the Authority collects lease revenue from state agencies and pays the required principal and interest payments to bond holders. These two activities comprise the majority of financial transactions of the Authority.

Statement of Net Position

The statement of net position presents the assets (current and non-current), liabilities (current and noncurrent), and net position (assets minus liabilities) as of the end of the fiscal year. The purpose of this statement is to give readers of the financial statements a fiscal snapshot of the Authority. The Authority had no deferred outflows of resources or deferred inflows of resources during any year presented.

These statements include all assets and liabilities using the accrual basis of accounting, which is comparable with the accounting method used by most private sector corporations. Readers of the statement of net position can determine the assets available to continue the operations of the Authority as well as amounts owed to bond holders. The final section of the statement of net position provides a picture of the net position.

The Authority's assets are divided into two categories. The first category, current assets, is the administrative fund, interest receivable and leases receivable, current portion. The administrative fund receives a pro-rated fee charged to all agencies with outstanding bond debt. The fee is used to support operations of the Authority's activities, including salaries and professional services. Restricted cash must be used as directed by bond resolutions for construction or to satisfy the debt obligations created by bond issuance. Bond holders receive regular payments for principal and interest from the Authority's trustees; trustee sinking fund transactions are included in the financial reporting of the Authority. The majority of restricted cash is held in either the trustee sinking funds or Authority construction funds from the most recent bond issuance proceeds. Construction funds are typically expended within a three year timeframe. The final category is noncurrent assets. Noncurrent assets are comprised of leases receivable, net of current portion and real estate held by the Authority. Leases receivable represent the amortized debt service of all the Authority's outstanding bond issues and decrease annually as principal is retired.

The net position calculation is a measure of the Authority's financial position. The Authority's net position is classified in two categories - unrestricted net position of the administrative operating fund and invested in capital assets. Capital assets represent land and improvements on that land held by the Authority.

Statement of Net Position (Continued)

A Condensed Statement of Net Position summarizes the assets, liabilities, and net position as of June 30, 2016 compared to year ending June 30, 2015 and June 30, 2014.

Condensed Statements of Net Position

	June 30,		
	2016	2015	2014
Assets:			
Current assets	$ 254,487,782	$ 269,532,892	$ 351,147,244
Noncurrent assets	813,745,080	913,945,080	829,140,914
Total assets	1,068,232,862	1,183,477,972	1,180,288,158
Liabilities:			
Current liabilities	163,570,692	177,864,031	115,425,832
Noncurrent liabilities	894,270,000	995,185,000	1,054,490,000
Total liabilities	1,057,840,692	1,173,049,031	1,169,915,832
Net position:			
Net investment in capital assets	10,125,080	10,125,080	10,125,080
Unrestricted	267,090	303,861	247,246
Total net position	$ 10,392,170	$ 10,428,941	$ 10,372,326

June 30, 2016 Compared to June 30, 2015
The Authority is responsible for administering the proceeds of bond issuance and paying the debt of previously issued bonds. Bond proceeds are administered by the authority for construction obligations. Lease receivables, from agencies who have received bond proceeds, are used for bond principal and interest payments to bond holders.

Current assets include the administrative fee collected from agencies involved in the bond process. The balance of this fund will fluctuate depending on the annual cost of administrative operations. It is necessary to retain a sufficient balance in this fund to support regular administrative functions, including salaries, professional service contracts, and additional bond issuance costs. Current assets also includes the current portion of leases receivable.

Accrued interest payable at the end of fiscal year 2016 decreased by $1.3 million from the previous year due to 2016 bond issues. The 2015B refunding of the 2006ABCE series occurred during the fiscal year and the interest cost for the first debt service in July 2016 represents more than the standard six month expense. Additionally, total outstanding principal decreased over the year due to scheduled repayments of principal and savings on the refunded debt.

Statement of Net Position (Continued)

Bond repayment reserve represents funds collected prior to the fiscal year-end and held for future bond debt payments. The reserve grows as interest earnings are deposited and federal interest rebates are received on eligible Build America Bond issues. The repayment reserve balance declined in fiscal year 2016 as balances in bond sinking funds were utilized as lease credits twice during the year. Projected future credits were given to the lessees whose original debt was refunded by the 2015B series. These future projected credits were issued to assist agencies suffering mid-year budget cuts. This decrease is included in noncurrent liabilities.

June 30, 2015 Compared to June 30, 2014

Total assets increased slightly from FY2014 to FY2015 due to a decline in leases receivable and an increase in construction fund balances. Liabilities, as would be expected, also increased by a similar amount. As bonds are issued and the construction funds are deposited, associated cash balances increase. Debt service and construction fund interest earnings account for the remaining changes in asset balances.

Statement of Revenues, Expenses, and Changes in Net Position

The statement of revenues, expenses, and changes in net position presents the Authority's results of operations for the fiscal year and the effect on net position. Operating revenues and expenses are generated from transactions that arise in the normal course of operations for the organization. The comparison of operating revenues to operating expenses is an important measure of an institution's financial stability. Normally, the Authority does not have an excess of operating revenues over operating expenses because most of the revenues are offset by expenses for bond debt service.

Condensed Statements of Revenues, Expenses, and Changes in Net Position

	Year Ended June 30,		
	2016	2015	2014
Operating revenue	$ 44,330,508	$ 45,987,184	$ 47,552,598
Operating expenses	46,735,149	47,682,649	48,970,322
Operating loss	(2,404,641)	(1,695,465)	(1,417,724)
Nonoperating revenue	2,367,870	1,752,080	1,253,643
Change in net position	(36,771)	56,615	(164,081)
Net position, beginning of year	10,428,941	10,372,326	10,536,407
Net position, end of year	$ 10,392,170	$ 10,428,941	$ 10,372,326

Statement of Revenues, Expenses, and Changes in Net Position (Continued)

Year Ended June 30, 2016 Compared to Year Ended June 30, 2015

The statement of revenues, expenses, and changes in net position reflects a decrease in net position of $36,771 in fiscal year 2016. A majority of the Authority's revenues are derived from bond interest collections from agencies in the form of lease payments, and expenditures are bond interest expense paid to bond holders. Operating revenues are comprised of fees collected from agencies and used for the administration of the Authority.

Interest income on lease receivables is dependent on the individual outstanding bond amortization schedules. Schedules determine the amount that must be collected from agencies and paid to bondholders. The Authority's function is to collect and make these payments timely and accurately.

Investment income is earned on construction and bond sinking funds. Interest earned on construction funds is available to supplement the bond proceeds used for construction projects, and interest earned on sinking fund balances is restricted for payments to bond holders. The Authority applies sinking fund interest earnings toward leases receivable, reducing bond debt cost (lease payments) to the agencies.

Increasing construction fund balances during fiscal year 2016 resulted in an increase in interest earnings. The 2015A bond issue contributed $39 million to investable funds, earning $856,000 and accounting for almost all of the increase in interest earnings.

Administrative fee revenues increased in fiscal year 2016 as a result of reinstating the pro-rated administrative charge to the authorized limit. The Authority's administrative fee revenue budget is limited to $420,000 annually.

Net position includes all unrestricted assets (the administrative fund and capital assets held by the Authority). An increase or decrease in net position is due to operating activities and changes in the book value of the real property.

Year Ended June 30, 2015 Compared to Year Ended June 30, 2014

The bond amortization schedules determine the annual change in interest due for leases receivable. These changes are predictable, and the Authority experienced a slight decrease in lease interest income during fiscal year 2015 due to the fluctuating interest requirements on outstanding debt.

As mentioned above, Authority investment income is primarily dependent on construction fund balances. New construction funds will typically receive a large cash deposit through a bond issuance. Bond issues are typically followed by increased investment earnings in the construction funds. Larger construction fund balances in FY2015, compared with FY2014, provided greater earned investment income during the period.

Economic Outlook

The 2015 Oklahoma legislature approved another $140 million in two separate bond issues to repair the Oklahoma State Capitol building. The 2016 Oklahoma legislature approved a $200 million bond issue (HB 3231) to construct, maintain and improve highways. The Authority continues to look for refunding savings in times of favorable rates. The state has excess capacity to issues bonds to improve state buildings and infrastructure. It is unclear how the legislature will choose to fund immediate building and infrastructure needs of the state. Funding will likely be provided either by direct appropriations or through additional bond issuance.

The Authority staff will continue to identify funds that may be used to reduce lease revenue payments from state agencies and the appropriations that support the lease payments. Interest earnings, federal rebates, and the transfer of residual construction funds will be used to satisfy debt payments where possible. Additionally, the staff will continue to identify administrative efficiencies, improve the transfer of funds process, and maximize interest earnings where possible.

Oklahoma Capitol Improvement Authority
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Statements of Net Position
June 30, 2016 and 2015

	2016	2015
Assets		
Current assets:		
Cash and cash equivalents	**$ 267,090**	$ 303,861
Cash and cash equivalents-restricted	**157,245,655**	164,569,920
Interest receivable	**165,037**	213,277
Leases receivable, current portion	**96,810,000**	104,445,834
Total current assets	**254,487,782**	269,532,892
Noncurrent assets:		
Leases receivable, net of current portion	**803,620,000**	903,820,000
Capital assets, net	**10,125,080**	10,125,080
Total noncurrent assets	**813,745,080**	913,945,080
Total assets	**$ 1,068,232,862**	$ 1,183,477,972
Liabilities		
Current liabilities:		
Accrued interest payable	**$ 21,518,686**	$ 22,832,709
Unexpended bond proceeds payable to state agencies	**39,455,965**	54,041,269
Deposits held to repay bond obligations	**5,071,041**	5,195,053
Bonds payable, current portion	**97,525,000**	95,795,000
Total current liabilities	**163,570,692**	177,864,031
Noncurrent liabilities:		
Bonds payable, net of current portion	**894,270,000**	995,185,000
Total liabilities	**1,057,840,692**	1,173,049,031
Net Position		
Investment in capital assets	**10,125,080**	10,125,080
Unrestricted	**267,090**	303,861
Total net position	**$ 10,392,170**	$ 10,428,941

See notes to basic financial statements.

Oklahoma Capitol Improvement Authority
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Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2016 and 2015

	2016	2015
Operating revenues:		
Interest income on lease receivables	**$ 43,900,570**	$ 45,565,168
Administrative fees and other revenues	**429,938**	422,016
Total operating revenues	**44,330,508**	45,987,184
Operating expenses:		
Administrative expenses	**466,708**	365,401
Interest expense	**43,900,573**	45,579,804
Expenses to contractors	**2,367,868**	1,737,444
Total operating expenses	**46,735,149**	47,682,649
Operating loss	**(2,404,641)**	(1,695,465)
Nonoperating revenues:		
Investment income	**2,367,870**	1,752,080
Change in net position	**(36,771)**	56,615
Net position, beginning of year	**10,428,941**	10,372,326
Net position, end of year	**$ 10,392,170**	$ 10,428,941

See notes to basic financial statements.

Oklahoma Capitol Improvement Authority
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Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Interest income on lease receivables	**$ 43,900,570**	$ 45,565,168
Administrative fees and other revenues	**429,938**	422,016
Cash paid to suppliers and contractors	**(2,834,579)**	(2,102,845)
Net cash provided by operating activities	**41,495,929**	43,884,339
Cash flows from capital and related financing activities:		
Principal lease payments received	**147,370,833**	244,162,500
Bond proceeds provided to lessees	**(54,244,318)**	(135,678,788)
Proceeds from issuance of bonds	**39,535,000**	189,250,000
Interest payments on bonds	**(45,214,593)**	(41,828,212)
Principal payments on bonds	**(138,720,000)**	(243,439,605)
Net cash provided by (used in) capital and related financing activities	**(51,273,078)**	12,465,895
Cash flows from investing activities:		
Investment income received	**2,416,113**	1,681,865
Net cash provided by investing activities	**2,416,113**	1,681,865
Net change in cash and cash equivalents	**(7,361,036)**	58,032,099
Cash and cash equivalents, beginning of year	**164,873,781**	106,841,682
Cash and cash equivalents, end of year	**$ 157,512,745**	$ 164,873,781
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	**$ (2,404,641)**	$ (1,695,465)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Interest paid on bonds	**45,214,593**	41,828,212
Changes in operating assets and liabilities:		
Accrued interest payable	**(1,314,023)**	3,751,592
Net cash provided by operating activities	**$ 41,495,929**	$ 43,884,339

See notes to basic financial statements.

Note 1. Summary of Significant Accounting Policies

Reporting entity: The Oklahoma Capitol Improvement Authority (the Authority) was created as an instrumentality of the State of Oklahoma under applicable Oklahoma statutes on June 27, 1959, with Oklahoma (the State) named as the beneficiary thereof. The Authority is included in the Comprehensive Annual Financial Report of the State of Oklahoma, as part of the General Fund and Governmental Activities. The purpose of the Authority is primarily to provide a means of financing the construction of buildings, highway infrastructure or other facilities for the State of Oklahoma's departments and agencies. The provisions of the Trust Indenture creating the Authority basically provide that the Authority is authorized to issue long-term obligations in order to purchase land and erect, maintain, and operate buildings or other capital assets for the use of the state and other state agencies, including other components units of the state. The obligations are retired by lease payments made by the agencies occupying the facilities. Upon maturity of the bonds payable and repayment of the related leases receivable, title to the capital assets transfers to the state agencies.

Financial statement presentation: Because the Authority is permitted to charge user fees to other entities, the Authority has elected to present its financial statements as an enterprise fund.

Basis of accounting: The Authority's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses when incurred.

Cash and cash equivalents: For purposes of the statement of cash flows, the Authority considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. The Authority maintains money market funds with the bond trustee, which are considered cash equivalents and are carried at amortized cost. Funds on deposit with the State Treasurer are also considered cash equivalents. Interest income is recognized when earned.

Net position: Investment in capital assets represents the Authority's total investment in capital assets, net of accumulated depreciation. Unrestricted net position is comprised of the unrestricted cash balance of the Authority's administrative operating fund, less liabilities, if any.

Arbitrage rebate: The proceeds from the Authority's tax exempt bond issues are subject to arbitrage rebate laws under the Internal Revenue Code. This arbitrage rebate limits the earnings on investment of tax-exempt proceeds in non-purpose investments. As of June 30, 2016 and 2015, the Authority had no arbitrage liability.

Classification of revenues and expenses: Because the issuance of bonds and related investment of bond proceeds constitute the Authority's principal ongoing operations, the Authority has classified the revenues and expenses associated with those activities as operating revenues and expenses.

Administrative fees and other revenues: Administrative fees and other revenues are comprised of administrative fees charged to agencies, proceeds from closing costs, and other miscellaneous income.

Leases receivable: Leases receivable are recorded from the state entities that receive the benefit of each bond issue and are reported at their outstanding unpaid principal balances. Interest on leases is accrued and credited to income based upon the principal amount outstanding. Since the receivables are from other state agencies, no allowance for uncollectible leases is considered necessary.

Capital assets, net: Capital assets are carried at cost, net of accumulated depreciation, if any. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The estimated useful lives are fifty years for buildings and twenty years for capital improvements. At June 30, 2016 and 2015, the Authority's only capital assets consist of land, which is a non-depreciable asset.

Note 1. Summary of Significant Accounting Policies (Continued)

Unexpended bond proceeds payable to state agencies: The proceeds of bonds that have been issued but not yet drawn down upon and expended by state agencies are reflected as a liability in the Authority's financial statements.

Income taxes: As a public trust, the income of the Authority, which is derived from the exercise of any essential government function, is not subject to federal or state income taxes.

Use of estimates: Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare the financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from these estimates.

Note 2. Deposits and Investments

At June 30, 2016 and 2015, the Authority's deposits and investments, all of which are considered cash and cash equivalents consisted of the following:

	2016	2015
Deposits with the State Treasurer	$ 112,969,721	$ 142,633,308
Money market mutual funds held with bond trustees	44,543,024	22,240,473
Total cash equivalents	$ 157,512,745	$ 164,873,781

Certain deposits with the State Treasurer are considered to be cash and cash equivalents and are invested in an internal investment pool (*OK INVEST*) held by the State Treasurer. The Authority's investment in *OK INVEST* is carried at $39,363,400 and $53,936,150 at June 30, 2016 and 2015, respectively. Cash equivalents are recorded at cost. The Authority obtained the fair value from the State Treasurer of their interest in the pool, which amounted to $39,913,578 and $54,371,380 at June 30, 2016 and 2015, respectively. Management believes the difference between cost and fair value is immaterial to the financial statements as a whole due to the short duration of investments held by the pool and information provided by the State.

Custodial credit risk – deposits: Custodial credit risk is the risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its deposits and investments. Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized.

As an instrumentality of the state, the Authority follows the deposit and investment policies of the state. The State Treasurer requires that financial institutions deposit collateral securities to secure the deposits of the Authority in each such institution. The amount of collateral securities to be pledged for the security of public deposits is established by rules promulgated by the State Treasurer. In accordance with the Office of the State Treasurer's policies, the collateral securities to be pledged by financial institutions through the State Treasurer's Office are pledged at market value and must be at 110 percent of value to collateralize the amount of the deposit, less any federal insurance coverage. All deposits held with the State Treasurer are fully insured or collateralized with securities held by an agent of the state in the state's name.

Note 2. Deposits and Investments (Continued)

Custodial credit risk – investments: For an investment, custodial credit risk is the risk that the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if they are uninsured, not registered in the name of the Authority, or held by the counterparty or its trust department but not in the Authority's name. At June 30, 2016 and 2015, all of the investments held with bond trustees were invested in money market funds. Because the funds are not deposits or obligations of any bank, are not guaranteed by any bank and are not insured or guaranteed by the FDIC, Federal Reserve Board or any other government agency, the Authority's investments are exposed to custodial credit risk. The Authority mitigates this risk by investing in only cash management accounts that invest primarily in short-term U.S. Treasury and government securities.

Concentration of credit risk: Cash equivalents held by the State Treasurer are deposited to *OK INVEST*, an internal investment pool of the State Treasurer. In accordance with state statutes, the State Treasurer's investment policy allows for investments in the following categories:

United States Treasury Bills, Notes and Bonds
United States Government Agency Securities
Prime Bankers' Acceptances
Investment grade obligations of state
and local governments
Short-term bond funds
Collateralized or insured certificates of deposit
Negotiable certificates of deposit
Prime Commercial Paper
Repurchase agreements
Money market funds
Foreign bonds

The State Treasurer's investment policy attempts to reduce portfolio risk through diversification by security, institution and maturity. With the exception of U.S. Treasury Securities, no more than 50 percent of the state's total funds available for investment will be invested in a single security or with a single financial institution. In addition, the State Treasurer's investments will not have an average maturity of greater than 4 years unless specifically otherwise designated by the State Treasurer. The State Treasurer seeks to hold investments with a rating of A or higher as rated by Moody's.

Investments held with bond trustees are not subject to concentration of credit risk because all investments are in money market funds.

Interest rate risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Deposits with the State Treasurer that are invested in *OK INVEST* follow the State Treasurer's investment policy, which seeks to keep the average maturity for the entire portfolio to less than four years. The Authority does not have a formal policy that limits investment maturities for investments placed with bond trustees. As these investments are used to meet the Authority's debt service obligations, all of these investments are in money market funds that have a weighted average maturity.

Credit risk: Credit risk exists when there is a possibility that the issuer or other counterparty to an investment may be unable to fulfill its obligations. The Authority's investments with the bond trustees are in money market funds, which are considered to be cash equivalents. The funds maintained with the bond trustee are invested in U.S. dollar-denominated money market securities, high-quality, short-term debt and other high-quality, short-term obligations that are considered minimal credit risks by the bond trustee. The credit rating for the funds ranges from A+ to AAA.

Note 3. Capital Assets

Following are the changes in capital assets for the years ended June 30, 2016 and 2015:

	June 30, 2015	Additions	Retirements	June 30, 2016
Capital assets not being depreciated,				
Land	$ 10,125,080	$ -	$ -	$ 10,125,080

	June 30, 2014	Additions	Retirements	June 30, 2015
Capital assets not being depreciated,				
Land	$ 10,125,080	$ -	$ -	$ 10,125,080

Note 4. Leases Receivable

The Authority holds long term leases receivable directly related to the bond issue from the institution or agency occupying the facility. The leases receivable are restricted for repayment of the bond indentures, and expected maturities at June 30, 2016 are as follows:

Fiscal Year	Amount
2017	$ 96,810,000
2018	94,920,000
2019	65,481,250
2020	56,881,250
2021	58,283,750
2022-2026	353,753,750
2027-2031	156,295,000
2032-2036	18,005,000
	$ 900,430,000

Note 5. Revenue Bonds Payable

The Authority’s bond issues listed on the following pages were outstanding during the years ended June 30, 2016 and 2015. The bonds are special, limited obligations of the Authority, payable solely out of the revenue receipts and lease receivables pledged under the indentures. The bonds do not constitute a general obligation or indebtedness of the Authority, nor do they constitute a debt or obligation of the State of Oklahoma, or any political subdivision, agency, or instrumentality thereof, and shall not constitute a lien on or pledge of any property of the Authority except as provided in the indentures. The Authority has no taxing powers.

Note 5. Revenue Bonds Payable (Continued)

The following is a summary of bonds payable transactions for the year ended June 30, 2016:

Bond Issue	Maturity	Interest Rate At 6/30/2015	Principal Balance 6/30/2015	2016 Issuance	2016 Retirement	Principal Balance 6/30/2016	Due within One Year
2003E - State Agencies Bond Issue	Dec-15	2.00-4.00%	$ 1,475,000	$ -	$ 1,475,000	$ -	$ -
2005A - Military Bond Issue	Jul-20	3.00-4.35%	430,000	-	430,000	-	-
2005B - Attorney General Bond Issue	Jul-25	3.00-4.05%	190,000	-	190,000	-	-
2005C - Native American Cultural Bond	Jul-27	3.00-5.00%	1,445,000	-	1,445,000	-	-
2005D - OSBI Forensics Center Bond	Jul-30	3.00-4.38%	750,000	-	750,000	-	-
2005E - Attorney General Bond Issue	Jul-25	3.70-5.00%	145,000	-	145,000	-	-
2005F - Higher Education Facilities Bond	Jul-30	3.38-5.00%	11,275,000	-	11,275,000	-	-
2006A - State Agencies Bond Issue	Jul-26	3.55-4.38%	16,805,000	-	15,645,000	1,160,000	1,160,000
2006B - Department of Mental Health	Jul-26	3.50-4.25%	13,015,000	-	12,115,000	900,000	900,000
2006C - Supreme Court Bond Issue	Jul-26	4.00-4.50%	15,335,000	-	14,290,000	1,045,000	1,045,000
2006E - State Facilities Revenue Bonds	Jul-27	4.00%	4,460,000	-	4,155,000	305,000	305,000
2008A - Native American Center Bonds	Jul-25	3.50-5.30%	19,180,000	-	1,385,000	17,795,000	1,440,000
2008B - Supreme Court Bond Issue	Jul-29	3.50-5.45%	9,565,000	-	455,000	9,110,000	470,000
2009A - Conservation Commission Bonds	Jul-24	1.00-4.00%	18,075,000	-	1,530,000	16,545,000	1,580,000
2009A - Department of Transportation	Jul-18	2.00-4.00%	38,545,000	-	9,155,000	29,390,000	9,440,000
2009B - Department of Transportation	Jul-24	5.04-5.34%	68,830,000	-	-	68,830,000	-
2010 - Regents for Higher Education	Jul-30	1.77-5.61%	121,785,000	-	5,325,000	116,460,000	5,495,000
2010A - Regents for Higher Education	Jul-18	2.00-2.48%	87,260,000	-	5,350,000	81,910,000	18,320,000
2010B - Regents for Higher Education	Jul-15	2.03-2.48%	12,555,000	-	12,555,000	-	-
2010A - Department of Transportation	Jul-20	2.00-5.00%	77,620,000	-	11,730,000	65,890,000	12,150,000
2010B - Department of Transportation	Jul-25	4.24-4.79%	92,075,000	-	-	92,075,000	-
2012 - Department of Transportation	Oct-25	2.00-2.54%	50,180,000	-	3,665,000	46,515,000	3,810,000
2013A - State Facilities Refunding Bonds	Jul-24	2.00-4.00%	20,010,000	-	2,085,000	17,925,000	2,135,000
2014A - State Facilities Refunding Bonds	Jul-30	2.00-5.00%	220,725,000	-	175,000	220,550,000	15,140,000
2014B - State Facilities Refunding Bonds	Jul-24	2.00-5.00%	55,505,000	-	10,000,000	45,505,000	11,155,000
2014C - Higher Education Refinancing Bonds	Jul-34	2.00-5.00%	83,745,000	-	1,845,000	81,900,000	2,565,000
2015A - State Capitol Repair Bonds	Jan-25	2.00-5.00%	50,000,000	-	11,550,000	38,450,000	10,415,000
2015B - State Capitol Repair Bonds	Jul-27	2.00-5.00%	-	39,535,000	-	39,535,000	-
			$ 1,090,980,000	$ 39,535,000	$ 138,720,000	$ 991,795,000	$ 97,525,000

Note 5. Revenue Bonds Payable (Continued)

The following is a summary of bonds payable transactions for the year ended June 30, 2015:

Bond Issue	Maturity	Interest Rate At 6/30/2015	Principal Balance 6/30/2014	2015 Issuance	2015 Retirement	Principal Balance 6/30/2015	Due within One Year
2003E - State Agencies Bond Issue	Dec-15	2.00-4.00%	$ 2,895,000	$ -	$ 1,420,000	$ 1,475,000	$ 1,475,000
2004A - State Facilities	Sep-24	2.50-5.00%	69,760,000	-	69,760,000	-	-
2005A - Military Bond Issue	Jul-20	3.00-4.35%	845,000	-	415,000	430,000	430,000
2005B - Attorney General Bond Issue	Jul-25	3.00-4.05%	370,000	-	180,000	190,000	190,000
2005C - Native American Cultural Bond	Jul-27	3.00-5.00%	2,840,000	-	1,395,000	1,445,000	1,445,000
2005D - OSBI Forensics Center Bond	Jul-30	3.00-4.38%	1,475,000	-	725,000	750,000	750,000
2005E - Attorney General Bond Issue	Jul-25	3.70-5.00%	285,000	-	140,000	145,000	145,000
2005F - Higher Education Facilities Bond	Jul-30	3.38-5.00%	22,045,000	-	10,770,000	11,275,000	11,275,000
2006A - State Agencies Bond Issue	Jul-26	3.55-4.38%	17,880,000	-	1,075,000	16,805,000	1,115,000
2006B - Department of Mental Health	Jul-26	3.50-4.25%	13,850,000	-	835,000	13,015,000	865,000
2006C - Supreme Court Bond Issue	Jul-26	4.00-4.50%	16,300,000	-	965,000	15,335,000	1,005,000
2006D - Higher Education Facilities Bond	Jul-35	Variable	93,525,000	-	93,525,000	-	-
2006E - State Facilities Revenue Bonds	Jul-27	4.00%	4,740,000	-	280,000	4,460,000	295,000
2008A - Native American Center Bonds	Jul-25	3.50-5.30%	20,510,000	-	1,330,000	19,180,000	1,385,000
2008B - Supreme Court Bond Issue	Jul-29	3.50-5.45%	10,000,000	-	435,000	9,565,000	455,000
2009A - Conservation Commission Bonds	Jul-24	1.00-4.00%	19,550,000	-	1,475,000	18,075,000	1,530,000
2009A - Department of Transportation	Jul-18	2.00-4.00%	47,455,000	-	8,910,000	38,545,000	9,155,000
2009B - Department of Transportation	Jul-24	5.04-5.34%	68,830,000	-	-	68,830,000	-
2010 - Regents for Higher Education	Jul-30	1.77-5.61%	126,975,000	-	5,190,000	121,785,000	5,325,000
2010A - Regents for Higher Education	Jul-18	2.00-2.48%	87,260,000	-	-	87,260,000	5,350,000
2010B - Regents for Higher Education	Jul-15	2.03-2.48%	30,105,000	-	17,550,000	12,555,000	12,555,000
2010A - Department of Transportation	Jul-20	2.00-5.00%	88,960,000	-	11,340,000	77,620,000	11,730,000
2010B - Department of Transportation	Jul-25	4.24-4.79%	92,075,000	-	-	92,075,000	-
2012 - Department of Transportation	Oct-25	2.00-2.54%	53,715,000	-	3,535,000	50,180,000	3,665,000
2013A - State Facilities Refunding Bonds	Jul-24	2.00-4.00%	22,050,000	-	2,040,000	20,010,000	2,085,000
2013B - State Facilities Refunding Bonds	Jul-14	0.50%	160,000	-	160,000	-	-
2013C - State Facilities Refunding Bonds	Jun-15	0.75-1.00%	5,955,000	-	5,955,000	-	-
2014A - State Facilities Refunding Bonds	Jul-30	2.00-5.00%	220,725,000	-	-	220,725,000	175,000
2014B - State Facilities Refunding Bonds	Jul-24	2.00-5.00%	-	55,505,000	-	55,505,000	10,000,000
2014C - Higher Education Refinancing Bonds	Jul-34	2.00-5.00%	-	83,745,000	-	83,745,000	1,845,000
2015A - State Capitol Repair Bonds	Jan-25	2.00-5.00%	-	50,000,000	-	50,000,000	11,550,000
			$ 1,141,135,000	$ 189,250,000	$ 239,405,000	$ 1,090,980,000	$ 95,795,000

Note 5. Revenue Bonds Payable (Continued)

Debt service requirements for fiscal years 2017 through 2021 and in five year increments thereafter to maturity for bonds payable as of June 30, 2016 are as follows:

Fiscal Year	Principal	Interest	Total
2017	$ 97,525,000	$ 42,601,693	$ 140,126,693
2018	93,175,000	39,050,621	132,225,621
2019	95,020,000	35,245,835	130,265,835
2020	65,570,000	31,902,798	97,472,798
2021	57,000,000	29,232,657	86,232,657
2022-2026	369,150,000	98,628,558	467,778,558
2027-2031	190,875,000	28,661,092	219,536,092
2032-2036	23,480,000	1,864,572	25,344,572
	$ 991,795,000	$ 307,187,826	$ 1,298,982,826

Note 6. New Accounting Pronouncements

New accounting pronouncements adopted in fiscal year 2016: The Authority adopted the following new accounting pronouncements during the year ended June 30, 2016:

GASB Statement No. 72, *Fair Value Measurement and Application*, issued February 2015, defines fair value and describes how fair value should be measured, what assets and liabilities should be measured at fair value, and what information about fair value should be disclosed in the notes to the financial statements. This Statement defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investments, which generally are measured at fair value, are defined as a security or other asset that governments hold primarily for the purpose of income or profit and the present service capacity of which are based solely on their ability to generate cash or to be sold to generate cash. The adoption of this pronouncement did not have an impact on the Authority.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (GASB No. 76) identifies—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. GASB No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The adoption of this pronouncement did not have an effect on the Authority’s financial position or related disclosures.

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*

Independent Auditor's Report

To the Board of Trustees
Oklahoma Capitol Improvement Authority
Oklahoma City, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America 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 Capitol Improvement Authority (the Authority), which comprise the statement of net position as of June 30, 2016, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 8, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 Authority'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.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

Oklahoma City, Oklahoma
December 8, 2016