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

Financial Report
June 30, 2019

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, 2019 and 2018, 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, 2019 and 2018, 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.

Emphasis of Matter
As discussed in Note 1 of the financial statements, the financial statements present only the Authority and do not purport to, and do not, present fairly the financial position of the State of Oklahoma, as of June 30, 2019 and 2018, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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 our report dated December 13, 2019, 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 solely 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 the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

RSM US LLP

Oklahoma City, Oklahoma
December 13, 2019

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 2019, with selected comparative information for fiscal years 2018 and 2017. 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 a portfolio of funds that contain proceeds generated by the issuance of lease revenue bonds. The bond proceeds are used for the construction of governmental buildings, highways, college campuses, and other capital projects. Additionally, the Authority collects lease payments from lessee state agencies to pay 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 noncurrent), liabilities (current and noncurrent), and net position (assets minus liabilities) as of the end of the fiscal year (the "Statement of Net Position"). The purpose of the 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 herein.

The Statement of Net Position includes all assets and liabilities using the accrual basis of accounting, which is an accounting method used by most private sector corporations. Readers of the Statement of Net Position can determine available assets necessary 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 Authority's net position.

The Authority's assets are divided amongst 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 lessee agencies with outstanding bond debt. The fee is used to support operations of the Authority's activities, including salaries, professional services and leased office space. Restricted cash must be used as directed by bond resolutions for construction and 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 the trustee sinking funds and Authority construction funds from the most recent bond issue proceeds. Construction funds are typically expended within a three year timeframe. The second 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. Leases receivable decrease annually as principal is retired and increase as additional new money bonds are issued.

The net position calculation is a measure of the Authority's financial position. The Authority's net position for fiscal years 2019, 2018, and 2017 consists solely of unrestricted net position of the administrative operating fund.

Statement of Net Position (Continued)
A Condensed Statement of Net Position summarizes the assets, liabilities, and net position as of June 30, 2019 compared to years ended June 30, 2018 and June 30, 2017.

Condensed Statements of Net Position

	June 30, 2019	June 30, 2018	June 30, 2017
Assets:			
Current assets	$ 460,774,576	$ 269,658,811	$ 387,533,875
Noncurrent assets	1,066,212,060	887,580,357	942,453,145
Total assets	1,526,986,636	1,157,239,168	1,329,987,020
Liabilities:			
Current liabilities	388,556,003	196,600,093	295,923,796
Noncurrent liabilities	1,138,034,107	960,308,145	1,033,887,038
Total liabilities	1,526,590,110	1,156,908,238	1,329,810,834
Net position:			
Unrestricted	396,526	330,930	176,186
Total net position	$ 396,526	$ 330,930	$ 176,186

June 30, 2019 Compared to June 30, 2018

The Authority administers a portfolio of funds that contain proceeds of bond issues. Administration of the funds consists of paying bond holders principal and interest payments on a biannual basis and administering funds associated with state capital construction projects.

Current assets include the administrative fee collected from lessee agencies with outstanding bond issues. The balance of the administrative fee fund fluctuates depending on the annual cost of the Authority's administrative expenses. It is necessary to retain a sufficient balance in this fund to support regular administrative expenses, including salaries, professional service contracts, and additional costs associated with the issuance of bonds. Current assets also include the current portion of leases receivable.

Accrued interest payable at the end of fiscal year 2019 increased by approximately $4.3 million from the previous year due to the issuance of several bond series. Interest only payments have been made on the State Highway Capital Improvement Revenue Bonds Series 2016 with principal payments beginning in fiscal year 2020. Interest only payments will be made on Bond Series 2017C, 2018D, 2019A, and 2019B until fiscal year 2021 and on Bond Series 2018B until fiscal year 2029. At the conclusion of fiscal year 2019, total outstanding principal saw an overall increase of approximately $157M due to the issuance of six bond series, despite the normal amortization of the remainder of the portfolio including the maturation of Bond Series 2009A (ODOT), Bond Series 2010A (Regents for Higher Ed), and the partial refunding of Bond Series 2009A (Conservation Commission).

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 increased in fiscal year 2019 as six new series was issued. These credits were issued to comply with the bond resolutions. This increase is included in current liabilities.

Statements of Net Position (Continued)
Total assets increased by approximately $370 million from fiscal year 2018 to fiscal year 2019 due primarily to an increase in construction fund cash balances and leases receivable. Liabilities, as would be expected, also increased by a similar amount. After bonds are issued and the construction funds are spent, associated cash balances decrease. Debt service and construction fund interest earnings receivable account for the remaining increase in asset balances

June 30, 2018 Compared to June 30, 2017

Accrued interest payable at the end of fiscal year 2018 decreased by $2 million from the previous year due to amortizations of the portfolio. The State Highway Capital Improvement Revenue Bonds Series 2016 does not have a principal payment until fiscal year 2020, only interest was paid in fiscal years 2017 and 2018. The 2017C Bond series paid interest only in fiscal year 2018. Additionally, total outstanding principal decreased over the year due amortizations of the portfolio.

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 decreased in fiscal year 2018. This decrease is included in current liabilities.

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,		
	2019	2018	2017
Operating revenue	$ 52,377,466	$ 47,686,053	$ 47,223,053
Operating expenses	57,763,362	50,664,811	50,714,172
Operating loss	(5,385,896)	(2,978,758)	(3,491,119)
Nonoperating revenue	5,451,492	3,133,502	3,400,215
Nonoperating expenses	-	-	10,125,080
Change in net position	65,596	154,744	(10,215,984)
Net position, beginning of year	330,930	176,186	10,392,170
Net position, end of year	$ 396,526	$ 330,930	$ 176,186

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

Year Ended June 30, 2019 Compared to Year Ended June 30, 2018

The statement of revenues, expenses, and changes in net position reflects an increase in net position of $65,596 in fiscal year 2019. This increase was due to administrative revenues exceeding administrative expenses. 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 expenses 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 in a timely and accurate manner.

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 2019 resulted in an increase in interest earnings.

Administrative fee revenues in fiscal year 2019 were relatively consistent with fiscal year 2018 decreasing by $17,575.

Net position includes all unrestricted assets (the administrative fund and capital assets held by the Authority until the capital assets were disposed of in 2017). An increase or decrease in net position is due to operating activities and changes in the book value of the real property.

The bond amortization schedules determine the annual change in interest due for leases receivable. In fiscal year 2019, the Authority experienced an increase in lease interest income due to the fluctuating interest requirements on outstanding and newly issued debt.

As mentioned above, Authority investment income is primarily driven by the balances contained in construction funds. New construction funds typically receive a large cash deposit at the time of the bond issue. Bond issues are typically followed by increased investment earnings in the construction funds. Larger construction fund balances in fiscal year 2019, compared with fiscal year 2018, resulted in more investment income during the period.

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

Year Ended June 30, 2018 Compared to Year Ended June 30, 2017

The statement of revenues, expenses, and changes in net position reflects an increase in net position of $154,744 in fiscal year 2018. This increase was due to administrative revenues exceeding administrative expenses. 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 expenses paid to bond holders. Operating revenues are comprised of fees collected from agencies and used for the administration of the Authority. Decreasing construction fund balances during fiscal year 2018 resulted in a decrease in interest earnings and smaller construction fund balances in fiscal year 2018, compared with fiscal year 2017, resulted in less investment income during the period. Administrative fee revenues in fiscal year 2018 were relatively consistent with fiscal year 2017 decreasing by $23,000. Net position includes all unrestricted assets (the administrative fund and capital assets held by the Authority until the capital assets were disposed of in 2017). An increase or decrease in net position is due to operating activities and changes in the book value of the real property.

Fiscal Year 2020 - Outlook

Within the next twelve months the Authority anticipates issuing lease-revenue bonds for an additional project authorized by the State Legislature. The project includes $35 million for construction of two hospitals for the Oklahoma Department of Veterans Affairs. The 2019C bonds were issued on September 10, 2019 in the amount of $59,895,000 by OCIA for the Office of Management and Enterprise Services. The agency will continue renovation of the State Capitol building in Oklahoma City.

The Authority continues to look for refunding savings in times of favorable rates. The Authority is currently considering refunding the 2010B bond series that was issued on behalf of the Oklahoma Department of Transportation for highway construction. The state has excess capacity to issue 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, 2019 and 2018

Assets		
Current assets:		
Cash and cash equivalents	**$ 401,637**	$ 330,932
Cash and cash equivalents-restricted	**379,689,651**	189,225,591
Investments-restricted	**544,900**	1,081,785
Interest receivable	**786,813**	300,215
Leases receivable, current portion	**79,351,575**	78,720,288
Total current assets	**460,774,576**	269,658,811
Noncurrent assets:		
Leases receivable, net of current portion	**1,066,212,060**	887,580,357
Total assets	**$ 1,526,986,636**	$ 1,157,239,168
Liabilities		
Current liabilities:		
Accrued interest payable	**$ 27,929,972**	$ 23,654,121
Unexpended bond proceeds payable to state agencies	**261,928,743**	66,586,402
Deposits held to repay bond obligations	**18,183,250**	5,565,676
Bonds payable, current portion	**80,514,038**	100,793,894
Total current liabilities	**388,556,003**	196,600,093
Noncurrent liabilities:		
Bonds payable, net of current portion	**1,138,034,107**	960,308,145
Total liabilities	**1,526,590,110**	1,156,908,238
Net Position		
Unrestricted	**396,526**	330,930
Total net position	**$ 396,526**	$ 330,930

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, 2019 and 2018

	2019	2018
Operating revenues:		
Interest income on lease receivables	**$ 51,944,184**	$ 47,235,196
Administrative fees and other revenues	**433,282**	450,857
Total operating revenues	**52,377,466**	47,686,053
Operating expenses:		
Administrative expenses	**362,572**	296,628
Interest expense	**50,981,118**	48,210,094
Expenses to contractors	**6,419,672**	2,158,089
Total operating expenses	**57,763,362**	50,664,811
Operating loss	**(5,385,896)**	(2,978,758)
Nonoperating revenues:		
Investment income	**5,451,492**	3,133,502
Change in net position	**65,596**	154,744
Net position, beginning of year	**330,930**	176,186
Net position, end of year	**$ 396,526**	$ 330,930

See notes to basic financial statements.

Oklahoma Capitol Improvement Authority
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Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Interest income on lease receivables	$ 51,944,184	$ 47,235,196
Administrative fees and other revenues	433,282	450,857
Cash paid to suppliers and contractors	(6,782,244)	(2,454,717)
Net cash provided by operating activities	45,595,222	45,231,336
Cash flows from capital and related financing activities:		
Principal lease payments received	78,977,010	101,206,393
Bond proceeds provided to lessees	(50,280,085)	(130,560,778)
Bond proceeds for current bond refunding	(9,865,000)	-
Proceeds from issuance of bonds	268,105,000	27,215,000
Interest payments on bonds	(46,705,267)	(50,228,906)
Principal payments on bonds	(100,793,894)	(94,753,006)
Net cash provided by (used in) capital and related financing activities	139,437,764	(147,121,297)
Cash flows from investing activities:		
Purchases of investments	-	(1,081,785)
Proceeds from sales of investments	536,885	-
Investment income received	4,964,894	3,213,362
Net cash provided by investing activities	5,501,779	2,131,577
Net change in cash and cash equivalents	190,534,765	(99,758,384)
Cash and cash equivalents, beginning of year	189,556,523	289,314,907
Cash and cash equivalents, end of year	$ 380,091,288	$ 189,556,523
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$ (5,385,896)	$ (2,978,758)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Interest paid on bonds	46,705,267	50,228,906
Changes in operating assets and liabilities:		
Accrued interest payable	4,275,851	(2,018,812)
Net cash provided by operating activities	$ 45,595,222	$ 45,231,336

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 component 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 stated at the net asset value (NAV) for the fund. Funds on deposit with the State Treasurer are also considered cash equivalents. Interest income is recognized when earned.

Investments: Investments consist of U.S. Treasury Notes. Applicable Oklahoma statutes authorize certain types of investments the Authority can utilize. As of June 30, 2019 and 2018, the Authority believes it is in compliance with these investment requirements.

The U.S. Treasury Notes are stated at fair value with changes in fair value included in the statements of revenues, expenses, and changes in net position. Fair value is defined 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.

Net position: 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, 2019 and 2018, 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.

Note 1. Summary of Significant Accounting Policies (Continued)

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 and management believes they are fully collectible, no allowance for uncollectible leases is considered necessary.

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.

Deposits held to repay bond obligations: As funds are collected on lease receivables, the associated bonds payable is reclassified to deposits held to repay bond obligations until the next scheduled debt service payment is made to the bondholders.

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.

New accounting pronouncements issued not yet adopted: The GASB has issued new accounting pronouncements which will be effective to the Authority in fiscal year ended after June 30, 2019. A description of the new accounting pronouncement is provided below:

- GASB Statement No. 87, *Leases*, issued June 2017, establishes a single approach to accounting for and reporting leases by state and local governments. Under this statement, a government entity that is a lessee must recognize (1) a lease liability and (2) an intangible asset representing the lessee's right to use the leased asset. In addition, the Authority must report the (1) amortization expense for using the lease asset over the shorter of the term of the lease or the useful life of the underlying asset, (2) interest expense on the lease liability and (3) note disclosures about the lease. The statement provides exceptions from the single-approach for short-term leases, financial purchases, leases of assets that are investments, and certain regulated leases. This statement also addresses accounting for lease terminations and modifications, sale-leaseback transactions, non-lease components embedded in lease contracts (such as service agreements), and leases with related parties. The requirements of this statement are effective for reporting periods beginning after December 15, 2019. The Authority is currently evaluating the impact of the adoption of this statement.

Note 2. Deposits and Investments

At June 30, 2019 and 2018, the Authority's deposits and investments consisted of the following:

	2019	2018
Cash equivalents:		
Deposits with the State Treasurer	$ 321,175,562	$ 148,452,379
Money market mutual funds held with bond trustees	58,915,726	41,104,144
Total cash equivalents	380,091,288	189,556,523
Investments:		
U.S. Treasury notes	544,900	1,081,785
Total deposits and investments	$ 380,636,188	$ 190,638,308

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 $320,848,373 and $148,086,716 at June 30, 2019 and 2018, respectively, which represents the Authority's net asset value of its interest in OK INVEST. The amounts held in OK INVEST are considered liquid as they are available to be withdrawn on demand with limited redemption restrictions.

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% 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.

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, 2019, the Authority does not have any securities that are not registered in the name of the Authority.

Note 2. Deposits and Investments (Continued)

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 Notes, no more than 50% 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.

All of the investments held with Bond Trustees are U.S. Treasury Notes.

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. At June 30, 2019, all of the Authority's investments have remaining maturities of one month or less.

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 U.S. Treasury Securities and U.S. government securities-based money market funds, which both have Moody's Rating of Aaa.

Fair value measurement: The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The inputs to the three levels of the fair value hierarchy are described as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities

Level 2: Significant other observable inputs, including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets in markets that are not active and other market corroborated inputs

Level 3: Significant unobservable inputs

The U.S. Treasury securities held by the Authority at June 30, 2019, are classified as Level 1 in the fair value hierarchy as described above.

Note 3. 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, 2019, are as follows:

Fiscal Year	Amount
2020	$ 79,351,575
2021	81,298,310
2022	99,762,500
2023	103,130,000
2024	106,926,250
2025-2029	354,902,500
2030-2034	200,540,000
2035-2039	74,372,500
2040 and thereafter	45,280,000
	$ 1,145,563,635

Note 4. Revenue Bonds Payable

The Authority's bond issues listed on the following pages were outstanding during the years ended June 30, 2019 and 2018. 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.

The following is a summary of bonds payable transactions for the year ended June 30, 2019:

Bond Issue	Maturity	Interest Rate At 6/30/2018	Principal Balance 6/30/2018	2019 Issuance	2019 Retirement	Principal Balance 6/30/2019	Due within One Year
2009A - Conservation Commission Bonds	Jul-19	3.50-4.00%	$ 13,320,000	$ -	$ 11,560,000	$ 1,760,000	$ 1,760,000
2009A - Department of Transportation	Jul-18	2.00-4.00%	10,160,000	-	10,160,000	-	-
2009B - Department of Transportation	Jul-24	5.04-5.34%	68,830,000	-	-	68,830,000	10,550,000
2010 - Regents for Higher Education	Jul-30	1.77-5.61%	105,265,000	-	5,930,000	99,335,000	6,205,000
2010A - Regents for Higher Education	Jul-18	2.00-5.00%	32,140,000	-	32,140,000	-	-
2010A - Department of Transportation	Jul-20	2.00-5.00%	41,090,000	-	13,125,000	27,965,000	13,680,000
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%	38,735,000	-	4,130,000	34,605,000	4,305,000
2013A - State Facilities Refunding Bonds	Jul-24	3.00-4.00%	13,605,000	-	2,250,000	11,355,000	2,325,000
2014A - State Facilities Refunding Bonds	Jul-30	2.00-5.00%	202,090,000	-	3,730,000	198,360,000	3,605,000
2014B - State Facilities Refunding Bonds	Jul-24	3.00-5.00%	20,237,039	-	9,383,894	10,853,145	9,754,038
2014C - Higher Education Refinancing Bonds	Jul-34	3.00-5.00%	76,720,000	-	2,695,000	74,025,000	3,260,000
2015A - State Capitol Repair Bonds	Jan-25	3.00-5.00%	24,970,000	-	3,185,000	21,785,000	3,275,000
2015B - State Capitol Repair Bonds	Jul-27	3.00-5.00%	36,220,000	-	3,420,000	32,800,000	3,535,000
2016 - Department of Transportation	Jul-34	2.00-5.00%	170,000,000	-	-	170,000,000	7,430,000
2017A - Refinance Bond Series 2008AB	Jul-29	2.00-4.00%	22,310,000	-	2,215,000	20,095,000	2,255,000
2017B - OMES-State Capitol Repair	Jul-26	2.00-5.00%	66,120,000	-	6,735,000	59,385,000	7,005,000
2017C - Oklahoma Museum of Popular Culture	Jul-50	2.03-4.45%	27,215,000	-	-	27,215,000	-
2018A - Oklahoma Tourism and Recreation	Jul-48	3.00-4.00%	-	9,000,000	-	9,000,000	150,000
2018B - Native American Cultural Center	Jul-48	3.71-4.35%	-	25,205,000	-	25,205,000	-
2018C - State Capitol Repair Bonds	Jan-39	3.00-5.00%	-	65,105,000	-	65,105,000	1,420,000
2018D - Department of Corrections	Jul-38	2.00-5.00%	-	113,035,000	-	113,035,000	-
2019A - Oklahoma Conservation Commission	Jul-34	2.00-5.00%	-	13,765,000	-	13,765,000	-
2019B - Office of Juvenille Affairs	Jul-45	3.00-5.00%	-	41,995,000	-	41,995,000	-
			$ 1,061,102,039	$ 268,105,000	$ 110,658,894	$ 1,218,548,145	$ 80,514,038

Note 4. Revenue Bonds Payable (Continued)

The following is a summary of bonds payable transactions for the year ended June 30, 2018:

Bond Issue	Maturity	Interest Rate At 6/30/2017	Principal Balance 6/30/2017	2018 Issuance	2018 Retirement	Principal Balance 6/30/2018	Due within One Year
2009A - Conservation Commission Bonds	Jul-24	1.00-4.00%	$ 14,965,000	$ -	$ 1,645,000	$ 13,320,000	$ 1,695,000
2009A - Department of Transportation	Jul-18	2.00-4.00%	19,950,000	-	9,790,000	10,160,000	10,160,000
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%	110,965,000	-	5,700,000	105,265,000	5,930,000
2010A - Regents for Higher Education	Jul-18	2.00-2.48%	63,590,000	-	31,450,000	32,140,000	32,140,000
2010A - Department of Transportation	Jul-20	2.00-5.00%	53,740,000	-	12,650,000	41,090,000	13,125,000
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%	42,705,000	-	3,970,000	38,735,000	4,130,000
2013A - State Facilities Refunding Bonds	Jul-24	2.00-4.00%	15,790,000	-	2,185,000	13,605,000	2,250,000
2014A - State Facilities Refunding Bonds	Jul-30	2.00-5.00%	205,410,000	-	3,320,000	202,090,000	3,730,000
2014B - State Facilities Refunding Bonds	Jul-24	2.00-5.00%	30,660,045	-	10,423,006	20,237,039	9,383,894
2014C - Higher Education Refinancing Bonds	Jul-34	2.00-5.00%	79,335,000	-	2,615,000	76,720,000	2,695,000
2015A - State Capitol Repair Bonds	Jan-25	2.00-5.00%	28,035,000	-	3,065,000	24,970,000	3,185,000
2015B - State Capitol Repair Bonds	Jul-27	2.00-5.00%	39,535,000	-	3,315,000	36,220,000	3,420,000
2016 - Department of Transportation	Jul-34	2.00-5.00%	170,000,000	-	-	170,000,000	-
2017A - Refinance Bond Series 2008AB	Jul-29	2.00-4.00%	23,055,000	-	745,000	22,310,000	2,215,000
2017B - OMES-State Capitol Repair	Jul-26	2.00-5.00%	70,000,000	-	3,880,000	66,120,000	6,735,000
2017C - Oklahoma Museum of Popular Culture	Jul-50	2.00-5.00%	-	27,215,000	-	27,215,000	-
			$ 1,128,640,045	$ 27,215,000	$ 94,753,006	$ 1,061,102,039	$ 100,793,894

Debt service requirements for fiscal years 2020 through 2024 and in five year increments thereafter to maturity for bonds payable as of June 30, 2019, are as follows:

Fiscal Year	Principal	Interest	Total
2020	$ 80,514,038	$ 52,100,447	$ 132,614,485
2021	79,362,048	51,289,630	130,651,678
2022	81,582,059	47,907,558	129,489,617
2023	100,075,000	43,898,797	143,973,797
2024	103,510,000	39,142,449	142,652,449
2025-2029	392,845,000	128,774,176	521,619,176
2030-2034	226,655,000	56,245,118	282,900,118
2035-2039	104,145,000	21,610,642	125,755,642
2040 and thereafter	49,860,000	10,898,398	60,758,398
	$ 1,218,548,145	$ 451,867,215	$ 1,670,415,360

During the year ended June 30, 2019, a portion of the proceeds of the issuance of Series 2019A revenue and refunding bonds were used as a current refunding to defease $9,865,000 of outstanding Series 2009A revenue bonds. The net proceeds were deposited in an irrevocable trust account to provide funds for the future debt service payments on the old bonds. In prior years, the Authority defeased certain other revenue bonds by placing the proceeds of the new bonds in an irrevocable trust account to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Authority's financial statements. At June 30, 2019 and 2018, $11,450,580 and $25,637,962, respectively, of defeased bonds remained outstanding.

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

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, a component unit of the State of Oklahoma (the Authority), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 13, 2019. Our report includes an emphasis of matter paragraph stating the Authority is a component unit of the State of Oklahoma and the financial statements reflect only the assets, liabilities and revenues and expenses of the Authority and not the State of Oklahoma as a whole.

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 opinion 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses as Finding 2019-001 that we consider to be a material weakness.

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 13, 2019

Findings Required to be Reported by *Government Auditing Standards*

FINDING 2019-001 – Material Weakness in Internal Controls Over Financial Reporting

Finding: The Authority lacks proper segregation of duties in the preparation of its year-end closing entries and financial statements.

Criteria: The Authority should ensure that there is proper segregation of duties with respect to the preparation and secondary review of year-end closing entries and financial statements in order to ensure amounts are recorded and reported in accordance with standards issued by the Governmental Accounting Standards Board (GASB).

Condition: Financial statements produced by the Authority contained a material misclassification between leases receivable and deposits held to repay bond obligations for the payments made on the lease receivables throughout the year as well as an understatement of cash and deposits held to repay bond obligations for checks received on the last business day of the fiscal year but not recorded until the following fiscal year.

Cause: The Administrator prepares certain year-end closing entries and financial statements without a sufficient secondary review. In prior years, the current Administrator was in a different role and a review of his preparation of the year-end closing entries and financial statements was performed by the former Administrator.

Effect: The lack of secondary review of the year-end closing entries and financial statements resulted in an misclassification of payments on leases receivable of approximately $78,900,000 as deposits held to repay bond obligations and an understatement of cash and deposits held to repay bond obligations of approximately $4,800,000 related to checks received on the last business day of the fiscal year.

Recommendation: The Authority should ensure there is a secondary review of year-end closing entries and financial statements by another individual that is knowledgeable of the Authority's operations and accounting standards issued by the GASB.

Management's Response: OCIA lost the prior administrator in May 2019, shortly before year-end. The prior administrator was responsible for the overall management of OCIA and was available to perform duties not directly related to financial statement preparation, but was able to serve as a source of secondary review in this area. OCIA is a small entity, and the agency was led at year-end by an interim director who had prepared the financial statements. We acknowledge a need to improve secondary review going forward. All accounting issues identified in the audit have been remediated, with no deleterious impact to OCIA or its financial position going forward. We anticipate making necessary organization changes to provide for secondary review within the next 60 days; if we do not have full-time personnel in place, OCIA will hire a temporary or part-time employee or contract with a firm that has knowledge of OCIA operations and accounting standards issued by the GASB for the purpose of reviewing financial statements and other duties as necessary.