

OKLAHOMA CAPITOL IMPROVEMENT AUTHORITY

June 30, 2012

OKLAHOMA CAPITOL IMPROVEMENT AUTHORITY

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REPORT REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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Independent Auditors' Report

The Board of Trustees
Oklahoma Capitol Improvement Authority

We have audited the accompanying statements of net assets of the Oklahoma Capitol Improvement Authority (the Authority) as of June 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. 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 of America. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, beginning on page 3, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2012 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 testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Cole & Reed P.C.

Oklahoma City, Oklahoma
December 19, 2012

Managements' Discussion and Analysis (Unaudited)
Oklahoma Capitol Improvement Authority
June 30, 2012

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 2012, with selected comparative information for fiscal years 2011 and 2010. 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 a statement of net assets, statement of revenues, expenses and changes in net assets, statement of cash flows and notes to the financial statements. Condensed financial information is presented in this analysis that summarizes the statement of net assets and the statement of revenues, expenses and changes in net assets. This discussion and analysis of the Authority's financial statements provides an overview of its financial activities for the year.

The Oklahoma Capital Improvement 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 Assets

The statement of net assets presents the assets (current and non-current), liabilities (current and noncurrent), and net assets (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 Oklahoma Capitol Improvement Authority.

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 assets 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 assets provides a picture of the net assets (assets minus liabilities).

Managements' Discussion and Analysis (Unaudited)--Continued
Oklahoma Capitol Improvement Authority
June 30, 2012

Statement of Net Assets (Continued)

The Authority's assets are divided into three categories. The first category, current assets, is the previously mentioned administrative fund. This 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. The second category, restricted assets, is divided into three sub-categories, cash, interest receivable and leases receivable. These assets must be used as directed by bond resolutions for construction or satisfy the debt obligations created by bond issuance. Bond holders receive regular payments for principal and interest from the Authority's trustees; trustee transactions are included in the financial reporting of the Authority. Most of restricted cash is held in 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 entirely of real estate held by the authority.

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

A Condensed Statement of Net Assets summarizes the assets, liabilities, and net assets as of June 30, 2012 compared to years ending June 30, 2011 and June 30, 2010.

CONDENSED STATEMENT OF NET ASSETS

	2012	June 30, 2011	2010
ASSETS			
Current assets	\$ 263,537	\$ 194,624	\$ 233,196
Restricted assets	1,476,376,491	1,567,350,130	1,279,025,106
Capital Assets	10,125,080	10,125,080	10,025,413
TOTAL ASSETS	<u>1,486,765,108</u>	<u>1,577,669,834</u>	<u>1,289,283,715</u>
LIABILITIES			
Current liabilities	212,187,791	281,655,472	266,434,138
Noncurrent liabilities	1,264,188,700	1,285,694,658	1,012,590,968
TOTAL LIABILITIES	<u>1,476,376,491</u>	<u>1,567,350,130</u>	<u>1,279,025,106</u>
NET ASSETS			
Unrestricted	263,537	194,624	233,196
Invested in Capital Assets	10,125,080	10,125,080	10,025,413
TOTAL NET ASSETS	<u>\$ 10,388,617</u>	<u>\$ 10,319,704</u>	<u>\$ 10,258,609</u>

Managements' Discussion and Analysis (Unaudited)--Continued
Oklahoma Capitol Improvement Authority
June 30, 2012

Statement of Net Assets (Continued)

June 30, 2012 compared to June 30, 2011

The Authority is responsible for administering the proceeds of bond issuance and paying the debt of previously issued bonds. Consequently, restricted assets of the Authority will always match total liabilities. For financial reporting purposes this means that restricted funds held by the Authority and its trustee banks are used for one of two purposes which are represented by liabilities. 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.

Restricted assets declined during FY2012 by \$91.0 million due primarily to construction fund expenditures. As bond projects progress and the construction funds are depleted these cash balances decline. Construction fund balances declined by \$62.5 million during fiscal year 2012. Leases receivable, the largest contributor to restricted assets, increase as new bonds are issued and decrease annually as principal is retired. The 2012 Department of Transportation bond issue increased receivables by \$60.5 million and annual lease principal receivables for all outstanding Authority bonds decreased by \$73.6 million. The combined impact on receivables was a decrease of just over 1% or \$13.1 million. Additionally, several sinking fund balances were reduced as excess funds were used to make scheduled principal and interest payments. The 2005F bond series had previously received a \$21.6 million deposit of capitalized interest from the 2010B refunding bond issue; a portion of these funds were used to finance fiscal year 2012 interest payments for that bond series.

Lease receivables represent the amortized debt service of all OCIA outstanding bond issues. If no bonds are issued or refinanced in fiscal year 2013, the leases receivable will decline by an estimated \$76 million.

Total Authority liabilities decreased by \$91.0 million in fiscal year 2012. As mentioned previously, this equals the decreased construction fund balances, leases receivable reductions and declines in sinking fund balances.

Managements' Discussion and Analysis (Unaudited)--Continued
Oklahoma Capitol Improvement Authority
June 30, 2012

Statement of Net Assets (Continued)

June 30, 2012 compared to June 30, 2011 (Continued)

Bond repayment reserve represents funds collected prior to the fiscal year-end and held for future bond debt payments. The reserve also grows as interest earnings are deposited and federal interest rebates are received on eligible Build America Bond issues. The fiscal year 2012 reserve declined as the balances in the 2005F and other bond series sinking funds were used to make bond debt payments. The 2005F sinking fund received the equivalent of two years interest payments when it was partially refunded by the 2010 refunding bond issue.

The Authority has made it a goal in the current fiscal year (2013) to utilize \$10.1 million of excess cash balances residing in bond series sinking funds. The excess balances were the result of investment earnings, transfers from bond construction funds at the conclusion of projects and federal rebates on certain bond interest payments. The use of these reserve funds will provide relief to lease paying agencies and reduce the balance of the bond payment reserve that is a restricted asset, reducing liabilities in the process. Excess balances in the bond sinking funds (estimated at \$4.2 million) will continue to be utilized in the form of lease credits in fiscal year 2014.

June 30, 2011 compared to June 30, 2010

Total assets and liabilities of the Authority increased from 2010 to 2011 due to new bond issues during fiscal year 2011. As described earlier in this document, restricted assets equal total liabilities for the authority and both categories increase or decrease in tandem when new bond are issued or annual bond debt payments are made.

An increase in restricted assets in fiscal year 2011 (\$273.9 million net additional lease receivable) resulted in a comparable increase in long-term debt obligations. Long-term debt owed to bond holders is supported by future leases receivable the Authority will collect from lease paying agencies. The Authority issued bonds totaling \$452 million in FY2011. Of the amount issued, \$114.8 million was utilized to refinance existing outstanding bond debt. This refinancing activity had little impact on long-term receivables and liabilities. Outstanding bond schedules required bond holders to receive \$63.4 million in principal payments during the same period.

Statement of Revenues, Expenses and Changes in Net Assets

The statement of revenues, expenses and changes in net assets presents the Authority's results of operations for the fiscal year and the effect on net assets. 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.

Managements' Discussion and Analysis (Unaudited)--Continued
Oklahoma Capitol Improvement Authority
June 30, 2012

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

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	Year Ended June 30,		
	2012	2011	2010
Operating Revenue			
Investment Income	\$ 5,484,696	\$ 8,859,109	\$ 9,275,920
Interest Income on Lease Receivables	52,511,311	55,341,991	47,826,383
Administrative Fees and Other Revenues	441,533	423,050	418,777
Total Operating Revenues	<u>58,437,540</u>	<u>64,624,150</u>	<u>57,521,080</u>
Operating Expenses			
Administrative Expenses	376,882	532,220	416,813
Interest Expense	52,736,578	56,954,966	43,234,028
Income Due to Bondholders	5,255,167	7,075,869	13,472,564
Total Operating Expenses	<u>58,368,627</u>	<u>64,563,055</u>	<u>57,123,405</u>
Increase in Net Assets	<u>68,913</u>	<u>61,095</u>	<u>397,675</u>
Net assets, beginning of year	<u>10,319,704</u>	<u>10,258,609</u>	<u>9,860,934</u>
Net assets, end of year	<u>\$ 10,388,617</u>	<u>\$ 10,319,704</u>	<u>\$ 10,258,609</u>

Year Ended June 30, 2012 compared to Year ended June 30, 2011

The statement of revenues, expenses and changes in net assets reflects an increase in net assets of \$68,913 in fiscal year 2012. 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 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 bond holders. 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 lease receivables, reducing bond debt cost (lease payments) to agencies.

Net assets include all unrestricted assets (the administrative fund and capital assets held by the Authority) and increase or decrease in value due to operating activities and the change in the book value of the real property.

Managements' Discussion and Analysis (Unaudited)--Continued
Oklahoma Capitol Improvement Authority
June 30, 2012

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

Year Ended June 30, 2011 compared to Year ended June 30, 2010

The bond amortization schedules determine the annual change in interest due for leases receivable. These changes are predictable and the Authority experienced an increase in lease interest income during fiscal year 2011 due to new bonds issued that year.

Authority investment income is primarily dependent on construction fund balances. New construction funds will typically receive a large deposit through a bond issuance. These balances will collect interest until the fund is depleted for construction expense. Bond issues are typically followed by increased investment earnings in the construction funds. The \$452.8 million of bonds issued in 2010 created large construction fund balances that boosted earned investment income during fiscal years 2010 and 2011.

ECONOMIC OUTLOOK

The Oklahoma legislature may choose to fund the State's immediate infrastructure needs with direct appropriations rather than generating construction funds through bond issuance. Discontinuing near-term bond issuance will result in a decline in remaining construction fund balances as projects are completed. As the administrative work related to construction funds declines, authority staff will spend additional time on the administration of bond debt repayment, collecting lease revenues from agencies and improving operating efficiency in the agency.

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, and maximize interest earnings where possible.

STATEMENTS OF NET ASSETS

OKLAHOMA CAPITOL IMPROVEMENT AUTHORITY

	June 30	
	2012	2011
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 263,537	\$ 194,624
Restricted assets		
Cash and cash equivalents	224,858,344	302,710,649
Interest receivable	98,147	101,564
Leases receivable	1,251,420,000	1,264,537,917
Total Restricted Assets	1,476,376,491	1,567,350,130
Noncurrent assets		
Capital assets, net	10,125,080	10,125,080
TOTAL ASSETS	<u>\$ 1,486,765,108</u>	<u>\$ 1,577,669,834</u>
LIABILITIES		
Liabilities payable from restricted assets		
Current liabilities		
Accrued interest payable	24,639,664	28,686,225
Obligations payable under construction projects	133,568,127	196,044,247
Revenue bonds payable, current portion	53,980,000	56,925,000
Total Current Liabilities	212,187,791	281,655,472
Noncurrent liabilities		
Revenue bonds payable	1,238,535,000	1,238,005,000
Bond repayment reserve	25,653,700	47,689,658
Total Noncurrent Liabilities	1,264,188,700	1,285,694,658
TOTAL LIABILITIES	<u>1,476,376,491</u>	<u>1,567,350,130</u>
NET ASSETS		
Unrestricted	263,537	194,624
Invested in capital assets, net	10,125,080	10,125,080
TOTAL NET ASSETS	<u>\$ 10,388,617</u>	<u>\$ 10,319,704</u>

See notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

OKLAHOMA CAPITOL IMPROVEMENT AUTHORITY

	Years Ended June 30	
	2012	2011
OPERATING REVENUES		
Investment income	\$ 5,484,696	\$ 8,859,109
Interest income on lease receivables	52,511,311	55,341,991
Administrative fees and other revenues	441,533	423,050
TOTAL OPERATING REVENUES	<u>58,437,540</u>	<u>64,624,150</u>
OPERATING EXPENSES		
Administrative expenses	376,882	532,220
Interest expense	52,736,578	56,954,966
Income due to bond holders	5,255,167	7,075,869
TOTAL OPERATING EXPENSES	<u>58,368,627</u>	<u>64,563,055</u>
INCREASE IN NET ASSETS	68,913	61,095
NET ASSETS AT BEGINNING OF YEAR	<u>10,319,704</u>	<u>10,258,609</u>
NET ASSETS AT END OF YEAR	<u>\$ 10,388,617</u>	<u>\$ 10,319,704</u>

See notes to financial statements.

STATEMENTS OF CASH FLOWS

OKLAHOMA CAPITOL IMPROVEMENT AUTHORITY

	Years Ended June 30	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest income on lease receivables	\$ 52,511,311	\$ 55,341,991
Administrative fees and other revenues	441,533	423,050
Principal lease payments received	67,479,584	178,199,702
Income due to bond holders	(27,291,125)	18,302,344
Payments to suppliers for program expenses	(117,214,669)	(462,537,051)
NET CASH USED IN OPERATING ACTIVITIES	(24,073,366)	(210,269,964)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income received	5,488,113	8,901,770
NET CASH PROVIDED BY INVESTING ACTIVITIES	5,488,113	8,901,770
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from issuance of bonds	60,510,000	452,080,000
Principal payments on bonds	(62,925,000)	(188,785,000)
Interest payments on bonds	(56,783,139)	(47,378,324)
Cash paid for capital assets	-	(99,667)
NET CASH PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES	(59,198,139)	215,817,009
NET CHANGE IN CASH AND CASH EQUIVALENTS	(77,783,392)	14,448,815
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	302,905,273	288,456,458
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 225,121,881</u>	<u>\$ 302,905,273</u>
RECONCILIATION OF INCREASE IN NET ASSETS TO NET CASH USED IN OPERATING ACTIVITIES		
Increase in net assets	\$ 68,913	\$ 61,095
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Investment income received	(5,488,113)	(8,901,770)
Interest payments on bonds	56,783,139	47,378,324
Changes in assets and liabilities:		
Accrued interest receivable	3,417	42,661
Lease receivable	13,117,917	(273,880,298)
Accrued interest payable	(4,046,561)	9,576,642
Due for construction	(62,476,120)	(9,924,831)
Bond repayment reserve	(22,035,958)	25,378,213
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (24,073,366)</u>	<u>\$ (210,269,964)</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

OKLAHOMA CAPITAL IMPROVEMENT AUTHORITY

June 30, 2012

NOTE A--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 considered a related party of the State and is included in the financial statements of the State of Oklahoma. 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, erect, maintain and operate buildings for the use of the State and federal agencies. The obligations are retired by lease payments made by the agencies occupying the facilities. Residual funds from any bond are used for the operation and maintenance of the building.

Financial Statement Presentation: The Authority's financial statements are reflected 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.

The Authority has the option to apply all Financial Accounting Standards Board ("FASB") pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The Authority has elected not to apply FASB pronouncements issued after the applicable date.

Cash and Cash Equivalents: Highly liquid investments with an original maturity of three months or less at the date of purchase are considered cash equivalents.

Net Assets: Invested in capital asset, net, represents the Authority's total investment in capital assets, net of accumulated depreciation.

Investment Income: Investment income includes interest income, realized gains and losses, and unrealized changes in fair value of investments. Interest income is recognized as earned.

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. The Authority owes an arbitrage rebate of \$6,800 and \$10,800 at June 30, 2012 and 2011, respectively.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA CAPITAL IMPROVEMENT AUTHORITY

June 30, 2012

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

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 which 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. 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.

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.

Reclassifications: Certain prior year information has been reclassified to conform to the current year presentation.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA CAPITAL IMPROVEMENT AUTHORITY

June 30, 2012

NOTE B--CASH AND CASH EQUIVALENTS

Cash equivalents represent short-term investment funds held by the Office of the State Treasurer ("State Treasurer") and certain trustees. The Authority's deposits are restricted according to the bond indentures creating the various programs. The cash equivalents held by trustees are primarily money market mutual funds held in the bond trustee's name on the Authority's behalf. The Authority is authorized by bond indentures to invest in repurchase and investment agreements, U.S. Treasury-based mutual funds and general obligations of the U.S. Government and its agencies.

At June 30, 2012 and 2011, cash and cash equivalents were:

	2012	2011
State Treasurer	\$ 216,577,510	\$ 273,692,022
Money market mutual funds	8,544,371	29,213,251
Total cash equivalents	<u>\$ 225,121,881</u>	<u>\$ 302,905,273</u>

Cash equivalents held by the State Treasurer are deposited to *OK INVEST*, an internal investment pool of the State Treasurer with holdings limited to high-rated money market mutual funds, obligations of the U.S. Government, U.S. Government agencies and instrumentalities, collateralized certificates of deposit, mortgage-backed pass-through securities, obligations of state and local governments, and tri-party repurchase agreements. Participants are limited to qualifying agencies and funds within the State's reporting entity, and each participant maintains an interest in the underlying investments of *OK INVEST* and shares the risk of loss on the funds in proportion to the respective investments in the funds.

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging institution, or collateralized with securities held by the pledging institution's trust department or agency but not in the depositor-government's name. At June 30, 2012 and 2011 the cash equivalents in *OK INVEST* and in money market mutual funds were not exposed to custodial credit risk because their existence cannot be evidenced by securities that exist in physical or book entry form.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA CAPITAL IMPROVEMENT AUTHORITY

June 30, 2012

NOTE C--CAPITAL ASSETS

Following are the changes in capital assets for the years ended June 30, 2012 and 2011:

	<u>July 1, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2012</u>
Capital assets not being depreciated:				
Land	<u>\$ 10,125,080</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,125,080</u>
Total capital assets not being depreciated	<u>\$ 10,125,080</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,125,080</u>
	<u>July 1, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2011</u>
Capital assets not being depreciated:				
Land	<u>\$ 10,025,413</u>	<u>\$ 99,667</u>	<u>\$ -</u>	<u>\$ 10,125,080</u>
Total capital assets not being depreciated	<u>\$ 10,025,413</u>	<u>\$ 99,667</u>	<u>\$ -</u>	<u>\$ 10,125,080</u>

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA CAPITAL IMPROVEMENT AUTHORITY

June 30, 2012

NOTE D--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, 2012 are as follows:

<u>Fiscal Year</u>	
2013	\$ 71,333,333
2014	90,902,083
2015	93,371,250
2016	85,231,667
2017	88,226,667
2018-2022	325,552,083
2023-2027	291,817,917
2028-2032	163,160,000
2033-2035	41,825,000
	<u>\$ 1,251,420,000</u>

NOTE E--REVENUE BONDS PAYABLE

The Authority's bond issues listed on the following pages were outstanding during the years ended June 30, 2012 and 2011. 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.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA CAPITAL IMPROVEMENT AUTHORITY

June 30, 2012

NOTE E--REVENUE BONDS PAYABLE--Continued

The following is a listing of bonds outstanding and related activity for the year ended June 30, 2012:

Bond Issue	Original Maturity	Interest Rate At 6/30/2012	Principal Balance 6/30/2011	2012 Issuance	2012 Retirement	Principal Balance 6/30/2012
1999B - State Agencies Bond Issue	Sep-19	6.20-7.63%	\$ 330,000	\$ -	\$ 25,000	\$ 305,000
2000A - Department of Transportation	Dec-11	4.30-5.00%	18,445,000	-	18,445,000	-
2002A - State Agencies Bond Issue	Sep-22	2.00-4.65%	8,780,000	-	585,000	8,195,000
2003A - State Highway Project Bond Issue	Jun-15	2.00-5.00%	29,745,000	-	6,910,000	22,835,000
2003B - Department of Transportation	Jun-15	2.00-5.00%	11,895,000	-	2,790,000	9,105,000
2003C - Historical Society Bond Issue	Sep-24	2.00-4.75%	13,855,000	-	760,000	13,095,000
2003D - JD McCarty Center Bond Issue	Sep-23	2.00-4.75%	2,535,000	-	155,000	2,380,000
2003E - State Agencies Bond Issue	Dec-15	2.00-4.00%	6,835,000	-	1,265,000	5,570,000
2004A - Refunding of State Facilities Bond	Sep-24	2.50-5.00%	98,400,000	-	9,085,000	89,315,000
2005 - Capitol Dome Bond Issue	Jul-20	3.50-5.30%	3,820,000	-	320,000	3,500,000
2005A - Military Bond Issue	Jul-20	3.00-4.35%	4,430,000	-	375,000	4,055,000
2005B - Attorney General Bond Issue	Jul-25	3.00-4.05%	3,250,000	-	165,000	3,085,000
2005C - Native American Cultural Bond	Jul-27	3.00-5.00%	29,445,000	-	1,260,000	28,185,000
2005D - OSBI Forensics Center Bond	Jul-30	3.00-4.38%	19,205,000	-	655,000	18,550,000
2005E - Attorney General Bond Issue	Jul-25	3.70-5.00%	2,475,000	-	120,000	2,355,000
2005F - Higher Education Facilities Bond	Jul-30	3.38-5.00%	219,205,000	-	-	219,205,000
2006A - State Agencies Bond Issue	Jul-26	3.55-4.38%	20,880,000	-	965,000	19,915,000
2006B - Department of Mental Health	Jul-26	3.50-4.25%	16,180,000	-	750,000	15,430,000
2006C - Supreme Court Bond Issue	Jul-26	4.00-4.50%	18,970,000	-	855,000	18,115,000
2006D - Higher Education Facilities Bond	Jul-35	Variable	107,825,000	-	6,000,000	101,825,000
2006E - State Facilities Revenue Bonds	Jul-27	4.00%	5,520,000	-	250,000	5,270,000
2008A - Native American Center Bonds	Jul-25	3.50-5.30%	24,225,000	-	1,195,000	23,030,000
2008B - Supreme Court Bond Issue	Jul-29	3.50-5.45%	11,220,000	-	395,000	10,825,000
2009A - Conservation Commission Bonds	Jul-24	1.00-4.00%	23,720,000	-	1,360,000	22,360,000
2009A - Department of Transportation	Jul-18	2.00-4.00%	72,830,000	-	8,240,000	64,590,000
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%	132,075,000	-	-	132,075,000
2010A - Regents for Higher Education	Jul-18	2.00-2.48%	87,260,000	-	-	87,260,000
2010B - Regents for Higher Education	Jul-15	2.03-2.48%	30,105,000	-	-	30,105,000
2010A - Department of Transportation	Jul-20	2.00-5.00%	110,565,000	-	-	110,565,000
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%	-	60,510,000	-	60,510,000
			<u>\$ 1,294,930,000</u>	<u>\$ 60,510,000</u>	<u>\$ 62,925,000</u>	<u>\$ 1,292,515,000</u>

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA CAPITAL IMPROVEMENT AUTHORITY

June 30, 2012

NOTE E--REVENUE BONDS PAYABLE--Continued

The following is a listing of bonds outstanding and related activity for the year ended June 30, 2011.

Bond Issue	Original Maturity	Interest Rate At 6/30/2011	Principal Balance 6/30/2010	2011 Issuance	2011 Retirement	Principal Balance 6/30/2011
1999B - State Agencies Bond Issue	Sep-19	6.20-7.63%	\$ 355,000	\$ -	\$ 25,000	\$ 330,000
2000A - Department of Transportation	Dec-11	4.30-5.00%	35,720,000	-	17,275,000	18,445,000
2002A - State Agencies Bond Issue	Sep-22	2.00-4.65%	9,345,000	-	565,000	8,780,000
2003A - State Highway Project Bond Issue	Jun-15	2.00-5.00%	36,335,000	-	6,590,000	29,745,000
2003B - Department of Transportation	Jun-15	2.00-5.00%	14,575,000	-	2,680,000	11,895,000
2003C - Historical Society Bond Issue	Sep-24	2.00-4.75%	14,590,000	-	735,000	13,855,000
2003D - JD McCarty Center Bond Issue	Sep-23	2.00-4.75%	2,685,000	-	150,000	2,535,000
2003E - State Agencies Bond Issue	Dec-15	2.00-4.00%	9,220,000	-	2,385,000	6,835,000
2004A - Refunding of State Facilities Bond	Sep-24	2.50-5.00%	107,060,000	-	8,660,000	98,400,000
2005 - Capitol Dome Bond Issue	Jul-20	3.50-5.30%	4,130,000	-	310,000	3,820,000
2005A - Military Bond Issue	Jul-20	3.00-4.35%	4,790,000	-	360,000	4,430,000
2005B - Attorney General Bond Issue	Jul-25	3.00-4.05%	3,410,000	-	160,000	3,250,000
2005C - Native American Cultural Bond	Jul-27	3.00-5.00%	30,665,000	-	1,220,000	29,445,000
2005D - OSBI Forensics Center Bond	Jul-30	3.00-4.38%	19,840,000	-	635,000	19,205,000
2005E - Attorney General Bond Issue	Jul-25	3.70-5.00%	2,590,000	-	115,000	2,475,000
2005F - Higher Education Facilities Bond	Jul-30	3.38-5.00%	314,495,000	-	95,290,000	219,205,000
2006 - Higher Education Endowed Chairs	Jul-15	5.00-5.23%	34,400,000	-	34,400,000	-
2006A - State Agencies Bond Issue	Jul-26	3.55-4.38%	21,810,000	-	930,000	20,880,000
2006B - Department of Mental Health	Jul-26	3.50-4.25%	16,900,000	-	720,000	16,180,000
2006C - Supreme Court Bond Issue	Jul-26	4.00-4.50%	19,795,000	-	825,000	18,970,000
2006D - Higher Education Facilities Bond	Jul-35	Variable	113,225,000	-	5,400,000	107,825,000
2006E - State Facilities Revenue Bonds	Jul-27	4.00%	5,760,000	-	240,000	5,520,000
2008A - Native American Center Bonds	Jul-25	3.50-5.30%	25,380,000	-	1,155,000	24,225,000
2008B - Supreme Court Bond Issue	Jul-29	3.50-5.45%	11,600,000	-	380,000	11,220,000
2009A - Conservation Commission Bonds	Jul-24	1.00-4.00%	24,880,000	-	1,160,000	23,720,000
2009A - Department of Transportation	Jul-18	2.00-4.00%	79,250,000	-	6,420,000	72,830,000
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%	-	132,075,000	-	132,075,000
2010A - Regents for Higher Education	Jul-18	2.00-2.48%	-	87,260,000	-	87,260,000
2010B - Regents for Higher Education	Jul-15	2.03-2.48%	-	30,105,000	-	30,105,000
2010A - Department of Transportation	Jul-20	2.00-5.00%	-	110,565,000	-	110,565,000
2010B - Department of Transportation	Jul-25	4.24-4.79%	-	92,075,000	-	92,075,000
			<u>\$ 1,031,635,000</u>	<u>\$ 452,080,000</u>	<u>\$ 188,785,000</u>	<u>\$ 1,294,930,000</u>

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA CAPITAL IMPROVEMENT AUTHORITY

June 30, 2012

NOTE E--REVENUE BONDS PAYABLE--Continued

Debt service requirements for fiscal years 2013 through 2017 and in five year increments thereafter to maturity for bonds payable as of June 30, 2012 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	53,980,000	57,156,827	\$ 111,136,827
2014	71,405,000	54,804,775	126,209,775
2015	91,675,000	51,843,061	143,518,061
2016	83,305,000	48,583,920	131,888,920
2017	84,755,000	45,254,118	130,009,118
2018-2022	342,700,000	174,099,152	516,799,152
2023-2027	325,995,000	97,451,926	423,446,926
2028-2032	166,875,000	38,227,047	205,102,047
2033-2035	71,825,000	2,679,134	74,504,134
	<u>\$ 1,292,515,000</u>	<u>\$ 570,099,960</u>	<u>\$ 1,862,614,960</u>

NOTE F--NEW ACCOUNTING PRONOUNCEMENTS

The GASB has issued several new accounting pronouncements, which will be effective to the Authority in subsequent years. A description of the new accounting pronouncements, the fiscal year in which they are effective, and the Authority's consideration of the impact of these pronouncements are described below:

Fiscal Year Ended June 30, 2013

- Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* - GASB No. 60 addresses issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. This Statement applies only to those arrangements in which specific criteria determining whether a transferor has control over the facility are met. The Authority will only be required to adopt the provisions of GASB No. 60 if it enters into an SCA, and it currently has not entered into any such arrangements.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA CAPITAL IMPROVEMENT AUTHORITY

June 30, 2012

NOTE F--NEW ACCOUNTING PRONOUNCEMENTS--Continued

- Statement No. 61, *The Financial Reporting Entity: Omnibus - An Amendment of GASB Statements No. 14 and No. 34.*

GASB No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity and also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. Earlier application is encouraged. The Authority does not believe that the adoption of GASB No. 61 will have a significant impact on its financial statement presentation.

- Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.*

GASB No. 62 is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain FASB and AICPA pronouncements. The Authority does not believe that the adoption GASB No. 62 will have a significant impact on its financial position, activities or cash flows, or its financial statement presentation.

- Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.*

GASB No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Adoption of this statement will require the Authority to make changes in its financial statement presentation.

Fiscal Year Ended June 30, 2014

- Statement No. 65, *Items Previously Reported as Assets and Liabilities.*

GASB No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources (expenses) or inflows of resources (revenues), certain items that were previously recognized as assets and liabilities. The Authority has not quantified the effects of adoption of GASB No. 65 on its net position.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA CAPITAL IMPROVEMENT AUTHORITY

June 30, 2012

NOTE F--NEW ACCOUNTING PRONOUNCEMENTS--Continued

Fiscal Year Ended June 30, 2015

- Statement No. 68, *Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27*.

GASB No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and pension expenses. GASB No. 68 also details the recognition and disclosure requirements for employers with liabilities to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. Defined benefit pensions are further classified by GASB No. 68 as single employer plans, agent employer plans and cost-sharing plans, and recognition and disclosure requirements are addressed for each classification. GASB No. 68 was issued in June 2012, and the Authority has not yet determined the impact that implementation of GASB No. 68 will have on its net position.

Independent Auditors' Report on
Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with Government Auditing Standards

The Board of Trustees
Oklahoma Capitol Improvement Authority

We have audited the statement of net assets of the Oklahoma Capitol Improvement Authority (the Authority) as of June 30, 2012, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended, and have issued our report thereon dated December 19, 2012. We conducted our audit 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.

Internal Control Over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion of the effectiveness of the Authority's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, 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*.

This report is intended solely for the information and use of the governing board and management of the Authority and is not intended to be and should not be used by anyone other than these specified parties.

Cole & Reed P.C.

Oklahoma City, Oklahoma
December 19, 2012