

# OKLAHOMA CAPITOL IMPROVEMENT AUTHORITY

June 30, 2013

## OKLAHOMA CAPITOL IMPROVEMENT AUTHORITY

June 30, 2013

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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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Oklahoma Capitol Improvement Authority (the Authority), which comprise the statements of net position as of June 30, 2013 and 2012, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States 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.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States 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, 2013 and 2012, and the changes in its net financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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 November 25, 2013 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* in considering the Authority's internal control over financial reporting and compliance.

*Cole & Reed P.C.*

Oklahoma City, Oklahoma  
November 25, 2013

**Management's Discussion and Analysis (Unaudited)**  
**Oklahoma Capitol Improvement Authority**  
**June 30, 2013**

**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 2013, with selected comparative information for fiscal years 2012 and 2011. 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 Oklahoma Capitol 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 Position**

The statement of net position presents the assets (current and non-current), deferred outflows of resources, liabilities (current and noncurrent), deferred inflows of resources, and net position (assets and deferred outflows of resources minus liabilities and deferred inflows of resources) as of the end of the fiscal year. The Authority had no deferred outflows of resources or deferred inflows of resources during any year presented. 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 position can determine the assets available to continue the operations of the Authority as well as amounts owed to bond holders. The final section of the statement of net position provides a picture of the net position.

**Management's Discussion and Analysis (Unaudited)--Continued**  
**Oklahoma Capitol Improvement Authority**  
**June 30, 2013**

**Statement of Net Position (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 to satisfy the debt obligations created by bond issuance. Bond holders receive regular payments for principal and interest from the Authority's trustees; trustee sinking fund transactions are included in the financial reporting of the Authority. The majority of restricted cash is held in either the trustee sinking funds or Authority construction funds from the most recent bond issuance proceeds. Construction funds are typically expended within a three year timeframe. The final category is noncurrent assets. Noncurrent assets are comprised entirely of real estate held by the authority.

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

A Condensed Statement of Net Position summarizes the assets, liabilities, and net position as of June 30, 2013 compared to year ending June 30, 2012 and June 30, 2011.

CONDENSED STATEMENT OF NET POSITION

	2013	June 30, 2012	2011
ASSETS			
Current assets	\$ 411,327	\$ 263,537	\$ 194,624
Restricted assets	1,282,803,696	1,476,376,491	1,567,350,130
Capital Assets	10,125,080	10,125,080	10,125,080
TOTAL ASSETS	<u>1,293,340,103</u>	<u>1,486,765,108</u>	<u>1,577,669,834</u>
LIABILITIES			
Current liabilities	98,777,102	212,187,791	281,655,472
Noncurrent liabilities	1,184,026,594	1,264,188,700	1,285,694,658
TOTAL LIABILITIES	<u>1,282,803,696</u>	<u>1,476,376,491</u>	<u>1,567,350,130</u>
NET POSITION			
Unrestricted	411,327	263,537	194,624
Invested in Capital Assets	10,125,080	10,125,080	10,125,080
TOTAL NET POSITION	<u>\$ 10,536,407</u>	<u>\$ 10,388,617</u>	<u>\$ 10,319,704</u>

**Management's Discussion and Analysis (Unaudited)--Continued**  
**Oklahoma Capitol Improvement Authority**  
**June 30, 2013**

**Statement of Net Position (Continued)**

*June 30, 2013 Compared to June 30, 2012*

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 fiscal year 2013 by \$193.6 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 \$128.7 million during fiscal year 2013. Leases receivable, another contributor to restricted assets, represent the amortized debt service of all OCIA outstanding bond issues. Leases receivable decrease annually as principal is retired. Fiscal year 2013 retired principal also contributed to the decline in restricted assets.

Bond repayment reserve represents funds collected prior to the fiscal year-end and held for future bond debt payments. The reserve grows as interest earnings are deposited and federal interest rebates are received on eligible Build America Bond issues. The repayment reserve balance declined in fiscal year 2013 as balances in bond sinking funds were utilized as lease credits as required by bond resolutions.

The Authority has made it a goal in the current fiscal year (2014) to utilize \$15 million in projected bond repayment reserve residing in bond series sinking funds. The use of the repayment reserve funds will continue to provide relief to lease paying agencies and reduce liabilities in the process.

**Management's Discussion and Analysis (Unaudited)--Continued**  
**Oklahoma Capitol Improvement Authority**  
**June 30, 2013**

**Statement of Net Position (Continued)**

*June 30, 2012 Compared to June 30, 2011*

Total assets and liabilities declined from FY2011 to FY2012 by \$91.0 million due to construction fund depletion and scheduled reductions to outstanding bond principal. 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 \$13.1 million.

Additionally, the bond repayment reserve balance was reduced as excess funds were used as credits toward 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.

**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 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	Year Ended June 30,		
	2013	2012	2011
Operating Revenue			
Investment Income	\$ 2,913,304	\$ 5,484,696	\$ 8,859,109
Interest Income on Lease Receivables	51,228,885	52,511,311	55,341,991
Administrative Fees and Other Income	574,724	441,533	423,050
Total Operating Revenues	<u>54,716,913</u>	<u>58,437,540</u>	<u>64,624,150</u>
Operating Expenses			
Administrative Expenses	426,933	376,882	532,220
Interest Expense	51,606,073	52,736,578	56,954,966
Income Due to Bondholders	2,536,117	5,255,167	7,075,869
Total Operating Expenses	<u>54,569,123</u>	<u>58,368,627</u>	<u>64,563,055</u>
Increase in Net Position	<u>147,790</u>	<u>68,913</u>	<u>61,095</u>
Net position, beginning of year	<u>10,388,617</u>	<u>10,319,704</u>	<u>10,258,609</u>
Net position, end of year	<u>\$ 10,536,407</u>	<u>\$ 10,388,617</u>	<u>\$ 10,319,704</u>



**Management's Discussion and Analysis (Unaudited)--Continued**  
**Oklahoma Capitol Improvement Authority**  
**June 30, 2013**

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

*Year Ended June 30, 2013 Compared to Year Ended June 30, 2012*

The statement of revenues, expenses, and changes in net position reflects an increase in net position of \$147,790 in fiscal year 2013. 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.

Declining construction fund balances during fiscal year 2013 resulted in large decline in earnings. In the absence of new bond issues, the relatively low balance at the end of fiscal year 2013 will result in extraordinarily low investment income earnings for fiscal year 2014.

Administrative fee revenues and expenses increased in fiscal year 2013. The increase in revenues was due to transfers from remaining construction funds after completion of the projects and individual bond issuance account balances. These accounts are used to receive bond proceeds and pay bond issuance expenses. The transferred funds were utilized by OCIA to pay bond issuance expenses related to the Tulsa Rivers Park bond issue. This bond issue was not approved by the Oklahoma Supreme Court. Issuance costs are typically paid from bond issuance proceeds, but in this case there were no proceeds to support the expenses incurred. OCIA was able to utilize the remaining balances from previous bond issuance accounts to support the unexpected costs to the administrative fund. Other transferred funds were utilized to satisfy a rebate payment to the Internal Revenue Service. The administrative fund should return to historic revenue and expenditure levels in fiscal year 2014.

Net position includes 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.

**Management's Discussion and Analysis (Unaudited)--Continued**  
**Oklahoma Capitol Improvement Authority**  
**June 30, 2013**

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

*Year Ended June 30, 2012 Compared to Year Ended June 30, 2011*

The bond amortization schedules determine the annual change in interest due for leases receivable. These changes are predictable, and the Authority experienced a slight decrease in lease interest income during fiscal year 2012 due to the fluctuating interest requirements on outstanding debt.

As mentioned above, Authority investment income is primarily dependent on construction fund balances. New construction funds will typically receive a large deposit through a bond issuance. Bond issues are typically followed by increased investment earnings in the construction funds. Larger construction fund balances in FY2011 and FY2012 boosted earned investment income during those periods.

**ECONOMIC OUTLOOK**

The Oklahoma legislature has chosen 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 POSITION

## OKLAHOMA CAPITOL IMPROVEMENT AUTHORITY

	June 30	
	2013	2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 411,327	\$ 263,537
Restricted assets:		
Cash and cash equivalents	107,915,380	224,858,344
Interest receivable	144,983	98,147
Leases receivable	1,174,743,333	1,251,420,000
Total restricted assets	1,282,803,696	1,476,376,491
Noncurrent assets:		
Capital assets, net	10,125,080	10,125,080
TOTAL ASSETS	<u>\$ 1,293,340,103</u>	<u>\$ 1,486,765,108</u>
LIABILITIES		
Liabilities payable from restricted assets:		
Current liabilities:		
Accrued interest payable	\$ 23,540,531	\$ 24,639,664
Obligations payable under construction projects	4,866,571	133,568,127
Revenue bonds payable, current portion	70,370,000	53,980,000
Total current liabilities	98,777,102	212,187,791
Noncurrent liabilities:		
Revenue bonds payable	1,164,865,000	1,238,535,000
Bond repayment reserve	19,161,594	25,653,700
Total noncurrent liabilities	1,184,026,594	1,264,188,700
TOTAL LIABILITIES	<u>1,282,803,696</u>	<u>1,476,376,491</u>
NET POSITION		
Unrestricted	411,327	263,537
Invested in capital assets, net	10,125,080	10,125,080
TOTAL NET POSITION	<u>\$ 10,536,407</u>	<u>\$ 10,388,617</u>

See notes to financial statements.

# STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

## OKLAHOMA CAPITOL IMPROVEMENT AUTHORITY

	Years Ended June 30	
	2013	2012
OPERATING REVENUES		
Investment income	\$ 2,913,304	\$ 5,484,696
Interest income on lease receivables	51,228,885	52,511,311
Administrative fees and other revenues	574,724	441,533
TOTAL OPERATING REVENUES	<u>54,716,913</u>	<u>58,437,540</u>
OPERATING EXPENSES		
Administrative expenses	426,933	376,882
Interest expense	51,606,073	52,736,578
Income due to bond holders	2,536,117	5,255,167
TOTAL OPERATING EXPENSES	<u>54,569,123</u>	<u>58,368,627</u>
INCREASE IN NET POSITION	147,790	68,913
NET POSITION AT BEGINNING OF YEAR	<u>10,388,617</u>	<u>10,319,704</u>
NET POSITION AT END OF YEAR	<u>\$ 10,536,407</u>	<u>\$ 10,388,617</u>

See notes to financial statements.

# STATEMENTS OF CASH FLOWS

## OKLAHOMA CAPITOL IMPROVEMENT AUTHORITY

	Years Ended June 30	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest income on lease receivables	\$ 51,228,885	\$ 52,511,311
Administrative fees and other revenues	574,724	441,533
Principal lease payments received	99,471,667	67,479,584
Income due to bond holders	(9,026,691)	(27,291,125)
Payments to suppliers for program expenses	(151,923,489)	(117,214,669)
NET CASH USED IN OPERATING ACTIVITIES	(9,674,904)	(24,073,366)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income received	2,866,468	5,488,113
NET CASH PROVIDED BY INVESTING ACTIVITIES	2,866,468	5,488,113
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from issuance of bonds	22,795,000	60,510,000
Principal payments on bonds	(80,075,000)	(62,925,000)
Interest payments on bonds	(52,706,738)	(56,783,139)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(109,986,738)	(59,198,139)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(116,795,174)	(77,783,392)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	225,121,881	302,905,273
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 108,326,707	\$ 225,121,881
RECONCILIATION OF INCREASE IN NET POSITION TO NET CASH USED IN OPERATING ACTIVITIES		
Increase in net position	\$ 147,790	\$ 68,913
Adjustments to reconcile increase in net position to net cash used in operating activities:		
Investment income received	(2,866,468)	(5,488,113)
Interest payments on bonds	52,706,738	56,783,139
Changes in assets and liabilities:		
Accrued interest receivable	(46,836)	3,417
Lease receivable	76,676,667	13,117,917
Accrued interest payable	(1,099,133)	(4,046,561)
Due for construction	(128,701,556)	(62,476,120)
Bond repayment reserve	(6,492,106)	(22,035,958)
NET CASH USED IN OPERATING ACTIVITIES	\$ (9,674,904)	\$ (24,073,366)

See notes to financial statements.

## NOTES TO FINANCIAL STATEMENTS

### OKLAHOMA CAPITAL IMPROVEMENT AUTHORITY

June 30, 2013

#### 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 included in the Comprehensive Annual Financial Report 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 and 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.

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 Position: 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 \$471,779 and \$6,800 at June 30, 2013 and 2012, respectively.

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.

## NOTES TO FINANCIAL STATEMENTS--Continued

### OKLAHOMA CAPITAL IMPROVEMENT AUTHORITY

June 30, 2013

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

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.

#### 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, 2013 and 2012, cash and cash equivalents were:

	2013	2012
State Treasurer	\$ 100,378,643	\$ 216,577,510
Money market mutual funds	7,948,064	8,544,371
Total cash equivalents	<u>\$ 108,326,707</u>	<u>\$ 225,121,881</u>

# NOTES TO FINANCIAL STATEMENTS--Continued

## OKLAHOMA CAPITAL IMPROVEMENT AUTHORITY

June 30, 2013

### NOTE B--CASH AND CASH EQUIVALENTS--Continued

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, 2013 and 2012, 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.

### NOTE C--CAPITAL ASSETS

Following are the changes in capital assets for the years ended June 30, 2013 and 2012:

	<u>July 1, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2013</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, 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>



## NOTES TO FINANCIAL STATEMENTS--Continued

### OKLAHOMA CAPITAL IMPROVEMENT AUTHORITY

June 30, 2013

#### 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, 2013 are as follows:

<u>Fiscal Year</u>	
2014	\$ 90,897,083
2015	93,492,083
2016	85,154,167
2017	88,109,167
2018	89,433,333
2019-2023	303,047,917
2024-2028	256,299,583
2029-2033	160,185,000
2034-2036	<u>8,125,000</u>
	<u><u>\$1,174,743,333</u></u>

#### NOTE E--REVENUE BONDS PAYABLE

The Authority's bond issues listed on the following pages were outstanding during the years ended June 30, 2013 and 2012. 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, 2013

### NOTE E--REVENUE BONDS PAYABLE--Continued

The following is a listing of bonds outstanding and related activity for the year ended June 30, 2013:

Bond Issue	Original Maturity	Interest Rate At 6/30/2013	Principal Balance 6/30/2012	2013 Issuance	2013 Retirement	Principal Balance 6/30/2013
1999B - State Agencies Bond Issue	Sep-19	6.20-7.63%	\$ 305,000	\$ -	\$ 305,000	\$ -
2002A - State Agencies Bond Issue	Sep-22	2.00-4.65%	8,195,000	-	8,195,000	-
2003A - State Highway Project Bond Issue	Jun-15	2.00-5.00%	22,835,000	-	7,260,000	15,575,000
2003B - Department of Transportation	Jun-15	2.00-5.00%	9,105,000	-	2,905,000	6,200,000
2003C - Historical Society Bond Issue	Sep-24	2.00-4.75%	13,095,000	-	13,095,000	-
2003D - JD McCarty Center Bond Issue	Sep-23	2.00-4.75%	2,380,000	-	2,380,000	-
2003E - State Agencies Bond Issue	Dec-15	2.00-4.00%	5,570,000	-	1,310,000	4,260,000
2004A - Refunding of State Facilities Bond	Sep-24	2.50-5.00%	89,315,000	-	9,540,000	79,775,000
2005 - Capitol Dome Bond Issue	Jul-20	3.50-5.30%	3,500,000	-	330,000	3,170,000
2005A - Military Bond Issue	Jul-20	3.00-4.35%	4,055,000	-	385,000	3,670,000
2005B - Attorney General Bond Issue	Jul-25	3.00-4.05%	3,085,000	-	170,000	2,915,000
2005C - Native American Cultural Bond	Jul-27	3.00-5.00%	28,185,000	-	1,300,000	26,885,000
2005D - OSBI Forensics Center Bond	Jul-30	3.00-4.38%	18,550,000	-	680,000	17,870,000
2005E - Attorney General Bond Issue	Jul-25	3.70-5.00%	2,355,000	-	130,000	2,225,000
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%	19,915,000	-	1,000,000	18,915,000
2006B - Department of Mental Health	Jul-26	3.50-4.25%	15,430,000	-	775,000	14,655,000
2006C - Supreme Court Bond Issue	Jul-26	4.00-4.50%	18,115,000	-	890,000	17,225,000
2006D - Higher Education Facilities Bond	Jul-35	Variable	101,825,000	-	3,700,000	98,125,000
2006E - State Facilities Revenue Bonds	Jul-27	4.00%	5,270,000	-	260,000	5,010,000
2008A - Native American Center Bonds	Jul-25	3.50-5.30%	23,030,000	-	1,240,000	21,790,000
2008B - Supreme Court Bond Issue	Jul-29	3.50-5.45%	10,825,000	-	405,000	10,420,000
2009A - Conservation Commission Bonds	Jul-24	1.00-4.00%	22,360,000	-	1,385,000	20,975,000
2009A - Department of Transportation	Jul-18	2.00-4.00%	64,590,000	-	8,455,000	56,135,000
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	-	10,620,000	99,945,000
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	-	3,360,000	57,150,000
2013A - State Facilities - Refund Bond	Jul-24	2.00-4.00%	-	22,635,000	-	22,635,000
2013B - State Facilities - Refund Bond	Jul-14	0.50%	-	160,000	-	160,000
			<u>\$ 1,292,515,000</u>	<u>\$ 22,795,000</u>	<u>\$ 80,075,000</u>	<u>\$ 1,235,235,000</u>

# NOTES TO FINANCIAL STATEMENTS--Continued

## OKLAHOMA CAPITAL IMPROVEMENT AUTHORITY

June 30, 2013

### 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, 2013

### NOTE E--REVENUE BONDS PAYABLE--Continued

Debt service requirements for fiscal years 2014 through 2018 and in five year increments thereafter to maturity for bonds payable as of June 30, 2013 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 70,350,000	\$ 54,180,766	\$ 124,530,766
2015	92,175,000	51,583,771	143,758,771
2016	83,625,000	48,352,450	131,977,450
2017	85,050,000	45,048,920	130,098,920
2018	88,645,000	41,358,900	130,003,900
2019-2023	324,210,000	158,043,739	482,253,739
2024-2028	289,895,000	82,264,167	372,159,167
2029-2033	163,160,000	29,047,050	192,207,050
2034-2036	38,125,000	591,250	38,716,250
	<u>\$ 1,235,235,000</u>	<u>\$ 510,471,013</u>	<u>\$ 1,745,706,013</u>

### NOTE F--NEW ACCOUNTING PRONOUNCEMENTS

New Accounting Pronouncements Adopted in Fiscal Year 2013: The Authority adopted several new accounting pronouncements during the year ended June 30, 2013, as follows:

- 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 adoption of GASB No. 61 did not have an impact on the Authority's financial statements 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 adoption of GASB No. 62 did not have an impact on the Authority's financial position, or changes in financial position or cash flow, or its financial statement presentation.

## NOTES TO FINANCIAL STATEMENTS--Continued

### OKLAHOMA CAPITAL IMPROVEMENT AUTHORITY

June 30, 2013

## NOTE F--NEW ACCOUNTING PRONOUNCEMENTS--Continued

### New Accounting Pronouncements Adopted in Fiscal Year 2013--Continued:

- 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 GASB No. 63 resulted in changes to the Authority's financial statement presentation, but such changes were not significant.

- 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 adoption of GASB 65 did not have an impact on the Authority's financial position, or changes in financial position or cash flow, or its financial statement presentation.

New Accounting Pronouncements Issued Not Yet Adopted: The GASB has also 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, 2014*

- Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*

GASB No. 70 requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The government is required to report the guaranteed obligation until it is legally released as an obligor, and when it is legally released, it should recognize revenue as a result of this release. The provisions of this Statement are effective for reporting periods beginning after June 15, 2013. Earlier application is encouraged. Except for certain disclosure requirements which may be applied prospectively, the provisions of this Statement are required to be applied retroactively.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA CAPITAL IMPROVEMENT AUTHORITY

June 30, 2013

NOTE F--NEW ACCOUNTING PRONOUNCEMENTS--Continued

New Accounting Pronouncements Issued Not Yet Adopted--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.

- Statement No. 69, *Government Combinations and Disposals of Government Operations*

GASB No. 69 was issued in January 2013 and establishes accounting and financial reporting standards related to government combinations and disposals of government operations. Government combinations can include a variety of transactions, including mergers, acquisitions, and transfers of operations. A disposal of a government's operations results in the removal of specific activities of a government. The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013 and should be applied on a prospective basis. Earlier application is encouraged.

The Authority is currently evaluating the effects the above GASB Pronouncements will have on its financial statements.

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

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 (the "Authority") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 25, 2013.

**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 a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cole & Reed P.C.

Oklahoma City, Oklahoma  
November 25, 2013