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**OKLAHOMA CAPITOL
IMPROVEMENT AUTHORITY**

June 30, 2011

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, 2011 and 2010, 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, 2011 and 2010, 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.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2011 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
November 9, 2011

**Oklahoma Capitol Improvement Authority
Management's Discussion and Analysis
June 30, 2011 and 2010**

OVERVIEW OF THE FINANCIAL STATEMENTS

This section of the Oklahoma Capitol Improvement Authority's (OCIA's or the Authority's) annual financial report presents a discussion and analysis of its financial performance for the year ended June 30, 2011. Please read it in conjunction with the financial statements which follow this section. The following table summarizes the net assets and changes in net assets as of and for the years ended June 30, 2011, 2010 and 2009.

Condensed Statements of Net Assets

	<u>2011</u>	<u>June 30, 2010</u>	<u>2009</u>
ASSETS			
Current assets	\$ 194,624	\$ 233,196	\$ 166,535
Restricted assets	1,562,875,925	1,279,025,106	1,213,073,966
Capital assets, net	<u>10,125,080</u>	<u>10,025,413</u>	<u>9,694,399</u>
Total Assets	<u>1,573,195,629</u>	<u>1,289,283,715</u>	<u>1,222,934,900</u>
LIABILITIES AND NET ASSETS			
Liabilities			
Current liabilities	266,349,010	266,434,138	242,641,885
Noncurrent liabilities	<u>1,296,526,915</u>	<u>1,012,590,968</u>	<u>970,432,081</u>
Total Liabilities	<u>1,562,875,925</u>	<u>1,279,025,106</u>	<u>1,213,073,966</u>
Net assets			
Unrestricted	194,624	233,196	166,535
Invested in capital assets, net	<u>10,125,080</u>	<u>10,025,413</u>	<u>9,694,399</u>
Total Net Assets	<u>\$ 10,319,704</u>	<u>\$ 10,258,609</u>	<u>\$ 9,860,934</u>

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA CAPITAL IMPROVEMENT AUTHORITY

June 30, 2011

NOTE E--REVENUE BONDS PAYABLE--Continued

The following is a listing of bonds outstanding and related activity for the year ended June 30, 2010.

Bond Issue	Original Maturity	Interest Rate At 6/30/2010	Principal Balance 6/30/2009	2010 Issuance	2010 Retirement	Principal Balance 6/30/2010
1994B - State Agencies Bond	Dec-09	4.87-7.15%	\$ 1,760,000	\$ -	\$ 1,760,000	\$ -
1999A - State Agencies Bond Issue	Sep-10	4.10-5.50%	6,910,000	-	6,910,000	-
1999B - State Agencies Bond Issue	Sep-19	6.20-7.63%	660,000	-	305,000	355,000
1999C - State Agencies Bond Issue	Sep-09	4.10-5.50%	225,000	-	225,000	-
1999D - State Agencies Bond Issue	Dec-09	3.85-5.70%	595,000	-	595,000	-
2000A - Department of Transportation	Dec-11	4.30-5.00%	52,205,000	-	16,485,000	35,720,000
2002A - State Agencies Bond Issue	Sep-22	2.00-4.65%	9,895,000	-	550,000	9,345,000
2003A - State Highway Project Bond Issue	Jun-15	2.00-5.00%	42,630,000	-	6,295,000	36,335,000
2003B - Department of Transportation	Jun-15	2.00-5.00%	17,155,000	-	2,580,000	14,575,000
2003C - Historical Society Bond Issue	Sep-24	2.00-4.75%	15,305,000	-	715,000	14,590,000
2003D - JD McCarty Center Bond Issue	Sep-23	2.00-4.75%	2,830,000	-	145,000	2,685,000
2003E - State Agencies Bond Issue	Dec-15	2.00-4.00%	11,520,000	-	2,300,000	9,220,000
2004A - Refunding of State Facilities Bond	Sep-24	2.50-5.00%	108,245,000	-	1,185,000	107,060,000
2005 - Capitol Dome Bond Issue	Jul-20	3.50-5.30%	4,430,000	-	300,000	4,130,000
2005A - Military Bond Issue	Jul-20	3.00-4.35%	5,140,000	-	350,000	4,790,000
2005B - Attorney General Bond Issue	Jul-25	3.00-4.05%	3,565,000	-	155,000	3,410,000
2005C - Native American Cultural Bond	Jul-27	3.00-5.00%	31,850,000	-	1,185,000	30,665,000
2005D - OSBI Forensics Center Bond	Jul-30	3.00-4.38%	20,455,000	-	615,000	19,840,000
2005E - Attorney General Bond Issue	Jul-25	3.70-5.00%	2,700,000	-	110,000	2,590,000
2005F - Higher Education Facilities Bond	Jul-30	3.38-5.00%	323,205,000	-	8,710,000	314,495,000
2006 - Higher Education Endowed Chairs	Jul-15	5.00-5.23%	39,855,000	-	5,455,000	34,400,000
2006A - State Agencies Bond Issue	Jul-26	3.55-4.38%	22,710,000	-	900,000	21,810,000
2006B - Department of Mental Health	Jul-26	3.50-4.25%	17,595,000	-	695,000	16,900,000
2006C - Supreme Court Bond Issue	Jul-26	4.00-4.50%	20,590,000	-	795,000	19,795,000
2006D - Higher Education Facilities Bond	Jul-35	Variable	120,000,000	-	6,775,000	113,225,000
2006E - State Facilities Revenue Bonds	Jul-27	4.00%	5,990,000	-	230,000	5,760,000
2008A - Native American Center Bonds	Jul-25	3.50-5.30%	25,380,000	-	-	25,380,000
2008B - Supreme Court Bond Issue	Jul-29	3.50-5.45%	11,600,000	-	-	11,600,000
2009A - Conservation Commission Bonds	Jul-24	1.00-4.00%	24,880,000	-	-	24,880,000
2009A - Department of Transportation	Jul-18	2.00-4.00%	-	79,250,000	-	79,250,000
2009B - Department of Transportation	Jul-24	5.04-5.34%	-	68,830,000	-	68,830,000
			<u>\$ 949,880,000</u>	<u>\$ 148,080,000</u>	<u>\$ 66,325,000</u>	<u>\$ 1,031,635,000</u>

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA CAPITAL IMPROVEMENT AUTHORITY

June 30, 2011

NOTE E--REVENUE BONDS PAYABLE--Continued

Debt service requirements for fiscal years 2012 through 2016 and in five year increments thereafter to maturity for bonds payable as of June 30, 2011 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 56,925,000	\$ 43,989,225	\$ 100,914,225
2013	50,620,000	49,462,846	100,082,846
2014	67,970,000	52,551,034	120,521,034
2015	88,140,000	49,689,163	137,829,163
2016	79,640,000	46,522,537	126,162,537
2017-2021	366,010,000	181,820,121	547,830,121
2022-2026	303,700,000	110,117,361	413,817,361
2027-2031	174,100,000	49,096,572	223,196,572
2032-2036	107,825,000	12,567,414	120,392,414
	<u>\$ 1,294,930,000</u>	<u>\$ 595,816,273</u>	<u>\$ 1,890,746,273</u>

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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, 2011, 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 November 9, 2011. 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 of America.

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 was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We noted certain matters that we consider to be a material weakness as described above. Such matters are included in the Schedule of Reportable Findings as Finding 2011-01.

The Authority's response to the finding identified in our audit is described in the accompanying Schedule of Reportable Findings. We did not audit the Authority's response and, accordingly, we express no opinion on it.

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
November 9, 2011

SCHEDULE OF REPORTABLE FINDINGS--Continued

OKLAHOMA CAPITAL IMPROVEMENT AUTHORITY

June 30, 2011

Findings Required to be Reported by Government Auditing Standards

FINDING 2011-01

Criteria: Appropriately designed controls should incorporate an adequate year-end financial statement close process to ensure financial statements and the related footnote disclosures are prepared in accordance with GAAP.

Condition: Several errors in the financial statements were discovered by Cole & Reed P.C. during the June 30, 2011 audit. Also, financial statement footnote disclosures are not prepared by the Authority.

Cause: The Authority lacks an appropriate year-end financial statement closing process, a sufficient general ledger accounting system, as well as personnel with experience in preparing financial statements and footnote disclosures in accordance with GASB No. 34.

Effect: Approximately ten adjusting and reclassification entries were proposed us during our audit. The entries had a material effect on the Authority's financial statements. All entries proposed by us were recorded by the Authority.

Recommendation: A formal year-end financial statement close process should be implemented to ensure the inclusion of all standard account balances in the preparation of financial statements. The use of an accounting software package would help with accuracy as well as efficiency as opposed to using spreadsheets. In order for the Authority to facilitate more timely and accurate preparation of financial statements in accordance with GAAP, we also recommend that the Authority consider outsourcing some or all of this function to a third-party, and/or consult with the Office of State Finance for assistance.

Views of Responsible Official:

OCIA has been working with the Office of State Finance (OSF) in providing journal entries that record all financial transactions using the PeopleSoft software module this project was implemented for fiscal year 2011; the financial reports are produced using the journal entries as the source. The plan for future fiscal years, OCIA will perform the monthly closings and OSF will perform the year-end closings.

