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Notes to the Financial Statements

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FOR THE FISCAL YEAR ENDED JUNE 30, 1998

Note 1. Summary of Significant Accounting Policies

The accompanying financial statements of the State of Oklahoma (the "State") have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board. The financial statements of the Higher Education Component Unit are based on the American Institute of Certified Public Accountants College Guide model.

The accompanying financial statements present the financial position of the various fund types and account groups, the results of operations of the various fund types, and the cash flows of the proprietary and nonexpendable trust funds. The financial statements are presented as of June 30, 1998, and for the year then ended. The financial statements include the various agencies, boards, commissions, public trusts and authorities and any other organizational units governed by the Oklahoma State Legislature and/or Constitutional Officers of the State of Oklahoma.

A. Reporting Entity

The State has considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the State to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State. Local school districts (the State's support of the public education system is reported in the General Fund) and other local authorities of various kinds that may meet only one of the criteria for inclusion in this report have not been included.

As required by generally accepted accounting principles, these financial statements present the State of Oklahoma (the primary government) and its component units.

Blended Component Units

These component units are entities that are legally separate from the State, but are so intertwined with the State that they are, in substance, a part of the State. They are included in the fiduciary fund type.

The six Public Employee Retirement Systems (PERS) administer pension funds for the State and its political subdivisions. The six PERS are subject to state legislative and executive controls and the administrative expenses are subject to legislative budget controls. The Board of Trustees for each system is appointed pursuant to state statute. The six PERS were audited by independent auditors for the period ended June 30, 1998, and their reports, dated from August 21, 1998, to October 31, 1998, have been previously issued under separate covers.

Discrete Component Units

These component units are entities which are legally separate from the State, but are financially accountable to the State, or whose relationships with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. The Component Units columns of the combined financial statements include the financial data of the following entities.

Governmental Component Unit

A separately issued independent audit report may be obtained from the Office of State Finance, 2300 North Lincoln, Suite 122, Oklahoma City, Oklahoma 73105, or the component unit’s office at the address presented on the description page of the combining financial statement section of this report.

Special Indemnity Fund provides additional compensation to a worker with a pre-existing injury who suffers a second injury. The State can impose its will on the Fund by its ability to remove management at will. The Fund was audited by other independent auditors for the period ended December 31, 1997, and their report, dated February 26, 1998, has been previously issued under separate cover.

Proprietary Component Units

Separately issued independent audit reports may be obtained from the Office of State Finance, 2300 North Lincoln, Suite 122, Oklahoma City, Oklahoma 73105, or the respective proprietary component units at the addresses presented on the description page of the combining financial statement section of this report.

Oklahoma Industrial Finance Authority assists with the State's industrial development by making loans to authorized industrial development agencies or trusts and new or expanding industries within Oklahoma. These loans are secured by first or second mortgages on real estate and equipment. The Authority's loans are financed by issuance of general obligation bonds. The Board of Directors is comprised of seven members appointed by the Governor, with the advice and consent of the Senate. The State can impose its will on the Authority by its ability to veto or modify the Authority’s decisions. The Authority was audited by other independent auditors for the year ended June 30, 1998, and their report, dated October 29, 1998, has been previously issued under separate cover.

Health Insurance High Risk Pool (HIHRP) provides health insurance to individuals who are unable to obtain coverage from independent insurers. HIHRP is financed by assessments levied on independent insurers. The Board consists of nine members appointed by the Insurance Commissioner. The State can impose its will on the Pool by its ability to modify the decisions of the Board. The Pool was audited by other independent auditors for the year ended June 30, 1998, and their report, dated October 16, 1998, has been previously issued under separate cover.

State Insurance Fund (SIF) provides a source for workers' compensation insurance for all public and private employers within the State and operates similarly to an insurance company. SIF is financed through employer premiums. The Board of Managers is comprised of nine members: The Director of State Finance, the Lieutenant Governor, the State Auditor (or their designees), the Director of Central Services, and appointees by the Governor, Speaker of the House of Representatives, and the President Pro Tempore of the Senate. The State can impose its will on the Fund by its ability to remove board members at will. The Fund was audited by other independent auditors for the year ended December 31, 1997, and their report, dated February 27, 1998, has been previously issued under separate cover.

State and Education Employees Group Insurance Board provides group health, life, dental, disability and other benefits to active employees and retirees of the State and certain other eligible participants. The Board is financed through employer and employee premiums. The Board consists of eight members: the State Insurance Commissioner, the Director of State Finance, and appointees by the Governor, the Speaker of the House of Representatives, and the President Pro Tempore of the Senate. A financial benefit/burden relationship exists between the State and the Board. The Board was audited by other independent auditors for the year ended June 30, 1998, and their report, dated October 27, 1998, has been previously issued under separate cover.

Oklahoma Student Loan Authority provides loan funds to qualified persons at participating educational institutions through the issuance of tax-exempt revenue bonds or other debt obligations. The Authority is composed of five members appointed by the Governor, with the advice and consent of the Senate. The State can impose its will on the Authority by its ability to veto or modify the Authority's decisions. The Authority was audited by other independent auditors for the year ended June 30, 1998, and their report, dated September 11, 1998, has been previously issued under separate cover.

University Hospitals Authority consists of The University Hospital and Children's Hospital of Oklahoma, and their related clinics and other services. The Authority is affiliated with the University of Oklahoma Health Sciences Center whose medical school residents and staff provide patient care, in-service education, and certain administrative duties for the benefit of the Authority. The Authority is governed by a six-member board consisting of appointees of the Governor, Speaker of the House of Representatives, and the President Pro Tempore of the Senate, and officials from the state Medicaid Program, the University of Oklahoma Health Sciences Center and the Authority. A financial benefit/burden relationship exists between the State and the Authority. The Authority was audited by other independent auditors for the year ended June 30, 1998, and their report, dated October 23, 1998, has been previously issued under separate cover.

Medical Technology and Research Authority is authorized to promote and assist the development of medical technology and research benefiting the citizens of Oklahoma. The Authority obtains funds through parking revenue, lease revenue, and other services. The Authority is directed by an eight-member board. The two ex officio members include the President of the University of Oklahoma and the Chief Executive Officer of The University Hospitals, or their designees. Of the remaining members, two are appointed by the Governor and one is appointed by each of the following; Speaker of the House of Representatives, President Pro Tempore of the Senate, President of the University of Oklahoma and the Director of the Department of Human Services. The State can impose its will on the Authority by its ability to modify or approve the Authority's fee changes. The Authority was audited by the State Auditor and Inspector for the year ended June 30, 1998, and their report, dated September 28, 1998, has been previously issued under separate cover.

Oklahoma Development Finance Authority provides financing for both public and private entities in the State. The Authority obtains funds through the issuance of bonds and notes. Private entities qualifying for financing are generally agricultural, civic, educational, health care, industrial, or manufacturing enterprises. Financing is also provided to governmental agencies and instrumentalities of the State. The Governing Board is comprised of seven members, of which five are appointed by the Governor, with the advice and consent of the Senate, plus the Director of the Department of Commerce and the State Treasurer. The State can impose its will on the Authority by its ability to veto or modify the Authority's decisions. The Authority was audited by other independent auditors for the year ended June 30, 1998, and their report, dated September 3, 1998, has been previously issued under separate cover.

Oklahoma Environmental Finance Authority provides public and private entities financing for facilities necessary or useful to abate, control, and reduce air and water pollution. The Authority obtains funds through the issuance of bonds and notes. The three Trustees of the Authority are appointed by the Governor. The State can impose its will on the Authority by its ability to remove trustees at will. The Authority was audited by other independent auditors for the year ended June 30, 1998, and their report, dated August 27, 1998, has been previously issued under separate cover.

Oklahoma Housing Finance Agency is authorized to issue revenue bonds and notes in order to provide funds to promote the development of residential housing and other economic development for the benefit of the State. In addition, the Agency administers Section 8 Housing Assistance Payments Programs for the U.S. Department of Housing and Urban Development. The Board of Trustees consists of five members appointed by the Governor. The State can impose its will on the Authority by its ability to veto or modify the Agency's decisions. The Agency was audited by other independent auditors for the year ended September 30, 1997, and their report, dated February 18, 1997, has been previously issued under separate cover.

Oklahoma Turnpike Authority constructs, maintains, repairs, and operates turnpike projects at locations authorized by the Legislature and approved by the State Department of Transportation. The Authority receives its revenues from turnpike tolls and a percentage of turnpike concession sales. The Authority issues revenue bonds to finance turnpike projects. The Authority consists of the Governor and six members appointed by the Governor, with the advise and consent of the Senate. The State can impose its will on the Authority by its ability to veto or modify the Authority's decisions. The Authority was audited by other independent auditors for the year ended December 31, 1997, and their report, dated February 27, 1998, has been previously issued under separate cover.

Grand River Dam Authority controls the waters of the Grand River system to develop and generate water power and electric energy, and to promote irrigation, conservation and development of natural resources. The Authority produces and distributes electrical power for sale to customers primarily located in northeastern Oklahoma. The customers consist of rural electric cooperatives, municipalities, industries and off-system sales. The Board of Directors consists of seven members appointed by the Governor, with the advice and consent of the Senate. The State can impose its will on the Authority by its ability to veto or modify the Authority's decisions. The Authority was audited by other independent auditors for the year ended December 31, 1997, and their report, dated March 13, 1998, has been previously issued under separate cover.

Oklahoma Municipal Power Authority provides a means for the municipal electric systems in the State to jointly plan, finance, acquire, and operate electrical power supply facilities. Facilities are financed through the issuance of revenue bonds, which are approved by the State's Bond Oversight Commission. Exclusion of the component unit would cause the State's financial statements to be misleading or incomplete. The Authority was audited by other independent auditors for the year ended December 31, 1997, and their report, dated February 6, 1998, has been previously issued under separate cover.

Higher Education Component Unit

Separately issued independent audit reports for each college, university, or other included entity may be obtained from the Office of State Finance, 2300 North Lincoln, Suite 122, Oklahoma City, Oklahoma 73105.

This component unit is primarily comprised of the twenty-five colleges and universities that are members of the Oklahoma State System of Higher Education (the "System"). Each institution in the System is governed by a Board of Regents. The Boards of Regents consist of five to ten members appointed by the Governor, with the advice and consent of the Senate. The State can impose its will on each institution by its ability to modify and approve their budget and its ability to approve fee changes. The colleges and universities are funded through state appropriations, tuition, federal grants, and private donations and grants. Also included in the Higher Education Component Unit are the following entities.

Board of Regents of Oklahoma Colleges has legislative powers and duties to manage, supervise, and control operation of the six regional state universities which are the University of Central Oklahoma, East Central University, Northeastern State University, Northwestern Oklahoma State University, Southeastern Oklahoma State University, and Southwestern Oklahoma State University. The Board consists of nine members appointed by the Governor, with the advice and consent of the Senate. The State can impose its will on the Board of Regents by its ability to modify and approve their budget.

Oklahoma State Regents for Higher Education serves as the coordinating board of control for the System. The Board of Regents for Higher Education consists of nine members appointed by the Governor, with the advice and consent of the Senate. The State can impose its will on the State Regents for Higher Education by its ability to modify and approve their budget.

Ardmore Higher Education Program and **McCurtain County Higher Education Program** were established to make higher education available to those persons who might otherwise not be able to attend an institution of higher learning. Students enrolled in the Programs earn credit applicable toward academic degrees and certificates at participating institutions in the System. Each Program is administered by a Board of Trustees who are appointed by the Governor, with the advice and consent of the Senate. The State can impose its will on the Programs by its ability to modify and approve their budget.

Rose State College Technical Area Education District, South Oklahoma City Area School District, and **Tulsa Community College Area School District #18** were created to provide postsecondary vocational, technical, and adult education programs for persons within their defined geographical boundaries. The primary source of operating funds is ad valorem taxes assessed against real property located in their districts. The Districts are component units of Rose State College, Oklahoma City Community College, and Tulsa Community College, respectively.

The entities included in the Higher Education Component Unit were audited by independent auditors, for the year ended June 30, 1998, and reports dated from August 6, 1998, to October 23, 1998, have been previously issued under separate cover. Because these entities are similar in nature and function, they have been combined and presented as a single component unit.

Related Organizations and Related Parties

Organizations, for which a primary government is accountable because the State appoints a voting majority of the board, but is not financially accountable, are considered to be related organizations. The Oklahoma Ordinance Works Authority (OOWA) is a related organization of the State. The State appoints a voting majority of the Trustees of OOWA but has no further accountability.

Oklahoma Education Television Authority Foundation, Inc. is a non-profit organization established to receive private donations and contributions that could be used for the benefit of the Oklahoma Education Television Authority (OETA), a part of the primary government. The Foundation does not meet the definition of a component unit but is considered a related party of OETA. During the fiscal year ended June 30, 1998, the foundation disbursed approximately $4,000,000 for the benefit of OETA.

The colleges and universities included in the Higher Education Component Unit have various foundations organized for the purpose of receiving and administering gifts intended for the benefit of their respective college or university. These foundations do not meet the definition of a component unit but are considered a related party of the college or university. During the fiscal year ended June 30, 1998, these foundations expended, on-behalf of the State's colleges and universities, approximately $54,874,000 for facilities and equipment, salary supplements, general educational assistance, faculty awards, and scholarships.

B. Fund Accounting

The financial activities of the State are recorded in individual Funds classified by type, each of which is deemed to be a separate accounting entity. The State uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A Fund is a separate accounting entity with a self-balancing set of accounts. An Account Group is a financial reporting device designed to provide accountability for assets and liabilities that are not recorded in Funds because they do not directly affect net expendable available financial resources.

The financial activities of the State reported in the accompanying financial statements have been classified into the following fund types and account groups.

1. Governmental Fund Types

General Fund - This Fund accounts for all activities of the State not specifically required to be accounted for in other Funds. Included are transactions for services such as education, general government, health services, legal and judiciary, museums, natural resources, public safety and defense, regulatory services, social services, and transportation. Debt service transactions and related cash balances are reported in the General Fund with a reservation of fund balance for debt service.

Capital Projects Fund - This Fund accounts for financial resources used for the acquisition, construction, or improvement of major capital facilities other than those financed by proprietary funds, similar trust funds, or higher education funds. These resources are derived from proceeds of the general obligation bond issues on March 9, 1993, and July 21, 1993.

2. Proprietary Fund Type

Enterprise Fund - This Fund accounts for those activities for which the intent of management is to recover, primarily through user charges, the cost of providing goods or services to the general public, or where sound financial management dictates that periodic determinations of results of operations are appropriate. This Fund is comprised of Oklahoma Water Resources Board bond issues and revolving loan programs. These programs make loans to local government units for the acquisition, development, and utilization of storage and control facilities for water and sewage systems.

3. Fiduciary Fund Types

The State presents as Fiduciary Funds those activities that account for assets held in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other Funds.

Nonexpendable Trust Funds - These Funds require that the principal of the trusts be preserved intact. Only the earnings of the Funds are expendable. They account for trust transactions, assets, liabilities, and fund equity of the Commissioners of the Land Office and the Department of Wildlife.

Expendable Trust Fund - This Fund allows for the spending of both the principal and earnings of the Trust. The Fund accounts for assets received and expended by the Oklahoma Employment Security Commission, from the Federal Unemployment Insurance Trust Fund.

Investment Trust Fund – This Fund accounts for the transactions, assets, liabilities and fund equity of the external investment pool.

Pension Trust Funds - These Funds account for the transactions, assets, liabilities, and fund equity of the seven State retirement systems (six PERS and the Wildlife Conservation Retirement Plan).

Agency Funds - These Funds account for the assets held for distribution by the State as an agent for other governmental units, other organizations or individuals.

4. Account Groups

General Fixed Assets Account Group - This group of accounts is used to account for fixed assets acquired or constructed for general governmental purposes other than those of the proprietary, similar trust funds, governmental component units, proprietary component units, or higher education fund types.

General Long-Term Debt Account Group - This group of accounts is used to account for unmatured general obligation bonds, revenue bonds, certificates of participation, lease revenue bonds, capital lease obligations, employee leave obligations, and other long-term obligations not recorded in proprietary, similar trust funds, governmental component units, proprietary component units, or higher education fund types.

5. Component Units

These Funds are legally separate from the State but are considered part of the State reporting entity.

Governmental Funds – These Funds meet the definition of a component unit as previously described.

Special Revenue Funds – These funds are used to account for transactions in which the source of revenue is specific (other than expandable trust), the funds require separate accounting because of the legal restriction, and the purpose of the expenditure is specific.

Proprietary Funds - These Funds meet the definition of both a component unit and that of an enterprise fund as previously described.

Higher Education Funds - These Funds account for transactions related to the resources received and used in the operation of the State's colleges and universities.

Current Funds **-** These Funds account for unrestricted funds over which the governing boards retain full control in achieving the institutions' purposes and restricted funds that may be utilized in accordance with externally restricted purposes.

Loan, Endowment, and Agency Funds **-** These Funds account for assets in which the colleges and universities act in a fiduciary capacity.

Plant Funds **-** These Funds account for institutional property acquisition, renewal, replacement, and debt service.

Financial Statement Reporting Periods

The accompanying financial statements of the State are presented as of June 30, 1998, and for the year then ended, except for the following funds and entities which were audited by other independent auditors.

Special Indemnity Fund	12-31-97
State Insurance Fund	12-31-97
Oklahoma Turnpike Authority	12-31-97
Grand River Dam Authority	12-31-97
Oklahoma Municipal Power Authority	12-31-97
Oklahoma Housing Finance Agency	9-30-97

C. Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

All governmental funds, the expendable trust fund and the governmental component unit are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (e.g., revenues and other financing sources) and decreases (e.g., expenditures and other financing uses) in net current assets.

All proprietary funds, nonexpendable trust funds, investment trust funds, pension trust funds and proprietary component units are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund equity (i.e., net total assets) is segregated into retained earnings components. Proprietary fund operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. Each proprietary fund has the option under Governmental Accounting Standards Board (GASB), Statement 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting* to elect to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The primary government enterprise fund has elected to not apply FASBs issued after the applicable date. Each proprietary component unit has individually made this election as disclosed in their separate audit reports.

All capital project funds and proprietary component units account for arbitrage rebate payable as a liability of the fund. The increase in the obligation has been recorded in operations as a reduction of current year interest income.

All governmental funds, expendable trust and agency funds are maintained and reported on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues and related current assets are recognized when measurable and available to finance operations during the year or liquidate liabilities existing at the end of the year when such revenues are susceptible to accrual; expenditures and liabilities are recognized when obligations are incurred as a result of receipt of goods and services. Principal revenue sources considered susceptible to accrual include federal grants, interest on investments, sales and income taxes, and lease payments receivable. Some revenue items that are considered measurable and available to finance operations during the year from an accounting perspective are not available for expenditure due to the State's present appropriation system. These revenues have been accrued in accordance with Generally Accepted Accounting Principles since they have been earned and are expected to be collected within sixty days of the end of the period. Modifications to the accrual basis of accounting include:

- Employees' vested annual leave is recorded as an expenditure when utilized. The amount of accumulated annual leave unpaid at June 30, 1998, has been reported in the general long-term debt account group (see Item M of this Note).

- Interest on general long-term obligations is recognized when paid.

- Executory purchase orders and contracts are recorded as a reservation of fund balance.

The accounts of the enterprise, nonexpendable trust, investment trust fund, pension trust funds and proprietary component units are reported using the accrual basis of accounting. Under the accrual basis, revenues are recorded when earned and expenses are recorded when the related liability is incurred.

The Higher Education Component Unit is accounted for on the accrual basis of accounting, with the following exceptions:

- Seventeen of the State's colleges and universities report depreciation expense related to plant fund assets.

- Revenues and expenditures of an academic term encompassing more than one fiscal year are solely reported in the fiscal year in which the program is predominantly conducted.

The Higher Education Component Unit is an aggregate of financial statements from the 32 higher education entities described in Item A of this Note.

D. Budgeting and Budgetary Control

The State's annual budget is prepared on the cash basis utilizing encumbrance accounting. Encumbrances represent executed but unperformed purchase orders. In the accompanying financial statements, encumbrances are recorded as expenditures for budgetary purposes if expected to be presented for payment by November 15 following the end of the fiscal year and as reservations of fund balance for GAAP purposes. Since the budgetary basis differs from generally accepted accounting principles, budget and actual amounts in the accompanying Combined Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget to Actual (Non-GAAP Budgetary Basis) are presented on the budgetary basis. A reconciliation of revenues in excess of (less than) expenditures and other financing sources (uses) on a budgetary basis at June 30, 1998, to revenues in excess of (less than) expenditures and other financing sources (uses) presented in conformity with generally accepted accounting principles is set forth in Note 2.

The Governor prepares and submits to the Legislature at the beginning of each annual session a balanced budget based on budget requests prepared by the various state agencies. The General Fund is the only Fund for which an annual budget is legally adopted. Budgeted expenditures can not exceed the amount available for appropriation as certified by the State Board of Equalization. The Legislature may modify the Governor's proposed budget as it deems necessary and legally enacts an annual state budget through the passage of appropriation bills. The Governor has the power to approve or veto each line item appropriation.

The legal level of budgetary control is maintained at the line item level (i.e., General Operations, Duties, etc.) identified in the appropriation acts. Budgets may be modified subject to statutory limits on transfers. The Director of State Finance can approve transfers between line items up to 25%. The Contingency Review Board (a three-member board comprised of the Governor, the President Pro Tempore of the Senate, and the Speaker of the House of Representatives) can approve transfers between line items of up to 40%. All transfers are subject to review by the Joint Legislative Committee on Budget and Program Oversight to determine if the transfer tends to effectuate or subvert the intention and objectives of the Legislature.

Current policy allows agencies to use unexpended moneys for one-time purchases or non-recurring expenditures in the next fiscal year. This policy provides an incentive for management to distribute resources efficiently; however, it is subject to annual approval by the Legislature. Unexpended balances not carried forward to the new fiscal year by November 15 may: 1) lapse to unrestricted balances and be available for future appropriation, 2) lapse to restricted balances and be available for future appropriations restricted for specific purposes as defined by statute, or 3) be non-fiscal, and may be spent from one to 30 months from the date of appropriation.

If funding sources are not sufficient to cover appropriations, the Director of State Finance is required to reduce the budget by the amount of such deficiency. Any other changes to the budget must be approved by the Legislature in a supplemental appropriation. For fiscal year 1998, $6,862,402 was approved by the Legislature for supplemental appropriation. All fiscal year 1998 appropriated line items were within their authorized spending level.

E. Cash and Cash Equivalents

The State uses a pooled cash concept in maintaining its bank accounts. All cash is pooled for operating and investment purposes and each Fund has an equity in the pooled amount. For reporting purposes, cash and related time deposits have been allocated to each Fund based on its equity in the pooled amount. Interest earned on investments is allocated to the General Fund except for those investments made specifically for the Capital projects fund, proprietary fund type, fiduciary fund type, proprietary component units, and higher education component unit, for each of which investment revenue is allocated to the investing fund.

The State Treasurer requires that financial institutions deposit collateral securities to secure the deposits of the State in each such institution. The amount of collateral securities to be pledged for the security of public deposits shall be established by rules and regulations promulgated by the State Treasurer.

The Oklahoma Employment Security Commission Trust Fund is maintained to account for the collection of unemployment contributions from employers and the payment of unemployment benefits to eligible claimants. As required by Federal law, all resources not necessary for current benefit payments are placed on deposit with the U.S. Treasury. Interest from these resources is retained in the Fund.

For purposes of reporting cash flows, cash equivalents are defined as short-term, highly liquid investments that are readily convertible to cash.

F. Investments

Investments, which may be restricted by law or legal instruments, are under control of either the State Treasurer or other administrative bodies as determined by law.

Investments are generally stated at fair value in accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The State Insurance Fund, Grand River Dam Authority, and Oklahoma Municipal Power Authority with December 31, 1997 year ends, and Oklahoma Housing Finance Agency with a September 30, 1997 year end, have not implemented GASB 31. Their investments are recorded in accordance with their election under GASB 20 (see Item C). For these proprietary component units, investments are recorded at cost, adjusted for premiums and discounts, which approximates market.

G. Receivables

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts.

Governmental fund type receivables consist primarily of amounts due from the Federal government. Interest and investment revenue receivable in all funds consist of revenues due on each investment. Taxes receivable in governmental funds represent taxes subject to accrual, primarily income taxes and sales taxes, that are collected within sixty days after year end. Lease payments receivable in the General Fund consists of capital lease payments due for equipment and railroad lines owned by the Department of Transportation. Collectibility of these lease payments is reasonably assured and no allowance for uncollectible amounts has been established.

Taxes receivable in fiduciary funds represents unemployment taxes due at year end, net of an allowance for uncollectible amounts. The uncollectible amounts are based on collection experience and a review of the status of existing receivables.

H. Inter/Intrafund Transactions

Interfund Transactions - The State has three types of interfund transactions.

- Services rendered transactions are accounted for as revenues and expenditures or expenses in the Funds involved.

- Operating appropriations/subsidies are accounted for as operating transfers in the Funds involved.

- Equity and working capital contributions are accounted for as residual equity transfers (additions to or deductions from beginning governmental fund balances or proprietary fund equity).

Intrafund Transactions - Intrafund transfers, as a result of contracts among departments and/or agencies within the same Fund, are considered expenditures by the contractor and revenues by the contractee for budgetary purposes. The Combined Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget to Actual (Non-GAAP Budgetary Basis) includes these transactions. However, recorded intrafund revenues and expenditures have been eliminated in the GAAP-basis Combined Statement of Revenues, Expenditures, and Changes in Fund Balances.

A portion of motor fuel excise taxes collected on fuels consumed on the State's turnpikes is made available to the Oklahoma Turnpike Authority (OTA) from the Oklahoma Tax Commission. These taxes are apportioned to OTA monthly to fund debt service, to the extent amounts are not otherwise available to OTA. If the motor fuel excise taxes apportioned to OTA are not needed in the month of apportionment, the taxes are to be transferred to the Department of Transportation (DOT). Before these monthly transfers were mandated, a balance owed to DOT had accumulated and at year end this balance is presented as a noncurrent Due to Other Funds on the financial statements of OTA.

I. Inventories

Inventories of materials and supplies are determined both by physical counts and through perpetual inventory systems. Generally, inventories are valued at cost and predominately on either the first-in first-out or weighted average basis. Inventories of federal surplus properties are valued at a percentage of federal acquisition cost. General fund inventories are recorded as expenditures when consumed rather than when purchased by recording adjustments to the inventory account on the balance sheet. The general fund inventories on hand at year-end are reflected as a reservation of fund balance on the balance sheet, except for $15,432,000 in food stamps which is recorded as inventory and deferred revenue. Upon distribution, the food stamps are recognized as revenues and expenditures of the general fund.

The value of the inventory of food commodities in the agency fund is calculated by using a weighted average cost based on the U.S. Department of Agriculture commodity price list at the inventory receipt date. The value of the inventory of food stamps in the general fund is valued at coupon value.

Higher education inventories are stated at the lower of cost or market, cost being determined on either the first-in first-out or average cost basis.

J. Fixed Assets

General Fixed Assets - Fixed assets used in governmental-type operations (general fixed assets) are recorded as expenditures in the governmental funds and the related assets are reported in the General Fixed Assets Account Group (GFAAG). Purchased and constructed general fixed assets are valued in the GFAAG at historical cost or estimated historical cost. Donated fixed assets are recorded at their fair market value at the date of donation. The estimates of historical costs of buildings and other improvements were based on appraised value, as of August 4, 1994, indexed to the date of acquisition. The costs of normal maintenance and repairs that do not add to the asset's value or materially extend as asset's useful life are not capitalized. Significant general fixed assets which have a cost in excess of $25,000 at the date of acquisition and have an expected useful life of five or more years are capitalized.

Interest incurred during construction of capital facilities is not capitalized. General fixed assets are not depreciated.

Infrastructure is normally immovable and of value only to the State. Infrastructure, which includes roads, bridges, dikes, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems, is not reported in the General Fixed Assets Account Group.

Proprietary and Similar Trust Fund Fixed Assets - Purchased and constructed fixed assets are valued at historical cost or estimated historical cost. Donated fixed assets are recorded at their fair market value at the date of donation. Fixed assets, excluding land, are depreciated on the straight-line method over the assets' estimated useful life. Generally, estimated useful lives are as follows:

Buildings and Other Improvements	7 - 45 years
Machinery and Equipment	3 - 20 years

Higher Education Fixed Assets - Purchased and constructed fixed assets are stated principally at cost or fair market value at the date of donation in the case of gifts. Depreciation is provided for the cost of plant assets of certain colleges and universities which elect the option of reporting depreciation expense in Plant Funds. Depreciation, which is charged to expenditures, is computed on the straight-line method over the estimated useful lives of the assets. Estimated useful lives are as follows:

Buildings and Other Improvements	40 - 60 years
Machinery and Equipment	5 - 10 years

K. Other Assets

Included in other assets (noncurrent for proprietary component units) are costs to be recovered from future revenues. Certain items included in the operating costs of **Grand River Dam Authority**, an unregulated enterprise, are recovered through rates set by the Board of Directors. Recognition of these costs, primarily depreciation on debt funded fixed assets, amortization of debt discount and expense, and amortization of losses on advance refunding of long-term debt, is deferred to the extent that such costs will be included in rates charged in future years. The **Oklahoma Municipal Power Authority** (OMPA) enters into power sales contracts with participating municipalities that provide for billings to those municipalities for output and services of the projects. Revenues from these contracts provide for payment of current operating and maintenance expenses (excluding depreciation and amortization), as well as payment of scheduled debt principal and interest, and deposits into certain funds as prescribed in the bond resolutions. For financial reporting purposes, OMPA currently recognizes depreciation of assets financed by bond principal and amortization expense. The difference between current operating expenses and the amounts currently billed under the terms of the power sales contracts are deferred to future periods in which these amounts will be recovered through revenues.

L. Deferred Revenue

Deferred revenues arise when potential revenue does not meet the available criterion for recognition in the current period. Available is defined as due (or past due) at June 30, and collected thereafter to pay obligations due at June 30. Deferred revenues also arise when resources are received by the State before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the State has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet, and revenue is recognized.

Also included in deferred revenue is the undistributed food stamp inventory.

M. Compensated Absences

Employees entering State service prior to July 1, 1996, earn annual vacation leave at the rate of 10 hours per month for the first 5 years of service, 12 hours per month for service of 5 to 10 years, 13.3 hours per month for service of 10 to 20 years, and 16.66 hours per month for over 20 years of service. Employees entering State service on or after July 1, 1996, earn annual vacation leave at the rate of 6.66 hours per month for the first 5 years of service, 10 hours per month for service of 5 to 10 years, 13.3 hours per month for service of 10 to 20 years, and 16.66 hours per month for over 20 years of service. Unused annual leave may be accumulated to a maximum of 480 hours. All accrued annual leave is payable upon termination, resignation, retirement, or death. The General Fund records expenditures when employees are paid for leave, and the cost of accumulated vacation leave is recorded in the General Long-Term Debt Account Group.

N. Risk Management

The Risk Management Division of the Department of Central Services is responsible for the acquisition and administration of all insurance purchased by the State, or administration of any self-insurance plans and programs adopted for use by the State or for certain organizations and bodies outside of state government, at the sole expense of such organizations and bodies.

The Risk Management Division is authorized to settle claims of the State and oversee the dispensation and/or settlement of claims against a state political subdivision. In no event shall self-insurance coverage exceed the limitations on the maximum dollar amount of liability specified by the Oklahoma Governmental Tort Claims Act. The Risk Management Division oversees the collection of liability claims owed to the State incurred as the result of a loss through the wrongful or negligent act of a private person or other entity.

The Risk Management Division is also charged with the responsibility to immediately notify the Attorney General of any claims against the State presented to the Risk Management Division.

O. Federal Grants

In addition to monetary transactions, Federal grants also include non-monetary transactions for surplus inventory, food stamps, food, and other commodities. Surplus inventory is valued at a percentage of government acquisition cost. Food stamps are valued at coupon value. Commodities are valued at their federally reported value in the Agency Fund.

P. Fund Balance Reserves and Designations

The State's fund balance reserves represent those portions of fund balance (1) not appropriable for expenditure or (2) legally segregated for a specific future use. In the accompanying combined balance sheet, reserves for related assets such as inventories and prepayments are examples of the former. Reserves for encumbrances, contracts, and other specific purposes are examples of the latter. The State's fund balance designation reflects tentative plans for future use of financial resources.

Q. Deficit Fund Balance - Special Indemnity Fund

The Special Indemnity Fund, a governmental component unit, has a deficit fund balance of $21,867,000 at December 31, 1997. Management is not aware of any pending legislation to reduce this deficit.

R. Total (Memorandum Only)

Total columns on the combined statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Neither are such data comparable to a consolidation. Inter-fund eliminations have not been made in the aggregation of these data.

S. Comparative Data/Restatements

Comparative total (Memorandum Only) data for the prior year has been presented in selected sections of the accompanying financial statements in order to provide an understanding of the changes in the State's financial position and operations. Certain amounts presented have been reclassified and/or restated to be consistent with the current year presentation.

Note 2. Budgetary Reporting

The Combined Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget to Actual (Non-GAAP Budgetary Basis) presents comparisons of the legally adopted budget with actual data on a budgetary basis.

Certain appropriations are transferred to continuing funds for expenditure. Unexpended amounts so transferred may then be rebudgeted in subsequent fiscal years. These transfers are not included in the total expenditures on the Combined Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget to Actual (Non-GAAP Budgetary Basis), but are reported as a separate item under Other Financing Uses. Presented below are transfers to continuing funds by function of government within the General Fund and a reconciliation to the Schedule of Expenditures and Intra-Agency Transfers as presented in the Required Supplementary Information (expressed in thousands):

Education	$	1,323,412
General Government		18,959
Health Services		13,434
Legal and Judiciary		1,342
Natural Resources		1,530
Regulatory Services		85
Social Services		679,952
Transportation		289,028
Total Transfers to Continuing Funds		2,327,742
Total Expenditures per Combined Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget to Actual (Non-GAAP Budgetary Basis)		1,094,781
Total per Schedule of Expenditures and Intra-Agency Transfers as Presented in the Required Supplementary Information	$	3,422,523

Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of resulting basis, perspective, and entity differences in the revenues in excess of (less than) expenditures and other financing sources (uses) between budgetary and GAAP presentations for the year ended June 30, 1998, is presented below (expressed in thousands) for the General Fund.

Budgetary Basis Fund Balance, June 30, 1997	$	861,926
Deficiency of total sources over total uses of financial resources (Budgetary Basis)		(110,958)
Budgetary Basis Fund Balance, June 30, 1998		750,968
Entity and Perspective Differences:		
Non-budgeted Funds and Capital Funds		939,044
Encumbrances		52,153
Basis Differences:		
Add: Net accrued revenues, related receivables, and deferred revenues		407,659
Less: Net accrued expenditures and related liabilities		(436,451)
GAAP Basis Fund Balance, June 30, 1998	$	1,713,373

Note 3. Deposits and Investments

The State Treasurer requires that financial institutions deposit collateral securities to secure the deposits of the State in each such institution. The amount of collateral securities to be pledged for the security of public deposits is established by rules promulgated by the State Treasurer. In accordance with the Office of State Treasurer's policies, the amount of collateral securities to be pledged by financial institutions through the State Treasurer's Office are pledged at market value and must be at 110% of value to collateralize the amount on deposit, less any federal insurance coverage. This percentage may vary for political subdivisions according to their respective policies.

In accordance with State statute, the State Treasurer may purchase and invest in the following:

- Obligations of the United States Government, its agencies and instrumentalities
- Prime banker's acceptances
- Investment grade obligations of state and local governments
- Money market funds
- Collateralized or insured certificates of deposit
- Negotiable certificates of deposit
- Prime commercial paper
- Repurchase agreements

Deposits

As of June 30, 1998, the State and its discretely presented component units' bank balances of deposits are fully insured or collateralized with securities held by an agent of the State or its discretely presented component units in their respective names. In addition to these deposits, the State has approximately $613,000,000 on deposit with the U.S. Government. These funds represent unemployment insurance taxes collected from Oklahoma employers which are held by the U.S. Treasury.

Investments

The State's investments are categorized below per Governmental Accounting Standards Board Statement 3, *Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements,* to give an indication of the level of custodial risk assumed at year end. Category 1 includes investments that are insured, registered, or are held by the State or its agent in the name of the State. Category 2 includes uninsured and unregistered investments, which are held by the counterparties' trust departments or agents in the name of the State. Category 3 includes uninsured and unregistered investments, held by counterparties, or their trust departments or agents, but not in the name of the State.

Investments at June 30, 1998, by investment type, are listed below (expressed in thousands).

~~Primary Government~~	Carrying Amount Risk Categories				Fair
	1	2	3	Total	Value
U.S. Government Securities	$ 2,572,651	$ -	$ -	$ 2,572,651	$ 2,572,651
Repurchase Agreements	1,277,722	-	4,680	1,282,402	1,282,402
State Bond Issues	18,642	-	-	18,642	18,642
Debt Securities	1,871,850	-	-	1,871,850	1,871,850
Equity Securities	6,321,840	-	-	6,321,840	6,321,840
Investments Held Under Securities Loans for Non-Cash Collateral:					
U.S. Government Securities	146,844	-	360,467	507,311	507,311
Debt Securities	-	-	10,696	10,696	10,696
Equity Securities	-	-	42,017	42,017	42,017
	$ 12,209,549	$ -	$ 417,860	$ 12,627,409	$ 12,627,409
Investments Not Subject to Categorization:					
Guaranteed Investment Contracts				34,629	34,629
Real Estate				27,513	27,513
Mutual Funds				1,350,746	1,350,746
Money Market Mutual Funds				2,813	2,813
Limited Partnerships and Other Investments				16,580	16,580
Investments Held Under Securities Loans for Cash Collateral:					
U.S. Government Securities				465,032	465,032
Debt Securities				85,165	85,165
Equity Securities				778,675	778,675
Securities Lending Collateral-Short Term Investment Pools				1,373,153	1,373,153
Less: Component Units' Investment in State Treasurer's Cash Management Program*				(174,222)	(174,222)
Total Investments				$ 16,587,493	$ 16,587,493

* Includes presentation and timing differences of $20,632 attributable to proprietary component units.

The State's Investment Trust Fund has investments of repurchase agreements. These investments are included in the primary government's schedule of investments above. All repurchase agreements held by the Investment Trust Fund are included in risk category 1.

~~Component Units-Proprietary~~	Carrying Amount Risk Categories				Fair
	1	2	3	Total	Value
U.S. Government Securities	$ 344,520	$ 179,767	$ 9,229	$ 533,516	$ 532,909
Repurchase Agreements	4,634	-	-	4,634	4,634
Other Pooled Investments	7,622	-	-	7,622	7,622
State Bond Issues	9,999	-	-	9,999	9,999
Debt Securities	227,869	-	3,214	231,083	231,083
Equity Securities	209,370	-	-	209,370	209,370
	$ 804,014	$ 179,767	$ 12,443	$ 996,224	$ 995,617
Investments Not Subject to Categorization:					
Guaranteed Investment Contracts				193,283	193,283
Negotiable Certificates of Deposit				1,170	1,170
Real Estate				2,146	2,146
Mutual Funds				24,326	24,326
Money Market Mutual Funds				10,198	10,198
Other Pooled Funds				22,905	22,905
Investment in State Treasurer's Cash Management Program				10,674	10,674
Investments Held Under Securities Loans for Cash Collateral:					
U.S. Government Securities				175,538	175,538
Debt Securities				7,289	7,289
Securities Lending Collateral-Short Term Investment Pools				185,240	185,240
Total Investments				$ 1,628,993	$ 1,628,386

~~Component Unit-Higher Education~~	Carrying Amount Risk Categories 1	2	3	Total	Fair Value
U.S. Government Securities	$ 91,740	$ 9,268	$ -	$ 101,008	$ 101,008
State Bond Issues	5,850	-	-	5,850	5,850
	$ 97,590	$ 9,268	$ -	$ 106,858	$ 106,858
Investments Not Subject to Categorization:					
Real Estate				347	347
Mutual Funds				168,171	168,171
Money Market Mutual Funds				151	151
Other Pooled Funds				48,989	48,989
Investment in State Treasurer's Cash Management Program				142,916	142,916
Total Investments				$ 467,432	$ 467,432

The governmental component unit, Special Indemnity Fund, did not hold any investments at June 30, 1998.

The following table reconciles the details included within this footnote to the Combined Balance Sheet at June 30, 1998 (expressed in thousands).

	Primary Government	Component Units Proprietary	Component Units Higher Education
Investments per Combined Balance Sheet:			
Investments	$ 13,192,971	$ 1,476,800	$ 395,907
Securities Lending Investments	1,373,153	185,240	-
Total Investments	14,566,124	1,662,040	395,907
Non-negotiable CDs classified as investments	(953)	(33,236)	(71,391)
Pooled cash investments classified as cash equivalents	2,022,322	-	-
Short term investments classified as cash equivalents	-	189	-
Investment in State Treasurer Cash Management Program classified as cash equivalent	-	-	142,916
Total Investments	$ 16,587,493	$ 1,628,993	$ 467,432

Securities Lending Transactions – Primary Government

State statute authorizes the State Treasurer’s Office to participate in securities lending transactions. The six Public Employees Retirement Systems (PERS) also participate in securities lending transactions as provided by their respective investment policies. In a securities lending transaction, securities are loaned to approved brokers through a securities lending agreement with a simultaneous agreement to return collateral for the same security in the future. There are no restrictions regarding the amount of securities which may be lent.

During the fiscal year ended June 30, 1998, securities lending agents lent primarily U.S. Government securities, equity securities and debt securities. Cash, U.S. Government securities and letters of credit were provided as collateral for the securities lent. Generally, collateral must be provided in the amount of 102% of the fair value of the securities loaned. However, in certain instances collateral must be provided in the amount of 105% when the principal trading market for the loaned securities is outside the United States. At June 30, 1998, the carrying amount and fair value of securities on loan was approximately $1,888,896,000. The underlying collateral for these securities had a market value of approximately $1,958,220,000. Collateral of securities and letters of credit represented approximately $585,067,000 of total collateral. Because these securities and letters of credit cannot be sold or pledged unless the borrower defaults, the collateral and related liability are not presented on the balance sheet. The remaining collateral represents cash collateral that is invested in short-term investments pools and is included as an asset on the balance sheet with an offsetting liability for the return of the collateral.

At June 30, 1998, there was no credit risk exposure to borrowers. Contracts with securities lending agents require them to indemnify the lender if the borrower fails to return the securities or otherwise fails to pay the lender for income while the securities are on loan. There were no losses on security lending transactions, or recoveries from prior period losses, resulting from the default of a borrower or the lending agent. Investment policies do not require the maturities of investments made with cash collateral to match the maturities of securities lent; however, investment policies may establish minimum levels of liquidity to minimize the interest rate risk associated with not matching the maturity of the investments with the loans.

Securities Lending Transactions – Proprietary Component Units

The State Insurance Fund (SIF) and the Oklahoma State and Education Employees Group Insurance Board (OSEEGIB) participate in securities lending transactions as provided by their respective investment policies. In a securities lending transaction, securities are loaned to approved brokers through a securities lending agreement with a simultaneous agreement to return collateral for the same security in the future. There are no restrictions regarding the amount of securities that may be lent. The changes for the year in the securities lending asset and liability are presented at net in the Combined and Combining Statement of Cash Flows since the maturity dates are less than three months.

During their respective fiscal year ends securities lending agents lent primarily U.S. Government securities, equity securities and debt securities. Cash and U.S. Government securities were provided as collateral for the securities lent. Collateral must be provided in the amount of 100% (OSEEGIB) or 102% (SIF) of the fair value of the securities loaned. At their respective year ends, the carrying amount and market value of securities on loan was approximately $182,827,000. The underlying collateral for these securities had a market value of approximately $185,240,000. At their respective fiscal year end, no securities on loan were collateralized by securities. Because all collateral represents cash collateral that is invested in short-term investment pools, it is included as an asset on the balance sheet with an offsetting liability for the return of the collateral.

At their respective fiscal year ends, there was no credit risk exposure to borrowers. Contracts with securities lending agents require them to indemnify the lender if the borrower fails to return the securities or otherwise fails to pay the lender for income while the securities are on loan. There were no losses on security lending transactions, or recoveries from prior period losses, resulting from the default of a borrower or the lending agent. Because these transactions are terminable at will, their duration generally did not match the duration of the investments made with the cash collateral.

External Investment Pool – Primary Government

The State sponsors an investment pool which includes internal and external pool participants. The portion of the pool attributable to external pool participants is included in the primary government as an Investment Trust Fund. The pool is not registered with the SEC and is reviewed by an Executive Review Committee of the State's Cash Management and Investment Oversight Commission. Assets of the pool are invested pursuant to an overnight repurchase agreement and are collateralized by U.S. Government obligations held by an independent third party custodian. Fair value of the investments is determined on a daily basis. Par value of participants' investments is based on the amount invested and accrued interest. Due to the daily nature of the pool, the value of the participants' investments is guaranteed by the third party custodian. The pool does not include any involuntary participants.

Note 4. Accounts Receivable

Receivables as of June 30, 1998, including the applicable allowances for uncollectible accounts, are as follows (expressed in thousands).

					Component Units		
Receivables:	General	Capital Projects	Enterprise	Trust and Agency	Proprietary	Higher Education	Total
Accounts	$ 40,456	$ -	$ -	$ 2,225	$ 67,678	$ 159,154	$ 269,513
Interest	14,547	65	4,823	72,029	21,343	4,507	117,314
Contributions	-	-	-	26,910	-	-	26,910
Federal	301,770	702	-	170	-	1,955	304,597
Taxes	125,599	-	-	1,856	-	-	127,455
Lease Payments	41,110	-	-	-	38,258	-	79,368
Other	51	-	-	4,432	20,871	-	25,354
Notes and Loans	-	-	265,232	-	699,685	55,576	1,020,493
Gross Receivables	523,533	767	270,055	107,622	847,835	221,192	1,971,004
Less Uncollectibles:							
Accounts Receivable	16,799	-	-	-	6,999	45,534	69,332
Notes, Loans, and Other	-	-	-	-	2,743	12,212	14,955
Net Total Receivables	$ 506,734	$ 767	$ 270,055	$ 107,622	$ 838,093	$ 163,446	$ 1,886,717

Note 5. Interfund Accounts/Operating Transfers

A. Due from Other Funds/Due to Other Funds

A summary of interfund obligations at June 30, 1998, is shown below (expressed in thousands).

	Due From		Due To	
	Other Funds	Component Units	Other Funds	Component Units
Primary Government				
General Fund	$ -	$ 46,109	$ 13,087	$ 11,715
Nonexpendable Trust:				
Department of Wildlife	66	-	-	-
Pension Trusts:				
Firefighters Pension and Retirement System	877	-	-	-
Oklahoma Law Enforcement Retirement System	1,593	-	-	-
Oklahoma Public Employees Retirement System	115	267	-	-
Oklahoma Police Pension and Retirement System	361	-	-	-
Teachers' Retirement System of Oklahoma	9,538	109	-	-
Wildlife Conservation Retirement Plan	27	-	-	-
Agency Funds:				
Other	511	199	-	-
Total Primary Government	$ 13,088	$ 46,684	$ 13,087	$ 11,715

	Due From			Due To		
	Primary Government	Other Funds	Other Component Units	Primary Government	Other Funds	Other Component Units
Component Units						
Governmental Fund:						
Special Indemnity Fund	$ 1,753	$ -	$ -	$ -	$ -	$ 72
Proprietary Funds:						
State Insurance Fund	959	-	140	45	-	132
State & Education Emp. Group Insurance Board	3,699	-	-	31	-	53
Student Loan Authority	-	-	-	-	-	27
University Hospitals Authority	-	-	1,338	74	-	3
Medical Technology and Research Authority	2	-	123	11	-	33
Oklahoma Development Finance Authority	52	-	15	-	-	-
Oklahoma Housing Finance Agency	-	-	-	7	-	-
Oklahoma Turnpike Authority	27	-	-	45,795	-	44
Grand River Dam Authority	28	-	514	443	-	67
Oklahoma Municipal Power Authority	-	-	-	20	-	514
Higher Education Funds:						
Current, Unrestricted	5,139	57,743	234	246	30,922	1,431
Current, Restricted	-	6,133	-	-	23,829	-
Loan	-	3,172	-	-	41	-
Endowment	-	610	-	-	22,088	-
Plant	-	121	-	-	6,188	-
Agency	-	15,492	-	-	203	-
Total Component Units	$ 11,659	$ 83,271	$ 2,364	$ 46,672	$ 83,271	$ 2,376

The amount of total interfund receivables of $157,066,000 does not agree with total interfund payables of $157,121,000 at June 30, 1998. This is due to timing differences between agencies with a June 30 year end and the Special Indemnity Fund, State Insurance Fund, and Grand River Dam Authority, all which have December 31 year ends.

B. Operating Transfers

A summary of interfund operating transfers for the fiscal year ended June 30, 1998, follows (expressed in thousands).

	Operating Transfers			
Primary Government	In	From Component Units	Out	To Component Units
General Fund	$ 13,298	$ 32,754	$ 7,101	$ 801,856
Capital Projects	-	2,112	-	17,493
Proprietary Funds:				
Oklahoma Water Resources Board	3,500	-	973	-
Nonexpendable Trust:				
Commissioners of the Land Office	-	-	2,892	14,171
Department of Wildlife	-	-	2,072	
Total Primary Government	$ 16,798	$ 34,866	$ 13,038	$ 833,520

	Operating Transfers			
Component Units	In	From Primary Government	Out	To Primary Government
Governmental Fund:				
Special Indeminty Fund	$ -	$ 21,046	$ -	$ -
Proprietary Funds:				
University Hospitals Authority		27,147	-	-
Oklahoma Turnpike Authority		30,274	-	30,274
Higher Education Funds:				
Current, Unrestricted	-	666,549	-	-
Current, Restricted	-	33,262	-	-
Endowment	-	7,500	-	-
Plant	-	28,231	-	-
Total Component Units	$ -	$ 814,009	$ -	$ 30,274

The amount of total Operating Transfers In of $865,673,000 does not agree with total Operating Transfers Out of $876,832,000 for the fiscal year ended June 30, 1998. The following presents a reconciliation of operating transfers reported in the financial statements (expressed in thousands).

Operating Transfers In	$ 16,798
Operating Transfers In - From Component Units	34,866
Operating Transfers In - From Primary Government	814,009
Total Operating Transfers In Per Financial Statements	865,673
Financial Statement Account Presentation Differences:	
Governmental Component Unit	3,613
Higher Education Component Units	11,955
Proprietary Component Units	21
Timing Differences, Fiscal Year Ending December 31, 1997:	
Proprietary Component Units	1,207
Total Operating Transfers In	$ 882,469
Operating Transfers Out	$ 13,038
Operating Transfers Out - To Component Units	833,520
Operating Transfers Out - To Primary Government	30,274
Total Operating Transfers Out Per Financial Statements	876,832
Financial Statement Account Presentation Differences:	
Higher Education Component Units	2,123
Proprietary Component Units	287
Timing Differences, Fiscal Year Ending December 31, 1997:	
Governmental Component Unit	2,020
Proprietary Component Units	1,207
Total Operating Transfers Out	$ 882,469

Note 6. Fixed Assets

Fixed Assets by category, as of June 30, 1998 (December 31, 1997, or September 30, 1997, for those entities/funds identified in Item B of Note 1) are summarized below (expressed in thousands).

	Primary Government		Component Units		
	Pension Trusts	General Fixed Assets	Proprietary	Higher Education	Total
Land	$ -	$ 57,495	$ 1,042,110	$ 106,544	$ 1,206,149
Buildings and Other Improvements	-	611,216	1,281,541	1,339,346	3,232,103
Machinery and Equipment	2,731	233,570	179,720	730,030	1,146,051
Construction in Progress	-	64,786	16,987	178,179	259,952
Total	2,731	967,067	2,520,358	2,354,099	5,844,255
Less: Accumulated Depreciation	1,716	-	1,173,600	374,969	1,550,285
Total	$ 1,015	$ 967,067	$ 1,346,758	$ 1,979,130	$ 4,293,970

Changes in general fixed assets for the year ended June 30, 1998, were as follows (expressed in thousands).

	Balance July 1, 1997	Additions	Deletions/ Net Transfers	Balance June 30, 1998
Land	$ 56,612	$ 883	$ -	$ 57,495
Buildings and Other Improvements	590,338	15,198	(5,680)	611,216
Machinery and Equipment	221,571	19,863	7,864	233,570
Construction in Progress	50,707	24,705	10,626	64,786
Total	$ 919,228	$ 60,649	$ 12,810	$ 967,067

Schedule of General Fixed Assets by Function for fiscal year ended June 30, 1998 (expressed in thousands).

	Land	Buildings and Other Improvements	Machinery and Equipment	Construction in Progress	Total
Function					
Education	$ 3,807	$ 10,115	$ 24,878	$ 2,941	$ 41,741
General Government	1,819	102,609	53,792	11,655	169,875
Health Services	592	70,910	12,355	-	83,857
Legal and Judiciary	-	-	4,140	-	4,140
Museums	1,460	5,855	310	1,360	8,985
Natural Resources	40,014	42,413	20,041	4,236	106,704
Public Safety and Defense	7,527	261,131	28,882	11,939	309,479
Regulatory Services	-	41	2,996	-	3,037
Social Services	745	101,972	15,866	32,562	151,145
Transportation	1,531	16,170	70,310	93	88,104
Total	$ 57,495	$ 611,216	$ 233,570	$ 64,786	$ 967,067

Schedule of changes in General Fixed Assets by Function for fiscal year ended June 30, 1998 (expressed in thousands).

	Balance July 1, 1997	Additions	Deletions/ Net Transfers	Balance June 30, 1998
Function				
Education	$ 40,345	$ 3,569	$ 2,173	$ 41,741
General Government	156,503	15,426	2,054	169,875
Health Services	84,386	1,473	2,002	83,857
Legal and Judiciary	2,981	1,275	116	4,140
Museums	8,026	959	-	8,985
Natural Resources	91,261	17,456	2,013	106,704
Public Safety and Defense	306,031	3,612	164	309,479
Regulatory Services	2,803	342	108	3,037
Social Services	143,773	9,545	2,173	151,145
Transportation	83,119	6,992	2,007	88,104
Total	$ 919,228	$ 60,649	$ 12,810	$ 967,067

Note 7. Risk Management and Insurance

It is the policy of the State to cover the risk of losses to which it may be exposed through risk management activities. In general, the State is self-insured for health care claims (except for employee participation in certain health maintenance organizations), workers' compensation, second injury workers' compensation, tort liability (except for excess coverage for certain losses in excess of $1,000,000), vehicle liability, and property losses (except for excess coverage for certain losses in excess of $250,000, or $750,000 for certain agencies). The property loss excess coverage is limited to a maximum loss of $1,000,000,000.

Coverage for health care claims and workers' compensation is provided by two separate proprietary component units. The State and Education Employees' Group Insurance Board provides group health, life, dental and disability benefits to the State's employees and certain other eligible participants. The State Insurance Fund (SIF) provides workers' compensation coverage for the State's employees (and private and local government employees).

The SIF administers claim payments and provides excess-of-loss reinsurance to certain governmental entities that are self-insured. The premiums and fees received in connection with these transactions are included in sales revenue and were approximately $5,344,000 in 1997. The liability for claims in excess of the self-insured entities' respective retention limits included in unpaid losses and loss adjustment expenses was approximately $32,171,000 at December 31, 1997.

The SIF limits the maximum net loss that can arise from risks by entering into reinsurance agreements to assign risk to other insurers on a catastrophe basis. Premiums paid for this reinsurance were approximately $50,000 in 1997. No losses have been ceded under these agreements. Reinsurance receivables with a single reinsurer of $1,302,000 at December 31, 1997, have been recorded in anticipation of estimated amounts to be recovered from reinsurers in future years for losses ceded pursuant to certain prior year reinsurance agreements. These agreements do not relieve SIF from its obligation to policyholders. Failure of reinsurers to honor their obligations could result in losses to SIF. Management believes that all reinsurers presently used are financially sound and will be able to meet their contractual obligations.

Coverage for second injury workers' compensation is provided by a discretely presented governmental component unit. The Special Indemnity Fund (SPIF) was created to encourage the hiring of individuals with a pre-existing disability and to protect those employers from liability for the pre-existing disability. SPIF records a liability for outstanding court awards only as those amounts are awarded by the Workers' Compensation Court for both permanent partial and permanent total disability awards. There is no provision for incurred but not reported claims or claims pending Court determination. Claims and Judgments which were due and owing at December 31, 1997, have been charged to operations for the year ended December 31, 1997. At year end, the SPIF loss liability exceeded expendable available financial resources; however, because these are adjudicated claims, the full amount of adjudicated claims is presented as a current liability in the component unit column. In addition to awards currently due and owing, SPIF has a noncurrent liability for court awarded future payments payable after December 31, in the amount of $151,321,000 as reported in the General Long-Term Debt Accounts of the discretely presented component unit's separately issued financial statements.

The remaining risk management activities of the State are included in the State's General Fund. The Risk Management Division of the Department of Central Services is responsible for administering the State's tort liability, vehicle liability, property loss, and other types of risk coverage. Also, the Division is responsible for the acquisition and administration of all insurance policies purchased by the State and administration of any self-insurance plans and programs adopted for use by the State (and for certain organizations and bodies outside of state government).

Except for SPIF, estimates relating to incurred but not reported claims, as well as other probable and estimable losses have been included in accrued liabilities for each fund. Because actual claims liabilities are impacted by complex factors including inflation, changes in legal doctrines, and unanticipated damage awards, the process used in computing claims liabilities does not necessarily result in exact amounts. Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, and other economic and social factors.

The General Fund self-insurance loss liability for the Risk Management Division of the Department of Central Services represents an estimate of amounts to be paid from currently expendable available financial resources.

The following table presents the changes in claims liability balances (both current and noncurrent) during the current fiscal year ended June 30, 1998 (December 31, 1997, for Special Indemnity Fund and State Insurance Fund) and the prior fiscal year, (expressed in thousands).

	Beginning Balance	Plus: Current Year Claims and Changes in Estimates	Less: Claim Payments	Ending Balance	Noncurrent Liability	Current Liability
Current Fiscal Year						
General Fund *- Risk Management Division	$ 6,967	$ 2,610	$ (4,205)	$ 5,372	$ -	$ 5,372
Governmental Component Unit: Special Indemnity Fund	$ 162,978	$ 27,047	$ (18,374)	$ 171,651	$ 151,321	$ 20,330
Proprietary Component Units: State Insurance Fund	$ 591,984	$ 124,329	$ (198,004)	$ 518,309	$ -	$ 518,309
State and Education Employees Group Insurance Board	95,605	311,010	(346,200)	60,415	-	60,415
Total Proprietary Component Units	$ 687,589	$ 435,339	$ (544,204)	$ 578,724	$ -	$ 578,724

* As discussed in Note 23. Litigation and Contingencies, general fund claims and judgments includes $16,292,000 accrued for the payment of litigation losses.

	Beginning Balance	Plus: Current Year Claims and Changes in Estimates	Less: Claim Payments	Ending Balance	Noncurrent Liability	Current Liability
Prior Fiscal Year						
General Fund - Risk Management Division	$ 7,575	$ 3,008	$ (3,616)	$ 6,967	$ 1,309	$ 5,658
Governmental Component Unit: Special Indemnity Fund	$ 146,091	$ 36,559	$ (19,672)	$ 162,978	$ 143,357	$ 19,621
Proprietary Component Units: State Insurance Fund	$ 653,739	$ 154,915	$ (216,670)	$ 591,984	$ -	$ 591,984
State and Education Employees Group Insurance Board	61,605	297,500	(263,500)	95,605	-	95,605
Total Proprietary Component Units	$ 715,344	$ 452,415	$ (480,170)	$ 687,589	$ -	$ 687,589

Public Entity Risk Pool - State and Education Employees' Group Insurance Board

The State operates the Oklahoma State and Education Employees' Group Insurance Board (Plan), a Public Entity Risk Pool.

A. Description of Plan

The Plan provides group health, dental, life, and disability benefits to active State employees and local government employees, as well as varying coverages for active education employees and certain participants of the State's retirement systems, survivors, and persons covered by COBRA. Disability coverage is available only to active State employees and local government employees. The Plan is self-insured and provides participants with the option of electing coverage from certain health maintenance organizations (HMOs). Premium rates for the various groups are separately established.

The coverages are funded by monthly premiums paid by individuals, the State, local governments, educational employers, and retirement systems. A participant may extend coverage to dependents for an additional monthly premium based on the coverage requested. Of the 148,000 primary participants and dependents, approximately 18,000 primary participants and 15,000 dependents were covered by HMOs. These counts relate to health coverage only.

All state agencies are required to participate in the Plan. Eligible local governments may elect to participate in the Plan (246 local governments actually participate). Education entities may participate if a minimum of 50% of their eligible employees elect to join the Plan. Any education entity or local government which elects to withdraw from the Plan may do so with 30 days written notice.

A summary of available coverages and eligible groups, along with the number of health care participants follows.

	State Employee	Local Government Employee	Education Employee	Teachers' Retirement System	Other Retirement Systems	Survivors	COBRA
Health	X	X	X	X	X	X	X
Dental	X	X	X	X	X	X	X
Life	X	X	X		X		
Disability	X	X					
Medicare Supplement				X	X	X	
Health Care Participants:							
Primary	20,000	7,000	30,000	------------------------------------ 36,000 ------------------------------------			
Dependents	---------- 55,000 ----------						

B. Unpaid Claims Liabilities

The Plan establishes policy and contract claim reserves based on the estimated ultimate cost of settling claims that have been reported but not settled, and of claims that have been incurred but not yet reported. Disability reserves are also established based on the estimated ultimate cost of settling claims of participants currently receiving benefits and for disability claims incurred but not yet reported to the Plan.

The reserves are determined using the Plan's historical benefit payment experience. The length of time for which costs must be estimated depends on the coverages involved. Although such estimates are the Plan's best estimates of the incurred claims to be paid, due to the complex nature of the factors involved in the calculation, the actual results may be more or less than the estimate. The claim liabilities are recomputed on a periodic basis using actuarial and statistical techniques which consider the effects of general economic conditions, such as inflation, and other factors of past experience, such as changes in participant counts. Adjustments to claim liabilities are recorded in the periods in which they are made.

Premium deficiency reserves are required to be recorded when the anticipated costs of settling claims for the following fiscal year are in excess of the anticipated premium receipts for the following year. Anticipated investment income is considered in determining whether a premium deficiency exists.

C. Reconciliation of Claims Liabilities

The schedule below presents the changes in policy and contract claim reserves and disability reserves for the past two years for the three types of coverages: health and dental, life, and disability (expressed in thousands).

	Health and Dental		Life		Disability	
	1998	1997	1998	1997	1998	1997
Reserves at beginning of year	$ 43,896	$ 32,594	$ 1,269	$ 1,335	$ 11,610	$ 14,031
Incurred claims:						
Provision for insured events of current year	307,079	263,250	8,500	8,794	2,067	3,750
Changes in provisions for insured events of prior years	(5,450)	(159)	(329)	(236)	(857)	(3,084)
	301,629	263,091	8,171	8,558	1,210	666
Payments:						
Claims attributable to insured events of current year	258,971	219,930	7,209	7,525	283	574
Claims attributable to insured events of prior years	37,837	31,859	940	1,099	2,130	2,513
	296,808	251,789	8,149	8,624	2,413	3,087
Reserves at end of year	$ 48,717	$ 43,896	$ 1,291	$ 1,269	$ 10,407	$ 11,610

D. Revenue and Claims Development Information

The separately issued audited financial statements for the Plan include Required Supplementary Information regarding revenue and claims development.

Note 8. Operating Lease Commitments

The State has commitments with non-state entities to lease certain buildings and equipment. Future minimum rental commitments for equipment operating leases as of June 30, 1998, follows (expressed in thousands).

			Component Units	
	Primary Government	Proprietary	Higher Education
1999	$ 732	$ 466	$ 1,266
2000	493	389	1,272
2001	394	319	1,296
2002	165	301	74
2003	36	270	-
Later Years	-	266	-
Total Future Minimum Lease Payments	$ 1,820	$ 2,011	$ 3,908
Operating lease commitments for building rental for year ended June 30, 1999	$ 13,640	$ 727	$ 918
Rent expenditures/expenses for operating leases for year ended June 30, 1998	$ 15,375	$ 1,245	$ 5,555

Note 9. Lessor Agreements

Direct Financing Leases

The **Department of Transportation** (Primary Government) maintains leases classified as direct financing leases. The State leases heavy equipment and machinery to counties within the State. No interest or executory costs are charged, and lease terms are determined by the depreciation schedules published by the American Association of State Highway Transportation Officials. Title to this equipment passes to the counties at the end of the lease term. The Department of Transportation also leases railroad lines within the State to the AT&L Railroad Company and the Oklahoma, Kansas, and Texas Railroad Company with lease terms ending in 2014 and 2011, respectively. No interest or executory costs are charged, and the leases include bargain purchase options. The unguaranteed residual values of the machinery and equipment, and railroad lines are not estimated by the State. Contingent rentals are not a part of any lease and uncollectible amounts are not expected. The total minimum lease payments to be received in future years is approximately $38,300,000, which is also the net investment in direct financing leases at June 30, 1998.

The **Oklahoma Environmental Finance Authority** leases facilities necessary for the abatement, control and reduction of pollution to industrial and commercial entities and the **Oklahoma Municipal Power Authority** leases an electrical substation to one of its member municipalities. These leases are accounted for as direct financing leases. The following schedule lists the net investment in direct financing leases as of June 30, 1998 (expressed in thousands).

Total minimum lease payments to be received - Gross investment in financing leases	$ 50,988
Less: Cost of investments and unearned income	12,730
Net investment in direct financing leases	$ 38,258

At June 30, 1998, minimum lease payments receivable for the State as a whole for each of the five succeeding fiscal years follows (expressed in thousands).

	1999	2000	2001	2002	2003
Primary Government	$ 5,420	$ 4,742	$ 4,190	$ 3,422	$ 2,972
Proprietary Component Units:					
Municipal Power Authority	$ 112	$ 112	$ 112	$ 112	$ 112
Environmental Finance Authority	5,106	2,047	2,047	2,047	4,959
Total	$ 5,218	$ 2,159	$ 2,159	$ 2,159	$ 5,071

Operating Leases

The Primary Government has operating leases maintained by various state agencies consisting primarily of state owned building space leased to non-state entities. The following schedule presents minimum future rentals receivable from these operating leases (expressed in thousands).

1999	2000	2001	2002	2003	Total
$ 327	$ 64	$ 36	$ 21	$ 16	$ 464

The **Oklahoma Turnpike Authority** has various noncancelable contracts with concessionaires to provide patron services on the Oklahoma Turnpike System. The contracts are generally for five year terms, with two five-year renewal options. The Authority receives concession revenue that includes minimum rentals plus contingent rentals based on sales volume. The Authority also leases antenna space under noncancelable contracts with a 20 year term. The following schedule presents minimum future rentals receivable from these contracts (expressed in thousands).

1999	2000	2001	2002	2003	Total
$ 194	$ 191	$ 191	$ 191	$ 183	$ 950

In addition, the leasing operations of the **Commissioners of the Land Office** consist of leasing approximately 800,000 acres of land principally for agricultural purposes. The lease terms are principally for five-year periods with one-fifth of the leases expiring each year. The lease year is on a calendar year basis with rents prepaid one year in advance. The rental amount is determined based on the maximum amount bid by the lessee. The following schedule presents minimum future rentals receivable from the leasing of these lands (expressed in thousands).

1999	2000	2001	2002	2003	Total
$ 4,075	$ 7,321	$ 5,711	$ 4,152	$ 2,496	$ 23,755

Note 10. Long-Term Obligations - Primary Government, Governmental Funds

Long-term obligations at June 30, 1998, and changes for the fiscal year then ended are as follows (expressed in thousands).

	Issue Dates	Interest Rates	Maturity Through	Beginning Balance	Additions	Reductions	Ending Balance
General Long-Term Debt Account Group							
General Obligation Bonds Payable from Tax Revenue:							
Institutional Bldg 1992A	1993	4.25-5.20%	2018	$ 236,950	$ -	$ 4,690	$ 232,260
Institutional Bldg 1992B	1993	4.15-6.60%	2013	89,590	-	3,755	85,835
Total				326,540	-	8,445	318,095
Revenue Bonds Payable from Lease Rentals:							
OCIA Series A of 1986	1986	6.50%	2007	3,414	-	262	3,152
OCIA Series A of 1988	1988	7.00%	1998	528	-	348	180
OCIA Series A of 1994	1994	3.00-4.65%	2003	5,760	-	865	4,895
OCIA Series B of 1994	1994	4.85-7.15%	2010	15,960	-	830	15,130
OCIA Series B of 1995	1995	3.60-5.30%	2016	32,020	-	1,605	30,415
OCIA Series B of 1996	1996	3.75-5.50%	2021	3,335	-	60	3,275
OCIA 1998	1998	3.90-5.00%	2018	-	19,960	-	19,960
Tourism 1990	1990	5.95%	2000	2,245	-	545	1,700
Tourism 1994	1994	5.30-7.20%	2012	5,250	-	90	5,160
DHS-Tulsa Co. 1990 (ODFA)	1990	6.15-7.00%	2000	910	-	205	705
Total				69,422	19,960	4,810	84,572
Note Payable				36,891	-	109	36,782
Certificates of Participation				11,466	-	3,150	8,316
Capital Leases				7,002	3,503	1,911	8,594
Compensated Absences				99,650	2,814	-	102,464
Pension Obligation				2,385	-	192	2,193
Other Claims and Judgments				1,309	-	1,309	-
Total General Long-Term Debt Account Group				$ 554,665	$ 26,277	$ 19,926	$ 561,016

Reduction of debt includes deletions of capital leases ($183) and decreases in pension obligations and other claims and judgments which are not actual cash expenditures.

A. General Obligation Bonds

General obligation bonds, administered by the State Treasurer, are authorized and issued primarily to provide resources for State-owned capital improvements, including office buildings for state agencies. The State has pledged 100% of cigarette taxes collected under these bond issues. General obligation bonds are backed by the full faith and credit of the State, including the State's power to levy additional taxes to ensure repayment of the bonds.

The Tax Reform Act of 1986 imposed additional restrictive regulations, reporting requirements and arbitrage rebate liability on issuers of tax-exempt debt. The State’s cumulative arbitrage rebate liability on general obligation bonds for the year ended June 30, 1998, is approximately $99,300.

B. Revenue Bonds

The **Oklahoma Capitol Improvement Authority** (OCIA) has seven outstanding series of building bonds to construct and equip state office buildings. Principal and interest payments on these bond issues are paid from rents collected from the various state and federal agencies that occupy the office buildings constructed with the bond proceeds.

The following table presents annual debt service requirements for those long-term debts outstanding at June 30, 1998 that have scheduled debt service amounts (expressed in thousands).

	1999	2000	2001	2002	2003	Maturity	Total
General Long-Term Debt Account Group							
General Obligation Bonds:							
Institutional Bldg 1992A	$ 16,341	$ 16,358	$ 16,385	$ 16,420	$ 16,460	$ 313,402	$ 395,366
Institutional Bldg 1992B	7,993	7,937	7,922	7,895	7,871	84,047	123,665
	24,334	24,295	24,307	24,315	24,331	397,449	519,031
Interest	15,529	15,105	14,707	14,285	13,836	127,474	200,936
Total	8,805	9,190	9,600	10,030	10,495	269,975	318,095
Revenue Bonds:							
OCIA Series A of 1986	477	477	477	477	476	1,747	4,131
OCIA Series A of 1988	193	-	-	-	-	-	193
OCIA Series A of 1994	1,117	1,115	1,114	1,116	1,114	-	5,576
OCIA Series B of 1994	1,858	1,858	1,854	1,850	1,851	12,854	22,125
OCIA Series B of 1995	3,120	3,121	3,122	2,712	2,715	29,304	44,094
OCIA Series B of 1996	244	245	242	244	245	4,587	5,807
OCIA 1998	1,580	1,579	1,578	1,579	1,579	23,655	31,550
Tourism 1990	692	1,194	-	-	-	-	1,886
Tourism 1994	579	574	573	573	575	5,122	7,996
DHS-Tulsa Co. 1990 (ODFA)	261	261	259	-	-	-	781
	10,121	10,424	9,219	8,551	8,555	77,269	124,139
Interest	4,453	4,166	3,836	3,580	3,323	20,209	39,567
Total	5,668	6,258	5,383	4,971	5,232	57,060	84,572
Note Payable	923	923	923	923	923	46,496	51,111
Interest	681	671	661	651	640	11,025	14,329
Total	242	252	262	272	283	35,471	36,782
Certificates of Participation	3,175	1,382	723	774	832	1,430	8,316
Capital Leases	2,168	2,135	1,580	951	541	1,219	8,594
Total Debt Service	$ 19,816	$ 18,965	$ 17,286	$ 16,726	$ 17,100	$ 329,684	$ 456,359
Long-Term Debt without scheduled debt service:							
Compensated Absences							102,464
Pension Obligation							2,193
Total General Long-Term Debt Account Group							$ 561,016

The **Oklahoma Tourism and Recreation Department** has two revenue bond issues for the financing of capital projects of the Parks Division. The revenue generated by fees from the Parks Division is used to meet the bond obligations. Additional security is provided by a special "Bond Reserve Fund", which is maintained in the amount of $500,000 and $525,000 for the 1990 Series and 1994 Series, respectively.

The **Oklahoma Development Finance Authority** issued lease revenue bonds to provide lease financing for the Department of Human Services. The actual lease payments are made to a trustee who is responsible for payments to individual investors.

C. Note Payable

The **Oklahoma Water Resources Board** has a contractual agreement to repay the United States, through the Army Corps of Engineers, for the costs of constructing water supply storage at Sardis Reservoir in southeastern Oklahoma. Under the 1974 contract, annual payments over a period of 50 years are to be made for the reservoir construction, operation and maintenance allocated to the present use water supply storage. The water storage facility was completed in 1982 and annual payments began in 1983. For further discussion of this note payable, refer to Note 23. Litigation and Contingencies.

D. Certificates of Participation

The State has lease purchase agreements funded through certificates of participation. These leases are for the purchase of equipment and facilities. Third-party leasing companies assigned their interest in the lease to underwriters which issued certificates for the funding of these obligations. The certificates of participation represent an ownership interest of the certificate holder in a lease purchase agreement. While the State is liable for lease payments to the underwriters, the State is not liable for payments to holders of the certificates.

The following schedule presents, by fiscal year, future minimum lease payments in the General Long Term Debt Account Group, as of June 30, 1998 (expressed in thousands).

	1999	2000	2001	2002	2003	Maturity	Total
	$ 3,663	$ 1,689	$ 964	$ 964	$ 964	$ 1,519	$ 9,763
Less: Interest							1,447
Present Value of Minimum Lease Payments							$ 8,316

Leased buildings and equipment financed by certificates of participation in the general fixed asset account group at June 30, 1998, include the following (expressed in thousands).

Equipment	$ 20,725
Buildings	16,870
Total	$ 37,595

E. Capital Leases

The State has entered into agreements to lease various facilities and equipment. Such agreements are, in substance, purchases (capital leases) and are reported as capital lease obligations. Capital lease obligations are reported for those leases with annual payments equal to $10,000 or more.

The following schedule presents, by fiscal year, future minimum lease payments in the General Long-Term Debt Account Group, as of June 30, 1998 (expressed in thousands).

	1999	2000	2001	2002	2003	Maturity	Total
	$ 2,981	$ 2,764	$ 1,966	$ 1,173	$ 638	$ 1,420	$ 10,942
Less: Executory costs included in minimum lease payments							870
Net Minimum Lease Payments							10,072
Less: Interest							1,478
Present Value of Minimum Lease Payments							$ 8,594

Leased buildings and equipment under capital leases in the general fixed asset account group at June 30, 1998, include the following (expressed in thousands).

Equipment	$ 9,928
Buildings	3,756
Total	$ 13,684

F. Other Claims and Judgments

Included in other claims and judgments are Risk Management liabilities that will not be paid with currently expendable available financial resources.

G. Authorized Unissued Bonds

The State has authorized the Department of Corrections to issue bonds in the amount of $1,500,000. Oklahoma Capital Improvement Authority has been authorized to issue bonds in the amount of $315,000,000 for construction and acquisition of property and $297,960,000 for the benefit of the Department of Transportation.

Note 11. Long-Term Obligations - Primary Government, Proprietary Fund

The **Oklahoma Water Resources Board** (the Board) has issued six series of revenue bonds and five series of notes payable. These bonds and notes payable provide resources to implement its statewide financial assistance programs. These programs make loans to local government units for the acquisition, development, and utilization of storage and control facilities for water and sewage systems.

Bonds payable at June 30, 1998, and changes for the fiscal year then ended are as follows (expressed in thousands).

	Issue Dates	Interest Rates	Maturity Through	Authorized Unissued	Beginning Balance	Additions	Reductions	Ending Balance
Revenue Bonds Payable from User Fees:								
1989-1997 Issues	1989-1997	3.55-6.70%	2018-2026	$ -	$ 176,455	$ 50,000	$ 4,670	$ 221,785
Less: Bond Discounts				-	696	123	33	786
Total Bonds Payable Net of Discounts				$ -	$ 175,759	$ 49,877	$ 4,637	$ 220,999

The following table presents estimated annual debt service requirements for bonds payable outstanding at June 30, 1998, (expressed in thousands).

	1999	2000	2001	2002	2003	Maturity	Total
Revenue Bonds Payable:							
1989-1997 Issues Principal and Interest	$ 26,447	$ 16,550	$ 16,434	$ 16,488	$ 16,422	$ 229,362	$ 321,703
Less: Interest	8,712	8,335	7,999	7,643	7,272	59,957	99,918
Total Principal	$ 17,735	$ 8,215	$ 8,435	$ 8,845	$ 9,150	$ 169,405	$ 221,785

Notes payable at June 30, 1998, and changes for the fiscal year then ended are as follows (expressed in thousands).

	Issue Dates	Interest Rates	Maturity Through	Original Amount	Beginning Balance	Additions	Reductions	Ending Balance
Loan Programs	1996-1998	4.00-6.65%	2000	$ 8,525	$ 6,325	$ 2,200	$ 5,185	$ 3,340
Less: Note Discounts					15	-	7	8
Total Notes Payable Net of Discounts					$ 6,310	$ 2,200	$ 5,178	$ 3,332

The following table presents estimated annual debt service requirements for notes payable outstanding at June 30, 1998, (expressed in thousands).

	1999	2000	2001	2002	2003	Maturity	Total
Loan Programs Principal and Interest	$ 2,406	$ 1,192	$ -	$ -	$ -	$ -	$ 3,598
Less: Interest	196	62	-	-	-	-	258
Total Principal	$ 2,210	$ 1,130	$ -	$ -	$ -	$ -	$ 3,340

The Tax Reform Act of 1986 imposed additional restrictive regulations, reporting requirements and arbitrage rebate liability on issuers of tax-exempt debt. The Board's cumulative arbitrage rebate liability for the year ended June 30, 1998, is approximately $2,468,000 and is recorded as other liabilities.

Note 12. Long-Term Obligations – Component Unit, Governmental Fund

The **Special Indemnity Fund** (SPIF) is indebted to claimants for court awarded judgments. Only those judgments currently payable in arrears bear interest. Included in Long-Term Obligations are permanent total and permanent partial awards payable after December 31, 1997.

Awards payable at December 31, 1997, and changes for the fiscal year then ended are as follows (expressed in thousands).

	Beginning Balance	Additions	Reductions	Ending Balance
Claims and Judgments	$ 143,357	$ 7,964	$ -	$ 151,321

The principal allocated by year cannot be determined as amounts paid are contingent on amounts collected from funding sources.

Note 13. Long-Term Obligations - Component Units, Proprietary Funds

Bonds payable at June 30, 1998, and changes for the fiscal year then ended are as follows (expressed in thousands).

	Issue Dates	Interest Rates	Maturity Through	Authorized Unissued	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Bonds Payable from User Fees:								
Industrial Finance Authority	1961-1998	3.75-10.00%	2022	$ 21,284	$ 62,073	$ 7,150	$ 400	$ 68,823
Revenue Bonds Payable from User Fees:								
Student Loan Authority	1992-1997	3.65-6.70%	2026	-	147,405	-	5,735	141,670
Development Finance Auth.	1996	5.93-6.16%	2006	-	9,999	-	-	9,999
Environmental Finance Auth.	1973-1977	5.60-5.90%	2007	-	43,345	-	5,670	37,675
Housing Finance Agency	1980-1997	3.80-10.43%	2029	-	513,779	53,680	51,704	515,755
Turnpike Authority	1989-1992	3.15-7.88%	2022	-	665,358	-	11,727	653,631
Grand River Dam Authority	1987-1995	4.00-8.00%	2013	-	1,036,375	-	38,895	997,480
Municipal Power Authority	1990-1994	2.75-6.75%	2028	-	390,430	-	4,465	385,965
Total Before Discounts/Deferrals				21,284	2,868,764	60,830	118,596	2,810,998
Less: Bond Discounts				-	52,407	-	3,815	48,592
Net Deferred Debits on Refundings				-	119,122	-	13,206	105,916
Total Bonds Payable Net of Discounts/Deferrals				$ 21,284	$ 2,697,235	$ 60,830	$ 101,575	$ 2,656,490

The following table presents annual principal and interest payments (principal payments only for the revenue bonds of Oklahoma Housing Finance Agency) for bonds payable outstanding at June 30, 1998, (September 30, 1997, for Oklahoma Housing Finance Agency and December 31, 1997, for Oklahoma Turnpike Authority, and Grand River Dam Authority) (expressed in thousands).

	1999	2000	2001	2002	2003	Maturity	Total
General Obligation Bonds:							
Industrial Finance Authority	$ 4,521	$ 4,544	$ 4,536	$ 4,639	$ 4,659	$ 117,237	$ 140,136
Revenue Bonds:							
Student Loan Authority	10,845	9,880	9,155	8,615	8,010	206,555	253,060
Development Finance Auth.	616	616	616	616	616	11,850	14,930
Environmental Finance Auth.	5,189	2,047	2,047	2,047	5,048	38,043	54,421
Turnpike Authority	51,648	51,649	51,653	51,653	51,652	1,025,590	1,283,845
Grand River Dam Authority	95,621	95,611	95,552	95,739	95,718	995,580	1,473,821
Municipal Power Authority	28,313	28,284	28,269	28,249	28,237	585,929	727,281
Total Principal and Interest	196,753	192,631	191,828	191,558	193,940	2,980,784	3,947,494
Less: Interest	127,307	123,835	120,250	116,732	112,420	1,051,707	1,652,251
Subtotal: Principal	69,446	68,796	71,578	74,826	81,520	1,929,077	2,295,243
Housing Finance Agency	17,200	7,833	6,705	6,383	6,383	471,251	515,755
Total Principal	$ 86,646	$ 76,629	$ 78,283	$ 81,209	$ 87,903	$ 2,400,328	$ 2,810,998

A. General Obligation Bonds

Oklahoma Industrial Finance Authority (OIFA) has issued nine series of general obligation bonds. These bonds are issued for the funding of industrial finance loans to encourage business development within the State. All revenues arising from the net proceeds from repayment of industrial finance loans and interest received thereon are pledged under these bond issues. In addition, these general obligation bonds are backed by the full faith and credit of the State.

B. Revenue Bonds

The **Oklahoma Student Loan Authority** (SLA) has issued ten series of revenue bonds. The bonds are issued for the purpose of funding student loans. All bonds payable are primarily secured by the student loans receivable, related accrued interest and by the amounts on deposit in the accounts established under the respective bond resolution.

The **Oklahoma Development Finance Authority** (ODFA) has issued a revenue bond to fund loans to various investment enterprises in connection with the Quality Jobs Investment Program. The bond is payable solely from and secured by the revenues and funds in the Quality Jobs Investment Program and a Credit Enhancement Reserve Fund guarantee insurance policy.

The **Oklahoma Housing Finance Agency** (OHFA) has issued 40 series of revenue bonds with an original issue amount of $946,904,000. The net proceeds of these bonds are used to provide financing for qualifying residences, provide interim and permanent financing for multifamily construction projects, and establish debt-service reserves as required by the various trust indentures.

The **Oklahoma Turnpike Authority** (OTA) has issued five series of revenue bonds with an original issue amount of $1,217,524,000. The bonds are issued for the purpose of financing capital improvements and new projects relating to the State's turnpike system and are financed primarily by tolls assessed on users of the turnpikes.

The Tax Reform Act of 1986 imposed additional restrictive regulations, reporting requirements and arbitrage rebate liability on issuers of tax-exempt debt. OTA's cumulative arbitrage rebate liability for the year ended December 31, 1997, is approximately $1,768,000.

The **Grand River Dam Authority** (GRDA) has issued three series of revenue bonds with an original issue amount of $2,091,030,000. The bonds were issued to advance refund all of GRDA's previously issued acquisition and construction indebtedness.

The **Oklahoma Municipal Power Authority** (OMPA) has issued five series of revenue bonds. The bonds are issued to finance portions of OMPA's acquisition and construction activities. The bonds are payable from and collateralized by a pledge of and security interest in the proceeds of the sale of the bonds, the revenues of OMPA, and assets in the funds established by the respective bond resolutions. Neither the State of Oklahoma nor any political subdivision thereof is obligated to pay principal or interest on the bonds. OMPA does not have any taxing authority.

C. Defeased Bonds

In prior years, proprietary component units have defeased bonds by placing assets in irrevocable trusts to provide for all future debt service payments on the defeased bonds. Accordingly, the trusts' assets and the liability for the defeased bonds are not included in the accompanying financial statements. The following defeased bonds were outstanding at June 30, 1998 (December 31, 1997 for OTA, GRDA, and OMPA) (expressed in thousands).

General Obligation Bonds	Revenue Bonds		
OIFA	OTA	GRDA	OMPA
$ 13,625	$ 596,975	$ 108,657	$ 50,485

D. Notes Payable

Notes payable at June 30, 1998, and changes for the fiscal year then ended are as follows (expressed in thousands).

	Issue Dates	Interest Rates	Maturity Through	Original Amount	Beginning Balance	Additions	Reductions	Ending Balance
Student Loan Authority	1993, 1995	3.85-6.41%	2025	$ 78,600	$ 40,900	$ 3,310	$ 6,850	$ 37,360
Medical Technology and Research Authority	1995-1996	6.25-8.25%	2015	4,139	3,398	634	183	3,849
Total					$ 44,298	$ 3,944	$ 7,033	$ 41,209
Less: Current Portion								217
Total Noncurrent Notes Payable								$ 40,992

The following table presents annual debt service requirements for notes payable outstanding at June 30, 1998 (expressed in thousands).

	1999	2000	2001	2002	2003	Maturity	Total
Student Loan Authority	$ 1,670	$ 10,340	$ 1,110	$ 1,110	$ 1,110	$ 53,240	$ 68,580
Medical Technology and Research Auth.	476	476	476	476	476	3,222	5,602
Total Principal and Interest	2,146	10,816	1,586	1,586	1,586	56,462	74,182
Less: Interest	1,929	1,816	1,325	1,307	1,287	25,309	32,973
Total Principal	$ 217	$ 9,000	$ 261	$ 279	$ 299	$ 31,153	$ 41,209

Notes of the **Oklahoma Student Loan Authority** are issued to fund student loans and are primarily secured by the student loans receivable, related accrued interest and by the amounts on deposit in the accounts established under the respective financing agreements. Notes of the **Medical Technology and Research Authority** are issued for the purpose of financing the construction of facilities and equipment and are secured by a mortgage, security interest in properties, and revenues.

E. Capital Leases

The State's proprietary component units have entered into agreements to lease various facilities and equipment. Such agreements are, in substance, purchases (capital leases) and are reported as capital lease obligations. The following schedule presents, by fiscal year, future minimum lease payments in the proprietary component units as of their respective fiscal year ends (expressed in thousands).

	1999	2000	2001	2002	2003	Maturity	Total
	$ 1,336	$ -	$ -	$ -	$ -	$ -	$ 1,336
Less: Interest							-
Present Value of Minimum Lease Payments							$ 1,336

Capital lease obligations at the component units' respective year ends, and changes for the fiscal years then ended are as follows (expressed in thousands).

	Beginning Balance	Additions	Reductions	Ending Balance
Capital Lease Obligations	$ 5,757	$ -	$ 4,421	$ 1,336

The following is property under capital leases at the component units' respective fiscal year ends (expressed in thousands).

Facilities and Equipment	$ 10,314
Less: Accumulated Depreciation	9,724
Net	$ 590

Note 14. Long-Term Obligations - Component Unit, Higher Education Funds

Long-term obligations at June 30, 1998, and changes for the fiscal year then ended are as follows (expressed in thousands).

	Issue Dates	Interest Rates	Maturity Through	Authorized Unissued	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Bonds	1971-1996	0.05-10.00%	2006	-	$ 6,425	$ -	$ 1,685	$ 4,740
Revenue Bonds	1963-1998	3.00-12.00%	2028	-	165,067	24,450	15,073	174,444
Notes Payable					10,911	498	693	10,716

The following table presents annual principal and interest payments applicable to long-term debt outstanding at June 30, 1998 (expressed in thousands).

	1999	2000	2001	2002	2003	Maturity	Total
General Obligation Bonds	$ 1,887	$ 564	$ 545	$ 527	$ 507	$ 1,406	$ 5,436
Less: Interest	157	134	115	97	77	116	696
Total Principal	$ 1,730	$ 430	$ 430	$ 430	$ 430	$ 1,290	$ 4,740
Revenue Bonds	$ 16,920	$ 16,976	$ 16,708	$ 16,739	$ 17,279	$ 198,307	$ 282,929
Less: Interest	9,132	8,607	8,078	7,615	7,470	67,583	108,485
Total Principal	$ 7,788	$ 8,369	$ 8,630	$ 9,124	$ 9,809	$ 130,724	$ 174,444
Notes Payable	$ 1,552	$ 1,415	$ 938	$ 840	$ 836	$ 10,910	$ 16,491
Less: Interest	593	531	474	455	436	3,286	5,775
Total Principal	$ 959	$ 884	$ 464	$ 385	$ 400	$ 7,624	$ 10,716

A. General Obligation Bonds

Rose State College Technical Area Education District and Tulsa Community College Area School District #18 have authorized and issued three series of general obligation bonds with an original issue amount of $15,175,000. These bonds were issued for the financing of buildings, equipment, and related capital improvements. Ad valorem taxes levied upon taxable property within their respective specific areas have been pledged to retire these general obligation bonds.

B. Revenue Bonds

Seventeen of the State's colleges and universities have authorized and issued 40 series of revenue bonds with an original issue amount of $210,672,000. These bonds were issued for the construction of student housing and other facilities. Student fees, revenues produced by the facilities constructed, and other revenues collateralize the revenue bonds.

In March 1998, Langston University defeased all outstanding Series 1963 revenue bonds by placing funds in an escrow trust fund. At the time of defeasance, $379,000 of the Series 1963 bonds was outstanding. Interest totaling $45,000 will be due and payable over the remaining life of the bonds. The trust account and defeased bonds are not included in the accompanying financial statements.

Other colleges and universities have defeased revenue bonds in prior years by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the defeased bonds. Accordingly, the trusts' assets and the liability for the defeased bonds are not included in the accompanying financial statements. At June 30, 1998, $15,698,000 of bonds defeased in prior years were outstanding.

C. Notes Payable

Oklahoma State University and Carl Albert State College each entered into a note payable to fund the construction of facilities. Lease payments, a pledge of “Section Thirteen Fund State Educational Institutions” monies, and the facilities constructed secure the notes. The University of Oklahoma Health Sciences Center has also entered into a note payable to provide start up costs for the Sooner Care HMO which is operated by the Center. The revenues produced by Sooner Care HMO will be used to retire the note.

D. Capital Leases

The Higher Education Component Unit has entered into agreements to lease various facilities and equipment. Such agreements are reported as capital lease obligations.

The following presents, by fiscal year, future minimum lease payments in the Higher Education Component Unit as of June 30, 1998 (expressed in thousands).

	1999	2000	2001	2002	2003	Maturity	Total
	$ 3,635	$ 2,436	$ 2,380	$ 2,078	$ 2,046	$ 10,712	$ 23,287
Less: Interest							6,435
Present Value of Minimum Lease Payments							$ 16,852

Capital lease obligations at June 30, 1998, and changes for the fiscal year then ended are as follows (expressed in thousands).

	Beginning Balance	Additions	Reductions	Ending Balance
Capital Lease Obligations	$ 18,455	$ 1,543	$ 3,146	$ 16,852

Leased equipment under capital leases in investment in fixed assets at June 30, 1998, included the following (expressed in thousands).

Facilities and Equipment	$ 30,058
Less: Accumulated Depreciation	9,660
Net	$ 20,398

Note 15. Deferred Compensation Plan

The State offers its employees a Deferred Compensation Plan (Plan) as authorized by Section 457 of the Internal Revenue Code, as amended by the Tax Reform Act of 1986. The Plan is available to all State employees, as well as any elected officials receiving a salary from the State. Participants may defer until future years up to the lesser of 25% of their gross taxable income as defined by Plan documents or $8,000 per year, with a minimum contribution of $25 per month. Participants may direct the investment of their contributions in available investment options offered by the Plan. Participants are immediately 100% vested in their respective accounts. All interest, dividends and administrative fees are allocated to participants' accounts.

The Plan offers a catch-up program to participants, which allows them to defer up to $15,000 annually for the three years prior to their year of retirement. The additional contribution, in excess of the normal maximum contributions to the Plan, are also limited to contributions for the years in which the participant was eligible, but did not participate in the Plan or the difference between contributions made and the maximum allowable level. To be eligible for the catch-up program, the participant must be within three years of retirement with no reduced benefits.

Deferred compensation benefits are paid out to participants or beneficiaries upon termination, retirement, death, or unforeseeable emergency. Such benefits are based on a participant's account balance and are disbursed in a lump sum or periodic payments at the option of the participant or beneficiaries in accordance with Plan provisions.

Effective January 1, 1998, a Trust and Trust Fund covering the Plan assets was established pursuant to federal legislation enacted in 1996, requiring public employers to establish such trusts for plans meeting the requirements of Section 457 of the Internal Revenue Code no later than January 1, 1999. Under terms of the Trust, the corpus or income of the Trust Fund may be used only for the exclusive benefit of the Plan participants and their beneficiaries. Prior to the establishment of the Trust, Plan assets were subject to the claims of general creditors of the State and were reported as an asset and liability in an agency fund. The Board acts as trustee of the Trust. The participants' accounts are invested in accordance with the investment elections of the participants. The Board is accountable for all deferred compensation received but has no duty to require any compensation to be deferred or to determine that the amounts received comply with the plan or to determine that the Trust Fund is adequate to provide the benefits payable pursuant to the Plan. The new Trust Fund does not meet the criteria to be included as a part of the State's reporting entity.

Note 16. Beginning Fund Equity Adjustments

During fiscal 1998, the State implemented Governmental Accounting Standards Board Statement 31 (GASB 31), *Accounting and Financial Reporting for Certain Investments and for External Investment Pools.* Some higher education institutions and proprietary component units early implemented GASB 31 in fiscal 1997. Although the new statements made numerous changes, most significant was to record investments at fair value. As a result, investments were increased by approximately $106,200,000. GASB 31 also changed the reporting of external investment pools. As a result, the State is now reporting an Investment Trust Fund, which reports a fund balance for the net assets of the trust.

During fiscal 1998, the State implemented Governmental Accounting Standards Board Statement 32 (GASB 32), *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans.* Prior to implementation of GASB 32, amounts deferred were reported as assets of the state. Effective January 1, 1998, a trust and trust fund covering the plan assets was established pursuant to federal legislation (see Note 15).

During fiscal 1998, five universities included in the Higher Education Component Unit reevaluated the carrying value of their plant assets.

The following schedule reconciles June 30, 1997, fund equity as previously reported, to beginning fund equity, as restated, to include the adoption of new pronouncements and other changes (expressed in thousands).

	General	Capital Projects	Enterprise	Trust and Agency	Governmental Component Unit	Proprietary Component Units	Higher Education Component Unit
June 30, 1997, fund equity, as previously reported	$ 1,648,906	$ 34,351	$ 17,554	$ 12,090,024	$ (21,306)	$ 549,242	$ 2,277,431
Reclassifications:							
Water Resources Board	(60,614)	-	129,215	-	-	-	-
Investment Trust Fund	-	-	-	10,645	-	-	-
Prior period adjustments:							
To record implementation of GASB 27 and 31	(3,817)	-	-	63,299	-	303	46,447
Plant inventory adjustments	-	-	-	-	-	-	(645)
Other	(228)	-	-	-	-	-	73
June 30, 1997, fund equity, as restated	$ 1,584,247	$ 34,351	$ 146,769	$ 12,163,968	$ (21,306)	$ 549,545	$ 2,323,306

Note 17. Oklahoma Development Finance Authority

Nonrecourse (Conduit) Debt, Notes Receivable and Funds in Trust

Financing agreements of Oklahoma Development Finance Authority (ODFA) are structured such that the debt is to be repaid solely from the revenues derived from the related facilities leased or acquired, or from the disposition of collateral. ODFA holds notes receivable and trust investments in amounts equal to the long-term financings. As of June 30, 1998, there were 138 series of debt outstanding for non-state entities, with an aggregate principal amount payable of approximately $175,000,000. These financings are not the general obligations of ODFA or the state, and it is the opinion of ODFA's management and its legal counsel that, in the event of default by a borrower, ODFA has no responsibility for repayment of such financings. Accordingly, the nonrecourse debt and the related notes receivable and trust investments have been excluded from the financial statements.

Credit Enhancement Reserve Fund

Under the Constitution of the State of Oklahoma, ODFA may issue bonds of the State, to be known as Credit Enhancement Reserve Fund General Obligation Bonds, in a total principal amount of $100,000,000 for the sole purpose of generating resources if there are insufficient assets to meet insurance obligations. The Fund is managed, administered, and utilized by ODFA solely to secure the payment of interest insurance on the revenue bonds and other financial obligations issued by the Authority for the specific purpose of enhancing and supporting the credit of such obligations. As of June 30, 1998, there were approximately $18,600,000 of outstanding financial obligations insured by ODFA. Approximately $3,200,000 of these obligations were more than 90 days delinquent. At year end, the Fund has accrued a reserve for losses of approximately $3,200,000, to cover potential losses from outstanding financial obligations insured by the Fund and a reserve for payments in lieu of interest of approximately $160,000, for accrued interest on financial obligations insured by the Fund. Through June 30, 1998, there have been no Oklahoma Credit Enhancement Reserve Fund General Obligation Bonds issued since it is the intention of ODFA to utilize existing assets to meet obligations arising from losses reserved and accrued payments in lieu of interest by the Fund.

Note 18. Retirement and Pension Systems

A. General Description of the Retirement Systems

The State of Oklahoma has six Public Employee Retirement Systems (PERS) that administer pension plans: Oklahoma Firefighters Pension and Retirement System (OFPRS), Oklahoma Law Enforcement Retirement System (OLERS), Oklahoma Public Employees Retirement System (OPERS), Uniform Retirement System for Justices and Judges (URSJJ), Oklahoma Police Pension and Retirement System (OPPRS), and the Teachers' Retirement System of Oklahoma (TRS). The Department of Wildlife Conservation Commission administers the Wildlife Conservation Retirement Plan (WCRP). The Oklahoma Housing Finance Agency has a defined contribution retirement plan that is privately administered.

OFPRS, OPERS, OPPRS, AND TRS are cost-sharing multiple-employer defined benefit retirement systems. URSJJ, WCRP and OLERS are single-employer defined benefit retirement systems. Pension benefit provisions for all plans except WCRP were established by statute and benefit provisions are amended by the State Legislature. The WCRP was also established by statute; however, benefit provisions are established and amended by the Wildlife Conservation Commission. Each plan provides retirement, disability, and death benefits to plan members and their beneficiaries. Cost-of-living adjustments are provided to plan members and beneficiaries at the discretion of the State Legislature for the six PERS and at the discretion of the Wildlife Conservation Commission for the WCRP.

Separately issued independent audit reports for each pension plan may be obtained from the following:

Firefighters Pension and Retirement 4545 N. Lincoln Blvd., Suite 265 Oklahoma City, OK 73105-3414	Law Enforcement Retirement P.O. Box 11415 Oklahoma City, OK 73136	Police Pension and Retirement 1001 N.W. 63rd St., Suite 305 Oklahoma City, OK 73116-7335
Public Employees Retirement 6601 N. Broadway Ext., Suite 129 Oklahoma City, OK 73152-3007	Uniform Retirement System for Judges and Justices 2101 N. Lincoln Blvd. Oklahoma City, OK 73116	Teachers Retirement P.O. Box 53524 Oklahoma City, OK 73105-4209

The Wildlife Conservation Retirement Plan is included in the audit report of the Department of Wildlife Conservation. This report may be obtained from the Department of Wildlife Conservation, P.O. Box 53464, Oklahoma City, OK 73105.

Number of participating employers in cost-sharing multiple employer plans are as follows:

OFPRS	OPERS	OPPRS	TRS
473	127	112	633

The Teachers' Retirement System's unfunded liability increased from $4,712,000,000 to $4,806,000,000 during fiscal year 1998. The System's unfunded liabilities are expected to increase until the year 2016, due to the negative amortization created by the current funding schedule. Employee contributions are 7% of covered payroll, and employer contribution rates (currently 10.5%) will increase 1% per year until 2003, when the employer rate will reach 14.05% of active members' pay.

B. Funding Policy

The contribution requirements for the six PERS are an established rate determined by the Legislature each year and are not based on actuarial calculations. Effective July 1, 1997, the Uniform Retirement System for Judges and Justices Board has the ability to adjust contribution rates to prevent a funded ratio of less than 100%. The Wildlife Conservation Retirement Plan required contribution is determined by the Wildlife Conservation Commission and is based on actuarial calculations.

Oklahoma Firefighters Pension and Retirement System (OFPRS) receives contributions from participating full-time firefighters equal to 8% of applicable earnings, while member cities contribute 13% of the member's applicable earnings. In addition, the member cities contribute $60 for each volunteer firefighter unless their income in the general fund is less than $25,000, in which case they are exempt. The State allocates to OFPRS 34% of the insurance premium tax collected from insurance companies on various types of insurance policies as required by statute. Insurance premium contributions to the plan for the years ended June 30, 1998, 1997, and 1996 totaled $40,881,567, $39,045,428, and $36,793,282, respectively.

Oklahoma Law Enforcement Retirement System (OLERS) receives contributions from state agencies and members of 10% and 8%, respectively, of the actual paid base salary of each member. State employer contributions to the plan for the years ended June 30, 1998, 1997, and 1996 were $3,661,411, $3,601,498, and $3,548,000, respectively. These contributions represent 100% of the contribution required. OLERS also receives 1.2% of all fees, taxes, and penalties collected by motor license agents after approximately the first 5%, 50 cents per vehicle inspection sticker issued after the first 1,000,000 stickers and 5% of the insurance premium taxes collected from insurance companies on various types of insurance policies as required by statute. The state contributions to the plan for years ended June 30, 1998, 1997, and 1996 totaled $14,345,441, $13,297,927, and $12,447,899, respectively.

Oklahoma Public Employees Retirement System (OPERS) receives contributions from each member based on their gross salary earned (excluding overtime) up to the $80,000 annual salary cap for the fiscal year ended June 30, 1998. Beginning with fiscal year 1999, the salary cap will be removed.

State, County, and Local Agency Employees - The contribution rates in effect for state employees and agencies are summarized as follows:

	State Employees		State Agencies
Year ended June 30	First $25,000	Above $25,000 To Cap	To Cap
1998	3.00%	3.50%	12.50%

Percentages as set forth in the following table apply to participating county and local agencies:

Year ended June 30	First $25,000 Maximum Employee	Employer	Total	To Cap Employee	Employer
1998	8.00%	12.50%	15.50%	3.50%	12.50%

Effective July 1, 1998, state agency employees will contribute 3% on salary up to $25,000 and 3.5% on amounts over $25,000. State agency employers will contribute 12.5% on all salary. Participating county and local agencies will contribute a total of 16% on all salary, with a minimum employee contribution rate of 3.5% and a maximum of 8.5% and a minimum employer contribution of 7.5% and a maximum of 12.5%.

Elected Officials **-** Elected officials' employee contributions are based on the maximum compensation levels set for all members and, the participating employers are required to contribute on the elected officials' covered salary using the same percentage and limits as applicable for state agencies. Elected officials must select an employee contribution rate of 4.5%, 6.0%, 7.5%, 8.5%, 9.0%, or 10.0%.

Eligible Officers **-** Eligible officers contribute 6.5% on the first $25,000 of earned compensation and 8.0% for salaries over $25,000 up to the applicable salary cap. Employer contributions are made on the same basis as for state agencies. Effective July 1, 1998, eligible officers will contribute 8% and their employer agency will contribute 12.5% on all salary.

State agency employer contributions to OPERS for the year ended June 30, 1998, 1997, and 1996 were $123,943,769, $118,336,820, and $107,381,215, respectively. These contributions represent 100% of the contribution required.

As a result of legislation passed during the 1998 legislative session, several changes were made to the OPERS plan. These changes included, simplifying the calculation of benefits, providing for a refund of optional after-tax contributions made by members from 1987 to 1994, and providing a cost of living increase of 2.5% to 25% to retirees.

Uniform Retirement System for Justices and Judges (URSJJ) member contributions for fiscal 1998 was 5% of members' monthly salary. If a member elects to extend the provisions of URSJJ to a surviving spouse, contributions are 8% of a member's monthly salary. Effective July 1, 1997, state statutes require participating court employers to contribute monthly a percentage of the gross salaries of active members. The percentage established for the year ended June 30, 1998, was 14.13%. The percentage increases annually through June 30, 2018, to a maximum of 21.7%.

Oklahoma Police Pension and Retirement System (OPPRS) receives contributions from each participating municipality and each participant. Until July 1, 1991, each municipality contributed 10% of the actual base salary of each participant employed by the municipality. Beginning July 1, 1991, municipality contributions increased by 0.5% per year and continued until July 1, 1996, when the contribution level reached 13%. Each participant of OPPRS continues to contribute 8% of their actual paid base salary. In addition, the State allocates 14% of the insurance premium taxes collected from insurance companies on various types of insurance policies as required by statute. Insurance premium contributions to the plan for the years ended June 30, 1998, 1997, and 1996 totaled $17,177,000, $15,734,000, and $15,150,000, respectively.

Teachers Retirement System (TRS) receives contributions from participating members and employers. All active members contribute to the system; however, the employer may elect to make all or part of the contribution for its employees. Beginning July 1, 1997, all members must contribute 7% of regular annual compensation, not to exceed the members maximum compensation. For members other than those employed by a comprehensive university on or before June 30, 1995, the maximum compensation level will be the member’s regular annual compensation. For those members employed by a comprehensive university, the following table summarizes the maximum compensation level.

Fiscal Year	For Members Who Elected the $25,000 Limit Prior to June, 30 1995	For All Other Members
1998	37,500	54,000
1999	42,500	59,000
2000	47,500	64,000
2001	52,500	69,000
Thereafter	No limit	No limit

Employers are required to contribute a fixed percentage of annual compensation on behalf of active members. The employer contribution rate of 10.5% for fiscal year 1998 is applied to annual compensation up to defined caps depending upon the member's elections as previously described. Oklahoma statutes require the State to contribute 5/7ths of 78% of the natural and casinghead gas tax collected each year. TRS received approximately $133,541,781 which was used to offset the percentage of the required employer contributions. Effective July 1, 1997, for teachers meeting certain minimum salary requirements, the State will make part of the employee's required contribution depending on years of service. State contributions on behalf of employees totaled approximately $32,663,000 for fiscal year 1998. Federal contribution to TRS for fiscal year 1998 totaled approximately $9,889,189. State employer contributions to TRS for the year ended June 30, 1998, 1997, and 1996 were $2,323,736, $2,256,922, and $1,103,617, respectively. These contributions represent 100% of the contribution required.

Senate Bill 1037, passed during the 1998 legislative session, modifies one of the system's funding sources. Effective July 1, 1999, the TRS will receive 3.25% of available money from the General Revenue Fund and 3.5% for years thereafter replacing the natural and casinghead gas tax currently received by TRS. This legislation also provided a cost of living increase of 5% to retirees and increased the contribution rate for employers by 1% until fiscal year 2003.

Wildlife Conservation Retirement Plan receives contributions from each member based on their annual covered salary. The contribution requirements are established and amended by the Wildlife Conservation Commission. For July 1, 1997, the employee contribution rate was 3%. The Department of Wildlife Conservation is required to contribute at an actuarially determined rate. The required contribution for the year ended June 30, 1998 was $1,110,000.

C. Annual Pension Cost and Net Pension Obligation

The State's annual pension cost and net pension obligation (URSJJ's and OLERS' excess funding is represented as negative amounts) for the current year were as follows (expressed in thousands):

	URSJJ	WCRP	OLERS
Annual required contribution	$ -	$ 1,483	$ 6,101
Interest on net pension obligation	(620)	186	(3,177)
Adjustment to annual required contribution	839	(297)	4,335
Annual pension cost	219	1,372	7,259
Contributions made	2,878	1,500	17,788
Increase (decrease) in net pension obligation	(2,659)	(128)	(10,529)
Net pension obligation-beginning of year	(8,272)	2,321	(45,390)
Net pension obligation-end of year	$ (10,931)	$ 2,193	$ (55,919)
Actuarial Assumptions:			
Investment rate of return	7.5%	8.0%	7.0%
Annual salary increase	1.0%	5.0%	5% to 9%
COLA increase	4.5%	2.0%	none

The annual required contribution for URSJJ and OLERS for the current year was determined as part of the July 1, 1997, actuarial valuation. Costs in the valuation were prepared using the entry age actuarial cost method, until July 1, 1994, for URSJJ and for all years except July 1, 1997, for OLERS, which was when the unfunded actuarial liability was negative and the actuarial cost method was changed to the aggregate cost method. For actuarial purposes, assets are determined equal to the prior year's actuarial value of assets plus cash flow (excluding realized and unrealized gains or losses) for the year ended on the valuation date, assuming a 7.5% rate of return for URSJJ and 7% rate of return for OLERS. Prior year's unrecognized gains and losses are added to this amount to develop expected actuarial value. The expected actuarial value is then compared to the market value of the assets at the valuation date, and 20% of any gain (loss) for the last five years is added to the expected actuarial value. The gain (loss) is amortized over five years with the actuarial value of the assets being constrained to a range of 80% to 120% of the market value at the valuation date. The aggregate cost method does not identify or separately amortize unfunded actuarial liabilities. The Required Supplementary Information is not supplied for URSJJ since contributions are determined under the aggregate method.

The annual required contribution for WCRP for the current year was determined as part of the July 1, 1997, actuarial valuation. Costs in the valuation were prepared using the entry age actuarial cost method. The actuarial value of assets is set equal to the market value of assets. The unfunded actuarial accrued liability is being amortized over a 15-year period.

Three - Year Trend Information

(expressed in thousands)

	Fiscal Year Ending	Annual Pension Cost (APC)	Percentage Of APC Contributed	Net Pension Obligation
Oklahoma Law Enforcement Retirement System	6/30/98	$7,259	245%	($55,919)
	6/30/97	8,478	199%	(45,391)
	6/30/96	9,194	174%	(36,969)
Uniform Retirement System for Justices and Judges	6/30/98	219	1314%	(10,931)
	6/30/97	1,280	373%	(8,272)
	6/30/96	2,547	179%	(4,777)
Wildlife Conservation Retirement Plan	6/30/98	1,372	109%	2,193
	6/30/97	1,440	89%	2,385
	6/30/96	1,354	93%	2,232

The following required supplementary schedule for the Wildlife Conservation Retirement Plan and the Oklahoma Law Enforcement Retirement System was determined as part of the actuarial valuations at the dates indicated. The Required Supplementary Information is not supplied for OLERS for July 1, 1997 since contributions were calculated using the aggregate cost method.

Schedule of Funding Progress

(expressed in thousands)

Acturial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
Oklahoma Law Enforcement Retirement System						
7/1/98	$392,095	$396,600	$4,505	98.9%	$34,032	13.2%
7/1/97	335,200	NA	NA	NA	NA	NA
7/1/96	299,011	304,833	5,822	98.1%	29,633	19.6%
Wildlife Conservation Retirement Plan						
7/1/98	51,345	53,005	1,660	96.9%	11,094	15.0%
7/1/97	46,333	50,907	4,574	91.0%	11,389	40.2%
7/1/96	42,368	48,101	5,733	88.1%	10,808	53.0%

D. Other Retirement Systems

The Oklahoma Housing Finance Agency (OHFA), a component unit of the State, contributes to the Oklahoma Housing Finance Agency Retirement Plan, which is a defined contribution plan with 83 members. Under its provisions, employees become eligible for the plan after one year of service, at which time OHFA may contribute up to 10% of the employees' compensation to the Plan. OHFA's contribution amount is at the discretion of the Board of Trustees and does not have any limitations. Employees begin vesting after two years of service and become fully vested after six years of service. Employees are allowed to contribute to the plan on an after-tax basis with no limitations. Plan provisions were established and may be amended by the Board of Trustees. For the year ended September 30, 1997, OHFA's retirement plan expense was $245,614. Contributions made by OHFA represent 10% of covered payroll for 1997, net of plan forfeitures.

In addition to the TRS, various institutions in the Higher Education Component Unit participate in other pension plans, primarily the Teachers Insurance and Annuity Association. These plans, are defined contribution plans. Contributions made by the institutions are based on a percentage of payroll for qualified employees as determined by each institution’s contract. For those institutions providing these plans, the total covered payroll was $484,695,000. The institution contributions were $41,500,000 or 8.6% of covered payroll. Employees are not required to contribute to the plans.

Some Public Beneficiary Trusts are not eligible for participation in OPERS, and may have their own retirement plans.

Additional information regarding these plans may be found in the separately issued financial reports of these component units.

Note 19. Condensed Financial Statement Information

Primary Government

The enterprise fund presented in the combined financial statements is comprised solely of **Oklahoma Water Resources Board** loan programs and bond issues. This enterprise fund has current assets totaling $112,319,000 and current liabilities totaling $23,974,000, leaving net working capital of $88,345,000 for the fiscal year ended June 30, 1998.

The investment trust fund presented in the fiduciary column of the combined financial statements is comprised of an external investment pool. The investment pool consists of both internal and external investors. Condensed financial statement information for the internal and external portions of the pool follows (expressed in thousands).

	Internal Investment Pool	External Investment Pool	Total Pool
Assets	$ 850,158	$ 10,720	$ 860,878
Liabilities	-	-	-
Net Assets	$ 850,158	$ 10,720	$ 860,878
Additions			
Contributions	$ 8,060,766	$ 22,926	$ 8,083,692
Investment Revenue	38,625	596	39,221
Total Additions	8,099,391	23,522	8,122,913
Deductions			
Distributions to Pool Participants	8,072,530	23,447	8,095,977
Net Increase	26,861	75	26,936
Net Assets, Beginning of Year	823,297	10,645	833,942
Net Assets, End of Year	$ 850,158	$ 10,720	$ 860,878

Component Units

Condensed financial statement information for the discretely presented proprietary component units for the fiscal year ended June 30, 1998 (unless a different fiscal year is indicated), follows (expressed in thousands). Descriptions of and goods or services provided by each component unit are disclosed in Item A of Note 1.

	Oklahoma Industrial Finance Authority	Health Insurance High Risk Pool	State Insurance Fund (12-31-97 Fiscal Year)	State and Education Employ. Group Insurance Bd.	Oklahoma Student Loan Authority	University Hospitals Authority
Operating Revenue	$ 5,019	$ 3,485	$ 136,453	$ 280,050	$ 14,245	$ 109,159
Operating Expenses						
Depreciation	18	-	2,031	187	630	12,223
Other	4,639	3,071	148,211	291,988	11,675	148,467
Operating Income (Loss)	362	414	(13,789)	(12,125)	1,940	(51,531)
Operating Transfers:						
From Primary Government	-	-	-	-	-	27,147
To Primary Government	-	-	-	-	-	-
Nonoperating Revenues (Expenses)	(116)	33	66,981	21,111	2,561	21,200
Deferred Costs	-	-	-	-	-	-
Net Income (Loss)	$ 246	$ 447	$ 53,192	$ 8,986	$ 4,501	$ (3,184)
Current Assets	$ 14,520	$ 555	$ 920,766	$ 183,612	$ 36,926	$ 46,148
Current Liabilities	1,851	-	732,747	72,585	7,338	3,421
Net Working Capital	$ 12,669	$ 555	$ 188,019	$ 111,027	$ 29,588	$ 42,727
Total Assets	$ 71,469	$ 555	$ 929,526	$ 184,314	$ 222,857	$ 168,600
Total Liabilities	70,092	-	732,747	72,585	181,503	3,707
Fund Equity	$ 1,377	$ 555	$ 196,779	$ 111,729	$ 41,354	$ 164,893
Long-term Liabilities	$ 68,241	$ -	$ -	$ -	$ 174,165	$ 286
Fixed Assets - Beginning of Year	$ 203	$ -	$ 19,472	$ 1,725	$ 801	$ 269,040
Additions	1	-	946	253	151	5,648
Deletions	(24)	-	(278)	-	-	(1,766)
Fixed Assets - End of Year	$ 180	$ -	$ 20,140	$ 1,978	$ 952	$ 272,922

The **Oklahoma Housing Finance Agency** (OHFA) received Federal financial assistance totaling $33,194,000 in housing assistance payments during the year ended September 30, 1997, under the Housing Assistance Payments Program. This Federal assistance was netted against applicable Federal expenditures on the financial statements. Therefore, no Federal revenue is presented for the OHFA operating statement.

Medical Technology and Research Authority	Oklahoma Development Finance Authority	Oklahoma Environmental Finance Authority	Oklahoma Housing Finance Agency (9-30-97 Fiscal Year)	Oklahoma Turnpike Authority (12-31-97 Fiscal Year)	Grand River Dam Authority (12-31-97 Fiscal Year)	Oklahoma Municipal Power Authority (12-31-97 Fiscal Year)	Total
$ 2,737	$ 597	$ 2,605	$ 44,642	$ 118,325	$ 177,556	$ 82,368	$ 977,241
179	31	-	150	31,044	26,019	6,386	78,898
2,387	1,072	2,609	46,369	32,713	89,046	61,304	843,551
171	(506)	(4)	(1,877)	54,568	62,491	14,678	54,792
-	-	-	-	30,274	-	-	57,421
-	-	-	-	(30,274)	-	-	(30,274)
(77)	825	2	4,411	(28,471)	(54,123)	(18,133)	16,204
-	-	-	-	-	(3,402)	4,303	901
$ 94	$ 319	$ (2)	$ 2,534	$ 26,097	$ 4,966	$ 848	$ 99,044
$ 787	$ 10,709	$ -	$ 63,448	$ 83,532	$ 110,188	$ 15,596	$ 1,486,787
424	33	3,306	24,408	46,480	58,432	26,228	977,253
$ 363	$ 10,676	$ (3,306)	$ 39,040	$ 37,052	$ 51,756	$ (10,632)	$ 509,534
$ 4,558	$ 16,810	$ 37,941	$ 558,056	$ 790,165	$ 962,301	$ 416,155	$ 4,363,307
4,056	13,598	37,869	524,712	695,747	929,082	401,286	3,666,984
$ 502	$ 3,212	$ 72	$ 33,344	$ 94,418	$ 33,219	$ 14,869	$ 696,323
$ 3,632	$ 13,565	$ 34,563	$ 500,304	$ 649,267	$ 870,650	$ 375,058	$ 2,689,731
$ 3,643	$ 124	$ -	$ 1,452	$ 1,082,544	$ 893,313	$ 201,626	$ 2,473,943
1,402	23	-	130	35,716	19,838	2,191	66,299
(760)	-	-	-	(1,789)	(14,269)	(998)	(19,884)
$ 4,285	$ 147	$ -	$ 1,582	$ 1,116,471	$ 898,882	$ 202,819	$ 2,520,358

Note 20. On-Behalf Payments

In 1992, legislation was passed which resulted in changes in the amount and manner in which employer contributions to the Teachers' Retirement System (TRS) are determined and made. For years beginning July 1, 1992, employer contributions are fixed at certain percentages of annual compensation. Contributions from the State, through the dedicated natural and casinghead gas tax, are used to pay a portion of the contributions required. The employer is responsible for providing any difference between the dedicated tax and the required employer contribution. During fiscal year 1998, the State contributed, through the dedicated natural and casinghead gas tax, approximately $30,294,000 to TRS on-behalf of the Higher Education Component Unit. These contributions are recognized as tax revenue/operating transfers to component units in the General Fund and operating transfers from primary government/expenditures in the Higher Education Component Unit.

In addition, approximately $2,902,000 in salary supplements were paid to employees of the State's colleges and universities by various foundations organized to promote the interests of these entities. These supplements are reflected in the financial statements as revenue and expenditures of the Higher Education Component Unit.

Note 21. Other Postemployment Benefits

In addition to the pension benefits described in Note 18, the State provides post-retirement health care benefits (OPEB). Oklahoma Law Enforcement Retirement System (OLERS), Oklahoma Public Employees Retirement System (OPERS), Uniform Retirement System for Judges and Justices (URSJJ), and Wildlife Conservation Retirement Plan (WCRP) pay the Medicare supplement insurance premium or $75 per month, whichever is less, for all retirees who elect coverage at time of retirement through the Oklahoma State and Education Employee Group Insurance Board. Teachers' Retirement System of Oklahoma (TRS) pays between $70 and $75 per month for each retiree, depending on the member's years of service.

	Current Year Expenditures	Eligible Participants	Enabling Legislation
OLERS	$ 316,873	395	Title 74, 1316.2
OPERS	11,678,000	13,028	Title 74, 1316.2
URSJJ	63,700	71	Title 74, 1316.2
TRS	19,774,000	23,718	Title 74, 1316.2
WCRP	62,609	72	Title 29, 3-306

OLERS, OPERS, URSJJ, TRS and WCRP fund postemployment health care benefits as part of the overall retirement requirement. No separation of pension obligation and health insurance obligation is made and assets are not allocated between obligations. Disclosure information regarding OPEB is included in Note 18.

Oklahoma Firefighters Pension and Retirement System and Oklahoma Police Pension and Retirement System do not provide other postemployment benefits.

Fourteen of the colleges and universities included in the Higher Education Component Unit offer postemployment benefits upon the authorization of the institution’s Board of Regents. These benefits primarily provide health, dental and life insurance benefits. The eligibility requirements differ depending on the college or university. Current year benefit expenditures, funded on a pay-as-you-go basis, totaled approximately $2,656,000 for the estimated 2,100 eligible participants.

Note 22. Commitments

Primary Government

The **Department of Transportation** had contractual commitments at June 30, 1998, of approximately $438,200,000 for construction of various highway projects. Future appropriations will fund these commitments as work is performed.

The **Department of Human Services** (DHS) maintains a construction unit which engages in capital improvements of State buildings. At year end, DHS had long-term projects totaling $23,404,000 for the General Fund and $452,000 for the Capital Projects Fund.

Component Units

The **Oklahoma Industrial Finance Authority** (OIFA) had outstanding loan commitments at June 30, 1998, approved by its Board of Directors totaling $10,706,000. These loan agreements included a "pending clause" which states that money would be disbursed upon availability of funds.

The **Oklahoma Student Loan Authority** (OSLA) has entered into various forward purchase and sale commitment agreements with certain Oklahoma financial institutions for which it performs interim status loan servicing. Under these forward purchase commitments, OSLA is required to purchase the Federal Family Education Loans (FFEL) under certain terms and conditions. As of June 30, 1998, OSLA was committed to purchase approximately $24,580,000 of FFEL.

The **University Hospitals Authority** (UHA) has entered into certain agreements with the HCA Health Services of Oklahoma Inc. (Company), a subsidiary of Columbia, providing for, among other things, the lease of land, buildings and improvements, and equipment utilized in connection with and comprising UHA's University Hospitals to the Company on a long-term basis. Certain other assets were also transferred to and are operated by the Company. The academic program of the University of Oklahoma Health Sciences Center is to continue to be affiliated with the UHA. The Company will provide certain medical care to the indigent. The UHA and the Company have entered into agreements setting forth terms and conditions for the joint operation of the University Hospitals and the adjacent Presbyterian Hospitals by UHA and the Company. This joint operating agreement is referred to as the University Health Partners.

The **Oklahoma Turnpike Authority** (OTA) had commitments outstanding at December 31, 1997, relating to equipment orders and supplies of approximately $1,202,000. At December 31, 1997, OTA had commitments outstanding relating to construction and maintenance contracts of approximately $1,319,000.

The **Oklahoma Municipal Power Authority** (OMPA) purchased approximately $9,100,000 of power pursuant to several long-term purchase agreements during 1997. OMPA is obligated to purchase, at a minimum, approximately $6,200,000 of power annually through 2000, decreasing to $2,880,000 annually through 2003.

Under the bond resolutions, OMPA has covenanted that it will establish and collect rents, rates, and charges under the power sales contracts and will charge and collect rents, rates, and charges for the use or sale of the output, capacity or service of its system. This revenue and other available revenues, are expected to yield net revenues for the 12 month period commencing with the effective date of such rents, rates, and charges equal to at least 110% of the aggregate debt service for such period. This revenue and other available funds, will enable OMPA to discharge all other indebtedness, charges, and liens payable under the resolutions.

Note 23. Litigation and Contingencies

The State and its component units are parties to numerous legal proceedings, many of which normally occur in governmental operations. Such litigation includes, but is not limited to, claims assessed against the State for property damage and personal injury, alleged breaches of contract, condemnation proceedings, and other alleged violations of state and federal laws. Certain claims have been adjudicated against the State, but remained unpaid as of June 30, 1998. Including the $7,427,000 claim incurred by the Component Units discussed below, the State has accrued a liability of $16,262,000 for the payment of such claims. This amount is reported in the General Fund.

Other litigation and civil actions have been filed against the State with an estimated loss of approximately $1,400,000 to $6,400,000. Because the outcome of these proceedings is in question, no liability has been recorded for any loss that may result from these claims.

The State receives significant financial assistance from the Federal Government in the form of grants and entitlements, which are generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by federal agencies. Any disallowances as a result of these audits could become a liability of the State. As of June 30, 1998, the State is unable to estimate what liabilities may result from such audits.

Primary Government

The **Department of Transportation** (DOT) has incurred significant expenditures on construction projects that have exceeded the amounts approved by the federal grantor. These project expenditures are held in suspense until approved by the federal grantor and subsequently reimbursed. Based on prior years' experience, 82% of the amount held in suspense will be reimbursed. At June 30, 1998, DOT had project expenditures totaling $3,400,000 of which an estimated $2,788,000 will be reimbursed pending approval of the Federal Government.

The **Oklahoma Water Resources Board** (Board), pursuant to statute, assumed the obligations of the Oklahoma Water Conservation Storage Commission including a 1974 contractual obligation to repay the United States (through the Army Corps of Engineers) for the costs of constructing water supply storage at Sardis Reservoir in southeastern Oklahoma.

Under the 1974 contract, annual payments are to be made for the reservoir construction, operation, and maintenance allocated to the present use water supply storage. Total unaudited construction costs of the Sardis Reservoir allocated to water supply storage are approximately $38,400,000. Payments on the reservoir began in 1983 and are to continue for 50 years. As of June 30, 1998, the State has made payments of approximately $4,420,000; however, the Board did not receive legislative authorization to pay the annual payments due in the fiscal years 1989 through 1995. The amount in arrears, including interest and penalty is approximately $6,060,000. The Army Corps of Engineers has indicated that the obligation may be declared in default and remedies sought. However, as an alternative the State is considering making a proposal to extinguish the debt on the reservoir by making a single lump sum payment to the federal government in the amount of $20,000,000. This lump sum payment would need approval by all parties involved and as of June 30, 1998, such approval for this payment had not yet been received.

Component Units

The State Legislature enacted legislation which transferred $31,500,000 of state employee insurance premiums during fiscal year 1997 to the **Oklahoma State Regents for Higher Education** to help fund higher education in the state. These premiums were originally designated to be paid to the **Oklahoma State and Education Employees Group Insurance Board** to provide health insurance coverage for state employees. Of the $31,500,000 transferred, $7,427,000 was included in grant costs charged to the federal government. In August 1998, the Federal Department of Health and Human Services Departmental Appeals Board sided with the federal government and ordered the State to pay $7,427,000 in principal and $1,106,000 in interest accrued through October, 1998. A liability for principal and interest (accrued through June 30, 1998) is recorded in the General Fund. The State is continuing to pursue alternatives for resolution of this claim.

Note 24. Subsequent Events

Primary Government

Legislation enacted during fiscal year ended June 30, 1998, authorized the issuance of $315,000,000 in revenue bonds for the purpose of acquiring and constructing real property and improvements and personal property and making repairs, refurbishments and improvements to real and personal property. The Legislature also approved the issuance of $297,960,000 State Highway Capital Improvement Revenue Bonds, Series 1998. These bonds were sold in July 1998.

Component Units

During October 1997, **Oklahoma Housing Finance Agency** issued $30,000,000 of Single Family Mortgage Revenue Bonds 1997, Series B1-3. During February 1998, the Diplomat project bonds were refunded.

Beginning in July 1998, the **Oklahoma Student Loan Authority** (OSLA) implemented a program to pay the 1% guarantee fee on loans with a first disbursement on or after this date. This guarantee fee payment program applies to all loans originated by OSLA and to all loans committed to be sold to OSLA by the FFELP lenders serviced by OSLA. OSLA has committed to this fee payment program for the fiscal year ending June 30, 1998.

In July 1998, OSLA placed its $33,000,000 Oklahoma Student Loan Bonds and Notes, Variable Rate Demand Obligations, Series 1998A.

In January 1998, **Oklahoma Turnpike Authority** received final approval for issuance of revenue bonds in an approximate amount of $724,000,000 for the financing of certain turnpike projects totaling $603,000,000.

Note 25. Year 2000 Issue

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect the government's operations as early as fiscal year 1999. Problems resulting from this issue have the potential for causing a disruption to some government operations and may temporarily increase the cost of those operations.

The State has taken an inventory of computer systems and other electronic equipment that may be affected by the year 2000 issue and that are necessary to conduct State operations. Because of the unprecedented nature of the year 2000 issue, its effects and the success of remediation efforts will not be evident until the year 2000 and beyond. It is possible that remediation efforts will identify additional critical changes that could substantially increase the amount of future resources needed. It cannot be assured that the State will be successful in whole or in part with its year 2000 remediation efforts, or that parties with whom the State conducts business will be year 2000 ready.

Primary Government

The Primary Government is comprised of agencies that provide internal services such as accounting, benefit and treasury functions. The Primary Government also includes agencies that address public safety, health and welfare issues for constituents of the State. Most of these agencies are considered to be critical to the operations of the State. Based on the results of the inventory, a majority of the critical Primary Government agencies are in the remediation stage. Most agencies have made an assessment of systems and equipment that need remediation and have estimated future costs and efforts needed in order to make systems year 2000 compliant. At June 30, 1998, $1,700,000 had been contracted for the purchase of equipment and labor to remediate, validate and test current systems. In addition, these agencies have committed an additional $11,500,000 of future resources to correct year 2000 deficiencies.

Component Units

Although legally separate, the Component Units conduct substantial business with and on behalf of the State. As a result, most are considered to be critical to the operations of the State. Based on aggregated results of their reported inventory, most Component Units of the State are in the remediation stage of making their systems and equipment year 2000 compliant. The Component Units had contracted amounts of $4,400,000 at June 30, 1998, for completion of remediating, validating and testing systems. These Component Units have also committed future resources of $2,300,000 to make their remaining systems and equipment year 2000 compliant.

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