Notes to the Financial Statements

NOTES TO THE FINANCIAL STATEMENTS
INDEX

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FOR THE FISCAL YEAR ENDED JUNE 30, 1996

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, 1996, 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 and other local authorities of various kinds which may meet only one of the criteria for inclusion in this report, have not been included. The State's support of the public education system is reported in the General Fund.

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 which 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 are appointed pursuant to state statute. The six PERS were audited by independent auditors for the period ended June 30, 1996, and their reports, dated from August 23, 1996, to October 22, 1996, 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 listed below.

Proprietary Component Units

Separately issued independent audit reports may be obtained from the Office of State Finance, 122 State Capitol Building, 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, 1996, and their report, dated September 13, 1996, 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, 1995, and their report, dated March 15, 1996, has been previously issued under separate cover.

State and Education Employees Group Insurance Board provides group health, life, dental and disability 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, 1996, and their report, dated October 11, 1996, 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 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 June 30, 1996, and their report, dated October 11, 1996, 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, 1996, and their report, dated August 16, 1996, 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, 1996, and their report, dated September 23, 1996, 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, 1996, and their report, dated August 30, 1996, 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, 1996, and their report, dated August 6, 1996, 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, 1995, and their report, dated December 29, 1995, 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, 1995, and their report, dated March 29, 1996, 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, 1995, and their report, dated March 15, 1996, 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, 1995, and their report, dated February 12, 1996, 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, 122 State Capitol Building, Oklahoma City, Oklahoma 73105.

This component unit is primarily comprised of the twenty-five colleges and universities which 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, Enid 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.

With the exception of the Board of Regents of Oklahoma Colleges, the entities included in the Higher Education Component Unit were audited by independent auditors, for the year ended June 30, 1996, and reports dated from August 14, 1996, to October 30, 1996, 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 which 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, 1996, 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, 1996, these foundations expended, on-behalf of the State's colleges and universities, approximately $36,500,000 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.

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 Funds - These Funds allow for the spending of both the principal and earnings of the Trusts. The Funds account for assets received and expended by the Oklahoma Employment Security Commission, from the Federal Unemployment Insurance Trust Fund, and the Special Indemnity Fund, a second-injury workers' compensation fund.

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, proprietary component units, and 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, 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.

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 which 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, 1996, and for the year then ended, except for the following funds and entities which were audited by other independent auditors.

Special Indemnity Fund	12-31-95
State Insurance Fund	12-31-95
Oklahoma Turnpike Authority	12-31-95
Grand River Dam Authority	12-31-95
Oklahoma Municipal Power Authority	12-31-95
Oklahoma Housing Finance Agency	9-30-95

C. Basis of Accounting

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

All governmental funds and expendable trust funds 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, 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 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 which 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 Standards 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, 1996, 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, 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:

- Fifteen 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 33 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, 1996, 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, Personal Services, 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%. Agencies can obtain approval from the Contingency Review Board to transfer up to an additional 15%; however, 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 1996, $60,211,904 was approved by the Legislature for supplemental appropriation. All fiscal year 1996 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.

Governmental fund type investments are generally stated at cost, which approximates market. Enterprise and nonexpendable trust funds' investments are generally recorded at cost, adjusted for premiums and discounts. Adjusted cost approximates market. Investments are recorded at fair value for pension trust funds. Agency fund investments, with the exception of the Deferred Compensation Plan, are generally stated at cost, which approximates market. However, investments in mutual funds are stated at their fair market value based on published prices. Deferred Compensation Plan assets are carried at market.

Proprietary component units' investments are recorded in accordance with their election under GASB 20 (see Item C). The State Insurance Fund, State and Education Employees Group Insurance Board, and Grand River Dam Authority record investments at market. All other proprietary component units record investments at cost, adjusted for premiums and discounts.

Higher Education Component Unit investments are recorded at cost, adjusted for amortization of premiums and discounts, or fair market value at the date of the gift. Adjusted cost 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. Contributions receivable in fiduciary funds consist of amounts due on employee and employer contributions to pension trust funds. 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 consist 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 represent 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. 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 $93,617,000 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. The food stamp inventory includes amounts at remote locations in the counties of the State. State statute provides that counties must participate in the food stamp program, have adequately qualified personnel, have suitable facilities for storing and issuing stamps, and provide bonding of personnel and insurance as required by the State. State statute also provides for the distribution of food stamps within a county through one or more issuing offices, through local banks, or through other means. Regardless of the distribution means, the food stamp inventory at remote locations remains under State jurisdiction until issued to eligible recipients.

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 a 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 food stamps, food, and other commodities. 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, an expendable trust, has a deficit fund balance of $18,751,000 at December 31, 1995. 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	$ 489,988
General Government	4,933
Health Services	6,735
Legal and Judiciary	1,050
Natural Resources	271
Regulatory Services	121
Social Services	644,768
Transportation	184,056
Total Transfers to Continuing Funds	1,331,922
Total Expenditures per Combined Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget to Actual (Non-GAAP Budgetary Basis)	1,906,800
Total per Schedule of Expenditures and Intra-Agency Transfers as Presented in the Required Supplementary Information	$ 3,238,722

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, 1996, is presented below (expressed in thousands) for the General Fund.

Budgetary Basis Fund Balance, June 30, 1995	$ 587,612
Prior Year Adjustment	(5,980)
Budgetary Basis Adjusted Fund Balance, July 1, 1995	581,632
Excess of total sources over total uses of financial resources (Budgetary Basis)	119,089
Budgetary Basis Fund Balance, June 30, 1996	700,721
Entity and Perspective Differences:	
Non-budgeted Funds and Capital Funds	746,759
Encumbrances	1,633
Basis Differences:	
Add: Net accrued revenues, related receivables, and deferred revenues	204,530
Less: Net accrued expenditures and related liabilities	(293,124)
GAAP Basis Fund Balance, June 30, 1996	$ 1,360,519

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, 1996, 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 $547,000,000 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, 1996, by investment type, are listed below (expressed in thousands).

Primary Government	Carrying Amount Risk Categories 1	2	3	Total	Market Value
U.S. Government Securities	$ 3,156,605	$ -	$ -	$ 3,156,605	$ 3,118,640
Repurchase Agreements	832,310	-	42,500	874,810	874,810
Short Term Securities	142,086	-	-	142,086	142,086
State Bond Issues	21,416	-	-	21,416	21,416
Debt Securities	1,046,793	-	-	1,046,793	1,046,793
Equity Securities	5,407,694	-	-	5,407,694	5,420,829
	$ 10,606,904	$ -	$ 42,500	$ 10,649,404	$ 10,624,574
Investments Not Subject to Categorization:					
Guaranteed Investment Contracts				41,006	41,006
Real Estate				118,513	118,513
Mutual Funds				133,669	133,669
Money Market Mutual Funds				53,887	53,887
Securities Lending Program:					
U.S. Government Securities				202,080	202,080
Debt Securities				51,871	51,871
Equity Securities				58,555	58,555
Less: Component Units' Investment in State Treasurer's Cash Management Program				(186,927)	(186,927)
Total Investments				$ 11,122,058	$ 11,097,228

Component Units-Proprietary	Carrying Amount Risk Categories				Market
	1	2	3	Total	Value
U.S. Government Securities	$ 658,617	$ 199,827	$ 14,972	$ 873,416	$ 875,430
Repurchase Agreements	5,429	-	31,273	36,702	36,702
Short Term Securities	1,018	-	-	1,018	1,018
Debt Securities	141,446	2,000	4,424	147,870	147,592
Equity Securities	195,630	-	-	195,630	195,630
	$ 1,002,140	$ 201,827	$ 50,669	$ 1,254,636	$ 1,256,372
Investments Not Subject to Categorization:					
Guaranteed Investment Contracts				205,862	205,862
Negotiable Certificates of Deposit				736	736
Real Estate				6,324	6,375
Mutual Funds				2,295	2,295
Money Market Mutual Funds				19,728	19,728
Investment in State Treasurer's Cash Management Program				57,289	57,289
Total Investments				$ 1,546,870	$ 1,548,657

Component Unit-Higher Education	Carrying Amount Risk Categories				Market
	1	2	3	Total	Value
U.S. Government Securities	$ 51,006	$ 13,824	$ -	$ 64,830	$ 64,830
Short Term Securities	398	-	-	398	394
State Bond Issues	5,950	-	-	5,950	5,950
	$ 57,354	$ 13,824	$ -	$ 71,178	$ 71,174
Investments Not Subject to Categorization:					
Real Estate				347	347
Mutual Funds				93,235	111,686
Money Market Mutual Funds				2,030	2,030
Other Pooled Funds				26,159	27,422
Investment in State Treasurer's Cash Management Program				129,638	129,638
Total Investments				$ 322,587	$ 342,297

The following table reconciles the details included within this footnote to the Combined Balance Sheet at June 30, 1996 (expressed in thousands).

		Component Units	
	Primary Government	Proprietary	Higher Education
Investments per Combined Balance Sheet	$ 9,484,643	$ 1,568,652	$ 277,697
Non-negotiable CDs and State Treasurer Cash Management classified as investments	(11,205)	(50,100)	(85,554)
Pooled cash investments classified as cash equivalents	1,648,620	-	-
Money Market Mutual Fund classified as cash equivalent	-	606	806
Investment in State Treasurer Cash Management Program classified as cash equivalent	-	27,712	129,638
Total Investments	$ 11,122,058	$ 1,546,870	$ 322,587

State statute authorizes securities lending programs within the State's investment policy. The securities subject to the agreement are commingled with the securities of other lenders. Under agreements entered into by the State, the loaned securities are initially collateralized at a minimum of 102% of their market values. Collateral consists of U.S. government securities, certificates of deposit, commercial paper, bankers' acceptances, repurchase agreements, floating rate notes, participation notes, money market funds, and bank letters of credit. The collateral is marked-to-market daily such that at the close of trading on any business day the value of collateral shall not be less than 100% plus accrued interest on the loaned securities.

Note 4. Accounts Receivable

Receivables as of June 30, 1996, including the applicable allowances for uncollectible accounts, are as follows (expressed in thousands).

Receivables:	General	Capital Projects	Enterprise	Trust and Agency	Component Units: Proprietary	Component Units: Higher Education	Total
Accounts	$ 37,642	$ -	$ -	$ 3,174	$ 124,992	$ 124,692	$ 290,500
Interest	16,882	410	3,397	64,242	19,571	3,010	107,512
Contributions	-	-	-	3,516	-	-	3,516
Federal	204,111	203	-	194	1,889	897	207,294
Taxes	115,012	-	-	3,070	-	-	118,082
Lease Payment	41,241	-	-	-	-	-	41,241
Other	-	-	-	7,969	1,791	-	9,760
Notes and Loans	-	-	147,173	-	636,567	54,760	838,500
Gross Receivables	414,888	613	150,570	82,165	784,810	183,359	1,616,405
Less: Uncollectibles							
Accounts Receivable	(16,058)	-	-	-	(23,290)	(31,959)	(71,307)
Notes, Loans, and Other	-	-	-	(268)	(2,830)	(11,969)	(15,067)
Net Total Receivables	$ 398,830	$ 613	$ 150,570	$ 81,897	$ 758,690	$ 139,431	$ 1,530,031

Note 5. Interfund Accounts/Operating Transfers

A. Due from Other Funds/Due to Other Funds

A summary of interfund obligations at June 30, 1996, is shown below (expressed in thousands).

	Due From: Other Funds	Due From: Component Units	Due To: Other Funds	Due To: Component Units
Primary Government				
General Fund	$ 5	$ 42,319	$ 16,158	$ 6,695
Expendable Trust:				
Special Indemnity Fund	1,380	-	-	66
Nonexpendable Trust:				
Department of Wildlife	36	-	-	-
Pension Trusts:				
Oklahoma Law Enforcement Retirement System	809	-	-	-
Oklahoma Public Employees Retirement System	477	234	-	-
Uniform Retirement System for Justices and Judges	94	-	-	-
Oklahoma Police Pension and Retirement System	371	-	-	-
Teachers' Retirement System of Oklahoma	11,129	-	18	-
Wildlife Conservation Retirement Plan	137	-	-	-
Agency Funds:				
Assets Held for Beneficiaries	-	-	2	-
Other	403	461	-	3,611
Total Primary Government	$ 14,841	$ 43,014	$ 16,178	$ 10,372

	Due From			Due To		
	Primary Government	Other Funds	Other Component Units	Primary Government	Other Funds	Other Component Units
Component Units						
Proprietary Funds:						
Oklahoma Industrial Finance Authority	$ -	$ -	$ 9	$ -	$ -	$ -
State Insurance Fund	1,325	-	196	35	-	142
State & Education Emp. Group Insurance Board	7,823	-	-	27	-	5
University Hospitals Authority	162	-	490	634	-	999
Medical Technology and Research Authority	-	-	114	3	-	17
Oklahoma Development Finance Authority	12	-	9	-	-	9
Oklahoma Housing Finance Agency	-	-	-	1	-	-
Oklahoma Turnpike Authority	-	-	-	41,076	-	37
Grand River Dam Authority	24	-	457	414	-	56
Oklahoma Municipal Power Authority	-	-	-	14	-	457
Higher Education Funds:						
Current, Unrestricted	5,088	42,149	1,050	167	23,442	590
Current, Restricted	-	3,544	-	-	20,845	-
Loan	-	3,077	-	-	14	-
Endowment	-	1,177	-	-	14,496	-
Plant	-	877	-	-	752	-
Agency	-	9,113	-	-	388	-
Total Component Units	$ 14,434	$ 59,937	$ 2,325	$ 42,371	$ 59,937	$ 2,312

The amount of total interfund receivables of $134,551,000 does not agree with total interfund payables of $131,170,000 at June 30, 1996. The following presents a reconciliation of interfund accounts reported at June 30, 1996 (expressed in thousands).

Due From Other Funds	$ 74,778
Due From Component Units	45,339
Due From Primary Government	14,434
Total Interfund Receivables Per Financial Statements	134,551
Financial Statement Account Presentation Differences:	
Trust and Agency Funds	902
Total Interfund Receivables	$ 135,453
Due To Other Funds	$ 76,115
Due To Component Units	12,684
Due To Primary Government	42,371
Total Interfund Payables Per Financial Statements	131,170
Financial Statement Account Presentation Differences:	
Trust and Agency Funds	4,214
Timing Differences, Fiscal Year Ending December 31, 1995:	
Trust and Agency Funds	(437)
Proprietary Component Units	506
Total Interfund Payables	$ 135,453

B. Operating Transfers

A summary of interfund operating transfers for the fiscal year ended June 30, 1996, follows (expressed in thousands).

Primary Government	Operating Transfers In		Operating Transfers From Component Units		Operating Transfers Out		Operating Transfers To Component Units	
General Fund	$	12,857	$	28,035	$	22,931	$	640,042
Capital Projects		-		5,669		-		82,792
Expendable Trust:								
Special Indemnity Fund		19,327		-		-		-
Proprietary Funds:								
Oklahoma Water Resources Board-Bond Issues		-		-		5,150		-
Nonexpendable Trust:								
Commissioners of the Land Office		-		-		4,637		14,287
Department of Wildlife		-		-		3,070		-
Total Primary Government	$	32,184	$	33,704	$	35,788	$	737,121

Component Units	Operating Transfers In		Operating Transfers From Primary Government		Operating Transfers Out		Operating Transfers To Primary Government	
Proprietary Funds:								
Oklahoma Turnpike Authority	$	-	$	27,505	$	-	$	27,505
University Hospitals Authority		-		26,577		-		-
Higher Education Funds:								
Current, Unrestricted		-		555,433		-		-
Current, Restricted		-		25,695		-		-
Endowment		-		7,200		-		-
Plant		-		92,197		-		-
Total Component Units	$	-	$	734,607	$	-	$	27,505

The amount of total Operating Transfers In of $800,495,000 does not agree with total Operating Transfers Out of $800,414,000 for the fiscal year ended June 30, 1996. The following presents a reconciliation of operating transfers reported in the financial statements (expressed in thousands).

Operating Transfers In	$	32,184
Operating Transfers In - From Component Units		33,704
Operating Transfers In - From Primary Government		734,607
Total Operating Transfers In Per Financial Statements		800,495
Financial Statement Account Presentation Differences:		
Higher Education Component Units		1,976
Proprietary Component Units		12
Total Operating Transfers In	$	802,483
Operating Transfers Out	$	35,788
Operating Transfers Out - To Component Units		737,121
Operating Transfers Out - To Primary Government		27,505
Total Operating Transfers Out Per Financial Statements		800,414
Financial Statement Account Presentation Differences:		
Higher Education Component Units		5,669
Proprietary Component Units		4
Timing Differences, Fiscal Year Ending December 31, 1995:		
Trust and Agency Funds		(3,604)
Total Operating Transfers Out	$	802,483

Note 6. Fixed Assets

Fixed Assets by category, as of June 30, 1996 (December 31, 1995, or September 30, 1995, for those entities/funds identified in Item B of Note 1) are summarized as follows (expressed in thousands).

	Primary Government		Component Units		
	Pension Trusts	General Fixed Assets	Proprietary	Higher Education	Total
Land	$ 188	$ 49,609	$ 971,877	$ 132,844	$ 1,154,518
Buildings and Other Improvements	-	551,427	1,260,290	1,127,381	2,939,098
Machinery and Equipment	2,011	199,811	178,375	630,664	1,010,861
Construction in Progress	-	46,595	15,717	138,782	201,094
Total	2,199	847,442	2,426,259	2,029,671	5,305,571
Less: Accumulated Depreciation	738	-	1,034,200	325,848	1,360,786
Total	$ 1,461	$ 847,442	$ 1,392,059	$ 1,703,823	$ 3,944,785

Changes in general fixed assets for the year ended June 30, 1996, were as follows (expressed in thousands).

	Balance July 1, 1995	Additions	Deletions/ Net Transfers	Balance June 30, 1996
Land	$ 48,468	$ 1,189	$ 48	$ 49,609
Buildings and Other Improvements	545,369	8,149	2,091	551,427
Machinery and Equipment	190,370	16,786	7,345	199,811
Construction in Progress	23,441	25,431	2,277	46,595
Total	$ 807,648	$ 51,555	$ 11,761	$ 847,442

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 and were approximately $5,713,000 in 1995. The incurred claims in excess of the self-insured entities' respective retention limits were approximately $7,090,000 in 1995. The liability for claims in excess of the self-insured entities' respective retention limits included in unpaid losses and loss adjustment expenses were approximately $23,817,000 at December 31, 1995.

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 $155,000 in 1995. No losses have been ceded under these agreements. Reinsurance receivables with a single reinsurer of $911,000 at December 31, 1995, 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 an expendable trust. The Special Indemnity Fund (SPIF) was created to encourage the hiring of individuals with a preexisting disability and to protect those employers from liability for the preexisting 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, 1995, have been charged to operations for the year ended December 31, 1995. 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 liability in the expendable trust fund. 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 $127,576,000 as reported the General Long-Term Debt Account Group.

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 remaining $2,897,000 of the liability is reported in the General Long-Term Debt Account Group.

The following table presents the changes in claims liability balances (both current and noncurrent) during the current fiscal year ended June 30, 1996 (December 31, 1995, 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	$ 6,864	$ 4,003	$ (3,292)	$ 7,575	$ 2,897	$ 4,678
Expendable Trust Fund - Special Indemnity Fund	116,283	52,369	(22,561)	146,091	127,576	18,515
Total Primary Government	$ 123,147	$ 56,372	$ (25,853)	$ 153,666	$ 130,473	$ 23,193
Proprietary Component Units: State Insurance Fund	$ 633,350	$ 259,017	$ (238,628)	$ 653,739	$ -	$ 653,739
State and Education Employees Group Insurance Board	52,019	253,208	(237,767)	67,460	-	67,460
Total Proprietary Component Units	$ 685,369	$ 512,225	$ (476,395)	$ 721,199	$ -	$ 721,199
Prior Fiscal Year						
General Fund - Risk Management Division	$ 6,728	$ 1,697	$ (1,561)	$ 6,864	$ 3,130	$ 3,734
Expendable Trust Fund - Special Indemnity Fund	96,458	40,613	(20,788)	116,283	102,840	13,443
Total Primary Government	$ 103,186	$ 42,310	$ (22,349)	$ 123,147	$ 105,970	$ 17,177
Proprietary Component Units: State Insurance Fund	$ 531,194	$ 322,308	$ (220,152)	$ 633,350	$ -	$ 633,350
State and Education Employees Group Insurance Board	119,603	153,261	(220,845)	52,019	-	52,019
Total Proprietary Component Units	$ 650,797	$ 475,569	$ (440,997)	$ 685,369	$ -	$ 685,369

* As discussed in Note 22. Litigation and Contingencies, general fund claims and judgments includes $6,500,000 accrued for the payment of litigation losses.

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 171,000 primary participants and dependents, approximately 16,000 primary participants and 13,000 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 (653 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	22,000	5,000	26,000	------------ 34,000 ------------			
Dependents	------------ 53,000 ------------						

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	
	1996	1995	1996	1995	1996	1995
Reserves at beginning of year	$ 29,560	$ 30,553	$ 907	$ 1,555	$ 19,516	$ 14,432
Incurred claims:						
Provision for insured events of current year	234,044	217,181	9,441	6,553	6,415	8,073
Changes in provisions for insured events of prior years	(5,453)	(7,507)	(223)	(722)	(8,480)	710
	228,591	209,674	9,218	5,831	(2,065)	8,783
Payments:						
Claims attributable to insured events of current year	201,715	187,946	8,106	5,664	652	1,063
Claims attributable to insured events of prior years	23,842	22,721	684	815	2,768	2,636
	225,557	210,667	8,790	6,479	3,420	3,699
Reserves at end of year	$ 32,594	$ 29,560	$ 1,335	$ 907	$ 14,031	$ 19,516

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, 1996, follows (expressed in thousands).

		Component Units	
	Primary Government	Proprietary	Higher Education
1997	$ 940	$ 398	$ 428
1998	752	391	39
1999	386	368	35
2000	222	254	32
2001	150	254	11
Later Years	402	254	-
Total Future Minimum Lease Payments	$ 2,852	$ 1,919	$ 545
Operating lease commitments for building rental for year ended June 30, 1997	$ 13,298	$ 3,487	$ 335
Rent expenditures/expenses for operating leases for year ended June 30, 1996	$ 14,251	$ 4,545	$ 4,370

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 $41,055,173, which is also the net investment in direct financing leases at June 30, 1996.

The **Oklahoma Environmental Finance Authority** (Proprietary Component Unit) leases facilities necessary for the abatement, control and reduction of pollution to industrial and commercial entities. These leases are accounted for as direct financing leases and the Authority has reported assets consisting of the net investment in direct financing leases. The following schedule lists the components of the net investment in direct financing leases as of June 30, 1996 (expressed in thousands).

Total minimum lease payments to be received - Gross investment in financing leases	$	65,057
Less: Cost of investments and unearned income		24,377
Net investment in direct financing leases	$	40,680

At June 30, 1996, minimum lease payments receivable for the State as a whole for each of the five succeeding fiscal years follows (expressed in thousands).

	1997	1998	1999	2000	2001
Primary Government	$ 5,052	$ 4,692	$ 4,086	$ 3,368	$ 2,814
Proprietary Component Unit	3,655	3,613	5,733	2,672	2,673
Total	$ 8,707	$ 8,305	$ 9,819	$ 6,040	$ 5,487

Operating Leases

Operating leases maintained by state agencies consist 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).

1997	1998	1999	2000	2001	Total
$ 298	$ 71	$ 34	$ 22	$ 21	$ 446

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).

1997	1998	1999	2000	2001	Total
$ 3,293	$ 5,740	$ 4,056	$ 2,390	$ 780	$ 16,259

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

Long-term obligations at June 30, 1996, 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 Long-Term Debt Account Group								
General Obligation Bonds Payable from Tax Revenue:								
Refunding Series R	1977	4.20-4.65%	1996	$ -	$ 1,990	$ -	$ 1,990	$ -
Institutional Bldg 1992A	1993	4.25-5.20%	2018	-	245,785	-	4,335	241,450
Institutional Bldg 1992B	1993	4.15-6.60%	2013	-	96,680	-	3,475	93,205
Total				-	344,455	-	9,800	334,655
Revenue Bonds Payable from Lease Rentals:								
OCIA Series A of 1973	1973	4.00-6.00%	1994	-	35	-	35	-
OCIA Series A of 1986	1986	9.00%	2001	-	3,891	-	231	3,660
OCIA Series A of 1988	1988	7.00%	1998	-	1,150	-	300	850
OCIA Series A of 1994	1994	3.00-4.65%	2003	-	7,405	-	810	6,595
OCIA Series B of 1994	1994	4.85-7.15%	2009	-	17,500	-	750	16,750
OCIA Series B of 1995	1995	3.60-5.30%	2016	-	-	33,560	-	33,560
Tourism 1990	1990	5.95%	2000	-	3,245	-	485	2,760
Tourism 1994	1994	5.30-7.20%	2012	-	5,250	-	-	5,250
Dept of Corrections	-	-	-	1,500	-	-	-	-
DHS-Tulsa Co. 1990 (ODFA)	1990	6.15-7.00%	2000	-	1,290	-	185	1,105
Total				1,500	39,766	33,560	2,796	70,530
Certificates of Participation				-	15,881	-	3,096	12,785
Capital Leases*				-	10,841	1,172	2,768	9,245
Compensated Absences				-	91,771	2,607	-	94,378
Pension Obligation				-	2,142	90	-	2,232
Other Claims and Judgments				-	105,970	47,297	22,794	130,473
Total General Long-Term Debt Account Group				$ 1,500	$ 610,826	$ 84,726	$ 41,254	$ 654,298

* $249 of the reductions represents deletions of capital leases rather than capital lease payments

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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.

B. Revenue Bonds

The **Oklahoma Capitol Improvement Authority** (OCIA) has five 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 which use 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, 1996 that have scheduled debt service amounts (expressed in thousands).

	1997	1998	1999	2000	2001	Maturity	Total
General Long-Term Debt Account Group							
General Obligation Bonds:							
Refunding Series R	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Institutional Bldg 1992A	16,340	16,335	16,341	16,358	16,385	346,282	428,041
Institutional Bldg 1992B	8,193	8,092	7,993	7,937	7,922	99,813	139,950
	24,533	24,427	24,334	24,295	24,307	446,095	567,991
Interest	16,418	15,982	15,529	15,105	14,707	155,595	233,336
Total	8,115	8,445	8,805	9,190	9,600	290,500	334,655
Revenue Bonds:							
OCIA Series A of 1973	-	-	-	-	-	-	-
OCIA Series A of 1986	477	477	477	476	476	2,701	5,084
OCIA Series A of 1988	382	384	193	-	-	-	959
OCIA Series A of 1994	1,117	1,116	1,117	1,115	1,114	2,230	7,809
OCIA Series B of 1994	1,867	1,862	1,857	1,858	1,854	16,555	25,853
OCIA Series B of 1995	3,117	3,124	3,120	3,121	3,122	34,731	50,335
Tourism 1990	696	692	692	1,194	-	-	3,274
Tourism 1994	345	433	578	574	574	6,269	8,773
Dept of Corrections	-	-	-	-	-	-	-
DHS-Tulsa Co. 1990 (ODFA)	264	261	261	261	259	-	1,306
	8,265	8,349	8,295	8,599	7,399	62,486	103,393
Interest	3,821	3,599	3,350	3,090	2,791	16,212	32,863
Total	4,444	4,750	4,945	5,509	4,608	46,274	70,530
Certificates of Participation	2,719	2,466	2,459	1,382	723	3,036	12,785
Capital Leases	2,364	1,855	1,705	2,203	347	771	9,245
Total Debt Service	$ 17,642	$ 17,516	$ 17,914	$ 18,284	$ 15,278	$ 340,581	427,215
Long-Term Debt without scheduled debt service:							
Compensated Absences							94,378
Pension Obligation							2,232
Other Claims and Judgments							130,473
Total General Long-Term Debt Account Group							$ 654,298

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 are 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. 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, 1996 (expressed in thousands).

	1997	1998	1999	2000	2001	Maturity	Total
	$ 3,414	$ 3,021	$ 2,889	$ 1,689	$ 964	$ 3,448	$ 15,425
Less: Interest							2,640
Present Value of Minimum Lease Payments							$ 12,785

Leased buildings and equipment financed by certificates of participation in the general fixed asset account group at June 30, 1996, include the following (expressed in thousands).

Equipment	$ 21,714
Buildings	1,670
Total	$ 23,384

D. 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, 1996 (expressed in thousands).

	1997	1998	1999	2000	2001	Maturity	Total
	$ 3,180	$ 2,448	$ 2,151	$ 2,502	$ 417	$ 947	$ 11,645
Less: Executory costs included in minimum lease payments							801
Net Minimum Lease Payments							10,844
Less: Interest							1,599
Present Value of Minimum Lease Payments							$ 9,245

Leased buildings and equipment under capital leases in the general fixed asset account group at June 30, 1996, include the following (expressed in thousands).

Equipment	$ 4,359
Buildings	21,691
Total	$ 26,050

E. Other Claims and Judgments

Included in other claims and judgments are permanent total and permanent partial awards payable after December 31, 1995, from the Special Indemnity Fund and Risk Management liabilities that will not be paid with currently expendable available financial resources.

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

The **Oklahoma Water Resources Board** (the Board) has issued five series of revenue bonds. These bonds 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, 1996, 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:								
1989-1995 Issues	1989-1995	2.55-6.70%	2017-2023	$ -	$ 146,465	$ 50,000	$ 8,450	$ 188,015
Less: Bond Discounts				-	584	166	26	724
Total Bonds Payable Net of Discounts				$ -	$ 145,881	$ 49,834	$ 8,424	$ 187,291

The following table presents estimated annual debt service requirements for bonds payable outstanding at June 30, 1996, (expressed in thousands).

	1997	1998	1999	2000	2001	Maturity	Total
Revenue Bonds Payable:							
1989-1995 Issues Principal and Interest	$ 14,434	$ 16,481	$ 18,933	$ 17,136	$ 16,988	$ 244,518	$ 328,490
Less: Interest	6,733	7,306	7,162	7,006	6,833	105,435	140,475
Total Principal	$ 7,701	$ 9,175	$ 11,771	$ 10,130	$ 10,155	$ 139,083	$ 188,015

Note 12. Long-Term Obligations - Component Units, Proprietary Funds

Bonds payable at June 30, 1996, 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	1961-1989	3.38-7.65%	2023	$ 37,093	$ 55,085	$ -	$ 2,045	$ 53,040
Revenue Bonds Payable from User Fees:								
Student Loan Authority	1992-1995	3.70-6.70%	2025	-	71,870	5,980	2,000	75,850
Environmental Finance Auth.	1973-1977	5.60-7.30%	2008	-	45,350	-	995	44,355
Housing Finance Agency	1980-1995	4.10-10.43%	2026	-	546,141	101,210	96,833	550,518
Turnpike Authority	1989-1992	3.15-7.88%	2022	-	686,684	-	10,142	676,542
Grand River Dam Authority	1987-1995	4.40-6.30%	2013	-	1,101,840	173,405	204,080	1,071,165
Municipal Power Authority	1985-1994	2.75-8.60%	2028	-	398,200	-	3,525	394,675
Total Before Discounts/Deferrals				37,093	2,905,170	280,595	319,620	2,866,145
Less: Bond Discounts				-	63,623	-	7,922	55,701
Net Deferred Debits on Refundings				-	141,472	-	8,852	132,620
Total Bonds Payable Net of Discounts/Deferrals				$ 37,093	$ 2,700,075	$ 280,595	$ 302,846	$ 2,677,824

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, 1996, (September 30, 1995, for Oklahoma Housing Finance Agency and December 31, 1995, for Oklahoma Turnpike Authority, and Grand River Dam Authority) (expressed in thousands).

	1997	1998	1999	2000	2001	Maturity	Total
General Obligation Bonds:							
Industrial Finance Authority	$ 5,817	$ 2,726	$ 2,726	$ 2,726	$ 2,726	$ 99,309	$ 116,030
Revenue Bonds:							
Student Loan Authority	8,848	8,040	6,892	5,931	5,220	66,482	101,413
Environmental Finance Auth.	3,685	3,645	5,827	2,684	2,686	50,083	68,610
Turnpike Authority	51,653	51,652	51,648	51,649	51,653	1,128,316	1,386,571
Grand River Dam Authority	94,683	95,744	95,621	95,610	95,552	1,187,037	1,664,247
Municipal Power Authority	25,728	25,698	28,313	28,284	28,269	642,415	778,707
Total Principal and Interest	190,414	187,505	191,027	186,884	186,106	3,173,642	4,115,578
Less: Interest	129,634	125,355	121,912	118,464	114,916	1,189,670	1,799,951
Subtotal: Principal	60,780	62,150	69,115	68,420	71,190	1,983,972	2,315,627
Housing Finance Agency	21,614	6,060	8,011	6,778	6,735	501,320	550,518
Total Principal	$ 82,394	$ 68,210	$ 77,126	$ 75,198	$ 77,925	$ 2,485,292	$ 2,866,145

A. General Obligation Bonds

Oklahoma Industrial Finance Authority (OIFA) has issued seven 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 six 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 Housing Finance Agency** (OHFA) has issued 31 series of revenue bonds with an original issue amount of $871,779,000. 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, 1995, is approximately $1,580,000.

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 nine 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, 1996 (December 31, 1995 for OTA, GRDA, and OMPA) (expressed in thousands).

General Obligation Bonds	Revenue Bonds		
OIFA	OTA	GRDA	OMPA
$ 13,625	$ 625,675	$ 1,028,217	$ 50,458

D. Notes Payable

Notes payable at June 30, 1996, 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	1987-1995	3.90-6.25%	2025	$ 93,600	$ 33,336	$ 58,800	$ 33,261	$ 58,875
Medical Technology and Research Authority	1995-1996	6.25-8.25%	2015	2,908	1,090	1,816	55	2,851
Environmental Finance Auth.	1976	7.50%	1996		83	-	83	-
Total					$ 34,509	$ 60,616	$ 33,399	61,726
Less: Current Portion								30,409
Total Noncurrent Notes Payable								$ 31,317

The following table presents annual debt service requirements for notes payable outstanding at June 30, 1996 (expressed in thousands).

	1997	1998	1999	2000	2001	Maturity	Total
Student Loan Authority	$ 32,965	$ 1,115	$ 1,115	$ 1,115	$ 1,115	$ 61,132	$ 98,557
Medical Technology and Research Auth.	321	385	317	317	318	2,828	4,486
Total Principal and Interest	33,286	1,500	1,432	1,432	1,433	63,960	103,043
Less: Interest	2,877	1,292	1,281	1,270	1,258	33,339	41,317
Total Principal	$ 30,409	$ 208	$ 151	$ 162	$ 175	$ 30,621	$ 61,726

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).

	1997	1998	1999	2000	2001	Maturity	Total
	$ 1,810	$ 1,554	$ 1,554	$ 1,031	$ 770	$ 1,982	$ 8,701
Less: Interest							1,567
Present Value of Minimum Lease Payments							$ 7,134

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	$ 8,557	$ -	$ 1,423	$ 7,134

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

Facilities and Equipment	$ 18,774
Less: Accumulated Depreciation	12,981
Net	$ 5,793

Note 13. Long-Term Obligations - Component Unit, Higher Education Funds

Long-term obligations at June 30, 1996, 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	-	$ 5,150	$ 3,875	$ 1,325	$ 7,700
Revenue Bonds	1959-1996	3.00-12.00%	2023	-	124,813	58,780	23,522	160,071
Notes Payable					930	1,271	661	1,540

The following table presents annual principal and interest payments applicable to long-term debt outstanding at June 30, 1996 (expressed in thousands).

	1997	1998	1999	2000	2001	Maturity	Total
General Obligation Bonds	$ 1,536	$ 1,852	$ 1,882	$ 564	$ 545	$ 2,440	$ 8,819
Less: Interest	261	167	152	134	115	290	1,119
Total Principal	$ 1,275	$ 1,685	$ 1,730	$ 430	$ 430	$ 2,150	$ 7,700
Revenue Bonds	$ 14,786	$ 15,572	$ 15,900	$ 16,379	$ 16,230	$ 179,839	$ 258,706
Less: Interest	8,498	8,050	7,592	7,074	6,998	60,423	98,635
Total Principal	$ 6,288	$ 7,522	$ 8,308	$ 9,305	$ 9,232	$ 119,416	$ 160,071
Notes Payable	$ 483	$ 483	$ 484	$ 357	$ -	$ -	$ 1,807
Less: Interest	113	81	47	26	-	-	267
Total Principal	$ 370	$ 402	$ 437	$ 331	$ -	$ -	$ 1,540

A. General Obligation Bonds

Rose State College Technical Area Education District and Tulsa Community College Area School District #18 have authorized and issued four series of general obligation bonds with an original issue amount of $16,925,000. 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 45 series of revenue bonds with an original issue amount of $558,717,000. 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 August 1995, Oklahoma State University advance refunded its Oklahoma State University Technical Institute at Okmulgee, Student Union Revenue Bonds Series 1988, by placing proceeds of the Oklahoma State University, Technical Branch, Okmulgee Student Union Refunding Revenue Bonds, Series 1995, in an irrevocable trust to provide for all future debt service payments of the old bonds. Accordingly, the trust account and defeased bonds are not included in the accompanying financial statements. At June 30, 1996, the balance of the defeased 1988 Series bonds was $1,235,000. The University advance refunded the 1988 Series bonds to reduce its total debt service payments over the next 12 years by approximately $120,000 and to obtain an economic gain (difference between the present values of the debt service payment on the old and new debt) of approximately $82,000.

In November 1995, Oklahoma State University defeased its Housing System Revenue Bonds of 1967A by placing funds available from the bond issue’s sinking fund account in an irrevocable trust to provide all future debt service payments of the bonds. The 1967A bonds have been escrowed to maturity (July 1, 2007) and the principal balance of the bonds was $670,000 at June 30, 1996. The trust account and defeased bonds are not included in the accompanying financial statements. This defeasance reduced the total debt service payments over the next 10 years by approximately $241,000.

In January 1996, Oklahoma State University current refunded its Athletic Facility Refunding Revenue Bonds of 1987, by using proceeds of the Athletic System Revenue Bonds, Refunding Series 1996, to call the outstanding bonds of the 1987 Series. The University refunded the 1987 Series bonds to reduce its total debt service payments over the next 16 years by approximately $827,000 and to obtain an economic gain (difference between the present values of the debt service payment on the old and new debt) of approximately $767,000.

In September 1995, the University of Oklahoma advance refunded its 1987 Utility System Revenue Refunding Bonds, by placing proceeds of the 1995 Utility System Revenue Refunding Bonds, in an irrevocable trust to provide for all future debt service payments of the old bonds. Accordingly, the trust account and defeased bonds are not included in the accompanying financial statements. At June 30, 1996, the balance of the defeased 1987 Series bonds was $8,920,000. The University advance refunded the 1987 Series bonds to reduce its total debt service payments over the next 8 years by approximately $444,000 and to obtain an economic gain (difference between the present values of the debt service payment on the old and new debt) of approximately $425,000.

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, 1996, $12,555,000 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 which have since been leased. The lease payments and the facilities constructed secure the notes. In addition, the University of Oklahoma Health Sciences Center 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, 1996 (expressed in thousands).

	1997	1998	1999	2000	2001	Maturity	Total
	$ 2,749	$ 2,239	$ 1,767	$ 1,322	$ 1,276	$ 2,883	$ 12,236
Less: Interest							2,363
Present Value of Minimum Lease Payments							$ 9,873

Capital lease obligations at June 30, 1996, and changes for the fiscal year then ended are as follows (expressed in thousands).

	Beginning Balance	Additions	Reductions	Ending Balance
Capital Lease Obligations	$ 10,988	$ 680	$ 1,795	$ 9,873

Leased equipment under capital leases in investment in fixed assets at June 30, 1996, included the following (expressed in thousands).

Facilities and Equipment	$ 22,332
Less: Accumulated Depreciation	10,004
Net	$ 12,328

Note 14. Deferred Compensation Plan

The State offers its employees a Deferred Compensation Plan (Plan) as authorized by Section 457 of the Internal Revenue Code of 1954, and as amended by the Tax Reform Act of 1986. The Plan is available to all full-time 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 $7,500 per year, with a minimum contribution of $25 per month. The participants may direct investment of such funds in available investment options offered by the Plan. 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 to the Plan, is accounted for as catch-up contributions for the years in which the participant was eligible, but did not participate in the Plan or was not contributing at 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.

All amounts of compensation deferred under the Plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights (until paid or made available to the employee or other beneficiary) are solely the property and rights of the State (without being restricted to the provisions of benefits under the Plan), and are subject to the claims of the State's general creditors. Participants' rights under the Plan are equal to those of general creditors of the State in an amount equal to the fair market value of the deferred account for each participant. During the year, some Plan assets were used to pay participant deferred compensation benefits and certain administrative fees charged by the investment carriers. Such administrative fees are charged to individual participant balances.

It is the opinion of Plan management that the State has no liability for losses under the Plan but does have the duty of due care that would be required of an ordinary prudent investor. Plan management believes that it is unlikely that the State will use the assets of the Plan to satisfy the claims of the State's general creditors in the future.

Note 15. Beginning Fund Equity Adjustments and Other Changes

Beginning Fund Equity Adjustments

During fiscal 1996, the State implemented Governmental Accounting Standards Board Statement 25 (GASB 25), *Financial Reporting for Defined Benefit Pension Plans and Note Disclosure for Defined Contribution Plans*, and Governmental Accounting Standards Board Statement 27 (GASB 27), *Accounting for Pensions by State and Local Governmental Employers.* Although the new statements made numerous changes, most significant was the requirement to report investments at fair value. As a result, cash/cash equivalents and investments were increased by approximately $649,700,000.

The Pension Trust Funds were increased for the addition of the Wildlife Conservation Retirement Plan. The Department of Wildlife's Trust Fund was reclassified from an Expendable Trust Fund to a Nonexpendable Trust Fund. Medical Technology and Research Authority was reclassified from the General Fund to a Proprietary Component Unit. The Special Indemnity Fund was reclassified from the General Fund to an Expendable Trust Fund. Detailed amounts for each of these entities or funds are presented in the combining financial statements.

Eight college and universities included in the Higher Education Component Unit reevaluated the carrying value of plant assets and five of these institutions began recording depreciation.

The following schedule reconciles June 30, 1995, 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	Proprietary Component Units	Higher Education Component Unit
June 30, 1995, fund equity, as previously reported	$ 1,133,683	$ 188,326	$ 21,438	$ 8,499,584	$ 473,351	$ 2,070,030
Reclassifications:						
Wildlife Conservation Retirement Plan	-	-	-	39,169	-	-
Department of Wildlife Trust	-	-	-	630	-	-
Medical Technology and Research Authority	236	-	-	-	10	-
Special Indemnity Fund	13,442	-	-	(13,442)	-	-
Prior period adjustments:						
To record implementation of GASB 25 and 27	-	-	-	647,734	-	-
Plant inventory and depreciation adjustments	-	-	-	-	-	(117,982)
Other	-	-	-	-	-	13
June 30, 1995, fund equity, as restated	$ 1,147,361	$ 188,326	$ 21,438	$ 9,173,675	$ 473,361	$ 1,952,061

Other Changes

During fiscal 1996, the State implemented Governmental Accounting Standards Board Statement 24 (GASB 24), *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance.* As a result, the receipt, storage, and distribution of food stamps is reported in the general fund for fiscal 1996. Prior to 1996, food stamps were presented in an agency fund, Assets Held for Beneficiaries. Fiscal 1995 amounts have been restated for comparability purposes.

In addition, GASB 24 required that payments for fringe benefits and salaries made by one entity (paying entity) on-behalf of another legally separate entity (employer entity) be recognized by the employer entity. A portion of the Higher Education Component Unit's (employer entity) pension contribution is made by the general fund (paying entity). As a result, these contributions are reported in the General Fund as transfers to the Higher Education Component Unit for fiscal 1996. Prior to fiscal 1996, the contributions were reported in the General Fund as payments to the pension trust fund. Also, these contributions have been recognized in the Higher Education Component Unit as transfers from the primary government and expenditures. Prior to fiscal 1996 these contributions were not recognized in the Higher Education Component Unit. Fiscal 1995 amounts have been restated for comparability purposes. (See Note 20 for further discussion of on-behalf payments.)

Note 16. Nonrecourse Debt, Notes Receivable, and Funds in Trust of the Oklahoma Development Finance Authority

The Oklahoma Development Finance Authority (ODFA) holds notes receivable and trust investments in amounts equal to the long-term financings. The financing agreements 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. As of June 30, 1996, the aggregate amount of these financings is approximately $169,000,000 for all public and private programs. The financings are not the general obligations of ODFA, 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.

Under the Constitution of the State of Oklahoma, ODFA may issue bonds, 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. ODFA can provide insurance for payment of the principal and interest on authority revenue bonds or other financial obligations under certain conditions. As of June 30, 1996, there were approximately $15,100,000 of outstanding financial obligations insured by ODFA. Approximately $4,400,000 of these obligations were more than 90 days delinquent as of June 30, 1996. Subsequent to June 30, 1996, approximately $1,200,000 of the delinquent bonds was paid in full. ODFA has accrued a reserve for loan losses of approximately $3,600,000 to cover potential losses from outstanding financial obligations insured by ODFA. Through June 30, 1996, there have been no Oklahoma Credit Enhancement Reserve Fund General Obligation Bonds issued.

Note 17. Retirement and Pension Systems

A. General Description of the Retirement Systems and Other Information

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, OLERS, OPERS, OPPRS, AND TRS are cost-sharing multiple-employer defined benefit retirement systems. URSJJ and WCRP 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 605
Oklahoma City, OK 73116-7335

Public Employees Retirement	Uniform Retirement System for	Teachers Retirement
580 Jim Thorpe Bldg.	Judges and Justices	P.O. Box 53524
2101 N. Lincoln Blvd.	2101 N. Lincoln Blvd.	Oklahoma City, OK 73105-4209
Oklahoma City, OK 73116	Oklahoma City, OK 73116	

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.

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

OFPRS	OLERS	OPERS	OPPRS	TRS
464	7	130	108	632

Of particular significance, TRS's unfunded accrued actuarial liability increased approximately $130 million during the current year. At June 30, 1996, the funded ratio was only 40%, and the total estimated unfunded liability was approximately $4.74 billion. A joint executive-legislative committee began studying this problem during 1996, and is expected to provide recommendations for action in the upcoming legislative session.

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. 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 12.5% of the member's applicable earnings. The contribution rate for paid firefighters is scheduled to increase on July 1, 1996, to 13%. 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 to OFPRS as required by statute. Insurance premium contributions to the plan for the years ended June 30, 1996, 1995, and 1994 totaled $36,793,282, $35,345,474, and $35,003,931, 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, 1996, 1995, and 1994 were $3,548,000, $3,554,000 and $3,384,000, 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, 50 cents per vehicle inspection sticker issued 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, 1996, 1995, and 1994 totaled $12,447,899, $11,880,094, and $11,628,520, respectively.

Oklahoma Public Employees Retirement System (OPERS) receives contributions from each member based on their gross salary earned (excluding overtime) up to the maximum annual salary caps for the fiscal years ended June 30 are as follows: 1996 - $60,000; 1997 - $70,000; 1998 - $80,000; and thereafter - No Cap. Contributions are received from the following categories of employees: eligible officers, which includes employees of the Department of Corrections who are classified as a correction officer or a probation and parole officer; elected officials, which includes all elected officials who serve the State and participating counties except those officials covered by the other seven plans sponsored by various agencies of the State; and State, county, and local agency employees, which includes all state employees not covered by one of the other seven plans and employees of participating county and local agencies.

<u>State, County, and Local Agency Employees</u> - The contribution rates in effect for the year ended June 30, 1996, and the rates in effect for subsequent years for state employees and agencies are summarized as follows:

Year ended June 30	State Employees First $25,000	State Employees To Cap	State Agencies First $25,000	State Agencies To Cap
1996	2.00%	3.50%	11.50%	11.50%
1997	2.50%	3.50%	12.00%	12.00%
1998	3.00%	3.50%	12.50%	12.50%
Thereafter	3.50%	3.50%	12.50%	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	First $25,000 Maximum Employer	First $25,000 Total	To Cap Employee	To Cap Employer
1996	7.00%	11.50%	13.50%	3.50%	11.50%
1997	7.50%	12.00%	14.50%	3.50%	12.00%
1998	8.00%	12.50%	15.50%	3.50%	12.50%
Thereafter	8.50%	12.50%	16.00%	3.50%	12.50%

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. Employee contributions of the first $25,000 of eligible salaries will increase by 0.5% annually beginning July 1, 1998, to a maximum of 8.0%.

State agency employer contributions to OPERS for the year ended June 30, 1996, 1995, and 1994 were $107,381,215, $103,506,658, and $67,594,024, respectively. These contributions represent 100% of the contribution required.

Uniform Retirement System for Justices and Judges (URSJJ) member contributions for fiscal 1996 are 5% of members' salary. If a member elects to extend the provisions of URSJJ to a surviving spouse, contributions are 8% of a member's salary. Contributions from the participating courts are 10% of all fines, forfeitures and penalties received by the courts. These contributions were determined quarterly.

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 will continue until July 1, 1996, when the contribution level reaches 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, 1996, 1995, and 1994 totaled $15,150,000, $14,555,000, and $14,413,000, respectively.

Teachers Retirement System (TRS) receives contributions from participating members and employers; however, an employer may elect to make all or part of the contribution for its employees. The contribution rates vary on pay up to $25,000 and over $25,000, and prior to July 1, 1995, there was a limit on pay recognized. In addition, there are special provisions for members of higher education who joined the TRS before July 1, 1995.

The following table summarizes the contribution rates for members other than higher education:

Year ended June 30	First $25,000	Over $25,000
1996	6.00%	7.00%
1997	6.50%	7.00%

The following table summarizes the contribution rates for members of higher education:

Year ended June 30	Rate of Pay	Percentage	Pay Maximum
1996	$27,500	6.00%	$27,500, if elected to not make additional contributions on excess to $40,000.
1996	$44,000	6.00%	$44,000, if elected to make additional contributions on excess to $40,000 or if a member prior to July 1, 1995, had not made an election.
1997	None	6.50%	None.

Employers are required to contribute a fixed percentage of annual compensation on behalf of active members. The employer contribution rate of 9.5% and 8.5% for 1997 and 1996, respectively, is applied to annual compensation up to defined caps depending upon the member's elections. Oklahoma statutes require the State to contribute 5/7ths of 78% of the natural and casinghead gas tax collected each year. This contribution by the State is used to offset the percentage of the required employer contributions. TRS received approximately $114,202,984 from the State and approximately $7,880,459 from federal sources in 1996. State employer contributions to TRS for the year ended June 30, 1996, 1995, and 1994 were $1,103,617, $830,524, and $844,981, respectively. These contributions represent 100% of the contribution required.

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. On July 1, 1995, the employee contribution rate increased from 2% to 2.5% and is scheduled to increase to 3% on July 1, 1996. The Department of Wildlife Conservation is required to contribute at an actuarially determined rate. The required contribution for the year ended June 30, 1996 was $1,530,000.

C. Annual Pension Cost and Net Pension Obligation

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

	URSJJ	WCRP
Annual required contribution	$ 2,509	$ 1,530
Interest on net pension obligation	(212)	294
Adjustment to annual required contribution	250	(470)
Annual pension cost	2,547	1,354
Contributions made	4,503	1,264
Increase (decrease) in net pension obligation	(1,956)	90
Net pension obligation-beginning of year	(2,821)	2,142
Net pension obligation-end of year	$ (4,777)	$ 2,232

Actuarial Assumptions:		
Investment rate of return	7.5%	8.0%
Annual salary increase	1.0%	5.0%
COLA increase	4.5%	2.0%

The annual required contribution for URSJJ for the current year was determined as part of the July 1, 1995, actuarial valuation. Costs in the valuation were prepared using the entry age actuarial cost method, until July 1, 1994, when the unfunded actuarial liability was negative and the actuarial cost method was changed to the aggregate method. Under the aggregate actuarial cost method, the normal cost is computed as the level percentage of pay which, if paid from the valuation date until each member's retirement or termination date, will, together with the assets of the plan, accumulate with interest at the rate assumed in the valuation to a fund sufficient to pay all benefits under the Plan. 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. 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 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, 1995, 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

	Fiscal Year Ending	Annual Pension Cost (APC)	Percentage Of APC Contributed	Net Pension Obligation
Uniform Retirement System for Justices and Judges	6/30/96	$2,546,746	179%	($4,777,327)
	6/30/95	2,816,556	132%	(2,821,043)
	6/30/94	3,313,762	112%	(1,933,708)
Wildlife Conservation Retirement Plan	6/30/96	$1,353,876	93%	$2,231,664
	6/30/95	1,305,178	0%	2,141,873
	6/30/94	1,232,940	56%	836,695

The following required supplementary schedule for the Wildlife Conservation Retirement Plan was determined as part of the actuarial valuations at the dates indicated.

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)
7/1/96	42,368,033	48,101,189	5,733,156	88.1%	10,807,681	53.0%
7/1/95	39,168,620	44,196,055	5,027,435	88.6%	10,329,951	48.7%
7/1/94	36,963,040	40,948,606	3,985,566	90.3%	9,628,524	41.4%

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 79 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, 1995, OHFA's retirement plan expense was $223,175. Total payroll was $2,304,589, and total covered payroll was $2,244,965. Contributions made by OHFA represent 10% of covered payroll for 1995, net of plan forfeitures.

The entities included in the Higher Education Component Unit are all participants in TRS. However, some employees, depending on job classification, are covered by other retirement plans. The specific disclosures regarding these retirement plans can be found in each entity's independent audit report which has been previously issued under separate cover.

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

Note 18. Other Postemployment Benefits

In addition to the pension benefits described in Note 17, 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 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	$ 279,255	310	Title 74, 1316.2
OPERS	$ 11,235,900	12,452	Title 74, 1316.2
URSJJ	$ 64,275	73	Title 74, 1316.2
TRS	$ 19,432,000	23,089	Title 74, 1316.2
WCRP	$ 62,175	71	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 17.

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 $1,950,000 for the estimated 1,900 eligible participants.

Note 19. Condensed Financial Statement Information for Discretely Presented Proprietary Component Units and Enterprise Fund

Condensed financial statement information for the discretely presented proprietary component units for the fiscal year ended June 30, 1996 (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	State Insurance Fund (12-31-95 Fiscal Year)	State and Education Employ. Group Insurance Bd.	Oklahoma Student Loan Authority	University Hospitals Authority
Operating Revenue	$ 4,181	$ 265,485	$ 257,385	$ 9,998	$ 173,050
Operating Expenses					
Depreciation	110	1,626	190	253	13,802
Other	3,811	289,512	271,164	9,142	192,212
Operating Income (Loss)	260	(25,653)	(13,969)	603	(32,964)
Operating Transfers:					
From Primary Government	-	-	-	-	26,577
To Primary Government	-	-	-	-	-
Nonoperating Revenues (Expenses)	610	56,667	10,887	2,273	3,385
Deferred Costs	-	-	-	-	-
Net Income (Loss)	870	31,014	(3,082)	2,876	(3,002)
Current Assets	25,238	777,061	244,808	18,389	76,239
Current Liabilities	4,004	728,608	78,253	38,630	23,931
Net Working Capital	21,234	48,453	166,555	(20,241)	52,308
Total Assets	55,031	783,012	245,365	169,992	205,019
Total Liabilities	54,004	728,608	78,253	136,850	28,393
Fund Equity	1,027	54,404	167,112	33,142	176,626
Long-term Liabilities	50,000	-	-	98,220	4,462
Fixed Assets - Beginning of Year	185	11,894	1,499	483	272,994
Additions	2	994	47	94	7,181
Deletions	-	(195)	-	-	(3,445)
Fixed Assets - End of Year	$ 187	$ 12,693	$ 1,546	$ 577	$ 276,730

The **Oklahoma Housing Finance Agency** (OHFA) received Federal financial assistance totaling $35,091,000 in housing assistance payments during the year ended September 30, 1995, 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.

Note 20. On-Behalf Payments

In 1992, the Legislature passed Senate Bill 568 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 under Senate Bill 568. The employer is responsible for providing any difference between the dedicated tax and the required employer contribution. During fiscal year 1996, the State contributed, through the dedicated natural and casinghead gas tax, approximately $23,417,000 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 $9,000,000 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.

Medical Technology and Research Authority	Oklahoma Development Finance Authority	Oklahoma Environmental Finance Authority	Oklahoma Housing Finance Agency (9-30-95 Fiscal Year)	Oklahoma Turnpike Authority (12-31-95 Fiscal Year)	Grand River Dam Authority (12-31-95 Fiscal Year)	Oklahoma Municipal Power Authority (12-31-95 Fiscal Year)	Total
$ 2,354	$ 518	$ 2,729	$ 45,732	$ 106,030	$ 165,321	$ 68,565	$ 1,101,348
97	12	-	87	35,388	26,085	5,454	83,104
2,045	485	2,732	48,794	33,626	83,616	50,007	987,146
212	21	(3)	(3,149)	37,016	55,620	13,104	31,098
-	-	-	-	27,505	-	-	54,082
-	-	-	-	(27,505)	-	-	(27,505)
-	1,111	3	6,417	(30,940)	(58,368)	(17,876)	(25,831)
-	-	-	-	-	3,471	5,653	9,124
212	1,132	-	3,268	6,076	723	881	40,968
771	437	12	112,071	55,208	108,951	20,145	1,439,330
655	85	1,338	28,295	46,783	50,100	19,358	1,020,040
116	352	(1,326)	83,776	8,425	58,851	787	419,290
3,594	6,094	44,529	589,000	763,296	1,011,711	414,859	4,291,502
3,372	3,506	44,455	561,202	711,545	980,465	402,905	3,733,558
222	2,588	74	27,798	51,751	31,246	11,954	557,944
2,717	3,421	43,117	532,907	664,762	930,365	383,547	2,713,518
1,665	107	-	1,150	992,136	891,744	190,037	2,363,894
1,318	2	-	45	49,913	26,185	36,464	122,245
-	-	-	(119)	(20)	(26,726)	(29,375)	(59,880)
$ 2,983	$ 109	$ -	$ 1,076	$ 1,042,029	$ 891,203	$ 197,126	$ 2,426,259

The enterprise fund presented in the combined financial statements is comprised solely of **Oklahoma Water Resources Board** bond issues. This enterprise fund has current assets totaling $12,945,000 and current liabilities totaling $10,597,000, leaving net working capital of $2,348,000 for the fiscal year ended June 30, 1996.

Note 21. Commitments

Primary Government

The **Department of Transportation** had contractual commitments at June 30, 1996, of approximately $347,600,000 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 $28,069,000 for the General Fund and $1,348,000 for the Capital Projects Fund.

Component Units

The **Oklahoma Industrial Finance Authority** (OIFA) had outstanding loan commitments at June 30, 1996, approved by its Board of Directors totaling $5,250,000. Subsequent to June 30, 1996, OIFA has issued additional commitments of $398,000. These loan agreements included a "pending clause" which stated that money would be disbursed upon availability of funds.

The **Oklahoma Turnpike Authority** (OTA) had commitments outstanding at December 31, 1995, relating to equipment orders and maintenance projects of approximately $7,077,000. At December 31, 1995, OTA had commitments outstanding relating to construction contracts of approximately $1,555,000.

The **Grand River Dam Authority** (GRDA) has entered into agreements to purchase and transport coal for future use. Under the agreements, GRDA is committed to purchase and transport a specified number of tons of coal each year over the remaining lives of the agreements. Under terms of the agreements, the price of the coal and transportation costs are subject to escalation and prices may be renegotiated at specified times. Total purchases under the agreements were $60,262,000 for 1995. GRDA also entered into a lime purchase agreement in 1993. Under the agreement, GRDA is committed to purchase a specified number of tons of lime each year over the remaining life of the agreement. The price per ton increases yearly as specified by the contract.

The **Oklahoma Municipal Power Authority** (OMPA) purchased approximately $9,307,000 of power pursuant to several long-term purchase agreements during 1995. OMPA is obligated to purchase, at a minimum, approximately $6,100,000 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.

Rose State College (RSC), a member of the Higher Education Component Unit, has entered into a contract for the construction of a Communications Center. The total contract amount is approximately $10,952,000 with an estimated completion date of December 1997. The construction of the Communications Center will be partially funded by the proceeds of General Obligation Bonds issued by the **Rose State College Technical Area Education District**, a component unit of RSC.

Note 22. 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, 1996. The State has accrued liabilities of approximately $6,500,000 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 $19,000,000 to $30,000,000. 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, 1996, 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, 1996, DOT had project expenditures totaling $13,900,000 of which an estimated $11,400,000 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. The Board has not received legislative authorization to pay the annual payments due in years 1989 through 1996. The Army Corps of Engineers has indicated that the obligation may be declared in default and remedies sought. No further action has been taken by the Army Corps of Engineers pending pursuit of the possible sale of water from Sardis Reservoir. The proceeds from the sale of water would be used to make annual payments to the United States. Total unaudited construction costs of the Sardis Reservoir allocated to water supply storage, as last estimated by the Army Corps of Engineers, are approximately $37,000,000, repayment of which is governed by the 1974 contract. It is unknown at this time what the final outcome and/or annual payment schedule, if any, will be.

Component Unit

The **Oklahoma State and Education Employees Group Insurance Board** is a defendant in a lawsuit in which the plaintiff alleges breach of contract and failure to provide assistance as promised. The plaintiff is seeking damages in excess of $7,000,000. The matter is currently pending and no provision for a potential loss has been recorded.

Note 23. Subsequent Events

Component Units

Subsequent to June 30, 1996, **Langston University** issued $2,000,000 of revenue bonds to finance capital expenditures of the University. These bonds were issued through the Oklahoma Development Finance Authority, and are secured with pledged Section 13 funds. In August 1996, **Eastern Oklahoma State College** defeased outstanding bonds in the amount of $542,000, using the funds in the Retirement of Indebtedness Fund and the Renewal and Replacement Fund.

In September 1996, **Oklahoma Industrial Finance Authority** issued $10,000,000 of Taxable General Obligation Industrial Finance Bonds **-** Series S. In August 1996, **Oklahoma Student Loan Authority** authorized the issuance of two series of revenue bonds. A summary of the primary purposes follows:

Issue	Purpose
$5,975,000 Series 1996B-1 Subordinate Bonds	Refunding of 1987 SLMA Variable Rate Revenue Note
$6,230,000 Series 1996B-2 Subordinate Bonds	Partial refunding of 1992A Series Bonds

During November 1995, **Oklahoma Housing Finance Agency** extended the maturity date for one year on the Single Family Mortgage Revenue Bonds 1994 Series D and issued the following revenue bonds:

Issue	Purpose
$16,030,000 Single Family Mortgage Revenue Bonds 1995, Series B	Purchase Single Family Mortgage Loans
$10,000,000 Single Family Mortgage Revenue Bonds 1995, Series D-2	Remarket to a long term fixed rate of interest, a portion of 1994 Series D Bonds
$16,870,000 Multifamily Rental Housing Refunding Revenue Bonds 1995 Series A and B	Refunding of 1988 Rental Revenue Bonds