



Financial Section

STATE AUDITOR AND INSPECTOR

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State Auditor

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INDEPENDENT AUDITOR'S REPORT

TO THE GOVERNOR AND MEMBERS OF THE LEGISLATURE OF THE STATE OF OKLAHOMA

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Oklahoma as of and for the year ended June 30, 2008, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Oklahoma's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit:

- the financial statements of the Commissioners of the Land Office, the Oklahoma Department of Commerce, the Native American Cultural and Educational Authority, the Oklahoma Insurance Department, or the Oklahoma Department of Wildlife Conservation, which in the aggregate represent ten percent and three percent, respectively, of the assets and revenues of the governmental activities, and two percent of both the assets and revenues of the general fund.
- the financial statements of the Water Resources Board or the Oklahoma Lottery Commission which in the aggregate represent fifty-four percent of the assets and fifty-two percent of the revenues of the business-type activities and the enterprise funds;
- the financial statements of the aggregate discretely presented component units;
- the financial statements of the Commissioners of the Land Office permanent fund, the Oklahoma Department of Wildlife Conservation Lifetime Licenses permanent fund, or the Tobacco Settlement Endowment permanent fund, which in the aggregate represent one hundred percent of the permanent funds;
- the financial statements of the Oklahoma Firefighter's Pension and Retirement System, the Oklahoma Law Enforcement Retirement System, the Oklahoma Police Pension and Retirement System, the Oklahoma Public Employee's Retirement System, the Oklahoma Teachers' Retirement System, the Uniform Retirement System for Judges and Justices, the Oklahoma Department of Wildlife Conservation Retirement Plan, or the Oklahoma State and Education Employees Group Insurance Board which in the aggregate represent ninety-eight percent of the assets and one hundred percent of the revenues of the aggregate remaining fund information.

Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the above-mentioned entities, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the

State of Oklahoma as of June 30, 2008, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in the notes to the financial statements, the Teachers' Retirement System faces possible difficulty in meeting its future obligations. The auditor for the Teachers' Retirement System reported, "the System's actuary has determined that the System's unfunded actuarial accrued liability ("UAAL") is approximately \$9,090,000,000. The funding of the actuarial accrued liabilities is predicated on a funding schedule mandated by Oklahoma Statutes. Under the present funding schedule, the UAAL will be fully amortized in 54.4 years." The ultimate outcome of the ability of the System to meet its future obligations is dependent on funding established by Oklahoma Statutes, and cannot presently be determined.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2008, on our consideration of the State of Oklahoma's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, Budgetary Comparison Schedule-Budget to Actual (Non-GAAP Budgetary Basis) General Fund, and the Notes to Required Supplementary Information-Budgetary Reporting, as listed in the table of contents, and the Schedules of Funding Progress for the Wildlife Conservation Plan, Oklahoma Law Enforcement Retirement System, and the Uniform Retirement System for Judges and Justices presented in Note 14 to the basic financial statements are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The introductory section, statistical section and combining financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining financial statements have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and the statistical section listed in the aforementioned table of contents have not been audited by us, and accordingly, we do not express an opinion on them.



Steve Burrage, CPA
State Auditor and Inspector

December 30, 2008



Government-wide Financial Statements

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State of Oklahoma
Government Wide
Statement of Net Assets
June 30, 2008
(expressed in thousands)

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
Assets				
Current Assets				
Cash/Cash Equivalents	\$ 3,673,185	\$ 896,914	\$ 4,570,099	\$ 1,036,260
Investments	604,680	4,033	608,713	2,335,406
Securities Lending Investments	1,696,222	0	1,696,222	245,018
Accounts Receivable	29,833	23,131	52,964	326,143
Interest and Investment Revenue Receivable	41,491	6,306	47,797	39,123
Federal Grants Receivable	500,222	528	500,750	2,265
Taxes Receivable	262,742	0	262,742	0
Leases Receivable	6,918	0	6,918	0
Leases Receivable - Component Units	16,357	0	16,357	0
Other Receivables	326	353	679	84,719
Notes Receivable	0	40,934	40,934	51,174
Internal Balances	17,248	(17,248)	0	0
Receivable from External Parties	207	0	207	10,644
Due from Component Units	2,023	0	2,023	29,524
Due from Primary Government	0	0	0	298,749
Inventory	46,878	0	46,878	74,214
Prepaid Items	944	0	944	17,337
Other Current Assets	5,111	0	5,111	4,649
Total Current Assets	6,904,387	954,951	7,859,338	4,555,225
Noncurrent Assets				
Cash/Cash Equivalents - Restricted	82,095	75,437	157,532	370,781
Short-Term Investments - Restricted	0	0	0	1,673,176
Long-Term Investments	0	224,428	224,428	1,665,921
Long-Term Investments - Restricted	1,904,521	0	1,904,521	0
Leases Receivable	18,291	0	18,291	0
Leases Receivable - Component Units	505,514	0	505,514	0
Long-Term Notes Receivable, Net	0	598,871	598,871	164,197
Long-Term Notes Receivable, Net - Restricted	0	0	0	1,217,106
Long-Term Due from Component Units	49,216	0	49,216	0
Capital Assets - Depreciable, Net	6,495,382	771	6,496,153	4,264,210
Capital Assets - Land	1,485,216	0	1,485,216	339,151
Capital Assets - Construction in Progress	79,302	0	79,302	732,366
Other Noncurrent Assets	15,195	5,017	20,212	327,332
Other Noncurrent Assets - Restricted	34,550	0	34,550	46,197
Total Noncurrent Assets	10,669,282	904,524	11,573,806	10,800,437
Total Assets	17,573,669	1,859,475	19,433,144	15,355,662

The Notes to the Financial Statements are an integral part of this statement.

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
Liabilities				
Current Liabilities				
Accounts Payable and Accrued Liabilities	771,966	11,990	783,956	370,812
Payable Under Securities Lending Agreements	1,696,222	0	1,696,222	245,018
Claims and Judgments	7,685	0	7,685	296,935
Interest Payable	34,367	5,664	40,031	91,619
Tax Refunds Payable	8,947	0	8,947	0
Payable to External Parties	19,320	0	19,320	531
Due to Component Units	294,736	0	294,736	29,524
Due to Primary Government	0	0	0	2,023
Due to Others	164,877	0	164,877	0
Unearned Revenue	80,165	563	80,728	187,122
Capital Leases	1,787	0	1,787	18,891
Capital Leases - Primary Government	0	0	0	16,633
Compensated Absences	90,372	236	90,608	73,829
Notes Payable	10,528	0	10,528	144,064
General Obligation Bonds	15,200	0	15,200	1,760
Revenue Bonds	64,090	36,415	100,505	238,577
Bond Issue Premiums	4,179	0	4,179	0
Other Current Liabilities	3,691	2,310	6,001	174,777
Total Current Liabilities	3,268,132	57,178	3,325,310	1,892,115
Noncurrent Liabilities				
Claims and Judgments	12,887	0	12,887	787,024
Due to Primary Government	0	0	0	48,359
Pension Obligation	4,359	0	4,359	0
Capital Leases	3,295	0	3,295	170,978
Capital Leases - Primary Government	0	0	0	505,558
Compensated Absences	66,796	0	66,796	25,203
Notes Payable	201,042	0	201,042	479,883
General Obligation Bonds	203,755	0	203,755	53,457
Revenue Bonds	997,480	508,485	1,505,965	4,544,557
Bond Issue Premiums	44,710	0	44,710	0
Other Noncurrent Liabilities	0	349	349	249,694
Total Noncurrent Liabilities	1,534,324	508,834	2,043,158	6,864,713
Total Liabilities	4,802,456	566,012	5,368,468	8,756,828
Net Assets				
Invested in Capital Assets, Net of Related Debt	7,118,384	771	7,119,155	2,038,699
Restricted for:				
Capital Projects	79,866	0	79,866	0
Debt Service	133,958	205,271	339,229	241,155
Preservation of Wildlife	80,860	0	80,860	0
Educational Systems	1,555,953	0	1,555,953	0
Unemployment Benefits	0	870,338	870,338	0
Other Purposes				
Expendable	35,859	208,064	243,923	1,540,642
Nonexpendable	397,567	0	397,567	1,121,451
Unrestricted	3,368,766	9,019	3,377,785	1,656,887
Total Net Assets	\$ 12,771,213	\$ 1,293,463	\$ 14,064,676	\$ 6,598,834

The Notes to the Financial Statements are an integral part of this statement.

State of Oklahoma
Government Wide
Statement of Activities
For the Fiscal Year Ended June 30, 2008
(expressed in thousands)

Functions	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	
					Governmental Activities	Business-Type Activities		
Primary Government:								
Governmental Activities:								
Education-General	\$ 3,479,319	\$ 29,995	\$ 687,523	\$ 0	\$ (2,761,801)		\$ (2,761,801)	
Education-Payment to Higher Education	910,385	0	0	0	(910,385)		(910,385)	
General Government	1,680,106	222,663	61,967	0	(1,395,476)		(1,395,476)	
Health Services	4,214,407	140,691	2,704,116	0	(1,369,600)		(1,369,600)	
Legal and Judiciary	222,319	99,069	16,898	0	(106,352)		(106,352)	
Museums	32,164	1,985	847	0	(29,332)		(29,332)	
Natural Resources	249,235	99,918	78,544	0	(70,773)		(70,773)	
Public Safety and Defense	926,959	61,215	194,130	0	(671,614)		(671,614)	
Regulatory Services	95,653	100,313	5,321	0	9,981		9,981	
Social Services	1,782,333	157,818	1,139,932	0	(484,583)		(484,583)	
Transportation	791,993	91,438	639,372	0	(61,183)		(61,183)	
Interest on Long-Term Debt	74,108	0	0	0	(74,108)		(74,108)	
Total Governmental Activities	14,458,981	1,005,105	5,528,650	0	(7,925,226)		(7,925,226)	
Business-Type Activities:								
Employment Security Commission	194,549	227,733	18,454	0		\$ 51,638	51,638	
Water Resources Board	27,016	37,585	14,264	0		24,833	24,833	
Lottery Commission	145,951	214,400	1,144	0		69,593	69,593	
Total Business-Type Activities	367,516	479,718	33,862	0		146,064	146,064	
Total Primary Government	\$ 14,826,497	\$ 1,484,823	\$ 5,562,512	\$ 0	(7,925,226)	146,064	(7,779,162)	
Component Units:								
CompSource Oklahoma	\$ 297,941	\$ 347,019	\$ 0	\$ 0				\$ 49,078
State and Education Employees Group Insurance Board	587,811	602,576	0	0				14,765
Oklahoma Student Loan Authority	66,707	60,391	0	0				(6,316)
Oklahoma Housing Finance Agency	172,313	54,417	126,215	0				8,319
Oklahoma Turnpike Authority	194,754	216,160	0	0				21,406
Grand River Dam Authority	223,182	314,287	0	0				91,105
Oklahoma Municipal Power Authority	155,014	156,966	0	0				1,952
Higher Education	3,544,891	3,058,217	140,779	0				(345,895)
Nonmajor Component Units	222,472	170,181	2,090	395				(49,806)
Total Component Units	\$ 5,465,085	\$ 4,980,214	\$ 269,084	\$ 395				(215,392)
General Revenues								
Taxes:								
Income Taxes-Individual					2,753,040	0	2,753,040	0
Income Taxes-Corporate					552,193	0	552,193	0
Sales Tax					2,107,116	0	2,107,116	0
Gross Production Taxes					1,114,950	0	1,114,950	0
Motor Vehicle Taxes					604,926	0	604,926	0
Fuel Taxes					419,617	0	419,617	0
Tobacco Taxes					237,166	0	237,166	0
Other Personal Taxes					83,142	0	83,142	0
Insurance Taxes					100,778	0	100,778	0
Beverage Taxes					86,648	0	86,648	0
Other Taxes					121,670	0	121,670	0
Payments from Primary Government					0	0	0	983,761
Investment Earnings					247,191	0	247,191	0
Contributions to Permanent Funds					68,018	0	68,018	0
Transfers					68,323	(68,323)	0	0
Total General Revenues and Transfers					8,564,778	(68,323)	8,496,455	983,761
Change in Net Assets					639,552	77,741	717,293	768,369
Net Assets - Beginning of Year (as restated)					12,131,661	1,215,722	13,347,383	5,830,465
Net Assets - End of Year					\$ 12,771,213	\$ 1,293,463	\$ 14,064,676	\$ 6,598,834

The Notes to the Financial Statements are an integral part of this statement.



Fund Financial Statements



Fund Financial Statements

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State of Oklahoma
Balance Sheet
Governmental Funds
June 30, 2008
(expressed in thousands)

	Permanent Funds				Total Governmental Funds
	General	Commissioners of the Land Office	Department of Wildlife Lifetime Licenses	Tobacco Settlement Endowment	
Assets					
Assets					
Cash/Cash Equivalents	\$ 3,608,522	\$ 83,494	\$ 13,395	\$ 49,869	\$ 3,755,280
Investments	604,980	1,446,584	67,346	390,291	2,509,201
Securities Lending Investments	1,647,155	0	0	49,067	1,696,222
Accounts Receivable	29,833	0	0	0	29,833
Interest and Investment Revenue Receivable	41,491	11,376	0	3,189	56,056
Federal Grants Receivable	500,222	0	0	0	500,222
Taxes Receivable	262,742	0	0	0	262,742
Leases Receivable	25,209	0	0	0	25,209
Leases Receivable-Component Units	521,871	0	0	0	521,871
Other Receivables	326	13,735	0	48	14,109
Due from Other Funds	17,275	0	112	0	17,387
Due from Fiduciary Funds	207	0	0	0	207
Due from Component Units	2,023	0	0	0	2,023
Due from Component Units-Noncurrent	49,216	0	0	0	49,216
Inventory	46,878	0	0	0	46,878
Prepaid Items	944	0	0	0	944
Other Assets	5,104	6,202	7	0	11,313
Total Assets	\$ 7,363,998	\$ 1,561,391	\$ 80,860	\$ 492,464	\$ 9,498,713
Liabilities and Fund Balance					
Liabilities					
Accounts Payable and Accrued Liabilities	\$ 743,796	\$ 377	\$ 0	\$ 27,793	\$ 771,966
Payable Under Securities					
Lending Agreements	1,647,155	0	0	49,067	1,696,222
Interest Payable	10,347	0	0	0	10,347
Tax Refunds Payable	8,947	0	0	0	8,947
Due to Other Funds	112	0	0	27	139
Due to Fiduciary Funds	19,320	0	0	0	19,320
Due to Component Units	294,736	0	0	0	294,736
Due to Others	164,877	0	0	0	164,877
Deferred Revenue	207,325	5,061	0	0	212,386
Other Liabilities	3,691	0	0	0	3,691
Total Liabilities	3,100,306	5,438	0	76,887	3,182,631
Fund Balances					
Reserved					
Encumbrances	339,841	0	0	0	339,841
Inventory/Prepaid Items	47,110	0	0	0	47,110
Debt Service	133,958	0	0	0	133,958
Capital Construction	79,866	0	0	0	79,866
Preservation of Wildlife	0	0	63,011	0	63,011
Permanent Trust	0	1,555,953	0	397,567	1,953,520
Undistributed Revenue	0	0	17,849	18,010	35,859
Other Special Purposes	157,927	0	0	0	157,927
Unreserved, reported in					
General Fund					
Designated for Cash Flow Reserve Fund	564,907	0	0	0	564,907
Designated for Rainy Day Fund	596,573	0	0	0	596,573
Undesignated	2,343,510	0	0	0	2,343,510
Total Fund Balances	4,263,692	1,555,953	80,860	415,577	6,316,082
Total Liabilities and Fund Balances	\$ 7,363,998	\$ 1,561,391	\$ 80,860	\$ 492,464	

The Notes to the Financial Statements are an integral part of this statement.

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

Total Fund Balance - Governmental Funds \$ 6,316,082

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of :

Land	\$	1,485,216	
Buildings and Improvements		1,024,323	
Equipment		359,250	
Infrastructure		12,426,950	
Construction in Progress		79,302	
Accumulated Depreciation		<u>(7,315,141)</u>	
			8,059,900

Some of the State's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds. 132,221

The Uniform Retirement System for Judges and Justices and the Oklahoma Law Enforcement Retirement System have under funded their Annual Required Contributions, creating a net pension obligation. This liability is not payable from current available financial resources and is not reported in the funds. (2,639)

Bonds issued by the State have associated costs that are paid from current available financial resources in the funds. However, these costs are deferred on the statement of net assets. 5,774

Certain bonds issued by the State are for the purpose of refunding older bond issues. Some bonds that are refunded are done so at a loss to the State. These losses are costs in the funds, but are amortized over the life of the refunding bonds on the statement of net assets. 9,421

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Notes Payable		(211,570)	
General Obligation and Revenue Bonds		(1,280,525)	
Capital Leases and Certificates of Participation		(5,082)	
Net Pension Obligation (Wildlife)		(1,720)	
Bond Issue Premium		(48,889)	
Accrued Interest on Bonds		(24,020)	
Compensated Absences		(157,168)	
Claims and Judgements		<u>(20,572)</u>	
			(1,749,546)

Net Assets of Governmental Activities \$ 12,771,213

The Notes to the Financial Statements are an integral part of this statement.

State of Oklahoma
Statement of Revenues, Expenditures
and Changes in Fund Balances
Governmental Funds

For the Fiscal Year Ended June 30, 2008
(expressed in thousands)

	Permanent Funds				Total Governmental Funds
	General	Commissioners of the Land Office	Department of Wildlife Lifetime Licenses	Tobacco Settlement Endowment	
Revenues					
Taxes					
Income Taxes-Individual	\$ 2,753,040	\$ 0	\$ 0	\$ 0	\$ 2,753,040
Sales Tax	2,107,116	0	0	0	2,107,116
Gross Production Taxes	1,114,950	0	0	0	1,114,950
Income Taxes-Corporate	552,193	0	0	0	552,193
Motor Vehicle Taxes	604,926	0	0	0	604,926
Fuel Taxes	419,617	0	0	0	419,617
Tobacco Taxes	237,166	0	0	0	237,166
Other Personal Taxes	83,142	0	0	0	83,142
Insurance Taxes	100,778	0	0	0	100,778
Beverage Taxes	86,648	0	0	0	86,648
Other Taxes	121,670	0	0	0	121,670
Licenses, Permits and Fees	321,037	0	2,866	0	323,903
Interest and Investment Revenue	351,176	61,867	1,277	(15,314)	399,006
Federal Grants	5,503,532	0	0	0	5,503,532
Sales and Services	160,278	11,375	1,464	0	173,117
Other Grants and Reimbursements	341,225	0	0	0	341,225
Fines and Penalties	40,181	0	0	0	40,181
Other	25,597	0	0	68,017	93,614
Total Revenues	14,924,272	73,242	5,607	52,703	15,055,824
Expenditures					
Current					
Education	4,305,744	81,684	0	0	4,387,428
General Government	1,681,350	0	0	13,408	1,694,758
Health Services	4,200,188	0	0	0	4,200,188
Legal and Judiciary	215,942	0	0	0	215,942
Museums	31,586	0	0	0	31,586
Natural Resources	263,551	0	0	0	263,551
Public Safety and Defense	876,660	0	0	0	876,660
Regulatory Services	93,438	0	0	0	93,438
Social Services	1,755,810	0	0	0	1,755,810
Transportation	286,540	0	0	0	286,540
Capital Outlay	1,010,262	0	0	0	1,010,262
Debt Service					
Principal Retirement	126,103	0	0	0	126,103
Interest and Fiscal Charges	74,108	0	0	0	74,108
Total Expenditures	14,921,282	81,684	0	13,408	15,016,374
Revenues in Excess of (Less Than) Expenditures	2,990	(8,442)	5,607	39,295	39,450
Other Financing Sources (Uses)					
Transfers In	76,576	0	0	0	76,576
Transfers Out	(31)	(3,509)	(4,713)	0	(8,253)
Bonds Issued	23,000	0	0	0	23,000
Capital Leases and Certificates of Participation	2,873	0	0	0	2,873
Sale of Capital Assets	7,860	0	0	0	7,860
Total Other Financing Sources (Uses)	110,278	(3,509)	(4,713)	0	102,056
Net Change in Fund Balances	113,268	(11,951)	894	39,295	141,506
Fund Balances - Beginning of Year (as restated)	4,150,424	1,567,904	79,966	376,282	6,174,576
Fund Balances - End of Year	\$ 4,263,692	\$ 1,555,953	\$ 80,860	\$ 415,577	\$ 6,316,082

The Notes to the Financial Statements are an integral part of this statement.

Reconciliation of the Governmental Funds Schedule of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities

Net Change in Fund Balances - Total Governmental Funds

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statements of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$776,181) exceeded depreciation (\$369,179) in the current period.	407,002
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In the statement of activities, only the gain on the sale of assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the asset sold.	(12,845)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(22,125)
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Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which repayments (\$123,673) exceeded bond proceeds (\$23,000) and note proceeds (\$10).	100,663
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Contributions to certain pension plans use current financial resources from governmental funds, and can decrease the net pension obligation (\$2,656) and the net pension asset (\$11,283) in the statement of activities.	(13,939)
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Some of the assets acquired this year were financed as capital leases. The amount financed is reported in the governmental funds as a source of financing. However, capital leases are long-term liabilities in the statement of net assets. This is the amount by which the addition of new capital leases (\$2,871) exceeds the payment of principal (\$2,430) on capital leases.	(441)
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. This is the amount by which the accretion of bond premiums (\$4,178) is exceeded by the increase in interest payable (\$6,111) and the increase in compensated absences (\$1,670) combined with the amortization of bond issuance costs (\$604), the amortization of loss on refunded bonds (\$1,537) and the bond issuance costs (\$89). This amount also includes liabilities for claims and judgements that will not be paid from current financial resources (\$33,164).	39,731
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Change in Net Assets of Governmental Activities

	\$ 639,552
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The Notes to the Financial Statements are an integral part of this statement.

State of Oklahoma
Statement of Net Assets
Proprietary Funds
June 30, 2008
(expressed in thousands)

	Business-Type Activities - Enterprise Funds			Total
	Employment Security Commission	Water Resources Board	Lottery Commission	
Assets				
Current Assets				
Cash/Cash Equivalents	\$ 856,129	\$ 20,741	\$ 20,044	\$ 896,914
Investments	0	4,033	0	4,033
Accounts Receivable	14,191	0	8,940	23,131
Interest and Investment Revenue Receivable	0	6,306	0	6,306
Federal Grants Receivable	0	528	0	528
Other Receivables	353	0	0	353
Notes Receivable	0	40,934	0	40,934
Total Current Assets	870,673	72,542	28,984	972,199
Noncurrent Assets				
Cash/Cash Equivalents - Restricted	0	68,816	6,621	75,437
Long-Term Investments	0	224,428	0	224,428
Long-Term Notes Receivable	0	598,871	0	598,871
Capital Assets, Net	0	150	621	771
Other Noncurrent Assets	0	2,619	2,398	5,017
Total Noncurrent Assets	0	894,884	9,640	904,524
Total Assets	870,673	967,426	38,624	1,876,723
Liabilities				
Current Liabilities				
Accounts Payable and Accrued Liabilities	323	34	11,633	11,990
Interest Payable	0	5,664	0	5,664
Compensated Absences	0	177	59	236
Deferred Revenue	0	0	563	563
Revenue Bonds	0	36,415	0	36,415
Due to Other Funds	12	507	16,729	17,248
Other Current Liabilities	0	2,310	0	2,310
Total Current Liabilities	335	45,107	28,984	74,426
Noncurrent Liabilities				
Revenue Bonds	0	508,485	0	508,485
Other Noncurrent Liabilities	0	349	0	349
Total Noncurrent Liabilities	0	508,834	0	508,834
Total Liabilities	335	553,941	28,984	583,260
Net Assets				
Invested in Capital Assets, net of related debt	0	150	621	771
Restricted for:				
Debt Service	0	205,271	0	205,271
Other Purposes	870,338	208,064	0	1,078,402
Unrestricted	0	0	9,019	9,019
Total Net Assets	\$ 870,338	\$ 413,485	\$ 9,640	\$ 1,293,463

The Notes to the Financial Statements are an integral part of this statement.

State of Oklahoma
Statement of Revenues, Expenses
and Changes in Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2008
(expressed in thousands)

	Business-Type Activities - Enterprise Funds			Total
	Employment Security Commission	Water Resources Board	Lottery Commission	
Operating Revenues				
Sales and Services	\$ 185,202	\$ 0	\$ 214,393	\$ 399,595
Federal Grants	2,891	2,983	0	5,874
Interest and Investment Revenue	0	18,798	0	18,798
Other	1,818	0	7	1,825
Total Operating Revenues	189,911	21,781	214,400	426,092
Operating Expenses				
Facilities Operations and Maintenance	0	0	272	272
Administrative and General	0	3,974	9,258	13,232
Prizes, Commissions and Other	0	0	132,342	132,342
Interest	0	22,920	0	22,920
Depreciation	0	67	245	312
Benefit Payments and Refunds	194,549	0	0	194,549
Total Operating Expenses	194,549	26,961	142,117	363,627
Operating Income (Loss)	(4,638)	(5,180)	72,283	62,465
Nonoperating Revenues (Expenses)				
Interest and Investment Revenue	40,713	14,100	1,144	55,957
Other Nonoperating Revenues	0	164	0	164
Nonoperating Federal Grants	15,563	15,804	0	31,367
Other Nonoperating Expenses	0	(55)	(3,834)	(3,889)
Total Nonoperating Revenues (Expenses)	56,276	30,013	(2,690)	83,599
Income (Loss) Before Transfers	51,638	24,833	69,593	146,064
Transfers In	0	31	0	31
Transfers Out	0	(579)	(67,775)	(68,354)
Change in Net Assets	51,638	24,285	1,818	77,741
Total Net Assets - Beginning of Year	818,700	389,200	7,822	1,215,722
Total Net Assets - Ending	\$ 870,338	\$ 413,485	\$ 9,640	\$ 1,293,463

The Notes to the Financial Statements are an integral part of this statement.

State of Oklahoma Statement of Cash Flows Proprietary Funds

For the Fiscal Year Ended June 30, 2008
(expressed in thousands)

	Business-Type Activities - Enterprise Funds			
	Employment Security Commission	Water Resources Board	Lottery Commission	Total
Cash Flows from Operating Activities				
Receipts from Customers and Users	\$ 187,394	\$ 0	\$ 201,910	\$ 389,304
Receipts from Federal Grants	0	3,078	0	3,078
Payments of Benefits	(194,295)	0	0	(194,295)
Payments to Suppliers	0	(2,139)	(12,201)	(14,340)
Payments to Employees	0	(1,916)	(2,959)	(4,875)
Payments to Prize Winners	0	0	(113,259)	(113,259)
Collections of Interest on Loans to Governmental Units	0	19,062	0	19,062
Payments of Operating Interest Expense	0	(24,643)	0	(24,643)
Net Cash Provided (Used) by Operating Activities	(6,901)	(6,558)	73,491	60,032
Cash Flows from Noncapital Financing Activities				
Federal Grants and Other Contributions	15,564	15,807	0	31,371
Transfers In	0	217	0	217
Transfers Out	0	(579)	(67,776)	(68,355)
Deposit with Multi-State Lottery	0	0	(820)	(820)
Principal Paid on Bonds and Notes Payable	0	(34,180)	0	(34,180)
Net Cash Provided (Used) by Noncapital Financing Activities	15,564	(18,735)	(68,596)	(71,767)
Cash Flows from Capital and Related Financing Activities				
Payments for Acquisition of Capital Assets	0	(50)	(6)	(56)
Net Cash Used by Capital and Related Financing Activities	0	(50)	(6)	(56)
Cash Flows from Investing Activities				
Interest and Investment Revenue	40,712	14,292	1,133	56,137
Proceeds from Sale and Maturity of Investments	0	20,984	0	20,984
Payments to Purchase Investments	0	39,201	0	39,201
Collections of Principal on Loans to Governmental Units	0	48,724	0	48,724
Payments to Issue Notes Receivable	0	(81,573)	0	(81,573)
Net Cash Provided by Investing Activities	40,712	41,628	1,133	83,473
Net Increase in Cash/Cash Equivalents	49,375	16,285	6,022	71,682
Cash/Cash Equivalents - Beginning of Year	806,754	73,272	20,643	900,669
Cash/Cash Equivalents - End of Year	\$ 856,129	\$ 89,557	\$ 26,665	\$ 972,351
Reconciliation of Operating Income (Loss) to Net Cash Used by Operating Activities				
Operating Income (Loss)	\$ (4,638)	\$ (5,180)	\$ 72,283	\$ 62,465
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities				
Depreciation Expense	0	67	245	312
Amortization (Accretion) and Other Noncash Expenses	0	(751)	28	(723)
Decrease (Increase) in Assets				
Accounts Receivable	(2,517)	(37)	47,564	45,010
Interest and Investment Receivable	0	300	0	300
Other Receivables	0	8	42	50
Increase (Decrease) in Liabilities				
Accounts Payable and Accrued Liabilities	254	37	382	673
Interest Payable	0	(757)	0	(757)
Prizes Payable	0	0	(46,450)	(46,450)
Compensated Absences	0	60	0	60
Arbitrage Rebate Payable	0	7	0	7
Due to other funds	0	0	(808)	(808)
Deferred Revenue	0	0	205	205
Other Current Liabilities	0	(312)	0	(312)
Net Cash Provided (Used) by Operating Activities	\$ (6,901)	\$ (6,558)	\$ 73,491	\$ 60,032

The Notes to the Financial Statements are an integral part of this statement.

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State of Oklahoma
Statement of Fiduciary Net Assets
Fiduciary Funds and Similar Component Units
June 30, 2008
(expressed in thousands)

	Pension Trust Funds	Agency Fund
Assets		
Cash/Cash Equivalents	\$ 566,644	\$ 469,319
Investments, at fair value		
Equity Securities	9,665,492	0
Governmental Securities	3,651,179	0
Debt Securities	2,713,138	0
Mutual Funds	2,882,431	0
Other Investments	466,478	85
Securities Lending Investments	2,892,068	0
Taxes Receivable	0	12,979
Accounts Receivable	0	108
Interest and Investment Revenue Receivable	61,131	0
Employer Contributions Receivable	39,521	0
Employee Contributions Receivable	27,891	0
Other Contributions Receivable	31,740	0
Other Receivables	357	0
Due from Brokers	681,721	0
Due from Other Funds	19,320	0
Due from Component Units	0	531
Inventory	0	6,566
Capital Assets, Net	882	0
Other Assets	131	0
Total Assets	<u>23,700,124</u>	<u>\$ 489,588</u>
Liabilities		
Accounts Payable	3,068	\$ 1,208
Tax Refunds Payable	0	1,496
Securities Lending Payable	2,892,068	0
Due to Brokers	1,082,919	0
Due to Other Funds	7	200
Due to Component Units	8,406	6,632
Due to Others	0	480,038
Benefits in the Process of Payment	81,625	0
Other Liabilities	8,279	14
Total Liabilities	<u>4,076,372</u>	<u>\$ 489,588</u>
Net Assets		
Held in Trust for Pension Benefits and Pool Participants	<u>\$ 19,623,752</u>	

The Notes to the Financial Statements are an integral part of this statement.

State of Oklahoma
Statement of Changes in
Fiduciary Net Assets
Fiduciary Funds and Similar Component Units
For the Fiscal Year Ended June 30, 2008
(expressed in thousands)

	Pension Trust Funds
Additions	
Contributions	
Employer Contributions	\$ 598,514
Employee Contributions	406,648
Other Contributions	387,909
Total Contributions	<u>1,393,071</u>
Investment Earnings	
Net Increase (Decrease) in Fair Value of Investments	(1,619,657)
Interest and Investment Revenue	605,605
Total Investment Earnings	<u>(1,014,052)</u>
Less Investment Expenses	172,529
Net Investment Earnings	<u>(1,186,581)</u>
Total Additions	<u>206,490</u>
Deductions	
Administrative and General Expenses	15,394
Benefit Payments and Refunds	1,536,716
Total Deductions	<u>1,552,110</u>
Change in Net Assets	(1,345,620)
Net Assets - Beginning of Year (as restated)	<u>20,969,372</u>
Net Assets - End of Year	<u>\$ 19,623,752</u>

The Notes to the Financial Statements are an integral part of this statement.

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MAJOR COMPONENT UNITS

The State of Oklahoma has eight major component units which are described below:

COMPSOURCE OKLAHOMA

P.O. Box 53505, Oklahoma City, Oklahoma 73152

The Fund provides a source of workers' compensation insurance for all employers within the state including state agencies and other governmental units. The Fund is financed through employer premiums.

STATE AND EDUCATION EMPLOYEES GROUP INSURANCE BOARD

3545 N.W. 58th Street, Suite 1000, Oklahoma City, Oklahoma 73112

The Board provides varying coverage of group health, dental, life, and disability benefits to active employees and retirees of the State, local governments, and education entities as well as certain other eligible participants. The Board is financed through employer and employee premiums.

OKLAHOMA STUDENT LOAN AUTHORITY

4545 N. Lincoln Blvd., Suite 66, Oklahoma City, Oklahoma 73105

The Authority provides loans to qualified persons at participating educational institutions through the issuance of tax-exempt revenue bonds or other debt obligations.

OKLAHOMA HOUSING FINANCE AGENCY

100 N.W. 63rd Street, Suite 200, Oklahoma City, Oklahoma 73116

The Agency is authorized to issue revenue bonds and notes in order to provide funds to promote the development of adequate residential housing and other economic development for the benefit of the State of Oklahoma.

OKLAHOMA TURNPIKE AUTHORITY

P.O. Box 11357, Oklahoma City, Oklahoma 73136

The Authority is authorized to construct, maintain, repair, and operate turnpike projects at locations authorized by the Legislature and approved by the Department of Transportation. The Authority receives revenues from turnpike tolls and a percentage of the turnpike concessions sales. The Authority issues revenue bonds to finance the cost of turnpike projects.

GRAND RIVER DAM AUTHORITY

P.O. Box 409, Vinita, Oklahoma 74301

The Authority controls the waters of the Grand River system to 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.

OKLAHOMA MUNICIPAL POWER AUTHORITY

P.O. Box 1960, Edmond, Oklahoma 73083

The Authority provides a means for the municipal electric systems in the state to jointly plan, finance, acquire, and operate electrical power supply facilities necessary to meet the electrical energy requirements of their consumers. The Authority also sells electric power to its member municipalities.

HIGHER EDUCATION

Higher Education is primarily comprised of colleges and universities which are members of the Oklahoma State System of Higher Education. The System includes the following colleges and universities:

COMPREHENSIVE UNIVERSITIES

University of Oklahoma
Oklahoma State University

OTHER FOUR YEAR UNIVERSITIES

University of Central Oklahoma
East Central University
Northeastern State University
Northwestern Oklahoma State University
Southeastern Oklahoma State University
Southwestern Oklahoma State University
Cameron University
Langston University
Oklahoma Panhandle State University
Rogers State University
University of Science and Arts of Oklahoma

TWO YEAR COLLEGES

Carl Albert State College
Connors State College
Eastern Oklahoma State College
Redlands Community College
Murray State College
Northeastern Oklahoma A & M College
Northern Oklahoma College
Oklahoma City Community College
Rose State College
Seminole State College
Tulsa Community College
Western Oklahoma State College

Each institution which is a member of the Oklahoma State System of Higher Education (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 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:

Oklahoma State Regents for Higher Education serves as the coordinating board of control for the System.

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.

Ardmore Higher Education Program was 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 Program earn credit applicable toward academic degrees and certificates at participating institutions in the System.

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 secondary vocational, technical, and adult education programs for persons within their defined geographical boundaries.

State of Oklahoma
Combining Statement of Net Assets
Major Component Units
June 30, 2008
(expressed in thousands)

	CompSource Oklahoma	State and Education Empl. Group Insurance Bd.	Oklahoma Student Loan Authority	Oklahoma Housing Finance Agency	Oklahoma Turnpike Authority	Grand River Dam Authority	Oklahoma Municipal Power Authority	Higher Education Component Unit	Nonmajor Component Units Total	All Component Units Total
Assets										
Current Assets										
Cash/Cash Equivalents										
Unrestricted	\$ 28,340	\$ 38,754	\$ 720	\$ 7,609	\$ 28,607	\$ 20,507	\$ 1,765	\$ 781,335	\$ 128,623	\$ 1,036,260
Investments	1,085,482	226,801	2,137	793	115,225	133,477	18,169	714,290	39,032	2,335,406
Securities Lending Investments	245,018	0	0	0	0	0	0	0	0	245,018
Accounts Receivable	0	20,681	0	2,689	1,284	34,591	11,483	250,901	4,514	326,143
Interest and Investment										
Revenue Receivable	9,712	580	235	84	1,666	1,371	737	24,039	699	39,123
Federal Grants Receivable	0	0	0	0	0	0	0	2,265	0	2,265
Other Receivables	2,863	8,875	0	0	0	0	0	72,774	207	84,719
Notes Receivable	43,090	0	0	0	0	0	0	6,330	1,754	51,174
Due from Fiduciary Funds	0	10,643	0	0	0	0	0	1	0	10,644
Due from Other Component Units	111	0	0	0	0	1,660	0	7,107	20,646	29,524
Due from Primary Government	1,860	70	0	0	5	41	0	292,311	4,462	298,749
Inventory	0	0	0	0	1,463	45,599	3,698	23,445	9	74,214
Prepaid Items	0	0	0	224	182	1,033	0	15,756	142	17,337
Other Current Assets	1,490	0	0	0	0	0	441	2,328	390	4,649
Total Current Assets	1,417,966	306,404	3,092	11,399	148,432	238,279	36,293	2,192,882	200,478	4,555,225
Noncurrent Assets										
Cash/Cash Equivalents -										
Restricted	0	0	4,231	37,672	66,980	0	0	251,803	10,095	370,781
Investments - Restricted	0	0	14,741	699,206	120,134	120,152	144,554	513,276	61,113	1,673,176
Long-Term Investments										
Unrestricted	0	0	0	10,508	0	0	72,803	1,582,610	0	1,665,921
Long-Term Notes Receivable, Net										
Unrestricted	45,274	0	49,681	0	0	0	0	49,938	19,304	164,197
Restricted	0	0	1,208,354	8,752	0	0	0	0	0	1,217,106
Capital Assets										
Depreciable, Net	16,623	856	816	3,171	935,581	341,820	220,064	2,632,150	113,129	4,264,210
Land	1,179	0	0	550	162,596	27,277	0	143,414	4,135	339,151
Construction in Progress	0	0	0	0	82,243	44,531	25,859	516,539	63,194	732,366
Other Noncurrent Assets										
Unrestricted	6,714	0	367	0	7,086	7,027	113,998	169,898	22,242	327,332
Restricted	0	0	29,135	6,242	0	0	1,286	56	9,478	46,197
Total Noncurrent Assets	69,790	856	1,307,325	766,101	1,374,620	540,807	578,564	5,859,684	302,690	10,800,437
Total Assets	1,487,756	307,260	1,310,417	777,500	1,523,052	779,086	614,857	8,052,566	503,168	15,355,662

The Notes to the Financial Statements are an integral part of this statement.

	CompSource Oklahoma	State and Education Empl. Group Insurance Bd.	Oklahoma Student Loan Authority	Oklahoma Housing Finance Agency	Oklahoma Turnpike Authority	Grand River Dam Authority	Oklahoma Municipal Power Authority	Higher Education Component Unit	Nonmajor Component Units Total	All Component Units Total
Liabilities										
Current Liabilities										
Accounts Payable and Accrued Liabilities	0	18,273	778	3,830	15,868	21,256	31,373	255,580	23,854	370,812
Payable Under Securities										
Lending Agreements	245,018	0	0	0	0	0	0	0	0	245,018
Claims and Judgments	193,526	87,665	0	0	0	0	0	2,768	12,976	296,935
Interest Payable	0	0	4,327	2,935	17,296	2,218	11,702	14,370	38,771	91,619
Due to Fiduciary Funds	0	0	0	0	1	530	0	0	0	531
Due to Other Component Units	163	0	0	0	41	0	1,659	27,450	211	29,524
Due to Primary Government	15	7	0	0	711	58	0	1,223	9	2,023
Deferred Revenue	67,002	0	0	450	20,233	0	0	99,366	71	187,122
Capital Leases	0	0	0	0	0	0	0	18,891	0	18,891
Capital Leases-Primary Govt.	0	0	0	0	0	0	0	16,357	276	16,633
Compensated Absences	1,255	883	287	830	0	3,666	0	66,505	403	73,829
Notes Payable	0	0	115,000	0	0	0	1,329	26,670	1,065	144,064
General Obligation Bonds	0	0	0	0	0	0	0	0	1,760	1,760
Revenue Bonds	0	0	51,748	35,031	38,780	68,780	14,660	27,703	1,875	238,577
Other Current Liabilities	8,771	12,541	0	0	0	1,866	0	151,495	104	174,777
Total Current Liabilities	515,750	119,369	172,140	43,076	92,930	98,374	60,723	708,378	81,375	1,892,115
Noncurrent Liabilities										
Claims and Judgments	692,994	0	0	0	0	0	0	2,284	91,746	787,024
Due to Primary Government	0	0	0	0	48,359	0	0	0	0	48,359
Capital Leases	0	0	0	0	0	0	0	170,978	0	170,978
Capital Leases-Primary Govt.	0	0	0	0	0	0	0	505,514	44	505,558
Compensated Absences	0	0	0	0	0	0	0	25,059	144	25,203
Notes Payable	0	0	166,414	0	0	0	51,807	216,594	45,068	479,883
General Obligation Bonds	0	0	0	0	0	0	0	0	53,457	53,457
Revenue Bonds	0	0	885,527	650,706	1,090,951	415,773	465,563	970,444	65,593	4,544,557
Other Noncurrent Liabilities	0	0	341	2,065	2	14,845	13,600	182,298	36,543	249,694
Total Noncurrent Liabilities	692,994	0	1,052,282	652,771	1,139,312	430,618	530,970	2,073,171	292,595	6,864,713
Total Liabilities	1,208,744	119,369	1,224,422	695,847	1,232,242	528,992	591,693	2,781,549	373,970	8,756,828
Net Assets										
Invested in Capital Assets, Net of Related Debt	17,802	856	816	3,721	43,086	72,505	(21,455)	1,789,373	131,995	2,038,699
Restricted for:										
Debt Service	0	0	0	41,487	90,728	42,339	19,662	46,937	2	241,155
Other Special Purpose										
Expendable	5,000	0	32,459	8,217	8,629	337	9,122	1,400,705	76,173	1,540,642
Nonexpendable	0	0	0	0	0	0	0	1,121,451	0	1,121,451
Unrestricted	256,210	187,035	52,720	28,228	148,367	134,913	15,835	912,551	(78,972)	1,656,887
Total Net Assets	\$ 279,012	\$ 187,891	\$ 85,995	\$ 81,653	\$ 290,810	\$ 250,094	\$ 23,164	\$ 5,271,017	\$ 129,198	\$ 6,598,834

The Notes to the Financial Statements are an integral part of this statement.

State of Oklahoma
Combining Statement of Activities
Major Component Units
For the Fiscal Year Ended June 30, 2008
(expressed in thousands)

	Expenses	Program Revenues			Net (Expense) Revenue	General Revenue		Change in Net Assets	Net Assets Beginning of Year	Net Assets End of Year
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		Payments from Primary Government				
Component Units:										
CompSource Oklahoma	\$ 297,941	\$ 347,019	\$ 0	\$ 0	\$ 49,078	\$ 0	\$ 49,078	\$ 229,934	\$ 279,012	
State Education and Employees										
Group Insurance Board	587,811	602,576	0	0	14,765	0	14,765	173,126	187,891	
Oklahoma Student Loan Authority	66,707	60,391	0	0	(6,316)	0	(6,316)	92,311	85,995	
Oklahoma Housing Finance Agency	172,313	54,417	126,215	0	8,319	0	8,319	73,334	81,653	
Oklahoma Turnpike Authority	194,754	216,160	0	0	21,406	0	21,406	269,404	290,810	
Grand River Dam Authority	223,182	314,287	0	0	91,105	0	91,105	158,989	250,094	
Oklahoma Municipal Power Authority	155,014	156,966	0	0	1,952	0	1,952	21,212	23,164	
Higher Education Component Unit	3,544,891	3,058,217	140,779	0	(345,895)	910,385	564,490	4,706,527	5,271,017	
Nonmajor Component Units Total	222,472	170,181	2,090	395	(49,806)	73,376	23,570	105,628	129,198	
Total Component Units	<u>\$ 5,465,085</u>	<u>\$ 4,980,214</u>	<u>\$ 269,084</u>	<u>\$ 395</u>	<u>\$ (215,392)</u>	<u>\$ 983,761</u>	<u>\$ 768,369</u>	<u>\$ 5,830,465</u>	<u>\$ 6,598,834</u>	

The Notes to the Financial Statements are an integral part of this statement.



Notes to the Financial Statements

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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 (GASB). In September 2006 the GASB issued Statement 48 *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. This statement establishes accounting and financial reporting standards for transactions in which a government receives, or is entitled to, resources in exchange for future cash flows generated by collecting specific receivable or specific future revenues.

The State was required to implement this GASB financial reporting standard for the fiscal year ended June 30, 2008

In May 2007 the GASB issued Statement 50 *Pension Disclosures - An Amendment of GASB Statements No. 25 and No. 27*. This statement amends Statement 25 to require defined benefit pension plans and defined contribution plans to disclose in the notes to financial statements the methods and assumptions used to determine the fair value of investments, if the fair value is based on other than quoted market prices.

Statement 50 amends Statement 27 by requiring cost-sharing employers to include in their note disclosures the required contribution rates of the employer in dollars and the percentage of that amount contributed for the current year and each of the two preceding years. It also requires disclosure about how the contractually required contribution rate is determined.

In June 2004 the GASB issued Statement 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement establishes governmental employer standards for the measurement, recognition and display of other postemployment benefit (OPEB) activity.

The State was required to implement this standard for the fiscal year ending June 30, 2008. However, the State elected to follow GASB's recommendation and early implement this standard. The State adopted the provisions of GASB Statement 45 for the fiscal year ended June 30, 2007.

The accompanying financial statements present the financial position of the State and the various funds and fund types, the results of operations of the State and the various funds and fund types, and the cash flows of the proprietary funds. The financial statements are presented as of June 30, 2008, and for the year then ended. The financial statements include the various agencies, boards, commissions, public trusts and authorities and any other organizational units governed by the Oklahoma State Legislature and/or Constitutional Officers of the State of Oklahoma.

A. Reporting Entity

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

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

Discrete Component Units

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. Separately issued independent audit reports may be obtained from the Office of State Finance, 2300 North Lincoln Blvd., Suite 122, Oklahoma City, Oklahoma 73105. The audit reports may also be obtained from the respective component units at the addresses presented on the description page of the Fund Financial Statements section for the Major Component Units, and the description page in the Combining Financial Statement section of this report for the NonMajor Component Units.

The Component Units columns of the government-wide financial statements include the financial data of the following entities:

MAJOR COMPONENT UNITS

CompSource Oklahoma provides a source for workers' compensation insurance for all public and private employers within the state and operates similarly to an insurance company. CompSource 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, 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, 2007, and their report, dated March 24, 2008, has been previously issued under separate cover.

State and Education Employees Group Insurance Board provides group health, life, dental, disability and other benefits to active employees and retirees of the State and certain other eligible participants. The Board is financed through employer and employee premiums. The Board consists of eight members: the State Insurance Commissioner, the Director of State Finance, 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 December 31, 2007, and their report, dated June 4, 2008, has been previously issued under separate cover.

Oklahoma Student Loan Authority provides loan funds to qualified persons at participating educational institutions through the issuance of tax-exempt revenue bonds or other debt obligations. The Authority is composed of five members appointed by the Governor, with the advice and consent of the Senate. The State can impose its will on the Authority by its ability to veto or modify the Authority's decisions. The Authority was audited by other independent auditors for the year ended June 30, 2008, and their report, dated October 27, 2008, 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 citizens. 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 Agency 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, 2007, and their report, dated March 3, 2008, 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 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, 2007, and their report, dated March 3, 2008, 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, 2007, and their report, dated March 31, 2008, 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, 2007, and their report, dated March 4, 2008, has been previously issued under separate cover.

Higher Education Component Unit - This component unit is primarily comprised of the twenty-five colleges and universities that are members of the Oklahoma State System of Higher Education (the System). Sixteen of these colleges and universities have one or more foundations that receive and hold economic resources for the benefit of their associated entity. These foundations are component units of their respective college or university and are included as part of the Higher Education Component Unit. Separately issued independent audit reports for each college, university, foundation, or other included entity may be obtained from the Office of State Finance, 2300 North Lincoln Blvd., Suite 122, Oklahoma City, Oklahoma 73105. 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. 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:

- **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.
- **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. Each of the six regional state universities has one or more foundations that are component units of their respective university and are included in the Higher Education Component Unit.
- **Ardmore Higher Education Program** was 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 Program earn credit applicable toward academic degrees and certificates at participating institutions in the System. The Program is administered by a Board of Trustees appointed by the Governor, with the advice and consent of the Senate. The State can impose its will on the Program 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.

NONMAJOR COMPONENT UNITS

Oklahoma Educational Television Authority (OETA) was created to “make educational television services available to all Oklahoma citizens on a coordinated statewide basis.” The Board of Directors is comprised of thirteen members, seven of which are appointed by the Governor, with the advice and consent of the Senate. A financial benefit/burden relationship exists between the State and the Authority. OETA also has a non-profit foundation that was established to receive private donations and contributions for the benefit of OETA. This foundation qualifies as a component unit of OETA, and is combined with OETA. The Authority was audited by other independent auditors for the year ended June 30, 2008, and their report, dated September 26, 2008, has been previously issued under separate cover.

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, 2008, and their report, dated October 17, 2008, has been previously issued under separate cover.

Health Insurance High Risk Pool (HIHRP) provides health insurance to individuals who are unable to obtain coverage from independent insurers. HIHRP is financed by assessments levied on independent insurers. The Board consists of nine members appointed by the Insurance Commissioner. The State can impose its will on the Pool by its ability to modify the decisions of the Board. The Pool was audited by other independent auditors for the year ended June 30, 2008, and their report, dated October 24, 2008, has been previously issued under separate cover.

Multiple Injury Trust Fund provides additional compensation to a worker with a pre-existing injury who suffers a second injury. The State can impose its will on the Fund by its ability to remove management at will. The Fund was audited by other independent auditors for the period ended December 31, 2007, and their report, dated June 19, 2008, 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, 2008, and their report, dated October 24, 2008, 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, 2008, and their report, dated October 17, 2008, has been previously issued under separate cover.

Oklahoma Capital Investment Board assists the State with industrial development by mobilizing equity and near-equity capital for investment to potential creation of jobs and growth that will diversify and stabilize the economy. The Board of Directors is comprised of five members appointed by the Governor, with the advice and consent of the Senate. The State can impose its will on the Board by its ability to veto or

modify the Board's decisions. The Board, in order to mobilize investments, owns the Oklahoma Capital Formation Company LLC (OCFC), a formerly independent corporation. During fiscal year 2006, the Board purchased 100% of the ownership of the OCFC. In fiscal year 2007 OCFC changed its corporate structure and name from a corporation to an Oklahoma limited liability company (LLC). Operations of the OCFC are included in the financial results of the Board. The Board was audited by other independent auditors for the year ended June 30, 2008, and their report, dated September 4, 2008, has been previously issued under separate cover.

Oklahoma State University Medical Authority is affiliated with the Oklahoma State University Center for Health Sciences to provide funding, teaching and training for graduate medical students. It also serves as a site for conducting medical research by faculty and providing patient care. The board is governed by seven members. Three are appointees of the Governor, the President Pro Tempore of the Senate, and the Speaker of the House of Representatives respectively. Additional members include the CEO of the Oklahoma Health Care Authority, President of the OSU Center for Health Sciences, CEO of the Authority and an appointee of the President of Oklahoma State University. A financial benefit\burden exists between the Authority and the State. The Authority was audited by other independent auditors for the year ended June 30, 2008, and their report, dated October 27, 2008, has been issued under separate cover.

Oklahoma Centennial Commemoration Fund is affiliated with the Capitol Complex and Centennial Commemorative Commission and exists to support the Commission with the planning and financing of the 2007 State Centennial Commemoration. The Fund is administered by a Board of Directors that is appointed by the Commission. The Fund was compiled by other independent auditors for the year ended December 31, 2007, and has been issued under separate cover.

Fiduciary Component Units

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. One Other Employee Benefit Trust Fund administers health and other benefit plans for the State and its political subdivisions. The benefit trust fund acts as a self-insured plan, and is a component unit of the State. These component units, while meeting the definition of a component unit and are legally separate, are presented in the fund financial statements along with other primary government fiduciary funds of the State. They have been omitted from the government-wide financial statements.

Separately issued independent audit reports are available even though they are excluded from the government-wide financial statements. They may be obtained from the Office of State Finance, 2300 North Lincoln Blvd., Suite 122, Oklahoma City, Oklahoma 73105, or the respective fiduciary component units at the addresses presented on the description page of the combining financial statement section of this report.

Oklahoma Firefighters Pension and Retirement System provides retirement benefits for municipal firefighters. The System is administered by a board comprised of thirteen members: The President of the Professional Fire Fighters of Oklahoma, the President of the Oklahoma State Retired Fire Fighters Association, the State Insurance Commissioner, the Director of State Finance (or their designees), the five members of the Board of Trustees of the Oklahoma Firefighters Association, and appointees by the Speaker of the House of Representatives, the President Pro Tempore of the Senate, and the President of the Oklahoma Municipal League. The System was audited by other independent auditors for the year ended June 30, 2008, and their report, dated October 8, 2008, has been previously issued under separate cover.

Oklahoma Law Enforcement Retirement System provides retirement benefits for qualified law enforcement officers. The System is administered by a board comprised of thirteen members: The Assistant Commissioner of Public Safety, the Director of State Finance (or his designee), members of the Department of Public Safety, the Oklahoma State Bureau of Investigation, the Oklahoma State Bureau of Narcotics and Dangerous Drugs Control, and the Alcoholic Beverage Laws Enforcement Commission, and appointees by the Governor, the Speaker of the House of Representatives, and the President Pro Tempore of the Senate. The System was audited by other independent auditors for the year ended June 30, 2008, and their report, dated October 13, 2008, has been previously issued under separate cover.

Oklahoma Public Employees Retirement System administers the Oklahoma Public Employee Retirement Plan which provides retirement benefits for state, county and local employees. The board is comprised of thirteen members: The Chairman of the Corporation Commission, the Administrator of the Office of Personnel Management, the State Insurance Commissioner, the Director of State Finance (or their designees), a member of the State Tax Commission, and appointees by the Governor, the Speaker of the House of Representatives, and the President Pro Tempore of the Senate. The System was audited by other independent auditors for the year ended June 30, 2008, and their report, dated October 14, 2008, has been previously issued under separate cover.

Uniform Retirement System for Justices and Judges is administered by the Oklahoma Public Employee Retirement System and provides retirement benefits for justices and judges. The System was audited by other independent auditors for the year ended June 30, 2008, and their report, dated October 14, 2008, has been previously issued under separate cover.

Oklahoma Police Pension and Retirement System provides retirement benefits for police officers employed by participating municipalities. The System is administered by a board comprised of thirteen members: Seven members elected from the seven Districts, the Director of State Finance, the State Insurance Commissioner (or their designees) and appointees by the Governor, the Speaker of the House of Representatives, the President Pro Tempore of the Senate, and the President of the Oklahoma Municipal League. The System was audited by other independent auditors for the year ended June 30, 2008, and their report, dated September 15, 2008, has been previously issued under separate cover.

Teachers' Retirement System of Oklahoma provides retirement allowances and benefits for qualified persons employed by state-supported educational institutions. The System is administered by a board consisting of the Superintendent of Public Instruction, the Director of the State Department of Vocational and Technical Education, the Director of State Finance (or their designees), and appointees by the Governor, with the advice and consent of the Senate, the President Pro Tempore of the Senate, and the Speaker of the House of Representatives. The System was audited by other independent auditors for the year ended June 30, 2008, and their report, dated October 24, 2008, has been previously issued under separate cover.

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.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (the statement of net assets and the statement of activities) report information for all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these government-wide statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function, segment, or component unit are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function, segment, or component unit. Program revenues include charges to customers who purchase, use or directly benefit from goods or services provided by a given function, segment, or component unit. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function, segment, or component unit. Taxes and other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues. The State does not allocate general government (indirect) expenses to other functions.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets.

When both restricted and unrestricted resources are available for use, generally it is the state's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds, proprietary funds, fiduciary funds and similar component units, and major component units. However, the fiduciary funds are not included in the government-wide statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements – The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the state considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Principal revenue sources considered susceptible to accrual include federal grants, interest on investments, sales and income taxes, and lease payments receivable. Some revenue items that are considered measurable and available to finance operations during the year from an accounting perspective are not available for expenditure due to the State's present appropriation system. These revenues have been accrued in accordance with generally accepted accounting principles (GAAP) since they have been earned and are expected to be collected within sixty days of the end of the period. Other revenues are considered to be measurable and available only when cash is received by the state.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Modifications to the accrual basis of accounting include:

- Employees' vested annual leave is recorded as an expenditure as it is utilized. Unused reimbursable leave following an employee's resignation or retirement that is unpaid at year end is recognized as an expenditure and a liability of the fund.
- Interest on general long-term obligations is recognized when paid.
- Executory purchase orders and contracts are recorded as a reservation of fund balance.
- Debt service expenditures and claims and judgments are recorded only when payment is due.

Proprietary Funds, Fiduciary Funds and Similar Component Units, and Component Units Financial Statements – The financial statements of the proprietary funds, fiduciary funds and similar component units, and component units are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

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's three enterprise funds have elected to not apply FASBs issued after the applicable date. Each of the proprietary component units have individually made this election as disclosed in their separate audit reports.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal operating revenues of the state's enterprise funds are the moneys requisitioned for the Oklahoma Unemployment Insurance Trust Fund held by the U.S. Treasury for payment of unemployment benefits, interest revenue charges for loans made to local entities by the Oklahoma Water Resources Board (OWRB) and the sale of lottery tickets and related chance games by the Lottery Commission. The OWRB reports federal grants as both operating and nonoperating, depending on the types of grants received.

D. Fund Accounting

The financial activities of the State are recorded in individual funds, 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.

The financial activities of the State that are reported in the accompanying financial statements have been classified into the following major governmental and proprietary funds. In addition, a description of the fiduciary and component units follows:

1. Governmental Funds

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.

Commissioners of the Land Office Permanent Fund – This fund accounts for the land and cash granted to the State by the United States Congress for the use and benefit of educational systems in Oklahoma. This fund’s assets are held by the State and only the income derived from the principal may be expended for designated operations. The principal must be preserved intact.

Department of Wildlife Conservation Permanent Fund – This fund accounts for moneys held in trust for the improvement and preservation of wildlife. The moneys have been accumulated from the sale of lifetime hunting and fishing licenses. This fund’s assets are held by the State and only the income derived from the principal may be expended for designated operations. The principal must be preserved intact.

Tobacco Settlement Endowment Permanent Fund – This fund accounts for certain moneys transferred from the General Fund that were received in settlement of claims by the state against tobacco manufacturers. The earnings from these moneys are to be utilized for research, education, prevention and treatment of tobacco related diseases and certain other health programs. The principal must be preserved intact.

2. Proprietary Funds

These funds account 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.

Employment Security Commission Enterprise Fund - This fund accounts for the deposit of moneys requisitioned for the Oklahoma Unemployment Insurance Trust Fund held by the U.S. Treasury for payment of unemployment benefits.

Oklahoma Water Resources Board Enterprise Fund - This fund is comprised of Oklahoma Water Resources Board and the Department of Environmental Quality bond issues and revolving loan programs. These programs make loans to local government units for the acquisition, development, and utilization of storage and control facilities for water and sewage systems.

Oklahoma Lottery Commission Enterprise Fund – This fund operates the state-wide lottery program and related chance games, seeking to generate additional revenues for the benefit of the State’s educational system.

3. Fiduciary Funds and Similar Component Units

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 or other governmental units.

Pension Trust Funds - These Funds account for the transactions, assets, liabilities, and net assets of the Wildlife Conservation Retirement Plan in the primary government, and six Public Employee Retirement Systems (PERS) that meet the definition of a component unit of the state.

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. Component Units

These entities are legally separate from the State but are considered part of the reporting entity. These Funds meet the definition of both a component unit and that of an enterprise fund as previously described. The six Public Employee Retirement Systems (PERS) meet the definition of a component unit, but are presented with the other fiduciary funds of the state.

5. Financial Statement Reporting Periods

The accompanying financial statements of the State are presented as of June 30, 2008, and for the year then ended, except for the following funds and entities which were audited by other independent auditors.

CompSource Oklahoma	12-31-07
Multiple Injury Trust Fund	12-31-07
State and Education Employees Group Insurance Board	12-31-07
Oklahoma Transportation Authority	12-31-07
Grand River Dam Authority	12-31-07
Oklahoma Municipal Power Authority	12-31-07
Oklahoma Housing Finance Agency	09-30-07
Oklahoma Centennial Commemoration Fund	12-31-07

E. 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 Required Supplementary Information – Budgetary Schedules 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, 2008 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 the Notes to Required Supplementary Information.

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

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

Current policy allows agencies to use unexpended moneys for one-time purchases or non-recurring expenditures in the next fiscal year. This policy provides an incentive for agency managers 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 thirty 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. All fiscal year 2008 appropriated line items were within their authorized spending level.

F. 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 relative 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 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 State Treasurer also promulgates all rules and regulations regarding the amount of collateral securities that must be pledged to secure public deposits.

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 with a maturity of three months or less that are readily convertible to cash.

G. Investments

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

Investments are generally stated at fair value in accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

H. Receivables

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

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

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

I. Inter/Intrafund Transactions

Interfund Transactions - The State has two 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 transfers in the funds involved.

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 Required Supplementary Information – Budgetary Schedules includes these transactions. However, as a general rule recorded intrafund revenues and expenditures have been eliminated in the GAAP-basis government wide financial statements. A portion of motor fuel excise taxes collected on fuels consumed on the State's turnpikes is made available to the Oklahoma Transportation Authority (OTA) from the Oklahoma Tax Commission. These taxes are apportioned to OTA monthly to fund debt service, but only 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 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.

J. Inventories

Inventories of materials and supplies are determined both by physical counts and through perpetual inventory systems. Generally, inventories are valued at cost and predominantly on either the first-in first-out or weighted average basis. Inventories of federal surplus properties are valued at a percentage of federal acquisition cost. General fund inventories are recorded as expenditures when consumed rather than when purchased by recording adjustments to the inventory account on the balance sheet. The general fund inventories on hand at year-end are reflected as a reservation of fund balance on the balance sheet, except for \$712,000 in food commodities which is recorded as inventory and deferred revenue. Upon distribution, the food commodities are recognized as revenues and expenditures of the general fund.

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

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

K. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (which is normally immovable and of value only to the state, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the state as assets which have a cost of \$25,000 or more at the date of acquisition and have an expected useful life of five or more years. Purchased and constructed capital 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.

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. Infrastructure constructed prior to July 1, 2000 has been recorded at estimated historical cost. The estimated historical cost for years 1916-2000 was based on capital outlay expenditures reported by the Oklahoma Department of Transportation and the Federal Highway Administration, less an amount estimated for the historical cost of the acquisition of land for right-of-way. The costs of normal maintenance and repairs that do not add to the asset's value or materially extend an asset's useful life are not capitalized. Interest incurred during construction of capital facilities is not capitalized.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements, as well as the proprietary funds and component units financial statements.

Capital assets of the primary government and the component units are depreciated on the straight-line method over the assets' estimated useful life. There is no depreciation recorded for land and construction in progress. Generally, estimated useful lives are as follows:

Machinery and Equipment	3 - 20 years
Buildings and Other Improvements	7 - 60 years
Infrastructure	30 years

Collections and works of art are not included in capital assets of the Primary Government on the Statement of Net Assets. GASB Statement No. 34 does not require capitalization of collections if they meet all of the following criteria: held for public exhibition, education, or research in furtherance of service, rather than financial gain; protected, kept unencumbered, cared for, and preserved; and subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections. The State elected not to capitalize collections and works of art since they meet all of the above conditions.

L. Other Assets

Included in other assets (noncurrent for 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.

M. Deferred Revenue

Deferred revenues at the fund level arise when potential revenue does not meet the available criterion for recognition in the current period. Available is defined as due (or past due) at June 30, and collected within 60 days 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. Deferred revenues at the government-wide level arise only when the State receives resources before it has a legal claim to them. Also included in deferred revenue at both levels are the undistributed food commodity inventories.

N. Compensated Absences

Employees 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, 13.33 hours per month for service of 10 to 20 years, and 16.67 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 governmental fund financial statements record expenditures when employees are paid for leave. The government-wide financial statements present the cost of accumulated vacation leave as a liability. The liability is valued based on current rate of pay. There is no liability for unpaid accumulated sick leave since the state does not have a policy to pay this amount when employees separate from service.

O. 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.

P. Federal Grants

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

Q. Long-Term Obligations

Premiums, Discounts and Issuance Costs – In the government-wide financial statements, long-term debt and other long-term obligations are presented in the columns for governmental and business-type activities. The same is presented in the proprietary fund financial statements. Bond and note premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the debt. Bonds and notes payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges in other assets and are amortized over the term of the related debt.

In the governmental fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

Arbitrage Rebate Liability – The enterprise funds and component units account for any arbitrage rebate payable as a liability of the fund.

R. Governmental Activities

Per a review of State agencies, it was determined that the activities of the Oklahoma Health Care Authority, Department of Veteran Affairs, and the J.D. McCarty Center are more accurately reflected in the Health Services function of government instead of Social Services. Beginning with the fiscal year ended June 30, 2005, these agencies are reported as a function of Health Services. This will affect the comparability of activities with years prior to 2005.

S. Governmental Fund – Fund Balance Reserves and Designations

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditure or (2) legally segregated for a specific future use. The 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 governmental funds' designation of fund balance reflects tentative plans for future use of financial resources.

As further explained in item J above, the general fund inventory includes \$712,000 in food commodities which is also included in deferred revenue. Therefore, the reservation of fund balance for inventory/prepaid on the balance sheet is \$712,000 less than the total of inventory and prepaid items.

T. Deficit Fund Balance – Multiple Injury Trust Fund/Oklahoma Capital Investment Board

The Multiple Injury Trust Fund (MITF), a component unit, continues to operate in a deficit situation. MITF had total net liabilities (negative net assets) of \$144,069,000 at December 31, 2007. Legislation was passed in May 2000 providing new funding for MITF through an assessment on gross premiums on workers compensation policies written by insurance

carriers and an assessment on disability awards paid by self-insured employers, and further limits future awards against MITF to claimants that timely filed injury claims that occurred before June 1, 2000, against their employer. These claimants have no time limitation for filing against MITF. No new claims related to injuries subsequent to June 1, 2000, can be filed. Funding is to continue until the Board of Managers of the CompSource Oklahoma, pursuant to an independent actuarial audit, has certified that there are sufficient funds to satisfy all outstanding obligations of MITF.

The Oklahoma Capital Investment Board (OCIB), a component unit, operated at a deficit for the fiscal year. In fiscal year 2006 the OCIB purchased 100% of the ownership of the Oklahoma Capital Formation Company LLC (OCFC), a formerly blended entity. This purchase brought on the long-term liabilities of the OCFC, and as a result, puts the OCIB in a negative net asset position. For the fiscal year ended June 30, 2008, the OCIB had negative net assets of \$10,034,000. The OCIB takes a long-term approach to economic stimulation, and it is anticipated that a negative net asset balance could persist well into the future.

Note 2. Deposits and Investments

The State Treasurer maintains two investment portfolios. The Treasurer's Portfolio is used to manage the investments of all State monies that are under the control of the Treasurer where earnings accrue to the general fund of the State. The State Agency Portfolio is used for the investment of a limited number of state agencies specifically authorized by statute to direct the activities of certain funds and accounts where the earnings accrue to those funds and accounts. Ancillary to the Treasurer's Portfolio is an internal investment pool, OK INVEST, for all state funds and agencies that are considered part of the State of Oklahoma. All cash balances held through the State Treasurer for the Primary Government, Component Units and Fiduciary Funds earn a return through the OK INVEST pool program.

In accordance with statutes, the State Treasurer's investment policy allows investments in the following categories:

United States Treasury Bills, Notes and Bonds	Collateralized or insured certificates of deposit
United States Government Agency Securities	Negotiable certificates of deposit
Prime banker's acceptances	Prime commercial paper
Investment grade obligations of state and local governments	Repurchase agreements
Short-term bond funds	Money market funds
Foreign Bonds	

The State Treasurer's investment policy attempts to reduce portfolio risk through diversification by security, institution and maturity. With the exception of U.S. Treasury securities, no more than 50% of the State's total funds available for investment will be invested in a single security or with a single financial institution. In addition, the Treasurer's investments will not have an average maturity greater than 4 years unless specifically otherwise designated by the Treasurer. The following table outlines the State Treasurer's diversification limits designed to control various types of risk:

Investment Type	Percentage of Total Invested	Percentage of Total by Issuer	Maturity Limit	Rating
U.S Treasury bills, Notes and Bonds	No Limit	No Limit	5 years	N/A
U.S Government Agency Securities	60%	35.0%	5 years	AAA
Collateralized or Insured Certificates of Deposit	Limit of \$35 Million per financial institution		365 Days	N/A
Negotiable Certificates of Deposit	7.5%	2.5%	180 Days	A-1
Bankers Acceptance	7.5%	2.5%	270 Days	A-1
Commercial Paper	7.5%	2.5%	180 Days	A-1
State and Local Government Obligations	5%	2.5%	30 Years	N/A
Repurchase and Tri-party Repurchase Agreements	30%	15%	14 Days	A-1
Money Market Mutual Funds	30%	15%	1 day	AAA
Foreign Bonds	2.50%	2.50%	5 years	A-

The Primary Government's three permanent funds, Commissioners of the Land Office, Department of Wildlife Lifetime Licenses, and the Tobacco Settlement Endowment all have investment goals and horizons that differ from the State Treasurer. Accordingly, the investment policies for the permanent funds allow for broader classes of investments as well as extended dates of maturity.

The Employment Security Commission, Water Resources Board and Lottery Commission are the three business-type activities within the Primary Government. These agencies generally have investment policies that correlate to the operations and services that they perform. The Employment Security Commission generally will not invest outside of U.S. Government securities, and typically maintains deposit balances only. The Water Resources Board and Lottery Commission both operate with longer investment horizons and as part of normal operations will attempt to match maturities of investments with the approaching maturity of liabilities.

Due to the nature of the internal investment pool, ownership of investments cannot be assigned to individual funds, including the Pension Trust Funds and Component Units. The investment pool also holds securities purchased with cash collateral from securities lending, which are not assigned to individual funds. For these reasons, total investments will not tie to the financial statements for the Primary Government. The following table details the investments held by the Primary Government at June 30, 2008 (expressed in thousands):

Investment Type	Investments - Primary Government			
	General Government	Permanent Funds	Business-Type Activities	Total Primary Government
POOLED INVESTMENTS				
US Treasury	\$ 762,866	\$ -	\$ 4,033	\$ 766,899
US Agency	3,181,880	-	-	3,181,880
Repurchase Agreements	331,000	-	-	331,000
Money Market Mutual Funds	566,159	-	-	566,159
Securities Lending Collateral Pool	1,647,155	49,067	-	1,696,222
Mutual Funds	1,635	-	-	1,635
Certificates of Deposit	443,770	-	-	443,770
State Bond Issues	187,751	-	-	187,751
NON-POOLED INVESTMENTS				
US Treasury	30,378	100,591	-	130,969
US Agency	21,591	75,630	-	97,221
Domestic Corporate Bonds	1,184	862,699	-	863,883
Foreign Corporate Bonds	11,044	62,942	-	73,986
Domestic Equities	85,444	747,544	-	832,988
Foreign Equities	31,002	47,490	-	78,492
Other	-	4,852	-	4,852
Money Market Mutual Funds	88,416	2,473	-	90,889
Guaranteed Investment Contracts	-	-	224,428	224,428
Totals	\$ 7,391,275	\$ 1,953,288	\$ 228,461	\$ 9,573,024

Fiduciary Funds and Similar Component Units

The Fiduciary Funds of the State have investment goals that vary significantly from the Primary Government. Due to the long term nature of these funds, investment options are broader and maturities can be longer than that of the Primary Government. Generally these funds have investment policies allowing for investments in stocks, bonds, fixed income securities and other investment securities including commingled, mutual and index funds. Generally policies allow for a portion of investments to be held in securities of foreign companies and countries. Policies also allow for portions of the total portfolio to be held in derivatives and derivative like investments such as U.S. Treasury Strips, collateralized mortgage obligations, convertible securities and variable rate instruments.

Component Units

The Component Units of the State have varied investment goals based on the demands of their specific enterprise, and commonly have investment policies that allow for broader asset classes and longer maturities than that of the Primary Government. Various finance authorities invest in an attempt to match targeted returns to the maturity of liabilities. The Higher Education Component Unit is comprised of numerous foundations that invest in order to maximize gains for the institutions that they support. These foundations may also hold assets of different classes as part of donor restrictions and covenants. The following table outlines the Component Units' investment holdings at June 30, 2008 (expressed in thousands):

Investment Type	Investments - Component Units	
		Total Component Units
US Treasury	\$	654,399
US Agency		330,165
Domestic Debt Instruments		1,578,110
Foreign Corporate Bonds		19,588
State and Local Gov't Debt Instruments		149
Domestic Equities and Equity Funds		1,448,228
Foreign Equities		21,875
Other		1,306,901
Money Market Mutual Funds		191,273
Guaranteed Investment Contracts		123,815
	\$	<u>5,674,503</u>

A. Custodial Credit Risk

Custodial Credit Risk is the risk that in the event of the failure of counterparty, the State will not be able to recover the value of its investments. Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. Investment securities are exposed to custodial credit risk if they are uninsured, not registered in the name of the State, or held by the counterparty or its trust department but not in the State's name.

Primary Government

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 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. All investments held by the State Treasurer are insured, registered, or held in the name of the State Treasurer.

As of June 30, 2008, the Primary Government's bank balances of deposits are fully insured or collateralized with securities held by an agent of the State in the State's name. In addition to these deposits, the State has approximately \$860,554,000 on deposit with the U.S. Government. These funds represent unemployment insurance taxes collected from Oklahoma employers that are held by the U.S. Treasury. The book value of deposits does not materially differ from the bank balance.

Fiduciary Funds and Similar Component Units

The Pension Trust Funds, fiduciary component units of the State, have investment policies that do not specifically address custodial credit risk of deposits and investments. However, each Pension Trust Fund utilizes multiple investment managers and limits cash and short-term investments to no more than 5% of each investment manager's portfolio. At June 30, 2008, the Pension Trust Funds had deposits and cash equivalents of \$566,644,000 of which \$450,557,000 were uninsured and uncollateralized.

Component Units

Generally, the Component Units of the State have investment policies that do not specifically address or limit custodial credit risk of deposits and investments. All Component Units typically follow the diversification and securitization of deposit policies defined by the State Treasurer in an effort to minimize custodial credit risk. At June 30, 2008, the Component Units had \$25,844,000 of custodial credit risk through letters of credit collateral for securities lent.

B. Credit Risk

Fixed-income securities are subject to credit risk. Credit quality rating is one method of assessing the debt instrument issuer's ability to meet its obligation. The State, its Fiduciary Funds and Component Units utilize the credit quality ratings issued by Moody's, Standard and Poor's, or Fitch in determining the risk associated with its fixed-income investments. Obligations of the U.S. Government or explicitly guaranteed by the U.S. Government are not considered to have credit risk. Certain debt instruments are commingled investments that do not have an applicable credit risk rating. These investments are presented as not rated in the accompanying tables.

Primary Government

As outlined in an earlier table, the State Treasurer seeks to hold investments with a rating of A or higher as rated by Moody's. Generally, the permanent funds and the business-type activities seek to maintain the same or higher rating. The Water Resources Board, which has a high concentration of investments with one issuer, requires that issuer to maintain an average credit rating of AA or higher. Should this issuer's rating fall below AA, it is required to collateralize the guaranteed investments sufficient to maintain an AA rating on the contracts. At June 30, 2008, the Primary Government had the following investments subject to credit risk (expressed in thousands):

Credit Risk - Primary Government

Investment Rating Moody's/S&P/Fitch	US Government Securities	Treasury, Agency and Municipal Securities	US Corporate Debt Instruments	International Debt Instruments	Total
Aaa/AAA/AAA	\$ -	\$ 4,317,031	\$ 961,344	\$ 5,853	\$ 5,284,228
Aa/AA/AA	-	-	24,020	3,918	27,938
A/A/A	-	-	391,893	12,857	404,750
Baa/BBB/BBB	-	-	133,643	17,960	151,603
Ba/BB/BB	-	-	98,823	12,195	111,018
B/B/B	-	-	194,786	5,736	200,522
Caa/CCC/CCC	-	-	13,379	398	13,777
Not Rated	-	-	258,471	15,069	273,540
Credit Risk Not Applicable	47,689	-	-	-	47,689
Total	\$ 47,689	\$ 4,317,031	\$ 2,076,359	\$ 73,986	\$ 6,515,065

Fiduciary Funds and Similar Component Units

The Pension Trust Funds typically hold a significant portion of assets in the form of debt instruments. Each Pension Trust Fund has an investment policy governing their credit risk exposure. Generally, at the time of purchase, investments in domestic fixed-income investments must carry the highest rating (either Aaa, AAA or AAA) as determined by the national rating organizations. International debt instruments must be Baa or BBB at the time of purchase. Overall, each investment policy generally requires that an average credit quality rating of A or higher be maintained for total debt instrument holdings. At June 30, 2008, the Pension Trust Funds had the following credit risk exposure (expressed in thousands):

Credit Risk - Pension Trust Funds

Investment Rating Moody's/S&P/Fitch	US Government	Treasury, Agency and Municipal	International Government	US Corporate Debt	International Debt	Total
	Securities	Securities	Securities	Instruments	Instruments	
Aaa/AAA/AAA	\$ -	\$ 802,976	\$ 55,789	\$ 1,048,142	\$ 2,633	\$ 1,909,540
Aa/AA/AA	-	16,063	12,542	212,078	16,589	257,272
A/A/A	-	3,316	-	302,754	15,305	321,375
Baa/BBB/BBB	-	12,537	4,342	302,815	21,334	341,028
Ba/BB/BB	-	-	7,375	52,403	3,379	63,157
B/B/B	-	-	1,191	54,618	7,664	63,473
Caa/CCC/CCC	-	-	-	9,788	-	9,788
Ca./CC/CC	-	-	-	799	138	937
Not Rated	-	911,050	1,598	582,180	80,519	1,575,347
Credit Risk Not Applicable	1,822,400	-	-	-	-	1,822,400
Total	\$ 1,822,400	\$ 1,745,942	\$ 82,837	\$ 2,565,577	\$ 147,561	\$ 6,364,317

Component Units

The Component Units usually hold a significant portion of their respective portfolios in debt instruments. Each Component Unit has an investment policy governing credit risk. As a general rule, the Component Units have more liberal investment policies than the Primary Government that allow for greater levels of credit risk regarding debt securities. Foundations within the Higher Education Component Unit also hold a significant portion of their total debt portfolio as either bond funds or money market mutual funds. These debt instruments are generally pooled or commingled investments and are not subject to credit risk disclosures. Investments in U.S. Government securities are not subject to credit risk. At June 30, 2008 the Component Units had the following credit risk exposure (expressed in thousands):

Credit Risk - Component Units

Investment Rating Moody's/S&P/Fitch	US Government	Treasury, Agency and Municipal Securities	US Corporate Debt	International Debt	Total
	Securities	Securities	Instruments	Instruments	
Aaa/AAA/AAA	\$ -	\$ 275,263	\$ 1,258,628	\$ -	\$ 1,533,891
Aa/AA/AA	-	-	127,902	19,515	147,417
A/A/A	-	-	192,602	-	192,602
Baa/BBB/BBB	-	80	84,430	73	84,583
Caa/CCC/CCC	-	69	-	-	69
Not Rated	-	72,996	229,636	-	302,632
Credit Risk Not Applicable	636,305	-	-	-	636,305
Total	\$ 636,305	\$ 348,408	\$ 1,893,198	\$ 19,588	\$ 2,897,499

C. Concentration of Credit Risk

Primary Government

The State Treasurer's investment policy seeks to mitigate concentration of credit risk through targeted diversification limits as outlined earlier in this note. With the exception of US Treasury securities, no more than 50% of the State's total funds available for investment will be invested in a single security type or with a single financial institution. The Water Resources Board, a business-type activity of the primary government, has no policy limiting amounts that may be invested in one issuer. At June 30, 2008, the Board held Guaranteed Investment Contracts issued by Transamerica Occidental Life Insurance Co. / Transamerica Life Insurance and Annuity Co. in the amount of \$207,564,000 or 65% of its portfolio. Additionally, \$12,910,000, or 4% of the portfolio was invested in Guaranteed Investment Contracts issued by Financial Security Assurance.

D. Interest Rate Risk

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment or deposit. Duration is a measure of a debt instrument's exposure to fair value changes arising from changes in interest rates based on the present value of future cash flows, weighted for those cash flows as a percentage of the investment's full price. Modified duration estimates the sensitivity of a bond's price to interest rate changes. The State, its Fiduciary Funds, and Component Units use either duration, modified duration or weighted average years outstanding as the standard measures for assessing interest rate risk. Generally, the longer the duration or years outstanding, the greater sensitivity an investment has to interest rate risk.

Primary Government

As outlined in a previous table, the State Treasurer follows an investment policy seeking to keep the average maturity for its entire portfolio to less than 4 years. The permanent funds and the business-type activities of the Primary Government do not have the same liquidity demands as the Treasurer, and as a matter of policy are not as restrictive regarding maturities. At June 30, 2008, the Primary Government had the following investments with maturities (expressed in thousands):

Weighted Average Years to Maturity	US Government		Treasury, Agency and Municipal		US Corporate Debt		International Debt		Total
	Securities		Securities		Instruments		Instruments		
Less than 1 year Weighted Average to Maturity	\$ 378	\$	268,623	\$	982,597	\$	4,227	\$	1,255,825
1 - 5 years	9,610		4,008,247		116,157		37,698		4,171,712
5 - 10 years	33,771		23,133		381,816		21,537		460,257
10 or more years	3,930		17,028		361,629		10,524		393,111
No Maturity or Not Applicable	-		-		234,160		-		234,160
Total	\$ 47,689	\$	4,317,031	\$	2,076,359	\$	73,986	\$	6,515,065

Fiduciary Funds and Similar Component Units

The Pension Trust Funds generally do not have a formal investment policy on interest rate risk. However, interest rate risk is generally controlled through diversification of portfolio management styles. Each Pension Trust Fund reviews the performance of each investment manager, and monitors the interest rate risk as part of the performance assessment. At June 30, 2008, the Pension Trust Funds had the following exposure to interest rate risk (expressed in thousands):

Duration or Weighted Average Years	US Government		Treasury, Agency and Municipal		International Government		US Corporate Debt		International Debt		Total
	Securities		Securities		Securities		Instruments		Instruments		
Less than 1 year duration	\$ 3,616	\$	26,720	\$	4,273	\$	27,410	\$	6,897	\$	68,916
1 - 5 years	15,673		1,046,314		37,972		843,442		13,583		1,956,984
5 - 10 years	12,679		205,092		15,250		671,715		32,356		937,092
10 or more years	699,085		467,816		25,342		647,737		23,466		1,863,446
No Duration	1,091,347		-		-		375,273		71,259		1,537,879
Total	\$ 1,822,400	\$	1,745,942	\$	82,837	\$	2,565,577	\$	147,561	\$	6,364,317

Component Units

The State's Component Units typically have board approved investment policies designed to manage exposure to fair value losses that arise from interest rate risk. The policies of the various Component Units can differ significantly since each investment policy is designed to match the portfolio objectives for that Component Unit. A substantial portion of the Component Units' holdings in debt instruments is in money market mutual funds and bond mutual funds with demand maturities and consequently have been presented below as not having an applicable maturity. On June 30, 2008, the Component Units had the following interest rate risk exposure (expressed in thousands):

Interest Rate Risk - Component Units

Weighted Average Years to Maturity	US Government	Treasury, Agency and Municipal	International	US Corporate	International	Total
	Securities	Securities	Government Securities	Debt Instruments	Debt Instruments	
Less than 1 year Weighted Average to Maturity	\$ 191,075	\$ 153,095	\$ -	\$ 80,642	\$ -	\$ 424,812
1 - 5 years	387,400	123,256	-	874,653	73	1,385,382
5 - 10 years	49,271	23,825	19,515	96,513	-	189,124
10 or more years	27	37,981	-	3,766	-	41,774
No Maturity or Not Applicable	8,532	10,251	-	837,624	-	856,407
Total	\$ 636,305	\$ 348,408	\$ 19,515	\$ 1,893,198	\$ 73	\$ 2,897,499

D. Foreign Currency Risk

Foreign currency risk is the risk that changes in currency exchange rates will adversely affect the fair value of a deposit or investment. The State, its Fiduciary Funds and Component Units typically make investments in foreign securities to achieve an additional level of diversification within the various portfolios under management. Foreign currencies held as cash and cash equivalents are usually held to limit losses in foreign investments due to fluctuations in currency values.

Primary Government

The Primary Government does not invest in international securities as a matter of general policy, however, the permanent funds have policies that will typically allow a portion of the total portfolio to be invested in international securities in an effort to improve diversification and total returns. The business-type activity's investing policies do not specifically address foreign investments, and they will typically not hold any international securities. At June 30, 2008, the Primary Government had the following foreign currency risk (expressed in thousands):

Currency	Foreign Currency Risk - Primary Government			Total
	Equities	Debt Instruments	Cash and Equivalents	
Australian dollar	\$ 2,143	\$ 371	\$ 11	\$ 2,525
Argentine peso	-	163	-	163
Brazilian real	1,049	606	-	1,655
British pound sterling	12,075	1,825	116	14,016
Bermuda dollar	68	101	-	169
Canadian dollar	1,676	1,401	-	3,077
Cayman dollar	71	2,574	-	2,645
Chinese renminbi	818	-	-	818
Chilean Peso	68	-	-	68
Columbian peso	-	150	-	150
Czech koruna	760	-	-	760
Danish krone	1,047	98	-	1,145
Euro	28,555	11,736	287	40,578
Hong Kong dollar	997	-	-	997
Hungarian forint	958	948	-	1,906
Indian rupee	1,027	324	-	1,351
Indonesian rupiah	19	-	-	19
Korean won	78	-	-	78
Japanese yen	12,341	368	3	12,712
Malaysian ringgit	-	565	-	565
Mexican peso	630	-	1	631
New Taiwan dollar	521	-	-	521
New Zealand dollar	40	-	-	40
Norwegian krone	2,704	-	-	2,704
Peruvian nuevo sol	-	41	-	41
Polish zloty	1,178	-	-	1,178
Russian rubel	1,891	544	-	2,435
Singapore dollar	809	310	-	1,119
South African rand	-	65	-	65
Swedish krona	1,192	225	-	1,417
Swiss franc	2,623	-	-	2,623
Thai baht	-	153	-	153
Turkish lira	-	537	-	537
Ukrainian Hryvnia	78	-	-	78
Venezuelan bolivar	-	593	-	593
Totals	\$ 75,416	\$ 23,698	\$ 418	\$ 99,532

Fiduciary Funds and Similar Component Units

The Pension and Other Employee Benefit Trust Funds generally have investment policies regarding limits on the amount of foreign securities that can be held within their respective portfolios. The Trust Funds have a significantly longer time frame for achieving their investment goals, and investments in foreign securities offer an additional level of diversification, as well as provide the opportunity for increased returns. Typically, holdings in foreign currencies are used to limit losses on foreign securities due to currency fluctuations. The Trust Funds had the following foreign currency risk at June 30, 2008 (expressed in thousands):

Foreign Currency Risk - Pension Trust Funds

Currency	Equities	Debt Instruments	Cash and Equivalents	Total
Australian dollar	\$ 69,192	\$ -	\$ 651	\$ 69,843
Brazilian real	11,061	-	2,003	13,064
British pound sterling	314,126	8,128	1,501	323,755
Bulgarian lev	1,383	-	114	1,497
Canadian dollar	77,970	841	776	79,587
Czech koruna	3,177	-	-	3,177
Danish krone	14,940	-	-	14,940
Estonian krone	15	-	1	16
Egyptian pound	417	-	124	541
Euro	730,351	24,048	16,564	770,963
Hong Kong dollar	46,709	-	87	46,796
Hungarian forint	3,852	-	-	3,852
Indonesian rupiah	408	-	38	446
Japanese yen	431,056	27,181	721	458,958
Malaysian ringgit	2,211	-	-	2,211
Mexican peso	6,873	-	287	7,160
New Israeli shekel	1,620	-	-	1,620
New Taiwan dollar	5,241	-	-	5,241
New Zealand dollar	7,546	-	5	7,551
Norwegian krone	16,566	-	170	16,736
Polish zloty	6,028	-	-	6,028
Romanian leu	11	-	-	11
Russian rubel	194	-	-	194
Singapore dollar	9,716	-	-	9,716
South African rand	6,120	-	-	6,120
South Korean won	21,075	-	4	21,079
Swedish krona	39,146	-	5	39,151
Swiss franc	137,869	-	135	138,004
Thai baht	2,285	-	3	2,288
Turkish lira	2,355	-	(214)	2,141
Totals	\$ 1,969,513	\$ 60,198	\$ 22,975	\$ 2,052,686

Securities Lending Transactions – Primary Government

State statute Title 62, Section 90 authorizes the State Treasurer's Office to participate in securities lending transactions. In a securities lending transaction, securities are loaned to approved brokers through a securities lending agreement with a simultaneous agreement to return collateral for the same security in the future. All securities held by Northern Trust Company, as trustee or custodian, may be lent in the securities lending program unless specifically excluded by the State Treasurer's Office.

During the fiscal year ended June 30, 2008, securities lending agents lent primarily U.S. Government securities. Cash and U.S. Government securities were provided as collateral for the securities lent. Generally, collateral must equal at least 100% of the fair value of the securities loaned. At June 30, 2008, the fair value of the securities on loan was approximately \$2,572,989,000. The underlying collateral for these securities had a market value of approximately \$2,623,901,000. Collateral of U.S. Government securities represented approximately \$976,746,000 of the total collateral. Because these securities cannot be sold or pledged unless the borrower defaults, the collateral and related liability are not

presented on the balance sheet. The remaining collateral represents cash collateral that is invested in U.S. Government securities and is included as an asset on the balance sheet with an offsetting liability for the return of collateral.

At June 30, 2008, there was no credit risk exposure to borrowers because the amounts the Primary Government owes the borrowers exceed the amounts the borrowers owe the Primary Government. Contracts with securities lending agents require them to indemnify the lender if the borrower fails to return the securities or otherwise fails to pay the lender for income while the securities are on loan. There were no losses on security lending transactions, or recoveries from prior period losses, resulting from the default of a borrower or the lending agent. Because these transactions are terminable at will, their duration generally did not match the duration of the investments made with cash collateral.

The Tobacco Trust Fund, a permanent fund of the state, participates in securities lending as defined by its investment policy. During the year, the Tobacco Trust lent U.S. Government securities, corporate debt, and domestic and foreign equities. Collateral was provided as cash for securities lent. Collateral must equal at least 102% of the market value of securities lent unless the principal market for the collateral is outside the United States, in which case a margin of 105% must be maintained. At June 30, 2008, the fair value of securities on loan was \$47,190,000. The collateral for securities lent had a market value of \$49,067,000. The investment made with cash collateral had an average maturity of one day and did not match the duration of the security on loan since the loans are terminable at will. There was no credit risk to borrowers.

Securities Lending Transactions – Fiduciary Funds and Similar Component Units

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

During the fiscal year ended June 30, 2008, securities lending agents lent primarily U.S. Government securities, equity securities, and debt securities. Cash, U.S. Government securities, and letters of credit were provided as collateral for the securities lent. Generally, collateral must be provided in the amount of 102% of the fair value of the securities loaned. In certain instances collateral must be provided in the amount of 105% when the principal trading market for the loaned securities is outside the United States. At June 30, 2008, the carrying amount and fair value of securities on loan was approximately \$3,100,051,000. The underlying collateral for these securities had a market value of approximately \$3,204,309,000. Collateral of securities and letters of credit represented approximately \$312,241,000 of total collateral. Because these securities and letters of credit cannot be sold or pledged unless the borrower defaults, the collateral and related liability are not presented on the balance sheet. The remaining collateral represents cash collateral that is invested in short-term investments pools and is included as an asset on the balance sheet with an offsetting liability for the return of the collateral.

At June 30, 2008, there was no credit risk exposure to borrowers because the amounts the Fiduciary Funds owe the borrowers exceed the amounts the borrowers owe the Fiduciary Funds. Contracts with securities lending agents require them to indemnify the lender if the borrower fails to return the securities or otherwise fails to pay the lender for income while the securities are on loan. There were no losses on security lending transactions, or recoveries from prior period losses, resulting from the default of a borrower or the lending agent. Investment policies do not require the maturities of investments made with cash collateral to match the maturities of securities lent; however, investment policies may establish minimum levels of liquidity to minimize the interest rate risk associated with not matching the maturity of the investments with the loans. Generally, their duration did not match the duration of the investments made with cash collateral.

Securities Lending Transactions – Component Units

CompSource Oklahoma participates in securities lending transactions as provided by its investment policies. In a securities lending transaction, securities are loaned to approved brokers through a securities lending agreement with a simultaneous agreement to return collateral for the same security in the future. There are no restrictions regarding the amount of securities that may be lent.

During the fiscal year, securities lending agents lent primarily U.S. Government securities, equity securities, and debt securities. Cash, U.S. Government securities, and letters of credit were provided as collateral for the securities lent. Collateral must be provided in the amount of 102% of the fair value of the securities loaned. At fiscal year end, the carrying amount and market value of securities on loan was approximately \$262,359,000. The underlying collateral for these securities had a market value of approximately \$270,861,000. Collateral of securities and letters of credit represented approximately \$25,843,000 of total collateral. Because collateral securities and letters of credit cannot be pledged or sold unless the borrower defaults, the collateral and related liability are not presented on the balance sheet. The remaining collateral represents cash collateral that is invested in short-term investment pools and is included as an asset on the balance sheet with an offsetting liability for the return of the collateral.

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

Note 3. Accounts Receivable

Receivable balances have been disaggregated by type and presented separately in the financial statements. Only receivables with allowances for uncollectible accounts as of June 30, 2008, including the applicable allowances for uncollectible accounts, are presented below (expressed in thousands):

	<u>General Fund</u>	<u>Component Units</u>	
	Accounts Receivable	Accounts Receivable	Notes Receivable
Gross Receivables	\$ 57,225	\$ 380,420	\$ 1,444,555
Less: Allowance for Uncollectibles	(27,392)	(54,277)	(12,078)
Net Receivables	<u>\$ 29,833</u>	<u>\$ 326,143</u>	<u>\$ 1,432,477</u>

certain funds. The Wildlife Lifetime Licenses permanent fund is due \$112,000 from the general fund for legislative mandated transfer of earnings on certain funds.

The Component Units Due From Primary Government includes \$360,000 for University Hospitals Authority. This amount is due from the general fund for draw downs of principal from Oklahoma Capital Improvement Authority capital lease agreements.

Remaining interfund balances resulted from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded, and payment between funds are made.

B. Notes Payable and Capital Leases

The Multiple Injury Trust Fund (MITF) component unit reports a note payable to CompSource Oklahoma component unit of \$46,133,000, as permitted by statute. Included in this note payable is a \$6,000,000 advance on a line of credit not to exceed \$11,300,000. The remaining \$5,300,000 has not been advanced. The note and line of credit bear interest at a 7% rate and are payable over 30 years in quarterly installments. The note and line of credit are collateralized by MITF revenues and any equity or other interests available to MITF.

The Higher Education (HE) and University Hospitals Authority (UHA) component units have entered into capital lease agreements with the general fund's Oklahoma Capital Improvement Authority (OCIA) to lease various facilities, equipment and improvements. The capital lease outstanding balances are \$521,871,000 for HE and \$320,000 for UHA.

C. Interfund Transfers

A summary of interfund transfers for the fiscal year ended June 30, 2008, follows (expressed in thousands):

<u>Transfers From (Out)</u>	<u>Transfers To (In)</u>	<u>For (Purpose)</u>	<u>Amount</u>
Governmental Funds:			
General Fund	Oklahoma Water Resources Board	Payment for administrative costs	\$ 31
		Total transfers out of the General Fund	31
Permanent Funds:			
Commissioners of Land Office	General Fund	Transfer of expendable earnings	(3,509)
Department of Wildlife Conservation	General Fund	Transfer of expendable earnings	(4,713)
Proprietary Funds:			
Oklahoma Water Resources Board	General Fund	Restricted investment revenue	(579)
Lottery Commission	General Fund	Transfer of expendable earnings	(67,775)
		Total transfers in to the General Fund	(76,576)
		Net Transfers In/Out	\$ (76,545)

Note 5. Capital Assets

Capital asset activity for the year ended June 30, 2008, was as follows (expressed in thousands):

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,366,777	\$ 122,843	\$ (4,404)	\$ 1,485,216
Construction in progress	85,076	46,035	(51,809)	79,302
Total capital assets, not being depreciated	<u>1,451,853</u>	<u>168,878</u>	<u>(56,213)</u>	<u>1,564,518</u>
Capital assets, being depreciated:				
Buildings and improvements	966,192	61,976	(3,845)	1,024,323
Equipment	327,959	41,541	(10,250)	359,250
Infrastructure	11,881,216	555,595	(9,861)	12,426,950
Total capital assets, being depreciated	<u>13,175,367</u>	<u>659,112</u>	<u>(23,956)</u>	<u>13,810,523</u>
Less accumulated depreciation for:				
Buildings and improvements	(374,730)	(21,784)	898	(395,616)
Equipment	(215,301)	(25,318)	9,029	(231,590)
Infrastructure	(6,371,446)	(322,077)	5,588	(6,687,935)
Total accumulated depreciation	<u>(6,961,477)</u>	<u>(369,179)</u>	<u>15,515</u>	<u>(7,315,141)</u>
Total capital assets, being depreciated, net	<u>6,213,890</u>	<u>289,933</u>	<u>(8,441)</u>	<u>6,495,382</u>
Governmental activities capital assets, net	<u>\$ 7,665,743</u>	<u>\$ 458,811</u>	<u>\$ (64,654)</u>	<u>\$ 8,059,900</u>
Business-type activities:				
Capital assets, being depreciated:				
Equipment	\$ 1,738	\$ 55	\$ -	\$ 1,793
Total capital assets, being depreciated	<u>1,738</u>	<u>55</u>	<u>-</u>	<u>1,793</u>
Less accumulated depreciation for:				
Equipment	(710)	(312)	-	(1,022)
Total accumulated depreciation	<u>(710)</u>	<u>(312)</u>	<u>-</u>	<u>(1,022)</u>
Business-type activities capital assets, net	<u>\$ 1,028</u>	<u>\$ (257)</u>	<u>\$ -</u>	<u>\$ 771</u>

Current period depreciation expense was charged to functions of the primary government as follows:

Governmental activities:	
Education	\$ 641
General government	14,838
Health services	6,298
Legal and judiciary	72
Museums	155
Natural resources	3,986
Public safety and defense	12,852
Regulatory services	268
Social services	4,239
Transportation	325,830
Total depreciation expense - governmental activities	<u>\$ 369,179</u>
Business-type activities:	
General government	\$ 245
Natural resources	67
Total depreciation expense - business-type activities	<u>\$ 312</u>

Component Units

Capital asset activity for the year ended June 30, 2008, (December 31, 2007, or September 30, 2007, for those entities identified in Item D of Note 1) was as follows (expressed in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 323,245	\$ 16,025	\$ (119)	\$ 339,151
Construction in progress	397,267	577,527	(242,428)	732,366
Total capital assets, not being depreciated	<u>720,512</u>	<u>593,552</u>	<u>(242,547)</u>	<u>1,071,517</u>
Capital assets, being depreciated:				
Buildings and improvements	4,799,777	222,306	(18,291)	5,003,792
Equipment	1,292,923	128,004	(35,714)	1,385,213
Infrastructure	1,871,477	83,616	(4,464)	1,950,629
Total capital assets, being depreciated	<u>7,964,177</u>	<u>433,926</u>	<u>(58,469)</u>	<u>8,339,634</u>
Less accumulated depreciation for:				
Buildings and improvements	(1,974,817)	(129,834)	15,951	(2,088,700)
Equipment	(886,889)	(98,145)	27,940	(957,094)
Infrastructure	(969,519)	(60,785)	674	(1,029,630)
Total accumulated depreciation	<u>(3,831,225)</u>	<u>(288,764)</u>	<u>44,565</u>	<u>(4,075,424)</u>
Total capital assets, being depreciated, net	<u>4,132,952</u>	<u>145,162</u>	<u>(13,904)</u>	<u>4,264,210</u>
Capital assets, net	<u>\$ 4,853,464</u>	<u>\$ 738,714</u>	<u>\$ (256,451)</u>	<u>\$ 5,335,727</u>

Note 6. 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 component units. The State and Education Employees' Group Insurance Board is a component unit that provides group health, life, dental and disability benefits to the State's employees and certain other eligible participants. CompSource Oklahoma (CSO) is a component unit that provides workers' compensation coverage for the State's employees (and private and local government employees).

CSO administers claim payments and provides excess-of-loss reinsurance to certain governmental entities that are self-insured. The premiums and fees received in connection with these transactions are included in sales revenue and were approximately \$8,549,000 in 2007. The liability for claims in excess of the self-insured entities' respective retention limits included in unpaid losses and loss adjustment expenses was approximately \$46,241,000 at December 31, 2007.

CSO 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 \$2,129,000 in 2007. No losses have been ceded under these agreements. Reinsurance receivables with a single reinsurer of \$604,000 at December 31, 2007, 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 CSO from its obligation to policyholders. Failure of reinsurers to honor their obligations could result in losses to CSO. Management believes that all reinsurers presently used are financially sound and will be able to meet their contractual obligations.

Coverage for second injury workers' compensation is provided by a discretely presented component unit. The Multiple Injury Trust Fund (MITF) was created to encourage the hiring of individuals with a pre-existing disability and to protect those employers from liability for the pre-existing disability. MITF records a liability for outstanding court awards only as those amounts are awarded by the Workers' Compensation Court for 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, 2007, have been charged to operations for the year ended December 31, 2007. At year end, the MITF loss liability exceeded net assets. MITF was indebted to claimants for court awarded judgments. Only those judgments currently payable in arrears bear interest. The rate, set by statute, is the Treasury bill rate plus 4% to be updated annually.

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 MITF, 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. None of the funds have included nonincremental claims adjustment expense as part of accrued liabilities. 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 economic financial resources.

The following table presents the changes in claims liability balances (both current and noncurrent) during the current fiscal year ended June 30, 2008, (December 31, 2007, for CompSource Oklahoma, State and Education Employees Group Insurance Board, and Multiple Injury Trust Fund) and the prior fiscal year, (expressed in thousands). Due to a change in method of financial statement presentation between fiscal years 2008 and 2007, the State and Education Employees Group Insurance Board is not reflected in the 2007 liability schedule.

	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	\$ 33,736	\$ (14,502)	\$ (7,685)	\$ 11,549	\$ 3,864	\$ 7,685
Component Units:						
CompSource Oklahoma	\$ 847,063	\$ 261,794	\$ (222,337)	\$ 886,520	\$ 692,994	\$ 193,526
State and Education Employees Group Insurance Board	66,793	546,589	(525,717)	87,665	-	87,665
Multiple Injury Trust Fund	123,328	7,044	(25,644)	104,728	91,746	12,982
Total Component Units**	\$ 1,037,184	\$ 815,427	\$ (773,698)	\$ 1,078,913	\$ 784,740	\$ 294,173

* As discussed in the Litigation and Contingencies note, general fund claims and judgments includes \$9,023 accrued for the payment of litigation losses.

** The Higher Education Component Unit's claims and judgments (\$2,284 – noncurrent) are for accrued liabilities not related to risk management.

	Beginning Balance	Plus: Current Year Claims and Changes in Estimates	Less: Claim Payments	Ending Balance	Noncurrent Liability	Current Liability
Prior Fiscal Year						
General Fund -						
Risk Management Division	\$ 21,750	\$ 16,365	\$ (4,379)	\$ 33,736	\$ 29,357	\$ 4,379
Component Units:						
CompSource Oklahoma	\$ 792,339	\$ 277,013	\$ (222,289)	\$ 847,063	\$ 659,330	\$ 187,733
Multiple Injury Trust Fund	137,371	5,834	(19,877)	123,328	110,325	13,003
Total Proprietary Units	\$ 929,710	\$ 282,847	\$ (242,166)	\$ 970,391	\$ 769,655	\$ 200,736

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 224,000 primary participants and dependents, approximately 16,000 primary participants and 23,000 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 (315 local governments actually participate). Any education entity or local government which elects to withdraw from the Plan may do so with 30 days written notice, and must withdraw both its active and inactive participants.

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	X		
Disability	X	X					
Medicare supplement				X	X	X	X
Health Care Participants:							
Primary	24,000	9,000	57,000	----- 39,000 -----			
Dependents				----- 56,000 -----			

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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 three types of coverages: health and dental, life, and disability (expressed in thousands):

	Health and Dental	Life	Disability
	Fiscal Year 12/31/2007	Fiscal Year 12/31/2007	Fiscal Year 12/31/2007
Reserves at beginning of period	\$ 64,325	\$ 2,468	\$ -
Incurred claims:			
Provision for insured events of current period	514,888	8,861	636
Changes in provisions for insured events of prior periods	762	(288)	-
Provision for insured events of future periods	21,730	-	-
	<u>537,380</u>	<u>8,573</u>	<u>636</u>
Payments:			
Claims attributable to insured events of current period	453,414	7,224	636
Claims attributable to insured events of prior periods	62,785	1,658	-
	<u>516,199</u>	<u>8,882</u>	<u>636</u>
Reserves at end of period	<u>\$ 85,506</u>	<u>\$ 2,159</u>	<u>\$ -</u>

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 7. 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, 2008, are as follows (expressed in thousands):

	General Fund	Fiduciary Funds	Component Units
	2009	\$ 369	\$ 207
2010	186	207	3,593
2011	103	207	3,507
2012	5	-	871
2013	-	-	561
2014-2018	-	-	1,826
2019-2023	-	-	204
Total Future Minimum Lease Payments	<u>\$ 663</u>	<u>\$ 621</u>	<u>\$ 14,673</u>
Operating lease commitments for building rental for year ended June 30, 2009	\$ 19,977	\$ 407	\$ 3,282
Rent expenditures/expenses for operating leases for year ended June 30, 2008	\$ 18,684	\$ 415	\$ 16,159

Note 8. Lessor Agreements

Primary Government

Direct Financing Leases

The Department of Transportation maintains leases classified as direct financing leases. The State leases heavy equipment and machinery to counties within the state. The lease terms are determined by the depreciation schedules published by the American Association of State Highway Transportation Officials. All new county equipment leases were charged an interest amount equivalent to 3% of the equipment cost. 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, 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 by the Department of Transportation in future years is approximately \$25,175,000, which is also the net investment in direct financing leases at June 30, 2008. The following schedule represents minimum lease payments receivable for direct financing leases for each of the five succeeding fiscal years (expressed in thousands):

	2009	2010	2011	2012	2013
Department of Transportation	\$ 6,659	\$ 5,880	\$ 5,025	\$ 4,193	\$ 1,572
Oklahoma Capital Improvement Authority	16,357	17,109	17,203	18,002	-
Total	<u>\$ 23,016</u>	<u>\$ 22,989</u>	<u>\$ 22,228</u>	<u>\$ 22,195</u>	<u>\$ 1,572</u>

The Oklahoma Capital Improvement Authority (OCIA) has capital lease agreements with component units for the lease of various facilities, equipment and improvements. At June 30, 2008, the total minimum lease payments to be received by OCIA from component units is \$521,871,000.

Operating Leases

The State has operating leases maintained by various state agencies consisting primarily of state owned building space leased to non-state entities. The primary government's total operating leases receivable recognized in the current fiscal year is approximately \$23,000. Minimum future rentals receivable from these operating leases is presented in the following schedule (expressed in thousands):

2009	2010	2011	2012	2013
\$ 215	\$ 160	\$ 115	\$ 67	\$ 57

In addition, the leasing operations of the Commissioners of the Land Office consist of leasing approximately 745,000 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):

2009	2010	2011	2012	2013
\$ 8,792	\$ 7,010	\$ 5,119	\$ 3,132	\$ -

Component Units

The **Oklahoma Municipal Power Authority** executed a Power Purchase Agreement with FPL Energy Oklahoma Wind, LLC (FPLE Oklahoma), for the development of a wind generation facility in northwestern Oklahoma. Under the agreement, FPLE Oklahoma was responsible for acquiring, constructing and installing the wind project. The authority issued taxable limited obligation notes which were payable solely from lease payments made by FPLE Oklahoma. The Authority used the proceeds of the Notes to finance the Authority's acquisition of the wind project and has leased the wind project to FPLE Oklahoma under a long-term capital lease agreement for an amount sufficient to pay the debt service, principal and interest, on the Notes. The Power Purchase Agreement has a term of approximately 25 years and power is sold on a take and pay basis. FPLE Oklahoma retains the operational risk related to the wind project. The following schedule lists the components of the lease agreement as of December 31, 2007 (expressed in thousands):

Total minimum lease payments to be received	\$ 94,851
Less: Amounts representing interest included in total minimum lease payments	(41,716)
Net investment in direct financing leases	<u>\$ 53,135</u>

Operating Leases

The Oklahoma Turnpike Authority has various noncancelable contracts with concessionaires to provide patron services on the State's turnpike system. The contracts are generally for five year terms, with two five-year renewal options. The Authority receives concession revenue that includes minimum rentals plus contingent rentals based on sales volume. The Authority also leases antenna space under noncancelable contracts with a 20 year term. The following schedule presents minimum future rentals receivable from these contracts for the December 31 fiscal year ends (expressed in thousands):

	2008	2009	2010	2011	2012
Oklahoma Turnpike Authority	\$ 1,126	\$ 1,097	\$ 1,084	\$ 57	\$ 62

Note 9. Long-Term Obligations As Related to Governmental Activities

Long-term obligations at June 30, 2008, and changes for the fiscal year then ended are as follows (expressed in thousands):

	Issue Date	Interest Rates	Maturity Through	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation Bonds Payable from Tax Revenue:								
Oklahoma Bldg Refunding 2003A	2003	2.00%-5.00%	2019	\$ 233,510	\$ -	\$ 14,555	\$ 218,955	\$ 15,200
Total				<u>233,510</u>	<u>-</u>	<u>14,555</u>	<u>218,955</u>	<u>15,200</u>
Revenue Bonds Payable from Lease Rentals:								
OCIA Series B of 1994	1995	4.85%-7.15%	2010	4,940	-	1,535	3,405	1,645
OCIA Series 1998, Highway	1998	3.90%-5.00%	2008	38,015	-	38,015	-	-
OCIA Series 1999A	2000	4.10%-5.50%	2010	19,785	-	6,295	13,490	6,580
OCIA Series 1999B	2000	6.20%-7.63%	2020	1,205	-	265	940	280
OCIA Series 1999C	2000	4.10%-5.50%	2010	635	-	200	435	210
OCIA Series 1999D	2000	3.85%-5.70%	2010	1,700	-	540	1,160	565
OCIA Series 2000, Highway	2000	4.30%-5.00%	2012	82,855	-	14,935	67,920	15,715
OCIA Series 2002A	2003	2.00%-4.65%	2023	10,950	-	520	10,430	535
OCIA 2003A, Highway	2003	2.00%-5.00%	2015	54,495	-	5,830	48,665	6,035
OCIA 2003B, Highway	2003	2.00%-5.00%	2015	22,040	-	2,400	19,640	2,485
OCIA 2003C, State Facilities	2004	2.00%-4.75%	2025	16,680	-	680	16,000	695
OCIA 2003D, State Facilities	2004	2.00%-4.75%	2024	3,105	-	135	2,970	140
OCIA 2003E, State Facilities	2004	2.00%-4.00%	2016	15,880	-	2,150	13,730	2,210
OCIA 2004A, Refunding	2005	2.50%-5.00%	2024	110,515	-	1,120	109,395	1,150
OCIA 2005, Revenue	2006	3.50%-5.30%	2020	5,000	-	280	4,720	290
OCIA 2005A, Revenue	2005	3.00%-4.35%	2020	5,810	-	330	5,480	340
OCIA 2005B, Revenue	2005	3.00%-4.05%	2025	3,860	-	145	3,715	150
OCIA 2005C, Revenue	2005	3.00%-5.00%	2027	33,000	-	-	33,000	1,150
OCIA Series 2005D	2006	3.00%-4.38%	2030	21,355	-	300	21,055	600
OCIA Series 2005E	2006	3.70%-5.00%	2025	2,905	-	100	2,805	105
OCIA Series 2005F	2006	3.38%-5.00%	2030	333,610	-	2,005	331,605	8,400
OCIA Series 2005G	2006	4.79%-4.79%	2007	6,040	-	6,040	-	-
OCIA Series 2006	2006	5.00%-5.23%	2015	50,000	-	4,950	45,050	5,195
OCIA Series 2006A	2006	3.55%-4.38%	2026	24,410	-	835	23,575	865
OCIA Series 2006B	2006	3.50%-4.25%	2026	18,900	-	640	18,260	665
OCIA Series 2006C	2006	4.00%-4.50%	2026	22,040	-	690	21,350	760
OCIA Series 2006D	2006	1.00%-5.00%	2035	125,270	-	2,000	123,270	-
OCIA Series 2006E	2006	4.00%-4.50%	2026	6,430	-	215	6,215	225
Corrections 2003A, Central OK (ODFA)	2003	2.25%-4.65%	2023	30,890	-	1,465	29,425	1,505
Corrections 2004, Central OK (ODFA)	2004	3.00%-4.45%	2024	3,590	-	175	3,415	180
Corrections 2006, Central OK (ODFA)	2006	4.00%-5.45%	2026	4,235	-	150	4,085	160
Tourism 2002	2002	2.10%-4.25%	2012	1,865	-	345	1,520	375
DHS-Pittsburg Co. 1998 (ODFA)	1998	4.25%-5.30%	2012	805	-	95	710	100
DHS-Canad/Linc Co. 2000 (ODFA)	2000	4.30%-5.60%	2015	2,315	-	240	2,075	255
DHS-8 County (ODFA)	2002	2.00%-5.25%	2017	11,175	-	920	10,255	955
DHS-Logan/Okla Co. 2004A (ODFA)	2004	1.00%-3.85%	2019	7,140	-	510	6,630	525
DHS-2004B (ODFA)	2005	1.60%-5.13%	2019	4,295	-	265	4,030	270
DHS-2008 (ODFA)	2008	3.25%-4.15%	2023	-	23,000	-	23,000	1,265
Veterans Series 2005 (ODFA)	2005	2.65%-3.65%	2015	6,520	-	730	5,790	750
Law Enforcement Education/Train (ODFA)	2002	3.00%-5.50%	2027	23,090	-	735	22,355	760
Total				<u>1,137,350</u>	<u>23,000</u>	<u>98,780</u>	<u>1,061,570</u>	<u>64,090</u>
Notes Payable from Tax Revenue (Tourism) and Grant Revenue (ODOT):								
Tourism 2004, Clean Water	2004	2.13%	2024	6,215	-	305	5,910	300
ODOT 2004A, Grant Anticipation	2004	1.00%-4.89%	2018	39,365	-	2,665	36,700	2,725
ODOT 2005A, Grant Anticipation	2005	3.00%-5.00%	2020	46,495	-	2,600	43,895	2,680
ODOT 2007A, Grant Anticipation	2007	3.25%-5.00%	2023	95,675	-	4,400	91,275	4,455
Total				<u>187,750</u>	<u>-</u>	<u>9,970</u>	<u>177,780</u>	<u>10,160</u>
Notes Payable - Sardis Reservoir				34,148	10	368	33,790	368
Capital Leases				4,641	2,871	2,430	5,082	1,787
Compensated Absences				155,498	92,042	90,372	157,168	90,372
Pension Obligation				1,703	2,656	-	4,359	-
Bond Issue Premiums				56,390	-	7,501	48,889	4,179
Claims and Judgements Payable				53,736	9,023	42,187	20,572	7,685
Total Long-Term Obligations				<u>\$ 1,864,726</u>	<u>\$ 129,602</u>	<u>\$ 266,163</u>	<u>\$ 1,728,165</u>	<u>\$ 193,841</u>

The increase in debt is primarily due to the issuance of one new bond series by DHS totalling \$23,000.

A. General Obligation Bonds

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

The following table presents annual debt service requirements for those long-term obligations outstanding at June 30, 2008, which have scheduled debt service amounts (expressed in thousands):

	2009	2010	2011	2012	2013	2014-2018	2019-2023	2024-2028	2029-2033	2034-2038	Total
General Obligation bonds:											
Oklahoma Bldg Refunding 2003A	\$ 25,108	\$ 25,034	\$ 25,043	\$ 25,065	\$ 25,082	\$ 103,641	\$ 53,257	\$ -	\$ -	\$ -	\$ 282,230
Less: Interest	9,908	9,309	8,568	7,770	6,922	18,376	2,422	-	-	-	63,275
Total Principal	15,200	15,725	16,475	17,295	18,160	85,265	50,835	-	-	-	218,955
Revenue Bonds:											
OCIA Series B of 1994	1,829	1,823	-	-	-	-	-	-	-	-	3,652
OCIA Series 1999A	7,090	7,083	-	-	-	-	-	-	-	-	14,173
OCIA Series 1999B	340	343	51	49	52	252	103	-	-	-	1,190
OCIA Series 1999C	226	231	-	-	-	-	-	-	-	-	457
OCIA Series 1999D	608	609	-	-	-	-	-	-	-	-	1,217
OCIA Series 2000, Highway	18,906	18,903	18,903	18,906	-	-	-	-	-	-	75,618
OCIA Series 2002A	952	951	947	947	946	4,732	4,695	-	-	-	14,170
OCIA 2003A, Highway	8,259	8,261	8,262	8,261	8,261	16,517	-	-	-	-	57,821
OCIA 2003B, Highway	3,270	3,270	3,267	3,268	3,267	6,537	-	-	-	-	22,879
OCIA 2003C, State Facilities	1,329	1,331	1,330	1,331	1,330	6,641	6,619	2,641	-	-	22,552
OCIA 2003D, State Facilities	257	258	258	258	258	1,278	1,271	256	-	-	4,094
OCIA 2003E, State Facilities	2,661	2,666	2,672	1,495	1,496	4,514	-	-	-	-	15,504
OCIA 2004A, Refunding	6,515	6,515	13,756	13,738	13,727	68,422	25,419	524	-	-	148,616
OCIA 2005 Revenue	469	468	467	466	464	2,322	1,401	-	-	-	6,057
OCIA 2005A, Revenue	544	543	542	545	542	2,707	1,615	-	-	-	7,038
OCIA 2005B, Revenue	303	303	303	303	301	1,496	1,475	878	-	-	5,362
OCIA 2005C, Revenue	2,514	2,514	2,511	2,511	2,508	12,502	12,231	12,119	-	-	49,410
OCIA 2005D Revenue	1,432	1,428	1,429	1,428	1,431	7,130	7,107	7,080	4,230	-	32,695
OCIA 2005E Revenue	224	223	223	222	226	1,125	1,114	662	-	-	4,019
OCIA 2005F Revenue	24,266	24,238	24,235	24,220	24,211	120,757	120,314	119,819	71,612	-	553,672
OCIA 2005G Revenue	-	-	-	-	-	-	-	-	-	-	-
OCIA 2006 Revenue	7,367	7,360	7,352	7,344	7,333	17,390	-	-	-	-	54,146
OCIA 2006A Revenue	1,793	1,795	1,791	1,791	1,791	8,939	8,916	7,101	-	-	33,917
OCIA 2006B Revenue	1,384	1,387	1,384	1,386	1,384	6,913	6,892	5,490	-	-	26,220
OCIA 2006C Revenue	1,660	1,663	1,661	1,657	1,658	8,281	8,252	6,572	-	-	31,404
OCIA 2006D Revenue	6,295	6,275	6,285	6,285	6,295	31,415	31,425	31,425	87,503	71,050	284,253
OCIA 2006E Revenue	484	480	480	481	480	2,397	2,392	1,906	-	-	9,100
Corrections 2003A, Central OK (ODFA)	2,692	2,693	2,694	2,693	2,694	13,457	13,460	-	-	-	40,383
Corrections 2004, Central OK (ODFA)	309	310	310	309	308	1,536	1,537	-	-	-	4,619
Corrections 2006, Central OK (ODFA)	333	331	330	333	331	1,650	1,656	992	-	-	5,956
Tourism 2002	415	410	410	414	-	-	-	-	-	-	1,649
DHS-Pittsburg Co. 1988 (ODFA)	135	134	134	138	282	-	-	-	-	-	823
DHS-Canad/Line Co. 2000 (ODFA)	367	364	365	365	365	727	-	-	-	-	2,553
DHS-8 County 2002 (ODFA)	1,430	1,432	1,432	1,430	1,434	5,725	-	-	-	-	12,883
DHS-Logan/Okla Co. 2004A (ODFA)	736	735	733	733	733	3,673	732	-	-	-	8,075
DHS-2004B	431	433	434	433	431	2,156	857	-	-	-	5,175
DHS-2008	2,033	2,028	2,031	2,031	2,030	10,156	10,156	-	-	-	30,465
Veterans Series 2005 (ODFA)	942	944	946	946	2,831	-	-	-	-	-	6,609
Law Enforcement Education/Train (ODFA)	1,853	1,854	1,857	1,853	1,858	7,417	9,271	9,276	-	-	35,239
Total	112,653	112,589	109,785	108,570	91,258	378,764	278,910	206,741	163,345	71,050	1,633,665
Less: Interest	48,563	45,796	42,898	39,597	36,966	148,750	103,005	65,901	35,269	5,350	572,095
Total Principal	64,090	66,793	66,887	68,973	54,292	230,014	175,905	140,840	128,076	65,700	1,061,570
Notes Payable:											
Tourism 2004, Clean Water	441	439	442	445	448	2,250	2,300	233	-	-	6,998
ODOT 2004A, Grant Anticipation	4,297	4,297	4,267	4,258	4,259	21,236	4,232	-	-	-	46,846
ODOT 2005A, Grant Anticipation	4,453	4,451	4,450	4,442	4,441	22,053	13,210	-	-	-	57,500
ODOT 2007A, Grant Anticipation	8,539	8,538	8,530	8,530	8,535	42,422	42,233	-	-	-	127,327
Total	17,730	17,725	17,689	17,675	17,683	87,961	61,975	233	-	-	238,671
Less: Interest	7,570	7,226	6,840	6,394	5,961	21,182	5,703	15	-	-	60,891
Total Principal	10,160	10,499	10,849	11,281	11,722	66,779	56,272	218	-	-	177,780
Capital Leases											
Less: Interest	2,289	1,325	978	265	195	764	-	-	-	-	5,816
Less: Executory Cost	153	79	37	4	1	-	-	-	-	-	274
Total Principal	349	65	26	15	5	-	-	-	-	-	460
Total	1,787	1,181	915	246	189	764	-	-	-	-	5,082
Total	\$ 91,237	\$ 94,198	\$ 95,126	\$ 97,795	\$ 84,363	\$ 382,822	\$ 283,012	\$ 141,058	\$ 128,076	\$ 65,700	\$ 1,463,387
Long-Term Debt without scheduled debt service:											
Note Payable-Sardis Reservoir											33,790
Compensated Absences											157,168
Pension Obligation											4,359
Bond Issue Premiums											48,889
Claims and Adjustments Payable											20,572
Total Long-Term Obligations											\$ 1,728,165

B. Revenue Bonds

The **Oklahoma Capitol Improvement Authority (OCIA)** has twenty-seven outstanding series of building bonds to construct and equip state office buildings and prisons. Principal and interest payments on these bond issues are paid from rents collected from the various state and federal agencies that occupy the buildings constructed with the bond proceeds. The 2006D series are multi-modal variable rate demand bonds and are the only variable rate bonds issued by OCIA. The interest rate resets on a daily, weekly, or monthly interest rate mode which is determined by public bond market conditions.

The **Oklahoma Development Finance Authority (ODFA)** has issued lease revenue bonds to provide lease financing for the Department of Human Services, the Department of Veterans Affairs, and the Council for Law Enforcement Education and Training. The actual lease payments are made to a trustee who is responsible for payments to individual investors.

The **Oklahoma Development Finance Authority (ODFA)** has issued a series of lease revenue bonds to provide lease financing for the Department of Corrections, Department of Human Services, Department of Veterans Affairs, and the Council for Law Enforcement Education and Training. The actual lease payments are made to a trustee who is responsible for payments to individual investors.

C. Notes Payable

The **Oklahoma Department of Transportation** has issued several series of Grant Anticipation Notes for the purpose of financing certain qualified federal aid transportation projects in the State. The notes are secured by federal revenue received from the Federal Highway Administration (FHA) and have a final maturity in 2023. Total revenue received from the FHA in fiscal year 2008 was \$623,566,000 with a portion of that amount, \$231,673,000, secured by the notes. Current year note obligations totaled \$19,606,000.

The **Oklahoma Water Resources Board** has a contractual agreement to repay the United States, through the Army Corp of Engineers, for the costs of constructing water supply storage at Sardis Reservoir in southeastern Oklahoma. Under the 1974 contract, annual payments over a period of 50 years are to be made for the reservoir construction, operation and maintenance allocated to the present use water supply storage. The water storage facility was completed in 1982 and annual payments began in 1983. There are no scheduled future debt service requirements beyond one year. For further discussion of this note payable, refer to the Litigation and Contingencies note.

D. Capital Leases

The State has entered into agreements to lease equipment. Such agreements are, in substance, purchases (capital leases) and are reported as capital lease obligations. Capital lease obligations are reported for those leases where the fair market value of the leased asset at inception of the lease is \$25,000 or more.

Leased equipment under capital leases in capital assets at June 30, 2008, includes the following (expressed in thousands):

	<u>Buildings</u>	<u>Equipment</u>	<u>Total</u>
Cost	\$ 1,869	\$ 9,300	\$ 11,169
Less: Accumulated depreciation	(56)	(4,710)	(4,766)
Total	<u>\$ 1,813</u>	<u>\$ 4,590</u>	<u>\$ 6,403</u>

E. Other Liabilities

Compensated absences are liquidated by the general fund and do not have scheduled future debt service requirements beyond one year. The pension obligation is for the Oklahoma Department of Wildlife Conservation defined benefit pension plan, the Oklahoma Law Enforcement Retirement System and the Uniform Retirement System for Judges and Justices. These plans are single-employer plans that provide retirement, disability, and death benefits to the plan members and their beneficiaries. These pension obligations do not have scheduled future debt service requirements. The Wildlife Pension Plan obligation will be liquidated by the general fund. The pension liability for the Oklahoma Law Enforcement Retirement System and the Uniform Retirement System for Judges and Justices will be liquidated by the respective pensions.

Note 10. Long-Term Obligations As Related to Business-Type Activities

The **Oklahoma Water Resources Board** (Board) along with the **Department of Environmental Quality** has issued fifteen series of revenue bonds. These bonds provide resources to implement 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.

Long-term obligations at June 30, 2008, and changes for the fiscal year then ended are as follows (expressed in thousands):

	Issue Dates	Interest Rates	Maturity Through	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Revenue Bonds Payable from User Fees:								
1989-2007 Issues	1989-2007	3.20-5.90%	2036	\$ 567,600	\$ -	\$ 34,180	\$ 533,420	\$ 36,415
Adjusted for: Bond Premiums and Discounts				12,449	-	969	11,480	-
Revenue Bonds Payable Net of Bond Premiums and Discounts				580,049	-	35,149	544,900	36,415
Other Noncurrent Liabilities				272	77	-	349	-
Total Long-Term Obligations				\$ 580,321	\$ 77	\$ 35,149	\$ 545,249	\$ 36,415

The following table presents annual debt service requirements for those long-term obligations outstanding at June 30, 2008, which have scheduled debt service amounts (expressed in thousands):

	2009	2010	2011	2012	2013	2014-2018	2019-2023	2024-2028	2029-2033	2034-2038	Total
Revenue Bonds:											
1989-2007 Issues	\$ 58,493	\$ 55,797	\$ 49,195	\$ 47,415	\$ 46,968	\$ 216,874	\$ 173,480	\$ 85,018	\$ 5,954	\$ 1,340	\$ 740,534
Less: Interest	22,078	20,947	19,893	18,764	17,603	65,982	34,182	7,311	306	48	207,114
Principal	36,415	34,850	29,302	28,651	29,365	150,892	139,298	77,707	5,648	1,292	533,420
Total	\$ 36,415	\$ 34,850	\$ 29,302	\$ 28,651	\$ 29,365	\$ 150,892	\$ 139,298	\$ 77,707	\$ 5,648	\$ 1,292	\$ 533,420
Adjusted for: Bond and Note Premium and Discounts											11,480
Long-Term Obligations without scheduled debt service:											
Other Noncurrent Liabilities											349
Total Long-Term Obligations											\$ 545,249

Certain of the bonds bear interest at variable rates, initially set at 0.87% to 3.80% and periodically adjusted pursuant to the provisions of the bond indentures, to a maximum rate of 12% to 14% per year. Variable rates are reset semiannually by the remarketing agent. The interest rate on the bonds ranged from 1.80% to 2.25% at June 30, 2008. At the option of the Board and subject to applicable provisions of the bond indenture, which require, among other things, that all bonds be successfully remarketed, the variable interest rate may be converted to a term rate that would stay fixed until maturity. These converted rate bonds bear interest at fixed rates ranging from 3.20% to 5.90%.

The Tax Reform Act of 1986 imposed additional restrictive regulations, reporting requirements and arbitrage rebate liability on issuers of tax-exempt debt. The arbitrage rebate liability is recorded as other liabilities (\$349,000 noncurrent). This amount will be liquidated by the reporting enterprise fund. There are no scheduled future debt service requirements beyond one year.

Note 11. Long-Term Obligations As Related to Component Units

Long-term obligations at June 30, 2008 (September 30, 2007, for Oklahoma Housing Finance Agency and December 31, 2007, for Oklahoma Turnpike Authority, Grand River Dam Authority and Municipal Power Authority), and changes for the fiscal year then ended are as follows (expressed in thousands):

	Issue Dates	Interest Rates	Maturity Through	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
General Obligation Bonds Payable from User Fees:								
Industrial Finance Authority	1987-2006	3.00 - 7.65%	2022	\$ 59,430	\$ -	\$ 4,075	\$ 55,355	\$ 1,760
Total Before Adjustments				59,430	-	4,075	55,355	
Adjusted for: Bond Premiums				60	-	4	56	
Net Deferred Debits on Refundings				(211)	-	(17)	(194)	
Total General Obligation Bonds Payable								
Net of Bond Premiums and Deferrals				59,279	-	4,062	55,217	1,760
Revenue Bonds Payable from User Fees:								
Student Loan Authority	1994-2007	3.78 - 6.35%	2037	937,275	-	-	937,275	51,748
Development Finance Auth.	1996	5.36%	3031	9,999	-	-	9,999	-
Housing Finance Agency	1987-2007	3.14 - 8.00%	2038	577,805	191,621	83,689	685,737	35,031
Turnpike Authority	1998-2007	3.00 - 6.00%	2028	1,196,900	45,680	81,860	1,160,720	38,780
Grand River Dam Authority	1993-2002	5.00 - 6.25%	2014	561,131	-	65,045	496,086	68,780
Municipal Power Authority	1990-2005	2.00 - 6.75%	2028	387,070	135,375	13,970	508,475	14,660
University Hospitals Authority	2005	4.00 - 5.36%	2036	54,695	8	828	53,875	870
Centennial Commeration Fund	2001	4.35%	2011	4,720	-	955	3,765	1,005
Higher Education	1993-2007	1.20 - 10.00%	2034	959,365	63,970	26,515	996,820	27,703
Total Before Discounts/Deferrals				4,688,960	436,654	272,862	4,852,752	
Adjusted for: Bond (Discount) Premiums				8,285	(1,644)	(861)	7,502	
Net Deferred Debits on Refundings				(84,672)	-	(7,552)	(77,120)	
Total Revenue Bonds Payable								
Net of Bond (Discounts) Premiums and Deferrals				4,612,573	435,010	264,449	4,783,134	238,577
Notes Payable:								
Multiple Injury Trust Fund	2000-2001	7.00%	2031	46,921	-	788	46,133	1,065
Student Loan Authority	1993-2005	3.75 - 5.82%	2038	93,622	235,814	48,022	281,414	115,000
Municipal Power Authority	2003	6.00%	2028	54,389	-	1,253	53,136	1,329
Higher Education	2001-2007	1.88 - 8.00%	2046	145,098	101,555	3,389	243,264	26,670
Total				340,030	337,369	53,452	623,947	144,064
Capital Leases:								
University Hospitals Authority				578	-	258	320	276
Higher Education				678,391	70,562	37,213	711,740	35,248
Total				678,969	70,562	37,471	712,060	35,524
Claims and Judgments				975,030	359,684	250,755	1,083,959	296,935
Compensated Absences				92,771	53,008	46,747	99,032	73,829
Other Noncurrent Liabilities				383,806	228,220	187,555	424,471	174,777
Total Long-Term Obligations				\$ 7,142,458	\$ 1,483,853	\$ 844,491	\$ 7,781,820	\$ 965,466

A. General Obligation Bonds

Oklahoma Industrial Finance Authority (OIFA) has eight series of general obligation bonds outstanding. 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.

The following table presents annual debt service requirements for those long-term obligations outstanding at June 30, 2008 (September 30, 2007, for Oklahoma Housing Finance Agency and December 31, 2007, for Oklahoma Transportation Authority, Grand River Dam Authority and Municipal Power Authority), which have scheduled debt service amounts (expressed in thousands):

	2009	2010	2011	2012	2013	2014-2018	2019-2023	2024-2028	2029-2033	2034-2038	2039-2043	2044-2048	Total
General Obligation Bonds:													
Industrial Finance Authority	\$ 3,472	\$ 3,403	\$ 3,416	\$ 2,847	\$ 2,853	\$ 10,640	\$ 44,275	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 70,906
	3,472	3,403	3,416	2,847	2,853	10,640	44,275	-	-	-	-	-	70,906
Less: Interest	1,712	1,633	1,551	1,462	1,393	6,140	1,660	-	-	-	-	-	15,551
Total Principal	1,760	1,770	1,865	1,385	1,460	4,500	42,615	-	-	-	-	-	55,355
Revenue Bonds:													
Student Loan Authority	92,380	114,037	109,925	105,813	101,738	137,964	103,852	106,538	321,603	307,433	-	-	1,501,283
Development Finance Auth.	250	250	250	250	250	1,250	1,250	1,250	10,686	-	-	-	15,686
Housing Finance Agency	71,074	51,194	50,622	50,141	48,995	238,977	232,144	219,891	316,154	-	-	-	1,279,192
Turnpike Authority	89,999	92,484	93,051	94,653	92,904	448,618	411,994	361,164	72,587	-	-	-	1,757,454
Grand River Dam Authority	93,416	93,253	93,076	93,594	93,947	127,726	-	-	-	-	-	-	595,012
Municipal Power Authority	38,043	39,384	38,345	39,393	39,336	185,072	180,042	122,411	53,478	53,481	53,482	53,486	895,953
University Hospitals Authority	1,869	1,907	1,932	1,968	1,999	10,648	11,924	13,242	14,692	9,644	-	-	69,825
Centennial Commemoration Fund	1,141	1,152	1,053	706	-	-	-	-	-	-	-	-	4,052
Higher Education	71,987	73,874	74,406	74,577	75,373	337,597	304,611	259,636	191,893	92,256	-	-	1,556,210
	460,159	467,535	462,660	461,095	454,542	1,487,852	1,245,817	1,084,132	981,093	462,814	53,482	53,486	7,674,667
Less: Interest	221,582	211,142	196,907	183,806	169,703	692,238	521,136	352,329	204,910	45,834	15,802	6,526	2,821,915
Total Principal	238,577	256,393	265,753	277,289	284,839	795,614	724,681	731,803	776,183	416,980	37,680	46,960	4,852,752
Notes Payable:													
Multiple Injury Trust Fund	5,065	4,052	4,052	4,052	4,052	20,260	20,260	20,260	11,080	-	-	-	93,133
Student Loan Authority	119,978	4,323	97,215	2,000	2,000	59,206	3,137	22,964	-	-	-	-	310,823
Municipal Power Authority	4,517	4,517	4,517	4,517	4,517	22,583	22,583	22,583	4,518	-	-	-	94,852
Higher Education	31,878	126,049	9,419	8,587	16,715	33,110	24,567	19,792	18,569	12,437	-	-	301,123
	161,438	138,941	113,203	19,156	27,284	135,159	70,547	85,599	34,167	12,437	-	-	799,931
Less: Interest	17,374	15,572	13,315	12,528	11,459	47,556	32,248	19,062	5,416	1,454	-	-	175,984
Total Principal	144,064	123,369	101,888	6,628	15,825	87,603	38,299	66,537	28,751	10,983	-	-	623,947
Capital Leases:													
University Hospitals Authority	300	47	-	-	-	-	-	-	-	-	-	-	347
Higher Education	68,308	66,353	64,003	61,569	61,560	255,752	206,200	169,983	166,276	38,696	-	-	1,158,700
	68,608	66,400	64,003	61,569	61,560	255,752	206,200	169,983	166,276	38,696	-	-	1,159,047
Less: Interest	33,084	31,584	30,125	28,754	28,368	116,159	86,928	59,330	30,574	2,081	-	-	446,987
Total Principal	35,524	34,816	33,878	32,815	33,192	139,593	119,272	110,653	135,702	36,615	-	-	712,060
Total	\$ 419,925	\$ 416,348	\$ 403,384	\$ 318,117	\$ 335,316	\$ 1,027,310	\$ 924,867	\$ 908,993	\$ 940,636	\$ 464,578	\$ 37,680	\$ 46,960	\$ 6,244,116
Adjusted for: Net Discounts and Deferred Debits on Refundings													(69,756)
Long-Term Obligations without scheduled debt service:													
Claims and Judgments													1,083,959
Compensated Absences													99,032
Other Noncurrent Liabilities													424,471
Total Long-Term Obligations													\$ 7,781,820

B. Revenue Bonds

The **Oklahoma Student Loan Authority (OSLA)** has issued nineteen 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. Variable interest rates are adjusted periodically based on prevailing market rates of various instruments as prescribed in bond indentures. At June 30, 2008, the variable interest rates ranged from 0.00% to 10.00%.

The **Oklahoma Development Finance Authority (ODFA)** has issued a revenue bond to fund loans to various investment enterprises in connection with the Quality Jobs Investment Program. The bond is payable solely from and secured by the revenues and funds in the Quality Jobs Investment Program and a Credit Enhancement Reserve Fund guarantee insurance policy. The interest rate is variable and is equal to the Oklahoma Industrial Finance Authority's cost of funds on its outstanding variable rate bond issues. The interest rate at June 30, 2008 was 2.5%.

The **Oklahoma Housing Finance Agency (OHFA)** has issued 36 series of revenue bonds with outstanding balances at year end. The net proceeds of these bonds are used to provide financing for qualifying residences, provide interim and permanent financing for multi family construction projects, and establish debt service reserves as required by the various trust indentures.

The **Oklahoma Turnpike Authority (OTA)** has issued six series of revenue bonds with an original issue amount of \$1,937,920,000. 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 **Grand River Dam Authority (GRDA)** has issued four series of revenue bonds with an original issue amount of \$1,042,956,000. Oklahoma statutes have authorized GRDA to issue revenue bonds not to exceed \$1,410,000,000.

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. Certain series of the bonds have a variable interest rate which is established either by auction or a weekly index. The maximum rate is 14%.

The **University Hospitals Authority** (UHA) has issued two revenue bond series (2005A-Tax Exempt and 2005B-Taxable) with an original issue amount of \$55,460,000. The proceeds will be used to finance construction of new pediatric ambulatory care facilities and a basic research center.

Twenty-six of the State's colleges and universities within the **Higher Education** component unit have authorized and issued 78 series of revenue bonds with an original issue amount of \$1,016,942,000. These bonds were issued for the construction of student housing and other facilities. Student fees, revenues produced by the constructed facilities, and other revenues collateralize the revenue bonds.

C. Defeased Bonds

In prior years, 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, 2008 (December 31, 2007 for OTA, GRDA, and OMPA) (expressed in thousands):

Revenue Bonds			
OTA	GRDA	OMPA	Higher Education
\$ 1,500	\$ 37,340	\$ 44,720	\$ 29,140

D. Notes Payable

The **Multiple Injury Trust Fund** (MITF) component unit reports a note payable to **CompSource Oklahoma** component unit of \$46,133,000, as permitted by statute. Included in this note payable is a \$6,000,000 advance on a line of credit not to exceed \$11,300,000. The remaining \$5,300,000 has not been advanced. The note and line of credit bear interest at a 7% rate and are payable over 30 years in quarterly installments. The note and line of credit are collateralized by MITF revenues and any equity or other interests available to MITF.

Notes of the **Oklahoma Student Loan Authority** (OSLA) 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. Variable interest rates are adjusted periodically based on prevailing market rates of various instruments as prescribed in lending agreements. At year end the variable interest rates ranged from 2.45% to 3.25%.

The **Oklahoma Municipal Power Authority** (OMPA) has issued \$57,739,000 of taxable limited obligation notes. The notes are payable solely from lease payments made by FPL Energy Oklahoma Wind, LLC with no recourse to OMPA. The notes bear an interest rate of 6%, and annual principal and interest payments are due through December 31, 2028.

The **Higher Education** component unit has entered into various notes payable agreements. Lease payments, a pledge of "Section Thirteen Fund State Educational Institutions" moneys, the equipment purchased, and the facilities constructed are pledged as collateral on the notes.

E. Capital Leases

The **Higher Education** component unit has entered into agreements with unrelated parties as well as agreements with the Oklahoma Capital Improvement Authority (OCIA) to lease various facilities, equipment and improvements. In fiscal year 1999, the Higher Education component unit signed capital lease agreements with OCIA totaling \$49,178,000 and additional agreements totaling \$515,350,000 during fiscal year 2006. The outstanding principal balance for these OCIA leases at June 30, 2008, is \$521,871,000. Only the principal balance of the leases is recognized since it is equivalent to the value of the items leased. The OCIA agreements are aggregated with the other capital lease obligations on the statement of net assets for year end.

Leased assets under capital leases in capital assets at June 30, 2008, included the following (expressed in thousands):

	Land	Construction In Progress	Buildings	Equipment	Total
Cost	\$ 470	\$ 36,751	\$ 168,784	\$ 78,546	\$ 284,551
Less: Accumulated depreciation	-	-	(22,240)	(38,231)	(60,471)
Total	\$ 470	\$ 36,751	\$ 146,544	\$ 40,315	\$ 224,080

F. Other Liabilities and Arbitrage Rebate Liability

Claims and judgments, due to primary government, compensated absences, and other noncurrent liabilities of each component unit, as presented in the financial statements, will be liquidated by the reporting component unit. Other noncurrent liabilities include deferred revenue and other miscellaneous liability amounts. These liabilities do not have scheduled future debt service requirements beyond one year.

The Tax Reform Act of 1986 imposed additional restrictive regulations, reporting requirements and arbitrage rebate liability on issuers of tax-exempt debt. At June 30, 2008 (December 31, 2007 for OTA and GRDA), the cumulative arbitrage rebate liability is as follows (expressed in thousands):

Reported as:	OSLA	GRDA
Accounts payable	\$ -	\$ 127
Other liabilities	341	-

G. Authorized Unissued Bonds

By statute, **Oklahoma Industrial Finance Authority** (OIFA) has authority to issue general obligation bonds not to exceed \$90,000,000 plus the balance in its bond redemption account. This results in \$34,645,000 of authorized but unissued general obligation bonds. Certain institutions within the **Higher Education** component unit have been authorized to issue revenue bonds in the amount of \$419,700,000 for various construction, renovation and acquisition of property.

Note 12. Beginning Fund Balance/Net Assets Adjustments and Other Restatements

Primary Government

Beginning net assets related to Governmental Activities on the Statement of Net Assets have been restated due to accounting errors (\$5,873,000), certain transactions being crossed between fund types (\$24,913,000) and adjustments to capital assets \$8,207,000. This restatement decreased beginning net assets by \$22,579,000 at July 1, 2007.

Pension Trust Funds

Beginning net assets on the Statement of Changes in Fiduciary Net Assets for Fiduciary Funds and Similar Component Units have been restated due to a reclassification of the Oklahoma State Employees and Education Group Insurance Board (\$173,126,000). This entity is now classified as component unit of the State. The net effect of this change was a decrease in beginning net assets of \$173,126,000 at July 1, 2007.

Component Units

Beginning net assets for the Higher Education Component Unit have been restated due to accounting errors and the reclassification of certain funds. The net effect of the restatements reduced net assets by \$14,286,000 as of July 1, 2007.

Beginning net assets for Component Units on the Statement of Net Assets have been restated due to a reclassification of the Oklahoma State Employees and Education Group Insurance Board. This entity was formerly classified as a pension trust and other employee benefit trust fund. This entity is now classified as a component unit of the State. The result of this reclassification increased the component units' net assets by \$173,126,000 at July 1, 2007.

Beginning net assets for the Oklahoma Centennial Commemoration Fund have been restated due to accounting errors. The net effect of these restatements decreased the component units' net assets by \$164,000 at July 1, 2007.

As a result of the above adjustments, component units beginning net assets on the Statement of Net Assets were increased by \$158,676,000 at July 1, 2007.

Agency Funds

Total assets and total liabilities held for Other on the Combining Statement of Assets and Liabilities Agency Funds for fiscal year 2007 have been restated due to a reclassification of the Oklahoma State Employees and Education Group Insurance Board. The entity was formerly classified as a pension trust and other employee benefit trust fund. In addition to now being presented as a component unit, a portion is also classified as an agency fund. The result of this reclassification increased total assets and total liabilities for fiscal year 2007 by \$22,160,000.

Note 13. Nonrecourse Debt and Debt Guarantees

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

Financing agreements of Oklahoma Development Finance Authority (ODFA) and Oklahoma Housing Finance Agency (OHFA) are structured such that the debt is to be repaid solely from the revenues derived from the related facilities leased or acquired, or from the disposition of collateral. ODFA and OHFA do not hold notes receivable and trust investments in amounts equal to the long-term financings. As of June 30, 2008 ODFA had 218 series of debt outstanding for non-state entities with an aggregate principal amount payable of approximately \$1,500,000,000 and an original issuance amount of approximately \$1,300,000,000. As of September 30, 2007 OHFA had 3 series of multi family bonds outstanding with an aggregate principal amount payable of approximately \$12,221,000. These financings are not the general obligations of the State or state agencies, and it is the opinion of agency management and its legal counsel that, in the event of default by a borrower, the State has no responsibility for repayment of such financings. Accordingly, the nonrecourse debt and the related notes receivable and trust investments of ODFA and OHFA's multi family bond programs have been excluded from the financial statements. The debt and other obligations and the related notes receivable and other assets of OHFA's single family bonds are presented in the financial statements, since any assets remaining when the single family bond programs are liquidated are transferred to OHFA.

Credit Enhancement Reserve Fund

Under the Constitution of the State of Oklahoma, ODFA may issue bonds of the State, to be known as Credit Enhancement Reserve Fund General Obligation Bonds, in a total principal amount of \$100,000,000 for the sole purpose of generating resources if there are insufficient assets to meet insurance obligations. The Fund is managed, administered, and utilized by ODFA solely to secure the payment of interest insurance on the revenue bonds and other financial obligations issued by the Authority for the specific purpose of enhancing and supporting the credit of such obligations. As of June 30, 2008, there were approximately \$45,000,000 of outstanding financial obligations insured by ODFA. At year end, the Fund has accrued a reserve for losses of approximately \$51,000 to cover potential losses from outstanding financial obligations insured by the Fund. Through June 30, 2008, there have been no Oklahoma Credit Enhancement Reserve Fund General Obligation Bonds issued since it is the intention of ODFA to utilize existing assets to meet obligations arising from losses reserved and accrued payments in lieu of interest by the Fund.

Note 14. Retirement and Pension Systems

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

A. Primary Government

1. General Description of the Retirement System

The Wildlife Conservation Retirement Plan (WCRP) is a single-employer defined benefit retirement system administered by the Wildlife Conservation Commission for employees of the Department of Wildlife Conservation. The WCRP provides retirement, disability and death benefits to plan members and their beneficiaries. The WCRP was established by statute, however, benefit provisions are established and amended by the Wildlife Conservation Commission. Cost-of-living adjustments are provided to members at the discretion of the Wildlife Conservation Commission.

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, 1801 N. Lincoln, Oklahoma City, OK 73105.

2. Funding Policy

The Wildlife Conservation Retirement Plan required contribution is determined by the Wildlife Conservation Commission and is based on actuarial calculations.

The Wildlife Conservation Retirement Plan receives contributions from each member based on their annual covered salary. The contribution requirements are established and amended by the Wildlife Conservation Commission. For fiscal year 2008, the employee contribution rate was 3%. The Department of Wildlife Conservation is required to contribute at an actuarially determined rate. The required contribution for the year ended June 30, 2008 was \$3,118,000.

3. Annual Pension Cost and Net Pension Obligation

The current year annual pension cost and net pension obligation for the Wildlife Conservation Retirement Plan was as follows (expressed in thousands):

	WCRP
Annual required contribution	\$ 3,118
Interest on net pension obligation	136
Adjustment to annual required contribution	(229)
Annual pension cost	<u>3,025</u>
Contributions made	<u>3,008</u>
Increase (decrease) in net pension obligation	17
Net pension obligation-beginning of year	<u>1,703</u>
Net pension obligation-end of year	<u><u>\$ 1,720</u></u>
Actuarial Assumptions:	
Investment rate of return	8.0%
Annual salary increase	5.0%
COLA increase	2.0%
Inflation rate	3.0%
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	11 years

The annual required contribution for the WCRP for the current year was determined as part of the July 1, 2008 actuarial valuation. Actual contributions equaled 97% of required contributions and 99% of annual pension costs for fiscal year 2008. The actuarial value of assets is set equal to the market value of assets.

Three-Year Trend Information
Wildlife Conservation Retirement Plan
(expressed in thousands)

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage Of APC Contributed	Net Pension Obligation
6/30/2008	\$ 3,025	99%	\$ 1,719
6/30/2007	2,804	107%	1,703
6/30/2006	2,559	98%	1,908

The following Required Supplementary Information for the Wildlife Conservation Retirement Plan was determined as part of the actuarial valuations at the dates indicated.

Schedule of Funding Progress
Wildlife Conservation Retirement Plan
(unaudited)
(expressed in thousands)

Actuarial 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
7/1/2008	\$ 71,289	\$ 88,442	\$ 17,153	80.6%	\$ 14,462	118.6%
7/1/2007	66,932	82,876	15,944	80.8%	13,492	118.2%
7/1/2006	61,761	76,823	15,062	80.4%	13,311	113.2%

B. Component Units

1. General Description of the Retirement Systems

The Oklahoma Firefighters Pension and Retirement System (OFPRS), Oklahoma Public Employees Retirement System (OPERS), Oklahoma Police Pension and Retirement System (OPPRS), and the Teachers' Retirement System of Oklahoma (TRS) are all cost-sharing multi-employer defined benefit retirement systems. The Uniform Retirement System for Justices and Judges (URSJJ) and the Oklahoma Law Enforcement Retirement System (OLERS) are single-employer defined benefit retirement systems. Pension benefit provisions for all plans were established by statute and benefit provisions are amended by the State Legislature. Each plan provides retirement, disability, and death benefits to plan members and their beneficiaries. Cost-of-living adjustments are provided to plan members at the discretion of the State Legislature.

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
4545 N. Lincoln Blvd., Suite 257
Oklahoma City, OK 73105-3414

Police Pension and Retirement
1001 N.W. 63rd St., Suite 305
Oklahoma City, OK 73116-7339

Public Employees Retirement
5801 N. Broadway Ext., Suite 400
Oklahoma City, OK 73118

Uniform Retirement System for
Justices and Judges
5801 N. Broadway Ext., Suite 400
Oklahoma City, OK 73118

Teachers' Retirement System
2500 N. Lincoln Blvd., 5TH Floor
Oklahoma City, OK 73105-4209

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

OFPRS	OPERS	OPPRS	TRS
590	151	127	629

During fiscal year 2008, the Teachers' Retirement System's unfunded liability increased from \$7,603,000,000 to \$9,090,000,000. This increase was primarily due to an increase in the assumed rate of future cost of living adjustments from 1% to 2% per year. Based on current statutes for determining the state, federal, and employer contribution rates, the funded period which is the number of years that would be required to amortize the unfunded actuarial liability (the "UAAL") is 54.4 years.

2. Funding Policy

The contribution requirements for the six PERS are an established rate determined by the State Legislature each year and are not based on actuarial calculations. The Uniform Retirement System for Judges and Justices Board has the ability to adjust contribution rates to prevent a funded ratio of less than 100%. During the current year and the two years prior, 100% of required contributions were made into each PERS.

Oklahoma Firefighters Pension and Retirement System (OFPRS) receives contributions from participating full-time firefighters equal to 8% of applicable earnings, while member cities contribute 13% of the member's applicable earnings. In addition, the member cities contribute \$60 for each volunteer firefighter unless their income in the general fund is less than \$25,000, in which case they are exempt. Effective July 1, 2008, House Bill 3112 provided a 4% cost-of-living allowance for members receiving benefits as of June 30, 2007. The State of Oklahoma's total allocation to the Plan during 2008 was \$53,000,000, which represented the 34% insurance premium tax allocation. Insurance premium contributions to the plan for the years ended June 30, 2008, 2007, and 2006 totaled \$53,000,000, \$56,000,000, and \$58,000,000, 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. OLERS also receives other state contributions of 1.2% of all fees, taxes, and penalties collected by motor license agents after approximately the first 5%, and 6.1% of the insurance premium taxes collected by the insurance commissioner as required by statute. The other state contributions to the plan for years ended June 30, 2008, 2007, and 2006 totaled \$17,670,000, \$18,162,000, and \$16,152,000, respectively.

Oklahoma Public Employees Retirement System (OPERS) receives contributions from each member based on their gross salary earned, excluding overtime. There is no cap on qualifying gross salary earned, subject to Internal Revenue Service limitations on compensation.

State, County, and Local Agency Employees - The following contribution rates were in effect during fiscal year 2008:

State employees and agencies – State employees contribute 3.5% on all salary. State agency employers contribute 13.5% of total salary.

Participating county and local agencies – Employees contribute a minimum of 3.5% up to a maximum of 8.5% of salary. Employers contribute a minimum of 7.5% up to a maximum of 12.5%. Combined employee and employer contributions equal 17% of total salary.

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%.

Hazardous Duty Members – Hazardous Duty Members contribute 8% of total salary. Employers contribute 13.5% of total salary.

State agency employer contributions to OPERS for the years ended June 30, 2008, 2007, and 2006 were \$184,281,000, \$166,432,000, and \$143,823,000, respectively.

Uniform Retirement System for Justices and Judges (URSJJ) member contribution for fiscal year 2008 are 8% of members' monthly salary. State statutes require participating court employers to contribute monthly a percentage of the gross salaries of active members. Effective for the fiscal year ended June 30, 2008, the employer contribution rate increased to 5.5% of payroll and will increase 1.5% annually up to 22% for the fiscal years ending June 30, 2019, and thereafter. State employer contributions to URSJJ for the year ended June 30, 2008, 2007, and 2006 were \$7,615,000, \$5,936,000, and \$4,441,000, respectively.

Oklahoma Police Pension and Retirement System (OPPRS) receives contributions from each participating municipality and each participant. Until July 1, 1991, each municipality contributed 10% of the actual base salary of each participant employed by the municipality. Beginning July 1, 1991, municipality contributions increased by 0.5% per year and continued until July 1, 1996, when the contribution level reached 13%, where it remains. Each participant of OPPRS contributes 8% of actual paid base salary. In addition, the State allocates a portion 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, 2008, 2007, and 2006 totaled \$26,020,000, \$28,122,000, and \$23,584,000, respectively.

Teachers' Retirement System (TRS) receives contributions from participating members and employers. All active members contribute to the system; however, the employer may elect to make all or part of the contribution for its employees. All members must contribute 7% of regular annual compensation, not to exceed the members' maximum compensation. For members other than those employed by a comprehensive university on or before June 30, 1995, the maximum compensation level will be the member's regular annual compensation. Beginning July 1, 2008 members employed by a comprehensive university will have the full amount of regular compensation considered, subject to contribution limits established under the Internal Revenue code.

Employers are required to contribute a fixed percentage of annual compensation on behalf of active members. The employer contribution rate was 7.85% from July 1, 2007 to December 31, 2007 and 8.35% from January 1, 2008 to June 30, 2008 for all remitting entities other than comprehensive and four year universities. The employer contribution rate for comprehensive and four year universities was 7.05%. New legislation enacted in 2007 will systematically raise employer contribution rates for all entities other than comprehensive and four year universities to 9.5% on January 1, 2010 and thereafter. Employer contribution rates for comprehensive and four year universities will also systematically increase to 8.55% on January 1, 2010 and thereafter. Oklahoma statutes require the state to contribute 4.5% of the State's sales, income and use tax. Amended statutes increased this contribution rate to 5% at July 1, 2007. In addition, the system receives 1% of the cigarette taxes collected by the State and receives 5% of net lottery proceeds collected by the State. TRS received contributions of approximately \$267,000,000 from this source for fiscal year 2008. State contributions on behalf of employees totaled approximately \$36,366,000 for fiscal year 2008. State employer contributions to TRS for the year ended June 30, 2008, 2007, and 2006 were \$6,049,000, \$5,376,000, and \$4,774,000, respectively.

3. Annual Pension Cost and Net Pension Obligation

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

	OLERS	URSJJ
Annual required contribution	\$ 32,668	\$ 7,615
Interest on net pension obligation	(419)	(413)
Adjustment to annual required contribution	635	548
Annual pension cost	<u>32,884</u>	<u>7,750</u>
Contributions made	<u>25,023</u>	<u>1,689</u>
Increase (decrease) in net pension obligation	7,861	6,061
Net pension obligation-beginning of year	<u>(5,591)</u>	<u>(5,692)</u>
Net pension obligation-end of year	<u>\$ 2,270</u>	<u>\$ 369</u>
Actuarial Assumptions:		
Investment rate of return	7.5%	7.50%
Annual salary increase	4-8%	5.5%
COLA increase	3.0%	2.0%
Inflation rate	3.3%	3.0%
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level dollar, closed	Level dollar, closed
Remaining amortization period	13 years	20 years

The annual required contribution for URSJJ for the current year was determined as part of the July 1, 2007 actuarial valuation. For the period July 1, 1994, through July 1, 1999, the aggregate actuarial cost method was used to determine cost. Effective July 1, 2000, URSJJ adopted the entry age normal method for determining cost. Contributions equaled 22% of the annual required contributions for the current year.

The annual required contribution for OLERS for the current year was determined as part of the July 1, 2007 actuarial valuation. Costs were prepared using the entry age normal method for all valuation dates except July 1, 1997, when the unfunded actuarial liability was negative and the actuarial cost method was changed to the aggregate cost method. The entry age normal method was used for all valuations subsequent to the 1997 valuation, including the current year. Contributions equaled 76% of the annual required contributions for the current year.

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 7.25% rate of return for URSJJ and 7.5% rate of return for OLERS. Prior year's unrecognized gains and losses are added to this amount to develop expected actuarial value. The expected actuarial value is then compared to the market value of the assets at the valuation date, and 20% of any gain (loss) for the last five years is added to the expected actuarial value. The gain (loss) is amortized over five years with the actuarial value of the assets being constrained to a range of 80% to 120% of the market value at the valuation date.

Three-Year Trend Information

(expressed in thousands)

	Fiscal Year Ending	Annual Pension Cost (APC)	Percentage Of APC Contributed	Net Pension Obligation
Oklahoma Law Enforcement Retirement System	6/30/2008	\$ 32,884	76%	\$ 2,270
	6/30/2007	32,987	75%	(5,591)
	6/30/2006	39,290	56%	(14,135)
Uniform Retirement System for Justices and Judges	6/30/2008	7,750	22%	369
	6/30/2007	6,167	20%	(5,692)
	6/30/2006	4,683	17%	(10,635)

The following Required Supplementary Information for OLERS and URSJJ was determined as part of the actuarial valuations at the dates indicated.

Schedules of Funding Progress

Oklahoma Law Enforcement Retirement System

(unaudited)

(expressed in thousands)

Actuarial 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
7/1/2008	\$ 731,000	\$ 881,000	\$ 150,000	83.0%	\$ 74,000	205.0%
7/1/2007	697,560	840,557	142,997	83.0%	63,764	224.3%
7/1/2006	651,671	772,269	120,598	84.4%	57,116	211.1%

Uniform Retirement System for Judges and Justices

(unaudited)

(expressed in thousands)

Actuarial 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
7/1/2008	\$ 235,297	\$ 244,062	\$ 8,765	96.4%	\$ 32,389	27.1%
7/1/2007	224,578	227,062	2,484	98.9%	32,192	7.7%
7/1/2006	210,376	205,305	(5,071)	102.5%	27,488	(18.4%)

4. 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. Under its provisions, all new employees are required to participate in the Oklahoma Public Employees Retirement System (OPERS), and are not eligible to join the OHFA plan after June 30, 1997. OHFA's contribution amount is at the discretion of the Board of Trustees and does not have any limitations. The current contribution rate is 12.5% of eligible employees' compensation. Employees begin vesting after two years of service and become fully vested after six years of service. Plan provisions were established and may be amended by the Board of Trustees.

In addition to the TRS, various institutions in the Higher Education Component Unit participate in other pension plans, primarily the Teachers Insurance and Annuity Association. These plans are defined contribution plans. Contributions made by participating institutions are based on a percentage of payrolls for qualified employees as determined by each institution's contract. For those institutions providing these plans, the total covered payroll was \$796,834,000. The institution contributions were \$62,971,000 or 7.9% of covered payroll. Employees are not required to contribute to the plans.

Several institutions in the Higher Education Component Unit also sponsor supplemental retirement annuities to guarantee eligible retirees a minimum level of benefits from other retirement sources. New employees are not eligible to participate in these plans. These annuities operate as defined benefit plans. Funding varies among institutions, with some funding based on actuarial calculations and others on a pay-as-you-go basis. Employees are not required to contribute to these plans.

Note 15. Other Postemployment Benefits

1. General Description of the Other Postemployment Benefit Plan

The Oklahoma State and Education Employee Group Insurance Board (OSEEGIB) is a public entity risk pool and an agent multiple-employer defined benefit other postemployment benefit (OPEB) plan. OSEEGIB is a self-insured legal trust for administering, managing and providing group health, dental, life and disability plans and benefits to active employees and retirees of state agencies, school districts and other governmental units. The plan provides coverage for retiree dependents when so elected. This plan was established under State statute Title 74, sections 1301 et seq. as amended. OSEEGIB has an eight member board that administers the plan and is charged with the fiduciary responsibility of managing the funds and investing the assets of the plan. OSEEGIB issues an independent audit report that may be obtained from the Oklahoma State and Education Employees Group Insurance Board, 3545 NW 58th, Suite 1000, Oklahoma City, OK 73112-4725. At December 31, 2007, OSEEGIB had 132 divisions of the state, 617 school districts, 315 local government entities and 32 other groups participating in the plan. There were also contributions received and health benefits provided to 79,000 dependents associated with the employer participants.

Governmental Accounting Standards Board Statement No. 45 – *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* defines most situations where retirees pay the same premiums as current employees for health coverage as a subsidy, and consequently as OPEB. Since OSEEGIB is a legal trust for all benefits, the assets and liabilities related to retirees are not segregated from the remaining assets and liabilities of the insurance plans. As a result, Governmental Accounting Standards Board Statement No. 43 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* states that these OPEB assets and liabilities must be presented in an agency fund. Accordingly, this OPEB plan is now combined and presented with Other Agency Funds.

2. Funding Policy

The Oklahoma State and Education Employees Group Insurance Board, a legal trust, operates as an insurance company. The OSEEGIB board has the authority to amend the plan structure and set premium or contribution rates each year. The board utilizes an outside consultant to analyze actual claims experience and establish contribution or premium rates on a calendar year basis. The plan is also an access provider to other health and dental plans, primarily board approved health

maintenance organizations (HMOs) and dental maintenance organizations (DMOs). All eligible insurance plans are added to the pool of benefits a participant may select from. OSEEGIB receives monthly premium contributions from all retirees. Retired participants paid a premium that ranged from a low of \$302 to a high of \$607 per month in calendar year 2007, depending on the type of plan selected for health insurance coverage. Although various other types of insurance coverage are available to retirees, health coverage represents the material cost to the plan.

The State has three cost-sharing multi-employer retirement systems that make payments into the plan on behalf of retirees should the retiree so elect. These plans are the Oklahoma Public Employees Retirement System (OPERS), the Uniform Retirement System for Justices and Judges (URSJJ), and the Teachers' Retirement System of Oklahoma (TRS). The State also has one single employer retirement system that makes payments to the plan on behalf of retirees, the Oklahoma Law Enforcement Retirement System (OLERS). As mandated by statute, these plans pay between \$100 and \$105 per month into the plan on behalf of retirees if so elected. For fiscal years 2008, 2007 and 2006 the retirement systems paid into the plan as follows, representing 100% of the State's required contributions to the OPEB plan:

	FY 2008 Contributions	FY 2007 Contributions	FY 2006 Contributions
OPERS	\$ 17,347,000	\$ 17,100,000	\$ 17,000,000
URSJJ	136,000	129,000	127,000
TRS	30,404,000	30,492,000	30,422,000
OLERS	721,000	703,000	651,000
	<u>\$ 48,608,000</u>	<u>\$ 48,424,000</u>	<u>\$ 48,200,000</u>

The annual required contributions for OPEB in OSEEGIB's agency fund were determined as part of the December 31, 2007 actuarial valuation. Costs were prepared using the Entry Age Normal cost method. A discount rate of 3.5% was assumed, and the trend on retiree costs were declining from a range of 8.5% to 7.5% for medical and pharmacy to 5% over a nine-year period and held consistent thereafter. The following Required Supplementary Information for OSEEGIB's agency fund OPEB plan is presented for 1 year representing the first year of actuarial valuation.

Schedules of Funding Progress
Oklahoma State Education and Employee Group Insurance Board - Agency Fund
(unaudited)
(expressed in thousands)

Actuarial 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
1/1/2008	\$ -	\$ 359,800	\$ 359,800	0.0%	\$ 4,043,400	8.9%

Schedule of Employer Contributions
Oklahoma State Education and Employee Group Insurance Board - Agency Fund
(unaudited)
(expressed in thousands)

Fiscal Year Ended December 31	Annual Required Contribution	Percentage Contributed
2007	\$ 147,700	0.0%

While an actuarial value has been determined and presented as required by Governmental Accounting Standards Board Statement No. 45 – *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, there is no intent by the State to pre-fund this liability, and the State has no legal liability for payment into the OPEB plan other than the statutorily required pension contributions made on the retirees behalf.

Component Units

Twenty of the institutions included in the Higher Education Component Unit sponsor single-employer other post employment benefits (OPEB) plans as designated by each institution's governing Board of Regents. These independent trust plans primarily provide supplemental health, dental, and life insurance benefits to participating retirees. Eligibility requirements and benefits differ significantly between the participating higher education institutions. Current year benefit expenditures, funded primarily on a pay-as-you-go basis, totaled approximately \$9,028,000 in fiscal year 2008 for the twenty participating institutions. Complete disclosure for each higher education institution can be obtained from the Oklahoma State Regents for Higher Education, P.O. Box 108850, Oklahoma City, OK 73101-8850.

Note 16. On-Behalf Payments

The Teacher's Retirement System (TRS) of Oklahoma receives 5% of the State's sales, use, corporate and individual income taxes collected as dedicated tax. Senate Bill 1376, which became law in July 2002, provides that the percentage of the State's collected dedicated taxes allocated to the TRS will increase from 4.5% to 5.0% on July 1, 2007 and thereafter. The System receives 1% of the cigarette taxes collected by the State and receives 5% of the net lottery proceeds collected by the State. The System received approximately \$267,000,000 from the State for the year ended June 30, 2008.

Note 17. Commitments

Primary Government

The **Department of Transportation** had contractual commitments at June 30, 2008, of approximately \$707,562,000 for the 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 \$65,458,000 for the General Fund.

Component Units

The **University of Oklahoma** had outstanding commitments under construction contracts totaling \$102,187,000 at June 30, 2008.

Oklahoma State University had outstanding commitments under construction contracts of approximately \$103,385,000 at June 30, 2008. In addition, Cowboy Athletics, Inc., a component unit of Oklahoma State University, had significant construction in process on several projects which will be contributed to the University upon completion. At December 31, 2007, approximately \$101,143,000 was spent on these projects and management's estimated cost to complete the projects is approximately \$149,000,000.

The **Oklahoma Student Loan Authority** (OSLA) has entered into various forward purchase and sale commitment agreements with certain Oklahoma financial institutions for which it performs interim status loan servicing. Under these forward purchase and sale commitments, OSLA is required to purchase Federal Family Education Loans (FFEL) under certain terms and conditions. As of June 30, 2008, OSLA was committed to purchase approximately \$268,000,000 of FFEL.

The **Oklahoma Turnpike Authority** (OTA) had commitments outstanding at December 31, 2007, relating to equipment orders and supplies of approximately \$6,866,000. At December 31, 2007, OTA had commitments outstanding relating to construction and maintenance contracts of approximately \$39,806,000.

The **Oklahoma Municipal Power Authority** (OMPA) purchased approximately \$12,097,000 of power pursuant to several long-term purchase agreements during 2007. OMPA is obligated to purchase, at a minimum, approximately \$11,073,000 of power in 2008.

The **University Hospitals Authority and University Hospitals Trust** (TUH) approved a construction and equipment project. Under the agreement, TUH is obligated to pay approximately \$19,670,000 in planned capital expenditure allocation. At June 30, 2008, the entire obligation has been paid by TUH.

The **Grand River Dam Authority** makes and receives commitments for purchases of coal and other materials. The Authority had contractual commitments at December 31, 2007 for long-term coal and freight purchases under contracts through 2016 with estimated minimum obligations for the year ending December 31, 2008 of \$96,656,000 and \$877,736,000 through 2016.

Oklahoma Education Television Authority is in the process of converting to digital transmission as established by the Federal Communication Commission on May 1, 2003. The total estimated cost of the digital conversion is currently estimated to be \$34,000,000. OETA has incurred approximately \$15,083,000 in costs leaving a balance of \$18,917,000. OETA has total funds on hand or committed of less than \$5,691,000 resulting in an estimated shortfall of \$13,226,000. State appropriations have been requested to cover unfunded future obligations.

Note 18. 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, 2008. The State has accrued a liability of \$9,023,000 under claims and judgments for the payment of such claims. This amount is reported in the General Fund.

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 disallowance as a result of these audits could become a liability of the State. As of June 30, 2008, 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, the reimbursement of expenditures is highly probable. At June 30, 2008, the Department of Transportation had project expenditures totaling \$3,635,000 that will be reimbursed pending approval of the Federal Government.

The **Oklahoma Water Resources Board** (Board), pursuant to statute, assumed the obligations of the Oklahoma Water Conservation Storage Commission including a 1974 contractual obligation to repay the United States (through the Army Corps of Engineers) for the costs of constructing water supply storage at Sardis Reservoir in southeastern Oklahoma. Under the 1974 contract, annual payments are to be made for the reservoir construction, operation, and maintenance allocated to the present use water supply storage. Total unaudited construction costs of the Sardis Reservoir allocated to water supply storage are approximately \$38,400,000. Payments on the reservoir began in 1983 and are to continue for 50 years. As of June 30, 2008, the State has made payments of approximately \$4,538,000; however, the Board did not receive legislative authorization to pay the annual payments due in the fiscal years 1989 through 1996. The amount in arrears, including interest and penalty is approximately \$16,766,000. In June 2006, the 10th U.S. Circuit Court of Appeals ruled that the State of Oklahoma is legally required to perform its obligations under the 1974 contract. In fiscal 2007 the United States Supreme Court denied review, and the United States claimed that \$71,700,000 is now due. However, in 2008, the U.S. Department of Justice informed the State that it owes \$21,764,000 for present use water supply storage at

Sardis Lake. The difference between the amount owed and the amount in arrears is \$4,998,000, which is recorded as a claim payable in the governmental activities.

Component Units

The **Oklahoma Capital Investment Board (OCIB)**, as a public trust of the State of Oklahoma, has authority to transfer tax credits to public entities. Tax credits can be transferred by OCIB in conjunction with a legitimate call on an OCIB guarantee. OCIB also has a \$30,000,000 line of credit and a \$25,000,000 term loan. As of June 30, 2008, the outstanding debt in connection with the line of credit and term note was approximately \$35,406,000. In addition to the long-term debt, OCIB reported a June 30, 2008 net asset deficit of \$10,034,000.

The credits and OCIB's right to transfer the credits expire if not utilized by July 1, 2015. As of June 30, 2008, \$12,700,000 of tax credits had been transferred. Four entities currently have signed agreements to purchase up to an aggregate of \$8,000,000 of tax credits per year at the sole discretion of OCIB. OCIB has the authority to issue up to \$20,000,000 of tax credits per year with an overall maximum of \$100,000,000.

At December 31, 2007, the **Grand River Dam Authority (GRDA)** had settled the remaining six claims related to the alleged flooding of property upstream from Grand Lake in the early 1900s. The Plaintiffs had sought damages in the approximate amount of \$10,000,000, and the amount of any damages to be awarded will be determined individually subsequent to trial of each claim.

The Authority is also the defendant in another case which involves approximately 50 landowners claiming a constitutional taking due to flooding. Until further information related to these claims is obtained, the Authority is unable to assess the probability or amount of liability, if any, in these cases.

Note 19. Subsequent Events

Subsequent to June 30, 2008, the United States financial markets and banking systems have experienced substantial volatility, resulting in a considerable downward fluctuation. These events have had a negative impact on the investment portfolios of the State. The Fiduciary Funds and Component Units are at a higher risk of exposure due to the long term focus of their investment portfolios and may experience considerable volatility in investment values in the near term.

Primary Government

Oklahoma Department of Transportation received \$98,230,000 in grant anticipation notes to fund road construction projects throughout the state.

Oklahoma Capitol Improvement Authority (OCIA) issued lease revenue bonds totaling \$11,600,000 for a Supreme Court project and \$25,380,000 for the Native American Center Project. OCIA has currently authorized but not issued bonds totaling \$25,000,000 for Conservation Projects, \$25,000,000 for Arkansas River Projects, and \$110,000,000 for the Endowed Chairs Program.

Component Units

Oklahoma Municipal Power Authority issued power supply revenue bonds totaling \$99,330,000.

Oklahoma Student Loan Authority (OSLA) issued Series 2008A bonds totaling \$175,305,000 to refund outstanding tax-exempt issues.

Oklahoma Housing Finance Agency issued single-family mortgage revenue bonds totaling \$40,000,000.

Oklahoma Development Finance Authority (ODFA) issued \$21,510,000 for the Oklahoma State Regents for Higher Education Master Equipment Lease Revenue Bonds. Currently ODFA has authorized but not issued bonds totaling \$7,485,000 for the Regents' Master Equipment Lease Program and \$15,310,000 for the Regents' Master Real Lease Program.



Financial Section

STATE AUDITOR AND INSPECTOR

STEVE BURRAGE, CPA
State Auditor

MICHELLE R. DAY, ESQ.
Chief Deputy



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INDEPENDENT AUDITOR'S REPORT

TO THE GOVERNOR AND MEMBERS OF THE LEGISLATURE OF THE STATE OF OKLAHOMA

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Oklahoma as of and for the year ended June 30, 2009, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Oklahoma's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit:

- the financial statements of the Commissioners of the Land Office, the Oklahoma Department of Commerce, the Native American Cultural and Educational Authority, the Oklahoma Insurance Department, the EDGE Fund, and the Oklahoma Department of Wildlife Conservation, which in the aggregate represent eleven percent and two percent, respectively, of the assets and revenues of the governmental activities, and four percent of the assets and one percent of the revenues of the general fund;
- the financial statements of the Water Resources Board and the Oklahoma Lottery Commission which in the aggregate represent fifty-eight percent of the assets and forty percent of the revenues of the business-type activities and the enterprise funds;
- the financial statements of the aggregate discretely presented component units;
- the financial statements of the Commissioners of the Land Office permanent fund, the Oklahoma Department of Wildlife Conservation Lifetime Licenses permanent fund, and the Tobacco Settlement Endowment permanent fund, which in the aggregate represent one hundred percent of the permanent funds; and
- the financial statements of the Oklahoma Firefighter's Pension and Retirement System, the Oklahoma Law Enforcement Retirement System, the Oklahoma Police Pension and Retirement System, the Oklahoma Public Employee's Retirement System, the Oklahoma Teachers' Retirement System, the Uniform Retirement System for Judges and Justices, and the Oklahoma Department of Wildlife Conservation Retirement Plan, which in the aggregate represent ninety-eight percent of the assets and one hundred percent of the revenues of the aggregate remaining fund information.

Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the above-mentioned entities, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Oklahoma as of June 30, 2009, and the respective changes in financial position and, where applicable, cash flows

thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in the notes to the financial statements, the Teachers' Retirement System faces possible difficulty in meeting its future obligations. The auditor for the Teachers' Retirement System reported, "the System's actuary has determined that the System's unfunded actuarial accrued liability ("UAAL") is approximately \$9,512,000,000. The funding of the actuarial accrued liabilities is predicated on a funding schedule mandated by Oklahoma Statutes. Under the present funding schedule, the statutory contribution rates are projected to be insufficient to amortize the UAAL. Negative amortization is occurring and is expected to continue indefinitely, resulting in an infinite funding period. The ultimate outcome of the ability of the System to meet its future obligations is dependent on funding established by Oklahoma Statutes, and cannot presently be determined.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2009, on our consideration of the State of Oklahoma's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, Budgetary Comparison Schedule-Budget to Actual (Non-GAAP Budgetary Basis) General Fund, and the Notes to Required Supplementary Information-Budgetary Reporting, as listed in the table of contents, and the Schedules of Funding Progress for the Wildlife Conservation Plan, Oklahoma Law Enforcement Retirement System, and the Uniform Retirement System for Judges and Justices presented in Note 14 to the basic financial statements are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The introductory section, statistical section and combining financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining financial statements have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and the statistical section listed in the aforementioned table of contents have not been audited by us, and accordingly, we do not express an opinion on them.



Steve Burrage, CPA
State Auditor and Inspector

December 31, 2009



Government-wide Financial Statements

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State of Oklahoma
Government Wide
Statement of Net Assets
June 30, 2009
(expressed in thousands)

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
Assets				
Current Assets				
Cash/Cash Equivalents	\$ 3,671,956	\$ 739,395	\$ 4,411,351	\$ 1,139,114
Investments	320,112	44,212	364,324	1,971,139
Securities Lending Investments	805,386	0	805,386	242,300
Accounts Receivable	29,478	18,480	47,958	341,198
Interest and Investment Revenue Receivable	38,048	6,112	44,160	19,685
Federal Grants Receivable	615,348	1,487	616,835	4,872
Taxes Receivable	243,262	0	243,262	0
Leases Receivable	7,977	0	7,977	0
Leases Receivable - Component Units	17,109	0	17,109	0
Other Receivables	76	0	76	30,252
Notes Receivable	0	39,866	39,866	53,384
Internal Balances	8,256	(8,256)	0	0
Receivable from External Parties	207	0	207	0
Due from Component Units	1,815	0	1,815	2,285
Due from Primary Government	0	0	0	173,297
Inventory	53,923	0	53,923	84,915
Prepaid Items	1,105	0	1,105	13,308
Other Current Assets	7,227	0	7,227	7,231
Total Current Assets	5,821,285	841,296	6,662,581	4,082,980
Noncurrent Assets				
Cash/Cash Equivalents - Restricted	72,902	59,090	131,992	485,824
Short-Term Investments - Restricted	0	0	0	1,896,892
Long-Term Investments	0	159,403	159,403	1,009,878
Long-Term Investments - Restricted	1,778,016	0	1,778,016	0
Leases Receivable	16,901	0	16,901	0
Leases Receivable - Component Units	485,135	0	485,135	0
Long-Term Notes Receivable, Net	0	645,390	645,390	121,414
Long-Term Notes Receivable, Net - Restricted	0	0	0	1,177,899
Long-Term Due from Component Units	50,735	0	50,735	0
Capital Assets - Depreciable, Net	6,896,911	527	6,897,438	5,079,327
Capital Assets - Land	1,451,342	0	1,451,342	350,979
Capital Assets - Construction in Progress	123,308	0	123,308	827,247
Other Noncurrent Assets	14,773	5,934	20,707	341,627
Other Noncurrent Assets - Restricted	30,407	0	30,407	110,269
Total Noncurrent Assets	10,920,430	870,344	11,790,774	11,401,356
Total Assets	16,741,715	1,711,640	18,453,355	15,484,336

The Notes to the Financial Statements are an integral part of this statement.

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
Liabilities				
Current Liabilities				
Accounts Payable and Accrued Liabilities	931,983	9,876	941,859	285,426
Payable Under Securities Lending Agreements	805,386	0	805,386	253,689
Claims and Judgments	7,427	0	7,427	309,957
Interest Payable	35,592	5,210	40,802	56,594
Tax Refunds Payable	6,214	0	6,214	0
Payable to External Parties	18,226	0	18,226	586
Due to Component Units	151,827	0	151,827	2,285
Due to Primary Government	0	0	0	2,581
Due to Others	224,033	0	224,033	0
Unearned Revenue	99,966	0	99,966	215,801
Capital Leases	1,805	0	1,805	41,288
Capital Leases - Primary Government	0	0	0	44
Compensated Absences	93,269	312	93,581	78,792
Notes Payable	16,754	0	16,754	117,474
General Obligation Bonds	15,725	0	15,725	1,040
Revenue Bonds	67,870	29,935	97,805	297,383
Bond Issue Premiums	4,333	0	4,333	0
Other Current Liabilities	4,051	2,864	6,915	252,624
Total Current Liabilities	2,484,461	48,197	2,532,658	1,915,564
Noncurrent Liabilities				
Claims and Judgments	13,831	0	13,831	800,536
Due to Primary Government	0	0	0	49,969
Pension Obligation	21,850	0	21,850	0
Capital Leases	4,845	0	4,845	672,828
Capital Leases - Primary Government	0	0	0	0
Compensated Absences	68,088	0	68,088	27,167
Notes Payable	282,512	0	282,512	538,048
General Obligation Bonds	188,030	0	188,030	50,124
Revenue Bonds	1,031,755	472,966	1,504,721	5,154,546
Bond Issue Premiums	42,231	0	42,231	0
Other Noncurrent Liabilities	0	38	38	295,533
Total Noncurrent Liabilities	1,653,142	473,004	2,126,146	7,588,751
Total Liabilities	4,137,603	521,201	4,658,804	9,504,315
Net Assets				
Invested in Capital Assets, Net of Related Debt	7,364,509	527	7,365,036	2,295,728
Restricted for:				
Capital Projects	97,576	0	97,576	0
Debt Service	100,520	245,647	346,167	310,230
EDGE Fund	157,377	0	157,377	0
Preservation of Wildlife	65,704	0	65,704	0
Educational Systems	1,406,502	0	1,406,502	0
Unemployment Benefits	0	724,435	724,435	0
Water Resource Loans	0	208,858	208,858	0
Other Purposes				
Expendable	34,679	0	34,679	1,553,691
Nonexpendable	406,343	0	406,343	520,647
Unrestricted	2,970,902	10,972	2,981,874	1,299,725
Total Net Assets	\$ 12,604,112	\$ 1,190,439	\$ 13,794,551	\$ 5,980,021

The Notes to the Financial Statements are an integral part of this statement.

State of Oklahoma
Government Wide
Statement of Activities
For the Fiscal Year Ended June 30, 2009
(expressed in thousands)

Functions	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	
					Governmental Activities	Business-Type Activities		
Primary Government:								
Governmental Activities:								
Education-General	\$ 3,548,104	\$ 10,187	\$ 702,340	\$ 0	\$ (2,835,577)		\$ (2,835,577)	
Education-Payment to Higher Education	1,074,409	0	0	0	(1,074,409)		(1,074,409)	
General Government	1,718,794	230,663	23,686	0	(1,464,445)		(1,464,445)	
Health Services	4,542,241	126,087	3,065,532	0	(1,350,622)		(1,350,622)	
Legal and Judiciary	230,706	101,224	13,649	0	(115,833)		(115,833)	
Museums	17,507	7,339	944	0	(9,224)		(9,224)	
Natural Resources	265,197	103,093	71,264	0	(90,840)		(90,840)	
Public Safety and Defense	951,387	67,858	189,838	0	(693,691)		(693,691)	
Regulatory Services	130,033	100,304	6,272	0	(23,457)		(23,457)	
Social Services	1,976,556	190,535	1,254,554	0	(531,467)		(531,467)	
Transportation	902,151	179,533	813,086	0	90,468		90,468	
Interest on Long-Term Debt	70,026	0	0	0	(70,026)		(70,026)	
Total Governmental Activities	15,427,111	1,116,823	6,141,165	0	(8,169,123)		(8,169,123)	
Business-Type Activities:								
Employment Security Commission	533,629	267,591	120,135	0		\$ (145,903)	(145,903)	
Water Resources Board	25,527	53,973	13,302	0		41,748	41,748	
Lottery Commission	122,961	193,326	592	0		70,957	70,957	
Total Business-Type Activities	682,117	514,890	134,029	0		(33,198)	(33,198)	
Total Primary Government	\$ 16,109,228	\$ 1,631,713	\$ 6,275,194	\$ 0	(8,169,123)	(33,198)	(8,202,321)	
Component Units:								
CompSource Oklahoma	\$ 296,803	\$ 208,490	\$ 0	\$ 0				\$ (88,313)
State and Education Employees								
Group Insurance Board	837,375	776,328	0	0				(61,047)
Oklahoma Student Loan Authority	49,375	39,625	0	0				(9,750)
Oklahoma Housing Finance Agency	166,403	67,511	118,728	0				19,836
Oklahoma Turnpike Authority	206,360	207,961	0	0				1,601
Grand River Dam Authority	263,405	346,374	0	0				82,969
Oklahoma Municipal Power Authority	160,090	159,859	0	0				(231)
Higher Education	3,914,294	1,726,038	629,974	0				(1,558,282)
Nonmajor Component Units	214,142	166,025	2,031	0				(46,086)
Total Component Units	\$ 6,108,247	\$ 3,698,211	\$ 750,733	\$ 0				(1,659,303)
General Revenues								
Taxes:								
Income Taxes-Individual					2,537,221	0	2,537,221	0
Income Taxes-Corporate					345,929	0	345,929	0
Sales Tax					2,190,082	0	2,190,082	0
Gross Production Taxes					1,136,279	0	1,136,279	0
Motor Vehicle Taxes					585,084	0	585,084	0
Fuel Taxes					397,852	0	397,852	0
Tobacco Taxes					254,006	0	254,006	0
Other Business Taxes					103,981	0	103,981	0
Other Personal Taxes					40,952	0	40,952	0
Insurance Taxes					105,076	0	105,076	0
Beverage Taxes					90,072	0	90,072	0
Other Taxes					78,993	0	78,993	0
Payments from Primary Government					0	0	0	1,144,760
Investment Earnings					141,264	0	141,264	0
Contributions to Permanent Funds					73,548	0	73,548	0
Gain on Sale of Assets					1,316	0	1,316	0
Transfers					69,826	(69,826)	0	0
Total General Revenues and Transfers					8,151,481	(69,826)	8,081,655	1,144,760
Change in Net Assets					(17,642)	(103,024)	(120,666)	(514,543)
Net Assets - Beginning of Year (as restated)					12,621,754	1,293,463	13,915,217	6,494,564
Net Assets - End of Year					\$ 12,604,112	\$ 1,190,439	\$ 13,794,551	\$ 5,980,021

The Notes to the Financial Statements are an integral part of this statement.



Fund Financial Statements



Fund Financial Statements

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State of Oklahoma
Balance Sheet
Governmental Funds
June 30, 2009
(expressed in thousands)

	Permanent Funds				Total Governmental Funds
	General	Commissioners of the Land Office	Department of Wildlife Lifetime Licenses	Tobacco Settlement Endowment	
Assets					
Assets					
Cash/Cash Equivalents	\$ 3,636,984	\$ 60,539	\$ 25,501	\$ 21,834	\$ 3,744,858
Investments	320,112	1,319,383	52,743	405,890	2,098,128
Securities Lending Investments	748,497	0	0	56,889	805,386
Accounts Receivable	29,478	0	0	0	29,478
Interest and Investment Revenue Receivable	38,048	13,016	0	3,494	54,558
Federal Grants Receivable	615,348	0	0	0	615,348
Taxes Receivable	243,262	0	0	0	243,262
Leases Receivable	24,878	0	0	0	24,878
Leases Receivable-Component Units	502,244	0	0	0	502,244
Other Receivables	76	13,564	0	333	13,973
Due from Other Funds	8,283	0	117	0	8,400
Due from Fiduciary Funds	207	0	0	0	207
Due from Component Units	1,815	0	0	0	1,815
Due from Component Units-Noncurrent	50,735	0	0	0	50,735
Inventory	53,923	0	0	0	53,923
Prepaid Items	1,105	0	0	0	1,105
Other Assets	7,220	0	7	0	7,227
Total Assets	\$ 6,282,215	\$ 1,406,502	\$ 78,368	\$ 488,440	\$ 8,255,525
Liabilities and Fund Balance					
Liabilities					
Accounts Payable and Accrued Liabilities	\$ 929,060	\$ 0	\$ 0	\$ 2,923	\$ 931,983
Payable Under Securities Lending Agreements	748,497	0	0	56,889	805,386
Interest Payable	10,910	0	0	0	10,910
Tax Refunds Payable	6,214	0	0	0	6,214
Due to Other Funds	117	0	0	27	144
Due to Fiduciary Funds	18,226	0	0	0	18,226
Due to Component Units	151,584	0	0	243	151,827
Due to Others	224,033	0	0	0	224,033
Deferred Revenue	255,812	6,278	0	0	262,090
Other Liabilities	4,051	0	0	0	4,051
Total Liabilities	2,348,504	6,278	0	60,082	2,414,864
Fund Balances					
Reserved					
Encumbrances	356,856	0	0	0	356,856
Inventory/Prepaid Items	54,675	0	0	0	54,675
Debt Service	100,520	0	0	0	100,520
EDGE Fund	157,377	0	0	0	157,377
Capital Construction	97,576	0	0	0	97,576
Preservation of Wildlife	0	0	65,704	0	65,704
Permanent Trust	0	1,400,224	0	406,343	1,806,567
Undistributed Revenue	0	0	12,664	22,015	34,679
Other Special Purposes	550	0	0	0	550
Unreserved, reported in General Fund					
Designated for Cash Flow Reserve Fund	434,417	0	0	0	434,417
Designated for Rainy Day Fund	596,573	0	0	0	596,573
Undesignated	2,135,167	0	0	0	2,135,167
Total Fund Balances	3,933,711	1,400,224	78,368	428,358	5,840,661
Total Liabilities and Fund Balances	\$ 6,282,215	\$ 1,406,502	\$ 78,368	\$ 488,440	

The Notes to the Financial Statements are an integral part of this statement.

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

Total Fund Balance - Governmental Funds \$ 5,840,661

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of :

Land	\$	1,451,342	
Buildings and Improvements		1,271,466	
Equipment		361,854	
Infrastructure		13,115,931	
Construction in Progress		123,308	
Accumulated Depreciation		<u>(7,852,340)</u>	
			8,471,561

Some of the State's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds. 162,124

The Uniform Retirement System for Judges and Justices and the Oklahoma Law Enforcement Retirement System have under funded their Annual Required Contributions, creating a net pension obligation. This liability is not payable from current available financial resources and is not reported in the funds. (20,191)

Bonds issued by the State have associated costs that are paid from current available financial resources in the funds. However, these costs are deferred on the statement of net assets. 5,352

Certain bonds issued by the State are for the purpose of refunding older bond issues. Some bonds that are refunded are done so at a loss to the State. These losses are costs in the funds, but are amortized over the life of the refunding bonds on the statement of net assets. 9,421

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Notes Payable		(299,266)	
General Obligation and Revenue Bonds		(1,303,380)	
Capital Leases and Certificates of Participation		(6,650)	
Net Pension Obligation (Wildlife)		(1,659)	
Bond Issue Premium		(46,564)	
Accrued Interest on Bonds		(24,682)	
Compensated Absences		(161,357)	
Claims and Judgements		<u>(21,258)</u>	
			(1,864,816)

Net Assets of Governmental Activities \$ 12,604,112

The Notes to the Financial Statements are an integral part of this statement.

State of Oklahoma
Statement of Revenues, Expenditures
and Changes in Fund Balances
Governmental Funds

For the Fiscal Year Ended June 30, 2009
(expressed in thousands)

	Permanent Funds				Total Governmental Funds
	General	Commissioners of the Land Office	Department of Wildlife Lifetime Licenses	Tobacco Settlement Endowment	
Revenues					
Taxes					
Income Taxes-Individual	\$ 2,537,221	\$ 0	\$ 0	\$ 0	\$ 2,537,221
Sales Tax	2,190,082	0	0	0	2,190,082
Gross Production Taxes	1,136,279	0	0	0	1,136,279
Income Taxes-Corporate	345,929	0	0	0	345,929
Motor Vehicle Taxes	585,084	0	0	0	585,084
Fuel Taxes	397,852	0	0	0	397,852
Tobacco Taxes	254,006	0	0	0	254,006
Other Business Taxes	103,981	0	0	0	103,981
Other Personal Taxes	40,952	0	0	0	40,952
Insurance Taxes	105,076	0	0	0	105,076
Beverage Taxes	90,071	0	0	0	90,071
Other Taxes	78,994	0	0	0	78,994
Licenses, Permits and Fees	354,533	0	2,693	0	357,226
Interest and Investment Revenue	203,053	(66,216)	(3,598)	(43,943)	89,296
Federal Grants	6,227,575	0	0	0	6,227,575
Sales and Services	188,706	11,000	1,601	0	201,307
Other Grants and Reimbursements	330,166	0	0	0	330,166
Fines and Penalties	48,762	0	0	0	48,762
Other	117,716	0	0	73,548	191,264
Total Revenues	15,336,038	(55,216)	696	29,605	15,311,123
Expenditures					
Education	4,519,438	100,513	0	0	4,619,951
General Government	1,614,395	0	0	16,824	1,631,219
Health Services	4,525,993	0	0	0	4,525,993
Legal and Judiciary	225,225	0	0	0	225,225
Museums	16,903	0	0	0	16,903
Natural Resources	271,487	0	0	0	271,487
Public Safety and Defense	915,880	0	0	0	915,880
Regulatory Services	127,803	0	0	0	127,803
Social Services	1,933,117	0	0	0	1,933,117
Transportation	199,517	0	0	0	199,517
Capital Outlay	1,438,064	0	0	0	1,438,064
Debt Service					
Principal Retirement	95,155	0	0	0	95,155
Interest and Fiscal Charges	70,026	0	0	0	70,026
Total Expenditures	15,953,003	100,513	0	16,824	16,070,340
Revenues in Excess of (Less Than) Expenditures	(616,965)	(155,729)	696	12,781	(759,217)
Other Financing Sources (Uses)					
Transfers In	77,371	0	0	0	77,371
Transfers Out	(4,357)	0	(3,188)	0	(7,545)
Bonds Issued	105,400	0	0	0	105,400
Notes Issued	98,230	0	0	0	98,230
Bond and Note Issue Premiums	2,478	0	0	0	2,478
Bond and Note Issue Discounts	(730)	0	0	0	(730)
Capital Leases	3,655	0	0	0	3,655
Sale of Capital Assets	5,832	0	0	0	5,832
Total Other Financing Sources (Uses)	287,879	0	(3,188)	0	284,691
Net Change in Fund Balances	(329,086)	(155,729)	(2,492)	12,781	(474,526)
Fund Balances - Beginning of Year (as restated)	4,262,797	1,555,953	80,860	415,577	6,315,187
Fund Balances - End of Year	\$ 3,933,711	\$ 1,400,224	\$ 78,368	\$ 428,358	\$ 5,840,661

The Notes to the Financial Statements are an integral part of this statement.

Reconciliation of the Governmental Funds Schedule of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities

Net Change in Fund Balances - Total Governmental Funds

Amounts reported for governmental activities in the statement of activities are different because:		\$ (474,526)
Governmental funds report capital outlays as expenditures. However, in the statements of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$959,124) exceeded depreciation (\$391,673) in the current period.		567,451
In the statement of activities, only the gain on the sale of assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the asset sold.		(7,226)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		29,903
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which bond and note proceeds (\$203,630) exceeded repayments (\$93,079).		(110,551)
Bond issuance premiums and discounts are other financing sources or uses to governmental funds, but are deferred liabilities in the statement of net assets. This is the amount that bond issue premiums (\$2,478) exceed bond issue discounts of (\$730) and net immaterial bond expenses of (\$260).		(2,008)
Contributions to certain pension plans use current financial resources from governmental funds, and can increase the net pension obligation (\$17,491) in the statement of activities.		(17,491)
Some of the assets acquired this year were financed as capital leases. The amount financed is reported in the governmental funds as a source of financing. However, capital leases are long-term liabilities in the statement of net assets. This is the amount by which the addition of new capital leases (\$3,655) exceeds the payment of principal (\$2,076) on and the deletion of (\$11), capital leases.		(1,568)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.		
Accretion of bond premiums	4,333	
Increase in entity-wide interest payable	(662)	
Increase in compensated absences	(4,189)	
Amortization of bond issuance costs	(606)	
Deferral of bond issuance costs	184	
Increase in claims and judgements payable	(686)	
		(1,626)
Change in Net Assets of Governmental Activities		\$ (17,642)

The Notes to the Financial Statements are an integral part of this statement.

State of Oklahoma
Statement of Net Assets
Proprietary Funds
June 30, 2009
(expressed in thousands)

	Business-Type Activities - Enterprise Funds			Total
	Employment Security Commission	Water Resources Board	Lottery Commission	
Assets				
Current Assets				
Cash/Cash Equivalents	\$ 715,089	\$ 16,087	\$ 8,219	\$ 739,395
Investments	0	44,212	0	44,212
Accounts Receivable	9,482	0	8,998	18,480
Interest and Investment Revenue Receivable	0	6,112	0	6,112
Federal Grants Receivable	785	702	0	1,487
Other Receivables	0	0	0	0
Notes Receivable	0	39,866	0	39,866
Total Current Assets	725,356	106,979	17,217	849,552
Noncurrent Assets				
Cash/Cash Equivalents - Restricted	0	51,584	7,506	59,090
Long-Term Investments	0	159,403	0	159,403
Long-Term Notes Receivable	0	645,390	0	645,390
Capital Assets, Net	0	128	399	527
Other Noncurrent Assets	0	2,468	3,466	5,934
Total Noncurrent Assets	0	858,973	11,371	870,344
Total Assets	725,356	965,952	28,588	1,719,896
Liabilities				
Current Liabilities				
Accounts Payable and Accrued Liabilities	870	44	8,962	9,876
Interest Payable	0	5,210	0	5,210
Compensated Absences	0	249	63	312
Deferred Revenue	0	0	631	631
Revenue Bonds	0	29,935	0	29,935
Due to Other Funds	51	644	7,561	8,256
Other Current Liabilities	0	2,233	0	2,233
Total Current Liabilities	921	38,315	17,217	56,453
Noncurrent Liabilities				
Revenue Bonds	0	472,966	0	472,966
Other Noncurrent Liabilities	0	38	0	38
Total Noncurrent Liabilities	0	473,004	0	473,004
Total Liabilities	921	511,319	17,217	529,457
Net Assets				
Invested in Capital Assets, net of related debt	0	128	399	527
Restricted for:				
Debt Service	0	245,647	0	245,647
Unemployment Benefits	724,435	0	0	724,435
Water Resource Loans	0	208,858	0	208,858
Unrestricted	0	0	10,972	10,972
Total Net Assets	\$ 724,435	\$ 454,633	\$ 11,371	\$ 1,190,439

The Notes to the Financial Statements are an integral part of this statement.

State of Oklahoma
Statement of Revenues, Expenses
and Changes in Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2009
(expressed in thousands)

	Business-Type Activities - Enterprise Funds			Total
	Employment Security Commission	Water Resources Board	Lottery Commission	
Operating Revenues				
Sales and Services	\$ 229,981	\$ 0	\$ 193,277	\$ 423,258
Federal Grants	0	3,486	0	3,486
Interest and Investment Revenue	0	18,870	0	18,870
Other	375	0	49	424
Total Operating Revenues	230,356	22,356	193,326	446,038
Operating Expenses				
Facilities Operations and Maintenance	0	0	242	242
Administrative and General	0	4,543	8,115	12,658
Prizes, Commissions and Other	0	0	114,352	114,352
Interest	0	20,813	0	20,813
Depreciation	0	51	252	303
Benefit Payments and Refunds	533,629	0	0	533,629
Total Operating Expenses	533,629	25,407	122,961	681,997
Operating Income (Loss)	(303,273)	(3,051)	70,365	(235,959)
Nonoperating Revenues (Expenses)				
Interest and Investment Revenue	37,235	11,408	592	49,235
Other Nonoperating Revenues	0	1,894	0	1,894
Nonoperating Federal Grants	120,135	31,617	0	151,752
Other Nonoperating Expenses	0	(120)	0	(120)
Total Nonoperating Revenues (Expenses)	157,370	44,799	592	202,761
Income (Loss) Before Transfers	(145,903)	41,748	70,957	(33,198)
Transfers In	0	4,357	0	4,357
Transfers Out	0	(4,957)	(69,226)	(74,183)
Change in Net Assets	(145,903)	41,148	1,731	(103,024)
Total Net Assets - Beginning of Year	870,338	413,485	9,640	1,293,463
Total Net Assets - Ending	\$ 724,435	\$ 454,633	\$ 11,371	\$ 1,190,439

The Notes to the Financial Statements are an integral part of this statement.

State of Oklahoma
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2009
(expressed in thousands)

	Business-Type Activities - Enterprise Funds			
	Employment Security Commission	Water Resources Board	Lottery Commission	Total
Cash Flows from Operating Activities				
Receipts from Customers and Users	\$ 234,279	\$ 0	\$ 180,954	\$ 415,233
Receipts from Federal Grants	0	3,312	0	3,312
Payments of Benefits	(533,042)	0	0	(533,042)
Payments to Suppliers	0	(2,269)	(11,606)	(13,875)
Payments to Employees	0	(1,750)	(3,002)	(4,752)
Payments to Prize Winners	0	0	(98,431)	(98,431)
Collections of Interest on Loans to Governmental Units	0	18,960	0	18,960
Payments of Operating Interest Expense	0	(22,345)	0	(22,345)
Net Cash Provided (Used) by Operating Activities	(298,763)	(4,092)	67,915	(234,940)
Cash Flows from Noncapital Financing Activities				
Federal Grants and Other Contributions	120,488	33,991	0	154,479
Transfers In	0	4,356	0	4,356
Transfers Out	0	(4,956)	(78,394)	(83,350)
Deposit with Multi-State Lottery	0	0	(1,068)	(1,068)
Principal Paid on Bonds and Notes Payable	0	(41,025)	0	(41,025)
Net Cash Provided (Used) by Noncapital Financing Activities	120,488	(7,634)	(79,462)	33,392
Cash Flows from Capital and Related Financing Activities				
Payments for Acquisition of Capital Assets	0	(30)	(30)	(60)
Net Cash Used by Capital and Related Financing Activities	0	(30)	(30)	(60)
Cash Flows from Investing Activities				
Interest and Investment Revenue	37,235	10,730	637	48,602
Proceeds from Sale and Maturity of Investments	0	51,356	0	51,356
Payments to Purchase Investments	0	(26,509)	0	(26,509)
Collections of Principal on Loans to Governmental Units	0	47,043	0	47,043
Payments to Issue Notes Receivable	0	(92,750)	0	(92,750)
Net Cash Provided by Investing Activities	37,235	(10,130)	637	27,742
Net Increase in Cash/Cash Equivalents	(141,040)	(21,886)	(10,940)	(173,866)
Cash/Cash Equivalents - Beginning of Year	856,129	89,557	26,665	972,351
Cash/Cash Equivalents - End of Year	\$ 715,089	\$ 67,671	\$ 15,725	\$ 798,485
Reconciliation of Operating Income (Loss) to Net Cash Used by Operating Activities				
Operating Income (Loss)	\$ (303,273)	\$ (3,051)	\$ 70,365	\$ (235,959)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities				
Depreciation Expense	0	51	252	303
Amortization (Accretion) and Other Noncash Expenses	0	(691)	8	(683)
Decrease (Increase) in Assets				
Accounts Receivable	3,924	(82)	(111)	3,731
Interest and Investment Receivable	0	60	0	60
Other Receivables	0	0	0	0
Increase (Decrease) in Liabilities				
Accounts Payable and Accrued Liabilities	586	83	(560)	109
Interest Payable	0	(558)	0	(558)
Prizes Payable	0	0	(2,034)	(2,034)
Compensated Absences	0	72	0	72
Arbitrage Rebate Payable	0	(6)	0	(6)
Due to other funds	0	0	(73)	(73)
Deferred Revenue	0	0	68	68
Other Current Liabilities	0	30	0	30
Net Cash Provided (Used) by Operating Activities	\$ (298,763)	\$ (4,092)	\$ 67,915	\$ (234,940)

The Notes to the Financial Statements are an integral part of this statement.

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State of Oklahoma
Statement of Fiduciary Net Assets
Fiduciary Funds and Similar Component Units
June 30, 2009
(expressed in thousands)

	Pension Trust Funds	Agency Fund
Assets		
Cash/Cash Equivalents	\$ 486,973	\$ 306,728
Investments, at fair value		
Equity Securities	6,929,642	0
Governmental Securities	2,991,890	0
Debt Securities	3,118,894	0
Mutual Funds	2,449,032	0
Other Investments	390,693	85
Securities Lending Investments	2,118,807	0
Taxes Receivable	0	1
Accounts Receivable	0	174
Interest and Investment Revenue Receivable	65,636	0
Employer Contributions Receivable	42,091	0
Employee Contributions Receivable	30,782	0
Other Contributions Receivable	24,960	0
Other Receivables	384	0
Due from Brokers	694,422	0
Due from Other Funds	18,226	0
Due from Component Units	0	586
Inventory	0	6,445
Capital Assets, Net	758	0
Other Assets	114	0
Total Assets	19,363,304	\$ 314,019
Liabilities		
Accounts Payable	4,244	\$ 1,826
Tax Refunds Payable	0	5,751
Securities Lending Payable	2,129,944	0
Due to Brokers	910,309	0
Due to Other Funds	5	202
Due to Component Units	8,723	0
Due to Others	0	306,229
Benefits in the Process of Payment	79,002	0
Other Liabilities	8,524	11
Total Liabilities	3,140,751	\$ 314,019
Net Assets		
Held in Trust for Pension Benefits and Pool Participants	\$ 16,222,553	

The Notes to the Financial Statements are an integral part of this statement.

State of Oklahoma
Statement of Changes in
Fiduciary Net Assets
Fiduciary Funds and Similar Component Units
For the Fiscal Year Ended June 30, 2009
(expressed in thousands)

	Pension Trust Funds
Additions	
Contributions	
Employer Contributions	\$ 658,399
Employee Contributions	412,565
Other Contributions	377,885
Total Contributions	<u>1,448,849</u>
Investment Earnings	
Net Increase (Decrease) in Fair Value of Investments	(3,536,968)
Interest and Investment Revenue	458,772
Total Investment Earnings	<u>(3,078,196)</u>
Less Investment Expenses	89,863
Net Investment Earnings	<u>(3,168,059)</u>
Total Additions	<u>(1,719,210)</u>
Deductions	
Administrative and General Expenses	14,928
Benefit Payments and Refunds	1,667,061
Total Deductions	<u>1,681,989</u>
Change in Net Assets	(3,401,199)
Net Assets - Beginning of Year (as restated)	<u>19,623,752</u>
Net Assets - End of Year	<u>\$ 16,222,553</u>

The Notes to the Financial Statements are an integral part of this statement.

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MAJOR COMPONENT UNITS

The State of Oklahoma has eight major component units which are described below:

COMPSOURCE OKLAHOMA

P.O. Box 53505, Oklahoma City, Oklahoma 73152

The Fund provides a source of workers' compensation insurance for all employers within the state including state agencies and other governmental units. The Fund is financed through employer premiums.

STATE AND EDUCATION EMPLOYEES GROUP INSURANCE BOARD

3545 N.W. 58th Street, Suite 1000, Oklahoma City, Oklahoma 73112

The Board provides varying coverage of group health, dental, life, and disability benefits to active employees and retirees of the State, local governments, and education entities as well as certain other eligible participants. The Board is financed through employer and employee premiums.

OKLAHOMA STUDENT LOAN AUTHORITY

P.O. Box 18145, Oklahoma City, Oklahoma 73154

The Authority provides loans to qualified persons at participating educational institutions through the issuance of tax-exempt revenue bonds or other debt obligations.

OKLAHOMA HOUSING FINANCE AGENCY

100 N.W. 63rd Street, Suite 200, Oklahoma City, Oklahoma 73116

The Agency is authorized to issue revenue bonds and notes in order to provide funds to promote the development of adequate residential housing and other economic development for the benefit of the State of Oklahoma.

OKLAHOMA TURNPIKE AUTHORITY

4401 W. Memorial Rd, Suite 130, Oklahoma City, Oklahoma 73134

The Authority is authorized to construct, maintain, repair, and operate turnpike projects at locations authorized by the Legislature and approved by the Department of Transportation. The Authority receives revenues from turnpike tolls and a percentage of the turnpike concessions sales. The Authority issues revenue bonds to finance the cost of turnpike projects.

GRAND RIVER DAM AUTHORITY

P.O. Box 409, Vinita, Oklahoma 74301

The Authority controls the waters of the Grand River system to 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.

OKLAHOMA MUNICIPAL POWER AUTHORITY

P.O. Box 1960, Edmond, Oklahoma 73083

The Authority provides a means for the municipal electric systems in the state to jointly plan, finance, acquire, and operate electrical power supply facilities necessary to meet the electrical energy requirements of their consumers. The Authority also sells electric power to its member municipalities.

HIGHER EDUCATION

Higher Education is primarily comprised of colleges and universities which are members of the Oklahoma State System of Higher Education. The System includes the following colleges and universities:

COMPREHENSIVE UNIVERSITIES

University of Oklahoma
Oklahoma State University

OTHER FOUR YEAR UNIVERSITIES

University of Central Oklahoma
East Central University
Northeastern State University
Northwestern Oklahoma State University
Southeastern Oklahoma State University
Southwestern Oklahoma State University
Cameron University
Langston University
Oklahoma Panhandle State University
Rogers State University
University of Science and Arts of Oklahoma

TWO YEAR COLLEGES

Carl Albert State College
Connors State College
Eastern Oklahoma State College
Redlands Community College
Murray State College
Northeastern Oklahoma A & M College
Northern Oklahoma College
Oklahoma City Community College
Rose State College
Seminole State College
Tulsa Community College
Western Oklahoma State College

Each institution which is a member of the Oklahoma State System of Higher Education (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 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:

Oklahoma State Regents for Higher Education serves as the coordinating board of control for the System.

Regional University System of Oklahoma Regents 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.

Ardmore Higher Education Program was 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 Program earn credit applicable toward academic degrees and certificates at participating institutions in the System.

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 secondary vocational, technical, and adult education programs for persons within their defined geographical boundaries.

State of Oklahoma
Combining Statement of Net Assets
Major Component Units
June 30, 2009
(expressed in thousands)

	CompSource Oklahoma	State and Education Empl. Group Insurance Bd.	Oklahoma Student Loan Authority	Oklahoma Housing Finance Agency	Oklahoma Turnpike Authority	Grand River Dam Authority	Oklahoma Municipal Power Authority	Higher Education Component Unit	Nonmajor Component Units Total	All Component Units Total
Assets										
Current Assets										
Cash/Cash Equivalents										
Unrestricted	\$ 54,526	\$ 63,240	\$ 390	\$ 11,122	\$ 24,938	\$ 16,244	\$ 272	\$ 855,215	\$ 113,167	\$ 1,139,114
Investments	1,012,163	153,767	8,504	0	94,696	331,541	10,143	337,216	23,109	1,971,139
Securities Lending Investments	242,300	0	0	0	0	0	0	0	0	242,300
Accounts Receivable	0	9,301	0	906	1,440	32,701	12,574	268,706	15,570	341,198
Interest and Investment										
Revenue Receivable	9,466	1,276	869	129	1,683	1,835	644	3,439	344	19,685
Federal Grants Receivable	0	0	0	0	0	0	0	4,872	0	4,872
Other Receivables	2,212	1,536	0	0	0	0	0	26,266	238	30,252
Notes Receivable	44,569	0	0	0	0	0	0	6,979	1,836	53,384
Due from Fiduciary Funds	0	20,895	0	0	0	0	0	0	0	20,895
Due from Other Component Units	178	0	0	0	0	1,167	0	371	569	2,285
Due from Primary Government	1,726	50	0	0	1,656	1,049	0	147,699	222	152,402
Inventory	0	0	0	0	1,841	55,482	3,653	23,939	0	84,915
Prepaid Items	0	0	0	222	160	2,707	0	9,960	259	13,308
Other Current Assets	2,638	0	0	0	0	822	1,654	1,520	597	7,231
Total Current Assets	1,369,778	250,065	9,763	12,379	126,414	443,548	28,940	1,686,182	155,911	4,082,980
Noncurrent Assets										
Cash/Cash Equivalents -										
Restricted	0	0	159	35,572	72,615	0	0	377,224	254	485,824
Investments - Restricted	0	0	144,619	765,467	104,928	206,647	134,952	516,386	23,893	1,896,892
Long-Term Investments										
Unrestricted	0	0	0	14,458	0	0	43,920	918,842	32,658	1,009,878
Long-Term Notes Receivable, Net										
Unrestricted	24,166	0	28,692	0	0	0	0	50,550	18,006	121,414
Restricted	0	0	1,170,962	6,937	0	0	0	0	0	1,177,899
Capital Assets										
Depreciable, Net	17,098	710	751	2,988	945,271	651,145	328,660	3,018,383	114,321	5,079,327
Land	1,179	0	0	550	162,665	31,392	0	151,058	4,135	350,979
Construction in Progress	0	0	0	0	70,359	47,625	36,284	583,802	89,177	827,247
Other Noncurrent Assets										
Unrestricted	6,637	0	321	0	5,286	22,723	115,212	170,052	21,396	341,627
Restricted	0	0	21,038	8,058	0	0	963	78,174	2,036	110,269
Total Noncurrent Assets	49,080	710	1,366,542	834,030	1,361,124	959,532	659,991	5,864,471	305,876	11,401,356
Total Assets	1,418,858	250,775	1,376,305	846,409	1,487,538	1,403,080	688,931	7,550,653	461,787	15,484,336

The Notes to the Financial Statements are an integral part of this statement.

	CompSource Oklahoma	State and Education Empl. Group Insurance Bd.	Oklahoma Student Loan Authority	Oklahoma Housing Finance Agency	Oklahoma Turnpike Authority	Grand River Dam Authority	Oklahoma Municipal Power Authority	Higher Education Component Unit	Nonmajor Component Units Total	All Component Units Total
Liabilities										
Current Liabilities										
Accounts Payable and Accrued Liabilities	0	20,603	1,342	3,152	11,819	31,590	22,645	178,037	16,238	285,426
Payable Under Securities										
Lending Agreements	253,689	0	0	0	0	0	0	0	0	253,689
Claims and Judgments	193,905	101,226	0	0	0	0	0	2,803	12,023	309,957
Interest Payable	0	0	2,498	3,085	16,641	9,224	11,549	12,432	1,165	56,594
Due to Fiduciary Funds	0	0	0	0	1	585	0	0	0	586
Due to Other Component Units	358	0	0	0	42	66	1,164	591	64	2,285
Due to Primary Government	2	18	17	0	791	109	0	1,644	0	2,581
Deferred Revenue	67,850	0	0	439	21,227	0	0	120,894	5,391	215,801
Capital Leases	0	0	0	0	0	0	0	41,288	0	41,288
Capital Leases-Primary Govt.	0	0	0	0	0	0	0	0	44	44
Compensated Absences	1,605	915	287	855	1,908	3,696	0	69,147	379	78,792
Notes Payable	0	0	100,537	0	0	0	1,408	14,393	1,136	117,474
General Obligation Bonds	0	0	0	0	0	0	0	0	1,040	1,040
Revenue Bonds	0	0	68,643	69,166	42,320	72,590	12,785	29,894	1,985	297,383
Other Current Liabilities	11,000	7,018	0	0	0	0	0	234,502	104	252,624
Total Current Liabilities	528,409	129,780	173,324	76,697	94,749	117,860	49,551	705,625	39,569	1,915,564
Noncurrent Liabilities										
Claims and Judgments	699,750	10,552	0	0	0	0	0	3,265	86,969	800,536
Due to Primary Government	0	0	0	0	49,969	0	0	0	0	49,969
Capital Leases	0	0	0	0	0	0	0	672,828	0	672,828
Capital Leases-Primary Govt.	0	0	0	0	0	0	0	0	0	0
Compensated Absences	0	0	0	0	0	0	0	26,994	173	27,167
Notes Payable	0	0	316,414	0	0	0	50,398	147,008	24,228	538,048
General Obligation Bonds	0	0	0	0	0	0	0	0	50,124	50,124
Revenue Bonds	0	0	810,264	665,156	1,050,409	937,454	552,449	1,075,198	63,616	5,154,546
Other Noncurrent Liabilities	0	0	58	3,067	0	14,703	13,600	219,891	44,214	295,533
Total Noncurrent Liabilities	699,750	10,552	1,126,736	668,223	1,100,378	952,157	616,447	2,145,184	269,324	7,588,751
Total Liabilities	1,228,159	140,332	1,300,060	744,920	1,195,127	1,070,017	665,998	2,850,809	308,893	9,504,315
Net Assets										
Invested in Capital Assets, Net of Related Debt	18,277	710	751	3,538	78,343	178,062	(25,650)	1,890,139	151,558	2,295,728
Restricted for:										
Debt Service	0	0	0	54,070	93,360	51,568	21,174	90,058	0	310,230
Other Special Purpose										
Expendable	5,000	0	37,203	12,025	5,582	408	8,834	1,471,802	12,837	1,553,691
Nonexpendable	0	0	0	0	0	0	0	520,647	0	520,647
Unrestricted	167,422	109,733	38,291	31,856	115,126	103,025	18,575	727,198	(11,501)	1,299,725
Total Net Assets	\$ 190,699	\$ 110,443	\$ 76,245	\$ 101,489	\$ 292,411	\$ 333,063	\$ 22,933	\$ 4,699,844	\$ 152,894	\$ 5,980,021

The Notes to the Financial Statements are an integral part of this statement.

State of Oklahoma
Combining Statement of Activities
Major Component Units
For the Fiscal Year Ended June 30, 2009
(expressed in thousands)

	Expenses	Program Revenues			Net (Expense) Revenue	General Revenue		Change in Net Assets	Net Assets Beginning of Year	Net Assets End of Year
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		Payments from Primary Government				
Component Units:										
CompSource Oklahoma	\$ 296,803	\$ 208,490	\$ 0	\$ 0	\$ (88,313)	\$ 0	\$ (88,313)	\$ 279,012	\$ 190,699	
State Education and Employees										
Group Insurance Board	837,375	776,328	0	0	(61,047)	0	(61,047)	171,490	110,443	
Oklahoma Student Loan Authority	49,375	39,625	0	0	(9,750)	0	(9,750)	85,995	76,245	
Oklahoma Housing Finance Agency	166,403	67,511	118,728	0	19,836	0	19,836	81,653	101,489	
Oklahoma Turnpike Authority	206,360	207,961	0	0	1,601	0	1,601	290,810	292,411	
Grand River Dam Authority	263,405	346,374	0	0	82,969	0	82,969	250,094	333,063	
Oklahoma Municipal Power Authority	160,090	159,859	0	0	(231)	0	(231)	23,164	22,933	
Higher Education Component Unit	3,914,294	1,726,038	629,974	0	(1,558,282)	1,074,409	(483,873)	5,183,717	4,699,844	
Nonmajor Component Units Total	214,142	166,025	2,031	0	(46,086)	70,351	24,265	128,629	152,894	
Total Component Units	<u>\$ 6,108,247</u>	<u>\$ 3,698,211</u>	<u>\$ 750,733</u>	<u>\$ -</u>	<u>\$ (1,659,303)</u>	<u>\$ 1,144,760</u>	<u>\$ (514,543)</u>	<u>\$ 6,494,564</u>	<u>\$ 5,980,021</u>	

The Notes to the Financial Statements are an integral part of this statement.



Notes to the Financial Statements

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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 (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). In November 2006 GASB issued Statement 49 *Accounting and Financial Reporting for Pollution Remediation Obligations*. This Statement addresses accounting and financial reporting for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities.

The State was required to implement this standard for the fiscal year ending June 30, 2009.

In November 2007 the GASB issued Statement 52 *Land and Other Real Estate Held as Investments by Endowments*. This Statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value.

The State was required to implement this standard for the fiscal year ending June 30, 2009.

The accompanying financial statements present the financial position of the State and the various funds and fund types, the results of operations of the State and the various funds and fund types, and the cash flows of the proprietary funds. The financial statements are presented as of June 30, 2009, and for the year then ended. The financial statements include the various agencies, boards, commissions, public trusts and authorities and any other organizational units governed by the Oklahoma State Legislature and/or Constitutional Officers of the State of Oklahoma.

A. Reporting Entity

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

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

Discrete Component Units

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. Separately issued independent audit reports may be obtained from the Office of State Finance, 2300 North

Lincoln Blvd., Suite 122, Oklahoma City, Oklahoma 73105. The audit reports may also be obtained from the respective component units at the addresses presented on the description page of the Fund Financial Statements section for the Major Component Units, and the description page in the Combining Financial Statement section of this report for the NonMajor Component Units.

The Component Units columns of the government-wide financial statements include the financial data of the following entities:

MAJOR COMPONENT UNITS

CompSource Oklahoma provides a source for workers' compensation insurance for all public and private employers within the State and operates similarly to an insurance company. CompSource 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, 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, 2008, and their report, dated March 30, 2009, has been previously issued under separate cover.

State and Education Employees Group Insurance Board provides group health, life, dental, disability and other benefits to active employees and retirees of the State and certain other eligible participants. The Board is financed through employer and employee premiums. The Board consists of eight members: the State Insurance Commissioner, the Director of State Finance, 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 December 31, 2008, and their report, dated May 15, 2009, has been previously issued under separate cover.

Oklahoma Student Loan Authority provides loan funds to qualified persons at participating educational institutions through the issuance of tax-exempt revenue bonds or other debt obligations. The Authority is composed of five members appointed by the Governor, with the advice and consent of the Senate. The State can impose its will on the Authority by its ability to veto or modify the Authority's decisions. The Authority was audited by other independent auditors for the year ended June 30, 2009, and their report, dated October 27, 2009, 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 citizens. 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 Agency 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, 2008, and their report, dated May 5, 2009, 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 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, 2008, and their report, dated March 25, 2009, 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, 2008, and their report, dated March 31, 2009, 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, 2008, and their report, dated March 10, 2009, has been previously issued under separate cover.

Higher Education Component Unit - This component unit is primarily comprised of the 25 colleges and universities that are members of the Oklahoma State System of Higher Education (the System). Twenty-three of these colleges and universities have one or more foundations that receive and hold economic resources for the benefit of their associated entity. These foundations are component units of their respective college or university and are included as part of the Higher Education Component Unit. Separately issued independent audit reports for each college, university, foundation, or other included entity may be obtained from the Office of State Finance, 2300 North Lincoln Blvd., Suite 122, Oklahoma City, Oklahoma 73105. 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. 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:

- **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.
- **Regional University System of Oklahoma** 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. Each of the six regional state universities has one or more foundations that are component units of their respective university and are included in the Higher Education Component Unit.
- **Ardmore Higher Education Program** was 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 Program earn credit applicable toward academic degrees and certificates at participating institutions in the System. The Program is administered by a Board of Trustees appointed by the Governor, with the advice and consent of the Senate. The State can impose its will on the Program 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.

NONMAJOR COMPONENT UNITS

Oklahoma Educational Television Authority (OETA) was created to “make educational television services available to all Oklahoma citizens on a coordinated statewide basis.” The Board of Directors is comprised of thirteen members, seven of which are appointed by the Governor, with the advice and consent of the Senate. A financial benefit/burden relationship exists between the State and OETA. OETA also has a non-profit foundation that was established to receive private donations and contributions for the benefit of OETA. This foundation qualifies as a component unit of OETA, and is combined with OETA. OETA was audited by other independent auditors for the year ended June 30, 2009, and their report, dated October 9, 2009, has been previously issued under separate cover.

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, 2009, and their report, dated October 22, 2009, has been previously issued under separate cover.

Health Insurance High Risk Pool (HIHRP) provides health insurance to individuals who are unable to obtain coverage from independent insurers. HIHRP is financed by assessments levied on independent insurers. The Board consists of nine members appointed by the Insurance Commissioner. The State can impose its will on HIHRP by its ability to modify the decisions of the Board. HIHRP was audited by other independent auditors for the year ended June 30, 2009, and their report, dated October 23, 2009, has been previously issued under separate cover.

Multiple Injury Trust Fund provides additional compensation to a worker with a pre-existing injury who suffers a second injury. The State can impose its will on the Fund by its ability to remove management at will. The Fund was audited by other independent auditors for the period ended December 31, 2008, and their report, dated June 12, 2009, 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, 2009, and their report, dated October 12, 2009, 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, 2009, and their report, dated October 27, 2009, has been previously issued under separate cover.

Oklahoma Capital Investment Board assists the State with industrial development by mobilizing equity and near-equity capital for investment to potential creation of jobs and growth that will diversify and stabilize the economy. The Board of Directors is comprised of five members appointed by the Governor, with the advice and consent of the Senate. The State can impose its will on the Board by its ability to veto or

modify the Board's decisions. The Board, in order to mobilize investments, owns the Oklahoma Capital Formation Company LLC (OCFC), a formerly independent corporation. During fiscal year 2006, the Board purchased 100% of the ownership of the OCFC. In fiscal year 2007 OCFC changed its corporate structure and name from a corporation to an Oklahoma limited liability company (LLC). Operations of the OCFC are included in the financial results of the Board. The Board was audited by other independent auditors for the year ended June 30, 2009, and their report, dated September 9, 2009, has been previously issued under separate cover.

Oklahoma State University Medical Authority is affiliated with the Oklahoma State University Center for Health Sciences to provide funding, teaching and training for graduate medical students. It also serves as a site for conducting medical research by faculty and providing patient care. The board is governed by seven members. Three are appointees of the Governor, the President Pro Tempore of the Senate, and the Speaker of the House of Representatives respectively. Additional members include the CEO of the Oklahoma Health Care Authority, President of the OSU Center for Health Sciences, CEO of the Authority and an appointee of the President of Oklahoma State University. A financial benefit\burden exists between the Authority and the State. The Authority was audited by other independent auditors for the year ended June 30, 2009, and their report, dated October 1, 2009, has been issued under separate cover.

Oklahoma Centennial Commemoration Fund is affiliated with the Capitol Complex and Centennial Commemorative Commission and exists to support the Commission with the planning and financing of the 2007 State Centennial Commemoration. The Fund is administered by a Board of Directors that is appointed by the Commission. The Fund was compiled by other independent auditors for the year ended December 31, 2008, and their report, dated October 15, 2009, has been issued under separate cover.

Fiduciary Component Units

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. These component units, while meeting the definition of a component unit and are legally separate, are presented in the fund financial statements along with other primary government fiduciary funds of the State. They have been omitted from the government-wide financial statements.

Separately issued independent audit reports are available even though they are excluded from the government-wide financial statements. They may be obtained from the Office of State Finance, 2300 North Lincoln Blvd., Suite 122, Oklahoma City, Oklahoma 73105, or the respective fiduciary component units at the addresses presented on the description page of the combining financial statement section of this report.

Oklahoma Firefighters Pension and Retirement System provides retirement benefits for municipal firefighters. The System is administered by a board comprised of thirteen members: The President of the Professional Fire Fighters of Oklahoma, the President of the Oklahoma State Retired Fire Fighters Association, the State Insurance Commissioner, the Director of State Finance (or their designees), the five members of the Board of Trustees of the Oklahoma Firefighters Association, and appointees by the Speaker of the House of Representatives, the President Pro Tempore of the Senate, and the President of the Oklahoma Municipal League. The System was audited by other independent auditors for the year ended June 30, 2009, and their report, dated October 7, 2009, has been previously issued under separate cover.

Oklahoma Law Enforcement Retirement System provides retirement benefits for qualified law enforcement officers. The System is administered by a board comprised of thirteen members: The Assistant Commissioner of Public Safety, the Director of State Finance (or his designee), members of the Department of Public Safety, the Oklahoma State Bureau of Investigation, the Oklahoma State Bureau of Narcotics and Dangerous Drugs Control, and the Alcoholic Beverage Laws Enforcement Commission, and appointees by the Governor, the Speaker of the House of Representatives, and the President Pro Tempore of the Senate. The System was audited by other independent auditors for the year ended June 30, 2009, and their report, dated October 20, 2009, has been previously issued under separate cover.

Oklahoma Public Employees Retirement System administers the Oklahoma Public Employee Retirement Plan which provides retirement benefits for state, county and local employees. The board is comprised of thirteen members: The Chairman of the Corporation Commission, the Administrator of the Office of Personnel Management, the State Insurance Commissioner, the Director of State Finance (or their designees), a member of the State Tax Commission, and appointees by the Governor, the Speaker of the House of Representatives, and the President Pro Tempore of the Senate. The System was audited by other independent auditors for the year ended June 30, 2009, and their report, dated October 12, 2009, has been previously issued under separate cover.

Uniform Retirement System for Justices and Judges is administered by the Oklahoma Public Employee Retirement System and provides retirement benefits for justices and judges. The System was audited by other independent auditors for the year ended June 30, 2009, and their report, dated October 12, 2009, has been previously issued under separate cover.

Oklahoma Police Pension and Retirement System provides retirement benefits for police officers employed by participating municipalities. The System is administered by a board comprised of thirteen members: Seven members elected from the seven Districts, the Director of State Finance, the State Insurance Commissioner (or their designees) and appointees by the Governor, the Speaker of the House of Representatives, the President Pro Tempore of the Senate, and the President of the Oklahoma Municipal League. The System was audited by other independent auditors for the year ended June 30, 2009, and their report, dated September 14, 2009, has been previously issued under separate cover.

Teachers' Retirement System of Oklahoma provides retirement allowances and benefits for qualified persons employed by state-supported educational institutions. The System is administered by a board consisting of the Superintendent of Public Instruction, the Director of the State Department of Vocational and Technical Education, the Director of State Finance (or their designees), and appointees by the Governor, with the advice and consent of the Senate, the President Pro Tempore of the Senate, and the Speaker of the House of Representatives. The System was audited by other independent auditors for the year ended June 30, 2009, and their report, dated December 14, 2009, has been previously issued under separate cover.

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.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (the statement of net assets and the statement of activities) report information for all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these government-wide statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function, segment, or component unit are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function, segment, or component unit. Program revenues include charges to customers who purchase, use or directly benefit from goods or services provided by a given function, segment, or component unit. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function, segment, or component unit. Taxes and other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues. The State does not allocate general government (indirect) expenses to other functions.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets.

When both restricted and unrestricted resources are available for use, generally it is the State's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds, proprietary funds, fiduciary funds and similar component units, and major component units. However, the fiduciary funds are not included in the government-wide statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements – The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the state considers revenues to be available if they are collected within sixty days of the end of the current fiscal year end. Principal revenue sources considered susceptible to accrual include federal grants, interest on investments, sales and income taxes, and lease payments receivable. Some revenue items that are considered measurable and available to finance operations during the year from an accounting perspective are not available for expenditure due to the State's present appropriation system. These revenues have been accrued in accordance with generally accepted accounting principles (GAAP) since they have been earned and are expected to be collected within sixty days of the end of the period. Other revenues are considered to be measurable and available only when cash is received by the state.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Modifications to the accrual basis of accounting include:

- Employees' vested annual leave is recorded as an expenditure as it is utilized. Unused reimbursable leave following an employee's resignation or retirement that is unpaid at year end is recognized as an expenditure and a liability of the fund.
- Interest on general long-term obligations is recognized when paid.
- Executory purchase orders and contracts are recorded as a reservation of fund balance.
- Debt service expenditures and claims and judgments are recorded only when payment is due.

Proprietary Funds, Fiduciary Funds and Similar Component Units, and Component Units Financial Statements – The financial statements of the proprietary funds, fiduciary funds and similar component units, and component units are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

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's three enterprise funds have elected to not apply FASBs issued after the applicable date. Each of the proprietary component units have individually made this election as disclosed in their separate audit reports.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal operating revenues of the state's enterprise funds are the moneys requisitioned for the Oklahoma Unemployment Insurance Trust Fund held by the U.S. Treasury for payment of unemployment benefits, interest revenue charges for loans made to local entities by the Oklahoma Water Resources Board (OWRB) and the sale of lottery tickets and related chance games by the Lottery Commission. The OWRB reports federal grants as both operating and nonoperating, depending on the types of grants received.

D. Fund Accounting

The financial activities of the State are recorded in individual funds, 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.

The financial activities of the State that are reported in the accompanying financial statements have been classified into the following major governmental and proprietary funds. In addition, a description of the fiduciary and component units follows:

1. Governmental Funds

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.

Commissioners of the Land Office Permanent Fund – This fund accounts for the land and cash granted to the State by the United States Congress for the use and benefit of educational systems in Oklahoma. This fund’s assets are held by the State and only the income derived from the principal may be expended for designated operations. The principal must be preserved intact.

Department of Wildlife Conservation Permanent Fund – This fund accounts for moneys held in trust for the improvement and preservation of wildlife. The moneys have been accumulated from the sale of lifetime hunting and fishing licenses. This fund’s assets are held by the State and only the income derived from the principal may be expended for designated operations. The principal must be preserved intact.

Tobacco Settlement Endowment Permanent Fund – This fund accounts for certain moneys transferred from the General Fund that were received in settlement of claims by the state against tobacco manufacturers. The earnings from these moneys are to be utilized for research, education, prevention and treatment of tobacco related diseases and certain other health programs. The principal must be preserved intact.

2. Proprietary Funds

These funds account 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.

Employment Security Commission Enterprise Fund - This fund accounts for the deposit of moneys requisitioned for the Oklahoma Unemployment Insurance Trust Fund held by the U.S. Treasury for payment of unemployment benefits.

Oklahoma Water Resources Board Enterprise Fund - This fund is comprised of Oklahoma Water Resources Board and the Department of Environmental Quality bond issues and revolving loan programs. These programs make loans to local government units for the acquisition, development, and utilization of storage and control facilities for water and sewage systems.

Oklahoma Lottery Commission Enterprise Fund – This fund operates the state-wide lottery program and related chance games, seeking to generate additional revenues for the benefit of the State’s educational system.

3. Fiduciary Funds and Similar Component Units

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 or other governmental units.

Pension Trust Funds - These Funds account for the transactions, assets, liabilities, and net assets of the Wildlife Conservation Retirement Plan in the primary government, and six Public Employee Retirement Systems (PERS) that meet the definition of a component unit of the State.

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. Component Units

These entities are legally separate from the State but are considered part of the reporting entity. These Funds meet the definition of both a component unit and that of an enterprise fund as previously described. The six Public Employee Retirement Systems (PERS) meet the definition of a component unit, but are presented with the other fiduciary funds of the State.

5. Financial Statement Reporting Periods

The accompanying financial statements of the State are presented as of June 30, 2009, and for the year then ended, except for the following funds and entities which were audited by other independent auditors.

CompSource Oklahoma	12-31-08
Multiple Injury Trust Fund	12-31-08
State and Education Employees Group Insurance Board	12-31-08
Oklahoma Transportation Authority	12-31-08
Grand River Dam Authority	12-31-08
Oklahoma Municipal Power Authority	12-31-08
Oklahoma Housing Finance Agency	09-30-08
Oklahoma Centennial Commemoration Fund	12-31-08

E. 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 GAAP, budget and actual amounts in the accompanying Required Supplementary Information – Budgetary Schedules 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, 2009 to revenues in excess of (less than) expenditures and other financing sources (uses) presented in conformity with GAAP is set forth in the Notes to Required Supplementary Information.

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

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

Current policy allows agencies to use unexpended moneys for one-time purchases or non-recurring expenditures in the next fiscal year. This policy provides an incentive for agency managers 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 thirty 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. All fiscal year 2009 appropriated line items were within their authorized spending level.

F. 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 relative 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 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 State Treasurer also promulgates all rules and regulations regarding the amount of collateral securities that must be pledged to secure public deposits.

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 with a maturity of three months or less that are readily convertible to cash.

G. Investments

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

Investments are generally stated at fair value in accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

H. Receivables

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

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

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

I. Inter/Intrafund Transactions

Interfund Transactions - The State has two 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 transfers in the funds involved.

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 Required Supplementary Information – Budgetary Schedules includes these transactions. However, as a general rule recorded intrafund revenues and expenditures have been eliminated in the GAAP-basis government wide financial statements. 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, but only 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 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.

J. Inventories

Inventories of materials and supplies are determined both by physical counts and through perpetual inventory systems. Generally, inventories are valued at cost and predominantly on either the first-in first-out or weighted average basis. Inventories of federal surplus properties are valued at a percentage of federal acquisition cost. General Fund inventories are recorded as expenditures when consumed rather than when purchased by recording adjustments to the inventory account on the balance sheet. The General Fund inventories on hand at year-end are reflected as a reservation of fund balance on the balance sheet, except for \$353,000 in food commodities which is recorded as inventory and deferred revenue. Upon distribution, the food commodities are recognized as revenues and expenditures of the General Fund.

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

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

K. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (which is normally immovable and of value only to the state, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the state as assets which have a cost of \$25,000 or more at the date of acquisition and have an expected useful life of five or more years. Purchased and constructed capital 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.

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. Infrastructure constructed prior to July 1, 2000 has been recorded at estimated historical cost. The estimated historical cost for years 1916-2000 was based on capital outlay expenditures reported by DOT and the Federal Highway Administration, less an amount estimated for the historical cost of the acquisition of land for right-of-way. The costs of normal maintenance and repairs that do not add to the asset's value or materially extend an asset's useful life are not capitalized. Interest incurred during construction of capital facilities is not capitalized.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements, as well as the proprietary funds and component units financial statements.

Capital assets of the Primary Government and the component units are depreciated on the straight-line method over the assets' estimated useful life. There is no depreciation recorded for land and construction in progress. Generally, estimated useful lives are as follows:

Machinery and Equipment	3 - 20 years
Buildings and Other Improvements	7 - 60 years
Infrastructure	30 years

Collections and works of art are not included in capital assets of the Primary Government on the Statement of Net Assets. GASB Statement No. 34 does not require capitalization of collections if they meet all of the following criteria; held for public exhibition, education, or research in furtherance of service, rather than financial gain; protected, kept unencumbered, cared for, and preserved; and subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections. The State elected not to capitalize collections and works of art since they meet all of the above conditions.

L. Other Assets

Included in other assets (noncurrent for 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.

M. Deferred Revenue

Deferred revenues at the fund level arise when potential revenue does not meet the available criterion for recognition in the current period. Available is defined as due (or past due) at June 30, and collected within sixty days 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. Deferred revenues at the government-wide level arise only when the State receives resources before it has a legal claim to them. Also included in deferred revenue at both levels are the undistributed food commodity inventories.

N. Compensated Absences

Employees 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, 13.33 hours per month for service of 10 to 20 years, and 16.67 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 governmental fund financial statements record expenditures when employees are paid for leave. The government-wide financial statements present the cost of accumulated vacation leave as a liability. The liability is valued based on current rate of pay. There is no liability for unpaid accumulated sick leave since the state does not have a policy to pay this amount when employees separate from service.

O. 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.

P. Federal Grants

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

Q. Long-Term Obligations

Premiums, Discounts and Issuance Costs – In the government-wide financial statements, long-term debt and other long-term obligations are presented in the columns for governmental and business-type activities. The same is presented in the proprietary fund financial statements. Bond and note premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the debt. Bonds and notes payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges in other assets and are amortized over the term of the related debt.

In the governmental fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

Arbitrage Rebate Liability – The enterprise funds and component units account for any arbitrage rebate payable as a liability of the fund.

R. Governmental Activities

Per a review of State agencies, it was determined that the activities of the Oklahoma Health Care Authority, Department of Veteran Affairs, and the J.D. McCarty Center are more accurately reflected in the Health Services function of government instead of Social Services. Beginning with the fiscal year ended June 30, 2005, these agencies are reported as a function of Health Services. This will affect the comparability of activities with years prior to 2005.

S. Governmental Fund – Fund Balance Reserves and Designations

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditure or (2) legally segregated for a specific future use. The 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 governmental funds' designation of fund balance reflects tentative plans for future use of financial resources.

The Economic Development Generating Excellence (EDGE) Fund was established in fiscal year 2006 to support innovation that will strengthen current Oklahoma businesses and create businesses that will likely remain in the State. Earnings from the fund are restricted for projects and programs that will increase private and public applied research and development, technology transfer, and technology commercialization in Oklahoma.

As further explained in item J above, the General Fund inventory includes \$353,000 in food commodities which is also included in deferred revenue. Therefore, the reservation of fund balance for inventory/prepaid on the balance sheet is \$353,000 less than the total of inventory and prepaid items.

T. Deficit Fund Balance – Multiple Injury Trust Fund/Oklahoma Capital Investment Board

The Multiple Injury Trust Fund (MITF), a component unit, continues to operate in a deficit situation. MITF had total net liabilities (negative net assets) of \$113,614,000 at December 31, 2008. Legislation was passed in May 2000 providing new funding for MITF through an assessment on gross premiums on workers compensation policies written by insurance

carriers and an assessment on disability awards paid by self-insured employers, and further limits future awards against MITF to claimants that timely filed injury claims that occurred before June 1, 2000, against their employer. These claimants have no time limitation for filing against MITF. No new claims related to injuries subsequent to June 1, 2000, can be filed. Funding is to continue until the Board of Managers of the CompSource Oklahoma, pursuant to an independent actuarial audit, has certified that there are sufficient funds to satisfy all outstanding obligations of MITF.

The Oklahoma Capital Investment Board (OCIB), a component unit, operated at a deficit for the fiscal year. In fiscal year 2006 the OCIB purchased 100% of the ownership of the Oklahoma Capital Formation Company LLC (OCFC), a formerly blended entity. This purchase brought on the long-term liabilities of the OCFC, and as a result, puts the OCIB in a negative net asset position. For the fiscal year ended June 30, 2009, the OCIB had negative net assets of \$16,900,000. The OCIB takes a long-term approach to economic stimulation, and it is anticipated that a negative net asset balance could persist well into the future.

U. Pollution Remediation Obligations

During the fiscal year ended June 30, 2009, it was determined that several agencies incurred expenses of \$4,088,000 for pollution obligations related to hazardous material on highways and asbestos removal. There was also a liability incurred of \$6,169,000 which is included in accounts payable on the government-wide financial statements.

Note 2. Deposits and Investments

The State Treasurer maintains two investment portfolios. The Treasurer's Portfolio is used to manage the investments of all State monies that are under the control of the Treasurer where earnings accrue to the general fund of the State. The State Agency Portfolio is used for the investment of a limited number of state agencies specifically authorized by statute to direct the activities of certain funds and accounts where the earnings accrue to those funds and accounts. Ancillary to the Treasurer's Portfolio is an internal investment pool, OK INVEST, for all state funds and agencies that are considered part of the State of Oklahoma. All cash balances held through the State Treasurer for the Primary Government, Component Units and Fiduciary Funds earn a return through the OK INVEST pool program.

In accordance with statutes, the State Treasurer's investment policy allows for investments in the following categories:

United States Treasury Bills, Notes and Bonds	Collateralized or insured certificates of deposit
United States Government Agency Securities	Negotiable certificates of deposit
Prime Banker's acceptances	Prime commercial paper
Investment grade obligations of state and local governments	Repurchase agreements
Short-term bond funds	Money market funds
Foreign bonds	

The State Treasurer's investment policy attempts to reduce portfolio risk through diversification by security, institution and maturity. With the exception of U.S. Treasury securities, no more than 50% of the State's total funds available for investment will be invested in a single security or with a single financial institution. In addition, the Treasurer's investments will not have an average maturity greater than 4 years unless specifically otherwise designated by the Treasurer. The following table outlines the State Treasurer's diversification limits designed to control various types of risk:

Investment Type	Percentage of Total Invested	Percentage of Total by Issuer	Maturity Limit	Rating
U.S Government Agency Securities	70%	35.0%	10 years	AAA
U.S. Government Agency Mortgage Backed Securities	25%	No Limit	7 years	AAA
Collateralized or Insured Certificates of Deposit	Limit of \$35 Million per financial institution		365 Days	N/A
Negotiable Certificates of Deposit	7.5%	2.5%	180 Days	A-1 & P-1
Bankers Acceptance	7.5%	2.5%	270 Days	A-1 & P-1
Commercial Paper	7.5%	2.5%	180 Days	A-1 & P-1
State and Local Government Obligations	10%	5.0%	30 Years	AAA
Repurchase and Tri-party Repurchase Agreements	30%	10%	14 Days	A-1
Money Market Mutual Funds	30%	10%	1 day	AAA
Foreign Bonds	2.50%	2.50%	5 years	A-/A3 or better

The Primary Government's three permanent funds, Commissioners of the Land Office, Department of Wildlife Lifetime Licenses, and the Tobacco Settlement Endowment all have investment goals and horizons that differ from the State Treasurer. Accordingly, the investment policies for the permanent funds allow for broader classes of investments as well as extended dates of maturity.

The Employment Security Commission, Water Resources Board and Lottery Commission are the three business-type activities within the Primary Government. These agencies generally have investment policies that correlate to the operations and services that they perform. The Employment Security Commission generally will not invest outside of U.S. Government securities and typically maintains deposit balances only. The Water Resources Board and Lottery Commission both operate with longer investment horizons and as part of normal operations will attempt to match maturities of investments with the approaching maturity of liabilities.

Due to the nature of the internal investment pool, ownership of investments cannot be assigned to individual funds, including the Pension Trust Funds and Component Units. The investment pool also holds securities purchased with cash collateral from securities lending, which are not assigned to individual funds. For these reasons, total investments will not tie to the financial statements for the Primary Government. The following table details the investments held by the Primary Government at June 30, 2009 (expressed in thousands):

Investment Type	Investments - Primary Government			
	General Government	Permanent Funds	Business-Type Activities	Total Primary Government
POOLED INVESTMENTS				
US Treasury	\$ 519,131	\$ -	\$ 44,212	\$ 563,343
US Agency	3,586,532	-	-	3,586,532
Repurchase Agreements	410,000	-	-	410,000
Money Market Mutual Funds	413,855	-	-	413,855
Securities Lending Collateral Pool	748,497	56,889	-	805,386
Mutual Funds	1,171	-	-	1,171
Certificates of Deposit	347,853	-	-	347,853
State & Muni Bond Issues	176,861	-	-	176,861
NON-POOLED INVESTMENTS				
US Treasury	18,120	95,164	-	113,284
US Agency	19,989	233,274	-	253,263
Domestic Corporate Bonds	18,805	823,279	-	842,084
Foreign Corporate Bonds	10,000	59,258	-	69,258
Domestic Equities	55,721	496,872	-	552,593
Foreign Equities	15,589	65,599	-	81,188
Other	-	4,570	-	4,570
Money Market Mutual Funds	110,235	-	-	110,235
Guaranteed Investment Contracts	-	-	159,403	159,403
Totals	\$ 6,452,359	\$ 1,834,905	\$ 203,615	\$ 8,490,879

Fiduciary Funds and Similar Component Units

The Fiduciary Funds of the State have investment goals that vary significantly from the Primary Government. Due to the long term nature of these funds, investment options are broader and maturities can be longer than that of the Primary Government. Generally these funds have investment policies allowing for investments in stocks, bonds, fixed income securities and other investment securities including commingled, mutual and index funds. Generally policies allow for a portion of investments to be held in securities of foreign companies and countries. Policies also allow for portions of the total portfolio to be held in derivatives and derivative like investments such as U.S. Treasury Strips, collateralized mortgage obligations, convertible securities and variable rate instruments.

Component Units

The Component Units of the State have varied investment goals based on the demands of their specific enterprise, and commonly have investment policies that allow for broader asset classes and longer maturities than that of the Primary Government. Various finance authorities invest in an attempt to match targeted returns to the maturity of liabilities. The Higher Education Component Unit is comprised of numerous foundations that invest in order to maximize gains for the institutions that they support. These foundations may also hold assets of different classes as part of donor restrictions and covenants. The following table outlines the Component Units' investment holdings at June 30, 2009 (expressed in thousands):

Investments - Component Units	
Investment Type	Total Component Units
US Treasury	\$ 686,541
US Agency	360,117
Domestic Debt Instruments	952,188
Foreign Corporate Bonds	17,117
State, Muni and Local Gov't Debt Instruments	32,420
Domestic Equities and Equity Funds	1,023,628
Foreign Equities	30,568
Other	1,139,064
Money Market Mutual Funds	439,575
Guaranteed Investment Contracts	196,691
	<u>\$ 4,877,909</u>

A. Custodial Credit Risk

Custodial Credit Risk is the risk that in the event of the failure of counterparty, the State will not be able to recover the value of its investments. Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. Investment securities are exposed to custodial credit risk if they are uninsured, not registered in the name of the State, or held by the counterparty or its trust department but not in the State's name.

Primary Government

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 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. All investments held by the State Treasurer are insured, registered, or held in the name of the State Treasurer.

As of June 30, 2009, the Primary Government's bank balances of deposits are fully insured or collateralized with securities held by an agent of the State in the State's name. In addition to these deposits, the State has approximately \$716,959,000 on deposit with the U.S. Government. These funds represent unemployment insurance taxes collected from Oklahoma employers that are held by the U.S. Treasury. The book value of deposits does not materially differ from the bank balance.

Fiduciary Funds and Similar Component Units

The Pension Trust Funds, fiduciary component units of the State, have investment policies that do not specifically address custodial credit risk of deposits and investments. However, each Pension Trust Fund utilizes multiple investment managers and limits cash and short-term investments to no more than 5% of each investment manager's portfolio. At June 30, 2009, the Pension Trust Funds had deposits and cash equivalents of \$486,973,000 of which \$372,115,000 were uninsured and uncollateralized.

Component Units

Generally, the Component Units of the State have investment policies that do not specifically address or limit custodial credit risk of deposits and investments. All Component Units typically follow the diversification and securitization of deposit policies defined by the State Treasurer in an effort to minimize custodial credit risk. At June 30, 2009, the Component Units had \$82,000 of custodial credit risk through U.S. Government debt as collateral for securities lent.

B. Credit Risk

Fixed-income securities are subject to credit risk. Credit quality rating is one method of assessing the debt instrument issuer's ability to meet its obligation. The State, its Fiduciary Funds and Component Units utilize the credit quality ratings issued by Moody's, Standard and Poor's, or Fitch in determining the risk associated with its fixed-income investments. Obligations of the U.S. Government or explicitly guaranteed by the U.S. Government are not considered to have credit risk. Certain debt instruments are commingled investments that do not have an applicable credit risk rating. These investments are presented as not rated in the accompanying tables.

Primary Government

As outlined in an earlier table, the State Treasurer seeks to hold investments with a rating of A or higher as rated by Moody's. Generally, the Permanent Funds and the business-type activities seek to maintain the same or higher rating. The Water Resources Board, which has a high concentration of investments with one issuer, requires that issuer to maintain an average credit rating of AA or higher. Should this issuer's rating fall below AA, it is required to collateralize the guaranteed investments sufficient to maintain an AA rating on the contracts. At June 30, 2009, the Primary Government had the following investments subject to credit risk (expressed in thousands):

Credit Risk - Primary Government

Investment Rating Moody's/S&P/Fitch	US Government Securities	Treasury, Agency and Municipal Securities	US Corporate Debt Instruments	International Debt Instruments	Total
Aaa/AAA/AAA	\$ -	\$ 4,606,683	\$ 625,684	\$ 3,465	\$ 5,235,832
Aa/AA/AA	-	-	27,832	4,230	32,062
A/A/A	-	-	517,815	13,621	531,436
Baa/BBB/BBB	-	2,556	193,534	16,969	213,059
Ba/BB/BB	-	-	130,318	9,881	140,199
B/B/B	-	-	159,298	6,851	166,149
Caa/CCC/CCC	-	-	73,164	467	73,631
Ca./CC/CC	-	-	12,315	78	12,393
C/C/C	-	-	170	75	245
Not Rated	-	1,535	195,714	13,354	210,603
Credit Risk Not Applicable	82,509	-	-	-	82,509
Total	\$ 82,509	\$ 4,610,774	\$ 1,935,844	\$ 68,991	\$ 6,698,118

Fiduciary Funds and Similar Component Units

The Pension Trust Funds typically hold a significant portion of assets in the form of debt instruments. Each Pension Trust Fund has an investment policy governing their credit risk exposure. Generally, at the time of purchase, investments in domestic fixed-income investments must carry the highest rating (either Aaa, AAA or AAA) as determined by the national rating organizations. International debt instruments must be Baa or BBB at the time of purchase. Overall, each investment policy generally requires that an average credit quality rating of A or higher be maintained for total debt instrument holdings. At June 30, 2009, the Pension Trust Funds had the following credit risk exposure (expressed in thousands):

Credit Risk - Pension Trust Funds

Investment Rating Moody's/S&P/Fitch	US Government Securities	Treasury, Agency and Municipal Securities	International Government Securities	US Corporate Debt Instruments	International Debt Instruments	Total
Aaa/AAA/AAA	\$ -	\$ 735,278	\$ 49,684	\$ 816,760	\$ 1,134	\$ 1,602,856
Aa/AA/AA	-	41,599	2,137	128,358	31,975	204,069
A/A/A	-	45,197	12,834	368,296	9,992	436,319
Baa/BBB/BBB	-	9,682	8,392	379,316	56,062	453,452
Ba/BB/BB	-	-	17,489	237,980	24,919	280,388
B/B/B	-	-	3,731	239,904	32,064	275,699
Caa/CCC/CCC	-	-	-	129,761	2,003	131,764
Ca./CC/CC	-	-	-	28,082	318	28,400
C/C/C	-	-	-	12	1,913	1,925
Not Rated	-	448,661	1,159	546,981	83,064	1,079,865
Credit Risk Not Applicable	1,616,047	-	-	-	-	1,616,047
Total	\$ 1,616,047	\$ 1,280,417	\$ 95,426	\$ 2,875,450	\$ 243,444	\$ 6,110,784

Component Units

The Component Units usually hold a significant portion of their respective portfolios in debt instruments. Each Component Unit has an investment policy governing credit risk. As a general rule, the Component Units have more liberal investment policies than the Primary Government that allow for greater levels of credit risk regarding debt securities. Foundations within the Higher Education Component Unit also hold a significant portion of their total debt portfolio as either bond funds or money market mutual funds. These debt instruments are generally pooled or commingled investments and are not subject to credit risk disclosures. Investments in U.S. Government securities are not subject to credit risk. At June 30, 2009 the Component Units had the following credit risk exposure (expressed in thousands):

Credit Risk - Component Units

Investment Rating Moody's/S&P/Fitch	US Government Securities	Treasury, Agency and Municipal Securities	US Corporate Debt Instruments	International Debt Instruments	Total
Aaa/AAA/AAA	\$ -	\$ 375,918	\$ 464,788	\$ -	\$ 840,706
Aa/AA/AA	-	32,420	77,580	-	110,000
A/A/A	-	-	197,303	-	197,303
Baa/BBB/BBB	-	-	92,500	133	92,633
Ba/BB/BB	-	-	-	-	-
B/B/B	-	-	-	-	-
Caa/CCC/CCC	-	-	-	-	-
Not Rated	-	115,407	756,283	16,984	888,674
Credit Risk Not Applicable	555,333	-	-	-	555,333
Total	\$ 555,333	\$ 523,745	\$ 1,588,454	\$ 17,117	\$ 2,684,649

C. Concentration of Credit Risk

Primary Government

The State Treasurer's investment policy seeks to mitigate concentration of credit risk through targeted diversification limits as outlined earlier in this note. With the exception of US Treasury securities, no more than 50% of the State's total funds available for investment will be invested in a single security type or with a single financial institution. The Water Resources Board, a business-type activity of the Primary Government, has no policy limiting amounts that may be invested in one issuer. At June 30, 2009, the Board held Guaranteed Investment Contracts issued by Transamerica Occidental Life Insurance Co. / Transamerica Life Insurance and Annuity Co. in the amount of \$135,317,000 or 50% of its portfolio. Additionally, \$12,910,000, or 5% of the portfolio was invested in Guaranteed Investment Contracts issued by Financial Security Assurance.

D. Interest Rate Risk

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment or deposit. Duration is a measure of a debt instrument's exposure to fair value changes arising from changes in interest rates based on the present value of future cash flows, weighted for those cash flows as a percentage of the investment's full price. Modified duration estimates the sensitivity of a bond's price to interest rate changes. The State, its Fiduciary Funds, and Component Units use either duration, modified duration or weighted average years outstanding as the standard measures for assessing interest rate risk. Generally, the longer the duration or years outstanding, the greater sensitivity an investment has to interest rate risk.

Primary Government

As outlined in a previous table, the State Treasurer follows an investment policy seeking to keep the average maturity for its entire portfolio to less than four years. The Permanent Funds and the business-type activities of the Primary Government do not have the same liquidity demands as the Treasurer, and as a matter of policy are not as restrictive regarding maturities. At June 30, 2009, the Primary Government had the following investments with maturities (expressed in thousands):

Weighted Average Years to Maturity	US Government	Treasury, Agency	US Corporate	International	Total
	Securities	and Municipal Securities	Debt Instruments	Debt Instruments	
Less than 1 year Weighted Average to Maturity	\$ -	\$ 144,478	\$ 935,709	\$ -	\$ 1,080,187
1 - 5 years	62,815	4,459,911	4,424	24,270	4,551,420
6 - 10 years	17,815	4,153	835,428	44,721	902,117
10 or more years	1,879	2,232	880	-	4,991
No Maturity or Not Applicable	-	-	159,403	-	159,403
Total	\$ 82,509	\$ 4,610,774	\$ 1,935,844	\$ 68,991	\$ 6,698,118

Fiduciary Funds and Similar Component Units

The Pension Trust Funds generally do not have a formal investment policy on interest rate risk. However, interest rate risk is generally controlled through diversification of portfolio management styles. Each Pension Trust Fund reviews the performance of each investment manager, and monitors the interest rate risk as part of the performance assessment. At June 30, 2009, the Pension Trust Funds had the following exposure to interest rate risk (expressed in thousands):

Duration or Weighted Average Years	US Government	Treasury, Agency and Municipal	International Government	US Corporate Debt	International Debt	Total
	Securities	Securities	Securities	Instruments	Instruments	
Less than 1 year duration	\$ 256	\$ 14,435	\$ 2,030	\$ 155,614	\$ 4,810	\$ 177,145
1 - 5 years	8,250	787,034	40,575	1,131,241	52,214	2,019,314
6 - 10 years	9,248	229,667	33,400	560,472	85,818	918,605
10 or more years	1,396,269	249,281	19,421	564,572	22,317	2,251,860
No Duration	202,024	-	-	463,551	78,285	743,860
Total	\$ 1,616,047	\$ 1,280,417	\$ 95,426	\$ 2,875,450	\$ 243,444	\$ 6,110,784

Component Units

The State's Component Units typically have board approved investment policies designed to manage exposure to fair value losses that arise from interest rate risk. The policies of the various Component Units can differ significantly since each investment policy is designed to match the portfolio objectives for that Component Unit. A substantial portion of the Component Units' holdings in debt instruments is in money market mutual funds and bond mutual funds with demand maturities which are presented below as not having an applicable maturity. On June 30, 2009, the Component Units had the following interest rate risk exposure (expressed in thousands):

Weighted Average Years to Maturity	US Government	Treasury, Agency and Municipal	US Corporate Debt	International Debt	Total
	Securities	Securities	Instruments	Instruments	
Less than 1 year Weighted Average to Maturity	\$ 75,363	\$ 93,607	\$ 79,883	\$ -	\$ 248,853
1 - 5 years	203,702	170,383	1,189,248	133	1,563,466
6 - 10 years	241,349	28,016	78,653	16,984	365,002
10 or more years	34,500	152,485	555	-	187,540
No Maturity or Not Applicable	419	79,254	240,115	-	319,788
Total	\$ 555,333	\$ 523,745	\$ 1,588,454	\$ 17,117	\$ 2,684,649

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in currency exchange rates will adversely affect the fair value of a deposit or investment. The State, its Fiduciary Funds and Component Units typically make investments in foreign securities to achieve an additional level of diversification within the various portfolios under management. Foreign currencies held as cash and cash equivalents are usually held to limit losses in foreign investments due to fluctuations in currency values.

Primary Government

The Primary Government does not invest in international securities as a matter of general policy, however, the Permanent Funds have policies that will typically allow a portion of the total portfolio to be invested in international securities in an effort to improve diversification and total returns. The business-type activity's investing policies do not specifically address foreign investments, and they will typically not hold any international securities. At June 30, 2009, the Primary Government had the following foreign currency risk (expressed in thousands):

Foreign Currency Risk - Primary Government

Currency	Equities	Debt Instruments	Cash and Equivalents	Total
Australian dollar	\$ 917	\$ -	\$ -	\$ 917
Argentine peso	-	116	-	116
Brazilian real	1,701	-	-	1,701
British pound sterling	13,535	1,851	99	15,485
Bermuda dollar	-	571	-	571
Canadian dollar	725	1,296	-	2,021
Cayman dollar	1,034	669	-	1,703
Chinese renminbi	867	-	-	867
Chilean Peso	16	-	-	16
Columbian peso	16	-	-	16
Czech koruna	1,202	-	-	1,202
Danish krone	83	-	-	83
Egyptian pound	16	-	-	16
Euro	22,569	11,467	517	34,553
Hong Kong dollar	4,222	-	-	4,222
Hungarian forint	206	-	-	206
Indian rupee	605	92	-	697
Indonesian rupiah	31	-	-	31
Israeli shekel	47	-	-	47
Korean won (North)	936	-	-	936
Japanese yen	14,046	366	11	14,423
Malaysian ringgit	48	-	-	48
Mexican peso	701	-	-	701
New Israeli shekel	1,263	-	-	1,263
New Taiwan dollar	1,153	-	-	1,153
Norwegian krone	1,007	-	-	1,007
Peruvian nuevo sol	78	-	-	78
Polish zloty	16	-	-	16
Russian rubel	376	1,086	-	1,462
Singapore dollar	1,094	-	-	1,094
South African rand	48	-	-	48
South Korean won	444	-	-	444
Swedish krona	10,845	-	-	10,845
Swiss franc	943	-	-	943
Thai baht	16	-	-	16
Turkish lira	16	-	-	16
Ukrainian Hryvnia	125	-	-	125
Totals	<u>\$ 80,947</u>	<u>\$ 17,514</u>	<u>\$ 627</u>	<u>\$ 99,088</u>

Fiduciary Funds and Similar Component Units

The Pension and Other Employee Benefit Trust Funds generally have investment policies regarding limits on the amount of foreign securities that can be held within their respective portfolios. The Trust Funds have a significantly longer time frame for achieving their investment goals, and investments in foreign securities offer an additional level of diversification, as well as provide the opportunity for increased returns. Typically, holdings in foreign currencies are used to limit losses on foreign securities due to currency fluctuations. The Trust Funds had the following foreign currency risk at June 30, 2009 (expressed in thousands):

Foreign Currency Risk - Pension Trust Funds

Currency	Equities	Debt Instruments	Cash and Equivalents	Total
Australian dollar	\$ 54,798	\$ 4,810	\$ 325	\$ 59,933
Brazilian real	12,676	5,201	9	17,886
British pound sterling	219,484	3,074	(113)	222,445
Bulgarian lev	403	-	97	500
Canadian dollar	42,974	5,499	92	48,565
Czech koruna	2,885	-	115	3,000
Danish krone	15,762	-	-	15,762
Eqyptian pound	1,592	-	-	1,592
Euro	525,516	16,162	11,847	553,525
Hong Kong dollar	92,388	-	134	92,522
Hungarian forint	1,081	-	-	1,081
Indonesian rupiah	-	-	35	35
Japanese yen	292,143	-	547	292,690
Malaysian ringgit	855	-	-	855
Mexican peso	11,962	-	-	11,962
New Israeli shekel	1,394	-	5	1,399
New Taiwan dollar	5,201	-	939	6,140
New Zealand dollar	4,952	-	33	4,985
Norwegian krone	7,595	-	-	7,595
Philippines peso	-	-	1	1
Polish zloty	1,409	-	-	1,409
Russian rubel	12	-	-	12
Singapore dollar	23,571	-	-	23,571
South African rand	5,661	-	-	5,661
South Korean won	15,542	-	4	15,546
Swedish krona	24,038	-	-	24,038
Swiss franc	83,380	-	4	83,384
Thai baht	1,792	-	-	1,792
Turkish lira	6,389	-	(804)	5,585
Totals	<u>\$ 1,455,455</u>	<u>\$ 34,746</u>	<u>\$ 13,270</u>	<u>\$ 1,503,471</u>

Securities Lending Definition

In a securities lending transaction, securities are loaned to approved brokers through a securities lending agreement with a simultaneous agreement to return collateral for the same security in the future.

Securities Lending Activity – Primary Government

State Statute Title 62, Section 90 authorizes the State Treasurer's Office to participate in securities lending transactions. All securities held by Northern Trust Company, as trustee or custodian, may be lent in the securities lending program unless specifically excluded by the State Treasurer's Office.

During the fiscal year ended June 30, 2009, securities lending agents lent primarily U.S. Government securities. Cash and U.S. Government securities were provided as collateral for the securities lent. Generally, collateral must equal at least 100% of the fair value of the securities loaned. At June 30, 2009, the fair value of the securities on loan was approximately \$728,400,000. The underlying collateral for these securities had a market value of approximately

\$748,497,000. Because these securities cannot be sold or pledged unless the borrower defaults, the collateral and related liability are not presented on the balance sheet. The remaining collateral represents cash collateral that is invested in U.S. Government securities and is included as an asset on the balance sheet with an offsetting liability for the return of collateral.

At June 30, 2009, there was no credit risk exposure to borrowers because the amounts the Primary Government owes the borrowers exceed the amounts the borrowers owe the Primary Government. Contracts with securities lending agents require them to indemnify the lender if the borrower fails to return the securities or otherwise fails to pay the lender for income while the securities are on loan. There were no losses on security lending transactions, or recoveries from prior period losses, resulting from the default of a borrower or the lending agent. Because these transactions are terminable at will, their duration generally did not match the duration of the investments made with cash collateral.

The Tobacco Trust Fund, a Permanent Fund of the State, participates in securities lending as defined by its investment policy. During the year, the Tobacco Trust lent U.S. Government securities, corporate debt, and domestic and foreign equities. Collateral was provided as cash for securities lent. Collateral must equal at least 102% of the market value of securities lent unless the principal market for the collateral is outside the United States, in which case a margin of 105% must be maintained. At June 30, 2009, the fair value of securities on loan was \$56,162,000. The collateral for securities lent had a market value of \$56,889,000. The investment made with cash collateral had an average maturity of one day and did not match the duration of the security on loan since the loans are terminable at will. There was no credit risk to borrowers.

Securities Lending Activity – Fiduciary Funds and Similar Component Units

The six Public Employees Retirement Systems (PERS) participate in securities lending transactions as provided by their respective investment policies. During the fiscal year ended June 30, 2009, securities lending agents lent primarily U.S. Government securities, equity securities, and debt securities. Cash, U.S. Government securities, and letters of credit were provided as collateral for the securities lent. Generally, collateral must be provided in the amount of 102% of the fair value of the securities loaned. In certain instances collateral must be provided in the amount of 105% when the principal trading market for the loaned securities is outside the United States. At June 30, 2009, the carrying amount and fair value of securities on loan was approximately \$2,152,295,000. The underlying collateral for these securities had a market value of approximately \$2,205,533,000. Collateral of securities and letters of credit represented approximately \$86,726,000 of total collateral. Because these securities and letters of credit cannot be sold or pledged unless the borrower defaults, the collateral and related liability are not presented on the balance sheet. The remaining collateral represents cash collateral that is invested in short-term investments pools and is included as an asset on the balance sheet with an offsetting liability for the return of the collateral.

During the fiscal year certain securities lending transactions resulted in realized and unrealized losses. At June 30, 2009, realized losses were \$1,173,000 and unrealized losses were \$11,137,000, which represented the State's proportionate share of the decline in fair value of investments purchased with cash collateral pools. Unrealized losses are included as a net decrease in the fair value of investments on the Statement of Changes in Fiduciary Net Assets and as a reduction to the asset value of securities lending collateral on the Statement of Fiduciary Net Assets. As a result of these unrealized losses, the value of the securities lending investments is not equal to the payables for securities lending.

At June 30, 2009, there was no credit risk exposure to borrowers because the amounts the Fiduciary Funds owe the borrowers exceed the amounts the borrowers owe the Fiduciary Funds. Contracts with securities lending agents require them to indemnify the lender if the borrower fails to return the securities or otherwise fails to pay the lender for income while the securities are on loan. There were no losses on security lending transactions, or recoveries from prior period losses, resulting from the default of a borrower or the lending agent. Investment policies do not require the maturities of investments made with cash collateral to match the maturities of securities lent; however, investment policies may establish minimum levels of liquidity to minimize the interest rate risk associated with not matching the maturity of the investments with the loans. Generally, their duration did not match the duration of the investments made with cash collateral.

Securities Lending Activity – Component Units

CompSource Oklahoma participates in securities lending transactions as provided by its investment policies. There are no restrictions regarding the amount of securities that may be lent.

During the fiscal year, securities lending agents lent primarily U.S. Government securities, equity securities, and debt securities. Cash, U.S. Government securities, and letters of credit were provided as collateral for the securities lent. Collateral must be provided in the amount of 102% of the fair value of the securities loaned. At fiscal year end, the carrying amount and market value of securities on loan was approximately \$249,455,000. The underlying collateral for these securities had a market value of approximately \$253,771,000. Collateral of securities and letters of credit represented approximately \$82,000 of total collateral. Because collateral securities and letters of credit cannot be pledged or sold unless the borrower defaults, the collateral and related liability are not presented on the balance sheet. The remaining collateral represents cash collateral that is invested in short-term investment pools and is included as an asset on the balance sheet with an offsetting liability for the return of the collateral.

During the fiscal year certain securities lending transactions resulted in unrealized losses. Unrealized losses were \$11,389,000, which represented CompSource’s proportionate share of the decline in fair value of investments purchased with cash collateral pools. Unrealized losses are included as a net decrease in the fair value of investments and as a reduction to the asset value of securities lending collateral on the Statement of Net Assets for Major Component Units. As a result of these unrealized losses, the value of the securities lending investments is not equal to the payables for securities lending.

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

Note 3. Accounts Receivable

Receivable balances have been disaggregated by type and presented separately in the financial statements. Only receivables with allowances for uncollectible accounts as of June 30, 2009, including the applicable allowances for uncollectible accounts, are presented below (expressed in thousands):

	<u>General Fund</u>	<u>Component Units</u>	
	Accounts Receivable	Accounts Receivable	Notes Receivable
Gross Receivables	\$ 56,644	\$ 452,551	\$ 1,355,627
Less: Allowance for Uncollectibles	<u>(27,166)</u>	<u>(111,353)</u>	<u>(2,930)</u>
Net Receivables	<u>\$ 29,478</u>	<u>\$ 341,198</u>	<u>\$ 1,352,697</u>

Note 4. Interfund Accounts and Transfers

A. Due from Other Funds/Due to Other Funds

A summary of interfund obligations at June 30, 2009, is shown below (expressed in thousands).

	Due From Other Funds				Due To Other Funds				
	General Fund	Permanent Funds	Enterprise Funds	Due From Fiduciary Funds	Due From Component Units	General Fund	Wildlife Permanent Fund	Due To Fiduciary Funds	Due To Component Units
Governmental Funds									
General Fund	\$ -	\$ 27	\$ 8,256	\$ 207	\$ 52,550	\$ -	\$ 117	\$ 18,226	\$ 151,584
Wildlife Permanent Fund	117	-	-	-	-	-	-	-	-
Tobacco Permanent Fund	-	-	-	-	-	27	-	-	243
Total Governmental Funds	\$ 117	\$ 27	\$ 8,256	\$ 207	\$ 52,550	\$ 27	\$ 117	\$ 18,226	\$ 151,827
Enterprise Funds									
Oklahoma Employment Security Commission	\$ -	-	-	-	-	\$ 51	-	-	\$ -
Oklahoma Lottery Commission	-	-	-	-	-	7,561	-	-	-
Oklahoma Water Resources Board	-	-	-	-	-	644	-	-	-
	\$ -	-	-	-	-	\$ 8,256	-	-	\$ -
Fiduciary Funds									
Pension Trust Funds:									
Firefighters Pension and Retirement System	\$ 10,853	-	-	\$ -	\$ -	\$ -	-	\$ -	\$ -
Oklahoma Public Employees Retirement System	-	-	-	-	-	1	-	-	-
Oklahoma Law Enforcement Retirement System	1,947	-	-	-	-	-	-	-	-
Oklahoma Police Pension and Retirement System	5,426	-	-	-	-	-	-	-	-
Teachers' Retirement System of Oklahoma	-	-	-	-	-	4	-	-	8,723
Agency Funds:									
Funds Held in Escrow	-	-	-	-	-	202	-	-	-
Other	-	-	-	-	586	-	-	-	-
Total Fiduciary Funds	\$ 18,226	-	-	\$ -	\$ 586	\$ 207	-	\$ -	\$ 8,723
Major Component Units:									
CompSource Oklahoma	\$ 1,726	\$ -	\$ -	\$ -	\$ 178	\$ 2	-	\$ -	\$ 358
Oklahoma Turnpike Authority	1,656	-	-	-	-	50,760	1	-	42
State and Education Emp. Group Insurance Board	50	-	-	20,895	-	18	-	-	-
Grand River Dam Authority	1,049	-	-	-	1,167	109	585	-	66
Oklahoma Municipal Power Authority	-	-	-	-	-	-	-	-	1,164
Student Loan Authority	-	-	-	-	-	17	-	-	-
Higher Education	147,456	243	-	-	371	1,644	-	-	591
Nonmajor Component Units:									
Multiple Injury Trust Fund	-	-	-	-	-	-	-	-	64
University Hospitals Authority	146	-	-	-	397	-	-	-	-
Oklahoma Development Finance Authority	76	-	-	-	172	-	-	-	-
Total Component Units	\$ 152,159	\$ 243	\$ -	\$ 20,895	\$ 2,285	\$ 52,550	\$ 586	\$ -	\$ 2,285

A reconciliation of interfund receivables and interfund payables at June 30, 2009 follows. Timing differences occur between agencies with a June 30 year end and the component units with September 30 or December 31 year ends.

Due From Other Funds			Due To Other Funds	
Wildlife Permanent Fund	\$ 117		General Fund to Enterprise Funds	\$ 8,256
Fiduciary Funds	18,226		General Fund to Fiduciary Funds	207
Permanent Fund	27		Enterprise Funds	-
Enterprise Funds	8,256		Wildlife Permanent Fund	117
Due From Fiduciary Funds	207		Tobacco Permanent Fund	27
Due From Enterprise Funds	-		Fiduciary Funds	18,226
General Fund	-		Due To Component Units	
Due From Component Units			General Fund	151,584
General Fund		52,550	Tobacco Permanent Fund	243
Fiduciary Funds		586	Fiduciary Funds	8,723
Due From Primary Government			Due to Enterprise Fund	-
General Fund		152,159	Due To Primary Government - General Fund	52,550
Permanent Fund		243	Due To Fiduciary Funds	586
Due From Enterprise Funds		-	Due To Other Component Units	2,285
Due From Fiduciary Funds		20,895	Total Interfund Payables per Financial Statements	242,804
Due From Other Component Units		2,285	Timing Differences, Fiscal Year Ending	
Total Interfund Receivables per Financial Statements	\$ 255,551		December 31, 2008: Component Units	12,747
			Total Interfund Payables	\$ 255,551

The general fund Due From Other Funds includes \$50,735,000 from Oklahoma Turnpike Authority (OTA) (\$49,669,000 at December 31, 2008 on OTA) for a portion of motor fuel excise taxes collected on fuels consumed on turnpikes. The balance accumulates and is payable when certain OTA revenue bonds payable have been paid in full. Also, the general fund is due \$200,000 from the Funds Held in Escrow agency fund for legislative mandated transfer of earnings on certain

funds. The Wildlife Lifetime Licenses permanent fund is due \$117,000 from the general fund for legislative mandated transfer of earnings on certain funds.

The component units Due From Primary Government includes \$44,000 for University Hospitals Authority. This amount is due from the general fund for draw downs of principal from Oklahoma Capital Improvement Authority capital lease agreements.

Remaining interfund balances resulted from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded, and payment between funds are made.

B. Notes Payable and Capital Leases

The Multiple Injury Trust Fund (MITF) component unit reports a note payable to CompSource Oklahoma component unit of \$25,363,000, as permitted by statute. Included in this note payable is a \$6,000,000 advance on a line of credit not to exceed \$11,300,000. The remaining \$5,300,000 has not been advanced. The note and line of credit bear interest at a 7% rate and are payable over 30 years in quarterly installments. The note and line of credit are collateralized by MITF revenues and any equity or other interests available to MITF.

The Higher Education (HE) and University Hospitals Authority (UHA) component units have entered into capital lease agreements with the general fund's Oklahoma Capital Improvement Authority (OCIA) to lease various facilities, equipment and improvements. The capital lease outstanding balances are \$502,244,000 for HE and \$44,000 for UHA.

C. Interfund Transfers

A summary of interfund transfers for the fiscal year ended June 30, 2009, follows (expressed in thousands):

<u>Transfers From (Out)</u>	<u>Transfers To (In)</u>	<u>For (Purpose)</u>	<u>Amount</u>
Governmental Funds:			
General Fund	Oklahoma Water Resources Board	Payment for administrative costs	\$ 4,357
		Total transfers out of the General Fund	4,357
Permanent Funds:			
Commissioners of Land Office	General Fund	Transfer of expendable earnings	-
Department of Wildlife Conservation	General Fund	Transfer of expendable earnings	(3,188)
Proprietary Funds:			
Oklahoma Water Resources Board	General Fund	Restricted investment revenue	(4,957)
Lottery Commission	General Fund	Transfer of expendable earnings	(69,226)
		Total transfers in to the General Fund	<u>(77,371)</u>
		Net Transfers In/Out	<u>\$ (73,014)</u>

Note 5. Capital Assets

Capital asset activity for the year ended June 30, 2009, was as follows (expressed in thousands):

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,318,519	\$ 133,010	\$ (187)	\$ 1,451,342
Construction in progress	77,174	74,734	(28,600)	123,308
Total capital assets, not being depreciated	<u>1,395,693</u>	<u>207,744</u>	<u>(28,787)</u>	<u>1,574,650</u>
Capital assets, being depreciated:				
Buildings and improvements	1,224,624	53,674	(6,832)	1,271,466
Equipment	360,263	35,805	(34,214)	361,854
Infrastructure	12,426,950	690,501	(1,520)	13,115,931
Total capital assets, being depreciated	<u>14,011,837</u>	<u>779,980</u>	<u>(42,566)</u>	<u>14,749,251</u>
Less accumulated depreciation for:				
Buildings and improvements	(570,642)	(25,926)	2,719	(593,849)
Equipment	(231,831)	(27,409)	31,852	(227,388)
Infrastructure	(6,693,721)	(338,338)	956	(7,031,103)
Total accumulated depreciation	<u>(7,496,194)</u>	<u>(391,673)</u>	<u>35,527</u>	<u>(7,852,340)</u>
Total capital assets, being depreciated, net	<u>6,515,643</u>	<u>388,307</u>	<u>(7,039)</u>	<u>6,896,911</u>
Governmental activities capital assets, net	<u>\$ 7,911,336</u>	<u>\$ 596,051</u>	<u>\$ (35,826)</u>	<u>\$ 8,471,561</u>
Business-type activities:				
Capital assets, being depreciated:				
Equipment	\$ 1,793	\$ 61	\$ -	\$ 1,854
Total capital assets, being depreciated	<u>1,793</u>	<u>61</u>	<u>-</u>	<u>1,854</u>
Less accumulated depreciation for:				
Equipment	(1,022)	(305)	-	(1,327)
Total accumulated depreciation	<u>(1,022)</u>	<u>(305)</u>	<u>-</u>	<u>(1,327)</u>
Business-type activities capital assets, net	<u>\$ 771</u>	<u>\$ (244)</u>	<u>\$ -</u>	<u>\$ 527</u>

Current period depreciation expense was charged to functions of the primary government as follows:

Governmental activities:	
Education	\$ 786
General government	15,140
Health services	6,524
Legal and judiciary	177
Museums	157
Natural resources	4,520
Public safety and defense	14,091
Regulatory services	335
Social services	4,983
Transportation	344,960
Total depreciation expense - governmental activities	<u>\$ 391,673</u>

Component Units

Capital asset activity for the year ended June 30, 2009, (December 31, 2008, or September 30, 2008, for those entities identified in Item D of Note 1) was as follows (expressed in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 339,151	\$ 12,250	\$ (422)	\$ 350,979
Construction in progress	732,366	578,970	(484,089)	827,247
Total capital assets, not being depreciated	<u>1,071,517</u>	<u>591,220</u>	<u>(484,511)</u>	<u>1,178,226</u>
Capital assets, being depreciated:				
Buildings and improvements	5,003,792	937,405	(8,275)	5,932,922
Equipment	1,385,213	142,395	(47,076)	1,480,532
Infrastructure	1,950,629	95,059	(176)	2,045,512
Total capital assets, being depreciated	<u>8,339,634</u>	<u>1,174,859</u>	<u>(55,527)</u>	<u>9,458,966</u>
Less accumulated depreciation for:				
Buildings and improvements	(2,088,700)	(185,508)	5,272	(2,268,936)
Equipment	(957,094)	(100,650)	41,555	(1,016,189)
Infrastructure	(1,029,630)	(65,012)	128	(1,094,514)
Total accumulated depreciation	<u>(4,075,424)</u>	<u>(351,170)</u>	<u>46,955</u>	<u>(4,379,639)</u>
Total capital assets, being depreciated, net	<u>4,264,210</u>	<u>823,689</u>	<u>(8,572)</u>	<u>5,079,327</u>
Capital assets, net	<u>\$ 5,335,727</u>	<u>\$ 1,414,909</u>	<u>\$ (493,083)</u>	<u>\$ 6,257,553</u>

Note 6. 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 component units. The State and Education Employees' Group Insurance Board is a component unit that provides group health, life, dental and disability benefits to the State's employees and certain other eligible participants. CompSource Oklahoma (CSO) is a component unit that provides workers' compensation coverage for the State's employees (and private and local government employees).

CSO administers claim payments and provides excess-of-loss reinsurance to certain governmental entities that are self-insured. The premiums and fees received in connection with these transactions are included in sales revenue and were approximately \$8,878,000 in 2008. The liability for claims in excess of the self-insured entities' respective retention limits included in unpaid losses and loss adjustment expenses was approximately \$45,041,000 at December 31, 2008.

CSO 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 \$2,105,000 in 2008. No losses have been ceded under these agreements. Reinsurance receivables with a single reinsurer of \$946,000 at December 31, 2008, 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 CSO from its obligation to policyholders. Failure of reinsurers to honor their obligations could result in losses to CSO. Management believes that all reinsurers presently used are financially sound and will be able to meet their contractual obligations.

Coverage for second injury workers' compensation is provided by a discretely presented component unit. The Multiple Injury Trust Fund (MITF) was created to encourage the hiring of individuals with a pre-existing disability and to protect those employers from liability for the pre-existing disability. MITF records a liability for outstanding court awards only as those amounts are awarded by the Workers' Compensation Court for 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, 2008, have been charged to operations for the year ended December 31, 2008. At year end, the MITF loss liability exceeded net assets. MITF was indebted to claimants for court awarded judgments. Only

those judgments currently payable in arrears bear interest. The rate, set by statute, is the Treasury bill rate plus 4% to be updated annually.

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 MITF, 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. None of the funds have included non-incremental claims adjustment expense as part of accrued liabilities. 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 economic financial resources.

The following table presents the changes in claims liability balances (both current and noncurrent) during the current fiscal year ended June 30, 2009, (December 31, 2008, for CompSource Oklahoma, State and Education Employees Group Insurance Board, and Multiple Injury Trust 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	\$ 11,549	\$ 17,136	\$ (7,427)	\$ 21,258	\$ 13,831	\$ 7,427
Component Units:						
CompSource Oklahoma	\$ 886,520	\$ 240,901	\$ (233,406)	\$ 894,015	\$ 699,750	\$ 194,265
State and Education Employees Group Insurance Board **	102,088	789,029	(779,339)	111,778	10,552	101,226
Multiple Injury Trust Fund ***	105,298	16,685	(22,991)	98,992	86,969	12,023
Total Component Units*	\$ 1,093,906	\$ 1,046,615	\$ (1,035,736)	\$ 1,104,785	\$ 797,271	\$ 307,514

* The Higher Education Component Unit's claims and judgments (\$3,281 – noncurrent) are for accrued liabilities not related to risk management.

** During 2008, OSEEGIB determined its activity related to covered retirees of participating employers did not meet the definition of an OPEB plan, and therefore is not subject to GASB 43. The preferred method of accounting was determined to be that of a special-purpose government engaged solely in business-type activities. As a result of this change in presentation, the beginning balance will not match the prior year ending balance.

*** Multiple Injury Trust Fund restated previously issued 2007 financial statements for errors related to permanent total orders payable, court awarded future payments, net deficit and the related reconciling items to the governmental funds. As a result the prior fiscal year beginning balance has been amended from the fiscal year 2008 report. See Note 12 for beginning fund balance change.

	Beginning Balance	Plus: Current Year Claims and Changes in Estimates	Less: Claim Payments	Ending Balance	Noncurrent Liability	Current Liability
Prior Fiscal Year						
General Fund* - Risk Management Division	\$ 33,736	\$ (14,502)	\$ (7,685)	\$ 11,549	\$ 3,864	\$ 7,685
Component Units:						
CompSource Oklahoma State and Education Employees	\$ 847,063	\$ 261,794	\$ (222,337)	\$ 886,520	\$ 692,994	\$ 193,526
Group Insurance Board	66,793	546,589	(525,717)	87,665	-	87,665
Multiple Injury Trust Fund ***	123,598	7,344	(25,644)	105,298	92,316	12,982
Total Component Units	\$ 1,037,454	\$ 815,727	\$ (773,698)	\$ 1,079,483	\$ 785,310	\$ 294,173

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 233,000 primary participants and dependents, approximately 30,000 primary participants and 22,000 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 (315 local governments actually participate). Any education entity or local government which elects to withdraw from the Plan may do so with 30 days written notice, and must withdraw both its active and inactive participants.

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	X		
Disability	X	X					
Medicare Supplement				X	X	X	X
Health Care Participants:							
Primary	24,000	9,000	52,000	----- 39,000 -----			
Dependents	-----			57,000	-----		

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 three types of coverages: health and dental, life, and disability (expressed in thousands):

	Health and Dental	Life	Disability	Total
	Fiscal Year 12/31/2008	Fiscal Year 12/31/2008	Fiscal Year 12/31/2008	Fiscal Year 12/31/2008
Reserves at beginning of period *	\$ 84,797	\$ 3,787	\$ 13,504	\$ 102,088
Incurred claims:				
Provision for insured events of current period	764,751	21,540	4,756	791,047
Changes in provisions for insured events of prior periods	1,187	(536)	(2,669)	(2,018)
	<u>765,938</u>	<u>21,004</u>	<u>2,087</u>	<u>789,029</u>
Payments:				
Claims attributable to insured events of current period	673,810	17,241	448	691,499
Claims attributable to insured events of prior periods	83,154	2,842	1,844	87,840
	<u>756,964</u>	<u>20,083</u>	<u>2,292</u>	<u>779,339</u>
Reserves at end of period	<u>\$ 93,771</u>	<u>\$ 4,708</u>	<u>\$ 13,299</u>	<u>\$ 111,778</u>

* During 2008, OSEEGIB determined its activity related to covered retirees of participating employers did not meet the definition of an OPEB plan, and therefore is not subject to GASB 43. The preferred method of accounting was determined to be that of a special-purpose government engaged solely in business-type activities. As a result of this change in presentation, the beginning balance will not match the prior year ending balance.

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 7. 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, 2009, are as follows (expressed in thousands):

	General Fund	Fiduciary Funds	Component Units
2010	\$ 359	\$ -	\$ 3,295
2011	109	-	3,286
2012	6	-	980
2013	5	-	766
2014	-	-	499
2015-2019	-	-	783
2020-2024	-	-	460
Total Future Minimum Lease Payments	<u>\$ 479</u>	<u>\$ -</u>	<u>\$ 10,069</u>
Operating lease commitments for building rental for year ended June 30, 2010	\$ 21,006	\$ 150	\$ 3,739
Rent expenditures/expenses for operating leases for year ended June 30, 2009	\$ 18,739	\$ 200	\$ 16,104

Note 8. Lessor Agreements

Primary Government

Direct Financing Leases

The Department of Transportation maintains leases classified as direct financing leases. The State leases heavy equipment and machinery to counties within the State. The lease terms are determined by the depreciation schedules published by the American Association of State Highway Transportation Officials. All new county equipment leases were charged an interest amount equivalent to 3% of the equipment cost. The 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, 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 by the Department of Transportation in future years is approximately \$24,858,000, which is also the net investment in direct financing leases at June 30, 2009. The following schedule represents minimum lease payments receivable for direct financing leases for each of the five succeeding fiscal years (expressed in thousands):

	2010	2011	2012	2013	2014
Department of Transportation	\$ 6,801	\$ 5,880	\$ 5,078	\$ 2,445	\$ 1,706
Oklahoma Capital Improvement Authority	17,109	17,203	18,002	18,830	-
Total	<u>\$ 23,910</u>	<u>\$ 23,083</u>	<u>\$ 23,080</u>	<u>\$ 21,275</u>	<u>\$ 1,706</u>

The Oklahoma Capital Improvement Authority (OCIA) has capital lease agreements with component units for the lease of various facilities, equipment and improvements. At June 30, 2009, the total minimum lease payments to be received by OCIA from component units is \$502,244,000.

Operating Leases

The State has operating leases maintained by various state agencies consisting primarily of state owned building space leased to non-state entities. The Primary Government's total operating leases receivable recognized in the current fiscal

year is approximately \$14,000. Minimum future rentals receivable from these operating leases is presented in the following schedule (expressed in thousands):

2010	2011	2012	2013	2014
\$ 219	\$ 147	\$ 81	\$ 71	\$ 64

In addition, the leasing operations of the Commissioners of the Land Office consist of leasing approximately 745,000 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):

2010	2011	2012	2013	2014
\$ 8,912	\$ 6,678	\$ 4,587	\$ 2,247	\$ -

Component Units

The **Oklahoma Municipal Power Authority** executed a Power Purchase Agreement with FPL Energy Oklahoma Wind, LLC (FPLE Oklahoma), for the development of a wind generation facility in northwestern Oklahoma. Under the agreement, FPLE Oklahoma was responsible for acquiring, constructing and installing the wind project. The Authority issued taxable limited obligation notes which were payable solely from lease payments made by FPLE Oklahoma. The Authority used the proceeds of the notes to finance the Authority's acquisition of the wind project and has leased the wind project to FPLE Oklahoma under a long-term capital lease agreement for an amount sufficient to pay the debt service, principal and interest, on the notes. The Power Purchase Agreement has a term of approximately 25 years and power is sold on a take and pay basis. FPLE Oklahoma retains the operational risk related to the wind project. The following schedule lists the components of the lease agreement as of December 31, 2008 (expressed in thousands):

Total minimum lease payments to be received	\$ 90,335
Less: Amounts representing interest included in total minimum lease payments	(38,528)
Net investment in direct financing leases	<u>\$ 51,807</u>

Operating Leases

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

	2010	2011	2012	2013	2014
Univeristy Hospitals Authority	\$ 6,320	\$ 6,320	\$ 676	\$ 676	\$ 676
Oklahoma Turnpike Authority	67	67	57	7	55
Total	<u>\$ 6,387</u>	<u>\$ 6,387</u>	<u>\$ 733</u>	<u>\$ 683</u>	<u>\$ 731</u>

Note 9. Long-Term Obligations As Related to Governmental Activities

Long-term obligations at June 30, 2009, and changes for the fiscal year then ended are as follows (expressed in thousands):

	Issue Date	Interest Rates	Maturity Through	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation Bonds Payable from Tax Revenue:								
Oklahoma Bldg Refunding 2003A	2003	2.00%-5.00%	2019	\$ 218,955	\$ -	\$ 15,200	\$ 203,755	\$ 15,725
Total				<u>218,955</u>	<u>-</u>	<u>15,200</u>	<u>203,755</u>	<u>15,725</u>
Revenue Bonds Payable from Lease Rentals:								
OCIA Series B of 1994	1995	4.85%-7.15%	2010	3,405	-	1,645	1,760	1,760
OCIA Series 1999A	2000	4.10%-5.50%	2010	13,490	-	6,580	6,910	6,910
OCIA Series 1999B	2000	6.20%-7.63%	2020	940	-	280	660	305
OCIA Series 1999C	2000	4.10%-5.50%	2010	435	-	210	225	225
OCIA Series 1999D	2000	3.85%-5.70%	2010	1,160	-	565	595	595
OCIA Series 2000, Highway	2000	4.30%-5.00%	2012	67,920	-	15,715	52,205	16,485
OCIA Series 2002A	2003	2.00%-4.65%	2023	10,430	-	535	9,895	550
OCIA 2003A, Highway	2003	2.00%-5.00%	2015	48,665	-	6,035	42,630	6,295
OCIA 2003B, Highway	2003	2.00%-5.00%	2015	19,640	-	2,485	17,155	2,580
OCIA 2003C, State Facilities	2004	2.00%-4.75%	2025	16,000	-	695	15,305	715
OCIA 2003D, State Facilities	2004	2.00%-4.75%	2024	2,970	-	140	2,830	145
OCIA 2003E, State Facilities	2004	2.00%-4.00%	2016	13,730	-	2,210	11,520	2,300
OCIA 2004A, Refunding	2005	2.50%-5.00%	2024	109,395	-	1,150	108,245	1,185
OCIA 2005, Revenue	2006	3.50%-5.30%	2020	4,720	-	290	4,430	300
OCIA 2005A, Revenue	2005	3.00%-4.35%	2020	5,480	-	340	5,140	350
OCIA 2005B, Revenue	2005	3.00%-4.05%	2025	3,715	-	150	3,565	155
OCIA 2005C, Revenue	2005	3.00%-5.00%	2027	33,000	-	1,150	31,850	1,185
OCIA Series 2005D	2006	3.00%-4.38%	2030	21,055	-	600	20,455	615
OCIA Series 2005E	2006	3.70%-5.00%	2025	2,805	-	105	2,700	110
OCIA Series 2005F	2006	3.38%-5.00%	2030	331,605	-	8,400	323,205	8,710
OCIA Series 2006	2006	5.00%-5.23%	2015	45,050	-	5,195	39,855	5,455
OCIA Series 2006A	2006	3.55%-4.38%	2026	23,575	-	865	22,710	900
OCIA Series 2006B	2006	3.50%-4.25%	2026	18,260	-	665	17,595	695
OCIA Series 2006C	2006	4.00%-4.50%	2026	21,350	-	760	20,590	795
OCIA Series 2006D	2006	1.00%-5.00%	2035	123,270	-	3,270	120,000	-
OCIA Series 2006E	2006	4.00%-4.50%	2026	6,215	-	225	5,990	230
OCIA Series 2008A	2008	2.90%-5.30%	2026	-	25,380	-	25,380	-
OCIA Series 2008B	2008	2.70%-5.48%	2030	-	11,600	-	11,600	-
OCIA Series 2009A	2009	1.00%-4.20%	2025	-	24,880	-	24,880	-
Corrections 2003A, Central OK (ODFA)	2003	2.25%-4.65%	2023	29,425	-	1,505	27,920	1,550
Corrections 2004, Central OK (ODFA)	2004	3.00%-4.45%	2024	3,415	-	180	3,235	185
Corrections 2006, Central OK (ODFA)	2006	3.75%-4.50%	2026	4,085	-	160	3,925	165
Tourism 2002	2002	2.10%-4.25%	2012	1,520	-	360	1,160	370
DHS-Pittsburg Co. 1998 (ODFA)	1998	4.25%-5.30%	2013	710	-	100	610	100
DHS-Canad/Linc Co. 2000 (ODFA)	2000	4.30%-5.60%	2015	2,075	-	255	1,820	255
DHS-8 County (ODFA)	2001	2.00%-5.25%	2017	10,255	-	955	9,300	955
DHS-Logan/Okla Co. 2004A (ODFA)	2004	1.00%-3.85%	2019	6,630	-	525	6,105	525
DHS-2004B (ODFA)	2005	1.60%-5.13%	2019	4,030	-	270	3,760	270
DHS-2008 (ODFA)	2008	3.25%-4.15%	2023	23,000	-	1,265	21,735	1,265
Veterans Series 2005 (ODFA)	2005	2.65%-3.65%	2015	5,790	-	750	5,040	775
Law Enforcement Education/Train (ODFA)	2002	4.00%-5.50%	2027	22,355	-	760	21,595	790
Finance 2009 (ODFA)	2009	2.50%-5.00%	2034	-	43,540	-	43,540	1,115
Total				<u>1,061,570</u>	<u>105,400</u>	<u>67,345</u>	<u>1,099,625</u>	<u>67,870</u>
Notes Payable from Tax Revenue (Tourism) and Grant Revenue (ODOT):								
Tourism 2004, Clean Water	2004	2.13%	2024	5,910	-	315	5,595	320
ODOT 2004A, Grant Anticipation	2004	1.00%-5.00%	2019	36,700	-	2,725	33,975	2,795
ODOT 2005A, Grant Anticipation	2005	3.00%-5.00%	2020	43,895	-	2,680	41,215	2,760
ODOT 2007A, Grant Anticipation	2007	3.25%-5.00%	2023	91,275	-	4,455	86,820	4,630
ODOT 2008A, Grant Anticipation	2009	3.00%-5.00%	2021	-	98,230	-	98,230	5,890
Total				<u>177,780</u>	<u>98,230</u>	<u>10,175</u>	<u>265,835</u>	<u>16,395</u>
Notes Payable - Sardis Reservoir				33,790	-	359	33,431	359
Capital Leases				5,082	3,655	2,087	6,650	1,805
Compenstated Absences				157,168	97,458	93,269	161,357	93,269
Pension Obligation				4,359	17,491	-	21,850	-
Bond Issue Premiums				48,889	2,008	4,333	46,564	4,333
Claims and Judgements Payable				20,572	17,136	16,450	21,258	7,427
Total Long-Term Obligations				<u>\$ 1,728,165</u>	<u>\$ 341,378</u>	<u>\$ 209,218</u>	<u>\$ 1,860,325</u>	<u>\$ 207,183</u>

Reductions of debt include deletions of Capital Leases (\$11) that are not principal retirement on the operating statement. The increase in debt is due to the issuance of new capital lease bonds at OCIA, a Finance office bond through ODFA and new Grant Anticipation notes issued by Transportation.

A. General Obligation Bonds

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

The following table presents annual debt service requirements for those long-term obligations outstanding at June 30, 2009, which have scheduled debt service amounts (expressed in thousands):

	2010	2011	2012	2013	2014	2015-2019	2020-2024	2025-2029	2030-2034	2035-2039	Total
General Obligation bonds:											
Oklahoma Bldg Refunding 2003A	\$ 25,034	\$ 25,044	\$ 25,065	\$ 25,082	\$ 25,153	\$ 131,744	\$ -	\$ -	\$ -	\$ -	\$ 257,122
Less: Interest	9,309	8,569	7,770	6,922	6,078	14,719	-	-	-	-	53,367
Total Principal	15,725	16,475	17,295	18,160	19,075	117,025	-	-	-	-	203,755
Revenue Bonds:											
OCIA Series B of 1994	1,823	-	-	-	-	-	-	-	-	-	1,823
OCIA Series 1999A	7,083	-	-	-	-	-	-	-	-	-	7,083
OCIA Series 1999B	343	51	49	52	50	253	53	-	-	-	851
OCIA Series 1999C	231	-	-	-	-	-	-	-	-	-	231
OCIA Series 1999D	609	-	-	-	-	-	-	-	-	-	609
OCIA Series 2000, Highway	18,903	18,903	18,906	-	-	-	-	-	-	-	56,712
OCIA Series 2002A	951	947	947	946	949	4,725	3,753	-	-	-	13,218
OCIA 2003A, Highway	8,261	8,262	8,261	8,260	8,259	8,259	-	-	-	-	49,562
OCIA 2003B, Highway	3,270	3,267	3,268	3,267	3,268	3,270	-	-	-	-	19,610
OCIA 2003C, State Facilities	1,331	1,330	1,331	1,330	1,331	6,637	6,612	1,321	-	-	21,223
OCIA 2003D, State Facilities	258	258	258	258	257	1,277	1,271	-	-	-	3,837
OCIA 2003E, State Facilities	2,666	2,672	1,495	1,496	1,503	3,011	-	-	-	-	12,843
OCIA 2004A, Refunding	6,515	13,756	13,738	13,727	13,713	66,823	13,567	261	-	-	142,100
OCIA 2005 Revenue	468	467	466	464	467	2,322	934	-	-	-	5,588
OCIA 2005A, Revenue	543	542	545	542	543	2,703	1,076	-	-	-	6,494
OCIA 2005B, Revenue	303	303	303	301	300	1,491	1,472	586	-	-	5,059
OCIA 2005C, Revenue	2,514	2,511	2,511	2,508	2,508	12,463	12,191	9,690	-	-	46,896
OCIA 2005D Revenue	1,428	1,429	1,428	1,431	1,427	7,126	7,102	7,073	2,819	-	31,263
OCIA 2005E Revenue	223	223	222	226	226	1,121	1,116	439	-	-	3,796
OCIA 2005F Revenue	24,238	24,235	24,220	24,211	24,176	120,678	120,225	119,709	47,712	-	529,404
OCIA 2006 Revenue	7,360	7,352	7,344	7,333	7,324	10,066	-	-	-	-	46,779
OCIA 2006A Revenue	1,795	1,791	1,791	1,791	1,788	8,938	8,906	5,324	-	-	32,124
OCIA 2006B Revenue	1,387	1,384	1,386	1,384	1,385	6,908	6,887	4,115	-	-	24,836
OCIA 2006C Revenue	1,663	1,661	1,658	1,658	1,656	8,280	8,241	4,927	-	-	29,744
OCIA 2006D Revenue	6,275	6,000	6,000	6,010	5,990	30,000	30,000	30,009	115,493	31,500	267,277
OCIA 2006E Revenue	480	480	481	480	480	2,396	1,427	-	-	-	8,616
OCIA 2008A Revenue	1,331	2,284	2,283	2,284	2,278	11,364	11,305	4,502	-	-	37,631
OCIA 2008B Revenue	608	926	928	923	924	4,614	4,587	4,560	909	-	18,979
OCIA 2009A Revenue	507	2,027	2,202	2,193	2,187	10,924	10,883	2,173	-	-	33,096
Corrections 2003A, Central OK (ODFA)	2,694	2,694	2,694	2,694	2,691	12,457	10,767	-	-	-	37,691
Corrections 2004, Central OK (ODFA)	310	310	309	307	306	1,539	1,229	-	-	-	4,310
Corrections 2006, Central OK (ODFA)	331	330	333	331	329	1,652	1,657	660	-	-	5,623
Tourism 2002	410	410	414	-	-	-	-	-	-	-	1,234
DHS-Pittsburg Co. 1988 (ODFA)	134	134	138	282	-	-	-	-	-	-	688
DHS-Canad/Line Co. 2000 (ODFA)	364	365	365	365	362	364	-	-	-	-	2,185
DHS-8 County 2002 (ODFA)	1,432	1,432	1,430	1,434	1,429	4,296	-	-	-	-	11,453
DHS-Logan/Okla Co. 2004A (ODFA)	735	733	733	732	735	3,671	-	-	-	-	7,339
DHS-2004B	433	435	433	431	432	2,151	429	-	-	-	4,744
DHS-2008	2,028	2,031	2,031	2,030	2,033	10,156	8,124	-	-	-	28,433
Veterans Series 2005 (ODFA)	944	946	947	943	944	943	-	-	-	-	5,667
Law Enforcement Education/Train (ODFA)	1,854	1,857	1,853	1,858	1,854	9,271	9,271	5,568	-	-	33,386
Finance 2009 (ODFA)	2,935	2,936	2,937	2,937	2,937	14,684	14,691	14,687	14,685	-	73,429
	117,971	117,674	116,638	97,419	97,041	397,833	298,741	217,031	181,618	31,500	1,673,466
Less: Interest	50,101	46,934	43,514	40,670	38,124	154,903	105,057	63,143	29,895	1,500	573,841
Total Principal	67,870	70,740	73,124	56,749	58,917	242,930	193,684	153,888	151,723	30,000	1,099,625
Notes Payable:											
Tourism 2004, Clean Water	439	442	445	448	450	2,255	2,078	-	-	-	6,557
ODOT 2004A, Grant Anticipation	4,297	4,267	4,258	4,258	4,252	21,217	-	-	-	-	42,549
ODOT 2005A, Grant Anticipation	4,451	4,450	4,442	4,441	4,417	22,029	8,818	-	-	-	53,048
ODOT 2007A, Grant Anticipation	8,538	8,530	8,529	8,535	8,518	42,369	33,769	-	-	-	118,788
ODOT 2008A, Grant Anticipation	10,232	10,163	10,156	10,137	10,136	50,481	30,146	-	-	-	131,451
	27,957	27,852	27,830	27,819	27,773	138,351	74,811	-	-	-	352,393
Less: Interest	11,562	10,987	10,306	9,599	8,823	29,676	5,605	-	-	-	86,558
Total Principal	16,395	16,865	17,524	18,220	18,950	108,675	69,206	-	-	-	265,835
Capital Leases											
Less: Interest	2,582	2,248	1,536	1,466	835	612	-	-	-	-	9,279
Less: Executory Cost	350	250	154	81	13	-	-	-	-	-	848
	427	391	380	369	214	-	-	-	-	-	1,781
Total Principal	1,805	1,607	1,002	1,016	608	612	-	-	-	-	6,650
Total	\$ 101,795	\$ 105,687	\$ 108,945	\$ 94,145	\$ 97,550	\$ 469,242	\$ 262,890	\$ 153,888	\$ 151,723	\$ 30,000	\$ 1,575,865
Long-Term Debt without scheduled debt service:											
Note Payable-Sardis Reservoir											33,431
Compensated Absences											161,357
Pension Obligation											21,850
Bond Issue Premiums											46,564
Claims and Adjustments Payable											21,258
Total Long-Term Obligations											\$ 1,860,325

B. Revenue Bonds

The Oklahoma Capitol Improvement Authority (OCIA) has twenty-nine outstanding series of building bonds to construct and equip state office buildings and prisons. Principal and interest payments on these bond issues are paid from

rents collected from the various state and federal agencies that occupy the buildings constructed with the bond proceeds. The 2006D series are multi-modal variable rate demand bonds and are the only variable rate bonds issued by OCIA. The interest rate resets on a daily, weekly, or monthly interest rate mode which is determined by public bond market conditions.

The **Oklahoma Development Finance Authority** (ODFA) has issued lease revenue bonds to provide lease financing for the Department of Corrections, the Department of Human Services, the Department of Veterans Affairs, the Council for Law Enforcement Education and Training, and the Office of State Finance. The actual lease payments are made to a trustee who is responsible for payments to individual investors.

C. Notes Payable

The **Oklahoma Department of Transportation** has issued several series of Grant Anticipation Notes for the purpose of financing certain qualified federal aid transportation projects in the State. The notes are secured by federal revenue received from the Federal Highway Administration (FHA) and have a final maturity in 2023. Total revenue received from the FHA in fiscal year 2009 was \$756,635,000 with a portion of that amount, \$345,836,000, restricted as security to the notes. Current year note obligations totaled \$17,289,000.

The **Oklahoma Water Resources Board** has a contractual agreement to repay the United States, through the Army Corp of Engineers, for the costs of constructing water supply storage at Sardis Reservoir in southeastern Oklahoma. Under the 1974 contract, annual payments over a period of 50 years are to be made for the reservoir construction, operation and maintenance allocated to the present use water supply storage. The water storage facility was completed in 1982 and annual payments began in 1983. There are no scheduled future debt service requirements beyond one year. For further discussion of this note payable, refer to the Litigation and Contingencies note.

D. Capital Leases

The State has entered into agreements to lease equipment. Such agreements are, in substance, purchases (capital leases) and are reported as capital lease obligations. Capital lease obligations are reported for those leases where the fair market value of the leased asset at inception of the lease is \$25,000 or more.

Leased equipment under capital leases in capital assets at June 30, 2009, includes the following (expressed in thousands):

	Buildings	Equipment	Total
Cost	\$ 1,869	\$ 10,997	\$ 12,866
Less: Accumulated depreciation	(93)	(4,115)	(4,208)
Total	<u>\$ 1,776</u>	<u>\$ 6,882</u>	<u>\$ 8,658</u>

E. Other Liabilities

Compensated absences are liquidated by the general fund and do not have scheduled future debt service requirements beyond one year. The pension obligation is for the Oklahoma Department of Wildlife Conservation defined benefit pension plan, the Oklahoma Law Enforcement Retirement System and the Uniform Retirement System for Judges and Justices. These plans are single-employer plans that provide retirement, disability, and death benefits to the plan members and their beneficiaries. These pension obligations do not have scheduled future debt service requirements. The Wildlife Pension Plan obligation will be liquidated by the general fund. The pension liability for the Oklahoma Law Enforcement Retirement System and the Uniform Retirement System for Judges and Justices will be liquidated by the respective pensions.

Note 10. Long-Term Obligations As Related to Business-Type Activities

The **Oklahoma Water Resources Board** (Board) along with the **Department of Environmental Quality** has issued fifteen series of revenue bonds. These bonds provide resources to implement 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.

Long-term obligations at June 30, 2009, and changes for the fiscal year then ended are as follows (expressed in thousands):

	Issue Dates	Interest Rates	Maturity Through	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Revenue Bonds Payable from User Fees:								
1989-2007 Issues	1989-2007	3.20-5.90%	2036	\$ 533,420	\$ -	\$ 41,025	\$ 492,395	\$ 29,935
Adjusted for: Bond Premiums and Discounts				11,480	-	974	10,506	-
Revenue Bonds Payable Net of Bond Premiums and Discounts				<u>544,900</u>	<u>-</u>	<u>41,999</u>	<u>502,901</u>	<u>29,935</u>
Other Noncurrent Liabilities				349	-	311	38	-
Total Long-Term Obligations				<u>\$ 545,249</u>	<u>\$ -</u>	<u>\$ 42,310</u>	<u>\$ 502,939</u>	<u>\$ 29,935</u>

The following table presents annual debt service requirements for those long-term obligations outstanding at June 30, 2009, which have scheduled debt service amounts (expressed in thousands):

	2010	2011	2012	2013	2014	2015-2019	2020-2024	2025-2029	2030-2034	2035-2039	Total
Revenue Bonds:											
1989-2007 Issues	\$ 50,683	\$ 52,057	\$ 51,295	\$ 49,427	\$ 47,808	\$ 213,600	\$ 156,169	\$ 53,908	\$ 2,511	\$ 318	\$ 677,776
Less: Interest	20,748	19,827	18,674	17,467	16,230	60,265	28,013	3,967	171	19	185,381
Principal	29,935	32,230	32,621	31,960	31,578	153,335	128,156	49,941	2,340	299	492,395
Total	<u>\$ 29,935</u>	<u>\$ 32,230</u>	<u>\$ 32,621</u>	<u>\$ 31,960</u>	<u>\$ 31,578</u>	<u>\$ 153,335</u>	<u>\$ 128,156</u>	<u>\$ 49,941</u>	<u>\$ 2,340</u>	<u>\$ 299</u>	<u>\$ 492,395</u>
Adjusted for: Bond and Note Premium and Discounts											10,506
Long-Term Obligations without scheduled debt service:											
Other Noncurrent Liabilities											38
Total Long-Term Obligations											<u>\$ 502,939</u>

Several of the bonds bear interest at variable rates, initially set at 0.87% to 3.80% and are periodically adjusted, pursuant to the provisions of the bond indentures, to a maximum rate of 12% to 14% per year. Variable rates are reset semiannually by the remarketing agent. The interest rate on the bonds ranged from 1.50% to 1.63% at June 30, 2009. At the option of the Board and subject to applicable provisions of the bond indenture, which require, among other things, that all bonds be successfully remarketed, the variable interest rate may be converted to a term rate that would stay fixed until maturity. These converted rate bonds bear interest at fixed rates ranging from 0.75% to 6.70%.

The Tax Reform Act of 1986 imposed additional restrictive regulations, reporting requirements and arbitrage rebate liability on issuers of tax-exempt debt. The arbitrage rebate liability is recorded as other liabilities (\$38,000 noncurrent). This amount will be liquidated by the reporting enterprise fund. There are no scheduled future debt service requirements beyond one year.

Note 11. Long-Term Obligations As Related to Component Units

Long-term obligations at June 30, 2009 (September 30, 2008, for Oklahoma Housing Finance Agency and December 31, 2008, for Oklahoma Turnpike Authority, Grand River Dam Authority and Municipal Power Authority), and changes for the fiscal year then ended are as follows (expressed in thousands):

	Issue Dates	Interest Rates	Maturity Through	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
General Obligation Bonds Payable from User Fees:								
Industrial Finance Authority	1987-2006	3.00 - 7.65%	2022	\$ 55,355	\$ -	\$ 4,065	\$ 51,290	\$ 1,040
Total Before Adjustments				55,355	-	4,065	51,290	
Adjusted for: Bond Premiums				56	-	4	52	
Net Deferred Debits on Refundings				(194)	-	(16)	(178)	
Total General Obligation Bonds Payable								
Net of Bond Premiums and Deferrals				55,217	-	4,053	51,164	1,040
Revenue Bonds Payable from User Fees:								
Student Loan Authority	1994-2008	1.32 - 4.25%	2037	937,275	175,305	233,673	878,907	68,643
Development Finance Auth.	1996	5.36%	3031	9,999	-	-	9,999	-
Housing Finance Agency	1987-2007	3.14 - 8.00%	2038	685,737	143,013	94,428	734,322	69,166
Turnpike Authority	1998-2007	3.00 - 6.00%	2028	1,160,720	-	38,780	1,121,940	42,320
Grand River Dam Authority	1993-2008	3.20 - 6.25%	2033	496,086	575,375	68,780	1,002,681	72,590
Municipal Power Authority	1990-2005	2.00 - 6.75%	2028	508,475	99,330	17,260	590,545	12,785
University Hospitals Authority	2005	1.55 - 2.50%	2036	53,875	8	878	53,005	925
Centennial Commemoration Fund	2001	4.35%	2011	3,765	-	1,005	2,760	1,060
Higher Education	1993-2007	1.20 - 10.00%	2034	996,820	157,752	50,985	1,103,587	29,894
Total Before Discounts/Deferrals				4,852,752	1,150,783	505,789	5,497,746	
Adjusted for: Bond (Discount) Premiums				7,502	14,338	(544)	22,384	
Net Deferred Debits on Refundings				(77,120)	-	(8,919)	(68,201)	
Total Revenue Bonds Payable								
Net of Bond (Discounts) Premiums and Deferrals				4,783,134	1,165,121	496,326	5,451,929	297,383
Notes Payable:								
Multiple Injury Trust Fund	2000-2001	7.00%	2031	46,133	-	20,769	25,364	1,136
Student Loan Authority	1993-2005	3.75 - 5.82%	2038	281,414	201,871	66,334	416,951	100,537
Municipal Power Authority	2003	6.00%	2028	53,136	-	1,330	51,806	1,408
Higher Education	2001-2007	1.88 - 8.00%	2046	243,264	96,965	178,828	161,401	14,393
Total				623,947	298,836	267,261	655,522	117,474
Capital Leases:								
University Hospitals Authority				320	-	276	44	44
Higher Education				711,740	102,246	99,870	714,116	41,288
Total				712,060	102,246	100,146	714,160	41,332
Claims and Judgments				1,083,959	285,519	258,985	1,110,493	309,957
Due to Primary Government				-	52,550	-	52,550	2,581
Compensated Absences				99,032	53,125	46,198	105,959	78,792
Other Noncurrent Liabilities				424,471	326,746	203,060	548,157	252,624
Total Long-Term Obligations				\$ 7,781,820	\$ 2,284,143	\$ 1,376,029	\$ 8,689,934	\$ 1,101,183

A. General Obligation Bonds

Oklahoma Industrial Finance Authority (OIFA) has eight series of general obligation bonds outstanding. 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.

The following table presents annual debt service requirements for those long-term obligations outstanding at June 30, 2009 (September 30, 2008, for Oklahoma Housing Finance Agency and December 31, 2008, for Oklahoma Transportation Authority, Grand River Dam Authority and Municipal Power Authority), which have scheduled debt service amounts (expressed in thousands):

	2010	2011	2012	2013	2014	2015-2019	2020-2024	2025-2029	2030-2034	2035-2039	2040-2044	2045-2049	Total
General Obligation Bonds:													
Industrial Finance Authority	\$ 2,566	\$ 2,561	\$ 2,563	\$ 2,561	\$ 2,561	\$ 19,492	\$ 32,564	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 64,868
Less: Interest	1,326	1,476	1,423	1,366	1,306	19,492	32,564	-	-	-	-	-	64,868
Total Principal	1,040	1,085	1,140	1,195	1,255	13,790	31,785	-	-	-	-	-	51,290
Revenue Bonds:													
Student Loan Authority	86,319	83,476	80,633	77,790	24,974	30,757	30,757	33,770	324,487	277,558	-	-	1,050,521
Development Finance Authority	250	250	250	250	250	1,250	1,250	1,250	10,436	-	-	-	15,436
Housing Finance Agency	103,375	48,808	49,921	49,261	47,862	235,520	235,371	241,097	351,612	-	-	-	1,362,827
Turnpike Authority	91,575	92,142	93,744	91,995	76,730	385,501	404,845	347,021	69,774	-	-	-	1,653,327
Grand River Dam Authority	125,751	139,076	120,210	120,587	120,256	253,665	218,731	217,782	216,748	-	-	-	1,532,806
Municipal Power Authority	37,532	45,532	45,560	45,483	45,516	223,855	211,934	134,857	98,768	98,769	53,481	42,787	1,084,074
University Hospitals Authority	1,907	1,932	1,968	1,999	2,046	10,874	12,181	13,507	15,021	6,501	-	-	67,936
Centennial Commemoration Fund	1,152	1,053	707	-	-	-	-	-	-	-	-	-	2,912
Higher Education	78,544	81,985	83,605	83,884	93,495	374,867	337,827	290,674	215,048	101,646	4,182	-	1,745,757
Less: Interest	526,405	494,254	476,598	471,249	411,129	1,516,289	1,452,896	1,279,958	1,301,894	484,474	57,663	42,787	8,515,596
Total Principal	229,022	219,309	206,678	193,881	181,122	770,356	582,656	374,721	202,455	39,030	14,208	4,412	3,017,850
Total Principal	297,383	274,945	269,920	277,368	230,007	745,933	870,240	905,237	1,099,439	445,444	43,455	38,375	5,497,746
Notes Payable:													
Multiple Injury Trust Fund	2,925	2,903	2,901	2,899	2,898	14,455	10,068	-	-	-	-	-	39,499
Student Loan Authority	103,933	96,462	1,444	1,444	1,444	201,624	643	21,749	-	-	-	-	428,743
Municipal Power Authority	4,517	4,517	4,517	4,517	4,517	22,583	22,583	22,584	-	-	-	-	90,335
Higher Education	21,088	27,048	15,953	23,905	15,350	53,536	20,703	17,705	16,445	7,198	-	-	218,931
Less: Interest	132,463	130,930	24,815	32,765	24,209	292,198	53,997	62,038	16,445	7,198	-	-	777,058
Total Principal	14,989	12,292	11,281	10,310	9,487	30,622	18,666	9,723	3,262	904	-	-	121,536
Total Principal	117,474	118,638	13,534	22,455	14,722	261,576	35,331	52,315	13,183	6,294	-	-	655,522
Capital Leases:													
University Hospitals Authority	47	-	-	-	-	-	-	-	-	-	-	-	47
Higher Education	74,544	70,648	67,860	65,015	61,149	257,197	203,340	170,405	167,120	1,491	-	-	1,138,769
Less: Interest	74,591	70,648	67,860	65,015	61,149	257,197	203,340	170,405	167,120	1,491	-	-	1,138,816
Total Principal	33,259	31,721	30,058	28,438	26,833	113,788	82,773	54,246	23,324	216	-	-	424,656
Total	41,332	38,927	37,802	36,577	34,316	143,409	120,567	116,159	143,796	1,275	-	-	714,160
Total	\$ 457,229	\$ 433,595	\$ 322,396	\$ 337,595	\$ 280,300	\$ 1,164,708	\$ 1,057,923	\$ 1,073,711	\$ 1,256,418	\$ 453,013	\$ 43,455	\$ 38,375	\$ 6,918,718
Adjusted for: Net Discounts and Deferred Debits on Refundings													(45,943)
Long-Term Obligations without scheduled debt service:													
Claims and Judgments													1,110,493
Due to Primary Government													52,550
Compensated Absences													105,959
Other Noncurrent Liabilities													548,157
Total Long-Term Obligations													\$ 8,689,934

B. Revenue Bonds

The **Oklahoma Student Loan Authority (OSLA)** has issued sixteen series of revenue bonds with outstanding balances. 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. Variable interest rates are adjusted periodically based on prevailing market rates of various instruments as prescribed in bond indentures. At June 30, 2009, the variable interest rates ranged from 0.68% to 8.44%.

The **Oklahoma Development Finance Authority (ODFA)** has issued a revenue bond to fund loans to various investment enterprises in connection with the Quality Jobs Investment Program. The bond is payable solely from and secured by the revenues and funds in the Quality Jobs Investment Program and a Credit Enhancement Reserve Fund guarantee insurance policy. The interest rate is variable and is equal to the Oklahoma Industrial Finance Authority's cost of funds on its outstanding variable rate bond issues. The interest rate at June 30, 2009 was 2.5%.

The **Oklahoma Housing Finance Agency (OHFA)** has issued 39 series of revenue bonds with outstanding balances at year end. The net proceeds of these bonds are used to provide financing for qualifying residences, provide interim and permanent financing for multi family construction projects, and establish debt service reserves as required by the various trust indentures.

The **Oklahoma Turnpike Authority (OTA)** has issued six series of revenue bonds with an original issue amount of \$1,937,920,000. 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 **Grand River Dam Authority (GRDA)** has issued six series of revenue bonds with an original issue amount of \$1,618,331,000. Oklahoma statutes have authorized GRDA to issue revenue bonds with the aggregate outstanding indebtedness not to exceed \$1,410,000,000.

The **Oklahoma Municipal Power Authority (OMPA)** has issued ten 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. Certain series of the bonds have a variable interest rate which is established either by auction or a weekly index. The maximum rate is 14%.

The **University Hospitals Authority** (UHA) has issued two revenue bond series (2005A-Tax Exempt and 2005B-Taxable) with an original issue amount of \$55,460,000. The proceeds will be used to finance construction of new pediatric ambulatory care facilities and a basic research center.

Twenty-six of the State's colleges and universities within the **Higher Education** component unit have authorized and issued 78 series of revenue bonds with an original issue amount of \$1,016,942,000. These bonds were issued for the construction of student housing and other facilities. Student fees, revenues produced by the constructed facilities, and other revenues collateralize the revenue bonds.

C. Defeased Bonds

In prior years, 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, 2009 (December 31, 2008 for OTA, GRDA, and OMPA) (expressed in thousands):

Revenue Bonds			
OTA	GRDA	OMPA	Higher Education
\$ 1,500	\$ 28,970	\$ 43,540	\$ 27,830

D. Notes Payable

The **Multiple Injury Trust Fund** (MITF) component unit reports a note payable to **CompSource Oklahoma** component unit of \$25,363,000 as permitted by statute. Included in this note payable is a \$6,000,000 advance on a line of credit not to exceed \$11,300,000. The remaining \$5,300,000 has not been advanced. The note and line of credit bear interest at a 7% rate and are payable over 30 years in quarterly installments. The note and line of credit are collateralized by MITF revenues and any equity or other interests available to MITF.

Notes of the **Oklahoma Student Loan Authority** (OSLA) 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. Variable interest rates are adjusted periodically based on prevailing market rates of various instruments as prescribed in lending agreements. At year end the variable interest rates ranged from .45% to 5.75%.

The **Oklahoma Municipal Power Authority** (OMPA) has issued \$57,739,000 of taxable limited obligation notes. The notes are payable solely from lease payments made by FPL Energy Oklahoma Wind, LLC with no recourse to OMPA. The notes bear an interest rate of 6%, and annual principal and interest payments are due through December 31, 2028.

The **Higher Education** component unit has entered into various notes payable agreements. Lease payments, a pledge of "Section Thirteen Fund State Educational Institutions" moneys, the equipment purchased, and the facilities constructed are pledged as collateral on the notes.

E. Capital Leases

The **Higher Education** component unit has entered into agreements with unrelated parties as well as agreements with the Oklahoma Capital Improvement Authority (OCIA) to lease various facilities, equipment and improvements. In fiscal year 1999, the Higher Education component unit signed capital lease agreements with OCIA totaling \$49,178,000 and additional agreements totaling \$515,350,000 during fiscal year 2006. The outstanding principal balance for these OCIA leases at June 30, 2009, is \$502,244,000. Only the principal balance of the leases is recognized since it is equivalent to the value of the items leased. The OCIA agreements are aggregated with the other capital lease obligations on the statement of net assets for year end.

Leased assets under capital leases in capital assets at June 30, 2009, included the following (expressed in thousands):

	Land	Construction In Progress	Buildings	Equipment	Total
Cost	\$ 470	\$ 8,247	\$ 232,486	\$ 79,843	\$ 321,046
Less: Accumulated depreciation	-	-	(25,317)	(33,308)	(58,625)
Total	\$ 470	\$ 8,247	\$ 207,169	\$ 46,535	\$ 262,421

F. Other Liabilities and Arbitrage Rebate Liability

Claims and judgments, due to primary government, compensated absences, and other noncurrent liabilities of each component unit, as presented in the financial statements, will be liquidated by the reporting component unit. Other noncurrent liabilities include deferred revenue and other miscellaneous liability amounts. These liabilities do not have scheduled future debt service requirements beyond one year.

The Tax Reform Act of 1986 imposed additional restrictive regulations, reporting requirements and arbitrage rebate liability on issuers of tax-exempt debt. At June 30, 2009 (December 31, 2008 for OTA and GRDA), the cumulative arbitrage rebate liability is as follows (expressed in thousands):

Reported as:	OSLA	GRDA
Accounts payable	\$ -	\$ 86
Other liabilities	58	-

G. Authorized Unissued Bonds

By statute, **Oklahoma Industrial Finance Authority** (OIFA) has authority to issue general obligation bonds not to exceed \$90,000,000 plus the balance in its bond redemption account. This results in \$38,710,000 of authorized but unissued general obligation bonds. Certain institutions within the **Higher Education** component unit have been authorized to issue revenue bonds in the amount of \$287,000,000 for various construction, renovation and acquisition of property.

Note 12. Beginning Fund Balance/Net Assets Adjustments and Other Restatements

Primary Government

Beginning net assets related to Governmental Activities on the Statement of Net Assets have been restated due to certain transactions being crossed between fund types (\$895,000) and adjustments to capital assets (\$148,564,000). These restatements decreased beginning net assets by \$149,459,000 at July 1, 2008.

Component Units

Beginning net assets for the Higher Education Component Unit have been restated due to accounting errors (\$963,000) and the reclassification of certain funds (\$151,000). The net effect of the restatements increased beginning net assets by \$1,114,000 as of July 1, 2008.

Beginning net assets for the Multiple Injury Trust Fund (MITF) have been restated due to accounting errors. The net effect of the restatements decreased net assets by \$569,000 as of July 1, 2008.

Beginning net assets for Oklahoma State Employees and Education Group Insurance Board (OSEEGIB) on the Statement of Net Assets have been restated due to a change in presentation. This entity was formerly classified as a component unit

of the state and other employee benefit trust fund. During fiscal year 2009, OSEEGIB determined their activity related to covered retirees of participating employers does not meet the definition of an OPEB plan, and therefore is not subject to GASB Statement 43, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*. The preferred method of accounting and reporting presentation is a special-purpose government engaged solely in business-type activities, more specifically an insurance enterprise. As a result, OSEEGIB reported results in a single enterprise fund presentation and no longer included an agency fund. The result of this reclassification decreased the Component Units' net assets by \$16,401,000 at July 1, 2008.

As a result of the above adjustments, Component Units beginning net assets were decreased by \$15,856,000 as of July 1, 2008.

Note 13. Nonrecourse Debt and Debt Guarantees

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

Financing agreements of Oklahoma Development Finance Authority (ODFA) and Oklahoma Housing Finance Agency (OHFA) are structured such that the debt is to be repaid solely from the revenues derived from the related facilities leased or acquired, or from the disposition of collateral. ODFA and OHFA do not hold notes receivable and trust investments in amounts equal to the long-term financings. As of June 30, 2009 ODFA had 264 series of debt outstanding for non-state entities with an aggregate principal amount payable of approximately \$1,200,000,000 and an original issuance amount of approximately \$1,500,000,000. As of September 30, 2008 OHFA had two series of multi family bonds outstanding with an aggregate principal amount payable of approximately \$11,266,000. These financings are not general obligations of the State or state agencies, and it is the opinion of agency management and its legal counsel that, in the event of default by a borrower, the State has no responsibility for repayment of such financings. Accordingly, the nonrecourse debt and the related notes receivable and trust investments of ODFA and OHFA's multi family bond programs have been excluded from the financial statements. The debt and other obligations and the related notes receivable and other assets of OHFA's single family bonds are presented in the financial statements, since any assets remaining when the single family bond programs are liquidated are transferred to OHFA.

Credit Enhancement Reserve Fund

Under the Constitution of the State of Oklahoma, ODFA may issue bonds of the State, to be known as Credit Enhancement Reserve Fund General Obligation Bonds, in a total principal amount of \$100,000,000 for the sole purpose of generating resources if there are insufficient assets to meet insurance obligations. The Fund is managed, administered, and utilized by ODFA solely to secure the payment of interest insurance on the revenue bonds and other financial obligations issued by the Authority for the specific purpose of enhancing and supporting the credit of such obligations. As of June 30, 2009, there were approximately \$46,000,000 of outstanding financial obligations insured by ODFA. At year end, the Fund has accrued a reserve for losses of approximately \$51,000 to cover potential losses from outstanding financial obligations insured by the Fund. Through June 30, 2009, there have been no Oklahoma Credit Enhancement Reserve Fund General Obligation Bonds issued since it is the intention of ODFA to utilize existing assets to meet obligations arising from losses reserved and accrued payments in lieu of interest by the Fund.

Note 14. Retirement and Pension Systems

The State of Oklahoma has six Public Employee Retirement Systems (PERS) that administer pension plans; Oklahoma Firefighters Pension and Retirement System (OFPRS), Oklahoma Law Enforcement Retirement System (OLERS), Oklahoma Public Employees Retirement System (OPERS), Uniform Retirement System for Justices and Judges (URSJJ), Oklahoma Police Pension and Retirement System (OPPRS), and the Teachers' Retirement System of Oklahoma (TRS). These plans are all fiduciary component units of the State. The Department of Wildlife Conservation administers the Wildlife Conservation Retirement Plan (WCRP) which is part of the primary government. The Oklahoma Housing Finance Authority has a defined contribution plan that is privately administered.

A. Primary Government

1. General Description of the Retirement System

The WCRP is a single-employer defined benefit retirement system administered by the Wildlife Conservation Commission for employees of the Department of Wildlife Conservation. The WCRP provides retirement, disability and death benefits to plan members and their beneficiaries. The WCRP was established by statute, however, benefit provisions are established and amended by the Wildlife Conservation Commission. Cost-of-living adjustments are provided to members at the discretion of the Wildlife Conservation Commission.

The WCRP is included in the separately issued audit report of the Department of Wildlife Conservation. This report may be obtained from the Department of Wildlife Conservation, 1801 N. Lincoln, Oklahoma City, OK 73105.

2. Funding Policy

The WCRP required contribution is determined by the Wildlife Conservation Commission and is based on actuarial calculations.

The WCRP receives contributions from each member based on their annual covered salary. The contribution requirements are established and amended by the Wildlife Conservation Commission. For fiscal year 2009, the employee contribution rate was 3%. The Department of Wildlife Conservation is required to contribute at an actuarially determined rate. The required contribution for the year ended June 30, 2009 was \$3,406,000.

3. Annual Pension Cost and Net Pension Obligation

The current year annual pension cost and net pension obligation for the WCRP was as follows (expressed in thousands):

	<u>WCRP</u>
Annual required contribution	\$ 3,406
Interest on net pension obligation	137
Adjustment to annual required contribution	<u>(194)</u>
Annual pension cost	3,349
Contributions made	<u>3,410</u>
Increase (decrease) in net pension obligation	(61)
Net pension obligation-beginning of year	<u>1,720</u>
Net pension obligation-end of year	<u>\$ 1,659</u>
Actuarial Assumptions:	
Investment rate of return	8.0%
Annual salary increase	5.0%
COLA increase	2.0%
Inflation rate	3.0%
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	11 years

The annual required contribution for the WCRP for the current year was determined as part of the July 1, 2009 actuarial valuation. Actual contributions equaled 100% of required contributions and 102% of annual pension costs for fiscal year 2009. The actuarial value of assets is set equal to the market value of assets.

Three-Year Trend Information
Wildlife Conservation Retirement Plan
(expressed in thousands)

<u>Fiscal</u> <u>Year</u> <u>Ending</u>	<u>Annual</u> <u>Pension</u> <u>Cost (APC)</u>	<u>Percentage</u> <u>Of APC</u> <u>Contributed</u>	<u>Net</u> <u>Pension</u> <u>Obligation</u>
6/30/2009	\$ 3,349	102%	\$ 1,659
6/30/2008	3,025	99%	1,719
6/30/2007	2,804	107%	1,703

The following Required Supplementary Information for the WCRP was determined as part of the actuarial valuations at the dates indicated.

Schedule of Funding Progress
Wildlife Conservation Retirement Plan
(unaudited)
(expressed in thousands)

Actuarial 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
7/1/2009	\$ 68,086	\$ 91,198	\$ 23,112	74.7%	\$ 14,811	156.0%
7/1/2008	71,289	88,442	17,153	80.6%	14,462	118.6%
7/1/2007	66,932	82,876	15,944	80.8%	13,492	118.2%

B. Component Units

1. General Description of the Retirement Systems

The Oklahoma Firefighters Pension and Retirement System (OFFRS), Oklahoma Public Employees Retirement System (OPERS), Oklahoma Police Pension and Retirement System (OPPRS), and the Teachers' Retirement System of Oklahoma (TRS) are all cost-sharing multi-employer defined benefit retirement systems. The Uniform Retirement System for Justices and Judges (URSJJ) and the Oklahoma Law Enforcement Retirement System (OLERS) are single-employer defined benefit retirement systems. Pension benefit provisions for all plans were established by statute and benefit provisions are amended by the State Legislature. Each plan provides retirement, disability, and death benefits to plan members and their beneficiaries. Cost-of-living adjustments are provided to plan members at the discretion of the State Legislature.

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

Firefighters Pension and Retirement 4545 N. Lincoln Boulevard, Suite 265 Oklahoma City, OK 73105-3414	Law Enforcement Retirement 421 N.W. 13th Street, Suite 100 Oklahoma City, OK 73103-3701	Police Pension and Retirement 1001 N.W. 63rd Street, Suite 305 Oklahoma City, OK 73116-7335
Public Employees Retirement P.O. Box 53007 Oklahoma City, OK 73152-3007	Uniform Retirement System for Judges and Justices P.O. Box 53007 Oklahoma City, OK 73152-3007	Teachers' Retirement System 2500 N. Lincoln Boulevard, 5th Floor Oklahoma City, OK 73105-4209

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

OFFRS	OPERS	OPPRS	TRS
595	151	130	624

During fiscal year 2009, the TRS's unfunded liability increased from \$9,090,000,000 to \$9,512,000,000. This increase was related to significant market asset losses. Based on the current contribution schedule, assuming no actuarial gains or losses in the future, the unfunded liability is expected to continue increasing from the current level. The current contribution schedule results in contributions insufficient to cover the interest on the current unfunded liability plus the normal cost resulting in negative amortization.

2. Funding Policy

The contribution requirements for the six PERS are an established rate determined by the State Legislature each year and are not based on actuarial calculations. The Uniform Retirement System for Judges and Justices Board has the ability to

adjust contribution rates to prevent a funded ratio of less than 100%. During the current year and the two years prior, 100% of required contributions were made into each PERS.

OFPRS receives contributions from participating full-time firefighters equal to 8% of applicable earnings, while member cities contribute 13% of the member's applicable earnings. In addition, the member cities contribute \$60 for each volunteer firefighter unless their income in the general fund is less than \$25,000, in which case they are exempt. Effective July 1, 2008, House Bill 3112 provided a 4% cost-of-living allowance for members receiving benefits as of June 30, 2007. The State of Oklahoma's total allocation to the Plan during 2009 was \$54,000,000, which represented the 34% insurance premium tax allocation. Insurance premium contributions to the plan for the years ended June 30, 2009, 2008, and 2007 totaled \$54,000,000, \$53,000,000, and \$56,000,000 respectively.

OLERS receives contributions from state agencies and members of 10% and 8%, respectively, of the actual paid base salary of each member. OLERS also receives other state contributions of 1.2% of all fees, taxes, and penalties collected by motor license agents after approximately the first 5%, and 6.1% of the insurance premium taxes collected by the insurance commissioner as required by statute. The other state contributions to the plan for years ended June 30, 2009, 2008, and 2007 totaled \$17,311,000, \$17,670,000, and \$18,162,000, respectively.

OPERS receives contributions from each member based on their gross salary earned, excluding overtime. There is no cap on qualifying gross salary earned, subject to Internal Revenue Service limitations on compensation.

State, County, and Local Agency Employees - The following contribution rates were in effect during fiscal year 2009:

State employees and agencies – State employees contribute 3.5% on all salary. State agency employers contribute 14.5% of total salary.

Participating county and local agencies – Employees contribute a minimum of 3.5% up to a maximum of 8.5% of salary. Employers contribute a minimum of 9.5% up to a maximum of 14.5%. Combined employee and employer contributions equal 17% of total salary.

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%.

Hazardous Duty Members – Hazardous Duty Members contribute 8% of total salary. Employers contribute 14.5% of total salary.

State agency employer contributions to OPERS for the years ended June 30, 2009, 2008, and 2007 were \$197,091,000, \$184,281,000, and \$166,432,000, respectively.

URSJJ member contributions for fiscal year 2009 are 8% of members' monthly salary. State statutes require participating court employers to contribute monthly a percentage of the gross salaries of active members. Effective for the fiscal year ended June 30, 2009, the employer contribution rate increased to 7.0% of payroll and will increase 1.5% annually up to 22% for the fiscal years ending June 30, 2019, and thereafter. State employer contributions to URSJJ for the year ended June 30, 2009, 2008, and 2007 were \$8,169,000, \$7,615,000, and \$5,936,000, respectively.

Oklahoma Police Pension and Retirement System (OPPRS) receives contributions from each participating municipality and each participant. Until July 1, 1991, each municipality contributed 10% of the actual base salary of each participant employed by the municipality. Beginning July 1, 1991, municipality contributions increased by 0.5% per year and continued until July 1, 1996, when the contribution level reached 13%, where it remains. Each participant of OPPRS contributes 8% of actual paid base salary. In addition, the State allocates a portion 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, 2009, 2008, and 2007 totaled \$29,913,000, \$26,020,000, and \$28,122,000, respectively.

TRS receives contributions from participating members and employers. All active members contribute to the system; however, the employer may elect to make all or part of the contribution for its employees. All members must contribute 7% of regular annual compensation, not to exceed the members' maximum compensation. For members other than those employed by a comprehensive university on or before June 30, 1995, the maximum compensation level will be the member's regular annual compensation. Beginning July 1, 2008 members employed by a comprehensive university will have the full amount of regular compensation considered, subject to contribution limits established under the Internal Revenue code.

Employers are required to contribute a fixed percentage of annual compensation on behalf of active members. The employer contribution rate was 8.5% from July 1, 2008 to December 31, 2008 and 9.0% from January 1, 2009 to June 30, 2009 for all remitting entities other than comprehensive and four year universities. The employer contribution rate for comprehensive and four year universities was 7.55% on January 1, 2008 and 8.05% on January 1, 2009. New legislation enacted in 2007 will systematically raise employer contribution rates for all entities other than comprehensive and four year universities to 9.5% on January 1, 2010 and thereafter. Employer contribution rates for comprehensive and four year universities will also systematically increase to 8.55% on January 1, 2010 and thereafter. Oklahoma Statutes require the state to contribute 4.5% of the State's sales, income and use tax. Amended statutes increased this contribution rate to 5% at July 1, 2007. In addition, the system receives 1% of the cigarette taxes collected by the State and receives 5% of net lottery proceeds collected by the State. TRS received contributions of approximately \$257,000,000 from this source for fiscal year 2009. State contributions on behalf of employees totaled approximately \$36,366,000 for fiscal year 2009. State employer contributions to TRS for the years ended June 30, 2009, 2008, and 2007 were \$6,701,000, \$6,049,000, and \$5,376,000 respectively.

3. Annual Pension Cost and Net Pension Obligation

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

	OLERS	URSJJ
Annual required contribution	\$ 36,616	\$ 8,169
Interest on net pension obligation	170	28
Adjustment to annual required contribution	(269)	(26)
Annual pension cost	<u>36,517</u>	<u>8,171</u>
Contributions made	<u>24,892</u>	<u>2,244</u>
Increase (decrease) in net pension obligation	<u>11,625</u>	<u>5,927</u>
Net pension obligation-beginning of year	<u>2,270</u>	<u>369</u>
Net pension obligation-end of year	<u><u>\$ 13,895</u></u>	<u><u>\$ 6,296</u></u>
Actuarial Assumptions:		
Investment rate of return	7.5%	7.5%
Annual salary increase	1% to 5%	5.5%
COLA increase	3.25%	2.0%
Inflation rate	3.25%	3.0%
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level dollar, closed	Level dollar, closed
Remaining amortization period	13 years	19 years

The annual required contribution for URSJJ for the current year was determined as part of the July 1, 2008 actuarial valuation. For the period July 1, 1994, through July 1, 1999, the aggregate actuarial cost method was used to determine cost. Effective July 1, 2000, URSJJ adopted the entry age normal method for determining cost. Contributions equaled 28% of the annual required contributions for the current year.

The annual required contribution for OLERS for the current year was determined as part of the July 1, 2008 actuarial valuation. Costs were prepared using the entry age normal method for all valuation dates except July 1, 1997, when the unfunded actuarial liability was negative and the actuarial cost method was changed to the aggregate cost method. The entry age normal method was used for all valuations subsequent to the 1997 valuation, including the current year. Contributions equaled 68% of the annual required contributions for the current year.

For actuarial purposes, assets are determined equal to the prior year's actuarial value of assets plus cash flow (excluding realized and unrealized gains or losses) for the year ended on the valuation date, assuming a 7.5% rate of return for URSJJ and 7.5% rate of return for OLERS. Prior year's unrecognized gains and losses are added to this amount to develop

expected actuarial value. The expected actuarial value is then compared to the market value of the assets at the valuation date, and 20% of any gain (loss) for the last five years is added to the expected actuarial value. The gain (loss) is amortized over five years with the actuarial value of the assets being constrained to a range of 80% to 120% of the market value at the valuation date.

Three-Year Trend Information

(expressed in thousands)

	Fiscal Year Ending	Annual Pension Cost (APC)	Percentage Of APC Contributed	Net Pension Obligation
Oklahoma Law Enforcement Retirement System	6/30/2009	\$ 36,616	68%	\$ 13,895
	6/30/2008	32,884	76%	2,270
	6/30/2007	32,987	75%	(5,591)
Uniform Retirement System for Justices and Judges	6/30/2009	8,171	28%	6,296
	6/30/2008	7,750	22%	369
	6/30/2007	6,167	20%	(5,692)

The following Required Supplementary Information for OLERS and URSJJ was determined as part of the actuarial valuations at the dates indicated.

Schedules of Funding Progress

Oklahoma Law Enforcement Retirement System

(unaudited)

(expressed in thousands)

Actuarial 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
7/1/2009	\$ 659,908	\$ 892,017	\$ 232,109	74.0%	\$ 75,320	308.2%
7/1/2008	731,000	881,000	150,000	83.0%	73,501	204.1%
7/1/2007	697,560	840,557	142,997	83.0%	63,764	224.3%

Uniform Retirement System for Judges and Justices

(unaudited)

(expressed in thousands)

Actuarial 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
7/1/2009	\$ 221,576	\$ 261,396	\$ 39,820	84.8%	\$ 33,580	118.6%
7/1/2008	235,297	244,062	8,765	96.4%	32,389	27.1%
7/1/2007	224,578	227,062	2,484	98.9%	32,192	7.7%

4. 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. Under its provisions, all new employees are required to participate in the Oklahoma Public Employees Retirement System (OPERS), and are not eligible to join the OHFA plan after June 30, 1997. OHFA's contribution amount is at the discretion of the Board of Trustees and does not have any limitations. The current contribution rate is 14.5% of eligible employees' compensation. Employees begin vesting after two years of service and become fully vested after six years of service. Plan provisions were established and may be amended by the Board of Trustees.