



OKLAHOMA TURNPIKE AUTHORITY

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April 30, 1999

The Honorable Frank Keating,
Citizens of the State of Oklahoma and
Oklahoma Turnpike Bondholders

System-wide net toll revenues during 1998 were \$124,570,726, exceeding 1997 net toll revenues by a strong 6.3%. During 1998, the Oklahoma Turnpike Authority (OTA) issued revenue bonds totaling \$687,010,000 by competitive sale in two bond issues. These revenue bonds were issued for turnpike extension projects including: the completion of the Kilpatrick Turnpike from Hefner Parkway to I-40, the extension of the Creek Turnpike from the Turner Turnpike to US-75 and from the Mingo Expressway (US-169) to the Will Rogers Turnpike, the extension of the H.E. Bailey Turnpike from Mustang Road east and south to the junction of SH-9 and US-62 south of Newcastle, and the purchase of right-of-way on the Muskogee Turnpike. Additionally, OTA has continued its commitment to System rehabilitation and maintenance, customer service and safety with innovative programs resulting in greater safety to our patrons, increased access and smoother ride surfaces.

On behalf of the Authority, we are pleased to transmit this comprehensive annual financial report (CAFR) for calendar year 1998. This CAFR was prepared by the Controller Division in accordance with generally accepted accounting principles. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests solely with the OTA. We believe that the data, as presented, is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of the OTA's operations. This CAFR complies with Section 711 of our Trust Agreement which requires that an audit of the financial statements shall be performed in accordance with generally accepted auditing standards each year.

The CAFR is presented in three parts:


1. The Introductory Section provides general information about the OTA and an overview of our operations during the year;
2. The Financial Section includes the independent auditors' reports, the annual financial statements, notes to the financial statements and other supplemental financial data; and,
3. The Statistical Section contains selected key information about our turnpike system and comparative, multi-year comprehensive annual financial information.

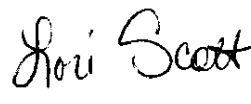
The OTA continues to strive for the highest level of customer service, convenience and safety, and to manage our operations in an effective and cost efficient manner. It is our sincere hope that this CAFR will help everyone understand the OTA's financial and operational activities more fully.

Respectfully submitted,

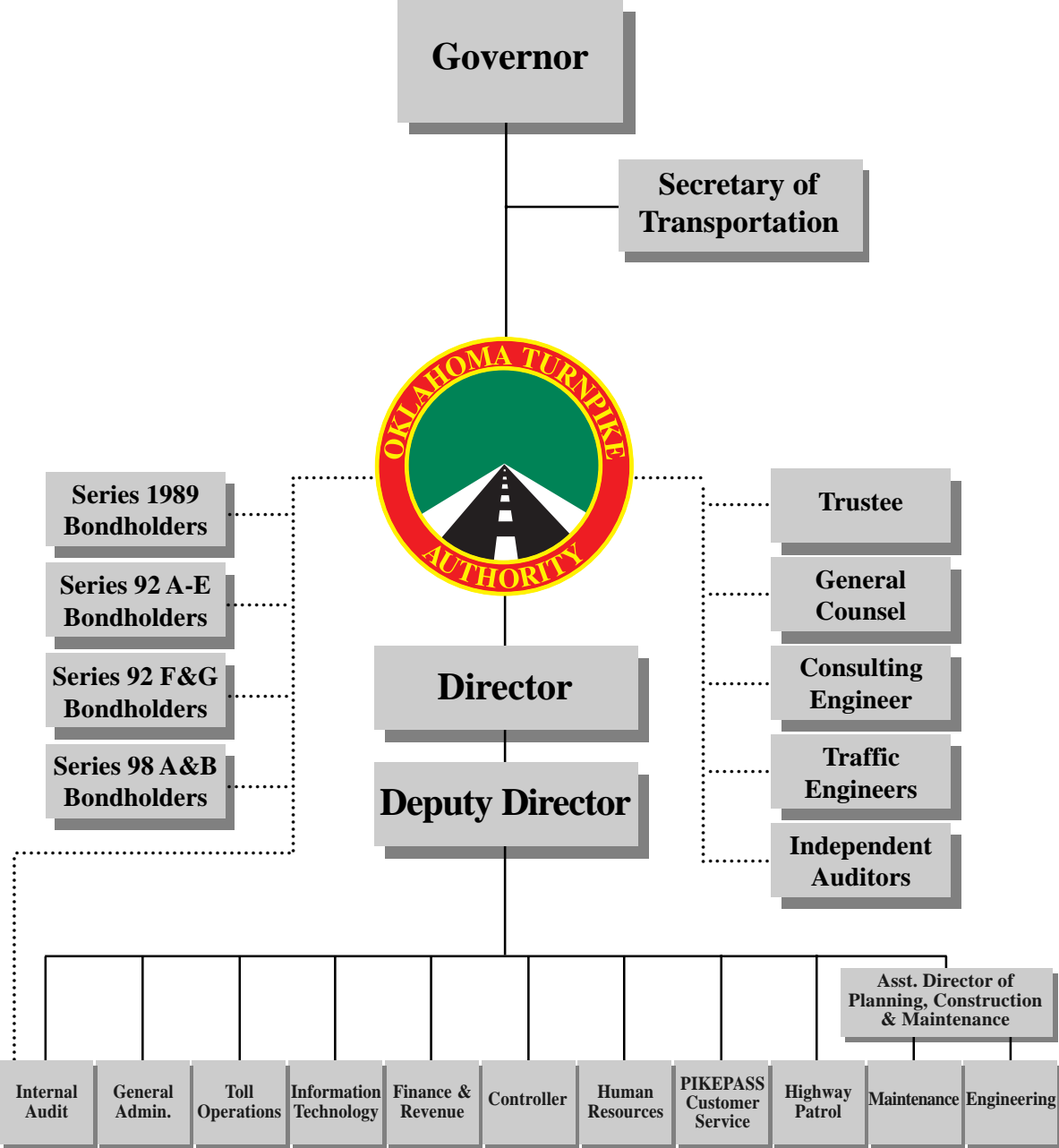
THE OKLAHOMA TURNPIKE AUTHORITY


Fred J. Hall
Chairman


Neal A. McCaleb, P.E.
Director


Lori Scott, C.P.A.
Controller

Organizational Chart



Oklahoma Turnpike Authority Members



**Governor
Frank Keating**
Ex-Officio



**Neal A.
McCaleb**
Secretary of
Transportation
and Director



Fred J. Hall,
Chairman
District 1



**Robert M.
(Bob) Kane**
District 2



**Albert C.
(Kell) Kelly, Jr.**
Vice-Chairman
District 3



**Dewey F.
Bartlett, Jr.**
District 4



Steve LaForge
Secretary &
Treasurer
District 5



Judy Curtis
District 6

The Oklahoma Turnpike Authority's (OTA) governing body (the Authority) consists of the Governor (ex-officio) and six members. The members are appointed by the Governor and approved by the State Senate. They serve eight-year, uncompensated terms and may be reappointed.

The Authority appoints the Director of the OTA. Neal A. McCaleb has served as Director of the OTA, as well as Oklahoma's Secretary of Transportation and the Director of the Oklahoma Department of Transportation since March 1995. The Director, with his management staff, supervises the daily operations of the organization. Authority Members provide oversight and policy direction. They appoint various consulting entities with national reputations for excellence, including the General Counsel, Bond Counsel, Consulting Engineers, Consulting Traffic Engineers, Financial Advisor, Bond Underwriter(s) and Independent Auditor(s).

All action taken by Authority Members and staff must be in strict compliance with the provisions of the OTA's Trust Agreement.



Senior Management

Seated left to right: **Alan Freeman** – Director of Human Resources; **Holly Lowe** – Deputy Director; **Neal A. McCaleb** – Secretary of Transportation and Director; **Stacey Trumbo** – Assistant Director of Planning, Construction and Maintenance; **James L. Beach** – Director of Patron Services and Public Relations;

Standing left to right: **David Machamer** – Director of Toll Operations; **Lori Scott** – Controller; **Mike Ashcraft** – PIKEPASS Operations Manager; **Captain Ken Reed** – Oklahoma Highway Patrol; **Gary Brown** – Director of Information Technology; **Lillie Buckner** – Executive Secretary; **Tim Stewart** – Director of Maintenance; **Don Hawk** – Director of Engineering (not pictured)

Description Of The Oklahoma Turnpike System

Turner Turnpike

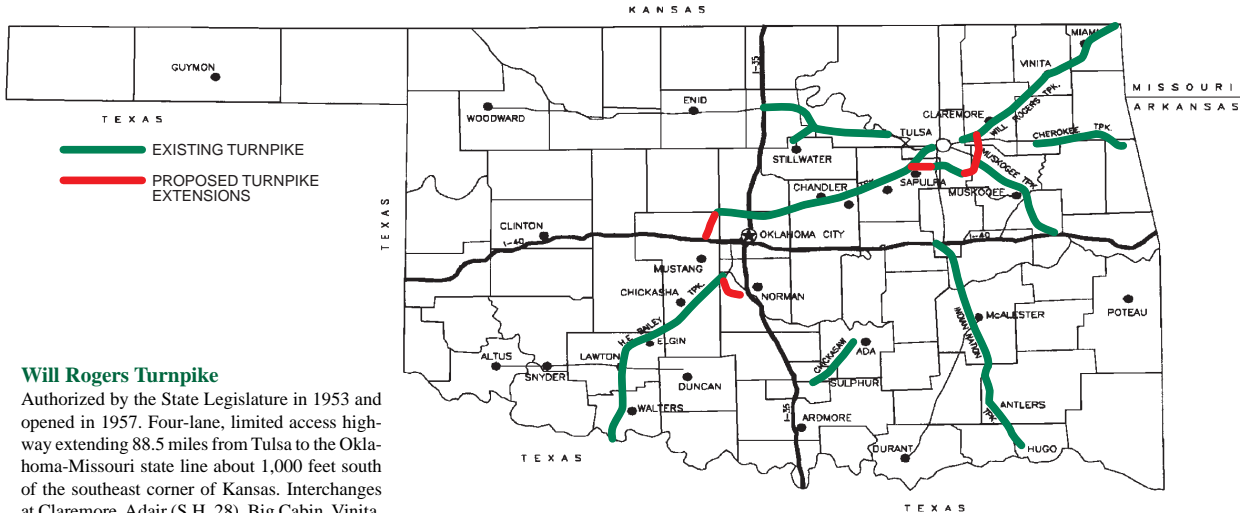
Authorized by the State Legislature in 1947 and opened in 1953. Four-lane, limited access highway extending 86.0 miles from Tulsa to Oklahoma City. Interchanges at Sapulpa, Kellyville, Bristow, Stroud, Chandler and Wellston. Service station and/or restaurant with free restrooms at Heyburn, Bristow, Stroud, Chandler, and Wellston.

Cimarron Turnpike

Authorized by the State Legislature in 1965 and opened in 1975. Four-lane, limited access highway extending 59.2 miles on main route from I-35/U.S. 64 east of Enid to Tulsa, and 8.5 miles on a spur connecting the main route with Stillwater and Oklahoma State University. Interchanges at U.S. 77, U.S. 177, Stillwater, Morrison, S.H.18, Hallett and S.H. 48. Service station and restaurant with free restrooms at Lone Chimney.

John Kilpatrick Turnpike Extension

Authorized by the State Legislature in 1987 and currently under construction. Four-lane, limited access, urban highway to extend 15.8 miles within Oklahoma and Canadian Counties from the current terminus of the John Kilpatrick Turnpike at Portland Avenue/ Lake Hefner Parkway to I-40 between Mustang and Sara Road. The route is generally along Memorial Road on the north, turning



Will Rogers Turnpike

Authorized by the State Legislature in 1953 and opened in 1957. Four-lane, limited access highway extending 88.5 miles from Tulsa to the Oklahoma-Missouri state line about 1,000 feet south of the southeast corner of Kansas. Interchanges at Claremore, Adair (S.H. 28), Big Cabin, Vinita, Afton and Miami. Service station and/or restaurant with free restrooms at Vinita and Miami.

H.E. Bailey Turnpike

Authorized by the State Legislature in 1953 and opened in 1964. Four-lane, limited access, highway extending 86.4 miles in two sections: north section (61.4 miles) from Oklahoma City to U.S. 277 north of Lawton; south section (25.0 miles) from U.S. 277 south of Lawton to U.S. 70, 5.2 miles north of the Texas state line. Interchanges at Chickasha, Cyril, Elgin and Walters. Service station and/or restaurant with free restrooms at Chickasha and Walters.

Indian Nation Turnpike

Authorized by the State Legislature in 1955, north section opened in 1966 and south section opened in 1970. Four-lane, limited access highway extending 105.2 miles in two continuous sections; north section (41.1 miles) from U.S. 75/I-40 near Henryetta to U.S. 69 near McAlester; south section (64.1 miles) from end of north section to U.S. 70 near Hugo. Interchanges at Eufaula, Ulan, McAlester, Daisy and Antlers. Service station and/or restaurant with free restrooms at Eufaula and Antlers.

Muskogee Turnpike

Authorized by the State legislature in 1965 and opened in 1969. Four-lane, limited access highway extending 53.1 miles from Tulsa to I-40 near Webber Falls. Interchanges at Coweta, Muskogee and U.S. 64 near Webber Falls. Service station and restaurant with free restrooms at Muskogee.

John Kilpatrick Turnpike

Authorized by the State Legislature in 1987 and opened in 1991. Four-lane, limited access, urban highway extending 9.5 miles from the Oklahoma City interchange of the Turner Turnpike and I-35 to Portland Avenue/Lake Hefner Parkway. Interchanges at Eastern Avenue, U.S. 77/Broadway Extension, Western Avenue, Pennsylvania Avenue, May Avenue and Portland Avenue/Lake Hefner Parkway.

Cherokee Turnpike

Authorized by the State Legislature in 1987 and opened in 1991. Four-lane, limited access highway extending 32.8 miles from U.S. 412 at Locust Grove to U.S. 412 west of West Siloam Springs. Interchanges at Locust Grove, U.S. 412 and S.H. 10. Restaurant and service station with free restrooms at Leach.

Chickasaw Turnpike

Authorized by the State Legislature in 1987 and opened in 1991. Two-lane, limited access highway extending 27.1 miles from S.H. 7 west of Sulphur to S.H. 1 near Ada. Only 17.7 miles tolled, with interchanges at S.H. 7, U.S. 177 and Roff.

Creek Turnpike

Authorized by the State Legislature in 1987 and opened in 1992. Four-lane, limited access, urban highway extending 7.6 miles from U.S. 75 across the Arkansas River to U.S. 64 near 96th Street. It links with an extension of the U.S. 69/Mingo Valley Expressway. Interchanges at U.S. 75, Peoria Avenue, Delaware Avenue, Yale Avenue and U.S. 64/Memorial Drive.

south parallel to Sara Road just west of County Line Road and passing by Lake Overholser on its west side parallel to Morgan Road. The John Kilpatrick Turnpike's terminus is at I-40 with an interchange giving access to traffic traveling east and west on the interstate system.

Creek West Turnpike Extension

Authorized by the State Legislature in 1987 and currently under construction. Four-lane, limited access, urban highway to extend 4.8 miles within Tulsa County from the Turner Turnpike at S.H. 66 to U.S. 75. The route generally runs east and west, with the interchange at the U.S. 75 terminus giving access to traffic traveling north into Tulsa and south to Okmulgee.

Creek East & Broken Arrow Turnpike Extensions

Authorized by the State Legislature in 1987 and currently under construction. Four-lane, limited access, urban highway to extend 21.2 miles within Tulsa County from U.S. 169 to the I-44 interchange of the Will Rogers Turnpike. The route generally runs east and west through the City of Broken Arrow.

H.E. Bailey Turnpike Norman Spur

Authorized by the State Legislature in 1987 and currently under construction. Four-lane, limited access, urban highway to extend 8.2 miles within Grady County from an interchange of the existing H.E. Bailey Turnpike to S.H. 9. The route generally runs east and west through a rural east of Norman.

1998 HIGHLIGHTS

The Oklahoma Turnpike Authority is poised to complete the urban toll roads in the Tulsa and Oklahoma City areas which were started with the proceeds from the 1989 bond issuance. The two primary projects extend the Creek Turnpike in Tulsa and the John Kilpatrick Turnpike in Oklahoma City to make them interstate highway connectors rather than interurban connectors.

During the last four years, a new leadership team composed of the Governor, the Secretary of Transportation/Director and the Board Members of the Oklahoma Turnpike Authority have been preparing for this event by improving our financial position, investing in the system's structural integrity, and focusing operations on customer service. This leadership has empowered the career staff of the Oklahoma Turnpike Authority to reduce operating expenses, expand and improve customer service through our PIKEPASS system, implement a major rehabilitative Capital Improvement Program, and steadily improve the Authority's debt coverage ratios since 1994. We have made deliberate and carefully measured preparations for this expansion by developing engineering plans, securing environmental clearances, and gaining legislative endorsement.

On January 6, 1998, Oklahoma Governor, Frank Keating, and Secretary of Transportation, Neal McCaleb, along with the Oklahoma Turnpike Authority announced their intention to submit an application to the Executive and Legislative Bond Oversight Commissions asking for both provisional and final approval for the issuance of Tax Exempt Second Senior Lien Revenue Bonds. On January 9, 1998, the Oklahoma Turnpike Authority convened a special meeting passing a resolution authorizing the Director to submit the application to the State Bond Oversight Commissions for approval of the financing of certain turnpike improvement projects totaling \$602,852,000 plus other related bond issuance costs. On January 29, 1998, the Oklahoma Turnpike Authority received final approval by a unanimous vote of both the Executive and Legislative Bond Oversight Commissions for issuance of revenue bonds for the financing of certain turnpike improvement projects. These projects include: the completion of the John Kilpatrick Turnpike from Hefner Parkway to I-40, the extension of the Creek Turnpike from the Turner Turnpike to US-75 and from the Mingo Expressway (US-169) to the Will Rogers Turnpike, the construction of the H.E. Bailey Turnpike Spur from Mustang Road east and south to the junction of SH-9 and US-62 south of Newcastle, and the purchase of right-of-way on the Muskogee Turnpike.

Second Senior Lien Revenue Bonds totaling \$687,010,000 were issued by competitive sale in two bond issues, the Series 1998A Revenue Bonds in the amount of \$350,000,000 on May 12, 1998, and the Series 1998B Revenue Bonds in the amount of \$337,010,000 on July 14, 1998. Because of extensive marketing

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presentations and good ratings by Moody's and Standard and Poor's, the Series 1998A Revenue Bonds sold at very competitive interest rates ranging from 4.13% to 6%, or a true interest cost of 5.16%. The Series 1998B Revenue Bonds sold at even more competitive rates ranging from 5% to 5.50%, or a true interest cost of 5.08%.

Right-of-way is being acquired steadily with appraisals having been completed on 82% of the parcels and settlements having been made on 41% of the parcels. Utility companies are currently working in cooperation with OTA staff on relocation plans for the expansion of the system. The contracts on all turnpike segments are composed of 20 grading and drainage projects, 24 bridge projects, 4 interchange projects and 16 surfacing projects. Currently, the design of the projects is well underway with all functional plans complete and final design plans well on their way to completion. In July 1998, the first construction contract relating to the new extensions was awarded. A groundbreaking ceremony was held on

August 5, 1998, to mark the beginning of 15.8 miles of construction on the John Kilpatrick Turnpike Extension in Oklahoma City. A total of 11 contracts for construction on the new extensions have been let as of December 31, 1998.

The John Kilpatrick Turnpike Extension, the Broken Arrow South Loop, and the West Creek Turnpike Extension are anticipated to be open to traffic no later than January 1, 2001. The H.E. Bailey Turnpike Spur and the East Creek Turnpike Extension are scheduled to be open to traffic no later than January 1, 2002. However, segments of each of the five projects could be opened to traffic earlier, as they are completed.

We have received letters of support from many communities that would benefit from the future projects. These communities have been very supportive throughout the process, realizing that these new infrastructures will bring growing economic development to their areas. Along with community support, we also have the support of the Association of Central Governments and the Indian Nation Council of Governments. Another form of support has come from our "partnership" with the Oklahoma Department of Transportation (ODOT). The ODOT recently implemented its \$1 Billion Capital Improvement Program, which will interconnect and improve state roads, thereby enhancing turnpike usage and development. These communities and organizations believe, as do we, that the Authority's road package, along with the ODOT's



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road program that was passed during the 1998 Legislative Session, will bolster the economic impact of the entire state, and once completed, will make Oklahoma a leader in transportation. The future of Oklahoma transportation is very promising as a result of this community support and the cooperative spirit between the ODOT and the OTA. The OTA enhances this transportation partnership by providing stability through the tenure of its existing Authority, which has been in place since 1995, and through its historically strong financial position.

1998 has proven to be a highly successful year with net toll revenues reported 3%, or \$3.6 million, higher than budgeted projections. System-wide net toll revenues during 1998 were \$124,570,726, exceeding 1997 net toll revenues by a strong 6.3%. This year marks the first time in OTA history when monthly net toll revenues have exceeded the \$11 million mark. Transactions for 1998 exceeded those for 1997 by 6.9%.

The six base turnpikes report revenue growth of 6.2%, while the four newer turnpikes had a 7.2% growth in revenues over the previous year. The John Kilpatrick Turnpike continues to report exceptional growth, with revenues for 1998 out-producing revenues for 1997 by 12.2%.

1998 annual operating expenses for the Revenue Fund fell well below the budgeted amount of \$35,855,000. This is due to the combined efforts of all divisions working together under the direction and leadership of OTA's Director and Deputy Director.

Beginning in 1994, the OTA developed a Five Year Capital Plan which identified the maintenance, rehabilitation and improvement needs of its existing System for the next 20 to 30 years and instituted a five-year program designed to keep existing turnpikes in good condition, thereby maintaining traffic flows and extending the useful life of the turnpikes.

A major part of the OTA's Five Year Capital Plan is the pavement rehabilitation of the existing System. In 1998, the OTA completed a major asphalt resurfacing project on the Turner Turnpike between mile 200 and mile 210. This completes the rehabilitation of 73% of the length of the Turner Turnpike. Rehabilitation on the two remaining sections of the Turner Turnpike is scheduled for completion in 1999 and 2000.

During 1998, median barrier walls were completed along sections of the H.E. Bailey and Muskogee Turnpikes that were started during 1997. Additional mileage of median barrier installation was also started on the H.E. Bailey Turnpike in 1998. These median barrier walls protect the public from potentially fatal head-on collisions that might occur when vehicles cross the center median. Studies conducted on the Turner and Will Rogers Turnpikes, where median barrier walls have been installed, have shown the elimination of crossover head-on collisions. The 1999 portion of the Five Year Capital Plan allows for the completion of the additional median barrier installations along the H.E. Bailey Turnpike.



*A major part of the
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This year, a continued emphasis has been placed on slope instability rehabilitation. Slide areas are caused by multiple factors, including excessive ground water and slope instability of embankment and cut areas. The OTA has utilized the process of value engineering to develop new ideas and alternative solutions in the rehabilitation of slide areas resulting in significant savings to the OTA. Reconstruction of the slide area at the Muskogee/ I-40 interchange on the Muskogee Turnpike began in July 1998 and was substantially complete by December 1998. It is anticipated that the completion of this project will occur in early 1999.

Bridge rehabilitation continues to remain a priority. Since 1978, OTA has rehabilitated 64% of the bridges carrying turnpike traffic. OTA Maintenance Division personnel performed routine rehabilitation work, consisting of substructure and, as needed, superstructure repairs. These efforts extend the life of the system and postpone the necessity of major rehabilitation projects. Throughout 1998, maintenance crews sealed over 2,000,000 linear feet of joints and cracks. Maintenance Division staff flexibility allows for pooling of personnel when major maintenance is required on an individual turnpike.

During 1998, OTA's asphalt crew put down 32,000 tons of asphalt on roadways, in rest areas, and in concession areas. An extensive roadway repair project was completed on the Chickasaw Turnpike which required the asphalt crew to lay 7,500 tons of asphalt and to complete base repairs. Also, OTA maintenance crews have completed a large amount of pavement grinding on the Cimarron and Indian Nation Turnpikes. A total of 293,396 square yards of milling was completed throughout 1998.

System-wide growth has also created a need for maintenance and administrative facilities improvement and expansion. In September 1998, an open house was held for the new Will Rogers Turnpike Maintenance Facility, located at the Vinita exit. The 20,900 square foot facility provides new, state-of-the-art equipment support, administrative office space and work space for certain Will Rogers Turnpike employees. This new facility has been specifically designed to be environmentally friendly, including such amenities as an inside wash bay with a water recycling system and service bays with floor drains that empty into a sand/ oil separator for additional recycling.



In September, the Authority approved a remodel to the OTA's headquarters building in order to house the consultants and increased staff necessary to oversee the new turnpike extension construction and to maintain the increased workload related to these new extensions. This remodeling project provided additional office space and conference rooms within the headquarters building and a new parking lot adjacent to the headquarters building.



In an effort to provide additional amenities to the traveling public, two new restroom facilities were constructed on the Turner Turnpike.

The OTA recognizes the importance of its patrons to the success of its System. In an effort to provide additional amenities to the traveling public, two new restroom facilities were constructed on the Turner Turnpike. Each area has an independent facility for men and women and is wheelchair and handicap accessible. The westbound facility is located at mile 205, and the eastbound facility is located at mile 153. These facilities will serve as prototypes for future facilities to be constructed on other turnpikes. This is one example of the OTA's willingness to listen to its patrons and to address specific concerns and needs of those patrons.

Another significant achievement in customer service this year was the opening of the new Wellston interchange on the Turner Turnpike. On November 23, 1998, the Authority celebrated the opening of two new ramps at this new interchange. A ribbon cutting ceremony was conducted to announce the opening of the Wellston eastbound entrance and westbound exit. Several Wellston residents and officials gathered to help the Authority formally open these new ramps and to celebrate the accomplishment of a goal the town has had for many years. Prior to this interchange opening, Wellston area residents could only enter the turnpike to drive west and could only exit the turnpike at Wellston driving east. The completion of this interchange provides Wellston residents and other turnpike patrons with the ability to enter or exit the turnpike from both directions.



OTA's commitment to continued, exceptional customer service and convenience has been reaffirmed in 1998 by the growth of the OTA-PIKEPASS Tag Agency Program. Sixty-six tag agencies participated in the program during 1998, issuing 25,794 PIKEPASS tags, which represents a 130% increase over the number of PIKEPASS tags issued by tag agents in 1997. In addition, this represents 23% of the total PIKEPASS tags issued to new and existing accounts and for tag refurbishment during 1998. Currently, 19 tag agencies are also participating in the PIKEPASS tag refurbishment process.



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The installation of fiber optic cable along turnpike right-of-way by Indian Nations Fiberoptic, Inc. (INF) and MBO Video, Inc. (MBO) continued during 1998. The related agreements reached between the OTA, MBO, INF, the ODOT and the Oklahoma State Board of Regents represent innovative programs resulting in increased customer service and

internal operating efficiencies. The OTA has reached agreements by which they and other state agencies are granted free use of fiber optic lines. The OTA is in the process of operating its wide area network via fiber optic cable. This results in superior data transmission at exceptional savings to the OTA and the state, eliminating phone charges related to maintenance and toll facilities along the System. The maintenance facilities will be communicating with the OTA headquarters at a rate 27 times faster than previous communication methods. Upon completion of this installation, the Creek, Vinita, Stroud, Chickasha, Morrison and Muskogee maintenance facilities will have enhanced communication capacity.

As the OTA moves into the 21st Century, it is the Authority's goal to reach the new millennium with no Year 2000 (Y2K) mission critical system failures causing distress to the OTA's operations. Throughout 1998, the Information Technology Division, along with the other OTA divisions, has performed remediation efforts on all hardware and software utilized by the OTA. These efforts were substantially complete as of December 31, 1998. In addition, the OTA has performed significant analysis in the second segment of the Y2K compliance project, which encompasses analyzing the readiness of those external vendors that supply goods or services considered to be highly or moderately critical to the success of the OTA. Contingency plans have been prepared for all vendors who were rated either highly critical or moderately critical and were not Y2K compliant as of December 31, 1998. Throughout 1999, the OTA will be testing and modifying these contingency plans as necessary to ensure that the Authority will be able to meet its commitments and patrons' needs on January 1, 2000.

ECONOMIC TRENDS AND OUTLOOK

Oklahoma's growth, like that of the nation, has been robust in 1998, currently exceeding national growth. The Oklahoma economy continues to move from being counter-cyclical to the U.S. economy during the energy boom years to pro-cyclical in the 1990s. This is according to the "1999 Oklahoma Economic Outlook" published by the College of Business Administration of Oklahoma State University. These similarities to U.S. economic trends point somewhat to Oklahoma's decreasing dependence on the energy sector for the State's economic vitality. A news release from the State of Oklahoma's Office of State Finance states that the first half of fiscal year 98/99 is "on target" for General Revenue Fund collections. According to the Deputy Director of the Office of State Finance, "Fortunately, Oklahoma's economy is large and diversified and that is reflected in our General Revenue Fund."

Based on data through the third quarter of 1998, employment for Oklahoma is estimated to grow by 2.7%, continuing the trend of 1996 and 1997. This Oklahoma employment growth of 2.7% compares quite favorably to the national employment growth of 2.5%. According to the Oklahoma State University's report, this suggests that Oklahoma is competitive in net job creation compared to the nation. The transportation, communications, and public utilities sectors are estimated to have the strongest 1998 employment growth at 4.3%, with the construction sector following closely at 4.2%. The OTA's and ODOT's road packages have had a prominent impact on the growth in the transportation and construction sectors' employment growth in 1998. The road packages seem to drive the expansion in the manufacturing field in terms of employment as well. According to the Oklahoma Department of Commerce, 1998 was a good year for company expansion in both the manufacturing and service sectors. Data collected by this agency finds that investments announced by





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new and expanding manufacturers and processors in 1998 totaled over \$518 million. This translates into over 6,493 new jobs in the next three years. The largest employment announcement over the next three years, which will result in 2,038 new jobs, was announced in the transportation equipment sector.

The real U.S. economy is showing signs of slowing, according to Standard and Poor's (S & P's) DRI Division of the McGraw-Hill Companies, but the risk of recession is thought to be slim. No matter what the growth rate is, S & P's DRI Division sees continued growth as remarkable, saying, "Current expansion is on course to become longer than that of the 1960s and remarkable in recent economic history for

its ability to control inflation and reduce unemployment."

It is anticipated for 1999 that, as growth slows nationally, so will growth in Oklahoma. Still, Oklahoma's employment growth rate should exceed that of the nation's. Oklahoma State University's publication states that it expects to see a net gain of over 26,000 jobs in the next year, which translates to 1.8% employment growth. This compares favorably to the national forecast of only 1.4% growth. With the large increase in 1998 building permits and the continuation of the state road building program, strong growth should continue in the construction sector. With the continuation of the OTA's expansion program, along with the ODOT's \$1 Billion road program, the State of Oklahoma should see an economic boost in many areas. In addition, these infrastructures will provide easier access for industries that are contemplating locating in various parts of our State. With State government continuing to support these economic developments, the State of Oklahoma looks to have a bright future.

Internal Controls

It is necessary to establish and maintain internal controls designed to provide reasonable assurance that assets are safeguarded against loss, theft or misuse and for ensuring that reliable and adequate accounting records are maintained. In fulfilling this responsibility, estimates and judgments are required to assess the expected benefits and related costs of internal control structure policies and procedures. We believe that the organization's internal control structure adequately safeguards assets and provides reasonable assurance of proper recording of financial transactions.

Fiduciary Operations

The OTA's Trustee, Bank of Oklahoma, works closely with financial management and staff to ensure that the OTA is in compliance with the terms and covenants of its Trust Agreement and that all financial and operational decisions are made in the best interest of the OTA's bondholders.

Debt Administration

As of December 31, 1998, our outstanding debt, net of unamortized discount and net deferred debit on refundings, was approximately \$1,295,000,000. The current portion of this debt totals \$13,295,000. Final maturity on this debt is scheduled for the year 2028.

Cash Management

All deposits were either insured by federal depository insurance or collateralized. Throughout the year, available cash was invested in U.S. Government obligations, repurchase agreements and guaranteed investment contracts. All investments, other than the guaranteed investment contracts, were classified in the category of highest quality rating of credit risk, as defined by the Governmental Accounting Standards Board (GASB). The guaranteed investment contracts were either rated within the two highest quality ratings of credit risk by Moody's Investors Service and Standard and Poor's Corporation or collateralized by U. S. Government securities in an amount equal to 105% of the outstanding principal. At the direction of the Authority, all investments were made by the Trustee in strict compliance with the provisions of the Trust Agreement.



Risk Management

We maintain an aggressive safety and loss prevention program which is staffed by a full-time safety officer. Insurance policies are purchased for normal business risk at favorable rates through the Oklahoma State Office of Risk Management. All major areas of operations are covered, including loss of income, buildings and contents, bridges, workers' compensation, and general, personal injury and auto liability. We maintain surety bonds covering Authority Members, and a directors' and officers' insurance policy that provides a broad range of coverage against liability to the OTA, its Authority Members, management and staff.

Flow of Funds

Section 507 of the Trust Agreement dated February 1, 1989, establishes the flow of funds with which the OTA must comply. The Oklahoma Turnpike Authority must deposit toll and other

revenues from its operations into the Revenue Fund on a daily basis. All monies in the Revenue Fund at the end of the month (less a reserve for current operating expense not to exceed 20% of the amount of current operating expenses shown in the OTA's latest budget) are transferred and deposited as follows: 1) bond service accounts in accordance with their respective lien hierarchy for the purpose of paying bond principal and interest; 2) bond reserves in accordance with their respective lien hierarchy for the purpose of ensuring sufficient monies are available to make bond principal and interest payments in the event that current revenues are insufficient; 3) the Reserve Maintenance Fund for the purpose of paying special maintenance expenses to keep the Turnpike System in good repair; and 4) the balance to the General Fund for the purpose of pledging such monies to the payment of junior obligation debt or any other lawful purpose.

Under the OTA's Enabling Act, and amendments thereto, a portion of the motor fuel excise taxes collected on fuels consumed on the turnpikes is made available to the OTA from the Oklahoma Tax Commission. Since July 1, 1992, the motor fuel tax monies have been apportioned to the OTA on the first day of each calendar month. All motor fuel taxes apportioned to the OTA are available to fund debt service, to the extent monies are



not otherwise available. If such motor fuel excise taxes apportioned to the OTA are not necessary in such month, the fuel tax monies shall be paid over immediately to the Oklahoma Department of Transportation (ODOT). During 1998, the OTA received, and immediately remitted to ODOT, all of the \$32,171,619 of motor fuel excise taxes apportioned to the OTA during the year.

Basis of Accounting

The operations of the Authority are accounted for as an enterprise fund on an accrual basis in order to recognize the flow of economic resources. Under this basis, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, depreciation of assets is recognized, and all assets and liabilities associated with the operation of the Authority are included in the Balance Sheet. The Trust Agreement and supplements thereto (the Trust Agreement) related to the Series 1989 Bonds require that the Authority adopt generally accepted accounting principles (GAAP) for government entities; but, it also requires that certain funds and accounts be established and maintained. The Authority consolidates these funds and accounts for the purpose of enterprise fund presentation in its external financial statements.

The 1998 net toll revenues of \$124,570,726 were approximately 6.3% higher than 1997 net toll revenues due to a 6.9% increase in toll transactions.

Financial Results From Operations

The 1998 net toll revenues of \$124,570,726 were approximately 6.3% higher than 1997 net toll revenues due to a 6.9% increase in toll transactions. Concession revenues also increased significantly between 1998 and 1997 with an increase of 7.1% between years.

Actual, as well as budgeted, operating expenses increased between 1998 and 1997. All divisions were affected by legislated mandates to increase health benefits for each employee and to provide for mandated matching in the State's Deferred Compensation Program. In addition, the most significant increase occurred within the Toll Operations Divisions. Toll Operations expenses increased approximately \$1,100,000 between years primarily due to increased temporary staff hired for the *PIKEPASS* refurbishment program and the document-imaging program, increased postage and printing expense



resulting from a higher volume of *PIKEPASS* accounts in 1998, certified correspondence with Turnpike System violators in relation to the passage of Senate Bill 210, the increased cost of the new, improved automatic coin machine maintenance contract, and an increase in *PIKEPASS* tag agency fees. Tag agents receive a fee of \$5 per tag for issuing new and refurbished *PIKEPASS* tags. As the number of tag agents participating in this program increases, so do the corresponding fees. Turnpike Maintenance expenses increased approximately \$800,000 between years. These increases are primarily the result of increases in equipment rental related to seasonal System repairs. It should also be noted that in 1997, the majority of turnpike maintenance projects were related to bridge repairs, while in 1998, more emphasis was placed on completing extensive asphalt roadway repairs throughout



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the System. This also created an increase in the amount of asphalt and concrete supplies that were purchased in 1998 over 1997. Highway patrol expenses increased by approximately \$520,000 as a result of special emphasis projects related to speed control and toll enforcement. These special projects are staffed by overtime hours worked by OTA troopers.

Budgetary Control

The OTA prepares an annual budget of current operating expenses and monthly deposits to the Reserve Maintenance Fund in compliance with the Trust Agreement and adopts a capital improvement plan each year. The budget is adopted on a modified accrual (non-GAAP) basis wherein expenditures are recognized on a cash basis and depreciation is not budgeted as an expenditure. Budgets are controlled at the division level, and the object of the budgetary controls is to ensure compliance with the provisions of the Trust Agreement. The Director may approve changes within the budget at any level, but an increase in the total budget must be approved by the Authority. Monthly reports of actual expenses versus budgeted expenses are provided to the Authority and management. Unexpended budget balances lapse at fiscal year end. Project-length financial plans are maintained for capital projects.

During November 1998, the Authority adopted the 1999 budget. This budget included an 11.1% increase over the 1998 Annual

Budget for operating and maintenance of the Turnpike System which is primarily due to a mandated legislative increases for the Oklahoma Highway Patrol compensation package and the compensation and benefits packages for all other OTA employees. The Authority is making a concentrated effort to ensure that the OTA is adequately prepared for the new millennium. All in-house and external software has been tested to ensure it is Year 2000 compliant or remediation efforts are in place. Additional employees have been added to the Information Technology Division to specifically address these efforts. Also included is a reduction in the total number of employees from 530 to 518, a decrease of 12 positions. The 1999 budget also includes funding for the continuation of the Five Year Capital Plan that was adopted in 1994.

Independent Audit

The Trust Agreement requires an annual audit of the financial statements by an independent accounting firm. The required audit has been performed for the year ended December 31, 1998 by our independent auditors, KPMG LLP.

The Government Finance Officers Association of the United States and Canada (GFOA) presented an award for Distinguished Budget Presentation to the Oklahoma Turnpike Authority for its annual budget for the year beginning January 1, 1998.

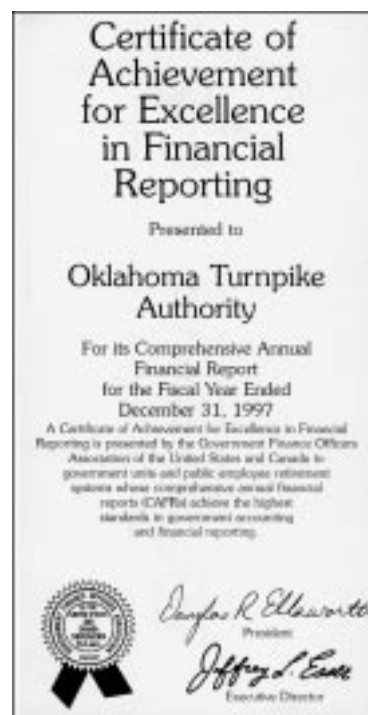
In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan and as a communication device.

The award is valid for a period of one year only. This is the seventh consecutive year that the Oklahoma Turnpike Authority has earned this award. The OTA is the only state agency in Oklahoma to receive this award.

The GFOA awarded a Certificate of Achievement for Excellence in Financial Reporting to the Oklahoma Turnpike Authority for its Comprehensive Annual Financial Report (CAFR) for the year ended December 31, 1997. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized CAFR that conforms to program standards. Such CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The OTA has received a Certificate of Achievement for the

SPECIAL AWARDS



last eight consecutive years (years ended December 31, 1990-1997). The OTA's award is among 18 awarded throughout the state and is one of only six received by state agencies in Oklahoma. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA.

ACKNOWLEDGMENTS

Grateful appreciation is extended to the entire management staff of the OTA for their professional contributions to this report. Thanks also to the Controller Division staff who prepared the report, the Finance and Revenue Division staff who assisted in the preparation of the report, and to our independent auditors for their participation in the review and preparation of this report.

Special appreciation is extended to Governor Frank Keating, the Authority Members, Director Neal A. McCaleb and Deputy Director Holly Lowe. To all of you, your support of our efforts to excel in the operational and financial management of the OTA is sincerely appreciated.

