



OKLAHOMA TURNPIKE AUTHORITY

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Fax (405) 427-8246

April 30, 1998

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

During 1997, System-wide net toll revenues and toll transactions exceeded 1996 toll revenues and toll transactions by 5.6% and 6.9%, respectively. The Oklahoma Turnpike Authority (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. Customer focus, leadership, continual improvement and involvement of people at all organizational levels have produced an entrepreneurial spirit of innovation and commitment that will continue into the next millennium.

On behalf of the Authority, we are pleased to transmit this comprehensive annual financial report (CAFR) for calendar year 1997. 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.

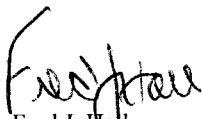
The CAFR is presented in three parts:


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,

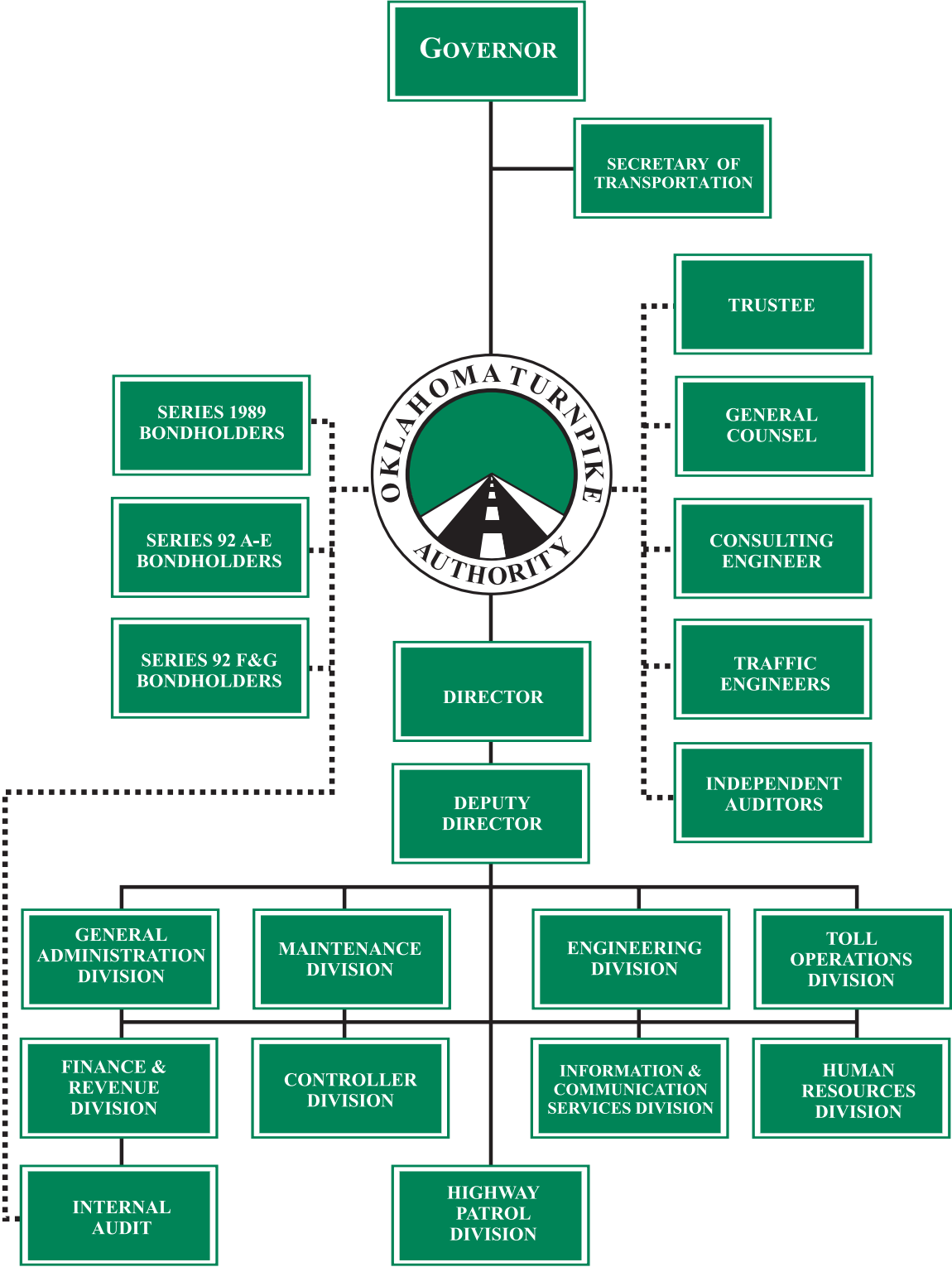
THE OKLAHOMA TURNPIKE AUTHORITY


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 Oklahoma Turnpike Authority. Neal A. McCaleb is currently serving as Director. Mr. McCaleb also serves as the Secretary of Transportation and as the Director of the Oklahoma Department of Transportation. 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 OTA's Trust Agreement.

In late 1997, Francis Rooney resigned from the Authority, and Dewey F. Bartlett, Jr. was named as his replacement as the representative from District 4.



Senior Management

Seated left to right: **Holly Lowe** - Deputy Director; **Neal A. McCaleb** - Secretary of Transportation and Director; **Mike Ashcraft** - PIKEPASS Operations Manager;

Standing left to right: **Lieutenant Ken Reed** - Oklahoma Highway Patrol; **Tim Stewart** - Director of Maintenance; **Lori Scott** - Controller; **Alan Freeman** - Director of Human Resources; **James L. Beach** - Director of Patron Services and Public Relations; **Don Hawk** - Director of Engineering; **Lillie Buckner** - Executive Secretary; **Gary Brown** - Director of Information and Communication Services; **David Machamer** - Director of Toll Operations

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.

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.

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.

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.

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

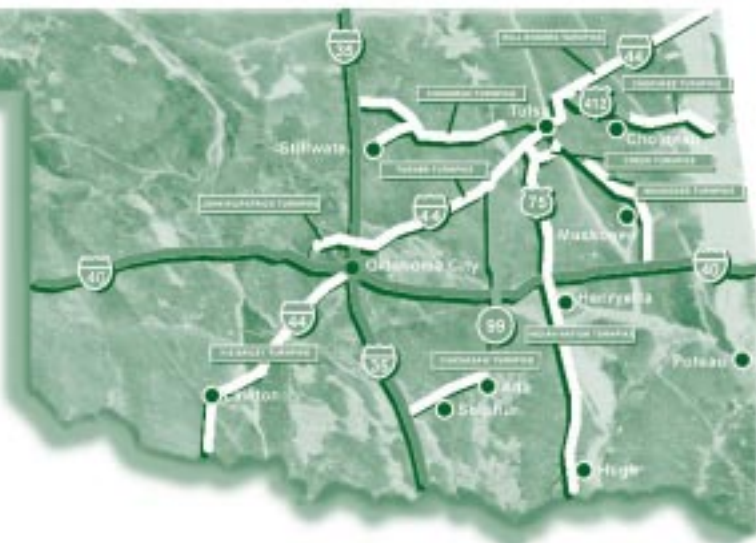
Authorized by the State Legislature in 1987 and opened in 1991. Four-lane limited access urban highway extending 9.5 miles from the Oklahoma City interchange of the Turner Turnpike and I-35 to Portland Avenue/Lake Hefner Parkway. Interchanges at Eastern Avenue, U. S. 77/Broadway Extension, Western Avenue,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

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.



1997 HIGHLIGHTS

The objective of the Oklahoma Turnpike Authority is to continually improve the System over the long term by focusing on customers while addressing the needs of all stakeholders. The 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. The concepts of Quality Management have been the focal point of the OTA and have enabled us to improve our bottom line, complete major rehabilitation projects and increase customer service.

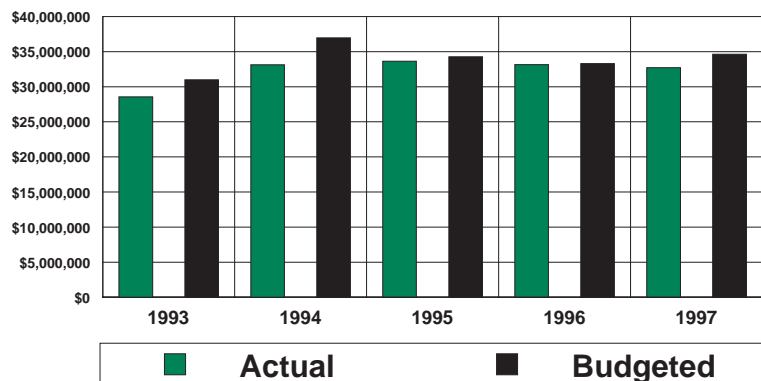
System-wide net toll revenues during 1997 exceeded 1996 net toll revenues by a strong 5.6%. Net toll revenues for 1997 are an impressive \$117,167,783. 1997 has proven to be a highly successful year with net toll revenues reported 1% or \$1.1 million higher than budgeted projections. This year marks the first time in OTA history when monthly net toll revenues have exceeded the \$10 million mark. Transactions for 1997 exceeded those for 1996 by 6.9%.

The six base turnpikes report revenue growth of 5.0% while the four newer turnpikes had a 10.3% growth in revenues over the previous year. The Kilpatrick and Creek Turnpikes, in particular, continue to report exceptional growth with revenues for 1997 out-producing revenues for 1996 by 14% and 13.5%, respectively.

Annual operating expenses for 1997 fell well below the budgeted amount of \$34,640,000 and were notably less than 1996 operating expenses. This is due to the combined efforts of all divisions working together under the direction and leadership of OTA's Director and Deputy Director.

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Comparison of Budget to Actual Operating Expenses



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 resurfacing and pavement rehabilitation of the existing System. In 1997, 34.5 miles of pavement were resurfaced on the Turner and Will Rogers Turnpikes. The purchase and use of a Profilograph has been instrumental in achieving an excellent ride surface on these rehabilitation projects. The Profilograph utilizes a bump or dip detector to grade the ride factor and smoothness of ride within OTA required specifications. This equipment is used to identify high and low spots on the existing System, allowing OTA Engineering and Maintenance Division personnel to prioritize



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pavement rehabilitation projects. The Profilograph is also used to analyze the ride quality when pavement rehabilitation projects are completed. The contractor is required to perform all pavement rehabilitation projects within the required OTA specifications. When pavement rehabilitation ride factors are identified outside OTA tolerances, the contractor is required to grind and smooth the pavement section to acceptable specifications or incur monetary penalties.



During 1997, median barrier walls were completed along sections of the H.E. Bailey and Muskogee Turnpikes. Twenty-four miles of median barrier walls were completed on the H.E. Bailey Turnpike, and thirty-three miles were installed on the Muskogee Turnpike. 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 1998 portion of the Five Year Capital Plan calls for additional median barrier installations along further sections of the H.E. Bailey Turnpike.

Replacing old and damaged roadway signs is also a focus of OTA's Five Year Capital Plan. The Turner Turnpike re-signing project was implemented and completed during 1997. OTA engineering staff designed and purchased roadway signs to replace all existing signage on the Turner Turnpike. The new signs have been designed to meet all applicable safety standards for distance

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from right-of-way, lateral clearance and retro-reflectivity. The new signs, which are clearly visible during evening hours, enhance safety for all patrons and provide valuable information to turnpike travelers. Future plans include re-signing the Will Rogers, H.E. Bailey, Indian Nation and Muskogee Turnpikes.

The OTA recognizes the importance of System maintenance while minimizing any negative impact to the environment. In response to the increased traffic on Oklahoma turnpikes and the additional commerce provided at OTA concession areas, OTA engineers redesigned the sewage lagoons at the Dustin, Walters,



Chickasha and Lone Chimney concession areas to provide environmentally sound sewage lagoons and to ensure Oklahoma's beauty for future generations.

The installation of fiber optic cable by IXC Carrier, Inc. (IXC) and MBO Video, Inc. (MBO) along turnpike right-of-way and the related agreements reached between OTA, MBO, IXC, the Office of State Finance (OSF), the Oklahoma Department of Transportation (ODOT) and the Oklahoma State Board of Regents represent innovative programs resulting in increased customer service and internal operating efficiencies. The OTA has reached an agreement by which they and other state agencies are granted free use of existing fiber optic lines. In the future, the OTA plans to operate our wide area network via fiber optics. This will result 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 Information and Communication Services Division successfully completed the first connection to the fiber optic network during 1997. The Morrison Maintenance Facility on the Cimarron Turnpike is now communicating with OTA Headquarters at a rate 27 times faster than previous communication methods.

This year, a continued emphasis has been placed on slope instability rehabilitation. The reconstruction of the slide areas at mile 187 and mile 210 on the Turner Turnpike were finalized during 1997. Design work was completed for the reconstruction of the slide area at the Muskogee, I-40 interchange on the Muskogee Turnpike. 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.



Bridge and turnpike underpass repair and rehabilitation continue to remain a priority.

Bridge and turnpike underpass repair and rehabilitation continue to remain a priority. A total of four bridges and ten turnpike underpasses were rehabilitated System-wide during 1997. This rehabilitation work consisted of substructure and, if needed, superstructure repairs. In addition to these contract repair projects, additional substructure rehabilitation was performed by OTA Maintenance Division personnel.

To further promote customer service and safety on our System, Engineering and Maintenance Division personnel have developed and implemented programs providing exceptional service and safety to turnpike patrons. One innovative program encourages contractors to reduce construction time allowing traffic lanes and facilities open for use at the earliest possible time. All vendors compete with each other concerning construction timetables and completion dates in addition to price of construction when preparing bid proposals for maintenance and rehabilitation projects. OTA review committees place great importance on the construction timetables in awarding bids for rehabilitation and maintenance projects. The contractor awarded the contract is then given the responsibility of completing the assigned contract within the time frame to which they committed. Completion of projects later than the scheduled completion date results in monetary penalties. This offers the service provider incentive to investigate and determine more efficient ways of performing necessary tasks required to complete assigned projects and meet

construction deadlines. Swift completion of maintenance and rehabilitation projects increase System access and safety by opening closed lanes and work zones to normal traffic flow in a timely manner.

The lane rental program, during construction, was implemented with customer safety as the main focus. The intent of this program is to minimize traffic disruption and allow construction work to proceed in a safe and efficient manner by penalizing service providers for unnecessary or excessive lane closures. The lane rental program allows service providers to control their own operations and provides a cost incentive for service providers to restrict the amount of time lanes are closed, so as not to severely impede traffic flow. During vendor selection of bid proposals related to lane closures, OTA review committees quantify the amount of lane closure time related to each bid received. This quantified lane closure time is analyzed with each bid proposal to determine the best proposal received. All service providers are given monetary incentive to perform work in a timely manner and promptly reopen lanes to avoid the lane rental fees.

During 1997, the OTA partnered with Oklahoma County to provide access to the Turner Turnpike for Eastern Oklahoma County. The addition of the Luther gate, with Oklahoma County financial participation, will provide Eastern Oklahoma County citizens ease in access to the Turner Turnpike previously not available. Design work was also completed on the addition of a westbound off-ramp and eastbound on-ramp at the Wellston Interchange on the Turner Turnpike. This will allow greater access to the Turner Turnpike for Wellston and the surrounding communities. These efforts to increase access and convenience to the System exhibit OTA's pledge to provide superior customer service to Oklahoma turnpike patrons.

Providing continued exceptional customer service and convenience has been defined in 1997 by the OTA-PIKEPASS Tag Agency Program. Fifty-eight tag agencies participated in the program during 1997 issuing 11,187 PIKEPASS tags which represent 19% of the total PIKEPASS tags issued to new and existing accounts for the year. The Tag Agency Program gained industry recognition in 1997 when OTA received the International Bridge, Tunnel and Traffic Association (IBTTA) Toll Innovation Award for the implementation and success of the program. The Toll Innovation Award is given each year to industry leaders that implement programs and solutions providing safety, quality, innovation and convenience.

Additional efforts to enhance customer service were achieved by the signing of the new automatic coin machine maintenance contract in 1997. This contract provides a higher degree of maintenance on the automatic coin machines and increased personnel to respond to all service requests. With a two hour response and two hour repair time mandated by the contract, the benefit ensures minimal downtime, providing an increase in service efficiency to automatic coin machine customers and the System overall.

LOOKING TOWARD THE FUTURE

On January 6, 1998, Oklahoma Governor Frank Keating and Secretary of Transportation, Neal A. 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 this application to the State Bond Oversight Commissions for approval of the financing of certain turnpike improvement projects totaling \$602,852,000. 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 these turnpike improvement projects. These projects include: completion of the Kilpatrick from Hefner Parkway to I-40, completion of the Creek Turnpike from the Mingo Expressway (US-169) to the Will Rogers Turnpike, extension of the Creek Turnpike from the Turner Turnpike to US-75, construction of a turnpike 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 to allow for the extension of the Muskogee Turnpike.



The OTA has received letters and comments from many communities that would benefit from the future projects.

The OTA has received letters and comments from many communities that would benefit from the future projects. These communities have been very supportive throughout the process realizing that these new infrastructures projects will bring growing economic development to their areas. The OTA also has the support of the Association of Central Governments and Indian Nation Council of Governments. These communities and organizations believe that the Oklahoma Turnpike Authority's road package, along with the Department of Transportation's \$1 billion road program that was announced during the last Legislative Session, will bolster the economy of the entire state and once completed will make Oklahoma a leader in transportation. With community support and a cooperative spirit between the Department of Transportation and the Oklahoma Turnpike Authority, the future of Oklahoma transportation seems very promising and the possibilities are endless.

ECONOMIC TRENDS AND OUTLOOK

Because of recent national economic growth trends, factors that contributed to a “lower-than-expected” inflation rate in 1997 will likely continue in 1998 as we enjoy a period of “strong growth, low inflation bliss”, per Merrill Lynch & Co. Research Group. This along with President Clinton’s announcement of the first balanced budget in 30 years contributes to the country’s optimism for the future. Productivity growth is expected to remain solid, especially in many goods-producing industries, and the factors that held down growth of unit labor-costs in 1997 are expected to do so into 1998.

Once again, for 1997, Oklahoma economic growth trends have been similar to, and in some cases even better than those of the nation for the year. During 1997, Oklahoma’s economy showed a job growth rate similar to the national growth rate.

State government continues to promote economic development within our borders by creating policies that enhance profitability through lower business costs. These policies include those that reduce business taxes, help provide favorable financial capital and provide financial capital where none might otherwise be available. Oklahoma has also implemented policies designed to create further expansion of economic activities. Hopefully, continuing these policies will reap further benefits in the future.

As was mentioned earlier, the Oklahoma Turnpike Authority is poised to complete the urban toll roads started in the 1989 bond issue in the Tulsa and Oklahoma City areas. The two primary projects extend the Creek Turnpike in Tulsa and the Kilpatrick Turnpike in Oklahoma City to make them inter-state highway connectors rather than interurban connectors. There has been much support by our local municipalities as well as organizations such as the Indian Nation Council of Governments and the Association of Central Governments. These cities are aware, as are we, of the staggering growth potential that accompanies these infrastructures. The extensions to these existing turnpikes will be an economic boost for areas in the form of greater housing markets and additional jobs for the area’s work force. In addition, these infrastructures will provide easier access for industries that are contemplating locating in various parts of our State. The OTA believes that economic development opportunities are critical for Oklahoma’s future and that this road package in conjunction with the Department of Transportation’s \$1 billion road package will make Oklahoma a leader in the transportation industry.



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 controls adequately safeguard 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, 1997, our outstanding debt, net of unamortized discount and net deferred debit on refundings, was approximately \$618,970,000. The current portion of this debt totals \$12,630,000. Final maturity on this debt is scheduled for the year 2022.

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 State of Oklahoma's Risk Management Division of the Department of Central Services. All major areas of operations are covered, including 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 which 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 1997, the OTA received, and immediately remitted to ODOT, all of the \$30,273,631 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.

Financial Results From Operations

The 1997 net toll revenues of \$117,167,783 were approximately 5.6% higher than 1996 net toll revenues due to a 6.9% increase in toll transactions. Concession revenues remained steady between 1997 and 1996 with an increase of .9% between years.

Operating expenses remained constant between 1997 and 1996. The only significant changes were within the Toll Operations and Turnpike Maintenance Divisions. Toll Operations expenses increased approximately \$927,000 between years primarily due to increased administrative management staff hired for *PIKEPASS* operations, increased postage and printing expense resulting from a higher volume of *PIKEPASS* accounts in 1997 and certified correspondence with Turnpike System violators in relation to the passage of Senate Bill 210, and the increased cost of the new, improved automatic coin machine maintenance contract. Turnpike maintenance expenses decreased approximately \$1,605,000, between years due to a reduction in maintenance supply costs to a more normal level than in 1996 and a reduction in Maintenance Division staffing of 13 annualized full time positions and 9 annualized temporary positions.



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.

The 1998 budget was adopted by the Authority on November 20, 1997. This budget included a 3.5% increase

over the 1997 Annual Budget for operating and maintenance of the Turnpike System which is primarily due to a mandated legislative benefits increase and further improvements to the *PIKEPASS* Customer Service Center involving video enforcement. Also included is a reduction in employees from 545 to 530, a decrease of 15 positions. The 1998 budget also includes funding for the continuation of the Five Year Capital Plan that was adopted in 1994.



Impact of the Year 2000 Issue

An issue exists for all companies that rely on computers as the year 2000 approaches. This is because historically many computer programs used only two digits to represent the year in dates. Therefore, without adequate modifications, many programs will not correctly identify the year 2000. The Oklahoma Turnpike Authority Information and Communication Services Division (ICSD) utilizes a database environment for most computer applications, Microsoft SQL Server, which provides for a four-digit year. ICSD will be testing all applications, those purchased and developed in-house, for compliance with the year 2000 issue during the first half of 1998. Therefore, no material costs are expected to be incurred by the OTA to deal with the year 2000 issue.

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, 1997 by our independent auditors, KPMG Peat Marwick LLP.



SPECIAL AWARDS

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, 1997.

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 sixth consecutive year that the Oklahoma Turnpike Authority has earned this award. The OTA is the only state agency in Oklahoma to receive this award.

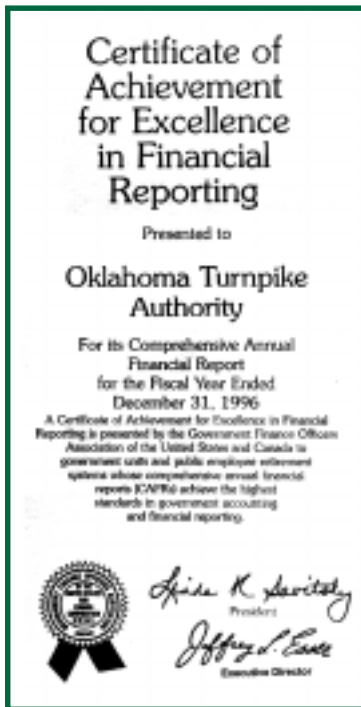
The GFOA awarded a Certificate of Achievement for Excellence in Financial Reporting to the Oklahoma Turnpike Authority for its Comprehensive Annual Financial Report (CAFR) for the year ended December 31, 1996. The Certificate of Achievement is a prestigious national award recognizing conformance with 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, whose contents conform 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 last seven consecutive years (years ended December 31, 1990-1996). We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA.

The OTA's award is among 17 awarded throughout the state and is one of only four received by state agencies in Oklahoma.

The GFOA has presented the Award for Outstanding Achievement in Popular Annual Financial Reporting to the OTA for its Popular Annual Financial Report (PAFR) for the year ended December 31, 1996. This is the second year the OTA has received the GFOA award for this report.



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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 and Finance and Revenue Division staff who prepared the report, to the Oklahoma Department of Transportation's Office Services Division who provided design, printing and photography services 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.



