OKLAHOMA STUDENT LOAN AUTHORITY

Financial Statements

June 30, 1999 and 1998

(With Independent Auditors' Report Thereon)

Independent Auditors' Report

Trustees
Oklahoma Student Loan Authority:

We have audited the accompanying balance sheets of the Oklahoma Student Loan Authority, a component unit of the state of Oklahoma, as of June 30, 1999 and 1998, and the related statements of operations and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the management of the Oklahoma Student Loan Authority. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in the *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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Oklahoma Student Loan Authority as of June 30, 1999 and 1998, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 17, 1999, on our consideration of the Oklahoma Student Loan Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts.

The Year 2000 supplementary information on page 17 is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board, and we did not audit and do not express an opinion of such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because of the nature of the subject matter underlying the disclosures requirements and because sufficiently specific criteria regarding the matters to be disclosed have not been established. In addition, we do not provide assurance that the Authority is or will be Year 2000 compliant, that the Authority's Year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Authority does business are or will become Year 2000 compliant.

Oklahoma City, OK
September 17, 1999

KPMG LLP

OKLAHOMA STUDENT LOAN AUTHORITY

Balance Sheets

June 30, 1999 and 1998

Assets		1999	1998
Cash	$	356,039	509,354
Investments		29,336,703	31,132,099
Interest receivable		6,422,608	5,284,860
Loans, net of allowance for loan losses		229,713,171	184,206,976
Equipment and other assets, net of accumulated depreciation		2,259,168	1,723,717
Total assets	$	268,087,689	222,857,006

Liabilities and Retained Earnings			
Accounts payable and other accrued expenses	$	340,268	241,892
Accrued interest payable		1,725,438	1,700,382
Arbitrage rebate payable		952,607	530,605
Notes payable		48,600,000	37,360,000
Bonds payable		169,905,000	141,670,000
Total liabilities		221,523,313	181,502,879
Retained earnings:			
Restricted		18,380,483	14,246,643
Unrestricted		28,183,893	27,107,484
		46,564,376	41,354,127
Commitments and contingencies, as described in note 7			
Total liabilities and retained earnings	$	268,087,689	222,857,006

See accompanying notes to financial statements.

OKLAHOMA STUDENT LOAN AUTHORITY

Statements of Operations and Retained Earnings

Years ended June 30, 1999 and 1998

	1999	1998
Interest income:		
Loan interest income:		
From borrowers	$ 12,148,096	9,677,136
From U.S. Department of Education (USDE)	4,714,657	4,567,386
Investment interest income	2,274,791	2,561,230
Total interest income	19,137,544	16,805,752
Interest expense	9,688,365	8,869,149
Net interest income	9,449,179	7,936,603
Other operating expense:		
Administrative	3,078,655	2,554,296
External loan servicing fees	544,005	412,305
Professional fees	167,257	176,249
Consolidation rebate fees	449,013	292,980
Total other operating expense	4,238,930	3,435,830
Net income	5,210,249	4,500,773
Retained earnings, beginning of year	41,354,127	36,853,354
Retained earnings, end of year	$ 46,564,376	41,354,127

See accompanying notes to financial statements.

OKLAHOMA STUDENT LOAN AUTHORITY

Statements of Cash Flows

Years ended June 30, 1999 and 1998

		1999	1998
Cash flows from operating activities:			
Net income	$	5,210,249	4,500,773
Adjustments to reconcile net income to net cash used in operating activities:			
Depreciation and amortization		821,074	630,046
(Increase) decrease in assets:			
Loans, net		(45,791,241)	(33,032,522)
Interest receivable		(1,137,750)	(1,023,484)
Increase (decrease) in liabilities:			
Accounts payable and other accrued expenses		98,376	(145,709)
Accrued interest payable		25,056	(177,934)
Arbitrage rebate payable		422,002	260,526
Net cash used in operating activities		(40,352,234)	(28,988,304)
Cash flows from non-capital financing activities:			
Advances on notes payable		21,240,000	3,310,000
Proceeds from issuance of bonds		33,100,000	—
Payments on notes payable		(10,000,000)	(6,850,000)
Payments on bonds payable		(4,865,000)	(5,735,000)
Other payments for non-capital financing activity		(988,640)	(57,348)
Net cash provided by (used in) non-capital financing activities		38,486,360	(9,332,348)
Cash flows from investing activities:			
Proceeds from maturity of investments		169,832,616	144,059,099
Purchases of investments		(168,037,220)	(105,839,002)
Net cash provided by investing activities		1,795,396	38,220,097
Cash flows from capital activities:			
Purchases of equipment and other depreciable assets		(82,837)	(150,430)
Net decrease in cash		(153,315)	(250,985)
Cash at beginning of year		509,354	760,339
Cash at end of year	$	356,039	509,354
Supplemental disclosure of cash flow information:			
Interest paid	$	9,663,309	9,047,083

See accompanying notes to financial statements.

(1) Reporting Entity and Nature of the Program

The Oklahoma Student Loan Authority (the Authority) was created as an express trust under applicable Oklahoma statutes and a Trust Indenture dated August 2, 1972, with the State of Oklahoma (the State) accepting the beneficial interest therein. The Authority is a component unit of the State and is included in the financial statements of the State as a part of the Enterprise Fund. Enterprise funds are used to account for the operations and financial position of governmental entities that are financed and operated in a manner similar to private enterprise. Certain assets of the Authority are restricted to specific note and bond issues (see note 5).

The purpose of the Authority is to provide loan funds to qualified persons at participating post secondary educational institutions. The student loans made by the Authority under the federal Higher Education Act of 1965, as amended October 7, 1998 (see note 8), include Federal Stafford (Stafford) Loans, Unsubsidized Stafford Loans for Middle Income Borrowers (Unsubsidized Stafford), Federal Supplemental Loans for Students (SLS), Federal Parent Loans for Undergraduate Students (PLUS), and Federal Consolidation Loans (Consolidation).

These Federal Family Education Loan (FFEL) Program loans are guaranteed 98% with certain exceptions, (100% guaranteed for loans first disbursed before October 1, 1993) by the Oklahoma State Regents for Higher Education, Guaranteed Student Loan Program (State Guarantee Agency), which is reinsured by the United States Department of Education (USDE), or guaranteed by other guarantors approved by the USDE (Guarantee Agencies).

The Authority also performs origination and interim status servicing for other FFEL Program lenders in addition to providing a secondary market for FFEL Program loans for participating financial institutions. As of June 30, 1999 and 1998, the Authority serviced approximately $50,790,000 and $24,580,000, respectively, in FFEL loans for other financial institutions. As a servicer of FFEL Program loans, the Authority collects student loan remittances and subsequently disburses these remittances to the appropriate lending entities. The cash collected for the lender customers and the related liability are not included in the accompanying balance sheets as they are not considered to be funds of the Authority.

(2) Summary of Significant Accounting Policies

The financial statements of the Authority included herein reflect the combined assets, liabilities, retained earnings, and changes therein for the FFEL Program and the General Funds.

(a) Basis of Accounting

The Authority accounts for its operation as an enterprise fund. Enterprise funds are accounted for on a basis of the flow of economic resources and use the accrual basis of accounting, similar to private business enterprises. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when incurred. In accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 20, the Authority utilizes all Financial Accounting Standards Board Statements as the Authority's accounting principles, unless such Statements are in direct conflict with Statements issued by the GASB.

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

(b) Accounts of the Authority

The accounts of the Authority are organized on the basis of individual funds as prescribed by the "Oklahoma Student Loan Act" (Act) and terms of various debt obligations. The various accounts assigned to each fund could include any of the following depending upon the terms of the related debt obligation: Principal Account, Interest Account, Student Loan Account, Repayment Account, Debt Service Reserve Account, Investment Earnings Account, Rebate Account and General Investment Account.

(c) Loans and Allowance for Loan Loss

Loans are stated at cost, net of an allowance for loan loss. The Authority includes as the cost of a loan any premium paid on student loans purchased. Premiums are amortized over the estimated life of the loan as an adjustment to interest income.

All of the loans made or acquired by the Authority are guaranteed as noted above. There is still risk to the Authority if the loans should lose their guarantee. The Authority has established cure and recovery procedures to be applied to loans that have lost their guarantee. If the cure and recovery procedures are not successful, the loan will be written-off as uncollectible. Additionally, the Authority is at risk for 2% of the loans with first disbursement on or after October 1, 1993.

As of June 30, 1999 approximately $202,700,000 of the Authority's loans were guaranteed at the 98% level. The allowance for loan losses was established by the management of the Authority to provide for these two types of losses. Student loans are written off when they are deemed uncollectible and charged against the allowance upon such determination. Any subsequent collection or recovery on an account written off as uncollectible is credited to the allowance.

(d) Investments

Investments consist of repurchase agreements, certain government obligations, and mutual funds. Applicable Oklahoma statutes authorize certain types of investments the Authority can utilize. As of June 30, 1999 and 1998 the Authority was in compliance with these investment requirements.

Investments are stated at fair value based on quoted prices with changes in fair value included in the statement of operations and retained earnings.

(Continued)

(e) Interest Income

Interest is earned from the borrowers on the various types of student loans, the USDE and from investments. The USDE makes two types of interest payments to the Authority. One is for the interest on Stafford loans when the borrower is not currently required to make principal and interest payments under the terms of the loan. Interest income from USDE for the years ended June 30, 1999 and 1998 was approximately $4,157,000 and $3,975,000, respectively. The other type of interest payment from the USDE is "Special Allowance Payments" which are determined quarterly based upon the average rate established in the auction of the 91-day U.S. Treasury bills relative to the yield of the student loan. Special allowance income from USDE for the years ended June 30, 1999 and 1998, was approximately $558,000 and $592,000, respectively.

(f) Arbitrage Rebate

The proceeds from the Authority's tax exempt debt issues are subject to arbitrage rebate laws under the Internal Revenue Code. This arbitrage rebate limits the earnings on investment of tax exempt proceeds in non-purpose investments. The Authority has calculated and made provisions for the estimated cumulative rebatable arbitrage that must be remitted to the Internal Revenue Service for the excess earnings on non purpose investments.

(g) Income Taxes

As a State beneficiary trust, the income of the Authority earned in the exercise of its essential function is exempt from state and federal income taxes.

(h) Equipment and Other Assets

The Authority capitalizes expenditures for equipment, system development, and other long-term assets. Depreciation and amortization is calculated primarily on a straight-line basis of five to ten years. Accumulated depreciation and amortization on capitalized assets at June 30, 1999 and 1998, was approximately $669,000 and $525,000, respectively. Maintenance of equipment and other assets is expensed as incurred.

(i) Cash and Cash Equivalents

The Authority only considers cash in demand deposit accounts to be cash for purposes of the statement of cash flows.

(3) Investments

The Authority invests its idle cash in collateralized repurchase agreements, U.S. Treasury securities and U.S. Government securities based mutual funds. All of the Authority's investments are held either in the Authority's name or for the account of the Authority except for a repurchase agreement with an approximate value of $1,250,000 and $1,540,000 as of June 30, 1999 and 1998, respectively. The securities underlying this repurchase agreement are held by an independent custodian in the name of the seller of the purchased securities. Repurchase agreements are collateralized by U.S.

(Continued)

government securities or securities guaranteed by the U.S. government at 100%. At June 30, 1999 and 1998, all of the Authority's investments are held by the Authority or its agent in the Authority's name and, except for U.S. government securities based mutual funds and the repurchase agreements, are defined as Category 1 by GASB Statement No. 3. The investments at fair value consist of the following at June 30, 1999 and 1998:

		1999	1998
U.S. Treasury Securities:			
Unencumbered	$	750,000	7,349,027
Pledged (A)		229,000	229,000
Repurchase Agreements:			
Pledged (A)		4,166,634	4,633,534
U.S. Government securities based			
Mutual funds:			
Unencumbered		4,780,442	1,681,188
Pledged (A)		19,410,627	17,239,350
Total investments	$	29,336,703	31,132,099

(A) Certain investments of the Authority are pledged and serve as collateral for the various obligations of the Authority. The pledged investments are held by the Bank of Oklahoma, N.A. and The Bank of New York in their capacities as trustee and paying agent for the Authority.

(4) Loans

The Authority originates, purchases and holds various types of student loans as described in Note 1. The terms of these loans, which vary on an individual basis depending upon loan type and the date the loan was originated, generally provide for repayment in monthly installments of principal and interest over a period of up to thirty years for Consolidation loans and up to ten years for other loans. The repayment period begins after a grace period of six months following graduation or loss of qualified student status for the Stafford and Unsubsidized Stafford loans. The repayment period for Consolidation, SLS and PLUS loans begins within 60 days from the date the loan is fully disbursed. Interest rates on student loans ranged from 5% to 10% for the Fiscal Year ended June 30, 1999 depending upon the type and date of origination of the individual loan.

Loans consist of the following at June 30, 1999 and 1998:

	1999	1998
Stafford – Subsidized	$ 113,852,983	101,383,809
Stafford – Unsubsidized	49,370,717	35,424,307
PLUS/SLS	17,730,985	15,402,404
Consolidation	49,794,965	33,562,365
Unprocessed Deposits	(879,599)	(431,656)
Total gross loans	229,870,051	185,341,229
Net deferred premium and loan cost	1,459,919	872,746
Allowance for loan loss	(1,616,799)	(2,006,999)
Net loans	$ 229,713,171	184,206,976

As stated in Note 1, all student loans are guaranteed as to principal and accrued interest. The Guarantee Agencies are entitled to charge fees for these services which may be withheld from the loan disbursements to the borrower and remitted to the Guarantee Agencies. Beginning on July 1, 1998, the Authority implemented a program of paying the guarantee fees on all loans disbursed when the guarantee agency did not waive those fees. In order for the loans to be or remain guaranteed, certain due diligence requirements in loan servicing must be met. As of June 30, 1999 and 1998, respectively, approximately $180,000 and $650,000 of loans were no longer considered as being guaranteed.

The Authority also withholds certain origination fees from the loan disbursements to the borrowers and remit these fees to USDE. The amount of the origination fees is a certain percentage of the gross loan amount which is set by USDE.

The Authority is also required to pay to USDE certain Lender Fees, the rates of which are set by USDE. The amount of the Lender Fees includes a certain percentage of the gross loan amount on all loans originated after October 1, 1993 and a certain percentage of the carrying value of the Consolidation loans.

Loan origination costs are capitalized when the loan is made and are amortized, using the interest method, over the estimated economic life of the loan. The capitalized loan origination costs, net of accumulated amortization, at June 30, 1999 and 1998, were approximately $801,000 and $780,000, respectively.

Certain student loans of the Authority are pledged as collateral for the various obligations of the Authority. The promissory notes for the pledged student loans are in the custody of Bank of Oklahoma, N.A. in its capacity as custodian for the Authority.

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(5) Notes and Bonds Payable

The Authority periodically issues bonds and notes for the purpose of funding student loans. All notes and 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 or financing agreement as maintained by the corporate trustees. The accompanying financial information on pages 13 and 14 summarize the General Funds and pledged assets and liabilities related to the Authority's debt obligation trust estates as of June 30, 1999 and 1998. The Authority is in compliance with all significant financing agreement requirements and bond covenants.

Notes payable at June 30, 1999 and 1998 consist of the following:

$50,000,000 Taxable Variable Rate Revenue Note (line of credit), Series 1993L (1993L), dated April 29, 1993, as modified, payable to BankOne, Oklahoma, N.A. The interest rate is adjusted weekly based on the 91 day treasury bill auction rate plus 1%. The interest rates were 5.89% and 6.41% as of June 30, 1999 and 1998, respectively. The principal is due at maturity on April 29, 2001. Advances and payments can be made under the provisions of the note, provided that the amount outstanding does not exceed the note amount.

$21,600,000 Senior Notes, Series 1995A-1 (1995A-1) dated November 9, 1995. The interest rate is based on a 35-day auction period with rates of 3.55% and 3.85% as of June 30, 1999 and 1998, respectively. The principal is due at maturity on September 1, 2025.

$7,000,000 Senior Notes, Series 1995A-2 (1995A-2) dated November 9, 1995. The interest rate is based on a one year auction period with rates of 3.40% and 4.00% as of June 30, 1999 and 1998, respectively. The principal is due at maturity on September 1, 2025.

The following table summarizes the balances due on the notes payable as of June 30, 1999 and 1998:

		1999	1998
1993L	$	20,000,000	8,760,000
1995A-1		21,600,000	21,600,000
1995A-2		7,000,000	7,000,000
	$	48,600,000	37,360,000

Bonds payable as of June 30, 1999 and 1998 consist of the following:

		1999	1998
Oklahoma Student Loan Authority:			
5.60% - 6.70% Series 1992A, due serially through 9-1-05	$	20,840,000	20,840,000
5.35% - 5.55% Series 1992B, due serially through 9-1-98		—	4,865,000
Variable rate Series 1994A-1, due 9-1-20		25,200,000	25,200,000
Variable rate Series 1994A-2, due 9-1-15		7,000,000	7,000,000
5.80% Series 1995B-1 Subordinate, due 9-1-08		2,000,000	2,000,000
6.35% Series 1995B-2 Subordinate, due 9-1-25		3,980,000	3,980,000
Variable rate demand obligations Series 1996A due 6-1-26		32,580,000	32,580,000
4.80% Series 1996B-1 Subordinate, due 8-1-04		5,975,000	5,975,000
5.10% Series 1996B-2 Subordinate, due 8-1-08		6,230,000	6,230,000
Variable rate demand obligations Series 1997A due 12-1-26		33,000,000	33,000,000
Variable rate demand obligations Series 1998A due 6-1-28		33,100,000	—
	$	169,905,000	141,670,000

The variable interest rates on the 1994A Bonds are based on periodic auctions of these bonds. The Series 1994A-1 Bonds are based on a 35 day auction period with a rate of 3.65% and 3.80% as of June 30, 1999 and 1998, respectively. The Series 1994A-2 Bonds are based on a one year auction period with a rate of 3.65% and 3.85% as of June 30, 1999 and 1998, respectively.

The variable rates on the 1996A bonds are set on a weekly basis by the Remarketing Agent, with a rate of 3.55% and 3.65% as of June 30, 1999 and 1998, respectively.

The variable rates of the 1997A bonds are set on a weekly basis by the Remarketing Agent, with a rate of 3.50% and 3.65% as of June 30, 1999 and 1998, respectively.

The variable rates on the 1998A bonds are set on a weekly basis by the Remarketing Agent, with a rate of 3.50% as of June 30, 1999.

Fiscal year debt service requirements to maturity or redemption date, assuming interest rates on variable rate debt remains at June 30, 1999 levels, are as follows:

	Principal	Interest	Total
2000	$ 4,160,000	8,930,000	13,090,000
2001	23,665,000	8,490,000	32,155,000
2002	3,345,000	7,300,000	10,645,000
2003	2,930,000	7,100,000	10,030,000
2004	2,240,000	6,950,000	9,190,000
2005 – 2028	182,165,000	125,250,000	307,415,000
	$ 218,505,000	164,020,000	382,525,000

Combining Financial Information

The following combined financial data reflects a summary of the Authority's financial information categorized by the various outstanding debt obligations. The category of "General Funds" represents unencumbered assets that are not pledged as collateral to any of the outstanding debt obligations.

(Continued)

OKLAHOMA STUDENT LOAN AUTHORITY

Notes to Financial Statements

June 30, 1999

		General Bond Resolution (92A & 94A)	Line of Credit Financing (1993L)	Master Bond Resolution (95A/B & 96B)	3rd Party Enhanced Resolution (96A, 97A & 98A)	General Funds	Total
Assets:							
Cash and investments	$	8,911,883	5,699,543	3,338,664	3,663,746	8,078,906	29,692,742
Loans, net of allowance (a)		54,512,496	19,022,013	45,005,595	95,906,743	15,266,324	229,713,171
Other assets (b)		2,600,367	719,925	2,112,868	3,911,105	(662,489)	8,681,776
Total assets	$	66,024,746	25,441,481	50,457,127	103,481,594	22,682,741	268,087,689
Liabilities and retained earnings:							
Accounts payable and other accrued expenses (b)	$	1,071,345	3,791,192	335,821	652,639	(5,510,729)	340,268
Accrued interest payable		753,420	280,058	411,492	270,892	9,576	1,725,438
Arbitrage rebate payable		126,216	—	110,805	715,586	—	952,607
Notes and bonds payable		53,040,000	20,000,000	46,785,000	98,680,000	—	218,505,000
Total liabilities		54,990,981	24,071,250	47,643,118	100,319,117	(5,501,153)	221,523,313
Retained earnings, beginning of year		9,858,616	1,097,184	1,954,269	1,291,387	27,152,671	41,354,127
Equity transfers		6,248	—	45,187	267,000	(318,435)	—
Adjusted retained earnings, beginning of year		9,864,864	1,097,184	1,999,456	1,558,387	26,834,236	41,354,127
Current operations:							
Interest and other revenue		5,042,885	1,599,070	3,838,493	6,838,457	1,818,639	19,137,544
Less: interest expense		(2,642,271)	(1,284,479)	(2,097,382)	(3,664,233)	—	(9,688,365)
Less: operating expenses		(1,231,714)	(41,543)	(926,557)	(1,570,134)	(468,982)	(4,238,930)
Net income		1,168,900	273,048	814,554	1,604,090	1,349,657	5,210,249
Retained earnings, end of year		11,033,764	1,370,232	2,814,010	3,162,477	28,183,893	46,564,376
Total liabilities and retained earnings	$	66,024,745	25,441,482	50,457,128	103,481,594	22,682,740	268,087,689

(a) Loans, net of allowance in the General Funds, include student loans financed by Authority equity funds. Additionally, this amount includes monies received from borrowers, but not identified and distributed to the other funds by June 30, 1999.
(b) Negative assets and liabilities reported in the General Funds are related to various interfund payable and receivable accounts.

(Continued)

		General Bond Resolution (92A/B & 94A)	Line of Credit Financing (1993L)	Master Bond Resolution (95A/B & 96B)	3rd Party Enhanced Resolution (96A & 97A)	General Funds	Total
Assets:							
Cash and investments	$	11,476,824	389,072	3,618,935	2,636,255	13,520,367	31,641,453
Loans, net of allowance (a)		54,472,935	10,890,788	43,109,369	62,100,453	13,633,431	184,206,976
Other assets (b)		3,614,507	323,380	2,876,876	3,082,372	(2,888,558)	7,008,577
Total assets	$	69,564,266	11,603,240	49,605,180	67,819,080	24,265,240	222,857,006
Liabilities and retained earnings:							
Accounts payable and other accrued expenses (b)	$	857,545	1,594,214	283,515	358,438	(2,851,820)	241,892
Accrued interest payable		880,098	151,842	461,989	196,877	9,576	1,700,382
Arbitrage rebate payable		63,006	—	75,220	392,379	—	530,605
Notes and bonds payable		57,905,000	8,760,000	46,785,000	65,580,000	—	179,030,000
Total liabilities		59,705,649	10,506,056	47,605,724	66,527,694	(2,842,244)	181,502,879
Retained earnings, beginning of year		8,691,177	749,066	1,059,882	501,685	25,851,544	36,853,354
Equity transfers		—	—	45,187	—	(45,187)	—
Adjusted retained earnings, beginning of year		8,691,177	749,066	1,105,069	501,685	25,806,357	36,853,354
Current operations:							
Interest and other revenue		5,445,881	1,282,717	3,984,116	4,479,321	1,613,717	16,805,752
Less: interest expense		(3,005,927)	(971,437)	(2,147,577)	(2,744,208)	—	(8,869,149)
Less: operating expenses		(1,272,514)	36,838	(942,152)	(945,412)	(312,590)	(3,435,830)
Net income		1,167,440	348,118	894,387	789,701	1,301,127	4,500,773
Retained earnings, end of year		9,858,617	1,097,184	1,999,456	1,291,386	27,107,484	41,354,127
Total liabilities and retained earnings	$	69,564,266	11,603,240	49,605,180	67,819,080	24,265,240	222,857,006

(a) Loans, net of allowance in the General Funds, include student loans financed by Authority equity funds. Additionally, this amount includes monies received from borrowers, but not identified and distributed to the other funds by June 30, 1998.

(b) Negative assets and liabilities reported in the General Funds are related to various interfund payable and receivable accounts.

(Continued)

(6) Retirement Plan

The Authority contributes to the Teachers Retirement System of Oklahoma (TRS), a cost-sharing multiple-employer public employee retirement system which is self-administered. TRS provides retirement, disability, and death benefits to plan members and beneficiaries. The benefit provisions are established and may be amended by the legislature of the state of Oklahoma. Title 70 of the Oklahoma Statutes, Sections 17-101 through 116.9, as amended, assigns the authority for management and operation of the Plan to the Board of Trustees of TRS. TRS issues a publicly available annual financial report that includes financial statements and required supplementary information for TRS. That annual report may be obtained by writing to the TRS, P.O. 53524, Oklahoma City, OK 73152 or by calling at 1-405-521-2387.

Employees of the Authority, as TRS members, are required to contribute to the Plan at a rate set by statute. The contribution rate for system members is based on 7% of their covered salary. The Authority made the system members' required contribution on behalf of its employees in 1999 and 1998.

The Authority itself is required to contribute a legislated rate on regular annual compensation for administration of the Plan. In 1999 and 1998, the contribution rate for the Authority was 11.5% and 10.5%, respectively, of regular annual compensation. As provided by state statute, the amount of the Authority's contribution each fiscal year shall be reduced by the estimated revenue due to TRS from the dedicated natural and casinghead gas tax, which is considered an on behalf payment made by the state of Oklahoma for the Authority's employees. In 1999 and 1998, the actual net contribution rate due from the Authority was 4.8%.

The Authority's contributions to TRS were approximately $173,000, $161,000, and $135,000, for the years ended June 30, 1999, 1998, and 1997, respectively. These contributions equaled the required contributions for system members and Plan administration each period.

(7) Commitments and Contingencies

The Authority conducts certain programs subject to audit by various federal and state agencies. Amounts questioned as a result of audits, if any, may result in refunds to these governmental agencies.

As part of its secondary market activities for FFEL Program loans, the Authority has entered into various Forward Purchase and Sale Commitment Agreements with certain financial institutions for which it performs interim status loan servicing. Under such forward purchase commitments, the seller is required to offer these FFELP loans to the Authority and the Authority is required to purchase the loans under certain terms and conditions. As of June 30, 1999 and 1998, the Authority was committed to purchase approximately $50,790,000 and $24,580,000, respectively, in such FFELP loans.

Proceeds from the Authority's tax exempt debt that are invested in student loans are subject to Federal government yield adjustment payment rebate law which limits the earnings rate on funds received by an organization which issues tax exempt debt. Any excess student loan interest over the allowable debt yield and spread would be rebated to the student loan borrowers as interest rate reductions or loan principal forgiveness, or rebated to the IRS at the maturity of the related debt. Management is actively monitoring and managing this spread and will take necessary action to maintain student loan yields within the allowable spread over the life of the respective debt issuances.

(8) Student Loan Legislation

Legislation passed in June of 1998 lowered the interest rate on FFEL Program Stafford loans first disbursed from July 1, 1998 through September 30, 1998. The new interest rates, together with special allowance paid by USDE, represent a yield reduction to the FFEL Program lenders of 0.30%. In addition, the U.S. Treasury Bill auction index used to establish the interest rate on FFEL PLUS loans disbursed during this period was changed.

Reauthorization of the Higher Education Act was signed in to law on October 7, 1998. The yield reduction to the FFEL Program lenders of 0.30% was extended to loans disbursed beyond October 1, 1998 through June 30, 2003.

(9) Fair Value of Financial Instruments

Fair value estimates, methods, and assumptions are set forth below for the Authority's financial instruments. Carrying amounts and estimated fair values of financial instruments at June 30 are summarized as follows:

	1999		1998	
	Carrying Amount	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
Financial assets:				
Cash	$ 356,039	356,039	509,354	509,354
Investments	29,336,703	29,336,703	31,132,099	31,132,099
Interest receivable	6,422,608	6,422,608	5,284,860	5,284,860
Loans	229,713,171	229,713,171	184,206,976	184,206,976
Financial liabilities:				
Accrued interest payable	1,725,438	1,725,438	1,700,382	1,700,382
Note payable	48,600,000	48,600,000	37,360,000	37,360,000
Bonds payable	169,905,000	171,074,000	141,670,000	143,277,000

The carrying amount for cash, interest receivable, and accrued interest payable approximates fair value because of the short maturity of these financial instruments. The fair value of investments are based upon quoted prices.

The carrying value of loans approximates fair value because of the variable rate nature of the majority of loans and the special allowance payments by USDE.

(Continued)

The carrying value of notes payable approximates fair value because all notes are variable rate and approximate rates currently available for notes with similar terms and remaining maturities. The fair value of bonds payable has been determined based on a fair value appraisal performed by a third party broker.

(10) Year 2000 – Required Supplementary Information (unaudited)

The Authority utilizes various computer systems and other electronic equipment to conduct its daily business and to serve the needs of business partners and various customers. The Authority has identified mission critical systems for the Year 2000 and established a Year 2000 plan. In accordance with the Year 2000 plan, the Authority contacted third party providers of computer system and systems applications to determine Year 2000 compliance. All mission critical systems and applications provided by third parties have been represented as being Year 2000 compliant. The majority of mission critical computer applications utilized by the Authority are provided by third parties. The Authority did not have any computer applications that required Year 2000 remediation by Authority staff. In addition, the Authority has conducted testing of hardware and internally created or modified applications to determine Year 2000 compliance. No anomalies were discovered as a result of the Authority's testing.

The Authority has developed contingency plans to address the processing of loan servicing transactions should mission critical systems not be operational for both short and long-term scenarios.

All costs related to the Year 2000 compliance task have been expensed as occurred. No significant amount of resources has been committed to make computer systems and other electronic equipment Year 2000 compliant, nor does the Authority believe the costs and efforts related to the Year 2000 compliance project will be material to its financial position or results of operations.

(11) Subsequent Events

On August 25, 1999 the Authority placed its 1999A-1 Tax Exempt Promissory Note in the amount of $10,455,000 and its 1999A-2 Tax Exempt Promissory Note in the amount of $5,770,000. The 1999A-1 Note has a maturity of June 1, 2029 with a fixed first year interest rate of 4.916%. The 1999A-2 has a maturity of September 1, 2008 with a fixed first year interest rate of 4.916%. The Authority has an annual Prepayment Option on both the 1999A-1 and 1999A-2 Notes at 100% of the principal amount thereof, plus accrued interest. The fixed annual interest rate was set by competitive bids and will be reset if the Prepayment Option is not exercised at a rate equal to the coupon equivalent rate of the most recent auction of 91-day United States Treasury Bills, plus 1.50%. The Noteholder has the annual right to put the 1999A-1 and 1999A-2 Notes to the Authority.