

**OKLAHOMA STUDENT LOAN AUTHORITY**

Financial Statements

June 30, 2000 and 1999

(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, 2000 and 1999, 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 auditing standards generally accepted in the United States of America 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, 2000 and 1999, and the results of its operations and its cash flows for the years then ended in conformity with accounting principals generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 15, 2000, 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

KPMG LLP

September 15, 2000

**OKLAHOMA STUDENT LOAN AUTHORITY**

Balance Sheets

June 30, 2000 and 1999

<b>Assets</b>	<b>2000</b>	<b>1999</b>
Cash	\$ 78,872	125,955
Investments	19,363,162	29,566,787
Interest receivable	9,682,535	6,422,608
Loans, net of allowance for loan losses	325,508,693	229,713,171
Equipment and other assets, net of accumulated depreciation	2,824,947	2,259,168
Total assets	<u>\$ 357,458,209</u>	<u>268,087,689</u>
<b>Liabilities and Retained Earnings</b>		
Accounts payable and other accrued expenses	\$ 319,269	340,268
Accrued interest payable	3,195,345	1,725,438
Arbitrage rebate payable	926,940	952,607
Notes payable	135,825,000	48,600,000
Bonds payable	165,745,000	169,905,000
Total liabilities	<u>306,011,554</u>	<u>221,523,313</u>
Retained earnings:		
Restricted	23,678,017	18,380,483
Unrestricted	27,768,638	28,183,893
	<u>51,446,655</u>	<u>46,564,376</u>
Commitments and contingencies, as described in note 7	<u>—</u>	<u>—</u>
Total liabilities and retained earnings	<u>\$ 357,458,209</u>	<u>268,087,689</u>

See accompanying notes to financial statements.

**OKLAHOMA STUDENT LOAN AUTHORITY**

Statements of Operations and Retained Earnings

Years ended June 30, 2000 and 1999

	<u>2000</u>	<u>1999</u>
Interest income:		
Loan interest income:		
From borrowers	\$ 15,285,686	12,148,096
From U.S. Department of Education (USDE)	7,742,127	4,714,657
Investment interest income	<u>1,072,943</u>	<u>2,274,791</u>
Total interest income	24,100,756	19,137,544
Interest expense	<u>12,941,233</u>	<u>9,688,365</u>
Net interest income	<u>11,159,523</u>	<u>9,449,179</u>
Other operating expense:		
Administrative	3,871,870	3,078,655
External loan servicing fees	629,413	544,005
Professional fees	252,494	167,257
Consolidation rebate fees	597,969	449,013
Provision for loan losses	<u>925,498</u>	<u>—</u>
Total other operating expense	<u>6,277,244</u>	<u>4,238,930</u>
Net income	4,882,279	5,210,249
Retained earnings, beginning of year	<u>46,564,376</u>	<u>41,354,127</u>
Retained earnings, end of year	<u>\$ 51,446,655</u>	<u>46,564,376</u>

See accompanying notes to financial statements.

**OKLAHOMA STUDENT LOAN AUTHORITY**

Statements of Cash Flows

Years ended June 30, 2000 and 1999

	<u>2000</u>	<u>1999</u>
Cash flows from operating activities:		
Net income	\$ 4,882,279	5,210,249
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	1,266,491	821,074
Provision for loan loss	925,498	—
Increase in assets:		
Loans, net	(97,008,014)	(45,791,241)
Interest receivable	(3,259,927)	(1,137,750)
Increase (decrease) in liabilities:		
Accounts payable and other accrued expenses	(20,999)	98,376
Accrued interest payable	1,469,907	25,056
Arbitrage rebate payable	(25,667)	422,002
Net cash used in operating activities	<u>(91,770,432)</u>	<u>(40,352,234)</u>
Cash flows from non-capital financing activities:		
Advances on notes payable	88,835,000	21,240,000
Proceeds from issuance of bonds	—	33,100,000
Payments on notes payable	(1,610,000)	(10,000,000)
Payments on bonds payable	(4,160,000)	(4,865,000)
Other payments for non-capital financing activity	(1,427,959)	(988,640)
Net cash provided by non-capital financing activities	<u>81,637,041</u>	<u>38,486,360</u>
Cash flows from investing activities:		
Proceeds from maturity of investments	147,480,670	169,832,616
Purchases of investments	<u>(137,277,045)</u>	<u>(168,267,304)</u>
Net cash provided by investing activities	<u>10,203,625</u>	<u>1,565,312</u>
Cash flows from capital activities:		
Purchases of equipment and other depreciable assets	<u>(117,317)</u>	<u>(82,837)</u>
Net decrease in cash	(47,083)	(383,399)
Cash at beginning of year	125,955	509,354
Cash at end of year	\$ <u><u>78,872</u></u>	\$ <u><u>125,955</u></u>
Supplemental disclosure of cash flow information:		
Interest paid	\$ <u><u>11,471,326</u></u>	\$ <u><u>9,663,309</u></u>
Interest capitalized on loan balances	\$ <u><u>6,862,191</u></u>	\$ <u><u>4,953,824</u></u>

See accompanying notes to financial statements.

# OKLAHOMA STUDENT LOAN AUTHORITY

## Notes to Financial Statements

June 30, 2000 and 1999

### (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 Authority also performs origination and interim status servicing for other Federal Family Education Loan (FFEL) Program lenders in addition to providing a secondary market for FFEL Program loans for participating financial institutions. The student loans held 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 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).

As of June 30, 2000 and 1999, the Authority serviced approximately \$44,129,000 and \$50,795,000, respectively, in FFEL Program 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.

# OKLAHOMA STUDENT LOAN AUTHORITY

## Notes to Financial Statements

June 30, 2000 and 1999

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, 2000 approximately \$302,600,000 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, 2000 and 1999 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.

# OKLAHOMA STUDENT LOAN AUTHORITY

## Notes to Financial Statements

June 30, 2000 and 1999

**(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, 2000 and 1999 was approximately \$4,986,000 and \$4,157,000, respectively. The other type of interest payment from the USDE is "Special Allowance Payments". The rates for Special Allowance Payments are based on quarterly formulas that differ according to the type of loan, the date the loan was first disbursed, the interest rate and the type of funds used to finance such loans (tax-exempt or taxable). These rates are based upon the average rate established in the auctions of 91-day U.S. Treasury bills during such quarter or the quotes of 3-month commercial paper (financial) in effect for each of the days in such quarter (see note 8). Special allowance income from USDE for the years ended June 30, 2000 and 1999, was approximately \$2,756,000 and \$558,000, 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, 2000 and 1999, was approximately \$691,000 and \$669,000, respectively. Maintenance of equipment and other assets is expensed as incurred.

**(i) Cash**

The Authority only considers cash in demand deposit accounts, which are entirely insured, 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 \$1,000,000 and \$1,250,000 as of June 30, 2000 and 1999, respectively. The securities underlying this repurchase agreement are held by an independent custodian in the

## OKLAHOMA STUDENT LOAN AUTHORITY

### Notes to Financial Statements

June 30, 2000 and 1999

name of the seller of the purchased securities. Repurchase agreements are collateralized by U.S. government securities or securities guaranteed by the U.S. government at 100%. At June 30, 2000 and 1999, all of the Authority's investments are held by the Authority or its agent in the Authority's name and, except for the repurchase agreement described above, are defined as Category 1 by GASB Statement No. 3. The repurchase agreement is defined as Category 3 by GASB Statement No. 3 because the repurchase agreement is not held in the Authority's name or for the account of the Authority. The investments at fair value consist of the following at June 30, 2000 and 1999:

	2000	1999
U.S. Treasury Securities:		
Unencumbered	\$ —	750,000
Pledged (A)	229,000	229,000
Repurchase Agreements:		
Pledged (A)	5,465,118	4,396,718
U.S. Government securities based		
Mutual funds:		
Unencumbered	1,569,045	4,780,442
Pledged (A)	12,099,999	19,410,627
Total investments	\$ 19,363,162	29,566,787

(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 Subsidized 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 4.67% to 11% for the Fiscal Year ended June 30, 2000 depending upon the type and date of origination of the individual loan.

## OKLAHOMA STUDENT LOAN AUTHORITY

### Notes to Financial Statements

June 30, 2000 and 1999

Loans consist of the following at June 30, 2000 and 1999:

	<b>2000</b>	<b>1999</b>
Stafford – Subsidized	\$ 156,255,041	113,852,983
Stafford – Unsubsidized	82,671,740	49,370,717
PLUS/SLS	20,865,342	17,730,985
Consolidation	64,833,445	49,794,965
Unprocessed Deposits	(410,665)	(879,599)
Total gross loans	324,214,903	229,870,051
Net deferred premium and loan cost	3,577,334	1,459,919
Allowance for loan loss	(2,283,544)	(1,616,799)
Net loans	\$ 325,508,693	229,713,171

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. Guarantee fees are capitalized when the loan is made and are amortized, using the interest method, over the estimated economic life of the loan. The capitalized guarantee fees, net of accumulated amortization, at June 30, 2000 and 1999, were approximately \$1,616,000 and \$688,000, respectively. In order for the loans to be or remain guaranteed, certain due diligence requirements in loan servicing must be met. As of June 30, 2000 and 1999, respectively, approximately \$185,000 and \$180,000 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 and Rebate 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, 2000 and 1999, were approximately \$765,000 and \$801,000, respectively.

Generally, 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.

# OKLAHOMA STUDENT LOAN AUTHORITY

## Notes to Financial Statements

June 30, 2000 and 1999

### (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, 2000 and 1999. The Authority is in compliance with all significant financing agreement requirements and bond covenants.

Notes payable at June 30, 2000 and 1999 consist of the following:

\$100,000,000 Taxable Variable Rate Revenue Note (line of credit), Series 1993L (1993L), dated April 26, 2000, as modified, payable to BankOne, Oklahoma, N.A. The interest rate is adjusted weekly based on the 91-day U.S. Treasury bill auction rate plus 1%. The interest rates were 6.84% and 5.89% as of June 30, 2000 and 1999, respectively. The principal is due at maturity on November 30, 2002. Advances and payments can be made under the provisions of the note, provided that the amount outstanding does not exceed the note amount. Subsequent to June 30, 2000, the Authority increased the line of credit to \$125,000,000 to ensure availability of funds to meet current needs.

\$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 4.42% and 3.55% as of June 30, 2000 and 1999, 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 4.75% and 3.40% as of June 30, 2000 and 1999, respectively. The principal is due at maturity on September 1, 2025.

\$10,455,000 1999A-1 Tax Exempt Promissory Note (1999A-1) dated August 25, 1999. The interest rate is a fixed first year interest rate of 4.92% as of June 30, 2000. The interest rate was set by competitive bids (see note 10). The principal is due at maturity on June 1, 2029.

\$5,770,000 1999A-2 Tax Exempt Promissory Note (1999A-2) dated August 25, 1999. The interest rate is a fixed first year interest rate of 4.92% as of June 30, 2000. The interest rate was set by competitive bids (see note 10). The principal is due at maturity on September 1, 2008.

## OKLAHOMA STUDENT LOAN AUTHORITY

### Notes to Financial Statements

June 30, 2000 and 1999

The following table summarizes the balances due on the notes payable as of June 30, 2000 and 1999:

	<b>2000</b>	<b>1999</b>
1993L	\$ 91,000,000	20,000,000
1995A-1	21,600,000	21,600,000
1995A-2	7,000,000	7,000,000
1999A-1	10,455,000	—
1999A-2	5,770,000	—
	\$ 135,825,000	48,600,000

Bonds payable as of June 30, 2000 and 1999 consist of the following:

	<b>2000</b>	<b>1999</b>
Oklahoma Student Loan Authority:		
6.30% - 6.70% Series 1992A, due serially through 9-1-05	\$ 16,680,000	20,840,000
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	33,100,000
	\$ 165,745,000	169,905,000

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 4.45% and 3.65% as of June 30, 2000 and 1999, respectively. The Series 1994A-2 Bonds are based on a one year auction period with a rate of 4.98% and 3.65% as of June 30, 2000 and 1999, respectively.

The variable rates on the 1996A bonds are set on a weekly basis by the Remarketing Agent, with a rate of 4.65% and 3.55% as of June 30, 2000 and 1999, respectively.

# OKLAHOMA STUDENT LOAN AUTHORITY

## Notes to Financial Statements

June 30, 2000 and 1999

The variable rates of the 1997A bonds are set on a weekly basis by the Remarketing Agent, with a rate of 4.70% and 3.50% as of June 30, 2000 and 1999, respectively.

The variable rates on the 1998A bonds are set on a weekly basis by the Remarketing Agent, with a rate of 4.70% and 3.50% as of June 30, 2000 and 1999, respectively.

Fiscal year debt service requirements to maturity or redemption date, assuming interest rates on variable rate debt remains at June 30, 2000 levels, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2001	\$ 19,890,000	15,591,000	35,481,000
2002	3,345,000	15,256,000	18,601,000
2003	93,930,000	11,442,000	105,372,000
2004	2,240,000	8,678,000	10,918,000
2005	7,875,000	8,286,000	16,161,000
2006 – 2029	<u>174,290,000</u>	<u>153,580,000</u>	<u>327,870,000</u>
	<u>\$ 301,570,000</u>	<u>212,833,000</u>	<u>514,403,000</u>

### 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.

**OKLAHOMA STUDENT LOAN AUTHORITY**

Notes to Financial Statements

June 30, 2000

	<b>General Bond Resolution (92A &amp; 94A)</b>	<b>Line of Credit Financing (1993L)</b>	<b>Master Bond Resolution (95A/B &amp; 96B)</b>	<b>3rd Party Enhanced Resolution (96A, 97A &amp; 98A)</b>	<b>Private Placement Notes (1999A)</b>	<b>General Funds</b>	<b>Total</b>
<b>Assets:</b>							
Cash and investments	\$ 8,696,985	1,153,396	2,256,586	2,283,168	583,260	4,468,639	19,442,034
Loans, net of allowance (a)	52,129,712	90,531,392	46,644,702	97,954,033	15,742,957	22,505,897	325,508,693
Other assets (b)	2,397,366	3,991,810	2,167,043	4,500,415	824,998	(1,374,150)	12,507,482
Total assets	\$ <u>63,224,063</u>	<u>95,676,598</u>	<u>51,068,331</u>	<u>104,737,616</u>	<u>17,151,215</u>	<u>25,600,386</u>	<u>357,458,209</u>
<b>Liabilities and retained earnings:</b>							
Accounts payable and other accrued expenses (b)	\$ 1,064,373	423,872	358,882	619,133	30,838	(2,177,829)	319,269
Accrued interest payable	749,982	1,481,706	464,656	352,745	136,679	9,577	3,195,345
Arbitrage rebate payable	14,020	—	141,150	771,770	—	—	926,940
Notes and bonds payable	48,880,000	91,000,000	46,785,000	98,680,000	16,225,000	—	301,570,000
Total liabilities	<u>50,708,375</u>	<u>92,905,578</u>	<u>47,749,688</u>	<u>100,423,648</u>	<u>16,392,517</u>	<u>(2,168,252)</u>	<u>306,011,554</u>
Retained earnings, beginning of year	11,033,764	1,370,232	2,814,010	3,162,477	—	28,183,893	46,564,376
Equity transfers	406,738	1,615,690	(343,255)	(580,204)	671,250	(1,770,219)	—
Adjusted retained earnings, beginning of year	<u>11,440,502</u>	<u>2,985,922</u>	<u>2,470,755</u>	<u>2,582,273</u>	<u>671,250</u>	<u>26,413,674</u>	<u>46,564,376</u>
<b>Current operations:</b>							
Interest and other revenue	4,932,690	3,887,041	4,091,007	8,085,133	1,076,749	2,028,136	24,100,756
Less: interest expense	(2,496,958)	(3,427,315)	(2,135,780)	(4,202,650)	(678,530)	—	(12,941,233)
Less: operating expenses	<u>(1,360,546)</u>	<u>(674,628)</u>	<u>(1,107,339)</u>	<u>(2,150,788)</u>	<u>(310,771)</u>	<u>(673,172)</u>	<u>(6,277,244)</u>
Net income	1,075,186	(214,902)	847,888	1,731,695	87,448	1,354,964	4,882,279
Retained earnings, end of year	<u>12,515,688</u>	<u>2,771,020</u>	<u>3,318,643</u>	<u>4,313,968</u>	<u>758,698</u>	<u>27,768,638</u>	<u>51,446,655</u>
Total liabilities and retained earnings	\$ <u>63,224,063</u>	<u>95,676,598</u>	<u>51,068,331</u>	<u>104,737,616</u>	<u>17,151,215</u>	<u>25,600,386</u>	<u>357,458,209</u>

(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, 2000.

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

**OKLAHOMA STUDENT LOAN AUTHORITY**

Notes to Financial Statements

June 30, 1999

	<b>General Bond Resolution (92A &amp; 94A)</b>	<b>Line of Credit Financing (1993L)</b>	<b>Master Bond Resolution (95A/B &amp; 96B)</b>	<b>3rd Party Enhanced Resolution (96A, 97A &amp; 98A)</b>	<b>General Funds</b>	<b>Total</b>
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)	2,600,366	719,926	2,112,869	3,911,105	(662,490)	8,681,776
Total assets	\$ <u>66,024,745</u>	<u>25,441,482</u>	<u>50,457,128</u>	<u>103,481,594</u>	<u>22,682,740</u>	<u>268,087,689</u>
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	<u>54,990,981</u>	<u>24,071,250</u>	<u>47,643,118</u>	<u>100,319,117</u>	<u>(5,501,153)</u>	<u>221,523,313</u>
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	<u>9,864,864</u>	<u>1,097,184</u>	<u>1,999,456</u>	<u>1,558,387</u>	<u>26,834,236</u>	<u>41,354,127</u>
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	<u>(1,231,714)</u>	<u>(41,543)</u>	<u>(926,557)</u>	<u>(1,570,134)</u>	<u>(468,982)</u>	<u>(4,238,930)</u>
Net income	1,168,900	273,048	814,554	1,604,090	1,349,657	5,210,249
Retained earnings, end of year	<u>11,033,764</u>	<u>1,370,232</u>	<u>2,814,010</u>	<u>3,162,477</u>	<u>28,183,893</u>	<u>46,564,376</u>
Total liabilities and retained earnings	\$ <u>66,024,745</u>	<u>25,441,482</u>	<u>50,457,128</u>	<u>103,481,594</u>	<u>22,682,740</u>	<u>268,087,689</u>

(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.

# OKLAHOMA STUDENT LOAN AUTHORITY

## Notes to Financial Statements

June 30, 2000 and 1999

### **(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 2000 and 1999.

The Authority itself is required to contribute a legislated rate on regular annual compensation for administration of the Plan. In 2000 and 1999, the contribution rate for the Authority was 12.5% and 11.5%, 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 2000 and 1999, the actual net contribution rate due from the Authority was 4.8%.

The Authority's contributions to TRS were approximately \$189,000, \$173,000, and \$161,000, for the years ended June 30, 2000, 1999, and 1998, 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 FFEL Program loans to the Authority and the Authority is required to purchase the loans under certain terms and conditions. As of June 30, 2000 and 1999, the Authority was committed to purchase approximately \$44,129,000 and \$50,795,000, respectively, in such FFEL Program loans that the Authority is servicing.

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

# OKLAHOMA STUDENT LOAN AUTHORITY

## Notes to Financial Statements

June 30, 2000 and 1999

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, and Reauthorization of the Higher Education Act signed into law on October 7, 1998, lowered the interest rate on FFEL Program Stafford loans first disbursed from July 1, 1998 through June 30, 2003. The new interest rates, together with Special Allowance Payments paid by USDE, represented a yield reduction to FFEL Program lenders and holders 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.

Legislation signed into law on December 17, 1999 changed the index for Special Allowance Payments rates for loans first disbursed on or after January 1, 2000 and before June 30, 2003 from the 91-day U.S. Treasury Bill average auction rate to the average rates of the quotes of the 3-month commercial paper (financial) rates in effect for each of the days in such quarter and changed the Special Allowance Payments formulas for such loans.

### (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:

	2000		1999	
	<u>Carrying Amount</u>	<u>Estimated Fair Value</u>	<u>Carrying Amount</u>	<u>Estimated Fair Value</u>
Financial assets:				
Cash	\$ 1,821,885	1,821,885	356,039	356,039
Investments	17,620,149	17,620,149	29,336,703	29,336,703
Interest receivable	9,682,535	9,682,535	6,422,608	6,422,608
Loans	325,508,693	325,508,693	229,713,171	229,713,171
Financial liabilities:				
Accrued interest payable	3,195,345	3,195,345	1,725,438	1,725,438
Note payable	135,825,000	135,825,000	48,600,000	48,600,000
Bonds payable	165,745,000	165,978,666	169,905,000	171,074,000

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 is 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.

# OKLAHOMA STUDENT LOAN AUTHORITY

## Notes to Financial Statements

June 30, 2000 and 1999

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) Subsequent Events**

On July 25, 2000, the Authority placed its \$3,665,000 2000N tax-exempt Promissory Note (2000N) due September 1, 2008 (subject to the holder's put option on July 24, 2001 and periodically thereafter) in a private placement at a monthly variable interest rate equal to eighty percent (80%) of the one (1) month LIBOR rate, initially 5.296%. 2000N was placed on a parity with the Authority's outstanding \$10,455,000 tax-exempt 1999A-1 Promissory Note (1999A-1) and its \$5,770,000 tax-exempt 1999A-2 Promissory Note (1999A-2). 2000N was delivered to provide for the payment of (current refund) the September 1, 2000 maturity of the Authority's Series 1992A Bonds. At the same time 1999A-2 was amended and restated to bear an interest rate identical to 2000N.

On August 31, 2000, the Authority placed its \$120,945,000 Oklahoma Student Loan Bonds and Notes, Series 2000A, consisting of:

- \$50,000,000 Series 2000A-1 Bonds (Taxable 28-day Auction Rate Bonds) maturing June 1, 2030;
- \$25,000,000 Series 2000A-2 Bonds (Taxable 28-day Auction Rate Bonds) maturing June 1, 2030;
- \$25,000,000 Series 2000A-3 Bonds (Taxable 28-day Auction Rate Bonds) maturing June 1, 2030; and
- \$20,945,000 Series 2000A-4 Bonds (Tax Exempt Weekly Rate Bonds) maturing June 1, 2029.

The issuance of the Series 2000A Bonds was authorized by a Supplemental Bond Resolution adopted by the Trustees of the Authority on August 22, 2000. The Series 2000A Bonds are secured on a parity with the 1996A, 1997A and 1998A Bonds under the Authority's Series 1996A Bond Resolution, as supplemented and amended, that was adopted on November 4, 1996. The Series 2000A-4 Bonds have a maximum rate of 12% per annum, except for any bonds held by the liquidity facility provider under a standby bond purchase agreement with the Authority. The Series 2000A-1, 2000A-2 and 2000A-3 Bonds have a maximum auction rate of 17%, subject to a carry-over amount if the auction rate is greater than the maximum auction rate. Proceeds of the Series 2000A Bonds were used to refund the 1999A-1 Promissory Note on September 1, 2000, and will be used to finance permanently FFEL Program loans, which will provide for a reduction in the outstanding amount of the 1993L Revenue Note.