Financial statements and reports of independent certified public accountants

Oklahoma Student Loan Authority

June 30, 2004 and 2003

CONTENTS

Oklahoma Student Loan Authority
Management's Discussion and Analysis

The Oklahoma Student Loan Authority (Authority) functions as a secondary market for the purchase of student loans from other lenders and as a servicer of student loans. As a servicer of student loans, the Authority services its own student loans and provides origination and pre-acquisition interim servicing for 33 other eligible lenders, which are members of the OSLA Student Lending Network. In addition, the Authority provides and supports its in-house loan servicing system for remote use by other eligible lenders. As a member of the OSLA Student Lending Network, the remote servicing lenders are responsible for their own origination and interim servicing of their student loans.

The loan servicing work performed by the Authority is done under the registered tradename "OSLA Student Loan Servicing™". Each member of the OSLA Student Lending Network is required to sell its student loans to the Authority before repayment of the loans begin.

This section of the Authority's annual financial report presents a discussion and analysis of the Authority's financial performance for the fiscal year ended June 30, 2004. Please read it in conjunction with the Authority's financial statements and the notes to the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS:

- The Authority's total assets at June 30, 2004 were approximately, $731,574,000, which is an increase of approximately $111,602,000 or 18% over June 30, 2003.

- The Authority's net student loans at June 30, 2004 were approximately $691,082,000, which is an increase of approximately $137,183,000 or 25% over June 30, 2003.

- The Authority's total operating revenues, net of consolidation rebate fees, was approximately $19,579,000 and interest expense was approximately $10,452,000 for the fiscal year ended June 30, 2004, resulting in a net interest margin of approximately $9,127,000. This is a decrease of approximately $233,000 or 3% from the fiscal year ended June 30, 2003.

- The Authority's total other operating expenses (see page iv) for the fiscal year ended June 30, 2004 were approximately $6,305,000, which is an increase of $155,000 or 3% over the fiscal year ended June 30, 2003.

- The Authority's change in fund equity for the fiscal year ended June 30, 2004 was approximately $2,822,000, which is a decrease of approximately $388,000 or 12% from the change in fund equity for the fiscal year ended June 30, 2003.

OVERVIEW OF THE FINANCIAL STATEMENTS:

In accordance with the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 20, the Authority's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (USGAAP), unless such statements are in direct conflict with statements issued by the GASB. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred. The format of the Authority's financial statements is presented in conformity with GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments".

CRITICAL ACCOUNTING POLICIES:

USGAAP requires Authority management to make estimates and assumptions and use judgments that affect reported income, expenses, assets and liabilities and disclosure of contingent assets and liabilities during reporting periods.

The Authority generates most of its Operating Revenues from borrower interest, and subsidized interest and special allowance from the U.S. Department of Education, on its student loan portfolio. Certain Authority policies affect the generation of Operating Revenues.

The Authority offers the following incentive programs to our borrowers:

TOP Interest Rate Reduction – Most of the Authority's Stafford Loan and PLUS borrowers, including borrowers on loans that the Authority services for the OSLA Student Lending Network and will purchase in the future, can earn a 1.5% interest rate reduction by making their first twelve payments on time. The reduced interest rate will apply for the life of the loan after it has been earned.

EZ PAY Interest Rate Reduction – Borrowers can earn a 0.33% interest rate reduction by using the Authority's electronic debit for making their monthly payments. The reduced interest rate will apply as long as the borrower uses OSLA's electronic debit, EZ PAY, for making monthly payments.

TOP Principal Reduction – Borrowers can earn a 1% reduction in the principal amount of their loans by making their first three payments on time.

Consolidation Loan Principal Reduction – Consolidation loan borrowers can earn a 1% reduction in the principal amount of their loan by making their first six payments on time.

The achievement of the TOP and EZ PAY Interest Rate Reduction programs results in a reduction, and will result in a future reduction, in Operating Revenues received and in the average yield for the total student loan portfolio.

The Authority expenses the cost associated with the TOP and Consolidation Loan Principal Reduction programs in the period the incentive was earned as a reduction to loan interest income from borrowers.

The Authority capitalizes various out-of-pocket costs and amortizes these costs over an estimated life. These capitalized costs include:

Premiums on Loan Acquisitions – Premiums are amortized as a reduction to loan interest from borrowers over the estimated life of the loans, not to exceed 72 months

Capitalized Loan Origination Costs – The direct costs associated with originating the loans are amortized as a reduction to loan interest from borrowers over the estimated life of the loans based on loan types, not to exceed 72 months.

Deferred Guarantee Fees – Fees paid to guarantors between July 1, 1999 and June 30, 2001 are amortized as a reduction to loan interest from borrowers over the estimated life of the loans, not to exceed 72 months.

Deferred Financing Costs – The cost associated with the issuance of the Authority's bonds and notes payable are amortized over the estimated life of the debt issue, not to exceed 72 months.

The Authority maintains an Allowance for Loan Losses to provide for estimated losses in the loan portfolio. The Authority will write off loans as uncollectible when that determination is made and will write off 2% of the principal balance upon payment of default claims filed with guarantors. The balance of the Allowance for Loan Losses is an estimate of existing losses in the Authority's current portfolio of student loans. The Authority updates the balance of the Allowance for Loan Losses by periodic expenses through the Provision for Loan Losses.

FINANCIAL ANALYSIS OF THE AUTHORITY:

The Authority's total fund equity at June 30, 2004 was approximately $70,174,000, which is an increase of approximately $2,822,000 or 4% over June 30, 2003. Components of the Authority's balance sheet as of June 30, 2004 and June 30, 2003 were as follows:

	2004	2003
Current assets	$ 4,615,138	$ 15,087,389
Capital assets	1,170,961	1,619,143
Other noncurrent assets	27,868,021	12,013,133
Restricted assets	697,919,935	591,252,064
Total Assets	$ 731,574,055	$619,971,729
Current liabilities	$ 302,039	$ 240,180
Current liabilities payable from restricted assets	2,388,328	2,026,248
Noncurrent liabilities payable from restricted assets	658,710,021	550,353,259
Total Liabilities	661,400,388	552,619,687
Fund equity:		
Invested in capital assets	1,170,961	1,619,144
Restricted	36,821,586	38,872,557
Unrestricted	32,181,120	26,860,342
Total Fund Equity	70,173,667	67,352,042
Total Liabilities and Fund Equity	$ 731,574,055	$619,971,729

The growth noted above in the Authority's total assets is the continuation of a trend of significant growth in prior years. Net student loans grew from approximately $553,899,000 at June 30, 2003 to approximately $691,082,000 at June 30, 2004. The growth in liabilities over the past year relates to the issuance of the Series 2004A-1 bonds and notes in January, 2004 totaling

$40,625,000; and, an increase in the commercial bank line of credit usage by $67,700,000. The growth noted above in the Authority's Fund Equity is the continuation of a trend of significant loan growth and positive operating results of the Authority.

For the fiscal year ended June 30, 2004, the Authority acquired or originated student loans with a principal balance of approximately $274,603,000. This was a 48% increase compared to the $185,125,000 acquired or originated in the fiscal year ended June 30, 2003. This increase was due in part to accelerated loan purchases from various lenders in the OSLA Student Lending Network that chose to start selling their loans after full disbursement rather than holding the loans until the grace period. In addition, the origination of Consolidation Loans, mostly consolidating loans currently in our own portfolio, increased significantly. At June 30, 2004, consolidation loans represented approximately 42% of our repayment status portfolio.

The Authority's change in fund equity for the fiscal year ended June 30, 2004 was approximately $2,822,000, which is a decrease of approximately $388,000 or 12% from the change in fund equity for the fiscal year ended June 30, 2003. Components of the statement of revenues, expenses and changes in fund equity for the fiscal years ending June 30, 2004 and June 30, 2003 are as follows:

	2004	**2003**
Loan interest income, net of consolidation rebate fees	$ 19,221,958	$ 19,990,765
Investment interest income	356,856	1,087,461
Operating revenue	19,578,814	21,078,226
Less: Interest expense	10,452,080	11,718,639
Net Interest Margin	9,126,734	9,359,587
Less: Other operating expenses:		
General administration	4,984,844	4,477,367
External loan servicing	132,501	256,764
Professional fees	291,764	397,148
Provision for loan losses	896,000	1,018,300
Total other operating expenses	6,305,109	6,149,579
Change in fund equity	$ 2,821,625	$ 3,210,008

The Change in Fund Equity of approximately $2,822,000 for the year ended June 30, 2004 relates to both the Authority's debt service funds (which serve as collateral on outstanding bonds and notes) and to the Authority's general funds.

The decrease noted above in loan interest income for the fiscal year ended June 30, 2004 is related to decreases in the variable interest rates on the student loans. The variable interest rates on student loans are reset annually on July 1st. The variable rates for the fiscal year ended June 30, 2004 ranged from 2.82% to 4.22% and the variable rates for the fiscal year ended June 30, 2003 ranged from 3.46% to 4.86%.

The Authority funds the origination or acquisition of student loans by periodically issuing bonds and notes and by reinvesting principal payments received on existing loans. The decrease noted above in interest expense for the fiscal year ended June 30, 2004 is related to lower interest rates for the fiscal year ended June 30, 2004. The majority of the Authority's bonds and notes are variable interest rate debt. The decrease in interest expense due to lower interest rates was partially offset by the increase of $108,325,000 principal amount in bonds and notes outstanding during the fiscal year ended June 30, 2004.

The decrease in provision for loan losses is related to the Authority's reconciliation of it's allowance for loan losses account to the projected loan losses based on historical trends over the life of the related student loans.

As noted above, the Authority's other operating expenses for the fiscal year ended June 30, 2004 grew by only 3% over the previous fiscal year. The increase in other operating expenses was related primarily to increased depreciation and amortization of fixed assets and deferred costs. The Authority prepares an annual operating budget that is used as a management tool for tracking the various operating expenses. There were no significant variances between the budget and actual operating expenses for the fiscal year ended June 30, 2004.

DEBT ADMINISTRATION:

The Authority funds student loan notes receivable by issuing tax-exempt and taxable bonds and notes. The bonds and notes must be approved by the State of Oklahoma bond oversight process prior to being issued. Tax-exempt bonds or notes also must receive an allocation of the State of Oklahoma private activity volume ceiling or "cap". In addition, the issues must comply with federal statutes and with the rules and regulations of the United States Treasury Department and the United States Securities and Exchange Commission.

At June 30, 2004, the Authority had $658,410,000 principal amount of bonds and notes payable outstanding, an increase of 20% from the $550,085,000 principal amount outstanding at June 30, 2003. Detailed information on the Authority's debt is presented in note E to the financial statements.

$586,110,000 of Authority debt is publicly held and has long term credit ratings assigned by Moody's Investors Service (Moody's) and Standard and Poor's (S&P) based on the type of security as shown in the table below. The credit ratings have been maintained and periodically the ratings have been confirmed in connection with new parity debt issues or extensions of recycling periods.

Credit Rating(s)	Principal Amount	Type of Security
Aaa Moody's/AAA S&P	$510,725,000	Senior Lien or Insured
Aaa Moody's	$32,200,000	Over Collateralized
A2 Moody's/A S&P	$43,185,000	Subordinate Bonds

$191,205,000 of the Authority debt listed above bears a Weekly Rate and, in addition to the long-term ratings, also has short-term ratings by Moody's (VMIG-1) and S&P (A-1+ or A-1).

The Authority meets its temporary requirements for funding student loan notes receivable through a taxable, revolving warehouse line of credit provided by commercial banks. The commitment amount of the line of credit is $85,000,000, of which $72,300,000 principal amount was outstanding at June 30, 2004. The line of credit is not rated by a credit rating agency.

CONDITIONS AFFECTING FINANCIAL POSITION:

At June 30, 2004, the Authority was servicing and committed to purchase student loans from members of the OSLA Student Lending Network with a principal balance of approximately $101,864,000. The total portfolio of gross student loans that the Authority owns or services for members of the OSLA Student Lending Network was approximately $778,040,000 at June 30, 2004. This is an increase of approximately $130,717,000 or 20% over this total as of June 30, 2003.

The Authority has experienced significant growth in all aspects of its operations. With the growth in the volume of student loan applications being processed and the growth in the total loan portfolio serviced by the Authority, particularly the growth in repayment status loans; the Authority's fiscal year 2005 budget reflects continued growth. The Authority's budgeted administrative expenses for fiscal year 2005 reflect the additional costs to be incurred as a result of the Authority's growth.

Lower market interest rates at June 30, 2004 means that student loan interest rates on outstanding student loans will be reduced in the fiscal year ending June 30, 2005, causing a reduction in the average yield for the total student loan portfolio. The variable student loan rates on Stafford and PLUS loans for the fiscal year ending June 30, 2005 range from 2.72% to 4.17% compared to 2.82% to 4.22% for the fiscal year ended June 30, 2004.

The Federal Consolidation Loan portfolio continues to grow and become a larger percentage of the Authority's total portfolio. At June 30, 2004, the Federal Consolidation Loans were 28% of the Authority's gross student loans, an increase from 23% at June 30, 2003. This growth results in a proportionate growth in the volume of Consolidation Loan Rebate Fees that the Authority pays to the US Department of Education on our outstanding portfolio of Federal Consolidation Loans.

The majority of the Authority's bonds and notes payable bear a short-term variable rate of interest. In the fiscal year ending June 30, 2005, it is generally expected that interest rates on borrowed funds will increase, resulting in an increased interest expense. In that event, except for PLUS loans, we expect that the increase in cost of funds will be offset by an increase in Special Allowance paid by the U.S. Department of Education. The increased Special Allowance payments would increase our loan interest income and have the effect of increasing the yield on the student loans that we hold, and those that we are committed to purchase from the OSLA Student Lending Network,

The Authority's budgets for funding the growth of student loans are based on a larger proportion of taxable debt, with correspondingly higher interest rates than tax-exempt debt, in the Authority's outstanding bonds and notes. This increase in taxable debt in proportion to tax-exempt debt will cause an increase to the overall average rate paid for interest expense.

Grant Thornton

Accountants and Business Advisors

Report of Independent Certified Public Accountants

Trustees
Oklahoma Student Loan Authority

We have audited the accompanying balance sheets of the Oklahoma Student Loan Authority (the Authority), a component unit of the State of Oklahoma, as of June 30, 2004 and 2003, and the related statements of revenues, expenses and changes in fund equity and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. 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 as established by the Auditing Standards Board of the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2004 and 2003, and its revenues, expenses and changes in fund equity and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2004 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages i through vi is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Grant Thornton LLP

Oklahoma City, Oklahoma
October 8, 2004

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Oklahoma Student Loan Authority

BALANCE SHEETS

June 30,

ASSETS	**2004**	2003
Current assets		
Cash	**$ 1,226**	$ 9,094
Investments	**4,468,166**	14,994,082
Interest receivable	**145,746**	84,213
Total current assets	**4,615,138**	15,087,389
Noncurrent assets		
Loans, net of allowance for loan losses	**27,635,072**	11,886,827
Capital assets, net of accumulated depreciation	**1,170,961**	1,619,143
Other noncurrent assets	**232,949**	126,306
Total noncurrent assets	**29,038,982**	13,632,276
Restricted assets		
Cash	**178,422**	961,956
Investments	**20,429,740**	33,034,384
Interest receivable	**11,767,828**	12,260,075
Loans, net of allowance for loan losses	**663,446,532**	542,011,950
Other restricted assets	**2,097,413**	2,983,699
Total restricted assets	**697,919,935**	591,252,064
TOTAL ASSETS	**$731,574,055**	$619,971,729
LIABILITIES AND FUND EQUITY		
Current liabilities		
Accounts payable and other accrued expenses	**$ 302,039**	$ 240,180
Current liabilities payable from restricted assets		
Accounts payable and other accrued expenses	**951,594**	933,082
Accrued interest payable	**1,436,734**	1,093,166
Total current liabilities payable from restricted assets	**2,388,328**	2,026,248
Noncurrent liabilities payable from restricted assets		
Arbitrage rebate payable	**300,021**	268,259
Notes payable	**150,900,000**	83,200,000
Bonds payable	**507,510,000**	466,885,000
Total noncurrent liabilities payable from restricted assets	**658,710,021**	550,353,259
Total liabilities	**661,400,388**	552,619,687
Commitments and contingencies	**-**	-
Fund equity		
Invested in capital assets	**1,170,961**	1,619,143
Restricted	**36,821,586**	38,872,557
Unrestricted	**32,181,120**	26,860,342
Total fund equity	**70,173,667**	67,352,042
TOTAL LIABILITIES AND FUND EQUITY	**$731,574,055**	$619,971,729

The accompanying notes are an integral part of these statements.

Oklahoma Student Loan Authority

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY

Year ended June 30,

	2004	2003
Operating revenues		
Loan interest income		
From borrowers	**$13,767,756**	$14,816,422
From U.S. Department of Education (USDE)	**7,180,932**	6,362,308
Investment interest income	**356,856**	1,087,461
Total operating revenues	**21,305,544**	22,266,191
Operating expenses		
Interest	**10,452,080**	11,718,639
General administration	**4,984,844**	4,477,367
External loan servicing fees	**132,501**	256,764
Professional fees	**291,764**	397,148
Consolidation rebate fees	**1,726,730**	1,187,965
Provision for loan losses	**896,000**	1,018,300
Total operating expenses	**18,483,919**	19,056,183
CHANGE IN FUND EQUITY	**2,821,625**	3,210,008
Fund equity at beginning of year	**67,352,042**	64,142,034
Fund equity at end of year	**$70,173,667**	$67,352,042

The accompanying notes are an integral part of these statements.

Oklahoma Student Loan Authority

STATEMENTS OF CASH FLOWS

Year ended June 30,

	2004	2003
Cash flows from operating activities		
Receipts of interest income from borrowers	**$ 18,376,139**	$ 19,489,908
Receipts of interest income from USDE	**6,768,229**	6,428,586
Receipts of interest on investments	**423,138**	1,327,887
Payments for interest on notes and bonds payable	**(9,651,458)**	(11,456,922)
Payments to Internal Revenue Service for arbitrage rebate	**(3,000)**	(373,806)
Payments to employees and suppliers	**(6,426,871)**	(5,841,027)
Net cash provided by operating activities	**9,486,177**	9,574,626
Cash flows from noncapital financing activities		
Advances on notes payable	**67,700,000**	6,130,000
Proceeds from issuance of bonds	**40,625,000**	40,625,000
Payments of debt financing costs	**(281,566)**	(283,626)
Payments on notes payable	**-**	(2,930,000)
Payments on bonds payable	**-**	(9,670,000)
Net cash provided by noncapital financing activities	**108,043,434**	33,871,374
Cash flows from investing activities		
Proceeds from maturity of investments	**292,567,373**	318,942,739
Receipts of loan principal payments	**149,844,718**	116,139,110
Increase in student loan notes receivable	**(291,172,744)**	(198,117,135)
Purchases of investments	**(269,436,813)**	(279,634,299)
Net cash used in investing activities	**(118,197,466)**	(42,669,585)
Cash flows from capital activities		
Purchases of capital assets	**(123,547)**	(603,577)
NET INCREASE (DECREASE) IN CASH	**(791,402)**	172,838
Cash at beginning of year (including $961,956 and $783,681 for 2004 and 2003, respectively, reported in restricted assets)	**971,050**	798,212
Cash at end of year (including $178,422 and $961,956 for 2004 and 2003, respectively, reported in restricted assets)	**$ 179,648**	$ 971,050

Oklahoma Student Loan Authority

STATEMENTS OF CASH FLOWS - CONTINUED

Year ended June 30,

	2004	2003
Reconciliation of change in fund equity to net cash provided by operating activities		
Change in fund equity	**$ 2,821,625**	$ 3,210,008
Adjustments to reconcile change in fund equity to net cash provided by operating activities		
Depreciation on capital assets	**411,479**	473,490
Amortization of loan origination costs, guarantee fees and premiums on loan acquisition	**3,796,484**	3,147,306
Amortization of deferred financing costs	**457,054**	610,190
Provision for loan losses	**896,000**	1,018,300
Loss on long-term investment	**60,251**	-
(Increase) decrease in assets		
Interest receivable	**430,714**	1,726,369
Other assets	**156,869**	(93,615)
Increase (decrease) in liabilities		
Accounts payable and other accrued expenses	**80,371**	98,343
Accrued interest payable	**343,568**	(348,473)
Arbitrage rebate payable	**31,762**	(267,292)
Net cash provided by operating activities	**$ 9,486,177**	$ 9,574,626

The accompanying notes are an integral part of these statements.

Oklahoma Student Loan Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2004 and 2003

NOTE A - REPORTING ENTITY AND NATURE OF 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.

The purpose of the Authority is to provide student 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 (Higher Education Act), as amended, include Federal Stafford Loans (Stafford), 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).

The FFEL Program loans are 98% guaranteed with certain exceptions 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 (the USDE), or guaranteed by other guarantors approved by the USDE (Guarantee Agencies). As of June 30, 2004, approximately $677,326,000 of the Authority's loans were guaranteed at the 98% level.

As of June 30, 2004 and 2003, the Authority serviced approximately $92,184,000 and $95,639,000, 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 Authority also originates and holds private loans through our Supplemental Higher Education Loan Financing (SHELF™) Program. These loans are not guaranteed under the Higher Education Act. The Authority retains a percentage of SHELF™ loan proceeds as a reserve against loan losses.

NOTE B - SUMMARY OF ACCOUNTING POLICIES

The financial statements of the Authority included herein reflect the combined assets, liabilities, fund equity and changes therein for the Authority.

1. <u>Basis of Accounting</u>

The Authority accounts for its operation as an enterprise fund. Enterprise funds are accounted for on the flow of economic resources measurement focus 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 the 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 financial statements in conformity with accounting principles generally accepted in the United States of America 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.

2. <u>Accounts of the Authority</u>

The accounts of the Authority are organized on the basis of individual funds as prescribed by the Oklahoma Student Loan Act (the 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, Rebate Account and General Investment Account.

3. <u>Cash</u>

The Authority considers cash in demand deposit accounts and money market funds to be cash equivalents. The Authority utilizes bank deposit accounts which periodically sweep cash into uninsured short-term investment securities. The Authority has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on such accounts.

4. <u>Investments</u>

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, 2004 and 2003, the Authority is in compliance with these investment requirements.

NOTE B - SUMMARY OF ACCOUNTING POLICIES - CONTINUED

4. Investments - Continued

Investments are stated at fair value, based on quoted prices for debt and equity securities, and at cost for repurchase agreements, with changes in fair value included in the statements of revenues, expenses and changes in fund equity.

5. Loans and Allowance for Loan Losses

Loans are stated at cost, net of an allowance for loan losses. 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. Loan origination costs are capitalized when the loan is made and are amortized, using the interest method, over the estimated life of the loan.

All of the FFEL Program 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 within a maximum of three years, the loan will be written off as uncollectible. Additionally, the Authority is at risk for 2% of loan principal in the event a default claim is filed.

The allowance for loan losses was established by the Authority's management to provide for these two types of losses, as well as losses on non-guaranteed SHELF™ loans. 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.

6. Capital Assets

The Authority capitalizes expenditures for equipment, system development and leasehold improvements. Depreciation and amortization are calculated primarily on a straight-line basis of three to ten years. Accumulated depreciation and amortization on capital assets at June 30, 2004 and 2003 were approximately $1,363,000 and $953,000, respectively. Maintenance of equipment and other assets is expensed as incurred.

7. Restricted Fund Equity

Certain assets of the Authority are restricted by the applicable bond and note covenants for the purpose of providing collateral for the outstanding debt obligations and paying debt interest and principal payments that are due (see Note E).

NOTE B - SUMMARY OF ACCOUNTING POLICIES - CONTINUED

8. Operating Revenues and Expenses

Balances classified as operating revenues and expenses are those which comprise the Authority's principal ongoing operations. Since the Authority's operations are similar to those of any other finance company, all revenues and expenses are considered operating.

9. Interest Income

Interest is earned from the borrowers on the various types of student loans, from the USDE and from investments. The USDE makes two types of interest payments to the Authority. One is for the interest on Subsidized Stafford and Consolidation loans when the borrower is not currently required to make principal and interest payments under the terms of the loan. Such interest income from the USDE for the years ended June 30, 2004 and 2003 was approximately $4,511,000 and $4,525,000, 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 three-month commercial paper (financial) in effect for each of the days in such quarter. Special Allowance Payments from the USDE for the years ended June 30, 2004 and 2003 were approximately $2,670,000 and $1,837,000, respectively.

10. Arbitrage Rebate

The proceeds from the Authority's tax-exempt debt issuances 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.

11. 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.

12. Reclassifications

Certain reclassifications have been made in the 2003 financial statements to conform with the 2004 presentation.

NOTE C - INVESTMENTS

The Authority invests its idle cash in collateralized repurchase agreements, U.S. Treasury securities and U.S. Government securities-based mutual funds. The Authority's investments would generally be categorized into one of three separate credit risk categories. Category 1 includes investments that are insured or registered, or are held by the Authority or its agent in the Authority's name. The Authority's Category 1 restricted investments totalled approximately \$2,721,000 and \$5,456,000 at June 30, 2004 and 2003, respectively. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the Authority's name. The Authority did not have any Category 2 investments at June 30, 2004 or 2003. Category 3 includes uninsured and unregistered investments, held by the counterparty, or by its trust department or agent, but not in the Authority's name. The Authority did not have any Category 3 investments at June 30, 2004 or 2003.

The U.S. Government securities-based mutual funds are not subject to classification in categories of credit risk because they are not evidenced by securities that exist in physical or book-entry form. The Authority's restricted investment in U.S. Government securities-based mutual funds totalled approximately \$17,708,000 and \$27,465,000 at June 30, 2004 and 2003, respectively. The Authority's unrestricted investment in U.S. Government securities-based mutual funds totalled approximately \$4,468,000 and \$14,994,000 at June 30, 2004 and 2003, respectively.

Investments at fair value consist of the following at June 30:

	2004	2003
Restricted		
U.S. Government securities-based mutual funds	$17,708,435	$27,465,418
U.S. Treasury securities	-	113,000
Repurchase agreements	2,721,305	5,455,966
Total restricted investments	20,429,740	33,034,384
Unrestricted		
U.S. Government securities-based mutual funds	4,468,166	14,994,082
Total investments	$24,897,906	$48,028,466

NOTE D - LOANS AND ALLOWANCE FOR LOAN LOSSES

The Authority originates, purchases and holds various types of student loans as described in Note A. 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 30 years for Consolidation loans and generally 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 2.5% to 11.0% for the fiscal year ended June 30, 2004, depending upon the type and date of origination of the individual loan. Loans consist of the following as of June 30:

	2004	2003
Stafford	$264,159,833	$232,327,709
Unsubsidized Stafford	191,301,258	157,872,064
PLUS/SLS	32,422,687	29,550,744
Consolidation	195,099,592	129,357,067
SHELF™	2,871,936	2,575,135
Total gross loans	685,855,306	551,682,719
Unamortized loan premiums and loan origination costs	10,779,007	8,342,082
Unprocessed loan payments	(500,494)	(1,485,356)
Allowance for loan losses	(5,052,215)	(4,640,668)
Net loans	$691,081,604	$553,898,777

An analysis of the change in the allowance for loan losses is as follows as of June 30:

	2004	2003
Balances at beginning of year	$4,640,668	$3,858,925
Loans charged off, net recoveries of $22,783 and $33,361 for 2004 and 2003, respectively	(484,453)	(236,557)
Provision for loan losses	896,000	1,018,300
Balance at end of year	$5,052,215	$4,640,668

NOTE D - LOANS AND ALLOWANCE FOR LOAN LOSSES - CONTINUED

All FFEL Program student loans are guaranteed as to principal and accrued interest. The Guarantee Agencies are entitled to charge fees for these services, and, if such fees are charged, they are currently withheld from the loan disbursements to the borrower and remitted to the Guarantee Agencies. The Authority paid the guarantee fees on all loans disbursed when the Guarantee Agencies did not waive those fees during the period from July 1, 1999 through June 30, 2001. Guarantee fees paid by the Authority are capitalized when the loan is made and are amortized, using the interest method, over the estimated life of the loan. The capitalized guarantee fees, net of accumulated amortization, at June 30, 2004 and 2003 were approximately $976,000 and $1,536,000, 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, 2004 and 2003, approximately $268,000 and $246,000, respectively, of loans were no longer considered to be guaranteed.

The Authority also withholds certain origination fees from the loan disbursements on FFEL Program loans to the borrowers and remits these fees to the USDE. The amount of the origination fees is a certain percentage of the gross loan amount.

The Authority is also required to pay to the USDE certain lender and rebate fees. The amount of the lender fees includes a certain percentage of the gross loan amount on all FFEL Program loans originated after October 1, 1993 and a certain percentage of the carrying value of the Consolidation loans.

The capitalized loan origination costs, net of accumulated amortization, at June 30, 2004 and 2003 were approximately $1,348,000 and $1,387,000, respectively.

Premiums paid on student loans purchased, net of accumulated amortization, at June 30, 2004 and 2003 were approximately $9,431,000 and $6,955,000, 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.

NOTE E - NOTES AND BONDS PAYABLE

The Authority periodically issues notes and bonds for the purpose of funding student loans. All notes and bonds payable are primarily secured by the student loans, 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 Authority is in compliance with all significant financing agreement requirements and bond covenants.

NOTE E - NOTES AND BONDS PAYABLE - CONTINUED

Notes payable at June 30, 2004 and 2003 consist of the following:

$85,000,000 Taxable Variable Rate Revenue Note (line of credit), Series 1993L (1993L), dated January 1, 2003, as modified, payable to Bank One, 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 2.38% and 1.83% as of June 30, 2004 and 2003, respectively. The principal is due at maturity on November 30, 2005. 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 1.27% and 1.15% as of June 30, 2004 and 2003, 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 1.75% and 1.20% as of June 30, 2004 and 2003, respectively. The principal is due at maturity on September 1, 2025.

$50,000,000 Senior Notes, Series 2001A-4 (2001A-4) dated December 20, 2001. The interest rate is adjusted quarterly to the federal Commercial Paper Rate with rates of 1.23% and 1.17% as of June 30, 2004 and 2003, respectively. The principal is due at maturity on December 1, 2011.

The following schedules summarize the notes payable outstanding as of June 30:

	2004			
	Beginning balance	Additions	Retirements	Ending balance
1993L	$ 4,600,000	$67,700,000	$ -	$ 72,300,000
1995A-1	21,600,000	-	-	21,600,000
1995A-2	7,000,000	-	-	7,000,000
2001A-4	50,000,000	-	-	50,000,000
	$83,200,000	$67,700,000	$ -	$150,900,000

	2003			
	Beginning balance	Additions	Retirements	Ending balance
1993L	$ 1,400,000	$ 6,130,000	$ (2,930,000)	$ 4,600,000
1995A-1	21,600,000	-	-	21,600,000
1995A-2	7,000,000	-	-	7,000,000
2001A-4	50,000,000	-	-	50,000,000
	$80,000,000	$ 6,130,000	$ (2,930,000)	$83,200,000

NOTE E - NOTES AND BONDS PAYABLE - CONTINUED

The following schedules summarize the bonds payable outstanding as of June 30:

	2004			
	Beginning balance	Additions	Retirements	Ending balance
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 (1)	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
Variable rate Series 2000A-1, 2000A-2 and 2000A-3, due 6-1-30; 2000A-4 (demand obligation) due 6-1-29	120,945,000	-	-	120,945,000
5.625% Senior Series 2001A-1, due 6-1-31	15,625,000	-	-	15,625,000
Variable rate Series 2001B-1, Subordinate, due 6-1-31	25,000,000	-	-	25,000,000
Variable rate Series 2001A-2 and 2001A-3, due 12-1-31	75,000,000	-	-	75,000,000
Variable rate demand obligations Series 2002A-1, due 12-1-31	40,625,000	-	-	40,625,000
5.30% Series, 2003A-1, due 12-1-32	9,670,000	-	-	9,670,000
Variable rate demand obligations Series 2003A-2, due 12-1-32	30,955,000	-	-	30,955,000
Variable rate Series 2004A-1, due 12-1-33	-	40,625,000	-	40,625,000
	$466,885,000	$40,625,000	$ -	$507,510,000

(1) - On August 2, 2004, the $5,975,000 Subordinate Bonds, Series 1996B-1 were redeemed by the corporate trustee through an advance on the 1993L line of credit; accordingly, the amount has been classified as long-term at June 30, 2004.

NOTE E - NOTES AND BONDS PAYABLE - CONTINUED

	2003			
	Beginning balance	Additions	Retirements	Ending balance
6.50% - 6.70% Series 1992A, due serially through 9-1-05	$ 9,670,000	$ -	$(9,670,000)	$ -
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
Variable rate Series 2000A-1, 2000A-2 and 2000A-3, due 6-1-30; 2000A-4 (demand obligation) due 6-1-29	120,945,000	-	-	120,945,000
5.625% Senior Series 2001A-1, due 6-1-31	15,625,000	-	-	15,625,000
Variable rate Series 2001B-1, Subordinate, due 6-1-31	25,000,000	-	-	25,000,000
Variable rate Series 2001A-2 and 2001A-3, due 12-1-31	75,000,000	-	-	75,000,000
Variable rate demand obligations Series 2002A-1, due 12-1-31	40,625,000	-	-	40,625,000
5.30% Series 2003A-1, due 12-1-32	-	9,670,000	-	9,670,000
Variable rate demand obligations Series 2003A-2, due 12-1-32	-	30,955,000	-	30,955,000
	$435,930,000	$40,625,000	$(9,670,000)	$466,885,000

NOTE E - NOTES AND BONDS PAYABLE - CONTINUED

The variable interest rates on the Student Loan Revenue Auction Rate Bonds, Series 1994A 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 1.25% and 1.13% as of June 30, 2004 and 2003, respectively. The Series 1994A-2 Bonds are based on a one-year auction period with a rate of 1.85% and 1.12% as of June 30, 2004 and 2003, respectively.

The variable rates on the Variable Rate Demand Obligations, Series 1996A are set on a weekly basis by the Remarketing Agent, with a rate of 1.05% and 1.00% as of June 30, 2004 and 2003, respectively.

The variable rates of the Variable Rate Demand Obligations, Series 1997A are set on a weekly basis by the Remarketing Agent, with a rate of 1.10% and 1.03% as of June 30, 2004 and 2003, respectively.

The variable rates on the Variable Rate Demand Obligations, Series 1998A are set on a weekly basis by the Remarketing Agent, with a rate of 1.10% and 1.03% as of June 30, 2004 and 2003, respectively.

The variable interest rates on the Senior Taxable Auction Rate Bonds, Series 2000A-1,2,3 and Variable Rate Demand Obligations, Series 2000A-4 are based on periodic resets of these bonds. The Series 2000A-1, 2000A-2 and 2000A-3 Bonds are based on a 28-day auction period with rates of 1.45%, 1.40% and 1.32% as of June 30, 2004 and 1.30%, 1.16% and 1.18% as of June 30, 2003. The Series 2000A-4 Bonds are set on a weekly basis by the Remarketing Agent, with a rate of 1.10% and 1.03% as of June 30, 2004 and 2003, respectively.

The variable rates of the Subordinate Auction Rate Obligations, Series 2001B-1 are based on a 35-day auction period with a rate of 1.40% and 1.30% as of June 30, 2004 and 2003, respectively.

The variable rates of the Senior Taxable Auction Rate Bonds, Series 2001A-2 and Series 2001A-3 are based on a 28-day auction rate with rates of 1.42% and 1.40% as of June 30, 2004 and 1.12% and 1.13% as of June 30, 2003 for the Series 2001A-2 and 2001A-3 Bonds, respectively.

The rates of the Variable Rate Demand Obligations, Series 2002A-1 are set on a weekly basis by the Remarketing Agent, with a rate of 1.10% and 1.00% as of June 30, 2004 and 2003, respectively.

The rates of the Variable Rate Demand Obligations, Series 2003A-2 are set on a weekly basis by the Remarketing Agent, with a rate of 1.10% and 1.00% as of June 30, 2004 and 2003, respectively.

The variable rates of the Senior Auction Rate Bonds, Series 2004A-1 are based on a 35-day auction period with a rate of 1.32% as of June 30, 2004.

NOTE E - NOTES AND BONDS PAYABLE - CONTINUED

Fiscal year debt service requirements to maturity or redemption date, assuming interest rates on variable rate debt remains at June 30, 2004 levels, are as follows:

	Principal	Interest	Total
Year ending June 30			
2005	$ -	$ 10,719,001	$ 10,719,001
2006	78,275,000	9,693,517	87,968,517
2007	-	8,972,411	8,972,411
2008	-	8,972,411	8,972,411
2009	8,230,000	8,586,526	16,816,526
2010 - 2014	50,000,000	41,106,866	91,106,866
2015 - 2019	7,000,000	39,122,654	46,122,654
2020 - 2024	25,200,000	37,765,886	62,965,886
2025 - 2029	152,205,000	32,507,495	184,712,495
2030 - 2034	337,500,000	12,588,456	350,088,456
	$658,410,000	$210,035,223	$868,445,223

NOTE F - RETIREMENT PLAN

The Authority contributes to the Teachers Retirement System of Oklahoma (the TRS), a cost-sharing multiple-employer public employee retirement system which is self-administered. The 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. 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 the TRS. The TRS issues a publicly available annual financial report that includes financial statements and required supplementary information for the TRS. That annual report may be obtained by writing to the TRS, P. O. Box 53524, Oklahoma City, OK 73152 or by calling 1-405-521-2387.

Employees of the Authority, as TRS members, are required to contribute to the plan at a rate set by State Statute (employees' contributions). The contribution rate for TRS members is based on 7% of their covered salary. The Authority made the system members' required contribution on behalf of its employees in 2004 and 2003.

The Authority itself is required to contribute a statutory percentage of participating employees' regular annual compensation for administration of the plan (employer's contributions). In 2004 and 2003, the contribution rate for the Authority was 7.05%. The Authority's total payments to the TRS for the employees' and employer's contributions were approximately $360,000 and $326,000 for the years ended June 30, 2004 and 2003, respectively.

NOTE G - 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 lender network activities for FFEL Program loans, the Authority has entered into various loan purchase commitments with certain financial institutions for which it performs interim status loan servicing. Under such loan 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, 2004 and 2003, the Authority was committed to purchase approximately $92,184,000 and $95,639,000, 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 the 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 Internal Revenue Service at the maturity of the related debt. The Authority's 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. In previous years, the excess interest estimate had shown an increasing trend, but in 2003 and 2004 the trend had reversed.

The Authority leases certain facilities and equipment under noncancelable operating leases that expire at various dates through December 2007. Related rent expense for the years ended June 30, 2004 and 2003 was approximately $228,000 and $201,000, respectively. The following is a schedule of future minimum rental payments under operating leases as of June 30, 2004:

Year ending June 30	
2005	$273,060
2006	257,297
2007	257,021
2008	115,944
	$903,322

NOTE H - STUDENT LOAN LEGISLATION

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

NOTE H - STUDENT LOAN LEGISLATION - CONTINUED

The Higher Education Act, which is subject to reauthorization every six years, was last updated in 1998. In 2004, the authorization of the act was extended through September 30, 2005. Other applicable regulations are also the subject of frequent amendments. Future amendments could have a significant impact on the return on FFEL Program loans.

NOTE I - RELATED PARTIES

Two members of the Authority's Board of Trustees are officers or directors of two lenders in the Authority's student lending network. The following relates to these two lenders:

	June 30,	
	2004	2003
Loans purchased by the Authority for the year	$24,620,000	$ 771,000
Loans being serviced at year end	979,000	1,123,000

These related party lenders participate in the Authority's student lending network on terms and conditions available to other network lenders similarly situated.

NOTE J - 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:

	2004		2003	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Financial assets				
Cash	$ 179,648	$ 179,648	$ 971,050	$ 971,050
Investments	24,897,906	24,897,906	48,028,466	48,028,466
Interest receivable	11,913,574	11,913,574	12,344,288	12,344,288
Loans, net	691,081,604	691,081,604	553,898,777	553,898,777
Financial liabilities				
Accrued interest payable	1,436,734	1,436,734	1,093,166	1,093,166
Notes payable	150,900,000	150,900,000	83,200,000	83,200,000
Bonds payable	507,510,000	507,729,000	466,885,000	469,608,000

NOTE J - FAIR VALUE OF FINANCIAL INSTRUMENTS - CONTINUED

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 the USDE.

The carrying value of notes payable approximates fair value for 2004 and 2003 because all notes were variable rate and approximated 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.

NOTE K - SUBSEQUENT EVENTS

On September 28, 2004, the Trustees of the Authority adopted a Supplemental Bond Resolution providing for the issuance of its $40,625,000 tax-exempt Senior Auction Rate Bonds, Series 2004A-2 in October 2004. The interest rate generally will be determined every 35 days by auction procedures. The stated maturity of the Series 2004A-2 Bonds will be June 1, 2034.

In the Fall of 2004, the Trustees of the Authority expect to issue $100,000,000 Senior Taxable Floating Rate Notes, Series 2004A-3. The interest rate for an initial intermediate term is expected to be based on a Three-Month LIBOR index plus a spread factor, adjusted quarterly. The stated maturity of the Series 2004A-3 Notes will be September 1, 2034.

The proceeds from the bond and note offerings will be used by the Authority to provide funds to finance new FFEL program loans, to acquire restricted investments and to pay the costs of issuing the bonds and notes.

Accountants and Business Advisors

Grant Thornton

Report of Independent Certified Public Accountants on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Trustees
Oklahoma Student Loan Authority

We have audited the financial statements of the Oklahoma Student Loan Authority (the Authority) as of and for the year ended June 30, 2004, and have issued our report thereon dated October 8, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the Auditing Standards Board of the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting
In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Trustees and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Grant Thornton LLP

Oklahoma City, Oklahoma
October 8, 2004

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