Audited Financial Statements

OKLAHOMA STUDENT LOAN AUTHORITY

June 30, 2011 and 2010

COLE + REED P.C.
CERTIFIED PUBLIC ACCOUNTANTS

OKLAHOMA STUDENT LOAN AUTHORITY

June 30, 2011 and 2010

FINANCIAL STATEMENTS

REPORT REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

COLE + REED P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

The Board of Trustees
Oklahoma Student Loan Authority

We have audited the accompanying balance sheet of the Oklahoma Student Loan Authority (the "Authority"), a component unit of the State of Oklahoma, as of June 30, 2011, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the management of the Authority. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements as of and for the year ended June 30, 2010, were audited by other auditors whose report, dated October 25, 2010, expressed an unqualified opinion.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 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 audit provides 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 Authority as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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.

531 Couch Drive
Oklahoma City
73102-2251
TEL 405.239.7961
FAX 405.235.0042
WEB www.coleandreed.com

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2011 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, 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 and 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.

Cole & Reed P.C.

Oklahoma City, Oklahoma
October 18, 2011

Oklahoma Student Loan Authority
Management's Discussion and Analysis
Years Ended June 30, 2011 and 2010

The Oklahoma Student Loan Authority (Authority) is an eligible lender, a loan servicer and a secondary market in the guaranteed Federal Family Education Loans (FFEL) Program under the Higher Education Act. The Authority performs loan servicing functions under the registered trade name "OSLA Student Loan Servicing ™".

The Student Aid and Fiscal Responsibility Act of 2009 (SAFRA), Title II of the Reconciliation Act, became law on March 20, 2010. Beginning July 1, 2010, eligible lenders, including the Authority and its Network of eligible lenders, were no longer allowed to originate FFEL Program student loans. Beginning July 1, 2010, all federal student loans were solely originated by the federal government pursuant to its Direct Loan Program.

In the years prior to July 1, 2010, the Authority originated loans and performed servicing of FFEL Program loans for as many as 45 other eligible lenders as members of the OSLA Network. Upon the elimination of new loan origination in the FFEL Program at July 1, 2010, the Authority continued to service FFEL Program loan portfolios for 43 eligible network lenders. On June 29, 2011, the Authority purchased loans from 34 network lenders using the proceeds from our 2011-1 financing. Subsequently in September 2011, the Authority purchased all remaining loans from these 34 network lenders to liquidate their portfolios of FFEL loans serviced by the Authority. The remaining 9 lenders did not sell their loans to the Authority and will either enter into loan servicing agreements with OSLA or deconvert their loans to another servicing provider.

During fiscal year 2011, the Authority entered into a memorandum of understanding with the U.S. Department of Education (USDE) to pursue an Authorization to Operate and become a Not for Profit Servicer to service federal student loans. See further discussion in "Financial Analysis of the Authority."

This section of the Authority's annual financial report presents a discussion and analysis of the Authority's financial performance for the fiscal years ended June 30, 2011 and 2010. Please read it in conjunction with the Authority's financial statements and the notes to the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

	2011	2010
Total assets	$1,036,819,457	$1,174,864,089
Student loans receivable, net	914,755,752	1,042,099,502
Total operating revenue	19,048,937	19,858,174
Net interest margin (interest income less interest expense)	(254,859)	(8,377,442)
Total operating expenses	21,870,811	31,287,660
Net Assets	62,776,405	64,815,997

OVERVIEW OF THE FINANCIAL STATEMENTS

Please refer to the Notes to Financial Statements, Summary of Accounting Policies for a description of the Authority's basis of accounting and accounting policies.

Incentive Programs Affecting Operating Revenues

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

The Authority offered certain incentive programs to our borrowers:

The following three incentives were offered for loans with first disbursement dates prior to July 1, 2008. The Authority eliminated this interest rate reduction incentive program for loans with first disbursement dates on or after July 1, 2008 so that loans from the Authority and members of the OSLA Student Lending Network would be in compliance with the requirements of the USDE's Participation and Put Programs as authorized by the Ensuring Continued Access to Student Loan Act (ECASLA) (Public Law 110-227).

> TOP Interest Rate Reduction – A portion of the Authority's Stafford Loan and PLUS borrowers, including borrowers of loans that the Authority services for the OSLA Student Lending Network could 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 was earned.
>
> EZ PAY Interest Rate Reduction – Borrowers earned an interest rate reduction by using the Authority's electronic debit for making their monthly payments. The reduced interest rate applies as long as the borrower uses OSLA's electronic debit, EZ PAY, for making monthly payments. The Authority increased the interest rate reduction for using EZ PAY from 0.33% to 1.0% effective June 20, 2007. The Authority decreased this interest rate reduction incentive program from 1.0% to 0.25% for loans with first disbursement dates on or after July 1, 2008 as noted above. Subsequently, the incentive was eliminated for loans with first disbursement dates on or after April 1, 2011.
>
> TOP Principal Reduction – A portion of the Authority's Stafford Loan and PLUS borrowers earned a 1% reduction in the principal amount of their loans by making their first three payments on time.

The remaining previously offered incentives described below were discontinued on the dates noted.

> Consolidation Loan Principal Reduction – Consolidation loan borrowers could earn a 1% reduction in the principal amount of their loan by making their first six payments on time. The Authority discontinued our consolidation loan program effective July 1, 2008.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Incentive Programs Affecting Operating Revenues (Continued)

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.

FINANCIAL ANALYSIS OF THE AUTHORITY

Components of the Authority's balance sheet are as follows as of June 30:

	2011	2010
ASSETS		
Investments	$ 106,016,904	$ 116,572,735
Loans, net of allowance for loan losses	914,755,752	1,042,099,502
Capital assets	424,406	537,781
Other current assets	72,425	582,969
Other noncurrent assets	191,936	210,790
Other restricted assets	15,358,034	14,860,312
TOTAL ASSETS	$1,036,819,457	$1,174,864,089

	2011	2010
LIABILITIES		
Notes and bonds payable	$ 966,258,297	$1,104,859,765
Current liabilities	427,232	514,823
Other current liabilities payable from restricted assets	7,354,405	4,642,571
Other noncurrent liabilities payable from restricted assets	3,118	30,933
TOTAL LIABILITIES	974,043,052	1,110,048,092
NET ASSETS		
Invested in capital assets	424,406	537,781
Restricted	32,217,966	28,815,209
Unrestricted	30,134,033	35,463,007
TOTAL NET ASSETS	62,776,405	64,815,997
TOTAL LIABILITIES AND NET ASSETS	$1,036,819,457	$1,174,864,089

FINANCIAL ANALYSIS OF THE AUTHORITY (Continued)

During fiscal year 2011, the Authority issued two new bond issues totaling $448,700,000. Proceeds of the bonds were used to refund $366,626,000 of previously outstanding bonds, and acquire approximately $60,905,000 of student loans from the Authority's lenders.

Student loans receivable, net decreased by approximately $127,344,000 to approximately $914,756,000 due primarily to principal payments received from borrowers, loan consolidations and loans sold to the Department of Education pursuant to the Straight A Funding Asset Backed Commercial Paper Conduit program (Conduit).

Investments decreased by approximately $10,556,000 to approximately $106,017,000 at June 30, 2011 due primarily to principal and interest repayments on outstanding notes and bonds and payment of bond program expenses that more than offset loan payments from borrowers.

Notes and bonds payable decreased by approximately $138,601,000 to approximately $966,258,000 at June 30, 2011 due primarily to principal payments on outstanding notes and bonds payable, offset in part by the portion of proceeds from the 2011-1 Bond Series used to acquire student loans.

For the fiscal year ended June 30, 2011, the Authority acquired student loans with a principal balance of approximately $62,498,000, principally in the 2011-1 Bond program. However, with the Authority moving toward the federal loan servicing model, we expect that fiscal year 2012 will not result in a material amount of student loans acquired.

At June 30, 2011, the Authority was servicing student loans from members of the OSLA Student Lending Network with a principal balance of approximately $152,193,000.

The total portfolio of gross student loans that the Authority owns or services for members of the OSLA Student Lending Network was approximately $1,072,000 at June 30, 2011. This is a decrease of approximately $550,028,000 or 33.9% from June 30, 2010. The significant decline is due to payments by student loan borrowers, loan sales to USDE through the ECASLA and Conduit Put programs.

FINANCIAL ANALYSIS OF THE AUTHORITY (Continued)

Components of the statement of revenues, expenses and decrease in net assets are as follows for the fiscal years ending June 30:

	2011	2010
Loan interest income, net of consolidation rebate fees	$ 12,579,791	$ 12,555,083
Investment interest income	60,052	87,068
Total interest income	12,639,843	12,642,151
Less: Interest expense	12,894,702	21,019,593
Net interest margin (deficit)	(254,859)	(8,377,442)
Loan servicing fees	5,829,466	2,859,023
Other income	223,128	-
Gain on extinguishment of debt	356,500	4,357,000
Operating revenues, net of interest expense	6,154,235	(1,161,419)
Operating expenses		
General administration	6,403,417	7,220,708
External loan servicing	149,663	687,073
Professional fees	851,029	770,886
Provision for loan losses	1,572,000	1,589,400
Total operating expenses (excluding interest expense)	8,976,109	10,268,067
Decrease in net assets from operations	$ (2,821,874)	$ (11,429,486)

Loan interest income for the fiscal year ended June 30, 2011 was approximately the same as fiscal year 2010. Loan interest income is primarily affected by loans outstanding and the variable interest rates on student loans which are reset annually on July 1st. The variable rates for the fiscal year ended June 30, 2011 ranged from 1.87% to 3.27% and the variable rates for the fiscal year ended June 30, 2010 ranged from 1.88% to 3.73%. The fixed rates for loans first disbursed on or after July 1, 2006 ranged from 6.0% to 8.5%. See Note D, Loans and Allowance for Loan Losses, for explanation of the quarterly lenders' yield and its relationship with the loans' stated variable or fixed interest rates.

Interest expense - The Authority funded the origination or acquisition of student loans by periodically issuing bonds and notes and by reinvesting principal payments received on existing loans. The $138,601,000 decrease in bonds and notes outstanding and a lower weighted average cost of funds of 0.96% as of June 30, 2011, compared to a 1.59% cost of funds at June 30, 2010, led to the significant decrease in interest expense for the fiscal year ended June 30, 2011.

Net interest margin for the fiscal year ended June 30, 2011 of approximately $(255,000) resulted from the significant decrease in interest expense and represents an improvement of $8,123,000 from the fiscal year ended June 30, 2010.

FINANCIAL ANALYSIS OF THE AUTHORITY (Continued)

Loan servicing fees increased to approximately $5,829,000 for the year ended June 30, 2011, primarily related to fees the Authority charged for processing ECASLA Put loan sales to the USDE for our lender customers. All ECASLA loans were sold prior to the termination of this program in October, 2010.

Gain on early extinguishment of debt decreased to $356,500 for the year ended June 30, 2011 from $4,357,000 for the year ended 2010 due to a lower number of notes and bonds payable offered to us for repurchase at a discount through unsolicited offers from debt holders.

Other operating expenses for the fiscal year ended June 30, 2011 decreased by 12.6% to approximately $8,976,000 from the previous fiscal year. This reduction in other operating expenses was related to staff reductions and decreased loan servicing activities. The Authority prepares an annual operating budget that is used as a management tool for monitoring operating expenses. There were no significant variances between the budget and actual operating expenses for the fiscal year ended June 30, 2011.

TRANSITION PLANS FOR FEDERAL LOAN SERVICING

SAFRA requires the Secretary of the USDE to contract with eligible and qualified Not For Profit (NFP) Servicers to service federally held student loans. The Authority responded to USDE's NFP Servicer Solicitation on December 1, 2010. On February 2, 2011, USDE authorized the Authority to enter into a Memorandum of Understanding (MOU) to pursue an Authority to Operate (ATO) and a contract award as an NFP Servicer. This MOU was executed by USDE and the Authority on April 13, 2011 and contains a Go Live date of July 1, 2012 for the Authority to start servicing Federal Student Loans.

The Department will allocate 100,000 borrower accounts to each NFP Servicer that achieves an ATO. An allocation of 100,000 borrower accounts represents a significant increase to the Authority, which was servicing approximately 87,000 borrowers as of June 30, 2011 in its existing FFEL Program servicing portfolio. The Authority and USDE have agreed to four separate transfer processes for the Authority to receive our initial allocation of 100,000 borrower accounts.

The Authority is acquiring additional capital assets, increasing its number of personnel and related costs, and entering into contracts with service providers and consultants required to secure the ATO prior to our planned Go Live date of July 1, 2012. The Authority is funding this transition using fees collected from certain network lenders on their sale of loans to USDE for the academic year 2009-2010 ECASLA Put program.

DEBT ADMINISTRATION

The Authority funded 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 issuance. 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.

Detailed information on the Authority's debt is presented in Note E to the audited financial statements.

$718,825,000 of the Authority's debt was publicly held and had 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 which is reflected in the table below.

Credit Rating(s)	Principal Amount	Type of Security
Aaa Moody's/AAA S&P	$ 689,845,000	Senior Lien or Insured
A2 Moody's/A S&P	$ 28,980,000	Subordinate Bonds

On September 19, 2011, Standard & Poor's published new criteria to describe their methodology for the treatment of partial loan-level support to loans backing "AAA" rated securities where USA government agencies or entities rated by Standard & Poor's provide such support. Bonds issued by the Authority are collateralized by Federal Family Education Loan Program (FFELP) student loans supported by the United States Department of Education in the form of guarantee or reinsurance, special allowance payments and interest subsidy payments.

Standard & Poor's published a press release regarding 118 Ratings From 70 U.S. Student Loan FFELP Asset Backed Securities Transactions Lowered To "AA+ (sf)" on October 7, 2011. Among these series or classes of issues were the Authority's Series 2010A-1, Series 2010A-2A, Series 2010A-2B and Series 2011-1 bonds. Each series of the bonds is now rated by Standard & Poors at AA+ (sf) instead of their AAA (sf) rating which was assigned by Standard & Poor's when the Bonds were issued on their respective issue dates. The ratings reflect only the view of Standard & Poor's at the time such ratings were given. An explanation of the significance of the ratings may be obtained from Standard & Poor's.

BALANCE SHEETS

OKLAHOMA STUDENT LOAN AUTHORITY

	June 30 2011	June 30 2010
ASSETS		
CURRENT ASSETS		
Cash	$ 4,379	$ 393,868
Investments	24,364,856	14,729,750
Interest and other receivables	68,046	189,101
TOTAL CURRENT ASSETS	24,437,281	15,312,719
NONCURRENT ASSETS		
Loans, net of allowance for loan losses	5,932,048	20,454,321
Capital assets, net of accumulated depreciation	424,406	537,781
Other noncurrent assets	191,936	210,790
TOTAL NONCURRENT ASSETS	6,548,390	21,202,892
RESTRICTED ASSETS		
Cash	420,092	321,183
Investments	81,652,048	101,842,985
Interest receivable	12,344,578	13,540,303
Loans, net of allowance for loan losses	908,823,704	1,021,645,181
Other restricted assets	2,593,364	998,826
TOTAL RESTRICTED ASSETS	1,005,833,786	1,138,348,478
TOTAL ASSETS	$ 1,036,819,457	$ 1,174,864,089
CURRENT LIABILITIES		
Accounts payable and other accrued expenses	$ 427,232	$ 514,823
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Accounts payable and other accrued expenses	6,774,012	2,988,905
Accrued interest payable	580,393	1,653,666
Notes payable	-	56,959,051
Bonds payable	-	28,964,000
TOTAL CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS	7,354,405	90,565,622
NONCURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Arbitrage rebate payable	3,118	30,933
Notes payable	386,693,595	431,115,714
Bonds payable	579,564,702	587,821,000
TOTAL NONCURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS	966,261,415	1,018,967,647
TOTAL LIABILITIES	974,043,052	1,110,048,092
COMMITMENTS AND CONTINGENCIES (*Note G*)		
Net Assets:		
Invested in capital assets	424,406	537,781
Restricted	32,217,966	28,815,209
Unrestricted	30,134,033	35,463,007
TOTAL NET ASSETS	62,776,405	64,815,997
TOTAL LIABILITIES AND NET ASSETS	$ 1,036,819,457	$ 1,174,864,089

See notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

OKLAHOMA STUDENT LOAN AUTHORITY

	Year Ended June 30	
	2011	2010
OPERATING REVENUES		
Loan interest income:		
From borrowers	$ 28,261,897	$ 28,604,600
From U.S. Department of Education	(15,682,106)	(16,049,517)
Loan servicing fees	5,829,466	2,859,023
Investment interest income	60,052	87,068
Other income	223,128	-
Gain on extinguishment of debt	356,500	4,357,000
TOTAL OPERATING REVENUES	19,048,937	19,858,174
OPERATING EXPENSES		
Interest	12,894,702	21,019,593
General administration	6,403,417	7,220,708
External loan servicing fees	149,663	687,073
Professional fees	851,029	770,886
Provision for loan losses	1,572,000	1,589,400
TOTAL OPERATING EXPENSES	21,870,811	31,287,660
DECREASE IN NET ASSETS FROM OPERATIONS	(2,821,874)	(11,429,486)
EQUITY CONTRIBUTION (*Note E*)	782,282	-
NET DECREASE IN NET ASSETS	(2,039,592)	(11,429,486)
NET ASSETS AT BEGINNING OF YEAR	64,815,997	76,245,483
NET ASSETS AT END OF YEAR	$ 62,776,405	$ 64,815,997

See notes to financial statements.

STATEMENTS OF CASH FLOWS

OKLAHOMA STUDENT LOAN AUTHORITY

	Year Ended June 30, 2011	Year Ended June 30, 2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts of interest income from borrowers	$ 38,305,145	$ 45,741,799
Payments of interest to USDE	(16,255,305)	(15,346,991)
Receipts of loan servicing fees	5,829,466	3,501,233
Receipts of loan principal payments	223,494,939	167,281,248
Origination and acquisition of student loans receivable	(105,875,496)	(22,793,575)
Payments to employees and suppliers	(3,566,946)	(6,464,282)
NET CASH PROVIDED BY OPERATING ACTIVITIES	141,931,803	171,919,432
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Advances on notes payable	-	206,287,437
Proceeds from issuance of bonds	448,717,718	-
Payments of debt financing costs	(2,541,179)	(334,040)
Payments for interest on notes and bonds payable	(13,021,105)	(21,344,322)
Payments on notes payable	(101,381,169)	(235,163,727)
Payments on bonds payable	(485,060,000)	(162,122,000)
NET CASH USED IN FINANCING ACTIVITIES	(153,285,735)	(212,676,652)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	242,347,607	395,965,277
Receipts of interest on investments	612,144	4,421,968
Purchases of investments	(231,837,052)	(359,414,415)
NET CASH PROVIDED BY INVESTING ACTIVITIES	11,122,699	40,972,830
CASH FLOWS FROM CAPITAL ACTIVITIES		
Purchases of capital assets	(59,347)	(49,607)
NET INCREASE (DECREASE) IN CASH	(290,580)	166,003
CASH AT BEGINNING OF YEAR (including $321,183 and $158,947 for 2011 and 2010, respectively, reported in restricted assets)	715,051	549,048
CASH AT END OF YEAR (including $420,092 and $321,183 for 2011 and 2010, respectively, reported in restricted assets)	$ 424,471	$ 715,051

See notes to financial statements.

STATEMENTS OF CASH FLOWS--Continued

OKLAHOMA STUDENT LOAN AUTHORITY

	Year Ended June 30, 2011	Year Ended June 30, 2010
RECONCILIATION OF DECREASE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Decrease in net assets	$ (2,039,592)	$ (11,429,486)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Investment income received	(612,144)	(4,421,968)
Interest paid on bonds and notes payable	13,021,105	21,344,322
Equity contribution	(782,282)	-
Depreciation on capital assets	172,721	263,225
Amortization of loan origination costs, guarantee fees and premiums on loan acquisition	8,152,307	11,477,715
Amortization of deferred financing costs	946,870	519,398
Provision for loan losses	1,572,000	1,589,400
(Increase) decrease in assets		
Student loans receivable	117,619,443	144,487,673
Interest and other receivables	1,318,021	7,009,212
Other assets	(33,074)	93,100
Increase (decrease) in liabilities		
Accounts payable and other accrued expenses	3,697,516	1,858,060
Accrued interest payable	(1,073,273)	(844,127)
Arbitrage rebate payable	(27,815)	(27,092)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 141,931,803	$ 171,919,432

See notes to financial statements.

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 performs 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 guaranteed 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, 2011 and 2010, the majority of loans are guaranteed at 97% for loans first disbursed on or after July 1, 2006.

As of June 30, 2011 and 2010, the Authority serviced approximately $152,193,000 and $584,989,000, 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 holds private loans through the Supplemental Higher Education Loan Financing (SHELF™) Program. These loans are not guaranteed under the Higher Education Act. The Authority discontinued originations of SHELF loans effective July 1, 2008.

NOTE B--SUMMARY OF ACCOUNTING POLICIES

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

Basis of Accounting: The Authority accounts for its operations as an enterprise fund. Enterprise funds focus on 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 the Governmental Accounting Standards Board (GASB) Statement No. 20, the Authority applies all relevant GASB pronouncements as well as Financial Accounting Standard Board (FASB) pronouncements and Accounting Principles Board (APB) opinions, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

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.

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 (the Act) and terms of various debt obligations. The various accounts assigned to each fund may 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.

Cash: Cash consists primarily of demand deposit accounts at financial institutions. The Authority also 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.

Investments: Investments consist of repurchase agreements and U.S. Government Securities-based mutual funds. Applicable Oklahoma Statutes authorize certain types of investments the Authority can utilize. As of June 30, 2011 and 2010, the Authority is in compliance with these investment requirements.

Investments are stated at fair value, based on current share prices for mutual funds and at cost for repurchase agreements, with changes in fair value included in the statements of revenues, expenses and changes in net assets.

NOTE B--SUMMARY OF ACCOUNTING POLICIES--Continued

Loans and Allowance for Loan Losses: Loans are stated at cost, net of an allowance for loan losses. The Authority includes in 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. Due to changes in legislation (Note H), the Authority has not originated any student loans after June 30, 2010.

All of the FFEL Program loans made or acquired by the Authority are guaranteed as described in Note A. There is still risk to the Authority if the loans should lose their guarantee status. The Authority has established cure and recovery procedures to be applied to loans that have lost their guarantee status. If the cure and recovery procedures are not successful within a maximum of three years, the loan will be written off as uncollectible.

The allowance for loan losses was established by the Authority's management to provide for this type of loss, 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.

Capital Assets: The Authority capitalizes expenditures for equipment, software, system development and leasehold improvements. Depreciation and amortization are calculated primarily using a straight-line basis of three to ten years. Accumulated depreciation and amortization on capital assets at June 30, 2011 and 2010 were approximately $3,230,000 and $3,136,000, respectively. Maintenance costs for equipment and other assets are expensed as incurred.

Restricted Net Assets: 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).

Operating Revenues and Expenses: Balances classified as operating revenues and expenses are those which comprise the Authority's principal operations. Since the Authority's operations are similar to those of a finance company, all revenues and expenses are considered operating.

NOTE B--SUMMARY OF ACCOUNTING POLICIES--Continued

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, 2011 and 2010 was approximately $6,907,000 and $9,113,000, respectively. The other type of interest payment from the USDE is a Special Allowance Payment (SAP). The rates for Special Allowance Payments are based on 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 index) in effect for each of the days in such quarter. In the event that the quarterly Special Allowance Rates are less than the stated interest rate for the loans with first disbursement on or after April 1, 2006, lenders are required to rebate to the USDE this excess interest over the quarterly Special Allowance rate. This rebate can result in negative Special Allowance income. Net Special Allowance Payments to the USDE for the years ended June 30, 2011 and 2010 were approximately $18,009,000 and $20,159,000, respectively.

Additionally, the Authority pays a consolidation rebate fee to the USDE on a monthly basis. The consolidation rebate fee is based on the outstanding principal and unpaid accrued interest on consolidation loans at month end. Consolidation rebate fees paid to the USDE for the years ended June 30, 2011 and 2010 were approximately $4,581,000 and $5,003,000, respectively. Such fees are reported as a reduction to loan interest income from USDE.

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.

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.

NOTE C--INVESTMENTS

The Authority invests its idle cash in collateralized repurchase agreements and U.S. Government securities-based money market mutual funds in accordance with the Authority's investment policy. Generally, the policy requires investments in U.S. Government Obligations or obligations explicitly guaranteed by the U. S. Government to reduce the Authority's related credit risk, custodial credit risk and interest rate risk.

The U.S. Government securities-based money market mutual funds, at June 30, 2011 and 2010 were rated AAA by the Standards & Poor's Corporation, Aaa by Moody's Investors Service, AAA by Duff & Phelps and AAA/V1+ by Fitch Ratings.

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

	2011	2010
Restricted		
U.S. Government securities-based mutual funds	$ 80,129,016	$ 101,200,636
Repurchase agreements	1,523,032	642,349
Total restricted investments	81,652,048	101,842,985
Unrestricted		
U.S. Government securities-based mutual funds	24,364,856	14,729,750
Total investments	$ 106,016,904	$ 116,572,735

NOTE D--LOANS AND ALLOWANCE FOR LOAN LOSSES

The Authority 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 instalments 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.

NOTE D--LOANS AND ALLOWANCE FOR LOAN LOSSES--Continued

Loans consist of the following as of June 30:

	2011	2010
Stafford	$ 251,832,123	$ 290,083,003
Unsubsidized Stafford	225,278,807	253,378,936
PLUS/SLS	27,650,141	37,225,605
Consolidation	412,431,413	453,539,298
SHELF™	2,593,413	2,791,812
Total gross loans	919,785,897	1,037,018,654
Unamortized loan default and guarantee fees	1,440,404	5,410,308
Unamortized loan premiums and loan origination costs	2,480,743	8,883,876
Unprocessed loan payments	(260,507)	22,735
Allowance for loan losses	(8,690,785)	(9,236,071)
Net loans	$ 914,755,752	$ 1,042,099,502

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

	2011	2010
Balances at beginning of year	$ 9,236,071	$ 9,888,363
Loans charged off	(2,117,286)	(2,241,692)
Provision for loan losses	1,572,000	1,589,400
Balance at end of year	$ 8,690,785	$ 9,236,071

NOTE D--LOANS AND ALLOWANCE FOR LOAN LOSSES--Continued

The stated interest rates on student loans which are based on USDE regulations ranged from 2.0% to 11.0% for the fiscal year ended June 30, 2011 depending upon the type and date of origination of the individual loan and whether the borrower had earned any of the Authority's interest rate reduction incentives. This stated interest rate is paid by the borrowers or by USDE. For loans that had first disbursement on or after April 1, 2006, the lenders' yield on student loans is based on a quarterly calculation that uses the quarterly average rates of either the 91 day Treasury Bills or 90 day Commercial Paper – Financial indices. The lender yield is calculated using these quarterly average rates plus an allowable mark-up that is based on the type and date of the loan's first disbursement. If the quarterly lenders' yield on the loans is less than the stated interest rate, the lender must rebate the excess to USDE. The excess of the loans' stated interest rate over the quarterly lenders' yield is referred to as Negative SAP. The Authority's loan portfolio at June 30, 2011 consisted of approximately 44.5% Negative SAP loans. The calculated quarterly lenders' yield ranged from 1.53% to 3.65% for the fiscal year ending June 30, 2011.

All FFEL Program student loans are guaranteed at 98% or 97% (97% for loans first disbursed on or after July 1, 2006) as to principal and accrued interest. USDE allows the loan guarantors to charge Federal Default or Guarantee fees which are remitted to the loan guarantor. The Authority maintained a borrower incentive program by paying the Federal Default or Guarantee fees when the loans' guarantors charged this fee for Stafford and PLUS loans guaranteed on or after July 1, 2006. Federal Default and Guarantee fees paid by the Authority were capitalized when the loan was made and are amortized, using the interest method, over the estimated life of the loan. The Authority eliminated this incentive program for loans with first disbursement on or after July 1, 2009.

In order for the FFEL Program student loans to be or remain guaranteed, certain due-diligence requirements in loan servicing must be met. As of June 30, 2011 and 2010, approximately $232,000 and $382,000, respectively, of loans were no longer considered to be guaranteed.

The Authority is also required to pay to the USDE certain lender origination and consolidation loan 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.

Capitalized loan origination costs, net of accumulated amortization, at June 30, 2011 and 2010 were approximately $196,000 and $982,000, respectively.

Premiums paid on student loans purchased, net of accumulated amortization, at June 30, 2011 and 2010 were approximately $1,550,000 and $7,902,000, respectively.

NOTE D--LOANS AND ALLOWANCE FOR LOAN LOSSES--Continued

The deferred cost for Federal Default and Guarantee fees paid by the Authority and the Authority's Lender Paid Origination Fees, net of accumulated amortization, at June 30, 2011 and 2010 were approximately $1,440,000 and $5,410,000, respectively.

During fiscal year 2011, the Authority closed out the ECASLA Loan Purchase Commitment Program for the 2009-2010 Academic Year and sold FFEL Program student loans to the USDE. Proceeds from the sale of those loans to the USDE were approximately $24,982,000 prior to the termination of this program in October 2010.

Also, during the years ended June 30, 2011 and 2010, proceeds from the sale to USDE of loans collateralizing the Conduit (see Note E) were approximately $58,699,000 and $11,960,000 respectively. These proceeds were utilized to pay down the notes payable under the Conduit.

Certain student loans of the Authority are pledged as collateral for various obligations of 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 student loans, related accrued interest and by the amounts on deposit in 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

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

	2011				
	Maturity	Beginning balance	Additions	Retirements	Ending balance
Senior Notes, Series 1995A-1	September 1, 2025	$ 21,600,000	$ -	$ 7,400,000	$ 14,200,000
Senior Taxable Floating Rate Notes, Series 2001A-4	December 1, 2017	50,000,000	-	10,300,000	39,700,000
Senior Taxable Floating Rate Notes, Series 2004A-3	September 1, 2034	100,000,000	-	-	100,000,000
FFELP ABCP Conduit	November 19, 2013	291,492,976	-	58,699,381	232,793,595
ECASLA Loan Participation	September 30, 2010	24,981,789	-	24,981,789	-
		$488,074,765	$ -	$101,381,170	$386,693,595

	2010				
	Maturity	Beginning balance	Additions	Retirements	Ending balance
1993L, Taxable LOC	June 1, 2009	$ 84,409,895	$ -	$ 84,409,895	$ -
Senior Notes, Series 1995A-1	September 1, 2025	21,600,000	-	-	21,600,000
Senior Taxable Floating Rate Notes, Series 2001A-4	December 1, 2017	50,000,000	-	-	50,000,000
Senior Taxable Floating Rate Notes, Series 2004A-3	September 1, 2034	100,000,000	-	-	100,000,000
2005B, Tax-Exempt LOC	December 11, 2009	94,814,256	-	94,814,256	-
FFELP ABCP Conduit	November 19, 2013	150,000,000	178,000,000	36,507,024	291,492,976
ECASLA Loan Participation	September 30, 2010	16,126,903	28,287,437	19,432,551	24,981,789
		$516,951,054	$206,287,437	$235,163,726	$488,074,765

Notes payable issued under the Conduit program bear interest monthly based on financing costs incurred by the Conduit. All payments on the loans collateralizing the Conduit program are deposited into a collections account and are used to pay interest costs, service fees and to reduce the outstanding balance of the notes payable.

Notes payable issued under the ECASLA Loan Participation Program (Participation) represented Participation interests sold in certain qualifying FFEL Program Loans to USDE. Under this program, the Authority had the option to sell the loans to USDE under the ECASLA Loan Purchase Commitment Program or redeem the Participation on or before September 30, 2010. As a result of the Authority's continuing involvement with the related loans at June 30, 2010, the proceeds received by the Authority are reported as a collateralized borrowing. The Participation interest rate was based on a quarterly participation yield and principal payments on the participated loans reduced the outstanding balance of the borrowing until it was paid off in September 2010.

NOTE E--NOTES AND BONDS PAYABLE--Continued

The Senior Taxable Floating Rate Notes, Series 2004A-3 have been reclassified from the prior year's report and properly reflected herein as notes payable.

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

	2011				
	Maturity	Beginning Balance	Additions	Retirements	Ending Balance
1995 Master Bond Resolution					
Senior Bonds, Series 2001A-1	June 1, 2031	$ 15,625,000	$ -	$ 10,245,000	$ 5,380,000
Senior Taxable Auction Rate Bonds, Series 2001A2/A3	December 1, 2031	67,400,000	-	17,500,000	49,900,000
Senior Auction Rate Bonds, Series 2004A-1	December 1, 2033	40,625,000	-	9,350,000	31,275,000
Senior Auction Rate Bonds, Series 2004A-2	June 1, 2034	40,625,000	-	6,775,000	33,850,000
Subordinate Bonds, Series 1995B-2	September 1, 2025	3,980,000	-	-	3,980,000
Subordinate Bonds, Series 2001B-1	June 1, 2031	25,000,000	-	-	25,000,000
2010 Indenture of Trust					
Tax-Exempt LIBOR Floating Rate Bonds,					
Series 2010A-1	September 3, 2024	-	132,545,000	17,660,000	114,885,000
Series 2010A-2A	September 1, 2037	-	51,225,000	-	51,225,000
Series 2010A-2B	September 1, 2037	-	44,230,000	-	44,230,000
Series 2010B-1	September 4, 2040	-	15,517,718	-	15,517,718
2011 Indenture of Trust					
Taxable LIBOR Floating Rate Series 2011-1	June 1, 2040	-	205,200,000	-	205,200,000
1996 Third Party Insured Resolution					
Refunding Bonds, Series 2003A-1	December 1, 2032	9,670,000	-	9,670,000	-
Variable Rate Demand Obligations,					
Series 1998A	Bank Bond	14,330,000	-	14,330,000	-
Series 2000A-4	Bank Bond	15,330,000	-	15,330,000	-
Series 2002A-1	Bank Bond	30,085,000	-	30,085,000	-
Series 2003A-2	Bank Bond	23,720,000	-	23,720,000	-
Series 2005A	Bank Bond	35,200,000	-	35,200,000	-
Series 2006A-1	Bank Bond	66,090,000	-	66,090,000	-
Taxable Auction Rate Bonds Series 2000A1/A2/A3	June 1, 2030	53,800,000	-	53,800,000	-
2008 Master Bond Resolution II					
DPLOC, Senior Variable Rate Obligations, Series 2008IIA-1	March 1, 2037	175,305,000	-	175,305,000	-
		$616,785,000	$448,717,718	$485,060,000	$580,442,718

NOTE E--NOTES AND BONDS PAYABLE--Continued

	2010				
	Maturity	Beginning Balance	Additions	Retirements	Ending Balance
1995 Master Bond Resolution					
Senior Bonds, Series 2001A-1	June 1, 2031	$ 15,625,000	$ -	$ -	$ 15,625,000
Senior Taxable Auction Rate Bonds, Series 2001A2/A3	December 1, 2031	75,000,000	-	7,600,000	67,400,000
Senior Auction Rate Bonds, Series 2004A-1	December 1, 2033	40,625,000	-	-	40,625,000
Senior Auction Rate Bonds, Series 2004A-2	June 1, 2034	40,625,000	-	-	40,625,000
Subordinate Bonds, Series 1995B-2	September 1, 2025	3,980,000	-	-	3,980,000
Subordinate Bonds, Series 2001B-1	June 1, 2031	25,000,000	-	-	25,000,000
1996 Third Party Insured Resolution					
Refunding Bonds, Series 2003A-1	December 1, 2032	9,670,000	-	-	9,670,000
Variable Rate Demand Obligations,					
Series 1998A	Bank Bond	26,480,000	-	12,150,000	14,330,000
Series 2000A-4	Bank Bond	20,945,000	-	5,615,000	15,330,000
Series 2002A-1	Bank Bond	40,625,000	-	10,540,000	30,085,000
Series 2003A-2	Bank Bond	30,955,000	-	7,235,000	23,720,000
Series 2005A	Bank Bond	52,036,000	-	16,836,000	35,200,000
Series 2006A-1	Bank Bond	122,036,000	-	55,946,000	66,090,000
Taxable Auction Rate Bonds Series 2000A1/A2/A3	June 1, 2030	100,000,000	-	46,200,000	53,800,000
2008 Master Bond Resolution II					
DPLOC, Senior Variable Rate Demand Obligations, Series 2008IIA-1	March 1, 2037	175,305,000	-	-	175,305,000
		$ 778,907,000	$ -	$ 162,122,000	$ 616,785,000

The Series 2010A-2B bonds were sold with an original issue discount of approximately $900,000. The remaining unamortized balance at June 30, 2011 was approximately $800,000.

Variable rate demand obligations outstanding as of June 30, 2010 were Bank Bonds as defined by the terms of a standby bond purchase agreement supporting the 1996 Third Party Insured Resolution. The terms of the Bank Bonds provided for accelerated principal payments (generally requiring equal annual principal payments over approximately five years) and for interest, payable monthly, determined by a defined spread to an index, such as the prime rate or LIBOR. The related bonds were retired with proceeds from the 2010 Tax-Exempt LIBOR Floating Rate Bonds.

At June 30, 2011, the Authority's notes and bonds payable also consisted of auction rate securities (ARS's) totalling $154,225,000, of which $104,325,000 was tax-exempt with interest rates set every 35 days and $49,900,000 was taxable with interest rates set every 28 days.

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, 2011 levels, are as follows:

Year Ending June 30	Principal	Interest	Total
2012	$ -	$ 8,638,013	$ 8,638,013
2013	-	8,638,013	8,638,013
2014	232,793,595	7,926,566	240,720,161
2015	-	7,474,045	7,474,045
2016	-	7,474,045	7,474,045
2017-2021	39,700,000	37,086,265	76,786,265
2022-2026	133,065,000	34,652,037	167,717,037
2027-2031	64,480,000	29,951,108	94,431,108
2032-2036	180,925,000	23,906,493	204,831,493
2037-2040	315,294,702	13,653,874	328,948,576
	$ 966,258,297	$ 179,400,459	$1,145,658,756

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 State legislature. 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.

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 2011 and 2010.

The Authority itself is required to contribute a statutory percentage of participating employees' regular annual compensation for administration of the plan (employer's contributions). The contribution rate for the Authority was 9.5%. The Authority's total payments to the TRS for the employees' and employer's contributions were approximately $542,000, $590,000 and $586,000 for the years ended June 30, 2011, 2010 and 2009, respectively.

NOTE G--COMMITMENTS AND CONTINGENCIES

The Authority conducts certain programs subject to audit by various federal and state agencies. Amounts challenged 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 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 (subject to the Authority's available finances to fund acquisitions) under certain terms and conditions. As of June 30, 2011 and 2010, the Authority was committed to purchase such loans totaling approximately $152,193,000 and $415,078,000, respectively. The decrease in commitment to purchase loans is related to the Authority purchasing loans from certain members of our lending network on June 29, 2011 using proceeds from the 2011-1 bond issue and network lenders selling loans through the ECASLA Put program. In June 2008, due to severe and protracted disruptions in the credit markets, the Authority amended its agreements with lender customers to purchase loans on a funds available model (see Note K).

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 recent years, the excess interest estimate has shown a significant decreasing trend.

The Authority leases certain facilities and equipment under noncancelable operating leases that expire at various dates through January 2013. Rent expense for the years ended June 30, 2011 and 2010 was approximately $521,000 and $487,000, respectively. The following is a schedule of future minimum rental payments under operating leases as of June 30, 2011:

Year Ending June 30	
2012	$ 467,000
2013	271,000
	$ 738,000

NOTE H--STUDENT LOAN LEGISLATION

The Higher Education Act is the subject of frequent amendments, including amendments from the federal government's budget process. Legislation passed in 2010 implemented various changes to the FFEL Program.

The Health Care and Education Reconciliation Act of 2010 (HCERA) became law on March 30, 2010. The Student Aid and Fiscal Responsibility Act (SAFRA), Title II of HCERA, included provisions that terminated the FFEL Program. Effective July 1, 2010 eligible lenders, including the Authority, were no longer allowed to originate FFEL Program loans. Beginning July 1, 2010, all federal student loans were solely originated by USDE's Direct Loan Program.

SAFRA also requires USDE to contract with eligible and qualified Not-For-Profit servicers (NFP Servicers) to service federally held student loans. The Authority responded to USDE's NFP Servicer Solicitation on December 1, 2010. On February 2, 2011, USDE authorized the Authority to enter into a Memorandum of Understanding (MOU) to pursue an Authority to Operate (ATO) and a contract award as an NFP Servicer. This MOU was executed by USDE and the Authority on April 13, 2011 and contains a Go Live date of July 1, 2012 for the Authority to start servicing Federal Student Loans.

NOTE I--RELATED PARTIES

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

	June 30	
	2011	2010
Loans purchased by the Authority for the year	$ 29,117,000	$ 18,000
Loans being serviced at year end	677,680	24,972,000

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:

	2011		2010	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Financial assets:				
Cash	$ 424,471	$ 424,471	$ 715,051	$ 715,051
Investments	106,016,904	106,016,904	116,572,735	116,572,735
Interest receivable	12,412,624	12,412,624	13,729,404	13,729,404
Loans, net	914,755,752	914,755,752	1,042,099,502	1,042,099,502
Financial liabilities:				
Accrued interest payable	580,392	580,392	1,653,666	1,653,666
Notes payable	386,693,595	386,693,595	388,074,765	388,074,765
Bonds payable	579,564,702	579,564,702	716,785,000	716,872,227

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 current share prices for mutual funds and cost for repurchase agreements.

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 2011 and 2010 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.

The Authority categorizes its fair value estimates based on a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. Classification is based on the lowest level of input that is significant to the fair value of the instrument. The fair value hierarchy is as follows:

Level 1 Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

NOTE J--FAIR VALUE OF FINANCIAL INSTRUMENTS--Continued

Level 2 Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset and liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

The following table summarizes financial assets measured at fair value on a recurring basis as of June 30, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	2011			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
U.S. Government securities-based mutual funds	$ 104,493,872	$ -	$ -	$ 104,493,872
Repurchase agreements	-	1,523,032	-	1,523,032
Investments	$ 104,493,872	$ 1,523,032	$ -	$ 106,016,904

	2010			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
U.S. Government securities-based mutual funds	$ 115,930,386	$ -	$ -	$ 115,930,386
Repurchase agreements	-	642,349	-	642,349
Investments	$ 115,930,386	$ 642,349	$ -	$ 116,572,735

NOTE K--SUBSEQUENT EVENTS

The Authority has evaluated events and transactions that occurred subsequent to June 30, 2011 through October 18, 2011, the date these financial statements were available to be issued, for potential recognition or disclosure in these financial statements.

As discussed in Note G, the Authority is committed to purchase loans from certain financial institutions for which it performs loan servicing. Subsequent to June 30, 2011, the Authority entered into new loan servicing agreements with six of the nine financial institutions that continue to hold a student loan portfolio, and eliminated the requirement to purchase loans. One of the remaining financial institutions converted their loans to another servicer in July 2011. The Authority is in negotiations with the final two financial institutions on the new servicing agreement or to convert their loans to another servicer. The Authority's commitment to purchase such loans, as of September 30, 2011, decreased to approximately $122,829,000 as a result of the new agreements.

NOTE L--RECENTLY ISSUED PRONOUNCEMENTS

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB No. 62 is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain FASB and AICPA pronouncements. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011.

The Authority is currently evaluating the effects that the above GASB Pronouncements will have on its financial statements.

COLE + REED P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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

The Board of Trustees
Oklahoma Student Loan Authority

We have audited the financial statements of the Oklahoma Student Loan Authority (the "Authority"), a component unit of the State of Oklahoma, as of and for the year ended June 30, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

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 compliance with certain provisions of laws and regulations, 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*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

531 Couch Drive
Oklahoma City
73102-2251
TEL 405.239.7961
FAX 405.235.0042
WEB www.coleandreed.com

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Authority's Board of Trustees and management and the State of Oklahoma and is not intended to be and should not be used by anyone other than these specified parties.

Cole & Reed P.C.

Oklahoma City, Oklahoma
October 18, 2011