Oklahoma Student Loan Authority
A Component Unit of the State of Oklahoma

Financial Report
June 30, 2018 and 2017

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Contents

Independent Auditor's Report

To the Board of Trustees
Oklahoma Student Loan Authority
A Component Unit of the State of Oklahoma

Report on the Financial Statements
We have audited the accompanying statements of net position of the Oklahoma Student Loan Authority (the Authority), a component unit of the State of Oklahoma, as of June 30, 2018 and 2017; and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. 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. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters
Basis of Presentation
As discussed in Note 1 of the financial statements, the financial statements present only the Authority and do not purport to, and do not, present fairly the financial position of the State of Oklahoma, as of June 30, 2018 and 2017, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of the Authority's proportionate share of the net pension liability, and the schedule of the Authority's contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information
Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards,* we have also issued our report dated November 1, 2018 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 solely 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 effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

RSM US LLP

Oklahoma City, Oklahoma
November 1, 2018

The Oklahoma Student Loan Authority (the 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. In April 2013, the Authority purchased loans from three network lenders using proceeds from the 2013-1 financing. In June 2016, the Authority purchased loans from the remaining three network lenders using proceeds from the 2016 Bank note financing. The other lenders deconverted their loans to another servicing provider in fiscal year 2012.

During fiscal year 2011, the Authority entered into a memorandum of understanding with the U.S. Department of Education (USDE) for the purpose of satisfying requirements to obtain an Authorization to Operate and to receive a Not-For-Profit (NFP) Servicer contract award with the USDE. In July 2012, the Authority was awarded a NFP Servicer loan servicing contract by USDE to service loans owned by the Department of Education. During the period from July through September 2012 the Authority received an initial allocation of and began servicing approximately 103,000 USDE owned loans. In December 2014 the Authority began receiving allocations of newly disbursed loans, and in fiscal years ended June 30, 2018 and 2017 received approximately 181,000 and 230,000 USDE owned loans, respectively. 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, 2018 and 2017. Please read it in conjunction with the Authority's financial statements and the notes to the financial statements, which follow this section.

Financial Highlights

	2018	2017	2016
Total assets	$ 300,877,722	$ 355,677,461	$ 420,058,323
Student loans receivable, net	272,010,881	326,914,727	388,416,804
Total operating revenue	19,323,826	14,980,570	12,890,429
Net interest margin			
(interest income less interest expense)	4,546,203	4,011,243	5,215,188
Total operating expenses	19,698,739	16,531,099	14,318,130
Total nonoperating revenue	485,174	465,034	540,514
Net position	59,453,077	59,342,816	60,428,311

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 USDE, and loan servicing fees from our student loan portfolio and through our loan servicing contract with USDE. Certain policies of the Authority affect the generation of operating revenues.

The Authority offered certain incentive programs to our borrowers which continue to have an effect on our FFEL portfolio:

The following three incentives were offered for loans with first disbursement dates prior to July 1, 2008. The Authority eliminated or reduced 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 percent 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 percent to 1.0 percent effective June 20, 2007. The Authority decreased this interest rate reduction incentive program from 1.0 percent to 0.25 percent 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 1.0 percent reduction in the principal amount of their loans by making their first three payments on time.

The remaining previously offered incentive described below was discontinued on the date noted.

Consolidation Loan Principal Reduction: Consolidation loan borrowers could earn a 1.0 percent 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.

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 statements of net position are as follows as of June 30:

	2018	2017	2016
Assets and deferred outflows:			
Current assets	$ 75,369,350	$ 83,232,954	$ 97,053,099
Capital assets and other noncurrent	225,508,372	272,444,507	323,005,224
Deferred outflows	1,454,912	2,554,434	799,974
Total assets and deferred outflows	$ 302,332,634	$ 358,231,895	$ 420,858,297

	2018	2017	2016
Liabilities and deferred inflows:			
Current liabilities	$ 1,779,989	$ 3,245,680	$ 3,622,343
Noncurrent liabilities	240,229,532	295,450,965	356,181,799
Deferred inflows	870,036	192,434	625,844
Total liabilities and deferred inflows	242,879,557	298,889,079	360,429,986
Net position:			
Invested in capital assets	647,010	492,208	641,682
Restricted	45,015,171	45,460,498	51,219,074
Unrestricted	13,790,896	13,390,110	8,567,555
Total net position	59,453,077	59,342,816	60,428,311
Total liabilities, deferred inflows and net position	$ 302,332,634	$ 358,231,895	$ 420,858,297

Student loans receivable, net decreased by approximately $54,904,000 and $61,502,000 to approximately $272,011,000 and $326,915,000 at June 30, 2018 and 2017, respectively, due primarily to principal payments received from borrowers, claim payments from guarantors and loan consolidations.

Cash and investments increased by approximately $291,000 and $2,437,000 to approximately $22,431,000 and $22,140,000 at June 30, 2018 and 2017, respectively, due primarily to lower principal and interest repayments on outstanding notes and bonds compared to the prior year.

Notes and bonds payable decreased by approximately $53,448,000 and $62,876,000 to approximately $233,681,000 and $287,129,000 at June 30, 2018 and 2017, respectively, due primarily to principal payments on outstanding notes and bonds payable.

Financial Analysis of the Authority (Continued)

Pension liability results from the adoption of GASB No. 68 during fiscal year 2015. The effect of the adoption was a decrease to net position of approximately $6,999,900 as of July 1, 2014. The Authority has been a participant in the Teacher's Retirement System of Oklahoma and has made required contributions since the Authority's inception. Prior to adoption of GASB No. 68, the contractually required contributions and contributions representing the employee portion were properly expensed during the period paid, and classified as general administration expenses in the statements of revenues, expenses and changes in net position. GASB No. 68 does not change the calculation of the amounts to be contributed to the retirement plan, but does have a dramatic impact on how the Authority and all other employers in the plan account for plan participation. Actuarial calculations and assumptions drive the recognized pension liability and related expense recognition based on the Authority's proportion of the net pension liability of the plan. See Note 6 - Retirement Plan in the notes to audited financial statements.

At June 30, 2015, the Authority was servicing student loans from members of the OSLA Student Lending Network with a principal balance of approximately $22,426,000. The Authority purchased the loans from the remaining members at the end of fiscal year 2016, and is no longer servicing FFEL loans for others.

Components of the statement of revenues, expenses, and changes in net position are as follows for the fiscal years ended June 30:

	2018	2017	2016
Revenues:			
Operating revenues	$ 19,323,826	$ 14,980,570	$ 12,890,429
Nonoperating revenues	485,174	465,034	540,514
Total revenues	19,809,000	15,445,604	13,430,943
Expenses:			
Operating expenses	19,698,739	16,531,099	14,318,130
Increase/(decrease) in net position	$ 110,261	$ (1,085,495)	$ (887,187)

Additional analysis of the statement of revenues, expenses, and changes in net position are as follows for the fiscal years ended June 30:

	2018	2017	2016
Loan interest income, net of consolidation rebate fees	$ 10,709,693	$ 9,324,323	$ 9,540,231
Investment interest income	209,910	96,493	119,282
Total interest income	10,919,603	9,420,816	9,659,513
Less interest expense	6,373,400	5,409,573	4,444,325
Net interest margin (deficit)	$ 4,546,203	$ 4,011,243	$ 5,215,188

Financial Analysis of the Authority (Continued)

Loan interest income for the years ended June 30, 2018 and 2017 increased from fiscal year 2017 and 2016, respectively, due to the increase in interest rates on the Authority's variable rate loans from the prior year. 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 ranged from: 2.68 percent to 4.23 percent for the year ended June 30, 2018, 2.05 percent to 3.80 percent for the year ended June 30, 2017, and 1.72 percent to 3.12 percent for the year ended June 30, 2016. The fixed rates for loans first disbursed on or after July 1, 2006 ranged from 5.6 percent to 8.5 percent. See Note 4, Loans and Allowance for Loan Losses, for explanation of the quarterly lenders' yield and its relationship to the loans' stated variable or fixed interest rates. For all three years in the period ended June 30, 2018, the lender's yield is based on the 1-Month LIBOR index for purposes of special allowance calculations.

Interest expense: The Authority funded the origination or acquisition of student loans by periodically issuing bonds and notes. The approximate $53,448,000 decrease in bonds and notes outstanding during the year ended June 30, 2018 was more than offset by an increase in the weighted average cost of funds to 2.88 percent as of June 30, 2018, compared to a 1.83 percent cost of funds at June 30, 2017, and led to an increase in interest expense for the year ended June 30, 2018. The approximate $62,876,000 decrease in bonds and notes outstanding during the year ended June 30, 2017 was more than offset by an increase in the weighted average cost of funds to 1.83 percent as of June 30, 2017, compared to a 1.28 percent cost of funds at June 30, 2016, and led to an increase in interest expense for the year ended June 30, 2017. The approximate $54,751,000 decrease in bonds and notes outstanding during the year ended June 30, 2016 was nearly offset by an increase in the weighted average cost of funds to 1.28 percent as of June 30, 2016, compared to a 0.94 percent cost of funds at June 30, 2015, and let to the decrease in interest expense for the year ended June 30, 2016.

Net interest margin for the year ended June 30, 2018 of approximately $4,546,000 resulted from an increase in interest expense coupled with an increase in interest income and represents an increase of $535,000. Net interest margin for the years ended June 30, 2017 and 2016, of approximately $4,011,000 and $5,215,000, respectively, resulted from the decrease in interest income in both years, offset by declines in interest expense and represents a decrease of approximately $1,204,000.

Other operating revenues is comprised primarily of loan servicing fees and increased by approximately $2,958,000 and $2,306,000 for the years ended June 30, 2018 and June 30, 2017, respectively, due to increases in the number of loans serviced under the Authority's loan servicing agreement with the Department of Education, offset in part by lower fees earned from its FFEL portfolio due to decreases in outstanding loan balances in both years.

Operating expenses (excluding interest expense) for the year ended June 30, 2018, increased by 19.8 percent to approximately $13,325,000 reflecting an increase in loan servicing costs due to further increases in federal loans serviced as well as an increase in pension expense. Operating expenses (excluding interest expense) for the year ended June 30, 2017, increased by 12.6 percent $11,121,000 reflecting an increase in loan servicing costs due to increase in federal loans serviced as well as an increase in pension expense. Operating expense for the year ended June 30, 2016, were approximately the same at around $10,000,000 for both years ended June 30, 2016, and 2015. We believe our current staffing and related support functions are at the proper levels to achieve highly rated service levels to both our Direct Loan and FFELP borrowers. 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 any of the three years ended June 30, 2018.

Financial Analysis of the Authority (Continued)

Nonoperating revenues (excluding investment interest income) consists of gain on early extinguishment of debt and on-behalf pension contributions and decreased by approximately $93,000 to approximately $275,000 for the year ended June 30, 2018 and decreased by approximately $52,000 to approximately $369,000 for the year ended June 30, 2017, reflecting comparable activity during those periods. Gain on extinguishment of debt is dependent primarily on the value of notes and bonds payable offered to us for redemption at a discount through unsolicited offers from debt holders. See further discussion of on-behalf pension contributions in Note 5 in the notes to financial statements.

Federal Loan Servicing

SAFRA requires the Secretary of the Department of Education to contract with eligible and qualified NFP Servicers to service loans within the Federal Direct Loan Program. The Authority entered into a Memorandum of Understanding, as amended, with the Department of Education, as a prime contractor for the purpose of satisfying requirements to obtain an Authorization to Operate and to receive a NFP Servicer contract award with the Department of Education.

The Authority was awarded a NFP Servicer loan servicing contract by the Department of Education to service loans owned by the Department of Education, primarily, in its Direct Loan Program under the Higher Education Act. Under that contract, the Authority began servicing federal loans in July 2012 when the Department transferred approximately 103,000 borrower accounts to the Authority for servicing.

The Authority acquired additional capital assets, increased its number of personnel and related costs, and entered into contracts with service providers and consultants required to earn the NFP Servicer contract with USDE. The Authority funded 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.

During calendar year 2013 and most of 2014, the Department did not allocate any additional loans to NFP servicers. In December 2014, the Authority began to receive allocations of newly disbursed loans pursuant to a common calculation methodology used by USDE to allocate new loan volume to all federal loan servicers. For the years ended June 30, 2018 and 2017, the Authority received approximately 181,000 and 230,000 new loans, respectively.

The Department of Education determines new loan allocation to federal loan servicer through a quarterly scoring based on customer satisfaction survey scores and metrics reflecting default prevention. The metrics determine the allocation of new loans to each servicer relative to the other servicers. The performance metrics assign a score to each servicer based on five metrics in two areas. The first two metrics measure borrower satisfaction survey results and Department of Education Federal Student Aid employee survey scores. The second group includes three metrics and measures the success of default prevention efforts using the repayment status of borrowers (current, delinquent and defaulted).

The Department refined the common calculation methodology for the allocation period beginning July 2016. The refinement did not significantly change the Authority's allocation percentage compared to the prior methodology.

The Department issued a contract modification to the Authority in July 2017 to exercise their Optional Ordering Period. The period of performance for the Authority's contract was extended through September 30, 2019.

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 5 to the audited financial statements.

$180,897,000, $222,019,000 and $333,082,000 of the Authority's debt was publicly held at June 30, 2018, 2017 and 2016, respectively, and had long-term credit ratings assigned by Moody's Investors Service (Moody's), Standard and Poor's (S&P), and Fitch at June 30, 2016 based on the type of security which is reflected in the table below.

Credit Ratings	2018 Principal Amount	2017 Principal Amount	2016 Principal Amount	Type of Security
AAA S&P/ AAA Fitch	$ 69,605,000	$ 82,080,000	$ 319,782,000	Senior Lien or Insured
AA+ S&P/ AAA Fitch	$ 111,292,000	$ 139,939,000	$ -	Senior Lien or Insured
AA+ S&P/ AAA Fitch	$ -	$ -	$ 13,300,000	Subordinate Bonds

In August 2015, S&P published a press release raising its ratings on the Authority's Series 2010A-1 to "AAA (sf)" from their "AA+ (sf)" rating. The upgrades reflect S&P's view regarding the collateral's future performance, as well as that the current credit enhancement available (which includes overcollateralization (parity), the reserve account and excess spread) can support the bonds and notes at the raised rating levels. More information regarding the raised ratings may be obtained from S&P and from the press release dated August 20, 2015.

In February, March and June of 2016, Fitch Ratings affirmed its rating on the Authority's Series 2013-1, 2011-1 and Series 2010A, respectively. Key ratings drivers noted were high collateral quality, sufficient credit enhancement, adequate liquidity support and acceptable servicing capabilities. More information regarding the affirmed ratings may be obtained from Fitch and from the press release dated February 8, March 16, and June 3, 2016, respectively.

In June 2016, Moody's published a press release regarding ratings actions on 403 tranches of asset-backed securities (ABS) backed by student loans made under the Federal Family Education Loan Program (FFELP) and ABS backed by mixed pools of loans, i.e., collateral pools that include both FFELP and private student loans. Moody's has placed four Senior Series on review for downgrade and 1 Sub Series on review for upgrade from the 1995 Master Bond Resolution bonds and notes. More information regarding the ratings actions may be obtained from Moody's and from the press release dated June 14, 2016.

Debt Administration (Continued)
In November 2016, Moody's published a press release upgrading one rating, affirming three ratings, and downgrading one rating on the Authority's 1995 Master Bond Resolution. Series 2001B-1 was raised to Aaa from A2 and Series 1995A-1, 2004A-1, and 2004A-2 were confirmed at a rating of Aaa. The upgrades and confirmations were primarily a result of Moody's analysis indicating that the expected losses of the tranches across Moody's cash flow scenarios are lower than or consistent with the expected loss benchmarks in Moody's Idealized Cumulative Expected Loss Rates table for the prior ratings. Series 2001A-4 was downgraded to Baa3 from Aaa. The downgrade was primarily a result of Moody's analysis indicating that the tranche wil not pay off by its final maturity date in some of Moody's 28 cash flow scenarios. More information regarding the ratings actions may be obtained from Moody's and from the press release dated November 28, 2016. All of the remaining outstanding bonds of the Authority's 1995 Master Bond Resolution were refinanced with the proceeds from the 2017 Bank note financing.

In February 2017, Fitch Ratings affirmed its rating of AAA (sf) on the Authority's Series 2010A-2A, 2010A-2B, 2011-1, and 2013-1. Key ratings drivers noted were high collateral quality, sufficient credit enhancement, low maturity risk, and acceptable servicing capabilities. More information regarding the affirmed ratings may be obtained from Fitch and from the press release dated February 23, 2017.

In May 2017, S&P published a press release raising its rating from AA+ (sf) to AAA (sf) on the Authority's Series 2010A-2A and 2010 A-2B and affirming its rating of AA+ (sf) on the Authority's Series 2011-1 and 2013-1. The upgrades reflect increased credit enhancement levels with expected future increases and the affirmations reflect S&P's view that the credit enhancement levels are stable or improving based on the collateral performance and payment structures. More information regarding the upgraded and affirmed ratings may be obtained from S&P and from the press release dated May 22, 2017.

In December 2017, Fitch Ratings affirmed its rating AAA (sf) on the Authority's Series 2010-A-2A, 2010A-2B, 2011-1, and 2013-1. Key ratings drivers noted were high collateral quality, standard basis and interest rate risk, sufficient credit enhancement, low maturity risk, and acceptable servicing capabilities. More information regarding the affirmed ratings may be obtained from Fitch and from the press release dated December 21, 2017.

Economic Outlook
As described above, the Authority earns loan servicing fees from its contract with USDE based on the number of loans serviced. The Authority received a significant increase in the number of loans allocated in fiscal year 2018 compared to prior years based on the results of the common calculation methodology results for the quarter beginning July 1, 2016 that will be in place for the beginning of the 2017-2018 school year. The Authority expects to continue to receive periodic allocations of loans from its contract with the Department of Education.

Oklahoma Student Loan Authority
A Component Unit of the State of Oklahoma

Statements of Net Position
June 30, 2018 and 2017

	2018	2017
Assets		
Current assets:		
Cash	**$ 210**	$ 210
Restricted cash	**92,253**	102
Investments	**12,490,640**	12,734,889
Restricted investments	**9,847,425**	9,404,378
Loans, net of allowance for loan losses	**47,438,630**	55,802,975
Interest and other receivables	**5,500,192**	5,290,400
Total current assets	**75,369,350**	83,232,954
Noncurrent assets:		
Loans, net of allowance for loan losses	**224,572,251**	271,111,752
Capital assets, net of accumulated depreciation	**647,010**	492,208
Other noncurrent assets	**289,111**	840,547
Total noncurrent assets	**225,508,372**	272,444,507
Total assets	**300,877,722**	355,677,461
Deferred outflows of resources:		
Deferred pension plan outflows	**1,454,912**	2,554,434
Liabilities, Deferred Inflows of Resources and Net Position		
Current liabilities:		
Accounts payable and other accrued expenses	**1,353,776**	1,531,476
Interest payable to U.S. Department of Education	**34,116**	1,395,724
Accrued interest payable	**392,097**	318,480
Total current liabilities	**1,779,989**	3,245,680
Noncurrent liabilities:		
Notes payable	**52,848,958**	65,220,762
Bonds payable, net	**180,832,243**	221,907,961
Net pension liability	**6,548,331**	8,322,242
Total noncurrent liabilities	**240,229,532**	295,450,965
Total liabilities	**242,009,521**	298,696,645
Deferred inflows of resources:		
Deferred pension plan inflows	**870,036**	192,434
Net position:		
Investment in capital assets	**647,010**	492,208
Restricted	**45,015,171**	45,460,498
Unrestricted	**13,790,896**	13,390,110
Total net position	**$ 59,453,077**	$ 59,342,816

See notes to financial statements.

Oklahoma Student Loan Authority
A Component Unit of the State of Oklahoma

Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2018 and 2017

	2018	2017
Operating revenues:		
Loan interest income:		
From borrowers	**$ 13,318,176**	$ 15,391,697
Net to U.S. Department of Education	**(2,608,483)**	(6,067,374)
Loan servicing fees	**8,614,133**	5,656,247
Total operating revenue	**19,323,826**	14,980,570
Operating expenses:		
Interest	**6,373,400**	5,409,573
General administration	**10,150,983**	9,014,707
External loan servicing fees	**2,402,931**	1,248,211
Professional fees	**771,425**	858,608
Total operating expenses	**19,698,739**	16,531,099
Operating loss	**(374,913)**	(1,550,529)
Nonoperating revenues (expenses):		
OTRS on-behalf contributions	**275,264**	287,916
Investment interest income	**209,910**	96,493
Gain on extinguishment of debt	**-**	80,625
Net nonoperating income (expense)	**485,174**	465,034
(Decrease)/increase in net position	**110,261**	(1,085,495)
Net position, beginning of year	**59,342,816**	60,428,311
Net position at end of year	**$ 59,453,077**	$ 59,342,816

See notes to financial statements.

Oklahoma Student Loan Authority
A Component Unit of the State of Oklahoma

Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Receipts of interest income from borrowers	**$ 13,349,581**	$ 15,756,626
Payments of interest to USDE	**(3,970,091)**	(6,512,776)
Receipts of loan servicing fees	**8,379,880**	5,397,868
Receipts of loan principal payments	**59,829,718**	68,374,509
Acquisition of student loans receivable	**(4,925,871)**	(6,871,736)
Payments to employees and suppliers	**(12,307,658)**	(10,244,209)
Net cash provided by operating activities	**60,355,559**	65,900,282
Cash flows from noncapital financing activities:		
Proceeds from issuance of notes payable	**-**	52,450,000
Payments for interest on notes and bonds payable	**(6,253,501)**	(5,339,425)
Payments on notes payable	**(12,371,804)**	(21,424,238)
Payments on bonds payable	**(41,122,000)**	(93,882,375)
Net cash used in noncapital financing activities	**(59,747,305)**	(68,196,038)
Cash flows from investing activities:		
Proceeds from sales of investments	**107,710,269**	141,261,854
Receipts of interest on investments	**202,966**	99,222
Purchases of investments	**(107,909,067)**	(139,211,901)
Net cash provided by investing activities	**4,168**	2,149,175
Cash flows from capital and related financing activities:		
Purchases of capital assets	**(520,271)**	(242,360)
Net increase (decrease) in cash	**92,151**	(388,941)
Cash at beginning of year	**312**	389,253
Cash at end of year (including $92,253 and $102 for 2018 and 2017, respectively, reported in restricted assets)	**$ 92,463**	$ 312

(Continued)

Oklahoma Student Loan Authority
A Component Unit of the State of Oklahoma

Statements of Cash Flows (Continued)
Years Ended June 30, 2018 and 2017

	2018	2017
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	**$ (374,913)**	$ (1,550,529)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Interest paid on bonds and notes payable	**6,299,783**	5,400,302
Depreciation on capital assets	**365,468**	386,901
Loss on disposal of capital assets	**-**	2,592
Amortization of premiums on loan acquisition	**57,248**	48,098
(Increase) decrease in assets:		
Student loans receivable	**54,846,599**	61,454,675
Interest and other receivables	**(202,848)**	106,550
Other assets	**551,436**	182,783
Deferred pension plan outflows	**1,099,522**	(1,754,460)
Increase (decrease) in liabilities:		
Accounts payable and other accrued expenses	**(177,700)**	59,468
Accrued interest payable	**73,617**	9,271
Interest payable to U.S. Department of Education	**(1,361,608)**	(445,402)
Net pension liability	**(1,498,647)**	2,433,443
Deferred pension plan inflows	**677,602**	(433,410)
Net cash provided by operating activities	**$ 60,355,559**	$ 65,900,282

See notes to financial statements.

Note 1. 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 comprehensive annual financial report of the State. The Authority's financial statements present only the Authority and do not purport to, and do not, present fairly the financial position of the State of Oklahoma, as of June 30, 2018 and 2017, the changes in its financial position, or where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

The purpose of the Authority is (1) to service borrowers with loans offered under the Federal Family Education Loan (FFEL) Program and (2) to service federal loans as part of its Not-For-Profit (NFP) contract with the Department of Education.

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, 2018 and 2017, the majority of loans are guaranteed at 97 percent for loans first disbursed on or after July 1, 2006. The Authority must complete certain due diligence and claim filing requirements for delinquent loans in order to maintain the guarantee.

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.

In July 2012, the Authority was awarded a NFP Servicer loan servicing contract by the Department of Education to service loans owned by the Department of Education in its Direct Loan Program under the Higher Education Act. The Authority earns a monthly servicing fee pursuant to the NFP Servicer loan servicing contract based on the number of borrower accounts. As of June 30, 2018, the Authority was servicing approximately 549,000 borrower accounts with an aggregate principal balance of approximately $7,098,874,000 compared to approximately 383,000 borrower accounts with an aggregate principal balance of approximately $4,132,070,000 at June 30, 2017. The Department issued a contract modification to the Authority in July 2017 to exercise their Optional Ordering Period. The period of performance for the Authority's contract was extended through September 30, 2019.

Note 2. Summary of Significant Accounting Policies

The financial statements of the Authority included herein reflect the combined assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, and changes therein for the Authority.

The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for accounting principles generally accepted applicable to governmental proprietary activities in the United States of America. The Authority applies all applicable GASB pronouncements.

Basis of accounting: The Authority's financial statements are prepared using the 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 recognized when incurred.

Use of estimates: 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 in the financial statements and accompanying notes. Actual results could differ from those estimates.

Accounts of the Authority: The accounts of the Authority are organized as prescribed by the Oklahoma Student Loan Act (the Act) and terms of various debt obligations. The various accounts 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.

Investments: Investments consist of U.S. government securities-based mutual funds and certificates of deposit. Applicable Oklahoma Statutes authorize certain types of investments the Authority can utilize. As of June 30, 2018 and 2017, the Authority believes it is in compliance with these investment requirements.

The negotiable certificates of deposit with original maturities of greater than one year are stated at fair value with changes in fair value included in the statements of revenues, expenses, and changes in net position. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Negotiable certificates of deposit with original maturities of less than one year are stated at amortized cost. The U.S government securities-based mutual funds are stated at the net asset value (NAV) of the fund.

Note 2. Summary of Significant 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 recorded as an expense when the loan is made. Due to changes in legislation, the Authority stopped originating student loans after June 30, 2010.

All of the FFEL Program loans made or acquired by the Authority are guaranteed as described in Note 1. 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 over three to ten years. Accumulated depreciation and amortization on capital assets at June 30, 2018 and 2017 were approximately $5,771,000 and $5,407,000, respectively. Depreciation expense for the years ended June 30, 2018 and June 30, 2017 was approximately $365,000 and $387,000, respectively. Maintenance costs for equipment and other assets are expensed as incurred.

Net position: The Authority's net position is classified as follows:

Investment in capital assets: This represents the Authority's total investment in capital assets.

Restricted net position: Net position where the use is restricted by a third party or enabling legislation. The Authority's restricted net position are restricted by the 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 5).

Unrestricted net position: Net position that does not meet the definition of invested in capital assets or restricted is classified as unrestricted.

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 related to servicing the loans are considered operating with the exception of the gain on extinguishment of debt, investment interest income, and OTRS on-behalf contributions.

Servicing fees earned from the Authority's NFP servicing contract with USDE are recorded in the month such services are provided.

Note 2. Summary of Significant 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, 2018 and 2017 was approximately $842,000 and $1,164,000, respectively. The other type of interest payment that may be received 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). Most loan rates in the Authority's portfolio are based upon the 1-month LIBOR index, and also include 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 typically results in negative Special Allowance income in which case the Authority pays the USDE. Net Special Allowance Payments to the USDE for the years ended June 30, 2018 and 2017 were approximately $2,215,000 and $4,988,000, 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, 2018 and 2017 were approximately $1,959,000 and $2,239,000, respectively. Such fees are reported as a reduction to loan interest income from USDE.

Deferred inflows of resources: Deferred inflows of resources are the acquisition of net position by the Authority that are applicable to a future period. At June 30, 2018 and 2017, the Authority had deferred inflows related to pension items of $870,036 and $192,434, respectively. See Note 6 for additional discussion regarding deferred inflows of resources.

Deferred outflows of resources: Deferred outflows are the consumption of net position by the Authority that are applicable to a future period. At June 30, 2018 and 2017, the Authority had deferred outflows of resources related to pension items of $1,454,912 and $2,554,434, respectively. See Note 6 for additional discussion regarding deferred outflows of resources.

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 calculates and makes provisions for any estimated cumulative rebatable arbitrage that must be remitted to the Internal Revenue Service (IRS) for the excess earnings on non-purpose investments. There was no arbitrage liability due to the IRS at June 30, 2018 or June 30, 2017.

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 2. Summary of Significant Accounting Policies (Continued)

New accounting pronouncements adopted in fiscal year 2018: The Authority adopted new accounting pronouncements during the year ended June 30, 2018 as follows:

- GASB Statement No. 86, *Certain Debt Extinguishment Issues*, issued May 2017, establishes essentially the same requirements for when a government places cash and other monetary assets acquired with only existing resources in an irrevocable trust to extinguish debt as when the debtor irrevocably places cash or other monetary assets acquired with refunding debt proceeds in a trust to be used solely for satisfying scheduled payments of both principal and interest of the defeased debt. However, in financial statements using the economic resources measurement focus, governments should recognize any difference between the reacquisition price and the net carrying amount of the debt defeased in substance using only existing resources as a separately identified gain or loss in the period of the defeasance. This statement also requires that any remaining prepaid insurance related to the extinguished debt be included in the net carrying amount of that debt for the purpose of calculating the difference between the reacquisition price and the net carrying amount of the debt. This statement also provides for additional disclosures for all in-substance defeasance transactions. Adoption of this statement did not have an impact on the Authority's financial statements in the year of adoption or prior period presented.

New accounting pronouncements issued not yet adopted: The GASB has issued new accounting pronouncements which will be effective to the Authority in fiscal years ended after June 30, 2018. A description of the new accounting pronouncement is provided below:

- GASB Statement No. 84, *Fiduciary Activities*, establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of a fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. The requirements of this statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The Authority is currently evaluating the impact of the adoption of this statement.

- GASB Statement No. 87, *Leases*, issued June 2017, establishes a single approach to accounting for and reporting leases by state and local governments. Under this statement, a government entity that is a lessee must recognize (1) a lease liability and (2) an intangible asset representing the lessee's right to use the leased asset. In addition, the Authority must report the (1) amortization expense for using the lease asset over the shorter of the term of the lease or the useful life of the underlying asset, (2) interest expense on the lease liability and (3) note disclosures about the lease. The statement provides exceptions from the single-approach for short-term leases, financial purchases, leases of assets that are investments, and certain regulated leases. This statement also addresses accounting for lease terminations and modifications, sale-leaseback transactions, non-lease components embedded in lease contracts (such as service agreements), and leases with related parties. The requirements of this statement are effective for reporting periods beginning after December 15, 2019. The Authority is currently evaluating the impact of the adoption of this statement.

Note 3. Investments and Fair Value Measurements

The Authority invests its idle cash primarily in U.S. government securities-based money market mutual funds in accordance with the Authority's investment policy. Unrestricted investments may also include U.S. bank issued certificates of deposit and municipal bonds. Generally, the policy requires investments to be 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.

Credit risk is the risk that an issuer or guarantor of a security may default on its payment obligations. The U.S. government securities-based money market mutual funds, at June 30, 2018 and 2017 were rated AAA by the Standards & Poor's Corporation, and Aaa by Moody's Investors Service. Certificates of deposit at June 30, 2018 and June 30, 2017 were rated Three-Star or higher by Bauer Financial or A1/A/A or higher by Moody's/S&P/Fitch.

Custodial credit risk for deposits is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Authority does not have a formal policy for custodial credit risk. Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. From time to time, account balances may exceed limits insured by the Federal Deposit Insurance Corporation. As of June 30, 2018, the bank balance of the Authority's deposits in financial institutions was $474,803; thus, $224,799 was uninsured and uncollateralized. As of June 30, 2017, the Authority's cash bank balance was fully insured.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. Investments that are evidenced by securities are exposed to custodial credit risk if they are uninsured, not registered in the name of the Authority, or are held by a counterparty or the counterparty's trust department but not in the name of the Authority. The Authority's position in U.S. government securities-based mutual funds is not subject to custodial credit risk because these open-ended mutual funds are not evidenced by securities. At June 30, 2018 and June 30, 2017, all of the Authority's negotiable certificates of deposit were fully insured.

Note 3. Investments and Fair Value Measurements (Continued)

Concentration of credit risk is the risk of loss attributed to the magnitude of the Authority's investments in a single issuer. It is generally considered that an increased risk of loss occurs as more investments are acquired from a single issuer. Concentration of credit risk does not apply to the Authority's position in U.S. government securities-based mutual funds because the nature of mutual funds provide diversification. In order to limit concentration of credit risk of the Authority's other investments, the Authority does not invest more than 5 percent of its total investments in any one issuer.

Interest rate risk is the risk that during periods of rising interest rates, the yield and market value of the securities will tend to be lower than prevailing market rates; in periods of falling interest rates, the yield will tend to be higher. At June 30, 2018, negotiable certificates of deposit with a carrying value of $10,750,000 and a weighted average maturity of 0.5 years and U.S. government securities-based mutual funds with a carrying value of $11,588,065 and a weighted average maturity of 0.07 years were subject to interest rate risk. At June 30, 2017, negotiable certificates of deposit with a carrying value of $10,750,000 had a weighted average maturity of 0.8 years and U.S. government securities-based mutual funds with a carrying value of $11,389,267 and a weighted average maturity of 0.1 years were subject to interest rate risk.

Fair value measurements: The Authority follows GASB Statement No. 72, which provides the framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The inputs to the three levels of the fair value hierarchy under GASB Statement No. 72 are described as follows:

Level 1: Unadjusted quoted prices for identical assets or liabilities in active markets that the Authority has the ability to access.

Level 2: Quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from, or corroborated by, observable market data by correlation to other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Valuations to which one or more significant inputs are unobservable and may include situations where there is minimal, if any, market activity in the asset or liability.

The fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. All transfers between fair value hierarchy levels are recognized by the Authority at the end of each reporting period.

Note 3. Investments and Fair Value Measurements (Continued)

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

	2018			
	Level 1	Level 2	Level 3	Total
Investments by fair value level:				
Certificates of deposit	$ -	$ 250,000	$ -	$ 250,000
Investments measured at net asset value (NAV):				
U.S. government securities-based mutual funds				11,588,065
Total investments measured at fair value or NAV				$ 11,838,065

	2017			
	Level 1	Level 2	Level 3	Total
Investments by fair value level:				
Certificates of deposit	$ -	$ 4,000,000	$ -	$ 4,000,000
Investments measured at net asset value (NAV):				
U.S. government securities-based mutual funds				11,389,267
Total investments measured at fair value or NAV				$ 15,389,267

Investments measured at fair value are reconciled to the statement of net position as follows at June 30:

	2018	2017
Investments measured at fair value or NAV	$ 11,838,065	$ 15,389,267
Investments measured at amortized cost:		
Certificates of deposit	10,500,000	6,750,000
Total investments	$ 22,338,065	$ 22,139,267

There have been no significant changes in valuation techniques during fiscal years ended June 30, 2018 and 2017. Negotiable certificates of deposit classified in Level 2 of the fair value hierarchy are valued using quoted prices for similar assets or liabilities in active markets. Investments measured at NAV for fair value are not subject to level classification. The Authority's investments measured at NAV consist solely of mutual funds that invest in cash, U.S. Treasury bills, notes and other obligations issued or guaranteed as to principal and interest by the U.S. Government, its agencies or instrumentalities, and repurchase agreements secured by such obligations or cash. The Authority has no unfunded commitments related to this investment type. Shares are redeemable daily at the NAV at the time of redemption.

Note 4. Loans and Allowance for Loan Losses

The Authority purchases and holds various types of student loans as described in Note 1. The terms of these loans, which vary on an individual basis, depending upon loan type and the date the loan was originated, generally provide for repayment in monthly installments of principal and interest over a period of up to 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.

During the year ended June 30, 2016, the Authority paid a premium of approximately $253,000 on the acquisition of student loans. Unamortized premiums at June 30, 2018 and June 30, 2017 were $146,311 and $203,559, respectively, which are being amortized over the estimated remaining life of loans purchased of five years at the time of purchase.

Loans consist of the following as of June 30:

	2018	2017
Stafford	$ 47,054,010	$ 60,304,136
Unsubsidized Stafford	53,318,714	66,472,611
PLUS/ SLS	2,737,636	3,733,014
Consolidation	171,593,502	198,385,302
SHELF™	1,263,906	1,441,771
Total gross loans	275,967,768	330,336,834
Premium on purchased loans	146,311	203,559
Unprocessed loan payments	(1,045,089)	(174,963)
Allowance for loan losses	(3,058,109)	(3,450,703)
Net loans	$ 272,010,881	$ 326,914,727

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

	2018	2017
Balance at beginning of year	$ 3,450,703	$ 3,813,721
Loans charged off	(392,594)	(363,018)
Balance at end of year	$ 3,058,109	$ 3,450,703

Note 4. Loans and Allowance for Loan Losses (Continued)

The stated interest rates on student loans which are based on USDE regulations ranged from 1.4 percent to 10.0 percent for the fiscal years ended June 30, 2018 and 2017 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 the first disbursement on or after April 1, 2006, the lenders' yield on student loans is based on a quarterly calculation that uses the 1-month LIBOR. 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 consisted of approximately 55.2 percent Negative SAP loans at June 30, 2018 and 60.9 percent Negative SAP loans at June 30, 2017. The calculated quarterly lenders' yield ranged from 3.34 percent to 5.38 percent for the fiscal year ended June 30, 2018 and 2.41 percent to 4.42 percent for the fiscal year ended June 30, 2017.

All FFEL Program student loans are guaranteed at 98 percent or 97 percent (97 percent 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 any unamortized amounts were written off upon adoption of GASB No. 65 in the fiscal year ended June 30, 2013. The Authority eliminated this incentive program for loans with first disbursements 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, 2018 and 2017, approximately $195,000 and $175,000, 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.

Student loans receivable of approximately $216,148,000 and $261,893,000 as of June 30, 2018 and 2017 were pledged as collateral for notes and bonds payable issued by the Authority.

Note 5. 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.

The following schedules summarize the notes and bonds payable outstanding as of June 30, 2018 and 2017:

	2018								
	Year Issued	Original Amount	Interest Rate Basis	Interest Rate at Year-end	Final Maturity	Beginning balance	Additions	Reductions	Ending balance
Notes payable:									
Senior Notes, 2016 Bank Note	2016	17,725,000	M LIBOR + 0.75%	2.8%	2026	$ 13,790,067	$ -	$ 3,878,294	$ 9,911,773
Senior Notes, 2017 Bank Note	2017	52,450,000	M LIBOR + 0.65%	2.7%	2032	51,430,695	-	8,493,510	42,937,185
Total notes payable						65,220,762	-	12,371,804	52,848,958
Bonds payable:									
2010 Indenture of Trust Tax-Exempt									
LIBOR Floating Rate Bonds:									
Series 2010A-2A	2010	51,225,000	Q LIBOR + 1.20%	3.5%	2037	44,045,000	-	6,695,000	37,350,000
Series 2010A-2B	2010	44,230,000	Q LIBOR + 1.00%	3.3%	2037	38,035,000	-	5,780,000	32,255,000
2011 Indenture of Trust Taxable									
LIBOR Floating Rate Bonds:									
Series 2011-1	2011	205,200,000	Q LIBOR + 1.15%	3.5%	2040	62,655,000	-	12,120,000	50,535,000
2013 Indenture of Trust Taxable									
LIBOR Floating Rate Bonds:									
Series 2013-1	2013	211,820,000	M LIBOR + 0.50%	2.6%	2032	77,284,000	-	16,527,000	60,757,000
Total bonds payable						222,019,000	-	41,122,000	180,897,000
Discount on bonds outstanding						(111,039)	-	(46,282)	(64,757)
Total debt outstanding						$ 287,128,723	$ -	$ 53,447,522	$ 233,681,201

Note 5. Notes and Bonds Payable (Continued)

	2017								
	Year Issued	Original Amount	Interest Rate Basis	Interest Rate at Year-end	Final Maturity	Beginning balance	Additions	Reductions	Ending balance
Notes payable:									
Senior Notes, Series 1995A-1	1995	$ 21,600,000	35-Day Auction	0.0%	2025	$ 7,700,000	$ -	$ 7,700,000	$ -
Senior Taxable Floating Rate Notes, Series 2001A-4	2001	50,000,000	Quarterly CP Index	0.0%	2017	9,400,000	-	9,400,000	-
Senior Notes, 2016 Bank Note	2016	17,725,000	M LIBOR + 0.75%	2.0%	2026	17,095,000	-	3,304,933	13,790,067
Senior Notes, 2017 Bank Note	2017	52,450,000	M LIBOR + 0.65%	1.9%	2032	-	52,450,000	1,019,305	51,430,695
						34,195,000	52,450,000	21,424,238	65,220,762
Bonds payable:									
Senior Auction Rate Bonds: Series 2004A-1	2004	$ 40,625,000	35-Day Auction	0.0%	2033	$ 12,975,000	$ -	$ 12,975,000	$ -
Senior Auction Rate Bonds: Series 2004A-2	2004	40,625,000	35-Day Auction	0.0%	2034	17,375,000	-	17,375,000	-
Subordinate Bonds: Series 2001B-1	2001	25,000,000	35-Day Auction	0.0%	2031	13,300,000	-	13,300,000	-
2010 Indenture of Trust Tax-Exempt LIBOR Floating Rate Bonds:									
Series 2010A-1	2010	132,545,000	Q LIBOR + 0.75%	0.0%	2024	1,215,000	-	1,215,000	-
Series 2010A-2A	2010	51,225,000	Q LIBOR + 1.20%	2.4%	2037	51,225,000	-	7,180,000	44,045,000
Series 2010A-2B	2010	44,230,000	Q LIBOR + 1.00%	2.2%	2037	44,230,000	-	6,195,000	38,035,000
2011 Indenture of Trust Taxable LIBOR Floating Rate Bonds:									
Series 2011-1	2011	205,200,000	Q LIBOR + 1.15%	2.4%	2040	76,165,000	-	13,510,000	62,655,000
2013 Indenture of Trust Taxable LIBOR Floating Rate Bonds:									
Series 2013-1	2013	211,820,000	M LIBOR + 0.50%	1.7%	2032	99,497,000	-	22,213,000	77,284,000
						315,982,000	-	93,963,000	222,019,000
Discount on bonds outstanding						(171,916)	-	(60,877)	(111,039)
Total debt outstanding						$ 350,005,084	$ 52,450,000	$ 115,326,361	$ 287,128,723

The Series 2010A-2B and 2013-1 bonds were sold with original issue discounts. The unamortized balance at June 30, 2018 and 2017 was approximately $65,000 and $111,000, respectively, and is classified in the statement of net position as an offset to bonds payable.

Note 5. 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, 2018 levels, are as follows:

	Principal	Interest	Total
Years ending June 30:			
2019	$ -	$ 7,151,857	$ 7,151,857
2020	-	7,151,857	7,151,857
2021	-	7,151,857	7,151,857
2022	-	7,151,857	7,151,857
2023	-	7,151,857	7,151,857
2024-2028	9,911,773	35,191,088	45,102,861
2029-2033	103,694,185	30,848,277	134,542,462
2034-2038	69,605,000	18,621,485	88,226,485
2039-2043	50,535,000	3,351,176	53,886,176
	$ 233,745,958	$ 123,771,311	$ 357,517,269

Note 6. Retirement Plan

Plan description: The Authority contributes to the Teachers Retirement System of Oklahoma (OTRS), a cost-sharing multiple-employer public employee retirement system which is self-administered. OTRS 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 OTRS. OTRS issues a publicly available annual financial report that includes financial statements and required supplementary information for OTRS. That annual report may be obtained at www.ok.gov/TRS/ or by writing to the TRS, Post Office Box 53524, Oklahoma City, Oklahoma 73152.

Benefits provided: OTRS provides defined retirement benefits based on members' final compensation, age, and term of service. In addition, the retirement program provides for benefits upon disability and to survivors upon the death of eligible members. Title 70 O. S. Sec. 17-105 defines all retirement benefits. The authority to establish and amend benefit provisions rests with the State Legislature.

Members become 100 percent vested in retirement benefits earned to date after five years of credited Oklahoma service. Members who joined OTRS on June 30, 1992 or prior are eligible to retire at maximum benefits when age and years of creditable service total 80. Members joining OTRS after June 30,1992 are eligible for maximum benefits when their age and years of creditable service total 90. Members whose age and service do not equal the eligible limit may receive reduced benefits as early as age 55, and at age 62 receive unreduced benefits based on their years of service. The maximum retirement benefit is equal to 2 percent of final compensation for each year of credited service.

Note 6. Retirement Plan (Continued)

Final compensation for members who joined OTRS prior to July 1, 1992 is defined as the average salary for the three highest years of compensation. Final compensation for members joining OTRS after June 30, 1992 is defined as the average of the highest five consecutive years of annual compensation in which contributions have been made. The final average compensation is limited for service credit accumulated prior to July 1, 1995 to $40,000 or $25,000, depending on the member's election. Monthly benefits are 1/12 of this amount. Service credits accumulated after June 30, 1995 are calculated based on each member's final average compensation, except for certain employees of the two comprehensive universities. Upon the death of a member who has not yet retired, the designated beneficiary shall receive the member's total contributions plus 100 percent of interest earned through the end of the fiscal year, with interest rates varying based on time of service. A surviving spouse of a qualified member may elect to receive, in lieu of the aforementioned benefits, the retirement benefit the member was entitled to at the time of death as provided under the Joint Survivor Benefit Option.

Upon the death of a retired member, OTRS will pay $5,000 to the designated beneficiary, in addition to the benefits provided for the retirement option selected by the member.

A member is eligible for disability benefits after ten years of credited Oklahoma service. The disability benefit is equal to 2.0 percent of final average compensation for the applicable years of credited service.

Upon separation from OTRS, members' contributions are refundable with interest based on certain restrictions provided in the Plan, or by the Internal Revenue Code (IRC).

Members may elect to make additional contributions to a tax-sheltered annuity program up to the exclusion allowance provided under the IRC under Code Section 403(b).

Contributions: Employees of the Authority, as OTRS members, are required to contribute to the Plan at a rate set by State Statute (employees' contributions). The contribution rate for OTRS members is based on 7 percent of their covered salary. The Authority made the system members' required contribution on behalf of its employees in 2018 and 2017.

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 percent. The Authority's total payments to OTRS for the employees' and employer's contributions was approximately $1,088,000 and $1,163,000 for the years ended June 30, 2018 and 2017, respectively, and was equal to the required contributions plus the employees' share. In addition, the State of Oklahoma also contributes 5 percent of State revenues from sales, use and individual income taxes to OTRS. The amounts contributed on-behalf of the Authority and recognized in the Authority's Statement of Revenue, Expenses and Changes in Net Position as both revenues and compensation and employee benefit expense in 2018 and 2017 was $275,264 and $287,916, respectively. These on-behalf payments do not meet the definition of a special funding situation.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions: At June 30, 2018 and 2017, the Authority reported a liability of $6,548,331 and $8,322,242, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017. The Authority's proportion of the net pension liability was based on the Authority's contributions to OTRS relative to total contributions to OTRS by all participating employers for the year ended June 30, 2017. Based upon this information, at June 30, 2018 and June 30, 2017, the Authority's proportion was 0.09868767 percent and 0.09932093 percent, respectively.

Note 6. Retirement Plan (Continued)

For the years ended June 30, 2018 and 2017, the Authority recognized pension expense of $687,185 and $657,172, respectively. At June 30, 2018 and 2017, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	June 30, 2018		June 30, 2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumption	$ 775,456	$ (390,616)	$ 998,099	$ -
Differences between expected and actual experience	-	(446,122)	-	(192,434)
Net difference between projected and actual investment earnings on pension plan investments	92,885	-	967,612	-
Changes in proportion and differences between Authority contributions and proportionate share of contributions	137,867	(33,298)	177,124	-
Total deferred amounts to be recognized in pension expense in future periods	1,006,208	(870,036)	2,142,835	(192,434)
Authority contributions subsequent to the measurement date	448,704	-	411,599	-
Total deferred amounts related to pension	$ 1,454,912	$ (870,036)	$ 2,554,434	$ (192,434)

Deferred pension outflows resulting from the Authority's Employer contributions subsequent to the measurement date, totaling $448,704 and $411,599 at June 30, 2018 and 2017, respectively, will be recognized as a reduction of the net pension liability in the years ended June 30, 2019 and 2018, respectively. Deferred inflows related to the difference between projected and actual investment earnings are amortized over five years. The other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions consist of amounts originating in current and prior years and will be recognized in pension expense using the average expected remaining service life of active and inactive members of the Plan. The average expected remaining service life of the Plan is determined by taking the calculated total future service years of the Plan and is estimated at 5.59 years at June 30, 2018 and was estimated at 5.71 years at June 30, 2017.

Deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

	Deferred Outflows (Inflows)
2019	$ (24,860)
2020	296,374
2021	168,275
2022	(210,178)
2023	(93,439)
	$ 136,172

Note 6. Retirement Plan (Continued)

Actuarial assumptions: The total pension liability was determined based on an actuarial valuation prepared as of July 1, 2017 using the following actuarial assumptions:

- Actuarial Cost Method—Entry Age Normal
- Amortization Method—Level Percentage of Payroll
- Remaining Amortization Period—20 years
- Asset Valuation Method—5-year smooth market
- Inflation—2.50 percent
- Salary Increases—Composed of 3.25 percent inflation, plus step-rate promotional increases for members with less than 25 years of service.
- Investment Rate of Return—7.50 percent
- Retirement Age—Experience-based table of rates based on age, service, and gender. Adopted by the OTRS Board in May 2015 in conjunction with the five year experience study for the period ending June 30, 2014.
- Mortality—Males: RP-2000 Combined Healthy mortality table for males with White Collar Adjustments. Generational mortality improvements in accordance with Scale BB from the table's base year of 2000. Females: GRS Southwest Region Teacher Mortality Table, scaled at 105 percent. Generational mortality improvements in accordance with Scale BB from the table's base year of 2012.

The long-term expected rate of return on pension plan investments was determined using building block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Note 6. Retirement Plan (Continued)

The target asset allocation and best estimates of arithmetic expected real rates of return for each major asset class as of June 30, 2018, are summarized in the following table:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	38.50%	7.50%
International Equity	19.00%	8.50%
Fixed Income	23.50%	2.50%
Real Estate*	9.00%	4.50%
Alternative Assets	10.00%	6.10%
Total	100.00%	

*The Real Estate total expected return is a combination of US Direct Real Estate (unleveraged) and US Value added Real Estate (unleveraged)

Discount rate: The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from Plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, determined by State statutes. Projected cash flows also assume the State of Oklahoma will continue contributing 5.0 percent of sales, use and individual income taxes, as established by statute. Based on these assumptions, OTRS' fiduciary net position was projected to be available to make all projected future benefit payments of current Plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate: The following table presents the net pension liability of the Authority calculated using the discount rate of 7.5 percent, as well as what the Authority's net pension liability would be if OTRS calculated the total pension liability using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net pension liability	$ 9,019,106	$ 6,548,331	$ 4,480,008

Note 7. 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.

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 actively monitors and manages 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 not required any action to maintain such yields.

The Authority leases certain facilities and equipment under noncancelable operating leases that expire at various dates through January 2021. Rent expense for the years ended June 30, 2018 and 2017 was approximately $522,000 and $517,000, respectively. The following is a schedule of future minimum rental payments under operating leases as of June 30, 2018:

Years ending June 30:	
2019	$ 520,300
2020	505,776
2021	295,036
	$ 1,321,112

As part of the NFP servicer contract (Note 8), the Authority entered into a hosted service license agreement to use software products designed to service both Federal Student Loans and FFELP loans. The initial term of the agreement is the later of the expiration or termination of a contract with the Department of Education as a NFP servicer or five years from the effective date. The agreement calls for minimum annual usage fees of $450,000 during the term of the agreement. For the years ended June 30, 2018 and 2017, annual expenses related to this contract were $2,508,502 and $1,403,915, respectively, which were included in general administration expenses.

Note 8. Risk Management

The Authority participates in the Oklahoma Risk Management Division's (a division of the Department of Central Services) insurance pool, which covers all governmental tort, property, vehicle, and directors and officers liability claims against the Authority. The Authority pays a yearly premium to the Department of Central Services to participate in the insurance pool. Premiums paid are not subject to retroactive adjustment.

Required Supplementary Information

Oklahoma Student Loan Authority
A Component Unit of the State of Oklahoma

Required Supplementary Information
Schedule of the Authority's Proportionate Share of the Net Pension Liability
Oklahoma Teacher's Retirement System (OTRS)
Last 10 Fiscal Years*

	2018	2017	2016	2015
Measurement date	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Authority's proportion of the net pension liability	0.09868767%	0.09932093%	0.10123064%	0.10368155%
Authority's proportionate share of the net pension liability	6,548,331	8,322,242	6,176,715	5,577,929
Authority's covered-employee payroll	4,359,537	4,450,453	4,352,484	4,431,379
Authority's proportionate share of the net pension liability as a percentage of its covered-employee payroll	150.21%	187.00%	141.91%	125.87%
Plan fiduciary net position as a percentage of the total pension liability	69.32%	62.24%	70.31%	72.43%

Notes to Schedule:

Note 1. Change in benefit terms: There were no significant changes to benefit provisions or other matters that affected the comparability of the information presented above.

Note. 2. Change of assumptions: The assumptions for salary increases changed for the year ended June 30, 2016 and the year ended June 30, 2017. For the year ended June 30, 2016, salary increases were composed of 3.00 percent inflation, plus 1.00 percent productivity increase rate, plus step-rate promotional increases for members with less than 25 years of service. For the year ended June 30, 2016, salary increases are composed of 3.75 percent wage inflation, including 3.00 percent price inflation, plus a service-related component ranging from 0.00 percent to 8.00 percent based on years of services. For the year ended June 30, 2017, salary increases are composed of 3.25 percent wage inflation, including 2.50 percent price inflation, plus a service-related component ranging from 0.00 percent to 8.00 percent based on years of service. There were no changes in the assumptions for salary increases for the year ended June 30, 2018.

The table used to determine the retirement age changed for the year ended June 30, 2016. For the year ended June 30, 2015, the retirement age was determined using the experience-based table developed from a five year experience study for the period ending June 30, 2009. This table was adopted by the OTRS Board in September 2010. For the year ended June 30, 2016, the retirement age was determined using the experience-based table developed from a five year experience study for the period ending June 30, 2014. This table was adopted by the OTRS Board in May 2015. There were no changes in the retirement age assumptions for the years ended June 30, 2018 or 2017.

The mortality rate tables used changed for the year ended June 30, 2016. For the year ended June 30, 2015, mortality rates were determined using the RP-2000 Combined Mortality table, projected to 2016 using Scale AA, multiplied by 90 percent for males and 80 percent for females. For the year ended June 30, 2016, the mortality rates for active employees were determined using the RP-2000 Employee Mortality tables, with male rates multiplied by 60 percent and female rates multiplied by 50 percent. The mortality rates for males after retirement were determined using the RP-2000 combined health Mortality Table for males with white collar adjustments. Generational mortality improvements in accordance with Scale BB from the table's base year of 2000 were used. The mortality rates for females after retirement were determined using the GRS Southwest Region Teacher Mortality Table, scaled at 105 percent. Generational mortality improvements in accordance with Scale BB from the tables base year of 2012 were used. There were no changes in the mortality rate assumptions for the years ended June 30, 2018 or 2017.

The assumptions for investment return changed for the year ended June 30, 2017. For the years ended June 30, 2015 and June 30, 2016, investment return was 8.00 percent per year, net of investment-related expenses and compounded annually, composed of an assumed 3.00 percent inflation rate and a 5.00 percent net real rate of return. For the year ended June 30, 2017, investment return was 7.50 percent per year, net of investment-related expenses and compounded annually, composed of an assumed 2.50 percent inflation rate and a 5.00 percent net real rate of return. There were no changes in the assumptions for investment return for the year ended June 30, 2018.

Oklahoma Student Loan Authority
A Component Unit of the State of Oklahoma

Required Supplementary Information
Schedule of the Authority's Contributions
Oklahoma Teacher's Retirement System (OTRS)
Last 10 Fiscal Years

	2018	2017	2016	2015	2014
Contractually required contribution	$ 448,704	$ 414,156	$ 422,793	$ 413,486	$ 420,981
Contributions in relation to the contractually required contribution	(448,704)	(414,156)	(422,793)	(413,486)	(420,981)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Authority's covered-employee payroll	$ 4,723,200	$ 4,359,537	$ 4,450,453	$ 4,352,484	$ 4,431,379
Contributions as a percentage of covered-employee payroll	9.50%	9.50%	9.50%	9.50%	9.50%

	2013	2012	2011	2010	2009
Contractually required contribution	$ 384,832	$ 331,252	$ 303,573	$ 323,991	$ 315,530
Contributions in relation to the contractually required contribution	(384,832)	(331,252)	(303,573)	(323,991)	(315,530)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Authority's covered-employee payroll	$ 4,050,863	$ 3,486,863	$ 3,195,505	$ 3,502,605	$ 3,606,057
Contributions as a percentage of covered-employee payroll	9.50%	9.50%	9.50%	9.25%	8.75%

Notes to Schedule:

Note 1 - The statutorily required employer contributions for the Authority were as follows:

7-1-08 to 6-30-09	8.50%
7-1-09 to 12-31-09	9.00%
1-1-2010 to present	9.50%

RSM US LLP

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*

Independent Auditor's Report

To the Board of Trustees
Oklahoma Student Loan Authority
A Component Unit of the State of Oklahoma

We have audited, in accordance with the 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, the financial statements of the Oklahoma Student Loan Authority, a component unit of the State of Oklahoma (the Authority) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 1, 2018. Our report includes an emphasis of matter paragraph stating the Authority is a component unit of the State of Oklahoma and the financial statements reflect only the assets, liabilities, deferred outflows and deferred inflows of resources, and revenues and expenses of the Authority and not the State of Oklahoma as a whole.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. 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 a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2018-001, the we consider to be a significant deficiency.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the Authority's financial statements are free from 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*.

The Authority's Response to the Finding
The Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

Oklahoma City, Oklahoma
November 1, 2018

RSM US LLP

Report on Compliance for the Major Federal Program and Report on Internal Control Over Compliance under Uniform Grant Guidance

Independent Auditors' Report

To the Board of Trustees
Oklahoma Student Loan Authority
A Component Unit of the State of Oklahoma

Report on Compliance for Each Major Federal Program

We have audited Oklahoma Student Loan Authority's, a component unit of the State of Oklahoma (the Authority), compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Authority's major federal program for the year ended June 30, 2018. The Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Authority's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on the Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

Report on Internal Control Over Compliance
Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency or a combination of deficiencies in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

RSM US LLP

Oklahoma City, Oklahoma
November 1, 2018

Oklahoma Student Loan Authority
A Component Unit of the State of Oklahoma

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Federal Agency/Program Title	Federal CFDA #	Passed Through to Subrecipients	Federal Expenditures
U.S. Department of Education			
Federal Family Education Loan Program—beginning balance of outstanding guaranteed loans	84.032L	$ -	$ 328,898,601
Federal Family Education Loan Program—interest subsidies	84.032L	-	841,549
Total expenditures of federal awards		$ -	$ 329,740,150

See notes to schedule of expenditures of federal awards.

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Oklahoma Student Loan Authority (the Authority) under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Authority.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule, if any, represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Note 3. Nature of Program

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 comprehensive annual financial report of the State as a discretely presented component unit.

The purpose of the Authority is to provide loan funds to qualified persons at participating postsecondary educational institutions. The Authority also 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, as amended, include Federal Stafford (Stafford) Loans, Unsubsidized Stafford Loans for Middle Income Borrowers (Unsubsidized Stafford), Federal Supplemental Loans for Students (SLS), Federal PLUS Loans for Parents (PLUS), Federal PLUS Loans for Graduate or Professional Students (GRAD), and Federal Consolidation Loans (Consolidation).

The FFEL Program loans are guaranteed at 98 percent or 97 percent (97 percent for loans first disbursed on or after July 1, 2006) 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, 2018, approximately $274,509,000 of the Authority’s outstanding loans were guaranteed at 98 percent or 97 percent of the outstanding balance, as described above.

Note 4. Indirect Costs

In accordance with Uniform Guidance Subpart E Section 200.414, recipients of federal awards are allowed a 10 percent de minimis administrative cost rate. For the year ended June 30, 2018, the FFEL Program did not provide for additional administrative costs.

Note 5. Relationship to Federal Financial Reports

Amounts reported in the accompanying schedule may differ from amounts requested by the Authority for the FFEL Program due to the U.S. government agency's discretionary authority to reduce interest subsidies, special allowance payments, or a combination of both by an amount equal to loan origination fees or lender's fees. Additionally, the amount of special allowance payments is determined by a U.S. government agency using information provided by the Authority; consequently, the amounts are not calculated by the Authority.

Note 6. Federal Expenditures

Due to the nature of the federal awards for the fiscal year ended June 30, 2018, no specific expenditures were made by the FFEL Program; receipts represent subsidies from a U.S. government agency. Such programs are described in the notes to the basic financial statements. The accompanying schedule of expenditures of federal awards includes the beginning balance of loans outstanding under the FFEL Program since the Authority has continuing compliance requirements with respect to those loans, and also presents the total interest subsidies received from the USDE during the year related to the FFEL Program and spent for debt service. All federal awards received directly from federal agencies are included on the schedule.

Oklahoma Student Loan Authority

Summary Schedule of Prior Audit Findings

Comment Number	Comment	Corrective Action Taken

Findings Related to the Financial Statement Audit as Reported in Accordance with Generally Accepted *Government Auditing Standards*:

A. Internal Control

No matters were reported.

B. Compliance Finding

No matters were reported.

Findings and Questioned Costs for Federal Awards:

A. Internal Control

No matters were reported.

B. Compliance Finding

No matters were reported.

Oklahoma Student Loan Authority

Schedule of Findings and Questioned Costs

I. Summary of Auditor's Results:

Financial Statements:

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

• Material weakness(es) identified?	____ Yes	X No
• Significant deficiency(ies) identified?	X Yes	____ None reported
Noncompliance material to financial statements noted?	____ Yes	X No

Federal Awards:

Internal control over major programs:

• Material weakness(es) identified?	____ Yes	X No
• Significant deficiency(ies) identified?	____ Yes	X None reported

Type of auditors' report issued on compliance for major programs: Unmodified

• Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a)?	____ Yes	X No

Identification of major programs:

Federal CFDA #	Name of Federal Program
84.032L	Federal Family Education Loan Program

Dollar threshold used to distinguish between type A and type B programs: $750,000

Auditee qualified as low-risk auditee?	X Yes	____ No

II. Findings Related to the Financial Statement Audit as Required to be Reported in Accordance with *Government Auditing Standards:*

A. Internal Control

Finding 2018-001

Audit Finding: The Authority has adopted overly conservative accounting policies with regards to its recording of the allowance for loan losses and amortization of original issue discount on bonds payable.

Criteria: The allowance for loan losses should represent management's best estimate of the losses expected to be incurred in the Authority's loan portfolio as of the end of each reporting period. Bond discounts should be amortized over the life of the bonds payable using a systematic and rational method. The effective interest method is preferred, and other methods are acceptable if not significantly different from the effective interest method.

Condition and Context: Management and the Board of Trustees were aware that their accounting policies were overly conservative. Such differences between the amounts recorded and the amounts that should have been recorded have historically not been material to the financial statements. Given that the Authority's statement of net position is declining as student notes receivable are being repaid, such differences could become material in future periods.

Cause: The Authority's management, with the approval of its Board of Trustees, has historically adopted a conservative approach with regards to financial reporting, including both its recording of the allowance for loan losses as well as amortization of bond discounts.

Effect: As a result of the Authority's adoption of conservative accounting policies, the allowance for loan losses was overstated by approximately $1,035,000 and bonds payable were overstated by approximately $753,000, for cumulative misstatement of approximately $1,788,000 at June 30, 2018.

Recommendation: We recommend that management and the Board of Trustees modify it accounting policies to (1) reduce to an acceptable level the "cushion" it has previously provided in its allowance for loan losses, and (2) record amortization of bond discounts and premiums in accordance with accounting principles generally accepted in the United States of America.

B. Compliance Findings

No matters were reported.

III. Findings Required to be Reported in Accordance with the Uniform Guidance*:*

(A) Internal Control

No matters were reported.

(B) Compliance Findings

No matters were reported.