

Audited Financial Statements

**OKLAHOMA STUDENT
LOAN AUTHORITY**

June 30, 2013 and 2012

OKLAHOMA STUDENT LOAN AUTHORITY

June 30, 2013

FINANCIAL STATEMENTS

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Independent Auditors' Report

To the Board of Trustees
Oklahoma Student Loan Authority
Oklahoma City, Oklahoma

Report on the Financial Statements

We have audited the accompanying balance sheets of the Oklahoma Student Loan Authority (the "Authority"), a component unit of the State of Oklahoma, as of June 30, 2013, and 2012, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 reasonable 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, 2013, and 2012, 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.

Emphasis of Matter

As discussed in Note B to the financial statements, in 2013 the Authority adopted several new accounting pronouncements issued by the Governmental Accounting Standards Board, including GASB Statement No. 65. The provisions of GASB Statement No. 65 required the Authority to retroactively restate its 2012 financial statements upon adoption. Our opinion is not modified with respect to this matter.

Other Matter

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated November 5, 2013, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Cole & Reed P.C.

Oklahoma City, Oklahoma
November 5, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

OKLAHOMA STUDENT LOAN AUTHORITY

Years Ended June 30, 2013 and 2012

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

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

In the years prior to July 1, 2010, the Authority originated loans and performed servicing of FFEL Program loans for as many as 45 other eligible lenders as members of the OSLA Network. Upon the elimination of new loan origination in the FFEL Program at July 1, 2010, the Authority continued to service FFEL Program loan portfolios for 43 eligible network lenders. On June 29, 2011, the Authority purchased loans from 34 network lenders using the proceeds from our 2011-1 financing. Subsequently in September 2011, the Authority purchased all remaining loans from these 34 network lenders to liquidate their portfolios of FFEL loans serviced by the Authority. In April 2013, the Authority purchased loans from three of the remaining network lenders using proceeds from the 2013-1 financing. The remaining lenders did not sell their loans to the Authority and either entered into loan servicing agreements with OSLA or deconverted their loans to another servicing provider.

During fiscal year 2011, the Authority entered into a memorandum of understanding with the U.S. Department of Education (USDE) 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 direct loans. See further discussion in "Financial Analysis of the Authority."

This section of the Authority's annual financial report presents a discussion and analysis of the Authority's financial performance for the fiscal years ended June 30, 2013 and 2012. Please read it in conjunction with the Authority's financial statements and the notes to the financial statements, which follow this section. The Authority has adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. All financial information presented in the discussion and analysis has been restated to reflect the adoption of this standard as of the beginning of fiscal year 2011. See further discussion in the notes to the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

OKLAHOMA STUDENT LOAN AUTHORITY

Years Ended June 30, 2013 and 2012

FINANCIAL HIGHLIGHTS

	2013	2012	2011
		(as restated)	(as restated)
Total assets	\$ 682,070,952	\$ 828,165,610	\$ 1,032,588,674
Student loans receivable, net	616,650,642	739,010,915	913,119,099
Total operating revenue	19,194,668	17,861,547	23,956,671
Net interest margin (interest income less interest expense)	7,034,650	5,541,422	2,653,503
Total operating expenses	18,575,801	17,222,037	23,870,183
Net position	59,484,505	58,865,638	58,226,128

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 on its student loan portfolio. Certain Authority policies 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% interest rate reduction by making their first twelve payments on time. The reduced interest rate will apply for the life of the loan after it was earned.

EZ PAY Interest Rate Reduction - Borrowers earned an interest rate reduction by using the Authority's electronic debit for making their monthly payments. The reduced interest rate applies as long as the borrower uses OSLA's electronic debit, EZ PAY, for making monthly payments. The Authority increased the interest rate reduction for using EZ PAY from 0.33% to 1.0% effective June 20, 2007. The Authority decreased this interest rate reduction incentive program from 1.0% to 0.25% for loans with first disbursement dates on or after July 1, 2008 as noted above. Subsequently, the incentive was eliminated for loans with first disbursement dates on or after April 1, 2011.

MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

OKLAHOMA STUDENT LOAN AUTHORITY

Years Ended June 30, 2013 and 2012

OVERVIEW OF THE FINANCIAL STATEMENTS--Continued

Incentive Programs Affecting Operating Revenues--Continued:

TOP Principal Reduction - A portion of the Authority's Stafford Loan and PLUS borrowers earned a 1% reduction in the principal amount of their loans by making their first three payments on time.

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

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

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

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

FINANCIAL ANALYSIS OF THE AUTHORITY

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

	2013	2012	2011
ASSETS		(as restated)	(as restated)
Cash and investments	\$ 57,068,006	\$ 79,116,571	\$ 106,441,375
Loans, net of allowance for loan losses	616,650,642	739,010,915	913,119,099
Capital assets	1,329,599	1,476,554	424,406
Other current assets	28,934	217,445	68,046
Other noncurrent assets	1,052,460	1,486,184	191,170
Other restricted assets	5,941,311	6,857,941	12,344,578
TOTAL ASSETS	<u>\$ 682,070,952</u>	<u>\$ 828,165,610</u>	<u>\$ 1,032,588,674</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

OKLAHOMA STUDENT LOAN AUTHORITY

Years Ended June 30, 2013 and 2012

FINANCIAL ANALYSIS OF THE AUTHORITY--Continued

	2013	2012	2011
LIABILITIES		(as restated)	(as restated)
Notes and bonds payable	\$ 620,561,180	\$ 765,251,810	\$ 966,258,297
Current liabilities	434,620	470,619	746,726
Other current liabilities payable from restricted assets	1,590,647	3,577,543	7,354,405
Other noncurrent liabilities payable from restricted assets	-	-	3,118
TOTAL LIABILITIES	622,586,447	769,299,972	974,362,546
NET POSITION			
Invested in capital assets	1,329,599	1,476,554	424,406
Restricted	29,649,856	29,283,263	29,538,055
Unrestricted	28,505,050	28,105,821	28,263,667
TOTAL NET POSITION	59,484,505	58,865,638	58,226,128
TOTAL LIABILITIES AND NET POSITION	\$ 682,070,952	\$ 828,165,610	\$ 1,032,588,674

Student loans receivable, net decreased by approximately \$122,360,000 and \$174,108,000 to approximately \$616,651,000 and \$739,011,000 at June 30, 2013 and 2012, respectively, due primarily to principal payments received from borrowers, claim payments from guarantors, loan consolidations, and loans sold to the USDE pursuant to the Straight A Funding Asset Backed Commercial Paper Conduit program (Conduit).

Cash and investments decreased by approximately \$22,049,000 and \$27,324,000 to approximately \$57,068,000 and \$79,117,000 at June 30, 2013 and 2012, respectively, due primarily to principal and interest repayments on outstanding notes and bonds and payment of bond program expenses that more than offset loan payments from borrowers.

Notes and bonds payable decreased by approximately \$144,691,000 and \$201,006,000 to approximately \$620,561,000 and \$765,252,000 at June 30, 2013 and 2012, respectively, due primarily to principal payments on outstanding notes and bonds payable.

In April 2013, we completed our \$211,820,000 Series 2013-1 financing, using the proceeds to refinance the Conduit notes payable due in November 2013 (approximately \$141,036,000) and acquire the related student loans from the Straight-A Facility trust estate, pay off all of the outstanding Series 2004 A-3 notes (approximately \$40,400,000) that were subject to mandatory redemption in quarterly installments and bore interest at a defined step-up floating rate term, redeem at a discount \$20,000,000 of Series 2001A-2 auction rate bonds tendered for purchase in lieu of redemption to the Authority, acquire \$4,859,000 of student loans from network lenders, pay costs of issuance, fund required trust accounts, and maintain initial collateralization in the trust estate. The Series 2013-1 bonds were sold at a discount with a coupon interest rate of 1-month LIBOR plus 0.50% to yield 1-Month LIBOR plus 0.55%.

MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

OKLAHOMA STUDENT LOAN AUTHORITY

Years Ended June 30, 2013 and 2012

FINANCIAL ANALYSIS OF THE AUTHORITY--Continued

At June 30, 2013 and 2012, the Authority was servicing student loans from members of the OSLA Student Lending Network with a principal balance of approximately \$35,392,000 and \$51,127,000, respectively.

The total portfolio of gross student loans that the Authority owns or services for members of the OSLA Student Lending Network was approximately \$659,635,000 and \$800,013,000 at June 30, 2013 and 2012, respectively. This is a decrease of approximately \$140,378,000, or 17.5%, and \$271,987,000, or 25.4%, from June 30, 2012 and 2011, respectively. The significant declines are due to payments by student loan borrowers, claim payments by guarantors, loan sales to USDE through the Conduit Put program, and loan payments from the Federal Direct Consolidation Loan Program. Loan sales to USDE as part of the Conduit Put program ceased in March 2013 as a result of the payment of Conduit notes payable with proceeds from the 2013-1 financing.

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>
		(as restated)	(as restated)
Loan interest income, net of consolidation rebate fees	\$ 14,460,586	\$ 15,289,216	\$ 17,487,525
Investment interest income	35,992	150,393	60,052
Total interest income	<u>14,496,578</u>	<u>15,439,609</u>	<u>17,547,577</u>
Less: Interest expense	<u>7,461,928</u>	<u>9,898,187</u>	<u>14,894,074</u>
Net interest margin (deficit)	7,034,650	5,541,422	2,653,503
Loan servicing fees	3,576,068	682,214	5,829,466
Gain on extinguishment of debt	1,121,845	1,739,625	356,500
Other income	<u>177</u>	<u>99</u>	<u>223,128</u>
Operating revenues, net of interest expense	11,732,740	7,963,360	9,062,597
Operating expenses			
General administration	8,919,808	6,628,035	6,403,417
External loan servicing	564,617	117,163	149,663
Professional fees	1,629,448	578,652	851,029
Provision for loan losses	-	-	1,572,000
Total operating expenses (excluding interest expense)	<u>11,113,873</u>	<u>7,323,850</u>	<u>8,976,109</u>
Increase in net position from operations	<u>\$ 618,867</u>	<u>\$ 639,510</u>	<u>\$ 86,488</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

OKLAHOMA STUDENT LOAN AUTHORITY

Years Ended June 30, 2013 and 2012

FINANCIAL ANALYSIS OF THE AUTHORITY--Continued

Gross loan interest income for the years ended June 30, 2013 and 2012 decreased from fiscal year 2012 and 2011, respectively, due to the decrease in the Authority's loan portfolio. 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 1.79% to 3.44% for the year ended June 30, 2013, 1.59% to 3.59% for the year ended June 30, 2012, and 1.87% to 3.27% for the year ended June 30, 2011. The fixed rates for loans first disbursed on or after July 1, 2006 ranged from 5.6% to 8.5%. See Note D, 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.

Prior to April 2012, substantially all of the student loans that we own had a lender's yield based on a 3-month commercial paper index. The USDE announced in February 2012 certain conditions which would allow lenders to substitute the 1-Month LIBOR for the 3-month commercial paper rate for purposes of special allowance calculations. In March 2012, OSLA elected to change the special allowance payment index on the loans that we own to the 1-Month LIBOR index, effective for the billing for the quarter ended June 30, 2012.

Interest expense - The Authority funded the origination or acquisition of student loans by periodically issuing bonds and notes. The approximate \$144,691,000 decrease in bonds and notes outstanding and a decrease in the weighted average cost of funds of 0.92% as of June 30, 2013, compared to a 1.1% cost of funds at June 30, 2012, led to the significant decrease in interest expense for the year ended June 30, 2013. Interest expense also declined significantly for the year ended June 30, 2012, compared to June 30, 2011, due to a \$201,006,000 decrease in bonds and notes payable outstanding net of a slight increase in the weighted average cost of funds, 1.1%, as of June 30, 2012, compared to a 0.96% cost of funds at June 30, 2011.

Net interest margin for the years ended June 30, 2013, 2012, and 2011 of approximately \$7,035,000, \$5,541,000, and \$2,654,000, respectively, resulted from the significant decrease in interest expense and represents an improvement of approximately \$1,494,000 and \$2,887,000 from the years ended June 30, 2013 and 2012, respectively.

Loan servicing fees increased for the year ended June 30, 2013 to approximately \$3,576,000, due to fees earned under the contract to service Direct Loans. Such fees included one-time onboarding fees in addition to the monthly recurring servicing fees. Loan servicing fees decreased to approximately \$682,000 for the year ended June 30, 2012, related to the absence of fees the Authority earned for processing ECASLA Put loan sales to the USDE for our lender customers. All ECASLA loans were sold prior to the termination of this program in fiscal year ending June 30, 2011.

MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

OKLAHOMA STUDENT LOAN AUTHORITY

Years Ended June 30, 2013 and 2012

FINANCIAL ANALYSIS OF THE AUTHORITY--Continued

Gain on early extinguishment of debt decreased to approximately \$1,122,000 for the year ended June 30, 2013 from approximately \$1,740,000 for the year ended 2012, due to a decreased number of notes and bonds payable offered to us for redemption at a discount through unsolicited offers from debt holders and from tender offers made by the Authority. Such gains increased by approximately \$1,384,000 for the year ended June 30, 2012 from approximately \$356,000 for the year ended 2011, due to more notes and bonds payable offered under unsolicited or tender offers.

Other operating expenses for the year ended June 30, 2013 increased by 51.7% to approximately \$11,114,000, compared to the year ended June 30, 2012. The increase in 2013 was principally due to additional staffing, infrastructure, and expenses related to our NFP contract to service Direct Loans. 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. Other operating expenses for fiscal year 2012 were \$7,324,000, approximately the same as for the fiscal year ended 2011 when adjusted for the \$1,572,000 provision for loan losses recorded in 2011, compared to no such provision required in 2012. 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, 2013.

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. This transfer of USDE owned loans to the Authority for servicing was accomplished in three separate on-boardings processed in July, August, and September 2012. The addition of 103,000 borrower accounts represents a significant increase to the Authority, which was servicing approximately 65,000 borrowers as of June 30, 2012 in its existing FFEL Program servicing portfolio.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

OKLAHOMA STUDENT LOAN AUTHORITY

Years Ended June 30, 2013 and 2012

DEBT ADMINISTRATION

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

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

\$605,998,000, \$570,920,000, and \$718,825,000 of the Authority's debt was publicly held at June 30, 2013, 2012, and 2011, 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, 2013 based on the type of security which is reflected in the table below.

Credit Ratings	2013	2012	2011	Type of Security
	Principal Amount	Principal Amount	Principal Amount	
Aaa Moody's/AA+ S&P /AAA Fitch	\$ 582,178,000	\$ 542,965,000	\$ 689,845,000	Senior Lien or Insured
A2 Moody's/A S&P	\$ 23,820,000	\$ 27,955,000	\$ 28,980,000	Subordinate Bonds

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

In October 2011, S&P published a press release regarding 118 Ratings from 70 U.S. Student Loan FFELP Asset Backed Securities Transactions Lowered to "AA + (sf)." Among these series or classes of issues were the Authority's Series 2010A-1, Series 2010A-2A, Series 2010A-2B, and Series 2011-1 bonds. In March 2012, the 1995 Master Bond Resolution Series 2001A-1, 2001 A2/A3, 2004 A-1, and 2004 A-2 were also lowered to AA+ by S&P. Each series of the bonds is now rated by S&P at AA + (sf) instead of their AAA (sf) rating which was assigned by S&P when the Bonds were issued on their respective issue dates. The ratings reflect only the view of S&P at the time such ratings were given. An explanation of the significance of the ratings may be obtained from S&P.

MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

OKLAHOMA STUDENT LOAN AUTHORITY

Years Ended June 30, 2013 and 2012

INTERNAL REVENUE SERVICE EXAMS

The Authority is subject to routine examinations by the Internal Revenue Service (IRS) for compliance with debt issuance requirements regarding both tax-exempt and taxable bond and note issues. In October 2012, the Authority received a letter from the IRS requesting information and documents for examination of the Authority's compliance regarding its \$40,625,000 Oklahoma Student Loan Bonds and Notes, Tax-Exempt Variable Rate Demand Obligations, Series 2002A-1 that was issued in 2002 and retired in full in 2010. In January 2013, the Authority received a letter from the IRS requesting information and documents for examination of the Authority's compliance regarding its \$228,000,000 2010 Indenture of Trust that was issued in 2010 and had approximately \$196,832,000 in bonds outstanding at the beginning of fiscal year 2013. The Authority responded to the initial and subsequent requests for information and documents. In May 2013, the IRS notified the Authority that the examinations for both Series were completed and that the IRS was closing the examinations with no change to the position that interest received by the bond and note holders is excludable from gross income.

BALANCE SHEETS

OKLAHOMA STUDENT LOAN AUTHORITY

	June 30,	
	2013	2012
		(as restated)
ASSETS		
CURRENT ASSETS		
Cash	\$ 5,200	\$ 5,274
Investments	25,855,211	17,684,690
Interest and other receivables	28,934	217,445
TOTAL CURRENT ASSETS	<u>25,889,345</u>	<u>17,907,409</u>
NONCURRENT ASSETS		
Loans, net of allowance for loan losses	1,997,865	9,182,847
Capital assets, net of accumulated depreciation	1,329,599	1,476,554
Other noncurrent assets	1,052,460	1,486,184
TOTAL NONCURRENT ASSETS	<u>4,379,924</u>	<u>12,145,585</u>
RESTRICTED ASSETS		
Cash	817,710	2,501,375
Investments	30,389,885	58,925,232
Interest receivable	5,941,311	6,857,941
Loans, net of allowance for loan losses	614,652,777	729,828,068
TOTAL RESTRICTED ASSETS	<u>651,801,683</u>	<u>798,112,616</u>
TOTAL ASSETS	<u>\$ 682,070,952</u>	<u>\$ 828,165,610</u>
CURRENT LIABILITIES		
Accounts payable and other accrued expenses	\$ 434,620	\$ 470,619
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Accounts payable and other accrued expenses	1,198,187	2,778,620
Accrued interest payable	392,460	798,923
Notes payable	-	14,000,000
TOTAL CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS	<u>1,590,647</u>	<u>17,577,543</u>
NONCURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Notes payable	38,200,000	275,989,492
Bonds payable	582,361,180	475,262,318
TOTAL NONCURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS	<u>620,561,180</u>	<u>751,251,810</u>
TOTAL LIABILITIES	<u>622,586,447</u>	<u>769,299,972</u>
COMMITMENTS AND CONTINGENCIES (Note G)		
NET POSITION		
Invested in capital assets	1,329,599	1,476,554
Restricted	29,649,856	29,283,263
Unrestricted	28,505,050	28,105,821
TOTAL NET POSITION	<u>59,484,505</u>	<u>58,865,638</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 682,070,952</u>	<u>\$ 828,165,610</u>

See notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

OKLAHOMA STUDENT LOAN AUTHORITY

	Year Ended June 30,	
	2013	2012
		(as restated)
OPERATING REVENUES		
Loan interest income:		
From borrowers	\$ 26,914,708	\$ 29,935,610
From U.S. Department of Education	(12,454,122)	(14,646,394)
Loan servicing fees	3,576,068	682,214
Investment interest income	35,992	150,393
Other income	177	99
Gain on extinguishment of debt	1,121,845	1,739,625
TOTAL OPERATING REVENUES	<u>19,194,668</u>	<u>17,861,547</u>
OPERATING EXPENSES		
Interest	7,461,928	9,898,187
General administration	8,919,808	6,628,035
External loan servicing fees	564,617	117,163
Professional fees	1,629,448	578,652
TOTAL OPERATING EXPENSES	<u>18,575,801</u>	<u>17,222,037</u>
INCREASE IN NET POSITION	618,867	639,510
NET POSITION AT BEGINNING OF YEAR	<u>58,865,638</u>	<u>58,226,128</u>
NET POSITION AT END OF YEAR	<u>\$ 59,484,505</u>	<u>\$ 58,865,638</u>

See notes to financial statements.

STATEMENTS OF CASH FLOWS

OKLAHOMA STUDENT LOAN AUTHORITY

	Year Ended June 30,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts of interest income from borrowers	\$ 29,626,201	\$ 36,186,632
Payments of interest to USDE	(13,831,178)	(13,283,829)
Receipts of loan servicing fees	3,344,586	682,214
Receipts of loan principal payments	139,558,649	194,195,572
Origination and acquisition of student loans receivable	(17,198,368)	(22,513,654)
Payments to employees and suppliers	(10,591,734)	(11,168,968)
NET CASH PROVIDED BY OPERATING ACTIVITIES	130,908,156	184,097,967
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from issuance of bonds	211,331,818	-
Payments of debt financing costs	(1,046,803)	-
Payments for interest on notes and bonds payable	(7,659,348)	(9,679,658)
Payments on notes payable	(250,695,647)	(96,704,103)
Payments on bonds payable	(104,414,000)	(102,765,375)
NET CASH USED IN FINANCING ACTIVITIES	(152,483,980)	(209,149,136)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	150,552,435	158,000,658
Receipts of interest on investments	38,178	151,262
Purchases of investments	(130,187,614)	(128,593,676)
NET CASH PROVIDED BY INVESTING ACTIVITIES	20,402,999	29,558,244
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(510,914)	(2,424,897)
NET INCREASE (DECREASE) IN CASH	(1,683,739)	2,082,178
CASH AT BEGINNING OF YEAR (including \$2,501,375 and \$420,092 for 2013 and 2012, respectively, reported in restricted assets)	2,506,649	424,471
CASH AT END OF YEAR (including \$817,710 and \$2,501,375 for 2013 and 2012, respectively, reported in restricted assets)	\$ 822,910	\$ 2,506,649

STATEMENTS OF CASH FLOWS--Continued

OKLAHOMA STUDENT LOAN AUTHORITY

	Year Ended June 30,	
	2013	2012
	<u>2013</u>	<u>2012</u>
RECONCILIATION OF INCREASE IN NET POSITION TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Increase in net position	\$ 618,867	\$ 639,510
Adjustments to reconcile increase in net position to net cash provided by operating activities:		
Investment income received	(38,178)	(151,262)
Gain on extinguishment of debt	(1,121,845)	(1,739,625)
Interest paid on bonds and notes payable	7,868,391	9,679,658
Depreciation on capital assets	749,321	270,745
Amortization of premiums on loan acquisition	-	2,170,333
Fees paid for issuance of bonds	1,046,803	-
(Increase) decrease in assets:		
Student loans receivable	122,360,281	171,681,918
Interest and other receivables	1,105,141	5,444,123
Other assets	342,270	(160,842)
Increase (decrease) in liabilities:		
Accounts payable and other accrued expenses	(1,616,432)	(3,952,003)
Accrued interest payable	(406,463)	218,530
Arbitrage rebate payable	-	(3,118)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 130,908,156</u>	<u>\$ 184,097,967</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

OKLAHOMA STUDENT LOAN AUTHORITY

Years Ended June 30, 2013 and 2012

NOTE A--REPORTING ENTITY AND NATURE OF PROGRAM

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

The purpose of the Authority is to service borrowers with loans offered under the Federal Family Education Loan (FFEL) Program and to service federal loans as part of its Not-For-Profit (NFP) contract with the Department of Education. The Authority performs servicing for other FFEL lenders in addition to providing a secondary market for FFEL Program loans for participating financial institutions. The student loans held by the Authority under the Federal Higher Education Act of 1965 (Higher Education Act), as amended, include Federal Stafford Loans (Stafford), Unsubsidized Stafford Loans for Middle Income Borrowers (Unsubsidized Stafford), Federal Supplemental Loans for Students (SLS), Federal Parent Loans for Undergraduate Students (PLUS), and Federal Consolidation Loans (Consolidation).

The FFEL Program loans are guaranteed by the Oklahoma State Regents for Higher Education Guaranteed Student Loan Program (State Guarantee Agency), which is reinsured by the United States Department of Education (USDE), or guaranteed by other guarantors approved by the USDE (Guarantee Agencies). As of June 30, 2013 and 2012, the majority of loans are guaranteed at 97% for loans first disbursed on or after July 1, 2006.

As of June 30, 2013 and 2012, the Authority serviced approximately \$35,392,000 and \$51,127,000, respectively, in FFEL Program loans for other financial institutions. As a servicer of FFEL Program loans, the Authority collects student loan remittances and subsequently disburses these remittances to the appropriate lending entities.

The Authority also holds private loans through the Supplemental Higher Education Loan Financing (SHELFTM) Program. These loans are not guaranteed under the Higher Education Act. The Authority discontinued originations of SHELF loans effective July 1, 2008.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA STUDENT LOAN AUTHORITY

Years Ended June 30, 2013 and 2012

NOTE A--REPORTING ENTITY AND NATURE OF PROGRAM--Continued

During 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. From July 2012 through September 2012, the Authority on-boarded approximately 103,000 borrower accounts and began servicing those student loans. The Authority earns a monthly servicing fee pursuant to the NFP Servicer loan servicing contract based on the number of borrower loans and loan status. As of June 30, 2013, the Authority was servicing approximately 98,000 borrower accounts with an aggregate principal balance of approximately \$1,884,310,000.

NOTE B--SUMMARY OF 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.

Basis of Accounting: The Authority accounts for its operations as an enterprise fund. Enterprise funds focus on the flow of economic resources and use the accrual basis of accounting, similar to private business enterprises. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when incurred.

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

New Accounting Pronouncements Adopted in Fiscal Year 2013: The Authority adopted several new accounting pronouncements during the year ended June 30, 2013 as follows:

- Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. GASB No. 60 addresses issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. This Statement applies only to those arrangements in which specific criteria determining whether a transferor has control over the facility are met. The Authority will only be required to adopt the provisions of GASB No. 60 if it enters into an SCA, and it currently has not entered into any such arrangements.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA STUDENT LOAN AUTHORITY

Years Ended June 30, 2013 and 2012

NOTE B--SUMMARY OF ACCOUNTING POLICIES--Continued

New Accounting Pronouncements Adopted in Fiscal Year 2013--Continued:

- Statement No. 61, *The Financial Reporting Entity: Omnibus - An Amendment of GASB Statements No. 14 and No. 34.*

GASB No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity. This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. The adoption of GASB No. 61 did not have an impact on the Authority's financial statement presentation.

- Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.*

GASB No. 62 is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain FASB and AICPA pronouncements. The adoption of GASB No. 62 did not have an impact on the Authority's financial position, or changes in financial position or cash flows, or its financial statement presentation.

- Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.*

GASB No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Adoption of GASB No. 63 resulted in changes to the Authority's financial statement presentation, but such changes were not significant.

- Statement No. 65, *Items Previously Reported as Assets and Liabilities.*

GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify as deferred outflows of resources or deferred inflows of resources certain items that were previously reported as assets and liabilities and recognizes as outflows of resources (expenses) or inflows of resources (revenues) certain items that were previously recognized as assets and liabilities. The Authority has chosen to early adopt GASB Statement No. 65 in 2013. As a result of the adoption of GASB Statement No. 65, the Authority's net position as of July 1, 2011 decreased by \$4,550,277 from amounts previously reported, and the changes in net position for the year ended June 30, 2012 increased by \$2,748,403 from amounts previously reported, due to a decrease in interest expense of \$1,088,206 and an increase in interest income from borrowers of \$1,660,197. Net position as of June 30, 2012 decreased from \$60,667,512 as originally reported to \$58,865,638, a decrease of \$1,801,874.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA STUDENT LOAN AUTHORITY

Years Ended June 30, 2013 and 2012

NOTE B--SUMMARY OF ACCOUNTING POLICIES--Continued

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

Cash: Cash consists primarily of demand deposit accounts at financial institutions. The Authority also utilizes bank deposit accounts which periodically sweep cash into uninsured short-term investment securities. The Authority has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on such accounts.

Investments: Investments consist of repurchase agreements, 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, 2013 and 2012, the Authority is in compliance with these investment requirements.

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

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 (Note H), the Authority has not originated any student loans after June 30, 2010.

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

The allowance for loan losses was established by the Authority's management to provide for this type of loss, as well as losses on non-guaranteed SHELF™ loans. Student loans are written off when they are deemed uncollectible and charged against the allowance upon such determination. Any subsequent collection or recovery on an account written off as uncollectible is credited to the allowance.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA STUDENT LOAN AUTHORITY

Years Ended June 30, 2013 and 2012

NOTE B--SUMMARY OF ACCOUNTING POLICIES--Continued

Capital Assets: The Authority capitalizes expenditures for equipment, software, system development, and leasehold improvements. Depreciation and amortization are calculated primarily using a straight-line basis of three to ten years. Accumulated depreciation and amortization on capital assets at June 30, 2013 and 2012 were approximately \$3,800,000 and \$3,460,000, respectively. Maintenance costs for equipment and other assets are expensed as incurred.

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

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

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

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, 2013 and 2012 was approximately \$3,735,000 and \$5,358,000, respectively. The other type of interest payment from the USDE is a Special Allowance Payment (SAP). The rates for Special Allowance Payments are based on formulas that differ according to the type of loan, the date the loan was first disbursed, the interest rate, and the type of funds used to finance such loans (tax-exempt or taxable). These rates are based upon the average rate established in the auctions of 91-day U.S. Treasury bills during such quarter or the quotes of three-month commercial paper (financial index) in effect for each of the days in such quarter. OSLA elected to change from the three-month commercial paper (financial index) to the 1-month LIBOR index after March 31, 2012. 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. Net Special Allowance Payments to the USDE for the years ended June 30, 2013 and 2012 were approximately \$12,367,000 and \$15,912,000, respectively.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA STUDENT LOAN AUTHORITY

Years Ended June 30, 2013 and 2012

NOTE B--SUMMARY OF ACCOUNTING POLICIES--Continued

Interest Income--Continued: 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, 2013 and 2012 were approximately \$3,589,000 and \$4,093,000, respectively. Such fees are reported as a reduction to loan interest income from USDE.

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

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

NOTE C--INVESTMENTS

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

The U.S. Government securities-based money market mutual funds, at June 30, 2013 and 2012 were rated AAA by the Standards & Poor's Corporation, Aaa by Moody's Investors Service, and AAA/V1+ by Fitch Ratings. Certificates of deposit at June 30, 2013 and June 30, 2012 were rated Three-Star or higher by Bauer Financial. Municipal bonds at June 30, 2012 were rated AAA or higher by the Standard & Poor's Corporation and Aaa or higher by Moody's Investors Service.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA STUDENT LOAN AUTHORITY

Years Ended June 30, 2013 and 2012

NOTE C--INVESTMENTS--Continued

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

	<u>2013</u>	<u>2012</u>
Restricted:		
U.S. Government securities-based mutual funds	\$ 29,189,013	\$ 57,441,114
Repurchase agreements	<u>1,200,872</u>	<u>1,484,119</u>
Total restricted investments	30,389,885	58,925,233
Unrestricted:		
U.S. Government securities-based mutual funds	22,885,211	13,679,629
Certificates of deposit	2,970,000	3,750,000
Municipal bonds	<u>-</u>	<u>255,060</u>
Total unrestricted investments	<u>25,855,211</u>	<u>17,684,689</u>
Total investments	<u>\$ 56,245,096</u>	<u>\$ 76,609,922</u>

NOTE D--LOANS AND ALLOWANCE FOR LOAN LOSSES

The Authority purchases and holds various types of student loans as described in Note A. The terms of these loans, which vary on an individual basis, depending upon loan type and the date the loan was originated, generally provide for repayment in monthly instalments of principal and interest over a period of up to 30 years for Consolidation loans and generally up to ten years for other loans. The repayment period begins after a grace period of six months following graduation or loss of qualified student status for the Stafford and Unsubsidized Stafford loans.

The repayment period for Consolidation, SLS, and PLUS loans begins within 60 days from the date the loan is fully disbursed.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA STUDENT LOAN AUTHORITY

Years Ended June 30, 2013 and 2012

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

Loans consist of the following as of June 30:

	<u>2013</u>	<u>2012</u>
Stafford	\$ 145,940,053	\$ 188,190,936
Unsubsidized Stafford	139,439,729	173,750,066
PLUS/SLS	14,177,639	19,792,104
Consolidation	321,790,500	363,953,862
SHELF™	<u>2,263,405</u>	<u>2,417,011</u>
Total gross loans	<u>623,611,326</u>	<u>748,103,979</u>
Unprocessed loan payments	(1,398,501)	(2,327,082)
Allowance for loan losses	<u>(5,562,183)</u>	<u>(6,765,982)</u>
Net loans	<u>\$ 616,650,642</u>	<u>\$ 739,010,915</u>

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

	<u>2013</u>	<u>2012</u>
Balances at beginning of year	\$ 6,765,982	\$ 8,690,785
Loans charged off	<u>(1,203,799)</u>	<u>(1,924,803)</u>
Balance at end of year	<u>\$ 5,562,183</u>	<u>\$ 6,765,982</u>

The stated interest rates on student loans which are based on USDE regulations ranged from 1.4% to 10% for the fiscal year ended June 30, 2013 depending upon the type and date of origination of the individual loan and whether the borrower had earned any of the Authority's interest rate reduction incentives. This stated interest rate is paid by the borrowers or by USDE. For loans that had first disbursement on or after April 1, 2006, the lenders' yield on student loans is based on a quarterly calculation that uses the quarterly average rates of either the 91 day Treasury Bills or 90 day Commercial Paper - Financial indices (1-month LIBOR after March 31, 2012). The lender yield is calculated using these quarterly average rates plus an allowable mark-up that is based on the type and date of the loan's first disbursement. If the quarterly lenders' yield on the loans is less than the stated interest rate, the lender must rebate the excess to USDE. The excess of the loans' stated interest rate over the quarterly lenders' yield is referred to as Negative SAP. The Authority's loan portfolio at June 30, 2013 consisted of approximately 77.9% Negative SAP loans. The calculated quarterly lenders' yield ranged from 1.49% to 3.55% for the fiscal year ending June 30, 2013.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA STUDENT LOAN AUTHORITY

Years Ended June 30, 2013 and 2012

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

All FFEL Program student loans are guaranteed at 98% or 97% (97% for loans first disbursed on or after July 1, 2006) as to principal and accrued interest. USDE allows the loan guarantors to charge Federal Default or Guarantee fees which are remitted to the loan guarantor. The Authority maintained a borrower incentive program by paying the Federal Default or Guarantee fees when the loans' guarantors charged this fee for Stafford and PLUS loans guaranteed on or after July 1, 2006. Federal Default and Guarantee fees paid by the Authority were capitalized when the loan was made, and any unamortized amounts were written off upon adoption of GASB No. 65. See Note A. 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, 2013 and 2012, approximately \$26,000 and \$75,000, 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.

Also, during the years ended June 30, 2013 and 2012, proceeds from the sale to USDE of loans collateralizing the Conduit (see Note E) were approximately \$18,856,000 and \$22,487,000, respectively. These proceeds were utilized to pay down the notes payable under the Conduit. In April 2013, notes payable under the Conduit were fully paid using proceeds from bonds issued under Series 2013-1.

Student loans receivable classified as restricted assets are pledged as collateral for notes and bonds payable issued by the Authority.

NOTE E--NOTES AND BONDS PAYABLE

The Authority periodically issues notes and bonds for the purpose of funding student loans. All notes and bonds payable are primarily secured by student loans, related accrued interest, and by the amounts on deposit in accounts established under the respective bond resolution or financing agreement as maintained by the corporate trustees. The Authority is in compliance with all significant financing agreement requirements and bond covenants.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA STUDENT LOAN AUTHORITY

Years Ended June 30, 2013 and 2012

NOTE E--NOTES AND BONDS PAYABLE--Continued

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

		2013				
	Maturity	Beginning balance	Additions	Retirements	Ending balance	Current portion
Senior Notes, Series 1995A-1	September 1, 2025	\$ 12,800,000	\$ -	\$ 2,600,000	\$ 10,200,000	\$ -
Senior Taxable Floating Rate Notes, Series 2001A-4	December 1, 2017	34,800,000	-	6,800,000	28,000,000	-
Senior Taxable Floating Rate Notes, Series 2004A-3	September 1, 2034	62,900,000	-	62,900,000	-	-
FFELP ABCP Conduit	November 19, 2013	<u>179,489,492</u>	-	<u>179,489,492</u>	-	-
		<u>\$289,989,492</u>	<u>\$ -</u>	<u>\$251,789,492</u>	<u>\$ 38,200,000</u>	<u>\$ -</u>
		2012				
	Maturity	Beginning balance	Additions	Retirements	Ending balance	Current portion
Senior Notes, Series 1995A-1	September 1, 2025	\$ 14,200,000	\$ -	\$ 1,400,000	\$ 12,800,000	\$ -
Senior Taxable Floating Rate Notes, Series 2001A-4	December 1, 2017	39,700,000	-	4,900,000	34,800,000	-
Senior Taxable Floating Rate Notes, Series 2004A-3	September 1, 2034	100,000,000	-	37,100,000	62,900,000	14,000,000
FFELP ABCP Conduit	November 19, 2013	<u>232,793,595</u>	-	<u>53,304,103</u>	<u>179,489,492</u>	-
		<u>\$386,693,595</u>	<u>\$ -</u>	<u>\$ 96,704,103</u>	<u>\$289,989,492</u>	<u>\$ 14,000,000</u>

Notes payable issued under the Conduit program bear interest monthly based on financing costs incurred by the Conduit. All payments on the loans collateralizing the Conduit program are deposited into a collections account and are used to pay interest costs and service fees and to reduce the outstanding balance of the notes payable. In April 2013, notes payable issued under the Conduit were fully paid using proceeds from bonds issued under Series 2013-1.

Notes payable issued under Series 2004A-3 were required to be offered for remarketing beginning on January 1, 2012. The Notes were not successfully remarketed for two successive tender dates. Accordingly, the Notes became subject to mandatory redemption and were required to be paid, to the full extent of amounts available, in 20 quarterly instalments in the principal amount of \$3,500,000 and to bear interest at a defined step-up floating rate term based on a LIBOR index that adjusts monthly. On May 1, 2013, the Notes were paid in full using proceeds from bonds issued under Series 2013-1.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA STUDENT LOAN AUTHORITY

Years Ended June 30, 2013 and 2012

NOTE E--NOTES AND BONDS PAYABLE--Continued

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

	Maturity	2013			Ending Balance
		Beginning Balance	Additions	Retirements	
1995 Master Bond Resolution					
Senior Bonds, Series 2001A-1	June 1, 2031	\$ 1,765,000	\$ -	\$ 1,765,000	\$ -
Senior Taxable Auction Rate Bonds, Series 2001A2/ A3	December 1, 2031	26,400,000	-	20,000,000	6,400,000
Senior Auction Rate Bonds, Series 2004A-1	December 1, 2033	25,825,000	-	4,275,000	21,550,000
Senior Auction Rate Bonds, Series 2004A-2	June 1, 2034	29,125,000	-	2,975,000	26,150,000
Subordinate Bonds, Series 1995B-2	September 1, 2025	2,955,000	-	935,000	2,020,000
Subordinate Bonds, Series 2001B-1	June 1, 2031	25,000,000	-	3,200,000	21,800,000
2010 Indenture of Trust					
Tax-Exempt LIBOR Floating Rate Bonds,					
Series 2010A-1	September 3, 2024	82,860,000	-	27,005,000	55,855,000
Series 2010A-2A	September 1, 2037	51,225,000	-	-	51,225,000
Series 2010A-2B	September 1, 2037	44,230,000	-	-	44,230,000
Series 2010B-1	September 4, 2040	15,517,718	-	-	15,517,718
2011 Indenture of Trust					
Taxable LIBOR Floating Rate					
Series 2011-1	June 1, 2040	171,035,000	-	36,110,000	134,925,000
2013 Indenture of Trust					
Taxable LIBOR Floating Rate					
Series 2013-1	February 25, 2032	-	211,820,000	8,177,000	203,643,000
		<u>\$475,937,718</u>	<u>\$211,820,000</u>	<u>\$104,442,000</u>	<u>\$583,315,718</u>

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA STUDENT LOAN AUTHORITY

Years Ended June 30, 2013 and 2012

NOTE E--NOTES AND BONDS PAYABLE--Continued

	Maturity	2012				Ending Balance
		Beginning Balance	Additions	Retirements		
1995 Master Bond Resolution						
Senior Bonds, Series 2001A-1	June 1, 2031	\$ 5,380,000	\$ -	\$ 3,615,000	\$ 1,765,000	
Senior Taxable Auction Rate Bonds, Series 2001A2/ A3	December 1, 2031	49,900,000	-	23,500,000	26,400,000	
Senior Auction Rate Bonds, Series 2004A-1	December 1, 2033	31,275,000	-	5,450,000	25,825,000	
Senior Auction Rate Bonds, Series 2004A-2	June 1, 2034	33,850,000	-	4,725,000	29,125,000	
Subordinate Bonds, Series 1995B-2	September 1, 2025	3,980,000	-	1,025,000	2,955,000	
Subordinate Bonds, Series 2001B-1	June 1, 2031	25,000,000	-	-	25,000,000	
2010 Indenture of Trust						
Tax-Exempt LIBOR Floating Rate Bonds,						
Series 2010A-1	September 3, 2024	114,885,000	-	32,025,000	82,860,000	
Series 2010A-2A	September 1, 2037	51,225,000	-	-	51,225,000	
Series 2010A-2B	September 1, 2037	44,230,000	-	-	44,230,000	
Series 2010B-1	September 4, 2040	15,517,718	-	-	15,517,718	
2011 Indenture of Trust						
Taxable LIBOR Floating Rate						
Series 2011-1	June 1, 2040	205,200,000	-	34,165,000	171,035,000	
		<u>\$580,442,718</u>	<u>\$ -</u>	<u>\$104,505,000</u>	<u>\$475,937,718</u>	

The Series 2010A-2B and 2013-1 bonds were sold with original issue discounts. The unamortized balance at June 30, 2013 and 2012 was approximately \$955,000 and \$675,000, respectively, and is classified in the balance sheet as an offset to bonds payable.

At June 30, 2013, the Authority's notes and bonds payable also consisted of auction rate securities totalling \$86,100,000, of which \$79,700,000 was tax-exempt with interest rates set every 35 days and \$6,400,000 was taxable with interest rates set every 28 days.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA STUDENT LOAN AUTHORITY

Years Ended June 30, 2013 and 2012

NOTE E--NOTES AND BONDS PAYABLE--Continued

Fiscal year debt service requirements to maturity or redemption date, assuming interest rates on variable rate debt remains at June 30, 2013 levels, are as follows:

Year Ending June 30	Principal	Interest	Total
2014	\$ -	\$ 5,630,326	\$ 5,630,326
2015	-	5,630,326	5,630,326
2016	-	5,630,326	5,630,326
2017	-	5,630,326	5,630,326
2018	28,000,000	5,606,149	33,606,149
2019-2023	-	27,941,630	27,941,630
2024-2028	68,075,000	25,354,472	93,429,472
2029-2033	231,843,000	22,334,118	254,177,118
2034-2038	158,672,718	15,228,227	173,900,945
2039-2043	134,925,000	3,699,693	138,624,693
	<u>\$ 621,515,718</u>	<u>\$ 122,685,593</u>	<u>\$ 744,201,311</u>

NOTE F--RETIREMENT PLAN

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

Employees of the Authority, as TRS members, are required to contribute to the plan at a rate set by State Statute (employees' contributions). The contribution rate for TRS members is based on 7% of their covered salary. The Authority made the system members' required contribution on behalf of its employees in 2013 and 2012.

The Authority itself is required to contribute a statutory percentage of participating employees' regular annual compensation for administration of the plan (employer's contributions). The contribution rate for the Authority was 9.5%. The Authority's total payments to the TRS for the employees' and employer's contributions were approximately \$689,000, \$615,000, and \$542,000 for the years ended June 30, 2013, 2012, and 2011, respectively.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA STUDENT LOAN AUTHORITY

Years Ended June 30, 2013 and 2012

NOTE G--COMMITMENTS AND CONTINGENCIES

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

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 2018. Rent expense for the years ended June 30, 2013 and 2012 was approximately \$487,000 and \$495,000, respectively. The following is a schedule of future minimum rental payments under operating leases as of June 30, 2013:

Year Ending June 30	
2014	461,000
2015	448,000
2016	448,000
2017	448,000
2018	262,000
Thereafter	-
	<u>\$ 2,067,000</u>

As part of the NFP servicer contract (Note H), 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.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA STUDENT LOAN AUTHORITY

Years Ended June 30, 2013 and 2012

NOTE H--STUDENT LOAN LEGISLATION

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

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

SAFRA also requires USDE to contract with eligible and qualified Not-For-Profit servicers (NFP Servicers) to service federally held student loans. The Authority responded to USDE's NFP Servicer Solicitation in December 2010, received its authority to operate in July 2012, and began servicing student loans also in July 2012.

NOTE I--RELATED PARTIES

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

	<u>2013</u>	<u>2012</u>
Loans purchased by the Authority for the year	\$ -	\$ 94,000
Loans being serviced at year end	30,311,814	38,755,000

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

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA STUDENT LOAN AUTHORITY

Years Ended June 30, 2013 and 2012

NOTE J--FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	2013		2012	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Financial assets:				
Cash	\$ 822,910	\$ 822,910	\$ 2,506,649	\$ 2,506,649
Investments	56,245,096	56,245,096	76,609,922	76,609,922
Interest receivable	5,970,245	5,970,245	7,075,386	7,075,386
Loans, net	616,650,642	616,650,642	739,010,915	739,010,915
Financial liabilities:				
Accrued interest payable	392,460	392,460	798,923	798,923
Notes payable	38,200,000	38,200,000	289,989,492	289,989,492
Bonds payable	582,361,180	582,462,180	475,262,318	475,439,618

The carrying amount for cash, interest receivable, and accrued interest payable approximates fair value because of the short maturity of these financial instruments. The fair value of investments is based upon current share prices for mutual funds and cost for repurchase agreements.

The carrying value of loans approximates fair value because of the variable rate nature of the majority of loans and the Special Allowance Payments by the USDE.

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

NOTE K--SUBSEQUENT EVENTS

The Authority has evaluated events and transactions that occurred subsequent to June 30, 2013 through November 5, 2013, the date these financial statements were available to be issued, for potential recognition or disclosure in these financial statements. There were no subsequent events requiring recognition or disclosure.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA STUDENT LOAN AUTHORITY

Years Ended June 30, 2013 and 2012

NOTE L--NEW ACCOUNTING PRONOUNCEMENTS ISSUED NOT YET ADOPTED

The GASB has also issued several new accounting pronouncements which will be effective to the Authority in subsequent years. A description of the new accounting pronouncements, the fiscal year in which they are effective, and the Authority's consideration of the impact of these pronouncements are described below:

Fiscal Year Ended June 30, 2014

- Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*

GASB No. 70 requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The government is required to report the guaranteed obligation until it is legally released as an obligor, and when it is legally released, it should recognize revenue as a result of this release. The provisions of this Statement are effective for reporting periods beginning after June 15, 2013. Earlier application is encouraged. Except for certain disclosure requirements which may be applied prospectively, the provisions of this Statement are required to be applied retroactively. The Authority has not yet evaluated the effects that GASB No. 70 will have on its financial statements.

Fiscal Year Ended June 30, 2015

- Statement No. 68, *Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27*

GASB No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and pension expenses. GASB No. 68 also details the recognition and disclosure requirements for employers with liabilities to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. Defined benefit pensions are further classified by GASB No. 68 as single employer plans, agent employer plans, and cost-sharing plans, and recognition and disclosure requirements are addressed for each classification. GASB No. 68 was issued in June 2012, and implementation guidance is expected to be issued in November 2013. Although the Authority has not yet quantified the impact that GASB No. 68 will have on its financial statements, it believes that adoption will result in a significant decrease in its net position.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA STUDENT LOAN AUTHORITY

Years Ended June 30, 2013 and 2012

NOTE L--NEW ACCOUNTING PRONOUNCEMENTS ISSUED NOT YET ADOPTED--Continued

Fiscal Year Ended June 30, 2015--Continued

- Statement No. 69, *Government Combinations and Disposals of Government Operations*

GASB No. 69 was issued in January 2013 and establishes accounting and financial reporting standards related to government combinations and disposals of government operations. Government combinations can include a variety of transactions, including mergers, acquisitions, and transfers of operations. A disposal of a government's operations results in the removal of specific activities of a government. The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis. Earlier application is encouraged. This Statement will only impact the Authority in the event of a government combination or disposal.

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

The Board of Trustees
Oklahoma Student Loan Authority
Oklahoma City, 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 (the "Authority") as of and for the year ended June 30, 2013, 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 5, 2013.

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.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

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.

Cole & Reed P.C.

Oklahoma City, Oklahoma
November 5, 2013