ALASKA STUDENT LOAN CORPORATION

(a Component Unit of the State of Alaska)

Management's Discussion and Analysis and
Financial Statements

June 30, 2018 and 2017

Together with Independent Auditor's Report

ALASKA STUDENT LOAN CORPORATION
(a Component Unit of the State of Alaska)

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ALASKA STUDENT LOAN CORPORATION
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MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the Alaska Student Loan Corporation's (Corporation) history, financial position at, and financial performance for, the fiscal years ended June 30, 2018 and 2017 is being presented to assist readers in understanding the Corporation's structure, activities and significant financial issues. Fiscal year 2016 information is shown for comparative purposes.

This information is required supplementary information and should be read in conjunction with the Independent Auditor's Report and the audited financial statements and accompanying notes, all of which follow.

History

The State of Alaska (State) established its first loan program for undergraduate students studying at an accredited institution in 1968. The program was funded directly by the State and administered by the State's then-named Department of Education. This activity was considered a primary government function and financial reporting was included in the governmental fund section of the State's comprehensive annual financial report.

The Alaska Commission on Postsecondary Education (Commission) was created in 1974 to be the coordinating agency for postsecondary education, to administer student financial aid programs, to coordinate and plan for postsecondary education in the State, as well as to authorize and regulate postsecondary education institutions in Alaska. The education loan programs administered by the Commission were funded by the State. The Commission resides within the Department of Education and Early Development for budgetary purposes but is not subject to the direction of the Commissioner of Education and Early Development or the State Board of Education. The Commission's activity is considered a primary government function and financial activity is included in the governmental fund section of the State's comprehensive annual financial report.

The Corporation was created in 1987 as a public corporation and governmental instrumentality within the Department of Education and Early Development with a legal existence independent of and separate from the State. Therefore, the Corporation is not a part of the State's primary government. The financial activity related to the Corporation is reported as a discretely presented component unit in the State's comprehensive annual financial report.

The Corporation was created to raise alternative financing for education loans through the issuance of debt. The Corporation's goal is to provide low-cost education loans to Alaskans pursuing education and training at a postsecondary level and for other qualified individuals attending postsecondary institutions in the State. By statute the Corporation has one employee, the Executive Officer. The employees of the Commission serve as staff for the Corporation. In 1987, the Corporation entered into an agreement with the Commission for on-going administrative services related to its loan programs. In April of 1988, the assets and liabilities of the State's existing education loan programs were transferred to the Corporation effective December 1987.

The Corporation cannot be terminated as long as it has debt outstanding. Upon termination, the Corporation's rights and property pass to the State.

Under contract with the Corporation, the Commission awards and services the Corporation's education loan portfolio. Additional information is available at acpe.alaska.gov. The Corporation funds the Commission's expenditures that relate to loan program administration as permitted by ASLC statutes and bond indentures.

The loan program includes various Federal Family Education Loan Program (FFELP) loans (Federal loans) governed by the Higher Education Act (HEA) and State Education loans (State loans) governed by State statutes. Loans are both fixed and variable rate loans.

The loan program was structured to provide eligible borrowers with low-cost financial aid options. Students are encouraged to maximize their grant and lowest cost loan options prior to tapping into alternative sources.

Program Highlights

- The Corporation continues to hold and administer its FFELP portfolio. Loans in that portfolio are guaranteed by Northwest Education Loan Association.
- The Corporation continues to originate State loans as well as administer its State loan portfolio. State loans are not supported by collateral nor are they guaranteed.
- Prior to June 30, 2018, the Corporation's net loan portfolio was sixty-eight percent State loans and thirty-two percent Federal loans. The portfolio is changing because Federal loans are no longer being originated and State loan originations are growing. At June 30, 2018, The Corporation's net loan portfolio was seventy percent State loans and thirty percent Federal loans.
- At June 30, 2018, loans were pledged to various indentures or held by the Corporation free and clear (non-pledged) as follows:

	Principal balance, gross			Principal balance as a percentage of total
	State	Federal	Total	
2012B Indenture	$ 36,534	-	36,534	15
2013 Trust	-	58,407	58,407	23
Non-pledged	156,125	-	156,125	62
Total	$ 192,659	58,407	251,066	100

- State loans were made to borrowers meeting the following credit criteria:

	Principal balance, gross	Principal balance as a percentage of total
FICO of 680 or greater	$ 50,044	26
Good payment history	19,572	10
Credit ready	98,249	51
No credit criteria	24,794	13
Total	$ 192,659	100

FICO score requirements were implemented on all Alaska Supplemental Education Loans first disbursed on or after July 1, 2009 and on all refinanced loans.

All State Consolidation Loans were made subject to credit criteria which included good repayment histories on the underlying loans for the eighteen months preceding consolidation or a FICO score of at least 680.

Credit-ready loans disbursed on or after July 1, 1998 and before July 1, 2009 were made to borrowers with no adverse credit history.

Financial Highlights

- Financing education loans

  The Corporation last issued bonds, for the purpose of financing new education loans, in June 2007. From July 2007 through 2011, the Corporation used non-pledged loan payments and proceeds from a State loan to finance education loans. Since 2011, loan originations have been funded with non-pledged loan payments.

- Loan Volume

  Annual loan volume has increased one hundred and fifty-two percent between fiscal year 2017 and fiscal year 2018. Absent significant increases in operating costs or material changes in the loan program, the Corporation anticipates continuing to meet loan demand with non-pledged loan payments for the next several years. When non-pledged loan payments are no longer sufficient, the Corporation anticipates issuing debt to meet loan demand.

- Loan portfolio reports are available at acpe.alaska.gov/about_us/Investor/Investor_Relations.

Overview of the Financial Statements

The Corporation's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Under the accrual method of accounting, the same method used by private sector businesses, revenues are recognized when earned and expenses when incurred. The basic financial statements of the Corporation are as follows:

> Statements of Net Position – This statement presents information regarding the Corporation's assets, liabilities and net position at a point in time. Net position represents the total amount of assets less the total amount of liabilities. This statement reflects the Corporation's financial health at the end of the year. Over time, changes in net position serve as a useful indicator of whether the financial position of the Corporation is improving or deteriorating.
>
> Assets and liabilities are classified as current or noncurrent on the Statements of Net Position. Current assets are those available and reasonably expected to be used to pay current liabilities or cover the cost of operations in the next fiscal year. Current liabilities are those expected to be satisfied in the next fiscal year. Assets and net position are further classified as either restricted or unrestricted. The restricted classification is used when constraints are imposed by external sources or enabling legislation. Restricted assets are classified as noncurrent unless the restriction is short-lived (less than a year).
>
> Statements of Revenues, Expenses, and Changes in Net Position – This statement measures the activities of the Corporation's operations over the past year and presents operating income, results of non-operating activities and change in net position for the year. This statement can be used to determine whether the Corporation has successfully recovered its costs through education loan and investment income.
>
> Statements of Cash Flows – This statement provides information about the sources and uses of the Corporation's cash and the change in the cash balance during the fiscal year. This statement presents cash receipts, cash payments and net changes resulting from operating and capital activities.

Notes to Financial Statements provide information that is essential to a full understanding of the data provided in the basic financial statements above.

Financial Analysis

- The Corporation's total assets at June 30, 2018, 2017, and 2016 were $0.3, $0.3, and $0.3 billion, respectively. The change in assets from fiscal year 2017 to 2018 was a decrease of $25 million or 8%, and the change between fiscal year 2016 to 2017 was a decrease of $28 million or 8%.

- The Corporation's net education loans receivable was $195, $226, and $268 million, at June 30, 2018, 2017 and 2016, respectively. These balances represent a decrease in fiscal year 2018 of $31 million or 14% and a decrease in fiscal year 2017 of $42 million or 16%.

- The Corporation's debt at June 30, 2018, 2017, and 2016 was $62, $84, and $112 million, respectively. The change in debt from fiscal year 2017 to 2018 was a decrease of $22 million or 26%, and the change in debt from fiscal year 2016 to 2017 was a decrease of $28 million or 25%.

- The assets of the Corporation exceed its liabilities (reported as net position) at the close of fiscal year 2018, 2017 and 2016 by $222, $223, and $224 million, respectively. These balances represent a decrease in fiscal year 2018 of $1 million or 0.4% and a decrease in fiscal year 2017 of $1 million or 0.7%.

- The Corporation's operating revenue was $12, $12, and $18 million at June 30, 2018, 2017 and 2016, respectively. These balances represent no change in fiscal year 2018, and a decrease in fiscal year 2017 of $6 million or 31%.

- The Corporation's operating interest expense was $1, $1, and $2 million during fiscal years 2018, 2017 and 2016, respectively. These balances represent no change in fiscal year 2018, and a decrease in 2017 of $1 million or 44%.

- The Corporation's operating administration expense was $12, $12, and $13 million during fiscal years 2018, 2017 and 2016. These balances represent no change in fiscal year 2018, and a decrease in fiscal year 2017 of $1 million or 8%.

- The following condensed financial information reflects changes during the fiscal year:

Statement of Net Position (in thousands)

		2018	2017	$ Change	% Change	2016
Assets:						
Current	$	30,592	31,751	(1,159)	(4)	35,520
Noncurrent		256,185	279,753	(23,568)	(8)	303,876
Total assets	$	286,777	311,504	(24,727)	(8)	339,396
Liabilities:						
Current	$	22,985	29,133	(6,148)	(21)	29,180
Noncurrent		41,944	59,550	(17,606)	(30)	85,841
Total liabilities		64,929	88,683	(23,754)	(27)	115,021
Net position:						
Unrestricted		196,114	199,124	(3,010)	(2)	202,580
Restricted		25,734	23,697	2,037	9	21,795
Total net position		221,848	222,821	(973)	(0)	224,375
Total liabilities and net position	$	286,777	311,504	(24,727)	(8)	339,396

The fiscal year 2018 decrease in current assets is due to the decrease in current loans. Current loans receivable is declining due to loan payments exceeding originations for the last several years. Loan balances classified as current are those expected to be paid in the next twelve months. The decrease in current loans receivable is offset by an increase in current restricted investments. Current restricted investments represent investments pledged to the trust indentures that will be consumed in the next fiscal year. This balance has increased because annual debt service payments are decreasing.

The fiscal year 2018 decrease in noncurrent assets is due to the decrease in both unrestricted and restricted loans receivable. This decrease is the result of loan payments continuing to exceed loan originations. The decrease in loans receivable is offset with an increase in investments. The increase in investments is due to collections on nonpledged loans in excess of that utilized for loan originations and administrative costs.

Current and noncurrent liabilities were $6 and $18 million lower in fiscal year 2018, than they were in fiscal year 2017, respectively, due to the decline in bonds payable. Bonds have not been issued by the Corporation for loan originations since 2007 and debt service payments continue to be made.

Unrestricted net position decreased $3 million in fiscal year 2018 because unrestricted expenditures exceeded unrestricted revenue by $3 million. Restricted net position increased $2 million in fiscal year 2018 because restricted revenue exceeded restricted expenditures. Restricted expenditures are limited by the various debt indentures.

The fiscal year 2017 decrease in current assets is due to the decrease in current loans receivable and investments. Current loans receivable is declining due to loan payments exceeding originations for the last several years. Loan balances classified as current are those expected to be paid in the next twelve months. Current restricted investments represent investments pledged to the trust indentures. This balance has declined because payments on pledged loans has declined with the decline in the pledged loan portfolio.

The fiscal year 2017 decrease in noncurrent assets is due to the decrease in both unrestricted and restricted loans receivable. This decrease is the result of loan payments continuing to exceed loan originations. The decrease in loans receivable is offset with an increase in investments. The increase in investments is due to collections on nonpledged loans in excess of that utilized for loan originations and administrative costs.

Noncurrent liabilities are $26 million lower in fiscal year 2017 than they were in fiscal year 2016 due to the decline in bonds payable. Bonds have not been issued by the Corporation for loan originations since 2007 and debt service payments continue to be made.

Unrestricted net position decreased $3 million in fiscal year 2017 because unrestricted expenditures exceeded unrestricted revenue by $2 million and a dividend of $1.2 million was declared in fiscal year 2017. Restricted net position increased $2 million in fiscal year 2017 because restricted revenue exceeded restricted expenditures. Restricted expenditures are limited by the various debt indentures.

Statements of Revenue, Expenses and Changes in Net Position (in thousands)

	2018	2017	$ Change	% Change	2016
Operating revenue	$ 12,156	12,389	(233)	(2)	17,982
Operating expense	(13,329)	(12,796)	(533)	4	(14,822)
Nonoperating revenue	200	53	147	277	387
Return of capital	-	(1,200)	1,200	-	-
Change in net position	(973)	(1,554)	581	(37)	3,547
Net position - beginning	222,821	224,375	(1,554)	(1)	220,828
Net position - ending	$ 221,848	222,821	(973)	(0)	224,375

Operating revenue represents interest on education loans, loan-related provisions and earnings on investments. Interest on education loans continues to decline due to the decline in the loan portfolio. As the education loan portfolio decreases so will related loan interest revenue. The net education loan portfolio decreased 14% in fiscal year 2018 and the resulting decrease in the net education loan interest income, prior to recording the change in yield restriction payable, was 12%. The return on loans, prior to recording the change in the yield restriction payable, was 4.6%, 4.6% and 4.5% for fiscal years 2018, 2017 and 2016, respectively. The provision represents the current year change in estimated principal losses and interest losses on that principal. The provision related to principal losses decreased $0.5 million in fiscal year 2018 due to a slight improvement in the performance of the portfolio. The interest loss provision increased $0.6 million in fiscal year 2018 due to additional interest accruing on loans considered uncollectable. Interest continues to accrue on doubtful loans until they are written off. Loans are removed from the doubtful category when the borrower resumes making regular payments as scheduled. The investment portfolio increased 9.9% in fiscal year 2018. The return on investments, prior to recording the change in the arbitrage rebate receivable, was 0.8%, 0.4% and 0.7% in fiscal years 2018, 2017 and 2016, respectively. The increase in investment income in fiscal year 2018 is attributed to improved performance of the investment portfolio.

Operating expense increased due to an increase in debt-related interest expense in fiscal year 2018. Interest expense increased due to the impact of the increasing rate environment in fiscal year 2018 on the Corporation's variable rate debt. Outstanding debt decreased by 26%. The average rate on outstanding debt was 1.97%, 1.18% and 1.44% for fiscal years 2018, 2017 and 2016, respectively.

Nonoperating revenue consists primarily of Federal direct loan servicing fees and other miscellaneous fees and charges throughout the year. Direct loan servicing is performed by a third-party for a share of the fee.

Operating revenue represents interest on education loans, loan-related provisions and earnings on investments. Interest on education loans continues to decline due to the decline in the loan portfolio. As the education loan portfolio decreases so will related loan interest revenue. The net education loan portfolio decreased 15% in fiscal year 2017 and the resulting decrease in education loan interest income, prior to recording the change in yield restriction payable, was 15%. The decrease in fiscal year 2017 is also attributed to an increase in the yield restriction payable of approximately $428. The return on loans, prior to recording the change in the yield restriction payable, has been 4.6% and 4.5% in fiscal years 2017 and 2016, respectively. The provision represents the current year change in estimated principal losses and interest losses on that principal. The provision related to principal losses increased $2.5 million in fiscal year 2017 due to the loan portfolio's performance being less than anticipated at the end of fiscal year 2016. The interest loss provision remained the same for both fiscal years. Interest continues to accrue on doubtful loans until they are written off. Loans are removed from the doubtful category when the borrower resumes making regular payments as scheduled. The investment portfolio increased 22.4% in fiscal year 2017; however, the return on the portfolio was lower than prior year. The return on investments, prior to recording the change in the arbitrage rebate receivable, was 0.4% and 0.7% in fiscal years 2017 and 2016, respectively. The decrease in investment income in fiscal year 2017 is also attributed to a decrease in the arbitrage rebate receivable.

Operating expense declined due to the reduction in debt-related interest expense and administrative costs in fiscal year 2017. Interest expense has declined due to an overall reduction of approximately $28 million in debt outstanding. The average rate on outstanding debt was 1.18% and 1.44% for fiscal years 2017 and 2016, respectively. The decline in administrative costs was attributed to several items, the most significant being one-time costs incurred in fiscal year 2016 related to the defeasance of bonds issued under the 2002 Trust; the IRS audit closure, stabilization of the longitudinal data base; firewall migration costs, and equipment purchases. In addition, cost reductions were realized as changes to programs or efficiencies were identified, such as the elimination of software no longer considered essential, the negotiation of lower maintenance costs or the decision to maintain software in-house, using internal systems to disburse grant and scholarship funds rather than contracting for those services, and lowering contractual costs when new vendors with lower prices are identified.

Nonoperating revenue consists primarily of Federal direct loan servicing fees and other miscellaneous fees and charges throughout the year. Direct loan servicing is performed by a third-party for a share of the fee.

Borrower Benefits

The Board approved various loan benefits to provide incentives and rewards to borrowers. The benefit package, intended to lower borrowers' interest costs, was subject to annual approval by the Board through fiscal year 2018. Changes to the package are subject to a confirmation from rating agencies rating the Corporation's outstanding bonds supported by loans eligible for borrower benefits. The rating confirmation must indicate that the change to the borrower benefit package will not have a negative impact on bond ratings previously issued. Borrower benefits awarded in fiscal years 2018, 2017 and 2016 cost approximately $544, $693, and $854, respectively. The cost is recorded as an offset to interest on loans. The borrower benefit package, for loans originated before July 1, 2018, will remain unchanged until the Board takes action to change them. The rate structure for loans originated after June 30, 2018 includes the benefit previously awarded to borrowers residing in the State. The benefit for using recurring electronic payment functionality will continue to be awarded to eligible borrowers until action by the Board results in a change. Information related to borrower benefits can be found at acpe.alaska.gov/Financial_Aid/Loans/Borrower_Benefits.

Contacting the Corporation

This financial report is designed to provide borrowers, investors, creditors and other readers with a general overview of the Corporation's finances. If you have questions about this report or need additional financial information, contact the Corporation at (907) 465-6740.

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Alaska's CPA Firm

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Alaska Student Loan Corporation
Juneau, Alaska

Report on the Financial Statements

We have audited the accompanying financial statements of the Alaska Student Loan Corporation, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Alaska Student Loan Corporation's basic financial statements as listed in the table of contents.

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 from 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Alaska Student Loan Corporation, as of June 30, 2018 and 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 1 through 9 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 our report dated September 26, 2018 on our consideration of the Alaska Student Loan Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 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 Alaska Student Loan Corporation's internal control over financial reporting and compliance.

Elgee Rehfeld

September 26, 2018

ALASKA STUDENT LOAN CORPORATION
(A Component Unit of the State of Alaska)

Statements of Net Position

June 30, 2018 and 2017

(in thousands)

		2018	2017
Assets:			
Current assets:			
Cash (note 3)	$	640	684
Other		221	234
Interest receivable on investments		399	322
Interest receivable on loans		1,502	1,584
Loans receivable (note 4)		22,405	23,986
Arbitrage rebate receivable (notes 2 and 7)		229	229
Restricted:			
Investments (note 3)		5,171	4,687
Other		25	25
Total current assets		30,592	31,751
Noncurrent assets:			
Interest receivable on loans, net (note 5)		2,328	2,705
Loans receivable, net (notes 4 and 5)		92,229	101,394
Investments (note 3)		78,275	71,244
Restricted:			
Cash (note 3)		102	73
Interest receivable on investments		7	3
Interest receivable on loans, net (note 5)		2,577	3,227
Loans receivable, net (notes 4 and 5)		80,667	101,107
Total noncurrent assets		256,185	279,753
Total assets	$	286,777	311,504

See accompanying Notes to Financial Statements. (continued)

ALASKA STUDENT LOAN CORPORATION
(A Component Unit of the State of Alaska)

Statements of Net Position

June 30, 2018 and 2017

(in thousands)

	2018	2017
Liabilities and Net Position:		
Liabilities:		
Current:		
Payable from unrestricted assets:		
Due to State of Alaska	$ 1,454	1,363
Accounts payable	66	57
Return of capital payable (note 9)	-	1,838
Payables from restricted assets:		
Due to U.S. Dept. of Education (note 8)	239	447
Accounts payable	7	14
Return of capital payable (note 9)	594	-
Yield restriction payable (notes 2 and 7)	305	-
Interest payable	7	10
Bonds payable (note 6)	20,313	25,404
Total current liabilities	22,985	29,133
Noncurrent - payable from restricted assets:		
Yield restriction payable (notes 2 and 7)	-	592
Bonds payable (note 6)	41,944	58,958
Total noncurrent liabilities	41,944	59,550
Total liabilities	64,929	88,683
Net position:		
Unrestricted (note 2)	196,114	199,124
Restricted	25,734	23,697
Total net position	221,848	222,821
Total liabilities and net position	$ 286,777	311,504

See accompanying Notes to Financial Statements.

ALASKA STUDENT LOAN CORPORATION
(A Component Unit of the State of Alaska)

Statements of Revenue, Expense, and Changes in Net Position

Years Ended June 30, 2018 and 2017

(in thousands)

	2018	2017
Operating revenue:		
Interest on loans, net (note 2)	$ 15,641	16,054
Provision (note 5)	(4,188)	(4,029)
Investment income, net (note 2)	703	364
Total operating revenue	12,156	12,389
Operating expense:		
Interest	1,463	1,180
Administration	11,866	11,616
Total operating expense	13,329	12,796
Operating income (loss)	(1,173)	(407)
Nonoperating revenue - other	200	53
Income (loss) before return of capital	(973)	(354)
Return of capital (note 9)	-	(1,200)
Change in net position	(973)	(1,554)
Total net position - beginning	222,821	224,375
Total net position - ending	$ 221,848	222,821

See accompanying Notes to Financial Statements.

ALASKA STUDENT LOAN CORPORATION
(A Component Unit of the State of Alaska)

Statements of Cash Flows

Years Ended June 30, 2018 and 2017

(in thousands)

	2018	2017
Cash flows from operating activities:		
Principal payments received on loans	$ 46,712	52,640
Interest received on loans	9,236	9,896
Other receipts	(15)	(16)
Loans originated	(12,708)	(8,380)
Administration	(11,758)	(11,394)
Interest paid on debt	(1,402)	(1,098)
Principal paid on debt	(22,169)	(27,937)
Income received on investments	1,398	892
Investments matured or sold	123,800	176,221
Investments purchased	(132,091)	(190,776)
Net cash provided by operating activities	1,003	48
Cash flows from capital activities:		
Other receipts	226	35
Return of capital payments	(1,244)	(103)
Net cash used for capital activities	(1,018)	(68)
Net decrease in cash	(15)	(20)
Cash at beginning of period	757	777
Cash at end of period	$ 742	757

See accompanying Notes to Financial Statements. (continued)

ALASKA STUDENT LOAN CORPORATION
(A Component Unit of the State of Alaska)

Statements of Cash Flows

Years Ended June 30, 2018 and 2017

(in thousands)

	2018	2017
Reconciliation of operating loss to cash flows from operating activities:		
Operating loss	$ (1,173)	(407)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Provision	4,188	4,029
Change in assets and liabilities:		
Increase in other assets	(12)	(126)
Increase in interest receivable - investments	(81)	(121)
Increase in interest receivable - loans	(1,960)	(1,908)
Increase in investments	(7,515)	(13,912)
Decrease in loans receivable	30,066	39,922
Decrease in due to U.S. Dept. of Education	(208)	(220)
Increase in net due to State of Alaska	91	239
Increase (decrease) in accounts payable	2	(26)
Increase (decrease) in net yield restriction/arbitrage rebate payable	(287)	434
Decrease in interest payable	(3)	-
Decrease in bonds payable	(22,105)	(27,856)
Total adjustments	2,176	455
Net cash provided by operating activities	$ 1,003	48

See accompanying Notes to Financial Statements.

(1) Authorizing Legislation and Organization

The Alaska Student Loan Corporation (Corporation), a component unit of the State of Alaska (State), was created in 1987 by an act of the State Legislature (Legislature). The purpose of the Corporation is to provide low-cost education loans to Alaskans pursuing education and training at a postsecondary level and for other qualified individuals attending postsecondary institutions in the State. The Corporation is authorized, with certain limitations, to issue debt necessary to carry out its purpose. The Corporation is governed by a Board of Directors (Board) appointed by the State Governor.

The Corporation contracts with the Alaska Commission on Postsecondary Education (Commission) to service its loan portfolio and to provide staff for the Corporation. The Commission, a part of the State's general government, is responsible for staff costs; therefore, the Corporation has no pension disclosure.

(2) Summary of Significant Accounting Policies

(a) *Fund Accounting*

The financial activities of the Corporation, which are restricted by the Corporation's various debt instruments, are recorded in various funds as necessitated by sound fiscal management. The funds are combined for financial statement purposes and there are no significant interfund transactions. The Corporation is considered an enterprise type proprietary fund for financial reporting purposes with revenues recognized when earned and expenses when incurred.

(b) *Fiscal Year*

The Corporation's fiscal year begins July 1 and ends June 30, consistent with the State's fiscal year.

(c) *Operating Revenue and Expense*

The Corporation was created with the authority to issue debt in order to finance education loans to qualified borrowers. Operating revenue is derived from interest on education loans and earnings on investments. Operating revenue is offset by the loan and interest related provision. The cost of financing and servicing education loans is considered operating activity.

(d) *Management Estimates*

To prepare financial statements in accordance with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect reported amounts. Actual amounts could differ from estimates. The significant accounting and reporting estimates applied in the preparation of the accompanying financial statements are discussed below.

(2) Summary of Significant Accounting Policies (cont.)

(e) *Loans*

Loans represent education loans which include Supplemental Education, Alternative Consolidation, Refinanced (REFI), Teacher Education (TEL), Family Education (FEL), (collectively referred to as State loans), federally guaranteed Stafford (subsidized and unsubsidized), PLUS, and Consolidation (subsidized and unsubsidized) loans (collectively referred to as Federal loans). Loan terms vary depending on year of origination and type.

(f) *Interest on Loans*

Interest on loans is accrued when earned at fixed and variable rates ranging from 2.63% to 9.00%.

For federally guaranteed subsidized loans, interest from the disbursement date until six months after the borrower withdraws from school (plus any authorized deferment and eligible income-based repayment periods) is paid by the U.S. Department of Education (Department) under the Federal Family Education Loan Program (FFELP). The borrower is responsible for interest accruing subsequent to that date.

For federally guaranteed non-subsidized loans and for all State loans (other than TEL) awarded after June 30, 2002, interest accruing from the disbursement date is the responsibility of the borrower. For TELs awarded after June 30, 2002, interest accruing from the date the borrower ceases to be enrolled in school is the responsibility of the borrower.

State loans (other than FEL) awarded prior to July 1, 2002, are non-interest bearing while the borrower is completing eligible studies. State loans (other than FEL) awarded prior to July 1, 1996, are non-interest bearing during approved periods of deferment. State loans awarded prior to July 1, 1987, are also non-interest bearing during a one-year grace period following completion of studies and a six-month grace period following an approved deferment. For FELs awarded prior to July 1, 2002, interest accruing from the disbursement date is the responsibility of the borrower.

Non-interest bearing loans were approximately $492 and $803 at June 30, 2018 and 2017, respectively.

The cost of borrower benefits awarded to eligible borrowers is recorded as a reduction in interest on loans. Borrower benefit offerings are approved by the Board annually and may vary from year to year.

The change in the yield restriction payable, if any, is recorded as an adjustment to interest on loans.

(2) Summary of Significant Accounting Policies (cont.)

(g) *Allowances and Provision*

The allowances represent management's estimate, based on experience, of loans and related accrued interest that will ultimately be uncollectible or forgiven. The Corporation writes off State loans upon death, total disability, or when payment activity is no longer anticipated. The Corporation also writes off State loans legally discharged in bankruptcy proceedings and the portion of Federal loan balances not guaranteed and deemed uncollectible. Accrued unpaid interest is written off when the related loan is written off. A borrower of a TEL can obtain up to 100% forgiveness of loan principal and interest if the borrower teaches in rural Alaska for periods specified by the program.

The provision is the annual change in the allowances.

(h) *Note Discount*

The Corporation uses the effective method of amortization to amortize the note discount over the life of the note. The effective method matches amortization with interest expense, maintaining a constant effective rate of interest over the life of the note.

(i) *Income Taxes*

The Corporation, as a governmental instrumentality, is exempt from Federal and State income taxes.

(j) *Investments and Investment Income*

The Corporation invests in the State's internally managed General Fund and Other Non-segregated Investments Pool (GeFONSI). GeFONSI consists of investments in the State's internally managed Short-term, Short-term Liquidity and Intermediate-term Fixed Income Pools. Additional information with regard to the GeFONSI can be found in Treasury's *Invested Assets Under the Investment Authority of the Commissioner of Revenue's Independent Auditors' Report* (GeFONSI Report) at treasury.dor.alaska.gov/Investments/Annual-Investment-Reports.aspx.

The Corporation also invests in specific securities and money market funds. Money market funds maintain a share price of $1 and are reported at amortized cost. The Corporation's shares in money market funds fluctuate daily with contributions and withdrawals. Investments in specific securities are reported at fair value.

The change in the arbitrage rebate receivable, if any, is recorded as an adjustment to investment income.

(2) Summary of Significant Accounting Policies (cont.)

(k) *Due to State of Alaska*

Amounts due to the State of Alaska represent the net difference between amounts held by the Corporation on behalf of the State, amounts paid by the Corporation on behalf of the Commission and amounts paid by the Commission on behalf of the Corporation.

(l) *Unrestricted Net Position*

Unrestricted net position represents net assets not pledged as collateral to secure payment of debt.

(3) Cash and Investments

(a) *Cash*

(1) Cash summarized by classification at June 30 follows:

		2018	2017
Current, unrestricted	$	640	684
Noncurrent, restricted		102	73
Total	$	742	757

(2) Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, deposits may not be returned. The Corporation has not established a custodial credit risk policy for its deposits.

At June 30, 2018, the Corporation had no cash exposed to custodial credit risk.

(b) *Investments*

(1) The fair value at June 30, of the Corporation's investments, by classification, follows:

		2018	2017
Current:			
Restricted	$	5,171	4,687
Noncurrent:			
Unrestricted		78,275	71,244
Total	$	83,446	75,931

(3) Cash and Investments (cont.)

(b) Investments

(2) Investment Policies

The Corporation utilizes different investment strategies depending upon the nature and intended use of the assets being invested.

Restricted funds are invested according to the terms outlined in trust documents which generally mandate the purchase of relatively short-term, high quality fixed income securities. Trust documents are accessible at acpe.alaska.gov/financial_statements_Trust_documents.

Unrestricted funds may be invested in the various fixed-income pools managed by Treasury. Investments in Treasury's fixed-income investment pools are made in accordance with the State's General Investment Policy. These investments represent an ownership share of the pool's securities rather than ownership of specific securities. A complete description of the State's investment policy is at treasury.dor.alaska.gov/investments.

Unrestricted funds not managed by Treasury are managed by an external investment manager in compliance with the Corporation's investment policy which allows investments in:

- Direct obligations of the U.S. Treasury, obligations of federal agencies which represent the full faith and credit of the U.S. and also unconditionally guaranteed as to the timely payment of principal and interest by the U.S.
- Bonds, notes or other evidences of indebtedness rated "AAA/Aaa" and issued by federal agencies which do not represent the full faith and credit of the U.S.
- Bonds, notes or other evidences of indebtedness rated "A" or better.
- Collateralized mortgage obligations originated from a federal agency.

The highest rating of a nationally recognized rating agency is the rating used to determine compliance with the policy.

(3) Cash and Investments (cont.)

(b) Investments

(3) Credit Risk

Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations. The Corporation mitigates its credit risk by limiting investments to those permitted in the investment policy and diversifying the investment portfolio.

The fair value of the Corporation's investments by type and credit quality, using a nationally recognized statistical rating organization without modifiers, at June 30 are shown below:

Investment Type	Ratings		2018	2017
Mortgage-backed securities (agencies)	AAA	$	334	343
Money market funds	AAA		12,758	14,936
Corporate bonds	AAA		2,606	2,147
Corporate bonds	AA		16,174	17,078
Corporate bonds	A		31,369	34,729
GeFONSI	Not rated		9,196	6,698
U.S. Treasury securities	AAA		11,009	-
Total		$	83,446	75,931

The Corporation's ownership share of the GeFONSI was 0.54% and 0.16% at June 30, 2018 and 2017, respectively.

Credit risk information relative to investments in the GeFONSI can be found in the GeFONSI Report.

(3) Cash and Investments (cont.)

(b) Investments

(4) <u>Concentration Risk</u>

Concentration risk is the risk of loss attributed to the magnitude of investments in a single investment provider.

At June 30, 2018, the Corporation had investment balances greater than five percent of the Corporation's total investments with the following investment providers:

		Fair Value	Percent of Total Investments
Fidelity Institutional Money Market Fund	$	10,775	13
U.S. Treasury		11,009	13

Concentration risk information relative to investments in the GeFONSI can be found in the GeFONSI Report.

(5) <u>Interest Rate Risk</u>

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Corporation mitigates interest rate risk by structuring maturities to meet cash requirements.

Duration

Duration is a measure of interest rate risk. It measures a security's sensitivity to a 100-basis point change in interest rates. The duration of a portfolio is the average fair value weighted duration of each security in the portfolio taking into account all related cash flows.

The Corporation's investment manager uses industry-standard analytical software developed by CMS Bond Edge to calculate duration. The software takes into account various possible future interest rates, historical and estimated prepayment rates, call options and other variable cash flows for purposes of the duration calculation.

(3) Cash and Investments (cont.)

(b) Investments

(5) Interest Rate Risk

At June 30, 2018, the weighted average modified duration of investments, other than investments in money market funds and the GeFONSI, follows:

U.S. Treasury	0.30
Mortgage backed securities (agency)	0.73
Corporate bonds	1.31
Portfolio modified duration	1.12

The Corporation has not established an interest rate risk policy for such investments.

Interest rate risk information relative to investments in the GeFONSI can be found in the GeFONSI Report.

(6) Fair Value Measurements

The Corporation categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Corporate bonds are valued using level 2 inputs. Market and industry inputs include, benchmark yields, yield to maturity data, prepayment speeds, corporate action adjustments, reported trade data, etc.

Fair value measurements relative to investments in the GeFONSI can be found in the GeFONSI Report.

(c) Other

Unrestricted cash and unrestricted investments specifically designated for financing education loans include $1,436 and $437 at June 30, 2018 and 2017, respectively.

(4) Loans Receivable

(a) The loan portfolio summarized by classification at June 30 follows:

		2018	2017
State loans:			
Current, unrestricted	$	22,406	23,986
Noncurrent:			
Unrestricted		133,719	147,053
Restricted		36,534	45,191
Total, gross State loans		192,659	216,230
Federal loans:			
Noncurrent:			
Restricted		58,407	71,799
Total, gross loans		251,066	288,029
Allowance for doubtful loans		55,488	61,125
Allowance for principal forgiveness		277	417
Total allowance		55,765	61,542
Total, net loans	$	195,301	226,487
Current, unrestricted	$	22,405	23,986
Noncurrent:			
Unrestricted		92,229	101,394
Restricted		80,667	101,107
Total, net loans	$	195,301	226,487

(4) Loans receivable (cont.)

(b) The loan portfolio summarized by program at June 30 follows:

		2018	2017
State Education Loans			
Supplemental	$	153,921	178,764
Consolidation		19,571	25,403
Refinanced		13,161	5,718
Teacher Education		4,070	4,791
Family Education		1,936	1,554
Total State Loans		192,659	216,230
Federal Family Education Loans			
Stafford		47,596	58,928
Consolidation		8,901	10,595
PLUS		1,910	2,276
Total Federal Loans		58,407	71,799
Total, gross loans	$	251,066	288,029

(c) The loan portfolio summarized by status at June 30 follows:

		2018		2017	
		State	Federal	State	Federal
Enrollment	$	11,117	435	8,992	872
Grace		3,101	134	3,310	209
Repayment		164,266	45,956	185,095	54,855
Deferment		13,728	6,379	18,240	8,616
Forbearance		447	5,503	593	7,247
Total	$	192,659	58,407	216,230	71,799

(d) Loans awarded not disbursed at June 30 follows:

		2018	2017
State Education Loans			
Supplemental	$	945	278
Refinanced		466	142
Family Education		25	17
Total State Loans	$	1,436	437

(5) Allowances and Provision

A summary of activity in the allowances at June 30 follows:

		2018	2017
Balance, beginning of period	$	79,652	79,659
Provision		4,188	4,029
Balances charged off		(10,084)	(4,036)
Balance, end of period	$	73,756	79,652

		2018	2017
Allowance for:			
doubtful loans	$	55,488	61,125
principal forgiveness		277	417
doubtful interest		17,948	18,082
interest forgiveness		43	28
Total	$	73,756	79,652

(6) Bonds Payable

(a) Bonds payable at June 30 follows:

	Type	Original Amount	Outstanding Amount 2018	Outstanding Amount 2017
2012B Trust Indenture, Education Loan Revenue, Refunding Bonds, Senior Series 2012B-1, due 2043	Variable	$ 78,435	6,935	14,935
2013 Trust Indenture, Education Loan Revenue, Refunding Note, Series 2013, due 2031	Variable	144,730	55,524	69,693
Total Bonds/Note Payable		$ 223,165	62,459	84,628
Unamortized discount net			(202)	(266)
Net Bonds/Note Payable			$ 62,257	84,362
Current			20,313	25,404
Noncurrent			41,944	58,958
Total			$ 62,257	84,362

(6) Bonds Payable (cont.)

(b) The Series 2012B bonds bear interest at a weekly rate, determined by the remarketing agent. The maximum rate applicable to the bonds is 12% per annum. The rate at June 30, 2018 and 2017 was 1.54% and 0.94%, respectively.

The 2013 Refunding Note bears interest at a rate equal to the one-month London Interbank Offered Rate (LIBOR) plus 50 basis points. There is no maximum rate. The rate at June 30, 2018 and 2017 was 2.59% and 1.72%, respectively.

(c) The minimum payments projected subsequent to June 30, 2018, are as follows:

Period Ending June 30		Principal	Interest	Total
2019	$	20,313	1,387	21,700
2020		12,987	939	13,926
2021		12,271	610	12,881
2022		11,615	300	11,915
2023		5,273	40	5,313
Total	$	62,459	3,276	65,735

(d) The 2013 Refunding Note was issued at a discount which is being amortized using the effective method. The effective rate is 60 basis points over LIBOR.

(e) Each Master Indenture represents a limited obligation trust which secures payment for the outstanding debt issued therein. The debt is payable from assets pledged to the respective indenture which includes principal and interest payments on pledged loans. The debt does not constitute a general obligation of the Corporation or of the State. The debt is private activity revenue debt. Debt service payments are due as follows:

Master Indenture	Principal	Interest	Bond Type
2012B	December 1, 2043	June 1 and December 1	Tax-exempt
2013	Monthly	Monthly	Taxable

The indentures contain covenants relative to restrictions on additional indebtedness.

The 2012B revenue bonds have liquidity support by means of an irrevocable direct-pay Letter of Credit issued by State Street Bank and Trust Company that expires on July 20, 2020. In addition the State of Alaska, Department of Revenue, Treasury Division entered into a Standby Bond Purchase Agreement with State Street Bank and Trust Company thereby agreeing to purchase 2012B revenue bonds under certain conditions. The Standby Bond Purchase Agreement expires August 10, 2020. The Corporation entered into a Reimbursement Agreement with the State of Alaska, Department of Revenue, Treasury Division thereby

(6) Bonds Payable (cont.)

agreeing to reimburse them for the purchase of 2012B Revenue Bonds pursuant to the Standby Bond Purchase Agreement. The Reimbursement Agreement expires August 10, 2020.

(7) Yield Restriction and Arbitrage Rebate

Education loans financed with proceeds of tax-exempt bonds issued by the Corporation are subject to interest rate yield restrictions of no more than 2% over the bond yield. Earnings on non-loan investments pledged to bond indentures are subject to rebate provisions which restrict earnings to the related bond yield. These restrictions are in effect over the life of the bonds. Loan and investment yields are calculated and analyzed annually. These analyses are used to determine both compliance with Internal Revenue Service (IRS) provisions and the amount of arbitrage rebate and yield restriction receivable/payable amounts, if any. The yield restriction payable represents the amount due to the IRS for earnings in excess of allowable yields. The arbitrage rebate receivable represents amounts paid to the IRS in past years that is refundable due to cumulative investment earnings no longer being in excess of those allowable.

(8) Federal Family Education Loan Program

Northwest Education Loan Association (NELA), an affiliate of Great Lakes Higher Education Corporation, serves as the "eligible" guarantor for the Corporation's FFELP portfolio.

As a holder of Federal loans, the Corporation receives claim, special allowance and interest subsidy payments and pays excess interest and rebate fees on federally guaranteed loans as specified in the Higher Education Act (HEA).

Claim payments are received from the guarantor when a borrower dies, becomes totally and permanently disabled, or defaults on a Federal loan. The Corporation is eligible for these payments provided compliance with servicing requirements outlined in the HEA. Failure to fulfill the requirements may result in an interest penalty or loss of guarantee. In the case of a default claim, unpaid principal and interest are guaranteed at 98% if the loan was first originated prior to July 1, 2006, and 97% if the loan was first originated after June 30, 2006. Claims as a result of a borrower's death or becoming totally and permanently disabled are guaranteed at 100%.

Special allowance payment rates are calculated quarterly, by the Department, based on the quarter's daily average one-month LIBOR, plus a predetermined factor that varies according to loan type, disbursement date, loan status, and not-for-profit eligibility of the lender less the loan's applicable interest rate. When the calculated rate is positive, special allowance payments are received from the Department; when the calculated rate is negative, the Corporation pays excess interest to the Department on loans first disbursed after April 1, 2006.

(8) Federal Family Education Loan Program (cont.)

Interest subsidies are received quarterly from the Department on behalf of qualified subsidized Stafford or subsidized Consolidation loan borrowers during enrollment, grace, deferment and eligible income-based repayment periods.

A rebate fee, equal to 0.09% of the unpaid principal and interest on consolidation loans, is paid monthly to the Department.

(9) Commitments and Contingencies

(a) Operations

The Corporation will fund approximately $11,743 and $174 of the Commission's fiscal year 2019 and 2018 operating budgets, respectively, for loan servicing and staff support. The Corporation's and the Commission's budgets are subject to review and approval from both the executive and legislative branches of the State. The Commission's costs funded by the Corporation are based on expenditures incurred by the Commission.

(b) Return of Capital

State statutes indicate that the Board may elect to pay the State a return of contributed capital or dividend based on net income. If the Board elects to pay a dividend, the amount may not be less than 10%, or greater than 35%, of the Corporation's income when it equals or exceeds $2,000 for the Base Fiscal Year. The Base Fiscal Year is defined as the fiscal year ending two years before the end of the fiscal year in which the payment is made.

On November 30, 2016, the Board approved a $1,200 Return of Capital payment to the State based on income (referred to as change in net position on the Statements of Revenue, Expense and Changes in Net Position) in fiscal year 2016. Income in fiscal year 2017 did not exceed $2,000; therefore, no capital will be returned to the State in fiscal year 2019.

As an additional means of returning capital, the Corporation issued bonds to finance State capital projects. No bonds have been issued since 2005 for this purpose. The Corporation reimburses the State for expenditures related to projects funded with Corporation capital project bond proceeds. Restricted investments include amounts specifically designated for financing State capital projects totaling $594 and $638 at June 30, 2018 and 2017, respectively.

(9) Commitments and Contingencies (cont.)

(c) State Permanent Fund Dividend Garnishment

The Alaska Permanent Fund (Permanent Fund), established in the State Constitution in 1976, is held and managed by the State. The State deposits a percentage of oil and gas royalties into the Permanent Fund. By statute, the State pays a portion of the earnings of the Permanent Fund annually to individuals who apply and meet certain residency requirements, provided that sufficient funds are available for payment. Permanent Fund Dividend (PFD) payments could be eliminated or reduced by an amendment to State statutes. The Commission may garnish a borrower's PFD payment, if any, to satisfy the balance of a defaulted loan pursuant to State statutes. The Commission has garnishment priority over all other executors except State child support enforcement and any court ordered restitution. There is no assurance that any particular borrower will apply or qualify for a PFD payment.

PFD garnishments were approximately $1,773 and $1,801 for the years ended June 30, 2018 and 2017, respectively.

(d) Legislation

The Corporation's State education loan programs have been the subject of legislative action by the State legislature. The laws governing the programs have been amended from time to time and will continue to be the subject of legislative proposals calling for further amendment. The effect, if any, on the Corporation's State programs cannot be determined.

(e) Non-Investment Interest Rate Risk

The Corporation is subject to interest rate risk relating to its variable rate debt and rate on pledged loans. The 2012B bonds are subject to an interest rate cap of 12% while the loans pledged to the 2012B bonds are fixed rate loans ranging from 4.75% to 9.00% or variable rate loans subject to an interest rate cap of 8.25%. The Corporation has various strategies available to manage the risk that the 2012 bond rate may rise above the related pledged loan rate. The 2013 Refunding Note rate is based on one-month LIBOR while the rate on loans pledged to the 2013 Refunding Note are determined quarterly based on the quarterly daily average one-month LIBOR.