(a Component Unit of the State of Alaska)

**Unaudited Financial Statements** 

December 31, 2012 and 2011

(a Component Unit of the State of Alaska)

**Unaudited Financial Statements** 

December 31, 2012 and 2011

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(a Component Unit of the State of Alaska)

# **Balance Sheets**

# December 31, 2012 and 2011

Assets	_	2012	2011
Current assets:		_	
Cash (note 3)	\$	584	157
Other		149	70
Interest receivable - investments		60	101
Interest receivable - loans		272	1,627
Investments (note 3)		3,204	2,378
Loans receivable (notes 4 and 11)		8,609	10,519
Restricted investments (note 3)	_	47,335	59,630
Total current assets	_	60,213	74,482
Noncurrent assets:			
Interest receivable - loans, net (note 5)		1,144	1,443
Loans receivable, net (notes 4, 5 and 11)		45,063	54,042
Investments (note 3)		15,782	25,907
Restricted:			
Cash (note 3)		2,182	1,389
Other		-	29
Due from State of Alaska		88	311
Arbitrage rebate receivable (note 10)		781	813
Interest receivable - investments		455	568
Interest receivable - loans, net (note 5)		15,932	16,978
Investments (note 3)		51,496	59,443
Loans receivable, net (notes 4, 5 and 11)		407,353	462,324
Debt issue cost, net (note 8)	_	1,856	2,248
Total noncurrent assets	_	542,132	625,495
Total assets	\$	602,345	699,977

(a Component Unit of the State of Alaska)

# **Balance Sheets**

# December 31, 2012 and 2011

(iii tiiousan	ius)		
Liabilities and Net Assets		2012	2011
Liabilities:	-		
Current:			
Payable from unrestricted assets:			
Due to State of Alaska	\$	79	137
Due to U.S. Dept of Education (note 11)	,	-	782
Warrants outstanding (note 4)		209	158
Accounts payable		628	637
rice out its payable		020	027
Payable from restricted assets:			
Due to US Dept of Education (note 11)		1,125	1,061
Warrants outstanding (note 4)		7	20
Accounts payable		136	20
Arbitrage rebate payable (note 10)		-	999
Return of capital payable (note 13)		4,425	6,628
Interest payable		1,182	3,213
Bonds payable (note 6)		32,650	45,985
Loan payable to State of Alaska (note 7)		18,013	-
Other debt payable (note 7)		81,885	11,519
Total current liabilities	•	140,339	71,159
	-		
Noncurrent-payable from restricted assets:			
Arbitrage rebate payable (note 10)		55	111
Return of capital payable (note 13)		-	712
Deferred credit (note 2)		149	-
Bonds payable, net (note 6)		243,049	259,429
Loan payable to State of Alaska (note 7)		-	67,500
Other debt payable (note 7)			86,453
Total noncurrent liabilities	-	243,253	414,205
Total liabilities		383,592	485,364
Commitments and contingencies (note 13)			
Net assets:			
Unrestricted (note 2)		73,950	94,529
Restricted (note 2)		144,803	120,084
Total net assets	-	218,753	214,613
Total liabilities and net assets	\$	602,345	699,977
Total Habilities and flet assets	φ :	002,343	077,711

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# Statements of Revenue, Expenses and Changes in Net Assets

# Six Months ended December 31, 2012 and 2011

	_	2012	2011
Operating revenue:			
Interest - loans, net (note 5)	\$	14,897	16,520
Investment income		732	2,026
Total operating revenue		15,629	18,546
Operating expenses:			
Interest		3,751	5,135
Administration		7,197	6,765
Provision (note 5)		2,756	8,643
Amortization and retirement of debt issue costs (note 8)		777_	233
Total operating expenses		14,481	20,776
Operating income (loss)	_	1,148	(2,230)
Nonoperating revenue - other	_	134	
Nonoperating expense:			
Interest		1,155	969
Administration		25	14
Amortization of debt issue costs (note 8)		377	83
Nonoperating expense		1,557	1,066
Loss before special item			
and return of capital		(275)	(3,296)
Special item - gain on cancellation of bonds (note 6)		-	1,121
Return of capital (note 13)	_	735	(40)
Change in net assets		460	(2,215)
Total net assets-beginning		218,293	216,828
Total net assets-ending	\$ _	218,753	214,613

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# Statements of Cash Flows

# Six Months ended December 31, 2012 and 2011

		2012	2011
Cash flows from operating activities:	_		
Principal repayments received on loans	\$	40,919	36,760
Interest received on loans		10,949	10,737
Other		(119)	313
Loans originated		(2,930)	(3,962)
Administration		(7,342)	(7,375)
Interest paid on debt		(5,224)	(5,661)
Principal paid on debt		(164,458)	(21,313)
Bond proceeds		146,555	_
Debt issue costs		(979)	_
Income received on investments		736	1,478
Investments matured or sold		237,054	175,078
Investments purchased		(225,922)	(181,295)
Net cash provided by operating activities	_	29,239	4,760
Cash flows from capital activities:			
Other receipts		134	_
Administration		(25)	(52)
Interest paid on debt		(1,989)	(1,353)
Principal paid on debt		(28,930)	(8,030)
Return of capital payments		(988)	(3,388)
Net cash used for capital activities	_	(31,798)	(12,823)
Net decrease in cash		(2,559)	(8,063)
Cash at beginning of period	-	5,325	9,609
Cash at end of period	\$ _	2,766	1,546

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# Statements of Cash Flows

# Six Months ended December 31, 2012 and 2011

		2012	2011
Reconciliation of operating income to net cash			
provided by operating activities:			
Operating income (loss)	\$_	1,148	(2,230)
Adjustments to reconcile operating income to net cash			
provided by operating activities:			
Decrease in other assets		571	205
Decrease in interest receivable - investments		71	21
Decrease in net interest receivable - loans		1,141	1,004
Decrease (increase) in investments		11,562	(6,786)
Decrease in net loans receivable		35,135	34,152
Decrease (increase) in net debt issue costs		(202)	233
Increase (decrease) in due to U.S. Dept. of Education		(75)	558
Decrease in net due to State of Alaska		(500)	(703)
Increase in warrants outstanding		68	120
Increase in accounts payable		51	36
Decrease in arbitrage rebate payable		(496)	_
Decrease in interest payable		(1,106)	(68)
Increase (decrease) in deferred credit		142	(11)
Increase (decrease) in bonds payable		40,187	(14,637)
Decrease in loan payable to State		(49,487)	_
Decrease in other debt payable		(8,971)	(7,134)
Total adjustments	_	28,091	6,990
	\$ -	29,239	4,760
T	•	, , , , ,	
Summary of noncash capital activities that affect			
recognized assets and liabilities:			
Debt issue cost amortization and retirement	\$	377	83
Return of capital payable		(735)	40
Interest payable		1,384	1,170
Bond premium amortization		(101)	(201)

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Notes to Financial Statements

December 31, 2012 and 2011

(in thousands)

### (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 bonds and other obligations necessary to provide sufficient funds for carrying out its purpose. The State Governor appoints the Corporation's Board of Directors (Board).

The Corporation contracts with the Alaska Commission on Postsecondary Education (Commission) to service its loan portfolio and to provide staff support for the Corporation. The Commission, a component of a separate legal entity, 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 and State statutes, 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's funds are considered enterprise funds 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 Revenues and Expenses

The Corporation was created with the authority to issue bonds and other obligations in order to finance education loans to qualified borrowers. Its operating revenue is derived from interest on education loans and earnings on investments. The cost of financing and servicing education loans is considered operating activity.

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Notes to Financial Statements

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

### (d) Management Estimates

In preparing the 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.

#### (e) Loans

Loans represent education loans issued through the AlaskAdvantage Loan Program® which include Supplemental Education, Alternative Consolidation, 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 the year of origination and loan type. Interest accrues at fixed and variable rates ranging from 1.79% to 9.0% and is generally determined by loan type and year of origination.

#### (f) Interest on Loans

Interest on loans is accrued when earned. For federally guaranteed subsidized loans, interest from the disbursement date of the loan until a date that is six months after the student 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. The borrower is responsible for interest subsequent to that date.

For federally guaranteed non-subsidized loans and for all State loans (other than TEL) awarded after June 30, 2002, interest from the disbursement date is the responsibility of the borrower. For TELs awarded after June 30, 2002, interest accruing from the date the student 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 (other than FEL) 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 \$2,867 and \$3,174 at December 31, 2012 and 2011, respectively.

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

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Notes to Financial Statements

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

### (g) Allowances and Provision

The allowances represent management's estimate, based on experience, of loans, and accrued interest on loans that will ultimately be uncollectible or forgiven. The Corporation writes off State loans upon death, bankruptcy, total disability, or when payment activity ceases and the loan is no longer credit reportable. The Corporation writes off 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. A borrower of a State loan (other than TEL) awarded prior to July 1, 1987, can obtain up to 50% forgiveness of loan principal and interest if the borrower meets conditions specified by the program.

# (h) **Deferred Credit**

Borrowers of State loans originated after June 30, 1994, are subject to an origination fee at disbursement of 1%, 3% or 5%, generally determined by year of origination. Loan origination fees, recognized as a deferred credit, must be used by the Corporation to offset losses incurred as a result of death, disability, default or bankruptcy of the borrower as required by State statute. The allowance for doubtful loans has been reduced by the deferred credit balance, if any.

### (i) **Debt Issuance Costs**

Debt issuance costs include underwriters' fees and other costs incurred in connection with the issuance of debt and are amortized over the life of the debt using the straight-line method.

### (j) **Bond Premiums**

The Corporation uses the effective method of amortization to amortize bond premiums over the life of the bond. The effective method matches premium amortization with bond interest expense, maintaining a constant effective rate of interest over the life of the bonds.

#### (k) **Income Taxes**

The Corporation, as a governmental instrumentality, is exempt from federal and state income taxes.

#### (1) **Investments**

Investments are carried at fair value and trades are recorded on a trade-date basis. Securities are valued at least monthly using prices obtained from a pricing service when such prices are available; otherwise, such securities are valued at the mid-point between the bid and asked price or at prices for securities of comparable maturity, quality and type.

### (m) Unrestricted Net Assets

Unrestricted net assets represent net assets not pledged as collateral to secure payment of debt or restricted by state statute.

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Notes to Financial Statements

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

### (n) Reclassifications

Reclassifications not affecting change in net assets have been made to the 2011 financial statements to conform to the 2012 presentation.

# (3) Cash and Investments

# (a) Cash

(1) Cash summarized by classification at December 31 is shown below:

	2012		2011
Current, unrestricted	\$	584	157
Noncurrent, restricted		2,182	1,389
Total	\$	2,766	1,546

# (2) <u>Custodial Credit Risk</u>

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 December 31, 2012, the Corporation had no cash exposed to custodial credit risk.

### (b) Investments

(1) The fair value at December 31, of the Corporation's investments, by classification, is shown below:

	2012		2011
Current:			
Unrestricted	\$	3,204	2,378
Restricted		47,335	59,630
Noncurrent:			
Unrestricted		15,782	25,907
Restricted		51,496	59,443
Total	\$	117,817	147,358

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Notes to Financial Statements

#### (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, other than those restricted by State statute, are invested according to the terms outlined in their respective debt instruments which generally mandate the purchase of relatively short-term, high quality fixed income securities. Investments are managed by a contracted external investment manager, or by the State of Alaska's Department of Revenue, Treasury Division (Treasury). The following securities are eligible for investment of restricted funds under the Corporation's investment policy:

- Under the 2002 Master Indenture, the 2009 Bridge Loan Trust, the 2010 Funding Note Purchase Agreement (FNPA), and the 2012A and 2012B Master Indentures, direct general obligations of, or obligations fully and unconditionally guaranteed as to the timely payment of principal and interest by, the United States (U.S.) or any agency thereof, provided such obligations are backed by the full faith and credit of the U.S. Under the 2005 Master Indenture, direct obligations of the U.S.
- Under the 2005 Master Indenture, senior debt obligations, rated AAA by Standard and Poor's (S&P), issued by the Federal National Mortgage Association (FNMA) or the Federal Home Loan Mortgage Corporation (FHLMC), obligations of the Resolution Funding Corporation, senior debt obligations of the Federal Home Loan Bank, and senior debt obligations of any government sponsored agencies approved by the bond insurer.
- Under the 2002 Master Indenture, U.S. dollar denominated deposit accounts, federal
  funds and bankers' acceptances with domestic commercial banks which have a rating on
  their short-term certificates of deposit on the date of purchase of at least A-1+ by S&P
  and P-1 by Moody's and maturing no more than 360 days after the date of purchase.
  Under the 2005 Master Indenture, such investments are allowed if the rating from S&P is
  A-1 or better on the date of purchase.
- Under the 2002 Master Indenture, commercial paper which is rated at the time of purchase of at least A-1+ by S&P and P-1 by Moody's. Under the 2005 Master Indenture, such investments are allowed if rated A-1+ or better by S&P at the time of purchase and if the investment matures not more than 270 days after the date of purchase. Under the FNPA, such investments are allowed if rated A-1+ by S&P and F1+ or higher by Fitch at the time of purchase. Under the 2012A and 2012B Master Indentures, if rated at the time of purchase in the highest short-term rating category by each Rating Agency, and which matures not more than 270 days after the date of purchase.

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Notes to Financial Statements

#### (3) Cash and Investments (cont.)

#### (b) **Investments**

### (2) Investment Policies

- Under the 2009 Bridge Loan Trust, short-term investments with domestic commercial banks maturing not more than 365 calendar days after the date of purchase, provided, however, that such investments are unconditionally guaranteed by the US; or fully collateralized by securities which are unconditionally guaranteed by the US or that the long-term unsecured debt obligations of such depository institution or trust company at and during the term of such investment are rated at least in the second highest rating category possible.
- Under the FNPA, demand deposits, including interest-bearing money market accounts, time deposits, trust funds, trust accounts, overnight bank deposits, interest-bearing deposits and certificates of deposit or bankers acceptances of depository institutions having a long-term rating equivalent of AAA or higher by S&P and Fitch at the time of and during investment.
- Under the 2012A and 2012B Trust Indentures, interest-bearing negotiable certificates of
  deposit, interest-bearing time deposits, interest-bearing savings accounts or money
  market deposit accounts issued by or held in any commercial bank, savings and loan
  association or trust company (including the Trustee or a Credit Provider and any of their
  affiliates) whose unsecured short-term obligations are rated in Prime-1 or better by
  Moody's or A-1 or better by S&P.
- Under the 2002 Master Indenture, investments in money market funds rated AAAm or AAAm-G or better by S&P and Aaa by Moody's. Under the 2005 Master Indenture, such investments are allowed if rated AAAm or AAAm-G or better by S&P. Under the 2009 Bridge Loan Trust, such investments are allowed if rated at least "Aaa" by S&P or otherwise in the highest rating category of S&P for money market funds and at least "AA" or "F-1+" by Fitch if the money market fund has the ability to maintain a stable one dollar net asset value per share and the shares are freely transferable on a daily basis. Under the FNPA, such investments are allowed if rated in the highest investment category granted thereby from S&P and Fitch. Under the 2012A and 2012B Master Indentures, any money market fund, each rated by Moody's and S&P not lower than its highest applicable rating category.
- Under the 2002 Master Indenture, general obligations of any state or municipality with a rating of at least A by S&P and Aaa by Moody's. Under the 2005 Master Indenture, general obligations of states with a rating of A or higher by S&P.
- Under the 2012A and 2012B Master Indentures, any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local government unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and (a) which are rated, based upon an

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Notes to Financial Statements

#### (3) Cash and Investments (cont.)

#### (b) **Investments**

### (2) Investment Policies

irrevocable escrow account or fund (the "escrow"), in one of the two highest rating categories of each Rating Agency; or (b) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in item (a) above, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and which escrow is sufficient, as verified by an independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate,

- Under the 2005 Master Indenture, repurchase agreements for 30 days or less provided they are with banks, or primary dealers on the Federal Reserve reporting dealer list, rated A or better by S&P and Moody's. Under the FNPA, repurchase and reverse repurchase agreements collateralized with obligations fully and unconditionally guaranteed as to timely payment by, the U.S. government or any agency, instrumentality, or establishment of the U.S. government.
- Under the 2012A and 2012B Master Indentures, repurchase agreements, in a standard form prescribed by The Securities Industry and Financial Markets Association or similar form, contracted with banks which are members of the Federal Deposit Insurance Corporation, or with government bond dealers reporting to and trading with the Federal Reserve Bank of New York, in each case rated in the highest rating category by each Rating Agency which rates such debt, which agreements are secured by obligations which are unconditionally guaranteed by, the United States of America or any agency thereof rated in one of the two highest rating categories by each Rating Agency which rates such obligations, or book-entry interests therein.
- Under the 2002 Master Indenture, guaranteed investment contracts, investment agreements and repurchase agreements secured by collateral. Under the 2012A and 2012B Master Indentures, any investment agreement having a term of not more than 18 months with an entity having outstanding short-term debt rated at least A-1, P-1 or F1+, as applicable, or the equivalent.
- Under the 2012A and 2012B Master Indentures, shares in an investment company rated
  in the highest rating category by each Rating Agency which rates such investment
  company, and registered under the federal Investment Company Act of 1940, whose
  shares are registered under the federal Securities Act of 1933 and whose only
  investments are otherwise allowable under the Indenture.

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Notes to Financial Statements

#### (3) Cash and Investments (cont.)

#### (b) **Investments**

#### (2) Investment Policies

- Under the 2005 Master Indenture, investment agreements with a domestic or foreign bank or corporation (other than a life or property casualty insurance company) the long-term debt of which, or, in the case of a guaranteed corporation the long-term debt, or, in the case of a monoline financial guaranty insurance company, claims paying ability, of the guarantor is rated at least AA by S&P and Aa by Moody's.
- Under the 2002 Master Indenture, unsecured guaranteed investment contracts or investment agreements with any bank, bank holding company, corporation or any other financial institution meeting the following:

	Ratings			
	Commer	Commercial Paper		ong-term Debt
Maturity	S&P's	Moody's	S&P's	Moody's
12 months or less	A-1+	P-1	-	-
24 months or less	A-1+	P-1	A-	Aa3
More than 24 months	A-1+	P-1	AA-	Aa3

Contracts or agreements with an insurance company whose claims paying ability is so rated, is also allowable.

- Under the 2012A and 2012B Master Indentures, a collective investment fund of the Trustee created pursuant to Regulation 9 of the Office of the Controller of the Currency which is invested in one or more of the types of obligations in which the principal of and interest on are unconditionally guaranteed by, the United States of America or any agency thereof rated in one of the two highest rating categories by each Rating Agency which rates such obligations, or book-entry interests therein.
- Under the 2009 Bridge Loan Trust, holdings in any of the various fixed-income pools managed by Treasury.
- Under the 2002 Master Indenture, any other investment approved in writing by S&P and Moody's.
- Under the 2012A and 2012B Master Indentures, any other investment allowed by law and approved in writing in advance by a Credit Confirmation.

Unrestricted funds and funds restricted by State statute may be invested in the various fixed-income pools managed by Treasury, 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 themselves.

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Notes to Financial Statements

#### (3) Cash and Investments (cont.)

#### (b) **Investments**

### (2) Investment Policies

A complete description of the investment policy for each of the State's fixed-income investment pools is included in the <u>Department of Revenue</u>, <u>Treasury Division's</u>, <u>Policies</u> and Procedures.

In addition to the State's fixed-income investment pools, the following securities are eligible for investment of unrestricted funds and funds restricted by State statute under the Corporation's investment policy:

- 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 and issued by domestic municipalities.
- Corporate bonds and convertible securities rated "A" or better.
- Collateralized mortgage obligations originated from a federal agency.
- Collateralized investment contracts and repurchase agreements.
- Uncollateralized investment contracts as long as the investment provider's long-term rating is and remains the highest possible throughout the contract term.
- Fixed income money or mutual funds rated "A" or better.
- Certificates of deposit and term deposits of U.S. domestic financial institutions or trust
  companies which are members of the Federal Deposit Insurance Corporation as long as
  collateralized at 100% of principal and accrued unpaid interest or that the long-term
  unsecured debt obligations of such depository institution or trust company at and during
  the term of such investment are rated at least in the second highest rating category
  possible.
- Short-term domestic corporate promissory notes (commercial paper) payable in U.S. dollars as long as the provider's short-term rating is of the highest rating possible throughout the investment term.

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Notes to Financial Statements

# (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, diversifying the investment portfolio, and pre-qualifying firms with which the Corporation administers its investment activities.

The fair value of the Corporation's investments by type and credit quality ratings, using S&P's rating scale without modifiers, at December 31 is shown below:

Investment Type	Ratings	2012	2011
U.S. government agencies	AA	43,663	-
U.S. government agencies	Not Rated	-	73,327
Corporate bonds	AA	1,617	3,373
Corporate bonds	A	4,216	5,185
Corporate bonds	BBB	-	370
Fixed income mutual funds	Not Rated	-	2,572
Money market funds	AAA	50,289	6,847
Money market deposit account	Not Rated	-	30,468
Guaranteed investment contracts	Not Rated	1,000	7,481
Internal investment pools	Next schedule	14,305	8,599
U.S. treasury securites	No credit exposure	2,727	9,136
		\$ 117,817	147,358

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Notes to Financial Statements

### (3) Cash and Investments (cont.)

#### (b) **Investments**

### (3) Credit Risk

Treasury's investment policy for the State's internal investment pools has the following limitations with regard to credit risk.

Short-term Fixed Income Pool investments are limited to instruments with a long-term credit rating of at least A3 or equivalent and instruments with a short-term credit rating of at least P-1 or equivalent. Asset-backed and non-agency mortgage securities are limited to those rated A3 or equivalent. The A3 rating is defined as the median rating of the following three rating agencies: S&P, Moody's and Fitch.

Intermediate-term Fixed Income Pool investments are limited to securities with a long-term credit rating of at least Baa3 or equivalent and securities with a short-term credit rating of at least P-1 or equivalent. Asset-backed and non-agency mortgage securities must be investment grade. Investment grade is defined as the median rating of the three rating agencies previously mentioned.

Asset-backed and non-agency mortgage securities may be purchased by either pool if rated AAA or equivalent by one of the rating agencies previously mentioned.

The Corporation invests in the State's internally managed Intermediate-term Fixed Income Pool, the Short-term Liquidity Fixed Income Pool and the General Fund and Other Non Segregated Investments Pool (GeFONSI). The Intermediate-term Fixed Income Pool and the Short-term Fixed Income Pool together represent Short-term investments. GeFONSI consists of investments in the State's internally managed Short-term and Intermediate-term Fixed Income Pools.

(a Component Unit of the State of Alaska)

Notes to Financial Statements

# (3) Cash and Investments (cont.)

# (b) Investments

# (3) Credit Risk

The fair value of the Corporation's share of the State's internal investment pools by type and credit quality ratings were not available at December 31. Credit quality ratings for the Corporation's share of such pools, using S&P's rating scale without modifiers, at June 30 are as shown below:

as shown below.			Intermediate-	Tot	als
Investment Type	Rating	Short-term	term	2012	2011
Commercial paper	A-1 \$	-			207
Commercial paper	Not rated	162	2	164	36
U.S. government agency	AAA	-	-	-	257
U.S. government agency	AA	57	125	182	-
U.S. government agency	A	-	2	2	-
U.S. gov. agency discount notes	Not rated	-	-	-	84
Mortgage-backed	AAA	22	46	68	171
Mortgage-backed	AA	-	34	34	3
Mortgage-backed	BBB	-	-	-	1
Mortgage-backed	CCC	-	1	1	-
Mortgage-backed	Not rated	18	16	34	12
Other asset-backed	AAA	1,273	7	1,280	969
Other asset-backed	AA	92	-	92	-
Other asset-backed	A	4	-	4	2
Other asset-backed	CCC	-	-	-	1
Other asset-backed	Not rated	307	3	310	108
Overnight sweep account	Not rated	-	-	-	27
Corporate bonds	AAA	-	20	20	1,161
Corporate bonds	AA	240	229	469	90
Corporate bonds	A	175	107	282	238
Corporate bonds	BBB	-	37	37	62
Corporate bonds	Not rated	17	2	19	173
Yankees:					
Government	AA	-	15	15	29
Government	Not rated	-	1	1	2
Corporate	AAA	-	-	-	43
Corporate	AA	69	-	69	60
Corporate	A	30	-	30	21
Corporate	BBB	-	-	-	10
Corporate	Not rated	-	-	-	2
No credit exposure:					
U.S. treasury notes		-	1,742	1,742	3,085
U.S. treasury bills		2,916	210	3,126	478
U.S. treasury strip		-	2	2	3
Pool related net assets	_	19		19	85
Total	\$	5,401	2,601	8,002	7,420

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Notes to Financial Statements

#### (3) Cash and Investments (cont.)

#### (b) **Investments**

### (4) Concentration Risk

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

For investment contracts, the investment providers will be limited to providing investments to the lesser of \$50,000 or 5% of total investments at the time the investment is made. These diversification standards are not applicable to contracts with 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 are also unconditionally guaranteed as to the timely payment of principal and interest by the U.S.

Investment Holdings Greater than Five Percent of Total Investments

An allocation of investment holdings by security in the State's internal investment pools was not available at December 31, 2012; therefore, investment holdings greater than five percent of total investments could not be determined. At June 30, 2012, the Corporation had investment balances greater than five percent of the Corporation's total investments with the following investment providers:

		Percent of Total
	Fair Value	Investments
Federated Investors, Inc	\$ 41,023	31.67
Federal National Mortgage Association	28,856	22.28
Federal Home Loan Mortgage Corporation	19,266	14.88
FSA Management Services, LLC	6,688	5.16

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Notes to Financial Statements

#### (3) Cash and Investments (cont.)

#### (b) **Investments**

### (5) Interest Rate Risk

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 management contractor uses industry-standard analytical software developed by CMS Bond Edge and Treasury uses industry-standard analytical software developed by The Yield Book Inc. 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.

At December 31, 2012, the weighted average modified duration of investments, other than investments in the State's internal investment pools, is shown below:

U.S. Govt agency mortgage-backed securities	1.68
Corporate securities	0.51
Guaranteed investment contracts	0.14
U.S. Treasury securities	0.14
Portfolio modified duration	2.47

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

Through its investment policy, Treasury manages exposure to fair value losses arising from increasing interest rates by limiting the effective duration of its Intermediate-term Fixed Income Pool to  $\pm$  20% of the Merrill Lynch 1-5 year Government Bond Index. The effective duration of the Intermediate-term Fixed Income Pool was not available at December 31, 2011. At June 30, 2012 the effective duration for the Merrill Lynch 1-5 year Government Bond Index was 2.66 years.

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Notes to Financial Statements

#### (3) Cash and Investments (cont.)

### (b) Investments

### (5) Interest Rate Risk

The Intermediate-term Fixed Income Pool's effective duration by investment type was not available at December 31. At June 30, 2012, the Intermediate-term Fixed Income Pool's effective duration, by investment type, follows:

Commercial paper	0.26
U.S. government agency	1.24
Mortgage-backed	1.28
Other asset-backed	2.43
Corporate bonds	1.62
Yankees:	
Government	1.72
Corporate	2.63
U.S. treasury notes	2.78
U.S. treasury bills	0.30
U.S. treasury strip	5.26
Portfolio effective duration	2.23

As a means of limiting the Short-term Fixed Income Pool's exposure to fair value losses arising from increasing interest rates, Treasury's investment policy limits individual fixed rate securities to fourteen months in maturity or fourteen months expected average life at purchase. Floating rate securities are limited to three years in maturity or three years expected average life at purchase. Treasury utilizes the actual maturity date for commercial paper and twelve-month prepay speeds for other securities. The expected average life of fixed rate securities held in the short-term Fixed Income Pool was not available at December 31, 2012. At June 30, 2012, the expected average life of fixed rate securities held in the Short-term Fixed Income Pool ranged from one day to one year and the expected life of floating rate securities ranged from eight days to fourteen years.

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Notes to Financial Statements

# (3) Cash and Investments (cont.)

(c) Cash and investments include amounts specifically designated for financing education loans at December 31, as follows:

	 2012	2011
Noncurrent:	 	
Unrestricted	\$ 2,358	3,086
Restricted	8	326
Total	\$ 2,366	3,412

# (4) Loans Receivable

(a) The loan portfolio summarized by classification at December 31 is shown below:

	2012					
_ _	State	Federal	Total	State	Federal	Total
Current, unrestricted \$ Noncurrent:	8,609	-	8,609	10,254	265	10,519
Unrestricted	70,789	-	70,789	90,653	4,023	94,676
Restricted	338,256	148,543	486,799	361,821	170,952	532,773
Total, gross \$	417,654	148,543	566,197	462,728	175,240	637,968
Allowance for doubtful lo Allowance for principal f Total allowance Loans, net		\$	103,271 1,901 105,172 461,025			109,236 1,847 111,083 526,885
Current		\$	8,609			10,519
Noncurrent			45,063			54,042
Restricted Noncurrent			407,353			462,324
Total, net		\$	461,025			526,885

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Notes to Financial Statements

# (4) Loans receivable (cont.)

(b) Loans are financed by the issuance of tax-exempt revenue bonds, recycled loan payments, and proceeds from a State-funded loan. The loan portfolio summarized by program at December 31, follows:

	2012	2011
State Loans	\$ 	
Supplemental Education	351,981	385,381
Consolidation	55,305	65,839
Teacher Education	7,232	7,603
Family Education	 3,136	3,905
Total State Loans	 417,654	462,728
Federal Family Education Loans		
Stafford	124,919	147,444
PLUS	5,143	6,731
Consolidation	 18,481	21,065
Total Federal Loans	148,543	175,240
Total	\$ 566,197	637,968

(c) The loan portfolio summarized by status at December 31, follows:

		2012		20	11
		State	Federal	State	Federal
- "	Φ.				
Enrollment	\$	25,433	14,264	37,398	26,975
Grace		4,419	2,855	5,304	4,427
Repayment		339,536	91,140	362,299	100,339
Deferment		46,872	23,847	55,727	26,587
Forbearance		1,394	16,437	2,000	16,912
Total	\$	417,654	148,543	462,728	175,240

(d) Included in loans receivable are \$137 and \$142 of loan warrants issued but not redeemed at December 31, 2012 and 2011, respectively. Redemption is contingent upon the borrower meeting certain eligibility requirements.

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# Notes to Financial Statements

# (4) Loans receivable (cont.)

# (e) Loans awarded not disbursed at December 31, are as follows:

	_	2012	2011
State Loans	_		
Supplemental Education	\$	1,972	3,016
Teacher Education		232	212
Family Education		162	184
Total State Loans	\$	2,366	3,412

# (5) Allowances and Provision

A summary of activity in the allowances at December 31 follows:

	_	2012	2011
Balance at beginning of period Provision	\$	126,217 2,756	126,767 8,643
Balances charged off	_	(927)	(780)
Balance at end of period	\$	128,046	134,630

	2012	2011
A11.	102 271	100 226
Allowance for doubtful loans \$	103,271	109,236
Allowance for principal forgiveness	1,901	1,847
Allowance for doubtful interest	22,501	23,237
Allowance for interest forgiveness	373	310
\$	128,046	134,630

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# Notes to Financial Statements

# (6) Bonds Payable

# (a) Bonds payable at December 31 consist of the following:

			Amount Ou	ıtstanding
	Type	Original Amount	2012	2011
2002 Master Indenture, Education Loan:				
2003: Series A-1, due 2013 to 2016	Auction	16,500	-	4,900
Series A-2, due 2038	Auction	30,500	_	30,300
2004: Series A-1, due 2044	Auction	45,500	-	27,100
Serial bonds, Series A-3, rates				
ranging from 5.0% to 5.25%,				
due 2013 to 2017	Fixed	22,015	8,710	15,730
2005: Serial bonds, Series A,				
rate 5%, due 2013 to 2018	Fixed	58,250	35,250	41,750
2006: Series A-1, due 2040	Auction	30,000	-	19,700
Serial bonds, Series A-2, rate				
5.0%, due 2013 to 2018	Fixed	55,000	37,500	43,000
2007: Series A-1, due 2042	Auction	41,500	-	28,500
Serial bonds, Series A-2, rate				
5.0%, due 2013 to 2019	Fixed	18,500	15,500	17,000
Serial bonds, Series A-3, rate			16,000	23,000
5.0%, due 2013 to 2014	Fixed	49,000		
Sub-total		366,765	112,960	250,980

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# Notes to Financial Statements

# (6) Bonds Payable (cont.)

# (a) Bonds payable at December 31 consist of the following:

		Amount ou	tstanding
Туре	Original Amount	2012	2011
roject			
J			
Fixed	69,910	-	23,065
Fixed	5,230		5,230
	75,140		28,295
jects			
•			
Fixed	88,305	14,250	23,000
Variable	53,120	53,120	
Variable	78,435	78,435	-
Variable	15,000	15,000	-
	02.425	02.425	
			302,275
4	070,703	•	3,139
	9		305,414
	4	210,000	303,114
	\$	32,650	45,985
		243,049	259,429
	9	275,699	305,414
	Fixed Fixed  Fixed  jects 6 to 5.5%, Fixed  Variable  Variable  Variable	Type Amount  Project  Fixed 69,910 Fixed 5,230 75,140  jects 6 to 5.5%, Fixed 88,305  Variable 78,435  Variable 15,000  \$\frac{93,435}{676,765}\$	Type Amount 2012  Fixed 69,910 - Fixed 5,230 - 75,140 -  jects 6 to 5.5%, Fixed 88,305 14,250  Variable 78,435 78,435  Variable 15,000 15,000  \$\frac{93,435}{676,765} \frac{93,435}{273,765} \frac{1,934}{275,699}  \$\frac{32,650}{243,049}

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Notes to Financial Statements

### (6) Bonds Payable (cont.)

(b) The minimum payments and sinking fund installments for the five years subsequent to December 31, 2012, and thereafter are as follows:

Period Ending December 31		Principal	Interest	Total
2013	\$	32,650	5,998	38,648
2014		32,365	4,394	36,759
2015		15,500	3,106	18,606
2016		17,450	2,280	19,730
2017		14,995	1,466	16,461
2018-2022		14,250	2,275	16,525
2023-2027		-	1,894	1,894
2028-2032		-	1,894	1,894
2033-2037		-	1,894	1,894
2038-2042		-	1,893	1,893
2043-2044	_	146,555	629	147,184
Total	\$	273,765	27,723	301,488

(c) Each Master Indenture represents a limited obligation trust which secures payment for the outstanding revenue bonds issued therein. The bonds are payable from assets pledged to the respective trust including principal and interest payments on pledged loans. The bonds do not constitute general obligations of the Corporation or of the State. The 2002, 2012A and 2012B Master Indenture Bonds are private activity revenue bonds. The 2005 Master Indenture Bonds are governmental purpose revenue bonds. Debt service payments are due as follows:

Master Indenture	Principal	Interest	
2002	June 1	June 1 and December 1	
2005	July 1 and January 1	July 1 and January 1	
2012A	Varies	June 1 and December 1	
2012B	Varies	June 1 and December 1	

The bond indentures contain covenants relative to restrictions on additional indebtedness.

The 2005 State Projects Revenue Bonds are insured by Assured Guaranty Municipal (formally Financial Security Assurance, Inc).

(d) The Corporation redeemed \$57,800 of its outstanding auction rate securities at par on September 18, 2012 and \$48,200 of its outstanding auction rate securities at par on October 10, 2012 with proceeds from the 2012 bond issues.

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Notes to Financial Statements

### (7) Other Debt Payable

(a) On July 17, 2009, the Corporation entered into a Trust and Loan Agreement with the State's Department of Revenue (acting on behalf of the State). The Loan Agreement provides up to \$100 million to the Corporation for the purpose of financing education loans. The loan is a four-year bullet loan, accruing interest on the outstanding principal balance using a variable rate of interest equal to the most current rolling five-year average return on the State's general fund. The interest rate is reset annually and was 3.34% and 4.16% for the six-month periods ending December 31, 2012 and 2011, respectively. Interest is payable semi-annually in January and July. The loan is a limited obligation secured by pledged assets. The Corporation has the right to prepay the loan, in whole or in part, at any time, without penalty or premium.

The Trust Agreement was entered into to secure payment of the loan. Loan proceeds drawn are deposited in the trust until education loans are originated. Education loans originated with loan proceeds, payments received on those loans, and earnings on pledged assets are all pledged to the trust.

Loan payable was \$18,013 and \$67,500 at December 31, 2012 and 2011.

(b) The Corporation refinanced \$118.8 million in Federal Family Education Loan Program (FFELP) loans through participation in the Asset-Backed Commercial Paper Conduit Put Program (Program) authorized by the HEA, as amended by the Ensuring Continued Access to Student Loans Act of 2008. To participate in the Program, the Corporation entered into a variable Funding Note Purchase Agreement (FNPA) dated June 9, 2010, with Straight-A Funding, LLC, who, on June 29, 2010, purchased the variable funding note at 97% of loans pledged.

The FNPA represents a limited obligation secured by pledged loans and other pledged assets, including principal and interest payments on pledged loans. Principal payments will be made from pledged assets as needed to maintain the required asset coverage ratio with the final payment due no later than November 19, 2013. The Corporation has the right to prepay the balance, in whole or in part, at any time, without penalty or premium.

Program financing costs, which include costs associated with commercial paper issued for the Program by Straight-A Funding, LLC, and other Program costs such as liquidity fees, administrative fees, managerial fees and put option fees, are allocated to Program participants monthly based on the participant's prorata share of total FNPA balances at month end. Program financing costs are paid monthly from pledged assets. Financing costs paid by the Corporation was approximately 0.76% and 0.74% of the Corporation's average FNPA balance outstanding for the six-month periods ending December 2012 and 2011, respectively.

The FNPA balance was \$81,885 and \$97,972 at December 31, 2012 and 2011, respectively.

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Notes to Financial Statements

#### (8) Debt Issue Cost

A summary of debt issue cost activity at December 31 follows:

	_	2012	2011
Balance at beginning of period	\$	2,031	2,564
Additions		978	-
Retirements		(963)	(97)
Amortization	_	(190)	(219)
Balance at end of period	\$	1,856	2,248

#### (9) Bond Defeasance

On November 19, 2012 the Corporation legally defeased \$20,980 in bonds representing those outstanding under the 2004 Master Indenture. Cash in the amount of \$21,990 was used to purchase State and Local Government Securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased bonds. As a result, the escrow account investments and the defeased bonds are not recorded on the Corporation's balance sheet. The Corporation defeased the bonds to reduce its total debt service payments over the next 6 years by \$1,192 and to have loans released from the 2004 Master Indenture.

# (10) 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. Education loans not financed by but pledged to secure tax-exempt bonds issued by the Corporation are subject to interest rate yield restrictions of no more than the bond yield. Earnings on non-loan investments pledged to bond indentures are subject to rebate provisions or restricted to the related bond yield. These restrictions are in effect over the lives of the bonds. As required by the Internal Revenue Service (IRS), the Corporation calculates and analyzes loan yields every ten years or earlier if necessitated by calling, cancelling or defeasing bonds. Investment yields are calculated and analyzed annually. These analyses are used to determine both compliance with IRS provisions and the arbitrage rebate liability. The amount accrued for arbitrage rebate liability represents the amount due to the IRS for earnings in excess of allowable yields.

The amount recorded as arbitrage rebate receivable represents amounts paid to the IRS in past years that has become refundable due to cumulative earnings no longer being in excess of those allowable.

# (11) Federal Family Education Loan Program

Beginning with fiscal year 2003, the AlaskAdvantage program offerings expanded to include loans governed by the Higher Education Act (HEA), specifically federally guaranteed Stafford (subsidized and unsubsidized), PLUS and Consolidation (subsidized and unsubsidized) loans. To accommodate the Federal Family Education Loan Program (FFELP), the Corporation secured the status of "eligible lender" and entered into various agreements with Northwest Education Loan Association (NELA), which serves as the "eligible" guarantor. The lender-based FFELP was eliminated effective July 1, 2010, with the passage of the *Health Care and Education Affordability Reconciliation Act*. Therefore, fiscal year 2010 was the last year of FFELP loan originations for the Corporation.

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Notes to Financial Statements

### (11) Federal Family Education Loan Program (cont.)

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 HEA.

Claim payments are received from the guarantor when a borrower dies, becomes totally and permanently disabled or defaults on their loan. The lender is eligible for these payments provided they adhere to 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 first originated prior to July 1, 2006 and 97% if 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 rates through the quarter ended March 31, 2012 were calculated quarterly based on the quarter's daily average three-month commercial paper rate (CPR) as established by the Department 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. Beginning with the quarter ended June 30, 2012 the Corporation elected to change the index used for calculating special allowance from the three-month CPR to the one-month London Interbank Offered Rate (LIBOR). 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.

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

A rebate fee, equal to 0.0875% of the unpaid principal and interest on Consolidation loans, is paid monthly to the Department.

### (12) Subsequent Event

- (a) The Corporation received notification from the Internal Revenue Service that its Education Loan Revenue Bonds have been selected for examination. The Corporation cannot predict the outcome of the examination.
- (b) On March 28, 2013 the Corporation issued \$144,730 of Taxable Education Loan Backed Notes, Series 2013A, to retire the debt associated with the Funding Note Purchase Agreement and to refinance the 2012A and 2012B-2 bonds. The notes are floating rate notes bearing interest at an annual rate equal to one-month LIBOR plus 0.50%. Interest and principal is payable monthly until the final maturity date of August 25, 2031, commencing May 28, 2013. Principal and interest on the notes are supported by a discrete trust estate.

#### (13) Commitments and Contingencies

### (a) **Operations**

The Corporation will fund approximately \$6,861 of the Commission's fiscal year 2013 operating budget for loan servicing and staff support. In addition, the Corporation will fund expenditures related to the Commission's fiscal year 2012 operating and capital project budgets of approximately \$337. The Commission's budget is subject to review and approval from both the

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Notes to Financial Statements

### (13) Commitments and Contingencies (cont.)

#### (a) **Operations**

executive and legislative branches of the State. Amounts funded by the Corporation will be 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 annually based on net income. If the Board elects to make such a payment, the amount may not be less than 10%, or greater than 35%, of the Corporation's income before transfers 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 5, 2012 and November 29, 2011, the Board chose not to return capital, based on net income, to the State in fiscal year 2014 and 2013, respectively.

As an additional means of returning capital, State statutes allow the Corporation to issue bonds to finance State capital projects. No bonds have been issued since 2005 for this purpose. In fiscal years 2005 and 2004, the Corporation issued \$163,445 of capital project bonds to finance State capital projects. In addition earnings on 2004 capital project bond proceeds of \$4.5 was used to finance State capital projects as required by the related bond documents. The Corporation reimburses the State for expenditures related to projects funded with Corporation capital project bond proceeds and related earnings. Restricted investments include amounts specifically designated for financing State capital projects totaling \$4,425 and \$7,340 at December 31, 2012 and 2011, respectively.

### (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 \$2,398 and \$3,304 for the years ended December 31, 2012 and 2011, respectively.

### (d) Legislation

The State education loan program has traditionally been the subject of legislative action by the State. The laws governing the program 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 State program cannot be determined.

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Notes to Financial Statements

# (13) Commitments and Contingencies (cont.)

### (e) Non Investment Interest Rate Risk

The Corporation is subject to interest rate risk relating to its variable rate bonds and variable rate loans. The bonds are subject to an interest rate cap of 12% while the loans are subject to an interest rate cap of 8.25% to 9.00% depending on loan type. The Corporation has various strategies available to manage the risk that the bond rate may rise above the loan rate.