Alaska Commission on Postsecondary Education

Alaska Commission on Postsecondary Education

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MEMORANDUM

TO: Members, Alaska Commission on Postsecondary Education
THROUGH: Diane Barrans, Executive Director
FROM: Charlene Morrison, Chief Finance Officer CM
DATE: October 9, 2014
SUBJECT: Finance Report

FY15 Operating Budget – Management Plan

Following is a summary of the Commission's FY2015 operating budget request. A few changes have been made to this budget since the Commission last met.

Budget Line		ASLC Receipts	Federal Funds	Designated Funds	AK Higher Education Investment Fund	General Fund	Inter-Agency	Total
Personal Services	$	8,916.8	1,310.3	-	-	-	788.3	11,015.4
Travel		117.7	-	-	-	-	-	117.7
Contractual		4,131.8	676.8	100.0	82.8	-	621.2	5,612.6
Supplies		108.2	-	-	-	-	-	108.2
Grants		-	-	-	5,500.0	-	-	5,500.0
APS		-	-	-	11,000.0	-	-	11,000.0
WWAMI		-	-	-	-	2,964.8	-	2,964.8
Total	$	13,274.5	1,987.1	100.0	16,582.8	2,964.8	1,409.5	36,318.7
Positions		83.36	16.74	-	-	-	5.90	106.00

The management plan process allows budgets to be adjusted for information not available when the budget was developed some nine months prior to the start of the fiscal year. The adjustments reflected above realigned budget authority for personal service cost changes not anticipated when the original budget was developed. Positions expected to be utilized by the program funded with federal funds (Challenge Grant) grew by 1.74 positions, positions expected to be utilized by the program funded with inter-agency receipts (ANSWERS) grew by 1.90 positions. These positions were transferred from programs funded by ASLC receipts resulting in a reduction of 3.64 positions for that funding source. These changes reflect a shift in funding allocation for positions. Total positions at the agency level have not changed.

Budget authority was transferred from the contractual line to the personal services line to realign budget authority.

Capital Budget

As previously noted in my July report, a $460,000 capital project was funded by the AK Higher Education Investment Fund and will be used to replace the current grant and student aid management system. Replacing this system will reduce long-term costs, improve functionality and ensure on-going system stability.

Alaska Student Loan Corporation Update

Next Board meeting

The Corporation's next board meeting is scheduled to be held November 5th at 9 a.m. The meeting will originate from the Commission's Juneau offices with a bridge number for those interested in calling in.

IRS Tax Exempt Bond Compliance Examination Update

Management continues to cooperate with the IRS and has submitted all information requested to date. Bond counsel has reported that all issues have been resolved except for the one related to the accounting method used for recycled loan payments. Management has declined the opportunity to enter into settlement discussions with the IRS because nothing has been provided in writing to support the IRS' concern that there are compliance issues. Management maintains that methods used in rebate calculations are in full compliance with IRS regulations. The next step is for the IRS to document their position with regard to non-compliance. Once that is in hand, the Corporation will work with bond counsel to submit a response.

Loan funding update

The Corporation is in the position to fund loan demand for the current academic year. Management is working with the Corporation's financial advisor to further refine estimates to determine if external funding is needed for the 2015/2016 academic year and to explore options related to funding loan demand in the future.

If you have any questions or wish to discuss this report further, please do not hesitate to call me at 907-465-6757 or email me at Charlene.morrison@alaska.gov.

THE STATE of ALASKA
GOVERNOR SEAN PARNELL

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To: Alaska Student Loan Corporation Members
Thru: Diane Barrans, Executive Officer
From: Charlene Morrison, Chief Finance Officer CM
Date: October 8, 2014
Re: Annual Financial Reports

The Alaska Student Loan Corporation's (Corporation) annual financial reports for the year ended June 30, 2014 have been finalized and audited. While discussion of the reports will be an agenda item at the upcoming November board meeting, at the request of Chair Weaver we are distributing to members in advance.

Reports included herein:

Management's Discussion and Analysis and Financial Statements;
Expenditures of Federal Awards Reports; and,
Letter to the Board.

Management's Discussion and Analysis and Financial Statements

Page 14 of the Financial Statements reflect the Corporation's change in net position (net income) of $3,510,000 for the year ended June 30, 2014 and a negative change in net position (net loss) of $227,000 for the year ended June 30, 2013. Following is a brief summary of items that contributed to the increase in net income between years.

Net income is the difference between revenue and expense for the year. As with the situation in fiscal year 2013, revenues continued to decline less than expenses. Operating revenues declined $3 million and operating expenses declined $6 million ($4 million without the impact of debt issue costs).

Operating revenue consists of interest on education loans and earnings on investments. The reduction in the two portfolios themselves caused the related reduction in revenues.

The net education loan portfolio decreased 13% in fiscal year 2014. The average return on gross loans, prior to the adjustment for the yield restriction liability, was 4.3% in both fiscal years 2014 and 2013. The increase ($202,700) in the yield restriction liability also contributed to the decrease in education loan revenue in fiscal year 2014.

The investment portfolio decreased 12.6%. The average return on investments was 0.5% in both fiscal years 2014 and 2013.

Operating expense declined due to the reduction in: debt-related interest expense, the provision for loan losses, and debt issue costs.

The decline in interest expense is related to lower debt rates in fiscal year 2014 as well as a reduction of approximately $70.7 million in debt outstanding. The average rate on outstanding debt was 1.75% and 2.18% for fiscal years ending June 30, 2014 and 2013, respectively.

The provision represents the current year change in estimated loan principal losses and interest losses on that principal. The provision related to principal loan losses decreased $1.7 million in fiscal year 2014 due to the fact that the most recent loan cohort (loans grouped relative to the year they first entered repayment) to be included in the calculation had lower loss rates than prior loan cohorts already in the calculation. Interest continues to accrue on doubtful loans until they are written off or until the borrower begins to make payments which results in removal of the loan from the doubtful category. The interest loss provision decreased $231,000 in fiscal year 2014 because less interest accrued on loans in the doubtful loan category then in the previous year.

In fiscal year 2014, a new accounting standard was implemented retroactively restating all prior periods presented. The second paragraph of footnote 2(b) discloses the impact of the restatement. In addition, specific lines impacted on the various statements have been labeled "restated" to clearly identify amounts that differ from last year's presentation. Prior to the implementation of the new accounting standard, debt issue costs were capitalized and amortized (expensed) over the life of the related debt. The new accounting standard required the Corporation to expense debt issue costs not amortized at June 30, 2012 and expense debt issue costs incurred in subsequent fiscal years. In fiscal year 2013, the Corporation issued both the 2012 and 2013 bonds. The expense disclosed in the 2013 column on page 14 represents the debt issue costs incurred in fiscal year 2013. The Corporation did not issue debt in fiscal year 2014 resulting in a decline in debt issue cost expenses.

Non-operating revenue consists of federal direct loan servicing fees. This revenue declined in fiscal year 2014 due to the reduction in the federal direct loan portfolio allocated to the Corporation for servicing. This reduction was the result of normal runoff on the existing portfolio and the fact that additional federal direct loans have not been allocated to the portfolio since March 2013.

Non-operating expense declined again in fiscal year 2014 due to the reduction in debt-related interest expense as a result of the reduction of debt outstanding during the year. This trend will continue through fiscal year 2015 when the final debt service payment is made on non-operating debt.

The balance sheet, reflecting asset and liability balances, at June 30 is on pages 12 and 13, respectively.

The fiscal year 2014 decrease in current assets is due to the overall decrease in current investments. This decrease is due to investments needed to pay debt service in fiscal year 2015 being lower than in fiscal year 2014.

The decrease in noncurrent assets is due to the overall decrease in noncurrent loans receivable. The noncurrent loans receivable balance is declining because principal payments continue to be greater than loan originations and capitalized interest. This decrease is offset by an increase in noncurrent investments. The increase in the noncurrent investment balance is due to fewer investments being classified as current.

The fiscal year 2014 decrease in current liabilities is a result of:

the due to the U.S. Department of Education balance representing one quarter of activity at June 30, 2014 and two quarters at June 30, 2013;

the return of capital payable balance declining as state agency projects, funded with the Corporation's capital project bond proceeds, near completion; and

the reduction in current bonds payable.

The fiscal year 2014 decline in noncurrent liabilities is due to the reduction in noncurrent bonds payable. No new bonds have been issued by the Corporation and existing debt service payments are being made as scheduled.

Unrestricted net position declined because administrative expenses exceeded unrestricted assets generated for such expenditure in fiscal year 2014. Administrative expenses are funded by draws on the Corporation's trusts, direct loan servicing fees and unrestricted investments. Unrestricted investments include loan payments received on the non-pledged loan portfolio. The decline in unrestricted net position in fiscal year 2014 (4.9%) was less than the decline in fiscal year 2013 (7.8%) because the non-pledged loan portfolio is growing.

Restricted net position increased due to the reduction in debt exceeding the reduction in restricted loans receivable and investments.

Last but not least, I bring your attention to footnote 9(a) on page 38. This footnote has changed little from last year. As discussed at the last several board meetings, in January 2013 the IRS placed the Corporation's tax-exempt education loan revenue bonds under examination. The last written communication from the IRS to the Corporation was a letter dated July 11, 2013 indicating that the tax-exempt bonds are in violation of tax law. The letter did not contain any detail regarding the legal basis for that determination of violation, but we understand from verbal comments made by the IRS agent to ASLC counsel that they believe the issue is with principal and interest payments on loans made with bond proceeds being recycled into new loans (recycled loans) and the process by which the recycled loan pool is allocated to bond issues for yield restriction calculation purposes. On July 31, 2013 the Corporation responded to the IRS with a letter citing the applicable tax regulation authorizing the allocation method used by the Corporation and requesting the IRS withdraw the conclusion in their July 11, 2013 letter. Management worked with bond counsel and its rebate consultant in drafting this response. Bond counsel has had several conversations with the IRS agent in the last year. In addition, the Corporation has supplied additional information requested by the IRS agent in a timely manner. The Corporation anticipates receiving a formal letter from the IRS citing the applicable tax regulations supporting their assertion of the Corporation's non-compliance. Once that letter is in hand, the Corporation will work with bond counsel to determine next steps.

Expenditures of Federal Awards Reports

The second item enclosed is a special report required under OMB Circular A-133 because of the federal government's guarantee of the Corporation Federal Family Education Loan (FFEL) portfolio. Page six of the report outlines the impact on the Corporation's revenues related to payments made to or received from the federal government for FFEL.

Special allowance is either paid to or received from the federal government depending on the relationship between a prescribed market index and the yield on federal loans. In fiscal year 2014, the yield on federal loans was higher than the market index, so the Corporation made "excess" interest payments to the federal government. This has been the situation since fiscal year 2009.

Federal interest benefits represent subsidized interest the federal government paid the Corporation for borrowers of federally subsidized loans.

The net $4.1 million paid to the federal government is recorded as a reduction in Interest – loans, net on the Corporation's Statements of Revenue, Expenses, and Changes in Net Position (income statement).

The bottom of page seven reflects the amount of claim payments received ($6.5 million) on non-performing federal loans in fiscal year 2014 as well as the amount of the Corporation's federal loans ($122.3 million) guaranteed by the federal government.

Letter to the Board

This letter is a required communication between the external auditor and the board. It is designed to communicate information about the auditor's responsibilities under generally accepted auditing standards, Government Auditing Standards and OMB Circular A-133, as well as information related to the scope and timing of their audit.

If you have any questions or wish to discuss any of these reports, please don't hesitate to give me a call at 907-465-6757.

Thank you

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

Management's Discussion and Analysis and
Financial Statements

June 30, 2014 and 2013

Together with Independent Auditor's Report

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

June 30, 2014 and 2013

Table of Contents

ALASKA STUDENT LOAN CORPORATION
(a Component Unit of the State of Alaska)
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, 2014 and 2013 is being presented to assist readers in understanding the Corporation's structure, activities and significant financial issues. Fiscal year 2012 information is shown for comparative purposes.

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

History

The State of Alaska (State) Legislature 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 by an act of the State Legislature. The Commission was created 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 Alaska Student Loan Corporation (ASLC or Corporation) was created in 1987 by an act of the State Legislature. The Corporation is 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 the loan programs. In April of 1988, by an act of the State Legislature, the assets, liabilities, and equities of the State's existing education loan programs were transferred to the Corporation effective December 1987. Loan originations are currently funded by recycling non-pledged loan payments.

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 education loans. Additional information is available at http://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. The loan program includes both fixed and variable rate loans.

The Program was structured to provide eligible borrowers with low-cost financial aid options. It encourages students to take advantage of federal aid resources to maximize their grant and lowest cost loan options prior to tapping into alternative loan 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.
- Loan portfolio by type is as follows:

Fiscal Year and Loan Type	Net loans as a percentage of total loans
2014	
State	68
Federal	32
2013	
State	68
Federal	32
2012	
State	67
Federal	33

- Loans are pledged to various trusts or held by the Corporation free and clear (non-pledged) as follows:

	Principal balance, gross			Principal balance as a percentage of
	State	Federal	Total	total
2002 Trust	$ 164,405	-	164,405	35
2005 Trust	25,542	-	25,542	6
2012B Trust	81,148	-	81,148	17
2013A Trust	-	122,273	122,273	26
Non-pledged	73,078	-	73,078	16
Total	$ 344,173	122,273	466,446	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	$ 35,976	10
Good payment history	43,801	13
Credit ready	216,704	63
No credit criteria	47,692	14
Total	$ 344,173	100

FICO score requirements were implemented on all Alaska Supplemental Education Loans first disbursed on or after July 1, 2009. The borrower or a co-signor must have the qualifying FICO score at the time the loan is awarded.

All State Consolidated 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 education loan revenue bonds, for the purpose of financing new education loans, in June 2007 and has used non-pledged assets and proceeds from a State loan to finance education loans through June 30, 2014. Annual loan volume is anticipated to continue to be between $6 and $10 million. Absent significant increases in operating costs or material changes in the loan program, the Corporation is in the position to meet anticipated loan demand with non-pledged assets through fiscal year 2015. Thereafter, management anticipates using equity in the 2002 Trust or issuing debt to meet loan demand.

- The LOC supporting the 2012B-1 bonds has been extended to September 1, 2016.

- Trust-related reports are available at: http://acpe.alaska.gov/Home/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. Under the accrual method of accounting, the same method used by private sector businesses, revenues are recognized when earned and expenses when incurred. The three basic financial statements of the Corporation are as follows:

Balance Sheets – 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 may 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 Balance Sheets. 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.

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

Financial Analysis

- The Corporation's total assets at June 30, 2014, 2013, and 2012 were $0.5, $0.5, and $0.7 billion, respectively. The change in assets from fiscal year 2013 to 2014 was a decrease of $70 million or 13%, and the change between fiscal year 2012 to 2013 was a decrease of $113 million or 17%.

- The Corporation's net education loans receivable was $379, $435, and $496 million, at June 30, 2014, 2013 and 2012, respectively. These balances represent a decrease in fiscal year 2014 of $56 million or 13% and a decrease in fiscal year 2013 of $61 million or 12%.

- The Corporation's debt at June 30, 2014, 2013, and 2012 was $243, $314, and $423 million, respectively. The change in debt from fiscal year 2013 to 2014 was a decrease of $71 million or 23%, and the change in debt from fiscal year 2012 to 2013 was a decrease of $109 million or 26%.

- The assets of the Corporation exceed its liabilities (reported as net position) at the close of fiscal year 2014, 2013 and 2012 by $220, $216, and $216 million, respectively. These balances represent an increase in fiscal year 2014 of $4 million or 2% and no change from fiscal year 2012 to 2013.

- The Corporation's operating revenue was $26, $29, and $36 million at June 30, 2014, 2013 and 2012, respectively. These balances represent a decrease in fiscal year 2014 of $3 million or 10% and a decrease in 2013 of $7 million or 20%.

- The Corporation's operating interest expense was $5, $7, and $10 million during fiscal years 2014, 2013 and 2012, respectively. These balances represent a decrease in fiscal year 2014 of $2 million or 29%, and a decrease in 2013 of $3 million or 30%.

- The Corporation's other operating expense was $18, $22, and $25 million during fiscal years 2014, 2013 and 2012. These balances represent a decrease in fiscal year 2014 of $4 million or 18% and a decrease in fiscal year 2013 of $3 million or 12%.

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

Balance Sheet (in thousands)

Assets:	2014	2013	$ Change	% Change	2012
Current	$ 42,580	63,073	(20,493)	(32)	76,087
Noncurrent, restated	426,070	475,469	(49,399)	(10)	575,354
Total assets, restated	$ 468,650	538,542	(69,892)	(13)	651,441
Liabilities:					
Current	$ 59,813	67,273	(7,460)	(11)	63,964
Noncurrent	189,292	255,234	(65,942)	(26)	371,215
Total liabilities	249,105	322,507	(73,402)	(23)	435,179
Net position:					
Unrestricted	81,618	85,848	(4,230)	(5)	93,146
Restricted, restated	137,927	130,187	7,740	6	123,116
Total net position, restated	219,545	216,035	3,510	2	216,262
Total liabilities and net position, restated	$ 468,650	538,542	(69,892)	(13)	651,441

The fiscal year 2014 decrease in current assets is due to the decrease in current restricted investments. Current restricted investments represent investments at year end set aside for accrued interest and principal debt service payments due in the next year. Debt service payments due in the next year and investments set aside for such debt service payments have declined from the prior year. The fiscal year 2014 decrease in noncurrent assets is due to the reduction of the restricted net loan receivable balance between years. Loan principal repayments continue to be greater than originations and capitalized interest. Management expects this decline to continue in the years to come. The reduction in the restricted net loan receivable balance was offset by an increase in restricted investments. Noncurrent restricted investments increased because debt service payments due in the next year declined and noncurrent loan collections are keeping pace with cash outflows.

The fiscal year 2014 decrease in current liabilities is due to several items. The due to U.S. Dept. of Education balance in 2013 was for two quarters and the balance in 2014 was for one quarter. The Return of capital payable balance continues to decline as state agency projects, funded with the Corporation's capital project bond proceeds, near completion. The remaining decline is due to the decline in bonds payable. No new bonds are being issued by the Corporation and existing debt service payments are being made as scheduled.

Unrestricted net position declined because administrative expenses exceeded unrestricted assets generated for such expenditures again in fiscal year 2014. The decline in fiscal year 2014 was less than the decline in fiscal year 2013 because the non-pledged loan portfolio is growing.

Restricted net position increased due to the reduction in debt exceeding the reduction in restricted loans receivable and investments.

The fiscal year 2013 decrease in current and noncurrent assets is due to the overall decrease in investments and loans receivable. Investment balances have declined primarily due to debt payments made in fiscal year 2013. Loan principal payments are greater than loan originations and capitalized interest causing an overall reduction in the loan portfolio which in turn causes an overall reduction in interest receivable on loans.

The fiscal year 2013 increase in current liabilities is due to the increase in current bonds payable. Principal payments on debt in fiscal year 2014 are estimated to be six million dollars higher than principal payments made in fiscal year 2013. Noncurrent liabilities declined due to the elimination of the loan payable to the State and the balance on the Funding Note Purchase Agreement being in excess of new debt issued in fiscal year 2013.

Unrestricted net position declined because administrative expenses exceeded unrestricted assets generated for such expenditure in fiscal year 2013. Administrative expenses are funded by draws on the Corporation's trusts, direct loan servicing fees and unrestricted investments. Unrestricted investments include loan payments received on the non-pledged loan portfolio.

Restricted net position increased due to the reduction in debt exceeding the reduction in restricted loans receivable and investments.

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

		2014	2013	$ Change	% Change	2012
Operating revenue	$	26,226	29,086	(2,860)	(10)	36,041
Operating expense, restated		(22,769)	(28,950)	6,181	(21)	(35,033)
Non-operating revenue		238	1,019	(781)	(77)	1,517
Non-operating expense, restated		(185)	(1,382)	1,197	(87)	(1,816)
Income before special item		3,510	(227)	3,737	1,646	709
Gain on cancellation of bonds		-	-	-	-	1,289
Change in net position, restated		3,510	(227)	3,737	1,646	1,998
Net position - beginning, restated		216,035	216,262	(227)	-	214,264
Net position - ending, restated	$	219,545	216,035	3,510	2	216,262

Operating revenue which represents interest on education loans and earnings on investments continues to decline for the same reason cited in the past. As the education loan and investment portfolios decrease so will related loan and investment interest revenue. The net education loan portfolio decreased 13% in fiscal year 2014 and the resulting decrease in education loan interest income, prior to recording the change in yield restriction payable, was 11%. The decrease in fiscal year 2014 was offset by recording the decrease in the acquired purpose investment yield liability of approximately $203 to loan income. The average return on gross loans, prior to the adjustment for the yield liability, was 4.3%, 4.3% and 4.5% in fiscal years 2014, 2013 and 2012, respectively. The investment portfolio decreased 12.6% in fiscal year 2014. The average return on investments, prior to recording the change in rebate payable was 0.5%, 0.5% and 2.1% in fiscal years 2014, 2013 and 2012, respectively. The decrease in investment income in fiscal year 2014 was offset by $67 representing a reduction of the rebate liability.

Operating expense declined due to the reduction in debt-related interest expense, the provision for losses and debt issue costs in fiscal year 2014. The decline in interest expense is related to the decline in debt-related rates as well as an overall reduction of approximately $70,717 in debt outstanding. The average rate on outstanding debt was 1.75%, 2.18% and 2.86% for fiscal years ending June 30, 2014, 2013 and 2012, 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 $1,755 in fiscal year 2014 due to the fact that the additional cohort (year loans first entered repayment) added to the calculation had lower loss rates than those already in the calculation. The interest loss provision decreased by $231 in fiscal year 2014 due to the reduction of the increase of interest receivable in higher loss rate categories over the previous year. Interest continues to accrue on doubtful loans until they are written off or until the borrower begins to make payments allowing the loan to be removed from the doubtful category. Debt issue costs declined in fiscal year 2014 because no bonds were issued. These costs increased in fiscal year 2013 because three bond issues were completed that year compared to none the year prior.

Non-operating revenue consists of federal direct loan servicing fees. This revenue declined $781 and $498 in fiscal years 2014 and 2013, respectively. It increased by $1,590 in 2012. The decrease in fiscal year 2014 was due to the reduction in the federal direct loan portfolio allocated to the corporation for servicing as a result of normal runoff related to borrower loan payments. The decrease in fiscal year 2013 was due to receiving a one-time conversion fee in fiscal year 2012. Fiscal year 2012 was the first year the Corporation earned direct loan servicing fees.

Non-operating expense declined $1,197, $435 and $665 in fiscal year 2014, 2013 and 2012, respectively due to the reduction in debt-related interest expense.

Operating revenue which represents interest on education loans and earnings on investments, decreased in fiscal year 2013 for the same reason it did in fiscal year 2012. As the education loan and investment portfolios decrease so will related loan and investment interest revenue. The net education loan portfolio decreased 12.3% in fiscal year 2013 and the resulting decrease in education loan interest income was 13.3%. The decrease in fiscal year 2013 is also due to recording the change in acquired purpose investment yield liability of approximately $921 against loan income. The average return on gross loans, prior to the adjustment for the yield liability, was 4.3%, 4.5% and 4.5% in fiscal years 2013, 2012 and 2011, respectively. The investment portfolio decreased 34.3% and investment returns were down significantly in fiscal year 2013. The average return on investments, prior to the adjustment for investment rebate was 0.5%, 2.1% and 1.4% in fiscal years 2013, 2012 and 2011, respectively. The decrease in investment income in fiscal year 2013 was offset by a $280 reduction of the investment rebate liability recorded as an adjustment to investment income.

Operating expense declined due to the reduction in debt-related interest expense and the provision for losses. The decline in interest expense is related to lower debt rates in fiscal year 2013 as well as an overall reduction of approximately $109,233 in debt outstanding. The average rate on outstanding debt was 2.18%, 2.86% and 2.75% for fiscal years ending June 30, 2013, 2012 and 2011, 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 $7,218 in fiscal year 2013 due to the fact that the additional cohort (year loans first entered repayment) added to the estimate during fiscal year 2012 had significantly higher loss rates than previous cohorts. The loss rates associated with these cohorts have remained stable resulting in little change to record in fiscal year 2013. The decrease in the principal loss provision is offset by a $554 increase in the interest provision. This increase is due to interest continuing to accrue on loans included in the allowance for doubtful loans. Interest will continue to accrue on these loans until they are written off or until the borrower begins to make payments allowing the loan to be removed from the doubtful category.

Non-operating revenue consists of federal direct loan servicing fees. This revenue declined due to receiving a one-time conversion fee in fiscal year 2012.

Non-operating expense declined again in fiscal year 2013 due to the reduction in debt-related interest expense. As in fiscal year 2012, the decline was due to the reduction of debt outstanding during the year.

Borrower Benefits

The Board has approved various loan benefits to provide incentives and rewards to borrowers who participate in the loan programs. The benefit package, intended to lower borrowers' interest cost, is subject to annual approval by the Board. Changes to the package are subject to a confirmation from rating agencies rating the Corporation's outstanding bonds. 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 2014, 2013 and 2012 cost approximately $1,100 each year and are recorded as an offset to education loan interest income. The borrower benefit package for fiscal year 2015 will be the same as that in 2014. Information related to benefits available to eligible borrowers is available online at http://acpe.alaska.gov/Student-Parent/Loans.

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.

ELGEE REHFELD MERTZ, LLC

CERTIFIED PUBLIC ACCOUNTANTS

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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, 2014 and 2013, 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 opinions 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 opinions.

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, 2014 and 2013, 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 30, 2014 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.

ERM

September 30, 2014

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

Balance Sheets

June 30, 2014 and 2013

(in thousands)

		2014	2013
Assets:			
Current assets:			
Cash (note 3)	$	894	990
Other		362	249
Interest receivable - investments		76	70
Interest receivable - loans		781	871
Investments (note 3)		203	530
Loans receivable (note 4)		8,674	7,993
Restricted:			
Investments (note 3)		30,861	52,370
Arbitrage rebate receivable (notes 2 and 7)		701	-
Other		28	-
Total current assets		42,580	63,073
Noncurrent assets:			
Interest receivable - loans, net (note 5)		1,400	1,268
Loans receivable, net (notes 4 and 5)		43,066	45,274
Investments (note 3)		27,355	29,651
Other		8	-
Restricted:			
Cash (note 3)		893	723
Other		341	356
Arbitrage rebate receivable (notes 2 and 7)		373	1,006
Interest receivable - investments		173	245
Interest receivable - loans, net (note 5)		9,678	12,607
Investments (note 3)		15,878	2,438
Loans receivable, net (notes 4 and 5)		326,905	381,901
Total noncurrent assets, restated		426,070	475,469
Total assets, restated	$	468,650	538,542

See accompanying Notes to Financial Statements (continued)

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

Balance Sheets

June 30, 2014 and 2013

(in thousands)

		2014	2013
Liabilities and Net Position:			
Liabilities:			
Current:			
Payable from unrestricted assets:			
Due to State of Alaska	$	572	518
Warrants outstanding (note 4)		97	192
Accounts payable		523	338
Payables from restricted assets:			
Due to State of Alaska		-	1
Due to U.S. Dept. of Education (note 8)		997	2,177
Warrants outstanding (note 4)		6	25
Accounts payable		64	83
Return of capital payable (note 9)		2,303	3,819
Interest payable		342	639
Bonds payable (note 6)		54,909	59,481
Total current liabilities		59,813	67,273
Noncurrent - payable from restricted assets:			
Yield restriction/arbitrage rebate payable (notes 2 and 7)		1,124	921
Bonds payable (note 6)		188,168	254,313
Total noncurrent liabilities		189,292	255,234
Total liabilities		249,105	322,507
Commitments and contingencies (note 9)		-	-
Net position:			
Unrestricted (note 2)		81,618	85,848
Restricted, restated		137,927	130,187
Total net position, restated		219,545	216,035
Total liabilities and net position, restated	$	468,650	538,542

See accompanying Notes to Financial Statements

ALASKA STUDENT LOAN CORPORATION

(A Component Unit of the State of Alaska)

Statements of Revenue, Expenses, and Changes in Net Position

Years ended June 30, 2014 and 2013

(in thousands)

		2014	2013
Operating Revenue:			
Interest - loans, net (note 2)	$	25,705	28,129
Investment income, net (note 2)		521	957
Total operating revenue		26,226	29,086
Operating expenses:			
Interest		4,921	7,023
Administration		14,166	14,079
Provision (note 5)		3,682	5,668
Debt issue cost, restated		-	2,180
Total operating expenses, restated		22,769	28,950
Operating income, restated		3,457	136
Nonoperating revenue - other		238	1,019
Nonoperating expense:			
Interest		174	1,353
Administration		11	29
Total nonoperating expense, restated		185	1,382
Nonoperating income (loss), restated		53	(363)
Change in net position, restated		3,510	(227)
Total net position - beginning, restated		216,035	216,262
Total net position - ending, restated	$	219,545	216,035

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, 2014 and 2013

(in thousands)

	2014	2013
Cash flows from operating activities:		
Principal payments received on loans	$ 70,730	76,533
Interest received on loans	14,282	18,029
Other receipts	378	59
Loans originated	(4,699)	(5,644)
Administration	(14,432)	(14,040)
Interest paid on debt	(5,414)	(9,247)
Principal paid on debt	(63,275)	(365,624)
Bond proceeds	-	290,550
Debt issue costs	-	(2,180)
Income received on investments	544	1,981
Investments matured or sold	384,665	428,740
Investments purchased	(373,998)	(385,879)
Net cash provided by operating activities	8,781	33,278
Cash flows from capital activities:		
Other receipts	242	284
Administration	(13)	(38)
Interest paid on debt	(420)	(2,362)
Principal paid on debt	(7,000)	(33,180)
Return of capital payments	(1,516)	(1,594)
Net cash used by capital activities	(8,707)	(36,890)
Net increase (decrease) in cash	74	(3,612)
Cash at beginning of period	1,713	5,325
Cash at end of period	$ 1,787	1,713

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, 2014 and 2013

(in thousands)

	2014	2013
Reconciliation of operating income to net cash provided by operating activities:		
Operating income, restated	$ 3,457	136
Adjustments to reconcile operating income to net cash provided by operating activities:		
Provision	3,682	5,668
Change in assets and liabilities:		
Decrease (increase) in other assets	(138)	115
Decrease in interest receivable - investments	66	271
Increase in interest receivable - loans	(1,416)	(791)
Decrease in investments	10,692	44,390
Decrease in loans receivable	57,144	59,858
Increase (decrease) in due to U.S. Dept. of Education	(1,180)	977
Increase in net due to State of Alaska	53	28
Increase (decrease) in warrants outstanding	(114)	69
Increase (decrease) in accounts payable	168	(290)
Increase in net yield restriction/arbitrage rebate payable	135	145
Decrease in interest payable	(113)	(1,538)
Increase (decrease) in bonds payable	(63,655)	82,596
Decrease in loan payable to State	-	(67,500)
Decrease in other debt payable	-	(90,856)
Total adjustments, restated	5,324	33,142
Net cash provided by operating activities	$ 8,781	33,278
Summary of noncash capital activities that affect recognized assets and liabilities:		
Interest payable	$ 236	1,646
Bond premium/discount amortization, net	2,307	(293)

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 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 for the Corporation. The Commission, a component of a separate legal entity, is responsible for staff costs; therefore, the Corporation has no pension-related activity to disclose.

(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) *Standard Application, Net Position Restatement*

In June 2011, Governmental Accounting Standards Board (GASB) issued GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resource, and Net Position.* This pronouncement requires the presentation of certain elements of the Statement of Net Position as deferred inflows and outflows of resources in accordance with Concepts Statement No. 4, *Elements of Financial Statements* for transactions that result in the consumption or acquisition of net assets in one period that are applicable to future periods. The Corporation implemented this pronouncement during the year ending June 30, 2013 resulting in Net assets being retitled Net position.

In March 2012 Governmental Accounting Standards Board (GASB) issued Statement No. 65, *Items Previously Reported as Assets and Liabilities.* This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources (expenses) or inflows of resources (revenues), certain items that were previously reported as assets and liabilities. The application of this accounting change requires a retroactive restatement of all prior periods presented and disclosure of the effects of the change. The Corporation implemented this pronouncement during the year ending June 30, 2014 by restating amounts previously presented for fiscal year 2013, resulting in a $2,031 reduction in net position as of June 30, 2012, expensing $2,180 of debt issue costs previously capitalized during the year ended June 30, 2013 and a corresponding $1,728 increase in net position as of June 30, 2013 representing the removal of debt issue cost amortization expense originally reported on the Statements of Revenues, Expenses and Changes in Net Position and Cash Flows for the year ended June 30, 2013.

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

(c) *Fiscal Year*

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

(d) *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. 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.

(e) *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.

(f) *Loans*

Loans represent education loans 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 year of origination and type.

(g) *Interest on Loans*

Interest on loans is accrued when earned at fixed and variable rates ranging from 1.75% to 9.00%. For federally guaranteed subsidized loans, interest from the disbursement date of the loan until a date that is 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.

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

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 $2,365 and $2,457 at June 30, 2014 and 2013, respectively.

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

The change in yield restriction payable is recorded as an adjustment to interest income on loans.

(h) *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 may write off State loans upon death, bankruptcy, total disability, or when payment activity, including co-signer 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.

(i) *Origination Fee*

Borrowers of State loans originated after June 30, 1994, are subject to an origination fee at disbursement, generally determined by year of origination. Loan origination fees 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 fee collected.

(j) *Bond Premiums and Note Discounts*

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

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

(k) *Bond Premiums and Note Discounts*

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

(l) *Income Taxes*

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

(m) *Investments and Investment Income*

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.

The change in arbitrage rebate payable is recorded as an adjustment to investment income.

(n) *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 is shown below:

		2014	2013
Current, unrestricted	$	894	990
Noncurrent, restricted		893	723
Total	$	1,787	1,713

(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, 2014, the Corporation had no cash exposed to custodial credit risk.

(3) Cash and Investments (cont.)

(b) *Investments*

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

		2014	2013
Current:			
Unrestricted	$	203	530
Restricted		30,861	52,370
Noncurrent:			
Unrestricted		27,355	29,651
Restricted		15,878	2,438
Total	$	74,297	84,989

(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 their respective debt instruments which generally mandate the purchase of relatively short-term, high quality fixed income securities. Investments are managed by an external investment manager or by the State's Department of Revenue, Treasury Division (Treasury). The following securities are eligible for investment of restricted funds under the Corporation's various debt instruments:

- Under the 2002 Master Indenture, 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 2013 indenture, direct obligations of the U.S. having maturities of not more than 365 days.

- 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 (FHLB), and senior debt obligations of any government sponsored agency approved by the bond insurer.

(3) Cash and Investments (cont.)

(b) *Investments*

(2) Investment Policies

- Under the 2013 Master Indenture, senior bonds, debentures, notes, discount notes, short-term obligations or other evidences of indebtedness issued or guaranteed by any of the following agencies: Federal Farm Credit Banks, FHLMC; Export-Import Bank of the U.S.; FNMA; FHLB; or any agency or instrumentality of the U.S. which shall be established for the purposes of acquiring the obligations of any of the foregoing or otherwise providing financing therefore; provided such obligation, or the issue or guarantor of such obligation, is rated "AA+" by S&P and "AAA" by Fitch (if rated by Fitch) and, if applicable and/or available, rated "A-1+" by S&P and "F1+" by Fitch and having maturities of not more than 365 days.

- Under the 2002 and 2013 Master Indentures, 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 purchase, 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 purchase and if the investment matures not more than 270 days (365 days for the 2013 Indenture) after the date of purchase. Under the 2012B Master Indenture, such investments are allowed if rated at purchase in the highest short-term rating category by each rating agency, and matures not more than 270 days after the date of purchase.

- Under the 2012B Master Indenture, 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 whose unsecured short-term obligations are rated in P-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 2013 Master Indenture, such investments are allowed if maturities are not more than 365 days. Under the 2012B Master Indenture, any money market fund, each rated by Moody's and S&P not lower than its highest applicable rating category.

(3) Cash and Investments (cont.)

(b) *Investments*

(2) Investment Policies

- 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 2012B Master Indenture, any bonds or other obligations of any state of the U.S. 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 irrevocable escrow account or fund (the "escrow"), in one of the two highest rating categories of each rating agency which rates such debt; 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 2013 Master Indenture, repurchase obligations with respect to any security that is a direct obligation of, or fully guaranteed by the U.S. or any agency or instrumentality thereof, the obligations of which are backed by the full faith and credit of the U.S., in either case entered into with a depository institution or trust company (acting as principal) rated AA+ by S&P and AAA by Fitch which repurchase obligations shall be replaced within 60 days if the rating thereon falls below a rating of "A" from S&P.

- Under the 2012B Master Indenture, 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 U.S. 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.

(3) Cash and Investments (cont.)

(b) *Investments*

(2) Investment Policies

- Under the 2002 Master Indenture, guaranteed investment contracts, investment agreements and repurchase agreements secured by qualifying collateral.
- Under the 2012B Master Indenture, 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 2012B Master Indenture, 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.
- 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			
	Commercial Paper		Unsecured Long-term	
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 available.

- Under the 2012B Master Indenture, 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 U. S. 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.

(3) Cash and Investments (cont.)

(b) *Investments*

(2) <u>Investment Policies</u>

- Under the 2002 Master Indenture, any other investment approved in writing by S&P and Moody's.
- Under the 2012B Master Indenture, any other investment allowed by law if approved in a credit confirmation.

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 themselves.

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

In addition to Treasury's fixed-income investment pools, the following securities are eligible for investment of unrestricted funds 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.

(3) Cash and Investments (cont.)

(b) *Investments*

(2) Investment Policies

- 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 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.

(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 investment policies, 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, using S&P's rating scale without modifiers, at June 30 are shown below:

Investment Type	Ratings	2014	2013
U.S. government agencies	AA	$ -	4,981
U.S. government agency discount notes	AA	-	1,400
Mortgage-backed securities (agencies)	AA	19,598	21,073
Money market funds	AAA	30,577	35,997
Guaranteed investment contracts	Not rated	-	600
Corporate bonds	AA	1,951	1,945
Corporate bonds	A	4,789	5,547
Internal investment pools	Next schedule	6,920	12,102
U.S. Treasury securities	No credit exposure	10,462	1,344
Total		$ 74,297	84,989

(3) Cash and Investments (cont.)

(b) *Investments*

(3) Credit Risk

Treasury's investment policy for its 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. Commercial paper must be rated at least P-1 by Moody's and A-1 by S&P. Asset-backed and non-agency mortgage securities must be 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.

Short-term Liquidity Pool investments are limited to U.S. Treasury obligations or other U.S. government securities issued in full faith or guaranteed by agencies and instrumentalities of the U.S. government, obligations of foreign governments, sovereign states, supranational entities, and their instrumentalities denominated in U.S. dollars and Treasury's internally-managed Short-Term Fixed Income Pool.

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 Treasury's internally managed General Fund and Other Non-segregated Investments Pool (GeFONSI). GeFONSI consists of investments in Treasury's internally managed Short-term (49%), Short-term Liquidity (14%) and Intermediate-term Fixed Income Pools (37%).

The Corporation's ownership share at June 30, 2014 of the GeFONSI was 0.13%. The Corporations ownership share of the Short-term Fixed Income Pool and the GeFONSI pools at June 30, 2013 was 0.05% and 0.07%, respectively.

(3) Cash and Investments (cont.)

(b) *Investments*

(3) Credit Risk

The fair value of the Corporation's share of Treasury's internal investment pools by type and credit quality, using ratings from a Nationally Recognized Statistical Rating Organization without modifiers, at June 30 are below:

Investment Type	Rating	2014	2013
Commercial paper	Not rated	$ -	382
U.S. government agency	AA	3	74
U.S. government agency strip	AA	3	-
U.S. government agency strip	Not rated	5	-
U.S. government agency discount note	Not rated	-	11
Mortgage-backed	AAA	41	28
Mortgage-backed	AA	21	28
Mortgage-backed	A	6	9
Mortgage-backed	Not rated	13	12
Other asset-backed	AAA	832	3,568
Other asset-backed	AA	17	63
Other asset-backed	A	27	-
Other asset-backed	Not rated	294	347
Overnight sweep account	Not rated	357	194
Municipal bonds	AA	-	4
Municipal bonds	A	-	1
Corporate bonds	AAA	5	11
Corporate bonds	AA	136	259
Corporate bonds	A	210	386
Corporate bonds	BBB	20	22
Corporate bonds	B	-	4
Repurchase agreement	AA	223	-
Yankees:			
Government	AA	10	9
Government	Not rated	1	1
Corporate	AAA	-	37
Corporate	AA	44	84
Corporate	A	36	36
Corporate	BBB	1	4
Corporate	Not rated	3	-
No credit exposure:			
U.S. Treasury notes		2,358	1,893
U.S. Treasury bills		3,020	4,646
U.S. Treasury strip		-	16
U.S. Dollar		30	-
Pool-related net assets		(796)	(27)
Total		$ 6,920	12,102

(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, investment providers are 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

The following investment holdings, summarized by provider, include both investments that are governed by the maximum concentration limits of the Corporation's policy and investments which have no established concentration limits.

At June 30, 2014, 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
Federated Prime Obligations Fund	$ 23,742	32
U.S. Treasury Notes	12,667	17
Federal Home Loan Mortgage Corporation	9,078	12
Federal National Mortgage Association	6,721	9
First American Government Obligation Fund	4,496	6

(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 June 30, 2014, the weighted average modified duration of investments, other than investments in Treasury's internal investment pools, is shown below:

U.S. government agency	0.63
Corporate bonds	2.98
U.S. Treasury securities	0.90
Portfolio modified duration	0.62

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 effective duration of its Intermediate-term Fixed Income Pool to ± 20% of the Barclays 1-3 year Government Bond Index. At June 30, 2014, the effective duration for the Barclays 1-3 year Government Bond Index was 1.94 years.

(3) Cash and Investments (cont.)

(b) *Investments*

(5) Interest Rate Risk

At June 30, 2014, the Intermediate-term Fixed Income Pool's effective duration, by investment type, is shown below:

U.S. government agency	1.71
Mortgage-backed	0.99
Other asset-backed	0.70
Corporate bonds	1.40
Yankee:	
Government	0.78
Corporate bonds	0.62
U.S. Treasury notes	2.14
U.S. Treasury bills	0.42
U.S. Treasury strips	3.27
Portfolio effective duration	1.72

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 to maturity or fourteen months expected average life at purchase. Floating rate securities are limited to three years to maturity or three years expected average life at purchase. These constraints apply to trade date, except for securities bought at new issue, for which settlement date applies. At June 30, 2014, the expected average life of fixed rate securities held in the Short-term Fixed Income Pool ranged from one day to approximately two years and two months and the expected average life of floating rate securities ranged from eight days to approximately three years and two months.

As a means of limiting the Short-term Liquidity Fixed Income Pool's exposure to fair value losses arising from increasing interest rates, Treasury's investment policy limits the maturity of individual fixed rate securities to six months to maturity. These constraints apply to trade date, except for securities bought at new issue, for which settlement date applies. At June 30, 2014, the expected average life of fixed rate securities ranged from thirty-one to one hundred seventy-nine days.

(3) Cash and Investments (cont.)

(c) Unrestricted cash and unrestricted investments specifically designated for financing education loans include $153 and $219 at June 30, 2014 and June 30, 2013, respectively.

(4) Loans Receivable

Loans were financed by the issuance of revenue bonds, recycled loan payments, and proceeds from a State-funded loan.

(a) The loan portfolio summarized by classification at June 30 is shown below:

	2014			2013		
	State	Federal	Total	State	Federal	Total
Current, unrestricted	$ 8,674	-	8,674	7,993	-	7,993
Noncurrent:						
Unrestricted	64,404	-	64,404	68,215	-	68,215
Restricted	271,095	122,273	393,368	314,670	140,564	455,234
Total, gross	$ 344,173	122,273	466,446	390,878	140,564	531,442
Allowance for doubtful loans			85,762			94,251
Allowance for principal forgiveness			2,039			2,023
Total allowance			87,801			96,274
Loans, net			$ 378,645			435,168
Current, unrestricted			8,674			7,993
Noncurrent:						
Unrestricted			43,066			45,274
Restricted			326,905			381,901
Total, net			$ 378,645			435,168

(4) Loans receivable (cont.)

(b) The loan portfolio summarized by program at June 30, is shown below:

		2014	2013
State Education Loans			
Supplemental	$	291,376	329,855
Consolidation		43,801	51,182
Teacher		6,757	7,097
Family		2,239	2,744
Total State Education Loans		344,173	390,878
Federal Family Education Loans			
Stafford		102,124	117,994
Consolidation		16,082	17,756
PLUS		4,067	4,814
Total Federal Loans		122,273	140,564
Total	$	466,446	531,442

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

		2014		2013	
		State	Federal	State	Federal
Enrollment	$	14,823	5,670	19,618	10,266
Grace		3,649	1,038	6,135	3,137
Repayment		288,593	82,863	322,098	87,682
Deferment		35,785	20,167	41,591	23,493
Forbearance		1,323	12,535	1,436	15,986
Total	$	344,173	122,273	390,878	140,564

(d) Included in loans receivable are $28 and $12 of loan warrants issued but not redeemed at June 30, 2014 and 2013, respectively. Redemption is contingent upon the borrower meeting eligibility requirements.

(4) Loans receivable (cont.)

(e) Loans awarded not distributed at June 30 are shown below:

		2014	2013
State Education Loans			
Supplemental	$	147	203
Family		6	16
Total State Education Loans	$	153	219

(5) Allowances and Provision

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

		2014	2013
Balance, beginning of period	$	118,628	126,217
Provision		3,682	5,668
Balances charged off		(11,748)	(13,257)
Balance, end of period	$	110,562	118,628

		2014	2013
Allowance for:			
doubtful loans	$	85,762	94,251
principal forgiveness		2,039	2,023
doubtful interest		22,246	21,901
interest forgiveness		515	453
Total	$	110,562	118,628

(6) Bonds Payable

(a) Bonds payable at June 30 consist of the following:

	Type	Original Amount	Outstanding Amount 2014	Outstanding Amount 2013
2002 Master Indenture, Education Loan:				
2004: Serial bonds, Series A-3 rates ranging from 5.0% to 5.25%, due 2016 to 2017	Fixed	$ 22,015	2,445	6,310
2005: Serial bonds, Series A, rate 5.0%, due 2015 to 2018	Fixed	58,250	22,250	28,750
2006: Serial bonds, Series A-2, rate 5.0%, due 2015 to 2018	Fixed	55,000	26,000	32,000
2007: Serial bonds, Series A-2, rate 5.0%, due 2015 to 2019	Fixed	18,500	11,500	13,500
Serial bonds, Series A-3, rate 5%, due 2014	Fixed	49,000	-	8,000
Sub-total		202,765	62,195	88,560
2005 Master Indenture, Series A State Projects serial bonds, rate 5.25%, due 2015	Fixed	88,305	3,000	10,000
2012B Trust Indenture, Education Loan Revenue, Refunding Bonds, Senior Series 2012B-1, due 2043	Variable	78,435	54,435	72,435
2013A Trust Indenture, Education Loan Revenue, Refunding Note, Series 2013A, due 2031	Variable	144,730	123,072	141,982
Total Bonds/Note Payable		$ 514,235	242,702	312,977
Unamortized premium/discount, net			375	817
Net Bonds/Note Payable			$ 243,077	313,794
Current			54,909	59,481
Noncurrent			188,168	254,313
Total			$ 243,077	313,794

(6) Bonds Payable (cont.)

(b) At issuance the Series 2012B-1 Bonds bore interest at an annual term rate, determined by the remarketing agent, established as 0.37% and in effect to, but not including, June 1, 2013. On June 1, 2013 the bonds were converted to a weekly rate, determined by the remarketing agent. The maximum rate applicable to the bonds is 12% per annum. The rate at June 30, 2014 was 0.08%.

The 2013A Series Notes bear interest at a rate equal to one-month London Interbank Offered Rate (LIBOR) plus 0.50%. There is no maximum rate. The rate at June 30, 2014 was 0.65%.

(c) The minimum payments and sinking fund installments for the five years subsequent to June 30, 2014, and thereafter are as follows:

Period Ending June 30		Principal	Interest	Total
2015	$	54,909	4,039	58,948
2016		54,643	3,051	57,694
2017		52,313	2,034	54,347
2018		33,630	1,144	34,774
2019		20,072	330	20,402
2020-2021		27,135	226	27,361
Total	$	242,702	10,824	253,526

(d) The following bonds and notes were issued at a premium/discount which is being amortized using the effective method. The effective rate associated with each is as follows:

Bonds issued at a premium:	
2004 Series A-3	4.74
2005 Series A	4.22
2006 Series A-2	4.51
2007 Series A-2	4.28
2007 Series A-3	4.09
2005 Series A Project	3.69
Note issued at a discount:	
2013 Series A	0.60 over LIBOR

(6) Bonds Payable (cont.)

(e) 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, 2012B and 2013A Master Indenture Bonds/Notes are private activity revenue bonds/notes. The 2005 Master Indenture Bonds are governmental purpose revenue bonds. Debt service payments are due as follows:

Master Indenture	Principal	Interest	Bond Type
2002	June 1	1	Tax-exempt
2005	July 1 and January 1	July 1 and January 1	Tax-exempt
2012B	December 1, 2043	June 1 and December 1	Tax-exempt
2013	Monthly	Monthly	Taxable

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

The 2005 State Projects Revenue Bonds are insured by Assured Guaranty Municipal.

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 September 1, 2016. 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 September 12, 2016. The Corporation entered into a Reimbursement Agreement dated September 12, 2012 with the State of Alaska, Department of Revenue, Treasury Division thereby agreeing to reimburse them for the purchase of 2012B Revenue Bonds pursuant to the Standby Bond Purchase Agreement. The reimbursement Agreement expires on September 12, 2016.

(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 IRS provisions and the yield restriction and arbitrage rebate payable amounts, if any. The amount accrued for yield restriction and arbitrage rebate payable 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 is refundable due to cumulative earnings no longer being in excess of those allowable.

(8) Federal Family Education Loan Program

Northwest Education Loan Association (NELA) 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 HEA.

Claim payments are received from the guarantor when a borrower dies, becomes totally and permanently disabled, or defaults on a Federal 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 are calculated quarterly based on the quarter's daily one month LIBOR 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. 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.

(9) Commitments and Contingencies

(a) *Internal Revenue Service Examination*

The Internal Revenue Service (IRS) is examining the Corporation's tax-exempt education loan revenue bonds. As part of this examination, the IRS delivered to the Corporation a letter asserting that the bonds under examination are not in full compliance with applicable tax-exempt provisions of the Internal Revenue Code (IRC). The asserted lack of compliance relates to the Corporation's method of tracking recycled revenues used to finance education loans. The Corporation believes the IRS position is inconsistent with applicable law and disagrees with the assertion that a violation has occurred. The Corporation is vigorously contesting the IRS assertion and cannot predict the outcome related to this matter.

(b) *Operations*

The Corporation will fund approximately $13,275 and $35 of the Commission's fiscal year 2015 and 2014 operating budgets, respectively, for loan servicing and staff support. The

(9) Commitments and Contingencies (cont.)

Commission's budget is subject to review and approval from both the executive and legislative branches of the State. Amounts funded by the Corporation will be based on expenditures paid by the Commission.

(c) *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.

Income for fiscal year 2014 and 2013 did not equal or exceed $2,000; therefore, no capital will be returned to the State in fiscal year 2015 and no capital was returned to the state in fiscal year 2014.

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. 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 $2,303 and $3,819 at June 30, 2014 and 2013, respectively.

(d) *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 $2,288 and $2,399 for the years ended June 30, 2014 and 2013, respectively.

(e) *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.

(9) Commitments and Contingencies (cont.)

(f) *Non-Investment Interest Rate Risk*

The Corporation is subject to interest rate risk relating to its variable rate bonds and variable rate loans. The 2012 bonds are subject to an interest rate cap of 12% while the loans pledged to the 2012 bonds are 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 bond rate and the loans pledged to the 2013 bonds are both based on one-month LIBOR, significantly reducing interest rate risk for this portion of the portfolio.

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

Expenditures of Federal Awards Reports

Year Ended June 30, 2014

ELGEE REHFELD MERTZ, LLC

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Directors
Alaska Student Loan Corporation

We have audited, 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, the financial statements of the Alaska Student Loan Corporation (Corporation), a component unit of the State of Alaska, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated September 30, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

ERM

September 30, 2014

ELGEE REHFELD MERTZ, LLC

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

The Board of Directors
Alaska Student Loan Corporation

Report on Compliance for Each Major Federal Program

We have audited the Alaska Student Loan Corporation's (the Corporation's) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on the Corporation's major federal program for the year ended June 30, 2014. The Corporation's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Corporation's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Corporation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2014.

Report on Internal Control over Compliance

Management of the Corporation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Corporation's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the Corporation, a component unit of the State of Alaska, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements. We issued our report thereon dated September 30, 2014, which contained an unmodified opinion on the financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

ERM

September 30, 2014

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

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2014

Federal Grantor/Program Title	CFDA Number	Federal Expenditures
U.S. Department of Education Direct Programs:		
Federal Family Education Loan Program		
Special allowance	84.032L	$ 22,903
Less: excess interest		(5,039,177)
Special allowance, net		(5,016,274)
Federal interest benefits	84.032L	854,470
		$ (4,161,804)

See accompanying Notes to Schedule of Expenditures of Federal Awards.

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

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2014

General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal award programs of the Alaska Student Loan Corporation (Corporation).

Federal awards to the Corporation, received directly from federal agencies, as well as federal awards passed through other governmental agencies, if any, are included in the schedule. Federal awards for special allowances and interest benefits are presented in Interest - loans in the Corporation's Statements of Revenue, Expenses and Changes in Net Position.

Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Loan Programs

The Corporation participates in the federally guaranteed Stafford (subsidized and unsubsidized), PLUS and Consolidation (subsidized and unsubsidized) loan programs. The following table provides loan guarantees outstanding at June 30, 2014, as well as claim payments received during the fiscal year ended June 30, 2014.

Program Title	CFDA Number	Guarantees Outstanding	Claim Payments
Federal Family Education Loan Program (FFELP)	84.032L	$ 122,268,887	$ 6,532,277

Reconciliation to the Financial Statements

Federal Loan Balance per Financial Statements	$ 122,273,338
Less Loss of Guarantee	(4,451)
Guarantees Outstanding	$ 122,268,887

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

Schedule of Findings and Questioned Costs

Year Ended June 30, 2014

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	___ Yes _x_ No
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	___ Yes _x_ None reported
Noncompliance material to financial statements noted?	___ Yes _x_ No

Federal Awards

Type of auditor's report issued on compliance for major program:	Unmodified
Internal control over compliance:	
• Material weakness(es) identified?	___ Yes _x_ No
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	___ Yes _x_ None reported
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	___ Yes _x_ No

Major program:

CFDA #	NAME
84.032L	Federal Family Education Loan Program (FFELP) – Lenders

The dollar threshold used to distinguish between Type A and B programs is $300,000.

The Alaska Student Loan Corporation qualified as a low-risk auditee.

FINDINGS – FINANCIAL STATEMENT AUDIT

No matters reported.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT

No matters reported.

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

Summary Schedule of Prior Year Findings

Year Ended June 30, 2014

FINDINGS – FINANCIAL STATEMENT AUDIT

No findings for the year ended June 30, 2013.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT

No findings or questioned costs for the year ended June 30, 2013.

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

Letter to the Board

September 30, 2014

ELGEE REHFELD MERTZ, LLC

CERTIFIED PUBLIC ACCOUNTANTS

9309 Glacier Highway, Suite B-200 • Juneau, Alaska 99801
907.789.3178 • FAX 907.789.7128 • www.ermcpa.com

September 30, 2014

The Board of Directors
Alaska Student Loan Corporation
Juneau, Alaska

We have audited the financial statements of the Alaska Student Loan Corporation (Corporation), a component unit of the State of Alaska, as of and for the year ended June 30, 2014, and have issued our report thereon dated September 30, 2014. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated April 9, 2014, our responsibility, as described by professional standards, is to form and express an opinion(s) about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Corporation solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and our network firms have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Corporation is included in Note 2 to the financial statements. As described in Note 2 (b) to the financial statements, the Corporation changed its method of accounting for bond issuance costs by adopting Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Accordingly, the cumulative effect of the accounting change as of the beginning of the earliest period presented has been reported in the Statement of Revenue, Expenses, and Changes in Net Position. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are management's estimates of the allowance for doubtful loans and related interest.

Management's estimate of the allowance for doubtful loans and related interest are based on experience and represent the estimate of loans that will ultimately be uncollectible or forgiven. Management also charges off the portion of the federal loan balances not guaranteed and deemed uncollectible. We evaluated the key factors and assumptions used to develop the estimates of the allowance for doubtful loans and related interest and determined that it is reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The financial statement disclosures are neutral, consistent, and clear.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. We identified no misstatements as a result of our audit.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the Corporation's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management which are included in the attached letter dated September 30, 2014.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the Corporation, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Corporation's auditors.

This information is intended solely for the use of the State of Alaska, the Board of Directors and management of Alaska Student Loan Corporation, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

ERM

September 30, 2014

THE STATE
of ALASKA

GOVERNOR SEAN PARNELL

Alaska Student Loan Corporation

FINANCE OFFICE

P.O. Box 110505
Juneau, Alaska 99811-0505
Toll Free: (800) 441-2962
In Juneau: (907) 465-2962
Fax: (907) 465-5316
acpe.alaska.gov

September 30, 2014

Elgee Rehfeld Mertz, LLC

Certified Public Accountants

9309 Glacier Highway, Suite B-200

Juneau, Alaska 99801

This representation letter is provided in connection with your audits of the financial statements of the Alaska Student Loan Corporation (Corporation), a component unit of the State of Alaska, which comprise the balance sheets as of June 30, 2014 and 2013, and the related statements of revenue, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, for the purpose of expressing an opinion on whether the financial statements of the Corporation are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

Except where otherwise stated below, immaterial matters are not considered to be exceptions that require disclosure for the purpose of the following representations. The immaterial amounts are not necessarily indicative of amounts that would require adjustment to or disclosure in the financial statements.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of September 30, 2014:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated April 9, 2014, for the preparation and fair presentation of the financial statements of the Corporation referred to above in accordance with U.S. GAAP.

2. We acknowledge our responsibility for 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.

3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

4. With regard to nonaudit services performed by you, we acknowledge our responsibility to:

    a. Assume all management responsibilities;
    b. Oversee the services by designating an individual who possesses suitable skill, knowledge, or experience;
    c. Evaluate the adequacy and results of the services performed; and
    d. Accept responsibility for the results of the services.

5. Significant assumptions used by us in making accounting estimates are reasonable.

6. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.

7. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.

8. There were no adjustments proposed by the auditor, material or immaterial.

9. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.

10. With regard to items reported at fair value:

    a. The underlying assumptions are reasonable and they appropriately reflect management's intent and ability to carry out its stated courses of action.

    b. The measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied.

    c. The disclosures related to fair values are complete, adequate, and in conformity with U.S. GAAP.

    d. There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the financial statements.

11. All funds and activities are properly classified.

12. All funds that meet the quantitative criteria in GASB Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, and GASB Statement No. 37, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus, for presentation as major are identified and presented as such and all other funds that are presented as major are considered important to financial statement users.

13. All net assets components and fund balance classifications have been properly reported.

14. All revenues within the statement of activities have been properly classified as program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.

15. All expenses have been properly classified in or allocated to functions and programs in the statement of activities, and allocations, if any, have been made on a reasonable basis.

16. All interfund and intra-entity transactions and balances have been properly classified and reported.

17. Special items and extraordinary items have been properly classified and reported.

18. Deposit and investment risks have been properly and fully disclosed.

19. We have no capital assets, including infrastructure assets.

20. All required supplementary information is measured and presented within the prescribed guidelines.

Information Provided

21. We have provided you with:

    a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements of the Corporation referred to above, such as records, documentation, meeting minutes, and other matters;

    b. Additional information that you have requested from us for the purpose of the audit; and

    c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

22. All transactions have been recorded in the accounting records and are reflected in the financial statements.

23. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

24. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:

    a. Management;

    b. Employees who have significant roles in internal control; or

    c. Others where the fraud could have a material effect on the financial statements.

25. We have no knowledge of any instances, that have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance, whether communicated by employees, former employees, vendors, regulators, or others.

26. We have no knowledge of any instances that have occurred or are likely to have occurred, of noncompliance with provisions of contracts and loan agreements that has a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.

27. We have no knowledge of any instances that have occurred or are likely to have occurred of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.

28. We are not aware of any instances, nor have you reported any instances, of fraud, noncompliance with provisions of laws, regulations, contracts, and loan agreements, or abuse.

29. We have a process to track the status of audit findings and recommendations, if any.

30. We have identified for you all previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations, if any, have been implemented.

31. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

32. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

33. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices, except as disclosed to you.

34. The Corporation has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

35. We have disclosed to you that no guarantees, whether written or oral, under which the Corporation is contingently liable exist.

36. We have identified and disclosed to you the laws, regulations, and provisions of contracts and loan agreements that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.

37. There are no:

    a. Violations or possible violations of laws or regulations, or provisions of contracts or loan agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, including applicable budget laws and regulations.

b. Unasserted claims or assessments that our lawyer has advised are probable of assertion and must be disclosed in accordance with GASB-62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.

c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB-62.

38. The Corporation has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset or future revenue been pledged as collateral, except as disclosed to you.

39. We have complied with all aspects of loan agreements and other contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

40. We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed in accordance with GASB-62. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.

OMB Circular A-133

41. With respect to federal awards, we represent the following to you:

a. We are responsible for understanding and complying with and have complied with the requirements of Circular A-133.

b. We are responsible for the preparation and presentation of the schedule of expenditures of federal awards in accordance with Circular A-133.

c. We believe the schedule of expenditures of federal awards, including its form and content, is fairly presented in accordance with Circular A-133.

d. The methods of measurement or presentation have not changed from those used in the prior period.

e. We believe significant assumptions or interpretations underlying the measurement or presentation of the schedule of expenditures of federal awards, and the basis for our assumptions and interpretations, are reasonable and appropriate in the circumstances.

f. We are responsible for including the auditor's report on the schedule of expenditures of federal awards in any document that contains the schedule and that indicates that the auditor has reported on such information.

g. When the schedule of expenditures of federal awards is not presented with the audited financial statements, management will make the audited financial statements readily available upon request.

h. We have, in accordance with OMB Circular A-133, identified in the schedule of expenditures of federal awards, expenditures made during the audit period for all awards provided by federal agencies in the form of federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, food commodities, direct appropriations, and other assistance.

i. We are responsible for complying with the requirements of laws, regulations, and the provisions of contracts related to our federal program and have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts that are considered to have a direct and material effect the federal program; and we have complied, in all material respects, with these requirements.

j. We have provided to you our interpretations of any compliance requirements that have varying interpretations.

k. We are responsible for establishing and maintaining effective internal control over compliance requirements applicable to federal programs that provide reasonable assurance that we are managing our federal awards in compliance with laws, regulations, and the provisions of contracts and loan agreements that could have a material effect on our federal programs. Also, no changes have been made in the internal control system to the date of this letter that might significantly affect internal control, including any corrective action taken with regard to significant deficiencies, including material weaknesses, reported in the schedule of findings and questioned costs.

l. We have made available to you all contracts and loan agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relating to federal programs.

m. We have received no requests from a federal agency to audit one or more specific programs as a major program, except as disclosed to you.

n. We have identified and disclosed to you all amounts questioned and any known noncompliance with the requirements of federal awards, including the results of other audits or program reviews. We also know of no instances of noncompliance occurring subsequent to the end of the period audited.

o. We have made available to you all documentation related to the compliance requirements, including information related to federal program financial reports.

p. Federal program financial reports are supported by the books and records from which the basic financial statements have been prepared (and are prepared on a basis consistent with the schedule of expenditures of federal awards).

q. The copies of federal program financial reports provided to you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency, as applicable.

r. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by OMB Circular A-133, and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.

s. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditor's report.

t. We are responsible for and have accurately completed the appropriate sections of the Data Collection Form as required by OMB Circular A-133, and we are responsible for preparing and implementing a correction action plan for each audit finding, if any.

u. We have disclosed to you the nature of any subsequent events that provide additional evidence with respect to conditions that existed at the end of the reporting period that affect noncompliance during the reporting period.

v. We have disclosed all contracts or other agreements with service organizations and disclosed to you all communications from these service organizations relating to noncompliance at the organizations.

Signed: Diane Barrans

Name: Diane Barrans

Title: Chief Executive Officer

Signed: Charlene Morrison

Name: Charlene Morrison

Title: Chief Financial Officer