

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

Unaudited Financial Statements

December 31, 2015 and 2014

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

Unaudited Statements of Net Position

December 31, 2015 and 2014

(in thousands)

	2015	2014
Assets:		
Current assets:		
Cash (note 3)	\$ 900	428
Other	247	56
Arbitrage rebate receivable (notes 2 and 7)	-	701
Interest receivable - investments	105	70
Interest receivable - loans	2,016	673
Investments (note 3)	-	-
Loans receivable (note 4)	31,816	11,354
Restricted:		
Cash (note 3)	2	-
Investments (note 3)	13,758	33,913
Total current assets	48,844	47,195
Noncurrent assets:		
Other	-	2
Arbitrage rebate receivable (notes 2 and 7)	433	-
Interest receivable - loans, net (note 5)	3,162	1,469
Loans receivable, net (notes 4 and 5)	124,321	51,406
Investments (note 3)	44,983	31,920
Restricted:		
Cash (note 3)	164	689
Other	-	264
Arbitrage rebate receivable (notes 2 and 7)	-	373
Interest receivable - investments	2	77
Interest receivable - loans, net (note 5)	4,083	8,234
Investments (note 3)	-	29,711
Loans receivable, net (notes 4 and 5)	135,823	283,750
Total noncurrent assets	312,971	407,895
Total assets	\$ 361,815	455,090

See accompanying Notes to Financial Statements.

(continued)

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

Unaudited Statements of Net Position

December 31, 2015 and 2014

(in thousands)

	2015	2014
Liabilities and Net Position:		
Liabilities:		
Current:		
Payable from unrestricted assets:		
Due to State of Alaska	\$ 3,918	-
Warrants outstanding (note 4)	-	169
Accounts payable	246	544
Payables from restricted assets:		
Due to State of Alaska	2	-
Due to U.S. Dept. of Education (note 8)	812	976
Warrants outstanding	-	7
Accounts payable	-	56
Return of capital payable (note 9)	1,254	2,129
Interest payable	2	263
Bonds payable (note 6)	29,275	52,717
Total current liabilities	35,509	56,861
Noncurrent - payable from restricted assets:		
Yield restriction payable (notes 2 and 7)	1,554	1,124
Bonds payable, net (note 6)	103,225	176,178
Total noncurrent liabilities	104,779	177,302
Total liabilities	140,288	234,163
Net Position:		
Unrestricted (note 2)	203,819	97,366
Restricted	17,708	123,561
Total net position	221,527	220,927
Total liabilities and net position	\$ 361,815	455,090

See accompanying Notes to Financial Statements.

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

Unaudited Statements of Revenue, Expense, and Changes in Net Position

Six Months ended December 31, 2015 and 2014

(in thousands)

	<u>2015</u>	<u>2014</u>
Operating Revenue:		
Interest - loans, net (notes 2)	\$ 10,042	11,447
Provision (note 5)	(807)	(1,608)
Investment income, net (note 2)	<u>190</u>	<u>57</u>
Total operating revenue	<u>9,425</u>	<u>9,896</u>
Operating expenses:		
Interest	1,585	1,811
Administration	<u>7,254</u>	<u>6,817</u>
Total operating expenses	<u>8,839</u>	<u>8,628</u>
Operating income	<u>586</u>	<u>1,268</u>
Nonoperating revenue - other	<u>113</u>	<u>114</u>
Change in net position	699	1,382
Total net position - beginning	<u>220,828</u>	<u>219,545</u>
Total net position - ending	<u>\$ 221,527</u>	<u>220,927</u>

See accompanying Notes to Financial Statements.

**ALASKA STUDENT LOAN CORPORATION**

(A Component Unit of the State of Alaska)

## Unaudited Statements of Cash Flows

Six Months ended December 31, 2015 and 2014

(in thousands)

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Principal payments received on loans	\$ 33,116	37,506
Interest received on loans	7,214	8,116
Other receipts	47	(82)
Loans originated	(3,289)	(2,031)
Administration	(3,916)	(6,957)
Interest paid on debt	(2,278)	(1,948)
Principal paid on debt	(55,372)	(11,046)
Income received on investments	115	(8)
Investments matured or sold	253,462	85,561
Investments purchased	<u>(229,772)</u>	<u>(106,641)</u>
Net cash provided by (used for) operating activities	<u>(673)</u>	<u>2,470</u>
Cash flows from capital activities:		
Other receipts	113	114
Administration	-	(2)
Interest paid on debt	-	(78)
Principal paid on debt	-	(3,000)
Return of capital payments	<u>(37)</u>	<u>(174)</u>
Net cash provided by (used for) capital activities	<u>76</u>	<u>(3,140)</u>
Net decrease in cash	<u>(597)</u>	<u>(670)</u>
Cash at beginning of period	<u>1,663</u>	<u>1,787</u>
Cash at end of period	<u>\$ 1,066</u>	<u>1,117</u>

See accompanying Notes to Financial Statements.

(continued)

**ALASKA STUDENT LOAN CORPORATION**

(A Component Unit of the State of Alaska)

Unaudited Statements of Cash Flows

Six Months ended June 30, 2015 and 2014

(in thousands)

	<u>2015</u>	<u>2014</u>
Reconciliation of operating income to net cash provided by (used for) operating activities:		
Operating income	\$ <u>586</u>	<u>1,268</u>
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:		
Provision	807	1,608
Change in assets and liabilities:		
Decrease in other assets	513	418
Decrease in interest receivable - investments	103	102
Decrease (increase) in net interest receivable - loans	(11)	805
Decrease (increase) in investments	23,512	(21,247)
Decrease in net loans receivable	26,594	31,205
Decrease in due to U.S. Dept. of Education	(41)	(21)
Decrease (increase) in net due to State of Alaska	3,473	(572)
Increase (decrease) in warrants outstanding	(129)	73
Increase (decrease) in accounts payable	(15)	14
Decrease in interest payable	(196)	(1)
Decrease in bonds payable	<u>(55,869)</u>	<u>(11,182)</u>
Total adjustments	<u>(1,259)</u>	<u>1,202</u>
Net cash provided by (used for) operating activities	\$ <u><u>(673)</u></u>	<u><u>2,470</u></u>
Summary of noncash capital activities that affect recognized assets and liabilities:		
Bond premium amortization	\$ -	5,950

See accompanying Notes to Financial Statements.

# ALASKA STUDENT LOAN CORPORATION

(A Component Unit of the State of Alaska)

Notes to Unaudited Financial Statements

Six Months ended December 31, 2015 and 2014

(in thousands)

## **(1) Authorizing Legislation and Organization**

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

## **(2) Summary of Significant Accounting Policies**

### **(a) Fund Accounting**

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

### **(b) Fiscal Year**

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

### **(c) Operating Revenue and Expense**

The Corporation was created with the authority to issue 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. Operating revenue is offset by the loan and interest related provision. The cost of financing and servicing education loans is considered operating activity.

### **(d) Management Estimates**

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

# ALASKA STUDENT LOAN CORPORATION

(A Component Unit of the State of Alaska)

Notes to Unaudited Financial Statements

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

### (e) *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.

### (f) *Interest on Loans*

Interest on loans is accrued when earned at fixed and variable rates ranging from 1.72% 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.

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 \$1,485 and \$2,073 at December 31, 2015 and 2014, respectively.

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

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

**ALASKA STUDENT LOAN CORPORATION**

(A Component Unit of the State of Alaska)

Notes to Unaudited Financial Statements

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

**(g) Allowances and Provision**

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

The provision is the annual change in the allowances.

**(h) Note Discount**

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

**(i) Income Taxes**

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

**(j) Investments and Investment Income**

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 the arbitrage rebate receivable is recorded as an adjustment to investment income.

**(k) Unrestricted Net Position**

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

**ALASKA STUDENT LOAN CORPORATION**

(A Component Unit of the State of Alaska)

Notes to Unaudited Financial Statements

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

**(1) Reclassifications**

Reclassifications not affecting change in net position have been made to the 2014 financial statements to conform to the 2015 presentation. The provision has been moved to the operating revenue section of the Statements of Revenue, Expense and Changes in Net Position.

**(3) Cash and Investments**

**(a) Cash**

(1) Cash summarized by classification at December 31 follows:

	<u>2015</u>	<u>2014</u>
Current, unrestricted	\$ 900	428
Current, restricted	2	-
Noncurrent, restricted	<u>164</u>	<u>689</u>
Total	<u>\$ 1,066</u>	<u>1,117</u>

**(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 December 31, 2015, the Corporation had no cash exposed to custodial credit risk.

**(b) Investments**

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

	<u>2015</u>	<u>2014</u>
Current:		
Restricted	\$ 13,758	33,913
Noncurrent:		
Unrestricted	44,983	31,920
Restricted	<u>-</u>	<u>29,711</u>
Total	<u>\$ 58,741</u>	<u>95,544</u>

# ALASKA STUDENT LOAN CORPORATION

(A Component Unit of the State of Alaska)

Notes to Unaudited Financial Statements

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

### (b) Investments

#### (2) Investment Policies

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

Restricted funds 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 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. established for the purposes of acquiring the obligations of any of the foregoing or otherwise providing financing therefore; provided such obligation, or the issuer 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 2013 Master Indenture, U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks which have a rating on their short-term certificates of deposit on the date of purchase of at least A-1+ by S&P and P-1 by Moody's and maturing no more than 360 days after the date of purchase.
- Under the 2012B Master Indenture, if rated at purchase in the highest short-term rating category by each rating agency, and which mature 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 P-1 or better by Moody's or A-1 or better by S&P.

# ALASKA STUDENT LOAN CORPORATION

(A Component Unit of the State of Alaska)

Notes to Unaudited Financial Statements

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

### (b) Investments

#### (2) Investment Policies

- Under the 2013 Master Indenture, investments in money market funds rated AAAM or AAAM-G or better by S&P and Aaa by Moody's 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.
- 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 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.

## ALASKA STUDENT LOAN CORPORATION

(A Component Unit of the State of Alaska)

Notes to Unaudited Financial Statements

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

#### (b) Investments

##### (2) Investment Policies

- 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.
- 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 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.
- 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 and holdings for each of the State's fixed-income investment pools is at: [treasury.dor.alaska.gov/investments](http://treasury.dor.alaska.gov/investments).

# ALASKA STUDENT LOAN CORPORATION

(A Component Unit of the State of Alaska)

Notes to Unaudited Financial Statements

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

### (b) Investments

#### (2) Investment Policies

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.
- 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.

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

**ALASKA STUDENT LOAN CORPORATION**

(A Component Unit of the State of Alaska)

Notes to Unaudited Financial Statements

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

**(b) Investments**

**(3) Credit Risk**

Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations. The Corporation mitigates its credit risk by limiting investments to those permitted in the investment policy, diversifying the investment portfolio, and pre-qualifying firms with which the Corporation administers its investment activities.

The fair value of the Corporation's investments by type and credit quality, using a nationally recognized statistical rating organization without modifiers, at December 31 are shown below:

<u>Investment Type</u>	<u>Ratings</u>	<u>2015</u>	<u>2014</u>
Mortgage-backed agencies	AAA	353	-
Mortgage-backed agencies	AA	-	9,347
Money market funds	AAA	31,372	64,604
Money market funds	Not rated	116	-
Corporate bonds	AAA	522	-
Corporate bonds	AA	6,812	1,559
Corporate bonds	A	11,698	4,365
Corporate bonds	BAA	491	-
Internal investment pools	Not rated	7,377	5,739
U.S. Treasury securities	No credit exposure	-	9,373
U.S. dollar	No credit exposure	-	557
Total		<u>\$ 58,741</u>	<u>95,544</u>

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

The Corporation's ownership share of the GeFONSI was 0.21% and 0.12% at December 31, 2015 and 2014, respectively.

**ALASKA STUDENT LOAN CORPORATION**

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Notes to Unaudited Financial Statements

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

**(b) Investments**

(4) Concentration Risk

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

At December 31, 2015, the Corporation had investment balances greater than five percent of the Corporation's total investments with the following investment providers:

	<u>Fair Value</u>	<u>Percent of Total Investments</u>
Federated Prime Obligations Fund	\$ 27,214	46
First American Government Obligation Fund	4,159	7

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

**ALASKA STUDENT LOAN CORPORATION**

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Notes to Unaudited Financial Statements

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

**(b) Investments**

(5) Interest Rate Risk

At December 31, 2015, the weighted average modified duration of investments held by the Corporation was as follows:

Mortgage-backed agency	0.05
Corporate bonds	2.73
Portfolio modified duration	2.73

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

**(c) Other**

Unrestricted cash and unrestricted investments specifically designated for financing education loans include \$1,918 and \$1,486 at December 31, 2015 and December 31, 2014, respectively.

**ALASKA STUDENT LOAN CORPORATION**

(A Component Unit of the State of Alaska)

Notes to Unaudited Financial Statements

**(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 December 31 follows:

	<u>2015</u>	<u>2014</u>
State loans:		
Current, unrestricted	\$ 31,816	11,354
Noncurrent:		
Unrestricted	185,167	85,542
Restricted	<u>62,072</u>	<u>225,919</u>
Total, gross State loans	279,055	322,815
 Federal loans:		
Noncurrent:		
Restricted	<u>94,685</u>	<u>111,625</u>
Total, gross loans	<u>373,740</u>	<u>434,440</u>
Allowance for doubtful loans	79,818	85,916
Allowance for principal forgiveness	<u>1,962</u>	<u>2,014</u>
 Total allowance	<u>81,780</u>	<u>87,930</u>
Total, net loans	<u>\$ 291,960</u>	<u>346,510</u>
 Current, unrestricted	\$ 31,816	11,354
Noncurrent:		
Unrestricted	124,321	51,406
Restricted	<u>135,823</u>	<u>283,750</u>
Total, net loans	<u>\$ 291,960</u>	<u>346,510</u>

**ALASKA STUDENT LOAN CORPORATION**

(A Component Unit of the State of Alaska)

Notes to Unaudited Financial Statements

**(4) Loans receivable (cont.)**

(b) The loan portfolio summarized by program at December 31 follows:

	<u>2015</u>	<u>2014</u>
State Loans		
Supplemental Education	\$ 235,287	272,476
Consolidation	36,177	41,823
Teacher Education	5,938	6,499
Family Education	<u>1,653</u>	<u>2,017</u>
Total State Loans	<u>279,055</u>	<u>322,815</u>
Federal Family Education Loans		
Stafford	78,701	92,955
Consolidation	12,853	14,996
PLUS	<u>3,131</u>	<u>3,674</u>
Total Federal Loans	<u>94,685</u>	<u>111,625</u>
Total	<u>\$ 373,740</u>	<u>434,440</u>

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

	<u>2015</u>		<u>2014</u>	
	<u>State</u>	<u>Federal</u>	<u>State</u>	<u>Federal</u>
Enrollment	\$ 11,069	1,838	12,860	3,755
Grace	1,541	351	1,839	805
Repayment	240,149	70,275	275,779	80,075
Deferment	25,504	12,156	31,495	16,009
Forbearance	<u>792</u>	<u>10,065</u>	<u>842</u>	<u>10,981</u>
Total	<u>\$ 279,055</u>	<u>94,685</u>	<u>322,815</u>	<u>111,625</u>

**ALASKA STUDENT LOAN CORPORATION**

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Notes to Unaudited Financial Statements

**(4) Loans receivable (cont.)**

(d) Loans awarded not distributed at December 31 follows:

	<u>2015</u>	<u>2014</u>
State Loans		
Supplemental Education	\$ 1,752	1,314
Teacher Education	50	88
Family Education	<u>116</u>	<u>84</u>
Total State Loans	<u>\$ 1,918</u>	<u>1,486</u>

**(5) Allowances and Provision**

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

	<u>2015</u>	<u>2014</u>
Balance at beginning of period	\$ 104,976	110,562
Provision	807	1,608
Balances charged off	<u>(1,138)</u>	<u>(888)</u>
Balance at end of period	<u>\$ 104,645</u>	<u>111,282</u>

	<u>2015</u>	<u>2014</u>
Allowance for doubtful loans	\$ 79,818	85,916
Allowance for principal forgiveness	1,962	2,014
Allowance for doubtful interest	22,292	22,843
Allowance for interest forgiveness	<u>573</u>	<u>509</u>
Total	<u>\$ 104,645</u>	<u>111,282</u>

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**(6) Bonds Payable**

(a) Bonds payable at December 31 follows:

	<u>Type</u>	<u>Original Amount</u>	<u>Amount Outstanding</u>	
			<u>2015</u>	<u>2014</u>
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
2005: Serial bonds, Series A, rate 5.0%, due 2015 to 2018	Fixed	58,250	-	22,250
2006: Serial bonds, Series A-2, rate 5.0%, due 2015 to 2018	Fixed	55,000	-	26,000
2007: Serial bonds, Series A-2, rate 5.0%, due 2015 to 2019	Fixed	<u>18,500</u>	<u>-</u>	<u>11,500</u>
Sub-total		153,765	-	62,195
2012B Trust Indenture, Education Loan Revenue, Refunding Bonds, Senior Series 2012B-1, due 2043				
	Variable	78,435	39,435	54,435
2013A Trust Indenture, Education Loan Revenue, Refunding Note, Series 2013A, due 2031				
	Variable	<u>144,730</u>	<u>93,457</u>	<u>112,026</u>
Total Bonds/Note Payable		\$ <u>376,930</u>	132,892	228,656
Unamortized premium/discount, net			<u>(392)</u>	<u>239</u>
Net Bonds/Note Payable			\$ <u>132,500</u>	<u>228,895</u>
Current			29,275	52,717
Noncurrent			<u>103,225</u>	<u>176,178</u>
Total			\$ <u>132,500</u>	<u>228,895</u>

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**(6) Bonds Payable (cont.)**

- (b) The Series 2012B bonds bears interest at a weekly rate, determined by the remarketing agent. The maximum rate applicable to the bonds is 12% per annum. The rate at December 31, 2015 and 2014 was 0.05% and 0.07%, respectively.

The 2013 Series Note bears interest at a rate equal to the one-month London Interbank Offered Rate (LIBOR) plus 0.50%. There is no maximum rate. The rate at December 31, 2015 and 2014 was 0.72% and 0.66%, respectively.

- (c) The minimum payments and sinking fund installments subsequent to December 31, 2015, are as follows:

<u>Period Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 29,275	808	30,083
2017	27,035	642	27,677
2018	25,277	476	25,753
2019	23,904	310	24,214
2020	21,934	142	22,076
2021-2023	<u>5,467</u>	<u>10</u>	<u>5,477</u>
Total	<u>\$ 132,892</u>	<u>2,388</u>	<u>135,280</u>

- (d) The 2013 Refunding note was issued at a discount which is being amortized using the effective method. The effective rate is 0.60 over LIBOR.

- (e) Each Master Indenture represents a limited obligation trust which secures payment for the outstanding 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 2012B and 2013 Master Indenture Bonds/Note are private activity revenue debt. Debt service payments are due as follows:

<u>Master Indenture</u>	<u>Principal</u>	<u>Interest</u>	<u>Bond Type</u>
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 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

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

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.

- (f) On November 12, 2015 the Corporation legally defeased \$30,945 in bonds representing those outstanding under the 2002 Indenture. Cash in the amount of \$32,597 was used to purchase certain U.S. Treasury Obligations. Those securities were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments on the defeased bonds. As a result, the escrow account investments and the defeased bonds are not recorded on the Corporation's balance sheet. The Corporation defeased the bonds to release loans pledged to the 2002 Indenture.

### **(7) Yield Restriction and Arbitrage Rebate**

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

Claim payments are received from the guarantor when a borrower dies, becomes totally and permanently disabled, or defaults on a Federal loan. The Corporation is eligible for these payments provided 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%.

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

Special allowance payment rates are calculated quarterly based on the quarter's daily average 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 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 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. The asserted lack of compliance relates to the Corporation's method of tracking recycled loan payments 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 \$7,157 and \$59 of the Commission's fiscal year 2016 and 2015 operating budgets, respectively, for loan servicing and staff support. The Corporation's and the Commission's budgets are subject to review and approval from both the executive and legislative branches of the State. The Commission's costs funded by the Corporation are based on expenditures incurred by the Commission.

**(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.

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### **(9) Commitments and Contingencies (cont.)**

Income in fiscal year 2015 did not exceed \$2,000; therefore, no capitol will be returned to the State in fiscal year 2017. The board chose not to return capital, based on income, to the state in fiscal year 2016 or 2015.

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 \$1,254 and \$2,129 at December 31, 2015 and 2014, 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 \$4,200 and \$4,338 for the years ended December 31, 2015 and 2014, respectively.

#### **(e) *Legislation***

The Corporation's State education loan programs have been the subject of legislative action by the State legislature. 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 Corporation's State programs cannot be determined.

#### **(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 2012B bonds are subject to an interest rate cap of 12% while the loans pledged to the 2012B 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.

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**(10) Subsequent Event**

On February 1, 2016, the Corporation received a Notification of No Change Determination letter dated January 25, 2016, from the IRS closing the examination on the Corporation's tax-exempt education loan revenue bonds.