

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

Management's Discussion and Analysis and
Financial Statements

June 30, 2017 and 2016

Together with Independent Auditor's Report

ALASKA STUDENT LOAN CORPORATION
(a Component Unit of the State of Alaska)
MANAGEMENT'S DISCUSSION AND ANALYSIS

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ALASKA STUDENT LOAN CORPORATION

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the Alaska Student Loan Corporation's (Corporation) history, financial position at, and financial performance for, the fiscal years ended June 30, 2017 and 2016 is being presented to assist readers in understanding the Corporation's structure, activities and significant financial issues. Fiscal year 2015 information is shown for comparative purposes.

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

History

The State of Alaska (State) 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, and to authorize and regulate postsecondary education institutions in Alaska. The education loan programs administered by the Commission were funded by the State. The Commission resides within the Department of Education and Early Development for budgetary purposes but is not subject to the direction of the Commissioner of Education and Early Development or the State Board of Education. The Commission's activity is considered a primary government function and financial activity is included in the governmental fund section of the State's comprehensive annual financial report.

The Corporation was created in 1987 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.

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

The loan program includes various Federal Family Education Loan Program (FFELP) loans (Federal loans) governed by the Higher Education Act (HEA) and State Education loans (State loans) governed by State statutes. 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 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.
- The Corporation's net loan portfolio has remained sixty-eight percent State loans and thirty-two percent Federal loans for the past three fiscal years.
- Loans are pledged to various indentures or held by the Corporation free and clear (non-pledged) as follows:

	<u>Principal balance, gross</u>			<u>Principal balance as a percentage of total</u>
	<u>State</u>	<u>Federal</u>	<u>Total</u>	
2012B Indenture	\$ 45,191	-	45,191	16
2013 Trust	-	71,799	71,799	25
Non-pledged	171,039	-	171,039	59
Total	<u>\$ 216,230</u>	<u>71,799</u>	<u>288,029</u>	<u>100</u>

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- 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	\$ 35,309	16
Good payment history	25,403	12
Credit ready	121,064	56
No credit criteria	34,454	16
Total	\$ 216,230	100

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

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

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

Financial Highlights

- Financing education loans:

The Corporation last issued bonds, for the purpose of financing new education loans, in June 2007 and has used non-pledged assets and proceeds from a State loan to finance education loans through June 30, 2017. Annual loan volume is anticipated to remain between \$6 and \$10 million. Absent significant increases in operating costs or material changes in the loan program, the Corporation anticipates continuing to meet loan demand with non-pledged assets. When non-pledged assets are no longer available, the Corporation anticipates issuing debt to meet loan demand.

- New loan program

In fiscal year 2017, the Corporation piloted a refinance loan program. This program was designed to grow loan volume as well as meet the needs of existing borrowers qualified to refinance with other lenders. New loan volume as a result of this program was approximately \$2.1 million in fiscal year 2017. Due to the success of this program, it was made a permanent program by the board.

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

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Overview of the Financial Statements

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

Statements of Net Position – This statement presents information regarding the Corporation's assets, liabilities and net position at a point in time. Net position represents the total amount of assets less the total amount of liabilities. This statement reflects the Corporation's financial health at the end of the year. Over time, changes in net position 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 Statements of Net Position. Current assets are those available and reasonably expected to be used to pay current liabilities or cover the cost of operations in the next fiscal year. Current liabilities are those expected to be satisfied in the next fiscal year. Assets and net position are further classified as either restricted or unrestricted. The restricted classification is used when constraints are imposed by external sources or enabling legislation. Restricted assets are classified as noncurrent unless the restriction is short-lived (less than a year).

Statements of Revenues, Expenses, and Changes in Net Position – This statement measures the activities of the Corporation's operations over the past year and presents operating income, results of non-operating activities and change in net position for the year. This statement can be used to determine whether the Corporation has successfully recovered its costs through education loan and investment income.

Statements of Cash Flows – This statement provides information about the sources and uses of the Corporation's cash and the change in the cash balance during the fiscal year. This statement presents cash receipts, cash payments and net changes resulting from operating and capital activities.

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.

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Financial Analysis

- The Corporation's total assets at June 30, 2017, 2016, and 2015 were \$0.3, \$0.3, and \$0.4 billion, respectively. The change in assets from fiscal year 2016 to 2017 was a decrease of \$28 million or 8%, and the change between fiscal year 2015 to 2016 was a decrease of \$75 million or 18%.
- The Corporation's net education loans receivable was \$226, \$268, and \$319 million, at June 30, 2017, 2016 and 2015, respectively. These balances represent a decrease in fiscal year 2017 of \$42 million or 16% and a decrease in fiscal year 2016 of \$51 million or 16%.
- The Corporation's debt at June 30, 2017, 2016, and 2015 was \$84, \$112, and \$188 million, respectively. The change in debt from fiscal year 2016 to 2017 was a decrease of \$28 million or 25%, and the change in debt from fiscal year 2015 to 2016 was a decrease of \$76 million or 40%.
- The assets of the Corporation exceed its liabilities (reported as net position) at the close of fiscal year 2017, 2016 and 2015 by \$223, \$224, and \$221 million, respectively. These balances represent a decrease in fiscal year 2017 of \$1 million or 1% and an increase in fiscal year 2016 of \$4 million or 2%.
- The Corporation's operating revenue was \$12, \$18, and \$18 million at June 30, 2017, 2016 and 2015, respectively. These balances represent a decrease in fiscal year 2017 of \$6 million or 31%, and no change in fiscal year 2016.
- The Corporation's operating interest expense was \$1, \$2, and \$4 million during fiscal years 2017, 2016 and 2015, respectively. These balances represent a decrease in fiscal year 2017 of \$1 million or 44%, and a decrease in 2016 of \$2 million or 33%.
- The Corporation's operating administration expense was \$12, \$13, and \$13 million during fiscal years 2017, 2016 and 2015. These balances represent a decrease in fiscal year 2017 of \$1 million or 8%, and no change in fiscal year 2016.

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

Statement of Net Position (in thousands)

	2017	2016	\$ Change	% Change	2015
Assets:					
Current	\$ 31,751	35,520	(3,769)	(11)	38,986
Noncurrent	279,753	303,876	(24,123)	(8)	374,944
Total assets	<u>\$ 311,504</u>	<u>339,396</u>	<u>(27,892)</u>	(8)	<u>413,930</u>
Liabilities:					
Current	\$ 29,133	29,180	(47)	(0)	53,692
Noncurrent	59,550	85,841	(26,291)	(31)	139,410
Total liabilities	<u>88,683</u>	<u>115,021</u>	<u>(26,338)</u>	(23)	<u>193,102</u>
Net position:					
Unrestricted	199,124	202,580	(3,456)	(2)	95,710
Restricted	23,697	21,795	1,902	9	125,118
Total net position	<u>222,821</u>	<u>224,375</u>	<u>(1,554)</u>	(1)	<u>220,828</u>
Total liabilities and net position	<u>\$ 311,504</u>	<u>339,396</u>	<u>(27,892)</u>	(8)	<u>413,930</u>

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

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

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

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

The fiscal year 2016 decrease in current assets is due to the decrease in current investments. Current investments represent investments set aside for accrued interest and principal debt service payments due in the next year. Debt service payments due in the next year have declined approximately \$24 million from

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the prior year, more than seventy percent of which was due to the defeasance of the bonds held in the 2002 Indenture. The decrease in investments is offset by an increase in current loans receivable. The increase in loans receivable is due to the release of loans pledged to the bonds issued under the 2002 Indenture when those bonds were defeased. Loan balances classified as current are those expected to be paid in the next twelve months.

The fiscal year 2016 decrease in noncurrent assets is due to the \$66 million reduction in the net loan receivable balance between years. The reduction in loans receivable is because loan principal repayments continue to be greater than originations and capitalized interest. Noncurrent investments decreased because the investments held in the 2002 Indenture was used to defease the bonds held in that Indenture. This reduction was offset by collections on nonpledged loans in excess of that needed for loan originations and administrative costs.

The fiscal year 2016 decrease in current liabilities is due to the decline in bonds payable. Current bonds payable from restricted assets declined \$24 million, \$17 million of which was due to the defeasance of the bonds held in the 2002 Indenture, the remaining \$7 million reduction was due to the reduction in loan payments available for bond payments. Loan payments are declining because of the overall decline in the loan portfolio.

Noncurrent liabilities are \$54 million lower in fiscal year 2016 than they were in fiscal year 2015 due to the decline in bonds payable, \$29 million of which was due to the defeasance of the bonds held in the 2002 Indenture. The remaining \$23 million reduction was due to the fact that no new bonds have been issued by the Corporation and existing debt service payments are being made.

Unrestricted net position increased \$107 million in fiscal year 2016 because loans pledged to the bonds issued under the 2002 Indenture, which were restricted in past years, become unrestricted when the bonds were defeased. Reclassification of those loans resulted in the decline in the restricted net position balance.

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

	2017	2016	\$ Change	% Change	2015
Operating revenue	\$ 12,389	17,982	(5,593)	(31)	18,006
Operating expense	(12,796)	(14,822)	2,026	(14)	(17,012)
Nonoperating revenue	53	387	(334)	(86)	289
Return of capital	(1,200)	-	(1,200)	-	-
Change in net position	(1,554)	3,547	(5,101)	(144)	1,283
Net position - beginning	224,375	220,828	3,547	2	219,545
Net position - ending	\$ 222,821	224,375	(1,554)	(1)	220,828

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Operating revenue represents interest on education loans, loan-related provisions and earnings on investments. Interest on education loans continues to decline due to the decline in the loan portfolio. As the education loan portfolio decreases so will related loan interest revenue. The net education loan portfolio decreased 15% in fiscal year 2017 and the resulting decrease in education loan interest income, prior to recording the change in yield restriction payable, was 15%. The decrease in fiscal year 2017 is also attributed to an increase in the yield restriction payable of approximately \$428. The average return on gross loans, prior to recording the change in the yield restriction payable, has been 4.4% in the last three fiscal years. The provision represents the current year change in estimated principal losses and interest losses on that principal. The provision related to principal losses increased \$2.5 million in fiscal year 2017 due to the loan portfolio's performance being less than anticipated at the end of fiscal year 2016. The interest loss provision remained the same for both fiscal years. Interest continues to accrue on doubtful loans until they are written off. Loans are removed from the doubtful category when the borrower resumes making regular payments as scheduled. The investment portfolio increased 22.4% in fiscal year 2017; however, the return on the portfolio was lower than prior year. The average return on investments, prior to recording the change in the arbitrage rebate receivable was 0.4%, 0.7% and 0.2% in fiscal years 2017, 2016 and 2015, respectively. The decrease in investment income in fiscal year 2017 is also attributed to a decrease in the arbitrage rebate receivable.

Operating expense declined due to the reduction in debt-related interest expense and administrative costs in fiscal year 2017. Interest expense has declined due to an overall reduction of approximately \$28 million in debt outstanding. The average rate on outstanding debt was 1.18%, 1.44% and 1.60% for fiscal years 2017, 2016 and 2015, respectively. The decline in administrative costs was attributed to several items, the most significant being one-time costs incurred in fiscal year 2016 related to the defeasance of bonds issued under the 2002 Trust; the IRS audit closure, stabilization of the longitudinal data base; firewall migration costs, and equipment purchases. In addition, cost reductions were realized as changes to programs or efficiencies were identified, such as the elimination of software no longer considered essential, the negotiation of lower maintenance costs or the decision to maintain software in-house, using internal systems to disburse grant and scholarship funds rather than contracting for those services, and lowering contractual costs when new vendors with lower prices are identified.

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

Operating revenue represents interest on education loans, loan-related provisions and earnings on investments. Interest on education loans continues to decline due to the decline in the loan portfolio. As the education loan portfolio decreases so will related loan interest revenue. The net education loan portfolio decreased 16% in fiscal year 2016 and the resulting decrease in education loan interest income, prior to recording the change in yield restriction payable, was 12%. The decrease in fiscal year 2016 was offset by the decrease in the yield restriction payable of approximately \$1.4 million which is netted against interest on loans. The average return on gross loans, prior to recording the change in the yield restriction payable, was 4.4%, 4.4% and 4.3% in fiscal years 2016, 2015 and 2014, respectively. The provision represents the current year change in estimated principal losses and interest losses on that principal. The provision related

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to principal losses decreased \$228 in fiscal year 2016 due to the fact that the cohorts (year loans first entered repayment) used in the calculation had slightly lower loss rates than those used in the calculation for the previous year. The interest loss provision decreased by \$52 in fiscal year 2016 due to the smaller increase in interest receivable on higher loss rate categories compared to the previous year. Interest continues to accrue on doubtful loans until they are written off. Loans are removed from the doubtful category when the borrower resumes making regular payments as scheduled. The investment portfolio decreased 24.6% in fiscal year 2016; however, the return on the portfolio was higher than prior year. The average return on investments, prior to recording the change in the arbitrage rebate receivable was 0.4%, 0.7% and 0.2% in fiscal years 2017, 2016 and 2015, respectively. The increase in investment income in fiscal year 2016 is offset by the decrease in the arbitrage rebate receivable.

Operating expense declined due to the reduction in debt-related interest expense and administrative costs in fiscal year 2016. The decline in interest expense is related to the decline in debt-related rates as well as an overall reduction of approximately \$76 million in debt outstanding. The average rate on outstanding debt was 1.18%, 1.44% and 1.60% for fiscal years 2017, 2016 and 2015, respectively. The reduction in administrative costs is due to several items, the most significant being the reduction in information technology related costs due to the transition in the operating platform for the student loan servicing system that occurred in April of fiscal year 2015. In addition, providing borrowers enhanced on-line access to account information, the ability to opt-out of receiving paper correspondence, and using email as a means of communication has resulted in significant communication cost reductions.

Nonoperating revenue consists primarily of federal direct loan servicing fees which are earned on direct loans allocated to the Corporation for servicing. This servicing is performed by a third-party for a share of the fee.

Borrower Benefits

The Board approved various loan benefits to provide incentives and rewards to borrowers. The benefit package, intended to lower borrowers' interest costs, 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 supported by loans eligible for borrower benefits. The rating confirmation must indicate that the change to the borrower benefit package will not have a negative impact on bond ratings previously issued. Borrower benefits awarded in fiscal years 2017, 2016 and 2015 cost approximately \$693, \$854, and \$969, respectively. The cost is recorded as an offset to interest on loans. The borrower benefit package for fiscal year 2018 will be the same as that in 2017. Information related to benefits to eligible borrowers is at acpe.alaska.gov/Financial_Aid/Loans/Borrower_Benefits.

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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

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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, 2017 and 2016, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2017 and 2016, 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 10 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 29, 2017 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.



September 29, 2017

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Statements of Net Position

June 30, 2017 and 2016

(in thousands)

	2017	2016
Assets:		
Current assets:		
Cash (note 3)	\$ 684	643
Other	234	90
Interest receivable on investments	322	202
Interest receivable on loans	1,584	1,301
Loans receivable (note 4)	23,986	26,362
Arbitrage rebate receivable (notes 2 and 7)	229	235
Restricted:		
Investments (note 3)	4,687	6,662
Other	25	25
Total current assets	31,751	35,520
Noncurrent assets:		
Interest receivable on loans, net (note 5)	2,705	3,148
Loans receivable, net (notes 4 and 5)	101,394	116,446
Investments (note 3)	71,244	55,357
Restricted:		
Cash (note 3)	73	134
Interest receivable on investments	3	2
Interest receivable on loans, net (note 5)	3,227	3,616
Loans receivable, net (notes 4 and 5)	101,107	125,173
Total noncurrent assets	279,753	303,876
Total assets	\$ 311,504	339,396

See accompanying Notes to Financial Statements.

(continued)

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Statements of Net Position

June 30, 2017 and 2016

(in thousands)

	2017	2016
Liabilities and Net Position:		
Liabilities:		
Current:		
Payable from unrestricted assets:		
Due to State of Alaska	\$ 1,363	1,124
Accounts payable	57	80
Return of capital payable (note 9)	1,838	-
Payables from restricted assets:		
Due to U.S. Dept. of Education (note 8)	447	667
Accounts payable	14	17
Return of capital payable (note 9)	-	741
Interest payable	10	10
Bonds payable (note 6)	25,404	26,541
Total current liabilities	29,133	29,180
Noncurrent - payable from restricted assets:		
Yield restriction payable (notes 2 and 7)	592	164
Bonds payable (note 6)	58,958	85,677
Total noncurrent liabilities	59,550	85,841
Total liabilities	88,683	115,021
Net position:		
Unrestricted (note 2)	199,124	202,580
Restricted	23,697	21,795
Total net position	222,821	224,375
Total liabilities and net position	\$ 311,504	339,396

See accompanying Notes to Financial Statements.

ALASKA STUDENT LOAN CORPORATION
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Statements of Revenue, Expense, and Changes in Net Position

Years Ended June 30, 2017 and 2016

(in thousands)

	<u>2017</u>	<u>2016</u>
Operating revenue:		
Interest on loans, net (note 2)	\$ 16,054	20,890
Provision (note 5)	(4,029)	(3,831)
Investment income, net (note 2)	<u>364</u>	<u>923</u>
Total operating revenue	<u>12,389</u>	<u>17,982</u>
Operating expense:		
Interest	1,180	2,104
Administration	<u>11,616</u>	<u>12,718</u>
Total operating expense	<u>12,796</u>	<u>14,822</u>
Operating income (loss)	(407)	3,160
Nonoperating revenue - other	<u>53</u>	<u>387</u>
Income (loss) before return of capital	(354)	3,547
Return of capital (note 9)	<u>(1,200)</u>	<u>-</u>
Change in net position	(1,554)	3,547
Total net position - beginning	<u>224,375</u>	<u>220,828</u>
Total net position - ending	<u>\$ 222,821</u>	<u>224,375</u>

See accompanying Notes to Financial Statements.

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Statements of Cash Flows
Years Ended June 30, 2017 and 2016
(in thousands)

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Principal payments received on loans	\$ 52,640	61,026
Interest received on loans	9,896	12,352
Other receipts	(16)	30
Loans originated	(8,380)	(4,975)
Administration	(11,394)	(12,074)
Interest paid on debt	(1,098)	(2,743)
Principal paid on debt	(27,937)	(75,700)
Income received on investments	892	455
Investments matured or sold	176,221	258,262
Investments purchased	<u>(190,776)</u>	<u>(237,356)</u>
Net cash provided by (used for) operating activities	<u>48</u>	<u>(723)</u>
Cash flows from capital activities:		
Other receipts	35	387
Return of capital payments	<u>(103)</u>	<u>(550)</u>
Net cash used for capital activities	<u>(68)</u>	<u>(163)</u>
Net decrease in cash	(20)	(886)
Cash at beginning of period	<u>777</u>	<u>1,663</u>
Cash at end of period	<u>\$ 757</u>	<u>777</u>

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, 2017 and 2016
(in thousands)

	2017	2016
Reconciliation of operating income to cash flows		
from operating activities:		
Operating income (loss)	\$ (407)	3,160
Adjustments to reconcile operating income to net cash provided by operating activities:		
Provision	4,029	3,831
Change in assets and liabilities:		
Decrease (increase) in other assets	(126)	645
Decrease (increase) in interest receivable - investments	(121)	6
Increase in interest receivable - loans	(1,908)	(1,747)
Decrease (increase) in investments	(13,912)	20,234
Decrease in loans receivable	39,922	50,481
Decrease in due to U.S. Dept. of Education	(220)	(186)
Increase in net due to State of Alaska	239	677
Decrease in warrants outstanding	-	(129)
Decrease in accounts payable	(26)	(164)
Increase (decrease) in net yield restriction/arbitrage rebate payable	434	(1,192)
Decrease in interest payable	-	(188)
Decrease in bonds payable	(27,856)	(76,151)
Total adjustments	455	(3,883)
Net cash provided by (used for) operating activities	\$ 48	(723)

See accompanying Notes to Financial Statements.

ALASKA STUDENT LOAN CORPORATION

(A Component Unit of the State of Alaska)

Notes to Financial Statements

(1) Authorizing Legislation and Organization

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

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

(2) Summary of Significant Accounting Policies

(a) *Fund Accounting*

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

(b) *Fiscal Year*

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

(c) *Operating Revenue and Expense*

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

(d) *Management Estimates*

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

ALASKA STUDENT LOAN CORPORATION

(A Component Unit of the State of Alaska)

Notes to Financial Statements

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

(e) Loans

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

(f) Interest on Loans

Interest on loans is accrued when earned at fixed and variable rates ranging from 2.05% to 9.00%.

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

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

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

Non-interest bearing loans were approximately \$803 and \$1,180 at June 30, 2017 and 2016, 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 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 is no longer anticipated. The Corporation also writes off State loans legally discharged in bankruptcy proceedings and the portion of Federal loan balances not guaranteed and deemed uncollectible. Accrued unpaid interest is written off when the related loan is written off. A borrower of a TEL can obtain up to 100% forgiveness of loan principal and interest if the borrower teaches in rural Alaska for periods specified by the Program.

The provision is the annual change in the allowances.

(h) *Note Discount*

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

(i) *Income Taxes*

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

(j) *Investments and Investment Income*

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

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

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

ALASKA STUDENT LOAN CORPORATION

(A Component Unit of the State of Alaska)

Notes to Financial Statements

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

(k) Due to State of Alaska

Amounts due to the State of Alaska represents the net difference between amounts paid by the Corporation on behalf of the State and amounts paid by the State on behalf of the Corporation.

(l) Unrestricted Net Position

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

(3) Cash and Investments

(a) Cash

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

	<u>2017</u>	<u>2016</u>
Current, unrestricted	\$ 684	643
Noncurrent, restricted	<u>73</u>	<u>134</u>
Total	<u>\$ 757</u>	<u>777</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 June 30, 2017, the Corporation had no cash exposed to custodial credit risk.

(b) Investments

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

	<u>2017</u>	<u>2016</u>
Current:		
Restricted	\$ 4,687	6,662
Noncurrent:		
Unrestricted	<u>71,244</u>	<u>55,357</u>
Total	<u>\$ 75,931</u>	<u>62,019</u>

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

Notes to Financial Statements

(3) Cash and Investments (cont.)

(b) Investments

(2) Investment Policies

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

Restricted funds 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 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 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 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, commercial paper 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 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

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Notes to 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 for each of the State's fixed-income investment pools is at treasury.dor.alaska.gov/investments.

ALASKA STUDENT LOAN CORPORATION

(A Component Unit of the State of Alaska)

Notes to 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 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 and diversifying the investment portfolio.

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

Investment Type	Ratings	2017	2016
Mortgage-backed securities (agencies)	AAA	\$ 343	356
Money market funds	AAA	14,936	8,903
Corporate bonds	AAA	2,147	1,043
Corporate bonds	AA	17,078	10,227
Corporate bonds	A	34,729	22,680
GeFONSI	Not rated	6,698	1,813
U.S. Treasury securities	Not rated	-	16,997
Total		<u>\$ 75,931</u>	<u>62,019</u>

The Corporation's ownership share of the GeFONSI was 0.16% and 0.05% at June 30, 2017 and 2016, respectively.

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

ALASKA STUDENT LOAN CORPORATION

(A Component Unit of the State of Alaska)

Notes to Financial Statements

(3) Cash and Investments (cont.)

(b) Investments

(4) Concentration Risk

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

At June 30, 2017, the Corporation had investment balances greater than five percent of the Corporation's total investments with the following investment provider:

	<u>Fair Value</u>	<u>Percent of Total Investments</u>
Fidelity Institutional Money Market Fund	\$ 12,419	16

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

(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 Financial Statements

(3) Cash and Investments (cont.)

(b) Investments

(6) Interest Rate Risk

At June 30, 2017, the weighted average modified duration of investments, other than investments in money market funds and the GeFONSI, follows:

Mortgage backed agencies	1.67
Corporate bonds	1.95
Portfolio modified duration	1.94

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

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

(7) Fair Value Measurements

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

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

(c) Other

Unrestricted cash and unrestricted investments specifically designated for financing education loans include \$437 and \$850 at June 30, 2017 and 2016, respectively.

ALASKA STUDENT LOAN CORPORATION

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Notes to Financial Statements

(4) Loans Receivable

Loans were financed by the issuance of debt and recycled loan payments.

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

	<u>2017</u>	<u>2016</u>
State loans:		
Current, unrestricted	\$ 23,986	26,362
Noncurrent:		
Unrestricted	147,053	162,658
Restricted	<u>45,191</u>	<u>54,558</u>
Total, gross State loans	216,230	243,578
Federal loans:		
Noncurrent:		
Restricted	<u>71,799</u>	<u>87,172</u>
Total, gross loans	<u>288,029</u>	<u>330,750</u>
Allowance for doubtful loans	61,125	60,800
Allowance for principal forgiveness	<u>417</u>	<u>1,969</u>
Total allowance	<u>61,542</u>	<u>62,769</u>
Total, net loans	<u>\$ 226,487</u>	<u>267,981</u>
Current, unrestricted	\$ 23,986	26,362
Noncurrent:		
Unrestricted	101,394	116,446
Restricted	<u>101,107</u>	<u>125,173</u>
Total, net loans	<u>\$ 226,487</u>	<u>267,981</u>

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

Notes to Financial Statements

(4) Loans receivable (cont.)

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

	2017	2016
State Education Loans		
Supplemental	\$ 178,764	204,765
Consolidation	25,403	31,828
Refinanced	5,718	-
Teacher Education	4,791	5,437
Family Education	1,554	1,548
Total State Loans	216,230	243,578
Federal Family Education Loans		
Stafford	58,928	72,068
Consolidation	10,595	12,171
PLUS	2,276	2,933
Total Federal Loans	71,799	87,172
Total, gross loans	\$ 288,029	330,750

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

	2017		2016	
	State	Federal	State	Federal
Enrollment	\$ 8,992	872	9,230	1,368
Grace	3,310	209	3,000	481
Repayment	185,095	54,855	207,038	64,789
Deferment	18,240	8,616	23,443	10,944
Forbearance	593	7,247	867	9,590
Total	\$ 216,230	71,799	243,578	87,172

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

	2017	2016
State Education Loans		
Supplemental	\$ 278	803
Refinanced	142	-
Family Education	17	47
Total State Loans	\$ 437	850

ALASKA STUDENT LOAN CORPORATION

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Notes to Financial Statements

(5) Allowances and Provision

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

	<u>2017</u>	<u>2016</u>
Balance, beginning of period	\$ 79,659	104,976
Provision	4,029	3,831
Balances charged off	<u>(4,036)</u>	<u>(29,148)</u>
Balance, end of period	<u>\$ 79,652</u>	<u>79,659</u>

	<u>2017</u>	<u>2016</u>
Allowance for:		
doubtful loans	\$ 61,125	60,800
principal forgiveness	417	1,969
doubtful interest	18,082	16,221
interest forgiveness	<u>28</u>	<u>669</u>
Total	<u>\$ 79,652</u>	<u>79,659</u>

ALASKA STUDENT LOAN CORPORATION

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Notes to Financial Statements

(6) Bonds Payable

(a) Bonds payable at June 30 follows:

		Original	<u>Outstanding Amount</u>	
	<u>Type</u>	<u>Amount</u>	<u>2017</u>	<u>2016</u>
2012B Trust Indenture, Education Loan Revenue, Refunding Bonds, Senior Series 2012B-1, due 2043	Variable	78,435	14,935	26,935
2013 Trust Indenture, Education Loan Revenue, Refunding Note, Series 2013, due 2031	Variable	<u>144,730</u>	<u>69,693</u>	<u>85,630</u>
Total Bonds/Note Payable		\$ <u>223,165</u>	84,628	112,565
Unamortized discount net			(266)	(347)
Net Bonds/Note Payable			\$ <u>84,362</u>	<u>112,218</u>
Current			25,404	26,541
Noncurrent			58,958	85,677
Total			\$ <u>84,362</u>	<u>112,218</u>

ALASKA STUDENT LOAN CORPORATION
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Notes to Financial Statements

(6) Bonds Payable (cont.)

- (b) The Series 2012B bonds bear interest at a weekly rate, determined by the remarketing agent. The maximum rate applicable to the bonds is 12% per annum. The rate at June 30, 2017 and 2016 was 0.94% and 0.46%, respectively.

The 2013 Refunding Note bears interest at a rate equal to the one-month London Interbank Offered Rate (LIBOR) plus 50 basis points. There is no maximum rate. The rate at June 30, 2017 and 2016 was 1.72% and 0.95%, respectively.

- (c) The minimum payments projected subsequent to June 30, 2017, are as follows:

<u>Period Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 25,404	1,212	26,616
2019	21,413	849	22,262
2020	16,355	521	16,876
2021	16,638	238	16,876
2022	<u>4,818</u>	<u>14</u>	<u>4,832</u>
Total	<u>\$ 84,628</u>	<u>2,834</u>	<u>87,462</u>

- (d) The 2013 Refunding note was issued at a discount which is being amortized using the effective method. The effective rate is 60 basis points over LIBOR.
- (e) Each Master Indenture represents a limited obligation trust which secures payment for the outstanding debt issued therein. The debt is payable from assets pledged to the respective indenture including principal and interest payments on pledged loans. The debt does not constitute a general obligation of the Corporation or of the State. The debt is private activity revenue debt. Debt service payments are due as follows:

<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 indentures contain covenants relative to restrictions on additional indebtedness.

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

ALASKA STUDENT LOAN CORPORATION

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Notes to Financial Statements

(6) Bonds Payable (cont.)

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

(7) Yield Restriction and Arbitrage Rebate

Education loans financed with proceeds of tax-exempt bonds issued by the Corporation are subject to interest rate yield restrictions of no more than 2% over the bond yield. Earnings on non-loan investments pledged to bond indentures are subject to rebate provisions which restrict earnings to the related bond yield. These restrictions are in effect over the life of the bonds. Loan and investment yields are calculated and analyzed annually. These analyses are used to determine both compliance with Internal Revenue Service (IRS) provisions and the amount of arbitrage rebate and yield restriction receivable/payable amounts, if any. The amount recorded as yield restriction payable represents the amount due to the IRS for earnings on pledged loans in excess of the allowable yield. 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 compliance with servicing requirements outlined in the HEA. Failure to fulfill the requirements may result in an interest penalty or loss of guarantee. In the case of a default claim, unpaid principal and interest are guaranteed at 98% if the loan was first originated prior to July 1, 2006, and 97% if the loan was first originated after June 30, 2006. Claims as a result of a borrower's death or becoming totally and permanently disabled are guaranteed at 100%.

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

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

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

(9) Commitments and Contingencies

(a) Operations

The Corporation will fund approximately \$12,144 and \$185 of the Commission's fiscal year 2018 and 2017 operating budgets, respectively, for loan servicing and staff support. The Corporation's and the Commission's budgets are subject to review and approval from both the executive and legislative branches of the State. The Commission's costs funded by the Corporation are based on expenditures incurred by the Commission.

(b) Return of Capital

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

On November 30, 2016, the Board approved a \$1,200 Return of Capital payment to the State based on income (referred to as change in net position on the Statements of Revenue, Expense and Changes in Net Position) in fiscal year 2016. Income in fiscal year 2015 did not exceed \$2,000; therefore, no capital was returned to the State in fiscal year 2017.

As an additional means of returning capital, the Corporation issued bonds to finance State capital projects. No bonds have been issued since 2005 for this purpose. The Corporation reimburses the State for expenditures related to projects funded with Corporation capital project bond proceeds. Restricted investments include amounts specifically designated for financing State capital projects totaling \$638 and \$741 at June 30, 2017 and 2016, respectively.

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(9) Commitments and Contingencies (cont.)

(c) *State Permanent Fund Dividend Garnishment*

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

PFD garnishments were approximately \$1,801 and \$4,269 for the years ended June 30, 2017 and 2016, respectively.

(d) *Legislation*

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

(e) *Non-Investment Interest Rate Risk*

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