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

Management's Discussion and Analysis and
Financial Statements

June 30, 2014 and 2013

Together with Independent Auditor's Report

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

June 30, 2014 and 2013

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the Alaska Student Loan Corporation's (Corporation) history, financial position at, and financial performance for, the fiscal years ended June 30, 2014 and 2013 is being presented to assist readers in understanding the Corporation's structure, activities and significant financial issues. Fiscal year 2012 information is shown for comparative purposes.

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

History

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

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

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

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

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

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

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

The Program was structured to provide eligible borrowers with low-cost financial aid options. It encourages students to take advantage of federal aid resources to maximize their grant and lowest cost loan options prior to tapping into alternative loan sources.

Program Highlights

- The Corporation continues to hold and administer its FFELP portfolio. Loans in that portfolio are guaranteed by Northwest Education Loan Association.

- The Corporation continues to originate state loans as well as administer its state loan portfolio. State loans are not supported by collateral nor are they guaranteed.

- Loan portfolio by type is as follows:

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

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

	Principal balance, gross			Principal balance as a percentage of total
	State	Federal	Total	
2002 Trust	$ 164,405	-	164,405	35
2005 Trust	25,542	-	25,542	6
2012B Trust	81,148	-	81,148	17
2013A Trust	-	122,273	122,273	26
Non-pledged	73,078	-	73,078	16
Total	$ 344,173	122,273	466,446	100

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

	Principal balance, gross	Principal balance as a percentage of total
FICO of 680 or greater	$ 35,976	10
Good payment history	43,801	13
Credit ready	216,704	63
No credit criteria	47,692	14
Total	$ 344,173	100

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

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

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

Financial Highlights

- Financing education loans:

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

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

- Trust-related reports are available at: http://acpe.alaska.gov/Home/Investor/Investor_Relations.

Overview of the Financial Statements

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

Balance Sheets – This statement presents information regarding the Corporation's assets, liabilities and net position at a point in time. Net position represents the total amount of assets less the total amount of liabilities. This statement reflects the Corporation's financial health at the end of the year. Over time, changes in net position may serve as a useful indicator of whether the financial position of the Corporation is improving or deteriorating.

Assets and liabilities are classified as current or noncurrent on the Balance Sheets. Current assets are those available and reasonably expected to be used to pay current liabilities or cover the cost of operations in the next fiscal year. Current liabilities are those expected to be satisfied in the next fiscal year. Assets and net position are further classified as either restricted or unrestricted. The restricted classification is used when constraints are imposed by external sources or enabling legislation. Restricted assets are classified as noncurrent unless the restriction is short-lived (less than a year).

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

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

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

Financial Analysis

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

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

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

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

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

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

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

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

Balance Sheet (in thousands)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Borrower Benefits

The Board has approved various loan benefits to provide incentives and rewards to borrowers who participate in the loan programs. The benefit package, intended to lower borrowers' interest cost, is subject to annual approval by the Board. Changes to the package are subject to a confirmation from rating agencies rating the Corporation's outstanding bonds. The rating confirmation must indicate that the change to the borrower benefit package will not have a negative impact on bond ratings previously issued. Borrower benefits awarded in fiscal years 2014, 2013 and 2012 cost approximately $1,100 each year and are recorded as an offset to education loan interest income. The borrower benefit package for fiscal year 2015 will be the same as that in 2014. Information related to benefits available to eligible borrowers is available online at http://acpe.alaska.gov/Student-Parent/Loans.

Contacting the Corporation

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

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Alaska Student Loan Corporation
Juneau, Alaska

Report on the Financial Statements

We have audited the accompanying financial statements of the Alaska Student Loan Corporation, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Alaska Student Loan Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Alaska Student Loan Corporation, as of June 30, 2014 and 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 1 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2014 on our consideration of the Alaska Student Loan Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Alaska Student Loan Corporation's internal control over financial reporting and compliance.

ERM

September 30, 2014

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

Balance Sheets

June 30, 2014 and 2013

(in thousands)

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

See accompanying Notes to Financial Statements (continued)

ALASKA STUDENT LOAN CORPORATION

(A Component Unit of the State of Alaska)

Balance Sheets

June 30, 2014 and 2013

(in thousands)

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

See accompanying Notes to Financial Statements

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

Statements of Revenue, Expenses, and Changes in Net Position

Years ended June 30, 2014 and 2013

(in thousands)

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

See accompanying Notes to Financial Statements

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

Statements of Cash Flows

Years ended June 30, 2014 and 2013

(in thousands)

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

See accompanying Notes to Financial Statements (continued)

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

Statements of Cash Flows

Years ended June 30, 2014 and 2013

(in thousands)

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

See accompanying Notes to Financial Statements.

(1) Authorizing Legislation and Organization

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

The Corporation contracts with the Alaska Commission on Postsecondary Education (Commission) to service its loan portfolio and to provide staff for the Corporation. The Commission, a component of a separate legal entity, is responsible for staff costs; therefore, the Corporation has no pension-related activity to disclose.

(2) Summary of Significant Accounting Policies

(a) *Fund Accounting*

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

(b) *Standard Application, Net Position Restatement*

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

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

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

(c) *Fiscal Year*

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

(d) *Operating Revenues and Expenses*

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

(e) *Management Estimates*

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

(f) *Loans*

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

(g) *Interest on Loans*

Interest on loans is accrued when earned at fixed and variable rates ranging from 1.75% to 9.00%. For federally guaranteed subsidized loans, interest from the disbursement date of the loan until a date that is six months after the borrower withdraws from school (plus any authorized deferment and eligible income-based repayment periods) is paid by the U.S. Department of Education (Department) under the Federal Family Education Loan Program (FFELP). The borrower is responsible for interest accruing subsequent to that date.

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

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

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

Non-interest bearing loans were approximately $2,365 and $2,457 at June 30, 2014 and 2013, respectively.

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

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

(h) ***Allowances and Provision***

The allowances represent management's estimate, based on experience, of loans, and accrued interest on loans that will ultimately be uncollectible or forgiven. The Corporation may write off State loans upon death, bankruptcy, total disability, or when payment activity, including co-signer payment activity, ceases and the loan is no longer credit reportable. The Corporation writes off the portion of Federal loan balances not guaranteed and deemed uncollectible. Accrued unpaid interest is written off when the related loan is written off.

A borrower of a TEL can obtain up to 100% forgiveness of loan principal and interest if the borrower teaches in rural Alaska for periods specified by the Program. A borrower of a State loan (other than TEL) awarded prior to July 1, 1987, can obtain up to 50% forgiveness of loan principal and interest if the borrower meets conditions specified by the program.

(i) ***Origination Fee***

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

(j) ***Bond Premiums and Note Discounts***

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

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

(k) *Bond Premiums and Note Discounts*

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

(l) *Income Taxes*

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

(m) *Investments and Investment Income*

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

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

(n) *Unrestricted Net Position*

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

(3) Cash and Investments

(a) *Cash*

(1) Cash summarized by classification at June 30 is shown below:

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

(2) Custodial Credit Risk

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

At June 30, 2014, the Corporation had no cash exposed to custodial credit risk.

(3) Cash and Investments (cont.)

(b) *Investments*

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

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

(2) Investment Policies

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

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

- Under the 2002 Master Indenture, direct general obligations of, or obligations fully and unconditionally guaranteed as to the timely payment of principal and interest by, the United States (U.S.) or any agency thereof, provided such obligations are backed by the full faith and credit of the U.S. Under the 2005 Master Indenture, direct obligations of the U.S. Under the 2013 indenture, direct obligations of the U.S. having maturities of not more than 365 days.

- Under the 2005 Master Indenture, senior debt obligations, rated AAA by Standard and Poor’s (S&P), issued by the Federal National Mortgage Association (FNMA) or the Federal Home Loan Mortgage Corporation (FHLMC), obligations of the Resolution Funding Corporation, senior debt obligations of the Federal Home Loan Bank (FHLB), and senior debt obligations of any government sponsored agency approved by the bond insurer.

(3) Cash and Investments (cont.)

(b) *Investments*

(2) Investment Policies

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

- Under the 2002 and 2013 Master Indentures, U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks which have a rating on their short-term certificates of deposit on the date of purchase of at least A-1+ by S&P and P-1 by Moody's and maturing no more than 360 days after the date of purchase. Under the 2005 Master Indenture, such investments are allowed if the rating from S&P is A-1 or better on the date of purchase.

- Under the 2002 Master Indenture, commercial paper which is rated, at purchase, at least A-1+ by S&P and P-1 by Moody's. Under the 2005 Master Indenture, such investments are allowed if rated A-1+ or better by S&P at purchase and if the investment matures not more than 270 days (365 days for the 2013 Indenture) after the date of purchase. Under the 2012B Master Indenture, such investments are allowed if rated at purchase in the highest short-term rating category by each rating agency, and matures not more than 270 days after the date of purchase.

- Under the 2012B Master Indenture, interest-bearing negotiable certificates of deposit, interest-bearing time deposits, interest-bearing savings accounts or money market deposit accounts issued by or held in any commercial bank, savings and loan association or trust company whose unsecured short-term obligations are rated in P-1 or better by Moody's or A-1 or better by S&P.

- Under the 2002 Master Indenture, investments in money market funds rated AAAm or AAAm-G or better by S&P and Aaa by Moody's. Under the 2005 Master Indenture, such investments are allowed if rated AAAm or AAAm-G or better by S&P. Under the 2013 Master Indenture, such investments are allowed if maturities are not more than 365 days. Under the 2012B Master Indenture, any money market fund, each rated by Moody's and S&P not lower than its highest applicable rating category.

(3) Cash and Investments (cont.)

(b) *Investments*

(2) Investment Policies

- Under the 2002 Master Indenture, general obligations of any state or municipality with a rating of at least A by S&P and Aaa by Moody's. Under the 2005 Master Indenture, general obligations of states with a rating of A or higher by S&P.

- Under the 2012B Master Indenture, any bonds or other obligations of any state of the U.S. or of any agency, instrumentality or local government unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and (a) which are rated, based upon an irrevocable escrow account or fund (the "escrow"), in one of the two highest rating categories of each rating agency which rates such debt; or (b) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in item (a) above, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and which escrow is sufficient, as verified by an independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate.

- Under the 2005 Master Indenture, repurchase agreements for 30 days or less provided they are with banks, or primary dealers on the Federal Reserve reporting dealer list, rated A or better by S&P and Moody's.

- Under the 2013 Master Indenture, repurchase obligations with respect to any security that is a direct obligation of, or fully guaranteed by the U.S. or any agency or instrumentality thereof, the obligations of which are backed by the full faith and credit of the U.S., in either case entered into with a depository institution or trust company (acting as principal) rated AA+ by S&P and AAA by Fitch which repurchase obligations shall be replaced within 60 days if the rating thereon falls below a rating of "A" from S&P.

- Under the 2012B Master Indenture, repurchase agreements, in a standard form prescribed by The Securities Industry and Financial Markets Association or similar form, contracted with banks which are members of the Federal Deposit Insurance Corporation, or with government bond dealers reporting to and trading with the Federal Reserve Bank of New York, in each case rated in the highest rating category by each rating agency which rates such debt, which agreements are secured by obligations which are unconditionally guaranteed by the U.S. or any agency thereof rated in one of the two highest rating categories by each rating agency which rates such obligations, or book-entry interests therein.

(3) Cash and Investments (cont.)

(b) *Investments*

(2) Investment Policies

- Under the 2002 Master Indenture, guaranteed investment contracts, investment agreements and repurchase agreements secured by qualifying collateral.

- Under the 2012B Master Indenture, any investment agreement having a term of not more than 18 months with an entity having outstanding short-term debt rated at least A-1, P-1 or F1+, as applicable, or the equivalent.

- Under the 2012B Master Indenture, shares in an investment company rated in the highest rating category by each rating agency which rates such investment company, and registered under the federal Investment Company Act of 1940, whose shares are registered under the federal Securities Act of 1933 and whose only investments are otherwise allowable under the Indenture.

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

- Under the 2002 Master Indenture, unsecured guaranteed investment contracts or investment agreements with any bank, bank holding company, corporation or any other financial institution meeting the following:

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

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

- Under the 2012B Master Indenture, a collective investment fund of the Trustee created pursuant to Regulation 9 of the Office of the Controller of the Currency which is invested in one or more of the types of obligations in which the principal of and interest on are unconditionally guaranteed by the U. S. or any agency thereof rated in one of the two highest rating categories by each rating agency which rates such obligations, or book-entry interests therein.

(3) Cash and Investments (cont.)

(b) *Investments*

(2) Investment Policies

- Under the 2002 Master Indenture, any other investment approved in writing by S&P and Moody’s.

- Under the 2012B Master Indenture, any other investment allowed by law if approved in a credit confirmation.

Unrestricted funds may be invested in the various fixed-income pools managed by Treasury. Investments in Treasury’s fixed-income investment pools are made in accordance with the State's General Investment Policy. These investments represent an ownership share of the pool’s securities rather than ownership of specific securities themselves.

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

In addition to Treasury’s fixed-income investment pools, the following securities are eligible for investment of unrestricted funds under the Corporation’s investment policy:

- Direct obligations of the U.S. Treasury, obligations of federal agencies which represent the full faith and credit of the U.S. and also unconditionally guaranteed as to the timely payment of principal and interest by the U.S.

- Bonds, notes or other evidences of indebtedness rated “AAA/Aaa” and issued by federal agencies which do not represent the full faith and credit of the U.S.

- Bonds, notes or other evidences of indebtedness rated “A” or better and issued by domestic municipalities.

- Corporate bonds and convertible securities rated “A” or better.

- Collateralized mortgage obligations originated from a federal agency.

- Collateralized investment contracts and repurchase agreements.

- Uncollateralized investment contracts as long as the investment provider’s long-term rating is and remains the highest possible throughout the contract term.

- Fixed income money or mutual funds rated “A” or better.

(3) Cash and Investments (cont.)

(b) *Investments*

(2) Investment Policies

- Certificates of deposit and term deposits of U.S. domestic financial institutions or trust companies which are members of the Federal Deposit Insurance Corporation as long as collateralized at 100% of principal and accrued unpaid interest or that the long-term unsecured debt obligations of such depository institution or trust company during the term of such investment are rated at least in the second highest rating category possible.

- Short-term domestic corporate promissory notes (commercial paper) payable in U.S. dollars as long as the provider's short-term rating is of the highest rating possible throughout the investment term.

(3) Credit Risk

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

The fair value of the Corporation's investments by type and credit quality, using S&P's rating scale without modifiers, at June 30 are shown below:

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

(3) Cash and Investments (cont.)

(b) *Investments*

(3) Credit Risk

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

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

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

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

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

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

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

(3) Cash and Investments (cont.)

(b) *Investments*

(3) Credit Risk

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

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

(3) Cash and Investments (cont.)

(b) *Investments*

(4) Concentration Risk

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

For investment contracts, investment providers are limited to providing investments to the lesser of $50,000 or 5% of total investments at the time the investment is made. These diversification standards are not applicable to contracts with investments in direct obligations of the U.S. Treasury, obligations of federal agencies which represent the full faith and credit of the U.S. and are also unconditionally guaranteed as to the timely payment of principal and interest by the U.S.

Investment Holdings Greater than Five Percent of Total Investments

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

At June 30, 2014, the Corporation had investment balances greater than five percent of the Corporation's total investments with the following investment providers:

	Fair Value	Percent of Total Investments
Federated Prime Obligations Fund	$ 23,742	32
U.S. Treasury Notes	12,667	17
Federal Home Loan Mortgage Corporation	9,078	12
Federal National Mortgage Association	6,721	9
First American Government Obligation Fund	4,496	6

(3) Cash and Investments (cont.)

(b) *Investments*

(5) Interest Rate Risk

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

Duration

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

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

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

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

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

Through its investment policy, Treasury manages exposure to fair value losses arising from increasing interest rates by limiting effective duration of its Intermediate-term Fixed Income Pool to ± 20% of the Barclays 1-3 year Government Bond Index. At June 30, 2014, the effective duration for the Barclays 1-3 year Government Bond Index was 1.94 years.

(3) Cash and Investments (cont.)

(b) *Investments*

(5) Interest Rate Risk

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

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

As a means of limiting the Short-term Fixed Income Pool's exposure to fair value losses arising from increasing interest rates, Treasury's investment policy limits individual fixed rate securities to fourteen months to maturity or fourteen months expected average life at purchase. Floating rate securities are limited to three years to maturity or three years expected average life at purchase. These constraints apply to trade date, except for securities bought at new issue, for which settlement date applies. At June 30, 2014, the expected average life of fixed rate securities held in the Short-term Fixed Income Pool ranged from one day to approximately two years and two months and the expected average life of floating rate securities ranged from eight days to approximately three years and two months.

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

(3) Cash and Investments (cont.)

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

(4) Loans Receivable

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

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

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

(4) Loans receivable (cont.)

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

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

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

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

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

(4) Loans receivable (cont.)

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

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

(5) Allowances and Provision

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

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

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

(6) Bonds Payable

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

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

(6) Bonds Payable (cont.)

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

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

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

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

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

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

(6) Bonds Payable (cont.)

(e) Each Master Indenture represents a limited obligation trust which secures payment for the outstanding revenue bonds issued therein. The bonds are payable from assets pledged to the respective trust including principal and interest payments on pledged loans. The bonds do not constitute general obligations of the Corporation or of the State. The 2002, 2012B and 2013A Master Indenture Bonds/Notes are private activity revenue bonds/notes. The 2005 Master Indenture Bonds are governmental purpose revenue bonds. Debt service payments are due as follows:

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

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

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

The 2012B Revenue Bonds have liquidity support by means of an irrevocable direct-pay Letter of Credit issued by State Street Bank and Trust Company that expires on September 1, 2016. In addition the State of Alaska, Department of Revenue, Treasury Division entered into a Standby Bond Purchase Agreement with State Street Bank and Trust Company thereby agreeing to purchase 2012B Revenue Bonds under certain conditions. The Standby Bond Purchase Agreement expires September 12, 2016. The Corporation entered into a Reimbursement Agreement dated September 12, 2012 with the State of Alaska, Department of Revenue, Treasury Division thereby agreeing to reimburse them for the purchase of 2012B Revenue Bonds pursuant to the Standby Bond Purchase Agreement. The reimbursement Agreement expires on September 12, 2016.

(7) Yield Restriction and Arbitrage Rebate

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

(8) Federal Family Education Loan Program

Northwest Education Loan Association (NELA) serves as the "eligible" guarantor for the Corporation's FFELP portfolio.

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

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

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

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

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

(9) Commitments and Contingencies

(a) *Internal Revenue Service Examination*

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

(b) *Operations*

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

(9) Commitments and Contingencies (cont.)

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

(c) ***Return of Capital***

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

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

As an additional means of returning capital, State statutes allow the Corporation to issue bonds to finance State capital projects. No bonds have been issued since 2005 for this purpose. The Corporation reimburses the State for expenditures related to projects funded with Corporation capital project bond proceeds and related earnings. Restricted investments include amounts specifically designated for financing State capital projects totaling $2,303 and $3,819 at June 30, 2014 and 2013, respectively.

(d) ***State Permanent Fund Dividend Garnishment***

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

PFD garnishments were approximately $2,288 and $2,399 for the years ended June 30, 2014 and 2013, respectively.

(e) ***Legislation***

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

(9) Commitments and Contingencies (cont.)

(f) *Non-Investment Interest Rate Risk*

The Corporation is subject to interest rate risk relating to its variable rate bonds and variable rate loans. The 2012 bonds are subject to an interest rate cap of 12% while the loans pledged to the 2012 bonds are subject to an interest rate cap of 8.25%. The Corporation has various strategies available to manage the risk that the 2012 bond rate may rise above the related pledged loan rate. The 2013 bond rate and the loans pledged to the 2013 bonds are both based on one-month LIBOR, significantly reducing interest rate risk for this portion of the portfolio.