

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

Management's Discussion and Analysis and
Financial Statements

June 30, 2013 and 2012

Together with Independent Auditor's Report

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

June 30, 2013 and 2012

Table of Contents

	Pages
Management's Discussion and Analysis	1 – 10
Independent Auditor's Report	11 – 12
Balance Sheets	13 – 14
Statements of Revenue, Expenses and Changes in Net Position	15
Statements of Cash Flows	16 – 17
Notes to Financial Statements	18 – 43

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, 2013 and 2012 is being presented to assist readers in understanding the Corporation's structure, activities and significant financial issues. This information is required supplementary information. Fiscal year 2011 information is shown for comparative purposes. This information should be read in conjunction with the Independent Auditor's Report, the audited financial statements and accompanying notes, all of which follow this discussion and analysis.

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. By statute the Corporation has one employee, the Executive Officer, and the employees of the Commission serve as staff for the Corporation.

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. 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 financial activity related to the Corporation is reported as a discretely presented component unit in the State's comprehensive annual financial report.

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 under the umbrella title, AlaskAdvantage Loan Program[®] (Program). Additional Program information is available at

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

MANAGEMENT’S DISCUSSION AND ANALYSIS

<http://acpe.alaska.gov>. The Corporation funds the Commission’s expenditures that relate to Program administration as permitted by ASLC statutes and bond indentures.

The 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. Loans under the Program include 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 lender-based FFELP ended effective July 1, 2010 with the passage of the *Health Care and Education Affordability Reconciliation Act* in March, 2010. The Corporation continues to hold and administer its existing FFELP portfolio. Federal loans are guaranteed by Northwest Education Loan Association while State loans have no guarantee.
- Loan portfolio by type is as follows:

<u>Fiscal Year and Loan Type</u>	<u>Net loans as a percentage of total loans</u>
2013	
State	68
Federal	32
2012	
State	67
Federal	33
2011	
State	67
Federal	33

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

- 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	\$ 190,320	-	190,320	36
2005 Trust	30,432	-	30,432	6
2012B Trust	93,919	-	93,919	18
2013A Trust	-	140,564	140,564	26
Non-pledged	76,207	-	76,207	14
Total	<u>\$ 390,878</u>	<u>140,564</u>	<u>531,442</u>	<u>100</u>

- 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	\$ 34,548	8
Good Payment history	51,182	13
Credit ready	249,505	64
No credit criteria	55,643	15
Total	<u>\$ 390,878</u>	<u>100</u>

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.

All State Consolidated Loans were made subject to credit criteria which included good repayment histories 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.

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

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, 2013. Due to the elimination of the FFELP and the implementation of stricter underwriting criteria, 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.

- Refinancing loan portfolios, redemption of auction rate securities and repayment of other debt

On September 12, 2012, the Corporation issued tax-exempt Education Loan Revenue Refunding Bonds Senior Series 2012A in the amount of \$53,120, Senior Series 2012B-1 in the amount of \$78,435 and Senior Series 2012B-2 in the amount of \$15,000. The proceeds of the 2012 bonds, along with non-pledged assets, were used to redeem the Corporation's outstanding auction rate securities and to make a significant principal payment on the State loan. The bonds were secured by a portfolio of loans and a Letter of Credit (LOC) issued by State Street Bank. The bonds were assigned a long-term and short-term rating from Standard and Poor's (S&P) of AA and A-1, respectively.

On March 20, 2013 the Corporation issued its Series 2013A Taxable Education Loan Backed Notes in the amount of \$144,730. This transaction permanently refinanced the Corporation's entire FFELP portfolio. Proceeds of the 2013 notes were used to repay the balance on the Funding Note Purchase Agreement related to the Asset-Backed Commercial Paper Conduit Put Program authorized by the HEA as well as redeem the 2012A and 2012B-2 bonds. The notes are floating rate notes rated AA by S&P and AAA by Fitch.

On May 31, 2013 the Corporation used cash in the 2002 Trust to repay the remaining balance on the State loan. In exchange, loans pledged to the State loan were transferred to the 2002 Trust.

- The LOC supporting the 2012B-2 bonds expires September 12, 2014. The Corporation is evaluating available options and will take appropriate action prior to the LOC expiration date.

Information related to the Corporation's debt is contained in the footnote section of the financial statements. In addition, trust-related reports are prepared monthly or quarterly, depending on trust, the most current of which is available at: http://acpe.alaska.gov/Home/Investor/Investor_Relations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 the operating income and change in net position. It also reflects the results of non-operating activities and capital returned to the State. 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, 2013, 2012, and 2011 were \$0.5, \$0.7, and \$0.7 billion, respectively. The change in assets from fiscal year 2012 to 2013 was a decrease of \$112 million or 17%, and the change between fiscal year 2011 to 2012 was a decrease of \$83 million or 11%.
- The Corporation's net education loans receivable was \$435, \$496, and \$561 million, at June 30, 2013, 2012 and 2011, respectively. These balances represent a decrease in fiscal year 2013 of \$61 million or 12% and a decrease in fiscal year 2012 of \$65 million or 12%.
- The Corporation's debt at June 30, 2013, 2012, and 2011 was \$314, \$423, and \$502 million, respectively. The change in debt from fiscal year 2012 to 2013 was a decrease of \$109 million or 26%, and the change in debt from fiscal year 2011 to 2012 was a decrease of \$79 million or 16%.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

- The assets of the Corporation exceed its liabilities (reported as net position) at the close of fiscal year 2013, 2012 and 2011 by \$219, \$218, and \$217 million, respectively. These balances represent an increase from each prior year of \$1 million or 1%.
- The Corporation's operating revenue was \$29, \$36, and \$39 million at June 30, 2013, 2012 and 2011, respectively. These balances represent a decrease in fiscal year 2013 of \$7 million or 20% and a decrease in 2012 of \$3 million or 8%.
- The Corporation's interest expense was \$7, \$10, and \$12 million during fiscal years 2013, 2012 and 2011, respectively. These balances represent a decrease in fiscal year 2013 of \$3 million or 30%, and a decrease in 2012 of \$2 million or 17%.
- The Corporation's other operating expense was \$21, \$25, and \$16 million during fiscal years 2013, 2012 and 2011. These balances represent a decrease in fiscal year 2013 of \$4 million or 16% and an increase in fiscal year 2012 of \$9 million or 57%.
- The following condensed financial information reflects changes during the fiscal year:

Balance Sheets (in thousands)

	2013	2012	\$ Change	% Change	2011
Assets:					
Current	\$ 63,073	76,087	(13,014)	(17)	86,833
Noncurrent	477,952	577,384	(99,432)	(17)	649,921
Total assets	<u>541,025</u>	<u>653,471</u>	<u>(112,446)</u>	(17)	<u>736,754</u>
Liabilities:					
Current	67,273	63,963	3,310	5	73,290
Noncurrent	255,234	371,215	(115,981)	(31)	446,636
Total liabilities	<u>322,507</u>	<u>435,178</u>	<u>(112,671)</u>	(26)	<u>519,926</u>
Net position:					
Unrestricted	85,848	93,146	(7,298)	(8)	97,674
Restricted	132,670	125,147	7,523	6	119,154
Total net position	<u>218,518</u>	<u>218,293</u>	<u>225</u>	-	<u>216,828</u>
Total liabilities and net position	<u>\$ 541,025</u>	<u>653,471</u>	<u>(112,446)</u>	(17)	<u>736,754</u>

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. Management expects this decline to continue in the years to come.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

The fiscal year 2012 decrease in current assets was due to the decrease in unrestricted cash and restricted investments. The corporation invested the majority of its cash in one of Treasury's fixed income pools at year end instead of holding cash uninvested as it did at the end of 2011. Investment opportunities were better in 2012 than they were in 2011. The decrease in restricted investments at year end, which represents the majority of the decrease in current assets, was due to the fact that investments, regardless of current or noncurrent classification, declined overall. This decline is due to loans being originated with internal cash and other cash outlays such as debt service and administrative expenses being in excess of education loan payments received.

The fiscal year 2012 decrease in noncurrent assets was also due in part to the overall decrease in investments; however, the majority of the noncurrent asset decline was due to a decrease in education loans receivable. Loans receivable continues to decrease as principal payments received exceed originations and capitalized interest.

Fiscal year 2012 current liabilities decreased because return of capital payable declined. The return of capital payable represents bond proceeds payable to State agencies whose capital projects are funded by the Corporation's capital project bond proceeds. No new projects are being funded by the Corporation, therefore reimbursements to State agencies for capital project expenditures reduce the return of capital payable. State projects funded by the Corporation are near completion; therefore, this balance is declining. In addition, current liabilities are declining because scheduled debt service payments in fiscal year 2013 are expected to be lower than they were in fiscal year 2012.

Noncurrent liabilities in fiscal year 2012 decreased due to payments on debt being made with no new debt being incurred.

Unrestricted net position decreased because administrative expenses exceed unrestricted monies generated for such expenditure in fiscal year 2012.

Restricted net position increased in fiscal year 2012 due to the reduction of the return of capital payable and restricted debt exceeding the reduction in restricted loans receivable and investments. Restricted debt was reduced because scheduled debt payments were made and no new debt was incurred. Restricted loans are declining because principal loan payments are higher than loan originations. Restricted investments are used to make debt payments as well as return of capital payments.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

	2013	2012	\$ Change	% Change	2011
Operating revenue	\$ 29,086	36,041	(6,955)	(19)	38,568
Operating expense	(28,121)	(35,400)	7,279	(21)	(28,364)
Non-operating revenue	1,019	1,517	(498)	(33)	(73)
Non-operating expense	(1,759)	(1,982)	223	(11)	(2,647)
Income before change in estimate and special item	225	176	49	28	7,484
Gain on cancellation of bonds	-	1,289	(1,289)	(100)	4,734
Change in net position	225	1,465	(1,240)	(85)	12,218
Net position - beginning	218,293	216,828	1,465	1	204,610
Net position - ending	\$ 218,518	218,293	225	-	216,828

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 the 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 loan losses decreased \$7.2 million in fiscal year 2013 due to the fact that additional cohorts (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 loan loss provision is offset by a \$0.5 million increase in the loan 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.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 is due to the reduction of debt outstanding during the year.

Operating revenue decreased in fiscal year 2012 due to a reduction in education loan interest revenue. As the education loan portfolio decreases so will interest earnings on the portfolio. The net education loan portfolio decreased 12% in fiscal year 2012 and the resulting decrease in education loan interest income was 8%. The average return on gross loans in fiscal year 2012 was 4.5% which was a slight improvement over the average return in fiscal year 2011 of 4.5%. The return on invested assets improved as well from 1.4% in fiscal year 2011 to 2.1% in fiscal year 2012.

Operating expense increased in 2012 due to the increase in the provision related to education loans. The provision represents the expense associated with the change in the allowance for doubtful loans, a significant estimate contained in the financial statements. The allowance for doubtful loans increased from 26% of gross State loans in fiscal year 2011 to 29% of gross State loans in fiscal year 2012. This increase is the result of two new cohorts of loans being included in the loan loss rate used to develop the allowance. Once a cohort of loans pays down to 25% of the original disbursed amount, it is included in the development of the loan loss rate. The two new cohorts included in the calculation for fiscal year 2012 had actual loss rates significantly higher than the average of the previous cohorts used resulting in an increase in the loan loss allowance and related provision. It is impossible to predict the status of the economy or unemployment levels or at which point a downturn will significantly reduce revenues. However, management believes that the economic downturn that began in 2008 negatively impacted the two new cohort of loans causing them to have a higher loss rate than previous cohorts. While the next cohort of loans has not paid down to 25% of the original loan amount disbursed, the loss rate on that cohort is tracking with the average loss rate on cohorts included prior to fiscal year 2012 meaning that, over time loss rates are anticipated to return to the level experienced through fiscal year 2011.

Non-operating revenue consists of federal direct loan servicing fees. The Corporation qualified as a not-for-profit servicer (NFP servicer) for the Federal Direct Loan Program pursuant to The Student Aid and Fiscal Responsibility Act of 2009 ("SAFRA"), Title II of the Reconciliation Act, that became law on March 30, 2010. SAFRA required the Secretary of the U.S. Department of Education to contract with each eligible and qualified NFP servicer to service loans within the Federal Direct Loan Program. The Corporation chose not to service their federal direct loan allocation directly and entered into an Agreement for Teaming Arrangement to Service Student Loans with the Missouri Higher Education Loan Authority (MOHELA). MOHELA is currently servicing the Corporation's allocation of Federal Direct Loan borrower accounts for the Corporation. Non-operating revenue consists of the Corporation's share of the servicing fee paid by the U.S. Department of Education as well as the one-time conversion fee paid to NFP servicers at the time loans were initially allocated.

Non-operating expense declined in 2012 due to the reduction in interest expense on bonds issued to finance State capital projects as a result of the reduction of debt outstanding during the year. This trend will continue as management does not anticipate issuing additional capital project bonds.

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

Borrower Benefits

The Board has approved various loan benefits to provide incentives and rewards to borrowers who participate in the Program. The benefit package, intended to lower borrower's interest cost, is subject to annual approval by the Board and changes 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 ratings previously issued. Borrower benefits awarded in fiscal years 2013, 2012 and 2011 cost approximately \$1.1 each year and are recorded as an offset to education loan interest income. Information related to benefits available to eligible borrowers is available online at <http://acpe.alaska.gov/Student-Parent/Loans>.

Contacting the Corporation

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

ELGEE REHFELD MERTZ, LLC

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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, 2013 and 2012, 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, 2013 and 2012, and

the respective changes in financial position and cash flows thereof for the year 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 30, 2013 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.

Handwritten signature in black ink, consisting of the letters 'ERM' in a cursive, stylized font.

September 30, 2013

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

Balance Sheets

June 30, 2013 and 2012

(in thousands)

Assets	<u>2013</u>	<u>2012</u>
Current assets:		
Cash (note 3)	\$ 990	750
Other	249	322
Interest receivable - investments	70	89
Interest receivable - loans	871	1,207
Investments (note 3)	530	1,770
Loans receivable (notes 4 and 11)	7,993	13,894
Restricted investments (note 3)	<u>52,370</u>	<u>58,055</u>
Total current assets	<u>63,073</u>	<u>76,087</u>
Noncurrent assets:		
Interest receivable - loans, net (note 5)	1,268	1,691
Loans receivable, net (notes 4, 5 and 11)	45,274	50,265
Investments (note 3)	29,651	24,809
Restricted:		
Cash (note 3)	723	4,575
Other	356	398
Arbitrage rebate receivable (notes 2 and 10)	1,006	781
Interest receivable - investments	245	497
Interest receivable - loans, net (note 5)	12,607	15,591
Investments (note 3)	2,438	44,745
Loans receivable, net (notes 4, 5 and 11)	381,901	432,001
Debt issue cost, net (note 8)	<u>2,483</u>	<u>2,031</u>
Total noncurrent assets	<u>477,952</u>	<u>577,384</u>
Total assets	<u>\$ 541,025</u>	<u>653,471</u>

See accompanying Notes to Financial Statements.

(continued)

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

Balance Sheets

June 30, 2013 and 2012

(in thousands)

Liabilities and Net Position	<u>2013</u>	<u>2012</u>
Liabilities:		
Current:		
Payable from unrestricted assets:		
Due to State of Alaska	\$ 518	487
Due to U.S. Dept. of Education (note 11)	-	356
Warrants outstanding (note 4)	192	136
Accounts payable	338	673
Payable from restricted assets:		
Due to State of Alaska	1	4
Due to U.S. Dept. of Education (note 11)	2,177	844
Warrants outstanding (note 4)	25	12
Accounts payable	83	47
Arbitrage rebate payable (note 2 and 10)	-	496
Return of capital payable (note 12)	3,819	5,413
Interest payable	639	2,893
Bonds payable (note 6)	59,481	41,390
Other debt payable (note 7)	-	11,212
Total current liabilities	<u>67,273</u>	<u>63,963</u>
Noncurrent-payable from restricted assets:		
Yield restriction/arbitrage rebate payable (notes 2 and 10)	921	55
Return of capital payable (note 12)	-	735
Bonds payable, net (note 6)	254,313	223,281
Loan payable to State of Alaska (note 7)	-	67,500
Other debt payable (note 7)	-	79,644
Total noncurrent liabilities	<u>255,234</u>	<u>371,215</u>
Total liabilities	<u>322,507</u>	<u>435,178</u>
Commitments and contingencies (note 12)	-	-
Net position:		
Unrestricted (note 2)	85,848	93,146
Restricted	132,670	125,147
Total net position	<u>218,518</u>	<u>218,293</u>
Total liabilities and net position	<u>\$ 541,025</u>	<u>653,471</u>

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, 2013 and 2012

(in thousands)

	2013	2012
Operating revenue:		
Interest - loans, net (note 2 and 5)	\$ 28,129	32,443
Investment income, net (note 2)	957	3,598
Total operating revenue	29,086	36,041
Operating expenses:		
Interest	7,023	10,134
Administration	14,079	12,566
Provision (note 5)	5,668	12,332
Debt issue costs (note 8)	1,351	368
Total operating expenses	28,121	35,400
Operating income	965	641
Nonoperating revenue - other	1,019	1,517
Nonoperating expense:		
Interest	1,353	1,784
Administration	29	33
Debt issue costs (note 8)	377	165
Total nonoperating expense	1,759	1,982
Nonoperating loss	(740)	(465)
Income before special item	225	176
Special item - gain on cancellation of bonds (note 6)	-	1,289
Change in net position	225	1,465
Total net position - beginning	218,293	216,828
Total net position - ending	\$ 218,518	218,293

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, 2013 and 2012

(in thousands)

	2013	2012
Cash flows from operating activities:		
Principal payments received on loans	\$ 76,533	76,040
Interest received on loans	18,029	18,442
Other receipts	59	668
Loans originated	(5,644)	(7,764)
Administration	(14,040)	(12,740)
Interest paid on debt	(9,247)	(11,234)
Principal paid on debt	(365,624)	(60,281)
Bond proceeds	290,550	-
Debt issue costs	(2,180)	-
Income received on investments	1,981	2,636
Investments matured or sold	428,740	385,258
Investments purchased	(385,879)	(373,526)
Net cash provided by operating activities	33,278	17,499
Cash flows from capital activities:		
Other receipts	284	1,558
Administration	(38)	(71)
Interest paid on debt	(2,362)	(2,522)
Principal paid on debt	(33,180)	(16,145)
Return of capital payments	(1,594)	(4,603)
Net cash used by capital activities	(36,890)	(21,783)
Net decrease in cash	(3,612)	(4,284)
Cash at beginning of period	5,325	9,609
Cash at end of period	\$ 1,713	5,325

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, 2013 and 2012

(in thousands)

	2013	2012
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 965	641
Adjustments to reconcile operating income to net cash provided by operating activities:		
Decrease (increase) in other assets	115	(394)
Decrease in interest receivable - investments	271	104
Decrease in net interest receivable - loans	3,743	2,563
Decrease in investments	44,390	11,193
Decrease in net loans receivable	60,992	64,877
Decrease (increase) in debt issue costs	(830)	368
Increase (decrease) in due to U.S. Dept. of Education	977	(85)
Increase (decrease) in net due to State of Alaska	28	(38)
Increase in warrants outstanding	69	90
Increase (decrease) in accounts payable	(290)	88
Increase (decrease) in net yield restriction/arbitrage rebate payable	145	(527)
Decrease in interest payable	(1,537)	(198)
Increase (decrease) in bonds payable	82,596	(46,933)
Decrease in loan payable to State	(67,500)	-
Decrease in other debt payable	(90,856)	(14,250)
Total adjustments	32,313	16,858
Net cash provided by operating activities	\$ 33,278	17,499
Summary of noncash capital activities that affect recognized assets and liabilities:		
Debt issue cost	\$ 377	165
Interest payable	1,646	2,149
Bond premium amortization	(293)	(365)

See accompanying Notes to Financial Statements.

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

Notes to Financial Statements

June 30, 2013 and 2012

(in thousands)

(1) Authorizing Legislation and Organization

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

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

(2) Summary of Significant Accounting Policies

(a) Fund Accounting

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

(b) Standard Application

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 a retitling of Net assets to Net position. The Corporation had no deferred inflows or outflows at June 30, 2013 or 2012.

(c) Fiscal Year

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

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

Notes to Financial Statements

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

(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*

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

(f) *Loans*

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

(g) *Interest on Loans*

Interest on loans is accrued when earned at fixed and variable rates ranging from 1.79% to 9.00%. For federally guaranteed subsidized loans, interest from the disbursement date of the loan until a date that is six months after the borrower withdraws from school (plus any authorized deferment and eligible income-based repayment periods) is paid by the U.S. Department of Education (Department) under the Federal Family Education Loan Program (FFELP). The borrower is responsible for interest accruing subsequent to that date.

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

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

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

Notes to Financial Statements

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

Non-interest bearing loans were approximately \$2,457 and \$2,914 at June 30, 2013 and 2012, 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 writes 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) Debt Issue Costs

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

(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.

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

Notes to Financial Statements

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

(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 the 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 or restricted by State statute.

(o) ***Reclassifications***

Reclassifications not affecting change in net position have been made to the 2012 financial statements to conform to the 2013 presentation. The change in yield restriction and arbitrage rebate payables has been recorded as an adjustment to loan and investment income, respectively.

(3) Cash and Investments

(a) ***Cash***

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

	<u>2013</u>	<u>2012</u>
Current, unrestricted	\$ 990	750
Noncurrent, restricted	<u>723</u>	<u>4,575</u>
Total	<u>\$ 1,713</u>	<u>5,325</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, 2013, the Corporation had no cash exposed to custodial credit risk.

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

Notes to Financial Statements

3) Cash and Investments (cont.)

(b) *Investments*

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

	2013	2012
Current:		
Unrestricted	\$ 530	1,770
Restricted	52,370	58,055
Noncurrent:		
Unrestricted	29,651	24,809
Restricted	2,438	44,745
Total	\$ 84,989	129,379

(2) Investment Policies

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

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

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 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, if rated at purchase in the highest short-term rating category by each rating agency, and which matures not more than 270 days after the date of purchase.
- Under the 2012B Trust 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 (including the Trustee or a Credit Provider and any of their affiliates) 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 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.

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 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 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.

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 2002 Master Indenture, guaranteed investment contracts, investment agreements and repurchase agreements secured by 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:

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

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

- Under the 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.

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 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 and approved in writing in advance by a credit confirmation.

Unrestricted funds and funds restricted by State statute may be invested in the various fixed-income pools managed by Treasury. 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 the Treasury's fixed-income investment pools, the following securities are eligible for investment of unrestricted funds and funds restricted by State statute under the Corporation's investment policy:

- Direct obligations of the U.S. Treasury, obligations of federal agencies which represent the full faith and credit of the U.S. and also unconditionally guaranteed as to the timely payment of principal and interest by the U.S.
- Bonds, notes or other evidences of indebtedness rated "AAA/Aaa" and issued by federal agencies which do not represent the full faith and credit of the U.S.
- Bonds, notes or other evidences of indebtedness rated "A" or better and issued by domestic municipalities.
- Corporate bonds and convertible securities rated "A" or better.
- Collateralized mortgage obligations originated from a federal agency.
- Collateralized investment contracts and repurchase agreements.
- Uncollateralized investment contracts as long as the investment provider's long-term rating is and remains the highest possible throughout the contract term.
- Fixed income money or mutual funds rated "A" or better.

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

- Certificates of deposit and term deposits of U.S. domestic financial institutions or trust companies which are members of the Federal Deposit Insurance Corporation as long as collateralized at 100% of principal and accrued unpaid interest or that the long-term unsecured debt obligations of such depository institution or trust company at and during the term of such investment are rated at least in the second highest rating category possible.
- Short-term domestic corporate promissory notes (commercial paper) payable in U.S. dollars as long as the provider's short-term rating is of the highest rating possible throughout the investment term.

(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:

<u>Investment Type</u>	<u>Ratings</u>	<u>2013</u>	<u>2012</u>
U.S. government agencies	AA	\$ 4,981	-
U.S. government agency discount notes	AA	1,400	-
U.S. government agency discount notes	Not rated	-	944
Mortgage-backed securities (agencies)	AA	21,073	50,502
Money market funds	AAA	35,997	47,364
Guaranteed investment contracts	Not rated	600	6,688
Corporate bonds	AA	1,945	3,414
Corporate bonds	A	5,547	5,290
Internal investment pools	Next schedule	12,102	8,002
U.S. Treasury securities	No credit exposure	1,344	7,175
Total		<u>\$ 84,989</u>	<u>129,379</u>

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

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 Short-term Fixed Income Pool and the General Fund and Other Non-segregated Investments Pool (GeFONSI). GeFONSI consists of investments in Treasury's internally managed Short-term (47%), Short-term Liquidity (10%) and Intermediate-term Fixed Income Pools (43%).

The Corporation's ownership share of the Short-term Fixed Income Pool and the GeFONSI is 0.05% and 0.07%, respectively.

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

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

Investment Type	Rating	2013	2012
Commercial paper	Not rated	\$ 382	164
U.S. government agency	AA	74	182
U.S. government agency	A	-	2
U.S. gov. agency discount notes	Not rated	11	-
Mortgage-backed	AAA	28	68
Mortgage-backed	AA	28	34
Mortgage-backed	A	9	-
Mortgage-backed	CCC	-	1
Mortgage-backed	Not rated	12	34
Other asset-backed	AAA	3,568	1,280
Other asset-backed	AA	63	92
Other asset-backed	A	-	4
Other asset-backed	Not rated	347	310
Overnight sweep account	Not rated	194	-
Municipal bonds	AA	4	-
Municipal bonds	A	1	-
Corporate bonds	AAA	11	20
Corporate bonds	AA	259	469
Corporate bonds	A	386	282
Corporate bonds	BBB	22	37
Corporate bonds	B	4	-
Corporate bonds	Not rated	-	19
Yankees:			
Government	AA	9	15
Government	Not rated	1	1
Corporate	AAA	37	-
Corporate	AA	84	69
Corporate	A	36	30
Corporate	BBB	4	-
No credit exposure:	Not rated		
U.S. Treasury notes		1,893	1,742
U.S. Treasury bills		4,646	3,126
U.S. Treasury strip		16	2
Pool-related net assets		(27)	19
Total		\$ <u>12,102</u>	<u>8,002</u>

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.

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 issuer, 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, 2013, the Corporation had investment balances greater than five percent of the Corporation's total investments with the following investment providers:

	<u>Fair Value</u>	<u>Percent of Total Investments</u>
Federated Prime Obligations Fund	\$ 29,618	35
Federal Home Loan Mortgage Corporation	10,616	12
Federal National Mortgage Association	9,080	11
Federal Farm Credit Bank	4,981	6

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

Notes to Financial Statements

(3) Cash and Investments (cont.)

(b) Investments

(5) Interest Rate Risk

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

Duration

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

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

At June 30, 2013, the weighted average modified duration of investments, other than investments in Treasury's internal investment pools, is shown below:

U.S. government agency	1.13
Money market funds	0.07
Guaranteed investment contracts	7.49
Corporate bonds	3.50
U.S. Treasury securities	1.89
Portfolio modified duration	0.91

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 $\pm 20\%$ of the Barclays 1-3 year Government Bond Index. At June 30, 2013, the effective duration for the Barclays 1-3 year Government Bond Index was 1.87 years.

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

Notes to Financial Statements

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

(b) *Investments*

(5) Interest Rate Risk

At June 30, 2013, the Intermediate-term Fixed Income Pool's effective duration, by investment type, is shown below:

U.S. government agency	1.70
Municipal bonds	4.41
Mortgage-backed	1.45
Other asset-backed	0.59
Corporate bonds	2.42
Yankees:	
Government	2.06
Corporate	1.85
U.S. Treasury notes	2.04
U.S. Treasury bills	0.11
U.S. Treasury strip	4.43
Portfolio effective duration	1.77

As a means of limiting the Short-term Fixed Income Pool's exposure to fair value losses arising from increasing interest rates, Treasury's investment policy limits individual fixed rate securities to fourteen months in maturity or fourteen months expected average life at purchase. Floating rate securities are limited to three years in maturity or three years expected average life at purchase. These constraints apply to trade date, except for securities bought at new issue, for which settlement date applies. At June 30, 2013, the expected average life of fixed rate securities held in the Short-term Fixed Income Pool ranged from three days to thirty-four years and the expected average life of floating rate securities ranged from fourteen days to twenty-two years.

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. These constraints apply to trade date, except for securities bought at new issue, for which settlement date applies. At June 30, 2013, the expected average life of fixed rate securities ranged from forty-six to sixty-seven days.

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

Notes to Financial Statements

(3) Cash and Investments (cont.)

(c) Cash and investments include amounts specifically designated for financing education loans at June 30, as follows:

		2013	2012
Current:			
Unrestricted	\$	219	61
Restricted		-	190
Total	\$	219	251

(4) Loans Receivable

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

		2013			2012		
		State	Federal	Total	State	Federal	Total
Current, unrestricted	\$	7,993	-	7,993	13,419	475	13,894
Noncurrent:							
Unrestricted		68,215	-	68,215	83,064	4,564	87,628
Restricted		314,670	140,564	455,234	340,299	157,847	498,146
Total, gross	\$	390,878	140,564	531,442	436,782	162,886	599,668
Allowance for doubtful loans				94,251			101,567
Allowance for principal forgiveness				2,023			1,941
Total allowance				96,274			103,508
Loans, net				\$ 435,168			496,160
Current				\$ 7,993			13,894
Noncurrent				45,274			50,265
Restricted noncurrent				381,901			432,001
Total, net				\$ 435,168			496,160

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

Notes to Financial Statements

(4) Loans receivable (cont.)

- (b) Loans were financed by the issuance of revenue bonds, recycled loan payments, and proceeds from a State-funded loan. The loan portfolio summarized by program at June 30, is shown below:

	2013	2012
State Loans		
Supplemental Education	\$ 329,855	365,862
Consolidation	51,182	59,980
Teacher Education	7,097	7,444
Family Education	2,744	3,496
Total State Loans	390,878	436,782
Federal Family Education Loans		
Stafford	117,994	137,051
Consolidation	17,756	19,922
PLUS	4,814	5,913
Total Federal Loans	140,564	162,886
Total	\$ 531,442	599,668

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

		2013		2012	
		State	Federal	State	Federal
Enrollment	\$	19,618	10,266	28,371	18,356
Grace		6,135	3,137	10,055	7,199
Repayment		322,098	87,682	344,584	96,645
Deferment		41,591	23,493	52,305	24,853
Forbearance		1,436	15,986	1,467	15,833
	\$	390,878	140,564	436,782	162,886

- (d) Included in loans receivable are \$12 and \$10 of loan warrants issued but not redeemed at June 30, 2013 and 2012, respectively. Redemption is contingent upon the borrower meeting certain eligibility requirements.

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

Notes to Financial Statements

(4) Loans receivable (cont.)

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

	2013	2012
State Loans		
Supplemental Education	\$ 203	227
Family Education	16	24
Total State Loans	\$ 219	251

(5) Allowances and Provision

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

	2013	2012
Balance at beginning of period	\$ 126,217	126,767
Provision	5,668	12,332
Balances charged off	(13,257)	(12,882)
Balance at end of period	\$ 118,628	126,217

	2013	2012
Allowance for doubtful loans	\$ 94,251	101,567
Allowance for principal forgiveness	2,023	1,941
Allowance for doubtful interest	21,901	22,328
Allowance for interest forgiveness	453	381
	\$ 118,628	126,217

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

Notes to Financial Statements

(6) Bonds Payable

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

	Type	Original Amount	Amount Outstanding	
			2013	2012
2002 Master Indenture, Education Loan:				
2003: Series A-1, due 2014 to 2016	Auction	\$ 16,500	-	2,500
Series A-2, due 2038	Auction	30,500	-	30,300
2004: Series A-1, due 2044	Auction	45,500	-	25,000
Serial bonds, Series A-3, rates ranging from 5.0% to 5.25%, due 2014 to 2017	Fixed	22,015	6,310	8,710
2005: Serial bonds, Series A, rate 5.0%, due 2014 to 2018	Fixed	58,250	28,750	35,250
2006: Series A-1, due 2040	Auction	30,000	-	19,700
Serial bonds, Series A-2, rate 5.0%, due 2014 to 2018	Fixed	55,000	32,000	37,500
2007: Series A-1, due 2042	Auction	41,500	-	28,500
Serial bonds, Series A-2, rate 5.0%, due 2014 to 2019	Fixed	18,500	13,500	15,500
Serial bonds, Series A-3, rate 5.0%, due 2014	Fixed	49,000	8,000	16,000
Sub-total		\$ <u>366,765</u>	<u>88,560</u>	<u>218,960</u>

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

Notes to Financial Statements

(6) Bonds Payable (cont.)

	Type	Original Amount	Amount outstanding	
			2013	2012
2004 Master Indenture, Series A Capital Project serial bonds, rate 4.0%, due 2014 to 2016	Fixed	69,910	-	19,450
term bonds, rate 4.0%, due 2018	Fixed	5,230	-	5,230
Sub-total		<u>75,140</u>	<u>-</u>	<u>24,680</u>
2005 Master Indenture, Series A State Projects serial bonds, rate 5.25%, due 2014	Fixed	<u>88,305</u>	<u>10,000</u>	<u>18,500</u>
2012B Trust Indenture, Education Loan Revenue, Refunding Bonds, Senior Series 2012B-1, due 2043	Variable	<u>78,435</u>	<u>72,435</u>	<u>-</u>
2013A Trust Indenture, Education Loan Revenue, Refunding Note, Series 2013A, due 2031	Variable	<u>144,730</u>	<u>141,982</u>	<u>-</u>
Total Bonds/Note Payable		<u>\$ 753,375</u>	312,977	262,140
Unamortized premium/discount, net			817	2,531
Net Bonds/Note Payable			<u>\$ 313,794</u>	<u>264,671</u>
Current			\$ 59,481	41,390
Noncurrent			254,313	223,281
Total			<u>\$ 313,794</u>	<u>264,671</u>

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

Notes to Financial Statements

(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, 2013 was 0.09%.

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, 2013 was 0.69%.

(c) The minimum payments and sinking fund installments for the five years subsequent to June 30, 2013, and thereafter are as follows:

Period Ending June 30	Principal	Interest	Total
2014	\$ 59,481	5,912	65,393
2015	44,735	4,457	49,192
2016	43,804	3,135	46,939
2017	41,470	2,129	43,599
2018	40,347	1,250	41,597
2019-2023	83,140	865	84,005
Total	\$ <u>312,977</u>	<u>17,748</u>	<u>330,725</u>

(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	5.73
2005 Series A	5.71
2006 Series A-2	5.48
2007 Series A-2	5.73
2007 Series A-3	5.91
2005 Series A Project	6.67

Note issued at a discount:

2013 Series A	0.60 over LIBOR
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ALASKA STUDENT LOAN CORPORATION
(a Component Unit of the State of Alaska)

Notes to Financial Statements

(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:

<u>Master Indenture</u>	<u>Principal</u>	<u>Interest</u>	<u>Bond Type</u>
2002	June 1	June 1 and December 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 an irrevocable direct-pay Letter of Credit issued by State Street Bank and Trust Company that expires on September 12, 2014. 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.

- (f) The Corporation purchased \$10,300 of its outstanding auction rate securities on November 30, 2011, for \$9,579. On December 6, 2011, the Corporation cancelled the bonds purchased resulting in a gain on the cancellation of \$721.

The Corporation purchased \$5,000 of its outstanding auction rate securities on December 2, 2011, for \$4,600. On December 6, 2011, the Corporation cancelled the bonds purchased resulting in a gain on the cancellation of \$400.

The Corporation purchased \$2,100 of its outstanding auction rate securities on March 21, 2012 for \$1,932. On March 21, 2012, the Corporation cancelled the bonds purchased resulting in a gain on the cancellation of \$168.

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

Notes to Financial Statements

(7) Other Debt Payable

- (a) On July 17, 2009, the Corporation entered into a Trust and Loan Agreement with the State's Department of Revenue (acting on behalf of the State). The Loan Agreement provided up to \$100 million to the Corporation for the purpose of financing education loans. The loan was a four-year bullet loan accruing interest on the outstanding principal balance using a variable rate of interest equal to the most current rolling five-year average return on the State's general fund. The interest rate was reset annually and was 3.34% and 4.16% for the years ended 2013 and 2012, respectively. Interest was payable semi-annually in January and July. The loan was a limited obligation secured by pledged assets.

Loan payable was \$0 and \$67,500 at June 30, 2013 and 2012.

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

The FNPA represented a limited obligation secured by pledged loans and other pledged assets, including principal and interest payments on pledged loans. Principal payments were made monthly from pledged assets as needed to maintain the required asset coverage ratio.

Financing costs, which included costs associated with commercial paper issued by Straight-A Funding, LLC, and other costs such as liquidity fees, administrative fees, managerial fees and put option fees, were allocated to participants monthly based on the participant's prorata share of total FNPA balances at month end. Financing costs were paid monthly from pledged assets. Financing costs paid by the Corporation were approximately 0.63% and 0.74% of the Corporation's FNPA balance for the years ended 2013 and 2012, respectively.

The Corporation refinanced the loans pledged to the FNPA and used proceeds from the 2012 bond issue to repay the remaining balance on the FNPA. The FNPA balance was \$0 and \$90,856 at June 30, 2013, and 2012, respectively.

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

Notes to Financial Statements

(8) Debt Issue Cost

A summary of debt issue cost activity at June 30 follows:

	2013	2012
Balance at beginning of period	\$ 2,031	2,564
Additions	2,180	-
Retirements	(1,557)	(110)
Amortization	(171)	(423)
Balance at end of period	\$ 2,483	2,031

(9) Bond Defeasance

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

(10) Yield Restriction and Arbitrage Rebate

Education loans financed with proceeds of tax-exempt bonds issued by the Corporation are subject to interest rate yield restrictions of no more than 2% over the bond yield. 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 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.

(11) 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

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

Notes to Financial Statements

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

servicing requirements outlined in the HEA. Failure to fulfill the requirements may result in an interest penalty or loss of guarantee. In the case of a default claim, unpaid principal and interest are guaranteed at 98% if first originated prior to July 1, 2006, and 97% if first originated after June 30, 2006. Claims as a result of a borrower's death or becoming totally and permanently disabled are guaranteed at 100%.

Special allowance rates through the quarter ended March 31, 2012 were calculated quarterly based on the quarter's daily average three-month commercial paper rate (CPR) as established by the Department, plus a predetermined factor that varies according to loan type, disbursement date, loan status, and not-for-profit eligibility of the lender less the loan's applicable interest rate. Beginning with the quarter ended June 30, 2012 the Corporation elected to change the index used for calculating special allowance from the three-month CPR to the one-month LIBOR. When the calculated rate is positive, special allowance payments are received from the Department; when the calculated rate is negative, the Corporation pays excess interest to the Department on loans first disbursed after April 1, 2006.

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

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

(12) 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 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 \$13,319 of the Commission's fiscal year 2014 operating budget for loan servicing and staff support. In addition, the Corporation will fund expenditures related to the Commission's fiscal year 2013 operating and capital project budgets of approximately \$546. The 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

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

Notes to Financial Statements

(12) Commitments and Contingencies (cont.)

when it equals or exceeds \$2,000 for the Base Fiscal Year. The Base Fiscal Year is defined as the fiscal year ending two years before the end of the fiscal year in which the payment is made.

On November 5, 2012 and November 29, 2011, the Board chose not to return capital, based on income, to the State in fiscal year 2013 and 2012, respectively.

As an additional means of returning capital, State statutes allow the Corporation to issue bonds to finance State capital projects. No bonds have been issued since 2005 for this purpose. 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 \$3,819 and \$6,148 at June 30, 2013 and 2012, 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 \$2,399 and \$3,309 for the years ended June 30, 2013 and 2012, 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.

(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.