

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

Unaudited Financial Statements

December 31, 2014 and 2013

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

Net Position

December 31, 2014 and 2013

(in thousands)

	2014	2013
Assets:		
Current assets:		
Cash (note 3)	\$ 428	212
Other	56	57
Arbitrage rebate receivable (notes 2 and 7)	701	-
Interest receivable - investments	70	88
Interest receivable - loans	673	997
Investments (note 3)	-	664
Loans receivable (note 4)	11,354	10,144
Restricted:		
Investments (note 3)	33,913	53,291
Total current assets	47,195	65,453
Noncurrent assets:		
Other	2	-
Interest receivable - loans, net (note 5)	1,469	1,225
Loans receivable, net (notes 4 and 5)	51,406	42,797
Investments (note 3)	31,920	32,719
Restricted:		
Cash (note 3)	689	1,611
Other	264	176
Arbitrage rebate receivable (notes 2 and 7)	373	1,006
Interest receivable - investments	77	187
Interest receivable - loans, net (note 5)	8,234	11,818
Investments (note 3)	29,711	16,503
Loans receivable, net (notes 4 and 5)	283,750	355,690
Total noncurrent assets	407,895	463,732
Total assets	\$ 455,090	529,185

See accompanying Notes to Financial Statements.

(continued)

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

Net Position

December 31, 2014 and 2013

(in thousands)

	2014	2013
Liabilities and Net Position:		
Liabilities:		
Current:		
Payable from unrestricted assets:		
Due to State of Alaska	\$ -	5
Warrants outstanding (note 4)	169	98
Accounts payable	544	772
Payables from restricted assets:		
Due to State of Alaska	-	13
Due to U.S. Dept. of Education (note 8)	976	2,131
Warrants outstanding (note 4)	7	8
Accounts payable	56	-
Return of capital payable (note 9)	2,129	3,608
Interest payable	263	532
Bonds payable (note 6)	52,717	58,736
Total current liabilities	56,861	65,903
Noncurrent - payable from restricted assets:		
Yield restriction payable (notes 2 and 7)	1,124	921
Bonds payable, net (note 6)	176,178	242,184
Total noncurrent liabilities	177,302	243,105
Total liabilities	234,163	309,008
Net Position:		
Unrestricted (note 2)	97,366	88,028
Restricted	123,561	132,149
Total net position	220,927	220,177
Total liabilities and net position	\$ 455,090	529,185

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

Six Months ended December 31, 2014 and 2013

(in thousands)

	2014	2013
Operating Revenue:		
Interest - loans, net (notes 2)	\$ 11,447	13,308
Investment income, net (note 2)	57	199
Total operating revenue	11,504	13,507
Operating expenses:		
Interest	1,811	2,526
Administration	6,817	7,571
Provision (note 5)	1,608	(726)
Total operating expenses	10,236	9,371
Operating income	1,268	4,136
Nonoperating revenue - other	114	126
Nonoperating expense:		
Interest	-	115
Administration	-	5
Total nonoperating expense	-	120
Nonoperating income	114	6
Change in net position	1,382	4,142
Total net position - beginning	219,545	216,035
Total net position - ending	\$ 220,927	220,177

See accompanying Notes to Financial Statements.

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

Statements of Cash Flows

Six Months ended December 31, 2014 and 2013

(in thousands)

	2014	2013
Cash flows from operating activities:		
Principal payments received on loans	\$ 37,506	35,398
Interest received on loans	8,116	8,449
Other receipts	(82)	153
Loans originated	(2,031)	(2,484)
Administration	(6,957)	(7,743)
Interest paid on debt	(1,948)	(2,739)
Principal paid on debt	(11,046)	(8,621)
Income received on investments	(8)	117
Investments matured or sold	85,561	176,646
Investments purchased	(106,641)	(194,712)
Net cash provided by operating activities	2,470	4,464
Cash flows from capital activities:		
Other receipts	114	126
Administration	(2)	(7)
Interest paid on debt	(78)	(262)
Principal paid on debt	(3,000)	(4,000)
Return of capital payments	(174)	(211)
Net cash used by capital activities	(3,140)	(4,354)
Net Increase (decrease) in cash	(670)	110
Cash at beginning of period	1,787	1,713
Cash at end of period	\$ 1,117	1,823

See accompanying Notes to Financial Statements.

(continued)

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

Statements of Cash Flows

Six Months ended December 31, 2014 and 2013

(in thousands)

	2014	2013
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 1,268	4,136
Adjustments to reconcile operating income to net cash provided by operating activities:		
Provision	1,608	(726)
Change in assets and liabilities:		
Decrease in other assets	418	372
Decrease in interest receivable - investments	102	40
Decrease in net interest receivable - loans	805	488
Increase in investments	(21,247)	(18,188)
Decrease in net loans receivable	31,205	27,481
Decrease in due to U.S. Dept. of Education	(21)	(46)
Decrease in net due to State of Alaska	(572)	(501)
Increase (decrease) in warrants outstanding	73	(111)
Increase in accounts payable	14	353
Decrease in interest payable	(1)	(3)
Decrease in bonds payable	(11,182)	(8,831)
Total adjustments	1,202	328
Net cash provided by operating activities	\$ 2,470	4,464
Summary of noncash capital activities that affect recognized assets and liabilities:		
Interest payable	\$ -	157
Bond premium amortization	5,950	2,326

See accompanying Notes to Financial Statements.

ALASKA STUDENT LOAN CORPORATION

(A Component Unit of the State of Alaska)

Notes to Financial Statements

(1) Authorizing Legislation and Organization

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

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

(2) Summary of Significant Accounting Policies

(a) *Fund Accounting*

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

(b) *Fiscal Year*

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

(c) *Operating 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.

(d) *Management Estimates*

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

ALASKA STUDENT LOAN CORPORATION

(A Component Unit of the State of Alaska)

Notes to Financial Statements

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

(e) Loans

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

(f) Interest on Loans

Interest on loans is accrued when earned at fixed and variable rates ranging from 1.73% to 9%. For federally guaranteed subsidized loans, interest from the disbursement date of the loan until a date that is six months after the borrower withdraws from school (plus any authorized deferment and eligible income-based repayment periods) is paid by the U.S. Department of Education (Department) under the Federal Family Education Loan Program (FFELP). The borrower is responsible for interest accruing subsequent to that date.

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

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

Non-interest bearing loans were approximately \$2,073 and \$2,314 at December 31, 2014 and 2013, respectively.

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

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

(g) Allowances and Provision

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

ALASKA STUDENT LOAN CORPORATION

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Notes to Financial Statements

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

(g) *Allowances and Provision*

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.

(h) *Origination Fee*

Borrowers of State loans originated July 1, 1994 through June 30, 2014, were subject to an origination fee at disbursement, generally determined by year of origination. Loan origination fees must be used by the Corporation to offset loan principal write offs as required by State statute. The allowance for doubtful loans has been reduced by the fee collected.

(i) *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.

(j) *Income Taxes*

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

(k) *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, if any, is recorded as an adjustment to investment income.

(l) *Unrestricted Net Position*

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

ALASKA STUDENT LOAN CORPORATION

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Notes to Financial Statements

(3) Cash and Investments

(a) Cash

(1) Cash summarized by classification at December 31 is shown below:

	<u>2014</u>	<u>2013</u>
Current, unrestricted	\$ 428	212
Noncurrent, restricted	<u>689</u>	<u>1,611</u>
Total	<u>\$ 1,117</u>	<u>1,823</u>

(2) Custodial Credit Risk

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

At December 31, 2014, the Corporation had no cash exposed to custodial credit risk.

(b) Investments

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

	<u>2014</u>	<u>2013</u>
Current:		
Unrestricted	\$ -	664
Restricted	33,913	53,291
Noncurrent:		
Unrestricted	31,920	32,719
Restricted	<u>29,711</u>	<u>16,503</u>
Total	<u>\$ 95,544</u>	<u>103,177</u>

(2) Investment Policies

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

Restricted funds are invested according to the terms outlined in their respective debt instruments which generally mandate the purchase of relatively short-term, high quality fixed income securities. Investments are managed by an external investment manager or by the State 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:

ALASKA STUDENT LOAN CORPORATION

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Notes to Financial Statements

(3) Cash and Investments (cont.)

(b) Investments

(2) Investment Policies

- 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 2013 Master Indenture, senior bonds, debentures, notes, discount notes short-term obligations or other evidences of indebtedness issued or guaranteed by any of the following agencies: Federal Farm Credit Banks, FHLMC; Export-Import Bank of the U.S.; FNMA; FHLB; or any agency or instrumentality of the U.S. which shall be established for the purposes of acquiring the obligations of any of the foregoing or otherwise providing financing therefore; provided such obligation, or the issue or guarantor of such obligation, is rated “AA+” by S&P and “AAA” by Fitch (if rated by Fitch) and, if applicable and/or available, rated “A-1+” by S&P and “F1+” by Fitch and having maturities of not more than 365 days.
- Under the 2002 and 2013 Master Indentures, U.S. dollar denominated deposit accounts, federal funds and bankers’ acceptances with domestic commercial banks which have a rating on their short-term certificates of deposit on the date of purchase of at least A-1+ by S&P and P-1 by Moody’s and maturing no more than 360 days after the date of purchase.
- Under the 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 2012B Master Indenture, such investments are allowed 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 Master Indenture, interest-bearing negotiable certificates of deposit, interest-bearing time deposits, interest-bearing savings accounts or money market deposit accounts issued by or held in any commercial bank, savings and loan association or trust company whose unsecured short-term obligations are rated in P-1 or better by Moody’s or A-1 or better by S&P.
- Under the 2002 Master Indenture, investments in money market funds rated AAAM or AAAM-G or better by S&P and Aaa by Moody’s. Under the 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.
- 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.

ALASKA STUDENT LOAN CORPORATION

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Notes to Financial Statements

(3) Cash and Investments (cont.)

(b) Investments

(2) Investment Policies

- Under the 2012B Master Indenture, any bonds or other obligations of any state of the U.S. or of any agency, instrumentality or local government unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and (a) which are rated, based upon an irrevocable escrow account or fund (the “escrow”), in one of the two highest rating categories of each rating agency which rates such debt; or (b) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in item (a) above, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and which escrow is sufficient, as verified by an independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate.
- Under the 2013 Master Indenture, repurchase obligations with respect to any security that is a direct obligation of, or fully guaranteed by, the U.S. or any agency or instrumentality thereof, the obligations of which are backed by the full faith and credit of the U.S., in either case entered into with a depository institution or trust company (acting as principal) rated AA+ by S&P and AAA by Fitch which repurchase obligations shall be replaced within 60 days if the rating thereon falls below a rating of “A” from S&P.
- Under the 2012B Master Indenture, repurchase agreements, in a standard form prescribed by The Securities Industry and Financial Markets Association or similar form, contracted with banks which are members of the Federal Deposit Insurance Corporation, or with government bond dealers reporting to and trading with the Federal Reserve Bank of New York, in each case rated in the highest rating category by each rating agency which rates such debt, which agreements are secured by obligations which are unconditionally guaranteed by, the U.S. or any agency thereof rated in one of the two highest rating categories by each rating agency which rates such obligations, or book-entry interests therein.
- Under the 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.

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Notes to Financial Statements

(3) Cash and Investments (cont.)

(b) Investments

(2) Investment Policies

- 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 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	
	S&P's	Moody's	S&P's	Moody's
12 months or less	A-1+	P-1	-	-
24 months or less	A-1+	P-1	A-	Aa3
More than 24 months	A-1+	P-1	AA-	Aa3

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

- Under the 2012B Master Indenture, a collective investment fund of the Trustee created pursuant to Regulation 9 of the Office of the Controller of the Currency which is invested in one or more of the types of obligations in which the principal of and interest on are unconditionally guaranteed by the U. S. or any agency thereof rated in one of the two highest rating categories by each rating agency which rates such obligations, or book-entry interests therein.
- Under the 2002 Master Indenture, any other investment approved in writing by S&P and Moody's.
- Under the 2012B Master Indenture, any other investment allowed by law if approved in a credit confirmation.

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

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

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

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.

ALASKA STUDENT LOAN CORPORATION

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Notes to Financial Statements

(3) Cash and Investments (cont.)

(b) Investments

(3) Credit Risk

The fair value of the Corporation's investments by type and credit quality, using S&P's rating scale without modifiers, at December 31 are shown below:

Investment Type	Ratings	2014	2013
U.S. government agencies	AA	\$ -	4,998
Mortgage-backed agencies	AA	9,347	18,619
Money market funds	AAA	64,604	51,453
Guaranteed investment contracts	Not rated	-	300
Corporate bonds	AA	1,559	1,944
Corporate bonds	A	4,365	5,467
Internal investment pools	Next schedule	5,739	6,336
U.S. Treasury securities	No credit exposure	9,373	14,060
U.S. dollar	No credit exposure	557	-
Total		\$ 95,544	103,177

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.

ALASKA STUDENT LOAN CORPORATION

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Notes to Financial Statements

(3) Cash and Investments (cont.)

(b) Investments

(3) Credit Risk

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

The Corporation invests in Treasury's internally managed General Fund and Other Non-segregated Investments Pool (GeFONSI). At December 31, 2014 GeFONSI consisted of investments in Treasury's internally managed Short-term (53%), Short-term Liquidity (16%) and Intermediate-term Fixed Income Pools (31%).

At December 31, 2014, the Corporation's ownership share of GeFONSI was 0.12%.

Information related to Treasury's internally managed fixed income pools is that at June 30, 2014 as management has no reason to believe that significant changes have occurred from that date through December 31, 2014.

ALASKA STUDENT LOAN CORPORATION

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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 ratings from a Nationally Recognized Statistical Rating Organization without modifiers, at June 30 are below:

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

ALASKA STUDENT LOAN CORPORATION

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Notes to Financial Statements

(3) Cash and Investments (cont.)

(b) Investments

(4) Concentration Risk

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

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

(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.

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(3) Cash and Investments (cont.)

(b) *Investments*

(5) Interest Rate Risk

At December 31, 2014, the weighted average modified duration of investments, other than investments in Treasury's internal investment pools, is shown below:

Mortgage-backed agency	0.75
Corporate bonds	2.85
U.S. Treasury securities	0.11
Portfolio modified duration	1.15

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, 2014, the effective duration for the Barclays 1-3 year Government Bond Index was 1.94 years.

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Notes to Financial Statements

(3) Cash and Investments (cont.)

(b) Investments

(5) Interest Rate Risk

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

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

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

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

(c) Other

Unrestricted cash and unrestricted investments specifically designated for financing education loans include \$1,486 and \$1,856 at December 31, 2014 and 2013, respectively.

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Notes to Financial Statements

(4) Loans Receivable

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

(a) The loan portfolio summarized by classification at December 31 is shown below:

	2014			2013		
	State	Federal	Total	State	Federal	Total
Current, unrestricted	\$ 11,354	-	11,354	10,144	-	10,144
Noncurrent:						
Unrestricted	85,542	-	85,542	65,915	-	65,915
Restricted	225,919	111,625	337,544	294,979	132,161	427,140
Total gross loans	\$ 322,815	111,625	434,440	371,038	132,161	503,199
Allowance for doubtful loans			85,916			92,618
Allowance for principal forgiveness			2,014			1,950
Total allowance			87,930			94,568
Total loans, net			\$ 346,510			408,631
Current, unrestricted			11,354			10,144
Noncurrent:						
Unrestricted			51,406			42,797
Restricted			283,750			355,690
Total loans, net			\$ 346,510			408,631

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(4) Loans receivable (cont.)

(b) The loan portfolio summarized by program at December 31, is shown below:

	<u>2014</u>	<u>2013</u>
State Loans		
Supplemental Education	\$ 272,476	314,312
Consolidation	41,823	47,284
Teacher Education	6,499	6,983
Family Education	<u>2,017</u>	<u>2,459</u>
Total State Loans	<u>322,815</u>	<u>371,038</u>
Federal Family Education Loans		
Stafford	92,955	110,768
Consolidation	14,996	16,927
PLUS	<u>3,674</u>	<u>4,466</u>
Total Federal Loans	<u>111,625</u>	<u>132,161</u>
Total	<u>\$ 434,440</u>	<u>503,199</u>

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

	<u>2014</u>		<u>2013</u>	
	<u>State</u>	<u>Federal</u>	<u>State</u>	<u>Federal</u>
Enrollment	\$ 12,860	3,755	17,245	7,232
Grace	1,839	805	2,577	1,445
Repayment	275,779	80,075	312,415	87,353
Deferment	31,495	16,009	37,370	21,436
Forbearance	<u>842</u>	<u>10,981</u>	<u>1,431</u>	<u>14,695</u>
Total	<u>\$ 322,815</u>	<u>111,625</u>	<u>371,038</u>	<u>132,161</u>

(d) Included in loans receivable are \$92 and \$84 of loan warrants issued but not redeemed at December 31, 2014 and 2013, respectively. Redemption is contingent upon the borrower meeting certain eligibility requirements.

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Notes to Financial Statements

(4) Loans receivable (cont.)

(e) Loans awarded not disbursed at December 31 are shown below:

	<u>2014</u>	<u>2013</u>
State Loans		
Supplemental Education	\$ 1,314	1,582
Teacher Education	88	166
Family Education	<u>84</u>	<u>108</u>
Total State Loans	<u>\$ 1,486</u>	<u>1,856</u>

(5) Allowances and Provision

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

	<u>2014</u>	<u>2013</u>
Balance at beginning of period	\$ 110,562	118,628
Provision	1,608	(726)
Balances charged off	<u>(888)</u>	<u>(898)</u>
Balance at end of period	<u>\$ 111,282</u>	<u>117,004</u>

	<u>2014</u>	<u>2013</u>
Allowance for doubtful loans	\$ 85,916	92,618
Allowance for principal forgiveness	2,014	1,950
Allowance for doubtful interest	22,843	22,000
Allowance for interest forgiveness	<u>509</u>	<u>436</u>
Total	<u>\$ 111,282</u>	<u>117,004</u>

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Notes to Financial Statements

(6) Bonds Payable

(a) Bonds payable at December 31 consist of the following:

			<u>Amount Outstanding</u>	
	<u>Type</u>	<u>Original Amount</u>	<u>2014</u>	<u>2013</u>
2002 Master Indenture, Education Loan:				
2004:	Serial bonds, Series A-3 rates ranging from 5.0% to 5.25%, due 2016 to 2017	Fixed \$ 22,015	2,445	6,310
2005:	Serial bonds, Series A, rate 5.0%, due 2015 to 2018	Fixed 58,250	22,250	28,750
2006:	Serial bonds, Series A-2, rate 5.0%, due 2015 to 2018	Fixed 55,000	26,000	32,000
2007:	Serial bonds, Series A-2, rate 5.0%, due 2015 to 2019	Fixed 18,500	11,500	13,500
	Serial bonds, Series A-3, rate 5.00%	Fixed <u>49,000</u>	<u>-</u>	<u>8,000</u>
	Sub-total	<u>202,765</u>	<u>62,195</u>	<u>88,560</u>
2005 Master Indenture, Series A State Projects				
	serial bonds, rate 5.25%	Fixed 88,305	-	6,000
2012B Trust Indenture, Education Loan				
	Revenue, Refunding Bonds, Senior Series 2012B-1, due 2043	Variable 78,435	54,435	72,435
2013A Trust Indenture, Education Loan				
	Revenue, Refunding Note, Series 2013A, due 2031	Variable <u>144,730</u>	<u>112,026</u>	<u>133,361</u>
Total Bonds/Note Payable		<u>\$ 514,235</u>	228,656	300,356
Unamortized premium/discount, net			<u>239</u>	<u>564</u>
Net Bonds/Note Payable			<u>\$ 228,895</u>	<u>300,920</u>
Current			52,717	58,736
Noncurrent			<u>176,178</u>	<u>242,184</u>
Total			<u>\$ 228,895</u>	<u>300,920</u>

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Notes to Financial Statements

(6) Bonds Payable (cont.)

- (b) The Series 2012B-1 Bonds are weekly rate mode bonds. The weekly rate is determined by the remarketing agent. The maximum rate applicable to the bonds is 12% per annum. The rate at December 31, 2014 and 2013 was 0.07% and 0.07%, respectively.

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 December 31, 2014 and 2013 was 0.66% and 0.66%, respectively.

- (c) The minimum payments and sinking fund installments for the five years subsequent to December 31, 2014, and thereafter are as follows:

<u>Period Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 52,717	3,433	56,150
2016	52,563	2,450	55,013
2017	48,343	1,480	49,823
2018	45,620	606	46,226
2019	29,413	95	29,508
Total	<u>\$ 228,656</u>	<u>8,064</u>	<u>236,720</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	4.74
2005 Series A	4.22
2006 Series A-2	4.51
2007 Series A-2	4.28
2007 Series A-3	4.09

Note issued at a discount:

2013 Series A	0.60 over LIBOR
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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. 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
2012B	December 1, 2043	June 1 and December 1	Tax-exempt
2013	Monthly	Monthly	Taxable

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

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

(7) Yield Restriction and Arbitrage Rebate

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

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Notes to Financial Statements

(8) Federal Family Education Loan Program

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

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

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

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

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

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

(9) Commitments and Contingencies

(a) Internal Revenue Service Examination

The 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 loan payments to finance education loans. The Corporation believes the IRS position is inconsistent with applicable law and disagrees with the assertion that a violation has occurred. The Corporation is vigorously contesting the IRS assertion and cannot predict the outcome related to this matter.

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Notes to Financial Statements

(9) Commitments and Contingencies (cont.)

(b) Operations

The Corporation will fund approximately \$6,854 of the Commission's remaining fiscal year 2015 operating budget for loan servicing and staff support. In addition, the Corporation will fund expenditures related to the Commission's fiscal year 2016 proposed operating budget of approximately \$13,802. 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 pay the State a return of contributed capital or dividend annually based on net income. If the Board elects to make such a payment, the amount may not be less than 10%, or greater than 35%, of the Corporation's income before transfers when it equals or exceeds \$2,000 for the Base Fiscal Year. The Base Fiscal Year is defined as the fiscal year ending two years before the end of the fiscal year in which the payment is made.

On November 5, 2014 and November 25, 2013, the Board chose not to return capital to the State in fiscal year 2016 and 2015, 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 capital project bond proceeds and related earnings. Restricted investments include amounts specifically designated for financing State capital projects totaling \$2,129 and \$3,608 at December 31, 2014 and 2013, respectively.

(d) State Permanent Fund Dividend Garnishment

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

PFD garnishments were approximately \$4,338 and \$2,285 for the years ended December 31, 2014 and 2013, respectively.

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Notes to Financial Statements

(9) Commitments and Contingencies (cont.)

(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.