

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

Management's Discussion and Analysis and
Financial Statements

June 30, 2012 and 2011

Together with Independent Auditors' Report

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

June 30, 2012 and 2011

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ALASKA STUDENT LOAN CORPORATION

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the Alaska Student Loan Corporation's (Corporation) history, financial position at, and financial performance for, the fiscal years ended June 30, 2012 and 2011 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 2010 information is shown for comparative purposes. This information should be read in conjunction with the Independent Auditors' 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 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 tax-exempt 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. The loan programs are currently funded through the issuance of tax-exempt revenue bonds, recycling of loan payments, and proceeds from a State-funded loan. 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 obligations 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 information about the Program is available at <http://akadvantage.alaska.gov>. The Corporation funds the Commission's expenditures that relate to Program administration as permitted by ASLC statutes and bond indentures.

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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 Federal Family Education Loan Program 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 loan portfolio.
- Loan portfolio by program is as follows:

<u>Fiscal Year and Loan Program</u>	<u>Net loans as a percentage of total loans</u>	<u>Gross awards as a percentage of total awards</u>
2012		
State	67	100
Federal	33	-
2011		
State	67	100
Federal	33	-
2010		
State	67	25
Federal	33	75

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

	Principal balance			Principal balance as a percentage of total
	State	Federal	Total	
2002 Trust	\$ 266,639	27,760	294,399	49
2004 Trust	13,582	-	13,582	2
2005 Trust	36,208	-	36,208	6
Loan payable to the State	23,870	40,863	64,733	11
Funding Note Purchase Agreement	-	89,224	89,224	15
Non-pledged	96,483	5,039	101,522	17
Total	<u>\$ 436,782</u>	<u>162,886</u>	<u>599,668</u>	<u>100</u>

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

	Principal Balance	Principal balance as a percentage of total
FICO of 680 or greater	\$ 34,065	8
Good payment history	59,451	14
Credit Ready	280,724	64
No credit criteria	62,542	14
Total	<u>\$ 436,782</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.

Good payment history requirements were implemented on all State Consolidated Loans reflecting good repayment activity in the eighteen months prior to consolidation or a FICO score of at least 720 on or before October 6, 2010 and 680 thereafter.

No adverse credit history was required on loans first disbursed on or after April 1, 1997 and before July 1, 2009.

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Financial Highlights

- Financing education loans

The Corporation last issued education loan revenue bonds, for the purpose of financing education loans, in June 2007 and has used internal liquidity and proceeds from a loan payable to the State to finance education loans through June 30, 2012. Due to the elimination of the FFELP and the implementation of stricter underwriting criteria, annual loan volume is anticipated to continue to be between \$7 million and \$10 million. Management believes it has internal cash available to meet loan demand through fiscal 2013. Thereafter, Management anticipates using equity in the 2002 Trust or issuing fixed rate bonds to meet loan demand.

- Refinancing loan portfolios to redeem auction rate securities and repay other debt payable

All auction rate securities (ARS) issued by the Corporation were issued under the 2002 Trust. The Corporation has \$106 million in ARS outstanding at June 30, 2012. Auctions on these bonds have failed since the failure of the ARS market in February 2008. Auction failure does not constitute a default on the bonds, and all principal and interest payments on bonds have been made when due. Despite the ARS market failure, the Corporation's pledged loan portfolio credit quality remains strong. All bonds, including the ARS, issued under the 2002 Trust remain rated AAA by both Fitch (rating watch negative, affirmed June 2012) and Standard and Poor's (affirmed December 2011).

Education loans made with ARS and FFELP loans made with proceeds from a loan payable to the State were refinanced on September 12, 2012. The proceeds from such refinancing were used to redeem the Corporation's ARS at par and to make a \$41 million payment on the loan payable to the State.

The balance on the loan payable to the State is due July 17, 2013. Management anticipates using equity in the 2002 Trust or issuing fixed rate bonds to refinance the loan portfolio pledged to the loan payable to the State. Proceeds from such refinancing will be used to pay the balance on the loan payable to the State on or prior to its due date.

The balance on the Funding Note Purchase Agreement (FNPA) is due November 19, 2013. The corporation continues to evaluate its options relative to refinancing loans pledged to the FNPA and is currently anticipating refinancing with a LIBOR floating rate note (FRN). Proceeds from such refinancing will be used to pay the balance on the FNPA on or prior to its due date.

Information related to the Corporation's debt is contained in the footnote section of the financial statements. In addition, trust monitoring reports are prepared quarterly, the most current of which is available at: http://akadvantage.alaska.gov/Research/Investor_Relations/Trust_Documents.aspx.

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Overview of the Financial Statements

The Corporation's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting in conformity with accounting principles generally accepted in the United States. Under the accrual method of accounting, the same method used by private sector businesses, revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are 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 assets at a point in time. Net assets represent 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 assets 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 assets 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 Assets – This statement measures the activities of the Corporation's operations over the past year and presents the operating income and change in net assets. 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 operations 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, 2012, 2011, and 2010 were \$0.7, \$0.7, and \$0.8 billion, respectively. The change in assets from fiscal year 2011 to 2012 was a decrease of \$83 million or 11%, and the change between fiscal year 2010 to 2011 was a decrease of \$81 million or 10%.
- The Corporation's net education loans receivable was \$496, \$561, and \$604 million, at June 30, 2012, 2011 and 2010, respectively. These balances represent a decrease in fiscal year 2012 of \$65 million or 12% and a decrease in fiscal year 2011 of \$43 million or 7%.
- The Corporation's debt at June 30, 2012, 2011, and 2010 was \$423, \$502, and \$589 million, respectively. The change in debt from fiscal year 2011 to 2012 was a decrease of \$79 million or 16%, and the change in debt from fiscal year 2010 to 2011 was a decrease of \$87 million or 15%.

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- The assets of the Corporation exceed its liabilities (reported as net assets) at the close of fiscal year 2012, 2011 and 2010 by \$218, \$217, and \$205 million, respectively. These balances represent an increase in fiscal year 2012 of \$1 million or 1% and an increase in fiscal year 2011 of \$12 million or 6%.
- The Corporation's operating revenue was \$36, \$38, and \$37 million at June 30, 2012, 2011 and 2010, respectively. These balances represent a decrease in fiscal year 2012 of \$2 million or 5% and an increase in 2011 of \$1 million or 3%.
- The Corporation's interest expense was \$12, \$14, and \$15 million during fiscal years 2012, 2011 and 2010, respectively. These balances represent a decrease in fiscal year 2012 of \$2 million or 14%, and a decrease in 2011 of \$1 million or 6%.
- The Corporation's other operating expense was \$25, \$16, and \$20 million during fiscal years 2012, 2011 and 2010. These balances represent an increase in fiscal year 2012 of \$9 million or 56% and a decrease in fiscal year 2011 of \$4 million or 20%.
- The following condensed financial information reflects changes during the fiscal year:

Balance Sheets (in thousands)					
	2012	2011	\$ Change	% Change	2010
Assets:					
Current	\$ 76,087	86,833	(10,746)	(12)	79,326
Noncurrent	<u>577,384</u>	<u>649,921</u>	<u>(72,537)</u>	(11)	<u>738,447</u>
Total assets	<u>653,471</u>	<u>736,754</u>	<u>(83,283)</u>	(11)	<u>817,773</u>
Liabilities:					
Current	63,956	73,279	(9,323)	(13)	65,279
Noncurrent	<u>371,222</u>	<u>446,647</u>	<u>(75,425)</u>	(17)	<u>547,884</u>
Total liabilities	<u>435,178</u>	<u>519,926</u>	<u>(84,748)</u>	(16)	<u>613,163</u>
Net assets:					
Unrestricted	93,146	97,674	(4,528)	(5)	122,482
Restricted	<u>125,147</u>	<u>119,154</u>	<u>5,993</u>	5	<u>82,128</u>
Total net assets	<u>218,293</u>	<u>216,828</u>	<u>1,465</u>	1	<u>204,610</u>
Total liabilities and net assets	<u>\$ 653,471</u>	<u>736,754</u>	<u>(83,283)</u>	(11)	<u>817,773</u>

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 the State'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.

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

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

The fiscal year 2011 increase in current assets is due to the increase in unrestricted cash and loans receivable. Cash held at year end increased due to poor year end investment opportunities. The increase in loans receivable at year end is the increase in expected principal payments due to historical trends.

The fiscal year 2011 decrease in noncurrent assets was due to a decrease in investments and loans receivable. Investments were unusually high at the end of fiscal year 2010 due to the receipt of proceeds from refinancing FFELP loans on June 29, 2010. Those proceeds were used to purchase outstanding auction rate securities. In addition, the Corporation used investments held at the beginning of the year to finance a large portion of the current year's loan originations. Loans receivable is decreasing as originations and capitalized interest are no longer exceeding principal payments received.

Fiscal year 2011 current liabilities increased because payments on other debt are coming due for the first time in fiscal year 2012.

Noncurrent liabilities in fiscal year 2011 decreased due to payments on debt being made with no new debt being incurred.

Unrestricted net assets decreased in fiscal year 2011 due to the reduction in unrestricted loans receivable. Unrestricted loans receivable is declining due to the fact that principal loan payments are higher than loan originations.

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Restricted net assets increased in fiscal year 2011 due to the reduction of restricted debt being higher than the reduction in restricted loans receivable and investments. Restricted debt was reduced in fiscal year 2011 as debt payments were made and no new debt was incurred. Restricted loans are declining due to the fact that principal loan payments are higher than loan originations. Restricted investments were used for loan originations and to make debt payments in fiscal year 2011.

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

	2012	2011	\$ Change	% Change	2010
Operating revenue	\$ 35,514	37,636	(2,122)	(6)	37,233
Operating expense	(34,873)	(27,432)	(7,441)	27	(31,742)
Non-operating revenue	1,580	-	1,580	-	-
Non-operating expense	(1,982)	(2,647)	665	(25)	(3,224)
Income before change in estimate, special item and return of capital	239	7,557	(7,318)	(97)	2,267
Change in accounting estimate	-	-	-	-	4,342
Gain on cancellation of bonds	1,289	4,734	(3,445)	(73)	17,406
Return of capital	(63)	(73)	10	(14)	(54)
Change in net assets	1,465	12,218	(10,753)	(88)	23,961
Net assets - beginning	216,828	204,610	12,218	6	180,649
Net assets - ending	\$ 218,293	216,828	1,465	1	204,610

Operating revenue, which represents interest on education loans and earnings on investments, 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 4.50% which was a slight improvement over the average return in fiscal year 2011 of 4.48%. The return on invested assets improved as well from 1.37% in fiscal year 2011 to 2.07% 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 (year in which State loans first enter repayment) 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 economy downturn that started in 2008 negatively impacted the two new cohort of loans causing them to have a

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higher loss rate than past 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 used prior to fiscal year 2012 meaning that over time, loss rates are anticipated to return to the level experienced in fiscal year 2011 and prior.

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 on September 26, 2011 entered into an Agreement for Teaming Arrangement to Service Student Loan 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.

Operating revenue increased in fiscal year 2011 due to a slight increase in investment returns. This increase is also attributable to the reduction in borrower benefits effective for the 2010-2011 academic year. The average return on gross loans was 4.48% and 4.51% in fiscal years 2011 and 2010, respectively. The return on invested assets increased from 0.85% in fiscal year 2010 to 1.37% in fiscal year 2011. The Corporation continued to invest in zero coupon State and Local Government Securities ("SLGS") or non-interest bearing money market accounts in fiscal year 2011 to reduce yield restriction and arbitrage rebate liabilities associated with past earnings on tax-exempt bond proceeds.

Operating expense declined in 2011 due to the reduction in administrative costs, the provision related to loan losses and cumulative investment earnings rebatable to the federal government. Administrative costs have declined due to the elimination of the lender-based Federal Family Education Loan Program. Prior to the elimination of that program, the Corporation paid a lender fee and, for Stafford loan borrowers, the origination fee. Administrative costs are also down due to a reduction in costs associated with the significant decline in loan volume as a result of the elimination of FFELP as well as the implementation of stricter underwriting standards for the State loan program.

Non-operating expense declined in 2011 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.

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Borrower Benefits

The Board has approved various loan benefits that provide incentives and rewards to borrowers who participate in the Program. The benefit package, intended to lower the cost of interest and fees, is subject to annual approval by the Board and changes are subject to a confirmation from rating agencies rating the Corporation's outstanding education loan revenue 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 2012, 2011 and 2010 cost \$1.1, \$1.1, and \$2.8 million, respectively. The cost of such benefits is offset against education loan interest income. Benefits available to eligible borrowers are available online at http://akadvantage.alaska.gov/Loans/Borrower_Benefits.aspx.

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

CERTIFIED PUBLIC ACCOUNTANTS

9309 Glacier Highway, Suite B-200 • Juneau, Alaska 99801
907.789.3178 • FAX 907.789.7128 • www.ermcpa.com

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Alaska Student Loan Corporation
Juneau, Alaska

We have audited the accompanying financial statements of the Alaska Student Loan Corporation (Corporation), a component unit of the State of Alaska, as of and for the years ended June 30, 2012, and 2011, as listed in the table of contents. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Corporation as of June 30, 2012, and 2011, and the results of its operations and its cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2012 on our consideration of the Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The Management's Discussion and Analysis on pages 1 through 10 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



September 30, 2012

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Balance Sheets

June 30, 2012 and 2011

(in thousands)

Assets	2012	2011
Current assets:		
Cash (note 3)	\$ 750	4,410
Other	322	101
Interest receivable - investments	89	103
Interest receivable - loans	1,207	1,390
Investments (note 3)	1,770	1,066
Loans receivable (notes 4 and 10)	13,894	12,364
Restricted investments (note 3)	58,055	67,399
Total current assets	76,087	86,833
Noncurrent assets:		
Interest receivable - loans, net (note 5)	1,691	1,566
Loans receivable, net (notes 4, 5 and 10)	50,265	54,595
Investments (note 3)	24,809	23,715
Restricted:		
Cash (note 3)	4,575	5,199
Other	398	203
Due from State of Alaska	-	113
Arbitrage rebate receivable (note 9)	781	813
Interest receivable - investments	497	587
Interest receivable - loans, net (note 5)	15,591	18,096
Investments (note 3)	44,745	48,392
Loans receivable, net (notes 4, 5 and 10)	432,001	494,078
Debt issue cost, net (note 8)	2,031	2,564
Total noncurrent assets	577,384	649,921
Total assets	\$ 653,471	736,754

See accompanying Notes to Financial Statements.

(Continued)

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Balance Sheets

June 30, 2012 and 2011

(in thousands)

Liabilities and Net Assets	<u>2012</u>	<u>2011</u>
Liabilities:		
Current:		
Payable from unrestricted assets:		
Due to State of Alaska	\$ 487	642
Due to U.S. Dept of Education (note 10)	356	370
Warrants outstanding (note 4)	136	36
Accounts payable	673	588
Payable from restricted assets:		
Due to State of Alaska	4	-
Due to U.S. Dept of Education (note 10)	844	915
Warrants outstanding (note 4)	12	22
Accounts payable	40	71
Arbitrage rebate payable (note 9)	496	999
Return of capital payable (note 12)	5,413	10,016
Interest payable	2,893	3,464
Bonds payable (note 6)	41,390	46,065
Other debt payable (note 7)	11,212	10,091
Total current liabilities	<u>63,956</u>	<u>73,279</u>
Noncurrent-payable from restricted assets:		
Arbitrage rebate payable (note 9)	55	111
Return of capital payable (note 12)	735	672
Deferred credit (note 2)	7	11
Bonds payable, net (note 6)	223,281	283,338
Loan payable to State of Alaska (note 7)	67,500	67,500
Other debt payable (note 7)	79,644	95,015
Total noncurrent liabilities	<u>371,222</u>	<u>446,647</u>
Total liabilities	<u>435,178</u>	<u>519,926</u>
Commitments and contingencies (note 12)	<u>-</u>	<u>-</u>
Net assets:		
Unrestricted (note 2)	93,146	97,674
Restricted	125,147	119,154
Total net assets	<u>218,293</u>	<u>216,828</u>
Total liabilities and net assets	<u>\$ 653,471</u>	<u>736,754</u>

See accompanying Notes to Financial Statements.

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Statements of Revenue, Expenses
and Changes in Net Assets

Years ended June 30, 2012 and 2011

(in thousands)

	<u>2012</u>	<u>2011</u>
Operating revenue:		
Interest - loans	\$ 32,443	35,366
Investment income	3,071	2,270
Total operating revenue	<u>35,514</u>	<u>37,636</u>
Operating expenses:		
Interest	10,134	11,713
Administration	12,566	12,776
Provision (note 5)	12,332	3,404
Amortization and retirement of debt issue costs (note 8)	368	471
Arbitrage rebate (note 9)	(527)	(932)
Total operating expenses	<u>34,873</u>	<u>27,432</u>
Operating income	<u>641</u>	<u>10,204</u>
Nonoperating revenue - other	<u>1,580</u>	<u>-</u>
Nonoperating expense:		
Interest	1,784	2,399
Administration	33	83
Amortization of debt issue costs (note 8)	165	165
Total nonoperating expense	<u>1,982</u>	<u>2,647</u>
Nonoperating loss	<u>(402)</u>	<u>(2,647)</u>
Income before special item and return of capital	239	7,557
Special item - gain on cancellation of bonds (note 6)	1,289	4,734
Return of capital (note 12)	<u>(63)</u>	<u>(73)</u>
Change in net assets	1,465	12,218
Total net assets - beginning	<u>216,828</u>	<u>204,610</u>
Total net assets - ending	<u>\$ 218,293</u>	<u>216,828</u>

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, 2012 and 2011

(in thousands)

	2012	2011
Cash flows from operating activities:		
Principal payments received on loans	\$ 76,040	66,986
Interest received on loans	18,442	18,895
Other receipts	668	339
Loans originated	(7,764)	(12,164)
Administration	(12,740)	(12,592)
Interest paid on debt	(11,234)	(12,802)
Principal paid on debt	(60,281)	(68,895)
Proceeds from State loan and other debt	-	4,500
Debt issue costs	-	(45)
Income received on investments	2,636	469
Investments matured or sold	385,258	662,165
Investments purchased	(373,526)	(617,258)
Net cash provided by operating activities	17,499	29,598
Cash flows from capital activities:		
Other receipts	1,558	-
Administration	(71)	(35)
Interest paid on debt	(2,522)	(3,298)
Principal paid on debt	(16,145)	(16,820)
Return of capital payments	(4,603)	(2,293)
Net cash used by capital activities	(21,783)	(22,446)
Net increase (decrease) in cash	(4,284)	7,152
Cash at beginning of period	9,609	2,457
Cash at end of period	\$ 5,325	9,609

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, 2012 and 2011

(in thousands)

	<u>2012</u>	<u>2011</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 641	10,204
Adjustments to reconcile operating income to net cash provided by operating activities:		
Decrease (increase) in other assets	(394)	120
Decrease (increase) in interest receivable - investments	104	(664)
Decrease in net interest receivable - loans	2,563	1,134
Decrease in investments	11,193	44,401
Decrease in net loans receivable	64,877	43,418
Decrease in net debt issue costs	368	486
Increase (decrease) in due to U.S. Dept of Education	(85)	109
Increase (decrease) in net due to State of Alaska	(38)	5
Increase (decrease) in warrants outstanding	90	(230)
Increase in accounts payable	92	107
Decrease in net arbitrage rebate payable	(527)	(1,563)
Decrease in interest payable	(198)	(12)
Decrease in deferred credit	(4)	(2,444)
Decrease in bonds payable	(46,933)	(59,829)
Increase in loan payable to State	-	4,500
Decrease in other debt payable	(14,250)	(10,144)
Total adjustments	<u>16,858</u>	<u>19,394</u>
Net cash provided by operating activities	<u>\$ 17,499</u>	<u>29,598</u>
Summary of noncash capital activities that affect recognized assets and liabilities:		
Debt issue cost amortization	\$ 165	165
Return of capital payable	63	73
Interest payable	2,149	2,900
Bond premium amortization	(365)	(500)

See accompanying Notes to Financial Statements.

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

Notes to Financial Statements

June 30, 2012 and 2011

(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 bonds and other obligations necessary to provide sufficient funds for carrying 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 support 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's funds are considered to be enterprise funds 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. Its operating revenue is derived from interest on education loans and earnings on investments. The cost of financing and servicing education loans is recorded as an operating expense.

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

Notes to Financial Statements

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

(d) *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.

(e) *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 the year of origination and loan type. Interest accrues at fixed and variable rates ranging from 1.76% to 9% and is generally determined by loan type and year of origination.

(f) *Interest on Loans*

Interest on loans is accrued when earned. 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. 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 (other than FEL) 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 \$3,654 and \$3,846 at June 30, 2012 and 2011, respectively.

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

ALASKA STUDENT LOAN CORPORATION

(a Component Unit of the State of Alaska)

Notes to Financial Statements

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

(g) *Allowances and Provision*

The allowances represent management's estimate, based on experience, of loans, and accrued interest on loans that will ultimately be uncollectible or forgiven. The Corporation writes off State loans upon death, bankruptcy, total disability, or when 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.

(h) *Deferred Credit*

Borrowers of State loans originated after June 30, 1994, are subject to an origination fee at disbursement of 1%, 3%, or 5%, generally determined by year of origination. Loan origination fees, recognized as a deferred credit, 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 deferred credit balance, if any.

(i) *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.

(j) *Bond Premiums*

The Corporation uses the effective method of amortization to amortize bond premiums over the life of the bond. The effective method more closely matches premium amortization with bond interest expense, maintaining a constant effective rate of interest over the life of the bonds.

(k) *Income Taxes*

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

(l) *Investments*

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.

(m) *Unrestricted Net Assets*

Unrestricted net assets represent assets not pledged as collateral to secure payment of debt or restricted by state statute.

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

Notes to Financial Statements

(3) Cash and Investments

(a) **Cash**

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

		2012	2011
Current, unrestricted	\$	750	4,410
Noncurrent, restricted		4,575	5,199
Total	\$	5,325	9,609

(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, 2012, the Corporation had no cash exposed to custodial credit risk.

(b) **Investments**

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

		2012	2011
Current:			
Unrestricted	\$	1,770	1,066
Restricted		58,055	67,399
Noncurrent:			
Unrestricted		24,809	23,715
Restricted		44,745	48,392
Total	\$	129,379	140,572

ALASKA STUDENT LOAN CORPORATION

(a Component Unit of the State of Alaska)

Notes to Financial Statements

(3) Cash and Investments (cont.)

(b) *Investments*

(2) Investment Policies

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

Restricted funds, 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 a contracted 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 investment policy:

- Under the 2002 and 2004 Master Indentures, the 2009 Loan Trust, and the 2010 Funding Note Purchase Agreement (FNPA), 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 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, and senior debt obligations of any government sponsored agencies approved by the bond insurer.
- Under the 2002 and 2004 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 and 2004 Master Indentures, commercial paper which is rated, at the time of 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 the time of purchase and if the investment matures not more than 270 days after the date of purchase. Under the FNPA, such investments are allowed if rated A-1+ by S&P and F1+ or higher by Fitch at the time of purchase.

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 2009 Loan Trust, short-term investments with domestic commercial banks maturing not more than 365 calendar days after the date of purchase, provided, however, that such investments are unconditionally guaranteed by the U.S.; or fully collateralized by securities which are unconditionally guaranteed by the U.S. 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.
- Under the FNPA, demand deposits, including interest-bearing money market accounts, time deposits, trust funds, trust accounts, overnight bank deposits, interest-bearing deposits and certificates of deposit or bankers acceptances of depository institutions having a long-term rating equivalent of AAA or higher by S&P and Fitch at the time of and during investment.
- Under the 2002 and 2004 Master Indentures, 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 2009 Loan Trust, such investments are allowed if rated at least "Aaa" by S&P or otherwise in the highest rating category of S&P for money market funds and at least "AA" or "F-1+" by Fitch if the money market fund has the ability to maintain a stable one dollar net asset value per share and the shares are freely transferable on a daily basis. Under the FNPA, such investments are allowed if rated in the highest investment category granted thereby from S&P and Fitch.
- Under the 2002 and 2004 Master Indentures, 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 2004 and 2005 Master Indentures, 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 FNPA, repurchase and reverse repurchase agreements collateralized with obligations fully and unconditionally guaranteed as to timely payment by, the U.S. government or any agency, instrumentality, or establishment of the U.S. government.
- Under the 2002 Master Indenture, guaranteed investment contracts, investment agreements and repurchase agreements secured by collateral. Under the 2004 Master Indenture, such contracts or agreements must be acceptable to 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 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 2004 Master Indenture, such contracts and agreements must be acceptable to the bond insurer.

- Under the 2009 Loan Trust, holdings in any of the various fixed-income pools managed by Treasury.
- Under the 2002 Master Indenture, any other investment approved in writing by S&P and Moody's. Under the 2004 Master Indenture, any other investment approved in writing by S&P, Moody's and the bond insurer.

Unrestricted funds and funds restricted by State statute may be invested in the various fixed-income pools managed by Treasury. Investments in the State'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. Actual investing is performed or managed by Treasury's investment officers.

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 State'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.
- 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.

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

Notes to Financial Statements

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

(b) ***Investments***

(3) Credit Risk

Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations. The Corporation mitigates its credit risk by limiting investments to those permitted in the investment 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>2012</u>	<u>2011</u>
U.S. government agency discount notes	Not rated	\$ 944	4,000
Mortgage-backed securities (agencies)	AAA	-	63,686
Mortgage-backed securities (agencies)	AA	50,502	-
Money market funds	AAA	47,364	5,558
Money market mutual funds	Not rated	-	2,633
Money market deposit account	Not rated	-	29,700
Guaranteed investment contracts	Not rated	6,688	8,253
Corporate bonds	AA	3,414	5,550
Corporate bonds	A	5,290	5,304
Internal investment pools	Next schedule	8,002	7,420
U.S. treasury securities	No credit exposure	7,175	8,468
Total		<u>\$ 129,379</u>	<u>140,572</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 the State's 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. Asset-backed and non-agency mortgage securities are limited to those 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.

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

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 the State'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	Short-term	Intermediate-term	Totals	
				2012	2011
Commercial paper	A-1	\$ -	-	-	207
Commercial paper	Not rated	162	2	164	36
U.S. government agency	AAA	-	-	-	257
U.S. government agency	AA	57	125	182	-
U.S. government agency	A	-	2	2	-
U.S. gov. agency discount notes	Not rated	-	-	-	84
Mortgage-backed	AAA	22	46	68	171
Mortgage-backed	AA	-	34	34	3
Mortgage-backed	BBB	-	-	-	1
Mortgage-backed	CCC	-	1	1	-
Mortgage-backed	Not rated	18	16	34	12
Other asset-backed	AAA	1,273	7	1,280	969
Other asset-backed	AA	92	-	92	-
Other asset-backed	A	4	-	4	2
Other asset-backed	CCC	-	-	-	1
Other asset-backed	Not rated	307	3	310	108
Overnight sweep account	Not rated	-	-	-	27
Corporate bonds	AAA	-	20	20	1,161
Corporate bonds	AA	240	229	469	90
Corporate bonds	A	175	107	282	238
Corporate bonds	BBB	-	37	37	62
Corporate bonds	Not rated	17	2	19	173
Yankees:					
Government	AA	-	15	15	29
Government	Not rated	-	1	1	2
Corporate	AAA	-	-	-	43
Corporate	AA	69	-	69	60
Corporate	A	30	-	30	21
Corporate	BBB	-	-	-	10
Corporate	Not rated	-	-	-	2
No credit exposure:					
U.S. treasury notes		-	1,742	1,742	3,085
U.S. treasury bills		2,916	210	3,126	478
U.S. treasury strip		-	2	2	3
Pool related net assets		19	-	19	85
Total		\$ 5,401	2,601	8,002	7,420

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, the investment providers will be 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, 2012, 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 Investors, Inc	\$ 41,023	31.67%
Federal National Mortgage Association	28,856	22.28%
Federal Home Loan Mortgage Corporation	19,266	14.88%
FSA Management Services, LLC	6,688	5.16%

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, 2012, the weighted average modified duration of investments, other than investments in the State's internal investment pools, is shown below:

U.S. government agency discount notes	0.14
Mortgage-backed securities (agencies)	2.37
Guaranteed investment contracts	9.83
Corporate bonds	4.18
U.S. treasury securities	2.58
Portfolio modified duration	3.25

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 Merrill Lynch 1-5 year Government Bond Index. At June 30, 2012, the effective duration for the Merrill Lynch 1-5 year Government Bond Index was 2.66 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, 2012, the Intermediate-term Fixed Income Pool's effective duration, by investment type, is shown below:

Commercial paper	0.26
U.S. government agency	1.24
Mortgage-backed	1.28
Other asset-backed	2.43
Corporate bonds	1.62
Yankees:	
Government	1.72
Corporate	2.63
U.S. treasury notes	2.78
U.S. treasury bills	0.30
U.S. treasury strip	5.26
Portfolio effective duration	2.23

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. Treasury utilizes the actual maturity date for commercial paper and twelve month prepay speeds for other securities. At June 30, 2012, the expected average life of fixed rate securities held in the Short-term Fixed Income Pool ranged from one day to one year and the expected average life of floating rate securities ranged from eight days to fourteen years.

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(3) Cash and Investments (cont.)

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

		2012	2011
Current:			
Unrestricted	\$	61	444
Restricted		190	176
Total	\$	251	620

(4) Loans Receivable

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

		2012		2011	
		State	Federal	State	Federal
Current, unrestricted	\$	13,419	475	12,131	233
Noncurrent:					
Unrestricted		83,064	4,564	88,510	2,815
Restricted		340,299	157,847	380,242	180,367
Total	\$	436,782	162,886	480,883	183,415

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(4) Loans receivable (cont.)

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

	2012	2011
State Loans		
Supplemental Education	\$ 365,862	397,644
Consolidation	59,980	71,172
Teacher Education	7,444	7,701
Family Education	3,496	4,366
Total State Loans	436,782	480,883
Federal Family Education Loans		
Stafford	137,051	154,438
PLUS	19,922	7,238
Consolidation	5,913	21,739
Total Federal Loans	162,886	183,415
Total	\$ 599,668	664,298

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

		2012		2011	
		State	Federal	State	Federal
Enrollment	\$	28,371	18,356	39,396	30,783
Grace		10,055	7,199	15,007	14,977
Repayment		344,584	96,645	368,230	94,766
Deferment		52,305	24,853	56,159	26,381
Forbearance		1,467	15,833	2,091	16,508
Total	\$	436,782	162,886	480,883	183,415

(d) Included in loans receivable are \$10 and \$42 of loan warrants issued but not redeemed at June 30, 2012 and 2011, respectively. Redemption is contingent upon the borrower meeting certain eligibility requirements.

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(4) Loans receivable (cont.)

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

	2012	2011
State Loans		
Supplemental Education	\$ 227	572
Family Education	24	48
Total State Loans	\$ 251	620

(5) Allowances and Provision

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

	2012	2011
Balance at beginning of period	\$ 126,767	140,134
Provision	12,332	3,404
Balances charged off	(12,882)	(16,771)
Balance at end of period	\$ 126,217	126,767

	2012	2011
Allowance for doubtful loans	\$ 101,567	101,360
Allowance for principal forgiveness	1,941	1,901
Allowance for doubtful interest	22,328	23,185
Allowance for interest forgiveness	381	321
	\$ 126,217	126,767

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(6) Bonds Payable

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

	Type	Original Amount	Amount Outstanding	
			2012	2011
2002 Master Indenture, Education Loan:				
2003: Series A-1, due 2013 to 2016	Auction	\$ 16,500	2,500	4,900
Series A-2, due 2038	Auction	30,500	30,300	30,300
2004: Series A-1, due 2044	Auction	45,500	25,000	32,100
Serial bonds, Series A-3, rates ranging from 5.0% to 5.25%, due 2013 to 2017	Fixed	22,015	8,710	15,730
2005: Serial bonds, Series A, rate 5.0%, due 2013 to 2018	Fixed	58,250	35,250	41,750
2006: Series A-1, due 2040	Auction	30,000	19,700	30,000
Serial bonds, Series A-2, rate 5.0%, due 2013 to 2018	Fixed	55,000	37,500	43,000
2007: Series A-1, due 2042	Auction	41,500	28,500	28,500
Serial bonds, Series A-2, rate 5.0%, due 2013 to 2019	Fixed	18,500	15,500	17,000
Serial bonds, Series A-3, rate 5.0%, due 2013 to 2014	Fixed	49,000	16,000	23,000
Sub-total		\$ <u>366,765</u>	<u>218,960</u>	<u>266,280</u>

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Notes to Financial Statements

(6) Bonds Payable (cont.)

		<u>Original Amount</u>	<u>Amount Outstanding</u>	
<u>Type</u>			<u>2012</u>	<u>2011</u>
2004 Master Indenture, Series A Capital Project				
Serial bonds, rate 4.0%, due 2012 to 2016				
	Fixed	69,910	19,450	26,595
Term bonds, rate 4.0%, due 2018				
	Fixed	5,230	5,230	5,230
Sub-total		<u>75,140</u>	<u>24,680</u>	<u>31,825</u>
2005 Master Indenture, Series A State Projects:				
Serial bonds, rates ranging from 5% to 5.5%, due 2012 to 2014				
	Fixed	88,305	18,500	27,500
Total bonds payable		\$ <u>530,210</u>	262,140	325,605
Unamortized premium			2,531	3,798
Net bonds payable			<u>\$ 264,671</u>	<u>329,403</u>
Current			\$ 41,390	46,065
Noncurrent			223,281	283,338
Total			<u>\$ 264,671</u>	<u>329,403</u>

- (b) In February 2008, the auction rate securities market collapsed. With the exception of the 2007 Series auction rate bonds/securities which auction every seven days, the Corporation's outstanding auction rate securities (ARS) continue to auction every thirty-five days. The Corporation's first auction failure occurred on February 12, 2008 and failures have continued through June 30, 2012. The supplemental indenture related to each series of ARS defines the maximum rate of interest to be assigned to the bonds when an auction fails.

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Notes to Financial Statements

(6) Bonds Payable (cont.)

The following definitions exist for the Corporation's ARS:

<u>Bonds</u>	<u>Maximum Rate</u> (rounded to the nearest one thousandth of 1%)	<u>Rate at June 30, 2012</u> <u>by Series</u>	
		<u>A-1</u>	<u>A-2</u>
2003	lesser of: (a) 150% of the higher of (i) the after-tax equivalent rate or (ii) the Kenny index; or (b) the Treasury bill cap; or (c) the commercial paper cap; or (d) the lesser of (i) 14% or (ii) the maximum rate permitted by State law (10.5%)	0.465%	0.525%
2004	same as 2003 bonds	0.510%	-
2006	same as 2003 bonds	0.510%	-
2007	same as 2003 bonds except 12% replaces 14% in	0.510%	-

(c) The minimum payments and sinking fund installments for the five years subsequent to June 30, 2012, and thereafter are as follows:

<u>Period Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 41,390	7,985	49,375
2014	39,730	6,022	45,752
2015	21,710	4,169	25,879
2016	20,020	3,211	23,231
2017	21,540	2,378	23,918
2018-2022	14,250	3,400	17,650
2023-2027	-	2,662	2,662
2028-2032	-	2,662	2,662
2033-2037	-	2,662	2,662
2038-2042	50,000	2,268	52,268
2043-2044	53,500	583	54,083
Total	<u>\$ 262,140</u>	<u>38,002</u>	<u>300,142</u>

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(6) Bonds Payable (cont.)

- (d) 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 Master Indenture Bonds are private activity revenue bonds. The 2004 and 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>
2002	June 1 *	June 1 and December 1
2004	July 1 and January 1	July 1 and January 1
2005	July 1 and January 1	July 1 and January 1

* The principal payments on the 2004 series auction rate bonds are due April 1st.

Certain bonds are subject to early redemption features, both mandatory and at the option of the Corporation. In addition, the bond indentures contain covenants relative to restrictions on additional indebtedness.

The 2004 Capital Project Revenue Bonds are insured by National Public Finance and the 2005 State Projects Revenue Bonds are insured by Assured Guaranty Municipal.

- (e) 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.

(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 provides up to \$100 million to the Corporation for the purpose of financing education loans. The loan is 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 is reset annually and was 4.16% and 4.40% for the years ended 2012 and 2011, respectively. Interest is payable semi-annually in January and July. The loan is a limited

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Notes to Financial Statements

(7) Other Debt Payable (cont.)

obligation secured by pledged assets. The Corporation has the right to prepay the loan, in whole or in part, at any time, without penalty or premium.

The Trust Agreement was entered into to secure payment of the loan. Loan proceeds drawn are deposited in the trust until education loans are originated. Education loans originated with loan proceeds, payments received on those loans, and earnings on pledged assets are all pledged to the trust.

Loan payable was \$67,500 and \$67,500 at June 30, 2012 and 2011.

- (b) The Corporation refinanced \$118.8 million in Federal Family Education Loan Program (FFELP) loans through participation in the Asset-Backed Commercial Paper Conduit Put Program (Program) authorized by the HEA, as amended by the Ensuring Continued Access to Student Loans Act of 2008. To participate in the Program, 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 represents a limited obligation secured by pledged loans and other pledged assets, including principal and interest payments on pledged loans. Principal payments will be made from pledged assets as needed to maintain the required asset coverage ratio with the final payment due no later than November 19, 2013. The Corporation has the right to prepay the balance, in whole or in part, at any time, without penalty or premium.

Program financing costs, which include costs associated with commercial paper issued for the Program by Straight-A Funding, LLC, and other Program costs such as liquidity fees, administrative fees, managerial fees and put option fees, are allocated to Program participants monthly based on the participant's prorata share of total FNPA balances at month end. Program financing costs are paid monthly from pledged assets. Financing costs paid by the Corporation was approximately 0.74% and 0.66% of the Corporation's FNPA balance for the years ended 2012 and 2011, respectively.

The FNPA balance was \$90,856 and \$105,106 at June 30, 2012, and 2011, respectively.

The minimum payments for years subsequent to June 30, 2012 are as follows:

<u>Period Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	11,212	673	11,885
2014	79,644	228	79,872
Total	<u>\$ 90,856</u>	<u>901</u>	<u>91,757</u>

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(8) Debt Issue Cost

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

		2012	2011
Balance at beginning of period	\$	2,564	3,215
Reimbursements		-	(15)
Retirements		(110)	(211)
Amortization		(423)	(425)
Balance at end of period	\$	2,031	2,564

(9) 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. Education loans not financed by but pledged to secure tax-exempt bonds issued by the Corporation are subject to interest rate yield restrictions of no more than the bond yield. Earnings on non-loan investments pledged to bond indentures are subject to rebate provisions or restricted to the related bond yield. These restrictions are in effect over the lives of the bonds. As required by the Internal Revenue Service (IRS), the Corporation calculates and analyzes loan yields every ten years or earlier if necessitated by calling, cancelling or defeasing bonds. Investment yields are calculated and analyzed annually. These analyses are used to determine both compliance with IRS provisions and the arbitrage rebate liability. The amount accrued for arbitrage rebate liability 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 has now become refundable due to cumulative earnings no longer being in excess of those allowable.

(10) Federal Family Education Loan Program

Beginning with fiscal year 2003, the AlaskAdvantage program offerings expanded to include loans governed by the Higher Education Act (HEA), specifically federally guaranteed Stafford (subsidized and unsubsidized), PLUS and Consolidation (subsidized and unsubsidized) loans. To accommodate the Federal Family Education Loan Program (FFELP), the Corporation secured the status of "eligible lender" and entered into various agreements with Northwest Education Loan Association (NELA), which serves as the "eligible" guarantor. The lender-based FFELP was eliminated effective July 1, 2010, with the passage of the Health Care and Education Affordability Reconciliation Act. Therefore, fiscal year 2010 was the last year of federal loan guarantees for the Corporation.

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

Claim payments are received from the guarantor when a borrower dies, becomes totally and permanently disabled, or defaults on a Federal loan. The lender is eligible for these payments provided they adhere to servicing requirements outlined in the HEA. Failure to fulfill the requirements may result in an interest penalty or loss of guarantee. In the case of a default claim, unpaid principal and interest are guaranteed at

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

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 London Interbank Offered Rate (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.

An origination fee was paid to the Department for Stafford and PLUS loans guaranteed through June 30, 2010 and disbursed by September 30, 2010. The fee was equal to a percentage of the disbursed amount. Borrowers of PLUS loans were charged 3% and borrowers of Stafford loans were charged 0.5%. The Corporation elected to pay the Stafford origination fee on behalf of the borrower.

Payment of a lender fee was required on federal loans guaranteed through June 30, 2010 and disbursed by September 30, 2010 in an amount equal to 1.0% of the disbursed amount. Origination and lender fees were paid quarterly to the Department.

Default fees were paid monthly to the guarantor for loans guaranteed through June 30, 2010 and disbursed by September 30, 2010. The fee, in the amount of 1.0% of the disbursed amount, was charged on Stafford and PLUS loans and paid on behalf of the borrower.

(11) Subsequent Event

On September 12, 2012 the Corporation issued \$53,120 of Education Loan Revenue Refunding Bonds, Senior Series 2012A, to retire \$11,301 of auction rate securities, pay \$40,987 of the other debt payable, fund a required reserve account and pay debt issue costs. The bonds are variable rate demand bonds with a weekly interest rate reset maturing December 1, 2043. Interest is payable semiannually on each June 1 and December 1 until maturity or redemption, commencing December 1, 2012. Principal and interest on the 2012A bonds are supported by an irrevocable direct-pay letter of credit.

On September 12, 2012 the Corporation issued \$93,435 of Education Loan Revenue Refunding Bonds which represents \$78,435 of Senior Series 2012B-1 bonds and \$15,000 of Senior Series 2012B-2 bonds. These bonds are variable rate demand bonds and were issued to retire \$92,408 of auction rate securities, fund a required reserve account and pay debt issue costs. The 2012B-1 bonds are term rate bonds whose

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(11) Subsequent Event (cont.)

interest rate resets annually each June 1. The 2012B-2 bonds are weekly interest rate reset bonds. The 2012B bonds mature on December 1, 2043. Interest is payable semiannually on each June 1 and December 1 until maturity or redemption, commencing December 1, 2012. Principal and interest on the 2012B bonds are supported by an irrevocable direct-pay letter of credit. In addition, principal and interest on the 2012B bonds that are tendered by bond holders and purchased by the letter of credit provider are supported by a stand-by bond purchase agreement issued by the State of Alaska, Department of Revenue acting on behalf of the State.

On September 17, 2012 the Corporation made a \$40,987 principal payment on the loan payable to the State of Alaska.

On September 18, 2012 the Corporation redeemed auction rate securities at par in the amount of \$57,800.

On October 10, 2012 the Corporation will redeem auction rate securities at par in the amount of \$48,200.

(12) Commitments and Contingencies

(a) *Operations*

The Corporation will fund approximately \$12,880 of the Commission's fiscal year 2013 operating budget for loan servicing and staff support. In addition, the Corporation will fund expenditures related to the Commission's fiscal year 2012 operating and capital project budgets of approximately \$589. 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.

(b) *Return of Capital*

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

On November 29, 2011 and October 27, 2010, the Board chose not to return capital, based on income, to the State in fiscal year 2012 and 2011, 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. In fiscal years 2005 and 2004, the Corporation issued \$163,445 of capital project bonds to finance State capital projects. Bond documents related to the 2004 capital project bonds require earnings on bond proceeds to be used to finance State capital projects. The Corporation reimburses the State for expenditures related to projects funded with Corporation capital project bond proceeds and

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(12) Commitments and Contingencies (cont.)

related earnings. Restricted investments include amounts specifically designated for financing State capital projects totaling \$6,148 and \$10,688 at June 30, 2012 and 2011, respectively.

(c) *State Permanent Fund Dividend Garnishment*

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

PFD garnishments were approximately \$3,309 and \$3,322 for the years ended June 30, 2012 and 2011, respectively.

(d) *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.

(e) *Non Investment Interest Rate Risk*

The Corporation is subject to interest rate risk relating to its variable rate bonds and variable rate loans. The bonds are subject to an interest rate cap of 10.50% while the loans are subject to an interest rate cap of 8.25% to 9.00% depending on loan type. The Corporation has various strategies available to manage the risk that the bond rate may rise above the loan rate.