

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

Unaudited Financial Statements

December 31, 2016 and 2015

**ALASKA STUDENT LOAN CORPORATION**

(a Component Unit of the State of Alaska)

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

Unaudited Statements of Net Position

Six Months ended December 31, 2016 and 2015

(in thousands)

	2016	2015
Assets:		
Current assets:		
Cash (note 3)	\$ 766	900
Other	144	247
Arbitrage rebate receivable (notes 2 and 7)	235	-
Interest receivable - investments	273	105
Interest receivable - loans	1,741	2,016
Loans receivable (note 4)	26,332	31,816
Restricted:		
Cash (note 3)	-	2
Other	7	-
Investments (note 3)	6,014	13,758
Total current assets	35,512	48,844
Noncurrent assets:		
Arbitrage rebate receivable (notes 2 and 7)	-	433
Interest receivable - loans, net (note 5)	2,808	3,162
Loans receivable, net (notes 4 and 5)	107,751	124,321
Investments (note 3)	64,411	44,983
Restricted:		
Cash (note 3)	80	164
Interest receivable - investments	2	2
Interest receivable - loans, net (note 5)	3,453	4,083
Loans receivable, net (notes 4 and 5)	112,153	135,823
Total noncurrent assets	290,658	312,971
Total assets	\$ 326,170	361,815

See accompanying Notes to Financial Statements.

(continued)

**ALASKA STUDENT LOAN CORPORATION**

(A Component Unit of the State of Alaska)

## Unaudited Statements of Net Position

Six Months ended December 31, 2016 and 2015

(in thousands)

	<u>2016</u>	<u>2015</u>
Liabilities and Net Position:		
Liabilities:		
Current:		
Payable from unrestricted assets:		
Due to State of Alaska	\$ 2,190	3,413
Accounts payable	54	246
Return of capital payable (note 9)	1,200	-
Payables from restricted assets:		
Due to State of Alaska	43	2
Due to U.S. Dept. of Education (note 8)	629	812
Accounts payable	20	-
Return of capital payable (note 9)	723	1,254
Interest payable	12	2
Bonds payable (note 6)	<u>25,268</u>	<u>29,275</u>
Total current liabilities	<u>30,139</u>	<u>35,004</u>
Noncurrent - payable from restricted assets:		
Yield restriction payable (notes 2 and 7)	164	1,554
Bonds payable, net (note 6)	<u>72,722</u>	<u>103,225</u>
Total noncurrent liabilities	<u>72,886</u>	<u>104,779</u>
Total liabilities	<u>103,025</u>	<u>139,783</u>
Net Position:		
Unrestricted (note 2)	201,017	204,324
Restricted	<u>22,128</u>	<u>17,708</u>
Total net position	<u>223,145</u>	<u>222,032</u>
Total liabilities and net position	<u>\$ 326,170</u>	<u>361,815</u>

See accompanying Notes to Financial Statements.

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

Unaudited Statements of Revenue, Expense, and Changes in Net Position

Six Months ended December 31, 2016 and 2015

(in thousands)

	2016	2015
Operating Revenue:		
Interest - loans, net (note 2)	\$ 8,335	10,042
Provision (note 5)	(1,765)	(807)
Investment income, net (note 2)	(278)	190
Total operating revenue	6,292	9,425
Operating expenses:		
Interest	552	1,585
Administration	5,879	6,749
Total operating expenses	6,431	8,334
Operating income (loss)	(139)	1,091
Nonoperating revenue - other	109	113
Income (loss) before return of capital	(30)	1,204
Return of Capital (note 9)	(1,200)	-
Change in net position	(1,230)	1,204
Total net position - beginning	224,375	220,828
Total net position - ending	\$ 223,145	222,032

See accompanying Notes to Financial Statements.

**ALASKA STUDENT LOAN CORPORATION**

(A Component Unit of the State of Alaska)

## Unaudited Statements of Cash Flows

Six Months ended December 31, 2016 and 2015

(in thousands)

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Principal payments received on loans	\$ 27,482	33,116
Interest received on loans	5,416	7,214
Other receipts	(21)	47
Loans originated	(4,552)	(3,289)
Administration	(4,813)	(3,916)
Interest paid on debt	(506)	(2,278)
Principal paid on debt	(14,272)	(55,372)
Income received on investments	371	115
Investments matured or sold	115,017	253,462
Investments purchased	<u>(124,143)</u>	<u>(229,772)</u>
Net cash used for operating activities	<u>(21)</u>	<u>(673)</u>
Cash flows from capital activities:		
Other receipts	108	113
Return of capital payments	<u>(18)</u>	<u>(37)</u>
Net cash provided by capital activities	<u>90</u>	<u>76</u>
Net increase (decrease) in cash	69	(597)
Cash at beginning of period	<u>777</u>	<u>1,663</u>
Cash at end of period	<u>\$ 846</u>	<u>1,066</u>

See accompanying Notes to Financial Statements.

(continued)

**ALASKA STUDENT LOAN CORPORATION**

(A Component Unit of the State of Alaska)

## Unaudited Statements of Cash Flows

Six Months ended December 31, 2016 and 2015

(in thousands)

	<u>2016</u>	<u>2015</u>
Reconciliation of operating income to net cash used for operating activities:		
Operating income (loss)	\$ <u>(139)</u>	<u>1,091</u>
Adjustments to reconcile operating income to net cash used for operating activities:		
Provision	1,765	807
Change in assets and liabilities:		
Decrease (increase) in other assets	(35)	513
Decrease (increase) in interest receivable - investments	(71)	103
Increase in net interest receivable - loans	(347)	(11)
Decrease (increase) in investments	(8,406)	23,512
Decrease in net loans receivable	20,390	26,594
Decrease in due to U.S. Dept. of Education	(38)	(41)
Increase in net due to State of Alaska	1,109	2,968
Decrease in warrants outstanding	-	(129)
Decrease in accounts payable	(23)	(15)
Increase (decrease) in interest payable	2	(196)
Decrease in bonds payable	<u>(14,228)</u>	<u>(55,869)</u>
Total adjustments	<u>118</u>	<u>(1,764)</u>
Net cash used for operating activities	\$ <u><u>(21)</u></u>	<u><u>(673)</u></u>

See accompanying Notes to Financial Statements.

# ALASKA STUDENT LOAN CORPORATION

(A Component Unit of the State of Alaska)

## Notes to Financial Statements

### (1) Authorizing Legislation and Organization

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

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

### (2) Summary of Significant Accounting Policies

#### (a) *Fund Accounting*

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

#### (b) *Fiscal Year*

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

#### (c) *Operating Revenue and Expense*

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

#### (d) *Management Estimates*

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

# ALASKA STUDENT LOAN CORPORATION

(A Component Unit of the State of Alaska)

## Notes to Financial Statements

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

#### (e) *Loans*

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

#### (f) *Interest on Loans*

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

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

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

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

Non-interest bearing loans were approximately \$981 and \$1,485 at December 31, 2016 and 2015, respectively.

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

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

**ALASKA STUDENT LOAN CORPORATION**  
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Notes to Financial Statements

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

**(g) Allowances and Provision**

The allowances represent management's estimate, based on experience, of loans, and accrued interest on loans that will ultimately be uncollectible or forgiven. The Corporation writes off State loans upon death, total disability, or when payment activity is no longer anticipated. The Corporation also writes off State loans legally discharged in bankruptcy proceedings and the portion of Federal loan balances not guaranteed and deemed uncollectible. Accrued unpaid interest is written off when the related loan is written off. A borrower of a TEL can obtain up to 100% forgiveness of loan principal and interest if the borrower teaches in rural Alaska for periods specified by the Program. 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.

The provision is the annual change in the allowances.

**(h) Note Discount**

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

**(i) Income Taxes**

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

**(j) Investments and Investment Income**

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

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

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

**ALASKA STUDENT LOAN CORPORATION**  
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Notes to Financial Statements

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

**(k) Due to State of Alaska**

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

**(l) Unrestricted Net Position**

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

**(3) Cash and Investments**

**(a) Cash**

(1) Cash summarized by classification at December 31 follows:

	2016	2015
Current, unrestricted	\$ 766	900
Current, restricted	-	2
Noncurrent, restricted	80	164
Total	\$ 846	1,066

(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, 2016, 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, follows:

	2016	2015
Current:		
Restricted	\$ 6,014	13,758
Noncurrent:		
Unrestricted	64,411	44,983
Total	\$ 70,425	58,741

# ALASKA STUDENT LOAN CORPORATION

(A Component Unit of the State of Alaska)

## Notes to Financial Statements

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

#### *(b) Investments*

##### (2) Investment Policies

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

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

- Under the 2013 Master Indenture, senior bonds, debentures, notes, discount notes, short-term obligations or other evidences of indebtedness issued or guaranteed by any of the following agencies: Federal Farm Credit Banks, FHLMC; Export-Import Bank of the U.S.; FNMA; FHLB; or any agency or instrumentality of the U.S. established for the purposes of acquiring the obligations of any of the foregoing or otherwise providing financing therefore; provided such obligation, or the issue or guarantor of such obligation, is rated "AA+" by S&P and "AAA" by Fitch (if rated by Fitch) and, if applicable and/or available, rated "A-1+" by S&P and "F1+" by Fitch and having maturities of not more than 365 days.
- Under the 2013 Master Indenture, U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks which have a rating on their short-term certificates of deposit on the date of purchase of at least A-1+ by S&P and P-1 by Moody's and maturing no more than 360 days after the date of purchase.
- Under the 2012B Master Indenture, if rated at purchase in the highest short-term rating category by each rating agency, and which mature not more than 270 days after the date of purchase.
- Under the 2012B Master Indenture, interest-bearing negotiable certificates of deposit, interest-bearing time deposits, interest-bearing savings accounts or money market deposit accounts issued by or held in any commercial bank, savings and loan association or trust company whose unsecured short-term obligations are rated P-1 or better by Moody's or A-1 or better by S&P.

# ALASKA STUDENT LOAN CORPORATION

(A Component Unit of the State of Alaska)

## Notes to Financial Statements

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

#### *(b) Investments*

##### (2) Investment Policies

- Under the 2013 Master Indenture, investments in money market funds rated AAAM or AAAM-G or better by S&P and Aaa by Moody's if maturities are not more than 365 days. Under the 2012B Master Indenture, any money market fund, each rated by Moody's and S&P not lower than its highest applicable rating category.
- Under the 2012B Master Indenture, any bonds or other obligations of any State of the U.S. or of any agency, instrumentality or local government unit of any such State which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and (a) which are rated, based upon an irrevocable escrow account or fund (the "escrow"), in one of the two highest rating categories of each rating agency which rates such debt; or (b) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in item (a) above, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and which escrow is sufficient, as verified by an independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate.
- Under the 2013 Master Indenture, repurchase obligations with respect to any security that is a direct obligation of, or fully guaranteed by the U.S. or any agency or instrumentality thereof, the obligations of which are backed by the full faith and credit of the U.S., in either case entered into with a depository institution or trust company (acting as principal) rated AA+ by S&P and AAA by Fitch which repurchase obligations shall be replaced within 60 days if the rating thereon falls below a rating of "A" from S&P.

# ALASKA STUDENT LOAN CORPORATION

(A Component Unit of the State of Alaska)

## Notes to Financial Statements

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

#### *(b) Investments*

##### (2) Investment Policies

- Under the 2012B Master Indenture, repurchase agreements, in a standard form prescribed by The Securities Industry and Financial Markets Association or similar form, contracted with banks which are members of the Federal Deposit Insurance Corporation, or with government bond dealers reporting to and trading with the Federal Reserve Bank of New York, in each case rated in the highest rating category by each rating agency which rates such debt, which agreements are secured by obligations which are unconditionally guaranteed by the U.S. or any agency thereof rated in one of the two highest rating categories by each rating agency which rates such obligations, or book-entry interests therein.
- Under the 2012B Master Indenture, any investment agreement having a term of not more than 18 months with an entity having outstanding short-term debt rated at least A-1, P-1 or F1+, as applicable, or the equivalent.
- Under the 2012B Master Indenture, shares in an investment company rated in the highest rating category by each rating agency which rates such investment company, and registered under the federal Investment Company Act of 1940, whose shares are registered under the federal Securities Act of 1933 and whose only investments are otherwise allowable under the Indenture.
- Under the 2012B Master Indenture, a collective investment fund of the Trustee created pursuant to Regulation 9 of the Office of the Controller of the Currency which is invested in one or more of the types of obligations in which the principal of and interest on are unconditionally guaranteed by the U. S. or any agency thereof rated in one of the two highest rating categories by each rating agency which rates such obligations, or book-entry interests therein.
- Under the 2012B Master Indenture, any other investment allowed by law if approved in a credit confirmation.

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

A complete description of the investment policy for each of the State's fixed-income investment pools is at [treasury.dor.alaska.gov/investments](http://treasury.dor.alaska.gov/investments).

**ALASKA STUDENT LOAN CORPORATION**  
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Notes to Financial Statements

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

*(b) Investments*

(2) Investment Policies

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

- Direct obligations of the U.S. Treasury, obligations of federal agencies which represent the full faith and credit of the U.S. and also unconditionally guaranteed as to the timely payment of principal and interest by the U.S.
- Bonds, notes or other evidences of indebtedness rated "AAA/Aaa" and issued by federal agencies which do not represent the full faith and credit of the U.S.
- Bonds, notes or other evidences of indebtedness rated "A" or better and issued by domestic municipalities.
- Corporate bonds and convertible securities rated "A" or better.
- Collateralized mortgage obligations originated from a federal agency.
- Collateralized investment contracts and repurchase agreements.
- Uncollateralized investment contracts as long as the investment provider's long-term rating is and remains the highest possible throughout the contract term.
- Fixed income money or mutual funds rated "A" or better.
- Certificates of deposit and term deposits of U.S. domestic financial institutions or trust companies which are members of the Federal Deposit Insurance Corporation as long as collateralized at 100% of principal and accrued unpaid interest or that the long-term unsecured debt obligations of such depository institution or trust company during the term of such investment are rated at least in the second highest rating category possible.
- Short-term domestic corporate promissory notes (commercial paper) payable in U.S. dollars as long as the provider's short-term rating is of the highest rating possible throughout the investment term.

The highest rating of a nationally recognized rating agency is the rating used to determine compliance with this policy.

**ALASKA STUDENT LOAN CORPORATION**  
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Notes to Financial Statements

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

*(b) Investments*

(3) Credit Risk

Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations. The Corporation mitigates its credit risk by limiting investments to those permitted in the investment policy and diversifying the investment portfolio.

The fair value of the Corporation's investments by type and credit quality, using a nationally recognized statistical rating organization without modifiers, at December 31 are shown below:

<u>Investment Type</u>	<u>Ratings</u>	<u>2016</u>	<u>2015</u>
Mortgage-backed agencies	AAA	348	353
Money market funds	AAA	11,741	31,372
Money market funds	Not rated	-	116
Corporate bonds	AAA	2,011	522
Corporate bonds	AA	19,610	6,812
Corporate bonds	A	30,045	11,698
Corporate bonds	BAA	-	491
GeFONSI	Not rated	<u>6,670</u>	<u>7,377</u>
Total		<u>\$ 70,425</u>	<u>58,741</u>

The Corporation's ownership share of the GeFONSI was 0.20% and 0.21% at December 31, 2016 and 2015, respectively.

Credit risk information relative to the Corporation's investment in the GeFONSI can be found in the GeFONSI Report.

**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 December 31, 2016, the Corporation had investment balances greater than five percent of the Corporation's total investments with the following investment provider:

	<u>Fair Value</u>	<u>Percent of Total Investments</u>
Fidelity Institutional Money Market Fund	\$ 9,271	13

Concentration risk information relative to the Corporation's investment in the GeFONSI can be found in the GeFONSI Report.

**(5) Interest Rate Risk**

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

*Duration*

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

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

**ALASKA STUDENT LOAN CORPORATION**

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Notes to Financial Statements

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

***(b) Investments***

**(6) Interest Rate Risk**

At December 31, 2016, the weighted average modified duration of investments, other than investments in money market funds and the GeFONSI, follows:

Mortgage-backed agencies	2.13
Corporate bonds	2.04
Portfolio modified duration	2.04

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

Interest rate risk information relative to the Corporation's investment in the GeFONSI can be found in the GeFONSI Report.

**(7) Fair Value Measurements**

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

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

***(c) Other***

Unrestricted cash and unrestricted investments specifically designated for financing education loans include \$2,791 and \$1,918 at December 31, 2016 and 2015, respectively.

**ALASKA STUDENT LOAN CORPORATION**

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Notes to Financial Statements

**(4) Loans Receivable**

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

(a) The loan portfolio summarized by classification at December 31 follows:

	<u>2016</u>	<u>2015</u>
State loans:		
Current, unrestricted	\$ 26,332	31,816
Noncurrent:		
Unrestricted	154,625	185,167
Restricted	<u>49,698</u>	<u>62,072</u>
Total, gross State loans	230,655	279,055
 Federal loans:		
Noncurrent:		
Restricted	<u>79,021</u>	<u>94,685</u>
Total, gross loans	<u>309,676</u>	<u>373,740</u>
Allowance for doubtful loans	61,508	79,818
Allowance for principal forgiveness	<u>1,932</u>	<u>1,962</u>
 Total allowance	<u>63,440</u>	<u>81,780</u>
 Total, net loans	<u>\$ 246,236</u>	<u>291,960</u>
 Current, unrestricted	\$ 26,332	31,816
Noncurrent:		
Unrestricted	107,751	124,321
Restricted	<u>112,153</u>	<u>135,823</u>
 Total, net loans	<u>\$ 246,236</u>	<u>291,960</u>

**ALASKA STUDENT LOAN CORPORATION**

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Notes to Financial Statements

**(4) Loans receivable (cont.)**

(b) The loan portfolio summarized by program at December 31 follows:

	<u>2016</u>	<u>2015</u>
State Loans		
Supplemental Education	\$ 191,960	235,287
Consolidation	28,513	36,177
Refinanced	3,580	-
Teacher Education	5,105	5,938
Family Education	<u>1,497</u>	<u>1,653</u>
Total State Loans	<u>230,655</u>	<u>279,055</u>
Federal Family Education Loans		
Stafford	65,203	78,701
Consolidation	11,227	12,853
PLUS	<u>2,591</u>	<u>3,131</u>
Total Federal Loans	<u>79,021</u>	<u>94,685</u>
Total	<u>\$ 309,676</u>	<u>373,740</u>

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

	<u>2016</u>		<u>2015</u>	
	<u>State</u>	<u>Federal</u>	<u>State</u>	<u>Federal</u>
Enrollment	\$ 9,795	1,130	11,069	1,838
Grace	1,865	86	1,541	351
Repayment	197,591	60,381	240,149	70,275
Deferment	20,962	9,559	25,504	12,156
Forbearance	<u>442</u>	<u>7,865</u>	<u>792</u>	<u>10,065</u>
Total	<u>\$ 230,655</u>	<u>79,021</u>	<u>279,055</u>	<u>94,685</u>

(d) Loans awarded not disbursed at December 31 follows:

	<u>2016</u>	<u>2015</u>
State Loans		
Supplemental Education	\$ 2,126	1,752
Refinanced	436	-
Teacher Education	21	50
Family Education	<u>208</u>	<u>116</u>
Total State Loans	<u>\$ 2,791</u>	<u>1,918</u>

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Notes to Financial Statements

**(5) Allowances and Provision**

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

	<u>2016</u>	<u>2015</u>
Balance at beginning of period	\$ 79,659	104,976
Provision	1,765	807
Balances charged off	<u>(857)</u>	<u>(1,138)</u>
Balance at end of period	<u>\$ 80,567</u>	<u>104,645</u>

  

	<u>2016</u>	<u>2015</u>
Allowance for doubtful loans	\$ 61,508	79,818
Allowance for principal forgiveness	1,932	1,962
Allowance for doubtful interest	16,469	22,292
Allowance for interest forgiveness	<u>658</u>	<u>573</u>
Total	<u>\$ 80,567</u>	<u>104,645</u>

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**(6) Bonds Payable**

(a) Bonds payable at December 31 follows:

	<u>Type</u>	<u>Original Amount</u>	<u>Amount Outstanding</u>	
			<u>2016</u>	<u>2015</u>
2012B Trust Indenture, Education Loan Revenue, Refunding Bonds, Senior Series 2012B-1, due 2043	Variable	78,435	20,935	39,435
2013A Trust Indenture, Education Loan Revenue, Refunding Note, Series 2013A, due 2031	Variable	<u>144,730</u>	<u>77,358</u>	<u>93,457</u>
Total Bonds/Note Payable		<u>\$ 223,165</u>	98,293	132,892
Unamortized discount			<u>(303)</u>	<u>(392)</u>
Net Bonds/Note Payable			<u>\$ 97,990</u>	<u>132,500</u>
Current			25,268	29,275
Noncurrent			<u>72,722</u>	<u>103,225</u>
Total			<u>\$ 97,990</u>	<u>132,500</u>

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**(6) Bonds Payable (cont.)**

- (b) The Series 2012B bonds bear interest at a weekly rate, determined by the remarketing agent. The maximum rate applicable to the bonds is 12% per annum. The rate at December 31, 2016 and 2015 was 0.75% and 0.05%, respectively.

The 2013 Refunding Note bears interest at a rate equal to the one-month London Interbank Offered Rate (LIBOR) plus 0.50%. There is no maximum rate. The rate at December 31, 2016 and 2015 was 1.26% and 0.72%, respectively.

- (c) The minimum payments projected subsequent to December 31, 2016, are as follows:

<u>Period Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 25,268	1,017	26,285
2018	24,537	744	25,281
2019	21,313	476	21,789
2020	17,152	243	17,395
2021	<u>10,023</u>	<u>42</u>	<u>10,065</u>
Total	<u>\$ 98,293</u>	<u>2,522</u>	<u>100,815</u>

- (d) The 2013 Refunding note was issued at a discount which is being amortized using the effective method. The effective rate is 0.60 over LIBOR.

- (e) Each Master Indenture represents a limited obligation trust which secures payment for the outstanding debt issued therein. The debt is payable from assets pledged to the respective indenture including principal and interest payments on pledged loans. The debt does not constitute a general obligation of the Corporation or of the State. The debt is private activity revenue debt. Debt service payments are due as follows:

<u>Master Indenture</u>	<u>Principal</u>	<u>Interest</u>	<u>Bond Type</u>
2012B	December 1, 2043	June 1 and December 1	Tax-exempt
2013	Monthly	Monthly	Taxable

The indentures contain covenants relative to restrictions on additional indebtedness.

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

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### Notes to Financial Statements

#### **(6) Bonds Payable (cont.)**

Bond Purchase Agreement. The Reimbursement Agreement expires August 10, 2020.

#### **(7) Yield Restriction and Arbitrage Rebate**

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

#### **(8) Federal Family Education Loan Program**

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

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

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

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

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

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

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

**(9) Commitments and Contingencies**

*(a) Operations*

The Corporation will fund approximately \$6,983 and \$3 of the Commission's fiscal year 2017 and 2016 operating budgets, respectively, for loan servicing and staff support. The Corporation's and the Commission's budgets are subject to review and approval from both the executive and legislative branches of the State. The Commission's costs funded by the Corporation are based on expenditures incurred by the Commission.

*(b) Return of Capital*

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

On November 30, 2016, the Board approved a \$1,200 Return of Capital payment to the State which was not paid at December 31, 2016.

Income (referred to as change in net position on the Statements of Revenue, Expense and Changes in Net Position) in fiscal year 2015 did not exceed \$2,000; therefore, no capital was returned to the State relative to that fiscal year.

As an additional means of returning capital, State statutes allow the Corporation to issue bonds to finance State capital projects. No bonds have been issued since 2005 for this purpose. The Corporation reimburses the State for expenditures related to projects funded with Corporation capital project bond proceeds and related earnings. Restricted investments include amounts specifically designated for financing State capital projects totaling \$723 and \$1,254 at December 31, 2016 and 2015, respectively.

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**(9) Commitments and Contingencies (cont.)**

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

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

PFD garnishments were approximately \$1,794 and \$4,200 for the years ended December 31, 2016 and 2015, respectively.

**(d) *Legislation***

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

**(e) *Non-Investment Interest Rate Risk***

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