ALASKA STUDENT LOAN CORPORATION

(a Component Unit of the State of Alaska)

Unaudited Financial Statements

December 31, 2018 and 2017

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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, 2018 and 2017

(in thousands)

	2018	2017
Assets:		
Current assets:		
Cash (note 3)	$ 595	774
Other	294	337
Arbitrage rebate receivable (notes 2 and 7)	229	229
Interest receivable - investments	486	339
Interest receivable - loans	1,646	2,111
Loans receivable (note 4)	22,659	25,176
Restricted:		
Other	6	7
Investments (note 3)	4,408	4,911
Total current assets	30,323	33,884
Noncurrent assets:		
Interest receivable - loans, net (note 5)	2,260	2,276
Loans receivable, net (notes 4 and 5)	86,889	95,076
Investments (note 3)	81,725	75,111
Restricted:		
Cash (note 3)	209	175
Interest receivable - investments	8	4
Interest receivable - loans, net (note 5)	2,572	3,028
Loans receivable, net (notes 4 and 5)	71,008	90,037
Total noncurrent assets	244,671	265,707
Total assets	$ 274,994	299,591

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, 2018 and 2017

(in thousands)

		2018	2017
Liabilities and Net Position:			
Liabilities:			
Current:			
Payable from unrestricted assets:			
Due to State of Alaska	$	1,100	1,202
Accounts payable		52	84
Payables from restricted assets:			
Due to U.S. Dept. of Education (note 8)		217	415
Accounts payable		3	10
Yield restriction payable (notes 2 and 7)		305	-
Return of capital payable (note 9)		578	601
Interest payable		4	12
Debt payable (note 6)		14,690	20,943
Total current liabilities		16,949	23,267
Noncurrent - payable from restricted assets:			
Yield restriction payable (notes 2 and 7)		-	592
Debt payable, net (note 6)		37,054	52,004
Total noncurrent liabilities		37,054	52,596
Total liabilities		54,003	75,863
Net Position:			
Unrestricted (note 2)		195,630	200,142
Restricted		25,361	23,586
Total net position		220,991	223,728
Total liabilities and net position	$	274,994	299,591

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, 2018 and 2017

(in thousands)

	2018	2017
Operating Revenue:		
Interest - loans, net (note 2)	$ 7,201	7,832
Provision (note 5)	(2,528)	(735)
Investment income, net (note 2)	1,176	361
Total operating revenue	5,849	7,458
Operating expenses:		
Interest	793	693
Administration	5,976	5,971
Total operating expenses	6,769	6,664
Operating income (loss)	(920)	794
Nonoperating revenue - other	62	113
Change in net position	(858)	907
Total net position - beginning	221,849	222,821
Total net position - ending	$ 220,991	223,728

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, 2018 and 2017

(in thousands)

		2018	2017
Cash flows from operating activities:			
Principal payments received on loans	$	21,150	23,967
Interest received on loans		4,991	5,116
Other receipts		(17)	(17)
Loans originated		(6,877)	(5,819)
Administration		(6,312)	(6,073)
Interest paid on debt		(770)	(657)
Principal paid on debt		(10,540)	(11,449)
Income received on investments		836	668
Investments matured or sold		85,430	53,752
Investments purchased		(87,865)	(58,169)
Net cash provided for operating activities		26	1,319
Cash flows from capital activities:			
Other receipts		52	110
Return of capital payments		(16)	(1,237)
Net cash provided (used) by capital activities		36	(1,127)
Net increase in cash		62	192
Cash at beginning of period		742	757
Cash at end of period	$	804	949

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, 2018 and 2017

(in thousands)

		2018	2017
Reconciliation of operating income to net cash used for operating activities:			
Operating income (loss)	$	(920)	794
Adjustments to reconcile operating income to net cash used for operating activities:			
Provision		2,528	735
Change in assets and liabilities:			
Increase in other assets		(44)	(82)
Increase in interest receivable - investments		(88)	(18)
Increase in net interest receivable - loans		(628)	(361)
Increase in investments		(2,687)	(4,091)
Decrease in net loans receivable		12,775	15,925
Decrease in due to U.S. Dept. of Education		(22)	(32)
Decrease in net due to State of Alaska		(354)	(161)
Increase (decrease) in accounts payable		(18)	23
Increase (decrease) in interest payable		(3)	2
Decrease in debt payable		(10,513)	(11,415)
Total adjustments		946	525
Net cash provided for operating activities	$	26	1,319

See accompanying Notes to Financial Statements.

(1) Authorizing Legislation and Organization

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

(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 2.63% to 9.00%.

Non-interest bearing loans were approximately $376 and $607 at December 31, 2018 and 2017, 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 and may vary from year to year.

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

(g) Allowances and Provision

The allowances represent management's estimate, based on experience, of loans and related accrued interest 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.

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.

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

(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.

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, if any, is recorded as an adjustment to investment income.

(k) Due to State of Alaska

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

(l) Unrestricted Net Position

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

(m) Standard Application, Debt Related Disclosures

In March 2018, Governmental Accounting Standards Board (GASB) issued GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements.* The Corporation implemented this pronouncement during the period ending December 31, 2018 resulting in the disclosure of finance-related consequences of specific debt agreement terms.

(3) Cash and Investments

(a) Cash

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

		2018	2017
Current, unrestricted	$	595	774
Noncurrent, restricted		209	175
Total	$	804	949

(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, 2018, 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:

		2018	2017
Current:			
Restricted	$	4,408	4,911
Noncurrent:			
Unrestricted		81,725	75,111
Total	$	86,133	80,022

(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 trust documents which generally mandate the purchase of relatively short-term, high quality fixed income securities. Trust documents are accessible at acpe.alaska.gov/Financial-Statements-Trust-Documents.

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. A complete description of the State's investment policy is at treasury.dor.alaska.gov/investments.

Unrestricted funds not managed by Treasury are managed by an external investment manager in compliance with the Corporation's investment policy which allows 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 also unconditionally guaranteed as to the timely payment of principal and interest by the U.S.
- Bonds, notes or other evidences of indebtedness rated no lower than current credit ratings on U.S. Treasury obligations and issued by federal agencies and instrumentalities of the United States 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.
- Fixed income money or mutual funds if rated, rated "AAA", and if not rated, underlying holdings must be rated "AAA".

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

A complete description of the ASLC investment policy & procedure is at https://acpe.alaska.gov/Investor_Relations

(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:

Investment Type	Ratings	2018	2017
Mortgage-backed securities (agency)	AAA	$ 6,335	338
Money market funds	AAA	11,470	17,657
U.S. Treasury	AAA	1,749	-
Corporate bonds	AAA	5,602	2,127
Corporate bonds	AA	17,555	18,107
Corporate bonds	A	33,046	32,745
Corporate bonds	BBB	1,113	-
GeFONSI	Not rated	9,263	9,048
Total		$ 86,133	80,022

The Corporation's ownership share of the GeFONSI was 0.51% and 0.27% at December 31, 2018 and 2017, respectively.

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

(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, 2018, the Corporation had investment balances greater than five percent of the Corporation's total investments with the following investment providers:

	Fair Value	Percent of Total Investments
Fidelity Government Money Market Fund	$ 9,824	11
Federal Home Loan Mortgage Corporation	6,335	7

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.

(3) Cash and Investments (cont.)

(b) Investments

(5) Interest Rate Risk

At December 31, 2018, the weighted average modified duration of investments, other than investments in money market funds and the GeFONSI, follows:

U.S. Treasury	0.09
Mortgage-backed securities (agency)	0.88
Corporate bonds	1.29
Portfolio modified duration	1.22

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.

(6) 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 fair value. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Corporate bonds are valued using 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 $3,595 and $4,000 at December 31, 2018 and 2017, respectively.

(4) Loans Receivable

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

	2018	2017
State loans:		
Current, unrestricted	$ 22,659	25,176
Noncurrent:		
Unrestricted	129,572	140,552
Restricted	33,014	41,062
Total, gross State loans	185,245	206,790
Federal loans:		
Noncurrent:		
Restricted	52,542	64,745
Total, gross loans	237,787	271,535
Allowance for doubtful loans	56,954	60,878
Allowance for principal forgiveness	277	368
Total allowance	57,231	61,246
Total, net loans	$ 180,556	210,289
Current, unrestricted	$ 22,659	25,176
Noncurrent:		
Unrestricted	86,889	95,076
Restricted	71,008	90,037
Total, net loans	$ 180,556	210,289

(4) Loans receivable (cont.)

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

	2018	2017
State Loans		
Supplemental Education	$ 146,440	169,052
Consolidation	17,577	22,543
Refinanced	15,555	9,051
Teacher Education	3,664	4,448
Family Education	2,009	1,696
Total State Loans	185,245	206,790
Federal Family Education Loans		
Stafford	42,460	52,909
Consolidation	8,429	9,739
PLUS	1,653	2,097
Total Federal Loans	52,542	64,745
Total	$ 237,787	271,535

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

	2018		2017	
	State	Federal	State	Federal
Enrollment	$ 13,283	399	10,724	679
Grace	1,959	24	1,714	46
Repayment	157,249	41,558	178,210	50,078
Deferment	12,181	5,652	15,339	7,225
Forbearance	573	4,909	803	6,717
Total	$ 185,245	52,542	206,790	64,745

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

	2018	2017
State Loans		
Supplemental Education	$ 3,156	3,181
Refinanced	159	407
Teacher Education	-	8
Family Education	280	404
Total State Loans	$ 3,595	4,000

(5) Allowances and Provision

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

		2018	2017
Balance at beginning of period	$	73,756	79,652
Provision		2,528	735
Balances charged off		(644)	(640)
Balance at end of period	$	75,640	79,747

		2018	2017
Allowance for:			
doubtful loans	$	56,954	60,878
principal forgiveness		277	368
doubtful interest		18,366	18,485
interest forgiveness		43	16
Total	$	75,640	79,747

(6) Debt Payable

(a) Debt payable at December 31 follows:

	Type	Original Amount	Amount Outstanding 2018	Amount Outstanding 2017
2012B Trust Indenture, Education Loan Revenue, Refunding Bonds, Senior Series 2012B-1, due 2043	Variable	$ 78,435	2,935	10,935
2013A Trust Indenture, Education Loan Revenue, Refunding Note, Series 2013A, due 2031	Variable	144,730	48,984	62,244
Total Debt Payable		$ 223,165	51,919	73,179
Unamortized discount			(175)	(232)
Net Debt Payable			$ 51,744	72,947
Current			14,690	20,943
Noncurrent			37,054	52,004
Total			$ 51,744	72,947
Debt Payable, beginning of period			$ 62,459	84,628
Issued			-	-
Retired			(10,540)	(11,449)
Debt Payable, end of period			$ 51,919	73,179

(6) Debt 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, 2018 and 2017 was 1.74% and 1.75%, respectively.

The 2013 Refunding Note bears interest at a rate equal to the one-month London Interbank Offered Rate (LIBOR) plus 50 basis points. There is no maximum rate. The rate at December 31, 2018 and 2017 was 3.01% and 2.05%, respectively.

(c) The minimum payments projected subsequent to December 31, 2018, are as follows:

Period Ending December 31	Principal	Interest	Total
2019	$ 14,690	1,337	16,027
2020	10,126	980	11,106
2021	8,745	695	9,440
2022	7,337	451	7,788
2023	5,981	249	6,230
2024-2025	5,040	90	5,130
Total	$ 51,919	3,802	55,721

(d) The 2013 Refunding note was issued at a discount which is being amortized using the effective method. The effective rate is 60 basis points 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 as collateral to the respective indenture which includes cash, investments and loans (restricted assets). The debt does not constitute a general obligation of the Corporation or of the State. The indentures contain covenants relative to restrictions on additional indebtedness and provisions that, in the event of default, provide the Trustee with the authority to declare the entire principal amount of the debt, including accrued interest, due and payable. The Trustee would also have the authority to sell or otherwise dispose of pledged assets to protect the rights of debt owners. The debt is private activity revenue debt with debt service payments due as follows:

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

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

(6) Debt Payable (cont.)

Alaska, Department of Revenue, Treasury Division thereby agreeing to reimburse them for the purchase of 2012B Revenue Bonds pursuant to the Standby Bond Purchase Agreement. The Reimbursement Agreement expires 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 yield restriction payable represents the amount due to the IRS for earnings in excess of allowable yields. The 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), an affiliate of Great Lakes Higher Education Corporation, 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 compliance with 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.

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

Interest subsidies are received quarterly from the Department on behalf of qualified subsidized Stafford or subsidized Consolidation loan borrowers 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 $6,435 and $75 of the Commission’s fiscal year 2019 and 2018 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 pay a dividend, 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.

Income in fiscal year 2017 and 2018 did not exceed $2,000; therefore, no capital will be returned to the State in fiscal year 2019 and 2020.

As an additional means of returning capital, the Corporation issued 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. Restricted investments include amounts specifically designated for financing State capital projects totaling $576 and $601 at December 31, 2018 and 2017, 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

(9) Commitments and Contingencies (cont.)

payment, if any, to satisfy the balance of a defaulted loan pursuant to State statutes. The Commission has garnishment

priority over all other executors except State child support enforcement and any court ordered restitution. There is no assurance that any particular borrower will apply or qualify for a PFD payment.

PFD garnishments were approximately $2,055 and $1,753 for the six-month period ended December 31, 2018 and 2017, 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 Refunding Note rate is based on one-month LIBOR while the rate on loans pledged to the 2013 Refunding Note are determined quarterly based on the quarterly daily average one-month LIBOR.