ALASKA STUDENT LOAN CORPORATION

(a Component Unit of the State of Alaska)

Unaudited Financial Statements

December 31, 2013 and 2012

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Balance Sheets

December 31, 2013 and 2012

(in thousands)

	2013	2012
Assets:		
Current assets:		
Cash (note 3)	$ 212	584
Other	57	149
Interest receivable - investments	88	60
Interest receivable - loans	997	272
Investments (note 3)	664	3,204
Loans receivable (notes 4 and 9)	10,144	8,609
Restricted investments (note 3)	53,291	47,335
Total current assets	65,453	60,213
Noncurrent assets:		
Interest receivable - loans, net (note 5)	1,225	1,144
Loans receivable, net (notes 4, 5 and 9)	42,797	45,063
Investments (note 3)	32,719	15,782
Restricted:		
Cash (note 3)	1,611	2,182
Other	176	-
Due from State of Alaska	-	88
Arbitrage rebate receivable (notes 2 and 8)	1,006	781
Interest receivable - investments	187	455
Interest receivable - loans, net (note 5)	11,818	15,932
Investments (note 3)	16,503	51,496
Loans receivable, net (notes 4, 5 and 9)	355,690	407,353
Total noncurrent assets, restated	463,732	540,276
Total assets, restated	$ 529,185	600,489

See accompanying Notes to Financial Statements. (continued)

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

Balance Sheets

December 31, 2013 and 2012

(in thousands)

		2013	2012
Liabilities and Net Position:			
Liabilities:			
Current:			
Payable from unrestricted assets:			
Due to State of Alaska	$	5	79
Warrants outstanding (note 4)		98	209
Accounts payable		772	628
Payables from restricted assets:			
Due to State of Alaska		13	-
Due to U.S. Dept. of Education (note 9)		2,131	1,125
Warrants outstanding (note 4)		8	7
Accounts payable		-	285
Return of capital payable (note 10)		3,608	4,425
Interest payable		532	1,182
Bonds payable (note 6)		58,736	32,650
Loan payable to State of Alaska (note 7)		-	18,013
Other debt payable (note 7)		-	81,885
Total current liabilities		65,903	140,488
Noncurrent - payable from restricted assets:			
Yield restriction/arbitrage rebate payable (notes 2 and 8)		921	55
Bonds payable, net (note 6)		242,184	243,049
Total noncurrent liabilities		243,105	243,104
Total liabilities		309,008	383,592
Commitments and contingencies (note 10)			-
Net Position:			
Unrestricted (note 2)		88,028	73,950
Restricted, restated		132,149	142,947
Total net position, restated		220,177	216,897
Total liabilities and net position, restated	$	529,185	600,489

See accompanying Notes to Financial Statements.

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

Statements of Revenue, Expenses, and Changes in Net Position

Six Months ended December 31, 2013 and 2012

(in thousands)

		2013	2012
Operating Revenue:			
Interest - loans, net (note 2)	$	13,308	14,897
Investment income, net (note 2)		199	732
Total operating revenue		13,507	15,629
Operating expenses:			
Interest		2,526	3,751
Administration		7,571	7,197
Provision (note 5)		(726)	2,756
Debt issue cost, restated		-	979
Total operating expenses, restated		9,371	14,683
Operating income, restated		4,136	946
Nonoperating revenue - other		126	134
Nonoperating expense:			
Interest		115	1,155
Administration		5	25
Total nonoperating expense, restated		120	1,180
Nonoperating income (loss), restated		6	(1,046)
Income (loss) before return of capital, restated		4,142	(100)
Return of Capital (note 10)		-	735
Change in net position, restated		4,142	635
Total net position - beginning, restated		216,035	216,262
Total net position - ending, restated	$	220,177	216,897

See accompanying Notes to Financial Statements.

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

Statements of Cash Flows

Six Months ended December 31, 2013 and 2012

(in thousands)

		2013	2012
Cash flows from operating activities:			
Principal payments received on loans	$	35,398	40,919
Interest received on loans		8,449	10,949
Other receipts		153	(119)
Loans originated		(2,484)	(2,930)
Administration		(7,743)	(7,342)
Interest paid on debt		(2,739)	(5,224)
Principal paid on debt		(8,621)	(164,458)
Bond proceeds		-	146,555
Debt issue costs		-	(979)
Income received on investments		117	736
Investments matured or sold		176,646	237,054
Investments purchased		(194,712)	(225,922)
Net cash provided by operating activities		4,464	29,239
Cash flows from capital activities:			
Other receipts		126	134
Administration		(7)	(25)
Interest paid on debt		(262)	(1,989)
Principal paid on debt		(4,000)	(28,930)
Return of capital payments		(211)	(988)
Net cash used by capital activities		(4,354)	(31,798)
Net increase (decrease) in cash		110	(2,559)
Cash at beginning of period		1,713	5,325
Cash at end of period	$	1,823	2,766

See accompanying Notes to Financial Statements.

(continued)

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

Statements of Cash Flows

Six Months ended December 31, 2013 and 2012
(in thousands)

		2013	2012
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	4,136	946
Adjustments to reconcile operating income to net cash provided by operating activities:			
Decrease in other assets		372	571
Decrease in interest receivable - investments		40	71
Decrease in net interest receivable - loans		706	1,141
Decrease (increase) in investments		(18,188)	11,562
Decrease in net loans receivable		26,537	35,135
Decrease in due to U.S. Dept. of Education		(46)	(75)
Decrease in net due to State of Alaska		(501)	(500)
Increase (decrease) in warrants outstanding		(111)	68
Increase in accounts payable		353	193
Decrease in net yield restriction/ arbitrage rebate payable		-	(496)
Decrease in interest payable		(3)	(1,106)
Increase (decrease) in bonds payable		(8,831)	40,187
Decrease in loan payable to State		-	(49,487)
Decrease in other debt payable		-	(8,971)
Total adjustments		328	28,293
Net cash provided by operating activities	$	4,464	29,239
Summary of noncash capital activities that affect recognized assets and liabilities:			
Interest payable	$	157	1,384
Bond premium amortization		2,326	(101)

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 State Governor appoints the Corporation's Board of Directors (Board).

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

(2) Summary of Significant Accounting Policies

(a) *Fund Accounting*

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

(b) *Standard Application*

In June 2011, Governmental Accounting Standards Board (GASB) issued GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resource, and Net Position.* This pronouncement requires the presentation of certain elements of the Statement of Net Position as deferred inflows and outflows of resources in accordance with Concepts Statement No. 4, *Elements of Financial Statements* for transactions that result in the consumption or acquisition of net assets in one period that are applicable to future periods. The Corporation implemented this pronouncement during the six-month period ending December 31, 2012 resulting in a retitling of Net assets to Net position. The Corporation had no deferred inflows or outflows at December 31, 2013 or 2012.

In March 2012 Governmental Accounting Standards Board (GASB) issued Statement No. 65, *Items Previously Reported as Assets and Liabilities.* This Statement establishes accounting and financial reporting standards that reclassify deferred outflows of resources as expenses and deferred inflows of resources as revenues. These items were previously reported as assets and liabilities. The application of this accounting change requires a retroactive restatement of all prior periods presented and disclosure of the effects of the change. The Corporation implemented this pronouncement during the six months ending December 31, 2013 resulting in a restatement of the Statement of Net Position as of June 30, 2012 and the Statements of Revenues, Expenses and Changed in Net Position and Cash Flows for the period then ended.

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

(b) *Standard Application*

The effects of this change on the statements were:

	Net Position as of June 30, 2012	Changes in Net Position for the 6-Month Period Ended December 31, 2012	Net Position as of December 31, 2012
As originally reported:	218,293	460	218,753
Restatements resulting from:			
Debit Issue Costs			
Additions		(979)	
Amortization		190	
Retirements		964	
Debt Issue Costs (net)	(2,031)	175	(1,856)
As restated	216,262	635	216,897

(c) *Fiscal Year*

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

(d) *Operating Revenues and Expenses*

The Corporation was created with the authority to issue bonds and other obligations in order to finance education loans to qualified borrowers. Operating revenue is derived from interest on education loans and earnings on investments. The cost of financing and servicing education loans is considered operating activity.

(e) *Management Estimates*

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

(f) *Loans*

Loans represent education loans issued through the AlaskAdvantage Loan Program® which include Supplemental Education, Alternative Consolidation, Teacher Education (TEL), Family

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

(f) *Loans*

Education (FEL), (collectively referred to as State loans), federally guaranteed Stafford (subsidized and unsubsidized), PLUS, and Consolidation (subsidized and unsubsidized) loans (collectively referred to as Federal loans). Loan terms vary depending on year of origination and type.

(g) *Interest on Loans*

Interest on loans is accrued when earned at fixed and variable rates ranging from 1.75% to 9.00%. For federally guaranteed subsidized loans, interest from the disbursement date of the loan until a date that is six months after the borrower withdraws from school (plus any authorized deferment and eligible income-based repayment periods) is paid by the U.S. Department of Education (Department) under the Federal Family Education Loan Program (FFELP). The borrower is responsible for interest accruing subsequent to that date.

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

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

Non-interest bearing loans were approximately $2,314 and $2,867 at December 31, 2013 and 2012, respectively.

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

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

(h) *Allowances and Provision*

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

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

(h) *Allowances and Provision*

A borrower of a TEL can obtain up to 100% forgiveness of loan principal and interest if the borrower teaches in rural Alaska for periods specified by the Program. A borrower of a State loan (other than TEL) awarded prior to July 1, 1987, can obtain up to 50% forgiveness of loan principal and interest if the borrower meets conditions specified by the program.

(i) *Origination Fee*

Borrowers of State loans originated after June 30, 1994, are subject to an origination fee at disbursement, generally determined by year of origination. Loan origination fees must be used by the Corporation to offset losses incurred as a result of death, disability, default, or bankruptcy of the borrower as required by State statute. The allowance for doubtful loans has been reduced by the fee collected.

(j) *Bond Premiums and Note Discounts*

The Corporation uses the effective method of amortization to amortize bond premiums and note discounts over the life of the bond or note. The effective method matches amortization with interest expense, maintaining a constant effective rate of interest over the life of the bonds and notes.

(k) *Income Taxes*

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

(l) *Investments and Investment Income*

Investments are carried at fair value and trades are recorded on a trade-date basis. Securities are valued at least monthly using prices obtained from a pricing service when such prices are available; otherwise, such securities are valued at the mid-point between the bid and asked price or at prices for securities of comparable maturity, quality and type.

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

(m) *Unrestricted Net Position*

Unrestricted net position represents net assets not pledged as collateral to secure payment of debt or restricted by State statute.

(n) *Reclassifications*

Reclassifications not affecting change in net position have been made to the 2012 financial statements to conform to the 2013 presentation. The change in yield restriction and arbitrage

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

(n) *Reclassifications*

rebate payables has been recorded as an adjustment to loan and investment income, respectively.

(3) Cash and Investments

(a) *Cash*

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

		2013	2012
Current, unrestricted	$	212	584
Noncurrent, restricted		1,611	2,182
Total	$	1,823	2,766

(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, 2013, the Corporation had no cash exposed to custodial credit risk.

(b) *Investments*

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

		2013	2012
Current:			
Unrestricted	$	664	3,204
Restricted		53,291	47,335
Noncurrent:			
Unrestricted		32,719	15,782
Restricted		16,503	51,496
Total	$	103,177	117,817

(2) Investment Policies

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

(3) Cash and Investments (cont.)

(b) *Investments*

(2) Investment Policies

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

- Under the 2002 Master Indenture, direct general obligations of, or obligations fully and unconditionally guaranteed as to the timely payment of principal and interest by, the United States (U.S.) or any agency thereof, provided such obligations are backed by the full faith and credit of the U.S. Under the 2005 Master Indenture, direct obligations of the U.S. Under the 2013 indenture, direct obligations of the U.S. having maturities of not more than 365 days.

- Under the 2005 Master Indenture, senior debt obligations, rated AAA by Standard and Poor's (S&P), issued by the Federal National Mortgage Association (FNMA) or the Federal Home Loan Mortgage Corporation (FHLMC), obligations of the Resolution Funding Corporation, senior debt obligations of the Federal Home Loan Bank (FHLB), and senior debt obligations of any government sponsored agency approved by the bond insurer.

- Under the 2013 Indenture, senior bonds, debentures, notes, discount notes short-term obligations or other evidences of indebtedness issued or guaranteed by any of the following agencies: Federal Farm Credit Banks, FHLMC; Export-Import Bank of the U.S.; FNMA; FHLB; or any agency or instrumentality of the U.S. which shall be established for the purposes of acquiring the obligations of any of the foregoing or otherwise providing financing therefore; provided such obligation, or the issue or guarantor of such obligation, is rated "AA+" by S&P and "AAA" by Fitch (if rated by Fitch) and, if applicable and/or available, rated "A-1+" by S&P and "F1+" by Fitch and having maturities of not more than 365 days.

- Under the 2002 and 2013 Master Indentures, U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks which have a rating on their short-term certificates of deposit on the date of purchase of at least A-1+ by S&P and P-1 by Moody's and maturing no more than 360 days after the date of purchase. Under the 2005 Master Indenture, such investments are allowed if the rating from S&P is A-1 or better on the date of purchase.

- Under the 2002 Master Indenture, commercial paper which is rated at purchase at least A-1+ by S&P and P-1 by Moody's. Under the 2005 Master Indenture, such investments are allowed if rated A-1+ or better by S&P at purchase and if the investment matures not more than 270 days (365 days for the 2013 Indenture) after the date of purchase. Under the 2012B Master Indenture, if rated at purchase in the highest short-term rating

(3) Cash and Investments (cont.)

(b) *Investments*

(2) Investment Policies

category by each rating agency, and which matures not more than 270 days after the date of purchase.

- Under the 2012B Trust Indenture, interest-bearing negotiable certificates of deposit, interest-bearing time deposits, interest-bearing savings accounts or money market deposit accounts issued by or held in any commercial bank, savings and loan association or trust company (including the Trustee or a Credit Provider and any of their affiliates) whose unsecured short-term obligations are rated in P-1 or better by Moody's or A-1 or better by S&P.

- Under the 2002 Master Indenture, investments in money market funds rated AAAm or AAAm-G or better by S&P and Aaa by Moody's. Under the 2005 Master Indenture, such investments are allowed if rated AAAm or AAAm-G or better by S&P. Under the 2013 Indenture, such investments are allowed if maturities are not more than 365 days. Under the 2012B Master Indenture, any money market fund, each rated by Moody's and S&P not lower than its highest applicable rating category.

- Under the 2002 Master Indenture, general obligations of any state or municipality with a rating of at least A by S&P and Aaa by Moody's. Under the 2005 Master Indenture, general obligations of states with a rating of A or higher by S&P.

- Under the 2012B Master Indenture, any bonds or other obligations of any state of the U.S. or of any agency, instrumentality or local government unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and (a) which are rated, based upon an irrevocable escrow account or fund (the "escrow"), in one of the two highest rating categories of each rating agency which rates such debt; or (b) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in item (a) above, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and which escrow is sufficient, as verified by an independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate.

- Under the 2005 Master Indenture, repurchase agreements for 30 days or less provided they are with banks, or primary dealers on the Federal Reserve reporting dealer list, rated A or better by S&P and Moody's.

(3) Cash and Investments (cont.)

(b) *Investments*

(2) Investment Policies

- Under the 2013 Indenture, repurchase obligations with respect to any security that is a direct obligation of, or fully guaranteed by, the U.S. or any agency or instrumentality thereof, the obligations of which are backed by the full faith and credit of the U.S., in either case entered into with a depository institution or trust company (acting as principal) rated AA+ by S&P and AAA by Fitch which repurchase obligations shall be replaced within 60 days if the rating thereon falls below a rating of “A” from S&P.

- Under the 2012B Master Indenture, repurchase agreements, in a standard form prescribed by The Securities Industry and Financial Markets Association or similar form, contracted with banks which are members of the Federal Deposit Insurance Corporation, or with government bond dealers reporting to and trading with the Federal Reserve Bank of New York, in each case rated in the highest rating category by each rating agency which rates such debt, which agreements are secured by obligations which are unconditionally guaranteed by, the U.S. or any agency thereof rated in one of the two highest rating categories by each rating agency which rates such obligations, or book-entry interests therein.

- Under the 2002 Master Indenture, guaranteed investment contracts, investment agreements and repurchase agreements secured by collateral.

- Under the 2012B Master Indenture, any investment agreement having a term of not more than 18 months with an entity having outstanding short-term debt rated at least A-1, P-1 or F1+, as applicable, or the equivalent.

- Under the 2012B Master Indenture, shares in an investment company rated in the highest rating category by each rating agency which rates such investment company, and registered under the federal Investment Company Act of 1940, whose shares are registered under the federal Securities Act of 1933 and whose only investments are otherwise allowable under the Indenture.

- Under the 2005 Master Indenture, investment agreements with a domestic or foreign bank or corporation (other than a life or property casualty insurance company) the long-term debt of which, or, in the case of a guaranteed corporation the long-term debt, or, in the case of a monoline financial guaranty insurance company, claims paying ability, of the guarantor is rated at least AA by S&P and Aa by Moody’s.

- Under the 2002 Master Indenture, unsecured guaranteed investment contracts or investment agreements with any bank, bank holding company, corporation or any other financial institution meeting the following:

(3) Cash and Investments (cont.)

(b) *Investments*

(2) Investment Policies

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

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

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

- Under the 2002 Master Indenture, any other investment approved in writing by S&P and Moody's.

- Under the 2012B Master Indenture, any other investment allowed by law and approved in writing in advance by a credit confirmation.

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

A complete description of the investment policy for each of the State's fixed-income investment pools is included in the Department of Revenue, Treasury Division's, Policies and Procedures.

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

- Direct obligations of the U.S. Treasury, obligations of federal agencies which represent the full faith and credit of the U.S. and also unconditionally guaranteed as to the timely payment of principal and interest by the U.S.

(3) Cash and Investments (cont.)

(b) *Investments*

(2) Investment Policies

- 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.

(3) Credit Risk

Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations. The Corporation mitigates its credit risk by limiting investments to those permitted in investment policies, diversifying the investment portfolio, and pre-qualifying firms with which the Corporation administers its investment activities.

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

(3) Cash and Investments (cont.)

(b) *Investments*

(3) Credit Risk

Investment Type	Ratings	2013	2012
U.S. government agencies	AA	$ 4,998	43,663
Mortgage-backed securities (agencies)	AA	18,619	-
Money market funds	AAA	51,453	50,289
Guaranteed investment contracts	Not rated	300	1,000
Corporate bonds	AA	1,944	1,617
Corporate bonds	A	5,467	4,216
Internal investment pools	Next schedule	6,336	14,305
U.S. Treasury securities	No credit exposure	14,060	2,727
Total		$ 103,177	117,817

Treasury's investment policy for its internal investment pools has the following limitations with regard to credit risk.

Short-term Fixed Income Pool investments are limited to instruments with a long-term credit rating of at least A3 or equivalent and instruments with a short-term credit rating of at least P-1 or equivalent. Commercial paper must be rated at least P-1 by Moody's and A-1 by S&P. Asset-backed and non-agency mortgage securities must be rated A3 or equivalent. The A3 rating is defined as the median rating of the following three rating agencies: S&P, Moody's and Fitch.

Short-term Liquidity Pool investments are limited to U.S. Treasury obligations or other U.S. government securities issued in full faith or guaranteed by agencies and instrumentalities of the U.S. government, obligations of foreign governments, sovereign states, supranational entities, and their instrumentalities denominated in U.S. dollars and Treasury's internally-managed Short-Term Fixed Income Pool.

Intermediate-term Fixed Income Pool investments are limited to securities with a long-term credit rating of at least Baa3 or equivalent and securities with a short-term credit rating of at least P-1 or equivalent. Asset-backed and non-agency mortgage securities must be investment grade. Investment grade is defined as the median rating of the three rating agencies previously mentioned.

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

The Corporation invests in Treasury's internally managed Short-term Fixed Income Pool and the General Fund and Other Non-segregated Investments Pool (GeFONSI). At December 31, 2013 GeFONSI consisted of investments in Treasury's internally managed

(3) Cash and Investments (cont.)

(b) *Investments*

(3) Credit Risk

Short-term (44%), Short-term Liquidity (11%) and Intermediate-term Fixed Income Pools (45%).

At December 31, 2013, the Corporation's ownership share of the Short-term Fixed Income Pool and the GeFONSI is 0.05% and 0.05%, respectively.

Information related to Treasury's internally managed fixed income pools is that at June 30, 2013 as management has no reason to believe that significant changes have occurred from that date through December 31, 2013.

(3) Cash and Investments (cont.)

(3) Credit Risk

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

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

(3) Cash and Investments (cont.)

(b) *Investments*

(4) Concentration Risk

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

For investment contracts, investment providers are limited to providing investments to the lesser of $50,000 or 5% of total investments at the time the investment is made. These diversification standards are not applicable to contracts with investments in direct obligations of the U.S. Treasury, obligations of federal agencies which represent the full faith and credit of the U.S. and are also unconditionally guaranteed as to the timely payment of principal and interest by the U.S.

Investment Holdings Greater than Five Percent of Total Investments

The following investment holdings, summarized by issuer, include both investments that are governed by the maximum concentration limits of the Corporation's policy and investments which have no established concentration limits.

At June 30, 2013, the Corporation had investment balances greater than five percent of the Corporation's total investments with the following investment providers:

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

(5) Interest Rate Risk

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

Duration

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

The Corporation's investment management contractor uses industry-standard analytical software developed by CMS Bond Edge and Treasury uses industry-standard analytical software developed by The Yield Book Inc. to calculate duration. The software takes into

(3) Cash and Investments (cont.)

(b) ***Investments***

(5) Interest Rate Risk

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 December 31, 2013, the weighted average modified duration of investments, other than investments in Treasury's internal investment pools, is shown below:

U.S government agency	0.99
Money market funds	0.07
Guaranteed investment contracts	7.49
Corporate bonds	3.07
U.S. Treasury securities	1.13
Portfolio modified duration	0.70

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

(3) Cash and Investments (cont.)

(b) ***Investments***

(5) Interest Rate Risk

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

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

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

As a means of limiting the Short-term Liquidity Fixed Income Pool's exposure to fair value losses arising from increasing interest rates, Treasury's investment policy limits the maturity of individual fixed rate securities to six months. These constraints apply to trade date, except for securities bought at new issue, for which settlement date applies. At June 30, 2013, the expected average life of fixed rate securities ranged from forty-six to sixty-seven days.

(3) Cash and Investments (cont.)

(c) Cash and investments include amounts specifically designated for financing education loans at December 31 as follows:

		2013	2012
Current:			
Unrestricted	$	1,856	2,358
Restricted		-	8
Total	$	1,856	2,366

(4) Loans Receivable

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

		2013			2012		
		State	Federal	Total	State	Federal	Total
Current, unrestricted	$	10,144	-	10,144	8,609	-	8,609
Noncurrent:							
Unrestricted		65,915	-	65,915	70,789	-	70,789
Restricted		294,979	132,161	427,140	338,256	148,543	486,799
Total, gross	$	371,038	132,161	503,199	417,654	148,543	566,197
Allowance for doubtful loans				92,618			103,271
Allowance for principal forgiveness				1,950			1,901
Total allowance				94,568			105,172
Loans, net				$ 408,631			461,025
Current				10,144			8,609
Noncurrent				42,797			45,063
Restricted noncurrent				355,690			407,353
Total, net				$ 408,631			461,025

(4) Loans receivable (cont.)

(b) Loans were financed by the issuance of revenue bonds, recycled loan payments, and proceeds from a State-funded loan. The loan portfolio summarized by program at December 31, is shown below:

		2013	2012
State Loans			
Supplemental Education	$	314,312	351,981
Consolidation		47,284	55,305
Teacher Education		6,983	7,232
Family Education		2,459	3,136
Total State Loans		371,038	417,654
Federal Family Education Loans			
Stafford		110,768	124,919
Consolidation		16,927	5,143
PLUS		4,466	18,481
Total Federal Loans		132,161	148,543
Total	$	503,199	566,197

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

		2013		2012	
		State	Federal	State	Federal
Enrollment	$	17,245	7,232	25,433	14,264
Grace		2,577	1,445	4,419	2,855
Repayment		312,415	87,353	339,536	91,140
Deferment		37,370	21,436	46,872	23,847
Forbearance		1,431	14,695	1,394	16,437
Total	$	371,038	132,161	417,654	148,543

(d) Included in loans receivable are $84 and $137 of loan warrants issued but not redeemed at December 31, 2013 and 2012, respectively. Redemption is contingent upon the borrower meeting certain eligibility requirements.

(4) Loans receivable (cont.)

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

		2013	2012
State Loans			
Supplemental Education	$	1,582	1,972
Teacher Education		166	232
Family Education		108	162
Total State Loans	$	1,856	2,366

(5) Allowances and Provision

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

		2013	2012
Balance at beginning of period	$	118,628	126,217
Provision		(726)	2,756
Balances charged off		(898)	(927)
Balance at end of period	$	117,004	128,046

		2013	2012
Allowance for doubtful loans	$	92,618	103,271
Allowance for principal forgiveness		1,950	1,901
Allowance for doubtful interest		22,000	22,501
Allowance for interest forgiveness		436	373
Total	$	117,004	128,046

(6) Bonds Payable

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

	Type	Original Amount	Amount Outstanding 2013	Amount Outstanding 2012
2002 Master Indenture, Education Loan:				
2004: Serial bonds, Series A-3 rates ranging from 5.0% to 5.25%, due 2014 to 2017	Fixed	$ 22,015	6,310	8,710
2005: Serial bonds, Series A, rate 5.0%, due 2014 to 2018	Fixed	58,250	28,750	35,250
2006: Serial bonds, Series A-2, rate 5.0%, due 2014 to 2018	Fixed	55,000	32,000	37,500
2007: Series A-1, due 2042				
Serial bonds, Series A-2, rate 5.0%, due 2014 to 2019	Fixed	18,500	13,500	15,500
Serial bonds, Series A-3, rate 5.0%, due 2014	Fixed	49,000	8,000	16,000
Sub-total		$ 202,765	88,560	112,960

(6) Bonds Payable (cont.)

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

	Type	Original Amount	Amount Outstanding 2013	Amount Outstanding 2012
2005 Master Indenture, Series A State Projects serial bonds, rate 5.25%, due 2014	Fixed	88,305	6,000	14,250
2012A Trust Indenture, Education Loan Revenue, Refunding Bonds, Senior Series 2012A, Due 2043	Variable	53,120	-	53,120
2012B Trust Indenture, Education Loan Revenue, Refunding Bonds,				
Senior Series 2012B-1, due 2043	Variable	78,435	72,435	78,435
Senior Series 2012B-2, due 2043	Variable	15,000	-	15,000
Subtotal		93,435	72,435	93,435
2013A Trust Indenture, Education Loan Revenue, Refunding Note, Series 2013A, due 2031	Variable	144,730	133,361	-
Total Bonds/Note Payable		$ 582,355	300,356	273,765
Unamortized premium/discount, net			564	1,934
Net Bonds/Note Payable			$ 300,920	275,699
Current			58,736	32,650
Noncurrent			242,184	243,049
Total			$ 300,920	275,699

(6) Bonds Payable (cont.)

(b) At issuance the Series 2012B-1 Bonds bore interest at an annual term rate, determined by the remarketing agent, established as 0.37% and in effect to, but not including, June 1, 2013. On June 1, 2013 the bonds were converted to a weekly rate mode, determined by the remarketing agent. The maximum rate applicable to the bonds is 12% per annum. The rate at December 31, 2013 was 0.07%.

The 2013A Series Notes bear interest at a rate equal to one-month London Interbank Offered Rate (LIBOR) plus 0.50%. There is no maximum rate. The rate at December 31, 2013 was 0.66%.

(c) The minimum payments and sinking fund installments for the five years subsequent to December 31, 2013, and thereafter are as follows:

Period Ending December 31		Principal	Interest	Total
2014	$	58,736	5,565	64,301
2015		41,987	3,878	45,865
2016		44,053	2,980	47,033
2017		41,716	1,979	43,695
2018		40,589	1,104	41,693
2019 - 2023		73,275	457	73,732
Total	$	300,356	15,963	316,319

(d) The following bonds and notes were issued at a premium/discount which is being amortized using the effective method. The effective rate associated with each is as follows:

Bonds issued at a premium:	
2004 Series A-3	4.74
2005 Series A	4.17
2006 Series A-2	4.49
2007 Series A-2	4.13
2007 Series A-3	3.99
2005 Series A Project	3.64
Note issued at a discount:	
2013 Series A	0.60 over LIBOR

(6) Bonds Payable (cont.)

(e) Each Master Indenture represents a limited obligation trust which secures payment for the outstanding revenue bonds issued therein. The bonds are payable from assets pledged to the respective trust including principal and interest payments on pledged loans. The bonds do not constitute general obligations of the Corporation or of the State. The 2002, 2012B and 2013A Master Indenture Bonds/Notes are private activity revenue bonds/notes. The 2005 Master Indenture Bonds are governmental purpose revenue bonds. Debt service payments are due as follows:

Master Indenture	Principal	Interest	Bond Type
2002	June 1	June 1 and December 1	Tax-exempt
2005	July 1 and January 1	July 1 and January 1	Tax-exempt
2012A	Varies	June 1 and December 1	Tax-exempt
2012B	December 1, 2043	June 1 and December 1	Tax-exempt
2013	Monthly	Monthly	Taxable

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

The 2005 State Projects Revenue Bonds are insured by Assured Guaranty Municipal.

The 2012B Revenue Bonds have liquidity support by an irrevocable direct-pay Letter of Credit issued by State Street Bank and Trust Company that expires on September 12, 2014. In addition the State of Alaska, Department of Revenue, Treasury Division entered into a Standby Bond Purchase Agreement with State Street Bank and Trust Company thereby agreeing to purchase 2012B Revenue Bonds under certain conditions. The Standby Bond Purchase Agreement expires September 12, 2016. The Corporation entered into a Reimbursement Agreement dated September 12, 2012 with the State of Alaska, Department of Revenue, Treasury Division thereby agreeing to reimburse them for the purchase of 2012B Revenue Bonds pursuant to the Standby Bond Purchase Agreement. The reimbursement Agreement expires on September 12, 2016.

(7) Other Debt Payable

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

Loan payable was $0 and $18,013 at December 31, 2013 and 2012.

(7) Other Debt Payable (cont.)

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

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

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

The Corporation refinanced the loans pledged to the FNPA and used proceeds from the 2012 bond issue to repay the remaining balance on the FNPA. The FNPA balance was $0 and $81,885 at December 31, 2013, and 2012, respectively.

(8) Yield Restriction and Arbitrage Rebate

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

(9) Federal Family Education Loan Program

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

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

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

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 98% if first originated prior to July 1, 2006, and 97% if first originated after June 30, 2006. Claims as a result of a borrower's death or becoming totally and permanently disabled are guaranteed at 100%.

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

Interest subsidies are received quarterly from the Department on behalf of a qualified subsidized Stafford or subsidized Consolidation loan borrower during 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.

(10) Commitments and Contingencies

(a) *Internal Revenue Service Examination*

The Internal Revenue Service (IRS) is examining the Corporation's tax-exempt education loan revenue bonds. As part of this examination, the IRS delivered to the Corporation a letter asserting that the bonds under examination are not in full compliance with applicable tax-exempt provisions of the Internal Revenue Code (IRC). The asserted lack of compliance relates to the Corporation's method of tracking recycled revenues to finance education loans. The Corporation believes the IRS position is inconsistent with applicable law and disagrees with the assertion that a violation has occurred. The Corporation is vigorously contesting the IRS assertion and cannot predict the outcome related to this matter.

(b) *Operations*

The Corporation will fund approximately $7,151 of the Commission's fiscal year 2014 operating budget for loan servicing and staff support. In addition, the Corporation will fund expenditures related to the Commission's fiscal year 2013 operating and capital project budgets of approximately $167. 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.

(10) Commitments and Contingencies (cont.)

(c) *Return of Capital*

State statutes indicate that the Board may elect to pay the State a return of contributed capital or dividend annually based on net income. If the Board elects to make such a payment, the amount may not be less than 10%, or greater than 35%, of the Corporation's income before transfers 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 25, 2013 and November 5, 2012, the Board chose not to return capital, based on income, to the State in fiscal year 2014 and 2013, respectively.

As an additional means of returning capital, State statutes allow the Corporation to issue bonds to finance State capital projects. No bonds have been issued since 2005 for this purpose. The Corporation reimburses the State for expenditures related to projects funded with Corporation capital project bond proceeds and related earnings. Restricted investments include amounts specifically designated for financing State capital projects totaling $3,608 and $4,425 at December 31, 2013 and 2012, respectively.

(d) *State Permanent Fund Dividend Garnishment*

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

PFD garnishments were approximately $2,285 and $2,398 for the years ended December 31, 2013 and 2012, respectively.

(e) *Legislation*

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

(11) Commitments and Contingencies (cont.)

(f) *Non-Investment Interest Rate Risk*

The Corporation is subject to interest rate risk relating to its variable rate bonds and variable rate loans. The 2012 bonds are subject to an interest rate cap of 12% while the loans pledged to the 2012 bonds are subject to an interest rate cap of 8.25%. The Corporation has various strategies available to manage the risk that the 2012 bond rate may rise above the related pledged loan rate. The 2013 bond rate and the loans pledged to the 2013 bonds are both based on one-month LIBOR, significantly reducing interest rate risk for this portion of the portfolio.