(a Component Unit of the State of Alaska)

Unaudited Financial Statements

December 31, 2011 and 2010

(a Component Unit of the State of Alaska)

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(a Component Unit of the State of Alaska)

Balance Sheets

December 31, 2011 and 2010

Assets		2011	2010
Current assets:			
Cash (note 3)	\$	157	661
Other		70	397
Interest receivable - investments		101	79
Interest receivable - loans		1,627	1,801
Investments (note 3)		2,378	134
Loans receivable (notes 4 and 10)		10,519	10,901
Restricted investments (note 3)		59,630	60,295
Total current assets	_	74,482	74,268
Noncurrent assets:			
Interest receivable - loans, net (note 5)		1,443	1,535
Loans receivable, net (notes 4, 5 and 10)		54,042	60,155
Investments (note 3)		25,907	30,537
Restricted:			
Cash (note 3)		1,389	1,611
Other		29	73
Due from State of Alaska		311	836
Arbitrage rebate receivable (note 9)		813	-
Interest receivable - investments		568	116
Interest receivable - loans, net (note 5)		16,978	18,924
Investments (note 3)		59,443	74,595
Loans receivable, net (notes 4, 5 and 10)		462,324	515,733
Debt issue cost, net (note 8)		2,248	2,773
Total noncurrent assets		625,495	706,888
Total assets	\$	699,977	781,156

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Balance Sheets

December 31, 2011 and 2010

Liabilities and Net Assets		2011	2010
Liabilities:	_		·
Current:			
Payable from unrestricted assets:			
Due to State of Alaska	\$	137	5
Due to U.S. Dept of Education (note 10)		782	302
Warrants outstanding (note 4)		158	229
Accounts payable		637	647
Payable from restricted assets:			
Due to US Dept of Education (note 10)		1,061	939
Warrants outstanding (note 4)		20	191
Accounts payable		20	31
Arbitrage rebate payable (note 9)		999	-
Return of capital payable (note 11)		6,628	8,811
Interest payable		3,213	3,780
Deferred credit (note 2)		-	2,374
Bonds payable (note 6)		45,985	46,865
Other debt payable (note 7)	_	11,519	2,751
Total current liabilities	_	71,159	66,925
Noncurrent-payable from restricted assets:			
Arbitrage rebate payable (note 9)		111	1,229
Return of capital payable (note 11)		712	3,633
Bonds payable, net (note 6)		259,429	319,624
Loan payable to State of Alaska (note 7)		67,500	67,500
Other debt payable (note 7)		86,453	108,278
Total noncurrent liabilities	-	414,205	500,264
Total liabilities	_	485,364	567,189
Commitments and contingencies (note 11)	_		
Net assets:			
Unrestricted (note 2)		94,529	105,016
Restricted		120,084	108,951
Total net assets	_	214,613	213,967
Total liabilities and net assets	\$	699,977	781,156

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Statements of Revenue, Expenses and Changes in Net Assets

Six Months ended December 31, 2011 and 2010

	_	2011	2010
		_	
Operating revenue:			
Interest - loans, net (note 5)	\$	16,520	17,987
Investment income		2,026	31
Other	_	-	9
Total operating revenue	_	18,546	18,027
Operating expenses:			
Interest		5,135	5,910
Administration		6,765	6,849
Provision (note 5)		8,643	(1,095)
Amortization and retirement of debt issue costs (note 8)		233	344
Total operating expenses	_	20,776	12,008
Operating income (loss)	_	(2,230)	6,019
Nonoperating expense:			
Interest		969	1,266
Administration		14	14
Amortization of debt issue costs (note 8)		83	83
Nonoperating expense		1,066	1,363
Income (loss) before special item	_		
and return of capital		(3,296)	4,656
Special item - gain on cancellation of bonds (note 6)		1,121	4,734
Return of capital (note 11)	_	(40)	(33)
Change in net assets		(2,215)	9,357
Total net assets-beginning		216,828	204,610
Total net assets-ending	\$	214,613	213,967
	_		

(a Component Unit of the State of Alaska)

Statements of Cash Flows

Six Months ended December 31, 2011 and 2010

		2011	2010
Cash flows from operating activities:	_		
Principal repayments received on loans	\$	36,760	32,273
Interest received on loans		10,737	10,015
Other receipts		313	449
Loans originated		(3,962)	(6,383)
Administration		(7,375)	(7,581)
Interest paid on debt		(5,661)	(6,346)
Principal paid on debt		(21,313)	(35,087)
Proceeds from State loan and other debt		-	4,500
Debt issue costs		-	(45)
Income received on investments		1,478	(206)
Investments matured or sold		175,078	356,359
Investments purchased	_	(181,295)	(337,510)
Net cash provided by operating activities	<u>-</u>	4,760	10,438
Cash flows from capital activities:			
Administration		(52)	(4)
Interest paid on debt		(1,353)	(1,752)
Principal paid on debt		(8,030)	(8,370)
Return of capital payments		(3,388)	(497)
Net cash used for capital activities	_	(12,823)	(10,623)
Net decrease in cash		(8,063)	(185)
Cash at beginning of period	_	9,609	2,457
Cash at end of period	\$	1,546	2,272

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Statements of Cash Flows

Six Months ended December 31, 2011 and 2010

	_	2011	2010
Reconciliation of operating income to net cash			
provided by operating activities:			
Operating income (loss)	\$_	(2,230)	6,019
Adjustments to reconcile operating income to net cash			
provided by operating activities:			
Decrease (increase) in other assets		205	(46)
Decrease (increase) in interest receivable - investme	ents	21	(169)
Decrease (increase) in net interest receivable - loans	S	1,004	(74)
Decrease (increase) in investments		(6,786)	19,412
Decrease in net loans receivable		34,152	17,666
Decrease in net debt issue costs		233	360
Increase in due to U.S. Department of Education		558	65
Decrease in net due to State of Alaska		(703)	(1,355)
Increase in warrants outstanding		120	132
Increase in accounts payable		36	164
Decrease in arbitrage rebate payable		-	(631)
Increase (decrease) in interest payable		(68)	110
Decrease in deferred credit		(11)	(81)
Decrease in bonds payable		(14,637)	(31,413)
Increase in loan payable to State		-	279
Decrease in other debt payable		(7,134)	-
Total adjustments	_	6,990	4,419
Net cash provided by operating activities	\$	4,760	10,438
	_		
Summary of noncash capital activities that affect			
recognized assets and liabilities:			
Debt issue cost amortization and retirement	\$	83	83
Return of capital payable		40	33
Interest payable		1,170	1,547
Bond premium amortization		(201)	(83)

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Notes to Financial Statements

December 31, 2011 and 2010

(in thousands)

(1) Authorizing Legislation and Organization

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

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

(2) Summary of Significant Accounting Policies

(a) Fund Accounting

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

(b) Fiscal Year

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

(c) Operating Revenues and Expenses

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

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Notes to Financial Statements

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

(d) Management Estimates

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

(e) Loans

Loans represent education loans issued through the AlaskAdvantage Loan Program[®] which include Supplemental Education, Alternative Consolidation, Teacher Education (TEL), Family Education (FEL), (collectively referred to as State loans), federally guaranteed Stafford (subsidized and unsubsidized), PLUS and Consolidation (subsidized and unsubsidized) loans (collectively referred to as Federal loans). Loan terms vary depending on the year of origination and loan type. Interest accrues at fixed and variable rates ranging from 1.76% to 9.00% and is generally determined by loan type and year of origination.

(f) Interest on Loans

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

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

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

Non-interest bearing loans were approximately \$3,174 and \$4,456 at December 31, 2011 and 2010, respectively.

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

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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, bankruptcy, total disability, or when payment activity ceases and the loan is no longer credit reportable. The Corporation writes off the portion of Federal loan balances not guaranteed and deemed uncollectible. Accrued unpaid interest is written off when the related loan is written off.

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

(h) Deferred Credit

Borrowers of State loans originated after June 30, 1994, are subject to an origination fee at disbursement of 1%, 3% or 5%, generally determined by year of origination. Loan origination fees, recognized as a deferred credit, must be used by the Corporation to offset losses incurred as a result of death, disability, default or bankruptcy of the borrower as required by State statute. The allowance for doubtful loans has been reduced by the deferred credit balance, if any.

(i) **Debt Issuance Costs**

Debt issuance costs include underwriters' fees and other costs incurred in connection with the issuance of debt and are amortized over the life of the debt using the straight-line method.

(j) **Bond Premiums**

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

(k) **Income Taxes**

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

(1) **Investments**

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

(m) Unrestricted Net Assets

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

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Notes to Financial Statements

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

(n) **Reclassifications**

Reclassifications not affecting change in net assets have been made to the 2010 financial statements to conform to the 2011 presentation.

(3) Cash and Investments

(a) Cash

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

	_	2011	2010
Current, unrestricted	\$	157	661
Noncurrent, restricted		1,389	1,611
Total	\$	1,546	2,272

(2) <u>Custodial Credit Risk</u>

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, 2011, the Corporation had no cash exposed to custodial credit risk; however, the corporation did choose to invest in money market deposit accounts that are subject to custodial credit risk [see note (3)(b)(3)].

(b) Investments

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

	2011		2010
Current:		_	
Unrestricted	\$	2,378	134
Restricted		59,630	60,295
Noncurrent:			
Unrestricted		25,907	30,537
Restricted		59,443	74,595
Total	\$	147,358	165,561

(a Component Unit of the State of Alaska)

Notes to Financial Statements

(3) Cash and Investments (cont.)

(b) **Investments**

(2) Investment Policies

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

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

- Under the 2002 and 2004 Master Indentures, the 2009 Loan Trust, and the 2010 Funding Note Purchase Agreement (FNPA), direct general obligations of, or obligations fully and unconditionally guaranteed as to the timely payment of principal and interest by, the United States (U.S.) or any agency thereof, provided such obligations are backed by the full faith and credit of the U.S. Under the 2005 Master Indenture, direct obligations of the U.S.
- Under the 2005 Master Indenture, senior debt obligations, rated AAA by Standard and Poor's (S&P), issued by the Federal National Mortgage Association (FNMA) or the Federal Home Loan Mortgage Corporation (FHLMC), obligations of the Resolution Funding Corporation, senior debt obligations of the Federal Home Loan Bank, and senior debt obligations of any government sponsored agencies approved by the bond insurer.
- Under the 2002 and 2004 Master Indentures, U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks which have a rating on their short-term certificates of deposit on the date of purchase of at least A-1+ by S&P and P-1 by Moody's and maturing no more than 360 days after the date of purchase. Under the 2005 Master Indenture, such investments are allowed if the rating from S&P is A-1 or better on the date of purchase.
- Under the 2002 and 2004 Master Indentures, commercial paper which is rated at the time of purchase of at least A-1+ by S&P and P-1 by Moody's. Under the 2005 Master Indenture, such investments are allowed if rated A-1+ or better by S&P at the time of purchase and if the investment matures not more than 270 days after the date of purchase. Under the FNPA, such investments are allowed if rated A-1+ by S&P and F1+ or higher by Fitch at the time of purchase.

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Notes to Financial Statements

(3) Cash and Investments (cont.)

(b) **Investments**

(2) Investment Policies

- Under the 2009 Loan Trust, short-term investments with domestic commercial banks
 maturing not more than 365 calendar days after the date of purchase, provided,
 however, that such investments are unconditionally guaranteed by the US; or fully
 collateralized by securities which are unconditionally guaranteed by the US or that the
 long-term unsecured debt obligations of such depository institution or trust company at
 and during the term of such investment are rated at least in the second highest rating
 category possible.
- Under the FNPA, demand deposits, including interest-bearing money market accounts, time deposits, trust funds, trust accounts, overnight bank deposits, interest-bearing deposits and certificates of deposit or bankers acceptances of depository institutions having a long-term rating equivalent of AAA or higher by S&P and Fitch at the time of and during investment.
- Under the 2002 and 2004 Master Indentures, investments in money market funds rated AAAm or AAAm-G or better by S&P and Aaa by Moody's. Under the 2005 Master Indenture, such investments are allowed if rated AAAm or AAAm-G or better by S&P. Under the 2009 Loan Trust, such investments are allowed if rated at least "Aaa" by S&P or otherwise in the highest rating category of S&P for money market funds and at least "AA" or "F-1+" by Fitch if the money market fund has the ability to maintain a stable one dollar net asset value per share and the shares are freely transferable on a daily basis. Under the FNPA, such investments are allowed if rated in the highest investment category granted thereby from S&P and Fitch.
- Under the 2002 and 2004 Master Indentures, general obligations of any state or municipality with a rating of at least A by S&P and Aaa by Moody's. Under the 2005 Master Indenture, general obligations of states with a rating of A or higher by S&P.
- Under the 2004 and 2005 Master Indentures, repurchase agreements for 30 days or less provided they are with banks, or primary dealers on the Federal Reserve reporting dealer list, rated A or better by S&P and Moody's. Under the FNPA, repurchase and reverse repurchase agreements collateralized with obligations fully and unconditionally guaranteed as to timely payment by, the U.S. government or any agency, instrumentality, or establishment of the U.S. government.
- Under the 2002 Master Indenture, guaranteed investment contracts, investment agreements and repurchase agreements secured by collateral. Under the 2004 Master Indenture, such contracts or agreements must be acceptable to the bond insurer.

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Notes to Financial Statements

(3) Cash and Investments (cont.)

(b) **Investments**

(2) Investment Policies

- Under the 2005 Master Indenture, investment agreements with a domestic or foreign bank or corporation (other than a life or property casualty insurance company) the long-term debt of which, or, in the case of a guaranteed corporation the long-term debt, or, in the case of a monoline financial guaranty insurance company, claims paying ability, of the guarantor is rated at least AA by S&P and Aa by Moody's.
- Under the 2002 Master Indenture, unsecured guaranteed investment contracts or investment agreements with any bank, bank holding company, corporation or any other financial institution meeting the following:

	Ratings				
	Commer	cial Paper	Unsecured L	ong-term Debt	
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 allowable.

Under the 2004 Master Indenture, such contracts and agreements must be acceptable to the bond insurer.

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

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

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Notes to Financial Statements

(3) Cash and Investments (cont.)

(b) **Investments**

(2) Investment Policies

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

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

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

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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 policies, diversifying the investment portfolio, and prequalifying firms with which the Corporation administers its investment activities.

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

Investment Type	Ratings	2011	2010
U.S. government agencies	AAA	-	24,285
U.S. government agencies	Not rated	73,327	17,316
Corporate bonds	AA	3,373	5,499
Corporate bonds	A	5,185	4,846
Corporate bonds	BBB	370	-
Fixed income mutual funds	Not rated	2,572	4,493
Money market funds	AAA	6,847	11,516
Money market deposit account	Not rated	30,468	66,139
Guaranteed investment contracts	Not rated	7,481	9,221
Internal investment pools	Next schedule	8,599	14,260
U.S. treasury securities	No credit exposure	9,136	7,986
Total	\$	147,358	165,561

At December 31, 2011, the Corporation had \$30,468 invested in a money market deposit account exposed to custodial credit risk.

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Notes to Financial Statements

(3) Cash and Investments (cont.)

(b) **Investments**

(3) Credit Risk

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

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

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

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

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

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Notes to Financial Statements

(3) Cash and Investments (cont.)

(b) Investments

(3) Credit Risk

The fair value of the Corporation's share of the State's internal investment pools by type and credit quality ratings were not available at December 31. Credit quality ratings for the Corporation's share of such pools, using S&P's rating scale without modifiers, at June 30 are as shown below:

are as shown below.			Intermediate-	Tota	als
Investment Type	Rating	Short-term	term	2011	2010
Commercial paper	A-1 \$	207	_	207	20
Commercial paper	Not rated	22	14	36	69
U.S. government agency	AAA	57	200	257	1,164
U.S. government agency	Not rated	-	-	-	105
U.S. gov. agency discount notes	Not rated	84	-	84	249
Mortgage-backed	AAA	47	124	171	560
Mortgage-backed	AA	-	3	3	-
Mortgage-backed	BBB	-	1	1	30
Mortgage-backed	Not rated	-	12	12	71
Other asset-backed	AAA	910	59	969	369
Other asset-backed	AA	-	-	-	4
Other asset-backed	A	2	-	2	7
Other asset-backed	CCC	-	1	1	-
Other asset-backed	Not rated	108	-	108	29
Overnight sweep account	Not rated	27	-	27	-
Corporate bonds	AAA	706	455	1,161	1,505
Corporate bonds	AA	43	47	90	247
Corporate bonds	A	96	142	238	415
Corporate bonds	BBB	-	62	62	135
Corporate bonds	Not rated	173	-	173	85
Yankees:					
Government	AA	-	29	29	98
Government	Not rated	-	2	2	-
Corporate	AAA	-	43	43	229
Corporate	AA	15	45	60	113
Corporate	A	3	18	21	56
Corporate	BBB	-	10	10	10
Corporate	Not rated	2	-	2	16
No credit exposure:					
U.S. treasury notes		-	3,085	3,085	3,390
U.S. treasury bills		478	-	478	217
U.S. treasury when-issued		-	-	-	4,438
U.S. treasury strip		-	3	3	-
Pool related net assets	-	4	81	85	183
Total	\$ _	2,984	4,436	7,420	13,814

(a Component Unit of the State of Alaska)

Notes to Financial Statements

(3) Cash and Investments (cont.)

(b) **Investments**

(4) Concentration Risk

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

For investment contracts, the investment providers will be limited to providing investments to the lesser of \$50,000 or 5% (10% prior to July 6, 2009) 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

An allocation of investment holdings by security in the State's internal investment pools was not available at December 31, 2011; therefore, investment holdings greater than five percent of total investments could not be determined. At June 30, 2011, the Corporation had investment balances greater than five percent of the Corporation's total investments with the following investment providers:

		Percent of Total
	Fair Value	Investments
Federal National Mortgage Association	\$ 31,053	22.09
US Bank	29,700	21.13
Federal Home Loan Mortgage Corporation	23,880	16.99
Federal Home Loan Bank	10,800	7.68
FSA Management Services, LLC	8,253	5.87

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Notes to Financial Statements

(3) Cash and Investments (cont.)

(b) **Investments**

(5) Interest Rate Risk

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

Duration

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

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

At December 31, 2011, the weighted average modified duration of investments, other than investments in the State's internal investment pools, is shown below:

U.S. Govt agency mortgage-backed securities	2.01
U.S. Govt agency discount notes	0.23
Corporate securities	4.71
Guaranteed investment contracts	9.73
U.S. Treasury securities	2.78
Doutfolio modified dynation	2.88
Portfolio modified duration	2.00

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 the effective duration of its Intermediate-term Fixed Income Pool to \pm 20% of the Merrill Lynch 1-5 year Government Bond Index. The effective duration of the Intermediate-term Fixed Income Pool was not available at December 31, 2011. At June 30, 2011 the effective duration for the Merrill Lynch 1-5 year Government Bond Index was 2.54 years.

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Notes to Financial Statements

(3) Cash and Investments (cont.)

(b) **Investments**

(5) Interest Rate Risk

The Intermediate-term Fixed Income Pool's effective duration by investment type was not available at December 31. At June 30, 2011, the Intermediate-term Fixed Income Pool's effective duration, by investment type, follows:

Commercial paper	0.05
Corporate bonds	2.01
Mortgage-backed	1.52
Other asset-backed	1.08
U.S. treasury notes	3.09
U.S. treasury strip	6.37
U.S. government agency	2.65
Yankees:	
Government	1.92
Corporate	2.28
Portfolio effective duration	2.53

As a means of limiting the Short-term Fixed Income Pool's exposure to fair value losses arising from increasing interest rates, Treasury's investment policy limits individual fixed rate securities to fourteen months in maturity or fourteen months expected average life at purchase. Floating rate securities are limited to three years in maturity or three years expected average life at purchase. Treasury utilizes the actual maturity date for commercial paper and twelve-month prepay speeds for other securities. The expected average life of fixed rate securities held in the short-term Fixed Income Pool was not available at December 31, 2009. At June 30, 2011, the expected average life of fixed rate securities held in the Short-term Fixed Income Pool ranged from one day to one year and the expected life of floating rate securities ranged from eight days to fourteen years.

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Notes to Financial Statements

(3) Cash and Investments (cont.)

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

		2011	2010
Noncurrent:	•	_	
Unrestricted	\$	3,086	-
Restricted		326	5,281
Total	\$	3,412	5,281

(4) Loans Receivable

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

	_	20	11	20	10
	_	State	Federal	State	Federal
Current, unrestricted	\$	10,254	266	10,806	95
Unrestricted		90,653	4,022	97,489	2,095
Restricted		361,821	170,952	397,971	189,093
Total	\$	462,728	175,240	506,266	191,283

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Notes to Financial Statements

(4) Loans receivable (cont.)

(b) Loans are financed by the issuance of tax-exempt revenue bonds, recycled loan payments, and proceeds from a State-funded loan. The loan portfolio summarized by program at December 31, follows:

	2011	2010
\$	_	
	385,381	415,882
	65,839	77,797
	7,603	7,782
	3,905	4,805
•	462,728	506,266
	147,444	160,407
	6,731	8,090
	21,065	22,786
	175,240	191,283
\$	637,968	697,549
		\$ 385,381 65,839 7,603 3,905 462,728 147,444 6,731 21,065 175,240

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

		2011		201	10
		State	Federal	ederal State	
Enrollment	\$	37,398	26,975	52,668	48,048
Grace		5,304	4,427	7,344	12,469
Repayment		362,299	100,339	382,518	90,918
Deferment		55,727	26,587	62,192	25,029
Forbearance		2,000	16,912	1,544	14,819
Total	\$	462,728	175,240	506,266	191,283
	:				

(d) Included in loans receivable are \$142 and \$184 of loan warrants issued but not redeemed at December 31, 2011 and 2010, respectively. Redemption is contingent upon the borrower meeting certain eligibility requirements.

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Notes to Financial Statements

(4) Loans receivable (cont.)

(e) Loans awarded not disbursed at December 31, are as follows:

		2011	2010
State Loans	_		
Supplemental Education	\$	3,016	4,982
Teacher Education		212	241
Family Education	_	184	213
Total State Loans	\$	3,412	5,436

(5) Allowances and Provision

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

_	2011	2010
\$	126,767	140,134
	8,643	(1,095)
	(780)	(547)
\$	134,630	138,492
	· -	8,643 (780)

2011	2010
109,236	108,931
1,847	1,829
23,237	27,472
310	260
134,630	138,492
	109,236 1,847 23,237 310

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Notes to Financial Statements

(6) Bonds Payable

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

			Amount Ou	tstanding
	Typo	Original Amount	2011	2010
	Type	Amount	2011	2010
2002 Master Indenture, Education Loan:				
2003: Series A-1, due 2012 to 2016	Auction	16,500	4,900	6,500
Series A-2, due 2038	Auction	30,500	30,300	30,300
2004: Series A-1, due 2044	Auction	45,500	27,100	32,100
Serial bonds, Series A-3, rates				
ranging from 5.0% to 5.25%,				
due 2012 to 2017	Fixed	22,015	15,730	22,015
2005: Serial bonds, Series A,				
rate 5%, due 2012 to 2018	Fixed	58,250	41,750	48,250
2006: Series A-1, due 2040	Auction	30,000	19,700	30,000
Serial bonds, Series A-2, rate				
5.0%, due 2012 to 2018	Fixed	55,000	43,000	48,500
2007: Series A-1, due 2042	Auction	41,500	28,500	28,500
Serial bonds, Series A-2, rate				
5.0%, due 2012 to 2019	Fixed	18,500	17,000	18,000
Serial bonds, Series A-3, rate			23,000	
5.0%, due 2012 to 2014	Fixed	49,000		30,000
Sub-total		366,765	250,980	294,165

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Notes to Financial Statements

(6) Bonds Payable (cont.)

			Amount ou	ıtstanding
		Original		
	Type	Amount	2011	2010
2004 Master Indenture, Series A Capital Pro	oject			
serial bonds, rate 4.0%,				
due 2012 to 2016	Fixed	69,910	23,065	30,045
term bonds, rate 4.0%, due 2018	Fixed	5,230	5,230	5,230
Sub-total		75,140	28,295	35,275
2005 Master Indenture, Series A State Proje	ects			
serial bonds, fixed ranging from 5.0%				
due 2012 to 2014	Fixed	88,305	23,000	32,500
Total Bonds Payable		\$ 530,210	302,275	361,940
Unamortized premium			3,139	4,549
Net Bonds Payable		\$	305,414	366,489
Current		\$	45,985	46,865
Noncurrent			259,429	319,624
Total		\$	305,414	366,489

(b) In early February 2008, the auction rate market collapsed. With the exception of 2007 Series auction rate bonds/securities which auction every seven days, the Corporation's outstanding auction rate securities (ARS) continue to be auctioned every thirty-five days. The Corporation's first auction failure occurred on February 12, 2008 and failures have continued through December 31, 2011. The supplemental indenture related to each series of ARS defines the maximum rate of interest to be assigned to the bonds when an auction fails.

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Notes to Financial Statements

(6) Bonds Payable (cont.)

The following definitions exist for the Corporation's ARS:

Maximum Rate		Rate at December 31, 2011 by Series		
Bonds	(rounded to the nearest one thousandth of 1%)	A-1	A-2	
2003	lesser of: (a) 150% of the higher of (i) the after-tax equivalent rate or (ii) the Kenny index; or (b) the Treasury bill cap; or (c) the commercial paper cap; or (d) the lesser of (i) 14% or (ii) the maximum rate permitted by State law (10.5%)	0.390%	0.375%	
2004	same as 2003 bonds	0.405%	-	
2006	same as 2003 bonds	0.405%	-	
2007	same as 2003 bonds except 12% replaces 14% in (d)	0.390%	-	

(c) The minimum payments and sinking fund installments for the five years subsequent to December 31, 2011, and thereafter are as follows:

Period Ending December 31	 Principal	Interest	Total
2012	\$ 45,985	8,943	54,928
2013	40,810	6,878	47,688
2014	36,630	4,942	41,572
2015	18,010	3,533	21,543
2016	20,765	2,604	23,369
2017-2021	34,475	3,793	38,268
2022-2026	-	2,072	2,072
2027-2031	-	2,072	2,072
2032-2036	-	2,072	2,072
2037-2041	50,000	1,537	51,537
2042-2044	55,600	513	56,113
Total	\$ 302,275	38,959	341,234

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Notes to Financial Statements

(6) Bonds Payable (cont.)

(d) Each Master Indenture represents a limited obligation trust which secures payment for the outstanding revenue bonds issued therein. The bonds are payable from assets pledged to the respective trust including principal and interest payments on pledged loans. The bonds do not constitute general obligations of the Corporation or of the State. The 2002 Master Indenture Bonds are private activity revenue bonds. The 2004 and 2005 Master Indenture Bonds are governmental purpose revenue bonds. Debt service payments are due as follows:

Master Indenture	Principal	Interest	
2002	June 1 *	June 1 and December 1	
2004	July 1 and January 1	July 1 and January 1	
2005	July 1 and January 1	July 1 and January 1	

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

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

The 2004 Capital Project Revenue Bonds are insured by National Public Finance (formally MBIA Insurance Corporation) and the 2005 State Projects Revenue Bonds are insured by Assured Guaranty Municipal (formally Financial Security Assurance, Inc).

(e) The Corporation purchased \$10,300 and \$5,000 of its outstanding auction rate securities on November 30 and December 2, 2011, for \$9,579 and \$4,600 respectively. On December 6, the Corporation cancelled the bonds purchased resulting in a gain on the cancellation of \$1,121.

(7) Other Debt Payable

(a) On July 17, 2009, the Corporation entered into a Trust and Loan Agreement with the State's Department of Revenue (acting on behalf of the State). The Loan Agreement provides up to \$100 million to the Corporation for the purpose of financing education loans. The loan is a four-year bullet loan, accruing interest on the outstanding principal balance using a variable rate of interest equal to the most current rolling five-year average return on the State's general fund. The interest rate is reset annually and was 4.16% and 4.40% for the six-month period ending December 31, 2011 and 2010, respectively. Interest is payable semi-annually in January and July. The loan is a limited obligation secured by pledged assets. The Corporation has the right to prepay the loan, in whole or in part, at any time, without penalty or premium.

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

Loan payable was \$67,500 at December 31, 2011 and 2010.

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Notes to Financial Statements

(7) Other Debt Payable (cont.)

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

The FNPA represents a limited obligation secured by pledged loans and other pledged assets, including principal and interest payments on pledged loans. Principal payments will be made from pledged assets as needed to maintain the required asset coverage ratio with the final payment due no later than November 19, 2013. The Corporation has the right to prepay the balance, in whole or in part, at any time, without penalty or premium.

Program financing costs, which include costs associated with commercial paper issued for the Program by Straight-A Funding, LLC, and other Program costs such as liquidity fees, administrative fees, managerial fees and put option fees, are allocated to Program participants monthly based on the participant's prorata share of total FNPA balances at month end. Program financing costs are paid monthly from pledged assets. Financing costs paid by the Corporation was approximately 0.74% and 0.68% of the Corporation's average FNPA balance outstanding for the six-month periods ending December 2011 and 2010, respectively.

The FNPA balance was \$97,972 and \$111,029 at December 31, 2011 and 2010, respectively.

The estimated minimum payments for years subsequent to December 31, 2011 are as follows:

	_	Principal	Interest	Total
2012	\$	11,519	663	12,182
2013		86,453	540	86,993
Total	\$	97,972	1,203	99,175

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Notes to Financial Statements

(8) Debt Issue Cost

A summary of debt issue cost activity at December 31 follows:

	_	2011	2010
Balance at beginning of period	\$	2,564	3,215
Reimbursements		-	(15)
Retirements		(97)	(211)
Amortization	_	(219)	(216)
Balance at end of period	\$	2,248	2,773

(9) Yield Restriction and Arbitrage Rebate

Education loans financed with proceeds of tax-exempt bonds issued by the Corporation are subject to interest rate yield restrictions of no more than 2% over the bond yield. Education loans not financed by but pledged to secure tax-exempt bonds issued by the Corporation are subject to interest rate yield restrictions of no more than the bond yield. Earnings on non-loan investments pledged to bond indentures are subject to rebate provisions or restricted to the related bond yield. These restrictions are in effect over the lives of the bonds. As required by the Internal Revenue Service (IRS), the Corporation calculates and analyzes loan yields every ten years or earlier if necessitated by calling, cancelling or defeasing bonds. Investment yields are calculated and analyzed annually. These analyses are used to determine both compliance with IRS provisions and the arbitrage rebate liability. The amount accrued for arbitrage rebate liability represents the amount due to the IRS for earnings in excess of allowable yields. The amount recorded as arbitrage rebate receivable represents amounts paid to the IRS in past years that has become refundable due to cumulative earnings no longer being in excess of those allowable.

(10) Federal Family Education Loan Program

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

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

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

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Notes to Financial Statements

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

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

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

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

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

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

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

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

(11) Commitments and Contingencies

(a) **Operations**

The Corporation will fund approximately \$6,791 of the Commission's fiscal year 2012 operating budget for loan servicing and staff support. In addition, the Corporation will fund expenditures related to the Commission's fiscal year 2011 operating and capital project budgets of approximately \$165. 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.

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Notes to Financial Statements

(11) Commitments and Contingencies (cont.)

(b) Return of Capital

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

On November 29, 2011 and October 27, 2010, the Board chose not to return capital, based on net income, to the State in fiscal year 2013 and 2012, respectively.

As an additional means of returning capital, State statutes allow the Corporation to issue bonds to finance State capital projects. No bonds have been issued since 2005 for this purpose. In fiscal years 2005 and 2004, the Corporation issued \$163,445 of capital project bonds to finance State capital projects. Bond documents related to the 2004 capital project bonds require earnings on bond proceeds to be used to finance State capital projects. The Corporation reimburses the State for expenditures related to projects funded with Corporation capital project bond proceeds and related earnings. Restricted investments include amounts specifically designated for financing State capital projects totaling \$7,340 and \$12,444 at December 31, 2011 and 2010, respectively.

(c) State Permanent Fund Dividend Garnishment

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

PFD garnishments were approximately \$3,304 and \$3,336 for the years ended December 31, 2011 and 2010, respectively.

(d) Legislation

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

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Notes to Financial Statements

(11) Commitments and Contingencies (cont.)

(e) Non Investment Interest Rate Risk

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