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

Unaudited Financial Statements

December 31, 2006 and 2005

ALASKA STUDENT LOAN CORPORATION

(a Component Unit of the State of Alaska)

Unaudited Balance Sheets

December 31, 2006 and 2005

Assets		2006	2005
Current assets:			
Investments (note 3)	$	44,851,502	36,460,407
Accrued interest receivable		156,072	147,629
Total current assets		45,007,574	36,608,036
Restricted assets:			
Cash (note 3)		1,623,958	1,739,474
Investments (note 3)		363,759,357	394,887,760
Loans receivable (note 4)		624,998,887	602,924,587
Less allowance for:			
Doubtful loans (note 5)		(109,003,494)	(105,720,623)
Forgiveness (note 6)		(2,324,382)	(2,702,369)
Net loans receivable		513,671,011	494,501,595
Accrued interest receivable, net of forgiveness allowance of $405,691 and $761,329 in 2006 and 2005, respectively		21,645,346	16,976,419
Due from U.S. Department of Education		463,971	700,943
Bond issuance cost, net of accummulated amortization of $2,762,318 and $2,973,009 in 2006 and 2005, respectively		6,166,598	6,424,920
Total restricted assets		907,330,241	915,231,111
Total assets	$	952,337,815	951,839,147

(Continued)

See accompanying notes to the unaudited financial statements

ALASKA STUDENT LOAN CORPORATION

(a Component Unit of the State of Alaska)

Unaudited Balance Sheets

December 31, 2006 and 2005

Liabilities and Net Assets		2006	2005
Liabilities:			
Current liabilities payable from unrestricted assets:			
Accounts payable	$	563,202	447,547
Due to State of Alaska		40,386	66,110
Warrants outstanding		74,775	25,651
Deferred credit (note 2)		3,107,103	4,095,212
Return of capital payment declared (note 11)		1,200,000	1,900,000
Total current unrestricted liabilities		4,985,466	6,534,520
Current liabilities payable from restricted assets:			
Accounts payable		3,166	—
Due to State of Alaska		10,517	76,221
Warrants outstanding (note 4)		1,665,075	2,189,150
Return of capital payment declared (note 11)		81,807,522	114,777,090
Bond interest payable		9,285,620	10,333,883
Current portion of arbitrage rebate payable (note 8)		15,104	68,812
Current portion of bonds payable (note 7)		35,800,000	35,380,000
Total current liabilities		128,587,004	162,825,156
Noncurrent liabilities payable from restricted assets:			
Arbitrage rebate payable (note 8)		679,972	316,212
Bonds payable, net of bond premiums/discounts (note 7)		640,950,082	614,085,044
Pension obligation payable (note 10)		754,333	—
Total noncurrent liabilities		642,384,387	614,401,256
Total liabilities		775,956,857	783,760,932
Commitments and contingencies (note 11)		—	—
Net assets:			
Restricted net assets		136,358,850	138,004,699
Unrestricted net assets (note 2)		40,022,108	30,073,516
Total net assets		176,380,958	168,078,215
Total liabilities and net assets	$	952,337,815	951,839,147

See accompanying notes to the unaudited financial statements

ALASKA STUDENT LOAN CORPORATION

(a Component Unit of the State of Alaska)

Unaudited Statements of Revenue, Expenses

and Changes in Net Assets

Six Months Ended December 31, 2006 and 2005

		2006	2005
Operating revenue - interest income - student loans	$	19,676,083	17,916,468
Operating expenses:			
Provision for:			
Loan losses (note 5)		2,532,667	2,646,919
Forgiveness (note 6)		180,290	172,183
Operations		6,640,470	5,888,182
Total operating expenses		9,353,427	8,707,284
Operating income		10,322,656	9,209,184
Nonoperating revenue (expense), excluding special item:			
Interest income from investments		12,062,476	5,718,354
Interest expense		(14,921,264)	(13,518,493)
Amortization of bond issuance costs		(287,313)	(298,700)
Net nonoperating expense		(3,146,101)	(8,098,839)
Income before return of capital ("statutory net income")		7,176,555	1,110,345
Return of capital (note 11)		(1,200,000)	(1,900,000)
Change in net assets		5,976,555	(789,655)
Total net assets-beginning		170,404,403	168,867,870
Total net assets-ending	$	176,380,958	168,078,215

See accompanying notes to the unaudited financial statements

ALASKA STUDENT LOAN CORPORATION

(a Component Unit of the State of Alaska)

Unaudited Statements of Cash Flows

Six Months Ended December 31, 2006 and 2005

		2006	2005
Cash flows from operating activities:			
Principal repayments received on loans	$	28,825,908	26,473,193
Interest received on loans		15,441,225	14,622,595
Other cash receipts		665,774	598,661
Loans originated		(36,216,084)	(34,751,552)
Cash paid to Alaska Commission on Postsecondary Education for operating expenses		(6,805,850)	(5,839,033)
Net cash provided by operating activities		1,910,973	1,103,864
Cash flows from noncapital financing activities:			
Proceeds from issuance of bonds		—	61,827,108
Bond issue costs		(63,154)	(608,727)
Interest paid on bonds		(13,599,755)	(11,454,622)
Principal payments on bonds		(40,225,000)	(41,400,000)
Net cash provided by (used for) noncapital financing activities		(53,887,909)	8,363,759
Cash flows from investing activities:			
Interest received on investments		7,450,665	5,331,336
Investments matured		2,598,729,419	3,593,243,624
Investments purchased		(2,521,313,758)	(3,579,983,243)
Net cash provided by investing activities		84,866,326	18,591,717
Cash flows from capital activities:			
Bond issue costs		—	(1,403)
Interest paid on bonds		(3,220,800)	(2,318,001)
Principal payments on bonds		(8,945,000)	(2,865,000)
Return of capital payments		(19,902,735)	(22,622,173)
Net cash used for capital activities		(32,068,535)	(27,806,577)
Net increase in cash		820,855	252,763
Cash at beginning of period		803,103	1,486,711
Cash at end of period	$	1,623,958	1,739,474

(Continued)

See accompanying notes to the unaudited financial statements

ALASKA STUDENT LOAN CORPORATION

(a Component Unit of the State of Alaska)

Unaudited Statements of Cash Flows

Six Months Ended December 31, 2006 and 2005

		2006	2005
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	10,322,656	9,209,184
Adjustments to reconcile operating income to net cash provided by operating activities:			
Increase in net loans receivable		(9,298,530)	(9,386,184)
Decrease (increase) in net accrued interest receivable on loans		(257,338)	105,885
Decrease in other assets		392,849	443,688
Increase in accounts payable		186,262	80,765
Decrease in due to State of Alaska		(424,221)	(278,306)
Increase in warrants outstanding		1,294,376	1,783,218
Decrease in deferred credit		(418,239)	(854,386)
Increase in pension obligation		113,158	—
		(8,411,683)	(8,105,320)
Net cash provided by operating activities	$	1,910,973	1,103,864
Summary of noncash transactions that affect recognized assets and liabilities:			
Provision for loan loss and forgiveness	$	(2,712,957)	(2,819,102)
Provision for lost interest and forgiveness		(2,006,918)	(1,811,473)
Write-off of uncollectible loans		1,916,363	1,863,430
Forgiveness granted - principal		(203,944)	(114,800)
Forgiveness granted - interest		(67,394)	(27,927)
Bond premium amortization		667,321	515,219
Bond issuance cost amortization		(287,313)	(298,700)
Deferred credit used for loan loss		1,104,086	1,581,076
Interest capitalization		4,958,280	4,549,609
Unrealized gain on investments		1,662,353	509,509
Pension obligations		(113,158)	—

See accompanying notes to the unaudited financial statements

(1) Authorizing Legislation and Organization

The Alaska Student Loan Corporation (Corporation), a component unit of the State of Alaska, was created in 1987 by an act of the State of Alaska Legislature (Legislature). The purpose of the Corporation is to provide low-interest education loans to Alaskans. The Corporation is authorized, with certain limitations, to issue its own bonds and other obligations in such principal amounts as, in the opinion of the Corporation, will be necessary to provide sufficient funds for carrying out its purpose. All obligations so issued shall not be deemed to constitute a debt of the State of Alaska (State).

The State Governor appoints the Corporation's Board of Directors and the staff of the Alaska Commission on Postsecondary Education (Commission) administers the Corporation. The Commission's budget provides for reimbursement from the Corporation for operating and capital expenses. The Commission's budget is subject to review and approval from both the executive and legislative branches of the State.

The State has provided education loans through various programs since 1968. Prior to the creation of the Corporation, substantially all such loans were recorded in the Scholarship Revolving Loan Fund and Teacher Scholarship Loan Fund (Funds) of the State. In April 1988, by act of the Legislature, the assets, liabilities, and equities of the Funds were transferred to the Corporation effective December 30, 1987.

Loans are financed through the issuance of tax-exempt bonds or with recycled principal and interest repayments. The bonds outstanding are payable primarily from interest and principal repayments on the financed loans as specified in the underlying resolutions authorizing the sale of bonds.

(2) Summary of Significant Accounting Policies

(a) *Fund Accounting*

The financial activities of the Corporation, which are restricted by the Corporation's bond indentures and the requirements of the Legislature, are recorded in various funds as specified in such instruments or necessitated by appropriation requirements or sound fiscal management. The funds are combined for financial statement purposes and there are no significant interfund transactions. The Corporation's funds are considered to be enterprise funds for financial reporting purposes with revenues recognized when earned and expenses when incurred.

(b) *Standard Application*

As allowed by the Government Accounting Standards Board Statement No. 20 (GASB 20), *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Corporation has elected not to apply Statements and Interpretations issued by the Financial Accounting Standards Board after November 30, 1989.

(c) *Fiscal Year*

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

(d) *Management Estimates*

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

(e) ***Loans***

Loans represent education loans issued through the AlaskAdvantage® Loan Programs, which include Alaska Supplemental Loans, Teacher Education Loans (TEL), Family Education Loans (FEL), (collectively referred to as supplemental loans), and federally guaranteed Stafford, PLUS, PLUS-Graduate and Consolidated loans. The terms of the loans vary depending on the year of inception and loan type. Interest accrues at fixed and variable rates ranging from 2.875% to 9% and is generally determined by loan type and issue date. The Corporation offers borrower benefits, which reduce the interest costs for eligible borrowers. The borrower benefit offerings are approved by the Corporation Board of Directors annually and may vary from year-to-year.

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.

For certain supplemental loans awarded prior to July 1, 1987, borrowers can obtain forgiveness for up to 50% of loan principal and interest if the borrower resides in Alaska for specified periods upon successful completion of the program of study for which the loan was awarded.

(f) ***Allowance for Doubtful Loans***

The allowance for doubtful loans represents management’s estimate, based on experience, of all loans that will ultimately be uncollectible. The Corporation charges off supplemental loans to the allowance upon death, bankruptcy as allowed by law, total disability of the borrower, or when a payment has not been received for five years on loans not in deferment.

(g) ***Interest on Education Loans***

Interest on education 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 periods) is billed to and paid by the U.S. Department of Education under the Federal Family Education Loan Program. The borrower pays interest subsequent to that date. For non-subsidized federally guaranteed loans and for all supplemental loans issued after June 30, 2002 interest from the disbursement date is paid by the borrower.

Certain supplemental loans are non-interest bearing while the borrower is completing eligible studies. All state supplemental loans issued prior to July 1, 1996 are non-interest bearing during approved periods of deferment and postponement. Loans issued prior to July 1, 1987 are also non-interest bearing during a one-year grace period following completion of studies and a six-month sub-grace period following an approved deferment. Non-interest bearing loans are approximately $28,373,134 at December 31, 2006.

Historical rates are used to determine the allowance for doubtful interest. The allowance for doubtful interest is approximately $23,811,000 and $21,000,000 as of December 31, 2006 and 2005, respectively. The provision for doubtful interest is a reduction of interest income and was approximately $1,936,000 and $1,747,000 for the six-months ended December 31, 2006 and 2005, respectively.

(h) ***Deferred Credit***

Borrowers who received supplemental loans after June 30, 1994 were charged an origination fee of 1%, 3% or 5%, generally determined by loan issue date. Its purpose is to offset loan losses due to death, disability, bankruptcy or default of borrowers charged the origination fee. The origination fee is recognized as revenue using the straight-line method equal to the loan repayment period and assumes repayment begins the year following origination. The allowance for doubtful loans has been reduced by the unamortized deferred credit.

(i) ***Allowance for Forgiveness***

The allowance for forgiveness represents management's estimate, based on experience of the loan forgiveness that will ultimately be applied for and granted. In fiscal year 2006, management changed the allowance estimate to reflect expected forgiveness for the Teacher Education loan program only. To determine this change, management analyzed recent annual forgiveness activity for certain supplemental loans awarded prior to July 1, 1987 in conjunction with eligibility requirements and concluded that the allowance for those loans was no longer necessary.

(j) ***Bond Issuance Costs***

Bond issuance costs include underwriters' fees and other costs incurred in connection with the issuance of bonds and are amortized using the straight-line method.

(k) ***Bond Discounts/Premiums and Deferred Amounts on Refundings***

Bond discounts, premiums and deferred amounts on refundings are amortized using the straight-line method.

(l) ***Income Taxes***

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

(m) ***Investments***

The Corporation carries all investments at fair value.

(n) ***Unrestricted Net Assets***

Unrestricted net assets represent assets of the Corporation not pledged as collateral for specific bond indentures. Assets restricted by statute were approximately $20,382,000 and $25,800,000 at December 31, 2006 and 2005, respectively.

(3) Cash and Investments

(a) *Cash*

Cash, consisting mainly of deposits held in trust, is $1,623,958 and $1,739,474 at December 31, 2006 and December 31, 2005 respectively. Cash is restricted by bond resolutions.

(b) *Investments*

The fair value as of December 31, of the Corporation's investments, a majority of which are restricted by bond resolutions and statutory agreements, is shown below:

		2006	2005
Restricted	$	363,759,357	394,887,760
Unrestricted		44,851,502	36,460,407
	$	408,610,859	431,348,167

Restricted investments include amounts specifically designated for financing education loans totaling $85,363,450 and $57,275,158 at December 31, 2006 and 2005, respectively.

The Corporation invests in the State's General Fund and Other Non Segregated Investments Pool (GeFONSI).

		2006	2005
Non-pooled	$	384,052,711	420,734,492
Pooled		24,558,148	10,613,675
	$	408,610,859	431,348,167

(c) *Investment Policies*

The Corporation utilizes different investment strategies depending upon the nature and intended use of the assets being invested. All funds are classified as pledged or non-pledged and are managed either by staff or by external investment managers. All of these factors determine the applicable investment guidelines used when making investment decisions. The Corporation's investment policies provide investment guidelines for non-pledged funds.

The following securities are eligible for investment under the Corporation's investment policies:

- Debt instruments issued by the U.S. Government, its Agencies and Instrumentalities.
- Investment contracts and repurchase agreements with a corporation or other entity which has a long-term debt rating of at least A3 by Standard and Poor's (S&P) or A- by Moody's and where collateral is maintained at a minimum level of 102% when using direct obligations of the U.S. Treasury or 103% when using allowable agency securities.
- Guaranteed investment contracts with a corporation or other entity which has a long-term debt rating of at least A3 by Standard and Poor's (S&P) or A- by Moody's. The contract maturity is limited to five years or less.
- Investments in a money fund rated AAAm or AAAm-G or better by Standard & Poor's and Aaa by Moody's.

In addition to the above guidelines, the following apply to non-pledged funds managed by an external investment manager:

- General obligations of any state or municipality with a published rating of low "A" or better, and debt instruments that have been issued by domestic entities rated low "A" category or above by at least two of the following rating services: S&P, Moody's, Fitch Ratings or the equivalent by another nationally recognized rating agency, and dollar denominated debt instruments of comparable quality issued by non-domestic entities.
- Government National Mortgage Association, the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation mortgage backed instruments as well as asset-backed securities.
- Certificates of deposit and term deposits of United States Domestic financial institutions which are members of the Federal Deposit Insurance Corporation provided that such entities have the highest credit rating assigned by a nationally recognized rating service, and which may be readily sold in the secondary market at prices reflecting fair value.
- Short-term domestic corporate promissory notes (commercial paper) payable in United States dollars of the highest rating assigned by a nationally recognized rating service.

(d) ***Concentration Risk***

Concentration risk is the risk of loss attributed to the magnitude of the Corporation's investment in a single issuer. Concentration limits are not established in the bond indentures and governing agreements for pledged investments. The Corporation's policies set out maximum concentration limits for all investment contracts and for non-pledged funds managed by an external investment manager.

For investment contracts, the diversification standard is two-fold and applies to each bond indenture individually. First, investment agreement providers will be limited to providing investments to the lesser of $50,000,000 or 25% of total financial assets. Second, no investment agreement provider may hold more than 25% of the total capital reserve fund investments. These diversification standards are not applicable to direct purchase investments or to acquisition funds that will be reduced to a maximum of $50,000,000 in the first six months of the agreement.

Concentration to any one issuer, of non-pledged funds managed by an external investment manager, other than securities of the U.S. Government, its agencies or instrumentalities, is limited to 5% of the portfolio's market value at the time of purchase.

Pledged funds are invested according to the terms outlined in their respective indentures or governing agreements, which generally mandate the purchase of relatively short-term, high quality fixed income securities. In those instances, if any, where an indenture or governing agreement is less restrictive than the Corporation's investment policies for non-pledged funds, the investment will be made in accordance with the more restrictive investment policy.

(e) ***Credit Risk***

Credit risk is the risk of loss due to the failure of the security or backer. The Corporation mitigates its credit risk by limiting investments to those permitted in the investment policies, diversifying the investment portfolio, and pre-qualifying firms with which the Corporation administers its investment activities. Additionally, for funds managed by external investment managers, the weighted average quality rating of the portfolio must be maintained at AA- or better as determined by Standard and Poor's or the equivalent by another nationally recognized rating agency.

(f) ***Custodial Credit Risk***

The Corporation assumes levels of custodial credit risk for its deposits with financial institutions, bank investment agreements, and investments. For deposits, custodial credit risk is the risk that, in the event of a bank failure, the Corporation's deposits may not be returned. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Corporation will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The Corporation has not established a formal custodial credit risk policy for its investments.

(g) ***Interest Rate Risk***

Interest rate risk is the risk that the market value of investments will decline as a result of changes in general interest rates. For non-pledged investments, the Corporation mitigates interest rate risk by structuring its investment's maturities to meet cash requirements, thereby avoiding the need to sell securities in the open market prior to maturity. For investments held in trust, investment maturities are structured to meet cash requirements as outlined in its bond indentures and contractual and statutory agreements.

(h) ***Modified Duration***

Modified duration estimates the sensitivity of an investment to interest rate changes.

The Corporation's investment policies require that the duration of each externally managed fixed income portfolio be within plus or minus 20% of the duration of the Lehman Aggregate Bond Index.

(i) ***Pooled Investments***

The State's GeFONSI consists of investments in the State's Short-term and Intermediate-term Fixed Income Pools. Actual investing is performed by investment officers in the State's Department of Revenue, Treasury Division. A complete description of the investment policy for each pool is included in the Department of Revenue, Treasury Division, Policies and Procedures.

Interest Rate Risk
Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

Short-term Fixed Income Pool:
As a means of limiting its 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. Floating rate securities are limited to three years in maturity or three years expected average life. Treasury utilizes the actual maturity date for commercial paper and twelve month prepay speeds for other securities.

Intermediate-term Fixed Income Pool:
Through its investment policy, Treasury manages its exposure to fair value losses arising from increasing interest rates by limiting the effective duration of its Intermediate-term Fixed Income Pool to ± 20% of the Merrill Lynch 1-5 year Government Bond Index.

Credit Risk
Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations.

Treasury's investment policy has the following limitations with regard to credit risk:

With the exception of the sweep account, 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 A1 or equivalent. For securities with long-term credit ratings, they may be purchased if the median rating of Standard & Poor's, Moody's and Fitch is A3 or equivalent. Asset-backed and non-agency mortgage securities may only be purchased if rated by one of the rating agencies mentioned above if they are rated AAA. Unexpected daily cash surpluses that arise in this pool are invested overnight in the custodian's repurchase agreement sweep account. Treasury does not have a policy to limit credit risk associated with the sweep account.

Intermediate-term Fixed Income Pool investments are limited to securities with a long-term credit rating of at least BBB3 or equivalent and securities with a short-term credit rating of at least A1 or equivalent. For securities with long-term credit ratings, they may be purchased if the median rating of Standard & Poor's, Moody's and Fitch is BBB3 or equivalent. Asset-backed and non-agency mortgage securities may only be purchased if rated by one of the rating agencies mentioned above if they are rated AAA.

Concentration of Credit Risk
Treasury's policy with regard to concentration of credit risk is to prohibit the purchase of more than five percent of a pool's holdings in corporate bonds of any one company or affiliated group.

(j) ***Securities Lending***

Alaska Statute 37.10.071 authorizes the Commissioner of Revenue to lend assets, under an agreement and for a fee, against deposited collateral of equivalent fair value. The Commissioner entered into an agreement with State Street Corporation (the Bank) to lend securities in the Short-term and Intermediate-term Fixed Income Pools. The Bank, acting as the Commissioner's agent under the agreement, transfers securities to broker agents or other entities for collateral in the form of cash or securities and simultaneously agrees to return the collateral for the same securities in the future.

There is no limit to the amount that can be loaned and the Commissioner is able to sell securities on loan. Loans are collateralized at not less than 102 percent of their fair value. Loaned securities and collateral is marked to market daily and collateral is received or delivered the following day to maintain collateral levels.

Cash collateral is invested in a registered 2(a)-7 money market fund. Maturities of investments in the money market fund generally do not match the maturities of the loaned securities because the lending agreements are terminable at will. Collateral securities may be pledged or sold upon borrower default. Since the Commissioner does not have the ability to pledge or sell the collateral securities unless the borrower defaults, they are not recorded in the financial statements. Securities under loan, cash collateral and cash collateral payable are recorded in the financial statements at fair value. The Bank, the Corporation and the borrower receive a fee from earnings on invested collateral. The Bank and the Corporation share a fee paid by the borrower for loans not collateralized with cash.

There is limited credit risk associated with the lending transactions since the Commissioner is indemnified by the Bank against any loss resulting from counterparty failure or default on a loaned security or its related income distributions. The Bank further indemnifies the Board against loss due to borrower rebates in excess of earnings on cash collateral. Indemnifications are subject to limitation relating to war, civil unrest or revolution, or beyond the reasonable control of the Bank.

(4) **Restricted Loans Receivable**

A summary of restricted loans receivable, all of which are installment loans to individuals, at December 31 follows:

		2006	2005
Alaska Supplemental Loans	$	536,963,155	533,382,897
Teacher Education Loans		8,530,086	8,505,546
Family Education Loans		7,248,398	7,901,330
Federal Family Education Loans		72,257,248	53,134,814
	$	624,998,887	602,924,587

The loan portfolio summarized by loan status at December 31 follows:

		2006	2005
Enrollment	$	117,149,899	116,968,974
Grace		14,560,170	13,835,421
Repayment		412,317,822	403,438,673
Deferment		80,970,996	68,681,519
	$	624,998,887	602,924,587

Loans awarded and not disbursed at December 31, 2006 and 2005 total $31,258,199 and $29,841,570 respectively.

Included in loans receivable are $1,485,146 and $2,142,995 of loan warrants issued but not yet redeemed by the borrowers at December 31, 2006 and 2005, respectively. Redemption is contingent upon the borrowers meeting certain eligibility requirements.

Restricted loans receivables are pledged to the Corporation’s outstanding bonds.

(5) Allowance for Doubtful Loans

A summary of the activity in the allowance for doubtful loans at December 31 follows:

		2006	2005
Balance at beginning of period	$	107,283,104	103,356,058
Provision for loan losses		2,532,667	2,646,919
Net loans charged off		(812,277)	(282,354)
Balance at end of period	$	109,003,494	105,720,623

(6) Allowance for Forgiveness

As described in note 2, the Corporation disburses loans of which principal and interest become eligible for forgiveness under certain conditions.

A summary of the activity in the allowance for forgiveness at December 31 follows:

		2006	2005
Balance at beginning of period	$	2,348,036	2,644,986
Provision for forgiveness		180,290	172,183
Forgiveness granted		(203,944)	(114,800)
Balance at end of period	$	2,324,382	2,702,369

(7) Bonds Payable

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

	Original Amount	Amount outstanding 2006	Amount outstanding 2005
Outstanding under the 1988 Master Indenture:			
1996 Series A Student Loan Revenue Bonds serial bonds, fixed rates ranging from 5.75% to 6.35%, due 2006 to 2012	38,000,000	—	26,000,000
1997 Series A Student Loan Revenue Bonds serial bonds, fixed rates ranging from 5.25% to 5.75%, due 2007 to 2014	75,000,000	55,000,000	60,000,000
1998 Series A Student Loan Revenue Bonds serial bonds, fixed rates ranging from 4.75% to 5.3%, due 2007 to 2015	88,570,000	48,000,000	49,000,000
1999 Series A Student Loan Revenue Bonds serial bonds, fixed rates ranging from 4.80% to 5.45%, due 2007 to 2016	40,000,000	30,250,000	32,500,000
2000 Series A Student Loan Revenue Bonds serial bonds, fixed rates ranging from 5.45% to 6.05%, due 2007 to 2017	32,140,000	28,340,000	30,540,000
term bonds, 6.0%, due 2015 to 2016	7,860,000	7,860,000	7,860,000
2001 Series A Student Loan Revenue Bonds serial bonds, fixed rates ranging from 4.30% to 4.65%, due 2007 to 2010	33,345,000	16,875,000	20,650,000
	$ 314,915,000	186,325,000	226,550,000
Less bond discounts		—	—
Sub-total 1988 Master Indenture		$ 186,325,000	226,550,000

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

Notes to Unaudited Financial Statements

December 31, 2006 and 2005

	Original Amount	Amount outstanding 2006	Amount outstanding 2005
Outstanding under the 2002 Master Indenture:			
2002 Series A and B Education Loan Revenue Bonds			
auction variable rate bonds, due 2011 to 2037	$ 62,500,000	36,100,000	36,100,000
2003 Series A-1 and A-2 Education Loan Revenue Bonds			
auction variable rate bonds, due 2011 to 2038	47,000,000	47,000,000	47,000,000
2004 Series A-1, A-2, A-3 Education Loan Revenue Bonds			
auction variable rate bonds due 2044	93,100,000	93,100,000	93,100,000
serial bonds, fixed rate ranging from 5.0% to 5.25%, due 2011 to 2017	22,015,000	22,015,000	22,015,000
2005 Series A Educational Loan Revenue Bonds			
fixed rates ranging from 4.0% to 5.0%, due 2008 to 2018	58,250,000	58,250,000	58,250,000
2006 series A-1 and A-2 Educational Loan Revenue Bonds			
auction variable rate due 2040			
serial bonds, fixed rate of 5.0%, due 2009 to 2018	85,000,000	85,000,000	—
	$ 367,865,000	341,465,000	256,465,000
Plus bond premium		5,989,475	4,265,112
Sub-total 2002 Master Indenture		$ 347,454,475	260,730,112
Outstanding under the 2004 Indenture:			
2004 Series A Capital Project Revenue Bonds			
serial bonds, fixed rates ranging from 2.0% to 4.0%, due 2007 to 2016	$ 69,910,000	55,230,000	61,080,000
term bonds, 4.0%, due 2017 to 2018	5,230,000	5,230,000	5,230,000
	$ 75,140,000	60,460,000	66,310,000
Plus bond premium		1,904,785	2,070,261
Sub-total 2004 Indenture		$ 62,364,785	68,380,261
Outstanding under the 2005 Indenture:			
2005 Series A State Projects Revenue Bonds			
serial bonds, fixed rates ranging from 5% to 5.5%, due 2007 to 2014	$ 88,305,000	76,000,000	88,305,000
Plus bond premium		4,605,822	5,499,671
Sub-total 2005 Indenture		$ 80,605,822	93,804,671
Total Bonds Payable	$ 846,225,000	664,250,000	637,630,000
Plus bond premium		12,500,082	11,835,044
		$ 676,750,082	649,465,044

(b) The minimum payments and sinking fund installments for the five years subsequent to December 31, 2006 and thereafter are as follows:

Period ending Dec 31		Principal	Interest	Total
2007	$	35,800,000	30,331,487	66,131,487
2008		37,410,000	28,706,022	66,116,022
2009		41,895,000	26,891,229	68,786,229
2010		44,805,000	24,796,187	69,601,187
2011		61,405,000	22,285,370	83,690,370
2012-2016		236,825,000	69,243,106	306,068,106
2017-2021		32,210,000	40,823,138	73,033,138
2022-2045		173,900,000	129,942,850	303,842,850
	$	664,250,000	373,019,389	1,037,269,389

(c) The 1988 and 2002 Master Indenture Bonds are private activity bonds. The 2004 and 2005 Indenture Bonds are not private activity bonds. All of the bonds pay interest semiannually. The bonds are secured by education loans and other assets of the Corporation and are not obligations of the State.

All of the bonds are subject to certain 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.

All of the bonds outstanding under the 1988 Master Indenture are insured by Ambac Assurance Corporation. The 2004 Capital Project Revenue Bonds outstanding under the 2004 Indenture are insured by MBIA Insurance Corporation. The 2005 State Projects Revenue Bonds outstanding under the 2005 Indenture are insured by Financial Security Assurance, Inc.

(8) Arbitrage Rebate Payable

In connection with the Corporation’s tax-exempt bond issues, the Corporation is subject to rebatable arbitrage when bond proceeds are invested in investments and education loans. Interest income from investments and education loans is limited by the U.S. Treasury regulations. The amount accrued for arbitrage rebate liability at December 31, 2006 and 2005 represents an estimated amount of arbitrage rebate due to the federal government for excess earnings on the bond proceeds.

(9) Student Loan Interest and Special Allowance on Federally Guaranteed Loans

The U.S. Department of Education (Department) makes quarterly interest subsidy payments on behalf of qualified borrowers until the borrower is required under provisions of the Higher Education Act to begin repayment. Repayment on Stafford education loans normally begins within six months after borrowers complete their course of study, leave school, or cease to carry at least one-half the normal full-time academic load as determined by the educational institution. Repayment of PLUS and PLUS-Graduate loans normally begins within sixty days from the date of loan disbursement unless a deferment of payments has been granted. In these cases, full repayment of principal and interest would resume at the expiration of the deferment. Interest accrues during this deferment period.

The Department provides a special allowance payment (SAP) to lenders participating in the Federal Family Education Loan Programs (FFELP). The SAP is based on a rate that is established quarterly. For loans first disbursed after June 30, 1999 and financed with obligations issued after October 1, 1993, the standard rate is based on the average rate established in the auction for the three-month financial commercial paper, plus a predetermined factor, less the interest rate on the loan.

Loans financed or purchased with proceeds of tax-exempt obligations issued before October 1, 1993 are eligible for one-half of the special allowance rate, subject to a minimum rate of 9.5%. Loans financed or purchased with proceeds of tax-exempt obligations issued after October 1, 1993 are not subject to the 9.5% minimum rate.

On January 24, 2007, the Department released a "Dear Colleague Letter" (DCL) to each lender stating that it suspended SAP at the 9.5% minimum rate on FFELP loans until an audit performed by an independent accounting firm, pursuant to the Department's guidelines, confirms that those loans are eligible for the 9.5% minimum rate and the lender certifies quarterly that internal controls are sufficient to ensure the accuracy of each bill. The Department stated it will pay SAP at the standard rate on all loans until these requirements are met and the results are accepted by the Department. The Department has not yet issued specific direction to lenders regarding the steps necessary to satisfy the requirements. As a result, the Corporation, effective October 1, 2006, began claiming and receiving SAP at the standard rate on FFELP loans.

(10) Retirement Plan

(a) *Plan Description*

The Commission and its employees participate in the State of Alaska Public Employees' Retirement System (PERS), as a combined defined benefit and defined contribution, agent multiple-employer public employee retirement system which was established and is administered by the State to provide pension, post-employment healthcare, and death and disability benefits to eligible employees. All full-time employees are required to participate in PERS. Benefit and contribution provisions are established by State law and may be amended only by the Legislature.

Employees hired after June 30, 2006 participate in the defined contribution plan. Employees are eligible at retirement to receive 25% of the employer contributions after 2 years of service, 50% after 3 years, 75% after 4 years and 100% after five years.

Employees hired prior to July 1, 2006 participate in the defined benefit plan. For employees hired prior to July 1, 1986, with five or more years of credited service, are entitled to annual pension benefits beginning at normal retirement age fifty-five or early retirement age fifty. For employees hired after June 30, 1986 but before July 1, 2006, the normal retirement age is sixty and the early retirement age is fifty-five. The normal annual pension benefit for the first ten years of service is equal to 2% per year of the member's highest three-year average yearly compensation, 2.25% per year for the second ten years of service, and 2.5% per year thereafter. All service earned prior to July 1, 1986 is calculated using the 2% multiplier. Employees with thirty or more years of credited service may retire at any age and receive a normal benefit.

Major medical benefits are provided without cost to all retirees first hired before July 1, 1986. Members with five or more years of credited service first hired after June 30, 1986, but before July 1, 1996, may elect major medical benefits. Members first hired after June 30, 1996, but before July 1, 2006, must have at least ten years of credited service to be eligible to elect major medical benefits. Members hired after June 30, 2006 must have at least ten years of credited service, must retire directly from State service, and must be a Medicare eligible age to be eligible to elect major medical benefits.

Each fiscal year, PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the State of Alaska, Department of Administration, Division of Retirement and Benefits, P.O. Box 110203, Juneau, Alaska 99811-0203 or by calling (907) 465-4460.

(b) ***Fund Policy and Annual Pension Cost***

Employees are required, by State statute, to contribute 6.75% of their gross wage to the plan. The funding policy for PERS provides for periodic employer contributions which, prior to fiscal year 2005 fully funded the annual pension cost. The Corporation has recognized a net pension obligation (NPO) of $754,333, which is the difference between the annual required contribution and the contribution actually paid during the time in which the funding policy resulted in contributions less than those annually required. Covered payroll for the period ended December 31, 2006 is $2,373,987 constituting substantially the Commission's entire payroll.

The Commission's annual pension cost for the current year and related information is as follows:

Contribution rates:		
Employee		6.75%
Employer		22.65%
Annual pension cost to date	$	650,866
Contributions made	$	537,708
Actuarial valuation date		June 30, 2005
Actuarial cost method		Projected unit credit
Amortization method		Level percentage of pay
Amortization period		25-year fixed
Asset valuation method		5-year smoothed market
Actuarial assumptions:		
Inflation rate		3.50% per year
Investment return		8.25% per year, compounded annually, net of expense.
Projected salary increase:		
Inflation		3.50%
Productivity and merit		2.00%
Health cost trend:		
Medical		9.00%
Prescription		13.00%

(11) Commitments and Contingencies

(a) *Operations*

The Commission included approximately $11,300,000 in its budget for fiscal year 2007 as reimbursement from the Corporation for administrative and capital expenses incurred on the Corporation's behalf. Amounts paid by the Corporation will be subject to revision based upon actual expenses incurred by the Commission.

(b) *Payment to the State of Alaska*

During fiscal year 2000 the Legislature passed a bill that allows the Corporation to pay the State a return of contributed capital or dividend annually based on net income. If the Corporation's Board of Directors 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 $2,000,000 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 October 2, 2006 the Corporation's Board of Directors approved a $1,200,000 Return of Capital payment to the State which will be paid during the fiscal year 2008.

During fiscal year 2004 the Legislature passed a bill allowing the Corporation an additional means to pay the State a return of contributed capital. The Corporation has issued $163,445,000 of capital and state project bonds, the proceeds of which are for use in various financial State capital projects.

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

The Alaska Permanent Fund (Permanent Fund) is a fund held and managed by the State and was established in the Alaska State Constitution in 1976. 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 (PFD) annually to individuals who apply and meet certain residency requirements, provided that sufficient funds are available for payment. The annual PFD paid to each eligible resident for the years 2006 and 2005 was $1,107 and $846 respectively. There can be no assurance that payments will continue. PFD payments could be eliminated or reduced by an amendment to the Alaska Statutes. The Commission may seize a borrower's Permanent Fund Dividend (PFD) payment, if any, to satisfy the balance of a defaulted loan pursuant to Alaska Statutes 14.43.145 and 43.23.067. To do so, the Commission issues certified claim letters to all borrowers of defaulted loans applying for PFDs, notifying them of the Commission's claim. The Commission has seizure 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 seizures collected by the Commission were approximately $3,900,000 and $3,000,000 for the years ended December 31, 2006 and 2005, respectively.

The Legislature and the Governor have, from time to time, considered various alternative measures including reducing or restricting the size of the PFD. The Corporation cannot predict whether any such measure will be enacted or the impact any such measure would have on loan collections through PFD seizures.

(d) ***General***

The AlaskAdvantage® 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 program cannot be determined.

The Corporation is subject to interest rate risk relating to its variable rate bonds and the loans funded with bond proceeds. The bonds are subject to an interest rate cap of 14% while the loans are subject to an interest rate cap of 8.25% to 9.5% depending on the loan type. The Corporation has various strategies available to manage the risk that the bond rate may rise above the loan rate cap.