(a Component Unit of the State of Alaska)

Management's Discussion and Analysis and Financial Statements

June 30, 2008 and 2007

Together with Independent Auditors' Report

(a Component Unit of the State of Alaska)

June 30, 2008 and 2007

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#### MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the Corporation's history, financial position at and financial performance for the fiscal years ended June 30, 2008 and 2007 is being presented to assist readers in understanding the Corporation's structure, activities and significant financial issues. Fiscal year 2006 information is shown for comparative purposes. This information should be read in conjunction with the Independent Auditors' Report, the audited financial statements and accompanying notes, all of which follow this discussion and analysis.

### **History**

The State of Alaska (State) Legislature established its first loan program for undergraduate students studying at an accredited institution in 1968. The program was funded directly by the State and administered by the State's Department of Education (currently the Department of Education and Early Development). This activity was considered a State primary government function and financial reporting was included in the governmental fund section of the State's comprehensive annual financial report.

The Alaska Commission on Postsecondary Education (Commission) was created in 1974 by an act of the State Legislature. The Commission was created to be the coordinating agency for postsecondary education, to administer student aid programs, to coordinate and plan for postsecondary education in the State, as well as to authorize and regulate postsecondary education institutions in Alaska. The education loan programs administered by the Commission were funded by the State. The Commission resides within the Department of Education and Early Development but is not subject to the direction of the Commissioner of Education and Early Development or the State Board of Education. The Commission's activity is considered a State primary government function and financial activity is included in the governmental fund section of the State's comprehensive annual financial report.

The Alaska Student Loan Corporation (ASLC or Corporation) was created in 1987 by an act of the State Legislature. The Corporation is a public corporation and governmental instrumentality within the Department of Education and Early Development with a legal existence independent of and separate from the State. Therefore, the Corporation is not a part of the State's primary government. By statute, the Corporation has one employee, the Executive Officer. Statutes state that the employees of the Commission serve as staff for the Corporation.

The Corporation was created to raise alternative financing for education loans through the issuance of tax-exempt bonds. The Corporation's goal 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. In 1987, the Corporation entered into an agreement with the Commission for on-going administrative services related to the loan programs. In April of 1988, by an act of the State Legislature, the assets, liabilities, and equities of the State's previous loan programs were transferred to the Corporation effective December 1987. The loan programs are currently funded through the issuance of tax-exempt revenue bonds and recycling of loan payments. The financial activity related to the Corporation is reported as a discretely presented component unit in the State's comprehensive annual financial report.

The Corporation cannot be terminated as long as it has bonds or other obligations outstanding. Upon termination, the Corporation's rights and property pass to the State.

ASLC and the Commission in partnership finance, award and service education loans. The Commission administers ASLC's programs under the umbrella title, AlaskAdvantage® Programs (Program). The Corporation funds the Commission's expenditures that relate to Program administration as permitted by ASLC statutes and bond indentures.

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#### MANAGEMENT'S DISCUSSION AND ANALYSIS

The Program includes various Federal Family Education Loan Program (FFELP) loans (Federal loans) governed by the Higher Education Act (HEA) and State alternative education loans (State Alternative loans). Loans awarded under the Program include fixed and variable rate loans.

To accommodate FFELP participation, ASLC has obtained "eligible lender" status under the HEA and maintains various agreements with Northwest Education Loan Association to serve as "eligible guarantor". Loans authorized under the HEA and funded by the Corporation include Stafford (subsidized and unsubsidized), PLUS, and federal consolidation (subsidized and unsubsidized) loans. The HEA provides for federal guarantee of eligible loans, interest subsidy payment to eligible lenders with respect to subsidized loans, and special allowance payments to holders of eligible loans. For a loan loss to be eligible for reimbursement by a guarantor the loan must be serviced according to standards set by federal statutes and regulations.

Federal loans awarded after June 30, 2006 are fixed rate loans based on a rate equivalent to the 91-day T-bill plus a percentage set by the U. S. Government. Stafford loans are subject to a maximum rate of 8.25% and PLUS loans are subject to a maximum rate of 9%. Federal loans awarded between July 1, 2002, and June 30, 2006 were variable rate loans with the interest rate reset annually by the U.S. Government each July 1. Federal consolidation loans bear interest at a rate equal to the weighted average of the interest rates of the loans consolidated, rounded to the nearest higher one-eighth of 1%, limited to a maximum rate of 8.25%.

For State Alternative loans awarded after June 30, 2006 the interest rate is fixed and based on the Municipal Market Data AAA Insured Alternative Minimum Tax Revenue Bond Yield Curve plus thirty basis points and the cost of administrating the loan programs. State Alternative loans awarded between July 1, 2002, and June 30, 2006 were variable rate loans with the interest rate reset annually on or after June 1 and effective for the twelve month period beginning July 1. Per State statute, the variable interest rate is based on the bond equivalent rate of the 91-day T-bill auctioned at the final auction held before June 1 plus up to 2.8% for administration costs, capped at 8.25%. The Corporation also offers a fixed rate Alternative consolidation loan to qualifying borrowers. The Alternative consolidation loan interest rate is set annually and is based on the 10-year Treasury note auctioned at the final auction held before May 31 of the year, plus up to 2% for administrative costs.

The Program was structured to provide eligible borrowers with low cost financial aid options. It encourages students to take advantage of federal aid resources to maximize their grant and lowest cost loan options prior to tapping into alternative loan sources.

The Corporation continues to have the highest volume of federal loan originations in the state compared to other federal education loan providers in Alaska. The Corporation enjoyed a 44% share of the total 2008 volume of federal loan originations in the State. This represents a 9% increase in market share over 2007. The Corporation expects this trend to continue in fiscal year 2009.

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#### MANAGEMENT'S DISCUSSION AND ANALYSIS

#### Program and Financial Highlights

• Federal loans are growing as a percentage of the total loan portfolio as follows:

Fiscal Year and	Net loans as a percentage of	Gross awards as a percentage of
Loan Program	total loans	total awards
2008		
State Alternative	80	54
Federal	20	46
2007		
State Alternative	84	61
Federal	16	39
2006		
State Alternative	88	65
Federal	12	35

- The State Alternative loan program has not changed significantly; however, the following changes to the Federal loan program occurred in fiscal year 2008:
  - o The Higher Education Opportunity Act was signed into law on August 14, 2008. Following are the significant changes this Act will bring to the Corporation:
    - Creation of lender "code of conduct" requirements applicable to the Corporation's Federal and State Alternative loan programs, including:
      - displaying the Corporation's name in marketing material;
      - reporting reasonable expenses reimbursed to persons with responsibility for financial aid or of any agent of an institution or affiliated organization, to the Secretary of the U.S. Department of Education (Secretary), and
      - annually certifying, to the Secretary, the Corporation's compliance with the Act
        and annually providing information on each type of education loan the
        Corporation plans to offer for the next award year if participating in preferred
        lender arrangements.
    - Authority to make federal guaranteed, federal subsidized and federal consolidated loans was extended to September 14, 2014 to correspond with other federal loan programs;
    - Requires additional borrower disclosures and notices for both Federal loans and State Alternative loans;
    - Expands information on loans reported to consumer reporting agencies;
    - Revises the prohibited inducement provisions to prohibit:
      - offering schools or school officials, payments for referrals to secure loan applications;
      - unsolicited mailings of loan applications by electronic means;

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#### MANAGEMENT'S DISCUSSION AND ANALYSIS

- consulting payments to financial aid office employees who have responsibilities for financial aid;
- compensating an employee to participate on an advisory council;
- performance of, or payment to a person to perform, any function that a school is required to perform and
- paying a student to secure applications.
- o The College Cost Reduction and Access Act (CCRAA) was signed into law on September 27, 2007. Following are the significant changes this Act brought to the Corporation's Federal loan program:
  - Reduction in the interest rate on subsidized Stafford undergraduate loans (rate was 6.80% in fiscal year 2008) as follows:

Originations first	
made July 1	Interest rate
2008	6.00
2009	5.60
2010	4.50
2011	3.40

• Reduction of Special Allowance Payments (SAP) for eligible non-for-profit lenders, as follows:

SAP, as an annual rate, on loans

		first originated		
		prior to	on or after	
		October 1,	October 1,	
Loan type	Status	2007	2007	
Stafford	not in repayment	1.74	1.34	
Stafford	repayment	2.34	1.94	
PLUS	repayment	2.64	1.94	
Consolidated	repayment	2.64	2.24	

• Reduction of lender insurance from 97% to 95% on loans first originated on or after October 1, 2012.

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#### MANAGEMENT'S DISCUSSION AND ANALYSIS

The Ensuring Continued Access to Student Loans Act of 2008 was signed into law May 7, 2008. The significant change this Act brought to the Corporation's Federal loan program was a \$2,000 increase in loan limits on undergraduate unsubsidized Stafford loans first originated on or after July 1, 2008. Aggregate loan limits were increased to accommodate this and other loan limit increases. This increase represents:

Student's year	Percent increase
	_
first	57
second	44
third and later	36

The immediate impact of these changes will be a significant shift in the loan portfolio composition with Federal loans growing at a much faster pace than in the past. For the first two months of fiscal year 2009 the Corporation experienced the following:

	Percent	Percent
	increase	by
Loan awards	(decrease)	_program
Total	15	
State Alternative	(3)	48
Federal	38	52

Impacts not as immediate will be the reduction in the allowance for doubtful accounts as the loan portfolio guaranteed by the federal government grows. Guaranteed loans expose the Corporation to a maximum of 2 - 5% of the total loss on a non-performing loan, depending on disbursement date, compared to 100% of the loss on a non-guaranteed loan. The Corporation will see a reduction of interest earnings on federal loans due to the reduction in SAP as well as the reduction in federal loan interest rates. The Corporation uses revenue as a result of SAP to supplement its borrower benefit program. The Corporation will tailor its borrower benefit program to the extent necessary to ensure the Corporation's financial strength is maintained.

As a result of changes in the Federal loan program, the Corporation suspended its Federal Consolidated Loan program effective May 1, 2008 and reduced borrower benefits in fiscal year 2009.

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#### MANAGEMENT'S DISCUSSION AND ANALYSIS

Late in 2007, growing investor concern about the quality of subprime mortgage assets funded through auction rate securities (ARS) resulted in failed auctions. By early 2008, buyer confidence in the ARS market began to spread to other segments of the market, including student-loan backed securities. Because of investor's lack of confidence in auction securities and their desire for liquidity, the auction market itself collapsed in mid-February 2008. Experts generally agree that it is unlikely the ARS market will recover. At regular intervals, interest rates continue to be reset on the Corporation's ARS at the maximum rate allowed in the various supplemental indentures. The maximum rates for all of the ARS that the Corporation has outstanding remain tied to market indices and do not contain penalty features. For this reason, the Corporation, and more specifically the 2002 Trust, is not being significantly impacted by failed auctions. The highest rate paid by the Corporation was 6.00% paid on the 2006 Series bonds in January, 2008. The interest rates range from 2.69% to 4.10% in August, 2008 with a weighted average rate of 3.05%. Despite the failure of the auction rate bond market, the credit worthiness of the Corporation's pledged loan portfolio held in the 2002 Trust remains strong. With the exception of one subordinate series of ARS which remains rated A, all senior series ARS remain rated AAA by both Fitch and Standard and Poor's.

The demand for liquidity and/or credit enhancement to restructure auction rate securities has escalated beyond the supply currently available, resulting in a very competitive market. The Corporation is working diligently to secure the credit enhancement needed to restructure its ARS. The Corporation cannot issue new bonds under the 2002 Trust until the ARS have been refunded; therefore, work is underway to develop options that would allow issuance of bonds under a new financing structure. The new structure and bonds would be used by the Corporation to continue the financing of both Alternative and Federal loan programs.

On February 29, 2008 the Corporation legally defeased the bonds issued under the 1988 Master Indenture (Trust). The Trust had very restrictive covenants that limited access to excess funds held in, or loans pledged to, the Trust. The Corporation was in a position to defease the bonds resulting in the release of \$170.1 million in pledged assets (loans and accrued interest). The Corporation anticipates using these loans to secure the various transactions needed to continue financing education loans and refund the outstanding ARS.

## Overview of the Financial Statements

The Corporation's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting in conformity with accounting principles generally accepted in the United States. Under the accrual method of accounting, the same method used by private sector businesses, revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred. The three basic financial statements of the Corporation are as follows:

<u>Balance Sheets</u> - This statement presents information regarding the Corporation's assets, liabilities and net assets at a point in time. Net assets represent the total amount of assets less the total amount of liabilities. This statement reflects the Corporation's financial health at the end of the year. Over time, changes in net assets may serve as a useful indicator of whether the financial position of the Corporation is improving or deteriorating.

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#### MANAGEMENT'S DISCUSSION AND ANALYSIS

The Balance Sheets classify assets and liabilities as current or noncurrent. Current assets are those available to pay current liabilities or cover the cost of operations in the next fiscal year. Current liabilities are those expected to be satisfied in the next fiscal year. Assets and net assets are further classified as either restricted or unrestricted. The restricted classification is used when constraints are imposed by bond indentures or enabling legislation. Restricted assets are classified as noncurrent unless the restriction is short-lived (less than a year).

<u>Statement of Revenues, Expenses, and Changes in Net Assets</u> – This statement measures the activities of the Corporation's operations over the past year and presents the operating income and change in net assets. It also reflects the results of nonoperating activities and capital returned to the State. This statement can be used to determine whether the Corporation has successfully recovered all of its costs through education loan and investment income.

<u>Statement of Cash Flows</u> – This statement provides information about the sources and uses of the Corporation's cash and the change in the cash balance during the fiscal year. This statement presents cash receipts, cash payments and net changes resulting from operations and capital activities.

In addition to the basic financial statements, the Notes to Financial Statements provide information that is essential to a full understanding of the data provided in the basic financial statements.

#### Financial Analysis

- The Corporation's total assets at June 30, 2008, 2007 and 2006 were \$0.8, \$1.1 and \$1.0 billion, respectively. The change in assets from fiscal year 2007 to 2008 was a decrease of \$270 million or 27% and the change between fiscal year 2006 and 2007 was an increase of \$31 million or 3%.
- The Corporation's net education loans receivable was \$557, \$524 and \$504 million, at June 30, 2008, 2007 and 2006, respectively. These balances represent an increase in fiscal year 2008 of \$33 million or 6% and an increase in fiscal year 2007 of \$20 million or 4%.
- The Corporation's long-term debt at June 30, 2008, 2007 and 2006 was \$566, \$779 and \$727 million, respectively. The change in long-term debt from fiscal year 2007 to 2008 was a decrease of \$213 million or 27% and between fiscal year 2006 and 2007 was an increase of \$52 million or 7%.
- The assets of the Corporation exceed its liabilities (reported as net assets) at the close of fiscal year 2008, 2007 and 2006 by \$177, \$181 and \$170 million, respectively. These balances represent a decrease in fiscal year 2008 of \$4 million or 2% and an increase in fiscal year 2007 of \$11 million or 6%.
- The Corporation's operating revenue was \$60, \$61 and \$49 million at June 30, 2008, 2007 and 2006, respectively. These balances represent a decrease in fiscal year 2008 of \$1 million or 2% and an increase in 2007 of \$12 million or 24%.
- The Corporation's interest expense was \$32, \$30 and \$27 million during fiscal years 2008, 2007 and 2006, respectively. These balances represent an increase in fiscal year 2008 of \$2 million or 7% and an increase in 2007 of \$3 million or 11%.
- The Corporation's other operating expense was \$22, \$18 and \$19 million during fiscal years 2008, 2007 and 2006. These balances represent an increase in fiscal year 2008 of \$4 million or 22% and a decrease in fiscal year 2007 of \$1 million or 6%.

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#### MANAGEMENT'S DISCUSSION AND ANALYSIS

The following condensed financial information reflects changes during the fiscal year:

Balance Sheets (in thousands)

	Bulunet Shee	to (in thousand			
	2008	2007	\$ Change	% Change	2006
Assets:					
Current	\$ 69,720	84,705	(14,985)	(18)	71,694
Noncurrent	711,378	965,989	(254,611)	(26)	947,861
Total assets	781,098	1,050,694	(269,596)	(26)	1,019,555
Liabilities:					
Current	54,554	166,334	(111,780)	(67)	179,378
Noncurrent	549,555	703,189	(153,634)	(22)	669,773
Total liabilities	604,109	869,523	(265,414)	(31)	849,151
Net assets:					
Unrestricted	139,437	33,346	106,091	318	29,262
Restricted	37,552	147,825	(110,273)	(75)	141,142
Total net assets	176,989	181,171	(4,182)	(2)	170,404
Total liabilities and net assets	\$ 781,098	1,050,694	(269,596)	(26)	1,019,555

The fiscal year 2008 decrease in current assets was due to the defeasance of the bonds held in the 1988 Master Indenture (Trust). Because of the defeasance, the Corporation did not have current restricted investments set aside for fiscal year 2009 debt service payments on the 1988 Trust bonds. Current restricted investments at June 30, 2007 contained \$23 million for fiscal year 2008 debt service payments on the 1988 Trust bonds. The defeasance also caused an increase in current assets as the principal (\$11.3 million) and accrued interest (\$1.4 million) payments anticipated on non-pledged loans in fiscal year 2009 was classified as current unrestricted assets. The decrease in current assets is also attributed to the Department of Revenue, Treasury Division's suspension of the securities lending program resulting in the elimination of securities lending collateral held at year end. The securities lending collateral held at June 30, 2007 was \$6.1 million. The increase in current assets in 2007 was due to an increase in cash collateral held for securities lending activity of \$2 million, a \$2 million increase in the withdrawal of restricted investments for operations and a net increase in short-lived restricted investments of \$2 million.

The decrease in noncurrent assets in 2008 was due to the fact that the Corporation did not issue bonds in 2008. Bonds are typically issued in June for the coming year's loan awards. The defeasance of the 1988 Trust resulted in a \$125 million cash outlay in 2008, also causing noncurrent restricted assets to decline. The decrease in 2008 was offset by an increase in loans receivable as a result of loan awards being up 6% from 2007. The increase in noncurrent assets in 2007 was due to a 1% increase in loan awards, an increase in investments due to closing a larger bond issue at the end of the year and a favorable investment market compared to the market in 2006.

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#### MANAGEMENT'S DISCUSSION AND ANALYSIS

The decrease in current liabilities in 2008 is due to the defeasance of the bonds issued under the 1988 Trust. The 1988 Trust bonds and interest payable classified as current at June 30, 2007 was \$71.8 million. In addition, the return of capital payable is being reduced as funded projects are underway and in most cases, nearing completion. Current liabilities in 2007 changed little from the balance in 2006 because the decrease in the return of capital payable offset the increase in the current portion of bonds payable.

The decrease in noncurrent liabilities in 2008 is also due to the defeasance of the bonds issued under the 1988 Trust. The 1988 Trust bonds payable classified as noncurrent at June 30, 2007 was \$119.5 million. The fact that the Corporation did not issue bonds in June also added to the decrease in noncurrent liabilities. Similar to the decrease in current liabilities, the noncurrent return of capital payable was reduced due to State agency spending on projects funded with the Corporation's bond proceeds. The increase in noncurrent liabilities in 2007 was due to the increase in net bonds payable, which is a result of an increase in projected loan originations. The increase was also due to an increase in the arbitrage rebate payable which is a result of the increase in investment earnings.

Statements of Revenue, Expense and Changes in Net Assets (in thousands)

	-	2008	2007	\$ Change	% Change	2006
Operating revenue	\$	60,001	61,024	(1,023)	(2)	49,346
Operating expense		(49,882)	(42,854)	(7,028)	16	(40,114)
Non-operating expense	_	(5,162)	(6,203)	1,041	(17)	(5,796)
Income before return of capital	_	4,957	11,967	(7,010)	(59)	3,436
Return of capital	_	(9,139)	(1,200)	(7,939)	662	(1,900)
Change in net assets		(4,182)	10,767	(14,949)	(139)	1,536
Net assets - beginning	_	181,171	170,404	10,767	6	168,868
Net assets - ending	\$	176,989	181,171	(4,182)	(2)	170,404

Operating revenue, which represents interest on education loans and earnings on investments, declined slightly in 2008 due to the reduction in invested assets. The quarterly average of invested assets declined \$100 million in fiscal year 2008. Operating revenue in 2007 increased because market rates increased causing an increase in the rate charged on variable rate education loans as well as income earned on invested assets. In addition, the balance of loans outstanding increased in both fiscal years resulting in an increase in education loan interest. The Corporation's return on average quarterly invested assets was 5.78% in fiscal year 2008, 4.78% in fiscal year 2007 and 3.00% in fiscal year 2006.

Operating expense increased in 2008 due to the defeasance of the 1988 Trust bonds and the fact that the 2007 Series bonds were outstanding for the entire year. The defeasance resulted in the recognition of \$2.5 million in interest expense over what would have been recognized had the bonds not been defeased. In addition, defeasance resulted in the amortization of the remaining bond issue costs related to the 1988 Trust bonds of \$1.2 million. Administration expense was up due to a 5.5% increase in the pay scale for Commission staff as well as added travel and contractual costs associated with key projects underway. Operating expense increased in 2007 due to an increase in interest expense as a result of more bonds outstanding in 2007 compared to 2006.

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#### MANAGEMENT'S DISCUSSION AND ANALYSIS

Nonoperating expense has declined \$1 million in 2008 due to the reduction of interest on debt issued to fund State capital projects. The increase in nonoperating expense in 2007 was due to the increase in arbitrage rebate payable to the federal government in excess of the interest reduction on debt issued to fund State capital projects.

Return of capital represents payments to the State of Alaska as allowed by statute. The increase in 2008 is due to the State Legislature appropriating \$4.5 million in earnings on the Corporation's capital bond proceeds to State agencies for capital projects. The increase is also due to the Corporation's declaration of a \$4.1 million return of capital or dividend to the State in 2008. The dividend to be paid is calculated using the Corporation's income, before return of capital, for the fiscal year ended two years before the end of the fiscal year in which the payment is to be made. The increase in fiscal year 2008 was due to the increase in income between 2006 and 2007. The decrease in fiscal year 2007 was due to the decrease in income between fiscal year 2005 and 2006.

#### **Borrower Benefits**

The Board has approved various loan benefits that provide incentives and rewards to borrowers who participate in the Program. The benefit package, intended to lower the cost of interest and fees, is subject to annual approval by the Board and changes are subject to a confirmation from rating agencies rating the Corporation's outstanding bonds. The rating confirmation must indicate that the change to the borrower benefit package will not have a negative impact on ratings previously issued. Borrower benefits awarded in fiscal years 2008, 2007 and 2006 were \$4.4, \$3.6, and \$3.5 million respectively.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following tables reflect the benefits available to eligible borrowers during fiscal years 2009, 2008, 2007 and 2006. With the exception of the direct payment and general benefit on variable interest rate Stafford loans, which are awarded via a rate reduction, interest benefits are cost reductions applied as quarterly or annual account credits.

Interest	Benefits	% Reduction					
Benefit	Applied	Alternative	Unsubsidized Stafford	Subsidized Stafford	PLUS	Federal Consolidation	Alternative Consolidation
Fiscal Year 2009 and	2008:						
General	In-school	-	0.80	-	-	-	-
General	Repay	-	0.50	0.50	1.00	1.00	-
Fiscal Year 2007:							
General	In-school	-	0.80	-	-	-	-
General	Repay	-	0.50	0.50	1.00	-	-
Fiscal Year 2006:							
General	In-school	-	1.20	-	-	-	-
General	Repay	-	0.50	0.50	-	-	-
<u>Fiscal Year 2009:</u>							
Alaska Presence	Attend in Alaska	0.50	1.00	-	-	-	-
Alaska Presence	Reside in Alaska	0.50	1.00	1.00	1.00	1.00	0.50
Fiscal Years 2008, 20	007 and 2006:						
Alaska Presence	Attend in Alaska	1.00	1.00	_	-	-	-
Alaska Presence	Reside in Alaska	1.00	1.00	1.00	1.00	1.00	1.00
Fiscal Years 2009, 20	008, 2007 and 2006:						
Timely Payment	After 1st 48 Pmts	2.00	2.00	2.00	1.00	1.00	1.00
Fiscal Years 2009, 20	008, 2007 and 2006:						
Direct Payment	Electronic	0.25	0.25	0.25	0.25	0.25	0.25

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In addition to the benefit package described above, a Borrower Cost Reduction (BCR) exists on qualifying higher interest rate State Alternative loans issued prior to July 1, 2002. Loans receiving the BCR have interest rates higher than 8.3% and receive an annual account credit equal to the difference between the rate on the loan and 8.3% times the principal balance outstanding at the time the BCR is processed.

Fee and Other	r Cost Benefits			% of Disb	ursement		
Fee/Cost	Applied	Alternative	Unsubsidized Stafford	Subsidized Stafford	PLUS	Federal Consolidation	Alternative Consolidation
Fiscal Year 2009 (	100% of fee charged):						
Origination Fee	When Originated	-	1.00	1.00	-	-	-
Fiscal Year 2008 (	100% of fee charged):						
Origination Fee	When Originated	-	1.50	1.50	-	-	-
Fiscal Year 2007 (	100% of fee charged):						
Origination Fee	When Originated	-	2.00	2.00	-	-	-
Fiscal Year 2006 (	66.67% of fee charged):	• <del>-</del>					
Origination Fee	When Originated	-	2.00	2.00	-	-	-
Fiscal Year 2009,	2008 and 2007* (100%)	of fee char	<u>ged):</u>				
Default Fee	When Originated	-	1.00	1.00	1.00	-	-
Fiscal Year 2008 a	and 2007*:						
Cost Refund	When Originated	-	-	-	3.00	-	-

<sup>\*</sup>fee not charged or benefit not offered in fiscal year 2006, Cost Refund eliminated in fiscal year 2009.

## **Contacting the Corporation**

This financial report is designed to provide borrowers, investors, creditors and other readers with a general overview of the Corporation's finances. If you have questions about this report or need additional financial information, contact the Corporation at (907) 465-6740.

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#### INDEPENDENT AUDITORS' REPORT

The Board of Directors Alaska Student Loan Corporation Juneau, Alaska

We have audited the accompanying basic financial statements of the Alaska Student Loan Corporation (Corporation), a component unit of the State of Alaska, as of and for the years ended June 30, 2008, and 2007, as listed in the table of contents. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects the financial position of the Corporation as of June 30, 2008, and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2008, on our consideration of the Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audits.

Management's Discussion and Analysis on pages 1 through 12, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

September 26, 2008

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## **Balance Sheets**

## June 30, 2008 and 2007

(in thousands)

Assets	 2008	2007
Current assets:		
Cash (note 3)	\$ 1,612	451
Other	153	33
Arbitrage rebate receivable	412	-
Interest receivable - investments	83	156
Interest receivable - loans	1,411	-
Securities lending collateral (note 3)	-	6,121
Investments (note 3)	34,226	34,886
Loans receivable (note 4)	11,296	-
Restricted investments (note 3)	20,527	43,058
Total current assets	69,720	84,705
Noncurrent assets:		
Interest receivable - loans, net (note 6)	2,219	-
Loans receivable, net (note 4 and 5)	93,671	-
Restricted:		
Cash (note 3)	2,279	1,807
Other	286	-
Due from State of Alaska	29	-
Due from U.S. Department of Education	85	536
Interest receivable - investments	355	2,888
Interest receivable - loans, net (note 6)	17,689	19,636
Investments (note 3)	138,975	410,247
Loans receivable, net (note 4 and 5)	451,595	524,348
Bond issue cost, net (note 8)	4,195	6,527
Total noncurrent assets	711,378	965,989
Total assets	\$ 781,098	1,050,694

(a Component Unit of the State of Alaska)

## **Balance Sheets**

June 30, 2008 and 2007

(in thousands)

Liabilities:           Current:           Payable from unrestricted assets:         Jue to State of Alaska         \$ 763         463           Warrants outstanding         163         14           Accounts payable         610         503           Arbitrage rebate payable (note 10)         10         -           Securities lending collateral payable (note 3)         -         6,121           Return of capital payable (note 12)         4,100         1,200           Payable from restricted assets:           Warrants outstanding (note 4)         318         327           Accounts payable         144         63           Return of capital payable (note 12)         14,092         54,691           Interest payable         3,861         9,386           Deferred credit (note 2)         748         1,186           Bonds payable (note 7)         29,745         92,380           Total current liabilities         54,554         166,334           Noncurrent-payable from restricted assets:         Arbitrage rebate payable (note 10)         2,977         2,079           Return of capital payable (note 12)         3,545         12,598           Deferred credit (note 2)         7,152         1,657	Liabilities and Net Assets		2008	2007
Payable from unrestricted assets:         763         463           Warrants outstanding         163         14           Accounts payable         610         503           Arbitrage rebate payable (note 10)         10         -           Securities lending collateral payable (note 3)         -         6,121           Return of capital payable (note 12)         4,100         1,200           Payable from restricted assets:           Warrants outstanding (note 4)         318         327           Accounts payable         144         63           Return of capital payable (note 12)         14,092         54,691           Interest payable         3,861         9,386           Deferred credit (note 2)         748         1,186           Bonds payable (note 7)         29,745         92,380           Total current liabilities         54,554         166,334           Noncurrent-payable from restricted assets:         2,977         2,079           Return of capital payable (note 10)         2,977         2,079           Return of capital payable (note 12)         3,545         12,598           Deferred credit (note 2)         7,152         1,657           Bonds payable, net (note 7)         535,881         68				
Due to State of Alaska   \$ 763   463   Warrants outstanding   163   14   Accounts payable   610   503   Arbitrage rebate payable (note 10)   10   -				
Warrants outstanding       163       14         Accounts payable       610       503         Arbitrage rebate payable (note 10)       10       -         Securities lending collateral payable (note 3)       -       6,121         Return of capital payable (note 12)       4,100       1,200         Payable from restricted assets:         Warrants outstanding (note 4)       318       327         Accounts payable       144       63         Return of capital payable (note 12)       14,092       54,691         Interest payable       3,861       9,386         Deferred credit (note 2)       748       1,186         Bonds payable (note 7)       29,745       92,380         Total current liabilities       54,554       166,334         Noncurrent-payable from restricted assets:       Arbitrage rebate payable (note 10)       2,977       2,079         Return of capital payable (note 12)       3,545       12,598         Deferred credit (note 2)       7,152       1,657         Bonds payable, net (note 7)       535,881       686,855         Total liabilities       549,555       703,189         Total liabilities       549,555       703,189         Total liabilities <td< td=""><td></td><td>Φ.</td><td>7.0</td><td>4.60</td></td<>		Φ.	7.0	4.60
Accounts payable       610       503         Arbitrage rebate payable (note 10)       10       -         Securities lending collateral payable (note 3)       -       6,121         Return of capital payable (note 12)       4,100       1,200         Payable from restricted assets:         Warrants outstanding (note 4)       318       327         Accounts payable       144       63         Return of capital payable (note 12)       14,092       54,691         Interest payable       3,861       9,386         Deferred credit (note 2)       748       1,186         Bonds payable (note 7)       29,745       92,380         Total current liabilities       54,554       166,334         Noncurrent-payable from restricted assets:       2,977       2,079         Return of capital payable (note 10)       2,977       2,079         Return of capital payable (note 12)       3,545       12,598         Deferred credit (note 2)       7,152       1,657         Bonds payable, net (note 7)       535,881       686,855         Total noncurrent liabilities       549,555       703,189         Total liabilities       604,109       869,523         Commitments and contingencies (note 12)		\$		
Arbitrage rebate payable (note 10) 10 - Securities lending collateral payable (note 3) - 6,121 Return of capital payable (note 12) 4,100 1,200  Payable from restricted assets:  Warrants outstanding (note 4) 318 327 Accounts payable 144 63 Return of capital payable (note 12) 14,092 54,691 Interest payable 3,861 9,386 Deferred credit (note 2) 748 1,186 Bonds payable (note 7) 29,745 92,380 Total current liabilities 54,554 166,334  Noncurrent-payable from restricted assets:  Arbitrage rebate payable (note 10) 2,977 2,079 Return of capital payable (note 12) 3,545 12,598 Deferred credit (note 2) 7,152 1,657 Bonds payable, net (note 7) 535,881 686,855 Total noncurrent liabilities 549,555 703,189 Total liabilities 549,555 703,189  Commitments and contingencies (note 12)  Net assets:  Unrestricted (note 2) 139,437 33,346 Restricted by State statute - 3,037 Restricted by bond indentures 37,552 144,788 Total net assets 176,989 181,171	<u> </u>			
Securities lending collateral payable (note 12)         -         6,121           Return of capital payable (note 12)         4,100         1,200           Payable from restricted assets:           Warrants outstanding (note 4)         318         327           Accounts payable         144         63           Return of capital payable (note 12)         14,092         54,691           Interest payable         3,861         9,386           Deferred credit (note 2)         748         1,186           Bonds payable (note 7)         29,745         92,380           Total current liabilities         54,554         166,334           Noncurrent-payable from restricted assets:         Arbitrage rebate payable (note 10)         2,977         2,079           Return of capital payable (note 12)         3,545         12,598           Deferred credit (note 2)         7,152         1,657           Bonds payable, net (note 7)         535,881         686,855           Total noncurrent liabilities         549,555         703,189           Total hiabilities         549,555         703,189           Total liabilities         604,109         869,523           Commitments and contingencies (note 12)         -         -           L				503
Return of capital payable (note 12)       4,100       1,200         Payable from restricted assets:       318       327         Accounts payable       144       63         Return of capital payable (note 12)       14,092       54,691         Interest payable       3,861       9,386         Deferred credit (note 2)       748       1,186         Bonds payable (note 7)       29,745       92,380         Total current liabilities       54,554       166,334         Noncurrent-payable from restricted assets:       Arbitrage rebate payable (note 10)       2,977       2,079         Return of capital payable (note 12)       3,545       12,598         Deferred credit (note 2)       7,152       1,657         Bonds payable, net (note 7)       535,881       686,855         Total noncurrent liabilities       549,555       703,189         Total liabilities       604,109       869,523         Commitments and contingencies (note 12)       -       -         Net assets:       Unrestricted (note 2)       139,437       33,346         Restricted by State statute       -       3,037         Restricted by bond indentures       37,552       144,788         Total net assets       176,989       1			10	-
Payable from restricted assets:       318       327         Accounts payable       144       63         Return of capital payable (note 12)       14,092       54,691         Interest payable       3,861       9,386         Deferred credit (note 2)       748       1,186         Bonds payable (note 7)       29,745       92,380         Total current liabilities       54,554       166,334         Noncurrent-payable from restricted assets:       2,977       2,079         Return of capital payable (note 10)       2,977       2,079         Return of capital payable (note 12)       3,545       12,598         Deferred credit (note 2)       7,152       1,657         Bonds payable, net (note 7)       535,881       686,855         Total noncurrent liabilities       549,555       703,189         Total liabilities       604,109       869,523          Commitments and contingencies (note 12)       -       -         Net assets:       Unrestricted (note 2)       139,437       33,346         Restricted by State statute       -       3,037         Restricted by bond indentures       37,552       144,788         Total net assets       176,989       181,171 <td></td> <td></td> <td>-</td> <td>•</td>			-	•
Warrants outstanding (note 4)       318       327         Accounts payable       144       63         Return of capital payable (note 12)       14,092       54,691         Interest payable       3,861       9,386         Deferred credit (note 2)       748       1,186         Bonds payable (note 7)       29,745       92,380         Total current liabilities       54,554       166,334         Noncurrent-payable from restricted assets:       Arbitrage rebate payable (note 10)       2,977       2,079         Return of capital payable (note 12)       3,545       12,598         Deferred credit (note 2)       7,152       1,657         Bonds payable, net (note 7)       535,881       686,855         Total noncurrent liabilities       549,555       703,189         Total liabilities       604,109       869,523         Commitments and contingencies (note 12)       -       -         Net assets:       Unrestricted (note 2)       139,437       33,346         Restricted by State statute       -       3,037         Restricted by bond indentures       37,552       144,788         Total net assets       176,989       181,171	Return of capital payable (note 12)		4,100	1,200
Accounts payable       144       63         Return of capital payable (note 12)       14,092       54,691         Interest payable       3,861       9,386         Deferred credit (note 2)       748       1,186         Bonds payable (note 7)       29,745       92,380         Total current liabilities       54,554       166,334         Noncurrent-payable from restricted assets:       Arbitrage rebate payable (note 10)       2,977       2,079         Return of capital payable (note 12)       3,545       12,598         Deferred credit (note 2)       7,152       1,657         Bonds payable, net (note 7)       535,881       686,855         Total noncurrent liabilities       549,555       703,189         Total liabilities       604,109       869,523         Commitments and contingencies (note 12)       -       -         Net assets:       Unrestricted (note 2)       139,437       33,346         Restricted by State statute       -       3,037         Restricted by bond indentures       37,552       144,788         Total net assets       176,989       181,171	Payable from restricted assets:			
Return of capital payable (note 12)       14,092       54,691         Interest payable       3,861       9,386         Deferred credit (note 2)       748       1,186         Bonds payable (note 7)       29,745       92,380         Total current liabilities       54,554       166,334         Noncurrent-payable from restricted assets:       2,977       2,079         Return of capital payable (note 10)       2,977       2,079         Return of capital payable (note 12)       3,545       12,598         Deferred credit (note 2)       7,152       1,657         Bonds payable, net (note 7)       535,881       686,855         Total noncurrent liabilities       549,555       703,189         Total liabilities       604,109       869,523          Commitments and contingencies (note 12)       -       -         Net assets:       -       -       -         Unrestricted (note 2)       139,437       33,346         Restricted by State statute       -       3,037         Restricted by bond indentures       37,552       144,788         Total net assets       176,989       181,171	Warrants outstanding (note 4)		318	327
Interest payable       3,861       9,386         Deferred credit (note 2)       748       1,186         Bonds payable (note 7)       29,745       92,380         Total current liabilities       54,554       166,334         Noncurrent-payable from restricted assets: <ul> <li>Arbitrage rebate payable (note 10)</li> <li>Return of capital payable (note 12)</li> <li>3,545</li> <li>12,598</li> <li>Deferred credit (note 2)</li> <li>7,152</li> <li>1,657</li> </ul> Bonds payable, net (note 7)       535,881       686,855         Total noncurrent liabilities       549,555       703,189         Total liabilities       604,109       869,523            Commitments and contingencies (note 12)       -       -         Net assets:       -       3,037         Restricted by State statute       -       3,037         Restricted by bond indentures       37,552       144,788         Total net assets       176,989       181,171	Accounts payable		144	63
Deferred credit (note 2)       748       1,186         Bonds payable (note 7)       29,745       92,380         Total current liabilities       54,554       166,334         Noncurrent-payable from restricted assets:       34,554       166,334         Arbitrage rebate payable (note 10)       2,977       2,079         Return of capital payable (note 12)       3,545       12,598         Deferred credit (note 2)       7,152       1,657         Bonds payable, net (note 7)       535,881       686,855         Total noncurrent liabilities       549,555       703,189         Total liabilities       604,109       869,523         Commitments and contingencies (note 12)       -       -         Net assets:         Unrestricted (note 2)       139,437       33,346         Restricted by State statute       -       3,037         Restricted by bond indentures       37,552       144,788         Total net assets       176,989       181,171	Return of capital payable (note 12)		14,092	54,691
Bonds payable (note 7)         29,745         92,380           Total current liabilities         54,554         166,334           Noncurrent-payable from restricted assets:         State of the payable (note 10)         2,977         2,079           Return of capital payable (note 12)         3,545         12,598           Deferred credit (note 2)         7,152         1,657           Bonds payable, net (note 7)         535,881         686,855           Total noncurrent liabilities         549,555         703,189           Total liabilities         604,109         869,523           Commitments and contingencies (note 12)         -         -         -           Net assets:         Unrestricted (note 2)         139,437         33,346           Restricted by State statute         -         3,037           Restricted by bond indentures         37,552         144,788           Total net assets         176,989         181,171	Interest payable		3,861	9,386
Total current liabilities         54,554         166,334           Noncurrent-payable from restricted assets:         2,977         2,079           Return of capital payable (note 10)         2,977         2,079           Return of capital payable (note 12)         3,545         12,598           Deferred credit (note 2)         7,152         1,657           Bonds payable, net (note 7)         535,881         686,855           Total noncurrent liabilities         549,555         703,189           Total liabilities         604,109         869,523           Commitments and contingencies (note 12)         -         -           Net assets:         Unrestricted (note 2)         139,437         33,346           Restricted by State statute         -         3,037           Restricted by bond indentures         37,552         144,788           Total net assets         176,989         181,171	Deferred credit (note 2)		748	1,186
Noncurrent-payable from restricted assets:       2,977       2,079         Arbitrage rebate payable (note 10)       2,977       2,079         Return of capital payable (note 12)       3,545       12,598         Deferred credit (note 2)       7,152       1,657         Bonds payable, net (note 7)       535,881       686,855         Total noncurrent liabilities       549,555       703,189         Total liabilities       604,109       869,523         Commitments and contingencies (note 12)       -       -         Net assets:       Unrestricted (note 2)       139,437       33,346         Restricted by State statute       -       3,037         Restricted by bond indentures       37,552       144,788         Total net assets       176,989       181,171	Bonds payable (note 7)		29,745	92,380
Arbitrage rebate payable (note 10)       2,977       2,079         Return of capital payable (note 12)       3,545       12,598         Deferred credit (note 2)       7,152       1,657         Bonds payable, net (note 7)       535,881       686,855         Total noncurrent liabilities       549,555       703,189         Total liabilities       604,109       869,523         Commitments and contingencies (note 12)       -       -         Net assets:       Unrestricted (note 2)       139,437       33,346         Restricted by State statute       -       3,037         Restricted by bond indentures       37,552       144,788         Total net assets       176,989       181,171	Total current liabilities		54,554	166,334
Arbitrage rebate payable (note 10)       2,977       2,079         Return of capital payable (note 12)       3,545       12,598         Deferred credit (note 2)       7,152       1,657         Bonds payable, net (note 7)       535,881       686,855         Total noncurrent liabilities       549,555       703,189         Total liabilities       604,109       869,523         Commitments and contingencies (note 12)       -       -         Net assets:       Unrestricted (note 2)       139,437       33,346         Restricted by State statute       -       3,037         Restricted by bond indentures       37,552       144,788         Total net assets       176,989       181,171	Noncurrent-payable from restricted assets:			
Return of capital payable (note 12)       3,545       12,598         Deferred credit (note 2)       7,152       1,657         Bonds payable, net (note 7)       535,881       686,855         Total noncurrent liabilities       549,555       703,189         Total liabilities       604,109       869,523         Commitments and contingencies (note 12)       -       -         Net assets:       Unrestricted (note 2)       139,437       33,346         Restricted by State statute       -       3,037         Restricted by bond indentures       37,552       144,788         Total net assets       176,989       181,171	* *		2,977	2.079
Deferred credit (note 2)       7,152       1,657         Bonds payable, net (note 7)       535,881       686,855         Total noncurrent liabilities       549,555       703,189         Total liabilities       604,109       869,523         Commitments and contingencies (note 12)       -       -         Net assets:       Unrestricted (note 2)       139,437       33,346         Restricted by State statute       -       3,037         Restricted by bond indentures       37,552       144,788         Total net assets       176,989       181,171				·
Bonds payable, net (note 7)       535,881       686,855         Total noncurrent liabilities       549,555       703,189         Total liabilities       604,109       869,523         Commitments and contingencies (note 12)       -       -         Net assets:       Unrestricted (note 2)       139,437       33,346         Restricted by State statute       -       3,037         Restricted by bond indentures       37,552       144,788         Total net assets       176,989       181,171				·
Total noncurrent liabilities         549,555         703,189           Total liabilities         604,109         869,523           Commitments and contingencies (note 12)         -         -           Net assets:         Unrestricted (note 2)         139,437         33,346           Restricted by State statute         -         3,037           Restricted by bond indentures         37,552         144,788           Total net assets         176,989         181,171				·
Total liabilities         604,109         869,523           Commitments and contingencies (note 12)         -         -           Net assets:         Unrestricted (note 2)         139,437         33,346           Restricted by State statute         -         3,037           Restricted by bond indentures         37,552         144,788           Total net assets         176,989         181,171		•		
Commitments and contingencies (note 12)       -       -         Net assets:       Unrestricted (note 2)       139,437       33,346         Restricted by State statute       -       3,037         Restricted by bond indentures       37,552       144,788         Total net assets       176,989       181,171		•	·	
Net assets:       Unrestricted (note 2)       139,437       33,346         Restricted by State statute       -       3,037         Restricted by bond indentures       37,552       144,788         Total net assets       176,989       181,171	200000000000000000000000000000000000000	•		
Unrestricted (note 2)       139,437       33,346         Restricted by State statute       -       3,037         Restricted by bond indentures       37,552       144,788         Total net assets       176,989       181,171	Commitments and contingencies (note 12)			
Restricted by State statute       -       3,037         Restricted by bond indentures       37,552       144,788         Total net assets       176,989       181,171	Net assets:			
Restricted by State statute       -       3,037         Restricted by bond indentures       37,552       144,788         Total net assets       176,989       181,171	Unrestricted (note 2)		139,437	33,346
Restricted by bond indentures         37,552         144,788           Total net assets         176,989         181,171			, <u>-</u>	·
Total net assets 176,989 181,171			37,552	
	•	•	·	
		\$		

See accompanying Notes to Financial Statements.

(a Component Unit of the State of Alaska)

Statements of Revenue, Expenses and Changes in Net Assets

Years ended June 30, 2008 and 2007

(in thousands)

	_	2008	2007
	-		
Operating revenue:			
Interest - loans, net (note 6)	\$	41,383	40,287
Investment income		18,587	20,699
Securities lending income (note 3)		6	216
Securities lending expense (note 3)		(5)	(213)
Other	_	30	35
Total operating revenue	-	60,001	61,024
Operating expenses:			
Interest		27,990	24,361
Administration		14,190	12,007
Provision for:			
Loan losses (note 5)		5,447	5,216
Forgiveness (note 5)		167	205
Amortization of bond issuance costs (note 8)		2,166	420
Arbitrage rebate (note 10)	_	(78)	645
Total operating expenses		49,882	42,854
Operating income	-	10,119	18,170
Nonoperating expense, excluding return of capital:			
Interest		4,388	5,299
Administration		14	-
Amortization of bond issuance costs (note 8)		166	165
Arbitrage rebate (note 10)	_	594	739
Nonoperating expense	_	5,162	6,203
Income before return of capital		4,957	11,967
Return of capital (note 12)	-	(9,139)	(1,200)
Change in net assets		(4,182)	10,767
Total net assets-beginning	_	181,171	170,404
Total net assets-ending	\$	176,989	181,171
	-		

See accompanying Notes to Financial Statements.

(a Component Unit of the State of Alaska)

## Statements of Cash Flows

## Years ended June 30, 2008 and 2007

(in thousands)

		2008	2007
Cash flows from operating activities:	•		
Principal repayments received on loans	\$	55,231	55,138
Interest received on loans		29,948	28,887
Other receipts		1,311	1,315
Loans originated		(78,774)	(73,211)
Administration		(14,304)	(12,534)
Proceeds from issuance of bonds		-	111,952
Bond issue costs		-	(721)
Interest paid on bonds		(34,064)	(25,684)
Principal payments on bonds		(194,325)	(40,225)
Income received on investments		20,640	17,936
Investments matured or sold		1,867,842	5,041,739
Investments purchased		(1,572,845)	(5,044,528)
Net cash provided by operating activities		80,660	60,064
Cash flows from capital activities:			
Administration		(14)	-
Interest paid on bonds		(5,543)	(6,262)
Principal payments on bonds		(17,580)	(17,925)
Return of capital payments		(55,890)	(34,422)
Net cash used by capital activities	•	(79,027)	(58,609)
, , , , , , , , , , , , , , , , , , ,	•	(12)	(==,==,
Net increase in cash		1,633	1,455
Cash at beginning of period		2,258	803
Cash at end of period	\$	3,891	2,258

(a Component Unit of the State of Alaska)

## Statements of Cash Flows

## Years ended June 30, 2008 and 2007

(in thousands)

	,	2008	2007
Reconciliation of operating income to net cash			
provided by operating activities:	Φ	10 110	19 170
Operating income	\$	10,119	18,170
Adjustments to reconcile operating income to net cash provided by operating activities:			
Decrease (increase) in interest receivable - investments		2,606	(1,643)
Decrease (increase) in securities lending collateral		6,121	(2,033)
Decrease (increase) in investments		294,463	(3,827)
Increase in other assets		(818)	(33)
Decrease in due from U.S. Department of Education		451	321
Increase in net interest receivable - loans		(1,683)	(2,357)
Increase in net loans receivable		(32,214)	(19,976)
Decrease (increase) in net bond issue costs		2,166	(301)
Increase (decrease) in net due to State of Alaska		271	(12)
Increase (decrease) in warrants outstanding		140	(105)
Increase in accounts payable		188	185
Increase (decrease) in securities lending coll payable		(6,121)	2,033
Increase in arbitrage rebate payable		314	560
Decrease in interest payable		(5,176)	(773)
Increase (decrease) in deferred credit		5,057	(681)
Increase (decrease) in bonds payable		(195,224)	71,177
Decrease in other liabilities		_	(641)
Total adjustments		70,541	41,894
Net cash provided by operating activities	\$	80,660	60,064
Summary of noncash capital activities that affect			
recognized assets and liabilities:			
Bond issuance cost amortization	\$	166	165
Return of capital payable		9,139	1,200
Interest payable		5,194	5,903
Bond premium amortization		(806)	(604)
Arbitrage rebate payable		594	1,062

See accompanying Notes to Financial Statements.

(a Component Unit of the State of Alaska)

Notes to Financial Statements

June 30, 2008 and 2007

(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-interest 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 in such principal amounts as, in the opinion of the Corporation, will be necessary to provide sufficient funds for carrying out its purpose.

The State Governor appoints the Corporation's Board of Directors (Board) and the Alaska Commission on Postsecondary Education (Commission) staff serve as staff for the Corporation.

The State has provided education loans through various programs since 1968. In April 1988, by act of the Legislature, the assets, liabilities, and equities of the Scholarship Revolving Loan and Teacher Scholarship Loan funds were transferred to the Corporation effective December 30, 1987.

### (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 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 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 No. 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) Operating Revenues and Expenses

The Corporation was created with the authority to issue bonds 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, providing and servicing education loans is recorded as an operating expense.

(a Component Unit of the State of Alaska)

Notes to Financial Statements

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

### (e) Management Estimates

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

### (f) Loans

Loans represent education loans issued through the AlaskAdvantage<sup>®</sup> Loan Programs which include Supplemental Education, Alternative Consolidation, Teacher Education (TEL), Family Education (FEL), (collectively referred to as Alternative or State loans), federally guaranteed Stafford (subsidized and unsubsidized), PLUS and Consolidation (subsidized and unsubsidized) loans (collectively referred to as Federal loans). The terms of the loans vary depending on the year of origination and loan type. Interest accrues at fixed and variable rates ranging from 2.625% to 9% and is generally determined by loan type and origination date. The Corporation offers borrower benefits, which reduce costs for eligible borrowers. The borrower benefit offerings are approved by the Board annually and may vary from year-to-year.

### (g) Loan Allowances

The allowance for doubtful loans represents management's estimate, based on experience, of all loans that will ultimately be uncollectible. The Corporation charges off Alternative loans to the allowance upon death, bankruptcy (as allowed by law), total disability, or when payment activity ceases and the loan becomes seven years delinquent. The Corporation charges off the portion of Federal loan balances not guaranteed and deemed uncollectible.

The allowance for forgiveness represents management's estimate, based on experience, of the loan forgiveness that will ultimately be granted.

A borrower of a TEL can obtain up to 100% forgiveness of loan principal if the borrower teaches in rural Alaska for periods specified by the program. A borrower of Alternative loans prior to July 1, 1987, can obtain up to 50% forgiveness of loan principal if the borrower meets conditions specified by the program.

#### (h) 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 periods) is paid by the U.S. Department of Education 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 Alternative loans awarded after June 30, 2002, interest from the disbursement date is the responsibility of the borrower.

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Notes to Financial Statements

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

#### (h) Interest on Loans (cont.)

Alternative loans (other than FEL) awarded prior to July 1, 2002, and all TELs are non-interest bearing while the borrower is completing eligible studies. Alternative loans (other than FEL) awarded prior to July 1, 1996, are non-interest bearing during approved periods of deferment and postponement. Alternative loans awarded (other than FEL) 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. Non-interest bearing loans were approximately \$6,549 and \$8,852 at June 30, 2008 and 2007, respectively.

#### (i) Interest Allowances

The allowance for doubtful interest represents management's estimate, based on experience, of all accrued interest that will ultimately be uncollectible. The Corporation charges off accrued interest when the related loan is charged off.

A borrower of a TEL can obtain up to 100% forgiveness of loan interest if the borrower teaches in rural Alaska for periods specified by the program. A borrower of Alternative loans prior to July 1, 1987, can obtain up to 50% forgiveness of loan interest if the borrower meets conditions specified by the program.

The allowance for forgiveness represents management's estimate, based on experience, of the accrued interest forgiveness that will ultimately be granted.

### (j) Deferred Credit

Borrowers of Alternative loans after June 30, 1994, are subject to an origination fee at disbursement of 1%, 3% or 5%, generally determined by loan origination date. 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.

#### (k) **Bond Issuance Costs**

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

## (1) **Bond Premiums**

Bond premiums are amortized over the life of the bond using the straight-line method.

#### (m) Income Taxes

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

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Notes to Financial Statements

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

## (n) Investments and Investment Income

Investments are carried at fair value and trades are recorded on a trade-date basis. Securities are valued each business day 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.

#### (o) Unrestricted Net Assets

Unrestricted net assets represent assets of the Corporation not pledged as collateral to a specific bond indenture or restricted by enabling legislation.

## (p) Reclassifications

In 2008, the Corporation changed its definition of operating revenues and expenses and further refined its classification of current assets and liabilities. Reclassifications not affecting change in net assets have been made to the 2007 financial statements to conform to the 2008 presentation.

#### (3) Cash and Investments

#### (a) Cash

Cash consists of deposits held in trust. Restricted cash is pledged to the Corporation's bond indentures. Cash summarized by classification at June 30 follows:

	2008	2007
Current, unrestricted	\$ 1,612	451
Noncurrent, restricted	2,279	1,807
	\$ 3,891	2,258

#### Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the Corporation's deposits may not be returned. The Corporation has not established a custodial credit risk policy for its deposits.

At June 30, 2008 the Corporation had \$11 in current unrestricted cash exposed to custodial credit risk.

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Notes to Financial Statements

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

#### (b) Investments

Restricted investments are pledged to the Corporation's bond indentures or restricted by State statute. The fair value at June 30, of the Corporation's investments, by classification, is shown below:

	2008	2007
Current:	_	
Unrestricted	\$ 34,226	34,886
Restricted	20,527	43,058
Noncurrent, restricted	138,975	410,247
	\$ 193,728	488,191

Restricted investments include amounts specifically designated for financing education loans totaling \$65,432 and \$131,840 at June 30, 2008 and 2007, respectively.

The fair value of investments, by investment type, at June 30, is shown below:

		2008	2007
Guaranteed investment contracts	\$	58,019	143,345
Repurchase agreements		2,140	-
Pooled repurchase agreement		691	810
U.S. Treasury securities		16,538	146,423
U.S. Government agency securities		61,475	75,989
Mortgage-backed securities		7,349	12,362
Other asset-backed securities		291	1,637
Corporate bonds		2,160	3,596
Money market funds	_	43,555	73,271
Sub-total		192,218	457,433
GeFONSI		1,510	30,758
Total investments	\$	193,728	488,191

#### **GeFONSI**

The Corporation invests in the State's internally managed General Fund and Other Non Segregated Investments Pool (GeFONSI). GeFONSI consists of investments in the State's internally managed Short-term and Intermediate-term Fixed Income Pools. Actual investing is performed by investment officers in the State's Department of Revenue, Treasury Division (Treasury). A complete description of the investment policy for each pool is included in the Department of Revenue, Treasury Division's, Policies and Procedures.

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Notes to Financial Statements

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

At June 30, the Corporation's share of the GeFONSI was as follows:

007
91
2,082
1,310
5,842
5,104
3,676
7,988
5,498
222
1,381
3,194
,436)
0,758
2, 1, 5, 5, 7, 5,

#### **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 indentures which generally mandate the purchase of relatively short-term, high quality fixed income securities. Instances, if any, where an indenture is less restrictive than the Corporation's investment policy, the investment policy prevails. Investments are managed by Commission staff or by Treasury. The following securities are eligible for investment of restricted funds under the Corporation's investment policy:

Under the 2002 and 2004 Master Indentures, 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 credited of the U.S. Under the 2005 Master Indenture, direct obligations of the U.S.

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Notes to Financial Statements

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

Investment Policies (cont.)

- Under the 2005 Master Indenture, senior debt obligations rated AAA by Standard and Poor's issued by the FNMA or the 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.
- Obligations of federal agencies which represent the full faith and credit of the U.S.
- 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 Standard and Poor's 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 Standard and Poor's 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 Standard and Poor's and P-1 by Moody's. Under the 2005 Master Indenture, such investments are allowed if rated A-1+ or better by Standard and Poor's at the time of purchase and if the investment matures not more than 270 days after the date of purchase.
- Under the 2002 and 2004 Master Indentures, investments in money market funds rated AAAm or AAAm-G or better by Standard and Poor's and Aaa by Moody's. Under the 2005 Master Indenture, such investments are allowed if rated AAAm or AAAm-G or better by Standard and Poor's.
- Under the 2002 and 2004 Master Indentures, general obligations of any state or municipality with a rating of at least A by Standard and Poor's and Aaa by Moody's.
   Under the 2005 Master Indenture, general obligations of states with a rating of A or higher by Standard and Poor's.
- 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 Standard and Poor's and Moody's.

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Notes to Financial Statements

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

Investment Policies (cont.)

- 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.
- 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 Standard and Poor's 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					
	Commerc	ial Paper	Unsecured Lo	ng-term Debt		
	Standard	_	Standard			
Maturity	and Poor's	Moody's	and Poor'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		

In each case, 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 2002 Master Indenture, any other investment approved in writing by Standard and Poor's and Moody's. Under the 2004 Master Indenture, any other investment approved in writing by Standard and Poor's, Moody's and the bond insurer.

The following securities are eligible for investment of unrestricted funds under the Corporation's investment policy:

- Debt instruments issued by the U.S., its agencies and instrumentalities.
- Investment contracts and repurchase agreements with an entity whose senior unsecured long-term debt rating is at least A3 by Standard and Poor's or A- by Moody's.

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Notes to Financial Statements

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

Investment Policies (cont.)

• Investments in a money market fund rated AAAm or AAAm-G or better by Standard & Poor's and Aaa by Moody's.

In addition to the above guidelines for unrestricted funds, the following policies apply to the investment of unrestricted funds (other than investments in the GeFONSI) managed by Treasury:

- 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" or better by at least two nationally recognized rating services, and dollar denominated debt instruments of comparable quality issued by non-domestic entities.
- Government National Mortgage Association, FNMA or FHLMC asset-backed securities.
   Collateralized mortgage obligations must be planned amortization class one or better or sequential collateralized mortgage obligations.
- Certificates of deposit and term deposits of U.S. 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 U.S. dollars of the highest rating assigned by a nationally recognized rating service.
- Repurchase agreements with entities rated at least A3 by Standard and Poor's or A- by Moody's and secured by U.S. Treasury securities and agencies.
- Investment contracts as set forth above as long as approved by the Corporation.

### Concentration Risk

Concentration risk is the risk of loss attributed to the magnitude of the Corporation's investment in a single issuer.

For investment contracts, the investment providers will be limited to providing investments to the lesser of \$50,000 or 25% of total financial assets. These diversification standards are not applicable to 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. or bonds, notes or other evidences of indebtedness rated "AAA/Aaa" and issued by the FNMA or the FHLMC.

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Notes to Financial Statements

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

#### Concentration Risk (cont.)

Investment Holdings Greater than Five Percent of Total Investments

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

At June 30, 2008 the Corporation had investment balances greater than five percent of the Corporation's total investments with the following issuers:

			Percent of Total
	_	Fair Value	Investments
Citigroup Financial Products, Inc.	\$	35,039	18.09
FNMA		26,164	13.51
FHLB		21,856	11.28
FHLMC		19,451	10.04
FSA Management Services, LLC		12,814	6.61

### 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 pre-qualifying firms with which the Corporation administers its investment activities. Additionally, for funds (other than funds invested in the GeFONSI) managed by Treasury, the weighted average quality rating of the portfolio must be maintained at AA- or better as determined by a nationally recognized rating service.

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Notes to Financial Statements

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

#### Credit Risk (cont.)

The credit quality ratings of the Corporation's investments, other than the investment in the GeFONSI, at June 30, as described by a nationally recognized rating service, are shown below (using Standard and Poor's rating scale without modifiers).

Investment Type	Ratings	_	2008	2007
71.0.0		Φ.	101	<b>7</b> 6 00 4
U.S. Government agencies	AAA	\$	101	56,004
Mortgage-backed securities	AAA		1,820	1,925
Other asset-backed securities	AAA		195	1,587
Other asset-backed securities	A		50	50
Corporate bonds	AAA		123	931
Corporate bonds	AA		1,106	1,460
Corporate bonds	A		931	1,205
Money market funds	AAA		43,555	73,271
Guaranteed investment contracts	Not Rated		58,019	143,345
Repurchase agreements	Not Rated		2,140	-
Pooled repurchase agreement account	Not Rated		691	810
U.S. Government agencies	Not Rated		61,374	19,985
Mortgage-backed securities	Not Rated		5,529	10,437
Other asset-backed securities	Not Rated		46	-
No credit exposure		_	16,538	146,423_
		\$	192,218	457,433

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

With the exception of the pooled repurchase agreement 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 P-1 or equivalent. Asset-backed and non-agency mortgage securities that are not rated by Standard and Poor's and Moody's may be purchased if they have an AAA rating by two of the following: Standard and Poor's, Moody's and Fitch. Unexpected daily cash surpluses that arise in this pool are invested overnight in the custodian's pooled repurchase agreement account. Treasury does not have a policy to limit credit risk associated with the pooled repurchase agreement account.

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 that are not rated by Standard and Poor's and Moody's may be purchased if they have an AAA rating by two of the following: Standard and Poor's, Moody's and Fitch.

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Notes to Financial Statements

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

## Credit Risk (cont.)

At June 30, 2008 the GeFONSI consisted of investments with credit quality ratings issued by nationally recognized rating services as follows (using Standard and Poor's rating scale without modifiers):

	Short-term	Intermediate-	
Datina			Total
Rating	P001	Income Pool	<u>Total</u>
Not Rated	\$ 1	-	1
Not Rated	44	-	44
AAA	292	115	407
AAA	19	86	105
AA	1	-	1
A	1	-	1
Not Rated	2	32	34
AAA	107	18	125
AA	4	1	5
A	17	10	27
BB	6	1	7
BBB	2	1	3
AAA	14	19	33
AA	81	33	114
A	27	18	45
BBB	-	16	16
Not Rated	7	9	16
AA	-	8	8
AA	26	-	26
A	8	-	8
Not Rated	5	-	5
	1	478	479
	\$ 665	845	1,510
	Not Rated AAA AAA AA Not Rated AAA AA ABB BBB AAA AA ABBB ABB AAA AA A	Rating         Fixed Income Pool           Not Rated         \$ 1           Not Rated         44           AAA         292           AAA         19           AA         1           Not Rated         2           AAA         107           AA         4           A         17           BB         6           BBB         2           AAA         14           AA         27           BBB         -           Not Rated         7           AA         26           A         8           Not Rated         5	Rating         Fixed Income Pool         term Fixed Income Pool           Not Rated         \$ 1         -           Not Rated         44         -           AAA         292         115           AAA         19         86           AA         1         -           Not Rated         2         32           AAA         107         18           AA         17         10           BB         6         1           BBB         2         1           AAA         14         19           AA         81         33           A         27         18           BBB         -         16           Not Rated         7         9           AA         26         -           A         8         -           Not Rated         5         -           Not Rated         5         -           1         478

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Notes to Financial Statements

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

## **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 its investment's maturities to meet cash requirements, thereby avoiding the need to sell securities prior to maturity.

#### 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 uses industry-standard software developed by Advent 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.

The following table shows the Corporation's non-GeFONSI investments, with their weighted average modified duration as of June 30, 2008 by investment type:

Guaranteed investment contracts	2.56
Repurchase agreements	8.02
Pooled repurchase agreement account	0.01
U.S. Treasury securities	1.04
U.S. Government agency securities	0.21
Mortgage-backed securities	9.48
Other asset-backed securities	9.43
Corporate bonds	5.84
Money market funds	-
Portfolio modified duration	1.4

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

Through its investment policy, Treasury manages the GeFONSI's 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 for the Merrill Lynch 1-5 year Government Bond Index at June 30, 2008 was 2.29 years.

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Notes to Financial Statements

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

## Interest Rate Risk (cont.)

At June 30, 2008 the GeFONSI's share of the Intermediate-term Fixed Income Pool's effective duration, by investment type, follows:

U.S. Treasury securities	2.71
U.S. Government agency securities	2.46
Mortgage-backed securities	2.18
Other asset-backed securities	0.65
Corporate bonds	2.41
Yankees:	
Government	3.56
Corporate	-
Portfolio effective duration	2.32

As a means of limiting the GeFONSI's share of 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. 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.

At June 30, 2008 the expected average life of fixed rate securities held in the Short-term Fixed Income Pool ranged from eight days to less than three months.

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Notes to Financial Statements

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

## Securities Lending

Alaska statutes authorize the Commissioner of Revenue (Commissioner) 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 GeFONSI. 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.

The securities lending program was suspended by the Commissioner in February 2008. Securities on loan were returned in exchange for collateral. At June 30, 2007 the fair value of securities on loan allocable to the Corporation totaled \$6,025.

While the securities lending program was active there was no limit to the amount that could have been loaned and the Commissioner was able to sell securities on loan. Loans were collateralized at not less than 102 percent of their fair value. Loaned securities and collateral was marked-to-market daily and collateral was received or delivered the following day to maintain collateral levels.

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

There was limited credit risk associated with the lending transactions since the Commissioner was 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 indemnified the Commissioner against loss due to borrower rebates in excess of earnings on cash collateral. Indemnifications were subject to limitation relating to war, civil unrest or revolution, or beyond the reasonable control of the Bank.

For the year ended June 30, 2008 there were no losses incurred as a result of securities lending transactions and there were no significant violations of legal or contractual provisions nor failures by any borrower to return loaned securities.

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Notes to Financial Statements

## (4) Loans Receivable

Loans are financed by the issuance of tax-exempt bonds and recycled loan payments. The loan portfolio summarized by program at June 30, follows:

	_	2008	2007
State Alternative Loans	_		
Supplemental Education	\$	440,311	437,302
Consolidation		100,917	102,373
Teacher Education		8,143	8,370
Family Education	_	6,695	6,984
<b>Total Alternative Loans</b>	_	556,066	555,029
Federal Family Education Loans	_		
Stafford		82,942	60,380
PLUS		4,010	2,775
Consolidation	_	26,042	19,543
Total Federal Loans	_	112,994	82,698
Total	\$	669,060	637,727

The loan portfolio summarized by loan status at June 30, follows:

	_	200	08	200	)7
	_	State	Federal	State	Federal
Enrollment	\$	80,744	38,116	83,360	30,629
Grace		18,082	11,135	17,055	7,235
Repayment		394,634	47,650	389,108	33,388
Deferment		50,340	11,834	45,351	8,671
Forbearance	_	12,266	4,259	20,155	2,775
Total	\$	556,066	112,994	555,029	82,698

Restricted loans are pledged to the Corporation's bond indentures. The loan portfolio summarized by classification at June 30, follows:

	_	20	08	2007		
	-	State Federal		State	Federal	
Current, unrestricted Noncurrent:	\$	11,296	-	-	-	
Unrestricted		119,912	-	-	-	
Restricted		424,858	112,994	555,029	82,698	
Total	\$	556,066	112,994	555,029	82,698	

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Notes to Financial Statements

## (4) Loans Receivable (cont.)

Included in loans receivable are \$284 and \$294 of loan warrants issued but not redeemed by borrowers at June 30, 2008 and 2007, respectively. Redemption is contingent upon the borrower meeting certain eligibility requirements.

Loans awarded not originated at June 30, are as follows:

	_	2008	2007
State Alternative Loans	-	_	
Supplemental Education	\$	2,728	8,949
Teacher Education		37	41
Family Education		54	302
Total Alternative Loans		2,819	9,292
Federal Family Education Loans	-		
Stafford		2,843	6,406
PLUS		376	258
Total Federal Loans		3,219	6,664
Total	\$	6,038	15,956

#### (5) Loan Allowances

A summary of the activity in the allowance for doubtful loans at June 30, follows:

	_	2008	2007
Balance at beginning of period	\$	111,141	107,283
Provision for doubtful loans		5,447	5,215
Net loans charged off	_	(6,184)	(1,357)
Balance at end of period	\$	110,404	111,141

A summary of the activity in the allowance for principal forgiveness at June 30 follows:

	_	2008	2007
Balance at beginning of period Provision for forgiveness	\$	2,238 167	2,348 205
Forgiveness granted	_	(311)	(315)
Balance at end of period	\$_	2,094	2,238

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Notes to Financial Statements

## (6) Loan Interest Allowances

A summary of the activity in the allowance for doubtful interest at June 30, follows:

	_	2008	2007
Balance at beginning of period	\$	26,206	23,252
Provision for doubtful interest		4,439	5,322
Net interest charged off	_	(1,511)	(2,368)
Balance at end of period	\$	29,134	26,206

A summary of the activity in the allowance for interest forgiveness at June 30, follows:

	2008		2007	
Balance at beginning of period Provision for forgiveness	\$	471 (122)	402 171	
Forgiveness granted		(88)	(102)	
Balance at end of period	\$	261	471	

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Notes to Financial Statements

## (7) Bonds Payable

(a) Bonds, all of which are tax-exempt revenue bonds, payable at June 30, consist of the following:

			Amount Ou	itstanding
		Original		
	Type	Amount	2008	2007
1988 Master Indenture, Series A Student				
1997: rates ranging from 5.25%	Louii, seriur.			
to 5.75%, due 2008 to 2015	Fixed \$	75,000		55,000
•	Τίλου ψ	75,000	_	33,000
1998: rates ranging from 4.75%	Eirra d	00.570		49,000
to 5.3%, due 2008 to 2016	Fixed	88,570	-	48,000
1999: rates ranging from 4.80%	·	40.000		20.270
to 5.45%, due 2008 to 2017	Fixed	40,000	-	30,250
2000: rates ranging from 5.50%				
to 6.05%, due 2008 to 2018	Fixed	32,140	-	28,340
term bonds, 6.0%, due				
July 1, 2016	Fixed	7,860		7,860
2001: rates ranging from 4.30%				
to 4.65%, due 2008 to 2011	Fixed	33,345	-	16,875
Sub-total		276,915		186,325
200 0000		270,510		100,020
2002 Master Indenture, Education Loan:				
2002: Series A, due 2011 to 2037	Auction	47,500	21,100	21,100
Series B, due 2037	Auction	15,000	15,000	15,000
2003: Series A-1, due 2011 to 2016	Auction	16,500	16,500	16,500
Series A-2, due 2038	Auction	30,500	30,500	30,500
2004: Series A-1, due 2044	Auction	45,500	45,500	45,500
Series A-2, due 2044	Auction	47,600	47,600	47,600
Serial bonds, Series A-3, rates				
ranging from 5.0% to 5.25%,		22.01.5	22.015	22.01.5
due 2011 to 2017	Fixed	22,015	22,015	22,015
2005: Serial bonds, Series A,				
rates ranging from 4.5% to	Eirad	59.250	56,250	50.250
5.0%, due 2009 to 2018 2006: Series A-1, due 2040	Fixed Auction	58,250 30,000	30,230	58,250 30,000
Serial bonds, Series A-2, rate	Auction	30,000	30,000	30,000
5.0%, due 2009 to 2018	Fixed	55,000	55,000	55,000
2007: Series A-1, due 2042	Auction	41,500	41,500	41,500
Serial bonds, Series A-2, rate	110011011	11,500	11,500	11,500
5.0%, due 2010 to 2019	Fixed	18,500	18,500	18,500
Serial bonds, Series A-3, rate		- ,	- 7	- ,
5.0%, due 2009 to 2014	Fixed	49,000	43,000	49,000
Sub-total		476,865	442,465	450,465

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Notes to Financial Statements

## (7) Bonds Payable (cont.)

		Original	Amount O	utstanding
	Type	Amount	2008	2007
2004 Master Indenture, Series A Capital	Project			
Serial bonds, rates ranging from 2.0% to 4.0%,				
due 2009 to 2017	Fixed	60.010	46 170	52.250
		69,910	46,170	52,250
Term bonds, rate 4.0%, due 2019	Fixed	5,230	5,230	5,230
Sub-total		75,140	51,400	57,480
2005 Master Indenture, Series A State Pr Serial bonds, rates ranging from 5.0% to 5.5%,	ojects:			
due 2009 to 2015	Fixed	88,305	58,500	70,000
Total Bonds Payable		\$ 917,225	552,365	764,270
Premium			13,261	14,965
Net Bonds Payable		\$	565,626	779,235
Current		\$	29,745	92,380
Noncurrent			535,881	686,855
		\$	565,626	779,235

- (b) On July 6, 2007 the Corporation called all outstanding 1997 Series A bonds at par in the amount of \$49,000.
- (c) In early February 2008, the auction rate market collapsed. With the exception of the 2007 Series auction rate bonds/securities which auction every seven days, the Corporation's auction rate securities (ARS) continue to auction every thirty-five days. The Corporation's first auction failure occurred on February 12, 2008 and failures have continued through June 30, 2008. The supplemental indenture related to each series of ARS defines the maximum rate to be assigned to the bonds when an auction fails.

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Notes to Financial Statements

## (7) Bonds Payable (cont.)

The following definitions exist for the Corporation's ARS:

	Maximum Rate		Rate at June 30, 2008 by Series	
Bonds	(rounded to the nearest one thousandth of 1%)	A/A-1	B/A-2	
2002	lesser of: (a) 175% of the higher of (i) the after-tax equivalent rate or (ii) the Kenny index; and (b) the lesser of (i) 14% or (ii) the maximum rate permitted by State law (10.5%)	3.115%	2.958%	
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%)	2.670%	1.695%	
2004	same as 2003 bonds	1.372%	2.670%	
2006	same as 2003 bonds	2.535%	-	
2007	same as 2003 bonds except 12% replaces 14% in (d)	2.625%	-	

(d) The minimum payments and sinking fund installments for the five years subsequent to June 30, 2008 and thereafter are as follows:

Period Ending June 30	_	Principal	Interest	Total
2009	\$	29,745	20,436	50,181
2010		32,010	19,058	51,068
2011		53,955	17,467	71,422
2012		55,415	15,040	70,455
2013		44,890	12,576	57,466
2014-2018		119,400	39,003	158,403
2019-2023		1,550	24,400	25,950
2024-2028		-	24,354	24,354
2029-2033		-	24,354	24,354
2034-2038		50,800	23,661	74,461
2039-2043		71,500	15,218	86,718
2044		93,100	1,428	94,528
	\$	552,365	236,995	789,360

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Notes to Financial Statements

### (7) Bonds Payable (cont.)

(e) Each Master Indenture represents a limited obligation trust which secures payment for the outstanding revenue bonds issued therein. The bonds are payable from assets pledged to the respective trust including principal and interest payments on pledged loans. The bonds do not constitute general obligations of the Corporation or of the State. The 2002 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	

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 MBIA Insurance Corporation and the 2005 State Projects Revenue Bonds are insured by Financial Security Assurance, Inc.

#### (8) Bond Issue Cost

A summary of bond issue cost activity at June 30 follows:

_	2008	2007
\$	6,527	6,391
	-	721
	(1,965)	-
	(367)	(585)
\$	4,195	6,527
	\$ - \$	(1,965) (367)

#### (9) Bond Defeasance

On February 29, 2008 the Corporation legally defeased \$119,525 in bonds representing those outstanding under the 1988 Master Indenture. Cash in the amount of \$125,173 was used to purchase State and Local Government Securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased bonds. As a result, the escrow account investments and the defeased bonds are not recorded on the Corporation's balance sheet. The Corporation defeased the bonds to reduce its total debt service payments over the next nine years by \$2,960 and to have loans released from the 1988 Master Indenture for use in other financing structures.

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Notes to Financial Statements

#### (10) 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 yield of the bonds. Most of the non-loan investments pledged to the 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 or defeasing bonds. Investment yields are calculated and analyzed annually. These analyses are used to determine both compliance with IRS provisions and to determine the arbitrage rebate liability at year end. The amount accrued for arbitrage rebate liability at year-end represents the amount due to the IRS for earnings in excess of allowable bond yields.

### (11) Federal Family Education Loan Program

Beginning with fiscal year 2003, the AlaskAdvantage<sup>®</sup> 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 loan program, the Commission secured the status of "eligible lender" and entered into various agreements with Northwest Education Loan Association (NELA), which serves as the "eligible" guarantor. In fiscal year 2008, the name of the eligible lender was officially changed by the U.S. Department of Education (Department) to the Alaska Student Loan Corporation to align lender activities with the appropriate legal entity.

As a federal loan lender, the Corporation receives claim, special allowance and interest subsidy payments and pays origination, lender, default, and rebate fees on federally guaranteed loans as specified in the HEA. The HEA is subject to amendment that could impact these receipts and payments.

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 as outlined in the HEA. Failure to fulfill the requirements may result in an interest penalty or loss of guarantee. In the case of a default claim, unpaid principal and interest are guaranteed at 98% if first originated prior to July 1, 2006 and 97% if first originated after June 30, 2006. Claims as a result of a borrower's death or becoming totally and permanently disabled are guaranteed at 100%.

Special allowance payments (SAP) are received quarterly based on the quarter's daily average 3-month commercial paper rate as established by the Department. The rates differ according to the loan type, disbursement date, loan status, interest rate and not-for-profit eligibility of the lender. As a general matter, the amount of the SAP with respect to any loan is the difference between the loan's stated interest rate and the special allowance rate applicable to the loan.

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

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Notes to Financial Statements

#### (11) Federal Family Education Loan Program (cont.)

An origination fee must be paid to the Department for Stafford and PLUS loans. The fee is equal to a percentage of the originated amount. Borrowers of PLUS loans were charged 3%. Borrowers of Stafford loans were charged 1.5% and 2% for fiscal years 2008 and 2007, respectively. The Corporation elected to pay the Stafford origination fee on behalf of borrower's in fiscal year 2008 and 2007.

Payment of a lender fee is required on federal loans in an amount equal to 0.5% of the originated amount, if first originated prior to October 1, 2007, and 1% if first originated after September 30, 2007. Origination and lender fees are paid quarterly to the Department.

Default fees are paid monthly to the guarantor. The fee, in the amount of 1% of the originated amount must be charged on Stafford and PLUS loans and may be charged to the borrower as a disbursement reduction. This fee was paid by either the Corporation or NELA on behalf of the borrower in fiscal years 2008 and 2007.

Rebate fees on Consolidation loans are paid, by the lender, monthly to the Department. The fee is equal to 0.0875% of the loan's unpaid principal and interest.

#### (12) Commitments and Contingencies

#### (a) **Operations**

The Corporation will fund approximately \$11,942.5 of the Commission's operating and capital budgets for fiscal year 2009. 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 or payable by the Commission, on the Corporation's behalf.

#### (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 October 15, 2007 the Board approved a \$4,100 Return of Capital payment to the State which will be paid during fiscal year 2009. On October 2, 2006 the Board approved a \$1,200 Return of Capital payment to the State which was paid during fiscal year 2008.

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. The Corporation reimburses the State for expenditures related to projects funded with Corporation capital project bond proceeds. Restricted investments include amounts specifically designated for financing State capital projects totaling \$17,637 and \$67,288 at June 30, 2008 and 2007, respectively.

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Notes to Financial Statements

#### (12) Commitments and Contingencies (cont.)

## (c) State Permanent Fund Dividend Garnishment

The Alaska Permanent Fund (Permanent Fund) is a fund held and managed by the State and was established in the 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 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 collected by the Commission, were approximately \$4,961 and \$3,900 for the years ended June 30, 2008 and 2007, respectively.

### (d) Legislation

The State Supplemental 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.

The HEA has traditionally been the subject of legislative action by the Federal government. The HEA and related federal regulations 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 Federal program offered by the Corporation, cannot be determined.

## (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 10.5% 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.