ALASKA STUDENT LOAN CORPORATION

(a Component Unit of the State of Alaska)

Management's Discussion and Analysis and
Financial Statements

June 30, 2009 and 2008

Together with Independent Auditors' Report

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

June 30, 2009 and 2008

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

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, 2009 and 2008 is being presented to assist readers in understanding the Corporation's structure, activities and significant financial issues. Fiscal year 2007 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 partners with the Commission to finance, award and service education loans. The Commission administers ASLC's programs under the umbrella title, AlaskAdvantage Loan Program® (Program). The Corporation funds the Commission's expenditures that relate to Program administration as permitted by ASLC statutes and bond indentures.

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.

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 and expects this trend to continue in fiscal year 2010.

Program Highlights

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

Fiscal Year and Loan Program	Net loans as a percentage of total loans	Gross awards as a percentage of total awards
2009		
State Alternative	74	44
Federal	26	56
2008		
State Alternative	80	54
Federal	20	46
2007		
State Alternative	84	61
Federal	16	39

- The following change to the State Alternative loan program, in fiscal year 2009, impacts future years:
    - In response to market concerns regarding education loan asset-backed securities and the negative impacts relative to financing education loans made under the State Alternative loan program, the Corporation sought legislative action to impose stricter underwriting criteria related to borrower (or co-signer) ability to and history of making payments as they become due. This change is effective with academic year 2009-2010 education loans. Management believes this change will allow rating agencies, investors and others to view the Corporation's alternative loans as acceptable collateral for asset-backed securities.
- The Federal loan program had no significant changes in fiscal year 2009; however, the following changes, in fiscal year 2008, continue to impact future years:
    - The Higher Education Opportunity Act was signed into law on August 14, 2008. Following are the significant changes this Act brought to the Corporation:
        - Established 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;
  - 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 impacting future years:

- Reduction in the interest rate on subsidized Stafford undergraduate loans (rate was 6.00% in fiscal year 2009) as follows:

Originations first made July 1	Fiscal Year	Interest rate
2009	2010	5.60
2010	2011	4.50
2011	2012	3.40

- Reduction of lender insurance from 97% to 95% on loans first disbursed on or after October 1, 2012.
- New repayment plan, effective July 1, 2009, available to federal education loan borrowers (except parental PLUS borrowers) experiencing financial difficulty. Under this plan, monthly loan payments are based on the borrower's disposable income level, determined by their debt level and their family size according to the federal poverty

guidelines. Monthly payments will be recalculated annually and may not always cover unpaid interest on the education loan. However, for subsidized Stafford loans, the U.S. Department of Education will pay any unpaid interest for three years. Thereafter, and for all other loan types, interest will be capitalized to the principal balance when the borrower no longer qualifies for the plan.

Financial Highlights

The Corporation last issued education loan revenue bonds in June 2007 and has used internal liquidity to finance education loans through June 30, 2009. Costs related to obtaining the needed liquidity and or credit enhancement for a bond issue, as well as collateral requirements imposed to obtain an acceptable bond rating, made a market-based financing in 2009 impractical and uneconomical for the Corporation. Therefore, the Corporation secured a loan from the State of Alaska in July 2009. The proceeds of this loan will be used to finance 2009-2010 academic year education loans. Information related to this loan is contained in the footnote section of the financial statements.

Despite the failure of the auction rate bond market in February 2008, the credit quality of the Corporation's pledged loan portfolio held in the 2002 Trust remains strong. With the exception of one subordinate series of auction rate securities (ARS) which remains rated A, all senior series ARS remain rated AAA by both Fitch and Standard and Poor's. Trust monitoring reports are prepared quarterly, the most current of which is available at http://alaskadvantage.state.ak.us/page/266 under investor information.

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:

Balance Sheets - 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.

The Balance Sheets classify assets and liabilities as current or noncurrent. Current assets are those available and reasonable expected to be used 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).

Statement of Revenues, Expenses, and Changes in Net Assets – 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.

Statement of Cash Flows – 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, 2009, 2008 and 2007 were $0.7, $0.8 and $1.1 billion, respectively. The change in assets from fiscal year 2008 to 2009 was a decrease of $38 million or 5% and the change between fiscal year 2007 and 2008 was an increase of $270 million or 27%.
- The Corporation's net education loans receivable was $586, $557 and $524 million, at June 30, 2009, 2008 and 2007, respectively. These balances represent an increase in fiscal year 2009 of $29 million or 5% and an increase in fiscal year 2008 of $33 million or 6%.
- The Corporation's long-term debt at June 30, 2009, 2008 and 2007 was $534, $566 and $779 million, respectively. The change in long-term debt from fiscal year 2008 to 2009 was a decrease of $32 million or 6% and between fiscal year 2007 and 2008 was a decrease of $213 million or 27%.
- The assets of the Corporation exceed its liabilities (reported as net assets) at the close of fiscal year 2009, 2008 and 2007 by $181, $177 and $181 million, respectively. These balances represent an increase in fiscal year 2009 of $4 million or 2% and a decrease in fiscal year 2008 of $4 million or 2%.
- The Corporation's operating revenue was $40, $60 and $61 million at June 30, 2009, 2008 and 2007, respectively. These balances represent a decrease in fiscal year 2009 of $20 million or 33% and a decrease in 2008 of $1 million or 2%.
- The Corporation's interest expense was $17, $32 and $30 million during fiscal years 2009, 2008 and 2007, respectively. These balances represent a decrease in fiscal year 2009 of $15 million or 47% and an increase in 2008 of $2 million or 7%.
- The Corporation's other operating expense was $20, $22 and $18 million during fiscal years 2009, 2008 and 2007. These balances represent a decrease in fiscal year 2009 of $2 million or 9% and an increase in fiscal year 2008 of $4 million or 22%.

ALASKA STUDENT LOAN CORPORATION
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MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Balance Sheets (in thousands)

	2009	2008	$ Change	% Change	2007
Assets:					
Current	$ 69,588	69,720	(132)	-	84,705
Noncurrent	673,123	711,378	(38,255)	(5)	965,989
Total assets	742,711	781,098	(38,387)	(5)	1,050,694
Liabilities:					
Current	50,977	54,554	(3,577)	(7)	166,334
Noncurrent	511,085	549,555	(38,470)	(7)	703,189
Total liabilities	562,062	604,109	(42,047)	(7)	869,523
Net assets:					
Unrestricted	140,686	139,437	1,249	1	33,346
Restricted	39,963	37,552	2,411	6	147,825
Total net assets	180,649	176,989	3,660	2	181,171
Total liabilities and net assets	$ 742,711	781,098	(38,387)	(5)	1,050,694

The fiscal year 2009 decrease in noncurrent assets was due to the reduction in noncurrent investments. This reduction is due to principal payments on bonds and return of capital payments to State agencies not being offset by other noncurrent investments.

Fiscal year 2009 current liabilities declined because return of capital payments classified as current declined. The Corporation chose not to return capital, based on net income, to the State in fiscal year 2010. In addition, reimbursement requests from State agencies with capital projects funded with Corporate bond proceeds continue to decline due to projects nearing completion.

Noncurrent liabilities in fiscal year 2009 declined due to the reduction in debt outstanding. As previously mentioned, the Corporation has not issued bonds since June 2007. Principal payments continue to be paid on existing debt reducing the Corporation's liabilities.

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 2008 debt service payments on 1988 Trust bonds. Current restricted investments at June 30, 2007 contained $23 million for fiscal year 2008 debt service payments on 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 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 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.

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.

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

		2009	2008	$ Change	% Change	2007
Operating revenue	$	39,992	60,001	(20,009)	(33)	61,024
Operating expense		(33,203)	(49,882)	16,679	(33)	(42,854)
Non-operating expense		(3,129)	(5,162)	2,033	(39)	(6,203)
Income before return of capital		3,660	4,957	(1,297)	(26)	11,967
Return of capital		-	(9,139)	9,139	(100)	(1,200)
Change in net assets		3,660	(4,182)	7,842	(188)	10,767
Net assets - beginning		176,989	181,171	(4,182)	(2)	170,404
Net assets - ending	$	180,649	176,989	3,660	2	181,171

Operating revenue, which represents interest on education loans and earnings on investments, declined significantly in fiscal year 2009. This decline was due to the decline in the Corporation's invested balance as well as the decline in investment returns generally. The quarterly average of invested assets declined $46 million in fiscal year 2009.

The slight reduction in fiscal year 2008 was due to the reduction in invested assets. The quarterly average of invested assets declined $100 million in fiscal year 2008.

The Corporation's return on average quarterly invested assets was 1.80% in fiscal year 2009, 5.78% in fiscal year 2008, 4.78% in fiscal year 2007. The Corporation invested in zero coupon State and Local Government Securities ("SLGS") in fiscal year 2009 to reduce yield restriction and arbitrage rebate liabilities associated with past earnings on tax-exempt bond proceeds. This practice has resulted in an artificially low return on assets in fiscal year 2009.

Operating expense declined in 2009 due to the reduction in interest expense on bonds issued to finance education loans. No only did outstanding debt decline, interest on the Corporation's auction rate securities averaged 1.82% in 2009 compared to 4.00% in 2008. Auction rate securities represented approximately 46% of the Corporation's average outstanding debt in 2009. See the footnote section of the financial statements for the rates being paid on auction rate securities at June 30, 2009.

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.

Non-operating expense declined in 2009 due to the reduction in interest expense on bonds issued to finance State capital projects. Principal payments are made twice a year on these fixed rate bonds. In addition to a reduction in interest expense, the rebate liability related to non-operating activities declined significantly in 2009. As mentioned earlier, the Corporation invested in SLGS in fiscal year 2009 to reduce the yield restriction and arbitrage rebate liability. The reduction in 2009 is reflected in non-operating expense.

Non-operating expense declined $1 million in 2008 due to the reduction in interest expense on bonds issued to finance State capital projects.

Return of capital represents payments to the State of Alaska as allowed by statute. As mentioned in the footnote section of the financial statements, the Corporation chose to not return capital to the State in 2009. 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.

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 education loan revenue 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 2009, 2008 and 2007 were $4.0, $4.4, and $3.6 million respectively.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The following tables reflect the benefits available to eligible borrowers during fiscal years 2010, 2009, 2008, and 2007. 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 2010:							
Alaska Presence	Attend in Alaska	0.50	1.20	-	0.50	0.50	-
Alaska Presence	Reside in Alaska	0.50	1.20	-	0.50	0.50	-
Fiscal Year 2009:							
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 and 2007:							
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 2010, 2009, 2008,and 2007:							
Timely Payment	After 1st 48 Pmts	2.00	2.00	2.00	1.00	1.00	1.00
Fiscal Years 2010, 2009, 2008 and 2007:							
Direct Payment	Electronic	0.25	0.25	0.25	0.25	0.25	0.25

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.

Other Borrower Costs Subsidized by the ASLC		% of Disbursement					
Benefit	Applied	Alternative	Unsubsidized Stafford	Subsidized Stafford	PLUS	Federal Consolidation	Alternative Consolidation
Fiscal Year 2010 (100% of fee charged):							
Origination Fee	When Disbursed	-	0.50	0.50	-	-	-
Fiscal Year 2009 (100% of fee charged):							
Origination Fee	When Disbursed	-	1.00	1.00	-	-	-
Fiscal Year 2008 (100% of fee charged):							
Origination Fee	When Disbursed	-	1.50	1.50	-	-	-
Fiscal Year 2007 (100% of fee charged):							
Origination Fee	When Disbursed	-	2.00	2.00	-	-	-
Fiscal Year 2010, 2009, 2008 and 2007 (100% of fee charged):							
Default Fee	When Disbursed	-	1.00	1.00	1.00	-	-
Fiscal Year 2008 and 2007:							
Cost Refund*	When Disbursed	-	-	-	3.00	-	-

**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, 2009, and 2008, 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 inc1udes 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, 2009, and 2008, 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 22, 2009, 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 10, 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.

ERM

September 22, 2009

AN INDEPENDENT MEMBER OF BDO SEIDMAN ALLIANCE™

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

Balance Sheets

June 30, 2009 and 2008

(in thousands)

Assets		2009	2008
Current assets:			
Cash (note 3)	$	793	1,612
Other		315	153
Arbitrage rebate receivable		-	412
Interest receivable - investments		3	83
Interest receivable - loans		2,074	1,411
Investments (note 3)		500	34,226
Loans receivable (note 4)		11,534	11,296
Restricted investments (note 3)		54,369	20,527
Total current assets		69,588	69,720
Noncurrent assets:			
Interest receivable - loans, net (note 6)		1,518	2,219
Loans receivable, net (notes 4 and 5)		104,127	93,671
Investments (note 3)		20,993	-
Restricted:			
Cash (note 3)		607	2,279
Other		703	286
Due from State of Alaska		-	29
Due from U.S. Department of Education		-	85
Interest receivable - investments		37	355
Interest receivable - loans, net (note 6)		18,250	17,689
Investments (note 3)		52,258	138,975
Loans receivable, net (notes 4 and 5)		470,801	451,595
Bond issue cost, net (note 8)		3,829	4,195
Total noncurrent assets		673,123	711,378
Total assets	$	742,711	781,098

See accompanying Notes to Financial Statements.

(Continued)

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

Balance Sheets

June 30, 2009 and 2008

(in thousands)

Liabilities and Net Assets		2009	2008
Liabilities:			
Current:			
Payable from unrestricted assets:			
Due to State of Alaska	$	443	763
Warrants outstanding		286	163
Accounts payable		442	610
Arbitrage rebate payable (note 9)		-	10
Return of capital payable (note 11)		-	4,100
Payable from restricted assets:			
Due to State of Alaska		48	-
Due to US Dept of Education		798	-
Warrants outstanding (note 4)		158	318
Accounts payable		44	144
Arbitrage rebate payable (note 9)		1,637	-
Return of capital payable (note 11)		10,635	14,092
Interest payable		3,063	3,861
Deferred credit (note 2)		1,413	748
Bonds payable (note 7)		32,010	29,745
Total current liabilities		50,977	54,554
Noncurrent-payable from restricted assets:			
Arbitrage rebate payable (note 9)		1,016	2,977
Return of capital payable (note 11)		3,545	3,545
Deferred credit (note 2)		4,347	7,152
Bonds payable, net (note 7)		502,177	535,881
Total noncurrent liabilities		511,085	549,555
Total liabilities		562,062	604,109
Commitments and contingencies (note 11)		-	-
Net assets:			
Unrestricted (note 2)		140,686	139,437
Restricted by bond indentures		39,963	37,552
Total net assets		180,649	176,989
Total liabilities and net assets	$	742,711	781,098

See accompanying Notes to Financial Statements.

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

Statements of Revenue, Expenses
and Changes in Net Assets

Years ended June 30, 2009 and 2008

(in thousands)

		2009	2008
Operating revenue:			
Interest - loans, net (note 6)	$	37,017	41,383
Investment income		2,922	18,587
Securities lending income (note 3)		-	6
Securities lending expense (note 3)		-	(5)
Other		53	30
Total operating revenue		39,992	60,001
Operating expense:			
Interest		13,346	27,990
Administration		13,881	14,190
Provision for:			
Loan losses (note 5)		5,185	5,447
Forgiveness (note 5)		178	167
Amortization of bond issuance costs (note 8)		201	2,166
Arbitrage rebate (note 9)		412	(78)
Total operating expense		33,203	49,882
Operating income		6,789	10,119
Nonoperating expense, excluding return of capital:			
Interest		3,683	4,388
Administration		18	14
Amortization of bond issuance costs (note 8)		165	166
Arbitrage rebate (note 9)		(737)	594
Nonoperating expense		3,129	5,162
Income before return of capital		3,660	4,957
Return of capital (note 11)		-	(9,139)
Change in net assets		3,660	(4,182)
Total net assets-beginning		176,989	181,171
Total net assets-ending	$	180,649	176,989

See accompanying Notes to Financial Statements.

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

Statements of Cash Flows

Years ended June 30, 2009 and 2008

(in thousands)

		2009	2008
Cash flows from operating activities:			
Principal repayments received on loans	$	58,333	55,231
Interest received on loans		26,686	29,948
Other receipts		1,086	1,311
Loans originated		(86,151)	(78,774)
Administration		(14,937)	(14,304)
Interest paid on bonds		(14,663)	(34,064)
Principal payments on bonds		(12,500)	(194,325)
Income received on investments		3,900	20,640
Investments matured or sold		1,910,745	1,867,842
Investments purchased		(1,845,314)	(1,572,845)
Net cash provided by operating activities		27,185	80,660
Cash flows from capital activities:			
Administration		(16)	(14)
Interest paid on bonds		(4,858)	(5,543)
Principal payments on bonds		(17,245)	(17,580)
Return of capital payments		(7,557)	(55,890)
Net cash used by capital activities		(29,676)	(79,027)
Net increase (decrease) in cash		(2,491)	1,633
Cash at beginning of period		3,891	2,258
Cash at end of period	$	1,400	3,891

See accompanying Notes to Financial Statements.

(Continued)

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

Statements of Cash Flows

Years ended June 30, 2009 and 2008

(in thousands)

		2009	2008
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	6,789	10,119
Adjustments to reconcile operating income to net cash provided by operating activities:			
Increase in other assets		(167)	(818)
Decrease in interest receivable - investments		398	2,606
Increase in net interest receivable - loans		(523)	(1,683)
Decrease in securities lending collateral		-	6,121
Decrease in investments		65,608	294,463
Increase in net loans receivable		(29,900)	(32,214)
Decrease in net bond issue costs		200	2,166
Decrease in due from U.S. Department of Education		883	451
Increase (decrease) in net due to State of Alaska		(243)	271
Increase in arbitrage rebate payable		403	314
Increase (decrease) in warrants outstanding		(37)	140
Increase (decrease) in accounts payable		(270)	188
Increase in securities lending collateral payable		-	(6,121)
Decrease in interest payable		(429)	(5,176)
Increase (decrease) in deferred credit		(2,140)	5,057
Decrease in bonds payable		(13,387)	(195,224)
Total adjustments		20,396	70,541
Net cash provided by operating activities	$	27,185	80,660
Summary of noncash capital activities that affect recognized assets and liabilities:			
Bond issuance cost amortization	$	165	166
Return of capital payable		-	9,139
Interest payable		4,489	5,194
Bond premium amortization		(806)	(806)
Arbitrage rebate payable		(737)	594

See accompanying Notes to Financial Statements.

(1) Authorizing Legislation and Organization

The Alaska Student Loan Corporation (Corporation), a component unit of the State of Alaska (State), was created in 1987 by an act of the State Legislature (Legislature). The purpose of the Corporation is to provide low-cost education loans to Alaskans pursuing education and training at a postsecondary level and for other qualified individuals attending postsecondary institutions in the State. The Corporation is authorized, with certain limitations, to issue 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 Commission is a separate legal entity responsible for staff costs; therefore, the Corporation has no pension disclosure.

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 and other obligations in order to finance education loans to qualified borrowers. Its operating revenue is derived from interest on education loans and earnings on investments. The cost of financing, providing and servicing education loans is recorded as an operating expense.

(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 significant accounting and reporting estimates applied in the preparation of the accompanying financial statements are discussed below.

(f) *Loans*

Loans represent education loans issued through the AlaskAdvantage Loan Program® which include Supplemental Education, Alternative Consolidation, Teacher Education (TEL), Family 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). Loan terms vary depending on the year of origination and loan type. Interest accrues at fixed and variable rates ranging from 2.48% 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 loans that will ultimately be uncollectible. The Corporation charges off Alternative loans to the allowance upon death, bankruptcy (as required 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 (other than TEL) awarded after June 30, 2002, interest from the disbursement date is the responsibility of the borrower. For TELs awarded after June 30, 2002, interest from the date the student withdraws from school is the responsibility of the borrower.

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

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

Alternative loans (other than FEL) awarded prior to July 1, 2002, 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. For FELs awarded prior to July 1, 2002, interest from the disbursement date is the responsibility of the borrower.

Non-interest bearing loans were approximately $5,401 and $6,549 at June 30, 2009 and 2008, respectively.

(i) ***Interest Allowances***

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

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

(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.

(l) ***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.

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

(n) ***Investments***

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.

(3) Cash and Investments

(a) ***Cash***

(1) Cash consists of deposits. Restricted cash is pledged to the Corporation's bond indentures. Cash summarized by classification at June 30 is shown below:

		2009	2008
Current, unrestricted	$	793	1,612
Noncurrent, restricted		607	2,279
Total	$	1,400	3,891

(2) 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, 2009 the Corporation had no cash exposed to custodial credit risk.

(3) Cash and Investments (cont.)

(b) ***Investments***

(1) 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:

		2009	2008
Current:			
Unrestricted	$	500	34,226
Restricted		54,369	20,527
Noncurrent:			
Unrestricted		20,993	-
Restricted		52,258	138,975
Total	$	128,120	193,728

(2) Investment Policies

The Corporation utilizes different investment strategies depending upon the nature and intended use of the assets being invested. Restricted funds, other than those restricted by State statute, are invested according to the terms outlined in their respective indentures which generally mandate the purchase of relatively short-term, high quality fixed income securities. Investments are managed by Commission staff or by the State of Alaska's Department of Revenue, Treasury Division (Treasury). The following securities are eligible for investment of restricted funds under the Corporation's investment policy:

- Under the 2002 and 2004 Master Indentures, 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.

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

- Under the 2002 and 2004 Master Indentures, U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks which have a rating on their short-term certificates of deposit on the date of purchase of at least A-1+ by Standard and Poor's and P-1 by Moody's and maturing no more than 360 days after

(3) Cash and Investments (cont.)

(b) ***Investments***

(2) Investment Policies

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.

- 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.

(3) Cash and Investments (cont.)

(b) ***Investments***

(2) Investment Policies

- 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			
	Commercial Paper		Unsecured Long-term Debt	
Maturity	Standard and Poor's	Moody's	Standard 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 Corporation's unrestricted funds may be invested in the various fixed-income pools managed by Treasury. Investments in the State's fixed-income investment pools are made in accordance with the State's General Investment Policy. These investments represent an ownership share of the pool's securities rather than ownership of specific securities themselves. Actual investing is performed by Treasury's investment officers. A complete description of the investment policy for each pool is included in the Department of Revenue, Treasury Division's, Policies and Procedures.

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

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

(3) Cash and Investments (cont.)

(b) ***Investments***

(2) Investment Policies

- Bonds, notes or other evidences of indebtedness rated "AAA/Aaa" and issued by federal agencies which do not represent the full faith and credit of the U.S.
- Collateralized mortgage obligations must be planned amortization class one or better or sequential collateralized mortgage obligations.
- Collateralized investment contracts and repurchase agreements.
- Uncollateralized investment contracts as long as the investment provider's long-term rating is and remains the highest possible throughout the contract term.
- Money funds with the highest possible rating.
- Certificates of deposit and term deposits of U.S. domestic financial institutions which are members of the Federal Deposit Insurance Corporation as long as collateralized at 100% of principal and accrued unpaid interest.
- Short-term domestic corporate promissory notes (commercial paper) payable in U.S. dollars of the highest rating.

(3) Credit Risk

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

(3) Cash and Investments (cont.)

(b) ***Investments***

(3) Credit Risk

The fair value of the Corporation's investments by type and credit quality ratings, as described by a nationally recognized rating service, at June 30 are shown below (using Standard and Poor's rating scale without modifiers):

Investment Type	Ratings		2009	2008
Repurchase agreements	Not rated	$	11,680	2,140
Pooled repurchase agreement account	Not rated		-	691
U.S. Government agencies	AAA		8,192	101
Mortgage-backed securities	AAA		-	1,820
Mortgage-backed securities	Not rated		-	5,529
Mortgage-backed securities (agencies)	Not rated		13,294	61,374
Other asset-backed securities	AAA		-	195
Other asset-backed securities	A		-	50
Other asset-backed securities	Not rated		-	46
Corporate bonds	AAA		-	123
Corporate bonds	AA		-	1,106
Corporate bonds	A		-	931
Money market funds	AAA		49,424	43,555
Guaranteed investment contracts	Not rated		11,487	58,019
Certificate of deposit	Not rated		3,000	-
Internal investment pools	Next schedule		13,317	1,510
U.S. Treasury securities	No credit exposure		17,726	16,408
Government National Mortgage Association	No credit exposure		-	130
Total		$	128,120	193,728

(3) Cash and Investments (cont.)

(b) ***Investments***

(3) Credit Risk

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

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

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

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

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

(3) Cash and Investments (cont.)

(b) *Investments*

(3) Credit Risk

The fair value of the Corporation's share of the State's internal investment pools by type and credit quality ratings, as described by a nationally recognized rating service, at June 30 are as shown below (using Standard and Poor's rating scale without modifiers):

Investment Type	Rating	Short-term Fixed Income Pool	Intermediate-term Fixed Income Pool	Totals 2009	Totals 2008
Pooled repurchase	Not Rated	$ -	-	-	1
Commercial paper	A-1	13	-	13	-
Commercial paper	Not Rated	59	-	59	44
U.S. Government agency	AAA	32	3,362	3,394	407
U.S. Government agency	Not Rated	-	121	121	-
Mortgage-backed	AAA	41	901	942	105
Mortgage-backed	AA	-	-	-	1
Mortgage-backed	A	1	-	1	1
Mortgage-backed	BBB	2	-	2	-
Mortgage-backed (agency)	Not Rated	4	203	207	34
Other asset-backed	AAA	127	47	174	125
Other asset-backed	AA	10	6	16	5
Other asset-backed	A	4	18	22	27
Other asset-backed	BB	-	-	-	7
Other asset-backed	BBB	-	-	-	3
Corporate bonds	AAA	226	545	771	33
Corporate bonds	AA	71	165	236	114
Corporate bonds	A	90	355	445	45
Corporate bonds	BBB	-	220	220	16
Corporate bonds	Not Rated	-	-	-	16
Yankees:					
Government	AA	-	92	92	8
Corporate	AAA	19	311	330	-
Corporate	AA	50	111	161	26
Corporate	A	15	58	73	8
Corporate	BBB	-	21	21	-
Corporate	Not Rated	-	6	6	5
No credit exposure		407	5,604	6,011	479
Total		$ 1,171	12,146	13,317	1,510

(3) Cash and Investments (cont.)

(b) ***Investments***

(4) Concentration Risk

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

For investment contracts, the investment providers will be limited to providing investments to the lesser of $50,000 or 10% of total investments. 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.

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, 2009 the Corporation had investment balances greater than five percent of the Corporation's total investments with the following investment providers:

	Fair Value	Percent of Total Investments
Federal Home Loan Bank	$ 9,438	7.37
Federal Home Loan Mortgage Corporation	11,920	9.30
FSA Management Services, LLC	11,487	8.97
UBS Paine Webber Inc.	11,726	9.15

(3) Cash and Investments (cont.)

(b) ***Investments***

(5) Interest Rate Risk

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

Duration

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

The Corporation 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 investments, other than investments in the State's internal investment pools, with their weighted average modified duration as of June 30, 2009 by investment type:

Guaranteed investment contracts	0.70
U.S. Treasury securities	0.01
U.S. Government agency securities	0.08
Portfolio modified duration	0.79

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

Through its investment policy, Treasury manages exposure to fair value losses arising from increasing interest rates by limiting the effective duration of its Intermediate-term Fixed Income Pool to ± 20% of the Merrill Lynch 1-5 year Government Bond Index. At June 30, 2009 the effective duration for the Merrill Lynch 1-5 year Government Bond Index was 2.54 years.

(3) Cash and Investments (cont.)

(b) ***Investments***

(5) Interest Rate Risk

At June 30, 2009 the Corporation's share of the Intermediate-term Fixed Income Pool's effective duration, by investment type, follows:

U.S. Treasury Notes	3.07
U.S. Government agency securities	2.02
Mortgage-backed securities	2.42
Other asset-backed securities	0.71
Corporate bonds	2.10
Yankees:	
Government	2.73
Corporate	2.81
Portfolio effective duration	2.52

As a means of limiting the Short-term Fixed Income Pool's exposure to fair value losses arising from increasing interest rates, Treasury's investment policy limits individual fixed rate securities to fourteen months in maturity or fourteen months expected average life at purchase. Floating rate securities are limited to three years in maturity or three years expected average life at purchase. Treasury utilizes the actual maturity date for commercial paper and twelve month prepay speeds for other securities. At June 30, 2009 the expected average life of fixed rate securities held in the Short-term Fixed Income Pool ranged from one day to eight years.

(6) Securities Lending

Alaska statutes authorize the Commissioner of Revenue to lend assets, under an agreement and for a fee, against deposited collateral of equivalent fair value. The securities lending program was suspended in February 2008. Securities on loan were returned in exchange for collateral.

(3) Cash and Investments (cont.)

(c) Cash and investments include amounts specifically designated for financing education loans at June 30, as follows:

	2009	2008
Current:		
Unrestricted	$ 2,855	-
Restricted	7,940	65,432
Total	$ 10,795	65,432

(4) Loans Receivable

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

	2009		2008	
	State	Federal	State	Federal
Current, unrestricted	$ 11,534	-	11,296	-
Noncurrent:				
Unrestricted	112,037	17,251	119,912	-
Restricted	423,701	136,641	424,858	112,994
Total	$ 547,272	153,892	556,066	112,994

(4) Loans Receivable (cont.)

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

		2009	2008
State Alternative Loans			
Supplemental Education	$	438,815	440,311
Consolidation		94,434	100,917
Teacher Education		7,916	8,143
Family Education		6,107	6,695
Total Alternative Loans		547,272	556,066
Federal Family Education Loans			
Stafford		123,264	82,942
PLUS		5,985	4,010
Consolidation		24,643	26,042
Total Federal Loans		153,892	112,994
Total	$	701,164	669,060

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

		2009		2008	
		State	Federal	State	Federal
Enrollment	$	76,535	55,793	80,744	38,116
Grace		18,724	14,407	18,082	11,135
Repayment		379,553	58,764	394,634	47,650
Deferment		62,812	19,467	50,340	11,834
Forbearance		9,648	5,461	12,266	4,259
Total	$	547,272	153,892	556,066	112,994

(d) Included in loans receivable are $209 and $284 of loan warrants issued but not redeemed by borrowers at June 30, 2009 and 2008, respectively. Redemption is contingent upon the borrower meeting certain eligibility requirements.

(4) Loans Receivable (cont.)

(e) Loans awarded not disbursed at June 30, are as follows:

		2009	2008
State Alternative Loans			
Supplemental Education	$	2,432	2,728
Teacher Education		15	37
Family Education		50	54
Total Alternative Loans		2,497	2,819
Federal Family Education Loans			
Stafford		11,398	2,843
PLUS		572	376
Total Federal Loans		11,970	3,219
Total	$	14,467	6,038

(5) Loan Allowances

(a) A summary of the activity in the allowance for doubtful loans at June 30 follows:

		2009	2008
Balance at beginning of period	$	110,404	111,141
Provision for doubtful loans		5,185	5,447
Net loans charged off		(2,880)	(6,184)
Balance at end of period	$	112,709	110,404

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

		2009	2008
Balance at beginning of period	$	2,094	2,238
Provision for forgiveness		178	167
Forgiveness granted		(279)	(311)
Balance at end of period	$	1,993	2,094

(6) Loan Interest Allowances

(a) A summary of the activity in the allowance for doubtful interest at June 30 follows:

		2009	2008
Balance at beginning of period	$	29,134	26,206
Provision for doubtful interest		1,942	4,439
Net interest charged off		(3,529)	(1,511)
Balance at end of period	$	27,547	29,134

(b) A summary of the activity in the allowance for interest forgiveness at June 30 follows:

		2009	2008
Balance at beginning of period	$	261	471
Provision for forgiveness		83	(122)
Forgiveness granted		(88)	(88)
Balance at end of period	$	256	261

(7) Bonds Payable

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

	Type	Original Amount	Amount Outstanding 2009	Amount Outstanding 2008
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%, due 2011 to 2017	Fixed	22,015	22,015	22,015
2005: Serial bonds, Series A, rate 5%, due 2010 to 2018	Fixed	58,250	52,750	56,250
2006: Series A-1, due 2040	Auction	30,000	30,000	30,000
Serial bonds, Series A-2, rate 5.0%, due 2010 to 2018	Fixed	55,000	52,000	55,000
2007: Series A-1, due 2042	Auction	41,500	41,500	41,500
Serial bonds, Series A-2, rate 5.0%, due 2010 to 2019	Fixed	18,500	18,500	18,500
Serial bonds, Series A-3, rate 5.0%, due 2010 to 2014	Fixed	49,000	37,000	43,000
Sub-total		476,865	429,965	442,465

(7) Bonds Payable (cont.)

	Type		Original Amount		Amount Outstanding 2009	2008
2004 Master Indenture, Series A Capital Project						
Serial bonds, rate 4%,						
due 2009 to 2016	Fixed		69,910		39,925	46,170
Term bonds, rate 4.0%, due 2018	Fixed		5,230		5,230	5,230
Sub-total			75,140		45,155	51,400
2005 Master Indenture, Series A State Projects:						
Serial bonds, rates ranging						
from 5.0% to 5.5%,						
due 2009 to 2014	Fixed		88,305		47,500	58,500
Total bonds payable		$	640,310		522,620	552,365
Premium					11,567	13,261
Net bonds payable				$	534,187	565,626
Current				$	32,010	29,745
Noncurrent					502,177	535,881
Total				$	534,187	565,626

(b) 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, 2009. 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, 2009 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%)	0.770%	0.823%
2003	lesser of: (a) 150% of the higher of (i) the after-tax equivalent rate or (ii) the Kenny index; or (b) the Treasury bill cap; or (c) the commercial paper cap; or (d) the lesser of (i) 14% or (ii) the maximum rate permitted by State law (10.5%)	0.720%	0.735%
2004	same as 2003 bonds	0.735%	0.660%
2006	same as 2003 bonds	0.705%	-
2007	same as 2003 bonds except 12% replaces 14% in (d)	0.645%	-

(7) Bonds Payable (cont.)

(c) The minimum payments and sinking fund installments for the five years subsequent to June 30, 2009 and thereafter are as follows:

Period Ending June 30		Principal	Interest	Total
2010	$	32,010	14,710	46,720
2011		53,955	13,146	67,101
2012		55,415	10,959	66,374
2013		44,890	8,728	53,618
2014		40,930	6,736	47,666
2015-2019		80,020	15,018	95,038
2020-2024		-	6,076	6,076
2025-2029		-	6,076	6,076
2030-2034		-	6,076	6,076
2035-2039		50,800	5,491	56,291
2040-2044		164,600	2,625	167,225
Total	$	522,620	95,641	618,261

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

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

* The principal payments on the 2004 series A-1 and A-2 bonds are due April 1st.

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

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

(8) Bond Issue Cost

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

		2009	2008
Balance at beginning of period	$	4,195	6,527
Retirements		-	(1,965)
Amortization		(366)	(367)
Balance at end of period	$	3,829	4,195

(9) Yield Restriction and Arbitrage Rebate

Education loans financed with proceeds of tax-exempt bonds issued by the Corporation are subject to interest rate yield restrictions of no more than 2% over the 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.

(10) Federal Family Education Loan Program

Beginning with fiscal year 2003, the AlaskAdvantage program offerings expanded to include loans governed by the Higher Education Act (HEA), specifically federally guaranteed Stafford (subsidized and unsubsidized), PLUS and Consolidation (subsidized and unsubsidized) loans. To accommodate the federal 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, excess interest, 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 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%.

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

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

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

An origination fee must be paid to the Department for Stafford and PLUS loans. The fee is equal to a percentage of the disbursed amount. Borrowers of PLUS loans were charged 3%. Borrowers of Stafford loans were charged 1.0% and 1.5% for fiscal years 2009 and 2008, respectively. The Corporation elected to pay the Stafford origination fee on behalf of borrower's in fiscal year 2009 and 2008.

Payment of a lender fee is required on federal loans in an amount equal to 0.5% of the disbursed amount, if first disbursed prior to October 1, 2007, and 1.0% if first disbursed 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 1.0% of the disbursed amount must be charged on Stafford and PLUS loans and may be charged to the borrower as a disbursement reduction. This fee was paid on behalf of the borrower in fiscal years 2009 and 2008.

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.

(11) Commitments and Contingencies

(a) *Operations*

The Corporation will fund approximately $12,205 of the Commission's fiscal year 2010 operating budget. In addition, the Corporation will fund expenditures related to the Commission's fiscal year 2009 operating and capital project budgets of approximately $501. The Commission's budget is subject to review and approval from both the executive and legislative branches of the State. Amounts funded by the Corporation will be based on expenditures paid by the Commission, 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.

(11) Commitments and Contingencies (cont.)

(b) *Return of Capital*

On October 9, 2008 the Board chose not to return capital, based on net income, to the State in fiscal year 2010. On October 15, 2007 the Board approved a $4,100 Return of Capital payment, based on net income, to the State which was paid during fiscal year 2009.

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 $14,228 and $17,637 at June 30, 2009 and 2008, respectively.

(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 $9,543 and $4,961 for the years ended June 30, 2009 and 2008, 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.

(11) Commitments and Contingencies (cont.)

(e) *Non Investment Interest Rate Risk*

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

(12) Subsequent Event

On July 17, 2009, the Corporation entered into a Trust and Loan Agreement with the State's Department of Revenue (acting on behalf of the State). The Loan Agreement provides up to $100 million dollars to the Corporation for the purpose of financing education loans. The loan is a four-year bullet loan accruing interest on the outstanding principal amount from the date of each draw using a variable rate of interest equal to the most recent rolling five-year average return on the State's general fund. The initial interest rate commencing upon the first draw will be 4.29%. The interest rate will be reset annually in July. Interest is payable semi-annually in January and July. The Corporation has the right to prepay the loan, in whole or in part, at any time, without penalty or premium.

The Trust Agreement was entered into to secure payment of the loan. It requires that the trust be capitalized with $5 million in cash prior to the first loan draw. In addition, loan proceeds drawn are to be deposited in the trust until education loans are originated. Education loans originated with loan proceeds, payments received on those loans, and earnings on pledged assets are all pledged to the trust.

When the loan is paid in full and there are no other obligations outstanding with respect to the loan, the Loan and Trust Agreements will be cancelled and the assets held in the Trust, if any, will be released to the Corporation.