

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

Unaudited Financial Statements

December 31, 2008 and 2007

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

Unaudited Financial Statements

Table of Contents

	Pages
Balance Sheets	2-3
Statements of Revenue, Expenses and Changes in Net Assets	4
Statements of Cash Flows	5-6
Notes to Financial Statements	7-35

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

Balance Sheets

December 31, 2008 and 2007

(in thousands)

Assets	<u>2008</u>	<u>2007</u>
Current assets:		
Cash (note 3)	\$ 1,400	67
Other	14	6
Arbitrage rebate receivable	412	-
Interest receivable - investments	74	204
Interest receivable - loans	1,231	-
Investments (note 3)	33,419	33,056
Loans receivable (note 4)	8,113	-
Restricted investments (note 3)	<u>47,268</u>	<u>31,791</u>
Total current assets	<u>91,931</u>	<u>65,124</u>
Noncurrent assets:		
Interest receivable - loans, net (note 6)	1,936	-
Loans receivable, net (note 4 and 5)	96,102	-
Restricted:		
Cash (note 3)	6,658	1,739
Other	67	-
Due from State of Alaska	142	-
Due from U.S. Department of Education	-	782
Interest receivable - investments	53	1,088
Interest receivable - loans, net (note 6)	15,935	19,754
Investments (note 3)	89,576	291,784
Loans receivable, net (note 4 and 5)	463,972	535,775
Bond issue cost, net (note 8)	<u>3,828</u>	<u>5,632</u>
Total noncurrent assets	<u>678,269</u>	<u>856,554</u>
Total assets	<u>\$ 770,200</u>	<u>921,678</u>

See accompanying Notes to Financial Statements.

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

Balance Sheets

December 31, 2008 and 2007

(in thousands)

Liabilities and Net Assets	<u>2008</u>	<u>2007</u>
Liabilities:		
Current:		
Payable from unrestricted assets:		
Warrants outstanding	\$ 143	157
Accounts payable	968	647
Return of capital payable (note 12)	4,100	4,100
Payable from restricted assets:		
Due to State of Alaska	140	48
Due to U.S. Dept. of Education	166	-
Warrants outstanding (note 4)	831	1,319
Accounts payable	229	4
Arbitrage rebate payable (note 10)	368	31
Return of capital payable (note 12)	11,545	9,611
Interest payable	3,461	7,777
Deferred credit (note 2)	1,849	900
Bonds payable (note 7)	29,360	37,410
Total current liabilities	<u>53,160</u>	<u>62,004</u>
Noncurrent-payable from restricted assets:		
Arbitrage rebate payable (note 10)	2,609	1,273
Return of capital payable (note 12)	3,545	5,636
Deferred credit (note 2)	6,042	1,895
Bonds payable, net (note 7)	526,817	665,160
Total noncurrent liabilities	<u>539,013</u>	<u>673,964</u>
Total liabilities	<u>592,173</u>	<u>735,968</u>
Commitments and contingencies (note 12)	<u>-</u>	<u>-</u>
Net assets:		
Unrestricted (note 2)	137,491	31,465
Restricted by bond indentures	40,536	154,245
Total net assets	<u>178,027</u>	<u>185,710</u>
Total liabilities and net assets	<u>\$ 770,200</u>	<u>921,678</u>

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

Six Months Ended December 31, 2008 and 2007

(in thousands)

	2008	2007
Operating revenue:		
Interest - loans, net (note 6)	\$ 19,277	21,539
Investment income	2,246	12,810
Other	13	12
Total operating revenue	21,536	34,361
Operating expenses:		
Interest	7,736	13,368
Administration	7,465	6,872
Provision for:		
Loan losses (note 5)	2,887	2,896
Forgiveness (note 5)	96	181
Amortization of bond issuance costs (note 8)	201	812
Arbitrage rebate (note 10)	-	(774)
Total operating expenses	18,385	23,355
Operating income	3,151	11,006
Nonoperating expense, excluding return of capital:		
Interest	1,941	2,278
Administration	6	6
Amortization of bond issuance costs (note 8)	166	83
Nonoperating expense	2,113	2,367
Income before return of capital	1,038	8,639
Return of capital (note 12)	-	(4,100)
Change in net assets	1,038	4,539
Total net assets-beginning	176,989	181,171
Total net assets-ending	\$ 178,027	185,710

See accompanying Notes to Financial Statements.

ALASKA STUDENT LOAN CORPORATION

(a Component Unit of the State of Alaska)

Statements of Cash Flows

Six Months Ended December 31, 2008 and 2007

(in thousands)

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Principal repayments received on loans	\$ 32,780	28,752
Interest received on loans	15,678	12,483
Other receipts	625	672
Loans originated	(41,283)	(37,326)
Administration	(7,539)	(3,987)
Interest paid on bonds	(8,414)	(15,241)
Principal payments on bonds	-	(66,800)
Income received on investments	2,726	11,791
Investments matured or sold	1,011,153	2,957,625
Investments purchased	(987,894)	(2,823,293)
Net cash provided by operating activities	<u>17,832</u>	<u>64,676</u>
Cash flows from capital activities:		
Administration	(6)	(6)
Interest paid on bonds	(2,512)	(2,861)
Principal payments on bonds	(8,600)	(9,020)
Return of capital payments	(2,547)	(53,241)
Net cash used by capital activities	<u>(13,665)</u>	<u>(65,128)</u>
Net increase (decrease) in cash	4,167	(452)
Cash at beginning of period	<u>3,891</u>	<u>2,258</u>
Cash at end of period	<u>\$ 8,058</u>	<u>1,806</u>

See accompanying Notes to Financial Statements.

(Continued)

ALASKA STUDENT LOAN CORPORATION

(a Component Unit of the State of Alaska)

Statements of Cash Flows

Six Months Ended December 31, 2008 and 2007

(in thousands)

	<u>2008</u>	<u>2007</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ <u>3,151</u>	<u>11,006</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Decrease in other assets	358	27
Decrease in interest receivable - investments	311	1,752
Decrease (increase) in interest receivable - loans	2,217	(118)
Decrease in securities lending collateral	-	6,121
Decrease in investments	23,465	131,560
(Increase) in net loans receivable	(11,625)	(11,427)
Decrease in net bond issue costs	201	812
Decrease (increase) in due from U.S. Department of Education	251	(246)
Decrease in net due to State of Alaska	(736)	(415)
Decrease in arbitrage rebate payable	(9)	(775)
Increase in warrants outstanding	493	1,135
Increase in accounts payable	443	85
Decrease in securities lending collateral payable	-	(6,121)
Decrease in interest payable	(233)	(1,429)
Decrease in deferred credit	(9)	(49)
Decrease in bonds payable	(446)	(67,242)
Total adjustments	<u>14,681</u>	<u>53,670</u>
Net cash provided by operating activities	<u>\$ 17,832</u>	<u>64,676</u>
Summary of noncash capital activities that affect recognized assets and liabilities:		
Bond issuance cost amortization	\$ 444	83
Return of capital payable	-	4,100
Interest payable	2,345	2,681
Bond premium amortization	(403)	(403)

See accompanying Notes to Financial Statements.

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

Notes to Financial Statements

December 31, 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.

ALASKA STUDENT LOAN CORPORATION
(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 AlaskAdvantageTM 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 9.0% 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.

ALASKA STUDENT LOAN CORPORATION

(a Component Unit of the State of Alaska)

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 \$6,056 and \$7,631 at December 31, 2008 and 2007, 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.

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.

(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.

ALASKA STUDENT LOAN CORPORATION

(a Component Unit of the State of Alaska)

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*

(1) Cash consists of deposits. Restricted cash is pledged to the Corporation's bond indentures. Cash summarized by classification at December 31 follows:

	<u>2008</u>	<u>2007</u>
Current, unrestricted	\$ 1,400	67
Noncurrent, restricted	<u>6,658</u>	<u>1,739</u>
	<u>\$ 8,058</u>	<u>1,806</u>

(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 December 31, 2008 the Corporation had \$1,229 in current unrestricted cash exposed to custodial credit risk.

ALASKA STUDENT LOAN CORPORATION

(a Component Unit of the State of Alaska)

Notes to Financial Statements

(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 December 31, of the Corporation's investments, by classification, is shown below:

	<u>2008</u>	<u>2007</u>
Current:		
Unrestricted	\$ 33,419	33,056
Restricted	47,268	31,791
Noncurrent, restricted	<u>89,576</u>	<u>291,784</u>
	<u>\$ 170,263</u>	<u>356,631</u>

- (2) Investments include amounts specifically designated for financing education loans at December 31, as follows:

	<u>2008</u>	<u>2007</u>
Current:		
Unrestricted	\$ 6,654	-
Restricted	28,822	93,060
Noncurrent, restricted	<u>2,521</u>	<u>5,307</u>
	<u>\$ 37,997</u>	<u>98,367</u>

ALASKA STUDENT LOAN CORPORATION

(a Component Unit of the State of Alaska)

Notes to Financial Statements

(3) Cash and Investments (cont.)

(b) Investments (cont.)

(3) The fair value of investments, by type, at December 31, is shown below:

	<u>2008</u>	<u>2007</u>
Guaranteed investment contracts	\$ 12,986	89,995
State's short-term fixed income pool	-	21,737
Pooled repurchase agreement	32,260	615
U.S. Treasury securities	39,232	67,420
U.S. Government agency securities	26,352	87,922
Mortgage-backed securities	7,080	-
Other asset-backed securities	187	14,273
Corporate bonds	1,842	4,273
Money market funds	<u>46,062</u>	<u>66,843</u>
Sub-total	166,001	353,078
GeFONSI	<u>4,262</u>	<u>3,553</u>
Total investments	<u>\$ 170,263</u>	<u>356,631</u>

ALASKA STUDENT LOAN CORPORATION

(a Component Unit of the State of Alaska)

Notes to Financial Statements

(3) Cash and Investments (cont.)

(b) Investments (cont.)

(4) 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.

Investments by type are not available for the Corporation's holdings in the GeFONSI at December 31. The Corporation's GeFONSI holdings at June 30 were as follows:

Investment Type	Short-term Fixed Income Pool	Intermediate- term Fixed Income Pool	Totals 2008
Pooled repurchase agreement	\$ 1	-	1
Commercial paper	44	-	44
U.S. Treasury securities	-	473	473
U.S. Government agency securities	292	115	407
Mortgage-backed Securities	23	118	141
Other asset-backed Securities	136	31	167
Corporate bonds	129	95	224
Yankees:			
Government	-	8	8
Corporate	39	-	39
Total invested assets	<u>664</u>	<u>840</u>	<u>1,504</u>
Pool related net assets (liabilities)	<u>1</u>	<u>5</u>	<u>6</u>
Net GeFONSI assets	<u>\$ 665</u>	<u>845</u>	<u>1,510</u>

ALASKA STUDENT LOAN CORPORATION

(a Component Unit of the State of Alaska)

Notes to Financial Statements

(3) Cash and Investments (cont.)

(b) Investments (cont.)

(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. Investments are managed by Commission staff or by Treasury. The following securities are eligible for investment of restricted funds under the Corporation's respective Indentures:

- 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 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.
- 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.

ALASKA STUDENT LOAN CORPORATION

(a Component Unit of the State of Alaska)

Notes to Financial Statements

(3) Cash and Investments (cont.)

(b) Investments (cont.)

(5) Investment Policies (cont.)

- 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.
- 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:

Maturity	Ratings			
	Commercial Paper		Unsecured Long-term Debt	
	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.

ALASKA STUDENT LOAN CORPORATION

(a Component Unit of the State of Alaska)

Notes to Financial Statements

(3) Cash and Investments (cont.)

(b) Investments (cont.)

(5) Investment Policies (cont.)

- 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.
- 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.

(3) Cash and Investments (cont.)

(b) Investments (cont.)

ALASKA STUDENT LOAN CORPORATION

(a Component Unit of the State of Alaska)

Notes to Financial Statements

(5) Investment Policies (cont.)

- 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.

(6) 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 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.

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 December 31, 2008 the Corporation had investment balances greater than five percent of the Corporation's total investments with the following investment providers:

	<u>Fair Value</u>	<u>Percent of Total Investments</u>
FHLB	\$ 10,106	5.94
FHLMC	13,450	7.90
FSA Management Services, LLC	12,264	7.20

ALASKA STUDENT LOAN CORPORATION

(a Component Unit of the State of Alaska)

Notes to Financial Statements

(3) Cash and Investments (cont.)

(b) Investments (cont.)

(7) 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.

The credit quality ratings of the Corporation's investments, at December 31, 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
U.S. Government agencies	AAA	\$ 1,240	48,735
Mortgage-backed securities	AAA	1,609	-
Other asset-backed securities	AAA	138	3,609
	A	49	50
Corporate bonds	AAA	85	1,440
	AA	991	1,830
	A	695	898
	BAA	71	105
Money market funds	AAA	46,062	66,843
Guaranteed investment contracts	Not Rated	12,986	89,995
Pooled repurchase agreement account	Not Rated	32,260	615
State's short-term fixed income pool	Not Rated	-	21,737
GeFONSI	Not Available	4,262	3,553
U.S. Government agencies	Not Rated	25,113	39,187
Mortgage-backed securities	Not Rated	5,471	-
Other asset-backed securities	Not Rated	-	10,614
No credit exposure		39,231	67,420
		\$ 170,263	356,631

ALASKA STUDENT LOAN CORPORATION

(a Component Unit of the State of Alaska)

Notes to Financial Statements

(3) Cash and Investments (cont.)

(b) Investments (cont.)

(7) Credit Risk (cont.)

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.

ALASKA STUDENT LOAN CORPORATION

(a Component Unit of the State of Alaska)

Notes to Financial Statements

(3) Cash and Investments (cont.)

(b) Investments (cont.)

(7) Credit Risk (cont.)

Credit quality ratings for the Corporation's holdings in the GeFONSI were not available at December 31, 2008. Credit quality ratings for the Corporation's holdings in the GeFONSI at June 30, 2008 (using Standard and Poor's rating scale without modifiers) were as follows:

<u>Investment Type</u>	<u>Rating</u>	<u>Short-term Fixed Income Pool</u>	<u>Intermediate- term Fixed Income Pool</u>	<u>Total</u>
Pooled repurchase agreement	Not Rated	\$ 1	-	1
Commercial paper	Not Rated	44	-	44
U.S. Government agency	AAA	292	115	407
Mortgage-backed	AAA	19	86	105
Mortgage-backed	AA	1	-	1
Mortgage-backed	A	1	-	1
Mortgage-backed (agency)	Not Rated	2	32	34
Other asset-backed	AAA	107	18	125
Other asset-backed	AA	4	1	5
Other asset-backed	A	17	10	27
Other asset-backed	BB	6	1	7
Other asset-backed	BBB	2	1	3
Corporate bonds	AAA	14	19	33
Corporate bonds	AA	81	33	114
Corporate bonds	A	27	18	45
Corporate bonds	BBB	-	16	16
Corporate bonds	Not Rated	7	9	16
Yankees:				
Government	AA	-	8	8
Corporate	AA	26	-	26
Corporate	A	8	-	8
Corporate	Not Rated	5	-	5
No credit exposure		1	478	479
		<u>\$ 665</u>	<u>845</u>	<u>1,510</u>

ALASKA STUDENT LOAN CORPORATION

(a Component Unit of the State of Alaska)

Notes to Financial Statements

(3) Cash and Investments (cont.)

(b) Investments (cont.)

(8) 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 December 31, 2008 by investment type:

Guaranteed investment contracts	0.48
U.S. Treasury securities	0.15
U.S. Government agency securities	0.07
Mortgage-backed securities	0.38
Other asset-backed securities	0.01
Corporate bonds	0.05
Portfolio modified duration	1.13

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.

ALASKA STUDENT LOAN CORPORATION

(a Component Unit of the State of Alaska)

Notes to Financial Statements

(3) Cash and Investments (cont.)

(b) Investments (cont.)

(8) Interest Rate Risk (cont.)

The Intermediate-term Fixed Income Pool's effective duration, by investment type was not available at December 31, 2008. At June 30, 2008 the GeFONSI's share of the Intermediate-term Fixed Income Pool's effective duration, by investment type was as 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
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.

The expected average life of fixed rate securities held in the Short-term Fixed Income Pool was not available at December 31, 2008. 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.

(9) 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.

ALASKA STUDENT LOAN CORPORATION

(a Component Unit of the State of Alaska)

Notes to Financial Statements

(3) Cash and Investments (cont.)

(b) Investments (cont.)

(9) Securities Lending (cont.)

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 six month period ended December 31, 2007 there were no losses incurred as a result of securities lending transactions and there were no significant violations of legal or contractual provisions or failures by any borrower to return loaned securities.

ALASKA STUDENT LOAN CORPORATION

(a Component Unit of the State of Alaska)

Notes to Financial Statements

(4) Loans Receivable

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

	<u>2008</u>	<u>2007</u>
State Alternative Loans		
Supplemental Education	\$ 438,783	436,366
Consolidation	98,343	103,924
Teacher Education	7,978	8,386
Family Education	6,355	7,002
Total Alternative Loans	<u>551,459</u>	<u>555,678</u>
Federal Family Education Loans		
Stafford	101,370	68,994
PLUS	5,036	3,447
Consolidation	25,302	23,593
Total Federal Loans	<u>131,708</u>	<u>96,034</u>
Total	<u>\$ 683,167</u>	<u>651,712</u>

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

	<u>2008</u>		<u>2007</u>	
	<u>State</u>	<u>Federal</u>	<u>State</u>	<u>Federal</u>
Enrollment	\$ 82,510	49,102	84,850	35,011
Grace	10,031	8,265	9,258	5,733
Repayment	394,043	52,991	399,362	41,838
Deferment	55,875	16,155	48,411	9,933
Forbearance	9,000	5,195	13,797	3,519
Total	<u>\$ 551,459</u>	<u>131,708</u>	<u>555,678</u>	<u>96,034</u>

ALASKA STUDENT LOAN CORPORATION

(a Component Unit of the State of Alaska)

Notes to Financial Statements

(4) Loans Receivable (cont.)

(c) Restricted loans are pledged to the Corporation's bond indentures. The loan portfolio summarized by classification at December 31, follows:

	2008		2007	
	State	Federal	State	Federal
Current, unrestricted	\$ 8,113	-	-	-
Noncurrent:				
Unrestricted	117,241	5,674	-	-
Restricted	<u>426,105</u>	<u>126,034</u>	<u>555,678</u>	<u>96,034</u>
Total	<u>\$ 551,459</u>	<u>131,708</u>	<u>555,678</u>	<u>96,034</u>

(d) Included in loans receivable are \$907 and \$1,313 of loan warrants issued but not redeemed by borrowers at December 31, 2008 and 2007, respectively. Redemption is contingent upon the borrower meeting certain eligibility requirements.

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

	2008	2007
State Alternative Loans		
Supplemental Education	\$ 15,571	16,642
Teacher Education	262	319
Family Education	475	605
Total Alternative Loans	<u>16,308</u>	<u>17,566</u>
Federal Family Education Loans		
Stafford	18,595	12,326
PLUS	1,166	919
Total Federal Loans	<u>19,761</u>	<u>13,245</u>
Total	<u>\$ 36,069</u>	<u>30,811</u>

ALASKA STUDENT LOAN CORPORATION

(a Component Unit of the State of Alaska)

Notes to Financial Statements

(5) Loan Allowances

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

	<u>2008</u>	<u>2007</u>
Balance at beginning of period	\$ 110,404	111,141
Provision for doubtful loans	2,887	2,896
Net loans charged off	(385)	(347)
Balance at end of period	<u>\$ 112,906</u>	<u>113,690</u>

(b) A summary of the activity in the allowance for principal forgiveness at December 31 follows:

	<u>2008</u>	<u>2007</u>
Balance at beginning of period	\$ 2,094	2,238
Provision for forgiveness	96	181
Forgiveness granted	(117)	(172)
Balance at end of period	<u>\$ 2,073</u>	<u>2,247</u>

(6) Loan Interest Allowances

(a) A summary of the activity in the allowance for doubtful interest at December 31 follows:

	<u>2008</u>	<u>2007</u>
Balance at beginning of period	\$ 29,134	26,206
Provision for doubtful interest	(152)	331
Net interest charged off	(180)	(174)
Balance at end of period	<u>\$ 28,802</u>	<u>26,363</u>

ALASKA STUDENT LOAN CORPORATION

(a Component Unit of the State of Alaska)

Notes to Financial Statements

(6) Loan Interest Allowances (cont.)

(b) A summary of the activity in the allowance for interest forgiveness at December 31 follows:

	<u>2008</u>	<u>2007</u>
Balance at beginning of period	\$ 261	471
Provision for forgiveness	39	34
Forgiveness granted	<u>(43)</u>	<u>(32)</u>
Balance at end of period	<u>\$ 257</u>	<u>473</u>

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

Notes to Financial Statements

(7) Bonds Payable

(a) Bonds, all of which are tax-exempt revenue bonds, consist of the following at December 31:

	Type	Original Amount	Amount Outstanding	
			2008	2007
1988 Master Indenture, Series A Student Loan, serial:				
1998: rates ranging from 4.75%				
to 5.3%, due 2008 to 2016	Fixed	88,570	-	45,000
1999: rates ranging from 4.80%				
to 5.45%, due 2008 to 2017	Fixed	40,000	-	28,000
2000: rates ranging from 5.50%				
to 6.05%, due 2008 to 2018	Fixed	32,140	-	25,730
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	-	12,935
Sub-total		<u>201,915</u>	<u>-</u>	<u>119,525</u>
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,				
rates ranging from 4.5% to				
5.0%, due 2009 to 2018	Fixed	58,250	56,250	58,250
2006: Series A-1, due 2040	Auction	30,000	30,000	30,000
Serial bonds, Series A-2, rate				
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				
5.0%, due 2010 to 2019	Fixed	18,500	18,500	18,500
Serial bonds, Series A-3, rate				
5.0%, due 2009 to 2014	Fixed	49,000	43,000	49,000
Sub-total		<u>476,865</u>	<u>442,465</u>	<u>450,465</u>

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

Notes to Financial Statements

(7) Bonds Payable (cont.)

	<u>Type</u>	<u>Original Amount</u>	<u>Amount Outstanding</u>	
			<u>2008</u>	<u>2007</u>
2004 Master Indenture, Series A Capital Project				
Serial bonds, rates ranging from 2.0% to 4.0%, due 2009 to 2017	Fixed	69,910	43,070	49,230
Term bonds, rate 4.0%, due 2019	Fixed	<u>5,230</u>	<u>5,230</u>	<u>5,230</u>
Sub-total		<u>75,140</u>	<u>48,300</u>	<u>54,460</u>
2005 Master Indenture, Series A State Projects:				
Serial bonds, rates ranging from 5.0% to 5.5%, due 2009 to 2015	Fixed	<u>88,305</u>	<u>53,000</u>	<u>64,000</u>
Total bonds payable		\$ <u>842,225</u>	543,765	688,450
Premium			<u>12,412</u>	<u>14,120</u>
Net bonds payable			\$ <u>556,177</u>	<u>702,570</u>
Current			\$ 29,360	37,410
Noncurrent			<u>526,817</u>	<u>665,160</u>
			\$ <u>556,177</u>	<u>702,570</u>

ALASKA STUDENT LOAN CORPORATION

(a Component Unit of the State of Alaska)

Notes to Financial Statements

(7) Bonds Payable (cont.)

- (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 December 31, 2008. The supplemental indenture related to each series of ARS defines the maximum rate to be assigned to the bonds when an auction fails.

The following definitions exist for the Corporation's ARS:

<u>Bonds</u>	<u>Maximum Rate (rounded to the nearest one thousandth of 1%)</u>	<u>Rate at December 31, 2008 by Series</u>	
		<u>A/A-1</u>	<u>B/A-2</u>
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%)	1.575%	1.838%
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%)	1.185%	0.900%
2004	same as 2003 bonds	1.425%	1.350%
2006	same as 2003 bonds	1.470%	-
2007	same as 2003 bonds except 12% replaces 14% in (d)	1.485%	-

ALASKA STUDENT LOAN CORPORATION

(a Component Unit of the State of Alaska)

Notes to Financial Statements

(7) Bonds Payable (cont.)

- (c) The minimum payments and sinking fund installments for the five years subsequent to December 31, 2008 and thereafter are as follows:

<u>Period Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 29,360	16,809	46,169
2010	32,165	15,900	48,065
2011	53,615	13,962	67,577
2012	55,335	11,692	67,027
2013	44,310	9,530	53,840
2014-2018	113,080	26,563	139,643
2019-2023	500	14,922	15,422
2024-2028	-	14,910	14,910
2029-2033	-	14,910	14,910
2034-2038	50,800	14,180	64,980
2039-2043	71,500	9,183	80,683
2044	93,100	322	93,422
	<u>\$ 543,765</u>	<u>162,883</u>	<u>706,648</u>

- (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:

<u>Master Indenture</u>	<u>Principal</u>	<u>Interest</u>
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.

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

Notes to Financial Statements

(8) Bond Issue Cost

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

	2008	2007
Balance at beginning of period	\$ 4,195	6,527
Additions	-	(1)
Amortization	(367)	(894)
Balance at end of period	\$ 3,828	5,632

(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.

(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. The amount accrued for arbitrage rebate liability 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 AlaskAdvantageTM 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.

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

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 those receipts and payments.

ALASKA STUDENT LOAN CORPORATION

(a Component Unit of the State of Alaska)

Notes to Financial Statements

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 three-month commercial paper rate as established by the Department. The SAP differs according to 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 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 originated amount. Borrowers of PLUS loans were charged 3%. Borrowers of Stafford loans were charged 1.0% and 1.5% for the six-month periods ending December 31, 2008 and 2007, respectively. The Corporation elected to pay the Stafford origination fee on behalf of borrower's for the six-month periods ending December 31, 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 on behalf of the borrower for the six-month periods ending December 31, 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.

ALASKA STUDENT LOAN CORPORATION

(a Component Unit of the State of Alaska)

Notes to Financial Statements

(12) Commitments and Contingencies

(a) *Operations*

The Corporation will fund approximately \$6,788 of the Commission's operating and capital budgets for the remainder of 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 9, 2008 the Board decided to forgo a return of capital payment to the state for the fiscal year 2010 due to economic conditions.

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 \$15,283 and \$20,444 at December 31, 2008 and 2007, 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 \$9,393 and \$4,908 for the six month period ending December 31, 2008 and 2007, respectively.

ALASKA STUDENT LOAN CORPORATION

(a Component Unit of the State of Alaska)

Notes to Financial Statements

(12) Commitments and Contingencies (cont.)

(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.