(a Component Unit of the State of Alaska)

**Unaudited Financial Statements** 

December 31, 2009 and 2008

(a Component Unit of the State of Alaska)

**Unaudited Financial Statements** 

December 31, 2009 and 2008

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(a Component Unit of the State of Alaska)

# **Balance Sheets**

# December 31, 2009 and 2008

Assets		2009	2008
Current assets:			
Cash (note 3)	\$	134	1,400
Other		25	14
Arbitrage rebate receivable		-	412
Interest receivable - investments		1	74
Interest receivable - loans		1,941	1,231
Investments (note 3)		-	33,419
Loans receivable (note 4)		8,408	8,113
Restricted investments (note 3)		61,269	47,268
Total current assets	_	71,778	91,931
Noncurrent assets:			
Interest receivable - loans, net (note 6)		1,849	1,936
Loans receivable, net (notes 4 and 5)		103,465	96,102
Investments (note 3)		25,712	-
Restricted:			
Cash (note 3)		220	6,658
Other		451	67
Due from State of Alaska		1,715	142
Interest receivable - investments		25	53
Interest receivable - loans, net (note 6)		17,220	15,935
Investments (note 3)		67,920	89,576
Loans receivable, net (notes 4 and 5)		496,289	463,972
Bond issue cost, net (note 8)		3,646	3,828
Total noncurrent assets	<u> </u>	718,512	678,269
Total assets	\$	790,290	770,200

(a Component Unit of the State of Alaska)

# **Balance Sheets**

# December 31, 2009 and 2008

(in thousan	nas)		
Liabilities and Net Assets		2009	2008
Liabilities:			
Current:			
Payable from unrestricted assets:			
Due to State of Alaska	\$	120	-
Warrants outstanding		162	143
Accounts payable		617	968
Return of capital payable (note 12)		-	4,100
Payable from restricted assets:			
Due to State of Alaska		-	140
Due to US Dept of Education		2,400	166
Warrants outstanding (note 4)		432	831
Accounts payable		9	229
Arbitrage rebate payable (note 10)		1,637	368
Return of capital payable (note 12)		10,338	11,545
Interest payable		3,603	3,461
Deferred credit (note 2)		2,243	1,849
Bonds payable (note 7)		24,168	29,360
Total current liabilities		45,729	53,160
Noncurrent-payable from restricted assets:			
Arbitrage rebate payable (note 10)		1,016	2,609
Return of capital payable (note 12)		3,545	3,545
Deferred credit (note 2)		3,332	6,042
Bonds payable, net (note 7)		500,957	526,817
Loan Payable (note 9)		55,000	-
Total noncurrent liabilities		563,850	539,013
Total liabilities		609,579	592,173
Commitments and contingencies (note 12)			
Net assets:			
Unrestricted (note 2)		140,635	137,491
Restricted by bond indentures		40,076	40,536
Total net assets	_	180,711	178,027
Total liabilities and net assets	\$	790,290	770,200

(a Component Unit of the State of Alaska)

# Statements of Revenue, Expenses and Changes in Net Assets

Six Months ended December 31, 2009 and 2008

	_	2009	2008
Operating revenue:			
Interest - loans, net (note 6)	\$	16,414	19,277
Investment income		621	2,246
Other		6	13
Total operating revenue	_	17,041	21,536
Operating expense:			
Interest		5,739	7,736
Administration		7,835	7,465
Provision for:			
Loan losses (note 5)		1,673	2,887
Forgiveness (note 5)		-	96
Amortization of bond issuance costs (note 8)	_	100	201
Total operating expense		15,347	18,385
Operating income	_	1,694	3,151
Nonoperating expense, excluding return of capital:			
Interest		1,539	1,941
Administration		10	6
Amortization of bond issuance costs (note 8)		83	166
Nonoperating expense		1,632	2,113
Income before return of capital	_	62	1,038
Return of capital (note 12)	_		
Change in net assets		62	1,038
Total net assets-beginning		180,649	176,989
Total net assets-ending	\$ -	180,711	178,027
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(a Component Unit of the State of Alaska)

# Statements of Cash Flows

# Six Months ended December 31, 2009 and 2008

		2009	2008
Cash flows from operating activities:	•		
Principal repayments received on loans	\$	28,061	32,780
Interest received on loans		11,147	15,678
Other receipts		201	625
Loans originated		(45,913)	(41,283)
Administration		(7,289)	(7,539)
Interest paid on bonds		(5,441)	(8,414)
Proceeds from loan		55,000	-
Income received on investments		591	2,726
Investments matured or sold		1,815,296	1,011,153
Investments purchased		(1,842,033)	(987,894)
Net cash provided by operating activities		9,620	17,832
Cash flows from capital activities:			
Administration		(10)	(6)
Interest paid on bonds		(2,144)	(2,512)
Principal payments on bonds		(8,215)	(8,600)
Return of capital payments		(297)	(2,547)
Net cash used for capital activities	-	(10,666)	(13,665)
Net increase (decrease) in cash		(1,046)	4,167
Cash at beginning of period	-	1,400	3,891
Cash at end of period	\$	354	8,058

(a Component Unit of the State of Alaska)

# Statements of Cash Flows

# Six Months ended December 31, 2009 and 2008

provided by operating activities: Operating income \$ 1,694 3,151  Adjustments to reconcile operating income to net cash provided by operating activities: Decrease in other assets 542 358 Decrease in interest receivable - investments 14 311 Decrease in net interest receivable - loans 832 2,217 Decrease (increase) in investments (26,781) 23,465 Increase in net loans receivable (21,700) (11,625) Decrease in net obnd issue costs 101 201 Increase in due to U.S. Department of Education 1,602 251 Decrease in net due to State of Alaska (2,086) (736) Decrease in arbitrage rebate payable - (9) Increase in warrants outstanding 150 493 Increase in accounts payable 140 443 Increase (decrease) in interest payable 741 (233) Decrease in deferred credit (185) (9) Decrease in bonds payable (444) (446) Increase in loan payable 55,000 - Total adjustments 7,926 14,681 Net cash provided by operating activities \$ 9,620 17,832			2009	2008
Adjustments to reconcile operating income to net cash provided by operating activities:  Decrease in other assets  Decrease in interest receivable - investments  Decrease in net interest receivable - loans  Decrease (increase) in investments  Increase in net loans receivable  Decrease in net bond issue costs  Increase in net bond issue costs  Decrease in due to U.S. Department of Education  Decrease in arbitrage rebate payable  Increase in warrants outstanding  Increase in accounts payable  Increase (decrease) in interest payable  Decrease in deferred credit  Decrease in deferred credit  Decrease in honds payable  Total adjustments  Net cash provided by operating activities  \$ 1,694  3,151  \$ 3,151  \$ 3,151  \$ 3,151  \$ 42  \$ 358  \$ 542  \$ 358  \$ 62,771  \$ 11,625  \$ 62,781  \$ 62,781  \$ 62,781  \$ 7,926  \$ 14,681  \$ 7,926  \$ 14,681  \$ 7,926  \$ 14,681  \$ 7,926  \$ 14,681  \$ 7,926  \$ 14,681  \$ 7,926  \$ 14,681  \$ 7,926  \$ 17,832  \$ 3,465  \$	Reconciliation of operating income to net cash			
Adjustments to reconcile operating income to net cash provided by operating activities:  Decrease in other assets  Decrease in interest receivable - investments  Decrease in net interest receivable - loans  Decrease (increase) in investments  Increase in net loans receivable  Increase in net bond issue costs  Decrease in due to U.S. Department of Education  Decrease in arbitrage rebate payable  Decrease in warrants outstanding  Increase in accounts payable  Increase in deferred credit  Decrease in deferred credit  Decrease in bonds payable  Total adjustments  Net cash provided by operating activities  Summary of noncash capital activities that affect recognized assets and liabilities:				
provided by operating activities:  Decrease in other assets  Decrease in interest receivable - investments  Decrease in net interest receivable - loans  Base 2 2,217  Decrease (increase) in investments  Increase (increase) in investments  Increase in net loans receivable  Increase in net bond issue costs  Increase in due to U.S. Department of Education  Increase in net due to State of Alaska  Decrease in arbitrage rebate payable  Increase in warrants outstanding  Increase in accounts payable  Increase (decrease) in interest payable  Increase in deferred credit  Decrease in bonds payable  Total adjustments  Net cash provided by operating activities  Summary of noncash capital activities that affect recognized assets and liabilities:	Operating income	\$	1,694	3,151
provided by operating activities:  Decrease in other assets  Decrease in interest receivable - investments  Decrease in net interest receivable - loans  Base 2 2,217  Decrease (increase) in investments  Increase (increase) in investments  Increase in net loans receivable  Increase in net bond issue costs  Increase in due to U.S. Department of Education  Increase in net due to State of Alaska  Decrease in arbitrage rebate payable  Increase in warrants outstanding  Increase in accounts payable  Increase (decrease) in interest payable  Increase in deferred credit  Decrease in bonds payable  Total adjustments  Net cash provided by operating activities  Summary of noncash capital activities that affect recognized assets and liabilities:	Adjustments to reconcile operating income to net cash			
Decrease in other assets Decrease in interest receivable - investments Decrease in net interest receivable - loans Base 2 2,217 Decrease (increase) in investments Decrease (increase) in investments Decrease (increase) in investments Decrease in net loans receivable Increase in net loans receivable Decrease in net bond issue costs Decrease in due to U.S. Department of Education Increase in due to U.S. Department of Education Decrease in arbitrage rebate payable Decrease in arbitrage rebate payable Increase in warrants outstanding Increase in accounts payable Increase (decrease) in interest payable Decrease in deferred credit Decrease in bonds payable Total adjustments Net cash provided by operating activities  Summary of noncash capital activities that affect recognized assets and liabilities:	· · · · · · · · · · · · · · · · · · ·			
Decrease in interest receivable - investments  Decrease in net interest receivable - loans  Base 2,217  Decrease (increase) in investments  Increase in net loans receivable  Increase in net loans receivable  Decrease in net bond issue costs  Increase in due to U.S. Department of Education  Increase in net due to State of Alaska  Decrease in arbitrage rebate payable  Increase in warrants outstanding  Increase in accounts payable  Increase (decrease) in interest payable  Decrease in deferred credit  Increase in deferred credit  Increase in loan payable  Total adjustments  Net cash provided by operating activities  Summary of noncash capital activities that affect recognized assets and liabilities:			542	358
Decrease (increase) in investments  Increase in net loans receivable  Decrease in net bond issue costs  Decrease in due to U.S. Department of Education  Increase in adue to U.S. Department of Education  Decrease in net due to State of Alaska  Decrease in arbitrage rebate payable  Increase in warrants outstanding  Increase in accounts payable  Increase (decrease) in interest payable  Increase (decrease) in interest payable  Decrease in deferred credit  Decrease in bonds payable  Total adjustments  Net cash provided by operating activities  Summary of noncash capital activities that affect recognized assets and liabilities:	Decrease in interest receivable - investments			
Decrease (increase) in investments  Increase in net loans receivable  Decrease in net bond issue costs  Increase in due to U.S. Department of Education  Increase in net due to State of Alaska  Decrease in arbitrage rebate payable  Increase in warrants outstanding  Increase in accounts payable  Increase (decrease) in interest payable  Increase (decrease) in interest payable  Decrease in deferred credit  Decrease in bonds payable  Total adjustments  Net cash provided by operating activities  Summary of noncash capital activities that affect recognized assets and liabilities:	Decrease in net interest receivable - loans		832	2,217
Increase in net loans receivable (21,700) (11,625) Decrease in net bond issue costs 101 201 Increase in due to U.S. Department of Education 1,602 251 Decrease in net due to State of Alaska (2,086) (736) Decrease in arbitrage rebate payable - (9) Increase in warrants outstanding 150 493 Increase in accounts payable 140 443 Increase (decrease) in interest payable 741 (233) Decrease in deferred credit (185) (9) Decrease in bonds payable (444) (446) Increase in loan payable 55,000 - Total adjustments 7,926 14,681 Net cash provided by operating activities \$ 9,620 17,832	Decrease (increase) in investments		(26.781)	·
Decrease in net bond issue costs  Increase in due to U.S. Department of Education  Decrease in net due to State of Alaska  (2,086)  Decrease in arbitrage rebate payable  Increase in accounts payable  Increase in accounts payable  Increase (decrease) in interest payable  Decrease in deferred credit  Decrease in bonds payable  Total adjustments  Net cash provided by operating activities  101  201  1,602  251  1,602  251  1,602  (736)  69  493  Increase in 493  Increase (decrease) in interest payable  741  (233)  (233)  (344)  (444)  (446)  Increase in loan payable  Total adjustments  Net cash provided by operating activities  \$ 7,926  14,681  Net cash provided by operating activities  Summary of noncash capital activities that affect recognized assets and liabilities:				·
Decrease in net due to State of Alaska  Decrease in arbitrage rebate payable Increase in warrants outstanding Increase in accounts payable Increase (decrease) in interest payable Decrease in deferred credit Decrease in bonds payable Increase in loan payable Increase in loan payable Total adjustments Net cash provided by operating activities  Summary of noncash capital activities that affect recognized assets and liabilities:  (2,086) (736) (9) (9) (493) (140) (443) (185) (9) (185) (9) (444) (446) (55,000) - Total adjustments 7,926 14,681 (1736) (9) (185) (9) (185) (9) (185) (9) (185) (185) (9) (185)	Decrease in net bond issue costs			, , ,
Decrease in net due to State of Alaska  Decrease in arbitrage rebate payable Increase in warrants outstanding Increase in accounts payable Increase (decrease) in interest payable Decrease in deferred credit Decrease in bonds payable Increase in loan payable Increase in loan payable Total adjustments Net cash provided by operating activities  Summary of noncash capital activities that affect recognized assets and liabilities:  (2,086) (736) (9) (9) (1493 (1404) (1443) (1445) (185) (9) (1444) (1446) (14	Increase in due to U.S. Department of Education		1,602	251
Decrease in arbitrage rebate payable Increase in warrants outstanding Increase in accounts payable Increase (decrease) in interest payable Decrease in deferred credit Decrease in bonds payable Increase in loan payable Increase in loan payable Total adjustments Net cash provided by operating activities  Summary of noncash capital activities that affect recognized assets and liabilities:	*		(2,086)	(736)
Increase in warrants outstanding Increase in accounts payable Increase in accounts payable Increase (decrease) in interest payable Decrease in deferred credit Decrease in bonds payable Increase in loan payable Total adjustments Net cash provided by operating activities  Summary of noncash capital activities that affect recognized assets and liabilities:	Decrease in arbitrage rebate payable		-	(9)
Increase (decrease) in interest payable  Decrease in deferred credit  Decrease in bonds payable  Increase in loan payable  Total adjustments  Net cash provided by operating activities  Summary of noncash capital activities that affect recognized assets and liabilities:  (233)  (9)  (444)  (446)  55,000  -  7,926  14,681  9,620  17,832			150	
Decrease in deferred credit  Decrease in bonds payable Increase in loan payable Total adjustments Net cash provided by operating activities  Summary of noncash capital activities that affect recognized assets and liabilities:  (185) (9) (444) (446)  7,926 14,681  7,926 17,832	Increase in accounts payable		140	443
Decrease in bonds payable (444) (446) Increase in loan payable 55,000 - Total adjustments 7,926 14,681 Net cash provided by operating activities \$ 9,620 17,832  Summary of noncash capital activities that affect recognized assets and liabilities:	Increase (decrease) in interest payable		741	(233)
Increase in loan payable 55,000 - Total adjustments 7,926 14,681 Net cash provided by operating activities \$ 9,620 17,832  Summary of noncash capital activities that affect recognized assets and liabilities:	Decrease in deferred credit		(185)	(9)
Total adjustments Net cash provided by operating activities \$\frac{7,926}{9,620} \frac{14,681}{17,832}\$  Summary of noncash capital activities that affect recognized assets and liabilities:	Decrease in bonds payable		(444)	(446)
Net cash provided by operating activities \$\frac{9,620}{17,832}\$  Summary of noncash capital activities that affect recognized assets and liabilities:	Increase in loan payable		55,000	-
Summary of noncash capital activities that affect recognized assets and liabilities:	Total adjustments		7,926	14,681
recognized assets and liabilities:	Net cash provided by operating activities	\$	9,620	17,832
recognized assets and liabilities:		<u></u>		
recognized assets and liabilities:	Summary of noncash capital activities that affect			
Bond issuance cost amortization \$ 85 444	Bond issuance cost amortization	\$	83	444
Interest payable 1,943 2,345		'		
Bond premium amortization (403) (403)	* *		,	·

(a Component Unit of the State of Alaska)

Notes to Financial Statements

December 31, 2009, 2009 and 2008

(in thousands)

### (1) Authorizing Legislation and Organization

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

# (2) Summary of Significant Accounting Policies

### (a) Fund Accounting

The financial activities of the Corporation, which are restricted by the Corporation's bond indentures, loan trust 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 and servicing education loans is recorded as an operating expense.

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Notes to Financial Statements

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

# (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 1.88% to 9.0% and is generally determined by loan type and origination date.

# (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 is no longer credit reportable. 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.

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Notes to Financial Statements

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

# (h) Interest on Loans

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 \$5,016 and \$6,056 at December 31, 2009 and 2008, respectively.

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

# (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.

# (1) **Bond Premiums**

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

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Notes to Financial Statements

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

# (m) **Income Taxes**

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

# (n) Investments

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

# (o) Unrestricted Net Assets

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

### (3) Cash and Investments

### (a) Cash

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

	2009	2008
Current, unrestricted	\$ 134	1,400
Noncurrent, restricted	220	6,658
Total	\$ 354	8,058

Restricted cash is pledged to the Corporation's bond indentures or loan trust.

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

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

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Notes to Financial Statements

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

#### (b) **Investments**

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

	_	2009	2008
Current:	_	_	
Unrestricted	\$	-	33,419
Restricted		61,269	47,268
Noncurrent:			
Unrestricted		25,712	-
Restricted	_	67,920	89,576
Total	\$	154,901	170,263

Restricted investments are pledged to the Corporation's bond indentures or loan trust or restricted by State statute.

### (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 and the 2009 loan trust, 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

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Notes to Financial Statements

### (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 2009 loan trust, short term investments with domestic commercial banks maturing not more than 365 calendar days after the date of purchase, provided, however, that such investments are unconditionally guaranteed by the US; or fully collateralized by securities which are unconditionally guaranteed by the US or that the long-term unsecured debt obligations of such depository institution or trust company at and during the term of such investment are rated at least in the second highest rating category possible.
- Under the 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 2009 loan trust, such investments are allowed if rated at least "Aaa" by S&P or otherwise in the highest rating category of S&P for money market funds and at least "AA" or "F-1+" by Fitch if the money market fund has the ability to maintain a stable one dollar net asset value per share and the shares are freely transferable on a daily basis, including funds for which the Trustee or an affiliate thereof acts as investment advisor or provides other services.
- 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.

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Notes to Financial Statements

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

#### (b) **Investments**

# (2) Investment Policies

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

	Ratings			
	Commerc	Commercial Paper		ng-term Debt
	Standard		Standard	
Maturity	and Poor's	Moody's	and Poor's	Moody's
12 months or less	A-1+	P-1	-	-
24 months or less	A-1+	P-1	A-	Aa3
more than 24 months	A-1+	P-1	AA-	Aa3

In each case, contracts or agreements with an insurance company whose claims paying ability is so rated, is also allowable.

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

- Under the 2009 loan trust, holdings in any of the various fixed-income pools managed by the State's Department of Revenue, Treasury Division.
- 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 and funds restricted by State statute may be invested in the various fixed-income pools managed by Treasury. Investments in the State's fixed-income investment pools are made in accordance with the State's General Investment Policy. These investments represent an ownership share of the pool's securities rather than ownership of specific securities themselves. Actual investing is performed by Treasury's

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Notes to Financial Statements

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

#### (b) **Investments**

# (2) Investment Policies

investment officers. A complete description of the investment policy for each pool is included in the <u>Department of Revenue</u>, <u>Treasury Division's</u>, <u>Policies and Procedures</u>.

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

- Direct obligations of the U.S. Treasury, obligations of federal agencies which represent the full faith and credit of the U.S. and also unconditionally guaranteed as to the timely payment of principal and interest by the U.S.
- Bonds, notes or other evidences of indebtedness rated "AAA/Aaa" and issued by federal agencies which do not represent the full faith and credit of the U.S.
- 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 or trust
  companies which are members of the Federal Deposit Insurance Corporation as long as
  collateralized at 100% of principal and accrued unpaid interest or that the long-term
  unsecured debt obligations of such depository institution or trust company at and during
  the term of such investment are rated at least in the second highest rating category
  possible.
- Short-term domestic corporate promissory notes (commercial paper) payable in U.S. dollars as long as the provider's short-term rating is of the highest rating possible throughout the investment term.

# (3) Credit Risk

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

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Notes to Financial Statements

# (3) Cash and Investments (cont.)

# (b) Investments

# (3) Credit Risk

The fair value of the Corporation's investments by type and credit quality ratings, as described by a nationally recognized rating service, at December 31 are shown below (using Standard and Poor's rating scale without modifiers):

Investment Type	Ratings	2009	2008
Pooled repurchase agreement account	Not rated \$	1,448	32,260
U.S. Government agencies	AAA	-	1,240
U.S. Government agencies	Not rated	37,143	25,113
Mortgage-backed securities	AAA	-	1,609
Mortgage-backed securities	Not rated	-	-
Mortgage-backed securities (agencies)	Not rated	-	5,471
Other asset-backed securities	AAA	-	138
Other asset-backed securities	A	-	49
Other asset-backed securities	Not rated	-	-
Corporate bonds	AAA	-	85
Corporate bonds	AA	-	991
Corporate bonds	A	-	695
Corporate bonds	BAA	-	71
Money market funds	AAA	6,731	46,062
Bank deposit account	Not rated	74,214	-
Guaranteed investment contracts	Not rated	10,650	12,986
Certificate of deposit	Not rated	-	-
Internal investment pools	Next schedule	13,757	4,262
U.S. Treasury securities	No credit exposure	10,958	39,231
Total	\$ _	154,901	170,263

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Notes to Financial Statements

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

### (b) **Investments**

# (3) Credit Risk

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

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

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Notes to Financial Statements

# (3) Cash and Investments (cont.)

# (b) Investments

# (3) Credit Risk

The fair value of the Corporation's share of the State's internal investment pools by type and credit quality ratings, as described by a nationally recognized rating service, were not available at December 31. Credit quality ratings for the Corporation's share of such pools at June 30 are as shown below (using Standard and Poor's rating scale without modifiers):

		Short-term	Intermediate-	Tota	als
T	D. C.	Fixed Income	term Fixed	2000	2000
Investment Type	Rating	Pool	Income Pool	2009	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

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Notes to Financial Statements

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

### (b) **Investments**

# (4) Concentration Risk

Concentration risk is the risk of loss attributed to the magnitude of 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

An allocation of investment holdings by security in the State's internal investment pools was not available at December 31, 2009, therefore, investment holdings greater than five percent of total investments could not be determined. At June 30, 2009 the Corporation had investment balances greater than five percent of the Corporation's total investments with the following investment providers:

			Percent of Total
	Fair Value		Investments
Federal 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

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Notes to Financial Statements

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

### (b) **Investments**

# (5) Interest Rate Risk

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

#### Duration

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

The Corporation 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 December 31, 2009 by investment type:

Guaranteed investment contracts	0.46
U.S. Treasury securities	0.02
U.S. Government agency securities	0.05
Portfolio modified duration	0.53
Portfolio modified dilration	0.55

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

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

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Notes to Financial Statements

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

# (b) **Investments**

# (5) <u>Interest Rate Risk</u>

The Intermediate-term Fixed Income Pool's effective duration by investment type was not available at December 31.

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. The expected average live of fixed rate securities held in the short-term Fixed Income Pool was not available at December 31, 2009. 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.

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

		2009	2008
Current:	'-		
Unrestricted	\$	132	6,654
Restricted		19,447	28,822
Noncurrent, restricted		444	2,521
Total	\$	20,023	37,997

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Notes to Financial Statements

# (4) Loans Receivable

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

	_	20	09	2008	3
	-	State	Federal	State	Federal
Current, unrestricted Noncurrent:	\$	8,156	252	8,113	-
Unrestricted		111,100	17,291	117,241	5,674
Restricted Total	\$	419,660 538,916	167,524 185,067	426,104 551,458	126,034 131,708

Restricted loans are pledged to the Corporation's bond indentures or loan trust.

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

_	2009	2008
_		
\$	435,738	438,782
	89,458	98,343
	7,966	7,978
_	5,754	6,355
	538,916	551,458
_	_	
	153,168	101,370
	7,840	5,036
_	24,059	25,302
	185,067	131,708
\$	723,983	683,166
	-	\$ 435,738 89,458 7,966 5,754 538,916 153,168 7,840 24,059 185,067

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Notes to Financial Statements

# (4) Loans Receivable

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

	20	09	20	800	
	State	Federal	State	Federal	
Enrollment	\$ 71,510	74,888	82,509	49,102	
Grace	9,520	11,413	10,031	8,265	
Repayment	385,666	69,275	394,043	52,991	
Deferment	61,826	21,241	55,875	16,155	
Forbearance	10,394	8,250	9,000	5,195	
Total	\$ 538,916	185,067	551,458	131,708	

- (d) Included in loans receivable are \$421 and \$907 of loan warrants issued but not redeemed by borrowers at December 31, 2009 and 2008, respectively. Redemption is contingent upon the borrower meeting certain eligibility requirements.
- (e) Loans awarded not disbursed at December 31, are as follows:

	_	2009	2008
State Alternative Loans	-		
Supplemental Education	\$	5,211	15,571
Teacher Education		226	262
Family Education	_	264	475
<b>Total Alternative Loans</b>		5,701	16,308
Federal Family Education Loans	-	_	
Stafford		12,286	18,595
PLUS	_	1,171	1,166
Total Federal Loans		13,457	19,761
Total	\$	19,158	36,069
	-		

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Notes to Financial Statements

# (5) Loan Allowances

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

	2009	2008
Balance at beginning of period	\$ 112,709	110,404
Provision for doubtful loans	1,673	2,887
Net loans charged off	 (481)	(385)
Balance at end of period	\$ 113,901	112,906

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

	2009	2008	
Balance at beginning of period	\$ 1,993	2,094	
Provision for forgiveness	-	96	
Forgiveness granted	(73)	(117)	
Balance at end of period	\$ 1,920	2,073	

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Notes to Financial Statements

# (6) Loan Interest Allowances

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

	 2009	2008
Balance at beginning of period	\$ 27,547	29,134
Provision for doubtful interest	952	(152)
Net interest charged off	 (242)	(180)
Balance at end of period	\$ 28,257	28,802

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

	2009	2008
Balance at beginning of period	\$ 256	261
Provision for forgiveness	-	39
Forgiveness granted	 (16)	(43)
Balance at end of period	\$ 240	257

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Notes to Financial Statements

# (7) Bonds Payable

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

			Amount Ou	ıtstanding
		Original		_
	Type	Amount	2009	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

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Notes to Financial Statements

# (7) Bonds Payable (cont.)

			Amount or	utstanding
-	Type	Original Amount	2009	2008
2004 Master Indenture, Series A Capital Projeserial bonds, rate 4.0%,	ect			
due 2009 to 2016	Fixed	69,910	36,710	43,070
term bonds, rate 4.0%, due 2018	Fixed	5,230	5,230	5,230
Sub-total		75,140	41,940	48,300
2005 Master Indenture, Series A State Project serial bonds, fixed ranging from 5.0% to due 2009 to 2014		88,305	42,500	53,000
Total Bonds Payable		\$ 640,310	514,405	543,765
Premium			10,720	12,412
Net Bonds Payable		\$	525,125	556,177
Current Noncurrent Total		\$	24,168 500,957 525,125	29,360 526,817 556,177

(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, 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 December 31, 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%	0.683%
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%)	0.615%	0.720%
2004	same as 2003 bonds	0.660%	0.630%
2006	same as 2003 bonds	0.585%	-
2007	same as 2003 bonds except 12% replaces 14% in (d)	0.645%	-

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Notes to Financial Statements

# (7) Bonds Payable (cont.)

(c) The minimum payments and sinking fund installments for the five years subsequent to December 31, 2009 and thereafter are as follows:

Period Ending December 31	_	Principal	Interest	Total
2010	\$	32,165	14,103	46,268
2011		53,615	12,256	65,871
2012		55,335	10,066	65,401
2013		44,310	7,927	52,237
2014		37,830	5,964	43,794
2015-2019		75,750	14,101	89,851
2020-2024		-	7,031	7,031
2025-2029		-	7,031	7,031
2030-2034		-	7,031	7,031
2035-2039		50,800	6,495	57,295
2040-2044		164,600	3,791	168,391
Total	\$	514,405	95,796	610,201

(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		

<sup>\*</sup> 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 Assured Guaranty Municipal (formally Financial Security Assurance, Inc).

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Notes to Financial Statements

### (8) Bond Issue Cost

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

	2009		2008	
Balance at beginning of period	\$	3,829	4,195	
Amortization	· _	(183)	(367)	
Balance at end of period	\$	3,646	3,828	

# (9) Loan Payable

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 balance using a variable rate of interest equal to the most current rolling five-year average return on the State's general fund. The initial interest rate was set at 4.29% and 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. Loan proceeds drawn are deposited in the trust until education loans are originated. Education loans originated with loan proceeds, payments received on those loans, and earnings on pledged assets are all pledged to the trust.

Loan payable at December 31 was \$55,000.

# (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 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 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.

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Notes to Financial Statements

### (11) Federal Family Education Loan Program

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%.

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 0.5% and 1.0% for the six-month periods ending December 31, 2009 and December 31, 2008, respectively. The Corporation elected to pay the Stafford origination fee on behalf of the borrower's for the six-month periods ending December 31, 2009 and 2008, respectively.

Payment of a lender fee is required on federal loans in an amount equal to 1.0% of the disbursed amount. 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 for the six-month periods ending December 31, 2009 and 2008, respectively.

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.

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Notes to Financial Statements

### (12) Commitments and Contingencies

# (a) Operations

The Corporation will fund approximately \$5,787 of the Commission's fiscal year 2010 operating budget and approximately \$169 in need based grants. In addition, the Corporation will fund expenditures related to the Commission's fiscal year 2009 operating and capital project budgets of approximately \$287. 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. On November 10, 2009 and October 9, 2008, the Board chose not to return capital, based on net income, to the State in fiscal year 2011 and 2010, respectively.

As an additional means of returning capital, State statutes allow the Corporation to issue bonds to finance State capital projects. No bonds have been issued since 2005 for this purpose. In fiscal years 2005 and 2004, the Corporation issued \$163,445 of capital project bonds to finance State capital projects. 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 \$13,933 and \$15,283 at December 31, 2009 and 2008, respectively.

# (c) State Permanent Fund Dividend Garnishment

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

PFD garnishments collected by the Commission were approximately \$3,371 and \$9,393 for the years ended December 31, 2009 and 2008, respectively.

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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 10.50% 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.