(a Component Unit of the State of Alaska)

Management's Discussion and Analysis and Financial Statements

June 30, 2007 and 2006

Together with Independent Auditors' Report

(a Component Unit of the State of Alaska)

June 30, 2007 and 2006

Table of Contents

	Pages
Management's Discussion and Analysis	1 - 8
Independent Auditors' Report	9
Balance Sheets	10 – 11
Statements of Revenue, Expenses and Changes in Net Assets	12
Statements of Cash Flows	13 – 14
Notes to Financial Statements	15 – 38

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(a Component Unit of the State of Alaska)

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Alaska Student Loan Corporation (Corporation) partners with the Alaska Commission on Postsecondary Education in financing, originating and servicing education loans. The following is a discussion and analysis of the Corporation's financial performance, providing an overview of the activities for the fiscal years ended June 30, 2007 and 2006. Fiscal year 2005 information is shown for comparative purposes.

This information is being presented to assist the reader in focusing on significant financial issues and to provide additional information regarding the activities of the Corporation. This information should be read in conjunction with the Independent Auditors' Report, the financial statements and accompanying notes, all of which follow this Discussion and Analysis.

Financial Highlights

- The Corporation's total assets at June 30, 2007, 2006 and 2005 remained stable at approximately \$1 billion. The change in assets between fiscal year 2006 and 2007 was an increase of \$31 million or 3% and the change from fiscal year 2005 to 2006 was an increase of \$64 million or 7%.
- The Corporation's long-term debt at June 30, 2007, 2006 and 2005 was \$779 million, \$727 million and \$632 million, respectively. The change in long-term debt between fiscal year 2006 and 2007 was an increase of \$52 million or 7% and the change from fiscal year 2005 to 2006 was an increase of \$95 million or 15%.
- The assets of the Corporation exceed its liabilities (reported as net assets) at the close of fiscal year 2007, 2006 and 2005 by \$181 million, \$170 million, and \$169 million respectively. These balances represent an increase in fiscal year 2007 of \$11 million or 6% and an increase in fiscal year 2006 of \$1 million or 1%.
- The Corporation's net education loans receivable was \$524 million, \$504 million and \$485 million, at June 30, 2007, 2006 and 2005 respectively. These balances represent an increase in fiscal year 2007 of \$20 million or 4% and an increase in fiscal year 2006 of \$19 million or 4%.
- The Corporation's operating revenue was \$40 million, \$36 million and \$34 million at June 30, 2007, 2006 and 2005, respectively. These balances represent an increase in fiscal year 2007 of \$4 million or 11% and an increase in fiscal year 2006 of \$2 million or 6%.
- The Corporation's interest expense was \$30 million, \$27 million and \$23 million during fiscal years 2007, 2006 and 2005, respectively. These balances represent

(a Component Unit of the State of Alaska)

MANAGEMENT'S DISCUSSION AND ANALYSIS

an increase in fiscal year 2007 of \$3 million or 11% and an increase in fiscal year 2006 of \$4 million or 17%.

• The Corporation's expenses related to operations were \$17 million, \$18 million and \$16 million during fiscal years 2007, 2006 and 2005. These balances represent a decrease in fiscal year 2007 of \$1 million or 6% and an increase in fiscal year 2006 of \$2 million or 13%.

Overview of the Financial Statements

The Corporation is an enterprise fund of the State of Alaska (State) and is reported as a nonmajor component unit in the State's Comprehensive Annual Financial Report. The Corporation's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting in conformity with accounting principles generally accepted in the United States. Under the accrual method of accounting, the same method used by private sector businesses, revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred. The three basic financial statements of the Corporation are as follows:

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

The Balance Sheets classify assets and liabilities as current or noncurrent. Current assets are those expected to be consumed in the next fiscal year. Current liabilities are those expected to be satisfied in the next fiscal year. Assets and net assets are classified as either restricted or unrestricted. Restricted assets are classified as noncurrent unless the restriction is short-lived. The restricted classification is used when constraints are imposed by bond indentures or enabling legislation.

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

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

(a Component Unit of the State of Alaska)

MANAGEMENT'S DISCUSSION AND ANALYSIS

In addition to the three basic financial statements, the notes to financial statements provide additional information that is essential to a full understanding of the data provided in the three basic financial statements.

Financial Analysis

The following condensed financial information is derived from the Corporation's financial statements and reflects changes during the fiscal year:

Balance Sheets (in thousands)

				\$	%	
		2007	2006	Change	Change	2005
Assets:		_				
Current	\$	78,958	71,694	7,264	10	63,685
Noncurrent		971,736	947,861	23,875	3	891,809
Total assets		1,050,694	1,019,555	31,139	3	955,494
Liabilities:	•					
Current		180,589	179,378	1,211	1	207,298
Noncurrent		688,934	669,773	19,161	3	579,328
Total liabilities	•	869,523	849,151	20,372	2	786,626
Net assets:	•					
Restricted		147,825	141,142	6,683	5	147,088
Unrestricted		33,346	29,262	4,084	14	21,780
Total net assets	\$	181,171	170,404	10,767	6	168,868
Total liabilities and net assets		1,050,694	1,019,555	31,139	3	955,494

The increase in current assets in 2007 was due to an increase in cash collateral held for securities lending activity of \$2 million, a \$2 million dollar increase in the withdrawal of restricted investments for operations and a net increase in short-lived restricted investments of \$2 million. The increase in current assets in 2006 was due to an increase in cash collateral held for securities lending activity of \$4 million, a \$7 million dollar one-time withdrawal of restricted investments and a net decrease in short-lived restricted investments of \$2 million.

The increase in noncurrent assets in 2007 was due to a 1% increase in loan originations, an increase in investments due to closing a larger bond issue at the end of the year and a favorable investment market compared to the market in 2006. The increase in noncurrent assets in 2006 was due to the increase in investments as a result of the issuance of 2006 bonds in May of 2006 compared to the issuance of 2005 bonds in July 2005 (fiscal year 2006). In addition, loan originations were up 10% in fiscal year 2006.

(a Component Unit of the State of Alaska)

MANAGEMENT'S DISCUSSION AND ANALYSIS

Current liabilities in 2007 changed little from the balance in 2006 because the decrease in the return of capital payment declared liability offset the increase in the current portion of bonds payable. The decrease in current liabilities in 2006 was due to a \$35 million dollar decrease in the return of capital payment declared liability which was offset by a \$5 million dollar increase in the current portion of bonds payable. The decrease in the return of capital payment declared liability is due to the fact that new capital project bonds have not been issued in the last two fiscal years and State projects are underway drawing on the funds held for State capital projects. The current portion of bonds payable has continued to increase as the callable portion of bonds outstanding increases. The bonds being called in fiscal year 2008 have an outstanding balance of more than double those called in 2007.

The increase in noncurrent liabilities in 2007 and 2006 was due to the increase in net bonds payable which is a result of an increase in projected loan originations. The increase was also due to an increase in the arbitrage rebate payable which is a result of the increase in investment earnings.

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

			\$	%	
	2007	2006	Change	Change	2005
Operating revenue	\$ 40,322	36,311	4,011	11	33,997
Operating expenses	(17,067)	(17,793)	726	4	(16,088)
Non-operating expense, net	(11,288)	(15,082)	3,794	25	(12,417)
Income before return of capital	11,967	3,436	8,531	248	5,492
Return of capital	(1,200)	(1,900)	700	37	(88,100)
Change in net assets	10,767	1,536	9,231	601	(82,608)
Net assets – beginning	170,404	168,868	1,536	1	251,476
Net assets – ending	\$ <u>181,171</u>	170,404	10,767	6	168,868

Operating revenue, which represents interest income on loans, continues to increase because the interest rate on variable rate loans is increasing with market rates and the balance of fixed rate loans outstanding is increasing. Operating expense has remained fairly stable. The Corporation began funding the AlaskAdvantage® Grant program in fiscal year 2006 causing the slight increase for that year.

Investment income, which is reported as a nonoperating item, increased \$7 million in 2007 which was offset by an increase in interest expense of \$2 million and an increase in arbitrage rebate expense of \$1 million. In fiscal year 2006, investment income increased by \$2 million and was offset by a \$5 million increase in interest expense. The increases in investment income and arbitrage rebate expense are the result of market increases. The increases in interest expense are the result of increased bonds outstanding.

Alaska Student Loan Corporation (a Component Unit of the State of Alaska)

MANAGEMENT'S DISCUSSION AND ANALYSIS

Return of capital represents payments to the State of Alaska as allowed by statute. The range for the allowable annual payment is calculated using the Corporation's income, before return of capital, for the fiscal year ended two years before the end of the fiscal year in which the payment is to be made. The Corporation's Board of Directors (Board) sets the annual payment to be made. The decrease in fiscal year 2007 was due to the decrease in income between fiscal year 2004 and 2005. The decrease in fiscal year 2006 was due to the fact that 2005's return of capital included bonds issued in 2005 to finance State capital projects.

Corporation Activities and Conditions Affecting the Financial Position

The Alaska Commission on Postsecondary Education (Commission) administers the Corporation's programs under the umbrella title, AlaskAdvantage[®] Loan Programs (Program). Operating expenditures of the Commission are subject to budgetary appropriation. The Corporation funds the Commission's expenditures that relate to Program administration as permitted by the Corporation's bond indentures.

The purpose of the Corporation's Programs is to lower costs for Alaskans pursuing education and training at a postsecondary level and for other qualified individuals attending postsecondary institutions in the State.

The Programs include various Federal Family Education Loan Program (FFELP) loans (Federal loans) governed by the Higher Education Act and State Supplemental education loans (State or Supplemental loans). Loans originated and serviced under the Program include fixed and variable rate loans.

To accommodate FFELP lending, the Commission has obtained the status of "eligible lender" under the Higher Education Act (HEA) and maintains various agreements with Northwest Education Loan Association to serve as the Commission's "eligible guarantor" under the HEA. Loans authorized under the HEA funded by the Corporation include Stafford (subsidized and unsubsidized), PLUS, and Consolidation loans. The HEA provides for federal guarantee of eligible loans, interest subsidy payment to eligible lenders with respect to subsidized loans, and special allowance payments representing an additional subsidy paid by the Secretary of the U.S. Department of Education to holders of eligible loans. For a loan loss to be eligible for reimbursement by a guarantor the loan must be serviced according to standards set by federal statutes and regulations.

FFELP loans originated after June 30, 2006, are fixed rate loans with Stafford loans carrying a rate of 6.8% and PLUS loans carrying a rate of 8.5%. FFELP loans originated between July 1, 2002 and June 30, 2006 were variable rate loans with the interest rate reset annually each July 1. Stafford loans which are in a status of in-school, grace, or deferment bear interest at a rate equivalent to the 91-day T-bill plus 1.7%, with a

(a Component Unit of the State of Alaska)

MANAGEMENT'S DISCUSSION AND ANALYSIS

maximum rate of 8.25%. Stafford loans in all other periods bear interest at a rate equivalent to the 91-day T-bill plus 2.3%, with a maximum rate of 8.25%. PLUS loans bear interest at a rate equivalent to the 91-day T-bill plus 3.1%, with a maximum of 9%. Federal consolidation loans bear interest at a rate equal to the weighted average of the interest rates of the loans consolidated, rounded to the nearest higher one-eight of 1%, with a maximum rate of 8.25%.

For Supplemental loans originated after June 30, 2006, the interest rate is fixed and based on the Municipal Market Data AAA Insured Alternative Minimum Tax Revenue Bond Yield Curve plus thirty basis points and the cost of administrating the loan programs. The interest rate on loans made in 2007 was fixed at 7.3%. Supplemental loans originated between July 1, 2002 and June 30, 2006, were variable rate loans with the interest rate reset annually on or after June 1 and effective for the twelve month period beginning July 1. Per State statute, the variable interest rate is based on the bond equivalent rate of the 91-day T-bill auctioned at the final auction held before June 1 plus up to 2.8%, capped at 8.25%.

The Corporation also offers a fixed rate Supplemental consolidation loan to qualifying borrowers. The Supplemental consolidation loan interest rate is based on the 10-year Treasury note auctioned at the final auction held before May 31 of the year, plus up to 2% for administrative costs.

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

Between fiscal years 2006 and 2007, the Corporation saw a 1% increase in loan originations. Although fiscal year 2007 data is not yet available, management believes that the Corporation continues to have the highest volume of federal loan originations in the state as compared to other federal education loan providers in Alaska. The Corporation's federal loan originations, excluding federal consolidation loans, increased by 12% between fiscal years 2006 and 2007. Federal consolidation loans originated in fiscal year 2007 were \$8.7 million compared to \$8.1 million in fiscal year 2006. The Corporation's Supplemental loan originations, excluding Supplemental consolidation loans, decreased by 4% between fiscal years 2006 and 2007. Supplemental consolidation loans originated in fiscal year 2007 were \$15.6 million as compared to \$24.2 million in fiscal year 2006.

Between fiscal years 2005 and 2006, the Corporation saw a 10% increase in loan originations and had approximately 35% of the State's federal loan volume, representing the largest share of federal education loan volume amongst providers in Alaska. The Corporation's federal loan originations, excluding federal consolidation loans, increased by 13% between fiscal years 2005 and 2006. Federal consolidation loans originated in

(a Component Unit of the State of Alaska)

MANAGEMENT'S DISCUSSION AND ANALYSIS

fiscal year 2006 were \$8.1 million as compared to \$4.3 million in fiscal year 2005. The Corporation's Supplemental loan originations, excluding Supplemental consolidation loans, increased by 8% between fiscal years 2005 and 2006. Supplemental consolidation loans originated in fiscal year 2006 were \$24.2 million as compared to \$27.9 million in fiscal year 2005.

Borrower Benefits:

The Board has approved various loan benefits that provide incentives and rewards to borrowers who participate in the Program. The benefit package, intended to lower the cost of interest and fees, is subject to annual approval by the Board and changes are subject to a confirmation from rating agencies, who rate the Corporation's outstanding bonds, indicating that the change will not have a negative impact on ratings previously issued. With the exception of the direct payment benefit and the basic benefit on variable interest rate Stafford loans, which are awarded via a rate reduction, interest benefits are cost reductions applied as quarterly or annual account credits. The following table reflects the interest benefits available (rate reduction equivalents) to eligible borrowers during fiscal years 2007, 2006 and 2005.

Benefit name	How borrower qualifies	Stafford	PLUS	Supplemental Loans	Consolidated Loans
Basic	Receive a loan	$0.80\%^{1}$	1.00% ²	$0.00\%^{3}$	0.00%
Alaska Presence	Present in Alaska, less than 270 days past due	1.00%	1.00%	1.00%	1.00%
Direct Payment	Make electronic payments	0.25%	0.25%	0.25%	0.25%
Timely Repayment	First 48 payments on time	2.00%	1.00%	2.00%	1.00%

¹Was 1.20% in 2006 and 1.77% in 2005 for unsubsidized Stafford loans whose status was in-school. Was 0.50% for all 2007, 2006 and 2005 Stafford loans whose status was repayment.

²No benefit was available in fiscal years 2006 and 2005.

³Was 0.50% in fiscal years 2006 and 2005 for loans whose status was in-school.

(a Component Unit of the State of Alaska)

MANAGEMENT'S DISCUSSION AND ANALYSIS

The fee portion of the benefit package is intended to help cover the costs of fees for borrowers of Federal loans. In fiscal year 2007, borrowers of Stafford loans were not responsible for the 2% origination fee. In fiscal years 2006 and 2005, the payment of the 3% fee on Stafford loans was shared between the Corporation and the borrower. In fiscal year 2007, borrowers of Stafford and PLUS loans were not responsible for the 1% default fee. Default fees were not charged in fiscal year 2006. In fiscal year 2005, borrowers of Stafford and PLUS loans were not responsible for the 1% guarantee.

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

Borrower benefits awarded in fiscal years 2007, 2006 and 2005 were \$3.6, \$3.5, and \$3.9 million, respectively.

Financing:

To finance the Program, the Corporation issues tax-exempt, limited obligation, education loan revenue bonds under the 2002 Master Trust Indenture dated June 1, 2002. The Corporation issued \$109 million and \$146 million in bonds during fiscal years 2007 and 2006, respectively. The Corporation did not issue bonds to finance the Program in 2005. All of the Corporation's outstanding bonds are either insured or rated AAA by Fitch and Standard & Poor's.

Contacting the Corporation

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

ELGEE REHFELD MERTZ, LLC

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INDEPENDENT AUDITORS' REPORT

The Board of Directors Alaska Student Loan Corporation Juneau, Alaska

We have audited the accompanying basic financial statements of the Alaska Student Loan Corporation (Corporation), a component unit of the State of Alaska, as of and for the years ended June 30, 2007, and 2006, as listed in the table of contents. These financial statements are the responsibility of the management of the Corporation. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects the financial position of the Alaska Student Loan Corporation as of June 30, 2007, and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2007, on our consideration of the Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 1 through 8, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

September 28, 2007



(a Component Unit of the State of Alaska)

Balance Sheets

June 30, 2007 and 2006 (in thousands)

Assets	2007	2006
Current assets:		
Accrued interest receivable-investments \$	156	135
Securities lending collateral (note 3)	6,121	4,088
Investments (note 3)	35,337	31,911
Other	33	-
Restricted investments (note 3)	37,311	35,560
Total current assets	78,958	71,694
Noncurrent assets:		
Restricted:		
Cash (note 3)	1,807	803
Due from U.S. Department of Education	536	857
Accrued interest receivable-investments	2,888	1,266
Accrued interest receivable-loans, net (note 6)	19,636	17,279
Investments (note 3)	415,994	416,893
Loans receivable, net (note 4 and 5)	524,348	504,372
Bond issue cost, net (note 8)	6,527	6,391
Total noncurrent assets	971,736	947,861
Total assets \$	1,050,694	1,019,555

(Continued)

(a Component Unit of the State of Alaska)

Balance Sheets

June 30, 2007 and 2006 (in thousands)

Liabilities and Net Assets	2007	2006
Liabilities:		
Current:		
Payable from unrestricted assets: Due to State of Alaska \$	462	175
	463	475
Warrants outstanding	14	43
Accounts payable	503	367
Securities lending collateral payable (note 3)	6,121	4,088
Return of capital payment declared (note 11)	1,200	1,900
Payable from restricted assets:		
Warrants outstanding (note 4)	327	403
Accounts payable	63	14
Arbitrage rebate payable (note 9)	-	85
Return of capital payment declared (note 11)	67,288	99,810
Interest payable	9,386	10,518
Deferred credit (note 2)	2,844	3,525
Bonds payable (note 7)	92,380	58,150
Total current liabilities	180,589	179,378
Noncurrent-payable from restricted assets:		
Arbitrage rebate payable (note 9)	2,079	695
Bonds payable, net (note 7)	686,855	668,437
Other	-	641
Total noncurrent liabilities	688,934	669,773
Total liabilities	869,523	849,151
Commitments and contingencies (note 11)		
Net assets:		
Restricted by State statute	17,363	16,165
Restricted by bond indentures	130,462	124,977
Unrestricted (note 2)	33,346	29,262
Total net assets	181,171	170,404
Total liabilities and net assets \$	1,050,694	1,019,555

(a Component Unit of the State of Alaska)

Statements of Revenue, Expenses

and Changes in Net Assets

Years ended June 30, 2007 and 2006 (in thousands)

		2007	2006
Operating revenue-interest income-loans (note 6)	\$	40,322	36,311
Operating expenses:			
Provision for:			
Loan losses (note 5)		5,216	5,038
Forgiveness (note 5)		205	306
Operations		11,646	12,449
Total operating expenses		17,067	17,793
Operating income		23,255	18,518
Nonoperating revenue (expense), excluding return of capital	:		
Securities lending income (note 3)		216	68
Securities lending expense (note 3)		(213)	(66)
Other income from investments		20,699	13,033
Interest expense		(29,660)	(27,122)
Auction agent and broker dealer costs		(361)	(425)
Arbitrage rebate (note 9)		(1,384)	(395)
Amortization of bond issuance costs		(585)	(927)
Change in estimate of forgiveness allowances (note 2	2)		752
Net nonoperating expense		(11,288)	(15,082)
Income before return of capital		11,967	3,436
Return of capital (note 11)		(1,200)	(1,900)
Change in net assets		10,767	1,536
Total net assets-beginning		170,404	168,868
Total net assets-ending	\$	181,171	170,404

(a Component Unit of the State of Alaska)

Statements of Cash Flows

Years ended June 30, 2007 and 2006 (in thousands)

	2007	2006
Cash flows from operating activities:		
Principal repayments received on loans \$	55,138	51,724
Interest received on loans	28,887	27,770
Other cash receipts	1,315	1,260
Loans originated	(73,211)	(70,733)
Cash paid to Alaska Commission on Postsecondary		
Education for operating expenses	(12,173)	(11,888)
Net cash used by operating activities	(44)	(1,867)
Cash flows from noncapital financing activities:		
Proceeds from issuance of bonds	111,952	148,985
Bond issue costs	(721)	(1,202)
Auction agent and broker dealer costs	(361)	(425)
Interest paid on bonds	(25,684)	(22,294)
Principal payments on bonds	(40,225)	(41,400)
Net cash provided by noncapital financing activities	44,961	83,664
Cash flows from investing activities:		
Income received on investments	17,936	14,031
Investments matured or sold	5,041,288	6,606,642
Investments purchased	(5,044,528)	(6,647,763)
Net cash provided (used) by investing activities	14,696	(27,090)
Cash flows from capital activities:		
Bond issue costs	_	(1)
Interest paid on bonds	(6,262)	(5,726)
Principal payments on bonds	(17,925)	(12,075)
Return of capital payments	(34,422)	(37,589)
Net cash used by capital activities	(58,609)	(55,391)
Net increase (decrease) in cash	1,004	(684)
Restricted cash at beginning of period	803	1,487
Restricted cash at end of period \$	1,807	803
		(Continued)

(a Component Unit of the State of Alaska)

Statements of Cash Flows

Years ended June 30, 2007 and 2006 (in thousands)

	2007	2006
Reconciliation of operating income to net cash		
used by operating activities:		
Operating income \$	23,255	18,518
Adjustments to reconcile operating income to net cash		
used by operating activities:		
Decrease in other assets	288	288
Increase in net accrued interest receivable-loans	(2,357)	(1,068)
Increase in net loans receivable	(19,976)	(18,904)
Increase (decrease) in due to State of Alaska	(12)	55
Increase (decrease) in warrants outstanding	(105)	14
Increase in accounts payable	185	13
Decrease in deferred credit	(681)	(1,424)
Increase (decrease) in other liabilities	(641)	641
Total adjustments	(23,299)	(20,385)
Net cash used by operating activities \$	(44)	(1,867)
Summary of noncash noncapital financing, investing, and		
capital activities that affect recognized assets and liabilities:		
Bond premium amortization	1,154	1,342
Interest payable	(9,386)	(10,518)
Bond issuance cost amortization	(585)	(927)
Arbitrage rebate payable	(1,384)	(395)
Interest receivable - investments	3,044	1,401
Unrealized gain (loss) on investments	1,038	(856)
Return of capital payment declared	(1,200)	(1,900)

(a Component Unit of the State of Alaska)

Notes to Financial Statements

June 30, 2007 and 2006

(in thousands)

(1) Authorizing Legislation and Organization

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

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

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

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

(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.

(a Component Unit of the State of Alaska)

Notes to Financial Statements

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

(d) Operating Revenues and Expenses

The Corporation's purpose is to make education loans to qualified borrowers. Its operating revenue is derived from interest income on education loans. The costs of providing and servicing education loans are recorded as operating expenses.

(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 of assets, liabilities, revenues, and expenses. Actual amounts could differ from those estimates. The more significant accounting and reporting policies applied in the preparation of the accompanying financial statements are discussed below.

(f) **Loans**

Loans represent education loans issued through the AlaskAdvantage[®] Loan Programs, which include Supplemental, Supplemental Consolidation, Teacher Education (TEL), Family Education (FEL), (collectively referred to as Supplemental 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 2.875% to 9% and is generally determined by loan type and origination date. The Corporation offers borrower benefits, which reduce the 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 supplemental loans to the allowance upon death, bankruptcy (as allowed by law), total disability, or when a payment has not been received for five years on loans not in deferment. The Corporation charges off the portion of Federal loan balances not recovered through the federal guarantee at the time the claim is paid.

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

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 Supplemental loans prior to July 1, 1987, can obtain up to 50% forgiveness of loan principal if the borrower meets conditions specified by the program.

(a Component Unit of the State of Alaska)

Notes to Financial Statements

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

(h) Interest on Education Loans

Interest on education loans is accrued when earned. For federally guaranteed subsidized loans, interest from the disbursement date of the loan until a date that is six months after the student withdraws from school (plus any authorized deferment periods) is billed to and paid by the U.S. Department of Education under the Federal Family Education Loan Program. The borrower is responsible for interest subsequent to that date. For federally guaranteed non-subsidized loans and for all Supplemental loans issued after June 30, 2002, interest from the disbursement date is the responsibility of the borrower.

Supplemental loans awarded prior to July 1, 2002, and all TELs are non-interest bearing while the borrower is completing eligible studies. All Supplemental loans issued prior to July 1, 1996, are non-interest bearing during approved periods of deferment and postponement. Loans issued prior to July 1, 1987, are also non-interest bearing during a one-year grace period following completion of studies and a six-month grace period following an approved deferment. Non-interest bearing loans are approximately \$8,852 and \$11,517 at June 30, 2007 and 2006, respectively.

(i) Interest Allowances

The allowance for doubtful interest represents management's estimate, based on experience, of all accrued interest that will ultimately be uncollectible. The Corporation charges off accrued interest at the same time 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 Supplemental 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 applied for and granted. In fiscal year 2006, management changed the allowance estimate to reflect expected forgiveness for the TEL program only. Management analyzed recent annual forgiveness activity for Supplemental loans awarded prior to July 1, 1987, in conjunction with eligibility requirements and concluded that an allowance for interest on those loans was no longer necessary.

(i) Deferred Credit

Borrowers who received Supplemental loans after June 30, 1994, were charged an origination fee of 1%, 3% or 5%, generally determined by loan origination date. The loan origination fees, recognized as a deferred credit, are used by the corporation to offset losses incurred as a result of death, disability, default or bankruptcy of the borrower as required in State statute or the Alaska Administrative Code. The allowance for doubtful loans has been reduced by the deferred credit balance.

(a Component Unit of the State of Alaska)

Notes to Financial Statements

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

(k) **Bond Issuance Costs**

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

(1) **Bond Premiums**

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

(m) **Income Taxes**

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

(n) **Investments**

The Corporation carries all investments at fair value.

(o) Unrestricted Net Assets

Unrestricted net assets represent assets of the Corporation not pledged as collateral for specific bond indentures or restricted by enabling legislation.

(p) Reclassifications

Certain reclassifications not affecting change in net assets have been made to the 2006 financial statements to conform to the 2007 presentation.

(3) Cash and Investments

(a) Cash

Cash consists of deposits held in trust and is restricted by the Corporation's bond indentures.

Custodial Credit Risk

The Corporation assumes levels of custodial credit risk for its deposits with financial institutions. 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.

As of June 30, 2007, the Corporation's cash balance included \$1,384 in uninsured deposits collateralized with securities held by the federal reserve bank but not in the Corporation's name.

(a Component Unit of the State of Alaska)

Notes to Financial Statements

(3) Cash and Investments (cont.)

(b) **Investments**

The fair value as of June 30, of the Corporation's investments, is shown below:

	_	2007	2006
Restricted	\$	453,305	452,453
Unrestricted		35,337	31,911
	\$	488,642	484,364

Restricted investments include amounts specifically designated for financing education loans totaling \$131,840 and \$112,639 at June 30, 2007 and 2006, respectively.

The fair value of investments as of June 30 is shown below:

	2007	2006
Guaranteed investment		
contracts ¹	\$ 143,345	124,272
Pooled repurchase		
agreement account	810	789
U.S. Treasury securities	146,423	49,031
U.S. Government agency		
securities	86,552	122,483
Corporate bonds	3,596	3,053
Asset-backed securities	3,432	3,327
Money market funds	73,271	159,788
GeFONSI	31,213	21,621
Total investments	\$ 488,642	484,364

¹ Includes repurchase agreements.

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 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). The GeFONSI is a participant in Treasury's securities lending program. A complete description of the investment policy for each pool is included in the Department of Revenue, Treasury Division's, Policies and Procedures.

Investments in the pools are reported at fair value and purchases and sales are recorded on a tradedate 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.

(a Component Unit of the State of Alaska)

Notes to Financial Statements

(3) Cash and Investments (cont.)

The accrual basis of accounting is used for investment income and GeFONSI investment income is distributed to the Corporation monthly.

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

	Short-term	Intermediate-	Total	ıls	
	Fixed	term Fixed			
Investment Type	Income Pool	Income Pool	2007	2006	
Overnight sweep account	\$ 91	-	91	16	
Short-term investment fund	592	1,941	2,533	389	
Commercial paper	1,310	-	1,310	781	
U.S. Treasury notes	-	5,842	5,842	6,333	
U.S. Government agency	-	5,104	5,104	2,356	
Mortgage-backed	1,012	2,664	3,676	2,069	
Other asset-backed	7,273	715	7,988	4,990	
Corporate bonds	3,771	1,727	5,498	4,490	
Yankees:					
Government	-	222	222	-	
Corporate	795	586	1,381	168	
Total invested assets	14,844	18,801	33,645	21,592	
Pool related net assets					
(liabilities)	42	(2,474)	(2,432)	29	
Net GeFONSI assets	\$ 14,886	16,327	31,213	21,621	

Investment Policies

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

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

- Debt instruments issued by the U.S. Government, its agencies and instrumentalities.
- Investment contracts and repurchase agreements with a corporation or other entity which has a long-term debt rating of at least A3 by Standard and Poor's or A- by Moody's and where collateral is maintained at a minimum level of 102% when using direct obligations of the U.S. Treasury or 103% when using allowable agency securities.
- Guaranteed investment contracts with a corporation or other entity which has a long-term debt rating of at least A3 by Standard and Poor's 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.

(a Component Unit of the State of Alaska)

Notes to Financial Statements

(3) Cash and Investments (cont.)

In addition to the above guidelines, the following apply to unrestricted funds managed by Treasury other than investments in the GeFONSI:

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

Concentration Risk

Concentration risk is the risk of loss attributed to the magnitude of the Corporation's investment in a single issuer. The Corporation's policies set out maximum concentration limits for all investment contracts.

For investment contracts, the investment agreement 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 Federal National Mortgage Association (FNMA) or the Federal Home Loan Mortgage Corporation (FHLMC).

Restricted funds 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. In those instances, if any, where an indenture is less restrictive than the Corporation's investment policy, the investment will be made in accordance with the more restrictive investment policy.

(a Component Unit of the State of Alaska)

Notes to Financial Statements

(3) Cash and Investments (cont.)

Investment Holdings Greater than Five Percent of Total Investments

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

As of June 30, 2007, the Corporation had investment balances greater than five percent of the Corporation's total investments with the following issuers:

		Percent of total
	Fair Value	investments
Citigroup	\$ 46,542	9.52
FHLMC	28,239	5.78
FNMA	47,502	9.72
Rabobank	29,000	5.93
Wells Fargo	40,049	8.20

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.

(a Component Unit of the State of Alaska)

Notes to Financial Statements

(3) Cash and Investments (cont.)

The credit quality ratings of the Corporation's investments, other than the investment in the GeFONSI, as of June 30 as described by a nationally recognized rating service, are shown below (using Standard & Poor's Corporation rating scale).

Ratings ¹		2007	2006	
U.S. Government agencies		_		
AAA	\$	56,130	40,680	
Corporate bonds				
AAA		932	429	
AA		1,460	1,908	
A		1,204	716	
		3,596	3,053	
Other asset backed securities				
AAA		3,382	2,440	
A		50	-	
		3,432	2,440	
Money market funds				
AAA		73,271	159,788	
Unrated investments				
Guaranteed investment contracts		143,345	124,272	
U.S. Government agencies		30,422	82,593	
Other asset-backed securities		-	97	
Pooled repurchase agreement account		810	789	
		174,577	207,751	
Securities not exposed to credit risk		·	· · · · · · · · · · · · · · · · · · ·	
U.S. Treasury securities		146,423	49,031	
•	\$	457,429	462,743	

¹ Rating modifiers are not disclosed.

(a Component Unit of the State of Alaska)

Notes to Financial Statements

(3) Cash and Investments (cont.)

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

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

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

(a Component Unit of the State of Alaska)

Notes to Financial Statements

(3) Cash and Investments (cont.)

At June 30, 2007, the GeFONSI consisted of investments with credit quality ratings issued by nationally recognized rating services as follows (using Standard and Poor's Corporation rating scale):

			Short-term	Intermediate- term Fixed
Investment Type	Rating ¹		Fixed Income	Income Pool
investment Type	Kating		Pool	meome room
Overnight sweep account	Not Rated	\$	91	
Short-term investment fund	Not Rated	_	592	1,941
Commercial paper	AA		278	-,,
Commercial paper	A		459	_
Commercial paper	Not Rated		573	_
U.S. Government agency	AAA		_	5,097
U.S. Government agency	Not Rated		_	7
Mortgage-backed	AAA		964	2,408
Mortgage-backed	A		48	-
Mortgage-backed (agency)	Not Rated		-	256
Other asset-backed	AAA		6,081	401
Other asset-backed	AA		135	-
Other asset-backed	A		941	143
Other asset-backed	BBB		-	47
Other asset-backed	Not Rated		116	124
Corporate bonds	AAA		292	152
Corporate bonds	AA		2,246	655
Corporate bonds	A		1,233	487
Corporate bonds	BBB		-	410
Corporate bonds	Not Rated		-	23
Yankees:				
Government	AA		-	222
Corporate	AAA		-	301
Corporate	AA		458	197
Corporate	A		260	48
Corporate	BBB		-	40
Corporate	Not Rated		77	-
No credit exposure				5,842
		\$	14,844	18,801

¹Rating modifiers are not disclosed.

(a Component Unit of the State of Alaska)

Notes to Financial Statements

(3) Cash and Investments (cont.)

At June 30, 2007, the securities lending collateral was invested in a registered 2(a)-7 money market fund that was not rated.

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 in the open market prior to maturity.

Duration

The following table shows the Corporation's non-GeFONSI investments, with their weighted average modified duration as of June 30, 2007, by investment type:

Guaranteed investment contracts	2.37
Pooled repurchase agreement	
account	-
U.S. Treasury securities	0.90
U.S. Government agency	
securities	2.15
Corporate bonds	5.54
Asset-backed securities	7.62
Money market funds	-
Portfolio modified duration	1.55

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, 2007, was 2.24 years.

(a Component Unit of the State of Alaska)

Notes to Financial Statements

(3) Cash and Investments (cont.)

At June 30, 2007, the GeFONSI's share of the Intermediate-term Fixed Income Pool's effective duration by investment type was as follows:

U.S. Treasury securities	2.41
U.S. Government agency securities	1.76
Mortgage-backed	3.10
Other asset-backed	1.56
Corporate bonds	2.73
Yankees:	
Government	4.29
Corporate	3.58
Portfolio effective duration	1.93

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.

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

At June 30, 2007, the expected average life of individual fixed rate securities held in the Short-term Fixed Income Pool range from one day to ten months and the expected average life of floating rate securities range from less than one year to three years.

(a Component Unit of the State of Alaska)

Notes to Financial Statements

(3) Cash and Investments (cont.)

Securities Lending

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

At June 30, 2007 and 2006, the fair value of securities on loan allocable to the Corporation totals \$6,025 and \$4,013 respectively.

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

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

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

For the year ended June 30, 2007, there are no losses incurred as a result of securities lending transactions and there were no significant violations of legal or contractual provisions nor failures by any borrowers to return loaned securities.

(a Component Unit of the State of Alaska)

Notes to Financial Statements

(4) Loans Receivable

The loan portfolio summarized by program at June 30 follows:

	2007	2006
State Supplemental Loans		
Supplemental Education	\$ 437,302	435,308
Consolidation	102,373	100,096
Teacher Education	8,370	8,424
Family Education	6,984	7,423
Total Supplemental Loans	555,029	551,251
Federal Family Education Loans		
Stafford	60,380	48,895
PLUS	2,775	1,975
Consolidation	19,543	11,882
Total Federal Loans	82,698	62,752
Total	\$ 637,727	614,003

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

	 2007			_	2	200	5
	State		Federal		State	_	Federal
Enrollment	\$ 83,360		30,629		85,506		25,973
Grace	17,055		7,235		17,343		6,112
Repayment	389,108		33,388		388,450		23,170
Deferment	45,351		8,671		46,665		5,138
Forbearance	20,155		2,775	_	13,287	_	2,359
Total	\$ 555,029		82,698	_	551,251		62,752

(a Component Unit of the State of Alaska)

Notes to Financial Statements

(4) Loans Receivable (cont.)

Loans awarded not disbursed at June 30 are as follows:

		2007	2006
State Supplemental Loans			
Supplemental Education	\$	8,949	9,598
Teacher Education		41	165
Family Education	_	302	234
Total Supplemental Loans		9,292	9,997
Federal Family Education Loans		<u>.</u>	
Stafford		6,406	5,739
PLUS		258	251
Total Federal Loans	•	6,664	5,990
Total	\$	15,956	15,987
	-		

Included in loans receivable are \$294 and \$376 of loan warrants issued but not redeemed by borrowers at June 30, 2007 and 2006, respectively. Redemption is contingent upon the borrower meeting certain eligibility requirements.

Loans are pledged to the Corporation's bond indentures.

(5) Loan Allowances

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

	_	2007	2006
Balance at beginning of period	\$	107,283	103,356
Provision for doubtful loans		5,215	5,038
Net loans charged off	_	(1,357)	(1,111)
Balance at end of period	\$	111,141	107,283

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

		2007	2006
Balance at beginning of period	\$	2,348	2,645
Provision for forgiveness	Ψ	205	306
Forgiveness granted		(315)	(250)
Change in estimate (note 2)		<u> </u>	(353)
Balance at end of period	\$	2,238	2,348

(a Component Unit of the State of Alaska)

Notes to Financial Statements

(6) Loan Interest Allowances

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

		2007	2006
Balance at beginning of period	\$	23,252	20,462
Provision for doubtful interest	Ψ	5,322	5,519
Net interest charged off		(2,368)	(2,729)
Balance at end of period	\$	26,206	23,252

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

	2007		2006
Balance at beginning of period	\$	402	725
Provision for forgiveness		171	133
Forgiveness granted		(102)	(57)
Change in estimate (note 2)		-	(399)
Balance at end of period	\$	471	402

(a Component Unit of the State of Alaska)

Notes to Financial Statements

(7) Bonds Payable

(a) Bonds payable at June 30 consist of the following:

			Amount outstanding	
1988 Master Indenture Series A Student Loan Revenue Bonds, serial:		Original Amount	2007	2006
1996, fixed rates ranging from 5.85% to 6.35%, due 2007	\$	38,000	-	26,000
1997, fixed rates ranging from 5.25% to 5.75%, due 2008 to 2015		75,000	55,000	60,000
1998, fixed rates ranging from 4.75% to 5.3%, due 2008 to 2016		88,570	48,000	49,000
1999, fixed rates ranging from 4.80% to 5.45%, due 2008 to 2017		40,000	30,250	32,500
2000, fixed rates ranging from 5.50% to 6.05%, due 2008 to 2018		32,140	28,340	30,540
term bonds, 6.0%, due July 1, 2016		7,860	7,860	7,860
2001, fixed rates ranging from 4.30% to 4.65%, due 2008 to 2011	_	33,345	16,875	20,650
Sub-total	_	314,915	186,325	226,550

(a Component Unit of the State of Alaska)

Notes to Financial Statements

(7) Bonds Payable (cont.)

	_	Amount outstanding	
2002 Master Indenture	Original		
Education Loan Revenue Bonds:	Amount	2007	2006
2002, Series A and B, auction rate			
bonds, due 2009 to 2037	62,500	36,100	36,100
2003, Series A-1 and A-2, auction rate			
bonds, due 2011 to 2038	47,000	47,000	47,000
2004, Series A-1, A-2, and A-3,			
Auction rate bonds, due 2044	93,100	93,100	93,100
serial bonds, fixed rates			
ranging from 5.0% to			
5.25%, due 2011 to 2017	22,015	22,015	22,015
2005, Series A serial bonds, fixed			
rates ranging from 4.0% to			
5.0%, due 2008 to 2018	58,250	58,250	58,250
2006, Series A-1 and A-2, auction rate			
bonds, due 2040	30,000	30,000	30,000
serial bonds, 5.0% fixed			
rate, due 2009 to 2018	55,000	55,000	55,000
2007, Series A-1, A-2, and A-3,			
auction rate bonds, due 2042	41,500	41,500	-
serial bonds, 5.0% fixed rate,			
due 2010 to 2019	18,500	18,500	-
serial bonds, 5.0% fixed rate,			
due 2008 to 2014	49,000	49,000	
	476,865	450,465	341,465
Plus bond premium	<u>_</u>	8,656	6,255
Sub-total	<u>_</u>	459,121	347,720

(a Component Unit of the State of Alaska)

Notes to Financial Statements

(7) Bonds Payable (cont.)

		Amount outstanding	
2004 Indenture Series A Capital Project	Original		_
Revenue Bonds,	Amount	2007	2006
serial bonds, fixed rates ranging			
from 2.0% to 4.0%, due 2008 to 2017	69,910	52,250	58,175
term bonds, 4.0%, due July 1, 2018	5,230	5,230	5,230
	75,140	57,480	63,405
Plus bond premium		1,822	1,987
Sub-total		59,302	65,392
2005 Indenture Series A State Projects Revenue Bonds: serial bonds, fixed rates ranging			
from 5.0% to 5.5%, due 2008 to 2015	88,305	70,000	82,000
Plus bond premium		4,487	4,925
Sub-total		74,487	86,925
Total Bonds Payable, including premium	\$ 955,225	779,235	726,587

(b) The minimum payments and sinking fund installments for the five years subsequent to June 30, 2007, and thereafter are as follows:

Period ending June 30	 Principal	Interest	Total
2008	\$ 92,380	31,968	124,348
2009	41,995	30,230	72,225
2010	44,545	28,245	72,790
2011	67,095	25,620	92,715
2012	64,205	22,824	87,029
2013-2017	216,295	74,969	291,264
2018-2022	22,355	42,550	64,905
2023-2027	-	41,511	41,511
2028-2032	-	41,511	41,511
2033-2037	20,300	40,664	60,964
2038-2042	102,000	26,874	128,874
2043-2044	93,100	4,416	97,516
	\$ 764,270	411,382	1,175,652

(a Component Unit of the State of Alaska)

Notes to Financial Statements

(7) Bonds Payable (cont.)

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

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

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

(d) On July 1, 2006 the Corporation called all outstanding Series 1996 A Bonds at par in the amount of \$23,000.

(8) Bond Issue Cost

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

	 2007	2006	
Balance at beginning of period	\$ 6,391	6,116	
Additions	721	1,202	
Amortization	 (585)	(927)	
Balance at end of period	\$ 6,527	6,391	

(9) Yield Restriction and Arbitrage Rebate

Education loans financed with proceeds of tax-exempt bonds issued by the Corporation are subject to interest rate yield restrictions of no more than 2% over the yield of the bonds. Most of the non-loan investments pledged to the bond indentures are subject to rebate provisions or restricted to the related bond yield. These restrictions are in effect over the lives of the bonds. The Corporation has loan and investment yields calculated annually to determine both compliance with Internal Revenue Service (IRS) provisions and the arbitrage rebate liability at year end. The amount accrued for arbitrage rebate liability at year-end represents the amount of arbitrage rebate due to the IRS for earnings in excess of the allowable bond yield.

(10) Federally Guaranteed Loans

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 Commission's "eligible" guarantor.

(a Component Unit of the State of Alaska)

Notes to Financial Statements

(10) Federally Guaranteed Loans (cont.)

As a federal loan lender acting on the Corporations behalf, the Commission receives claim, special allowance and interest subsidy payments on federally guaranteed loans as authorized by the HEA and pays various fees (origination, lender, default and rebate) as specified in the HEA. As further described in note 11, the HEA is subject to amendment that could impact these payments.

Claim payments are received from the guarantor when a borrower dies, becomes totally and permanently disabled or defaults on their loan. The lender is eligible for these payments provided they adhere to servicing requirements as outlined in the HEA. Failure to fulfill the requirements may result in an interest penalty or loss of guarantee. In the case of a default claim, unpaid principal and interest are guaranteed at 98% if first disbursed prior to July 1, 2006, and 97% if first disbursed after June 30, 2006. All other claims are guaranteed at 100%.

Special allowance payments (SAP) are received quarterly from the U.S. Department of Education (Department). The SAP is based on a rate that is established quarterly by the Department. The rates differ according to the loan type, disbursement date, loan status, interest rate, and type of funds used to finance the loans. 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. For Stafford and Consolidation loans billed through September 30, 2006, the SAP rate was calculated using the average 91-day Treasury bill rate subject to an effective minimum rate of 9.5%. Beginning October 1, 2006, SAP on these loans was calculated using the 3-month commercial paper rate. The 3-month commercial paper rate was used to calculate SAP on PLUS loans for both fiscal year 2007 and 2006.

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

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% in fiscal years 2007 and 2006. The fee for Stafford loans was 2% and 3% for fiscal years 2007 and 2006, respectively. The Corporation elected to pay the fee for fiscal year 2007, and shared the fee with the borrower in fiscal year 2006.

Payment of a lender fee is required on federal loans in an amount equal to 0.05% 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% of the disbursed amount must be charged on Stafford and PLUS loans and may be charged to the borrower as a reduction at the time of disbursement. This fee was first effective in fiscal year 2007 and was paid by either the Corporation or NELA on behalf of the borrower.

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

(a Component Unit of the State of Alaska)

Notes to Financial Statements

(11) Commitments and Contingencies

(a) **Operations**

The Corporation will fund approximately \$11,291 of the Commission's operating budget for fiscal year 2008. 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 2, 2006, the Board approved a \$1,200 Return of Capital payment to the State which will be paid during fiscal year 2008. On September 27, 2005, the Board approved a \$1,900 Return of Capital payment to the State which was paid during the fiscal year 2007.

As an additional means of returning capital, State statutes allow the Corporation to issue bonds to finance State capital projects. No bonds were issued in fiscal years 2007 and 2006 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 \$67,288 and \$99,810 at June 30, 2007 and 2006, respectively.

(c) State Permanent Fund Dividend Seizure

The Alaska Permanent Fund (Permanent Fund) is a fund held and managed by the State and was established in the Alaska State Constitution in 1976. The State deposits a percentage of oil and gas royalties into the Permanent Fund. By statute, the State pays a portion of the earnings of the Permanent Fund 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 the State statutes. The Commission may seize a borrower's PFD payment, if any, to satisfy the balance of a defaulted loan pursuant to State statutes. The Commission has seizure priority over all other executors except State child support enforcement and any court ordered restitution. There is no assurance that any particular borrower will apply or qualify for a PFD payment.

PFD seizures collected by the Commission were approximately \$3,900 and \$3,100 for the years ended June 30, 2007 and 2006, respectively.

(a Component Unit of the State of Alaska)

Notes to Financial Statements

(11) 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 14% while the loans are subject to an interest rate cap of 8.25% to 9.50% depending on loan type. The Corporation has various strategies available to manage the risk that the bond rate may rise above the loan rate.

(12) Subsequent Events

On July 6, 2007, the Corporation called all outstanding Series 1997 A bonds at par in the amount of \$49,000.