(a Component Unit of the State of Alaska)

Management's Discussion and Analysis and Financial Statements

June 30, 2010 and 2009

Together with Independent Auditors' Report

(a Component Unit of the State of Alaska)

June 30, 2010 and 2009

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the Alaska Student Loan Corporation's (Corporation) history, financial position at and financial performance for the fiscal years ended June 30, 2010 and 2009 is being presented to assist readers in understanding the Corporation's structure, activities and significant financial issues. This information is required supplementary information. Fiscal year 2008 information is shown for comparative purposes. This information should be read in conjunction with the Independent Auditors' Report, the audited financial statements and accompanying notes, all of which follow this discussion and analysis.

History

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

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

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

The Corporation was created to raise alternative financing for education loans through the issuance of tax-exempt debt. The Corporation's goal is to provide low-cost education loans to Alaskans pursuing education and training at a postsecondary education level and for other qualified individuals attending postsecondary education institutions in the State. In 1987, the Corporation entered into an agreement with the Commission for on-going administrative services related to the loan programs. In April of 1988, by an act of the State Legislature, the assets, liabilities, and equities of the State's existing education loan programs were transferred to the Corporation effective December 1987. The loan programs are currently funded through the issuance of tax-exempt revenue bonds, recycling of loan payments, and proceeds from a State funded loan. The financial activity related to the Corporation is reported as a discretely presented component unit in the State's comprehensive annual financial report.

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

ASLC partners with the Commission to finance, award and service education loans. The Commission administers ASLC's programs under the umbrella title, AlaskAdvantage Loan Program® (Program). Additional information

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about the Program is available at http://akadvantage.alaska.gov. The Corporation funds the Commission's expenditures that relate to Program administration as permitted by ASLC statutes and bond indentures.

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

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

The Corporation had the highest volume of federal loan originations in the state compared to other federal education loan providers in Alaska; however, this trend will not continue due to the elimination of the lender-based FFELP, effective July 1, 2010.

Program Highlights

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

Net loans as a	Gross awards as a
percentage of	percentage of
total loans	total awards
67	25
33	75
74	44
26	56
80	54
20	46
	percentage of total loans 67 33 74 26 80

• The lender-based Federal Family Education Loan Program ended effective July 1, 2010 with the passage of the <u>Health Care and Education Affordability Reconciliation Act</u> in March, 2010. The Corporation will continue to hold and administer the existing FFELP loan portfolio, which minimizes the immediate impact of ceasing to originate FFELP loans.

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- Federal loan program changes as a result of the <u>Higher Education Opportunity Act</u> being signed into law on August 14, 2008 continue to impact future years as follows:
 - Established lender "code of conduct" requirements applicable to the Corporation's loan programs, including:
 - displaying the Corporation's name in marketing material;
 - reporting reasonable expenses reimbursed to persons with responsibility for financial aid or of any agent of an institution or affiliated organization, to the Secretary of the U.S. Department of Education (Secretary); and,
 - annually certifying, to the Secretary, the Corporation's compliance with the Act and annually providing information on each type of education loan the Corporation plans to offer for the next award year if participating in preferred lender arrangements.
 - Requires additional borrower disclosures and notices for State Alternative loans;
 - Expands information on loans reported to consumer reporting agencies;
 - Revised the prohibited inducement provisions to prohibit:
 - offering schools or school officials payments for referrals to secure loan applications;
 - unsolicited mailings of loan applications by electronic means;
 - consulting payments to financial aid office employees who have responsibilities for financial aid;
 - compensating a postsecondary institution employee to participate on a lender advisory council;
 - performance of, or payment to a person to perform, any function that a school is required to perform; and,
 - paying a student to secure applications.
- The <u>College Cost Reduction and Access Act</u> (CCRAA) was signed into law on September 27, 2007. This Act created a new repayment plan, Income-Based Repayment (IBR), effective July 1, 2009, available to federal education loan borrowers (except parental PLUS borrowers) experiencing financial difficulty. Under this plan, monthly loan payments are based on the borrower's disposable income level, determined by borrower debt level and family size according to federal poverty guidelines. Monthly payments will be recalculated annually and may not always cover unpaid accrued interest on the education loan. However, for subsidized Stafford loans, the U.S. Department of Education will pay accrued interest not covered by the borrower's scheduled IBR payment for the first three years of the IBR qualifying schedule. Thereafter, and for all other loan types, unpaid accrued interest will be capitalized when the borrower no longer qualifies for IBR.
- In response to market concerns regarding education loan asset-backed securities and the negative impacts relative to financing education loans made under the State Alternative loan program, State legislation was passed to impose stricter underwriting criteria related to a borrowers ability to and history of making payments as they become due. This change was effective for academic year 2009-2010 and future education loans and resulted in the significant drop in alternative loan volume from the prior year. Borrowers who cannot meet the credit criteria have the option of obtaining a co-signer who can meet the credit criteria.

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Management believes this change will allow rating agencies, investors and others to view the Corporation's alternative loans as acceptable collateral for asset-backed securities issued in the future to fund loan programs.

• The Corporation expects State alternative loan volume to stabilize in the coming years with annual volume of approximately \$15 - \$20 million.

Financial Highlights

The Corporation last issued education loan revenue bonds in June 2007 and has used internal liquidity and State loan proceeds to finance education loans through June 30, 2010. Costs related to obtaining the needed liquidity and/or credit enhancement for a bond issue, as well as collateral requirements imposed to obtain an acceptable bond rating, made a market-based financing in 2010 impractical and uneconomical for the Corporation.

The Corporation secured a loan from the State of Alaska in July 2009. Proceeds of this loan were used to finance 2009-2010 academic year education loans and will be used to finance 2010-2011 academic year education loans. Information related to this loan is contained in the footnote section of the financial statements.

All auction rate securities (ARS) issued by the Corporation were issued under the 2002 Trust. The Corporation has \$163 million in ARS outstanding at June 30, 2010. Auctions on these bonds have failed since the failure of the ARS market in February 2008. Auction failure does not constitute a default on the bonds, and all principal and interest has been paid when due. Despite the ARS market failure, the Corporation's pledged loan portfolio credit quality remains strong. All bonds, including the ARS, issued under the 2002 Trust remain rated AAA by both Fitch (rating watch negative) and Standard and Poor's (affirmed August 9, 2010).

On June 29, 2010, the Corporation refinanced a portion of its FFELP portfolio and used a portion of the financing proceeds to purchase, and subsequently cancel, \$84.7 million of its ARS. Subsequent to year end, the Corporation used a portion of the refinancing proceeds to purchase and cancel \$36.5 million of its ARS. These purchases were made at a discount which further strengthened the 2002 Trust. Management continually seeks opportunities to restructure its remaining ARS but has no timetable or restructuring plan in place at this time.

Information related to the Corporation's debt is contained in the footnote section of the financial statements. In addition, trust monitoring reports are prepared quarterly, the most current of which is available at: http://akadvantage.alaska.gov/Research/Investor_Relations/Trust_Documents.aspx.

Overview of the Financial Statements

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

<u>Balance Sheets</u> - This statement presents information regarding the Corporation's assets, liabilities and net assets at a point in time. Net assets represent the total amount of assets less the total amount of liabilities. This statement reflects the Corporation's financial health at the end of the year. Over time,

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changes in net assets may serve as a useful indicator of whether the financial position of the Corporation is improving or deteriorating.

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

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

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

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

Financial Analysis

- The Corporation's total assets at June 30, 2010, 2009, and 2008 were \$0.8, \$0.7, and \$0.8 billion, respectively. The change in assets from fiscal year 2009 to 2010 was an increase of \$75 million or 10%, and the change between fiscal year 2008 to 2009 was a decrease of \$38 million or 5%.
- The Corporation's net education loans receivable was \$604, \$586, and \$557 million, at June 30, 2010, 2009 and 2008, respectively. These balances represent an increase in fiscal year 2010 of \$18 million or 3% and an increase in fiscal year 2009 of \$29 million or 5%.
- The Corporation's debt at June 30, 2010, 2009, and 2008 was \$589, \$534, and \$566 million, respectively. The change in debt from fiscal year 2009 to 2010 was an increase of \$55 million or 10%, and the change in debt from fiscal year 2008 to 2009 was a decrease of \$32 million or 6%.
- The assets of the Corporation exceed its liabilities (reported as net assets) at the close of fiscal year 2010, 2009 and 2008 by \$205, \$181, and \$177 million, respectively. These balances represent an increase in fiscal year 2010 of \$24 million or 13% and an increase in fiscal year 2009 of \$4 million or 2%.
- The Corporation's operating revenue was \$33, \$40, and \$60 million at June 30, 2010, 2009 and 2008, respectively. These balances represent a decrease in fiscal year 2010 of \$7 million or 18% and a decrease in 2009 of \$20 million or 33%.
- The Corporation's interest expense was \$15, \$17, and \$32 million during fiscal years 2010, 2009 and 2008, respectively. These balances represent a decrease in fiscal year 2010 of \$2 million or 12%, and a decrease in 2009 of \$15 million or 47%.

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- The Corporation's other operating expense was \$16, \$20, and \$22 million during fiscal years 2010, 2009 and 2008. These balances represent a decrease in fiscal year 2010 of \$4 million or 20% and a decrease in fiscal year 2009 of \$2 million or 9%.
- The following condensed financial information reflects changes during the fiscal year:

Balance Sheets (in thousands)

	2010	2009	\$ Change	% Change	2008
Assets:					
Current	\$ 79,326	69,588	9,738	14	69,720
Noncurrent	738,447	673,123	65,324	10	711,378
Total assets	817,773	742,711	75,062	10	781,098
Liabilities:					
Current	65,279	50,977	14,302	28	54,554
Noncurrent	547,884	511,085	36,799	7	549,555
Total liabilities	613,163	562,062	51,101	9	604,109
Net assets:					
Unrestricted	122,482	140,686	(18,204)	(13)	139,437
Restricted	82,128	39,963	42,165	106	37,552
Total net assets	204,610	180,649	23,961	13	176,989
Total liabilities and net assets	817,773	742,711	75,062	10	781,098

The fiscal year 2010 increase in current assets is due to the increase in current restricted investments. Current restricted investments have increased due to an increase in scheduled debt service payments for fiscal year 2011.

The fiscal year 2010 increase in noncurrent assets was due to an increase in noncurrent restricted investments as well as an increase in restricted loans receivable. Restricted investments reflect proceeds received from refinancing FFELP loans at the end of June. Loans receivable have increased due to originations and interest capitalization exceeding principal payments during the year.

Fiscal year 2010 current liabilities increased because scheduled debt service payments in fiscal year 2011 are higher than they were in fiscal year 2010.

Noncurrent liabilities in fiscal year 2010 increased due to additional debt incurred in fiscal year 2010. See the footnote section of the financial statements for information related to the additional debt.

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

Fiscal year 2009 current liabilities declined because return of capital payments classified as current declined. The Corporation chose not to return capital, based on net income, to the State in fiscal year 2010. In addition,

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reimbursement requests from State agencies with capital projects funded with Corporation bond proceeds continue to decline due to projects nearing completion.

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

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

	_	2010	2009	\$ Change	% Change	2008
Operating revenue	\$	33,336	39,992	(6,656)	(17)	60,001
Operating expense		(27,845)	(32,466)	4,621	(14)	(49,882)
Non-operating expense		(3,224)	(3,866)	642	(17)	(5,162)
Income before change in estimate,	_					
special item and return of capital		2,267	3,660	(1,393)	(38)	4,957
Change in accounting estimate		4,342	-	4,342		-
Gain on cancellation of bonds		17,406	-	17,406		-
Return of capital		(54)	-	(54)		(9,139)
Change in net assets	_	23,961	3,660	20,301	555	(4,182)
Net assets - beginning		180,649	176,989	3,660	2	181,171
Net assets - ending	\$	204,610	180,649	23,961	13	176,989

Operating revenue, which represents interest on education loans and earnings on investments, declined in fiscal year 2010 due to market conditions. Variable rate education loan rates declined significantly in fiscal year 2010 because the indices used to set those rates declined. These reductions were offset by the reduction in borrower benefits effective for the 2009-2010 academic year. The average return on gross loans was 4.51% and 5.41% in fiscal years 2010 and 2009, respectively. The return on invested assets declined from 1.8% in fiscal year 2009 to 0.85% in fiscal year 2010. The Corporation continued to invest in zero coupon State and Local Government Securities ("SLGS") in fiscal year 2010 to reduce yield restriction and arbitrage rebate liabilities associated with past earnings on tax-exempt bond proceeds. However, the balance invested in such securities declined to 4% of invested assets in 2010.

Operating expense declined in 2010 due to the reduction in interest expense on bonds issued to finance education loans. Not only did the outstanding debt balance decline, interest on the Corporation's auction rate securities averaged 0.65% in 2010 compared to 1.82% in 2009. Auction rate securities represented approximately 46% of the Corporation's average outstanding debt in 2010. See the footnote section of the financial statements for the rates being paid on auction rate securities at June 30, 2010. These declines were offset by the interest paid on a loan from the State. The Corporation paid 4.29% on the loan balance in fiscal year 2010. Overall, the Corporation paid 3.05% on average debt outstanding in fiscal year 2010 compared to 3.4% in fiscal year 2009.

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Non-operating expense declined in 2010 due to the reduction in interest expense on bonds issued to finance State capital projects as a result in the reduction of debt outstanding during the year.

Operating revenue declined significantly in fiscal year 2009 due to the decline in the Corporation's invested balance as well as the decline in investment returns generally. The quarterly average of invested assets declined \$46 million in fiscal year 2009. The return on invested assets decreased from 5.78% in fiscal year 2008 to 1.8% in fiscal year 2009.

Operating expense declined in 2009 due to the reduction in interest expense on bonds issued to finance education loans. Not only did outstanding debt decline, interest on the Corporation's auction rate securities averaged 1.82% in 2009 compared to 4.00% in 2008. Auction rate securities represented approximately 46% of the Corporation's average outstanding debt in 2009.

Non-operating expense declined in 2009 due to the reduction in interest expense on bonds issued to finance State capital projects. The decrease was due to a decrease in outstanding debt due to scheduled payments. In addition to a reduction in interest expense, the rebate liability related to non-operating activities declined significantly in 2009. As mentioned earlier, the Corporation invested in SLGS in fiscal year 2009 to reduce the yield restriction and arbitrage rebate liability.

Borrower Benefits

The Board has approved various loan benefits that provide incentives and rewards to borrowers who participate in the Program. The benefit package, intended to lower the cost of interest and fees, is subject to annual approval by the Board and changes are subject to a confirmation from rating agencies rating the Corporation's outstanding education loan revenue bonds. The rating confirmation must indicate that the change to the borrower benefit package will not have a negative impact on ratings previously issued. Borrower benefits awarded in fiscal years 2010, 2009 and 2008 cost \$2.8, \$4.0, and \$4.4 million, respectively. The cost of such benefits is offset against education loan interest income.

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The following tables reflect the benefits available to eligible borrowers during fiscal years 2011, 2010, 2009, and 2008. With the exception of the direct payment and general benefit on variable interest rate Stafford loans, which are awarded via a rate reduction, interest benefits are cost reductions applied as quarterly or annual account credits.

Benefit	Applied	Alternative	Unsubsidized Stafford	Subsidized Stafford	PLUS	Federal Consolidation	Alternative Consolidation
<u>Fiscal Year 2009 and</u>	<u>d 2008:</u>						
General	In-school	-	0.80	-	-	-	-
General	Repay	-	0.50	0.50	1.00	1.00	-
Fiscal Year 2011:							
Alaska Presence	Attend in Alaska	0.50	1 -	-	-	-	-
Alaska Presence	Reside in Alaska	-	-	-	-	-	-
Fiscal Year 2010:							
Alaska Presence	Attend in Alaska	0.50	1.20	-	0.50	0.50	-
Alaska Presence	Reside in Alaska	0.50	1.20	-	0.50	0.50	-
Fiscal Year 2009:							
Alaska Presence	Attend in Alaska	0.50	1.00	-	-	-	-
Alaska Presence	Reside in Alaska	0.50	1.00	1.00	1.00	1.00	0.50
Fiscal Years 2008:							
Alaska Presence	Attend in Alaska	1.00	1.00	-	-	_	_
Alaska Presence	Reside in Alaska	1.00	1.00	1.00	1.00	1.00	1.00
Fiscal Years 2010, 2	009, and 2008:						
Timely Payment	After 1st 48 Pmts	2.00	2.00	2.00	1.00	1.00	1.00
Fiscal Years 2011, 2	010, 2009, and 2008:						
Direct Payment	Electronic	0.25	0.25	0.25	0.25	0.25	0.25

¹ applicable to fixed rate alternative supplemental education loans current on their repayment schedule.

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

Contacting the Corporation

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

ELGEE REHFELD MERTZ.LLC

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

The Board of Directors Alaska Student Loan Corporation Juneau, Alaska

We have audited the accompanying 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, 2010, and 2009, as listed in the table of contents. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express opinions on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects the financial position of the Corporation as of June 30, 2010, and 2009, 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 23, 2010, on our consideration of the Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 1 through 10, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, and historical context. We have applied certain limited procedures to it in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

September 23, 2010

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Balance Sheets

June 30, 2010 and 2009

(in thousands)

Assets	2010	2009
Current assets:		
Cash (note 3) \$	1,353	793
Other	100	315
Interest receivable - investments	4	3
Interest receivable - loans	1,505	2,074
Investments (note 3)	827	500
Loans receivable (notes 4 and 11)	8,135	11,534
Restricted investments (note 3)	67,402	54,369
Total current assets	79,326	69,588
Noncurrent assets:		
Interest receivable - loans, net (note 6)	1,697	1,518
Loans receivable, net (notes 4, 5 and 11)	83,112	104,127
Investments (note 3)	27,183	20,993
Restricted:		
Cash (note 3)	1,104	607
Other	324	703
Due from State of Alaska	37	-
Interest receivable - investments	22	37
Interest receivable - loans, net (note 6)	18,984	18,250
Investments (note 3)	89,561	52,258
Loans receivable, net (notes 4, 5 and 11)	513,208	470,801
Debt issue cost, net (note 9)	3,215	3,829
Total noncurrent assets	738,447	673,123
Total assets \$	817,773	742,711

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Balance Sheets

June 30, 2010 and 2009

(in thousands)

Liabilities and Net Assets	_	2010	2009
Liabilities:			
Current:			
Payable from unrestricted assets:			
	\$	561	443
Due to U.S. Dept of Education (note 11)		273	-
Warrants outstanding		195	286
Accounts payable		406	442
Payable from restricted assets:			
Due to State of Alaska		-	48
Due to U.S. Dept of Education (note 11)		903	798
Warrants outstanding (note 4)		93	158
Accounts payable		98	44
Arbitrage rebate payable (note 10)		631	1,637
Return of capital payable (note 12)		9,309	10,635
Interest payable		3,875	3,063
Deferred credit (note 2)		1,730	1,413
Bonds payable (note 7)		47,205	32,010
Total current liabilities	_	65,279	50,977
Noncurrent-payable from restricted assets:			
Arbitrage rebate payable (note 10)		1,229	1,016
Return of capital payable (note 12)		3,599	3,545
Deferred credit (note 2)		725	4,347
Bonds payable, net (note 7)		364,081	502,177
Other debt payable (note 8)		178,250	-
Total noncurrent liabilities	_	547,884	511,085
Total liabilities	_	613,163	562,062
Commitments and contingencies (note 12)	_		
Net assets:			
Unrestricted (note 2)		122,482	140,686
Restricted		82,128	39,963
Total net assets	_	204,610	180,649
Total liabilities and net assets	\$	817,773	742,711

See accompanying Notes to Financial Statements.

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Statements of Revenue, Expenses and Changes in Net Assets

Years ended June 30, 2010 and 2009

(in thousands)

	2010	2009
Operating revenue:		
Interest - loans, net (note 6) \$	31,994	37,017
Investment income	1,320	2,922
Other	22	53
Total operating revenue	33,336	39,992
Operating expenses:		
Interest	11,809	13,346
Administration	14,173	13,881
Provision for:		
Loan losses (note 5)	988	5,185
Forgiveness (note 5)	198	178
Amortization of debt issue costs (note 9)	769	201
Arbitrage rebate (note 10)	(92)	(325)
Total operating expenses	27,845	32,466
Operating income	5,491	7,526
Nonoperating expense:		
Interest	3,043	3,683
Administration	16	18
Amortization of debt issue costs (note 9)	165	165
Nonoperating expense	3,224	3,866
Income before effect of change in accounting		
estimate, special item and return of capital	2,267	3,660
Effect of change in accounting estimate (note 7)	4,342	_
Special item - gain on cancellation of bonds (note 7)	17,406	-
Return of capital (note 12)	(54)	
Change in net assets	23,961	3,660
Total net assets-beginning	180,649	176,989
Total net assets-ending \$	204,610	180,649

See accompanying Notes to Financial Statements.

(a Component Unit of the State of Alaska)

Statements of Cash Flows

Years ended June 30, 2010 and 2009

(in thousands)

		2010	2009
Cash flows from operating activities:	•		
Principal payments received on loans	\$	58,786	58,333
Interest received on loans		19,287	26,686
Other receipts		582	1,086
Loans originated		(69,162)	(86,151)
Administration		(13,671)	(14,937)
Interest paid on debt		(11,802)	(14,663)
Principal payments on bonds		(82,794)	(12,500)
Proceeds from other debt		178,250	-
Debt issue costs		(260)	-
Income received on investments		660	3,900
Investments matured or sold		3,088,154	1,910,745
Investments purchased		(3,145,034)	(1,845,314)
Net cash provided by operating activities		22,996	27,185
Cash flows from capital activities:			
Administration		(16)	(16)
Interest paid on debt		(4,087)	(4,858)
Principal payments on bonds		(16,510)	(17,245)
Return of capital payments		(1,326)	(7,557)
Net cash used by capital activities		(21,939)	(29,676)
Net increase (decrease) in cash		1,057	(2,491)
Cash at beginning of period	•	1,400	3,891
Cash at end of period	\$	2,457	1,400

(a Component Unit of the State of Alaska)

Statements of Cash Flows

Years ended June 30, 2010 and 2009

(in thousands)

		2010	2009
Reconciliation of operating income to net cash			
provided by operating activities:			
Operating income	\$	5,491	7,526
Adjustments to reconcile operating income to net cash			
provided by operating activities:			
(Increase) decrease in other assets		594	(167)
Decrease in interest receivable - investments		14	398
Increase in net interest receivable - loans		(344)	(523)
(Increase) decrease in investments		(56,853)	65,608
Increase in net loans receivable		(17,993)	(29,900)
Decrease in net debt issue costs		449	200
Increase in due to U.S. Department of Education		378	883
Increase (decrease) in net due to State of Alaska		33	(243)
Decrease in arbitrage rebate payable		(793)	(334)
Decrease in warrants outstanding		(156)	(37)
Increase (decrease) in accounts payable		19	(270)
Increase (decrease) in interest payable		1,204	(429)
Decrease in deferred credit		(3,305)	(2,140)
Decrease in bonds payable		(83,992)	(13,387)
Increase in other debt payable		178,250	-
Total adjustments		17,505	19,659
Net cash provided by operating activities	\$	22,996	27,185
	_		
Summary of noncash capital activities that affect			
recognized assets and liabilities:			
Bond issue cost amortization	\$	165	165
Return of capital payable		54	-
Interest payable		3,694	4,489
Bond premium amortization		(3,475)	(806)

See accompanying Notes to Financial Statements.

(a Component Unit of the State of Alaska)

Notes to Financial Statements

June 30, 2010 and 2009

(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 various debt instruments 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.

(a Component Unit of the State of Alaska)

Notes to Financial Statements

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

(e) Management Estimates

In preparing the financial statements in accordance with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts. Actual amounts could differ from those estimates. The 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% and is generally determined by loan type and year of origination.

(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 an Alternative loan (other than TEL) awarded 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 borrower withdraws from school (plus any authorized deferment periods) is paid by the U.S. Department of Education (Department) under the Federal Family Education Loan Program. The borrower is responsible for interest accruing subsequent to that date. For federally guaranteed non-subsidized loans and for all Alternative loans (other than TEL) awarded after June 30, 2002, interest accruing from the disbursement date is the responsibility of the borrower. For TELs awarded after June 30, 2002, interest accruing from the date the borrower 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 (cont.)

Alternative loans (other than FEL) awarded prior to July 1, 2002, are non-interest bearing while the borrower is completing eligible studies. Alternative loans (other than FEL) awarded prior to July 1, 1996, are non-interest bearing during approved periods of deferment and postponement. Alternative loans (other than FEL) awarded 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 accruing from the disbursement date is the responsibility of the borrower.

Non-interest bearing loans were approximately \$4,837 and \$5,401 at June 30, 2010 and 2009, respectively.

The cost of borrower benefits awarded to eligible borrowers is recorded as a reduction in interest income 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 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 an Alternative loan awarded 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 awarded after June 30, 1994, pay an origination fee at disbursement of 1%, 3%, or 5%, generally determined by year of origination. 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) Debt Issue Costs

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

(1) **Bond Premiums**

The Corporation changed its method of amortizing bond premiums over the life of the bond from the straight-line method to the effective method effective July 1, 2009. See additional information at note 7.

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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 not pledged as collateral to secure payment of debt.

(p) Reclassifications

Reclassifications not affecting change in net assets have been made to the 2009 financial statements to conform to the 2010 presentation.

(3) Cash and Investments

(a) Cash

(1) Cash summarized by classification at June 30 is shown below:

	2010		2009
Current, unrestricted	\$	1,353	793
Noncurrent, restricted		1,104	607
Total	\$	2,457	1,400

Restricted cash is pledged to secure payment of debt.

(2) Custodial Credit Risk

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

At June 30, 2010, 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 June 30, of the Corporation's investments, by classification, is shown below:

	 2010	2009
Current:	_	
Unrestricted	\$ 827	500
Restricted	67,402	54,369
Noncurrent:		
Unrestricted	27,183	20,993
Restricted	 89,561	52,258
Total	\$ 184,973	128,120

Restricted investments are pledged to secure payment of debt or are 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 debt instruments which generally mandate the purchase of relatively short-term, high quality fixed income securities. Investments are managed by 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, the 2009 Loan Trust, and the 2010 Funding Note Purchase Agreement (FNPA), 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 (S&P), 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.

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Notes to Financial Statements

(3) Cash and Investments (cont.)

(b) **Investments**

(2) Investment Policies

- 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 S&P and P-1 by Moody's and maturing no more than 360 days after the date of purchase. Under the 2005 Master Indenture, such investments are allowed if the rating from S&P 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 S&P and P-1 by Moody's. Under the 2005 Master Indenture, such investments are allowed if rated A-1+ or better by S&P at the time of purchase and if the investment matures not more than 270 days after the date of purchase. Under the FNPA, such investments are allowed if rated A-1+ by S&P and F1+ or higher by Fitch at the time 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 U.S.; or fully collateralized by securities which are unconditionally guaranteed by the U.S. 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 FNPA, demand deposits, including interest bearing money market accounts, time deposits, trust funds, trust accounts, overnight bank deposits, interest-bearing deposits and certificates of deposit or bankers acceptances of depository institutions having a long-term rating equivalent of AAA or higher by S&P and Fitch at the time of and during investment.
- Under the 2002 and 2004 Master Indentures, investments in money market funds rated AAAm or AAAm-G or better by S&P and Aaa by Moody's. Under the 2005 Master Indenture, such investments are allowed if rated AAAm or AAAm-G or better by S&P. 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. Under the FNPA, such investments are allowed if rated in the highest investment category granted thereby from S&P and Fitch.

(a Component Unit of the State of Alaska)

Notes to Financial Statements

(3) Cash and Investments (cont.)

(b) **Investments**

(2) Investment Policies

- Under the 2002 and 2004 Master Indentures, general obligations of any state or municipality with a rating of at least A by S&P and Aaa by Moody's. Under the 2005 Master Indenture, general obligations of states with a rating of A or higher by S&P.
- 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 S&P and Moody's. Under the FNPA, repurchase and reverse
 repurchase agreements collateralized with obligations fully and unconditionally
 guaranteed as to timely payment by, the U.S. government or any agency,
 instrumentality, or establishment of the U.S. government.
- Under the 2002 Master Indenture, guaranteed investment contracts, investment agreements and repurchase agreements secured by collateral. Under the 2004 Master Indenture, such contracts or agreements must be acceptable to the bond insurer.
- Under the 2005 Master Indenture, investment agreements with a domestic or foreign bank or corporation (other than a life or property casualty insurance company) the long-term debt of which, or, in the case of a guaranteed corporation the long-term debt, or, in the case of a monoline financial guaranty insurance company, claims paying ability, of the guarantor is rated at least AA by S&P 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						
	Commer	cial Paper	Unsecured L	Unsecured Long-term Debt			
Maturity	S&P's	Moody's	S&P'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			

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.

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Notes to Financial Statements

(3) Cash and Investments (cont.)

(b) **Investments**

- (2) Investment Policies
 - 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 S&P and Moody's. Under the 2004 Master Indenture, any other investment approved in writing by S&P, Moody's and the bond insurer.

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 or managed by Treasury's investment officers.

A complete description of the investment policy for each of the State's fixed-income investment pools is included in the <u>Department of Revenue</u>, <u>Treasury Division's</u>, <u>Policies</u> and <u>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.

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Notes to Financial Statements

(3) Cash and Investments (cont.)

(b) **Investments**

(2) Investment Policies

- 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.

The fair value of the Corporation's investments by type and credit quality ratings, using S&P's rating scale without modifiers, at June 30 are shown below:

Investment Type	Ratings	2010	2009
Pooled repurchase agreement account	Not rated \$	1,010	11,680
U.S. government agency discount notes	Not rated	2,888	8,192
Mortgage-backed securities (agencies)	Not rated	-	13,294
Money market funds	AAA	-	49,424
Money market mutual funds	AAA	1,405	-
Money market deposit account	Not rated	112,381	-
Guaranteed investment contracts	Not rated	9,949	11,487
Certificate of deposit	Not rated	-	3,000
Internal investment pools	Next schedule	13,814	13,317
U.S. treasury securities	No credit exposure _	43,526	17,726
Total	\$	184,973	128,120
	_		

At June 30, 2010, the Corporation had \$112,381 invested in a money market deposit account exposed to custodial credit risk.

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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: S&P, 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 investment grade. Investment grade is defined as the median rating of the three rating agencies previously mentioned.

Asset-backed and non-agency mortgage securities may be purchased by either pool 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, using S&P's rating scale without modifiers, at June 30 are below:

		Short-term	Intermediate-	Tot	als
T	D.	Fixed Income	term Fixed	2010	2000
Investment Type	Rating	Pool	Income Pool	2010	2009
Commercial paper	A-1 \$	5 20	-	20	13
Commercial paper	Not Rated	69	-	69	59
U.S. government agency	AAA	18	1,146	1,164	3,394
U.S. government agency	Not Rated	100	5	105	121
U.S. gov. agency discount notes	Not Rated	-	249	249	-
Mortgage-backed	AAA	14	546	560	942
Mortgage-backed	BBB	-	30	30	3
Mortgage-backed (agency)	Not Rated	1	70	71	207
Other asset-backed	AAA	363	6	369	174
Other asset-backed	AA	-	4	4	16
Other asset-backed	A	-	7	7	22
Other asset-backed	Not Rated	29	-	29	-
Corporate bonds	AAA	715	790	1,505	771
Corporate bonds	AA	32	215	247	236
Corporate bonds	A	64	351	415	445
Corporate bonds	BBB	-	135	135	220
Corporate bonds	Not Rated	23	62	85	-
Yankees:					
Government	AA	-	98	98	92
Corporate	AAA	10	219	229	330
Corporate	AA	3	110	113	161
Corporate	A	-	56	56	73
Corporate	BBB	-	10	10	21
Corporate	Not Rated	10	6	16	6
No credit exposure:					
U.S. treasury notes		-	3,390	3,390	-
U.S. treasury bills		217	-	217	-
U.S. treasury when-issued		34	4,404	4,438	-
Pool related net assets (liabilities)		(7)	190	183	6,011
Total	\$	1,715	12,099	13,814	13,317

(a Component Unit of the State of Alaska)

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 investments in a single investment provider.

For investment contracts, the investment providers will be limited to providing investments to the lesser of \$50,000 or 5% (10% prior to July 6, 2009) of total investments at the time the investment is made. These diversification standards are not applicable to contracts with investments in direct obligations of the U.S. Treasury, obligations of federal agencies which represent the full faith and credit of the U.S. and are also unconditionally guaranteed as to the timely payment of principal and interest by the U.S. or bonds, notes or other evidences of indebtedness rated "AAA/Aaa" and issued by the FNMA or the FHLMC.

Investment Holdings Greater than Five Percent of Total Investments

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

At June 30, 2010, 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
	_		
FSA Management Services, LLC	\$	9,949	5.38
US Bank		112,381	60.76

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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.

At June 30, 2010, the weighted average modified duration of investments, other than investments in the State's internal investment pools, is shown below:

Guaranteed investment contracts	5.70
U.S. treasury securities	0.07
U.S. government agency discount notes	0.08
Portfolio modified duration	1.10

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

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Notes to Financial Statements

(3) Cash and Investments (cont.)

(b) **Investments**

(5) Interest Rate Risk

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, 2010, the effective duration for the Merrill Lynch 1-5 year Government Bond Index was 2.49 years.

At June 30, 2010, the Intermediate-term Fixed Income Pool's effective duration, by investment type, is shown below:

Corporate bonds	2.24
Mortgage-backed	1.71
Other asset-backed	0.65
U.S. treasury notes	2.91
U.S. treasury when-issued	2.73
U.S. government agency	1.69
U.S. government agency discount notes	0.67
Yankees:	
Government	2.65
Corporate	1.87
Portfolio effective duration	2.47

As a means of limiting the Short-term Fixed Income Pool's exposure to fair value losses arising from increasing interest rates, Treasury's investment policy limits individual fixed rate securities to fourteen months in maturity or fourteen months expected average life at purchase. Floating rate securities are limited to three years in maturity or three years expected average life at purchase. Treasury utilizes the actual maturity date for commercial paper and twelve month prepay speeds for other securities. At June 30, 2010, the expected average life of fixed rate securities held in the Short-term Fixed Income Pool ranged from one day to twenty-nine years and the expected average life of floating rate securities ranged from one day to nine and three-quarters years.

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Notes to Financial Statements

(3) Cash and Investments (cont.)

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

	_	2010	2009
Current:	_		
Unrestricted	\$	-	2,855
Restricted		1,291	7,940
Total	\$	1,291	10,795

(4) Loans Receivable

(a) The loan portfolio summarized by classification at June 30 is shown below:

		2010		2009	
	_	State	Federal	State	Federal
Current, unrestricted Noncurrent:	\$	8,124	11	11,534	-
Unrestricted		104,447	507	112,037	17,251
Restricted	_	408,391	195,638	423,701	136,641
Total	\$	520,962	196,156	547,272	153,892

Restricted loans are pledged as collateral to secure payment of debt.

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Notes to Financial Statements

(4) Loans receivable (cont.)

(b) Loans are financed by the issuance of tax-exempt revenue bonds, recycled loan payments, and proceeds from a State funded loan. The loan portfolio summarized by program at June 30, is shown below:

	_	2010	2009
State Alternative Loans			
Supplemental Education	\$	423,697	438,815
Consolidation		84,072	94,434
Teacher Education		7,882	7,916
Family Education		5,311	6,107
Total Alternative Loans		520,962	547,272
Federal Family Education Loans			
Stafford		164,132	123,264
PLUS		8,567	5,985
Consolidation		23,457	24,643
Total Federal Loans		196,156	153,892
Total	\$	717,118	701,164

(a Component Unit of the State of Alaska)

Notes to Financial Statements

(4) Loans receivable (cont.)

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

	2010		200	09
	State	Federal	State	Federal
Enrollment	\$ 57,380	64,281	76,535	55,793
Grace	16,390	21,087	18,724	14,407
Repayment	375,233	76,608	379,553	58,764
Deferment	60,787	24,310	62,812	19,467
Forbearance	11,172	9,870	9,648	5,461
Total	\$ 520,962	196,156	547,272	153,892

- (d) Included in loans receivable are \$83 and \$209 of loan warrants issued but not redeemed by borrowers at June 30, 2010 and 2009, respectively. Redemption is contingent upon the borrower meeting certain eligibility requirements.
- (e) Loans awarded not disbursed at June 30, are shown below:

		2010	2009
State Alternative Loans			
Supplemental Education	\$	1,508	2,432
Teacher Education		-	15
Family Education		66	50
Total Alternative Loans		1,574	2,497
Federal Family Education Loans			
Stafford		896	11,398
PLUS		56	572
Total Federal Loans		952	11,970
Total	\$	2,526	14,467
	_		-

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Notes to Financial Statements

(5) Loan Allowances

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

	_	2010	2009
Balance at beginning of period	\$	112,709	110,404
Provision for doubtful loans		988	5,185
Loans charged off		(2,996)	(2,880)
Balance at end of period	\$	110,701	112,709

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

	_	2010	2009
Balance at beginning of period	\$	1,993	2,094
Provision for forgiveness		198	178
Forgiveness granted		(229)	(279)
Balance at end of period	\$	1,962	1,993

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Notes to Financial Statements

(6) Loan Interest Allowances

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

	 2010	2009
Balance at beginning of period	\$ 27,547	29,134
Provision for doubtful interest	3,808	1,942
Interest charged off	(4,180)	(3,529)
Balance at end of period	\$ 27,175	27,547

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

	_	2010	2009	
Balance at beginning of period	\$	256	261	
Provision for forgiveness		89	83	
Forgiveness granted		(49)	(88)	
Balance at end of period	\$	296	256	

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Notes to Financial Statements

(7) Bonds Payable

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

			Amount Ou	itstanding
		Original		
	Type	Amount	2010	2009
2002 Master Indenture, Education Loan:				
2002: Series A, due 2011 to 2037	Auction \$	47,500	-	21,100
Series B, due 2037	Auction	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	44,500	45,500
Series A-2, due 2044	Auction	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,	111100	22,012	22,010	22,010
rate 5.0%, due 2011 to 2018	Fixed	58,250	48,250	52,750
2006: Series A-1, due 2040	Auction	30,000	30,000	30,000
Serial bonds, Series A-2, rate	Auction	30,000	30,000	30,000
5.0%, due 2011 to 2018	Fixed	55,000	48,500	52,000
2007: Series A-1, due 2042	Auction	41,500	41,500	41,500
Serial bonds, Series A-2, rate				
5.0%, due 2011 to 2019	Fixed	18,500	18,000	18,500
Serial bonds, Series A-3, rate	Eine d	40,000	20,000	27,000
5.0%, due 2011 to 2014	Fixed	49,000	30,000	37,000
Sub-total		476,865	329,765	429,965

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Notes to Financial Statements

(7) Bonds Payable (cont.)

			Amount O	utstanding
		Original		
	Type	Amount	2010	2009
2004 Master Indenture, Series A Capital Pr	oject			
Serial bonds, rate 4.0%,				
due 2010 to 2016	Fixed	69,910	33,415	39,925
Term bonds, rate 4.0%, due 2018	Fixed	5,230	5,230	5,230
Sub-total		75,140	38,645	45,155
2005 Master Indenture, Series A State Proj	ects:			
Serial bonds, rates ranging				
from 5.0% to 5.5%,				
due 2010 to 2014	Fixed	88,305	37,500	47,500
Total bonds payable		\$ 640,310	405,910	522,620
Unamortized premium			5,376	11,567
Net bonds payable		\$	411,286	534,187
Current		\$	47,205	32,010
Noncurrent		Ψ	364,081	502,177
Total		\$	411,286	534,187

- (b) Effective July 1, 2009, the Corporation changed its method of amortizing bond premiums from the straight-line method to the effective method. The effective method more closely matches premium amortization with bond interest expense, maintaining a constant effective rate of interest over the life of the bonds. The effect of this change in accounting principle could not be separated from the effect of the change in accounting estimate; therefore, it was accounted for as a change in estimate. As a result, change in net assets increased by \$4,342 (\$1,518 and \$2,824 related to operating interest expense and nonoperating interest expense, respectively).
- (c) In February 2008, the auction rate securities market collapsed. With the exception of the 2007 Series auction rate bonds/securities which auction every seven days, the Corporation's outstanding auction rate securities (ARS) continue to auction every thirty-five days. The Corporation's first auction failure occurred on February 12, 2008 and failures have continued through June 30, 2010. The supplemental indenture related to each series of ARS defines the maximum rate of interest to be assigned to the bonds when an auction fails.

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Notes to Financial Statements

(7) Bonds Payable (cont.)

The following definitions exist for the Corporation's ARS:

Maximum Rate		Rate at June 30, 2010 by Series	
Bonds	(rounded to the nearest one thousandth of 1%)	<u>A-1</u>	A-2
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%)	0.600%	0.690%
2004	same as 2003 bonds	0.645%	-
2006	same as 2003 bonds	0.645%	-
2007	same as 2003 bonds except 12% replaces 14% in (d)	0.600%	-

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Notes to Financial Statements

(7) Bonds Payable (cont.)

(d) The minimum payments and sinking fund installments for the five years subsequent to June 30, 2010, and thereafter are as follows:

Period Ending June 30	 Principal	Interest	Total
2011	\$ 47,205	12,729	59,934
2012	49,865	10,599	60,464
2013	42,890	8,419	51,309
2014	40,930	6,445	47,375
2015	18,500	4,143	22,643
2016-2020	60,020	10,412	70,432
2021-2025	-	4,700	4,700
2026-2030	-	4,700	4,700
2031-2035	-	4,700	4,700
2036-2040	60,500	3,001	63,501
2041-2045	86,000	1,597	87,597
Total	\$ 405,910	71,445	477,355

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

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

^{*} The principal payments on the 2004 series 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

(7) Bonds Payable (cont.)

(f) The Corporation purchased \$84,700 of its outstanding auction rate securities on June 30, 2010, for \$67,294. On June 30, 2010, the Corporation cancelled the bonds purchased resulting in a gain on the cancellation of \$17,406.

(8) Other Debt Payable

(a) 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 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.

A 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 June 30, 2010, was \$63,000.

(b) The Corporation refinanced \$118.8 million in FFELP loans through participation in the Asset-Backed Commercial Paper Conduit Put Program (Program) authorized by the HEA, as amended by the Ensuring Continued Access to Student Loans Act of 2008. To participate in the Program, the Corporation entered into a variable Funding Note Purchase Agreement (FNPA) dated June 9, 2010, with Straight-A Funding, LLC, who, on June 29, 2010, purchased the variable funding note at 97% of loans pledged.

The FNPA represents a limited obligation secured by pledged loans and other pledged assets, including principal and interest payments on pledged loans. Principal payments will be made from pledged assets as needed to maintain the required asset coverage ratio with the final payment due no later than November 19, 2013. The Corporation has the right to prepay the balance, in whole or in part, at any time, without penalty or premium.

Program financing costs, which include costs associated with commercial paper issued for the Program by Straight-A Funding, LLC, and other Program costs such as liquidity fees, administrative fees, managerial fees and put option fees, are allocated to Program participants monthly based on the participant's prorata share of total FNPA balances at month end. Program financing costs are paid monthly from pledged assets. Ratable financing costs paid by the Corporation for June 2010 was approximately 0.78% of the Corporation's FNPA balance.

The FNPA balance at June 30, 2010, was \$115,250.

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Notes to Financial Statements

(9) Debt Issue Cost

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

	_	2010	2009
Balance at beginning of period	\$	3,829	4,195
Additions		320	-
Retirements		(588)	-
Amortization		(346)	(366)
Balance at end of period	\$	3,215	3,829

(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. Earnings on non-loan investments pledged to 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, cancelling 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 Family Education Loan Program (FFELP), the Corporation secured the status of "eligible lender" and entered into various agreements with Northwest Education Loan Association (NELA), which serves as the "eligible" guarantor. The lender-based FFELP was eliminated effective July 1, 2010, with the passage of the *Health Care and Education Affordability Reconciliation Act*. Therefore, fiscal year 2010 is the last year the Corporation will originate Federal loans.

As a holder of federal loans, 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.

Claim payments are received from the guarantor when a borrower dies, becomes totally and permanently disabled, or defaults on a Federal 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 total and permanent disability are guaranteed at 100%.

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Notes to Financial Statements

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

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

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

An origination fee is 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 fiscal years 2010 and 2009, respectively. The Corporation elected to pay the Stafford origination fees on behalf of borrowers in fiscal years 2010 and 2009.

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 in fiscal years 2010 and 2009.

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.

(12) Commitments and Contingencies

(a) **Operations**

The Corporation will fund approximately \$12,558 of the Commission's fiscal year 2011 operating budget. In addition, the Corporation will fund expenditures related to the Commission's fiscal year 2010 operating and capital project budgets of approximately \$311. 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.

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Notes to Financial Statements

(12) Commitments and Contingencies (cont.)

(b) Return of Capital

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. Bond documents related to the 2004 capital project bonds require earnings on bond proceeds to be used to finance State capital projects. The Corporation reimburses the State for expenditures related to projects funded with Corporation capital project bond proceeds and related earnings. Restricted investments include amounts specifically designated for financing State capital projects totaling \$12,908 and \$14,228 at June 30, 2010 and 2009, 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 were approximately \$3,421 and \$9,543 for the years ended June 30, 2010 and 2009, respectively.

(d) Legislation

The State Supplemental Education Loan program has traditionally been the subject of legislative action by the State. The laws governing the program have been amended from time to time and will continue to be the subject of legislative proposals calling for further amendment. The effect, if any, on the State program cannot be determined.

(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.