

**NEW ISSUES - BOOK ENTRY ONLY**

*This cover page contains information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to making an informed investment decision.*



**\$95,525,000**

**ALASKA HOUSING FINANCE CORPORATION**

**State Capital Project Bonds**

**\$42,415,000 2007 Series A**

**\$53,110,000 2007 Series B**

<i>Dated</i>	Date of delivery.
<i>Due</i>	As shown on inside cover page.
<i>Price</i>	As shown on inside cover page.
<i>Tax Exemption</i>	In the opinion of Bond Counsel and Special Tax Counsel, under existing laws, regulations, rulings and judicial decisions, (i) interest on the 2007 Series A Bonds and the 2007 Series B Bonds described above (collectively, the "Offered Bonds") is excluded from gross income for Federal income tax purposes; and (ii) interest on the Offered Bonds is not treated as a preference item to be included in calculating the alternative minimum tax imposed under the Internal Revenue Code of 1986, as amended (the "Code") on individuals and corporations, but such interest is included in calculating the "adjusted current earnings" of certain corporations for purposes of computing the alternative minimum tax. In the opinion of Bond Counsel, under existing laws, interest on the Offered Bonds is free from taxation by the State of Alaska except for inheritance and estate taxes and taxes of transfers by or in anticipation of death. Bond Counsel and Special Tax Counsel express no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Offered Bonds. See "Tax Matters."
<i>Redemption</i>	The Offered Bonds are subject to redemption prior to maturity at 100% of their principal amount as described herein. See "The Offered Bonds — Redemption Provisions."
<i>Security</i>	<b>The Bonds are general obligations of the Corporation for which its full faith and credit are pledged, subject to agreements made and to be made with the holders of other obligations of the Corporation pledging particular revenues and assets not pledged to the Bonds and to the exclusion of money in the Corporation's Housing Development Fund. The Bonds are not secured by a pledge of any assets or any fund or account <i>except</i> the Accounts (other than the Rebate Account) established under the Indenture. The Bonds are not secured by the pledge of any mortgage loans. THE CORPORATION HAS NO TAXING POWER. THE BONDS DO NOT CONSTITUTE A DEBT, LIABILITY OR OBLIGATION OF THE STATE OF ALASKA OR OF ANY POLITICAL SUBDIVISION THEREOF OR A PLEDGE OF THE FAITH AND CREDIT OR TAXING POWER OF THE STATE OF ALASKA OR OF ANY POLITICAL SUBDIVISION THEREOF. THE BONDS ARE GENERAL OBLIGATIONS OF THE CORPORATION AND ARE NOT INSURED OR GUARANTEED BY ANY OTHER GOVERNMENTAL AGENCY.</b>
<i>Insurance</i>	MBIA Insurance Corporation has issued its commitment to insure the payment of the principal of and interest on the Offered Bonds on regularly scheduled payment dates. See "The MBIA Insurance Corporation Bond Insurance Policy" and Appendix E — "Form of MBIA Insurance Corporation Bond Insurance Policy."
<i>Interest Payment Dates</i>	December 1, 2007, and thereafter on each June 1 and December 1.
<i>Denominations</i>	\$5,000 or any integral multiple thereof.
<i>Closing Date</i>	October 3, 2007.
<i>Bond Counsel</i>	Birch, Horton, Bittner and Cherot.
<i>Special Tax Counsel</i>	Kutak Rock LLP.
<i>Underwriters' Counsel</i>	Hawkins Delafield & Wood LLP.
<i>Trustee</i>	U.S. Bank National Association.
<i>Financial Advisor</i>	First Southwest Company.
<i>Book-Entry System</i>	The Depository Trust Company. See "The Offered Bonds — Book Entry Only."

The Offered Bonds (except to the extent not reoffered) are offered when, as and if issued and received by the Underwriters, subject to the approval of legality by Bond Counsel, and to the confirmation of certain tax matters by Bond Counsel and Special Tax Counsel, and to certain other conditions.

**A.G. Edwards<sup>†</sup>**

**Bear, Stearns & Co. Inc.**

**Citi**

**Goldman, Sachs & Co.**

**JPMorgan**

**Merrill Lynch & Co.**

**Siebert Brandford Shank & Co., LLC**

**UBS Investment Bank**

September 12, 2007

<sup>†</sup>See the ninth paragraph under "Introduction" herein.

## MATURITY SCHEDULE

### \$42,415,000 2007 Series A Bonds

\$42,415,000 2007 Series A Serial Bonds

<b>Maturity Date</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Price or Yield</b>	<b>CUSIP</b>
December 1, 2007	\$ 225,000	4 %	3½ %	011832Y55
December 1, 2008	1,385,000	4	3.55	011832Y63
December 1, 2009	1,440,000	4	3.55	011832Y71
December 1, 2010	1,495,000	4	3.55	011832Y89
December 1, 2011	1,555,000	4	3.56	011832Y97
December 1, 2012	1,620,000	4	3.59	011832Z21
December 1, 2013	1,685,000	4	3.63	011832Z39
December 1, 2014	1,755,000	4	3.66	011832Z47
December 1, 2015	1,825,000	4	3.70	011832Z54
December 1, 2016	1,895,000	4	3.77	011832Z62
December 1, 2017	1,975,000	4	3.85	011832Z70
December 1, 2018	2,055,000	4	3.95	011832Z88
December 1, 2019	2,135,000	4	4.06	011832Z96
December 1, 2020	2,220,000	5	4.08	011832ZA9
December 1, 2021	2,335,000	5¼	4.09	011832ZB7
December 1, 2022	2,460,000	5¼	4.14	011832ZC5
December 1, 2023	2,585,000	5¼	4.19	011832ZD3
December 1, 2024	2,725,000	5¼	4.23	011832ZE1
December 1, 2025	2,870,000	5	4.32	011832ZF8
December 1, 2026	3,010,000	5	4.35	011832ZG6
December 1, 2027	3,165,000	4.40	4.55	011832ZH4

## MATURITY SCHEDULE (cont'd)

### \$53,110,000 2007 Series B Bonds

\$53,110,000 2007 Series B Serial Bonds

<b><u>Maturity Date</u></b>	<b><u>Principal Amount</u></b>	<b><u>Interest Rate</u></b>	<b><u>Price or Yield</u></b>	<b><u>CUSIP</u></b>
December 1, 2007	\$ 95,000	4 %	3½ %	0118322J0
December 1, 2008	500,000	4	3.55	0118322K7
December 1, 2009	525,000	4	3.55	0118322L5
December 1, 2010	1,650,000	4	3.55	0118322M3
December 1, 2011	1,715,000	4	3.56	0118322N1
December 1, 2012	1,785,000	4	3.59	0118322P6
December 1, 2013	1,855,000	4	3.63	0118322Q4
December 1, 2014	1,540,000	4	3.66	0118322R2
December 1, 2014	390,000	5	3.66	0118323H3
December 1, 2015	2,020,000	4	3.70	0118322S0
December 1, 2016	2,100,000	4	3.77	0118322T8
December 1, 2017	985,000	4	3.85	0118322U5
December 1, 2017	1,200,000	5	3.85	0118323J9
December 1, 2018	2,285,000	5	3.93	0118322V3
December 1, 2019	390,000	4	4.06	0118322W1
December 1, 2019	2,010,000	5	4.01	0118323K6
December 1, 2020	2,525,000	5	4.08	0118322X9
December 1, 2021	2,650,000	5¼	4.09	0118322Y7
December 1, 2022	2,795,000	5¼	4.14	0118322Z4
December 1, 2023	2,940,000	5¼	4.19	0118323A8
December 1, 2024	3,095,000	5¼	4.23	0118323B6
December 1, 2025	3,260,000	5	4.32	0118323C4
December 1, 2026	3,430,000	5	4.35	0118323D2
December 1, 2027	3,605,000	5	4.38	0118323E0
December 1, 2028	3,790,000	5	4.41	0118323F7
December 1, 2029	3,975,000	5	4.43	0118323G5

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No dealer, broker, salesman or other person has been authorized by the Corporation or the Underwriters to give any information or to make any representations, other than as contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Offered Bonds, by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been obtained from the Corporation and other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Underwriters. All summaries herein of documents and agreements are qualified in their entirety by reference to such documents and agreements, and all summaries herein of the Offered Bonds are qualified in their entirety by reference to the form thereof included in the Indenture and the provisions with respect thereto included in the aforesaid documents and agreements. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the information or opinions set forth herein after the date of this Official Statement.

In connection with this offering of the Offered Bonds, the Underwriters may overallocate or effect transactions which stabilize or maintain the market price of the Offered Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

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**OFFICIAL STATEMENT  
OF  
ALASKA HOUSING FINANCE CORPORATION  
Relating to  
\$95,525,000 State Capital Project Bonds  
\$42,415,000 2007 Series A  
\$53,110,000 2007 Series B**

**INTRODUCTION**

This Official Statement (including the cover page, inside cover page and appendices) sets forth information in connection with the State Capital Project Bonds, 2007 Series A (the “2007 Series A Bonds”) and 2007 Series B (the “2007 Series B Bonds”; together with the 2007 Series A Bonds, the “Offered Bonds”) of the Alaska Housing Finance Corporation (the “Corporation”), a public corporation and government instrumentality of the State of Alaska (the “State”), created and existing pursuant to the below-defined Act. The Offered Bonds are authorized to be issued pursuant to Chapters 55 and 56 of Title 18 of the Alaska Statutes, as amended (the “Act”), Chapter 47 SLA 2006, an Indenture, dated as of December 1, 1998, as amended and supplemented (the “General Indenture”), by and between the Corporation and U.S. Bank National Association, as trustee (the “Trustee”), and a 2007 Series A and B Supplemental Indenture (the “2007 Series A and B Supplemental Indenture”), dated as of September 1, 2007, by and between the Corporation and the Trustee. All bonds outstanding under the General Indenture (including additional bonds which may hereafter be issued) are referred to collectively as the “Bonds.” Each series of Bonds is issued pursuant to a Supplemental Indenture. The General Indenture and all Supplemental Indentures (including the 2007 Series A and B Supplemental Indenture) are referred to collectively as the “Indenture.” The Bonds issued under the Indenture prior to the issuance of the Offered Bonds are referred to collectively as the “Prior Series Bonds.” FOR CERTAIN DEFINITIONS USED IN THIS OFFICIAL STATEMENT, SEE “THE CORPORATION — CERTAIN DEFINITIONS” AND “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE — CERTAIN DEFINITIONS.” Capitalized terms used and not otherwise defined herein have the respective meanings ascribed thereto in the Indenture. All references to days in this Official Statement will mean calendar days *unless* stated otherwise. All references to times in this Official Statement, unless indicated otherwise, shall be to Eastern Time.

The Offered Bonds are the eighth and ninth Series of Bonds issued under the Indenture. As of June 30, 2007, the Corporation had issued Prior Series Bonds in the aggregate principal amount of \$479,480,000, and as of such date there were Prior Series Bonds Outstanding in the aggregate principal amount of \$194,700,000. The Corporation is permitted to issue additional bonds (including refunding bonds) pursuant to and secured under the Indenture (“Additional Bonds”), subject to certain conditions. See “Sources of Payment and Security for the Bonds — Additional Bonds.” The Offered Bonds will be secured on a parity with the Prior Series Bonds and with any Additional Bonds.

A portion of the proceeds of the 2007 Series A Bonds will be used to finance the purchase of a parking garage for the Robert B. Atwood Office Building in Anchorage, Alaska. The parking garage will be leased to the State. Payments under the parking garage lease will be a general unsecured obligation of the State. The Corporation expects that the primary source of

payment of the 2007 Series A Bonds will be payments by the State under the parking garage lease, with any necessary supplement from the Corporation's general unrestricted funds. The balance of the proceeds of the 2007 Series A Bonds will be used to refund certain outstanding obligations of the Corporation and to pay a portion of underwriters' fees and other costs of issuance. A portion of the proceeds of the 2007 Series B Bonds will be used to advance refund certain of the Corporation's Housing Development Bonds, 1999 Series C. The balance of the proceeds of the 2007 Series B Bonds will be used to refund certain outstanding obligations of the Corporation and to pay a portion of underwriters' fees and other costs of issuance. The Corporation from its general unrestricted funds will pay the balance of underwriters' fees and other costs of issuance. See "Estimated Sources and Uses of Funds."

No mortgage loans will be pledged to the payment of the Offered Bonds.

Payment of principal of and interest on the Offered Bonds on regularly scheduled payment dates will be insured by MBIA Insurance Corporation (the "Insurer") pursuant to a financial guaranty insurance policy (the "Policy"). See "The MBIA Insurance Corporation Bond Insurance Policy" for a description of the Insurer and the Policy and see Appendix E for a form of the Policy. PURSUANT TO THE 2007 SERIES A AND B SUPPLEMENTAL INDENTURE, FOR SO LONG AS THE POLICY SHALL BE IN EFFECT WITH RESPECT TO THE OFFERED BONDS, THE INSURER SHALL BE CONSIDERED TO BE THE OWNER OF THE OFFERED BONDS FOR PURPOSES OF VOTING OR GIVING CONSENTS UNDER THE INDENTURE. See "Summary of Certain Provisions of the Indenture."

The underwriters listed on the cover page (collectively, the "Underwriters") will act as underwriters with respect to the Offered Bonds.

On May 31, 2007, Wachovia Corporation and A.G. Edwards, Inc. entered into a definitive agreement wherein Wachovia Corporation agreed to acquire A.G. Edwards, Inc. Pending approval, the merger is scheduled to close on or about October 1, 2007. Upon the effective date of the merger, the municipal underwriting operations and related services of A.G. Edwards & Sons, Inc. (the lead underwriter with respect to the Offered Bonds), a subsidiary of A.G. Edwards, Inc., will be transferred to the Municipal Products Group of Wachovia Bank, National Association, a subsidiary of Wachovia Corporation. In the event that such transfer is formally completed prior to the date of issuance of the Offered Bonds, the Municipal Products Group of Wachovia Bank, National Association, will perform all remaining underwriting and related services that would otherwise have been performed by A.G. Edwards & Sons, Inc. in connection with such issuance.

**The Bonds do not constitute a debt, liability or obligation of the State or a pledge of the faith and credit or taxing power of the State or any political subdivision thereof. The Bonds are general obligations of the Corporation and are not insured or guaranteed by any other governmental agency. The Corporation has no taxing power.** The primary source of payment for the Bonds will be the Corporation's general unrestricted funds. See "Sources of Payment and Security for the Bonds."

The summaries herein of the Offered Bonds, the Indenture, the Continuing Disclosure Certificate and other documents and materials are brief outlines of certain provisions



contained therein and do not purport to summarize or describe all the provisions thereof. For further information, reference is hereby made to the Act, the Indenture and such other documents and materials for the complete provisions thereof, copies of which will be furnished by the Corporation upon request. See “The Corporation — General” for the Corporation’s address and telephone number.

## **SOURCES OF PAYMENT AND SECURITY FOR THE BONDS**

The Bonds are general obligations of the Corporation for which its full faith and credit are pledged for the payment of principal of and interest on the Bonds, *subject to* agreements made and to be made with the holders of other obligations of the Corporation pledging particular revenues and assets and the exclusion by the Act of a pledge of funds in the Housing Development Fund. The Bonds are not secured by a pledge of any assets or any fund or account *except* the Accounts (other than the Rebate Account) established under the Indenture. See the definition of Investment Securities under “Summary of Certain Provisions of the Indenture — Certain Definitions.” **No mortgage loans will be pledged to the payment of the Bonds.** The Corporation may issue additional Bonds under the Indenture without limit as to principal amount for any purpose of the Corporation. The Corporation will determine which provisions of the Indenture will be applicable to such additional Bonds, except that such issuance, in and of itself, shall not result in the ratings then in effect on the Bonds being reduced or withdrawn. The Corporation has issued, and expects to continue to issue, under other indentures other bonds that are general obligations of the Corporation. A significant portion of the assets of the Corporation is pledged to the payment of outstanding obligations of the Corporation. See Appendix A, which contains the most recent audited financial statements of the Corporation, “The Corporation — Activities of the Corporation,” “The Corporation — Financing Activity” and “Summary of Certain Provisions of the Indenture — Issuance and Delivery of Bonds.”

## **THE MBIA INSURANCE CORPORATION BOND INSURANCE POLICY**

*The following information has been furnished by the Insurer for use in this Official Statement. Reference is made to Appendix E for a specimen of the Policy.*

The Insurer does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Policy and the Insurer set forth under the heading “The MBIA Insurance Corporation Bond Insurance Policy.” Additionally, the Insurer makes no representation regarding the Offered Bonds or the advisability of investing in the Offered Bonds.

### **The MBIA Insurance Corporation Insurance Policy**

The Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Corporation to the Trustee or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Offered Bonds as such payments shall become due but shall not be so paid (except that in the event of any

acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the Policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless the Insurer elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any Owner of the Offered Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law (a "Preference").

The Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Offered Bonds. The Policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Offered Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. The Policy also does not insure against nonpayment of principal or interest on the Offered Bonds resulting from the insolvency, negligence or any other act or omission of the Trustee or any other paying agent for the Offered Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Trustee or any owner of an Offered Bond the payment of an insured amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association (a division of the Trustee), in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Offered Bonds or presentment of such other proof of ownership of the Offered Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Offered Bonds as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Offered Bonds in any legal proceeding related to payment of insured amounts on the Offered Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Trustee payment of the insured amounts due on such Offered Bonds, less any amount held by the Trustee for the payment of such insured amounts and legally available therefor.

### **MBIA Insurance Corporation**

The Insurer is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against the Insurer. The Insurer is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. The Insurer, either directly or through subsidiaries, is licensed to do business in the Republic of France, the United Kingdom

and the Kingdom of Spain and is subject to regulation under the laws of those jurisdictions. In February 2007, the Insurer incorporated a new subsidiary, MBIA México, S.A. de C.V., through which it intends to write financial guarantee insurance in Mexico beginning in 2007.

The principal executive offices of the Insurer are located at 113 King Street, Armonk, New York 10504 and the main telephone number at that address is (914) 273-4545.

## **Regulation**

As a financial guaranty insurance company licensed to do business in the State of New York, the Insurer is subject to the New York Insurance Law which, among other things, prescribes minimum capital requirements and contingency reserves against liabilities for the Insurer, limits the classes and concentrations of investments that are made by the Insurer and requires the approval of policy rates and forms that are employed by the Insurer. State law also regulates the amount of both the aggregate and individual risks that may be insured by the Insurer, the payment of dividends by the Insurer, changes in control with respect to the Insurer and transactions among the Insurer and its affiliates.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

## **Financial Strength Ratings of MBIA**

Moody's Investors Service, Inc. rates the financial strength of the Insurer "Aaa."

Standard & Poor's, a division of The McGraw-Hill Companies, Inc., rates the financial strength of the Insurer "AAA."

Fitch Ratings rates the financial strength of the Insurer "AAA."

Each rating of the Insurer should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of the Insurer and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Offered Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Offered Bonds. The Insurer does not guaranty the market price of the Offered Bonds nor does it guaranty that the ratings on the Offered Bonds will not be revised or withdrawn.

## **MBIA Financial Information**

As of December 31, 2006, the Insurer had admitted assets of \$10.9 billion (audited), total liabilities of \$6.9 billion (audited), and total capital and surplus of \$4.0 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of June 30, 2007, the Insurer had admitted assets of \$10.8 billion (unaudited), total liabilities of \$6.8 billion (unaudited), and total capital and surplus of

\$4.0 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

For further information concerning the Insurer, see the consolidated financial statements of the Insurer and its subsidiaries as of December 31, 2006 and December 31, 2005 and for each of the three years in the period ended December 31, 2006, prepared in accordance with generally accepted accounting principles, included in the Annual Report on Form 10-K of the Company for the year ended December 31, 2006 and the consolidated financial statements of the Insurer and its subsidiaries as of June 30, 2007 and for the six month periods ended June 30, 2007 and June 30, 2006 included in the Quarterly Report on Form 10-Q of the Company for the quarter ended June 30, 2007, which are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof.

Copies of the statutory financial statements filed by the Insurer with the State of New York Insurance Department are available over the Internet at the Company's web site at <http://www.mbia.com> and at no cost, upon request to the Insurer at its principal executive offices.

### **Incorporation of Certain Documents by Reference**

The following documents filed by the Company with the Securities and Exchange Commission (the "SEC") are incorporated by reference into this Official Statement:

- (1) The Company's Annual Report on Form 10-K for the year ended December 31, 2006; and
- (2) The Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007.

Any documents, including any financial statements of the Insurer and its subsidiaries that are included therein or attached as exhibits thereto, filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of the Company's most recent Quarterly Report on Form 10-Q or Annual Report on Form 10-K, and prior to the termination of the offering of the Offered Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof from the respective dates of filing such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the Company's SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2006, and (2) the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2007 and June 30, 2007) are available (i) over the Internet at the SEC's web site at

<http://www.sec.gov>; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site at <http://www.mbia.com>; and (iv) at no cost, upon request to the Insurer at its principal executive offices.

### **ESTIMATED SOURCES AND USES OF FUNDS**

The estimated sources and uses of funds with respect to the Offered Bonds, exclusive of accrued interest, are expected to be approximately as follows:

#### **Sources**

Principal Amount of Offered Bonds	\$ 95,525,000
Original Issue Premium	4,551,172
Corporation Funds	<u>852,264</u>
<b>TOTAL</b>	<b>\$100,928,436</b>

#### **Uses**

Financing the Purchase of the Robert B. Atwood Office Building Parking Garage	\$ 37,400,000
Refunding of the Corporation's Housing Development Bonds, 1999 Series C	44,635,654
Reimbursing Corporation Governmental Purpose Expenditures	17,947,457
Original Issue Discount	76,958
Payment of Underwriting Fee	607,424
Payment of Costs of Issuance	<u>260,943</u>
<b>TOTAL</b>	<b>\$100,928,436</b>

### **THE OFFERED BONDS**

#### **General**

The Offered Bonds will be dated, interest thereon will be payable on the dates, and such bonds will be issuable in the denominations, as set forth on the cover page.

The Offered Bonds will mature on the dates and in the amounts, and will bear interest (calculated on the basis of a 360-day year of twelve 30-day months) from their dated date to maturity (or prior redemption) at the applicable rates, as set forth on the inside cover page.

No transfer or exchange of any Offered Bond will be required to be made during the five days preceding any date established by the Trustee for the selection of Offered Bonds for redemption.

The Offered Bonds are being issued only as fully registered bonds without coupons, in book-entry form only, registered in the name of Cede & Co., as registered owner and

nominee for DTC, which will act as securities depository for the Offered Bonds. See “Book Entry Only” below.

## **Redemption Provisions**

### ***Optional Redemption***

The Offered Bonds are subject to redemption, on any date on or after December 1, 2017, in whole or in part, of any maturity as directed by the Corporation, at the option of the Corporation, from any source of funds, at 100% of the principal amount thereof, plus accrued interest.

### ***Selection of Bonds for Redemption***

The General Indenture provides that if less than all the Bonds of a particular maturity of a Series are to be redeemed, the particular Bonds of such maturity of such Series to be redeemed will be selected by the Trustee by lot, using such method of selection as it deems proper in its discretion.

### ***Notice of Redemption***

Notice of the redemption, identifying the Offered Bonds or portion thereof to be redeemed, will be given by the Trustee by mailing a copy of the redemption notice by first class mail (postage prepaid) not more than 60 days and not less than 30 days prior to the redemption date to the registered owner of each Offered Bond to be redeemed in whole or in part at the address shown on the registration books maintained by the Trustee. Pursuant to the Indenture, neither failure to receive any redemption notice nor any defect in such redemption notice shall affect the sufficiency of the proceedings for such redemption and failure by the Trustee to deliver such notice of redemption of the Bonds at the times required in the Indenture shall not impair the ability of the Trustee and the Corporation to effect such redemption.

## **Book Entry Only**

### ***General***

The Offered Bonds will be issued as fully registered bonds in the name of Cede & Co., as nominee of DTC, as registered owner of the Offered Bonds. Purchasers of such Bonds will not receive physical delivery of bond certificates. For purposes of this Official Statement, so long as all of the Offered Bonds are immobilized in the custody of DTC, references to holders or owners of Offered Bonds (*except* under “Tax Matters”) mean DTC or its nominee.

The information in this section concerning DTC and the DTC book-entry system has been obtained from DTC, and neither the Corporation nor the Underwriters take responsibility for the accuracy or completeness thereof.

DTC will act as securities depository for the Offered Bonds. The Offered Bonds will be issued as fully-registered securities in the name of Cede & Co., DTC’s partnership nominee (“Cede”), or such other name as may be requested by an authorized representative of DTC. One fully-registered Offered Bond certificate will be issued for each maturity of each

Series thereof set forth on the inside cover page in the aggregate principal amount of each such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has S&P's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission.

Purchases of Offered Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Offered Bonds on DTC's records. The ownership interest of each actual purchaser of each Offered Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Offered Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Offered Bonds, except in the event that use of the book-entry system for the Offered Bonds is discontinued.

To facilitate subsequent transfers, all Offered Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede, or such other name as may be requested by an authorized representative of DTC. The deposit of Offered Bonds with DTC and their registration in the name of Cede or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Offered Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Offered Bonds are credited, which may or may not be the Beneficial Owners. The

Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Offered Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Offered Bonds, such as redemptions, tenders, defaults and proposed amendments to the Indenture. For example, Beneficial Owners of Offered Bonds may wish to ascertain that the nominee holding the Offered Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners.

Redemption notices shall be sent to DTC. If less than all of a maturity of a Series of the Offered Bonds is being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede (nor such other DTC nominee) will consent or vote with respect to the Offered Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Corporation as soon as possible after the record date. The Omnibus Proxy assigns Cede's consenting or voting rights to those Direct Participants to whose accounts the Offered Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal and interest on the Offered Bonds will be made to Cede, or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Corporation or the Trustee on a payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Corporation, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee or the Corporation, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants. NEITHER THE CORPORATION NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH PARTICIPANTS, TO THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE OFFERED BONDS, OR TO ANY BENEFICIAL OWNER IN RESPECT OF THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT OR INDIRECT PARTICIPANT, THE PAYMENT BY DTC OR ANY DIRECT OR INDIRECT PARTICIPANT OF ANY AMOUNT IN RESPECT OF THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE OFFERED BONDS, ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO BONDHOLDERS UNDER THE INDENTURE, THE SELECTION BY DTC OR ANY DIRECT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN



## THE EVENT OF A PARTIAL REDEMPTION OF THE OFFERED BONDS OR ANY OTHER ACTION TAKEN BY DTC AS REGISTERED BONDOWNER.

DTC may discontinue providing its services as securities depository with respect to the Offered Bonds at any time by giving reasonable notice to the Corporation or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Offered Bond certificates are required to be printed and delivered as described in the Indenture.

The Corporation may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Offered Bond certificates will be required to be printed and delivered as described in the Indenture.

If bond certificates are issued, the principal and interest due upon maturity or redemption of any of the Offered Bonds will be payable at the office of the Trustee, as paying agent, upon presentation and surrender of such Offered Bonds by the registered owner thereof on or after the date of maturity or redemption, as the case may be. Payment of the interest on each Offered Bond (prior to the maturity or earlier redemption thereof) will be made by the Trustee to the registered owner of such Offered Bond by check mailed by first class mail on the Interest Payment Date to such registered owner as of the Record Date at the address appearing on the registration books relating to the Offered Bonds.

If bond certificates are issued, the Offered Bonds may be transferred and exchanged by the registered owner thereof or the registered owner's attorney duly authorized in writing, upon surrender thereof together with a written instrument of transfer satisfactory to the Trustee duly executed by the registered owner or the registered owner's duly authorized attorney at the office of the Trustee in Seattle, Washington. For every such exchange or transfer the Corporation or the Trustee may charge the transferee to reimburse it for any tax, fee or other governmental charge required to be paid with respect to such transfer or exchange. The Trustee is not obligated to make any such transfer or exchange during the 10 days next preceding the mailing of notice of any proposed redemption of any Offered Bond, nor of any Offered Bond so selected for redemption, nor 10 days prior to an Interest Payment Date. If any Offered Bond is mutilated, lost, stolen or destroyed, the Trustee may execute and deliver a new Offered Bond or Offered Bonds of the same interest rate, maturity and principal amount as the Offered Bond or Offered Bonds so mutilated, lost, stolen or destroyed, provided that such Offered Bond is surrendered to the Trustee, or evidence of loss, destruction or theft, together with satisfactory indemnity, is provided to the Trustee. The fees and expenses of the Corporation and the Trustee in connection with such replacement shall be paid by the owner.

## THE CORPORATION

### Certain Definitions

“Authority” means the Alaska State Housing Authority.

“Board” means the Board of Directors of the Corporation.

“Department” means the former Department of Community and Regional Affairs.

“Dividend Plan” means the dividend plan adopted by the Board in 1991 to transfer one-half of the lesser of its unrestricted net income or total net income to the State.

“Division” means The Public Housing Division of the Corporation.

“HUD” means the U.S. Department of Housing and Urban Development.

“Self-Liquidity Bonds” means, collectively, the Corporation’s \$33,000,000 Governmental Purpose Bonds (University of Alaska), 1997 Series A; the Corporation’s \$62,450,000 Housing Development Bonds, 2000 Series A and B; the Corporation’s \$370,170,000 Governmental Purpose Bonds, 2001 Series A, B, C and D; the Corporation’s \$37,870,000 Housing Development Bonds, 2002 Series D; and the Corporation’s \$60,250,000 State Capital Project Bonds, 2002 Series C.

## **General**

The Corporation was established in 1971 as a non-stock, public corporation and government instrumentality of the State. The Corporation currently functions as a major source of residential mortgage loan financing in the State. The Corporation’s programs were originally established to take advantage of tax-exempt financing permitted under Federal income tax law. Mortgages which meet applicable Federal income tax requirements are financed by selling tax-exempt bonds. All other mortgages generally are financed through the issuance of taxable bonds or from internal funds. A substantial portion of the Corporation’s mortgage purchase activities were funded in the taxable debt markets, including issuance of taxable bonds and the sale of securities in the Eurodollar market. Since 1972, the Corporation has acquired mortgage loans by appropriation from the State and by purchase from independent originating lending institutions operating throughout the State. On July 1, 1992, the Corporation succeeded to the public housing functions of the Authority and the rural housing and residential energy functions of the Department pursuant to legislation enacted in the State’s 1992 legislative session. As a result, the rights and obligations created by bonds and notes that were previously issued by the Authority became rights and obligations of the Corporation.

The Corporation prepares and publishes on its website a monthly Mortgage and Bond Disclosure Report containing detailed information concerning characteristics of the Corporation’s mortgage loan portfolios and outstanding bond issues, including bond redemptions and mortgage prepayments. The Corporation presently intends to continue to provide such information, but is not legally obligated to do so. Certain financial and statistical information relating to the Corporation and its programs under this heading “The Corporation” was obtained from the audited and unaudited financial statements of the Corporation dated June 30, 2006 and March 31, 2007, respectively, and the June 2007 Mortgage and Bond Disclosure Report of the Corporation. Copies of such financial statements and disclosure report may be obtained upon request from the Corporation. The Corporation’s main office is located at 4300 Boniface Parkway, Anchorage, Alaska 99504, and its telephone number is (907) 338-6100. Electronic versions of the financial statements and disclosure reports are available at the Corporation’s website.

## Board of Directors, Staff and Organization

The Corporation is required by law to comply (except for the procurement provisions of the Alaska Executive Budget Act), and does comply, with the State budget process. The Corporation administratively operates within the State Department of Revenue. The Board of Directors of the Corporation is comprised of the Commissioner of Revenue, the Commissioner of Commerce, Community and Economic Development and the Commissioner of Health and Social Services, as well as four members from the following sectors of the general public appointed by the Governor to serve two-year terms: one member with expertise or experience in finance or real estate; one member who is a rural resident of the State or who has expertise or experience with a regional housing authority; one member who has expertise or experience in residential energy efficient home-building or weatherization; and one member who has expertise or experience in the provision of senior or low-income housing. The powers of the Corporation are vested in and exercised by a majority of its Board of Directors then in office, who may delegate such powers and duties as appropriate and permitted under the Act. The Corporation's current members of its Board of Directors are as follows:

<u>Name</u>	<u>Location</u>
<b>Mr. Franklin C. Roppel</b> Chair	Retired Wrangell, Alaska
<b>Mr. N. Claiborne Porter</b> Vice-Chair	President NCP Design/Build Ltd. Anchorage, Alaska
<b>Mr. Bert Sharp</b>	Retired Fairbanks, Alaska
<b>Mr. Marty Shuravloff</b>	Executive Director Kodiak Island Housing Authority Kodiak, Alaska
<b>Mr. Patrick S. Galvin</b> Commissioner Alaska Department of Revenue	<b>Mr. Brian Andrews (designee)</b> Deputy Commissioner Alaska Department of Revenue Juneau, Alaska
<b>Ms. Karleen Jackson</b> Commissioner Alaska Department of Health & Social Services	<b>Ms. Janet Clarke (designee)</b> Assistant Commissioner Alaska Department of Health & Social Services Juneau, Alaska
<b>Mr. Emil Notti</b> Commissioner Alaska Department of Commerce, Community & Economic Development	<b>Mr. Ted Leonard (designee)</b> Deputy Commissioner Alaska Department of Commerce, Community & Economic Development Anchorage, Alaska

The following sub-committees of the Board of Directors have been established: Audit Committee, Investment Advisory Committee, Housing Budget and Policy Committee, and the Personnel Committee.

The Corporation's staff consists of employees organized into the following departments: Administrative Services, Mortgage Operations, Public Housing, Finance, Accounting, Planning and Program Development, Audit, Corporate Communications, Budget, Personnel, and Research and Rural Development. Principal financial officers of the Corporation are as follows:

**Daniel R. Fauske** - Chief Executive Officer/Executive Director. Mr. Fauske joined the Corporation on March 1, 1995. Prior to joining the Corporation, Mr. Fauske worked for the North Slope Borough in Barrow, Alaska from 1985 until 1993. During this time, Mr. Fauske served as Budget Director, Chief Fiscal Officer, and Chief Administrative Officer and managed a \$1.2 billion capital improvement program while at the Borough. Mr. Fauske holds a master's degree in business administration from Gonzaga University.

**Michael Buller** - Deputy Executive Director. Mr. Buller has been with the Corporation since June 1995, and previously served as Chief Administrative Officer. He previously worked for the North Slope Borough from 1987 through 1993 as Budget Manager and Deputy Director of the Department of Administration & Finance. From August 1993 through June 1995, Mr. Buller was employed as Assistant City Manager for the City of Unalaska. Mr. Buller holds a master's degree in business administration from Gonzaga University.

**Joseph M. Dubler** - Chief Financial Officer/Finance Director. Mr. Dubler has been with the Corporation since 1989, and previously served as Senior Finance Officer, Finance Officer, Financial Reporting Officer and Financial Analyst II. Mr. Dubler was an auditor with a public accounting firm from 1986 through 1989. Mr. Dubler is a certified public accountant, certified cash manager, and a graduate of San Francisco State University with a Bachelor of Science degree in business administration.

**Peter E. Haines** - Senior Finance Officer. Mr. Haines has been with the Corporation since 1990, and previously served as Financial Analyst I, Financial Analyst II and Finance Officer. Mr. Haines is a certified public accountant, certified cash manager, and a graduate of Brigham Young University with a Bachelor of Science degree.

**Michael L. Strand** - Finance Officer. Mr. Strand joined the Corporation in April 2001, and previously served as Financial Analyst II. Prior to joining the Corporation, he served for one year as Budget Analyst for Anchorage Municipal Light and Power and for three years as Financial Analyst for VECO Alaska. Mr. Strand is a graduate of the University of Alaska, Anchorage, with a Bachelor of Business Administration degree in finance and economics.

### **Activities of the Corporation**

The principal activity of the Corporation is the purchase of residential mortgage loans. This activity has been supplemented by the merger with the Authority under which the Corporation assumed responsibility for the public housing functions of the Authority and its

assumption of the rural housing and residential energy functions of the Department. See “The Corporation — General.”

### ***Lending Activities***

The Corporation finances its lending activities with a combination of general operating funds, bond proceeds, and loan prepayments and earnings derived from the permitted spread between borrowing and lending rates. The Corporation acquires mortgage loans after they have been originated and closed by direct lenders, which normally are financial institutions or mortgage companies with operations in the State. Under many of the Corporation’s programs, the originating lender continues to service the mortgage loan on behalf of the Corporation. The Corporation also makes available a streamlined refinance option that allows applicants to obtain new financing secured by property that is currently financed by the Corporation without income, credit, or appraisal qualifications.

Following are brief descriptions of the Corporation’s lending programs:

*Tax-Exempt First-Time Homebuyer Program.* The Tax-Exempt First-Time Homebuyer Program offers lower interest rates to eligible borrowers who meet income, purchase price, and other requirements of the Code.

*Veterans Mortgage Program.* The Veterans Mortgage Program offers a reduced interest rate to qualified veterans who purchase or construct owner-occupied single-family residences or, with certain restrictions, who purchase a duplex, triplex, or fourplex.

*Taxable First-Time Homebuyer.* The Taxable First-Time Homebuyer Program offers a reduced interest rate to first-time homebuyers whose loans do not meet the Code requirements of the Tax-Exempt First-Time Homebuyer Program.

*Rural Loan Program.* The Rural Loan Program offers financing to purchase, construct, or renovate owner occupied and non-owner occupied housing in small communities. The Rural interest rate is one percent below the rate established for the Corporation’s Taxable Program and is applied to the first \$250,000 of the loan only. The balance of the loan is at the Rural interest rate plus 1%.

*Taxable Program.* The Taxable Program is available statewide for applicants or properties not meeting requirements of other Corporation programs. Borrowers and properties must meet the Corporation’s general financing requirements. This program also includes non-conforming loans for certain properties for which financing may not be obtained through private, state or federal mortgage programs.

*Multi-Family Loan Purchase Program.* The Corporation participates with approved lenders to provide financing for the acquisition, rehabilitation, and refinancing of multi-family housing (buildings with at least five units and designed principally for residential use) as well as certain special-needs and congregate housing facilities.

The following tables set forth certain information regarding the mortgage loans financed under the above-described lending programs:

### Mortgage Purchases by Program

<u>Loan Program</u>	<b>Original Principal Balance of Mortgage Loans Purchased During FY 2005</b>	<b>Original Principal Balance of Mortgage Loans Purchased During FY 2006</b>	<b>Original Principal Balance of Mortgage Loans Purchased During FY 2007</b>
Tax-Exempt First-Time Homebuyer	\$172,047,509	\$141,594,498	\$275,029,956
Veterans Mortgage Program	12,706,927	11,783,085	114,744,164
Taxable First-Time Homebuyer	93,334,166	61,426,321	58,603,569
Rural	131,644,776	117,833,327	86,210,565
Taxable Other	111,172,386	80,098,440	32,101,459
Multi-Family	43,052,750	31,285,300	14,839,300
Streamline Refinance <sup>†</sup>	9,813,850	4,209,959	812,271

### Mortgage Portfolio Summary

	<u>As of 6/30/2005</u>	<u>As of 6/30/2006</u>	<u>As of 6/30/2007</u>
Mortgages and Participation Loans	\$3,339,886,912	\$3,254,861,682	\$3,378,026,530
Real Estate Owned and Insurance Receivables	428,356	210,027	485,426
Total Mortgage Portfolio	<u>\$3,340,315,268</u>	<u>\$3,255,071,709</u>	<u>\$3,378,511,956</u>

### Mortgage Delinquency and Foreclosure Summary

	<u>As of 6/30/2005</u>	<u>As of 6/30/2006</u>	<u>As of 6/30/2007</u>
Delinquent 30 Days	2.01%	1.91%	2.00%
Delinquent 60 Days	0.58	0.64	0.63
Delinquent 90 Days or More	0.43	0.47	0.62
Total Mortgage Delinquency	<u>3.02%</u>	<u>3.02%</u>	<u>3.25%</u>
Total Foreclosures	\$4,050,253	\$3,475,127	\$4,001,470

### *Financing Activities*

The Corporation is authorized by the State Legislature to issue its own bonds, bond anticipation notes and other obligations in such principal amounts as the Corporation deems necessary to provide sufficient funds for carrying out its purpose.

<sup>†</sup> For information only. These amounts are already included in the categories above.

Pursuant to State law, the maximum amount of bonds that the Corporation may issue during any fiscal year (the Corporation's fiscal years end on June 30) is \$1.5 billion. Bonds issued to refund outstanding bonds and to refinance outstanding obligations of the Corporation are not counted against the maximum annual limit.

Since 1986, implementation of refinancing programs by the Corporation has resulted in the prepayment of outstanding mortgage loans with a corresponding redemption at par of substantial amounts of the Corporation's notes or bonds secured by such mortgage loans.

Since 1997, the Corporation has issued certain Self-Liquidity Bonds, which are variable rate demand obligations with weekly interest rate resets. If these bonds are tendered or deemed tendered, the Corporation has the obligation to purchase any such bonds that cannot be remarketed. This general obligation is not secured by any particular funds or assets, including any assets that may be held under the related indentures. The Corporation may issue additional bonds for which it will provide liquidity support similar to that it currently provides for the Self-Liquidity Bonds.

Following are brief descriptions of the Corporation's financing programs:

*Long-Term Financing*

General financing activities include recurring long-term debt issuances under established bond indentures. Such issuances constitute the majority of the Corporation's financing activities.

*Home Mortgage Revenue Bonds.* The Corporation funds its Tax-Exempt First-Time Homebuyer Program with the proceeds of Home Mortgage Revenue Bonds. Qualified mortgage loans and/or mortgage-backed securities are pledged as collateral for the Home Mortgage Revenue Bonds. Home Mortgage Revenue Bonds are also general obligations of the Corporation.

*Collateralized Bonds.* The Corporation funds its Veterans Mortgage Program with the proceeds of State-guaranteed Collateralized Bonds. Qualified mortgage loans and/or mortgage-backed securities are pledged as collateral for the Collateralized Bonds. Collateralized Bonds are also general obligations of the Corporation and general obligations of the State.

*Housing Development Bonds.* The Corporation funds its Multifamily Loan Purchase Program and certain State governmental purpose expenditures with the proceeds of Housing Development Bonds. Housing Development Bonds are general obligations of the Corporation.

*General Mortgage Revenue Bonds.* The Corporation issues General Mortgage Revenue Bonds to finance capital expenditures, with certain proceeds available for general corporate purposes. The Corporation expects that proceeds of future issues of General Mortgage Revenue Bonds will only be used to refund other obligations of the Corporation. Mortgage loans and/or mortgage-backed securities are pledged as collateral for the General Mortgage Revenue Bonds. General Mortgage Revenue Bonds are also general obligations of the Corporation.

*General Housing Purpose Bonds.* The Corporation issues General Housing Purpose Bonds to finance certain capital expenditures of the State. The Corporation expects that proceeds of future issues of General Housing Purpose Bonds will only be used to refund other obligations of the Corporation. General Housing Purpose Bonds are general obligations of the Corporation.

*Governmental Purpose Bonds.* The Corporation issues Governmental Purpose Bonds to finance capital expenditures of the State for governmental purposes, with certain proceeds available for general corporate purposes. Governmental Purpose Bonds are general obligations of the Corporation.

*State Capital Project Bonds.* The Corporation issues State Capital Project Bonds to finance designated capital projects of State agencies and instrumentalities. State Capital Project Bonds also include the Corporation's State Building Lease Bonds, Series 1999, issued to finance the purchase of an office building in downtown Anchorage, Alaska, and primarily secured by a lease agreement between the Corporation and the State of Alaska. State Capital Project Bonds are general obligations of the Corporation.

The following tables set forth certain information regarding bonds issued under the above-described financing programs:

**Bonds Issued and Remaining Outstanding by Program**

<u>Bond Program</u>	<u>Issued through 6/30/2007</u>	<u>Issued During the Twelve Months Ended 6/30/2007</u>	<u>Outstanding as of 6/30/2007</u>
Home Mortgage Revenue Bonds	\$3,342,990,353	\$403,740,000	\$1,045,384,750
Collateralized Bonds	2,502,500,000	190,000,000	311,460,000
Housing Development Bonds	570,290,000	0	387,360,000
General Mortgage Revenue Bonds	1,220,245,874	0	396,305,000
General Housing Purpose Bonds	941,135,000	0	454,820,000
Governmental Purpose Bonds	973,170,000	0	173,250,000
State Capital Project Bonds	479,480,000	100,890,000	194,700,000
State Building Lease Bonds	40,000,000	0	26,770,000
Other Bonds	1,772,080,000	86,255,000	86,255,000

**Summary of Bonds Issued and Remaining Outstanding**

	<u>Issued through 6/30/2007</u>	<u>Issued During the Twelve Months Ended 6/30/2007</u>	<u>Outstanding as of 6/30/2007</u>
Tax-Exempt Bonds	\$11,488,684,122	\$780,855,000	\$2,970,279,202
Taxable Bonds	<u>4,313,215,000</u>	<u>0</u>	<u>106,525,000</u>
Total Bonds	<u>\$15,801,899,122</u>	<u>\$780,855,000</u>	<u>\$3,076,804,202</u>
Self-Liquidity Bonds <sup>†</sup>	\$563,740,000	0	\$310,305,000

<sup>†</sup> For information only. These amounts are already included in the categories above



### *Short-Term Financing*

Short-term financing activities include recurring short-term debt issuances under established programs or agreements. The proceeds of such issuances may be used for any lawful purpose of the Corporation; however, the Corporation has in the past and intends to continue to use such proceeds to temporarily refund outstanding tax-exempt obligations prior to their permanent refunding through the issuance of tax-exempt bonds.

*Commercial Paper Notes Program.* On February 21, 2007, the Corporation's Board of Directors authorized a domestic Commercial Paper Notes Program with a major dealer. Under this program, the maximum principal amount of notes outstanding at any one time may not exceed \$150,000,000. As of June 30, 2007, \$120,300,000 aggregate principal amount of notes were outstanding under the Commercial Paper Notes Program. The Commercial Paper Notes Program supersedes the Corporation's prior domestic Commercial Paper Notes Program and its Euro-Commercial Paper Program, both of which, while still available, have no outstanding balances and under which the Corporation does not intend to issue additional notes.

*Draw Down Bonds Program.* On February 21, 2007, the Corporation's Board of Directors authorized a Draw Down Bonds Program, under which the maximum principal amount of bonds outstanding at any one time may not exceed \$300,000,000 less the principal amount of obligations then outstanding under the Corporation's Commercial Paper Notes program. As of June 30, 2007, \$86,255,000 aggregate principal amount of bonds were outstanding under the Draw Down Bonds Program.

*Reverse Repurchase Agreements.* The Corporation may enter into reverse repurchase agreements in such amounts as it deems necessary for carrying out its purpose. The Corporation currently is not a party to any reverse repurchase agreements.

*Revolving Credit Agreement.* The Corporation maintains a \$200 million Revolving Credit Agreement with a major European bank under which it may borrow, on an unsecured basis, up to the principal amount of the Agreement for general corporate purposes. There is currently no outstanding balance under the Revolving Credit Agreement.

### *Public Housing Activities*

The Corporation performs certain public housing functions in the State through the Division. The Division operates Low Rent and Section 8 New Construction/Additional Assistance housing to serve low-income families, disabled persons and seniors in several communities throughout Alaska. The Division also administers the rent subsidies for numerous families located in private-sector housing through vouchers, certificates, and coupons issued pursuant to Section 8 of the National Housing Act. The Division's operating budget is funded primarily through contracts with HUD. The Division is engaged in a number of multifamily renovation and new construction projects throughout the State.

### **Financial Results of Operations**

See Note 23 to the Corporation's audited annual financial statements dated June 30, 2006 contained in Appendix A — "Financial Statements of the Corporation" for a

summary of revenues, expenses and changes in net assets of the Corporation for each of its five most recent fiscal years.

## **Legislative Activity/Transfers to the State**

### ***Prior Transfers to the State***

The Board adopted the Dividend Plan in 1991 to transfer one-half of the lesser of its unrestricted net income or total net income to the State. Under the Dividend Plan, in 1991 the Corporation transferred a total of \$114,324,000 to the State. Additionally, in 1995, the Board voted to make a one-time payment to the State in the amount of \$200,000,000. On April 27, 1995, the Corporation agreed to make a one-time transfer of \$50,000,000 to the State and close the Dividend Plan. In 1997, the Corporation transferred to the State's general fund \$20,000,000 made available as a consequence of certain bond retirements.

### ***The Current Transfer Plan***

In the fiscal year 1996 capital appropriation bill (the April 27, 1995 agreement referred to in the immediately preceding paragraph and the 1996 capital appropriation bill, as amended, collectively, the "Transfer Plan") the Legislature expressed its intent that the Corporation transfer to the State (or expend on its behalf) amounts not to exceed \$127,000,000 in fiscal year 1996 and \$103,000,000 in each fiscal year from 1997 to 2000, but that, "[T]o ensure the prudent management of [the Corporation and] to protect its excellent debt rating ..." in no fiscal year should such amount exceed the Corporation's net income for the preceding fiscal year.

The 1998 Legislature adopted legislation (the "1998 Act") authorizing the Corporation to finance state capital projects through the issuance of up to \$224,000,000 in bonds. The 1998 Act also extended the term of the Transfer Plan by stating the Legislature's intent that the Corporation transfer to the State (or expend on its behalf) an amount not to exceed \$103,000,000 in each fiscal year through fiscal year 2006, again stating that, to protect the Corporation and its bond rating, in no fiscal year should such amount exceed the Corporation's net income for the preceding fiscal year.

The 2000 Legislature adopted legislation (the "2000 Act") authorizing the issuance of bonds in sufficient amounts to fund the construction of various State capital projects, and extended the Transfer Plan (as described above) through fiscal year 2008.

The 2002 Legislature adopted legislation (the "2002 Act") authorizing the issuance of \$60,250,000 in capital project bonds for the renovation and deferred maintenance of the Corporation's Public Housing facilities.

The 2004 Legislature adopted legislation (the "2004 Act") authorizing the additional issuance of bonds in sufficient amounts to fund the construction of various State capital projects. The bond proceeds are allocated to agencies and municipalities subject to specific legislative appropriation.

The Corporation has issued \$196,345,000 principal amount of State Capital Project Bonds pursuant to the 1998 Act, \$74,535,000 principal amount of State Capital Project

Bonds pursuant to the 2000 Act, \$60,250,000 principal amount of State Capital Project Bonds pursuant to the 2002 Act, and \$45,000,000 principal amount of State Capital Project Bonds pursuant to the 2004 Act, and has completed its issuance authority under the Acts. Payment of principal and interest on these bonds is categorized as a transfer pursuant to the Transfer Plan and is included in the Corporation’s capital budget.

The 2003 Legislature enacted Chapter 76 SLA 2003, subsequently amended by Chapter 120 SLA 2004 and Chapter 7 SLA 2006 (as so amended, the “2003 Act”), which modified and incorporated provisions of the Transfer Plan. The Corporation views the 2003 Act as an indefinite, sustainable continuation of the Transfer Plan. The 2003 Act provides that the amount transferred by the Corporation to the State in fiscal years 2004, 2005, and 2006 shall not exceed \$103,000,000 (in each case, less debt service on certain State Capital Project Bonds and any legislative appropriation of the Corporation’s unrestricted, unencumbered funds other than appropriations for the Corporation’s operating budget).

The 2003 Act further provides that the amount transferred by the Corporation to the State in each fiscal year beginning with fiscal year 2007 shall not exceed

- (i) the lesser of (A) \$103,000,000 and (B) the respective percentage of adjusted change in net assets for such fiscal year set forth in the table below, less
- (ii) debt service on certain State Capital Project Bonds, less
- (iii) any legislative appropriation of the Corporation’s unrestricted, unencumbered funds other than appropriations for the Corporation’s operating budget.

<u>Fiscal Year</u>	<u>Percentage of Adjusted Change in Net Assets</u>
2007	95%
2008	85%
2009 and thereafter	75%

Under the 2003 Act, “adjusted change in net assets” means the change in net assets for a fiscal year as reflected in the Corporation’s financial statements, adjusted for capital expenditures incurred during such year.

***Aggregate Transfers to the State of Alaska***

The following reflects the aggregate transfers the Corporation has made to the State through March 31, 2007, or which, in the case of the University of Alaska deferred maintenance funding for other than student housing, were appropriated and incorporated in agreements where actual payments will be made as requested.

<u>Transfer Type</u>	<u>Pre-FY07</u>	<u>FY07</u>	<u>Total</u>
State Debt Repaid Early	\$ 29,800,000	\$ 0	\$ 29,800,000
State Asset Purchases	252,300,000	0	252,300,000
Dividend Plan Payments	114,300,000	0	114,300,000
State Equity Transfers	550,061,000	17,442,000	567,503,000
Other State Appropriations	2,078,000	300,576,000	302,654,000
State Capital Project Bond Fund	263,418,000	11,300,000	274,718,000
Non-Housing Capital Projects	<u>277,866,000</u>	<u>9,935,000</u>	<u>287,801,000</u>
<b>Total</b>	<b><u>\$1,489,823,000</u></b>	<b><u>\$339,253,000</u></b>	<b><u>\$1,829,076,000</u></b>

### ***Corporation Budget Legislation***

The Corporation's fiscal year 2007 operating budget was approved by the Legislature at approximately the amount submitted during the fiscal year 2006 legislative session, including the full level of funding requested by the Corporation for personnel and contractual costs. Consistent with the Transfer Plan, the enacted fiscal year 2007 operating budget estimated that \$80,617,000 would be available from net income for payment of debt service, appropriation for capital projects and transfer to the Alaska debt retirement fund.

There can be no assurance that the Legislature or the Governor of the State will not seek and/or enact larger dividends or other transfers of Corporation assets by legislative enactment or other means in the future.

### **Litigation**

There are no threatened or pending cases in which the Corporation is or may be a defendant which the Corporation feels have merit and which it feels could give rise to materially negative economic consequences.

## **SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE**

Certain covenants and security provisions of the Indenture are summarized below. Reference should be made to the Indenture for a full and complete statement of their provisions.

### **Certain Definitions (Section 1.1)**

“Bond Counsel’s Opinion” means an opinion signed by an attorney or firm of attorneys of nationally recognized standing in the field of law relating to municipal, state and public agency financing, selected by the Corporation.

“Code” means the Internal Revenue Code of 1986, as amended, and United States Treasury regulations promulgated thereunder or applicable thereto.

“Credit Enhancement” means any source of payment of principal or interest with respect to Bonds (including principal and interest payable upon a tendering of the Bonds in accordance with their terms) other than assets and revenues under the Indenture and includes, by

example and not limitation, letters of credit, bond insurance, liquidity facilities, surety bonds, and stand-by bond purchase agreements.

“Credit Enhancer” means any entity or entities which provide Credit Enhancement.

“DTC” means The Depository Trust Company, New York, New York.

“Fitch” means Fitch Ratings.

“Government Obligations” means:

(1) direct obligations of, or obligations guaranteed as to full and timely payment of interest and principal by, the United States of America or any agency or instrumentality of the United States of America the obligations of which are backed by the full faith and credit of the United States of America; or

(2) instruments evidencing direct ownership interests in direct obligations, or specified portions (such as principal or interest) of such obligations, of the United States of America which obligations are held by a custodian in safe keeping on behalf of the holders of such receipts.

“Investment Securities” means any investments selected by the Corporation, if and to the extent the same are at the time legal investments by the Corporation of the funds to be invested therein and in compliance with the Corporation’s then current investment policies.

“Moody’s” means Moody’s Investors Service, Inc.

“Outstanding,” when used with reference to Bonds, means, as of any date, all Bonds theretofore or thereupon being authenticated and delivered under the Indenture except:

(1) any Bond canceled by the Trustee or delivered to the Trustee for cancellation at or prior to such date;

(2) any Bond in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to the Indenture; and

(3) any Bond that has been paid or is deemed to have been paid as described under “Summary of Certain Provisions of the Indenture — Defeasance.”

“Rating Agency” means, with respect to any Series of Bonds, Moody’s, S&P or Fitch or any national securities rating service which then provides a rating for such Series of Bonds.

“Rebate Amount” means that amount with respect to the Bonds determined by the Corporation to be required to be rebated to the United States government pursuant to the Code.

“Redemption Price” means, with respect to any Bonds that have been designated for redemption, the principal amount thereof plus the applicable premium, if any, payable upon redemption thereof.

“Revenues” means, in addition to amounts so identified in the Indenture, such amounts derived from such sources as the Corporation may identify in a Supplemental Indenture authorizing the issuance of a Series of Bonds.

“S&P” means Standard & Poor’s, a division of The McGraw-Hill Companies, Inc.

### **Pledge Effected by Indenture; Indenture to Constitute a Contract (Section 2.1)**

All amounts in the Program Account and the Revenue Account are pledged under the Indenture to secure the payment of the principal of and interest on the Bonds, subject only to the provisions of the Indenture permitting the application thereof for other purposes; provided, however, that the Corporation may direct the Trustee to establish subaccounts for any such accounts to secure all or any portion of a Series or Subseries of Bonds, and, upon the creation of such subaccount, any amounts deposited or held therein may be pledged to secure the payment of principal of and interest on only those Bonds for which such subaccount was created.

In consideration of the purchase and acceptance of the Bonds by those who shall hold the same from time to time, the provisions of the Indenture shall be a part of the contract of the Corporation with the holders of Bonds and shall be deemed to be and shall constitute a contract between the Corporation, the Trustee and the holders from time to time of the Bonds. The pledges and assignments made by the Indenture and the provisions, covenants and agreements set forth in the Indenture to be performed by or on behalf of the Corporation shall be for the equal benefit, protection and security of the holders of any and all of such Bonds, each of which, regardless of the time or times of its issue or maturity, shall be of equal rank without preference, priority or distinction over any other thereof except as expressly provided in the Indenture (and, in particular, except that one or more Series of Bonds may be issued with Credit Enhancement which, as permitted by the Indenture, may be pledged to such Series of Bonds and, at the Corporation’s sole discretion, may not benefit any other Series of Bonds).

### **Issuance and Delivery of Bonds (Section 2.3)**

The Corporation may from time to time issue additional Series of Bonds under the Indenture with such provisions of the Indenture applicable as it determines in an unlimited aggregate principal amount to provide additional funds for any purpose of the Corporation.

Before the Trustee may authenticate an additional Series of Bonds, there must be delivered to the Trustee, among other things, evidence from each Rating Agency that the issuance of such additional Series of Bonds will not, in and of itself, result in the ratings then in effect on any Bonds then Outstanding being reduced or withdrawn.

### **Investment of Certain Funds (Section 4.3)**

The Corporation shall direct the Trustee to invest amounts in the Accounts invested in Investment Securities; in the absence of direction from the Corporation, the Trustee

shall, to the maximum extent practicable, keep amounts in the Accounts invested in money market funds rated AAAM or AAAM-G by S&P and Aaa by Moody's, and having comparable ratings from (or otherwise acceptable to) Fitch and from any other Rating Agency, secured by obligations with maturities of one year or less, the payment of principal and interest on which is guaranteed by the full faith and credit of the United States of America. Notwithstanding the foregoing, the Corporation shall not direct the investment of, and the Trustee shall hold uninvested, moneys held for the payment of Bonds that may be tendered for purchase, and that have been tendered for purchase, pursuant to the terms of the supplemental indenture authorizing the issuance of such Bonds.

Investment Securities purchased as an investment of moneys in any Account held by the Trustee under the provisions of the Indenture shall be deemed at all times to be a part of such Account, but the income or interest earned (other than accrued interest at the time of purchase of the Investment Securities) and gains realized in excess of losses suffered by an Account due to the investment thereof shall be deposited in the Revenue Account or shall be credited as Revenues to the Revenue Account from time to time and reinvested in accordance with the provisions described in the immediately preceding paragraph.

The Trustee may commingle any of the Accounts established pursuant to the Indenture or any supplemental indenture into a separate fund or funds for investment purposes only; provided, however, that all Accounts held by the Trustee under the Indenture shall be accounted for separately notwithstanding such commingling. In addition, for investment purposes only, the Trustee may, at its sole discretion, commingle any of the Accounts established under any other indenture, resolution, or agreement of the Corporation with the Trustee, to the extent permitted therein.

#### **Valuation and Sale of Investments (Section 4.4)**

Except as provided in the Indenture, in computing the amount in any Account, obligations purchased as an investment of moneys therein shall be valued at amortized value. Amortized value means par, if the obligation was purchased at par, or, when used with respect to an obligation purchased at a premium above or a discount below par, means the value as of any given time obtained by dividing the total premium or discount at which such obligation was purchased by the number of interest payments remaining on such obligation after such purchase and deducting the amount thus calculated for each Interest Payment Date after such purchase from the purchase price in the case of an obligation purchased at a premium or adding the amount thus calculated for each Interest Payment Date after such purchase to the purchase price in the case of an obligation purchased at a discount.

#### **Establishment of Accounts (Section 5.1)**

The Indenture establishes and creates the following Accounts and Subaccounts:

- (1) Program Account and, within the Program Account, Program Subaccounts;
- (2) Revenue Account; and
- (3) Rebate Account.

The Corporation may establish with the Trustee additional accounts and subaccounts in a supplemental indenture for the purpose of creating additional security for a Series of Bonds and may provide in such supplemental indenture that such account is only for the security of such Series of Bonds and not to secure any other bonds of the Corporation, including any other Bonds issued under the Indenture.

### **Program Account (Section 5.2)**

The Program Account consists of, and there may be created and established, one or more Program Subaccounts for each Series of Bonds as required by the supplemental indenture authorizing such Series.

### **Revenue Account (Section 5.3)**

The Corporation shall pay or cause to be paid to the Trustee, at least two (2) days prior to the due date thereof, assets and revenues of the Corporation as may be available (subject to agreements made with holders of other obligations of the Corporation pledging particular assets and revenues and the exclusion by the Act of a pledge of funds in the Housing Development Fund) as needed to make all payments of principal, interest and premium with respect to the Bonds and any other payments required by the Indenture or by any supplemental indenture authorizing the issuance of a Series of Bonds. The Trustee shall deposit such amounts in the Revenue Account or, if required under the terms of a supplemental indenture authorizing the issuance of a Series of Bonds, in such subaccount thereof as may be created by such supplemental indenture for such Series of Bonds. There shall also be deposited in the Revenue Account, or subaccount thereof if applicable, any other amounts required to be deposited therein pursuant to the Indenture or a supplemental indenture.

The Revenue Account may consist of, and there may be created and established, one or more Revenue Subaccounts for each Series of Bonds (and subaccounts of such Revenue Subaccounts for any subseries of such Series) as required by the supplemental indenture authorizing such Series. Amounts deposited in a Revenue Subaccount may be used only for the purposes stated in the supplemental indenture creating such Revenue Subaccount.

The Trustee shall pay out of the Revenue Account:

(i) on each Interest Payment Date, the amounts required for the payment of principal due, if any, and interest due on the Bonds on such date; and

(ii) on any Redemption Date or date of purchase, the amounts required for the payment of accrued interest on the Bonds and for the payment of principal and Sinking Fund Payments to become due on the Bonds to be redeemed or purchased on such date, unless the payment of such accrued interest is otherwise provided for, and in each such case, such amounts will be applied by the Trustee to such payments or to reimburse any Credit Enhancer for any such payment made with any such Credit Enhancer's Credit Enhancement. The Trustee shall deliver written notice to the Corporation (which may be by facsimile transmission or otherwise) on the day before any payment required by the preceding sentence if on such date there are not sufficient funds in the Revenue Account to make such required payment, which notice shall include a statement of the amount of such deficiency.



As soon as practicable after the 45th day preceding the due date of any Sinking Fund Payment, the Trustee shall proceed to call for redemption on such due date, Bonds of the Series and maturity for which such Sinking Fund Payment was established in such amount as shall be necessary to complete the retirement of a principal amount of such Bonds of such maturity equal to the unsatisfied balance of such Sinking Fund Payment. The Trustee shall so call such Bonds for redemption whether or not it then has moneys in the Revenue Account sufficient to pay the applicable Redemption Price thereof on the Redemption Date. The Trustee shall pay out of the Revenue Account on the Redemption Date the amount required for the redemption of the Bonds so called for redemption, and such amount shall be applied by the Trustee to such redemption.

Upon written instruction from the Corporation at any time, the Trustee shall apply amounts in the Revenue Account to the purchase of Outstanding Bonds in lieu of any redemption of such Bonds pursuant to the supplemental indenture applicable to such Bonds, and upon such purchase such Bonds shall be canceled. The Corporation shall notify the Trustee three Business Days before any date that the Corporation intends to instruct the Trustee to purchase Bonds, and, on the date of any such purchase, the Trustee shall notify the Credit Enhancer, if any, that has provided Credit Enhancement applicable to such Bonds. Any purchases shall be settled on such dates as the Corporation and the Trustee mutually agree will permit the Trustee to proceed with the payment of interest on any Bonds remaining Outstanding after such purchase on the applicable Interest Payment Date or with the redemption of any Bonds remaining Outstanding after such purchase on the applicable redemption date. The price paid by the Trustee for any Bond (excluding accrued interest on such Bonds, but including any brokerage and other charges) purchased pursuant to this paragraph shall not exceed the Redemption Price thereof. The Trustee will also pay from the Revenue Account accrued interest on any such Bond. Subject to the above limitations, the Trustee shall, at the written direction of the Corporation, purchase Bonds at such times, for such prices, in such amounts, and in such manner (whether after advertisement for tenders or otherwise) as the Corporation may determine and as may be possible with the amount of money available in the Revenue Account.

On the day following the payment of principal or interest with respect to the Bonds, the Trustee shall make transfers and payments from amounts remaining in the Revenue Account in the manner directed in writing by the Corporation or as provided in a supplemental indenture authorizing the issuance of a Series of Bonds.

#### **Rebate Account (Section 5.4)**

The Rebate Account is not pledged to secure the payment of principal or Redemption Price, if any, of or any interest on the Bonds.

The Corporation shall annually calculate the Rebate Amount. If the Corporation determines that a Rebate Amount is required to be paid, the Corporation shall deposit such amount in the Rebate Account with written instructions to the Trustee to pay such amount to the Federal government. The Trustee shall make such payment in accordance with such written instructions.

If the amount in the Rebate Account exceeds the Rebate Amount, the Corporation may direct the Trustee in writing to withdraw such excess amount and deliver it to the

Corporation, and, upon receipt of such written direction, the Trustee shall so withdraw and deliver such excess amounts free and clear of the lien of the Indenture.

#### **Payment of Redeemed Bonds (Section 6.6)**

Notice having been given by mailing in the manner provided in the Indenture, the Bonds or portion thereof so called for redemption will become due and payable on the Redemption Date so designated at the Redemption Price, plus interest accrued and unpaid to the Redemption Date. If there shall be drawn for redemption less than the entire principal amount of a Bond, the Corporation shall execute and the Trustee shall authenticate and deliver, upon the surrender of such Bond, without charge to the owner thereof, for the unredeemed balance of the principal amount of the Bond so surrendered Bonds of like Series, interest rate and maturity in any of the Authorized Denominations. If, on the Redemption Date, moneys for the redemption of all the Bonds or portions thereof of any like Series and maturity to be redeemed, together with interest to the Redemption Date, are held by the Trustee so as to be available therefor on said date and if notice of redemption shall have been given as aforesaid, then, from and after the Redemption Date interest on the Bonds or portions thereof of such Series and maturities so called for redemption shall cease to accrue and become payable. If said moneys are not so available on the Redemption Date, such Bonds or portions thereof shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption.

#### **Payment of Bonds (Section 7.1)**

The Corporation shall duly and punctually pay or cause to be paid the principal or Redemption Price, if any, of and the interest on every Bond at the dates and places and in the manner stated in the Bonds and in the Indenture according to the true intent and meaning thereof and will duly and punctually pay or cause to be paid all Sinking Fund Payments, if any, becoming payable with respect to any of the Bonds.

#### **Power to Issue Bonds and Pledge Revenues and Other Property (Section 7.4)**

The Corporation is duly authorized by law to authorize and issue the Bonds and to enter into, execute and deliver the Indenture and to pledge the assets and revenues purported to be pledged by the Indenture in the manner and to the extent provided in the Indenture. Except as provided in the Indenture and in the supplemental indentures authorizing the issuance of any Series of Bonds, the assets and revenues so pledged are and will be free and clear of any pledge, lien, charge or encumbrance thereon, or with respect thereto prior to, or of equal rank with, the pledge created by the Indenture, and all corporate or other action on the part of the Corporation to that end has been or will be duly and validly taken. The Bonds and the provisions of the Indenture are and will be the valid and legally enforceable obligations of the Corporation in accordance with their terms and the terms of the Indenture. The Corporation directs that the Trustee shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the revenues and other assets, including rights therein pledged under the Indenture and in the supplemental indentures and all the rights of the Bondholders under the Indenture against all claims and demands of all persons whomsoever, and the Corporation shall cooperate in all such matters.

### **Tax Covenants (Section 7.6)**

With respect to Bonds, the interest on which was, at the time of initial issuance of the Bonds, intended to be excluded from gross income for Federal income tax purposes, the Corporation shall not knowingly take or cause any action to be taken which will adversely affect such exclusion. The Corporation shall at all times do and perform all acts and things necessary or desirable in order to assure that interest paid on such Bonds will, for the purposes of Federal income taxation, be excludable from the gross income of the recipients thereof and exempt from such taxation pursuant to the provisions of Section 103 of the Code, and the Regulations promulgated thereunder.

The Corporation shall not knowingly permit at any time or times any of the proceeds of such Bonds described in the immediately preceding paragraph or any other funds of the Corporation to be used directly or indirectly to acquire any securities or obligations, the acquisition of which would cause any such Bond to be an “arbitrage bond” as defined in Section 148 of the Code.

### **Accounts and Reports (Section 7.7)**

The Corporation shall keep, or cause to be kept, proper books and reports in which complete and accurate entries will be made of all transactions relating to any programs for which Bonds are issued and all Accounts established by the Indenture, which books and reports and accountings shall at all reasonable times be subject to inspection by the Trustee, each Credit Enhancer and the holders of an aggregate of not less than 5% in principal amount of Bonds then Outstanding or their representatives duly authorized in writing.

The Trustee shall advise the Corporation, in writing, on or before the 20th day of each calendar month, of the details of all deposits and Investment Securities held for the credit of each Fund and Account in its custody under the provisions of the Indenture as of the end of the preceding month. The Trustee shall also maintain, at the expense of the Corporation, an electronic access system which the Corporation may use to access the balances and respective investment holdings of each fund or account on a daily basis.

### **Supplemental Indentures (Sections 8.1, 8.2 and 8.3)**

For any one or more of the following purposes and at any time or from time to time, a supplemental indenture may be entered into by and between the Corporation and the Trustee: (a) to provide for the issuance of a Series of Bonds and to fix or modify the terms of the Indenture with respect to a Series of Bonds or the creation of a Subseries of Bonds; (b) to add to the covenants and agreements of the Corporation in the Indenture other covenants and agreements to be observed by the Corporation which are not contrary to or inconsistent with the Indenture as theretofore in effect; (c) to add to the limitations and restrictions in the Indenture other limitations and restrictions to be observed by the Corporation which are not contrary to or inconsistent with the Indenture as theretofore in effect; (d) to surrender any right, power or privilege reserved to or conferred upon the Corporation by the terms of the Indenture, but only if the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of the Corporation contained in the Indenture; (e) to confirm, as

further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, the Indenture of any revenues or assets; (f) to modify the Indenture in any respect if:

(i) such modification shall be, and be expressed to be, effective only with respect to Bonds issued after the date of the adoption of such supplemental indenture, and

(ii) such supplemental indenture shall be specifically referred to in the text of all Bonds authenticated and delivered after the date of the adoption of such supplemental indenture and of Bonds issued in exchange therefor or in place thereof; or

(g) to provide for such terms as may be necessary to obtain or maintain the ratings on the Bonds or to provide for Credit Enhancement or other additional security for any Bonds.

At any time or from time to time a supplemental indenture may be entered into, which, upon a finding recited therein by the Corporation and the Trustee (which will be based on reliance on a Bond Counsel's Opinion) that there is no material adverse effect on the Bondholders, shall be fully effective in accordance with its terms:

(a) to cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Indenture;

(b) to insert such provisions clarifying matters or questions arising under the Indenture as are necessary or desirable and are not contrary to or inconsistent with the Indenture as theretofore in effect;

(c) to provide additional duties of the Trustee; or

(d) to make any other changes not materially adverse to the interests of the Bondholders.

At any time or from time to time, a supplemental indenture may be entered into subject to consent by Bondholders in accordance with and subject to the provisions of the Indenture, which supplemental indenture, upon compliance with the provisions of the Indenture, shall become fully effective in accordance with its terms as provided in the Indenture.

### **Amendment (Sections 9.2 and 9.3)**

Any modification of or amendment to the Indenture and of the rights and obligations of the Corporation and of the holders of the Bonds may be made by a supplemental indenture with the written consent given as provided in the Indenture of the holders of at least 60% in principal amount of the Bonds Outstanding at the time such consent is given and in case less than all of the several Series of Bonds then Outstanding are affected by the modification or amendment, of the holders of at least 60% in principal amount of the Bonds of each Series so affected and Outstanding at the time such consent is given. If any such modification or amendment will not take effect so long as any Bonds of any specified maturity remain Outstanding, however, the consent of the holders of such Bonds shall not be required and any such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under this paragraph. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or of any

installment of interest thereon or a reduction in the principal amount of the Redemption Price thereof or in the rate of interest thereon without the consent of the holder of such Bond, or shall reduce the percentages or otherwise affect the classes of Bonds, the consent of the holders of which is required to effect any such modification or amendment, or shall change or modify its written assent thereto. For the purposes of this paragraph, a Series shall be deemed to be affected by a modification or amendment of the Indenture if the same adversely affects or diminishes the rights of the holders of Bonds of such Series. The Trustee may in its sole discretion determine whether or not in accordance with the foregoing powers of amendment Bonds of any particular Series or maturity would be affected by any modification or amendment of the Indenture and any such determination shall be binding and conclusive on the Corporation and all holders of Bonds.

Such supplemental indenture shall not be effective unless and until (a) there shall have been filed with the Trustee (i) the written consents of holders of the percentages of Outstanding Bonds specified in the immediately preceding paragraph and (ii) a Bond Counsel's Opinion stating that such supplemental indenture has been duly and lawfully entered into by the Corporation and the Trustee in accordance with the provisions of the Indenture, is authorized or permitted thereby and is valid and binding upon the Corporation and enforceable in accordance with its terms and (b) notice shall have been mailed to Bondholders as provided in the Indenture.

#### **Modifications by Unanimous Consent (Section 9.4)**

The terms and provisions of the Indenture and the rights and obligations of the Corporation and of the holders of the Bonds may be modified or amended in any respect upon the entering into and filing by the Corporation of a supplemental indenture and the consent of the holders of all the Bonds then Outstanding, such consent to be given as provided in the Indenture, except that no notice of any such modification or amendment to Bondholders is required; but no such modification or amendment may change or modify any of the rights or obligations of the Trustee without the filing with the Trustee of the written assent thereto of the Trustee in addition to the consent of the Bondholders.

#### **Events of Default (Section 10.1)**

Each of the following is declared an "Event of Default": (a) the Corporation defaults in the payment of the principal of or Redemption Price, if any, on any Bond when and as the same shall become due, whether at maturity or upon call for redemption or otherwise; (b) payment of any installment of interest on any of the Bonds is not made when and as the same becomes due; (c) the Corporation fails or refuses to comply with any of the provisions of the Indenture, or defaults in the performance or observance of any of the covenants, agreements or conditions on its part contained in the Indenture or in any supplemental indenture or in the Bonds, and such failure, refusal or default continues for a period of 45 days after written notice thereof given to the Corporation by the Trustee or the holders of not less than 25% in principal amount of the Outstanding Bonds; or (d) any event designated an Event of Default by a supplemental indenture has occurred and remains uncured.

## **Remedies (Section 10.2)**

Upon the happening and continuance of an Event of Default described in clauses (a) or (b) under “Summary of Certain Provisions of the Indenture — Events of Default,” the Trustee shall proceed to protect and enforce its rights and the rights of the Bondholders by such of the remedies described herein as the Trustee, being advised by counsel, deems most effectual to protect and enforce such rights. Upon the happening and continuance of any Event of Default described in clauses (c) or (d) under “Summary of Certain Provisions of the Indenture — Events of Default,” the Trustee may proceed to enforce such rights and, upon the written request of the holders of not less than 25% in principal amount of the Outstanding Bonds, shall proceed to enforce such rights in its own name, subject to the provisions of the Indenture. The remedies available to the Trustee under the Indenture are: (a) by mandamus or other suit, action or proceeding at law or in equity, to enforce all rights of the Bondholders or the Trustee, including the right to require the Corporation to receive and collect the revenues and assets adequate to carry out the covenants and agreements as to, and the pledge of, such revenues and assets and to require the Corporation to carry out any other covenants or agreements with Bondholders and to perform its duties under the Act; (b) by bringing suit upon the Bonds; (c) by action or suit in equity, to require the Corporation to account as if it were the trustee of an express trust for the holders of the Bonds; (d) by action or suit in equity to enjoin any acts or things which may be unlawful or in violation of the rights of the holders of the Bonds; or (e) by declaring all Bonds due and payable, and if all defaults are cured, then, with the written consent of the holders of not less than 25% in principal amount of the Outstanding Bonds (100% in the case of an Event of Default described in clauses (a) or (b) under “Summary of Certain Provisions of the Indenture — Events of Default”), by annulling such declaration and its consequences; provided, however, that no such declaration with respect to Bonds secured by Credit Enhancement may be annulled, regardless of any consent of Bondholders, unless and until the Credit Enhancer has verified to the Trustee in writing that the Credit Enhancement is in effect with respect to such Bonds to the same extent that it would have been in effect had the declaration not been made.

In the enforcement of any rights and remedies under the Indenture, the Trustee shall be entitled to sue for, enforce payment of and receive any and all amounts then or during any default becoming due, and at any time remaining due and unpaid for principal, Redemption Price, interest or otherwise, under any provisions of the Indenture or a supplemental indenture or of the Bonds, with interest on overdue payments at the rate of interest specified in such Bonds, together with any and all costs and expenses of collection and of all proceedings thereunder and under such Bonds, without prejudice to any other right or remedy of the Trustee or of the Bondholders, and to recover and enforce a judgment or decree for any portion of such amounts remaining unpaid, with interest, costs and expenses (including without limitation pre-trial, trial and appellate attorney fees), and to collect from any assets pledged under the Indenture, in any manner provided by law, the moneys adjudged or decreed to be payable.

Upon the occurrence of any Event of Default, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Bondholders under the Indenture, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the revenues and of the assets pledged under the Indenture, pending such proceedings, with such powers as the court making such appointment shall confer.

A supplemental indenture may contain provisions granting to any Credit Enhancer the power to control the enforcement of remedies described under this heading “Summary of Certain Provisions of the Indenture — Remedies” with respect to the Series of Bonds to which the Credit Enhancement provided by the Credit Enhancer applies.

### **Priority of Payments after Default (Section 10.3)**

In the event that upon the happening and continuance of any Event of Default the funds held by the Trustee shall be insufficient for the payment of principal or Redemption Price, if any, and interest then due on the Bonds, such funds (other than funds held for the payment or redemption of particular Bonds which have theretofore become due at maturity or by call for redemption) and any other amounts received or collected by the Trustee acting pursuant to the Act and the Indenture, after making provision for the payment of any expenses necessary in the opinion of the Trustee to protect the interest of the holders of the Bonds and for the payment of the charges and expenses and liabilities incurred and advances made by the Trustee, including those of its attorneys, in the performance of its duties under the Indenture shall be applied as follows:

(i) Unless the principal of all of the Bonds shall have become or have been declared due and payable:

*First*, to the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available is not sufficient to pay in full any installment, then to the payment thereof ratably, according to the amounts due on such installments, to the persons entitled thereto, without any discrimination or preference; and

*Second*, to the payment to the persons entitled thereto of the unpaid principal or Redemption Price of any Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates and, if the amounts available shall not be sufficient to pay in full all of the Bonds due on any date, then to the payment thereof ratably, according to the amounts of principal or Redemption Price, if any, due on such date, to the persons entitled thereto, without any discrimination or preference.

(ii) If the principal of all of the Bonds shall have become or shall have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds without preference or priority of principal over interest, or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds.

Whenever moneys are to be applied by the Trustee pursuant to the above-described provisions, such moneys shall be applied by the Trustee at such times, and from time to time, as the Trustee in its sole discretion shall determine, and the Trustee shall incur no liability whatsoever to the Corporation, to any Bondholder or to any other person for any delay in applying any such moneys, so long as the Trustee acts with reasonable diligence, having due

regard for the circumstances, and ultimately applies the same in accordance with such provisions of the Indenture as may be applicable at the time of application by the Trustee.

### **Bondholders' Direction of Proceedings (Section 10.5)**

Anything in the Indenture to the contrary notwithstanding, the holders of the majority in principal amount of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the method of conducting all remedial proceedings to be taken by the Trustee under the Indenture, provided that such direction shall not be otherwise than in accordance with law or the provisions of the Indenture, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders not parties to such direction.

### **Limitation on Rights of Bondholders (Section 10.6)**

No holder of any Bond will have any right to institute any suit, action, mandamus or other proceeding in equity or at law under the Indenture, or for the protection or enforcement of any right under the Indenture unless such holder has given to the Trustee written notice of the Event of Default or breach of duty on account of which such suit, action or proceeding is to be taken, and unless the holders of not less than 25% in principal amount of the Bonds then Outstanding shall have made written request of the Trustee after the right to exercise such powers or right of action, as the case may be, shall have occurred, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted by the Indenture or granted under the law or to institute such action, suit or proceeding in its name and unless, also, there shall have been offered to the Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time; and such notification, request and offer of indemnity are declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the powers under the Indenture or for any other remedy under the Indenture or by law. It is understood and intended that no one or more holders of the Bonds shall have any right in any manner whatsoever by his or their action to affect, disturb or prejudice the security of the Indenture, or to enforce any right under the Indenture or under law with respect to the Bonds or the Indenture, except in the manner provided in the Indenture, and that all proceedings at law or in equity will be instituted, and maintained in the manner provided in the Indenture and for the benefit of all holders of the Outstanding Bonds. Nothing contained in the Indenture shall affect or impair the right of any Bondholder to enforce the payment of the principal of and interest on, or Redemption Price, if any, of his or her Bonds, or the obligation of the Corporation to pay the principal of and interest on, or Redemption Price, if any, of each Bond issued under the Indenture to the holder thereof at the time and place specified in said Bond.

Notwithstanding anything to the contrary contained in the Indenture, each holder of any Bond by his acceptance thereof shall be deemed to have agreed that any court in its discretion may require, in any suit for the enforcement of any right or remedy under the Indenture or any supplemental indenture, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party litigant in such suit of any undertaking to pay the reasonable costs of such suit, and that such court may in its discretion assess reasonable



costs, including reasonable attorneys' fees, against any party litigant in any such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions described in this paragraph shall not apply to any suit instituted by the Trustee, to any suit instituted by any Bondholder, or group of Bondholders, holding at least 25% in principal amount of the Bonds Outstanding, or to any suit instituted by any Bondholder for the enforcement of the payment of the principal of or interest on any Bond on or after the respective due date thereof expressed in such Bond.

### **Trustee (Article XI)**

Except during the existence of an Event of Default, the Corporation shall remove the Trustee, on thirty (30) days' notice, if requested by an instrument or concurrent instruments in writing, filed with the Trustee and the Corporation and signed by the holders of a majority in principal amount of the Bonds then Outstanding or their attorney-in-fact duly authorized, excluding any Bonds held by or for the account of the Corporation. Except during the existence of an Event of Default, the Corporation may remove the Trustee at any time for any such cause as determined in the sole discretion of the Corporation. Any successor to the Trustee must be a trust company or a bank having the powers of a trust company and having a capital, surplus and undivided profits aggregating at least \$25 million and having investment grade ratings from the Rating Agencies. In addition, the 2002 Series A/B/C Supplemental Indenture requires the consent of the Insurer to the appointment of such successor Trustee, which consent may not be unreasonably withheld. The Corporation is required to pay to the Trustee from time to time, reasonable compensation for all services rendered under the Indenture and also all reasonable expenses, charges, counsel fees and other disbursements, including those of their attorneys, agents and employees, incurred in the performance of their powers and duties under the Indenture.

### **Defeasance (Section 12.1)**

If the Corporation shall pay or cause to be paid to the holders of the Bonds the principal and interest and Redemption Price, if any, to become due thereon, at the times and in the manner stipulated therein and in the Indenture, then the pledge of any revenues and other moneys, securities, funds and property pledged by the Indenture and all other rights granted by the Indenture with respect to such Bonds shall be discharged and satisfied. In such event, the Trustee shall, upon the request of the Corporation, execute and deliver to the Corporation all such instruments as may be desirable to evidence such discharge and satisfaction and the Trustee shall pay over or deliver to the Corporation all moneys or securities held by the Trustee pursuant to the Indenture which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption. If the Corporation shall pay or cause to be paid, or there shall otherwise be paid, to the holders of all Outstanding Bonds of a particular Series the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Indenture, such Bonds shall cease to be entitled to any lien, benefit or security under the Indenture and all covenants, agreements and obligations of the Corporation to the holders of such Bonds shall thereupon cease, terminate and become void and be discharged and satisfied.

Bonds shall, prior to the maturity or Redemption Date thereof, be deemed to have been paid with the effect expressed in the immediately preceding paragraph if (i) in case any of

said Bonds are to be redeemed on any date prior to their maturity, the Corporation shall have given to the Trustee in form satisfactory to it irrevocable instructions to provide notice of redemption on said date of such Bonds, (ii) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Government Obligations the principal of and the interest on which when due will provide moneys in an amount which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient, in the opinion of a nationally recognized certified public accountant, to pay when due the principal or Redemption Price, if any, of and interest due and to become due on said Bonds on and prior to the Redemption Date or maturity date thereof as the case may be, and (iii) in the event said Bonds do not mature and are not by their terms subject to redemption within the next succeeding 60 days, the Corporation shall have given the Trustee in form satisfactory to it irrevocable instructions to mail, as soon as practicable, a notice to the holders of such Bonds that the deposit required by (ii) above of this paragraph has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with the Indenture and stating such maturity or Redemption Date upon which moneys are to be available for the payment of the principal or Redemption Price, if any, on said Bonds. Neither Government Obligations nor moneys deposited with the Trustee nor principal or interest payments on any such Government Obligations shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or Redemption Price, if any, of and interest on said Bonds; but any cash received from such principal or interest payments on such Government Obligations deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, be reinvested in Government Obligations maturing at times and in amounts sufficient to pay when due the principal or Redemption Price, if any, and interest to become due on said Bonds on and prior to such Redemption Date or maturity date thereof, as the case may be, and interest earned from such reinvestments shall be paid over to the Corporation, as received by the Trustee, free and clear of any trust, lien or pledge. There shall also be delivered to the Trustee in connection with the deposit of moneys or Government Obligations an opinion of nationally recognized bond counsel that, with respect to Bonds the interest on which was intended at the time of their initial issuance to be excluded from gross income for Federal income tax purposes, the deposit of moneys does not adversely affect the exclusion of interest on the Bonds from gross income for Federal income tax purposes and such deposit has been made in compliance with the Indenture.

Anything in the Indenture to the contrary notwithstanding, any moneys held by the Trustee in trust for the payment and discharge of any of the Bonds which remain unclaimed for two years after the date when all of the Bonds have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Trustee at such date, or for two years after the date of deposit of such moneys if deposited with the Trustee after the said date when all of the Bonds became due and payable, shall, at the written request of the Corporation, be repaid by the Trustee to the Corporation, as its absolute property and free from trust, and the Trustee shall thereupon be released and discharged.

## TAX MATTERS

### Opinions of Bond Counsel and Special Tax Counsel

In the opinions of Bond Counsel and Special Tax Counsel, to be delivered on the date of issuance of the Offered Bonds, under existing laws, regulations, rulings and judicial decisions, (i) interest on the Offered Bonds is excluded from gross income for Federal income tax purposes; and (ii) interest on the Offered Bonds is not a specific preference item for purposes of the alternative minimum tax provisions imposed on individuals and corporations by the Code; however, interest on the Offered Bonds is included in the adjusted current earnings (*i.e.*, alternative minimum taxable income as adjusted for certain items, including those items that would be included in the calculation of a corporation's earnings and profits under Subchapter C of the Code) of certain corporations, and such corporations are required to include in the calculation of alternative minimum taxable income 75% of the excess of such corporation's adjusted current earnings over its alternative minimum taxable income (determined without regard to this adjustment and prior to reduction for certain net operating losses).

In the opinion of Bond Counsel, interest on the Offered Bonds is free from taxation by the State under existing law (*except* that no opinion is expressed as to such exemption from State estate and inheritance taxes and taxes of transfers by or in anticipation of death).

### Certain Requirements of the Code

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for Federal income tax purposes of interest on obligations such as the Offered Bonds. The Tax Certificate as to Arbitrage and the Provisions of Sections 103 and 141-150 of the Internal Revenue Code of 1986 of the Corporation, which will be delivered concurrently with the delivery of the Offered Bonds, will contain provisions and procedures relating to compliance with the requirements of the Code. The Corporation also has covenanted that it will at all times do and perform all acts and things necessary or desirable in order to assure that interest on the Offered Bonds will not become includable in gross income for Federal income tax purposes. Failure to comply with these covenants and agreements may result in interest on the Offered Bonds being included in Federal gross income, from the date of issuance of the Offered Bonds. The opinions of Bond Counsel and Special Tax Counsel assume the Corporation is in compliance with these covenants and agreements. Bond Counsel and Special Tax Counsel are not aware of any reason why the Corporation cannot or will not be in compliance with such covenants and agreements. However, Bond Counsel and Special Tax Counsel have not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Offered Bonds may affect the tax status of interest on the Offered Bonds.

Although Bond Counsel and Special Tax Counsel will each render an opinion that interest on the Offered Bonds will be excluded from gross income for Federal income tax purposes, the accrual or receipt of interest on the Offered Bonds may otherwise affect the Federal income tax liability of the recipient. The extent of these other tax consequences will depend upon the recipient's particular tax status or other items of income or deduction. Bond Counsel and Special Tax Counsel express no opinion regarding any such consequences. Purchasers of

the Offered Bonds, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States), property or casualty insurance companies, banks, thrifts or other financial institutions or recipients of Social Security or Railroad Retirement benefits, taxpayers otherwise entitled to claim the earned income credit and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry tax-exempt obligations, are advised to consult their tax advisors as to the tax consequences of purchasing, holding or selling the Offered Bonds.

As a result of the enactment of the Tax Increase Prevention and Reconciliation Act of 2005, interest on tax-exempt obligations such as the Bonds is subject to information reporting in a manner similar to interest paid on taxable obligations. Backup withholding may be imposed on payments made after March 31, 2007 to any bondholder who fails to provide certain required information including an accurate taxpayer identification number to any person required to collect such information pursuant to Section 6049 of the Code. The new reporting requirement does not in and of itself affect or alter the excludability of interest on the Bonds from gross income for federal income tax purposes or any other federal tax consequence of purchasing, holding or selling tax-exempt obligations.

### **Original Issue Discount**

Bonds sold at an initial public offering price that is less than the stated amount to be paid at maturity constitute "Discount Bonds." The difference between the initial public offering prices of any such Discount Bond and the stated amount to be paid at maturity constitutes original issue discount treated as interest which is excluded from gross income for federal income tax purposes to the same extent as interest on such Bond.

The amount of original issue discount which is treated as having accrued with respect to such Discount Bond is added to the cost basis of the owner in determining, for federal income tax purposes, gain or loss upon disposition of such Discount Bond (including its sale, redemption or payment at maturity). Amounts received upon disposition of such Discount Bond which are attributable to accrued original issue discount will be treated as tax-exempt interest, rather than as taxable gain, for federal income tax purposes.

Original issue discount is treated as compounding semiannually, at a rate determined by reference to the yield to maturity of each individual Discount Bond, on days that are determined by reference to the maturity date of such Discount Bond. The amount treated as original issue discount on such Discount Bond for a particular semiannual accrual period is equal to the product of (i) the yield to maturity for such Discount Bond (determined by compounding at the close of each accrual period) and (ii) the amount which would have been the tax basis of such Discount Bond at the beginning of the particular accrual period if held by the original purchaser, less the amount of any interest payable for such Discount Bond during the accrual period. The tax basis is determined by adding to the initial public offering price on such Discount Bond the sum of the amounts that have been treated as original issue discount for such purposes during all prior periods. If such Discount Bond is sold between semiannual compounding dates, original issue discount which would have been accrued for that semiannual compounding period for Federal income tax purposes is to be apportioned in equal amounts among the days in such compounding period.

Owners of Discount Bonds should consult their tax advisors with respect to the determination and treatment of original issue discount accrued as of any date and with respect to the state and local tax consequences of owning a Discount Bond.

### **Original Issue Premium**

Bonds sold at an initial public offering price that is greater than the stated amount to be paid at maturity constitute "Premium Bonds." An amount equal to the excess of the issue price of a Premium Bond over its stated redemption price at maturity constitutes premium on such Premium Bond. An initial purchaser of a Premium Bond must amortize any premium over such Premium Bond's term using constant yield principles, based on the purchaser's yield to maturity or, in the case of Premium Bonds callable prior to their maturity, by amortizing the premium to the call date, based on the purchaser's yield to the call date and giving effect to the call premium). As premium is amortized, the purchaser's basis in such Premium Bond is reduced by a corresponding amount resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Bond prior to its maturity. Even though the purchaser's basis may be reduced, no federal income tax deduction is allowed. Purchasers of the Premium Bonds should consult with their tax advisors with respect to the determination and treatment of amortizable premium for Federal income tax purposes and with respect to the state and local tax consequences of owning a Premium Bond.

### **Changes in Federal and State Tax Law**

From time to time, there are legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to above or adversely affect the market value of the Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the Bonds. An example of such litigation is the case of *Davis v. Kentucky Department of Revenue*, 97 S.W.3d 557 (2006), which the U.S. Supreme Court has agreed to hear pursuant to a writ of certiorari granted on May 21, 2007, challenging Kentucky's taxation of bonds issued by other states and their political subdivisions differently than it taxes bonds issued by Kentucky and its political subdivisions. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Bonds or the market value thereof would be impacted thereby. Purchasers of the Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Bonds and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

## **CONTINUING DISCLOSURE UNDER SEC RULE 15c2-12**

In order to assist the Underwriters in complying with Rule 15c2-12 promulgated by the Securities and Exchange Commission (the “Rule”), the Corporation will execute and deliver the Continuing Disclosure Certificate. The Corporation will undertake to provide each Nationally Recognized Municipal Securities Information Repository, and if and when one is established, the Alaska State Information Depository, on an annual basis on or before 135 days after the end of each fiscal year for the Corporation, commencing with the fiscal year ending June 30, 2007, the financial and operating data concerning the Corporation outlined in the Continuing Disclosure Certificate. In addition, the Corporation will undertake, for the benefit of the registered owners and beneficial owners of the Offered Bonds, to provide to each such Repository or to the Municipal Securities Rulemaking Board, and to the State Information Depository, in a timely manner, the notices described in the Continuing Disclosure Certificate.

The sole and exclusive remedy for breach or default under the Continuing Disclosure Certificate is an action to compel specific performance of the undertakings of the Corporation, and no person, including a registered owner or beneficial owner of the Offered Bonds, may recover monetary damages thereunder under any circumstances. A breach or default under the Continuing Disclosure Certificate shall not constitute an Event of Default under the Indenture. In addition, if all or any part of the Rule ceases to be in effect for any reason, then the information required to be provided under the Continuing Disclosure Certificate, insofar as the provision of the Rule no longer in effect required the provision of such information, shall no longer be required to be provided.

The specific nature of the information to be provided is summarized in Appendix D — “Form of Continuing Disclosure Certificate.” The Corporation has never failed to comply in any material respect with any previous undertaking with respect to the Rule to provide annual financial information or notices of material events.

## **RATINGS**

S&P is expected to assign the Offered Bonds a rating of “AAA”, Moody’s is expected to assign the Offered Bonds a rating of “Aaa”, and Fitch is expected to assign the Offered Bonds a rating of “AAA”. The assignment of such respective ratings by S&P, Moody’s and Fitch to the Offered Bonds is conditioned upon the delivery of the Policy by the Insurer substantially in the form set forth as Exhibit E hereto at the time of delivery of the Offered Bonds. Such ratings on the Offered Bonds will expire on the termination of the Policy. The obligation of the Underwriters to purchase the Offered Bonds is conditioned on the assignment by S&P, Moody’s and Fitch of the respective aforementioned ratings to the Offered Bonds. Each rating reflects only the view of the applicable rating agency at the time such rating was issued and an explanation of the significance of such rating may be obtained from the rating agency. There is no assurance that any such rating will continue for any given period of time or that any such ratings will not be revised downward or withdrawn entirely by the applicable rating agency if, in its judgment, circumstances so warrant. Any downward revision or withdrawal of any such rating can be expected to have an adverse effect on the market price of the Offered Bonds.

## **FINANCIAL STATEMENTS**

The unaudited financial statements of the Corporation as of and for the nine months ended March 31, 2007, included in Appendix A to this Official Statement, appear without review or audit by an independent accountant.

Copies of the Corporation's annual financial statements as of and for the year ended June 30, 2006 and the Corporation's current annual report will be mailed to any Beneficial Owner who shall have filed his name and address with the Corporation for such purpose.

Copies of the Corporation's annual financial statements as of and for the year ended June 30, 2007 and the Corporation's then-current annual report are expected to be available prior to the delivery of the Offered Bonds or soon thereafter, and will be mailed to any Beneficial Owner who shall have filed his name and address with the Corporation for such purpose.

## **INDEPENDENT AUDITORS**

The financial statements of the Corporation as of and for the year ended June 30, 2006, included in Appendix A to this Official Statement, have been audited by Mikunda, Cottrell & Co., independent auditors, as stated in their report appearing herein.

## **LITIGATION**

There is no controversy or litigation of any material nature now pending or threatened to restrain or enjoin the issuance, sale, execution, authentication, or delivery of the Offered Bonds, or in any way contesting or affecting the validity of such Offered Bonds or any proceedings of the Corporation taken with respect to the issuance or sale thereof, the pledge or application of any moneys or security provided for the payment of such Offered Bonds, or the existence or powers of the Corporation.

## **LEGAL MATTERS**

All legal matters incident to the authorization, sale and delivery of the Offered Bonds and certain Federal and state tax matters are subject to the approval of Birch, Horton, Bittner and Cherot, Bond Counsel. Certain Federal tax matters will be passed upon for the Corporation by Kutak Rock LLP, Special Tax Counsel. Certain legal matters will be passed on for the Underwriters by their counsel, Hawkins Delafield & Wood LLP.

## **STATE NOT LIABLE ON BONDS**

The Bonds do not constitute a debt, liability or obligation of the State or of any political subdivision thereof or a pledge of the faith and credit of the State or of any political subdivision thereof, but are payable solely from the revenue or assets of the Corporation.

## **LEGALITY FOR INVESTMENT**

Subject to any applicable Federal requirements or limitations, the Offered Bonds are eligible for investment by all public officers and public bodies of the State and its political subdivisions and, to the extent controlled by State law, all insurance companies, trust companies, banking associations, investment companies, executors, administrators, trustees and other fiduciaries may properly and legally invest funds, including capital in their control or belonging to them, in the Offered Bonds.

## **UNDERWRITING**

The Offered Bonds are being purchased by the Underwriters. The Underwriters have jointly and severally agreed to purchase the Offered Bonds at the prices set forth on the inside cover page, including any indicated original issue premium, plus accrued interest, if any. The Underwriters will be paid a fee of \$607,423.63 with respect to the Offered Bonds. The Bond Purchase Agreement with respect to the Offered Bonds provides that the Underwriters will purchase all of such Bonds, if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in such Bond Purchase Agreement, the receipt of certain legal opinions, and certain other conditions. The initial public offering prices and yields of the Offered Bonds may be changed from time to time by the Underwriters. The Bond Purchase Agreement with respect to the Offered Bonds provides that the Underwriters may offer and sell the Offered Bonds to certain dealers (including dealers depositing such Bonds into unit investment trusts, certain of which may be sponsored or managed by an Underwriter) and others at prices lower or yields higher than the public offering prices and yields of the Offered Bonds set forth on the inside cover page.

## **FINANCIAL ADVISOR**

First Southwest Company is employed as Financial Advisor to the Corporation in connection with the issuance of the Offered Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Offered Bonds is contingent upon the issuance and delivery of the Offered Bonds. First Southwest Company, in its capacity as Financial Advisor, does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Offered Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

The Financial Advisor to the Corporation has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the Corporation and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.



## **FORWARD-LOOKING STATEMENTS**

The following statements are made as contemplated by the provisions of the Private Securities Litigation Reform Act of 1995: If and when included in this Official Statement, the words “expects,” “forecasts,” “projects,” “intends,” “anticipates,” “estimates,” “assumes” and analogous expressions are intended to identify forward-looking statements and any such statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those that have been projected. Such risks and uncertainties include, among others, general economic and business conditions relating to the Corporation and the housing industry in general, changes in political, social and economic conditions, regulatory initiatives and compliance with governmental regulations, litigation and various other events, conditions and circumstances, many of which are beyond the control of the Corporation. These forward-looking statements speak only as of the date of this Official Statement. The Corporation disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any changes in the Corporation’s expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

## **ADDITIONAL INFORMATION**

The summaries and references herein to the Act, the Offered Bonds, the Indenture and other documents and materials are brief outlines of certain provisions contained therein and do not purport to summarize or describe all the provisions thereof. For further information, reference is hereby made to the Act, the Indenture and such other documents and materials for the complete provisions thereof, copies of which will be furnished by the Corporation upon request. See “The Corporation — General” for the address and telephone number of the Corporation’s main office.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Corporation and the owner of any Offered Bonds.

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**APPENDIX A**

**FINANCIAL STATEMENTS OF THE CORPORATION**

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The logo features a stylized mountain peak or roofline composed of three parallel, upward-pointing chevron shapes in shades of gray. The word "Alaska" is written in a large, bold, black serif font, positioned to the left of the peak. Below "Alaska" is the word "Housing" in a larger, bold, black serif font. Underneath "Housing" is the text "FINANCE CORPORATION" in a smaller, bold, black, all-caps sans-serif font.

**Alaska**  
**Housing**  
**FINANCE CORPORATION**

*a component unit of the State of Alaska*

**Quarterly Unaudited  
Financial Statements  
March 31, 2007**

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**This is an unaudited quarterly publication of Alaska Housing Finance Corporation.**

**For comments or questions:**

**Web site:** <http://www.ahfc.us/financials.htm>

**E-Mail:** [dboyce@ahfc.state.ak.us](mailto:dboyce@ahfc.state.ak.us)

**ALASKA HOUSING FINANCE CORPORATION**

Exhibit A

(A Component Unit of the State of Alaska)

**STATEMENT OF NET ASSETS**

As of March 31, 2007

(in thousands of dollars)

	Administrative Fund	Housing Development Bonds	Other Non-Major Funds	Total March 31, 2007
<b><u>ASSETS</u></b>				
Cash	9,063	-	19,466	28,529
Investments	431,476	133,483	843,237	1,408,196
Accrued interest receivable	2,987	2,372	17,198	22,557
Inter-fund due to/from	(39,164)	6,512	32,652	-
Mortgage loans, notes and other loans	592,149	296,747	2,453,782	3,342,678
Net investment in direct financing lease	-	-	27,085	27,085
Unamortized bond issuance costs	-	3,639	23,049	26,688
Capital assets - non-depreciable	139	-	42,926	43,065
Capital assets - depreciable, net	166	-	77,023	77,189
Other assets	12,537	62	5,974	18,573
Intergovernmental receivable	16	-	266	282
<b>Total Assets</b>	<b>1,009,369</b>	<b>442,815</b>	<b>3,542,658</b>	<b>4,994,842</b>
<b><u>LIABILITIES</u></b>				
Bonds and notes payable	61,925	388,565	2,647,605	3,098,095
Short term debt	149,318	-	-	149,318
Accrued interest payable	739	5,591	41,912	48,242
Other liabilities	4,988	59	6,122	11,169
Intergovernmental payable	-	-	1,023	1,023
<b>Total Liabilities</b>	<b>216,970</b>	<b>394,215</b>	<b>2,696,662</b>	<b>3,307,847</b>
<b><u>NET ASSETS</u></b>				
Invested in capital assets, net of related debt	305	-	119,442	119,747
Restricted by bond resolutions	-	-	563,542	563,542
Restricted by contractual or statutory agreements	105,843	-	70,527	176,370
Unrestricted net assets, (deficit)	686,251	48,600	92,485	827,336
<b>Total Net Assets</b>	<b>792,399</b>	<b>48,600</b>	<b>845,996</b>	<b>1,686,995</b>

See accompanying notes to the financial statements.

**ALASKA HOUSING FINANCE CORPORATION**

Exhibit B

(A Component Unit of the State of Alaska)

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**

For the Nine Months Ended March 31, 2007

*(in thousands of dollars)*

	<b>Administrative Fund</b>	<b>Housing Development Bonds</b>	<b>Other Non-Major Funds</b>	<b>Total March 31, 2007</b>
<b><u>OPERATING REVENUES</u></b>				
Mortgage and loans revenue	29,753	17,078	98,884	145,715
Investment interest	15,198	4,080	35,855	55,133
Net change in the fair value of investments	620	129	5,758	6,507
Total Investment Revenue	<u>15,818</u>	<u>4,209</u>	<u>41,613</u>	<u>61,640</u>
Externally funded programs	-	-	48,023	48,023
Rental	8	-	5,239	5,247
Other	82	-	541	623
<b>Total Operating Revenues</b>	<u>45,661</u>	<u>21,287</u>	<u>194,300</u>	<u>261,248</u>
<b><u>OPERATING EXPENSES</u></b>				
Interest	7,951	14,375	95,651	117,977
Mortgage and loan costs	2,256	623	7,124	10,003
Financing expenses	559	310	4,110	4,979
Provision for loan loss	(2,432)	1,355	3,772	2,695
Operations and administration	237	1,639	28,363	30,239
Rental housing operating expenses	99	-	7,646	7,745
Housing grants and subsidies	-	-	51,394	51,394
<b>Total Operating Expenses</b>	<u>8,670</u>	<u>18,302</u>	<u>198,060</u>	<u>225,032</u>
<b>Operating Income (Loss)</b>	<u>36,991</u>	<u>2,985</u>	<u>(3,760)</u>	<u>36,216</u>
<b><u>NONOPERATING EXPENSES, SPECIAL ITEM &amp; TRANSFERS</u></b>				
Contributions to the State of Alaska or other State agencies	(318,177)	-	(21,076)	(339,253)
Transfers - Internal	(64,431)	11,346	53,085	-
Change in Net Assets	<u>(345,617)</u>	<u>14,331</u>	<u>28,249</u>	<u>(303,037)</u>
Net assets at beginning of year	1,138,016	34,269	817,747	1,990,032
<b>Net Assets at End of Period</b>	<u>792,399</u>	<u>48,600</u>	<u>845,996</u>	<u>1,686,995</u>

*See accompanying notes to the financial statements.*



**ALASKA HOUSING FINANCE CORPORATION**
**Exhibit C**

(A Component Unit of the State of Alaska)

**STATEMENT OF CASH FLOWS**

For the Nine Months Ended March 31, 2007

(in thousands of dollars)

	Administrative Fund	Housing Development Bonds	Other Non-Major Funds	Total March 31, 2007
<b><u>Cash flows from operating activities:</u></b>				
Interest income on mortgages and loans	24,283	16,904	94,127	135,314
Principal payments received on mortgages and loans	36,746	42,317	262,015	341,078
Purchases of mortgages and loans	(446,556)	-	-	(446,556)
Receipt (payment) for loan transfers between funds	324,391	(64,483)	(259,908)	-
Payments to employees and other payroll disbursements	(13,471)	-	(7,844)	(21,315)
Payments for goods and services	(11,009)	(11)	(4,976)	(15,996)
Cash received for externally funded programs	626	-	22,887	23,513
Cash received for Federal HAP subsidies	-	-	24,262	24,262
Payments for Federal HAP subsidies	-	-	(23,266)	(23,266)
Interfund Receipts	556,506	53,016	344,421	953,943
Interfund Payments	(512,035)	(59,527)	(382,381)	(953,943)
Grant payments to other agencies	(11,042)	-	(13,798)	(24,840)
Other operating cash receipts	2,341	-	6,708	9,049
Other operating cash payments	(1,588)	(28)	(2,368)	(3,984)
<b>Net cash provided by (used for) operating activities</b>	<b>(50,808)</b>	<b>(11,812)</b>	<b>59,879</b>	<b>(2,741)</b>
<b><u>Cash flows from noncapital financing activities:</u></b>				
Proceeds from the issuance of bonds	61,925	-	455,882	517,807
Principal paid on bonds	(2)	(12,655)	(314,354)	(327,011)
Payment of bond issuance costs	(1,818)	-	-	(1,818)
Interest paid	(7,659)	(10,398)	(67,325)	(85,382)
Proceeds from issuance of short term debt	831,133	-	-	831,133
Payment of short term debt	(924,529)	-	-	(924,529)
Contributions to the State of Alaska or other State agencies	(28,573)	-	(9,814)	(38,387)
Transfers (to) from other funds	89,001	8,769	(97,770)	-
Other cash payments	-	-	(759)	(759)
<b>Net cash provided by (used for) noncapital financing activities</b>	<b>19,478</b>	<b>(14,284)</b>	<b>(34,140)</b>	<b>(28,946)</b>
<b><u>Cash flows from capital financing activities:</u></b>				
Acquisition of capital assets	(1,929)	-	(1,771)	(3,700)
Proceeds from the disposal of capital assets	67	-	-	67
Proceeds from the issuance of capital notes	-	-	-	-
Principal paid on capital notes	-	-	(1,089)	(1,089)
Payment of bond issuance costs	-	-	-	-
Interest paid on capital notes	-	-	(1,491)	(1,491)
Proceeds from the direct financing lease payments	-	-	3,467	3,467
Other cash payments	(4,258)	-	(2,056)	(6,314)
<b>Net cash provided by (used for) capital financing activities</b>	<b>(6,120)</b>	<b>-</b>	<b>(2,940)</b>	<b>(9,060)</b>
<b><u>Cash flows from investing activities:</u></b>				
Purchase of investments	(5,531,765)	(288,526)	(3,849,371)	(9,669,662)
Proceeds from maturity of investments	5,556,359	309,436	3,811,490	9,677,285
Interest received from investments	15,414	5,186	29,470	50,070
<b>Net cash provided by (used for) investing activities</b>	<b>40,008</b>	<b>26,096</b>	<b>(8,411)</b>	<b>57,693</b>
Net Increase (decrease) in cash	2,558	-	14,388	16,946
Cash at the beginning of year	6,505	-	5,078	11,583
<b>Cash at the end of period</b>	<b>9,063</b>	<b>-</b>	<b>19,466</b>	<b>28,529</b>
<b>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities</b>				
Operating income (loss)	36,991	2,985	(3,760)	36,216
<i>Adjustments:</i>				
Depreciation expense	65	-	3,340	3,405
Provision for loan losses	(2,432)	1,355	3,772	2,695
Amortization of bond issuance costs	-	105	792	897
Net change in the fair value of investments	(620)	(129)	(5,758)	(6,507)
Transfers between funds for operating activity	(32,727)	2,326	30,401	-
Interest received from investments	(15,414)	(5,186)	(29,470)	(50,070)
Interest paid	7,659	10,398	68,816	86,873
<i>Changes in assets and liabilities:</i>				
Net increase (decrease) in mortgages and loans	(85,419)	(22,166)	2,107	(105,478)
Net increase (decrease) in assets and liabilities	41,089	(1,500)	(10,361)	29,228
<b>Net cash provided by (used for) operating activities</b>	<b>(50,808)</b>	<b>(11,812)</b>	<b>59,879</b>	<b>(2,741)</b>
<b>Noncash investing, capital and financing activities:</b>				
Asset transfers	(583)	-	583	-
Contributions to Alaska Housing Capital Corporation	300,576	-	-	300,576
Transfer of investments	(358,868)	-	-	(358,868)
Transfer of other liabilities	58,293	-	-	58,293

See accompanying notes to the financial statements.

NOTES TO FINANCIAL STATEMENTS

**FOOTNOTE INDEX**

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NOTES TO FINANCIAL STATEMENTS

**FOR THE NINE MONTHS ENDED MARCH 31, 2007**  
**(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2006)**

**1 AUTHORIZING LEGISLATION AND FUNDING**

The Alaska Housing Finance Corporation (Corporation), a public corporation and government instrumentality of the State of Alaska (State), was created in 1971, and substantially modified in 1992, by acts of the Alaska State Legislature (Legislature) to assist in the financing, development and sale of dwelling units, operate the State's public housing, offer various home loan programs emphasizing housing for low and moderate-income and rural residents, and administer energy efficiency and weatherization programs within Alaska. The Corporation is a component unit of the State of Alaska and is discretely presented in the State's financial statements.

Generally, the Corporation accomplishes its mortgage-related objectives by functioning as a secondary market for qualified real estate and mobile home loans originated by financial institutions. The Corporation is authorized by the Legislature to issue its own bonds, bond anticipation notes 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. Certain bonds issued to finance residences for qualified veterans are unconditionally guaranteed by the State of Alaska. No other obligations constitute a debt of the State.

The non-mortgage related programs of the Corporation are funded through various grant and program agreements with the federal government's departments of Housing and Urban Development (HUD), Energy (DOE), and Health and Human Services (HHS), as well as capital and operating subsidies from the Corporation's own funds.

The Northern Tobacco Securitization Corporation (NTSC) was incorporated in the State of Alaska pursuant to House Bill No. 281 of the Alaska Legislature, as a subsidiary of the Corporation. There is no financial accountability between NTSC and the Corporation. Neither the Corporation nor the State is liable for any debt issued by NTSC. NTSC is not a component unit of the Corporation and thus is not included in the Corporation's financial statements. NTSC is a government instrumentality of, but separate and apart from, the State and is reported as a blended component unit in the State's financial statements.

In accordance with the Legislature's intent, the Corporation formed a subsidiary, the Alaska Housing Capital Corporation ("AHCC"), under the Alaska Nonprofit Corporation Act (AS 10.20) and provisions of the Alaska Housing Finance Corporation Act (AS 18.56), as amended. AHCC was incorporated on May 23, 2006, as a public corporation and government instrumentality of, but having a legal existence independent of and separate from, the State of Alaska. AHCC is a subsidiary of, but separate and apart from, the Corporation. There is no financial accountability between AHCC and the Corporation. AHCC is not a component unit of the Corporation and thus is not included in the Corporation's financial statements.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting**

The Corporation's funds are accounted for as enterprise funds for financial reporting purposes. All funds utilize the economic resource measurement focus and accrual basis of accounting wherein revenues are recognized when earned and expenses when incurred. The Corporation applies all Governmental Accounting Standards Board (GASB) pronouncements for the Corporation's funds, as well as those Financial Accounting Standards Board (FASB) pronouncements issued before November 30, 1989, unless such pronouncements conflict with or contradict GASB pronouncements. After November 30, 1989, the Corporation only applies applicable GASB pronouncements.

**Basis of Presentation**

The Corporation's financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets formatted to report operating and non-operating revenues and expenses, a Cash Flow Statement presented using the direct method, and notes to the financial statements. The Corporation's financial statements present the Administrative Fund and the other Major Funds in separate columns. The remaining Non-Major Funds are aggregated and displayed in a single column. The total column presents the entity-wide amounts for the Corporation.

NOTES TO FINANCIAL STATEMENTS

**Major and Non-Major Funds**

The Corporation reports the following major and non-major funds:

*Administrative Fund.* This is the Corporation's primary operating fund. It accounts for all financial resources of the Corporation, except those accounted for in separate funds.

*Housing Development Bonds.* This fund accounts for debt issued and some assets pledged for payment of the debt under the bond indentures for Housing Development projects.

*Other Non-Major Funds.* Resources to assist in the financing, development and sale of housing units, public housing assistance programs, energy programs, and home loan programs are aggregated and reported in Other Non-Major Funds.

**Restricted Net Assets**

The restricted net asset amounts of the Administrative Fund consist of the Drawn Down Bond Escrow Fund and the Corporation's remaining commitments to the State (refer to Footnote No. 18, State Authorizations and Commitments, for further details). The remaining resources of the Administrative Fund are unrestricted.

The other financial activities of the Corporation are restricted by the Corporation's bond resolutions, requirements from the Legislature, and statutory requirements or third party agreements that restrict the use of resources. These restricted resources are recorded in various special purpose funds and accounts. Restricted funds with a net deficit balance are shown as having an unrestricted net asset balance pursuant to reporting requirements.

When both restricted and unrestricted resources are available in a fund, it is the Corporation's policy to spend restricted funds to the extent allowed and only spend unrestricted funds when needed.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates. The significant estimate for the Corporation is the allowance for loan losses.

**Investments**

All investments are stated at fair value, except for nonparticipating investment agreements, which are stated at cost. The Corporation does not participate in any external investment pools.

**Accrued Interest Receivable on Loans and Real Estate Owned**

Interest is accrued based upon the principal amount outstanding. Accrual of interest income is discontinued on loans when, in the opinion of management, collection of such interest becomes doubtful. When payment of interest is provided for pursuant to the terms of loan insurance or guarantees, accrual of interest on delinquent loans and real estate owned is continued.

**Loans and Allowances for Estimated Loan Losses**

Mortgage loans are carried at their unpaid principal balances net of allowance for estimated loan losses. Mortgage loans are recorded as amounts are disbursed.

The Corporation provides for possible losses on loans anticipated to be foreclosed upon. A potential loss is recorded when the net realizable value, or fair value, of the related collateral or security interest is estimated to be less than the Corporation's investment in the property less anticipated recoveries from private mortgage insurance, private credit insurance, and various other loan guarantees. In providing for losses, through a charge to operations, consideration is given to the costs of holding real estate, including interest costs. The loan portfolio, property holding periods and property holding costs are reviewed periodically. While management uses the best information available to make evaluations, future adjustments to the allowances may be necessary if there are significant changes in economic conditions or property disposal programs.

NOTES TO FINANCIAL STATEMENTS

**Real Estate and Mobile Homes Owned**

Real estate and mobile homes owned consist principally of properties acquired through foreclosure or repossession and are carried at the lower of cost or estimated net realizable value. These amounts are included in other assets.

**Depreciation**

Depreciation and amortization of buildings, equipment and leasehold improvements are computed on a straight-line basis over the estimated useful lives of the related assets. Estimated useful lives range from 3 to 40 years. The capitalization floor is \$5,000.

**Bonds and Notes**

The Corporation issues bonds and notes to provide capital for its mortgage programs, and other uses consistent with its mission. The bonds and notes are recorded at cost plus accreted interest and premiums, less discounts and deferred debt refunding expenses. Discounts and premiums are amortized using the effective interest method. Deferred debt refunding expenses are amortized over the shorter of the remaining life of the old debt, or the remaining life of the new debt.

**Interest Rate Swap**

The Corporation's Fiscal Policies allow, with certain restrictions, the Corporation to enter into certain derivative financial instruments called interest rate swap agreements, or swaps. The Corporation enters into these swaps with various counter-parties to achieve a lower overall cost of funds for certain bond issuances. These agreements can be negotiated whereby the Corporation pays the counter-party a fixed interest rate in exchange for a variable interest rate payment from the counter-party, or vice-versa. The particulars of each swap are negotiated to achieve the financing objectives of the Corporation. Other than the net interest expense resulting from these agreements, no amounts are recorded in the Corporation's financial statements.

**Operating Revenues and Expenses**

The Corporation was created with the authority to issue bonds to the investing public in order to create a flow of private capital through the Corporation into mortgage loans to qualified housing sponsors and to certain individuals. The Corporation's primary purpose is to borrow funds in the bond market and to use those funds to make single-family and multi-family mortgages and loans. Its primary operating revenue is derived from the interest income and fees from those mortgages and loans and on the invested proceeds from the bond issues. Additionally, the Corporation's statutory purpose includes providing financial assistance programs for rental subsidies to tenants of various housing developments. The Corporation records all revenues from mortgages and loans, investments, rental activities, and externally funded programs as operating revenues. The primary costs of providing these programs are recorded as operating expenses.

**Income Taxes**

The Corporation is exempt from federal and state income taxes.

NOTES TO FINANCIAL STATEMENTS

**3 CASH AND INVESTMENTS**

Cash consists of demand deposits, time deposits and cash held in trust. The carrying amount of the Corporation's cash is restricted by bond resolutions, contractual agreements, and statutory agreements. A summary of the Corporation's cash is shown below (in thousands):

	<b>March 31, 2007</b>	<b>June 30, 2006</b>
Restricted cash	\$ 19,466	\$ 5,078
Unrestricted	9,063	6,505
Carrying amount	<u>\$28,529</u>	<u>\$ 11,583</u>
Bank balance	<u>\$ 29,180</u>	<u>\$ 12,297</u>

Of the \$28,529,000 carrying amount at March 31, 2007, approximately \$15,234,000 is subject to various restrictions associated with the HUD Low Rent program operated by the Corporation's Public Housing Division. This restricted cash is not available to fund the Corporation's general operations.

The fair value of debt security investments by contractual maturity is shown below (in thousands). Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without penalty.

	<b>Investment Maturities (in Years)</b>				<b>March 31, 2007</b>	<b>June 30, 2006</b>
	<b>Less Than 1</b>	<b>1-5</b>	<b>6-10</b>	<b>More than 10</b>		
Bank investment Contracts	\$ 75,726	\$ -	\$ -	\$ -	\$ 75,726	\$ 158,358
U S Treasury securities	19,612	13,578	-	-	33,190	187,967
Securities of U.S. Government agencies and corporations	149,547	9,297	-	482	159,326	240,257
Asset-backed securities	592	798	-	-	1,390	11,263
Certificates of deposit	35,891	-	-	-	35,891	15,000
Commercial paper and medium term notes	718,935	4,179	1,121	-	724,235	655,598
Guaranteed investment contracts	358,230	-	-	-	358,230	130,170
Money market funds	20,208	-	-	-	20,208	10,697
Total AHFC portfolio	<u>\$1,378,741</u>	<u>\$ 27,852</u>	<u>\$ 1,121</u>	<u>\$ 482</u>	<u>1,408,196</u>	<u>1,409,310</u>
SOA investment pools (note 17)					-	358,868
Total investments					<u>\$1,408,196</u>	<u>\$1,768,178</u>

**Restricted Investments**

The carrying amount of the Corporation's investments, a majority of which are restricted by bond resolutions, contractual agreements, and statutory agreements, is shown below (in thousands):

	<b>March 31, 2007</b>	<b>June 30, 2006</b>
Restricted investments	\$1,144,488	\$1,411,309
Unrestricted	263,708	356,869
Carrying amount	<u>\$1,408,196</u>	<u>\$1,768,178</u>

Included in the restricted investments are Guaranteed Investment Contracts in the Drawn Down Bond Fund Escrow Account. These investment securities are placed in a trust with an escrow agent and are reserved exclusively for future debt service payments on the Draw Down bonds.

NOTES TO FINANCIAL STATEMENTS

**Realized Gains and Losses**

The calculation of realized gains is independent of the calculation of the net increase in the fair value of investments.

Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current period may have been recognized as an increase or decrease in the fair value of investments reported in the prior year. The net increase in the fair value of investments included in the table below takes into account all changes in fair value (including purchases and sales) that occurred during the period. A summary of the gains and losses is shown below (in thousands):

	March 31, 2007	June 30, 2006
Ending unrealized holding gain	\$ 6,194	\$ 859
Beginning unrealized holding gain (loss)	859	423
Net change in unrealized holding gain (loss)	5,335	436
Fair value of investment transferred to state agency	575	-
Net realized gain (loss)	597	(2,266)
Net increase (decrease) in Fair Value	\$ 6,507	\$ (1,830)

**Deposit and 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 trust or non-trust, and this determines the applicable investment guidelines used by staff when making investment decisions.

The Corporation's fiscal policies provide investment guidelines for non-trusted funds. Funds are invested according to anticipated use: those that must remain immediately available to provide working capital are invested in short-term, highly liquid securities, while those not expected to be used in the short-term are invested in longer-term securities.

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

- Obligations of, or obligations guaranteed as to principal and interest by, the United States or any agency or instrumentality thereof when such obligations are backed by the full faith and credit of the United States;
- Obligations of U.S. government-sponsored agencies, including mortgage securities, that are not backed by the full faith and credit of the U.S. Government;
- Bank debt obligations, including unsecured certificates of deposit, notes, time deposits, and bankers' acceptances (having maturities of not more than 365 days) of, and deposits with, any bank the short-term obligations of which have been rated at least "A-1" by S&P or "P-1" by Moody's or "F-1" by Fitch;
- Deposits in and investments of a commercial bank or credit union which are fully insured by the FDIC or NCUA or, to the extent not insured by the FDIC or NCUA, provide for the pledge of collateral maintained at a minimum level of 105% and valued at least monthly;
- Debt obligations, other than those that do not have a fixed par value or terms that do not promise a fixed dollar amount at maturity or call date, rated at least "AA" by S&P or "Aa" by Moody's or "AA" by Fitch if maturing in excess of one year, and "A-1" by S&P or "P-1" by Moody's or "F1" by Fitch if maturing in one year or less;
- Asset-backed securities, other than commercial paper and those that do not have a fixed par value or terms that do not promise a fixed dollar amount at maturity or call date, rated at least "AA" by S&P or "Aa" by Moody's or "AA" by Fitch;
- Commercial paper, including asset-backed commercial paper, rated at least "A-1" by S&P or "P-1" by Moody's or "F1" by Fitch;
- Repurchase agreements (repos) with a corporation or other entity which has long-term debt ratings of at least "A" by S&P or "A" by Moody's or "A" by Fitch or short-term ratings of at least "A-1" by S&P or "P-1" by Moody's or "F-1" by Fitch and where collateral is maintained at a minimum level of 102%, valued on a daily basis;
- Money market funds which are rated at least "AAm" or "AAm-G" by S&P or "Aa" by Moody's, or "V-1+" by Fitch;
- Investment agreements or guaranteed investment contracts with an insurance company, bank or other financial institution having outstanding unsecured long-term obligations rated, or a claims paying or investment agreement rating, at least "AA" by S&P or "Aa" by Moody's or "AA" by Fitch, or, if the term is one year or less, at least "A-1" by S&P or "P-1" by Moody's or "F1" by Fitch;

NOTES TO FINANCIAL STATEMENTS

- Floating rate notes issued by entities having outstanding unsecured long-term obligations rated “AA” by S&P or “Aa” by Moody’s or “AA” by Fitch, or, if the term of the floating rate note is one year or less, having outstanding short-term obligations rated at least “A-1” by S&P or “P-1” by Moody’s or “F1” by Fitch; with interest rates subject to adjustment at least every 100 days; and with a maximum maturity of three years or less, or an optional tender available to bondholders no less frequently than every interest rate reset date;
- Adjustable rate funds, provided they are rated “AAAF” credit and “S-1” volatility by S&P and “Aaa” by Moody’s;
- International Bank for Reconstruction & Development debt obligations rated “AAA” by S&P or “Aaa” by Moody’s or “AAA” by Fitch.

Trusted funds are invested according to the terms outlined in their respective indentures or governing agreements, which generally mandate the purchase of relatively short-term, high quality fixed income securities. In those rare instances, if any, where an indenture or governing agreement is less restrictive than the Corporation’s fiscal policies for non-trust funds, the investment will be made in accordance with the more restrictive fiscal policies.

**Credit Risk**

Credit risk is the risk of loss due to the failure of the security or backer. The Corporation mitigates its credit risk by limiting investments to those permitted in the deposit and investment policies, diversifying the investment portfolio, and pre-qualifying firms with which the Corporation administers its investment activities.

The credit quality ratings of the Corporation’s investments as of March 31, 2007, as described by nationally recognized statistical rating organizations, are shown below (in thousands). \$33,190,000 of U.S. Treasury securities and securities of agencies and corporations which are explicitly guaranteed by the U.S. government are not considered to have credit risk and therefore, are not included in the summary.

	Moody’s	S & P	Investment Fair Value
Securities of U. S. Government agencies and corporations	Aaa	AAA	\$ 159,326
Asset-backed securities:	Aaa	AAA	1,390
Commercial paper & medium-term notes:	Aaa	AAA	602
	Aa1	AA+	-
	Aa1	AA-	679
	Aa2	AA	541
	Aa2	AA-	1,000
	Aa2	A+	-
	Aa3	AA	1,958
	Aa3	AA-	2,529
	Aa3	A+	165
	A1	AA-	-
	P-1	A-1+	616,883
	P-1	A-1	98,757
	--	A-1	-
	Baa3	BBB	1,121
			<u>724,235</u>
Money market funds	--	AAAm	20,208
Unrated investments:			
Bank investment contracts			75,726
Certificates of deposit			35,891
Guaranteed investment contracts			358,230
			<u>469,847</u>
			<u>\$ 1,375,006</u>



NOTES TO FINANCIAL STATEMENTS

**Concentration Risk**

Concentration risk is the risk of loss attributed to the magnitude of the Corporation's investment in a single issuer. Concentration limits are not established in the bond indentures and governing agreements for trust investments. The Corporation's fiscal policies set the maximum concentration limits for non-trust investments as follows:

Investment Type	Investment Type Limit as a % of Total Portfolio	Issuer Limit as a % of Total Portfolio
General obligations of the United States	100%	100%
Securities of U.S. Government agencies and corporations	65%	35%
Corporate and non-corporate (including the following):	60%	5%
<ul style="list-style-type: none"> <li>• Adjustable rate funds</li> <li>• Bank investment contracts</li> <li>• Certificates of deposit</li> <li>• Commercial paper &amp; medium term notes</li> <li>• Deposits in and investments of a commercial bank or credit union</li> <li>• Floating or variable rate notes</li> <li>• Guaranteed investment contracts</li> <li>• Money market funds</li> <li>• Repurchase agreements</li> </ul>		
Mortgage and asset-backed securities	20%	5%

**Investment Holdings Greater than Five Percent of Total Portfolio**

The following investment holdings, summarized by issuer, include both investments that are governed by the maximum concentration limits of the Corporation's fiscal policy and trusted investments which have no established concentration limits. Investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds, external investment pools, and other pooled investments are excluded from this summary. As of March 31, 2007, the Corporation had investment balances, greater than 5 percent of the Corporation's total investments, with the following issuers (in thousands).

Issuer	Investment Fair Value	Percentage of Total Portfolio
GE Capital Corp CP	318,691	22.63
AEGON	166,020	11.79
Abbey Nat NA LLC	123,969	8.80
FSA Cap Management Services	105,000	7.46
Bayerische Landesbank	71,926	5.11

**Custodial Credit Risk**

The Corporation assumes levels of custodial credit risk for its deposits with financial institutions, bank investment agreements, and investments. For deposits, custodial credit risk is the risk that, in the event of a bank failure, the Corporation's deposits may not be returned. For bank investment agreements and investments, custodial credit risk is the risk that, in the event of failure of the custodian or counterparty holding the investment, the Corporation will not be able to recover the value of the investment. The Corporation has not established a formal custodial credit risk policy for its investments.

Of the Corporation's \$29,180,000 bank balance at March 31, 2007, cash deposits in the amount of \$9,718,000 were uninsured and uncollateralized.

Of the Corporation's \$1,408,196,000 total investments at March 31, 2007, bank investment contracts in the amount of \$75,726,000 were uninsured, unregistered, and held by the counterparty or its agent, but not in the Corporation's name.

NOTES TO FINANCIAL STATEMENTS

**Interest Rate Risk**

Interest rate risk is the risk that the market value of investments will decline as a result of changes in general interest rates. For non-trust investments, the Corporation mitigates interest rate risk by structuring its investment maturities to meet cash requirements (including corporate operations), thereby avoiding the need to sell securities in the open market prior to maturity. For investments held in trust, investment maturities are structured to meet cash requirements as outlined in the bond indentures and contractual and statutory agreements.

**Modified Duration**

Modified duration estimates the sensitivity of an investment to interest rate changes. The following table shows the Corporation's trusted and non-trusted investments (in thousands) with their modified duration as of March 31, 2007:

	<b>Investment Fair Value</b>	<b>Modified Duration</b>
Bank investment contracts	\$ 75,726	0.000
U.S. Treasury securities:		
Treasury coupon securities	25,390	0.641
Treasury discounts	7,800	0.049
Securities of U.S. Government agencies and corporations:		
Federal agency discounts	141,711	0.080
Federal agency coupon securities	16,535	1.018
Federal agency pass through securities	1,080	2.871
Asset-backed securities	1,390	2.472
Certificates of deposit	35,891	0.064
Commercial paper & medium term notes:		
Commercial paper discounts	716,337	0.132
Corporate bonds	61	1.990
Medium term notes	5,716	1.526
Municipal bonds	1,121	6.614
Floating rate notes	1,000	0.167
Guaranteed investment contracts	358,230	0.000
Money market funds	20,208	0.000
	<u>\$ 1,408,196</u>	
Portfolio modified duration		0.4825

A minimal percentage of the Corporation's total investment portfolio is municipal bonds, which are relatively more sensitive to changing interest rates than the rest of the Corporation's investment portfolio. Municipal bonds held as of March 31, 2007, are as follows (in thousands):

	<b>Fair Value</b>	<b>Rate</b>	<b>Maturity</b>
Northern Tobacco Securitization Corporation	\$ 1,121	4.75%	June 1, 2015

NOTES TO FINANCIAL STATEMENTS

**4 INTERFUND RECEIVABLE/PAYABLE**

D u e	Due From			Total
	Administrative Fund	Other Non Major Funds		
Administrative Fund	\$ -	\$ 34,414	\$	34,414
Housing Development	6,512	-		6,512
Other Non Major Funds	67,066	-		67,066
Total	\$ 73,578	\$ 34,414	\$	\$107,992

The balances of \$6,512,000 due to Housing Development and of \$67,066,000 due to the Other Non-Major funds from the Administrative fund resulted from monies belonging to these funds being deposited in an Administrative fund account to obtain a greater rate of return.

Of the \$ 34,414,000 due from the Other Non-Major funds to the Administrative fund, \$4,034,000 resulted from an allocation of management and bookkeeping fees mandated by HUD.

All remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur and (2) payments between funds are made.

**5 MORTGAGE LOANS, NOTES AND OTHER LOANS**

A summary of mortgage loans, notes and other loans is shown below: (in thousands):

	March 31, 2007	June 30, 2006
Mortgage loans	\$3,122,294	\$3,041,707
Multi-family loans	238,236	260,757
Other notes receivable	74,329	26,726
	3,434,859	3,329,190
Less:		
Allowance for losses	(92,181)	(88,981)
Net Mortgage loans, notes and other loans	3,342,678	3,240,209

Other supplemental loan information is summarized in the following table (in thousands):

	March 31, 2007	June 30, 2006
<u>Delinquencies and foreclosures:</u>		
Loans delinquent 30 days or more	95,315	\$ 98,249
Foreclosures during period	1,175	1,315
Loans in foreclosure process	8,317	7,828
<u>Mortgage-related commitments:</u>		
To purchase mortgage loans	76,048	117,500
To repurchase loans upon foreclosure		-

**6 INSURANCE AGREEMENTS**

The Corporation has obtained private mortgage insurance, credit insurance, or guarantees on certain mortgages and loans. The agreements protect the Corporation to varying degrees against losses arising from the disposition of the related collateral obtained through foreclosure or repossession, as well as the costs of obtaining title to, maintaining, and liquidating the collateral. The Corporation is exposed to losses on disposition in the event the insurers or guarantors are unable or refuse to meet their obligations under these agreements.

**7 LOAN SELF INSURANCE PROGRAM**

The Corporation, for the purpose of insuring itself against losses which might occur as a result of mortgages purchased under various loan programs, collects insurance premiums from the borrowers. The premiums are administered by the management of the Corporation and included in the Administrative Fund in the accompanying financial statements.

NOTES TO FINANCIAL STATEMENTS

## 8 DIRECT FINANCING LEASE

In July 1997, the Corporation purchased an office building in downtown Anchorage with its Administrative Fund assets for approximately \$26 million. The building is part of the Corporation's State Lease Building Program (the "Program") and has been leased to the State of Alaska for occupancy by its departments and agencies located in Anchorage. The State has the option to purchase the building at the end of the lease for \$1. In December 1999 the Corporation issued the State Building Lease Bonds, 1999 Series in the amount of \$40,000,000 to finance the purchase. The lease of the building to the State has been recorded as a direct financing lease.

In May 2005, the Corporation issued General Housing Purpose Bonds, 2005 Series C to defease \$16,485,000 of the State Building Lease Bonds, 1999 Series. As a result, the liability of these bonds has been reduced, and the lease balance was decreased by \$1,792,000.

The following table lists the components of the net investment in direct financing lease and shows the future minimum payments under the lease for the next five years and thereafter (in thousands):

<u>12 Months Ending March 31</u>	<u>Future Minimum Payments Due</u>
2008	\$ 3,467
2009	3,467
2010	3,467
2011	3,467
2012	3,467
Thereafter	17,335
Gross payments due	<u>34,670</u>
Less: Unearned revenue	<u>(7,585)</u>
Net investment in direct financing lease	<u>\$ 27,085</u>

## 9 CAPITAL ASSETS

Capital assets activity for the nine months ended March 31, 2007 and a summary of balances are shown below (in thousands):

	<u>July 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>March 31, 2007</u>
<b>NON-DEPRECIABLE CAPITAL ASSETS:</b>				
Land	\$ 13,762	\$ -	\$ (9)	\$ 13,753
Construction in progress	25,773	3,539	-	29,312
TOTAL NON-DEPRECIABLE	<u>39,535</u>	<u>3,539</u>	<u>(9)</u>	<u>43,065</u>
<b>DEPRECIABLE CAPITAL ASSETS:</b>				
Buildings	166,979	-	-	166,979
Computers & Equipment	2,708	32	(27)	2,713
Leasehold Improvements	88	-	-	88
Vehicles	2,023	67	(16)	2,074
	<u>171,798</u>	<u>99</u>	<u>(43)</u>	<u>171,854</u>
Less: Accumulated depreciation				
Buildings	(87,258)	(3,142)	-	(90,400)
Computers & Equipment	(2,270)	(145)	21	(2,394)
Leasehold Improvements	(27)	(16)	-	(43)
Vehicles	(1,748)	(96)	16	(1,828)
	<u>(91,303)</u>	<u>(3,399)</u>	<u>37</u>	<u>(94,665)</u>
TOTAL DEPRECIABLE, NET	<u>80,495</u>	<u>(3,300)</u>	<u>(6)</u>	<u>77,189</u>
<b>TOTAL CAPITAL ASSETS, NET</b>	<u>\$ 120,030</u>	<u>239</u>	<u>(15)</u>	<u>120,254</u>

The depreciation expense charged by the Corporation was \$3,399,000 for the nine months ended March 31, 2007. The Corporation is obligated under contracts and other commitments to purchase and/or modernize certain fixed assets. The total commitment, including amounts to be funded by third parties, was \$ 3,580,000 at March 31, 2007.

NOTES TO FINANCIAL STATEMENTS

**10 BONDS AND NOTES PAYABLE**

With the exception of the Veterans Mortgage Program Bonds, the Corporation's obligations are not a debt of the State and the State is not directly liable thereon. The Veterans Mortgage Program Bonds and Notes are backed by the full faith and credit of the State. All of the bonds and notes are secured, as described in the applicable agreements, by the revenues, monies, investments, mortgage loans and other assets in the funds and accounts established by the respective security agreements. A substantial portion of the assets of the Corporation is pledged to the outstanding obligations of the Corporation.

The Corporation has authorization to issue Draw Down bonds in the amount of \$900,000,000 for the purpose of preserving private activity bond volume capacity and to refund certain outstanding obligations of the Corporation. Only \$300,000,000 of these bonds can be outstanding at any one time. The Series A, C, and D Bonds are limited obligations of the Corporation and are primarily secured by amounts on deposit in the Bond Escrow Fund and investment earnings thereon. The Series B bonds are general obligations of the Corporation and are primarily secured by amounts on deposit in the Bond Escrow Fund attributable to draws under the Series B Bonds. The Bond Escrow account and the Bonds are included in the Administrative Fund.

Bonds and notes outstanding are shown below (in thousands):

	Original Amount	March 31, 2007	June 30, 2006
<b>Revolving Fund Bonds:</b>			
<b>Draw Down Bonds</b>			
<b>Tax-Exempt:</b>			
• Series 2007 A, Floating rate*, monthly payments, 4.40% at March 31, 2007, due 2019	\$ 21,700	\$ 21,700	\$ -
• Series 2007 C, Floating rate*, monthly payments, 4.30% at March 31, 2007, due 2019	29,395	29,395	-
• Series 2007 D, Floating rate*, monthly payments, 4.30% at March 31, 2007, due 2019	10,830	10,830	-
Total Revolving Fund Bonds	61,925	61,925	-
<b>First-Time Home Buyer Bonds:</b>			
<b>Mortgage Revenue Bonds:</b>			
<b>Tax-Exempt:</b>			
• 1997 Series A, 4.9% to 6.0%, due 2037	160,000	37,595	51,135
Accreted interest		8,460	7,593
Unamortized discount		(358)	(371)
• 1998 Series A, 4.65% to 5.4%, due 2007-2035	70,000	31,605	32,680
• 1999 Series A1 & A2 5.25% to 6.25%, due 2007-2031	200,000	103,780	109,140
Unamortized discount		(111)	(113)
• 2000 Series A, 5.9% to 6.0%, due 2036-2040	58,315	28,920	28,920
• 2000 Series B, 5.45%, due 2015	3,795	3,795	3,795
• 2000 Series C, 4.9% to 6.0% due 2007-2032	68,785	33,190	35,510
Unamortized discount		(128)	(179)
• 2001 Series A, 3.5% to 5.3%, due 2007-2031	32,740	23,045	24,245

NOTES TO FINANCIAL STATEMENTS

	Original Amount	March 31, 2007	June 30, 2006
• 2001 Series B, 4.15% to 5.45%, due 2007-2041 Unamortized premium	104,450	49,965 62	57,895 64
• 2002 Series A, Floating Rate*, 3.71% at March 31, 2007 due 2032, 2036	170,000	170,000	170,000
• 2006 Series A, 3.4% to 5.0%, due 2007-2036 Unamortized premium	98,675	97,150 1,084	98,185 1,216
• 2006 Series B, 3.5% to 5.0%, due 2007-2036 Unamortized premium	75,000	74,500 728	75,000 812
• 2006 Series C, 3.9% to 5.5%, due 2007-2037 Unamortized premium	75,000	75,000 1,489	-
• 2007 Series C 3.75% to 4.80%, due 2008-2038	89,370	89,370	-
<b>Taxable:</b>			
• 2000 Series D, 7.25% to 7.32%, due 2007-2020	25,740	2,815	4,535
• 2002 Series B, Floating Rate*	30,000	-	11,545
Total First-Time Homebuyer Bonds	1,261,870	831,956	711,607
<b>Veterans Mortgage Program Bonds and Notes:</b>			
<b>Collateralized State Guaranteed Bonds and Notes:</b>			
<b>Tax-Exempt:</b>			
• Collateralized Bonds 1997 First Series, 5.5%, due 2039	100,000	6,250	10,495
• Collateralized Bonds 1998 First and Second Series, 4.7% to 5.5%, due 2007-2040 Unamortized discount	60,000	18,740 (172)	21,725 (177)
• Collateralized Bonds 1999 First Series, 5.0% to 6.25%, due 2007-2039	110,000	44,515	47,950
• Collateralized Bonds 2000 First Series, 5.5% to 6.45%, due 2007-2039	70,000	23,275	25,960
• Collateralized Bonds 2002 First Series, 4.15% to 5.65%, due 2007-2034	50,000	24,675	26,905
• Collateralized Bonds 2005 First Series, 4.8%, due 2035	15,000	14,690	15,000
• Collateralized Notes 2005 Second Series, 3.43%, due 2006	145,000	-	145,000
• Collateralized Notes 2006 First Series, 3.75% to 4.9%, due 2008-2037	190,000	190,000	-
Total Veterans Mortgage Program Bonds and Notes	740,000	321,973	292,858

NOTES TO FINANCIAL STATEMENTS

	Original Amount	March 31, 2007	June 30, 2006
<b>Other Housing Bonds:</b>			
<b>Housing Development Bonds:</b>			
<b>Tax-Exempt:</b>			
• 1997 Series A, 4.9% to 5.7%, due 2007-2029	6,510	125	245
• 1997 Series B, 5.0% to 5.8%, due 2007-2029	17,000	325	635
• 1999 Series A, 4.95% to 6.3%, due 2007-2029	1,675	1,485	1,515
• 1999 Series B, 5.0% to 6.37%, due 2007-2029	5,080	4,535	4,625
• 1999 Series C, 4.875% to 6.2%, due 2007-2029	50,000	44,470	45,375
• 2000 Series B, Floating Rate*, monthly payments, 3.65% at March 31, 2007 due 2030	41,705	41,705	41,705
• 2002 Series A, 3.0% to 5.3%, due 2007-2033	8,440	3,210	3,280
• 2002 Series B, 2.85% to 5.15%, due 2007-2022	8,690	7,460	7,625
• 2002 Series C, 2.85% to 5.25%, due 2007-2032	70,000	65,120	65,760
• 2002 Series D, Floating Rate*, monthly payments, 3.63% at March 31, 2007, due 2037	37,870	35,425	35,750
• 2004 Series A, 2.0% to 4.85%, due 2007-2030	33,060	30,985	31,705
• 2004 Series B, 1.8% to 4.75%, due 2007-2032	52,025	48,340	49,715
<b>Taxable:</b>			
• 1997 Series C, 6.8% to 7.55%, due 2007-2029	23,895	380	735
• 2004 Series C, Floating Rate Auction Bonds** Payments every five weeks, 5.28% at March 31, 2007 due 2007-2035	42,125	-	7,550
• 2004 Series D, 3.65% to 5.6%, due 2008-2043	105,000	105,000	105,000
Sub-Total Housing Development Bonds	503,075	388,565	401,220
<b>General Mortgage Revenue Bonds:</b>			
<b>Tax-Exempt:</b>			
• 1997 Series A, 5.1% to 6.1%, due 2007-2037 Accreted interest	434,911	238,941 8,556	241,851 7,716
• 1999 Series A, 4.85% to 6.05%, due 2007-2049 Unamortized deferred debt refunding expense Unamortized discount	302,700	248,060 (1,563) (1,511)	248,060 (1,624) (1,579)

NOTES TO FINANCIAL STATEMENTS

	Original Amount	March 31, 2007	June 30, 2006
• 2002 Series A, 3.45% to 5.0%, due 2010-2040	150,000	150,000	150,000
Unamortized deferred debt refunding expense		(1,205)	(1,239)
Unamortized premium		562	576
<b>Government Purpose Bonds:</b>			
<b>Tax-Exempt:</b>			
• 1997 Series A, Floating Rate* monthly payments, 3.66% at March 31, 2007, due 2027	33,000	23,300	23,300
• 2001 Series A, Floating Rate*, 3.68% at March 31, 2007, due 2030	76,580	68,345	69,190
2001 Series B, Floating Rate*, 3.65% at March 31, 2007, due 2030	93,590	83,520	84,555
<b>Taxable:</b>			
• 2001 Series C, Floating Rate*, monthly payments,	100,000	-	78,070
Total Other Housing Bonds	1,693,856	1,205,570	1,300,096
<b>Non-Housing Bonds:</b>			
<b>State Capital Project Bonds:</b>			
<b>Tax-Exempt:</b>			
• 2001 Series A, 4.0% to 5.25%, due 2007	74,535	11,915	19,500
Unamortized premium		681	958
• 2002 Series A, 3.0% to 5.0%, due 2007-2011	32,905	19,855	23,320
Unamortized premium		826	956
• 2002 Series B, Floating Rate Auction Bonds** Payments every four weeks, 3.60% at March 31, 2007 due 2024	14,555	14,555	14,555
• 2002 Series C, Floating Rate* 3.65% at March 31, 2007, due 2022	60,250	60,250	60,250
• 2006 Series A, 3.5% to 5%, due 2007-2040	100,890	100,890	-
Unamortized discount		(2,160)	-
Unamortized premium		2,249	-
<b>State Building Lease Bonds:</b>			
<b>Tax-Exempt:</b>			
• 1999 Series, 4.875% to 5.8%, due 2007-2017	40,000	11,290	12,270
Unamortized discount		(71)	(73)
<b>General Housing Purpose Bonds:</b>			
<b>Tax-Exempt:</b>			
• 1992 Series A, 6.1% to 6.6%, due 2007-2023	200,000	12,780	18,705
• 2003 Series A, Floating Rate*, monthly payments, 3.61% at March 31, 2007, due 2023	143,995	126,275	131,625
• 2003 Series B, Floating Rate*, monthly payments, 3.61% at March 31, 2007, due 2023	16,095	16,095	16,095



NOTES TO FINANCIAL STATEMENTS

	Original Amount	March 31, 2007	June 30, 2006
• 2005 Series A, 2.2% to 5.25%, due 2007-2041	143,235	142,240	142,740
Unamortized premium		4,563	5,117
• 2005 Series B, 2.7% to 5.25%, due 2007-2030	147,610	142,790	144,415
Unamortized deferred debt refunding expense		(12,243)	(12,755)
Unamortized premium		6,564	7,617
• 2005 Series C, 2.7% to 5%, due 2007-2017	16,885	16,820	16,840
Total Non-Housing Bonds	990,955	676,164	602,135
<b>Other Program Funds:</b>			
<b>Home Ownership Notes:</b>			
<b>Tax-Exempt:</b>			
• Wrangell Project HUD Note, monthly payments, 1.0%-3.0%, due 2007	1,161	507	527
Total Other Programs	1,161	507	527
<b>Total Bonds and Notes Payable</b>	<b>\$ 4,749,767</b>	<b>\$ 3,098,095</b>	<b>\$ 2,907,223</b>

Note: Debt service payments on the above mentioned bonds and notes are semi-annual unless otherwise mentioned.

\* Interest rates on the annotated variable-rate bonds are established by the Remarketing Agents on each Rate Determination Date.

\*\* Interest rates on the annotated variable-rate auction bonds are established by the Auction Agents on each Auction Date.

**Redemption Provisions**

The bonds and notes are generally subject to certain early-redemption provisions, both mandatory and at the option of the Corporation. The Corporation redeems debt, pursuant to the provisions of the related agreements which permit surplus revenues, resulting primarily from mortgage loan prepayments, to be used to retire the obligations at par. The Corporation also issues new debt whose proceeds are used to immediately redeem previously issued debt, called current refundings. The accelerated amortization of related discounts and costs of issuance resulting from these early redemptions is included in interest expense and financing costs. The Corporation may call some bonds at a premium using any monies once bonds reach a certain age and may also use a clean-up call to redeem certain bonds once they reach 15% of issuance.

During the nine months ended March 31, 2007, the Corporation made special revenue redemptions of \$140,085,000 and no current refundings. The Corporation made special revenue redemptions of \$232,125,000 and no current refundings during fiscal year 2006.

**Advance Refundings**

From time to time, the Corporation effects an advanced refunding where the proceeds of issued bonds are used to defease outstanding debt of the Corporation. The result is an in-substance defeasance whereby the Corporation purchases securities which are deposited into an irrevocable trust with an escrow agent to provide all future debt service payments on the refunded bonds. A summary of the defeased debt follows (in thousands):

	March 31, 2007	June 30, 2006
State Building Lease Bonds, 1999 Series	\$ 16,485	\$ 16,485

NOTES TO FINANCIAL STATEMENTS

**Debt Service Requirements\*\***

For all mortgage bonds and notes in the preceding schedules, the Corporation's debt service requirements through 2011 and in five year increments thereafter to maturity, categorized by each Major Fund and other Non-Major Funds in the aggregate, are shown below and continued on the following page (in thousands):

12 Months Ending March 31	Administrative Fund Bonds		Housing Development Bonds (Various Issues)		Other Non-Major Bonds	
	Principal	Interest*	Principal	Interest*	Principal	Interest*
2008	\$ -	\$ 2,640	\$ 6,505	\$ 18,839	\$ 55,677	\$ 129,517
2009	-	2,678	6,510	18,587	47,530	126,215
2010	-	2,684	6,985	18,358	43,830	124,179
2011	-	2,684	7,285	18,096	50,080	122,332
2012	-	2,691	7,620	17,804	53,595	120,084
Total Five Years 2008-2012	-	13,377	34,905	91,684	250,712	622,327
<b>Five Years Ending March 31</b>						
2013-2017	-	13,416	44,230	83,516	319,635	556,691
2018-2022	61,925	5,163	56,260	71,446	388,401	502,672
2023-2027	-	-	66,290	55,856	408,338	390,870
2028-2032	-	-	110,490	35,568	489,523	291,054
2033-2037	-	-	36,720	15,570	546,838	177,775
2038-2042	-	-	30,625	7,334	143,786	44,239
2043-2047	-	-	9,045	460	59,785	19,042
2048-2049	-	-	-	-	24,285	1,835
	<u>\$ 61,925</u>	<u>\$ 31,956</u>	<u>\$ 388,565</u>	<u>\$ 361,434</u>	<u>\$ 2,631,303</u>	<u>\$ 2,606,505</u>

\* Interest requirements for variable-rate bonds have been computed using the effective interest rate at March 31, 2007

\*\* Also see Note 11 – Derivatives.

NOTES TO FINANCIAL STATEMENTS

<b>Total Debt Service</b>			
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
\$	62,182	\$ 150,996	\$ 213,178
	54,040	147,480	201,520
	50,815	145,221	196,036
	57,365	143,112	200,477
	61,215	140,579	201,794
	285,617	727,388	1,013,005
	363,865	653,623	1,017,488
	506,586	579,281	1,085,867
	474,628	446,726	921,354
	600,013	326,622	926,635
	583,558	193,345	776,903
	174,411	51,573	225,984
	68,830	19,502	88,332
	24,285	1,835	26,120
\$	3,081,793	\$ 2,999,895	\$ 6,081,688

NOTES TO FINANCIAL STATEMENTS

## 11 DERIVATIVES

### Swap Objectives

In order to both reduce the Corporation's overall cost of borrowing long-term capital and protect against the potential of rising interest rates, AHFC entered into six separate pay-fixed, receive-variable interest rate swap agreements at a cost less than what the Corporation would have paid to issue conventional fixed-rate debt.

### Swap Payments and Associated Debt

As of March 31, 2007, debt service requirements of the Corporation's outstanding variable-rate debt and net swap payments, assuming current interest rates remain the same, for their terms are displayed in the following schedule. As interest rates vary, variable-rate bond interest payments and net swap payments will also vary.

Fiscal Year Ending June 30	VRDO Principal	VRDO Interest	Swap Net Payment	Total Payments
2007	\$ 1,915	\$ 5,999	\$ 996	\$ 8,910
2008	4,640	14,497	2,305	21,442
2009	5,135	14,289	2,278	21,702
2010	5,465	14,114	2,249	21,828
2011	5,710	13,911	2,218	21,839
2012-2016	61,630	64,301	10,264	136,195
2017-2021	82,715	50,904	8,150	141,769
2022-2026	94,065	33,903	5,656	133,624
2027-2031	80,440	18,210	3,272	101,922
2032-2036	49,415	6,231	1,212	56,858
2037-2041	5,540	102	20	5,662
	<u>\$396,670</u>	<u>\$236,461</u>	<u>\$38,620</u>	<u>\$671,751</u>

### Significant Terms

The terms, fair values and credit ratings of the Corporation's outstanding swaps as of March 31, 2007, are included in the following schedule. The notional amounts of the swaps match the principal amounts of the associated debt. These notional amounts amortize over a time period that approximates the payments the Corporation would experience with a fixed-rate, level debt service schedule and are expected to follow scheduled or anticipated reductions in the associated bonds outstanding.

Related Bond Issue	Notional Amounts	Present Values	Fair Values	Effective Date	Fixed Rate Paid	Variable Rate Received	Swap Termination Date	Counterparty Credit Rating <sup>6</sup>
GP01A <sup>1</sup>	\$ 68,345	\$ 72,609	\$ (4,264)	08/02/01	4.1427%	67% of LIBOR <sup>4</sup>	12/01/30	A/A2
GP01B	83,520	88,688	(5,168)	08/02/01	4.1427%	67% of LIBOR	12/01/30	AA-/Aa3
E021A1 <sup>2</sup>	50,000	52,893	(2,893)	05/16/02	4.1030%	68% of LIBOR	06/01/32	AAA/Aaa
E021A2	120,000	125,862	(5,862)	05/16/02	4.3430%	68% of LIBOR	12/01/36	AAA/Aaa
SC02B <sup>3</sup>	14,555	14,608	(53)	12/05/02	3.7700%	70% of LIBOR	07/01/24	AAA/Aaa
SC02C	60,250	62,582	(2,332)	12/05/02	4.3030%	BMA <sup>5</sup> + 0.115%	07/01/22	AAA/Aaa
	<u>\$ 396,670</u>	<u>\$ 417,242</u>	<u>\$ (20,572)</u>					

1. Governmental Purpose Bonds
2. Home Mortgage Revenue Bonds
3. State Capital Project Bonds
4. London Interbank Offered Rate
5. The Bond Market Association Municipal Swap Index
6. Standard & Poor's/Moody's

NOTES TO FINANCIAL STATEMENTS

**Fair Value**

Because interest rates have declined and taxable/tax-exempt spreads have narrowed since the agreements became effective, all of the Corporation's LIBOR-based and BMA-based interest rate swaps had a negative fair value as of March 31, 2007. The negative fair values are countered by reductions in total interest payments required under the variable-rate bonds. Given that coupons on the Corporation's variable-rate bonds adjust to changing interest rates, the associated debt does not have corresponding increases in fair value. The fair value amounts, obtained from mark to market statements from the respective counterparties and reconciled to present value calculations done by the Corporation, represent mid-market valuations that approximate the current economic value using market averages, reference rates, and/or mathematical models. Actual trade prices may vary significantly from these estimates as a result of various factors, which may include (but are not limited to) portfolio composition, current trading intentions, prevailing credit spreads, market liquidity, hedging costs and risk, position size, transaction and financing costs, and use of capital profit. The fair value represents the current price to settle swap liabilities in the marketplace if a swap were to be terminated.

**Risks**

**a. Credit Risk**

As of March 31, 2007, the Corporation was not exposed to credit risk on any outstanding swaps because they all had negative fair values. If interest rates rise and the swaps' fair values become positive, the Corporation would be exposed to credit risk in the amount of the swaps fair values. The swap agreements contain varying collateral agreements with the counterparties and require full collateralization of the fair value amount of the swap should the counterparty's rating fall below specific levels. The Corporation currently has swap agreements with four separate counterparties. Approximately 62% of the total notional amount of swaps is held with two separate counterparties, both of whom are rated AAA/Aaa. Of the remaining swaps, one of the counterparties is rated AA-/Aa3 while the other counterparty is rated A/A2, approximating 21% and 17%, respectively, of the total outstanding notional swap value.

**b. Basis Risk**

A majority of the Corporation's variable-rate demand obligation bond coupon payments are based on the BMA index. Therefore, the Corporation is exposed to basis risk on swaps where the variable payment received is based on a LIBOR index rather than a BMA index. As of March 31, 2007, the BMA rate was 3.65%, whereas LIBOR was 5.32%. Since the spread between LIBOR and BMA has narrowed since the agreements became effective, the expected cost savings from the swaps may not be as large as originally anticipated.

**c. Rollover Risk**

Rollover risk occurs when there is a mismatch in the amortization of the swap versus the amortization of the floating rate bonds. The Corporation has structured the swaps to amortize at the same rate as scheduled or anticipated reductions in the associated floating rate bonds outstanding. As the bonds mature the swaps will amortize. In addition, the swaps covering the 2001 Governmental Purpose Bonds cover only a portion of the debt issuance, allowing any increase in the speed of mortgage prepayments to be directed at the unswapped portion of the debt. The swap agreements associated with the 2002 Home Mortgage Revenue Bonds were structured with several tranches, allowing the Corporation to cancel individual tranches of the swap to match special redemptions of the bonds. The result of these swap structures is a decrease in rollover risk usually caused by rapid mortgage prepayments.

**d. Termination Risk**

If any of the swaps are terminated, the associated floating rate bonds would no longer carry synthetic fixed interest rates and, thus, the Corporation would be exposed to interest rate risk. This risk is mitigated by the fact that the termination payment could be used to enter into an identical swap at the termination date of the existing swap. Further, if any of the swaps have a negative fair value at termination, the Corporation would be liable to the counterparty for payments equal to the swaps' fair value. The Corporation or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the agreement. As of March 31, 2007, the Corporation is not exposed to any additional termination risk on its interest rate swaps.

NOTES TO FINANCIAL STATEMENTS

## 12 LONG TERM LIABILITIES

The activity for the nine months ended March 31, 2007 is summarized in the following schedule (in thousands):

	July 1, 2006	Additions	Reductions	March 31, 2007	Due Within One Year
Bonds and notes payable	\$ 2,907,223	\$ 524,057	\$ (333,185)	\$ 3,098,095	\$ 62,182
Compensated absences	3,339	2,005	(1,657)	3,687	2,257
Other liabilities	1,512	1,836	(931)	2,417	-
Total other long-term liabilities	4,851	3,841	(2,588)	6,104	2257
	\$ 2,912,074	\$ 527,898	\$ (335,773)	\$ 3,104,199	\$ 64,439

## 13 SHORT TERM DEBT

The Corporation has a commercial paper program. Commercial paper is issued and redeemed to meet the cash flow requirements of the Corporation's activities. Individual maturities may range from 2 to 270 days from date of issuance. The maximum aggregate outstanding principal balance authorized by the Board of Directors is \$150,000,000.

Yields issued during period	March 31, 2007	June 30, 2006
Lowest	5.3100%	3.2200%
Highest	5.2600%	5.2500%

The Corporation borrows funds utilizing reverse repurchase agreements to warehouse refunded debt, thereby preserving the attributes of the refunded debt for future bond refunding opportunities. Such agreements involve the transfer of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest.

Short term debt activity for the nine months ended March 31, 2007 is summarized in the following schedule (in thousands):

	July 1, 2006	Additions	Reductions	March 31, 2007
Commercial Paper	\$150,000	\$489,302	(489,302)	\$150,000
Unamortized discount	(1,201)	(5,452)	5,971	(682)
Commercial paper, net	148,799	483,850	(483,331)	149,318
Reverse repurchase	93,650	347,283	(440,933)	-
	\$242,449	\$831,133	\$(924,264)	\$149,318

NOTES TO FINANCIAL STATEMENTS

**14 TRANSFERS**

Transfers for the nine months ended March 31, 2007 are summarized in the following schedule (in thousands):

		<b>Transfer From</b>		
<b>Transfer To</b>		<b>Administrative Fund</b>	<b>Other Non Major Funds</b>	<b>Total</b>
	<b>Administrative Fund</b>	\$ -	\$ 121,291	\$ 121,291
	<b>Housing Development Fund</b>	11,095	-	\$ 11,095
	<b>Other Non Major Funds</b>	53,922	-	\$ 53,922
	<b>Total</b>	<b>\$ 65,017</b>	<b>\$ 121,291</b>	<b>\$ 186,308</b>

Transfers are used to (1) move funds between the Administrative Fund and the other Funds of the Corporation for financing mortgage related activities and to subsidy debt service payments, (2) to move Corporate revenue to the Administrative Fund from Bond Funds, and (3) to record expenditures paid on behalf of the Bond Funds by the Administrative Fund.

**15 OTHER CREDIT ARRANGEMENTS**

For certain bond issues, the Corporation has entered into credit arrangements with various financial institutions to provide funds necessary to satisfy debt service or unpaid bond principal obligations. Varying commitment fees are required, generally ¼ to ½ of 1% per annum of the aggregate liability or commitment amount. The Corporation had unused liquidity facilities or similar credit enhancement agreements in connection with amounts required for debt service or unpaid bond principal for certain bond issues as shown below (in thousands):

	<b>March 31, 2007</b>	<b>June 30, 2006</b>
Liquidity facility	\$ 664,235	\$ 761,080
Bond insurance	2,088,921	2,045,546
	<u>\$2,753,156</u>	<u>\$2,806,626</u>

On July 26, 2001, the Corporation entered a liquidity facility swap agreement with a counter-party for up to \$370,000,000 relating to the Government Purpose Bonds 2001 Series A-D. The Corporation has an option to renew the agreement annually. The amount is reflected in the table above.

In October 2002, the Corporation also reestablished a \$200,000,000 revolving credit facility that is not related to a specific bond issue. At March 31, 2007, no draw downs had been made on the revolving credit facility.

Certain letter-of-credit agreements contain covenants restricting the amendment of terms and redemption of bonds or notes, and setting the minimum combined fund equity of the Corporation and minimum debt service reserve fund balances.

NOTES TO FINANCIAL STATEMENTS

## 16 YIELD RESTRICTION AND ARBITRAGE REBATE

Most mortgages purchased with the proceeds of tax-exempt bonds issued by the Corporation are subject to interest-rate yield restrictions of 1.125% to 1.500% over the yield of the bonds. These restrictions are in effect over the lives of the bonds. Most of the non-mortgage investments made under the Corporation's tax-exempt bond programs are subject to rebate provisions or restricted as to yields. The rebate provisions require that a calculation be performed every five years and upon full retirement of the bonds to determine the amount, if any, of excess yield earned and owed to the Internal Revenue Service. Following is a summary of excess earnings recorded and paid (in thousands):

	March 31, 2007	June 30, 2006
Arbitrage expense	\$922	\$(2,218)
Arbitrage paid	407	1,274

## 17 CONTRIBUTIONS FROM THE STATE OF ALASKA

### Appropriation of Capital Projects Funds

On April 27, 2006, the Governor of Alaska signed Senate Bill No. 232 of the Alaska Legislature into law. Senate Bill 232 appropriated the sum of \$300,000,000 from the State of Alaska General Fund to the Corporation for the purpose of funding capital projects, including financing expenses. The appropriated funds and related earnings and security lending agreements were transferred to AHCC on July 1, 2006 from the Corporation.

### Investments

For the year ended June 30, 2006 the Corporation invested in the State's internally managed General Fund and Other Non Segregated Investments Pool (GeFONSI). GeFONSI consists of investments in the State's internally managed Short-term and Intermediate-term Fixed Income Pools. Actual investing is performed by investment officers in the State's Department of Revenue, Treasury Division. A complete description of the investment policy for each pool is included in the Department of Revenue, Treasury Division, Policies and Procedures.

Assets in the pools are reported at fair value in accordance with Governmental Accounting Standards Board (GASB) Statement No. 31. Investment purchases and sales are recorded on a trade-date basis. Securities are valued each business day using prices obtained from a pricing service when such prices are available; otherwise, such securities are valued at the mid-point between the bid and asked price or at prices for securities of comparable maturity, quality and type.

The accrual basis of accounting is used for investment income and GeFONSI investment income is distributed to pool participants monthly if prescribed by statute or if appropriated by state legislature.

At March 31, 2007 the Corporation had no share of pool investments. At June 30, 2006, the Corporation's share of pool investments was as follows:

Investment Type	Fair Value			Total
	Short-term Fixed Income Pool	Intermediate- term Fixed Income Pool	Securities Lending Collateral	
Overnight Sweep Account (LMCS)	\$ 220	\$ -	\$ -	\$ 220
Money Market	-	-	58,293	58,293
Short-term Investment Fund	5,420	-	-	5,420
Commercial Paper	10,872	-	-	10,872
U.S. Treasury Notes	-	88,149	-	88,149
U.S. Government Agency	-	32,793	-	32,793
Mortgage-backed	9,359	19,447	-	28,806
Other Asset-backed	65,076	4,384	-	69,460
Corporate Bonds	33,670	28,829	-	62,499
Yankees:				
Corporate	1,382	959	-	2,341
Total Invested Assets	125,999	174,561	58,293	358,853
Pool related net assets (liabilities)	493	(478)	-	15
Net Invested Assets	<u>\$ 126,492</u>	<u>\$ 174,083</u>	<u>\$ 58,293</u>	<u>\$ 358,868</u>



NOTES TO FINANCIAL STATEMENTS

**Securities Lending**

Alaska Statute 37.10.071 authorizes the Commissioner of Revenue 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 Short-term and Intermediate-term Fixed Income Pools. The Bank, acting as the Commissioner's agent under the agreement, transfers securities to broker agents or other entities for collateral in the form of cash or securities and simultaneously agrees to return the collateral for the same securities in the future.

The Corporation transferred the pool investments and related security lending agreements to the new subsidiary AHCC on July 1, 2006. At March 31, 2007 there were no liabilities resulting from securities lending transactions. At June 30, 2006, liabilities resulting from these securities lending transactions totaled \$58,293,000 and were represented as current other liabilities in the Statement of Net Assets.

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 Board 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, 2006, there were no losses incurred as a result of securities lending transactions and there were no significant violations of legal or contractual provisions or failures by any borrowers to return loaned securities.

NOTES TO FINANCIAL STATEMENTS

**18 STATE AUTHORIZATIONS AND COMMITMENTS**

The Corporation uses its assets to fund certain housing and non-housing capital projects identified by the State. The aggregate amount expected to be funded by the Corporation was expressed by the following language of legislative intent included in the fiscal year 1996 capital appropriation bill, enacted in 1995:

“The Legislature intends to ensure the prudent management of the Alaska Housing Finance Corporation to protect its excellent debt rating by the nation’s financial community and to preserve its valuable assets of the State. To accomplish its goal, the sum of withdrawals for transfer to the general fund and for expenditure on corporate funded capital projects should not exceed the Corporation’s net income for the preceding fiscal year.”

The projected amounts stated in the legislative intent language were based on the Corporation’s financial operating plan and represent the total amount of anticipated State transfers and capital expenditures rather than projected “net income”. The total state authorizations from FY1995–FY2007 was \$ 1,289,886,000; payments up thru March 31, 2007 were \$1,184,043,000; resulting in total remaining commitments of \$105,843,000 as of March 31, 2007.

**Transfer Plan with the State**

The 1998 Legislature authorized the Corporation to finance state capital projects through the issuance of up to \$224 million in bonds. Debt service payments on such bonds are categorized as transfers pursuant to the Transfer Plan. That legislation also extended the term of the Transfer Plan by stating the Legislature’s intent that the Corporation transfer to the State (or expend on its behalf) an amount not to exceed \$103 million in each fiscal year through fiscal year 2006, again stating that, to protect the Corporation and its bond rating, in no fiscal year should such amount exceed the Corporation’s net income for the preceding fiscal year. The bond proceeds are allocated to agencies and municipalities subject to specific legislative appropriation.

The 2000 Legislature adopted legislation authorizing the issuance of bonds in sufficient amounts to fund the construction of various State capital projects, and extended the Transfer Plan (as described above) through fiscal year 2008. The 2002 Legislature authorized the issuance of \$60,250,000 in capital project bonds for the renovation and deferred maintenance of the Corporation’s Public Housing facilities. The 2004 Legislature adopted legislation authorizing the additional issuance of bonds in sufficient amounts to fund the construction of various State capital projects. The bond proceeds are allocated to agencies and municipalities subject to specific legislative appropriation. Debt service payments on such bonds are categorized as transfers pursuant to the Transfer Plan.

The Corporation has issued \$196,345,000 principal amount of State Capital Project Bonds pursuant to the 1998 Act, \$74,535,000 principal amount of State Capital Project Bonds pursuant to the 2000 Act, and \$60,250,000 principal amount of State Capital Project Bonds pursuant to the 2002 Act, and \$45,000,000 principal amount of bonds under the State Capital Project agreement pursuant to the 2004 Act, and has completed its issuance authority under the Acts. The payment of principal and interest on these bonds will be included in future capital budgets of the Corporation.

The Twenty-Third Legislature in 2003 enacted SCSBH 256 (the “2003” Act) which added language to the Alaska Statutes to modify and incorporate the Transfer Plan. The Corporation and the State view the 2003 Act as an indefinite, sustainable continuation of the Transfer Plan. As approved and signed into law by the Governor, the 2003 Transfer Plan calls for annual transfers as follows (in thousands):

<b>Fiscal Year</b>	<b>Transfer Plan Amount</b>
2007	Lesser of 95% Net Income or \$103,000
2008	Lesser of 85% Net Income or \$103,000
2009 & Thereafter	Lesser of 75% Net Income or \$103,000

Subsequent to GASB 34, the Corporation interprets net income as operating income.

**Contributions to the State of Alaska or other State agencies**

Since the inception of the Corporation, the State has contributed a total of \$1,369,523,000 to the Corporation. Beginning in fiscal year 1986, the Corporation began a series of plans to transfer funds to or on behalf of the State. Following is a summary of the different types of transfers (in thousands):

	<b>March 31, 2007</b>	<b>Cumulative Prior Fiscal Year</b>	<b>Total Payments to State</b>
State debt repayment	\$ -	\$ 29,800	\$ 29,800
Asset purchases	-	252,300	252,300
Dividends	-	114,300	114,300
Direct cash transfers	17,442	550,061	567,503
Other State appropriations	300,576	2,078	302,654
Non-Housing capital projects	11,300	263,418	274,718
Various bond’s proceeds disbursed	9,935	277,866	287,801
<b>Total</b>	<b>\$ 339,253</b>	<b>\$ 1,489,823</b>	<b>\$ 1,829,076</b>

NOTES TO FINANCIAL STATEMENTS

**19 GRANTS**

The Corporation paid grants to third parties for the following programs (in thousands):

<b>Program</b>	<b>March 31, 2007</b>
<i>Energy Programs:</i>	
▪ Energy Efficiency Monitoring Research	\$ 461
▪ Low-Income Home Energy Assistance	178
▪ State Energy Program Special Project	87
▪ Low Income Weatherization Assistance	3,658
	<u>4,384</u>
<i>Section 8 Vouchers and Contract Administration</i>	<u>18,221</u>
<i>Other Housing Assistance Programs</i>	
▪ AMHTA Short Term Housing Assistance	172
▪ Beneficiaries and Special Needs Housing	217
▪ Centers for Medicare/Medicaid Services	260
▪ Denali Commission	5,917
▪ Drug Elimination	176
▪ Grant Match Program	-
▪ HOMD Investment Partnership	3,065
▪ Homeless Assistance Program	948
▪ Homeless Information Management System	3
▪ Housing Loan Program	1,964
▪ Housing Opportunities for Persons with AIDS	438
▪ Housing Preservation	50
▪ Resident Opportunity and Support Service	113
▪ Section 8 Contract Administration	5,029
▪ Shelter Plus Care	432
▪ Special Program for the Aging	13
▪ Senior Citizen Housing Development Grant	1,041
▪ Supportive Housing Grant Match	704
▪ Supplemental Housing Grant	8,201
▪ Technical Assistance Grant	46
	<u>28,789</u>
<b>Total Housing Grant Expenses</b>	<u>51,394</u>
<i>Other Program Funds:</i>	
▪ Legislative Appropriations	11,262
▪ University of Alaska FY99	38
<b>Total Non-Housing Capital Project Grants</b>	<u>11,300</u>
<b>Total Grants</b>	<u>\$ 62,694</u>

In addition to grant payments made, the Corporation has advanced grant funds of \$2,495,000 and committed to third parties a sum of \$261,758,000 in grant awards at March 31, 2007.

NOTES TO FINANCIAL STATEMENTS

## 20 OTHER PROGRAMS

Other programs include public-housing activities, energy conservation funded from a combination of corporate receipts and external sources and other activities not reported elsewhere.

### Housing Assistance Programs

Low Rent includes the following programs for various low-income housing facilities administered by the Corporation under contract with HUD:

- Low Rent Management
- Modernization/Capital Fund Programs

Section 8 Vouchers Program includes the following programs for tenant-based rental assistance administered by the Corporation under contract with HUD:

- Section 8 Moderate Rehabilitation
- Section 8 Vouchers

Section 8 Program consists of Corporate owned low-income housing facilities at various locations and the Wrangell 221(d)(3) housing facility, for which the Corporation receives tenant-based rental assistance under contract with HUD, and administration of HUD contracts directly with landlords:

- Section 8 Contract Administration
- Section 8 New Construction
- Wrangell Multi-Family

Other Housing Assistance Programs include the following HUD, federal, state and privately funded activities:

- Drug Elimination Grant
- Denali Commission Housing Programs
- Family Self Sufficiency Program (FSS)
- Family Investment Center Grant
- Gateway Literacy Program
- Grant Match Program
- HOME Investment Partnerships Program (HOME)
- HOME Technical Assistance
- Housing Opportunities for Persons with AIDS (HOPWA)
- Housing Preservation Grants
- Service Coordinator for Public Housing Agencies Grant
- Shelter Plus Care Program
- Special Needs Assistance
- Supplemental Assistance for Facilities to Assist the Homeless (SAFAH)
- Supportive Housing Technical Assistance
- Teacher Health Professional and Public Safety Housing Programs

The Supplemental Housing and Senior Housing Programs are funded entirely by corporate funds.

### Energy Conservation Programs

The Petroleum Violation Escrow Program (PVE) includes the activities funded from the State of Alaska's share of settlement proceeds received as a result of various lawsuits between the federal government and oil producers. The Corporation holds these funds in trust, to be used for qualifying energy conservation activities under the U.S. Department of Energy's oversight.

The weatherization programs include the following programs and are funded by a combination of DOE grants, PVE funds, and corporate funds:

- Low-Income Weatherization Program
- Residential Energy Rehab Program (Enhanced Weatherization)

Other energy programs include the following programs and are funded by a combination of DOE grants, PVE funds, HHS grants, and corporate funds:

- Adult Education
- Alaska Native Health Board Grant / Alaska Native Health Tribal Consortium
- Association of Alaska Housing Authorities Grant
- Low-Income Home Energy Assistance Program (LIHEAP)
- State Energy Conservation Program and Special Projects
- Weatherization Assistance for Low-Income Persons (AKWarm Enhancement)

NOTES TO FINANCIAL STATEMENTS

The following projects are or have been funded within the Petroleum Violation Escrow Program:

- Alaska Craftsman Home Program
- Business Energy Assistance
- Energy Rated Homes of Alaska
- Home Energy Loan Program
- Home Energy Rebates
- Low-Income Weatherization Enhancement
- Warm Homes for Alaskans

**Housing Units Owned, Managed or Administered**

As of March 31, 2007, the Public Housing Division of the Corporation operates the following programs in 18 Alaskan communities:

Program	Number of Units
Low Rent Conventional Housing	987
Low Rent Conventional Housing – Senior Units	343
Section 8 New Construction Housing	59
Section 8 New Construction Housing – Senior Units	268
Other Housing Units	32
Section 8 Existing – Housing Assistance:	
Housing Choice Vouchers	4,159
Single Room Occupancy	70
	5,918

**21 PENSION PLAN**

As of March 31, 2007, all regular employees of the Corporation who work more than fifteen hours per week participate in the Alaska Public Employees' Retirement System (PERS). PERS is an agent multiple-employer, statewide plan. This plan is a defined benefit plan for all employees hired prior to July 1, 2006 and a defined contribution plan for all employees hired on or after July 1, 2006. The plan is administered by the State of Alaska. Benefits and contributions provisions are established by Chapter 35 of Alaska Statute Title 39, and may be amended only by state legislature. A publicly available financial report that includes financial statements and required supplementary information is issued annually by PERS. That report may be obtained by writing to State of Alaska, Department of Administration, Division of Retirement and Benefits, P.O. Box 110203, Juneau, Alaska 99811-0202.

**Plan Description**

*Defined Benefit Plan (Employees hired prior to July 1, 2006):*

Employees hired prior to July 1, 1986 with five or more years of credited service are entitled to annual pension benefits beginning at normal retirement age 55 or early retirement age 50. The normal pension benefit is equal to 2% of the member's three-year highest average monthly compensation for the first ten years of service, 2¼% for the second ten years of service and 2½% for all remaining years of service. All service earned prior to July 1, 1986 will be calculated using the 2% multiplier. Employees with 30 or more years of credited service may retire at any age and receive a normal benefit. The plan pays the retiree medical plan premium and also provides death and disability benefits.

Effective with employees hired after June 30, 1986, the normal retirement age became 60 and the early retirement age became 55. Also the system does not pay the retiree medical plan premium for retirees under the age of 60. The employee may elect to pay the full premium cost for medical coverage.

The retirement benefit calculation for employees hired after June 30, 1996 is based on the average of the member's five-year highest average monthly compensation. The plan does not pay the retiree medical plan premium for retirees with less than 10 years of service at age 60. The employee may elect to pay the full premium cost for medical coverage.

*Defined Contribution Plan (Employees hired after July 1, 2006):*

There is no retirement age set, however taxes and penalties may be apply if withdrawn prior to age 59 ½. Retirement benefits are equal to the Defined Contribution account balance plus interest. The employee may direct the investment of the account if so desired. The account balance is 100% of the employees contribution plus 25% of the Corporation's contribution after two years of service, 50% of the Corporation's contribution after three years of service, 75% of the Corporation's contribution after four years of service, and 100% of the Corporation's contribution after 5 years of service. The plan pays a portion of the retiree medical plan premium if the retiree retires directly from the plan and is eligible for Medicare. The portion of premium paid by the plan is determined by years of service. Disability benefits are also provided.

NOTES TO FINANCIAL STATEMENTS

**Funding Policy**

*Defined Benefit Plan:*

Under State law, covered employees are required to contribute 6¾% of their annual covered salary and the Corporation is required to contribute an actuarially determined rate; the current rate is 20.49% of annual covered payroll.

*Defined Contribution Plan:*

Under State law, covered employees are required to contribute 8% of their annual covered salary and the Corporation is required to contribute 7.05% of the Defined Contribution account balance to the Defined Contribution account, 3% of the Corporation's average annual compensation as a flat dollar amount per employee to a health reimbursement arrangement.

The contributions to this plan for the nine months ended March 31, 2007 by the employees was \$17,900 and by the Corporation was \$15,800.

**Annual Pension Cost**

The Corporation's annual pension and postretirement health cost shown in the following table was equal to the required and actual contribution. The actuarial required contribution was computed as part of an actuarial valuation as of June 30, 2005. Significant actuarial assumptions used in the valuation include: (a) a rate of return on the investment of present and future assets of 8.25% per year compounded annually and (b) projected salary increases of 5.5% a year for the ten years of employment, with distinction made between amounts for inflation (3.5%), merit (1.5%), and productivity (0.5%). The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the fair value of investments over a five year period. The contribution rate for normal cost is determined using the projected unit credit actuarial funding method. The excess of assets over the actuarial accrued liability is amortized over a rolling 25 years which is an open amortization period. The percentage of pay method is used for amortization purposes.

**Three-Year Trend Information for PERS (in thousands):**

<b>Year Ended</b>	<b>Annual Pension and Postretirement Health Cost (APC)</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Obligation</b>
June 30, 2006	\$ 1,161	100.00%	\$ -
June 30, 2005	1,780	100.00%	-
June 30, 2004	980	100.00%	-

NOTES TO FINANCIAL STATEMENTS

## **22 OTHER COMMITMENTS AND CONTINGENCIES**

### **Medical Self Insurance**

During the fiscal year ended June 30, 1998, the Corporation began a program of self-insurance for employee medical benefits. Costs are billed directly to the Corporation by an Administrative Services Provider that processes all of the claims from the employees and their dependents. The Corporation has purchased a stop-loss policy that limits its liability to \$50,000 per employee per year. The Corporation has provided for an estimate of the Incurred But Not Reported (IBNR) liability in the amount of \$1,073,000 and \$553,000 as of March 31, 2007 and June 30, 2006, respectively.

### **Litigation**

The Corporation, in the normal course of its activities, is involved in various claims and pending litigation, the outcome of which is not presently determinable. In the opinion of management, the disposition of these matters is not presently expected to have a material adverse effect on the Corporation's financial statements.

### **Contingent Liabilities**

The Corporation participates in several federally assisted programs. These programs are subject to program compliance audits and adjustment by the grantor agencies or their representatives. Any disallowed claims, including amounts already collected, would become a liability of the Administrative Fund. In management's opinion, disallowance, if any, will be immaterial.

### **Subsequent Event**

On May 31, 2007, the Corporation issued \$239,370,000 Home Mortgage Revenue Bonds, 2007 Series A, B and D. The Bonds are general obligations of AHFC that bear interest at variable rates, payable on December 1, 2007, and each June 1 and December 1 thereafter, with a final maturity date of December 1, 2041. The Bonds are primarily secured by program obligations consisting of qualifying mortgage loans purchased from bond proceeds.

## **23 RISK MANAGEMENT**

The Corporation is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by various commercial insurance policies and contractual risk transfers. When the Corporation enters into agreements, contracts or grants, it requires insurance from the party the Corporation is doing business with. This ensures that the party can adequately sustain any loss exposure, so the Corporation is not first-in-line in case of a loss. There have been no significant reductions in insurance coverage from the prior year, and settlements have not exceeded insurance coverage during the past three years.

## **24 SPECIAL ITEM**

On December 13, 2005, the Corporation sold its Aurora Military Loan II, with a principal balance of \$31,627,000, accrued interest income of \$76,000 and closing cost expense of \$90,000, for proceeds of \$38,919,000, resulting in a special item gain of \$7,126,000.

NOTES TO FINANCIAL STATEMENTS

**25 FIVE YEAR FINANCIAL INFORMATION**

Entity-wide amounts at year-end are presented below for informational purposes (in thousands):

	June 30, 2006	June 30, 2005	June 30, 2004	June 30, 2003	June 30, 2002
<b>ASSETS</b>					
Cash	\$ 11,583	\$ 9,769	\$ 7,939	\$ 21,215	\$ 9,508
Investments	1,768,178	1,219,415	1,143,547	1,518,997	1,587,877
Accrued interest receivable	19,013	20,762	19,897	22,349	25,015
Mortgage loans, notes and other loans	3,240,209	3,325,182	3,355,300	3,312,511	3,373,640
Net investment in direct financing lease	29,110	32,843	34,547	36,165	37,697
Unamortized bond issuance costs	24,584	25,135	26,404	29,024	28,105
Capital assets, net	120,030	116,073	110,813	105,065	99,040
Other assets	16,869	13,754	10,033	10,185	21,272
<b>Total Assets</b>	<b>\$ 5,229,576</b>	<b>\$ 4,762,933</b>	<b>\$ 4,708,480</b>	<b>\$ 5,055,511</b>	<b>\$ 5,182,154</b>
<b>LIABILITIES</b>					
Bonds and notes payable	\$ 2,907,223	\$ 2,898,730	\$ 2,890,879	\$ 3,110,941	\$ 3,267,553
Short term debt	242,449	138,375	70,145	149,995	108,541
Accrued interest payable	17,340	14,147	14,562	15,627	14,253
Other liabilities	72,532	28,608	26,435	41,382	25,997
<b>Total Liabilities</b>	<b>3,239,544</b>	<b>3,079,860</b>	<b>3,002,021</b>	<b>3,317,945</b>	<b>3,416,344</b>
<b>Total Fund Equity</b>	<b>1,990,032</b>	<b>1,683,073</b>	<b>1,706,459</b>	<b>1,737,566</b>	<b>1,765,810</b>
	<b>June 30, 2006</b>	<b>June 30, 2006</b>	<b>June 30, 2005</b>	<b>June 30, 2004</b>	<b>June 30, 2003</b>
<b>OPERATING REVENUES</b>					
Mortgage and loans revenue	\$ 193,573	\$ 201,386	\$ 206,300	\$ 220,393	\$ 222,446
Investment interest	60,220	43,162	46,358	57,013	71,115
Net change in fair value of investments	(1,830)	(1,653)	(9,554)	9,877	111
Total Investment Revenue	58,390	41,509	36,804	66,890	71,226
Externally funded programs	59,587	57,877	56,084	53,702	46,283
Rental	6,575	6,183	6,109	6,812	7,034
Other	807	2,252	743	644	2,241
<b>Total Operating Revenues</b>	<b>318,932</b>	<b>309,207</b>	<b>306,040</b>	<b>348,441</b>	<b>349,230</b>
<b>OPERATING EXPENSES</b>					
Interest	146,971	141,161	151,165	172,939	174,582
Mortgage and loan costs	13,133	13,130	13,059	12,894	12,933
Operations and administration	38,858	35,530	36,240	35,339	32,393
Financing expenses	4,836	11,941	6,168	10,496	2,197
Provision for loan loss	406	(103)	(1,861)	(12,232)	2,690
Housing grants and subsidies	56,829	56,506	48,640	52,023	39,520
Rental housing operating expenses	11,221	10,985	10,149	9,905	9,255
<b>Total Operating Expenses</b>	<b>272,254</b>	<b>269,150</b>	<b>263,560</b>	<b>281,364</b>	<b>273,570</b>
<b>Operating Income</b>	<b>46,678</b>	<b>40,057</b>	<b>42,480</b>	<b>67,077</b>	<b>75,660</b>
<b>NON-OPERATING &amp; SPECIAL ITEM</b>					
Contribution from the State of Alaska	300,000	-	-	-	-
Contribution to State or State agency	(46,845)	(67,288)	(66,136)	(95,321)	(85,562)
Special item	7,126	3,845	(7,451)	-	2,035
<b>Change in Net Assets</b>	<b>\$ 306,959</b>	<b>\$ (23,386)</b>	<b>\$ (31,107)</b>	<b>\$ (28,244)</b>	<b>\$ (7,867)</b>



REQUIRED SUPPLEMENTARY INFORMATION

**Schedule of Funding Progress for PERS (in thousands):**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) (b)</b>	<b>Excess or (Unfunded) AAL (a) – (b)</b>	<b>Funded Ratio (a) / (b)</b>	<b>Covered Payroll (c)</b>	<b>Excess or (Unfunded) AAL as a Percentage of Covered Payroll ((a) – (b)) / (c)</b>
Pension:						
June 30, 2005	\$ 37,227	\$ 49,251	\$(12,024)	76%	\$ 16,479	(73%)
June 30, 2004	35,749	\$ 46,202	\$(10,453)	77%	\$ 16,006	(65%)
June 30, 2003	34,407	43,271	(8,864)	80%	14,987	(59%)
Postretirement Health:						
June 30, 2005	30,879	40,851	(9,972)	76%	16,479	(61%)
June 30, 2004	25,207	32,578	(7,371)	77%	16,006	(46%)
June 30, 2003	22,997	28,921	(5,924)	80%	14,987	(40%)

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**Alaska**  
**Housing**  
**FINANCE CORPORATION**

*a component unit of the State of Alaska*

**Financial Statements**  
**And Independent Auditors' Report**

**June 30, 2006**

**With Summarized Financial Information for**  
**June 30, 2005**

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**RSM McGladrey Network**

Offices in Anchorage & Kenai

### Independent Auditor's Report

The Board of Directors  
Alaska Housing Finance Corporation:

We have audited the accompanying statements of net assets, revenues, expenses, and changes in net assets and cash flows of each major fund and the aggregate remaining fund information of Alaska Housing Finance Corporation (the Corporation) as of and for the year ended June 30, 2006, which collectively comprise the Corporation's basic financial statements. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Corporation's 2005 financial statements and in our report dated September 2, 2005, we expressed an unqualified opinion on those statements.

We conducted our audit 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 audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of Alaska Housing Finance Corporation as of June 30, 2006, and the respective changes in financial position and cash flows thereof for the year 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 a report dated September 1, 2006, on our consideration of the Corporation's internal control over financial reporting and on 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 controls 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 Board of Directors  
Alaska Housing Finance Corporation:

The Management's Discussion and Analysis on pages 3-8 and the schedule of funding progress for PERS on page 49 are not a required part of the basic financial statements but are 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 required supplementary information. However, we did not audit the information and express no opinion on it.

*Mikunda, Cottrell & Co.*

Anchorage, Alaska  
September 1, 2006

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report consists of three sections: management's discussion and analysis, the basic financial statements and supplementary schedules. The Corporation's operations are business type activities and follow enterprise fund accounting. The Corporation is a component unit of the State of Alaska ("the State") and is discretely presented in the State's financial statements. The Corporation's basic financial statements include: the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; the Statement of Cash Flows and the Notes to Financial Statements. These statements are presented for all of the Corporation's operations and programs, with a dual focus on the Corporation as a whole (entity-wide) and on its major funds. Summarized financial information for FY 2005 is also presented and is intended to facilitate and enhance understanding of the Corporation's financial position, results of operations and cash flows for the current fiscal year in comparison to the prior fiscal year.

#### Management's Discussion and Analysis

This section of the Alaska Housing Finance Corporation's ("the Corporation") annual financial report presents management's discussion and analysis of the financial position and results of operations at and for the fiscal year ended June 30, 2006. 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 audited financial statements and accompanying notes.

#### Basic Financial Statements

The *Statement of Net Assets (Exhibit A)* answers the question, "How is our financial health at the end of the year?" This statement includes all assets and liabilities of the Corporation, both financial and capital, short-term and long-term, using the accrual basis of accounting and economic resources measurement focus, which is similar to the accounting used by most private-sector companies. The resulting net assets presented in this statement are displayed as restricted or unrestricted. Assets are restricted when their use is subject to external limits such as bond resolutions, legal agreements or statutes. Assets falling outside this category are characterized as unrestricted. 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 *Statement of Revenues, Expenses and Changes in Net Assets (Exhibit B)* measures the activities of the Corporation's operations over the past year and presents the operating income (loss) and change in net assets. It can be used to determine whether the Corporation has successfully recovered all of its costs through mortgage and loan interest, externally funded programs and other revenue sources. This statement helps answer the question, "Is the Corporation as a whole better off or worse off as a result of the year's activities?"

The primary purpose of the *Statement of Cash Flows (Exhibit C)* is to provide information about the sources and uses of the Corporation's cash and the change in cash balance during the reporting period. This statement reports cash receipts, cash payments, and net changes resulting from operating, non-capital financing, capital financing and investing activities. It provides answers to such questions as "Where did cash come from?", "What was cash used for?" and "What was the change in cash balance during the reporting period?"

The *Notes to Financial Statements* provide additional information that is essential to a full understanding of the data provided in the entity-wide financial statements. The Notes to Financial Statements follow Exhibit C.

#### Major Funds

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. For the fiscal year 2006, the Corporation reports the following major funds:

The *Administrative Fund* is the main operating fund of the Corporation. It represents all of the Corporation's activity not presented in other funds. The resources in this fund:

- provide for general working capital requirements of the Corporation
- fund program requirements



MANAGEMENT'S DISCUSSION AND ANALYSIS

- are available to meet outstanding obligations and to fund continuing appropriations
- are available to absorb future loan foreclosure losses, and
- are the source of legislatively authorized transfers to and from the State and debt service payments for debt issued on behalf of the State for state capital projects

As of June 30, 2006, the Administrative Fund reported net assets of \$1,138 million, an increase of \$203 million from June 30, 2005. The increase in net assets can be primarily attributed to contributions from the State of Alaska of \$300 million and an offset by internal transfers from the Administrative Fund of \$125 million. Approximately \$402 million, or 35%, of the Administrative Fund's net assets are restricted by contractual or statutory agreements and \$736 million, or 65%, are unrestricted and may be used for operations and to meet the continuing obligations of the Corporation.

The Administrative Fund reported operating income of \$40 million for FY 2006, a decrease of \$2 million from FY 2005, due primarily to an increase in interest expense of \$6 million, operations and administration expenses of \$1 million, provision for loan loss of \$2 million and offset by an increase in investment interest of \$7 million.

The *Housing Development Bonds Fund* accounts for debt issued and assets pledged for payment of the debt under the bond indentures for Housing Development projects.

The Corporation's *Other Non-Major Funds* include individual funds for First Time Homebuyer Bonds, Veterans Mortgage Program Bonds, Other Housing Bonds, Non-Housing Bonds, Other Program Funds and Revolving Funds. Supplementary schedules present these funds.

**FINANCIAL HIGHLIGHTS**

- As a result of this year's operations, the Corporation's operating income was \$47 million, up 17% from FY 2005. Profitability, based on operating income, as measured by the adjusted return on average assets (excluding the change in the fair value of investments) increased to 1.0% at June 30, 2006, compared to 0.9% at June 30, 2005. The change in the fair value has been removed from the ratio due to the volatility of the return.
- The Corporation's assets exceeded its liabilities as of June 30, 2006, by \$1.99 billion (net assets).
- The Corporation's mortgage loan portfolio is one of its primary assets. During the fiscal year ended June 30, 2006, mortgage loans decreased by 2.6%, due to collection of loan payments exceeding new loan purchases.
- During the fiscal year ended June 30, 2006, the Corporation's total assets increased by \$467 million due primarily to changes in investments and mortgage loans. Total liabilities increased by \$160 million due primarily to a \$104 million increase in short-term debt and a \$58 million increase in other liabilities as the result of securities lending transactions in the State of Alaska investment pools.
- During the fiscal year ended June 30, 2006, the Corporation entered into reverse repurchase agreements, a new type of short term debt, which is issued to warehouse refunded debt.

MANAGEMENT'S DISCUSSION AND ANALYSIS

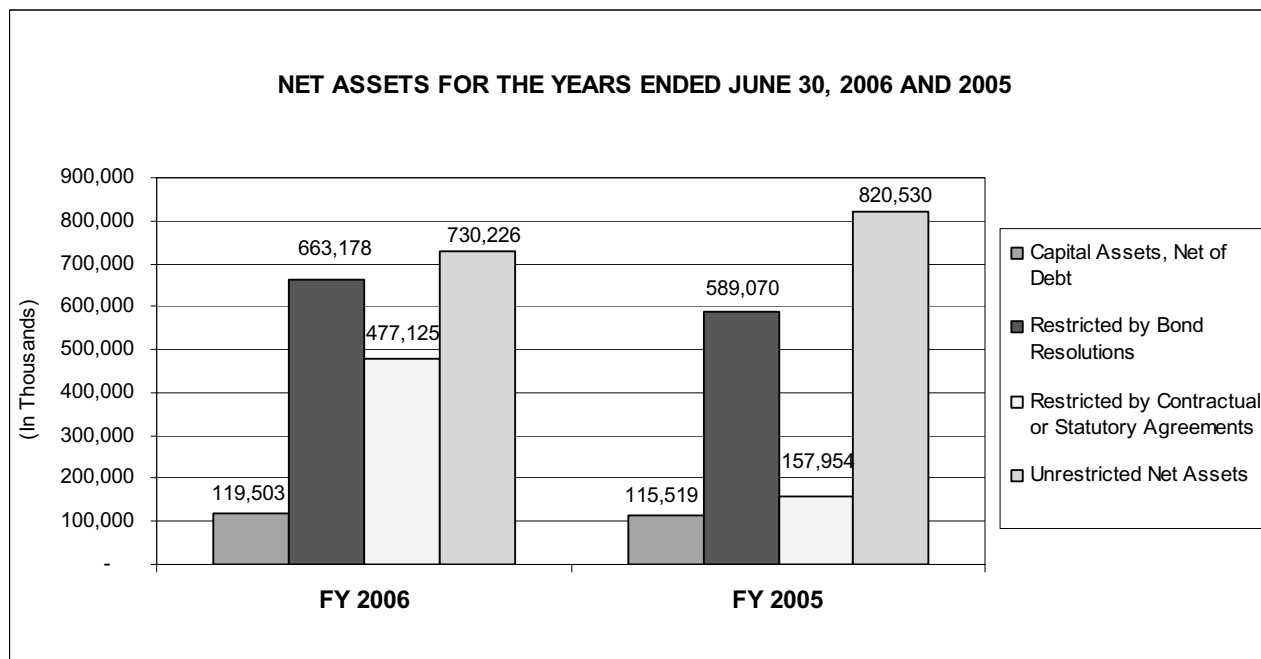
**CONDENSED STATEMENT OF NET ASSETS**

The following table presents condensed information about the financial position of the Corporation as of June 30, 2006 and 2005, and changes in the balances of selected items during the fiscal year ended June 30, 2006 (in thousands):

	2006	2005	Change	
			Increase (Decrease)	
Investments	\$ 1,768,178	\$ 1,219,415	\$ 548,763	45.0 %
Mortgage loans, notes and other loans, net	3,240,209	3,325,182	(84,973)	(2.6) %
Capital assets, net	120,030	116,073	3,957	3.4 %
Total assets	5,229,576	4,762,933	466,643	9.8 %
Bonds and notes, net	2,907,223	2,898,730	8,493	0.3 %
Short term debt	242,449	138,375	104,074	75.2 %
Total liabilities	3,239,544	3,079,860	159,684	5.2 %
Total net assets	1,990,032	1,683,073	306,959	18.2 %

As of June 30, 2006, total assets increased by \$467 million from June 30, 2005. The increase in total assets can be primarily attributed to an increase in investments resulting from a \$300 million contribution from the State of Alaska and \$58 million of investments receives as collateral on securities lending transactions in the State of Alaska investment pools (Note 16). The increase in total assets was offset partially by a decrease in mortgages owing to loan payments exceeding loan purchases. Total liabilities increased by \$160 million from June 30, 2005. The increase in total liabilities is primarily due to an increase in short term debt resulting from the Corporation participating in reverse repurchase agreements and an increase in other liabilities due to securities lending transactions.

The chart below represents the classification of unrestricted and restricted net assets, and capital assets, net of debt, for FY 2006 and FY 2005.



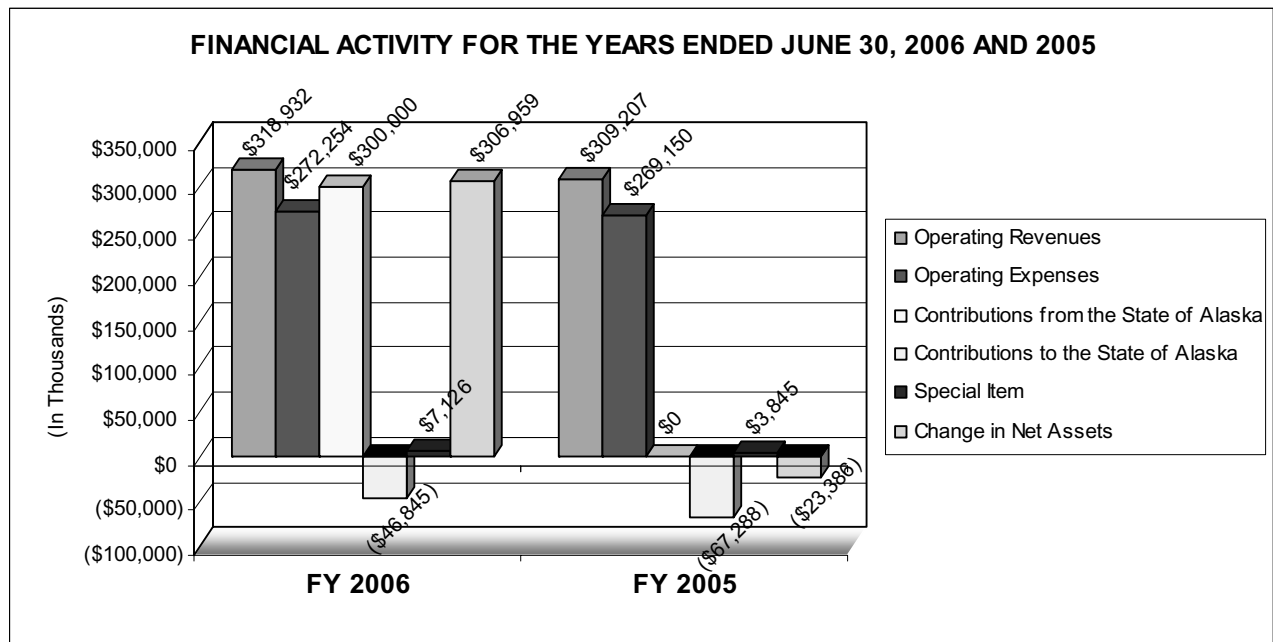
MANAGEMENT'S DISCUSSION AND ANALYSIS

In the fiscal year 2006, net assets restricted by contractual or statutory agreements increased by \$319 million primarily due to the \$300 million contribution from the State of Alaska.

**CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**

The following table presents condensed information about the revenues, expenses and changes in net assets for the fiscal years ended June 30, 2006 and 2005, and the variance from the prior fiscal year (in thousands):

	2006	2005	Change Increase (Decrease)	
Mortgages and loan revenue	\$ 193,573	\$ 201,386	\$ (7,813)	(3.9) %
Investment interest income	60,220	43,162	17,058	39.5 %
Net change in the fair value of investments	(1,830)	(1,653)	(177)	(10.7) %
Externally funded programs	59,587	57,877	1,710	3.0 %
Total operating revenues	318,932	309,207	9,725	3.1 %
Interest expense	146,971	141,161	5,810	4.1 %
Operations and administration	38,858	35,530	3,328	9.4 %
Housing grants and subsidies	56,829	56,506	323	0.6 %
Total operating expenses	272,254	269,150	3,104	1.2 %
Operating income	46,678	40,057	6,621	16.5 %
Contributions from the State of Alaska	300,000	-	300,000	-
Contributions to the State of Alaska or other State agencies	(46,845)	(67,288)	20,443	(30.4) %
Special item	7,126	3,845	3,281	(85.3) %
Change in net assets	306,959	(23,386)	330,345	1,412.6 %



MANAGEMENT'S DISCUSSION AND ANALYSIS

Total operating revenues increased by a net amount of \$10 million, or 3.1%, during FY 2006 primarily due to an increase in investment interest income. Total operating expenses increased slightly by \$3 million, or 1.2%. The net effect of changes in operating revenues and expenses was a 16.5% increase in operating income from \$40 million to \$47 million.

The Corporation continued its series of annual payments to the State of Alaska and State agencies. As a result of a modification to the Transfer Plan during the 2004 Legislative Session, transfers to the State for FY 2005 and FY 2006 were \$103 million. In FY 2007 the Transfer Plan calls for payment of the lesser of \$103 million or 95% of the Corporation's net income, with this payment percentage declining to 85% in FY 2008 and 75% in the fiscal years thereafter. Subsequent to GASB 34, the Corporation interprets net income as operating income.

During the fiscal years 2006 and 2005, the Corporation recorded a gain on sale of a loan in the amount of \$7 million and \$4 million, respectively. Because loan sales are unusual for the Corporation, the gain on sale was treated as a special item on the Corporation's Statement of Revenues, Expenses and Changes in Net Assets.

The Change in Net Assets for FY 2006 was an increase of \$307 million primarily due to the \$300 million contribution from the State of Alaska. The Change in Net Assets for FY 2005 was a slight decrease of \$23 million primarily due to contributions to the State of Alaska and other State agencies exceeding operating income.

**DEBT ADMINISTRATION**

As of June 30, 2006, the Corporation had \$2.91 billion of bonds and notes payable secured by assets held and the general obligation pledge of the Corporation. The Corporation's debt is rated by three major rating agencies. The ratings assigned to the Corporation by each of those agencies are:

Rating Category	Fitch Ratings	Moody's Investors Service	Standard & Poor's
General Obligation:			
Long Term	AA+	Aa2	AA
Short Term	F1+	P-1	A-1+
General Account Fund Rating:			
Credit Quality			AAAf
Volatility			S1

Significant debt activity during the year included the following:

- Issued \$174 million in Tax-Exempt Home Mortgage Revenue Bonds;
- Issued \$15 million in Tax-Exempt Veterans Collateralized Bonds;
- Issued \$145 million in Tax-Exempt Veterans Collateralized Notes;
- Redeemed previously defeased Governmental Purpose Bonds in the amount of \$150 million.
- Redeemed bonds through surplus redemption provisions of their respective indentures in the amount of \$232 million;
- Issued and redeemed short-term commercial paper under the Corporation's \$150 million commercial paper program and
- Issued \$602 million and redeemed \$508 million of short term reverse repurchase agreements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Operating Budget of the State of Alaska for the fiscal year ended June 30, 2006, authorized the issuance of \$800 million in bonds by the Corporation. This limitation did not apply to refunding bonds. Bond issuances for the year were under this limit.

Additional information on the Corporation's long-term debt can be found in the Notes to Financial Statements.

**ECONOMIC FACTORS AND OTHER FINANCIAL INFORMATION**

The primary business activity of the Corporation is providing a secondary market for the purchase of single-family and multi-family mortgage loans. The Corporation's mortgage financing activities are sensitive to changes in interest rates, the spread between the rate on the Corporation's loans and those available in the conventional mortgage markets, and the availability of affordable housing in the State. The availability of long-term tax-exempt financing on favorable terms is a key element in providing the funding necessary for the Corporation to continue its mortgage financing activities.

The Corporation's main sources of revenues include mortgage loan activity, investment interest income and externally funded grants and subsidies. Market interest rates have an effect on both the mortgage program and investment income revenues. If interest rates continue at current levels, the Corporation expects mortgage and investment income to remain relatively stable. If interest rates rise, mortgage and investment income should increase as new loans are originated and new investments are purchased at the higher rates. If interest rates fall, mortgage and investment income will decrease as new loans are originated and new investments are purchased at the lower rates. Any decrease in interest rates could also cause an increase in prepayments on higher rate mortgages. The Corporation uses many of these prepayments to call the corresponding bond series, which lowers the interest expense incurred on the Corporation's overall bonds outstanding, or to recycle mortgages to obtain the maximum allowable spread. Large federal deficits or changes in programs or funding levels could have a negative impact on externally funded program revenues.

**CONTACTING THE CORPORATION'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the Corporation's finances and to show the Corporation's accountability for the money it receives. If you have questions about this report or need additional financial information, please visit the Corporation's web site [www.ahfc.state.ak.us](http://www.ahfc.state.ak.us) or contact the Financial Reporting Officer at [dboyce@ahfc.state.ak.us](mailto:dboyce@ahfc.state.ak.us).

# ALASKA HOUSING FINANCE CORPORATION

(A Component Unit of the State of Alaska)

## STATEMENT OF NET ASSETS

As of June 30, 2006

(with summarized financial information for June 30, 2005)

(in thousands of dollars)

	Administrative Fund	Housing Development Bonds	Other Non-Major Funds
<b><u>ASSETS</u></b>			
<b>Current</b>			
Cash	6,505	-	5,078
Investments	817,338	25,998	374,566
Accrued interest receivable	3,355	3,389	12,269
Mortgage loans, notes and other loans	14,032	6,428	61,460
Net investment in direct financing lease	-	-	2,025
Other assets	6,852	73	7,748
Intergovernmental receivable	13	-	633
<b>Total Current</b>	<b>848,095</b>	<b>35,888</b>	<b>463,779</b>
<b>Non Current</b>			
Investments	-	128,266	422,010
Mortgage loans, notes and other loans, net of allowance	593,159	269,259	2,295,871
Net investment in direct financing lease	-	-	27,085
Unamortized bond issuance costs	-	3,744	20,840
Capital assets - non-depreciable	148	-	39,387
Capital assets - depreciable, net	231	-	80,264
Other assets	1,550	-	-
<b>Total Non Current</b>	<b>595,088</b>	<b>401,269</b>	<b>2,885,457</b>
<b>Total Assets</b>	<b>1,443,183</b>	<b>437,157</b>	<b>3,349,236</b>
<b><u>LIABILITIES</u></b>			
<b>Current</b>			
Bonds and notes payable	-	6,310	205,658
Short term debt	242,449	-	-
Accrued interest payable	781	1,614	14,945
Other liabilities	61,255	54	3,379
Intergovernmental payable	-	-	4,972
<b>Total Current</b>	<b>304,485</b>	<b>7,978</b>	<b>228,954</b>
<b>Non Current</b>			
Bonds and notes payable	-	394,910	2,300,345
Other liabilities	682	-	2,190
<b>Total Non Current</b>	<b>682</b>	<b>394,910</b>	<b>2,302,535</b>
<b>Total Liabilities</b>	<b>305,167</b>	<b>402,888</b>	<b>2,531,489</b>
<b><u>NET ASSETS</u></b>			
Invested in capital assets, net of related debt	379	-	119,124
Restricted by bond resolutions	-	34,269	628,909
Restricted by contractual or statutory agreements	401,601	-	75,524
Unrestricted net assets, (deficit)	736,036	-	(5,810)
<b>Total Net Assets</b>	<b>1,138,016</b>	<b>34,269</b>	<b>817,747</b>

See accompanying notes to the financial statements.

**Exhibit A**

<b>Total June 30, 2006</b>	<b>Total June 30, 2005</b>
11,583	9,769
1,217,902	699,453
19,013	20,762
81,920	83,364
2,025	1,799
14,673	11,364
646	715
<u>1,347,762</u>	<u>827,226</u>
550,276	519,962
3,158,289	3,241,818
27,085	31,044
24,584	25,135
39,535	40,691
80,495	75,382
1,550	1,675
<u>3,881,814</u>	<u>3,935,707</u>
<u>5,229,576</u>	<u>4,762,933</u>
211,968	90,977
242,449	138,375
17,340	14,147
64,688	19,264
4,972	3,007
<u>541,417</u>	<u>265,770</u>
2,695,255	2,807,753
2,872	6,337
<u>2,698,127</u>	<u>2,814,090</u>
<u>3,239,544</u>	<u>3,079,860</u>
119,503	115,519
663,178	589,070
477,125	157,954
730,226	820,530
<u>1,990,032</u>	<u>1,683,073</u>

(A Component Unit of the State of Alaska)

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**

For the Year Ended June 30, 2006

(with summarized financial information for June 30, 2005)

(in thousands of dollars)

	<b>Administrative Fund</b>	<b>Housing Development Bonds</b>	<b>Other Non-Major Funds</b>
<b><u>OPERATING REVENUES</u></b>			
Mortgage and loans revenue	41,716	21,224	130,633
Investment interest	17,245	5,577	37,398
Net change in the fair value of investments	(1,662)	19	(187)
<b>Total Investment Revenue</b>	<b>15,583</b>	<b>5,596</b>	<b>37,211</b>
Externally funded programs	-	-	59,587
Rental	-	-	6,575
Other	78	-	729
<b>Total Operating Revenues</b>	<b>57,377</b>	<b>26,820</b>	<b>234,735</b>
<b><u>OPERATING EXPENSES</u></b>			
Interest	7,754	19,417	119,800
Mortgage and loan costs	3,144	666	9,323
Operations and administration	3,481	1,584	33,793
Financing expenses	1,125	894	2,817
Provision for loan loss	989	(1,195)	612
Housing grants and subsidies	565	-	56,264
Rental housing operating expenses	-	-	11,221
<b>Total Operating Expenses</b>	<b>17,058</b>	<b>21,366</b>	<b>233,830</b>
<b>Operating Income (Loss)</b>	<b>40,319</b>	<b>5,454</b>	<b>905</b>
<b><u>NONOPERATING REVENUES &amp; EXPENSES</u></b>			
<b><u>SPECIAL ITEM &amp; TRANSFERS</u></b>			
Contributions from the State of Alaska (note 16)	300,000	-	-
Contributions to the State of Alaska or other State agencies	(19,964)	-	(26,881)
Special Item (note 22)	7,126	-	-
Transfers - Internal	(124,517)	46,416	78,101
Change in Net Assets	202,964	51,870	52,125
Net assets at beginning of year	935,052	(17,601)	765,622
<b>Net Assets at End of Period</b>	<b>1,138,016</b>	<b>34,269</b>	<b>817,747</b>

See accompanying notes to the financial statements.



**Exhibit B**

<b>Total June 30, 2006</b>	<b>Year Ended June 30, 2005</b>
193,573	201,386
60,220	43,162
(1,830)	(1,653)
<u>58,390</u>	<u>41,509</u>
59,587	57,877
6,575	6,183
807	2,252
<u>318,932</u>	<u>309,207</u>
146,971	141,161
13,133	13,130
38,858	35,530
4,836	11,941
406	(103)
56,829	56,506
11,221	10,985
<u>272,254</u>	<u>269,150</u>
46,678	40,057
300,000	-
(46,845)	(67,288)
7,126	3,845
-	-
<u>306,959</u>	<u>(23,386)</u>
1,683,073	1,706,459
<u>1,990,032</u>	<u>1,683,073</u>

**ALASKA HOUSING FINANCE CORPORATION**

(A Component Unit of the State of Alaska)

**STATEMENT OF CASH FLOWS**

For the Year Ended June 30, 2006

(with summarized financial information for June 30, 2005)

(in thousands of dollars)

Audited

	Administrative Fund	Housing Development Bonds	Other Non-Major Funds
<b>Cash flows from operating activities:</b>			
Interest income on mortgages and loans	35,185	20,634	126,803
Principal payments received on mortgages and loans	60,606	38,700	432,868
Purchases of mortgages and loans	(482,745)	-	-
Receipt (payment) for loan transfers between funds	350,074	(22,113)	(327,961)
Payments to employees and other payroll disbursements	(28,530)	-	-
Payments for goods and services	(49,158)	(53)	(37)
Cash received for externally funded programs	764	-	27,505
Cash received for Federal HAP subsidies	-	-	31,970
Payments for Federal HAP subsidies	-	-	(30,310)
Other operating cash receipts	41,977	-	10,335
Other operating cash payments	(2,935)	-	(12)
<b>Net cash provided by (used for) operating activities</b>	<b>(74,762)</b>	<b>37,168</b>	<b>271,161</b>
<b>Cash flows from noncapital financing activities:</b>			
Proceeds from the issuance of bonds	-	-	335,806
Principal paid on bonds	-	(21,820)	(299,121)
Payment to defease bonds	-	-	-
Payment of bond issuance costs	(1,675)	-	-
Interest paid	(7,542)	(19,376)	(116,103)
Proceeds from issuance of short term debt	2,012,356	-	-
Payment of short term debt	(1,908,441)	-	-
Contributions to the State of Alaska or other State agencies	(26,945)	-	(20,308)
Transfers (to) from other funds	15,924	2,424	(18,348)
Other cash payments	-	-	-
<b>Net cash provided by (used for) noncapital financing activities</b>	<b>83,677</b>	<b>(38,772)</b>	<b>(118,074)</b>
<b>Cash flows from capital financing activities:</b>			
Acquisition of capital assets	(9,176)	-	-
Proceeds from the disposal of capital assets	-	-	-
Proceeds from the issuance of capital notes	-	-	-
Principal paid on capital notes	(27)	-	(2,214)
Payment of bond issuance costs	-	-	-
Interest paid on capital notes	(1)	-	(1,899)
Proceeds from the direct financing lease payments	-	-	2,535
<b>Net cash provided by (used for) capital financing activities</b>	<b>(9,204)</b>	<b>-</b>	<b>(1,578)</b>
<b>Cash flows from investing activities:</b>			
Purchase of investments	(6,123,452)	(392,051)	(3,870,482)
Proceeds from maturity of investments	6,110,654	387,849	3,681,609
Interest received from investments	17,390	5,462	35,219
<b>Net cash provided by (used for) investing activities</b>	<b>4,592</b>	<b>1,260</b>	<b>(153,654)</b>
Net Increase (decrease) in cash	4,303	(344)	(2,145)
Cash at the beginning of year	2,202	344	7,223
<b>Cash at the end of period</b>	<b>6,505</b>	<b>-</b>	<b>5,078</b>
<b>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities</b>			
Operating income (loss)	40,319	5,454	905
<i>Adjustments:</i>			
Depreciation expense	106	-	4,794
Provision for loan losses	989	(1,195)	612
Amortization of bond issuance costs	-	145	1,923
Net change in the fair value of investments	1,662	(19)	187
Transfers between funds for operating activity	(85,351)	2,077	83,274
Interest received from investments	(17,390)	(5,462)	(35,219)
Interest paid	7,543	19,376	118,002
<i>Changes in assets and liabilities:</i>			
Net increase (decrease) in mortgages and loans	(40,438)	16,587	104,907
Net increase (decrease) in assets and liabilities	17,798	205	(8,224)
<b>Net cash provided by (used for) operating activities</b>	<b>(74,762)</b>	<b>37,168</b>	<b>271,161</b>
<b>Noncash investing, capital and financing activities:</b>			
Asset transfers	(43,157)	41,366	1,791
Contributions from the State of Alaska	300,000	-	-
Purchase of investments	(358,293)	-	-
Other liabilities	58,293	-	-

See accompanying notes to the financial statements.

Total June 30, 2006	Year Ended June 30, 2005
182,622	201,929
532,174	542,245
(482,745)	(567,521)
-	-
(28,530)	(25,535)
(49,248)	(49,520)
28,269	22,611
31,970	32,908
(30,310)	(32,916)
52,312	62,961
(2,947)	(7,012)
233,567	180,150
335,806	405,993
(320,941)	(240,366)
-	(173,820)
(1,675)	(3,518)
(143,021)	(143,086)
2,012,356	828,416
(1,908,441)	(760,477)
(47,253)	(65,828)
-	-
-	(130)
(73,169)	(152,816)
(9,176)	(11,055)
-	739
-	24,000
(2,241)	(1,106)
-	(200)
(1,900)	(1,033)
2,535	-
(10,782)	11,345
(10,385,985)	(7,751,993)
10,180,112	7,675,078
58,071	40,066
(147,802)	(36,849)
1,814	1,830
9,769	7,939
11,583	9,769
46,678	40,057
4,900	5,072
406	(103)
2,068	2,725
1,830	1,653
-	-
(58,071)	(40,066)
144,921	144,119
81,056	22,192
9,779	4,501
233,567	180,150

NOTES TO FINANCIAL STATEMENTS

**FOOTNOTE INDEX**

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NOTES TO FINANCIAL STATEMENTS

**FOR THE YEAR ENDED JUNE 30, 2006**  
**(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2005)**

**1 AUTHORIZING LEGISLATION AND FUNDING**

The Alaska Housing Finance Corporation (Corporation), a public corporation and government instrumentality of the State of Alaska (State), was created in 1971, and substantially modified in 1992, by acts of the Alaska State Legislature (Legislature) to assist in the financing, development and sale of dwelling units, operate the State's public housing, offer various home loan programs emphasizing housing for low and moderate-income and rural residents, and administer energy efficiency and weatherization programs within Alaska. The Corporation is a component unit of the State of Alaska and is discretely presented in the State's financial statements.

Generally, the Corporation accomplishes its mortgage-related objectives by functioning as a secondary market for qualified real estate and mobile home loans originated by financial institutions. The Corporation is authorized by the Legislature to issue its own bonds, bond anticipation notes 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. Certain bonds issued to finance residences for qualified veterans are unconditionally guaranteed by the State of Alaska. No other obligations constitute a debt of the State.

The non-mortgage related programs of the Corporation are funded through various grant and program agreements with the federal government's departments of Housing and Urban Development (HUD), Energy (DOE), and Health and Human Services (HHS), as well as capital and operating subsidies from the Corporation's own funds.

The Northern Tobacco Securitization Corporation (NTSC) was incorporated in the State of Alaska pursuant to House Bill No. 281 of the Alaska Legislature, as a subsidiary of the Corporation. There is no financial accountability between NTSC and the Corporation. Neither the Corporation nor the State is liable for any debt issued by NTSC. NTSC is not a component unit of the Corporation and thus is not included in the Corporation's financial statements. NTSC is a government instrumentality of, but separate and apart from, the State and is reported as a blended component unit in the State's financial statements.

In accordance with the Legislature's intent, the Corporation formed a subsidiary, the Alaska Housing Capital Corporation ("AHCC"), under the Alaska Nonprofit Corporation Act (AS 10.20) and provisions of the Alaska Housing Finance Corporation Act (AS 18.56), as amended. AHCC was incorporated on May 23, 2006, as a public corporation and government instrumentality of, but having a legal existence independent of and separate from, the State of Alaska. AHCC is a subsidiary of, but separate and apart from, the Corporation. There is no financial accountability between AHCC and the Corporation. AHCC is not a component unit of the Corporation and thus is not included in the Corporation's financial statements.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting**

The Corporation's funds are accounted for as enterprise funds for financial reporting purposes. All funds utilize the economic resource measurement focus and accrual basis of accounting wherein revenues are recognized when earned and expenses when incurred. The Corporation applies all Governmental Accounting Standards Board (GASB) pronouncements for the Corporation's funds, as well as those Financial Accounting Standards Board (FASB) pronouncements issued before November 30, 1989, unless such pronouncements conflict with or contradict GASB pronouncements. After November 30, 1989, the Corporation only applies applicable GASB pronouncements.

**Basis of Presentation**

The Corporation's financial statements include a classified Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets formatted to report operating and non-operating revenues and expenses, a Cash Flow Statement presented using the direct method, and notes to the financial statements. The Corporation's financial statements present the Administrative Fund and the other Major Funds in separate columns. The remaining Non-Major Funds are aggregated and displayed in a single column. The total column presents the entity-wide amounts for the Corporation.

Summarized financial information for fiscal year 2006 has been presented in the accompanying financial statements in order to provide an understanding of changes in the Corporation's entity-wide financial position, results of operations and cash flows on an entity-wide basis. However, the summarized financial information is not intended to present the financial position, result of operations or cash flows in accordance with accounting principles generally accepted in the United States of America.

## NOTES TO FINANCIAL STATEMENTS

### **Major and Non-Major Funds**

The Corporation reports the following major and non-major funds:

*Administrative Fund.* This is the Corporation's primary operating fund. It accounts for all financial resources of the Corporation, except those accounted for in separate funds.

*Housing Development Bonds.* This fund accounts for debt issued and assets pledged for payment of the debt under the bond indentures for Housing Development projects.

*Other Non-Major Funds.* Resources to assist in the financing, development and sale of housing units, public housing assistance programs, energy programs, and home loan programs are aggregated and reported in Other Non-Major Funds.

### **Restricted Net Assets**

The restricted net asset amounts of the Administrative Fund consist of the Corporation's remaining commitments to the State (refer to Footnote No. 16, State Authorizations and Commitments, for further details). The remaining resources of the Administrative Fund are unrestricted.

The other financial activities of the Corporation are restricted by the Corporation's bond resolutions, requirements from the Legislature, and statutory requirements or third party agreements that restrict the use of resources. These restricted resources are recorded in various special purpose funds and accounts. Restricted funds with a net deficit balance are shown as having an unrestricted net asset balance pursuant to reporting requirements.

When both restricted and unrestricted resources are available in a fund, it is the Corporation's policy to spend restricted funds to the extent allowed and only spend unrestricted funds when needed.

### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates. The significant estimate for the Corporation is the allowance for loan losses.

### **Investments**

All investments are stated at fair value, except for nonparticipating investment agreements, which are stated at cost. The Corporation does not participate in any external investment pools.

### **Accrued Interest Receivable on Loans and Real Estate Owned**

Interest is accrued based upon the principal amount outstanding. Accrual of interest income is discontinued on loans when, in the opinion of management, collection of such interest becomes doubtful. When payment of interest is provided for pursuant to the terms of loan insurance or guarantees, accrual of interest on delinquent loans and real estate owned is continued.

### **Loans and Allowances for Estimated Loan Losses**

Mortgage loans are carried at their unpaid principal balances net of allowance for estimated loan losses. Mortgage loans are recorded as amounts are disbursed.

The Corporation provides for possible losses on loans anticipated to be foreclosed upon. A potential loss is recorded when the net realizable value, or fair value, of the related collateral or security interest is estimated to be less than the Corporation's investment in the property less anticipated recoveries from private mortgage insurance, private credit insurance, and various other loan guarantees. In providing for losses, through a charge to operations, consideration is given to the costs of holding real estate, including interest costs. The loan portfolio, property holding periods and property holding costs are reviewed periodically. While management uses the best information available to make evaluations, future adjustments to the allowances may be necessary if there are significant changes in economic conditions or property disposal programs.

NOTES TO FINANCIAL STATEMENTS

**Real Estate and Mobile Homes Owned**

Real estate and mobile homes owned consist principally of properties acquired through foreclosure or repossession and are carried at the lower of cost or estimated net realizable value. These amounts are included in other assets.

**Depreciation**

Depreciation and amortization of buildings, equipment and leasehold improvements are computed on a straight-line basis over the estimated useful lives of the related assets. Estimated useful lives range from 3 to 40 years. The capitalization floor is \$5,000.

**Bonds and Notes**

The Corporation issues bonds and notes to provide capital for its mortgage programs, and other uses consistent with its mission. The bonds and notes are recorded at cost plus accreted interest and premiums, less discounts and deferred debt refunding expenses. Discounts and premiums are amortized using the effective interest method. Deferred debt refunding expenses are amortized over the shorter of the remaining life of the old debt, or the remaining life of the new debt.

**Interest Rate Swap**

The Corporation's Fiscal Policies allow, with certain restrictions, the Corporation to enter into certain derivative financial instruments called interest rate swap agreements, or swaps. The Corporation enters into these swaps with various counter-parties to achieve a lower overall cost of funds for certain bond issuances. These agreements can be negotiated whereby the Corporation pays the counter-party a fixed interest rate in exchange for a variable interest rate payment from the counter-party, or vice-versa. The particulars of each swap are negotiated to achieve the financing objectives of the Corporation. Other than the net interest expense resulting from these agreements, no amounts are recorded in the Corporation's financial statements.

**Operating Revenues and Expenses**

The Corporation was created with the authority to issue bonds to the investing public in order to create a flow of private capital through the Corporation into mortgage loans to qualified housing sponsors and to certain individuals. The Corporation's primary purpose is to borrow funds in the bond market and to use those funds to make single-family and multi-family mortgages and loans. Its primary operating revenue is derived from the interest income and fees from those mortgages and loans and on the invested proceeds from the bond issues. Additionally, the Corporation's statutory purpose includes providing financial assistance programs for rental subsidies to tenants of various housing developments. The Corporation records all revenues from mortgages and loans, investments, rental activities, and externally funded programs as operating revenues. The primary costs of providing these programs are recorded as operating expenses.

**Income Taxes**

The Corporation is exempt from federal and state income taxes.

NOTES TO FINANCIAL STATEMENTS

**3 CASH AND INVESTMENTS**

Cash consists of demand deposits, time deposits and cash held in trust. The carrying amount of the Corporation's cash is restricted by bond resolutions, contractual agreements, and statutory agreements. A summary of the Corporation's cash is shown below (in thousands):

	June 30, 2006	June 30, 2005
Restricted cash	\$ 5,078	\$ 7,567
Unrestricted	6,505	2,202
Carrying amount	<u>\$ 11,583</u>	<u>\$ 9,769</u>
Bank balance	<u>\$ 12,297</u>	<u>\$ 11,570</u>

The fair value of debt security investments by contractual maturity is shown below (in thousands). Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without penalty.

	Investment Maturities (in Years)				June 30, 2006	June 30, 2005
	Less Than 1	1-5	6-10	More Than 10		
Bank investment contracts	\$ 158,358	\$ -	\$ -	\$ -	\$ 158,358	\$ 198,848
U.S. Treasury securities	152,746	35,221	-	-	187,967	73,603
Securities of U.S. Government agencies and corporations	206,432	32,424	757	644	240,257	256,002
Asset-backed securities	782	10,481	-	-	11,263	24,067
Certificates of deposit	15,000	-	-	-	15,000	15,000
Commercial paper & medium term notes	630,514	23,950	1,134	-	655,598	489,860
Guaranteed investment contracts	130,170	-	-	-	130,170	128,907
Money market funds	10,697	-	-	-	10,697	33,128
Total AHFC portfolio	<u>\$1,304,699</u>	<u>\$102,076</u>	<u>\$ 1,891</u>	<u>\$ 644</u>	1,409,310	1,219,415
SOA investment pools (Note 16)					358,868	-
Total investments					<u>\$1,768,178</u>	<u>\$1,219,415</u>

**Restricted Investments**

The carrying amount of the Corporation's investments, a majority of which are restricted by bond resolutions, contractual agreements, and statutory agreements, is shown below (in thousands):

	June 30, 2006	June 30, 2005
Restricted investments	\$ 1,411,309	\$ 857,599
Unrestricted	356,869	361,816
Carrying amount	<u>\$ 1,768,178</u>	<u>\$ 1,219,415</u>



NOTES TO FINANCIAL STATEMENTS

**Realized Gains and Losses**

The calculation of realized gains is independent of the calculation of the net increase in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current period may have been recognized as an increase or decrease in the fair value of investments reported in the prior year. The net increase in the fair value of investments included in the table below takes into account all changes in fair value (including purchases and sales) that occurred during the period. A summary of the gains and losses is shown below (in thousands):

	June 30, 2006	June 30, 2005
Ending unrealized holding gain	\$ 859	\$ 423
Beginning unrealized holding gain (loss)	423	(745)
Net change in unrealized holding gain (loss)	436	1,168
Net realized loss	(2,266)	(2,821)
Net decrease in Fair Value	<u>\$ (1,830)</u>	<u>\$ (1,653)</u>

**Deposit and 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 trust or non-trust, and this determines the applicable investment guidelines used by staff when making investment decisions.

The Corporation's fiscal policies provide investment guidelines for non-trusted funds. Funds are invested according to anticipated use: those that must remain immediately available to provide working capital are invested in short-term, highly liquid securities, while those not expected to be used in the short-term are invested in longer-term securities.

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

- Obligations of, or obligations guaranteed as to principal and interest by, the United States or any agency or instrumentality thereof when such obligations are backed by the full faith and credit of the United States;
- Obligations of U.S. government-sponsored agencies, including mortgage securities, that are not backed by the full faith and credit of the U.S. Government;
- Bank debt obligations, including unsecured certificates of deposit, notes, time deposits, and bankers' acceptances (having maturities of not more than 365 days) of, and deposits with, any bank the short-term obligations of which have been rated at least "A-1" by S&P or "P-1" by Moody's or "F-1" by Fitch;
- Deposits in and investments of a commercial bank or credit union which are fully insured by the FDIC or NCUA or, to the extent not insured by the FDIC or NCUA, provide for the pledge of collateral maintained at a minimum level of 105% and valued at least monthly;
- Debt obligations, other than those that do not have a fixed par value or terms that do not promise a fixed dollar amount at maturity or call date, rated at least "AA" by S&P or "Aa" by Moody's or "AA" by Fitch if maturing in excess of one year, and "A-1" by S&P or "P-1" by Moody's or "F1" by Fitch if maturing in one year or less;
- Asset-backed securities, other than commercial paper and those that do not have a fixed par value or terms that do not promise a fixed dollar amount at maturity or call date, rated at least "AA" by S&P or "Aa" by Moody's or "AA" by Fitch;
- Commercial paper, including asset-backed commercial paper, rated at least "A-1" by S&P or "P-1" by Moody's or "F1" by Fitch;
- Repurchase agreements (repos) with a corporation or other entity which has long-term debt ratings of at least "A" by S&P or "A" by Moody's or "A" by Fitch or short-term ratings of at least "A-1" by S&P or "P-1" by Moody's or "F-1" by Fitch and where collateral is maintained at a minimum level of 102%, valued on a daily basis;
- Money market funds which are rated at least "AAm" or "AAm-G" by S&P or "Aa" by Moody's, or "V-1+" by Fitch;
- Investment agreements or guaranteed investment contracts with an insurance company, bank or other financial institution having outstanding unsecured long-term obligations rated, or a claims paying or investment agreement rating, at least "AA" by S&P or "Aa" by Moody's or "AA" by Fitch, or, if the term is one year or less, at least "A-1" by S&P or "P-1" by Moody's or "F1" by Fitch;

NOTES TO FINANCIAL STATEMENTS

- Floating rate notes issued by entities having outstanding unsecured long-term obligations rated “AA” by S&P or “Aa” by Moody’s or “AA” by Fitch, or, if the term of the floating rate note is one year or less, having outstanding short-term obligations rated at least “A-1” by S&P or “P-1” by Moody’s or “F1” by Fitch; with interest rates subject to adjustment at least every 100 days; and with a maximum maturity of three years or less, or an optional tender available to bondholders no less frequently than every interest rate reset date;
- Adjustable rate funds, provided they are rated “AAA” credit and “S-1” volatility by S&P and “Aaa” by Moody’s;
- International Bank for Reconstruction & Development debt obligations rated “AAA” by S&P or “Aaa” by Moody’s or “AAA” by Fitch.

Trusted funds are invested according to the terms outlined in their respective indentures or governing agreements, which generally mandate the purchase of relatively short-term, high quality fixed income securities. In those rare instances, if any, where an indenture or governing agreement is less restrictive than the Corporation’s fiscal policies for non-trust funds, the investment will be made in accordance with the more restrictive fiscal policies.

**Credit Risk**

Credit risk is the risk of loss due to the failure of the security or backer. The Corporation mitigates its credit risk by limiting investments to those permitted in the deposit and investment policies, diversifying the investment portfolio, and pre-qualifying firms with which the Corporation administers its investment activities.

The credit quality ratings of the Corporation’s investments as of June 30, 2006, as described by nationally recognized statistical rating organizations, are shown below (in thousands). \$187,967,000 of U.S. Treasury securities and securities of agencies and corporations which are explicitly guaranteed by the U.S. government are not considered to have credit risk and therefore, are not included in the summary.

	Moody’s	S & P	Investment Fair Value
Securities of U. S. Government agencies and corporations:			
Aaa		AAA	\$ 240,257
Asset-backed securities:			
Aaa		AAA	10,166
Commercial paper & medium-term notes:			
Aaa		AAA	7,070
Aa1		AA+	1,945
Aa1		AA-	1,937
Aa2		AA	1,108
Aa2		AA-	2,898
Aa2		A+	2,047
Aa3		AA	6,494
Aa3		AA-	5,237
Aa3		A+	4,532
A1		AA-	1,000
P-1		A-1+	466,250
P-1		A-1	102,344
--		A-1	50,224
Baa3		BBB	1,134
			<u>654,220</u>
Money market funds			
--		AAAm	10,661
<u>Unrated investments:</u>			
Bank investment contracts			158,358
Asset-backed securities			1,097
Certificates of deposit			15,000
Guaranteed investment contracts			130,170
Money market funds			36
Commercial paper & medium-term notes			1,378
			<u>306,039</u>
			<u>\$ 1,221,343</u>

NOTES TO FINANCIAL STATEMENTS

**Concentration Risk**

Concentration risk is the risk of loss attributed to the magnitude of the Corporation's investment in a single issuer. Concentration limits are not established in the bond indentures and governing agreements for trust investments. The Corporation's fiscal policies set the maximum concentration limits for non-trust investments as follows:

Investment Type	Investment Type Limit as a % of Total Portfolio	Issuer Limit as a % of Total Portfolio
General obligations of the United States	100%	100%
Securities of U.S. Government agencies and corporations	65%	35%
Corporate and non-corporate (including the following):	60%	5%
<ul style="list-style-type: none"> <li>• Adjustable rate funds</li> <li>• Bank investment contracts</li> <li>• Certificates of deposit</li> <li>• Commercial paper &amp; medium term notes</li> <li>• Deposits in and investments of a commercial bank or credit union</li> <li>• Floating or variable rate notes</li> <li>• Guaranteed investment contracts</li> <li>• Money market funds</li> <li>• Repurchase agreements</li> </ul>		
Mortgage and asset-backed securities	20%	5%

**Investment Holdings Greater than Five Percent of Total Portfolio**

The following investment holdings, summarized by issuer, include both investments that are governed by the maximum concentration limits of the Corporation's fiscal policy and trusted investments which have no established concentration limits. Investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds, external investment pools, and other pooled investments are excluded from this summary. As of June 30, 2006, the Corporation had investment balances, greater than 5 percent of the Corporation's total investments, with the following issuers (in thousands).

Issuer	Investment Fair Value	Percentage of Total Portfolio
Federal National Mortgage Association	\$ 185,727	13.2%
HBOS Treasury Services	123,217	8.8
Chesham Fin	122,723	8.7
FSA Capital Management Services	105,000	7.5
Bayerische Landesbank	93,121	6.6

**Custodial Credit Risk**

The Corporation assumes levels of custodial credit risk for its deposits with financial institutions, bank investment agreements, and investments. For deposits, custodial credit risk is the risk that, in the event of a bank failure, the Corporation's deposits may not be returned. For bank investment agreements and investments, custodial credit risk is the risk that, in the event of failure of the custodian or counterparty holding the investment, the Corporation will not be able to recover the value of the investment. The Corporation has not established a formal custodial credit risk policy for its investments.

Of the Corporation's \$12,297,000 bank balance at June 30, 2006, cash deposits in the amount of \$9,399,000 were uninsured and uncollateralized.

Of the Corporation's \$1,409,310,000 total investments at June 30, 2006, bank investment contracts in the amount of \$93,121,000 were uninsured, unregistered, and held by the counterparty or its agent, but not in the Corporation's name.

NOTES TO FINANCIAL STATEMENTS

**Interest Rate Risk**

Interest rate risk is the risk that the market value of investments will decline as a result of changes in general interest rates. For non-trust investments, the Corporation mitigates interest rate risk by structuring its investment maturities to meet cash requirements (including corporate operations), thereby avoiding the need to sell securities in the open market prior to maturity. For investments held in trust, investment maturities are structured to meet cash requirements as outlined in the bond indentures and contractual and statutory agreements.

**Modified Duration**

Modified duration estimates the sensitivity of an investment to interest rate changes. The following table shows the Corporation's trusted and non-trusted investments (in thousands) with their modified duration as of June 30, 2006:

	<b>Investment Fair Value</b>	<b>Modified Duration</b>
Bank investment contracts	\$ 158,358	0.000
U.S. Treasury securities:		
Treasury coupon securities	187,967	0.792
Securities of U.S. Government agencies and corporations:		
Federal agency discounts	198,102	0.157
Federal agency coupon securities	35,893	1.575
Federal agency pass through securities	6,262	1.278
Asset-backed securities	11,263	3.141
Certificates of deposit	15,000	0.136
Commercial paper & medium term notes:		
Commercial paper discounts	620,195	0.144
Corporate bonds	5,003	1.725
Medium term notes	26,870	1.639
Municipal bonds	1,134	7.178
Floating rate notes	2,396	1.072
Guaranteed investment contracts	130,170	0.000
Money market funds	<u>10,697</u>	0.000
	<u>\$ 1,409,310</u>	
Portfolio modified duration		0.338

A minimal percentage of the Corporation's total investment portfolio is municipal bonds, which are relatively more sensitive to changing interest rates than the rest of the Corporation's investment portfolio. Municipal bonds held as of June 30, 2006, are as follows (in thousands):

	<b>Fair Value</b>	<b>Rate</b>	<b>Maturity</b>
Northern Tobacco Securitization Corporation	\$ 1,134	4.75%	June 1, 2015

**Reverse Repurchase Agreements**

State statutes permit the Corporation to enter into reverse repurchase agreements. At June 30, 2006, the credit exposure related to these agreements was approximately \$1,930,000. All sales of investments under such agreements are for fixed terms. When investing the proceeds of reverse repurchase agreements, Corporation policy requires that the investment term to maturity be the same as that of the reverse repurchase agreement. Such term matching existed at June 30, 2006. Reverse repurchase agreements are currently being issued to warehouse refunded debt, thereby preserving the attributes of the refunded debt for future bond refunding opportunities.

NOTES TO FINANCIAL STATEMENTS

#### 4 MORTGAGE LOANS, NOTES AND OTHER LOANS

A summary of mortgage loans, notes and other loans is shown below: (in thousands):

	June 30, 2006	June 30, 2005
Mortgage loans	\$ 3,041,707	\$ 3,107,178
Mortgage-backed securities issued by the Corporation	-	15,387
Multi-family loans	260,757	262,066
Other notes receivable	26,726	29,142
	3,329,190	3,413,773
Less:		
Allowance for losses	(88,981)	(88,591)
Net Mortgage loans, notes and other loans	<u>\$ 3,240,209</u>	<u>\$ 3,325,182</u>

Other supplemental loan information is summarized in the following table (in thousands):

	June 30, 2006	June 30, 2005
<u>Delinquencies and foreclosures:</u>		
Loans delinquent 30 days or more	\$ 98,249	\$ 100,797
Foreclosures during period	1,315	2,347
Loans in foreclosure process	7,828	9,629
<u>Mortgage-related commitments:</u>		
To purchase mortgage loans	117,500	109,845
To repurchase loans upon foreclosure	-	13,694

#### 5 INSURANCE AGREEMENTS

The Corporation has obtained private mortgage insurance, credit insurance, or guarantees on certain mortgages and loans. The agreements protect the Corporation to varying degrees against losses arising from the disposition of the related collateral obtained through foreclosure or repossession, as well as the costs of obtaining title to, maintaining, and liquidating the collateral. The Corporation is exposed to losses on disposition in the event the insurers or guarantors are unable or refuse to meet their obligations under these agreements.

#### 6 LOAN SELF INSURANCE PROGRAM

The Corporation, for the purpose of insuring itself against losses which might occur as a result of mortgages purchased under various loan programs, collects insurance premiums from the borrowers. The insurance premiums are held in trust by a commercial banking institution and are administered by the management of the Corporation. They are included in the Administrative Fund in the accompanying financial statements.

NOTES TO FINANCIAL STATEMENTS

## 7 DIRECT FINANCING LEASE

In July 1997, the Corporation purchased an office building in downtown Anchorage with its Administrative Fund assets for approximately \$26 million. The building is part of the Corporation's State Lease Building Program (the "Program") and has been leased to the State of Alaska for occupancy by its departments and agencies located in Anchorage. The State has the option to purchase the building at the end of the lease for \$1. In December 1999 the Corporation issued the State Building Lease Bonds, 1999 Series in the amount of \$40,000,000 to finance the purchase. The lease of the building to the State has been recorded as a direct financing lease.

In May 2005, the Corporation issued General Housing Purpose Bonds, 2005 Series C to defease \$16,485,000 of the State Building Lease Bonds, 1999 Series. As a result, the liability of these bonds has been reduced, and the lease balance was decreased by \$1,792,000.

The following table lists the components of the net investment in direct financing lease and shows the future minimum payments under the lease for the next five years and thereafter (in thousands):

12 Months Ending June 30	Future Minimum Payments Due
2007	\$ 3,467
2008	3,467
2009	3,467
2010	3,467
2011	3,467
Thereafter	<u>20,802</u>
Gross payments due	38,137
Less: Unearned revenue	<u>(9,027)</u>
Net investment in direct financing lease	<u>\$ 29,110</u>

## 8 CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2006 and a summary of balances are shown below (in thousands):

	July 1, 2005	Additions	Reductions	June 30, 2006
<b>NON-DEPRECIABLE CAPITAL ASSETS:</b>				
Land	\$ 13,762	\$ -	\$ -	\$ 13,762
Construction in progress	26,929	8,501	(9,657)	25,773
TOTAL NON-DEPRECIABLE	<u>40,691</u>	<u>8,501</u>	<u>(9,657)</u>	<u>39,535</u>
<b>DEPRECIABLE CAPITAL ASSETS:</b>				
Buildings	160,475	9,657	(3,153)	166,979
Computers & Equipment	3,247	281	(820)	2,708
Leasehold Improvements	88	-	-	88
Vehicles	1,955	75	(7)	2,023
	<u>165,765</u>	<u>10,013</u>	<u>(3,980)</u>	<u>171,798</u>
Less: Accumulated depreciation				
Buildings	(85,836)	(4,575)	3,153	(87,258)
Computers & Equipment	(2,927)	(163)	820	(2,270)
Leasehold Improvements	(5)	(22)	-	(27)
Vehicles	(1,615)	(140)	7	(1,748)
	<u>(90,383)</u>	<u>(4,900)</u>	<u>3,980</u>	<u>(91,303)</u>
TOTAL DEPRECIABLE, NET	<u>75,382</u>	<u>5,113</u>	<u>-</u>	<u>80,495</u>
<b>TOTAL CAPITAL ASSETS, NET</b>	<u>\$ 116,073</u>	<u>\$ 13,614</u>	<u>\$ (9,657)</u>	<u>\$ 120,030</u>

The depreciation expense charged by the Corporation was \$4,900,000 for the year ended June 30, 2006. The Corporation is obligated under contracts and other commitments to purchase and/or modernize certain fixed assets. The total commitment, including amounts to be funded by third parties, was \$3,744,000 at June 30, 2006.

NOTES TO FINANCIAL STATEMENTS

**9 BONDS AND NOTES PAYABLE**

With the exception of the Veterans Mortgage Program Bonds, the Corporation's obligations are not a debt of the State and the State is not directly liable thereon. The Veterans Mortgage Program Bonds and Notes are backed by the full faith and credit of the State. All of the bonds and notes are secured, as described in the applicable agreements, by the revenues, monies, investments, mortgage loans and other assets in the funds and accounts established by the respective security agreements. A substantial portion of the assets of the Corporation is pledged to the outstanding obligations of the Corporation.

Bonds and notes outstanding are shown below (in thousands):

	Original Amount	June 30, 2006	June 30, 2005
<b>FIRST-TIME HOME BUYER BONDS:</b>			
<b><i>Mortgage Revenue Bonds:</i></b>			
<b>Tax-Exempt:</b>			
• 1997 Series A, 4.9% to 6.0%, due 2006-2037	\$ 160,000	\$ 51,135	\$ 59,500
Accreted interest		7,593	6,497
Unamortized discount		(371)	(386)
• 1998 Series A, 4.65% to 5.4%, due 2006-2035	70,000	32,680	36,765
• 1999 Series A1 & A2 5.25% to 6.25%, due 2006-2031	200,000	109,140	133,070
Unamortized discount		(113)	(115)
• 2000 Series A, 5.9% to 6.0%, due 2036-2040	58,315	28,920	28,920
• 2000 Series B, 5.45%, due 2015	3,795	3,795	3,795
• 2000 Series C, 4.9% to 6.0% due 2006-2032	68,785	35,510	40,340
Unamortized discount		(179)	(211)
• 2001 Series A, 3.5% to 5.3%, due 2006-2031	32,740	24,245	26,165
• 2001 Series B, 4.15% to 5.45%, due 2007-2041	104,450	57,895	75,325
Unamortized premium		64	69
• 2002 Series A, Floating Rate*, 4.03% at June 30, 2006, due 2032, 2036	170,000	170,000	170,000
• 2006 Series A, 3.4% to 5.0%, due 2006-2036	98,675	98,185	-
Unamortized premium		1,216	-
• 2006 Series B, 3.5% to 5.0%, due 2007-2036	75,000	75,000	-
Unamortized premium		812	-

NOTES TO FINANCIAL STATEMENTS

	Original Amount	June 30, 2006	June 30, 2005
<b>Taxable:</b>			
• 2000 Series D, 7.25% to 7.32%, due 2006-2020	25,740	4,535	8,140
• 2002 Series B, Floating Rate* 5.44% at June 30, 2006, due 2036	30,000	11,545	24,255
TOTAL FIRST-TIME HOMEBUYER BONDS	<u>1,097,500</u>	<u>711,607</u>	<u>612,129</u>

**VETERANS MORTGAGE PROGRAM BONDS AND NOTES:**

***Collateralized State Guaranteed Bonds and Notes:***

**Tax-Exempt:**

• Collateralized Bonds 1997 First Series, 5.5%, due 2039	100,000	10,495	20,120
• Collateralized Bonds 1998 First and Second Series, 4.7% to 5.5%, due 2006-2040 Unamortized discount	60,000	21,725 (177)	27,310 (183)
• Collateralized Bonds 1999 First Series, 5.0% to 6.25%, due 2006-2039	110,000	47,950	59,110
• Collateralized Bonds 2000 First Series, 5.5% to 6.45%, due 2006-2039	70,000	25,960	33,145
• Collateralized Bonds 2002 First Series, 4.15% to 5.65%, due 2006-2034	50,000	26,905	32,970
• Collateralized Bonds 2005 First Series, 4.8%, due 2035	15,000	15,000	-
• Collateralized Notes 2005 Second Series, 3.43%, due 2006	145,000	145,000	-
TOTAL VETERANS MORTGAGE PROGRAM BONDS AND NOTES	<u>550,000</u>	<u>292,858</u>	<u>172,472</u>

**OTHER HOUSING BONDS:**

***Housing Development Bonds:***

**Tax-Exempt:**

• 1997 Series A, 4.9% to 5.7%, due 2006-2029	6,510	245	360
• 1997 Series B, 5.0% to 5.8%, due 2006-2029	17,000	635	930
• 1999 Series A, 4.95% to 6.3%, due 2006-2029	1,675	1,515	1,545
• 1999 Series B, 5.0% to 6.37%, due 2006-2029 Unamortized discount	5,080	4,625	4,710 (2)
• 1999 Series C, 4.875% to 6.2%, due 2006-2029 Unamortized discount	50,000	45,375	46,235 (17)
• 2000 Series B, Floating Rate*, monthly payments, 3.97% at June 30, 2006, due 2030	41,705	41,705	41,705



NOTES TO FINANCIAL STATEMENTS

	Original Amount	June 30, 2006	June 30, 2005
• 2002 Series A, 3.0% to 5.3%, due 2006-2033	8,440	3,280	3,420
• 2002 Series B, 2.85% to 5.15%, due 2006-2022	8,690	7,625	7,930
• 2002 Series C, 2.85% to 5.25%, due 2006-2032	70,000	65,760	67,010
• 2002 Series D, Floating Rate*, monthly payments, 3.9% at June 30, 2006, due 2037	37,870	35,750	36,380
• 2004 Series A, 2.0% to 4.85%, due 2006-2030	33,060	31,705	32,405
• 2004 Series B, 1.8% to 4.75%, due 2006-2032	52,025	49,715	51,070
<b>Taxable:</b>			
• 1997 Series C, 6.8% to 7.55%, due 2007-2029	23,895	735	1,065
• 2004 Series C, Floating Rate Auction Bonds** Payments every five weeks, 5.2% at June 30, 2006 due 2006-2035	42,125	7,550	23,275
• 2004 Series D, 3.65% to 5.6%, due 2008-2043	105,000	105,000	105,000
SUB-TOTAL HOUSING DEVELOPMENT BONDS	503,075	401,220	423,021
<b>General Mortgage Revenue Bonds:</b>			
<b>Tax-Exempt:</b>			
• 1997 Series A, 5.1% to 6.1%, due 2006-2037 Accreted interest	434,911	241,851 7,716	270,576 6,656
• 1999 Series A, 4.85% to 6.05%, due 2006-2049 Unamortized deferred debt refunding expense Unamortized discount	302,700	248,060 (1,624) (1,579)	249,760 (1,706) (1,677)
• 2002 Series A, 3.45% to 5.0%, due 2010-2040 Unamortized deferred debt refunding expense Unamortized premium	150,000	150,000 (1,239) 576	150,000 (1,282) 593
<b>Government Purpose Bonds:</b>			
<b>Tax-Exempt:</b>			
• 1997 Series A, Floating Rate* monthly payments, 4.01% at June 30, 2006, due 2027	33,000	23,300	26,700
• 2001 Series A, Floating Rate*, 3.98% at June 30, 2006, due 2030	76,580	69,190	70,830
• 2001 Series B, Floating Rate*, 3.90% at June 30, 2006, due 2030	93,590	84,555	86,555

NOTES TO FINANCIAL STATEMENTS

	Original Amount	June 30, 2006	June 30, 2005
<b>Taxable:</b>			
• 2001 Series C, Floating Rate*, monthly payments, 5.32% at June 30, 2006, due 2032	100,000	78,070	96,580
• 2001 Series D, Floating Rate*, monthly payments, 4.92% at June 30, 2006, due 2032	100,000	-	62,070
TOTAL OTHER HOUSING BONDS	<u>1,793,856</u>	<u>1,300,096</u>	<u>1,438,676</u>
<b>NON-HOUSING BONDS:</b>			
<b>State Capital Project Bonds:</b>			
<b>Tax-Exempt:</b>			
• 1999 Series A, 4.0% to 5.0%, due 2005 Unamortized premium	92,365	-	7,665 859
• 1999 Series B, 4.8% to 5.5%, due 2005 Unamortized premium	103,980	-	13,185 805
• 2001 Series A, 4.0% to 5.25%, due 2006-2007 Unamortized premium	74,535	19,500 958	46,190 1,302
• 2002 Series A, 3.0% to 5.0%, due 2006-2011 Unamortized premium	32,905	23,320 956	26,655 1,161
• 2002 Series B, Floating Rate Auction Bonds** Payments every four weeks, 3.5% at June 30, 2006, due 2024	14,555	14,555	14,555
• 2002 Series C, Floating Rate* 4.0% at June 30, 2006, due 2022	60,250	60,250	60,250
<b>State Building Lease Bonds:</b>			
<b>Tax-Exempt:</b>			
• 1999 Series, 4.875% to 5.8%, due 2006-2017 Unamortized discount	40,000	12,270 (73)	14,165 (74)
<b>General Housing Purpose Bonds:</b>			
<b>Tax-Exempt:</b>			
• 1992 Series A, 6.1% to 6.6%, due 2006-2023	200,000	18,705	23,340
• 2003 Series A, Floating Rate*, monthly payments, 3.98% at June 30, 2006, due 2023	143,995	131,625	136,790
• 2003 Series B, Floating Rate*, monthly payments, 3.98% at June 30, 2006, due 2023	16,095	16,095	16,095
• 2005 Series A, 2.2% to 5.25%, due 2006-2041 Unamortized premium	143,235	142,740 5,117	143,235 6,114

NOTES TO FINANCIAL STATEMENTS

	Original Amount	June 30, 2006	June 30, 2005
• 2005 Series B, 2.7% to 5.25%, due 2006-2030	147,610	144,415	147,610
Unamortized deferred debt refunding expense		(12,755)	(11,646)
Unamortized premium		7,617	9,758
• 2005 Series C, 2.7% to 5%, due 2006-2017	16,885	16,840	16,885
TOTAL NON-HOUSING BONDS	<u>1,086,410</u>	<u>602,135</u>	<u>674,899</u>
<b>OTHER PROGRAM FUNDS:</b>			
<b>Home Ownership Notes:</b>			
<b>Tax-Exempt:</b>			
• Wrangell Project HUD Note, monthly payments, 1.0%-3.0%, due 2006-2007	1,161	527	554
TOTAL OTHER PROGRAMS	<u>1,161</u>	<u>527</u>	<u>554</u>
<b>TOTAL BONDS AND NOTES PAYABLE</b>	<u>\$ 4,528,927</u>	<u>\$ 2,907,223</u>	<u>\$ 2,898,730</u>

Note: Debt service payments on the above mentioned bonds and notes are semi-annual unless otherwise mentioned.

\* Interest rates on the annotated variable-rate bonds are established by the Remarketing Agents on each Rate Determination Date.

\*\* Interest rates on the annotated variable-rate auction bonds are established by the Auction Agents on each Auction Date.

**Redemption Provisions**

The bonds and notes are generally subject to certain early-redemption provisions, both mandatory and at the option of the Corporation. The Corporation redeems debt, pursuant to the provisions of the related agreements which permit surplus revenues, resulting primarily from mortgage loan prepayments, to be used to retire the obligations at par. The Corporation also issues new debt whose proceeds are used to immediately redeem previously issued debt, called current refundings. The accelerated amortization of related discounts and costs of issuance resulting from these early redemptions is included in interest expense and financing costs. The Corporation may call some bonds at a premium using any monies once bonds reach a certain age and may also use a clean-up call to redeem certain bonds once they reach 15% of issuance.

During the year ended June 30, 2006, the Corporation made special revenue redemptions of \$232,125,000 and no current refundings. The Corporation made special revenue redemptions of \$150,596,000 and no current refundings during fiscal year 2005.

**Advance Refundings**

From time to time, the Corporation effects an advanced refunding where the proceeds of issued bonds are used to defease outstanding debt of the Corporation. The result is an in-substance defeasance whereby the Corporation purchases securities which are deposited into an irrevocable trust with an escrow agent to provide all future debt service payments on the refunded bonds. A summary of the defeased debt follows (in thousands):

	June 30, 2006	June 30, 2005
Governmental Purpose Bonds, 1995 Series A	\$ -	\$ 150,995
State Building Lease Bonds, 1999 Series	16,485	16,485
	<u>\$ 16,485</u>	<u>\$ 167,480</u>

The final redemption of \$150,995,000 of the Governmental Purpose Bonds, 1995 Series A, occurred on December 1, 2005, of which \$149,640,000 was a special redemption.

NOTES TO FINANCIAL STATEMENTS

**Debt Service Requirements\*\***

For all mortgage bonds and notes in the preceding schedules, the Corporation's debt service requirements through 2011 and in five year increments thereafter to maturity, categorized by each Major Fund and other Non-Major Funds in the aggregate, are shown below and continued on the following page (in thousands):

12 Months Ending June 30	Housing Development Bonds (Various Issues)		Other Non-Major Bonds	
	Principal	Interest*	Principal	Interest*
2007	\$ 6,310	\$ 19,556	\$ 205,658	\$ 121,957
2008	6,780	19,376	44,239	114,065
2009	6,770	19,088	43,505	112,031
2010	7,060	18,840	40,310	110,164
2011	7,370	18,596	45,670	108,224
Total Five Years 2007-2011	34,290	95,456	379,382	566,441
<b>Five Years Ending June 30</b>				
2012-2016	42,610	87,602	288,355	501,667
2017-2021	54,540	75,859	343,341	454,671
2022-2026	65,030	60,521	368,222	348,369
2027-2031	114,095	41,485	448,313	263,200
2032-2036	47,585	18,511	287,034	163,322
2037-2041	30,610	8,185	287,616	51,929
2042-2046	12,460	809	53,330	19,738
2047-2049	-	-	35,895	3,816
	<u>\$ 401,220</u>	<u>\$ 388,428</u>	<u>\$ 2,491,488</u>	<u>\$ 2,373,153</u>

\* Interest requirements for variable-rate bonds have been computed using the effective interest rate at June 30, 2006.

\*\* Also see Note 10 – Derivatives.

NOTES TO FINANCIAL STATEMENTS

<b>Total Debt Service</b>		
<b>Principal</b>	<b>Interest*</b>	<b>Total</b>
\$ 211,968	\$ 141,513	\$ 353,481
51,019	133,441	184,460
50,275	131,119	181,394
47,370	129,004	176,374
53,040	126,820	179,860
413,672	661,897	1,075,569
330,965	589,269	920,234
397,881	530,530	928,411
433,252	408,890	842,142
562,408	304,685	867,093
334,619	181,833	516,452
318,226	60,114	378,340
65,790	20,547	86,337
35,895	3,816	39,711
<u>\$ 2,892,708</u>	<u>\$ 2,761,581</u>	<u>\$ 5,654,289</u>

NOTES TO FINANCIAL STATEMENTS

## 10 DERIVATIVES

### Swap Objectives

In order to both reduce the Corporation's overall cost of borrowing long-term capital and protect against the potential of rising interest rates, AHFC entered into six separate pay-fixed, receive-variable interest rate swap agreements at a cost less than what the Corporation would have paid to issue conventional fixed-rate debt.

### Swap Payments and Associated Debt

As of June 30, 2006, debt service requirements of the Corporation's outstanding variable-rate debt and net swap payments, assuming current interest rates remain the same, for their terms are displayed in the following schedule. As interest rates vary, variable-rate bond interest payments and net swap payments will also vary.

Fiscal Year Ending June 30	VRDO Principal	VRDO Interest	Swap Net Payment	Total Payments
2007	\$ 3,795	\$ 15,744	\$ 2,067	\$ 21,606
2008	4,640	15,644	2,045	22,329
2009	5,135	15,420	2,019	22,574
2010	5,465	15,231	1,990	22,686
2011	5,710	15,013	1,960	22,683
2012-2016	61,630	69,378	9,107	140,115
2017-2021	82,715	54,834	7,458	145,007
2022-2026	94,065	36,556	5,437	136,058
2027-2031	80,440	19,736	3,172	103,348
2032-2036	49,415	6,768	1,178	57,361
2037-2041	5,540	112	19	5,671
	<u>\$ 398,550</u>	<u>\$ 264,436</u>	<u>\$ 36,452</u>	<u>\$ 699,438</u>

### Significant Terms

The terms, fair values and credit ratings of the Corporation's outstanding swaps as of June 30, 2006, are included in the following schedule. The notional amounts of the swaps match the principal amounts of the associated debt. These notional amounts amortize over a time period that approximates the payments the Corporation would experience with a fixed-rate, level debt service schedule and are expected to follow scheduled or anticipated reductions in the associated bonds outstanding.

Related Bond Issue	Notional Amounts	Present Values	Fair Values	Effective Date	Fixed Rate Paid	Variable Rate Received	Swap Termination Date	Counterparty Credit Rating <sup>6</sup>
GP01A <sup>1</sup>	\$ 69,190	\$ 71,516	\$ (2,326)	08/02/01	4.1427%	67% of LIBOR <sup>4</sup>	12/01/30	A/A2
GP01B	84,555	87,375	(2,820)	08/02/01	4.1427%	67% of LIBOR	12/01/30	A+/Aa3
E021A1 <sup>2</sup>	50,000	51,326	(1,326)	05/16/02	4.1030%	68% of LIBOR	06/01/32	AAA/Aaa
E021A2	120,000	121,989	(1,989)	05/16/02	4.3430%	68% of LIBOR	12/01/36	AAA/Aaa
SC02B <sup>3</sup>	14,555	14,086	469	12/05/02	3.7700%	70% of LIBOR	07/01/24	AAA/Aaa
SC02C	60,250	60,169	81	12/05/02	4.3030%	BMA <sup>5</sup> + 0.115%	07/01/22	AAA/Aaa
	<u>\$ 398,550</u>	<u>\$ 406,461</u>	<u>\$ (7,911)</u>					

1. Governmental Purpose Bonds
2. Home Mortgage Revenue Bonds
3. State Capital Project Bonds
4. London Interbank Offered Rate
5. The Bond Market Association Municipal Swap Index
6. Standard & Poor's/Moody's

NOTES TO FINANCIAL STATEMENTS

**Fair Value**

Because interest rates have declined sharply and taxable/tax-exempt spreads have narrowed since the agreements became effective, the majority of the Corporation's LIBOR-based and BMA-based interest rate swaps had a negative fair value as of June 30, 2006. The negative fair values are countered by reductions in total interest payments required under the variable-rate bonds. Given that coupons on the Corporation's variable-rate bonds adjust to changing interest rates, the associated debt does not have corresponding increases in fair value. The fair value amounts, obtained from mark to market statements from the respective counterparties and reconciled to present value calculations done by the Corporation, represent mid-market valuations that approximate the current economic value using market averages, reference rates, and/or mathematical models. Actual trade prices may vary significantly from these estimates as a result of various factors, which may include (but are not limited to) portfolio composition, current trading intentions, prevailing credit spreads, market liquidity, hedging costs and risk, position size, transaction and financing costs, and use of capital profit. The fair value represents the current price to settle swap liabilities in the marketplace if a swap were to be terminated.

**Risks**

**a. Credit Risk**

As of June 30, 2006, the Corporation was exposed to credit risk on its SC02B and SC02C outstanding swaps in the amount of the swap's fair value of \$550,000. The swap agreements contain varying collateral agreements with the counterparties and require full collateralization of the fair value amount of the swap should the counterparty's rating fall below specific levels. The Corporation currently has swap agreements with four separate counterparties. Approximately 61% of the total notional amount of swaps is held with two separate counterparties, both of whom are rated AAA/Aaa. Of the remaining swaps, one of the counterparties is rated A+/Aa3 while the other counterparty is rated A/A2, approximating 21% and 18%, respectively, of the total outstanding notional swap value.

**b. Basis Risk**

A majority of the Corporation's variable-rate demand obligation bond coupon payments are based on the BMA index. Therefore, the Corporation is exposed to basis risk on swaps where the variable payment received is based on a LIBOR index rather than a BMA index. As of June 30, 2006, the BMA rate was 3.97%, whereas LIBOR was 5.35%. Since the spread between LIBOR and BMA has narrowed since the agreements became effective, the expected cost savings from the swaps may not be as large as originally anticipated.

**c. Rollover Risk**

Rollover risk occurs when there is a mismatch in the amortization of the swap versus the amortization of the floating rate bonds. The Corporation has structured the swaps to amortize at the same rate as scheduled or anticipated reductions in the associated floating rate bonds outstanding. As the bonds mature the swaps will amortize. In addition, the swaps covering the 2001 Governmental Purpose Bonds cover only a portion of the debt issuance, allowing any increase in the speed of mortgage prepayments to be directed at the unswapped portion of the debt. The swap agreements associated with the 2002 Home Mortgage Revenue Bonds were structured with several tranches, allowing the Corporation to cancel individual tranches of the swap to match special redemptions of the bonds. The result of these swap structures is a decrease in rollover risk usually caused by rapid mortgage prepayments.

**d. Termination Risk**

If any of the swaps are terminated, the associated floating rate bonds would no longer carry synthetic fixed interest rates and, thus, the Corporation would be exposed to interest rate risk. This risk is mitigated by the fact that the termination payment could be used to enter into an identical swap at the termination date of the existing swap. Further, if any of the swaps have a negative fair value at termination, the Corporation would be liable to the counterparty for payments equal to the swaps' fair value. The Corporation or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the agreement. As of June 30, 2006, the Corporation is not exposed to any additional termination risk on its interest rate swaps.

NOTES TO FINANCIAL STATEMENTS

## 11 LONG TERM LIABILITIES

The activity for other liabilities for the year ended June 30, 2006 is summarized in the following schedule (in thousands):

	July 1, 2005	Additions	Reductions	June 30, 2006	Due Within One Year
Bonds and notes payable	\$ 2,898,730	\$ 339,013	\$ (330,520)	\$ 2,907,223	\$ 211,968
Compensated absences	3,007	1,853	(1,521)	3,339	1,979
Other liabilities	5,398	-	(3,886)	1,512	-
Total other long-term liabilities	8,405	1,853	(5,407)	4,851	1,979
	<u>\$ 2,907,135</u>	<u>\$ 340,866</u>	<u>\$ (335,927)</u>	<u>\$ 2,912,074</u>	<u>\$ 213,947</u>

## 12 SHORT TERM DEBT

The Corporation has a commercial paper program. Commercial paper is issued and redeemed to meet the cash flow requirements of the Corporation's activities. Individual maturities may range from 2 to 270 days from date of issuance. The maximum aggregate outstanding principal balance authorized by the Board of Directors is \$150,000,000.

Yields issued during period	June 30, 2006	June 30, 2005
Lowest	3.2200%	1.1600%
Highest	5.2500%	3.2200%

The Corporation borrows funds utilizing reverse repurchase agreements to warehouse refunded debt, thereby preserving the attributes of the refunded debt for future bond refunding opportunities. Such agreements involve the transfer of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest.

Short term debt activity for the year ended June 30, 2006 is summarized in the following schedule (in thousands):

	July 1, 2005	Additions	Reductions	June 30, 2006
Commercial paper	\$ 138,510	\$ 1,417,859	\$ (1,406,369)	\$ 150,000
Unamortized discount	(135)	(7,103)	6,037	(1,201)
Commercial paper, net	138,375	1,410,756	(1,400,332)	148,799
Reverse Repurchase	-	601,600	(507,950)	93,650
	<u>\$ 138,375</u>	<u>\$ 2,012,356</u>	<u>\$ (1,908,282)</u>	<u>\$ 242,449</u>



NOTES TO FINANCIAL STATEMENTS

**13 TRANSFERS**

Transfers for the year ended June 30, 2006 are summarized in the following schedule (in thousands):

		<b>Transfer From</b>		
		<b>Administrative Fund</b>	<b>Other Non-Major Funds</b>	<b>Total</b>
<b>Transfer To</b>	<b>Administrative Fund</b>	\$ -	\$ 18,354	\$ 18,354
	<b>Housing Development</b>	4,501	-	4,501
	<b>Other Non-Major Funds</b>	83,280	871	84,151
	<b>Total</b>	<u>\$ 87,781</u>	<u>\$ 19,225</u>	<u>\$ 107,006</u>

Transfers are used to (1) move funds between the Administrative Fund and the other Funds of the Corporation for financing mortgage related activities and to subsidy debt service payments, (2) to move Corporate revenue to the Administrative Fund from Bond Funds, and (3) to reimburse the Administrative Fund from Bond Funds for expenditures paid on behalf of the Bond Funds by the Administrative Fund.

**14 OTHER CREDIT ARRANGEMENTS**

For certain bond issues, the Corporation has entered into credit arrangements with various financial institutions to provide funds necessary to satisfy debt service or unpaid bond principal obligations. Varying commitment fees are required, generally ¼ to ½ of 1% per annum of the aggregate liability or commitment amount. The Corporation had unused liquidity facilities or similar credit enhancement agreements in connection with amounts required for debt service or unpaid bond principal for certain bond issues as shown below (in thousands):

	<b>June 30, 2006</b>	<b>June 30, 2005</b>
Liquidity facility	\$ 761,080	\$ 863,175
Bond insurance	2,045,546	2,229,826
	<u>\$ 2,806,626</u>	<u>\$ 3,093,001</u>

On July 26, 2001, the Corporation entered a liquidity facility swap agreement with a counter-party for up to \$370,000,000 relating to the Government Purpose Bonds 2001 Series A-D. The Corporation has an option to renew the agreement annually. The amount is reflected in the table above.

In October 2002, the Corporation also reestablished a \$200,000,000 revolving credit facility that is not related to a specific bond issue. At June 30, 2006, no draw downs had been made on the revolving credit facility.

Certain letter-of-credit agreements contain covenants restricting the amendment of terms and redemption of bonds or notes, and setting the minimum combined fund equity of the Corporation and minimum debt service reserve fund balances.

NOTES TO FINANCIAL STATEMENTS

## 15 YIELD RESTRICTION AND ARBITRAGE REBATE

Most mortgages purchased with the proceeds of tax-exempt bonds issued by the Corporation are subject to interest-rate yield restrictions of 1.125% to 1.500% over the yield of the bonds. These restrictions are in effect over the lives of the bonds. Most of the non-mortgage investments made under the Corporation's tax-exempt bond programs are subject to rebate provisions or restricted as to yields. The rebate provisions require that a calculation be performed every five years and upon full retirement of the bonds to determine the amount, if any, of excess yield earned and owed to the Internal Revenue Service. Following is a summary of excess earnings recorded and paid (in thousands):

	June 30, 2006	June 30, 2005
Arbitrage expense	\$ (2,218)	\$ 4,181
Arbitrage paid	1,274	3,841

## 16 CONTRIBUTIONS FROM THE STATE OF ALASKA

### Appropriation of Capital Projects Funds and Creation of Subsidiary

On April 27, 2006, the Governor of Alaska signed Senate Bill No. 232 of the Alaska Legislature into law. Senate Bill 232 appropriated the sum of \$300,000,000 from the State of Alaska General Fund to the Corporation for the purpose of funding capital projects, including financing expenses. It was the Legislature's intent that the Corporation transfer the appropriated funds and any associated earnings to a subsidiary of the Corporation on or after July 1, 2006.

In accordance with the Legislature's intent, the Corporation formed a subsidiary, the Alaska Housing Capital Corporation ("AHCC"), under the Alaska Nonprofit Corporation Act (AS 10.20) and provisions of the Alaska Housing Finance Corporation Act (AS 18.56), as amended. AHCC was incorporated on May 23, 2006, as a public corporation and government instrumentality of, but having a legal existence independent of and separate from, the State of Alaska. AHCC is a subsidiary of, but separate and apart from, the Corporation. The appropriated funds were transferred to AHCC on July 1, 2006.

### Investments

The Corporation invests in the State's internally managed General Fund and Other Non Segregated Investments Pool (GeFONSI). GeFONSI consists of investments in the State's internally managed Short-term and Intermediate-term Fixed Income Pools. Actual investing is performed by investment officers in the State's Department of Revenue, Treasury Division. A complete description of the investment policy for each pool is included in the Department of Revenue, Treasury Division, Policies and Procedures.

Assets in the pools are reported at fair value in accordance with Governmental Accounting Standards Board (GASB) Statement No. 31. Investment purchases and sales are recorded on a trade-date basis. Securities are valued each business day using prices obtained from a pricing service when such prices are available; otherwise, such securities are valued at the mid-point between the bid and asked price or at prices for securities of comparable maturity, quality and type.

The accrual basis of accounting is used for investment income and GeFONSI investment income is distributed to pool participants monthly if prescribed by statute or if appropriated by state legislature.

NOTES TO FINANCIAL STATEMENTS

At June 30, 2006, the Corporation's share of pool investments was as follows:

Investment Type	Fair Value			Total
	Short-term Fixed Income Pool	Intermediate- term Fixed Income Pool	Securities Lending Collateral	
Overnight Sweep Account (LMCS)	\$ 220	\$ -	\$ -	\$ 220
Money Market	-	-	58,293	58,293
Short-term Investment Fund	5,420	-	-	5,420
Commercial Paper	10,872	-	-	10,872
U.S. Treasury Notes	-	88,149	-	88,149
U.S. Government Agency	-	32,793	-	32,793
Mortgage-backed	9,359	19,447	-	28,806
Other Asset-backed	65,076	4,384	-	69,460
Corporate Bonds	33,670	28,829	-	62,499
Yankees:	-	-	-	-
Government	-	-	-	-
Corporate	1,382	959	-	2,341
Domestic Equity	-	-	-	-
International Equity	-	-	-	-
Total Invested Assets	125,999	174,561	58,293	358,853
Pool related net assets (liabilities)	493	(478)	-	15
Net Invested Assets	\$ 126,492	\$ 174,083	\$ 58,293	\$ 358,868

**Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

Short-term Fixed Income Pool

As a means of limiting its 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, 2006, the expected average life of individual fixed rate securities ranged from three days to seven months and the expected average life of floating rate securities ranged from less than one year to three years.

Intermediate-term Fixed Income Pool

Through its investment policy, Treasury manages its 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, 2006, was 2.28 years.

NOTES TO FINANCIAL STATEMENTS

At June 30, 2006, the effective duration by investment type was as follows:

	<u>Effective Duration (in years)</u> <u>Intermediate-term Fixed</u> <u>Income Pool</u>
U.S. Treasury Notes	2.01
U.S. Government Agency	2.36
Mortgage-backed	2.79
Other Asset-backed	1.06
Corporate Bonds	2.65
Yankees:	
Corporate	4.17
Portfolio Effective Duration	2.16

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 pool is the average fair value weighted duration of each security in the pool taking into account all related cash flows.

Treasury uses industry-standard analytical software developed by The Yield Book Inc. to calculate effective 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 effective duration calculation.

**Credit Risk**

Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations.

Treasury's investment policy 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 be purchased if only rated by one of the rating agencies 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 be purchased if only rated by one of the rating agencies mentioned above if they are rated AAA.

NOTES TO FINANCIAL STATEMENTS

At June 30, 2006, the State's internally managed Pools consisted of investments with credit quality ratings issued by nationally recognized statistical rating organizations as follows (using Standard and Poor's Corporation rating scale):

Investment Type	Rating <sup>1</sup>	Short-term Fixed Income Pool	Intermediate- term Fixed Income Pool
Overnight Sweep Account	Not Rated	0.17%	
Short-term Investment Account	Not Rated	4.29%	
Commercial Paper	A-1	8.60%	
U.S. Government Agency	AAA		18.84%
Mortgage-backed	AAA		10.48%
Mortgage-backed	Not Rated	7.40%	0.69%
Other Asset-backed	AAA	48.17%	1.67%
Other Asset-backed	A	3.28%	0.85%
Corporate Bonds	AAA	2.02%	5.78%
Corporate Bonds	AA	15.32%	3.20%
Corporate Bonds	A	9.27%	4.42%
Corporate Bonds	BBB		3.17%
Yankees - Corporate	AAA		0.24%
Yankees - Corporate	AA	0.91%	
Yankees - Corporate	A	0.18%	0.13%
No Credit Exposure		0.38%	50.36%
		<u>100%</u>	<u>100%</u>

At June 30, 2006, the securities lending collateral was invested in a registered 2(a)-7 money market fund that was not rated.

**Concentration of Credit Risk**

Treasury's policy with regard to concentration of credit risk is to prohibit the purchase of more than five percent of a pool's holdings in corporate bonds of any one company or affiliated group. At June 30, 2006, the Corporation's had more than five percent of their investments in Federal Home Loan Mortgage Corporation and Federal National Mortgage Association as follows:

Issuer	Fair Value	Percent of Total Investments
Federal Home Loan Mortgage Corporation	\$ 24,442,122	7 %
Federal National Mortgage Association	28,594,570	8

**Securities Lending**

Alaska Statute 37.10.071 authorizes the Commissioner of Revenue 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 Short-term and Intermediate-term Fixed Income Pools. 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, 2006, the fair value of securities on loan allocable to the Corporation totaled \$57,221,000.

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.

At June 30, 2006, liabilities resulting from these securities lending transactions totaled \$58,293,000 and were represented as current other liabilities in the Statement of Net Assets.

NOTES TO FINANCIAL STATEMENTS

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 Board 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, 2006, there were 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.

## 17 STATE AUTHORIZATIONS AND COMMITMENTS

The Corporation uses its assets to fund certain housing and non-housing capital projects identified by the State. The aggregate amount expected to be funded by the Corporation was expressed by the following language of legislative intent included in the fiscal year 1996 capital appropriation bill, enacted in 1995:

“The Legislature intends to ensure the prudent management of the Alaska Housing Finance Corporation to protect its excellent debt rating by the nation’s financial community and to preserve its valuable assets of the State. To accomplish its goal, the sum of withdrawals for transfer to the general fund and for expenditure on corporate funded capital projects should not exceed the Corporation’s net income for the preceding fiscal year.”

The projected amounts stated in the legislative intent language were based on the Corporation’s financial operating plan and represent the total amount of anticipated State transfers and capital expenditures rather than projected “net income”.

A summary of State Authorizations is shown below (in thousands):

	Total State Authorizations	Payments To-Date	Total Remaining Commitments
FY 1995*	\$ 22,500	\$ 22,493	\$ 7
FY 1996*	128,033	127,895	138
FY 1997	100,448	100,193	255
FY 1998*	131,515	130,903	612
FY 1999*	102,615	101,315	1,300
FY 2000*	105,138	99,098	6,040
FY 2001*	103,107	94,970	8,137
FY 2002	103,000	95,342	7,658
FY 2003*	103,499	92,005	11,494
FY 2004*	103,036	83,364	19,672
FY 2005	103,000	91,321	11,679
FY 2006*	103,379	76,611	26,768
Total	<u>\$ 1,209,270</u>	<u>\$ 1,115,510</u>	<u>\$ 93,760</u>

\* With re-appropriations

NOTES TO FINANCIAL STATEMENTS

**State Capital Projects Bonding**

The 1998 Legislature adopted legislation authorizing approximately \$224 million in capital project bonds of the Corporation to finance projects of the State and municipalities. The legislation states the intention that the sum of withdrawals for repayment of bonds, for transfer to the State's general fund, and for corporate funded capital projects should not exceed the Corporation's net income for the preceding year. The bond proceeds are allocated to agencies and municipalities subject to specific legislative appropriation.

The 2000 Legislature adopted legislation authorizing the issuance of bonds in sufficient amounts to fund the construction of various State capital projects, and extended the Transfer Plan to 2008. The Corporation views passage of the 1998 and 2000 legislation as a continuation of the plan of the legislature, stated in its legislative intent in 1995, to authorize the lesser of \$103 million or the Corporation's net income annually to the year 2008.

The 2002 and 2004 Legislature adopted legislation authorizing the additional issuance of bonds in sufficient amounts to fund the construction of various State capital projects. The bond proceeds are allocated to agencies and municipalities subject to specific legislative appropriation.

As of June 30, 2006, the Corporation has issued \$196,345,000 principal amount of State Capital Project Bonds pursuant to the 1998 Act, \$74,535,000 principal amount of State Capital Project Bonds pursuant to the 2000 Act, and \$107,710,000 principal amount of State Capital Project Bonds pursuant to the 2002 Act, and has completed its issuance authority under the Acts. The payment of principal and interest on these bonds will be included in future capital budgets of the Corporation.

The Twenty-Third Legislature in 2003 enacted SCSBH 256 (the "2003" Act) which added language to the Alaska Statutes to modify and incorporate the Transfer Plan. The Corporation and the State view the 2003 Act as an indefinite, sustainable continuation of the Transfer Plan. As approved and signed into law by the Governor, the Transfer Plan calls for annual transfers as follows (in thousands):

<b>Fiscal Year</b>	<b>Transfer Plan Amount</b>
2006	103,000
2007	Lesser of 95% Net Income or 103,000
2008	Lesser of 85% Net Income or 103,000
2009 & Thereafter	Lesser of 75% Net Income or 103,000

Subsequent to GASB 34, the Corporation interprets net income as operating income.

**Transfers to the State of Alaska**

Since the inception of the Corporation, the State has contributed a total of \$1,369,523,000 to the Corporation. Beginning in fiscal year 1986, the Corporation began a series of plans to transfer funds to or on behalf of the State. Following is a summary of the different types of transfers (in thousands):

	<b>June 30, 2006</b>	<b>June 30, 2005</b>	<b>Cumulative Prior Fiscal Years</b>	<b>Total Payments To State</b>
State debt repayment	\$ -	\$ -	\$ 29,800	\$ 29,800
Asset purchases	-	-	252,300	252,300
Dividends	-	-	114,300	114,300
Direct cash transfers	18,855	29,618	501,588	550,061
Other State appropriations	-	2,078	-	2,078
Non-Housing capital projects	6,621	22,372	234,425	263,418
Various bond's proceeds disbursed	21,369	13,220	243,277	277,866
<b>Total</b>	<b>\$ 46,845</b>	<b>\$ 67,288</b>	<b>\$ 1,375,690</b>	<b>\$ 1,489,823</b>

NOTES TO FINANCIAL STATEMENTS

## 18 GRANTS

The Corporation paid grants to third parties for the following programs (in thousands):

Program	June 30, 2006	June 30, 2005
<i>Energy Programs:</i>		
• Enhanced Weatherization	\$ 909	\$ 957
• Low-Income Weatherization Assistance	4,564	4,090
State Energy Program	386	303
• Others	394	627
	<u>6,253</u>	<u>5,977</u>
<i>Section 8 Vouchers and Contract Administration</i>	<u>23,139</u>	<u>26,156</u>
<i>Other Housing Assistance Programs:</i>		
• Beneficiary and Special Needs Housing	22	1,844
• Drug Elimination Program	236	225
• Denali Teacher Housing	3,707	1,159
• Healthy Homes	-	284
• HOME Program	2,910	3,758
• Homeless Assistance Program	1,059	809
• Housing Loan Program	2,033	1,914
• Housing Opportunities for Persons with AIDS	586	600
• Section 8 Contract Administration	6,845	6,555
• Senior Citizens Housing	2,004	2,034
• Supplemental Housing	5,587	3,101
• Supportive Housing Grant Match	937	845
• Others	946	817
	<u>26,872</u>	<u>23,945</u>
<i>Other Programs</i>	<u>565</u>	<u>428</u>
<b>Total Housing Grant Expenses</b>	<u>56,829</u>	<u>56,506</u>
<i>Other Program Funds:</i>		
• State Match Federal Aid Airports Proj. – FY 98 Appro.	64	70
• Municipal Matching Grants – FY 99 Appro.	657	6,576
• University of Alaska – FY 99 Appro.	49	145
• Village Safe Water Grants Program – FY 99 Appro.	1,916	11,791
• Child Protection Information System – FY 01 Appro.	-	849
• AK Public Safety Info. Network Redesign – FY 02 Appro.	1,503	816
• Brother Francis Shelter Replacement – FY 03 Appro.	50	450
• Law Enforcement Equipment Replacement – FY 05 Appro.	165	340
• FY 98 Legislative Appropriations – Others	2	151
• FY 99 Legislative Appropriations – Others	-	11
• FY 01 Legislative Appropriations	396	544
• FY 02 Legislative Appropriations	41	28
• FY 04 Legislative Appropriations	272	194
• FY 05 Legislative Appropriations	934	407
• FY 06 Legislative Appropriations	572	-
	<u>6,621</u>	<u>22,372</u>
<b>Total Non-Housing Capital Project Grants</b>	<u>6,621</u>	<u>22,372</u>
<b>Total Grants</b>	<u>\$ 63,450</u>	<u>\$ 78,878</u>

In addition to grant payments made, the Corporation has advanced grant funds of \$5,502,000 and committed to third parties a sum of \$23,950,000 in grant awards at June 30, 2006.



NOTES TO FINANCIAL STATEMENTS

## 19 OTHER PROGRAMS

Other programs include public-housing activities and energy conservation funded from a combination of corporate receipts and external sources.

### Housing Assistance Programs

Low Rent includes the following programs for various low-income housing facilities administered by the Corporation under contract with HUD:

- Low Rent Management
- Modernization/Capital Fund Programs

Section 8 Vouchers Program includes the following programs for tenant-based rental assistance administered by the Corporation under contract with HUD:

- Section 8 Moderate Rehabilitation
- Section 8 Vouchers

Section 8 Program consists of Corporate owned low-income housing facilities at various locations and the Wrangell 221(d)(3) housing facility, for which the Corporation receives tenant-based rental assistance under contract with HUD, and administration of HUD contracts directly with landlords:

- Section 8 Contract Administration
- Section 8 New Construction
- Wrangell Multi-Family

Other Housing Assistance Programs include the following HUD, federal, state and privately funded activities:

- Drug Elimination Grant
- Denali Commission Housing Programs
- Family Self Sufficiency Program (FSS)
- Family Investment Center Grant
- Gateway Literacy Program
- Grant Match Program
- Healthy Homes Initiative
- HOME Investment Partnerships Program (HOME)
- HOME Technical Assistance
- Housing Opportunities for Persons with AIDS (HOPWA)
- Housing Preservation Grants
- Service Coordinator for Public Housing Agencies Grant
- Shelter Plus Care Program
- Special Needs Assistance
- Supplemental Assistance for Facilities to Assist the Homeless (SAFAH)
- Supportive Housing Technical Assistance
- Teacher Health Professional and Public Safety Housing Programs

The Supplemental Housing and Senior Housing Programs are funded entirely by corporate funds.

### Energy Conservation Programs

The Petroleum Violation Escrow Program (PVE) includes the activities funded from the State of Alaska's share of settlement proceeds received as a result of various lawsuits between the federal government and oil producers. The Corporation holds these funds in trust, to be used for qualifying energy conservation activities under the U.S. Department of Energy's oversight.

The weatherization programs include the following programs and are funded by a combination of DOE grants, PVE funds, and corporate funds:

- Low-Income Weatherization Program
- Residential Energy Rehab Program (Enhanced Weatherization)

NOTES TO FINANCIAL STATEMENTS

Other energy programs include the following programs and are funded by a combination of DOE grants, PVE funds, HHS grants, and corporate funds:

- Adult Education
- Alaska Native Health Board Grant / Alaska Native Health Tribal Consortium
- Association of Alaska Housing Authorities Grant
- Low-Income Home Energy Assistance Program (LIHEAP)
- State Energy Conservation Program and Special Projects
- Weatherization Assistance for Low-Income Persons (AKWarm Enhancement)

The following projects are or have been funded within the Petroleum Violation Escrow Program:

- Alaska Craftsman Home Program
- Business Energy Assistance
- Energy Rated Homes of Alaska
- Home Energy Loan Program
- Home Energy Rebates
- Low-Income Weatherization Enhancement
- Warm Homes for Alaskans

**Housing Units Owned, Managed or Administered**

The Public Housing Division of the Corporation operates the following programs in 18 Alaskan communities:

Program	Number of Units
Low Rent Conventional Housing	987
Low Rent Conventional Housing – Senior Units	343
Section 8 New Construction Housing	59
Section 8 New Construction Housing – Senior Units	268
Other Housing Units	32
Section 8 Existing – Housing Assistance:	
Housing Choice Vouchers	4,115
Single Room Occupancy	70
	5,874

**20 PENSION PLAN**

As of June 30, 2006, all regular employees of the Corporation who work more than fifteen hours per week participate in the Alaska Public Employees' Retirement System (PERS). PERS is an agent multiple-employer, statewide defined benefit plan, administered by the State of Alaska. Benefits and contributions provisions are established by Chapter 35 of Alaska Statute Title 39, and may be amended only by state legislature. A publicly available financial report that includes financial statements and required supplementary information is issued annually by PERS. That report may be obtained by writing to State of Alaska, Department of Administration, Division of Retirement and Benefits, P.O. Box 110203, Juneau, Alaska 99811-0202.

**Plan Description**

Employees hired prior to July 1, 1986 with five or more years of credited service are entitled to annual pension benefits beginning at normal retirement age 55 or early retirement age 50. For employees hired after June 30, 1986, the normal and early retirement ages are 60 and 55, respectively. The normal pension benefit is equal to 2% of the member's three-year highest average monthly compensation for the first ten years of service, 2¼% for the second ten years of service and 2½% for all remaining years of service. All service earned prior to July 1, 1986 will be calculated using the 2% multiplier. Employees with 30 or more years of credited service may retire at any age and receive a normal benefit. The system also provides death and disability benefits and major medical benefits.

**Funding Policy**

Under State law, covered employees are required to contribute 6¾% of their annual covered salary and the Corporation is required to contribute an actuarially determined rate; the current rate is 16.14% of annual covered payroll.

NOTES TO FINANCIAL STATEMENTS

**Annual Pension Cost**

The Corporation's annual pension and postretirement health cost shown in the following table was equal to the required and actual contribution. The actuarial required contribution was computed as part of an actuarial valuation as of June 30, 2004. Significant actuarial assumptions used in the valuation include: (a) a rate of return on the investment of present and future assets of 8.25% per year compounded annually and (b) projected salary increases of 5.5% a year for the ten years of employment, with distinction made between amounts for inflation (3.5%), merit (1.5%), and productivity (0.5%). The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the fair value of investments over a five year period. The contribution rate for normal cost is determined using the projected unit credit actuarial funding method. The excess of assets over the actuarial accrued liability is amortized over a rolling 25 years which is an open amortization period. The percentage of pay method is used for amortization purposes.

**Three-Year Trend Information for PERS (in thousands):**

Year Ended	Annual Pension and Postretirement Health Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2006	\$ 1,161	100.00%	\$ -
June 30, 2005	1,780	100.00%	-
June 30, 2004	980	100.00%	-

**21 OTHER COMMITMENTS AND CONTINGENCIES**

**Medical Self Insurance**

During the fiscal year ended June 30, 1998, the Corporation began a program of self-insurance for employee medical benefits. Costs are billed directly to the Corporation by an Administrative Services Provider that processes all of the claims from the employees and their dependents. The Corporation has purchased a stop-loss policy that limits its liability to \$50,000 per employee per year. The Corporation has provided for an estimate of the Incurred But Not Reported (IBNR) liability in the amount of \$553,000 and \$1,077,000 as of June 30, 2006 and June 30, 2005, respectively.

**Litigation**

The Corporation, in the normal course of its activities, is involved in various claims and pending litigation, the outcome of which is not presently determinable. In the opinion of management, the disposition of these matters is not presently expected to have a material adverse effect on the Corporation's financial statements.

**Contingent Liabilities**

The Corporation participates in several federally assisted programs. These programs are subject to program compliance audits and adjustment by the grantor agencies or their representatives. Any disallowed claims, including amounts already collected, would become a liability of the Administrative Fund. In management's opinion, disallowance, if any, will be immaterial.

**Subsequent Event**

On July 1, 2006, \$300,000,000 of state appropriated funds was transferred to AHCC, a subsidiary of the Corporation.

On July 20, 2006, the Corporation issued \$75,000,000 Home Mortgage Revenue Bonds, 2006 Series C. The Bonds are general obligations of the Corporation that bear interest at fixed rates between 3.90% and 5.50%, payable on each June 1 and December 1, with a final maturity date of December 1, 2037. The scheduled debt service on the Bonds is guaranteed under an insurance policy issued by MBIA Insurance Corporation. The Bonds will be primarily secured by program obligations consisting of qualifying FTHB mortgage loans purchased from Bond proceeds.

On August 9, 2006, the Corporation's Board of Directors authorized the issuance of \$190,000,000 Collateralized Bonds, 2006 First Series (Veterans Mortgage Program).

**22 RISK MANAGEMENT**

The Corporation is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by various commercial insurance policies and contractual risk transfers. When the Corporation enters into agreements, contracts or grants, it requires insurance from the party the Corporation is doing business with. This ensures that the party can adequately sustain any loss exposure, so the Corporation is not first-in-line in case of a loss. There have been no significant reductions in insurance coverage from the prior year, and settlements have not exceeded insurance coverage during the past three years.

NOTES TO FINANCIAL STATEMENTS

**23 SPECIAL ITEM**

On December 1, 2004, the Corporation sold its Aurora Military Loan, with a principal balance of \$47,468,000, for \$51,403,000 and paid \$90,000 in subsequent expenses related to the sale, resulting in a special item gain of \$3,845,000.

On December 13, 2005, the Corporation sold its Aurora Military Loan II, with a principal balance of \$31,627,000, accrued interest income of \$76,000 and closing cost expense of \$90,000, for proceeds of \$38,919,000, resulting in a special item gain of \$7,126,000.

**24 SUMMARIZED BALANCE SHEET**

Entity-wide balance sheet information in an unclassified format is presented below for informational purposes (in thousands):

	June 30, 2006	June 30, 2005	June 30, 2004	June 30, 2003	June 30, 2002
<b><u>ASSETS</u></b>					
Cash	\$ 11,583	\$ 9,769	\$ 7,939	\$ 21,215	\$ 9,508
Investments	1,768,178	1,219,415	1,143,547	1,518,997	1,587,877
Accrued interest receivable	19,013	20,762	19,897	22,349	25,015
Mortgage loans, notes and other loans	3,240,209	3,325,182	3,355,300	3,312,511	3,373,640
Net investment in direct financing lease	29,110	32,843	34,547	36,165	37,697
Unamortized bond issuance costs	24,584	25,135	26,404	29,024	28,105
Capital assets, net	120,030	116,073	110,813	105,065	99,040
Other assets	16,869	13,754	10,033	10,185	21,272
<b>Total Assets</b>	<b>\$ 5,229,576</b>	<b>\$ 4,762,933</b>	<b>\$ 4,708,480</b>	<b>\$ 5,055,511</b>	<b>\$ 5,182,154</b>
<b><u>LIABILITIES AND FUND EQUITY</u></b>					
Liabilities:					
Bonds and notes payable	\$ 2,907,223	\$ 2,898,730	\$ 2,890,879	\$ 3,110,941	\$ 3,267,553
Short term debt	242,449	138,375	70,145	149,995	108,541
Accrued interest payable	17,340	14,147	14,562	15,627	14,253
Other liabilities	72,532	28,608	26,435	41,382	25,997
<b>Total Liabilities</b>	<b>3,239,544</b>	<b>3,079,860</b>	<b>3,002,021</b>	<b>3,317,945</b>	<b>3,416,344</b>
<b>Total Fund Equity</b>	<b>1,990,032</b>	<b>1,683,073</b>	<b>1,706,459</b>	<b>1,737,566</b>	<b>1,765,810</b>
<b>Total Liabilities and Fund Equity</b>	<b>\$ 5,229,576</b>	<b>\$ 4,762,933</b>	<b>\$ 4,708,480</b>	<b>\$ 5,055,511</b>	<b>\$ 5,182,154</b>

NOTES TO FINANCIAL STATEMENTS

**25 STATEMENT OF ACTIVITY**

Entity-wide revenues, expenses, and changes in net assets are presented below for informational purposes (in thousands):

	Year Ended June 30, 2006	Year Ended June 30, 2005	Year Ended June 30, 2004	Year Ended June 30, 2003	Year Ended June 30, 2002
<b><u>OPERATING REVENUES</u></b>					
Mortgage and loans revenue	\$ 193,573	\$ 201,386	\$ 206,300	\$ 220,393	\$ 222,446
Investment interest	60,220	43,162	46,358	57,013	71,115
Net change in the fair value of investments	(1,830)	(1,653)	(9,554)	9,877	111
Total Investment Revenue	58,390	41,509	36,804	66,890	71,226
Externally funded programs	59,587	57,877	56,084	53,702	46,283
Rental	6,575	6,183	6,109	6,812	7,034
Other	807	2,252	743	644	2,241
<b>Total Operating Revenues</b>	<b>318,932</b>	<b>309,207</b>	<b>306,040</b>	<b>348,441</b>	<b>349,230</b>
<b><u>OPERATING EXPENSES</u></b>					
Interest	146,971	141,161	151,165	172,939	174,582
Mortgage and loan costs	13,133	13,130	13,059	12,894	12,933
Operations and administration	38,858	35,530	36,240	35,339	32,393
Financing expenses	4,836	11,941	6,168	10,496	2,197
Provision for loan loss	406	(103)	(1,861)	(12,232)	2,690
Housing grants and subsidies	56,829	56,506	48,640	52,023	39,520
Rental housing operating expenses	11,221	10,985	10,149	9,905	9,255
<b>Total Operating Expenses</b>	<b>272,254</b>	<b>269,150</b>	<b>263,560</b>	<b>281,364</b>	<b>273,570</b>
<b>Operating Income</b>	<b>46,678</b>	<b>40,057</b>	<b>42,480</b>	<b>67,077</b>	<b>75,660</b>
<b><u>NONOPERATING REVENUES, EXPENSES AND SPECIAL ITEM</u></b>					
Contributions from the State of Alaska	300,000	-	-	-	-
Contributions to the State of Alaska or other State agencies	(46,845)	(67,288)	(66,136)	(95,321)	(85,562)
Special Item	7,126	3,845	(7,451)	-	2,035
<b>Change in Net Assets</b>	<b>\$ 306,959</b>	<b>\$ (23,386)</b>	<b>\$ (31,107)</b>	<b>\$ (28,244)</b>	<b>\$ (7,867)</b>

REQUIRED SUPPLEMENTARY INFORMATION

**Schedule of Funding Progress for PERS (in thousands):**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) (b)</b>	<b>Excess or (Unfunded) AAL (a) – (b)</b>	<b>Funded Ratio (a) / (b)</b>	<b>Covered Payroll (c)</b>	<b>Excess or (Unfunded) AAL as a Percentage of Covered Payroll ((a) – (b)) / (c)</b>
Pension:						
June 30, 2004	\$ 35,749	\$ 46,202	\$(10,453)	77%	\$ 16,006	(65%)
June 30, 2003	34,407	43,271	(8,864)	80%	14,987	(59%)
June 30, 2002	30,857	40,980	(10,123)	75%	14,119	(72%)
Postretirement Health:						
June 30, 2004	25,207	32,578	(7,371)	77%	16,006	(46%)
June 30, 2003	22,997	28,921	(5,924)	80%	14,987	(40%)
June 30, 2002	18,748	24,899	(6,151)	75%	14,119	(44%)

**FORM OF OPINION OF BOND COUNSEL**

Alaska Housing Finance Corporation  
4300 Boniface Parkway  
Anchorage, Alaska 99504

Ladies and Gentlemen:

We have examined the Constitution and laws of the State of Alaska (the “State”) and a record of proceedings relating to the issuance of \$95,525,000 aggregate principal amount of State Capital Project Bonds, 2007 Series A and 2007 Series B (collectively, the “2007 Bonds”) of the Alaska Housing Finance Corporation (the “Corporation”), a public corporation and government instrumentality of the State created by and existing under Alaska Statutes 18.55 and 18.56, as amended (the “Act”).

In such examinations, we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals and the conformity with originals of all documents submitted to us as copies thereof.

The 2007 Bonds are authorized and issued pursuant to Chapter 47 SLA 2006 (the “2006 Act”), the Act and a resolution of the Corporation adopted August 22, 2007, and are issued pursuant to the Indenture by and between the Corporation and U.S. Bank National Association, as trustee (the “Trustee”), dated as of December 1, 1998 (the “General Indenture”), and the 2007 Series A and B Supplemental Indenture, by and between the Corporation and the Trustee, dated as of September 1, 2007, executed pursuant to the General Indenture (together, the “Indenture”).

The 2007 Bonds mature and are subject to redemption as provided in the Indenture.

Capitalized terms used herein and not defined herein are used as defined in the Indenture.

Applicable Federal tax law establishes certain requirements that must be met subsequent to the issuance of the 2007 Bonds in order for interest on the 2007 Bonds not to be included in gross income for Federal income tax purposes, under Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”). The Corporation has covenanted that it will comply with such requirements and that it will do all things necessary to ensure that interest on the 2007 Bonds will be, and remain, not included in gross income for Federal income tax purposes, under Section 103 of the Code. We have examined the program documentation adopted by the Corporation, which, in our opinion, establishes procedures and covenants under which, if followed, such requirements can be met. In rendering this opinion, we have assumed compliance with, and enforcement of, the provisions of such program procedures and covenants.

As to any facts material to our opinion, we have relied upon various statements and representations of officers and other representatives of the Corporation including without

limitation those contained in the Indenture, the Corporation's Certificate as to matters affecting the tax-exempt status of the 2007 Bonds and the certified proceedings and other certifications of public officials and certifications by officers of the Corporation furnished to us (which are material to the opinion expressed below) without undertaking to verify the same by independent investigation.

Subject to the foregoing, we are of the opinion that:

1. Under the Constitution and laws of the State of Alaska (the "State"), the Corporation has been duly created, organized, and validly exists as a public corporation and government instrumentality in good standing under the laws of the State, performing an essential public function with full corporate power and authority under the Act, among other things, to enter into, and to perform its obligations under the terms and conditions of, the Indenture.

2. The Indenture has been duly authorized, executed and delivered, is in full force and effect, and is valid and binding upon the Corporation and enforceable in accordance with its terms (subject, as to enforcement of remedies, to applicable bankruptcy, reorganization, insolvency, moratorium, or other laws affecting creditors' rights generally from time to time in effect).

3. The 2007 Bonds have been duly and validly authorized, sold and issued by the Corporation in accordance with the Indenture and Constitution and laws of the State, including the 2006 Act and the Act and, pursuant to the Act, are issued by a public corporation and government instrumentality of the State for an essential public and governmental purpose.

4. Subject to agreements heretofore or hereafter made with the holders of any notes or other bonds of the Corporation pledging any particular revenues or assets not pledged under the Indenture and the exclusion by the Act of a pledge of funds in the Housing Development Fund (as described in the Act), the 2007 Bonds are valid and legally binding general obligations of the Corporation for the payment of which, in accordance with their terms, the full faith and credit of the Corporation have been legally and validly pledged, are enforceable in accordance with their terms and the terms of the Indenture and are entitled to the equal benefit, protection, and security of the provisions, covenants, and agreements of the Indenture.

5. The 2007 Bonds are secured by a pledge in the manner and to the extent set forth in the Indenture. The Indenture creates a valid pledge of a lien on all funds established by the Indenture and moneys and securities therein which the Indenture purports to create, to the extent and on the terms provided therein.

6. Under existing laws, regulations, rulings and judicial decisions, interest on the 2007 Bonds is excluded from gross income for Federal income tax purposes.

7. Interest on the 2007 Bonds is not a specific preference item for purposes of the alternative minimum tax provisions imposed on individuals and corporations by the Code. *However*, interest on the 2007 Bonds is included in the adjusted current earnings (*i.e.*, alternative minimum taxable income as adjusted for certain items, including those items that would be included in the calculation of a corporation's earnings and profits under Subchapter C of the Code) of certain corporations, and such corporations are required to include in the calculation of



alternative minimum taxable income 75% of the excess of such corporation's adjusted current earnings over its alternative minimum taxable income (determined without regard to such adjustment and prior to reduction for certain net operating losses). We express no opinion regarding any other consequences affecting the Federal income tax liability of a recipient of interest on the 2007 Bonds.

8. Under existing laws, interest on the 2007 Bonds is free from taxation of every kind by the State, and by municipalities and all other political subdivisions of the State (except that no opinion is expressed as to such exemption from State inheritance and estate taxes and taxes of transfers by or in anticipation of death).

9. Certain requirements and procedures contained or referred to in the Indenture and other relevant documents may be changed and certain actions may be taken, upon the advice or with the opinion of counsel. Except to the extent of our concurrence therewith, we express no opinion as to any 2007 Bond, or the interest thereon, if any change occurs or action is taken upon the advice or approval of other counsel.

Sincerely,

BIRCH, HORTON, BITTNER AND CHEROT

By: \_\_\_\_\_

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FORM OF OPINION OF SPECIAL TAX COUNSEL

Alaska Housing Finance Corporation  
4300 Boniface Parkway  
Anchorage, AK 99504

Ladies and Gentlemen:

We have acted as Special Tax Counsel in connection with the issuance and sale of \$95,525,000 aggregate principal amount of Alaska Housing Finance Corporation State Capital Project Bonds, 2007 Series A and 2007 Series B (collectively, the “Bonds”). The Bonds will be issued pursuant to the Indenture by and between the Alaska Housing Finance Corporation (the “Corporation”) and U.S. Bank National Association, as trustee (the “Trustee”), dated as of December 1, 1998 (the “Indenture”), and the 2007 Series A and B (the “2007 Series A and B Supplemental Indenture”) by and between the Corporation and the Trustee, dated as of September 1, 2007, authorizing the issuance of the Bonds (the “Supplemental Indenture”). Capitalized terms not otherwise defined herein are used as defined in the Indenture and the Supplemental Indenture.

In connection with the issuance of the Bonds, we have examined the Indenture, the 2007 Series A and B Supplemental Indenture and the Tax Certificate as to Arbitrage and the Provisions of Sections 103 and 141-150 of the Internal Revenue Code of 1986 of the Corporation and such other opinions, documents, certificates and letters as we deem relevant and necessary in rendering this opinion.

From such examination, we are of the opinion that, assuming compliance by the Corporation with certain restrictions, conditions and requirements contained in the Indenture, the Supplemental Indenture and the Tax Certificate designed to meet the requirements of the Internal Revenue Code of 1986 (the “Code”), under existing laws, regulations, rulings and judicial decisions, interest on the Bonds is excluded from gross income for Federal income tax purposes and is not a specific preference item for purposes of the alternative minimum tax provisions imposed on individuals and corporations by the Code.

Interest on the Bonds, however, is included in the adjusted current earnings (*i.e.*, alternative minimum taxable income as adjusted for certain items, including those items that would be included in the calculation of a corporation’s earnings and profits under Subchapter C of the Code) of certain corporations, and such corporations are required to include in the calculation of alternative minimum taxable income 75% of the excess of such corporation’s adjusted current earnings over its alternative minimum taxable income (determined without regard to such adjustment and prior to reduction for certain net operating losses)

We express no opinion regarding any other consequences affecting the Federal income tax liability of a recipient of interest on the Bonds.

The opinions expressed herein are rendered in reliance upon the opinion of Birch, Horton, Bittner and Cherot, Bond Counsel, as to the validity of the Bonds under the Constitution and laws of the State of Alaska.

Very truly yours,  
/s/ Kutak Rock LLP

## APPENDIX D

### FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Certificate”) is executed and delivered by the Alaska Housing Finance Corporation (the “Corporation”) in connection with the issuance of \$95,525,000 aggregate principal amount of its State Capital Project Bonds, 2007 Series A and 2007 Series B (collectively, the “2007 Bonds”). The 2007 Bonds are being issued pursuant to an Indenture, by and between the Corporation and U.S. Bank National Association (formerly known as U.S. Bank Trust National Association), as trustee (the “Trustee”) dated as of December 1, 1998 and a 2007 Series A and B Supplemental Indenture thereto, by and between the Corporation and the Trustee dated as of September 1, 2007 (collectively, the “Indenture”). The Corporation covenants and agrees with the registered owners and the beneficial owners of the 2007 Bonds as follows:

SECTION 1. Purpose of the Certificate. This Certificate is being executed and delivered by the Corporation for the sole and exclusive benefit of the registered owners and beneficial owners of the 2007 Bonds.

SECTION 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the Corporation pursuant to, and as described in, Sections 3 and 4 of this Certificate.

“Disclosure Representative” shall mean the Executive Director/Chief Executive Officer of the Corporation or his or her designee.

“Fiscal Year” shall mean any twelve-month period ending on June 30 or on such other date as the Corporation may designate from time to time.

“Listed Events” shall mean any of the events listed in Section 5 of this Certificate.

“National Repository” shall mean, at any time, a then-existing Nationally Recognized Municipal Securities Information Repository, as recognized from time to time by the Securities and Exchange Commission for the purposes referred to in the Rule. Currently, the following are National Repositories:

Bloomberg Municipal Repository  
100 Business Park Drive  
Skillman, NJ 08558  
Phone: (609) 279-3225  
Fax: (609) 279-5962  
<http://www.bloomberg.com/markets/rates/municontacts.html>  
Email: [Munis@Bloomberg.com](mailto:Munis@Bloomberg.com)

DPC Data Inc.  
One Executive Drive  
Fort Lee, NJ 07024  
Phone: (201) 346-0701  
Fax: (201) 947-0107  
<http://www.dpcdata.com>  
Email: [nrmsir@dpcdata.com](mailto:nrmsir@dpcdata.com)

FT Interactive Data  
Attn: NRMSIR  
100 William Street, 15<sup>th</sup> Floor  
New York, NY 10038  
Phone: (212) 771-6999; (800) 689-8466  
Fax: (212) 771-7390 (Secondary Market Information)  
(212) 771-7391 (Primary Market Information)  
<http://www.ftid.com>  
Email: [NRMSIR@interactivedata.com](mailto:NRMSIR@interactivedata.com)

Standard & Poor's Securities Evaluations, Inc.  
55 Water Street, 45th Floor  
New York, NY 10041  
Phone: (212) 438-4595  
Fax: (212) 438-3975  
<http://www.disclosuredirectory.standardandpoors.com/>  
Email: [nrmsir\\_repository@sandp.com](mailto:nrmsir_repository@sandp.com)

“Official Statement” shall mean the Corporation’s final Official Statement with respect to the 2007 Bonds, dated September 12, 2007.

“Participating Underwriter” shall mean any of the original underwriters of the 2007 Bonds required to comply with the Rule in connection with the offering of the 2007 Bonds.

“Repository” shall mean each National Repository and each State Repository.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State Repository” shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule. As of the date of this Certificate, there is no State Repository.

SECTION 3. Provision of Annual Reports. The Corporation shall provide to each Repository an Annual Report for the preceding Fiscal Year (commencing with the Fiscal Year ending June 30, 2007) which is consistent with the requirements of Section 4 of this Certificate. The Annual Report shall be provided not later than 135 days after the Fiscal Year to

which it relates. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Certificate; provided that the audited financial statements of the Corporation may be submitted separately from the balance of the Annual Report and later than the date required for the filing of the Annual Report if not available by that date.

SECTION 4. Content of Annual Reports. The Corporation's Annual Report shall include (i) the Corporation's audited financial statements for the Fiscal Year ended on the previous June 30, prepared in accordance with generally accepted accounting principles established by the Governmental Accounting Standards Board, if available, or unaudited financial statements for such Fiscal Year, (ii) an update of the financial information and operating data contained in the Official Statement under the caption "The Corporation," (iii) the amount and type of the investments (and cash) in the accounts and subaccounts established in the Indenture, (iv) the outstanding principal balances of each maturity of Bonds and the sinking fund installment amounts as applicable, and (v) financial information and operating data with respect to any other series of Bonds.

If not provided as part of the Annual Report by the date required (as described above under "Provision of Annual Reports"), the Corporation shall provide audited financial statements, where and if available, to each Repository.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues of the Corporation or related public entities, which have been submitted to each of the Repositories. If the document incorporated by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Corporation shall clearly identify each such other document so incorporated by reference.

SECTION 5. Reporting of Significant Events.

This Section 5 shall govern the giving of notices of the occurrence of any of the following events:

1. Principal and interest payment delinquencies on the 2007 Bonds or any other bonds;
2. Non-payment related defaults under the Indenture and any supplemental indenture;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;

6. Adverse tax opinions or events affecting the tax-exempt status of the 2007 Bonds;
7. Modifications to rights of Bondholders;
8. Unscheduled Bond calls;
9. Defeasance of the 2007 Bonds;
10. Release, substitution or sale of property securing repayment of the 2007 Bonds; and
11. Rating changes for the 2007 Bonds.

Upon the occurrence of a Listed Event that is material, the Corporation shall file a notice of such occurrence with the Repositories. Each notice of a Listed Event hereunder shall indicate that it is a notice of a Listed Event and shall include the CUSIP numbers of the Bonds. Notwithstanding the foregoing, notice of Listed Events described in subsections (8) and (9) need not be given under this Section any earlier than the notice (if any) of the underlying event is given to the owners of affected Bonds pursuant to the Indenture.

SECTION 6. Termination of Reporting Obligation. The Corporation's obligations under this Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Subject Bonds.

SECTION 7. Dissemination Agent. The Corporation may satisfy its obligations hereunder to file any notice, document or information with a National Repository or State Repository (i) solely by transmitting such filing to the Texas Municipal Advisory Council (the "MAC") as provided at <http://www.disclosureusa.org> unless the Securities and Exchange Commission has withdrawn the interpretive advice in its letter to the MAC dated September 7, 2004, or (ii) by filing the same with any dissemination agent or conduit, including any "central post office" or similar entity, assuming or charged with responsibility for accepting notices, documents or information for transmission to such National Repository or State Repository, to the extent permitted by the Securities and Exchange Commission or Securities and Exchange Commission staff or required by the Securities and Exchange Commission. For this purpose, permission shall be deemed to have been granted by the Securities and Exchange Commission staff if and to the extent the agent or conduit has received an interpretive letter, which has not been revoked, from the Securities and Exchange Commission staff to the effect that using the agent to transmit information to the National Repositories and the State Repository will be treated for purposes of the Rule as if such information were transmitted directly to the National Repositories and the State Repository.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Certificate, the Corporation may amend this Certificate if the following conditions are met:

- (a) The amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or



regulations) or in interpretations thereof or a change in the identity, nature or status of the Corporation or the type of business conducted thereby;

(b) The Certificate, as amended, would have complied with the requirements of the Rule at the time of the issuance of the 2007 Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment does not materially impair the interests of the beneficial owners of the 2007 Bonds as determined either by a party unaffiliated with the Corporation (such as Bond Counsel) or by approving vote of the owners of a majority in principal amount of the 2007 Bonds pursuant to the terms of the Indenture.

The annual financial information containing the amended operating data or financial information will explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

SECTION 9. Transmission of Information and Notices. Unless otherwise required by law and, in the Corporation's sole determination, subject to technical and economic feasibility, the Corporation shall employ such methods of information and notice transmission as shall be requested or recommended by the recipients of the Corporation's information and notices.

SECTION 10. Default. *Except* as described in this paragraph, the provisions of this Certificate will create no rights in any other person or entity. The obligation of the Corporation to comply with the provisions of this Certificate are enforceable (i) in the case of enforcement of obligations to provide financial statements, financial information, operating data, and notices, by any beneficial owner of outstanding Bonds, or by the Trustee on behalf of the registered owners of outstanding Bonds, or (ii) in the case of challenges to the adequacy of the financial statements, financial information, and operating data so provided, by the Trustee on behalf of the registered owners of outstanding Bonds; *provided, however*, that the Trustee shall not be required to take any enforcement action *except* at the direction of the registered owners of not less than 25% in aggregate principal amount of the Bonds at the time Outstanding who shall have provided the Trustee with adequate security and indemnity. A default under this Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Certificate in the event of any failure of the Corporation or the Trustee to comply with this Certificate shall be an action to compel performance.

SECTION 11. Governing Law. This Certificate shall be construed and interpreted in accordance with the laws of the State of Alaska, and any suits and actions arising out of this Certificate shall be instituted in a court of competent jurisdiction in the State, *provided* that, to the extent this Certificate addresses matters of federal securities laws, including the Rule, this Certificate shall be construed in accordance with such federal securities laws and official interpretations thereof.

SECTION 12. Beneficiaries. This Certificate shall inure solely to the benefit of the Corporation, and the registered owners and beneficial owners from time to time of the 2007 Bonds, and shall create no rights in any other person or entity.

Date: October 3, 2007

ALASKA HOUSING FINANCE CORPORATION

By: \_\_\_\_\_  
Daniel R. Fauske  
Chief Executive Officer/Executive Director

**Exhibit A**

**NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT**

Name of Corporation: Alaska Housing Finance Corporation (the "Corporation")

Name of Bond Issue: \$95,525,000 State Capital Project Bonds, 2007 Series A and 2007 Series B

Date of Issuance: October 3, 2007

NOTICE IS HEREBY GIVEN that the Corporation has not provided an Annual Report with respect to the above-named Bonds as required by the certificate of the Corporation.

Dated: \_\_\_\_\_

ALASKA HOUSING FINANCE CORPORATION

By: \_\_\_\_\_

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**FINANCIAL GUARANTY INSURANCE POLICY**

**APPENDIX E**

**MBIA Insurance Corporation  
Armonk, New York 10504**

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [INSERT NAME OF PAYING AGENT] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless the Insurer elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

**[PAR]  
[LEGAL NAME OF ISSUE]**

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

**MBIA Insurance Corporation**

\_\_\_\_\_  
President

Attest:

\_\_\_\_\_  
Assistant Secretary

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