OFFICIAL STATEMENT DATED DECEMBER 4, 2007

NEW ISSUE FULL BOOK-ENTRY

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.

$57,885,000
ALASKA HOUSING FINANCE CORPORATION
Collateralized Bonds
(Veterans Mortgage Program)

$42,885,000
2007 First Series
$13,660,000 Subseries A-1 (Non-AMT)
$29,225,000 Subseries A-2 (AMT)

$15,000,000
2008 First Series (AMT)

Dated	Date of Delivery.
Due	As shown on the inside cover page.
Price	As shown on inside cover page.
Tax Exemption	In the opinion of Birch, Horton, Bittner and Cherot, Bond Counsel, and Hawkins Delafield & Wood LLP, Special Tax Counsel to the Corporation, under existing statutes and court decisions, and assuming continuing compliance with certain tax covenants described herein, (i) interest on the 2007 Bonds (as defined in this Official Statement) is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), (ii) interest on the 2008 Bonds (as defined in this Official Statement) is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Code, (iii) interest on the Subseries A-1 (Non-AMT) Bonds (as defined in this Official Statement) is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations, and (iv) interest on the Subseries A-2 (AMT) Bonds (as defined in this Official Statement) and the 2008 Bonds is treated as a preference item for purposes of calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. In the opinion of Bond Counsel, under existing laws, interest on the 2007 Bonds and the 2008 Bonds is exempt 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 2007 Bonds or 2008 Bonds. See "TAX MATTERS" herein.
Redemption	The 2007 Bonds and 2008 Bonds are subject to redemption prior to maturity at 100% of their principal amount under the circumstances described herein. See "REDEMPTION OF THE 2007 BONDS AND 2008 BONDS."
Security	**Principal of and interest on the 2007 Bonds and 2008 Bonds are unconditionally guaranteed by the State of Alaska. The 2007 Bonds and 2008 Bonds will be primarily secured by Program Obligations (as defined in this Official Statement) initially consisting of conventional, single-family residential mortgage loans that are either guaranteed by the Department of Veterans Affairs or the Rural Housing Service (formerly, the Farmers' Home Administration) or insured by the Federal Housing Administration (the "Mortgage Loans") and securities backed by Mortgage Loans ("Mortgage Certificates"). The Mortgage Certificates will be issued or guaranteed by GNMA, FNMA or FHLMC (as defined herein) and will be held by the Trustee. The 2007 Bonds and 2008 Bonds will also be secured by the Pledged Revenues (as defined in this Official Statement) and by all assets held in any fund or account established under the Indenture. The Mortgage Loans will consist of Mortgage Loans that the Corporation has purchased or will purchase from qualifying lending institutions located in the State of Alaska that originated such Mortgage Loans (the "Purchased Mortgage Loans"). See "THE PROGRAM OBLIGATION FUND—The Special Mortgage Loan Purchase Program" herein. Each Mortgage Loan will be secured by a first mortgage lien on residential property located in the State of Alaska. THE CORPORATION HAS NO TAXING POWER. THE 2007 BONDS AND 2008 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 2007 BONDS AND 2008 BONDS AND TO THE EXCLUSION OF MONEY IN THE CORPORATION'S HOUSING DEVELOPMENT FUND.**
Interest Payment Dates	June 1, 2008, and on each December 1 and June 1 thereafter.
Denominations	$5,000 or any integral multiple thereof.
Delivery Date	Expected on or about December 18, 2007 with respect to the 2007 Bonds and January 9, 2008 with respect to the 2008 Bonds.
Bond Counsel	Birch, Horton, Bittner and Cherot
Special Tax Counsel	Hawkins Delafield & Wood LLP
Disclosure Counsel	Kutak Rock LLP
Trustee	U.S. Bank National Association
Financial Advisor	First Southwest Company
Book-Entry System	The Depository Trust Company. See "DESCRIPTION OF THE 2007 BONDS AND 2008 BONDS—Book-Entry Only System."

The 2007 Bonds and 2008 Bonds are offered when, as and if issued, subject to the approval of legality by Birch, Horton, Bittner and Cherot, Anchorage, Alaska, Bond Counsel and to the confirmation of certain tax matters by Birch, Horton, Bittner and Cherot and by Hawkins Delafield & Wood LLP, New York, New York, Special Tax Counsel.

Sale Date: December 4, 2007

MATURITY SCHEDULE

$42,885,000
2007 FIRST SERIES

$13,660,000 Subseries A-1 (Non-AMT) Bonds

Maturity Date	Principal Amount	Interest Rate	CUSIP	Maturity Date	Principal Amount	Interest Rate	CUSIP
June 1, 2009	$1,310,000	3.25%	0118323Z3	June 1, 2014	$1,565,000	3.625%	0118324E9
June 1, 2010	1,355,000	3.30%	0118324A7	June 1, 2015	1,625,000	3.75%	0118324F6
June 1, 2011	1,405,000	3.40%	0118324B5	June 1, 2016	1,685,000	3.875%	0118324G4
June 1, 2012	1,455,000	3.45%	0118324C3	June 1, 2017	1,750,000	4.00%	0118324H2
June 1, 2013	1,510,000	3.50%	0118324D1				

$29,225,000 Subseries A-2 (AMT) Bonds

$ 6,855,000	4.90%	Term Bonds due June 1, 2022	CUSIP 0118324N9
$ 8,685,000	5.125%	Term Bonds due June 1, 2027	CUSIP 0118324T6
$13,685,000	5.20%	Term Bonds due June 1, 2033	CUSIP 0118324Z2

$15,000,000
2008 FIRST SERIES (AMT)

$15,000,000	5.25%	Term Bonds due June 1, 2038	CUSIP 0118325E8

Price of all 2007 Bonds and 2008 Bonds—100%

The distribution of this Official Statement has been authorized by the Alaska Housing Finance Corporation. The material contained herein was compiled by officers of the Corporation, with the advice and assistance of First Southwest Company, financial advisor to the Corporation and Birch, Horton, Bittner and Cherot, bond counsel to the Corporation and Kutak Rock LLP, disclosure counsel to the Corporation. Data has been obtained from official sources, so far as possible, and otherwise from sources which are believed to be reliable. The accuracy and completeness of the information derived from these sources is not guaranteed. Estimates and forecasts are necessarily approximate and subject to change. Detailed financial reports from which summaries contained herein have been taken are on file at the offices of the Corporation and at the offices of the relevant state agency.

No dealer, broker, salesman or other person has been authorized by the Alaska Housing Finance Corporation or by the State Bond Committee of the State of Alaska to give any information or to make any representations, other than those contained in this Official Statement, in connection with the offer made by this Official Statement and, if given or made, such information or representations must not be relied upon as having been authorized by the Alaska Housing Finance Corporation or by the State Bond Committee of the State of Alaska. 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 an implication that there has been no change in the affairs of the Alaska Housing Finance Corporation or the State of Alaska since the date hereof. 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 2007 Bonds and 2008 Bonds, in any jurisdiction in which such offer, solicitation or sale is not authorized under the securities laws of such jurisdiction.

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE CORPORATION, THE STATE AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THIS OFFICIAL STATEMENT IS SUBMITTED BY THE ALASKA HOUSING FINANCE CORPORATION IN CONNECTION WITH THE SALE OF THE 2007 BONDS AND 2008 BONDS REFERRED TO HEREIN AND MAY NOT BE PRODUCED OR USED, IN WHOLE OR IN PART, FOR ANY OTHER PURPOSE.

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OFFICIAL STATEMENT
OF
ALASKA HOUSING FINANCE CORPORATION

RELATING TO

$57,885,000
ALASKA HOUSING FINANCE CORPORATION
Collateralized Bonds
(Veterans Mortgage Program)

$42,885,000
2007 First Series
$13,660,000 Subseries A-1 (Non-AMT)
$29,225,000 Subseries A-2 (AMT)

$15,000,000
2008 First Series (AMT)

INTRODUCTION

This Official Statement is being distributed by the Alaska Housing Finance Corporation (the "Corporation") to furnish pertinent information to all who may become holders of its Collateralized Bonds, 2007 First Series (Veterans Mortgage Program), Subseries A-1 (Non-AMT) (the "Subseries A-1 (Non-AMT) Bonds"), its Collateralized Bonds, 2007 First Series (Veterans Mortgage Program), Subseries A-2 (AMT) (the "Subseries A-2 (AMT) Bonds," and, together with the Subseries A-1 (Non-AMT) Bonds, the "2007 Bonds") or its Collateralized Bonds, 2008 First Series (AMT) (Veterans Mortgage Program) (the "2008 Bonds" and, together with the 2007 Bonds, the "2007 Bonds and 2008 Bonds"). The 2007 Bonds and 2008 Bonds are authorized to be issued pursuant to Chapter 56 of Title 18 of the Alaska Statutes, as amended (the "Act"), an Indenture (the "Master Indenture") dated as of October 1, 1999, and a 2007 First Series and 2008 First Series Supplemental Indenture (the "2007 and 2008 Supplemental Indenture"), dated as of December 1, 2007 (together with the Master Indenture, the "Indenture"), to be entered into between the Corporation and U.S. Bank National Association, as trustee (the "Trustee"). The 2007 Bonds and 2008 Bonds are the seventh and eighth series of bonds, respectively, issued under the Indenture (the "Bonds"). As of September 30, 2007, the Corporation had issued prior series Bonds in the aggregate principal amount of $580,000,000. 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 "SECURITY FOR THE 2007 BONDS AND 2008 BONDS—Additional Bonds." The 2007 Bonds and 2008 Bonds will be secured on a parity with the prior series Bonds and with any Additional Bonds.

The proceeds of the Subseries A-1 (Non-AMT) Bonds and a portion of the proceeds of the Subseries A-2 (AMT) Bonds will be used to refund certain outstanding commercial paper of the Corporation (collectively herein, the "Refunded Obligations") which directly or indirectly refunded previously outstanding Bonds. The balance of the proceeds of the Subseries A-2 (AMT) Bonds and the proceeds of the Series 2008 Bonds, as well as the unexpended transferred proceeds of the Refunded Obligations, will be used to provide funds to make or purchase Mortgage Loans (as defined below). See "ESTIMATED SOURCES AND USES OF FUNDS."

Principal of and interest on the Bonds is unconditionally guaranteed by the State of Alaska (the "State"). The full faith, credit and resources of the State are pledged to the payment of principal of and interest on the 2007 Bonds and 2008 Bonds, and the payment of the principal of and interest on the 2007 Bonds and 2008 Bonds is secured by the general obligation of the State. A total amount of $2,700,000,000 of State-guaranteed veterans bonds have been authorized to be issued by the Corporation

by five statewide voted bond propositions. A total of $2,502,500,000 in bonds has been issued by the Corporation under such authorizations (excluding the 2007 Bonds and 2008 Bonds), of which approximately $311,460,000 is outstanding as of September 30, 2007.

On October 10, 2007, the State Bond Committee approved by resolution the timing and amount of the 2007 Bonds and 2008 Bonds sale.

The Corporation and the State intend to enter into agreements to provide continuing disclosure to permit the purchaser to comply with Rule 15c2-12 promulgated by the Securities and Exchange Commission.

All capitalized terms used in this Official Statement that are defined in the Indenture (unless otherwise herein defined) shall have the same meanings as in the Indenture. See "DESCRIPTION OF THE INDENTURE" herein.

The summaries and references herein to the Act, the 2007 Bonds, the 2008 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 2007 Bonds, the 2008 Bonds, 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.

ESTIMATED SOURCES AND USES OF FUNDS

The sources and uses of funds in connection with the 2007 Bonds and 2008 Bonds are set forth in the following table:

SOURCES	
2007 Bonds Par Amount	$42,885,000
2008 Bonds Par Amount	15,000,000
Transfers from the Corporation[1]	1,650,072
Available Amounts Related to Prior Obligations	32,885,000
Total Sources	$92,420,072
USES	
Redemption of Prior Obligations	$32,885,000
Program Obligation Fund[2]	57,885,000
Underwriter's Fees	492,372
Debt Service Account[3]	1,157,700
Total Uses	$92,420,072

[1] In addition to the amounts set forth in this table, the Corporation will pay $250,000 of associated costs of issuance from available Corporation funds.

[2] The acquisition of the initial portfolio of Program Obligations (as defined below under "SECURITY FOR THE 2007 BONDS AND 2008 BONDS—General") with 2007 Bond and 2008 Bond proceeds is expected to be completed by December 1, 2010. Mortgage Loans acquired by the Corporation from the proceeds of the 2007 Bonds and 2008 Bonds are expected to comply with the applicable requirements of the Internal Revenue Code of 1986, as amended (the "Code"), and the regulations thereunder. See "TAX MATTERS."

[3] The Corporation may contribute additional amounts to the Debt Service Account if necessary to provide sufficient cash flow for payment of the 2007 Bonds and 2008 Bonds.

SECURITY FOR THE 2007 BONDS AND 2008 BONDS

General

The 2007 Bonds and 2008 Bonds are general obligations of the Corporation payable out of any of its revenues, moneys or assets, subject to agreements heretofore or hereafter made with the holders of notes and bonds, other than the Bonds, pledging particular revenues, moneys or assets for the payment thereof and subject to the exclusion of money in the Corporation's Housing Development Fund.

The 2007 Bonds and 2008 Bonds will be primarily secured by certain program obligations (the "Program Obligations") initially consisting of conventional, single-family residential mortgage loans (the "Mortgage Loans") that are either guaranteed by the Department of Veterans Affairs ("VA") or the Rural Housing Service ("RHS") (formerly, the Farmers' Home Administration), or insured by the Federal Housing Administration ("FHA") or through private mortgage insurance. The Mortgage Loans will consist of first mortgage loans for single-family residences in the State that the Corporation will purchase from qualifying lending institutions that originated such Mortgage Loans (the "Purchased Mortgage Loans"). See "THE PROGRAM OBLIGATION FUND—The Special Mortgage Loan Purchase Program" herein. Each Mortgage Loan will be secured by a first mortgage lien on residential property located in the State. Under the Indenture, Program Obligations may also include Mortgage Certificates (as defined below) and, if the Rating Agencies (as defined below) shall have previously informed the Corporation and the Trustee in writing that there would be no adverse effect on the credit ratings previously assigned by them to the Bonds, other mortgage instruments. Mortgage certificates (the "Mortgage Certificates"), if any, will be issued or guaranteed, as the case may be, by the Government National Mortgage Association ("GNMA"), the Federal National Mortgage Association ("FNMA") or the Federal Home Loan Mortgage Corporation ("FHLMC"). The Program Obligations, together with the payments thereon, will be pledged to the Trustee under the Indenture.

The Corporation has previously made approximately $49,000,000 of qualified Veterans Mortgage Loans from funds unrelated to the Bonds. The Corporation will purchase the initial portfolio of Mortgage Loans with proceeds of the 2007 Bonds and 2008 Bonds and funds of the Corporation. The Corporation may exchange certain of such Mortgage Loans for Mortgage Certificates. The acquisition of the initial portfolio of Program Obligations is expected to be completed by December 1, 2010. For a more complete description of the Mortgage Loans, see "MORTGAGES AND MORTGAGE SERVICING—The Mortgages" and "CERTAIN LEGAL ASPECTS OF THE MORTGAGE LOANS." For a more complete description of the Mortgage Certificates, see "THE PROGRAM OBLIGATION FUND—Mortgage Certificates" herein. Other Program Obligations may include, in addition to the initial portfolio, additional Mortgage Loans and Mortgage Certificates.

Mortgage Loans purchased from 2007 Bond and 2008 Bond proceeds will be limited to Mortgage Loans made to qualifying veterans which are secured by a first lien on residential, single-family homes and which bear interest at a fixed rate. All Mortgage Loans will provide for approximately equal monthly installments of principal and interest for an initial term of at least 15 years, but no more than 30 years, from the date of origination.

No representation is made as to the percentage of the Program Obligation Fund with respect to the 2007 Bonds and 2008 Bonds under the Indenture (the "Program Obligation Fund") which will be invested initially in Purchased Mortgage Loans, Mortgage Certificates or other permitted investments.

Pledged Revenues

In addition, the 2007 Bonds and 2008 Bonds will be secured by a pledge of the Corporation's rights under the pledged Program Obligations and the various insurance policies and guaranty agreements provided with respect to the pledged Program Obligations, and by a pledge of the Pledged Revenues under the Indenture and all assets held in any fund or account established under the Indenture (except any Rebate Fund and any account within either a Credit Enhancement Fund or a Liquidity Facility Fund that is used exclusively to reimburse the credit enhancer or liquidity facility provider pursuant to the terms of the Credit Enhancement or Liquidity Facility). Pledged Revenues include (i) payments of principal and interest on the Pledged Program Obligations deposited with the Trustee and all other net proceeds of such Pledged Program Obligations and (ii) investment earnings on Investment Securities held by the Trustee as security for the Bonds and the net gain realized on the sale or other disposition of such Investment Securities. Pledged Revenues do not include earnings or payments on amounts on deposit in the Rebate Fund or the Over Collateralization Requirement Fund for the 2007 Bonds and 2008 Bonds (the "OCR Fund").

OCR Fund

If amounts in the Interest Account of the Revenue Fund and the Principal Account and General Account of the Redemption Fund are insufficient to pay debt service on the Bonds, amounts in the OCR Fund are available for such payment if there is an insufficient amount to pay such deficiency in the Debt Service Account. The OCR Fund may consist of certain mortgage loans, cash and other assets contributed to it by the Corporation. The Corporation will deposit mortgage loans, mortgage certificates and/or cash into the OCR Fund in an amount sufficient to satisfy the OCR Fund Requirement.

Sufficiency of Pledged Revenues

The completed initial portfolio of Program Obligations is expected to have an aggregate outstanding principal balance of approximately $42,885,000 with respect to the 2007 Bonds and approximately $15,000,000 with respect to the 2008 Bonds and will be pledged to the payment of the 2007 Bonds and 2008 Bonds and all other Bonds on a parity basis. Revenues received in respect of such Program Obligations and any other Program Obligations subsequently acquired, including amounts attributable to prepayments, are required to be deposited in the Revenue Fund and will be applied (unless used to purchase additional Program Obligations), together with amounts available from investment earnings, to meet interest payments, sinking fund redemption requirements, principal maturities and other redemption provisions of the Bonds. The cash flow from such Mortgage Loans and other Program Obligations and any subsequent Mortgage Loans or other Program Obligations, together with investment income and the Debt Service Account, is expected to be sufficient for all required principal (including sinking fund) and interest payments on the Bonds.

State Guaranty

Principal of and interest on all Bonds are unconditionally guaranteed by the State of Alaska. The full faith, credit and resources of the State are pledged to the payment of principal of and interest on all Bonds, and payment of the principal of and interest on all Bonds are secured by the general obligation of the State of Alaska.

Debt Service Account

The Corporation will establish by a cash transfer from its unrestricted general funds a Debt Service Account in approximately the amount of $1,157,700 in order to assure the availability of moneys

for the payment of debt service on the Bonds. The Corporation may deposit additional amounts in the Debt Service Account to the extent necessary to provide adequate cash flow to pay the Bonds. Under the terms of the Indenture, any deficiency in the minimum required deposit of amounts in the Interest Account, Principal Account and General Account with respect to payment of interest, principal or sinking fund payments on the Bonds three business days prior to any Interest Payment Date must be immediately satisfied with a withdrawal from the Debt Service Account and, if amounts therein shall be insufficient, from any other funds of the Corporation available therefor, including amounts in the OCR Fund. On the first Interest Payment Date next following the acquisition of the initial portfolio of Program Obligations with proceeds of the 2007 Bonds and 2008 Bonds, in the event the Corporation has filed with the Trustee a Bond Coverage Certificate (as defined below) demonstrating Bond Coverage (as defined below) after giving effect to such withdrawal, the balance remaining in the Debt Service Account in excess of the Minimum Debt Service Account Requirement may be withdrawn by the Corporation to the extent that all debt service on all Outstanding Bonds then due shall have been paid as of such Interest Payment Date or as of the most recent applicable Interest Payment Date for such Bonds and to the extent that certain other tests are met. Any amounts remaining in the Debt Service Account five days after such Interest Payment Date in excess of the Minimum Debt Service Account Requirement shall be transferred by the Trustee to the Revenue Fund. On future Interest Payment Dates, the Trustee shall transfer any amounts in the Debt Service Account that are in excess of the Minimum Debt Service Account Requirement to the Revenue Fund.

Additional Bonds

Additional Bonds (including refunding Bonds) may be issued pursuant to the Master Indenture upon compliance with the provisions thereof, which include the requirement that no Additional Bonds may be issued (i) without the delivery of a Bond Coverage Certificate (as defined below) to the Trustee and (ii) unless the ratings then assigned by the Rating Agencies to the then Outstanding Bonds without regard to any bond insurance or any other form of credit enhancement will not be reduced as a result of the issuance of such Additional Bonds. The Bonds issued under the Indenture will rank on a parity with each other; therefore, the availability of money for repayment of the 2007 Bonds and 2008 Bonds could be significantly affected by the issuance of Additional Bonds. The Corporation is also permitted to issue bonds which are separately secured and bonds which are also general obligations of the Corporation.

DESCRIPTION OF THE 2007 BONDS AND 2008 BONDS

The 2007 Bonds and 2008 Bonds will be dated as set forth on the cover page. The 2007 Bonds and 2008 Bonds will mature on the dates and in the amounts as set forth on the inside cover page, and will bear interest (calculated on the basis of a 360-day year consisting of twelve 30-day months), payable on each June 1 and December 1, commencing June 1, 2008, from their dated dates to their maturity dates, as set forth on the inside cover page, at the applicable rates, as set forth on the inside cover page. The 2007 Bonds and 2008 Bonds shall be issued in denominations of $5,000 or any integral multiple thereof.

All 2007 Bonds and 2008 Bonds will be issued only in fully registered form and will be initially offered only in book-entry form, registered in the name of Cede & Co. as nominee of The Depository Trust Company ("DTC"), New York, New York, which will act as securities depository of the 2007 Bonds and 2008 Bonds. See "DESCRIPTION OF THE 2007 BONDS AND 2008 BONDS—Book-Entry Only System" herein. The 2007 Bonds and 2008 Bonds are issuable in minimum denominations of $5,000 or any integral multiple thereof. For so long as Cede & Co. remains the registered owner of the 2007 Bonds and 2008 Bonds, payments of principal of and interest on the 2007 Bonds and 2008 Bonds will be made by the Trustee directly to DTC or Cede & Co., as the nominee of DTC. DTC procedures provide for DTC to remit such payments to banks, brokers and dealers who are, or who act through, participants of DTC ("DTC Participants") and for such payments to thereafter be

paid by DTC Participants to the Beneficial Owners (as defined below). For payment if the 2007 Bonds and 2008 Bonds are no longer held in book-entry-only system, see "Delivery of Bond Certificates" below.

Book-Entry Only System

The 2007 Bonds and 2008 Bonds will be issued as fully registered bonds in the name of Cede & Co., as nominee of DTC, as registered owner of the 2007 Bonds and 2008 Bonds. Purchasers of such 2007 Bonds and 2008 Bonds will not receive physical delivery of bond certificates. For purposes of this Official Statement, so long as all of the 2007 Bonds and 2008 Bonds are immobilized in the custody of DTC, references to holders or owners of 2007 Bonds and 2008 Bonds 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 Underwriter takes responsibility for the accuracy or completeness thereof.

DTC will act as securities depository for the 2007 Bonds and 2008 Bonds. The 2007 Bonds and 2008 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 2007 Bond certificate will be issued for each maturity of each subseries thereof set forth on the inside cover page in the aggregate principal amount of each such maturity and will be deposited with DTC. One fully registered 2008 Bond certificate will be issued for each maturity 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 100 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 2007 Bonds and 2008 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2007 Bonds and 2008 Bonds on DTC's records. The ownership interest of each actual purchaser of each 2007 Bond and 2008 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 2007 Bonds and 2008 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 2007 Bonds and 2008 Bonds, except in the event that use of the book-entry system for the 2007 Bonds and 2008 Bonds is discontinued.

To facilitate subsequent transfers, all 2007 Bonds and 2008 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2007 Bonds and 2008 Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2007 Bonds and 2008 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2007 Bonds and 2008 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 2007 Bonds and 2008 Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the 2007 Bonds and 2008 Bonds, such as redemptions, tenders, defaults and proposed amendments to the Indenture. For example, Beneficial Owners of 2007 Bonds and 2008 Bonds may wish to ascertain that the nominee holding the 2007 Bonds and 2008 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of a maturity of a Series of the 2007 Bonds and 2008 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 & Co. (nor any other DTC nominee) will consent or vote with respect to the 2007 Bonds and 2008 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 2007 Bonds and 2008 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal and interest on the 2007 Bonds and 2008 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 & Co. (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 2007 BONDS AND 2008 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 2007 BONDS AND 2008 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 2007 BONDS AND 2008 BONDS OR ANY OTHER ACTION TAKEN BY DTC AS REGISTERED BONDOWNER.

DTC may discontinue providing its services as securities depository with respect to the 2007 Bonds and 2008 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, 2007 Bond and 2008 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-only transfers through DTC (or a successor securities depository). In that event, 2007 Bond and 2008 Bond certificates will be printed and delivered to DTC.

Payments of Principal and Interest

For so long as Cede & Co. is the registered owner of the 2007 Bond or 2008 Bond, payments of principal and interest with respect to the 2007 Bonds or 2008 Bonds will be paid by the Trustee directly to DTC or its nominee, Cede & Co. DTC procedures provide for DTC to remit such payments to the DTC Participants and such payments to thereafter be paid by DTC Participants to Beneficial Owners. NO ASSURANCE CAN BE GIVEN BY THE CORPORATION THAT DTC AND DTC PARTICIPANTS WILL MAKE PROMPT TRANSFER OF PAYMENTS TO BENEFICIAL OWNERS. THE CORPORATION IS NOT RESPONSIBLE OR LIABLE FOR PAYMENT BY DTC OR DTC PARTICIPANTS OR FOR SENDING TRANSACTION STATEMENTS OR FOR MAINTAINING, SUPERVISING OR REVIEWING RECORDS MAINTAINED BY DTC OR DTC PARTICIPANTS OR FOR ANY OTHER ACTION TAKEN OR NOT TAKEN BY DTC OR DTC PARTICIPANTS. THE INFORMATION IN THIS SECTION CONCERNING DTC AND DTC'S BOOK-ENTRY ONLY SYSTEM HAS BEEN OBTAINED FROM DTC, AND THE CORPORATION TAKES NO RESPONSIBILITY FOR THE ACCURACY THEREOF. THE BENEFICIAL OWNER MAY BE CHARGED A SUM SUFFICIENT TO COVER ANY TAX, FEE OR OTHER GOVERNMENTAL CHARGE THAT MAY BE IMPOSED FOR EVERY TRANSFER AND EXCHANGE OF THE 2007 BONDS AND 2008 BONDS.

Delivery of Bond Certificates

In the event the Corporation, in its sole discretion, determines that the Beneficial Owners should obtain bond certificates, the Corporation may, at its own expense, execute and deliver 2007 Bonds and 2008 Bonds in the form of fully registered certificates, which would be available for distribution to Beneficial Owners or their nominees. In such event, principal and interest with respect to the 2007 Bonds and 2008 Bonds will be payable to the holders of the 2007 Bonds and 2008 Bonds in accordance with the terms of the Indenture. DTC also may discontinue providing its services with respect to the 2007 Bonds

and 2008 Bonds by giving notice to the Corporation and discharging its responsibilities under applicable law.

If bond certificates are issued as provided above, the principal and interest due upon maturity or redemption of any of the 2007 Bonds and 2008 Bonds (or earlier payment in full) will be payable at the office of the Trustee, as Paying Agent, in St. Paul, Minnesota, upon presentation and surrender of such 2007 Bonds and 2008 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 2007 Bond or 2008 Bond (prior to the maturity or earlier redemption thereof) will be made by the Trustee to the registered owner of such 2007 Bond and 2008 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 such 2007 Bonds and 2008 Bonds. A registered owner of $1,000,000 or more in principal amount of Bonds shall be paid interest by wire transfer to an account in the United States if the registered owner makes a written request to the Trustee prior to the Record Date specifying the account address.

If certificates are issued as provided above, the 2007 Bonds and 2008 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 its fees and expenses in connection with the transfer and 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 15 days next preceding an Interest Payment Date on any 2007 Bond or 2008 Bond or next preceding any selection of any 2007 Bond or 2008 Bond to be redeemed, or to transfer or exchange any 2007 Bond or 2008 Bond previously called for redemption except to the extent of any unredeemed portion thereof. If any 2007 Bond or 2008 Bond is mutilated, lost, stolen or destroyed, the Trustee may execute and deliver a new 2007 Bond or 2008 Bond of the same maturity, interest rate and principal amount as the 2007 Bond or 2008 Bond so mutilated, lost, stolen or destroyed, provided that such 2007 Bond or 2008 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 holder of the 2007 Bond and 2008 Bond.

Notices to Beneficial Owners

Each Beneficial Owner will receive any notices of redemption and other notices only through the DTC Participant from which each Beneficial Owner acquired its interest in the 2007 Bonds or 2008 Bonds, who, in turn, will receive such notices through the facilities of DTC.

Neither the Trustee nor the Corporation shall have any responsibility or obligation to any DTC Participant, any person claiming a beneficial ownership interest in the 2007 Bonds or 2008 Bonds under or through DTC or any DTC Participant, or any other person not shown on the registration books of the Trustee as being a registered owner of 2007 Bonds or 2008 Bonds with respect to: the accuracy of any records maintained by DTC or any DTC Participant; the payment by DTC or any DTC Participant of any amount in respect of the principal of or interest on the 2007 Bonds or 2008 Bonds; any notice which is permitted or required to be given to holders of the 2007 Bonds or 2008 Bonds under the Indenture; the selection by DTC or any DTC Participant of any person to receive payment in the event of a partial redemption of the 2007 Bonds or 2008 Bonds; or any consent given or other action taken by DTC as the registered owner of the 2007 Bonds or 2008 Bonds.

Any failure on the part of DTC or failure on the part of a nominee of a Beneficial Owner (having received notice from a DTC Participant, an Indirect Participant or otherwise) to notify the Beneficial Owner of any such notice and its contents or effect will not affect the validity of the redemption or of any other action premised on such notice.

When reference is made to any action which is required or permitted to be taken by the owners, such reference will only relate to those permitted to act (by statute, regulation or otherwise) on behalf of such owners for such purposes.

REDEMPTION OF THE 2007 BONDS AND 2008 BONDS

Special Redemption of 2007 Bonds and 2008 Bonds

The 2007 Bonds and 2008 Bonds are subject to redemption, at the option of the Corporation, in whole or in part on a pro rata basis from among all outstanding maturities of the 2007 Bonds and 2008 Bonds unless the Corporation directs the Trustee otherwise, on any date on or after June 1, 2008 (which date shall be determined by the Corporation, subject to the provisions of, and in accordance with, the Indenture and when so determined or selected shall be deemed as the redemption date), from amounts in the Program Obligation Fund which have not been expended for the purchase of Program Obligations at a price equal to 100% of their principal amount plus accrued interest to the redemption date.

The 2007 Bonds and 2008 Bonds are also subject to redemption, at the option of the Corporation, in whole or part on a pro rata basis from among all outstanding maturities of the 2007 Bonds and 2008 Bonds unless the Corporation directs the Trustee otherwise, on any date beginning June 1, 2008 at a price equal to 100% of their principal amount plus accrued interest to the redemption date, from amounts available for such purpose in the Redemption Fund, which amounts are expected to be generated primarily from repayments and prepayments of principal on Mortgage Loans represented by (or held directly as) Program Obligations. Such amounts may, at the discretion of the Corporation, include excess revenues relating to Mortgage Loans financed by the Corporation with proceeds of the 2007 Bonds or the 2008 Bonds, any previously issued Bonds or any Additional Bonds, and amounts in the Debt Service Account in excess of 2% of the outstanding balance of Mortgage Loans (exclusive of Mortgage Loans that have been exchanged for Mortgage Certificates). If the Corporation elects to redeem the 2007 Bonds or 2008 Bonds other than on a pro rata basis pursuant to this paragraph, the Corporation shall file a Bond Coverage Certificate with the Trustee demonstrating Bond Coverage after giving effect to such redemptions.

The Corporation may elect in lieu of the redemption described in the preceding paragraph to transfer such amounts to the Program Obligation Fund for the purchase of new Program Obligations, subject to the limitations described in "ASSUMPTIONS REGARDING THE 2007 BONDS AND 2008 BONDS STRUCTURE." Amounts so transferred to the Program Obligation Fund which are not used for the purchase of new Program Obligations shall under certain circumstances be applied by the Corporation to the aforesaid redemption of 2007 Bonds or 2008 Bonds.

Redemption When 2007 Bonds Outstanding Are 15% or Less of Initial Principal Amount

The 2007 Bonds are subject to redemption at 100% of the principal amount thereof, plus accrued interest to the redemption date, in whole on any date at the option of the Corporation, from any source of funds, if the outstanding principal balance of the 2007 Bonds is less than or equal to 15% of the aggregate original principal amount of the 2007 Bonds ($6,432,750).

Sinking Fund Redemption of 2007 Bonds

The 2007 Bonds which are term bonds are also subject to redemption in part by lot within a maturity at 100% of the principal amount thereof plus interest accrued to the redemption date from mandatory sinking fund payment on the dates and in the principal amounts of such 2007 Bonds specified for each of the years shown below:

Sinking Fund Payment Schedules

Subseries A-2 Bonds (AMT) Maturing June 1, 2022

Sinking Fund Payment Date	Principal Amount
June 1, 2018	$1,245,000
June 1, 2019	1,305,000
June 1, 2020	1,365,000
June 1, 2021	1,435,000
June 1, 2022*	1,505,000

*Stated Maturity

Subseries A-2 Bonds (AMT) Maturing June 1, 2027

Sinking Fund Payment Date	Principal Amount
June 1, 2023	$1,565,000
June 1, 2024	1,645,000
June 1, 2025	1,730,000
June 1, 2026	1,825,000
June 1, 2027*	1,920,000

*Stated Maturity

Subseries A-2 Bonds (AMT) Maturing June 1, 2033

Sinking Fund Payment Date	Principal Amount
June 1, 2028	$2,000,000
June 1, 2029	2,105,000
June 1, 2030	2,215,000
June 1, 2031	2,330,000
June 1, 2032	2,455,000
June 1, 2033*	2,580,000

*Stated Maturity

Optional Redemption of 2007 Bonds

The 2007 Bonds are redeemable, at the option of the Corporation, on or after June 1, 2017, in whole or in part, at any time from any moneys made available for such purpose, at 100% of the principal amount of the 2007 Bonds to be redeemed, plus interest, if any, accrued to the redemption date.

Redemption When 2008 Bonds Outstanding Are 15% or Less of Initial Principal Amount

The 2008 Bonds are subject to redemption at 100% of the principal amount thereof, plus accrued interest to the redemption date, in whole on any date at the option of the Corporation, from any source of funds, if the outstanding principal balance of the 2008 Bonds is less than or equal to 15% of the aggregate original principal amount of the 2008 Bonds ($2,250,000).

Sinking Fund Redemption of 2008 Bonds

The 2008 Bonds which are term bonds are also subject to redemption in part by lot within a maturity at 100% of the principal amount thereof plus interest accrued to the redemption date from mandatory sinking fund payment on the dates and in the principal amounts of such 2008 Bonds specified for each of the years shown below:

Sinking Fund Payment Schedules

2008 Bonds (AMT) Maturing June 1, 2038

Sinking Fund Payment Date	Principal Amount
June 1, 2034	$2,700,000
June 1, 2035	2,845,000
June 1, 2036	2,990,000
June 1, 2037	3,150,000
June 1, 2038*	3,315,000

*Stated Maturity

Optional Redemption of 2008 Bonds

The 2008 Bonds are redeemable, at the option of the Corporation, on or after June 1, 2017, in whole or in part, at any time from any moneys made available for such purpose, at 100% of the principal amount of the 2008 Bonds to be redeemed, plus interest, if any, accrued to the redemption date.

General Provisions

The Corporation may from time to time, prior to notice of redemption, purchase 2007 Bonds and 2008 Bonds from moneys held for redemption at a price not in excess of the applicable Redemption Price plus accrued interest.

Any 2007 Bonds or 2008 Bonds to be redeemed shall be redeemed in accordance with the requirements of the Indenture, and (i) as to the 2007 Bonds, any such redemption (other than a sinking fund redemption) shall be credited against future Sinking Fund Payments applicable to the 2007 Bonds being redeemed on a pro rata basis, unless the Corporation directs the Trustee to credit otherwise, and (ii) as to the 2008 Bonds, any such redemption (other than a sinking fund redemption) shall be credited

against future Sinking Fund Payments applicable to the 2008 Bonds being redeemed on a pro rata basis, unless the Corporation directs the Trustee to credit otherwise.

Subject to applicable law, notwithstanding the maximum purchase price, if at any time the investment earnings on the moneys available for such purchase shall be less than the interest accruing on the 2007 Bond or 2008 Bond to be redeemed, then the Trustee may pay a purchase price for any such 2007 Bond or 2008 Bond in excess of the Redemption Price that would be payable on the next redemption date to the Owner of such 2007 Bond or 2008 Bond, if the Corporation certifies to the Trustee that the amount paid in excess of said Redemption Price is less than the interest that is to accrue on said 2007 Bond or 2008 Bond less any investment earnings on such available moneys for the period from the settlement date of the proposed purchase to the redemption date.

Notice of the call for any redemption, identifying the 2007 Bonds or 2008 Bonds or portion thereof to be redeemed, shall 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 date fixed for redemption to the registered owner of each 2007 Bond or 2008 Bond to be redeemed in whole or in part at the address shown on the registration books maintained by the Trustee. Neither failure to receive any redemption notice nor any defect in such redemption notice so given shall affect the sufficiency of the proceedings for the redemption of such Bonds.

THE PROGRAM OBLIGATION FUND

The Trustee has established a Program Obligation Fund for the 2007 Bonds and 2008 Bonds. The Trustee shall deposit amounts available as a result of issuance of the 2007 Bonds and the refunding of the Refunded Obligations in the 2007 Bond Proceeds Account of the Program Obligation Fund and amounts available as a result of the issuance of the 2008 Bonds in the 2008 Bond Proceeds Account of the Program Obligation Fund. The Corporation also may deposit additional funds and Program Obligations to the Program Obligation Fund during the initial acquisition period to satisfy the Bond Coverage requirements under the Indenture. Any Mortgage Loan represented by a Program Obligation purchased entirely with funds contributed by the Corporation need not comply with the mortgage requirements of the Tax Act summarized hereafter.

The Trustee may disburse amounts held in the Program Obligation Fund as follows:

(a) at the written direction of the Corporation, against delivery of Program Obligations to the Trustee for deposit in the Program Obligation Fund, assuming compliance with the cash flow and Bond Coverage calculations referred to under "ASSUMPTIONS REGARDING THE 2007 BONDS AND 2008 BONDS STRUCTURE";

(b) at the written direction of the Corporation, to purchase Investment Securities;

(c) to the Interest Account or the Principal Account either (i) as directed in the most recently delivered Bond Coverage Certificate, or (ii) at the written direction of the Corporation to the extent necessary in the opinion of the Corporation to prevent a default in the payment of principal of or interest on the Bonds;

(d) on the date or dates specified in the 2007 and 2008 Supplemental Indenture to the General Account, any moneys then remaining in the applicable Bond Proceeds Account for the 2007 Bonds or 2008 Bonds unexpended for the purchase of Program Obligations for certain transfers for redemption or recycling;

(e) on any Interest Payment Date for the 2007 Bonds or 2008 Bonds, as applicable, following completion of the purchase of the initial Program Obligation portfolio for the 2007 Bonds or 2008 Bonds, as applicable, in an amount as certified to the Trustee in writing by an Authorized Officer, from the Accounts for the 2007 Bonds or 2008 Bonds, as applicable, in the Program Obligation Fund, as applicable, to the Corporation free and clear of the lien and pledge of the Indenture but only upon receipt by the Trustee from the Corporation of a Bond Coverage Certificate demonstrating Bond Coverage after giving effect to the disbursement; or

(f) on any date, at the written direction of the Corporation, to the General Account, all or any portion of the moneys then on deposit in the Recycling Account.

The Corporation may acquire Program Obligations from moneys initially deposited in the Program Obligation Fund if it extends the Program Obligation acquisition period pursuant to the terms of the Indenture, upon filing with the Trustee a Bond Coverage Certificate, including confirmation from the Rating Agencies that such extension will not cause a reduction in the ratings on the Bonds then in effect.

"Bond Coverage Certificate" means a Certificate establishing Bond Coverage as of a specified date of certification. "Bond Coverage" means a condition which shall be deemed to exist as of any date of certification if either the test set forth in paragraph (i) below or the test set forth in paragraph (ii) below is met as of such date:

(i) the Corporation delivers to the Trustee a Certificate certifying (A) that the Over Collateralization Requirement has been met and that the Minimum Debt Service Account Requirement has been met and (B) that the schedules attached thereto show receipt and application of Eligible Funds which are in any Fund sufficient and available to provide timely payment of the principal of and interest on the Bonds of each Series on each Debt Service Payment Date and Program Expenses, up to the amount permitted to be paid out of the Operating Account within the Redemption Fund pursuant to the Indenture, from (and including) the first interest payment date that is or that follows the date of certification to the maturity of the Bonds; or

(ii) the Corporation delivers to the Trustee a Bond Coverage Certificate certifying as to another calculation (including, without limitation, any definition or component thereof) that is of Rating Quality. The Trustee is entitled to rely on the Certificate as to Rating Quality.

"*Rating Quality*" means, with respect to any Series of Bonds, having terms, conditions and/or a credit quality such that the item stated to be of "Rating Quality" will not, as confirmed in writing received by the Trustee from each of the Rating Agencies, impair the ability of the Corporation to obtain the ratings from the Rating Agencies initially anticipated to be received with respect to such Bonds as described in the Supplemental Indenture authorizing such Bonds and, if the Bonds have been rated, will not cause any such Rating Agency to lower or withdraw the rating it has assigned to the Bonds of such Series or to any other Outstanding Bonds.

The Corporation expects that, subsequent to refunding the Refunded Obligations and receipt of transferred funds, the funds deposited into the Program Obligation Fund on the respective dates of issuance of the 2007 Bonds and the 2008 Bonds will be disbursed to it against the deposit of Program Obligations. It is expected that the cash flow from such Program Obligations, together with other Pledged Revenues (including investment income) and moneys from the Debt Service Account, will be sufficient to pay the principal of and interest on the Bonds.

Program Obligations are expected to consist of Mortgage Loans to be originated under the Corporation's ongoing Veterans Mortgage Program. See "THE CORPORATION—Lending Activities" for a description of the Veterans Mortgage Program.

Under certain circumstances the Indenture permits the Corporation to withdraw amounts held in the Program Obligation Fund free and clear of the lien of the Indenture. Any such withdrawal must be accompanied by a Bond Coverage Certificate demonstrating the sufficiency of revenues to pay principal and interest on the Bonds, notwithstanding such withdrawal, under certain assumptions set forth in the Indenture.

The Special Mortgage Loan Purchase Program

The Special Mortgage Loan Purchase Program, under which the Veterans Mortgage Program is operated, was established by the Corporation in 1980 in connection with a major expansion of the Corporation's functions by the State Legislature. Since June 1980, the Special Mortgage Loan Purchase Program has been a significant funding source for financing owner-occupied housing in the State. Under the Special Mortgage Loan Purchase Program, the Corporation purchases first mortgage loans in amounts not in excess of those established for the State by FNMA (except for single-family mortgage loans, which may not exceed 110% of such FNMA limits). The Corporation's mortgage loan limits are currently $688,050 for single-family loans and $800,775 for mortgage loans for owner-occupied duplexes in the State. In both cases, the loan-to-value ratio may not exceed 95% (except for federally guaranteed or insured mortgage loans, which may have a loan-to-value ratio of up to 100%).

Under the Special Mortgage Loan Purchase Program, all prospective residential mortgage loans submitted to the Corporation are reviewed by a Corporation staff underwriter for approval of property and credit or are subject to review pursuant to its delegated underwriting procedures. The underwriting process of the Corporation assesses the prospective purchaser's ability to repay the mortgage loan and the adequacy of the home as collateral. The Corporation's policy is to require that all loans with loan-to-value ratios in excess of 80% be insured through primary mortgage insurance or federal insurance or guarantee.

The Corporation's approval of property and credit for residential loans generally follows a procedure which complies with FHLMC and FNMA guidelines and applicable federal and state laws and regulations. The mortgage loans must have been made by a seller/servicer ("Seller/Servicer") having experienced and qualified underwriters and utilizing appraisers and credit reporting agencies acceptable to the Corporation. The Seller/Servicer is required to provide the Corporation with a description of the prospective borrower's financial condition, including a current personal balance sheet listing assets and liabilities and a statement of income and obligations. The Seller/Servicer prepares a factual data credit report which summarizes the borrower's credit history with local and non-local creditors, as well as a search of the public records for suits, liens, judgments and bankruptcies. In addition, the Seller/Servicer obtains from the borrower's employer information with respect to length of employment, current salary and expectations of continued employment. Self-employed applicants are required to provide copies of income tax returns for the prior two years as well as certain other financial data sufficient to determine reliability and adequacy of income. The Seller/Servicer also verifies from all creditors the repayment history, opening balances and adequacy of repayment of all installment debt shown on the credit report and application. Verifications of deposit are secured from all financial institutions where the borrower maintains demand or savings accounts.

The Seller/Servicer causes an appraisal to be made on each home to be financed. Such appraisal presently is made by an independent appraiser qualified and accepted by FNMA or the Corporation. In

order to avoid undue influence by the buyer, the seller or the listing or selling real estate agent, arrangements for the appraisal are made by the Seller/Servicer.

When a loan to be purchased by the Corporation is the first permanent financing on the structure, with the construction financing appraisal having been based on plans and building specifications, a recertification of value by the original appraiser is required prior to the closing of the permanent mortgage. A copy of this recertification is required by the Corporation prior to the purchase of such a mortgage. The recertification confirms that the home was completed in accordance with the original plans and specifications and that the value is, at a minimum, equal to the original appraised value.

Once the completed request for approval of property and credit package is received by the Corporation, a determination is made as to whether the prospective borrower has sufficient monthly income to meet (a) the borrower's monthly obligations on the proposed mortgage loan and other expenses related to the home (such as property taxes and hazard and primary mortgage insurance premiums) and (b) other financial obligations and monthly living expenses. At present, Seller/Servicers generally follow FNMA lending guidelines which currently specify that (a) mortgage payments plus taxes and insurance should equal no more than 28% of the borrower's gross monthly income and (b) all monthly payments, including those mentioned above and other fixed obligations, such as installment debt, should not equal more than 36% of gross monthly income.

Mortgage Certificates

The Bonds may also be secured by Mortgage Certificates that the Corporation may acquire in exchange for certain Mortgage Loans. The Mortgage Certificates will consist of "fully modified pass-through" mortgage-backed certificates (the "GNMA Certificates"), guaranteed by GNMA and/or by Guaranteed Mortgage Pass-Through Certificates (the "FNMA MBSs") issued by FNMA and/or by Guaranteed Mortgage Pass-Through Participation Certificates (the "FHLMC PCs") issued by FHLMC (GNMA Certificates, FNMA MBSs and FHLMC PCs being hereafter referred to as "Mortgage Certificates"). The guaranty of the GNMA Certificates will be backed by the full faith and credit of the United States. The FHLMC PCs will not be backed directly or indirectly by the full faith and credit of the United States but by the credit of FHLMC, a federally chartered, stockholder-owned corporation. The FNMA MBSs will not be backed directly or indirectly by the full faith and credit of the United States but by the credit of FNMA, a federally chartered, stockholder-owned corporation. No agreement presently exists between FNMA or FHLMC and the Corporation (and none is expected) for the acquisition of FNMA MBSs or FHLMC PCs.

MORTGAGES AND MORTGAGE SERVICING

The Mortgages

The Mortgage Loans related to the proceeds of the 2007 Bonds and 2008 Bonds will be made to "qualified veterans." Currently, "qualified veteran" means any veteran (i) who served on active duty and (ii) who applied for financing before the date 25 years after the last date on which such veteran left active service. In general, and subject to certain limitations in the federal law, a person who has served on active duty in the Armed Forces and who was discharged or released therefrom under conditions other than dishonorable will qualify as a veteran. Discharge includes completion of the original period of duty. Included in the definition of veteran, in addition to those who have served on full-time duty in the Army, Air Force, Navy, Marine Corps or Coast Guard, including the reserve components thereof, will be certain commissioned officers of the Public Health Service, National Oceanic and Atmospheric Administration, and Coast and Geodetic Survey and certain cadets and midshipmen.

Each of the Mortgage Loans will be a "single-family" mortgage loan secured by a first mortgage lien on residential property located in the State. The term "single-family" mortgage loan as used herein means a permanent loan (as opposed to a construction or land development loan) secured by a mortgage on owner-occupied, one- or two-family units, as well as individual condominiums and other separate dwelling units even when located in buildings containing more than two units.

The Mortgage Loans may be prepaid, in whole or in part, at any time without penalty or charge. Revenues received in respect of Program Obligations, including amounts attributable to Mortgage Loan prepayments (unless transferred to the Program Obligation Fund and used to purchase additional Program Obligations), are required to be deposited in the Revenue Fund and will be applied, together with amounts available from scheduled mortgage payments, investment earnings and other revenues, to, among other things, meet annual sinking fund redemption requirements, principal maturities and special redemption of Bonds.

Mortgage Servicing on Single-family Loans

In purchasing mortgage loans (which would include the Mortgage Loans), the Corporation requires the originating institution (which generally thereafter acts as the Seller/Servicer) to furnish to the Corporation the original mortgage note and copies of (i) the deed of trust, (ii) an assignment of the deed of trust, (iii) the mortgage insurance certificate or guarantee, if applicable, and (iv) a title insurance policy in an amount equal to the unpaid principal due on the mortgage. The Corporation also requires generally that all taxes, assessments and water and sewage charges have been duly paid and that a hazard insurance policy exists in an amount equal to the unpaid principal due on the mortgage. The Seller/Servicer services the mortgage loan for a fee, which is a monthly charge at an annual rate of generally 3/8 of 1% on the unpaid principal due on such mortgage loan. The Corporation has adopted standards for qualifying eligible servicing institutions and underwriting and servicing guidelines with respect to the record of and collection of principal and interest on the mortgage loans and the rendering to the Corporation of an accounting of funds collected. The servicing of a mortgage loan includes the responsibility for foreclosure, but not the bearing of any expenses thereof. The Seller/Servicer is expected to encourage the curing of any default in scheduled mortgage payments, and is required to pay from scheduled mortgage payments, taxes, assessments, levies and charges, and premiums for hazard insurance and mortgage insurance, as they may become due.

Regularly scheduled principal and interest payments on the mortgage loans are required to be deposited by the Seller/Servicer with a depositary bank to be held in escrow for the Trustee. Such funds (net of applicable servicing fees) are remitted to the depositary by the Seller/Servicer on the day following receipt where total collections of such Seller/Servicer equal or exceed $2,500. The balance of such monthly payments, representing payments for such items as property taxes and mortgage insurance, are retained by the Seller/Servicer and applied as necessary. The funds are held in a custodial account and invested for the benefit of the Trustee pending their transfer once a month to the Trustee.

The Corporation maintains detailed mortgage loan collection information on its internal data processing system. The Corporation's system generates the collection reports and consolidates actual collections by individual bond series.

The Corporation reviews individual Seller/Servicer reports to ascertain the extent of mortgagor payment delinquencies and servicer processing delays in order to determine the appropriate corrective action, if any, to be taken by the Corporation or the Seller/Servicer. Under the Corporation's monitoring system, a Seller/Servicer is subject to suspension from participating in the program when its monthly reports for two consecutive months show delinquency rates more than 1.50 times the average delinquency rates experienced by the Seller/Servicer group as a whole.

Insurance

The following description of certain mortgage insurance policies and guarantees is only a brief outline and does not purport to summarize or describe all of the provisions thereof.

Primary Private Mortgage Insurance,
FHA Insurance and VA and RHS Guarantees

Any Purchased Mortgage Loan which has an original principal amount exceeding 80% of the value of the mortgaged property is required to be (a) insured by FHA, (b) guaranteed by VA or RHS, or (c) insured under a private mortgage insurance policy in the amount (i) equal to 20% of the Mortgage Loan if the loan-to-value ratio is 90% or less or (ii) equal to 25% of the Mortgage Loan if the loan-to-value ratio exceeds 90%. The only Mortgage Loans which the Corporation is presently purchasing at a loan-to-value ratio which exceeds 95% are federally insured or guaranteed Mortgage Loans. FHA insurance coverage and RHS guarantees will equal 100% of the outstanding principal balance of all FHA insured or RHS guaranteed Mortgage Loans. The RHS guarantee covers the lesser of (a) any loss up to 90% of the original principal amount of the Mortgage Loan or (b) any loss in full up to 35% of the original principal amount of the Mortgage Loan plus 85% on any additional loss. For all VA guaranteed Mortgage Loans the VA guarantee plus the down payment must be at least 25% of the original Mortgage Loan amount. The FHA insurance or VA guarantee are required to be maintained for the entire period during which the Corporation owns an interest in the Mortgage Loan. FHA regulations do not permit the inclusion of the "due-on-sale" provision in the form specified in the Corporation's Regulations. The private mortgage insurance policy will be maintained in force and effect (a) for the period during which the Corporation owns an interest in the Mortgage Loan or (b) until the outstanding principal amount of the Mortgage Loan is reduced to 80% of the lesser of the original appraised value of the mortgaged property or the original sale price of the mortgaged property. The cost of any such insurance or guarantee will be paid by the mortgagor. Streamlined Mortgage Loans will also be insured to the extent the original loan at the time of refinancing requires such insurance.

In general, FHA, VA, and RHS regulations and private mortgage insurance contracts provide for the payment of insurance or guarantee benefits to a mortgage lender upon the failure of a mortgagor to make any payment or to perform any obligation under the insured or guaranteed mortgage loan and the continuance of such failure for a stated period. In order to receive payment of insurance or guarantee benefits, a mortgage lender, such as the Corporation, normally must acquire title to the property, either through foreclosure or conveyance in lieu of foreclosure, and convey such title to the insurer or guarantor. Alternatively, where it is determined that the default was caused by circumstances beyond the control of the mortgagor, certain FHA regulations permit a mortgage lender to assign the mortgage to FHA and receive insurance payments. In general, primary mortgage insurance benefits, as limited by the amount of coverage indicated above, are based upon the unpaid principal amount of the mortgage loan at the date of institution of foreclosure proceedings or the acquisition of the property after default, as the case may be, adjusted to reflect certain payments paid or received by the mortgage lender. Where property to be conveyed to an insurer or guarantor has been damaged, it is generally required, as a condition to payment of an insurance or guarantee claim, that such property be restored to its original condition (reasonable wear and tear excepted) by the mortgage lender prior to such conveyance or assignment.

Standard Homeowner Insurance Policies

Each mortgagor will be required to maintain for the mortgaged property a standard homeowner's insurance policy in an amount which is not less than (i) the maximum insurable value of the mortgaged property or (ii) the unpaid principal amount of the mortgage loan, whichever is less. The insurance policy will be written by an insurance company qualified to do business in the State and qualified to provide

insurance on or in connection with mortgages purchased by FHLMC or FNMA. The mortgagor will pay the cost of the standard homeowner insurance policy.

In general, a standard homeowner's form of fire with extended coverage policy insures against physical damage to or destruction of the improvements on the property by fire, lightning, explosion, smoke, windstorm, hail, riot, strike, and civil commotion, subject to the conditions and exclusions particularized in each policy. Policies typically exclude physical damage resulting from the following: war, revolution, governmental action, floods and other water-related causes, earth movement (including earthquakes, landslides and mud-slides), nuclear reactions, wet or dry rot, vermin, rodents, insects or domestic animals, theft, and, in certain cases, vandalism.

Historical Veterans Mortgage Program Data

As of September 30, 2007, there were Pledged Mortgage Loans with an outstanding aggregate principal balance of approximately $203,323,646, bearing interest at a weighted average rate of approximately 6.16% per annum, with a weighted average remaining term of approximately 321 months.

The following information is based on the Corporation's total portfolios of the types of loans described therein. It should not be regarded as indicative of the final composition of the Program Obligation portfolio.

The following tables show the property types, insurance types, property locations, and interest rates applicable to the Mortgage Loans pledged under the Indenture as of the date of origination for loans outstanding as of September 30, 2007. No representation is made as to the current loan-to-value ratios of these loans.

Pledged Mortgage Loans Dwelling Type

Property Type	Outstanding Principal Balance	Percentage by Principal Balance
Single-Family Dwellings	$183,185,435	90.10%
PUDs	2,225,707	1.09
2-4 Unit Dwellings	4,927,603	2.42
Condominiums	11,950,689	5.88
Zero Lot Lines	1,034,212	0.51
TOTAL	$203,323,646	100.00%

Pledged Mortgage Loans Primary Insurance

Insurance Type	Outstanding Principal Balance	Percentage by Principal Balance
Private Mortgage Insurance	$ 10,399,464	5.12%
FHA Insurance	7,284,050	3.58
VA Guarantee	140,094,771	68.90
Uninsured	44,795,084	22.03
FMH Insured	750,277	0.37
TOTAL	$203,323,646	100.00%

Pledged Mortgage Loans Geographic Distribution

Property Location	Outstanding Principal Balance	Percentage by Principal Balance
Anchorage	$ 61,286,275	30.14%
Chugiak	7,633,383	3.75
Eagle River	25,630,444	12.61
Fairbanks	24,148,655	11.88
Juneau	9,477,638	4.66
Kenai	1,510,818	0.74
Ketchikan	1,431,377	0.70
Kodiak	1,646,892	0.81
North Pole	25,396,175	12.50
Palmer	14,153,916	6.96
Soldotna	1,413,068	0.70
Wasilla	22,796,175	11.21
Other	6,798,830	3.34
TOTAL	$203,323,646	100.00%

Purchased Mortgage Loans Data

As of September 30, 2007, there were Purchased Mortgage Loans with an outstanding aggregate principal balance of $48,736,490, bearing interest at a weighted average rate of approximately 6.01% per annum, with a weighted average remaining term of 358 months.

The following tables show as of September 30, 2007 the property types, insurance types, property locations, and interest rates of approximately $48,736,490 of Mortgage Loans already purchased by the Corporation and available for funding with the proceeds of the 2007 Bonds and 2008 Bonds, but not presently pledged under the Indenture described as the initial portfolio. Approximately $87,700,000 of proceeds of previously issued Bonds remain unexpended for the purchase of Mortgage Loans.

Purchased Portfolio Dwelling Type

Property Type	Outstanding Principal Balance	Percentage by Principal Balance
Single-Family Dwellings	$44,537,768	91.38%
Condominiums	2,266,695	4.65
2-4 Unit Dwelling	1,497,323	3.07
Planned Unit Development	434,704	0.90
TOTAL	$48,736,490	100.00%

Purchased Portfolio Primary Insurance

Insurance Type	Outstanding Principal Balance	Percentage by Principal Balance
Private Mortgage Insurance	$ 756,618	1.55
VA Guaranteed	38,738,689	79.49
Uninsured/Self-Insured	8,067,313	16.55
FHA Insured	659,648	1.35
FMH Insured	514,222	1.06
TOTAL	$48,736,490	100.00%

Purchased Mortgage Loans Geographic Distribution

Property Location	Outstanding Principal Balance	Percentage by Principal Balance
Anchorage	$12,752,501	26.17%
Chugiak	1,406,105	2.89
Eagle River	12,826,533	26.32
Fairbanks	2,618,268	5.37
Juneau	322,053	0.66
Kenai	140,502	0.29
Ketchikan	260,167	0.53
Kodiak	566,331	1.16
North Pole	6,760,626	13.87
Palmer	3,593,913	7.37
Soldotna	540,392	1.11
Wasilla	5,648,706	11.59
Other	1,300,393	2.67
TOTAL	$48,736,490	100.00%

CERTAIN LEGAL ASPECTS OF THE MORTGAGE LOANS

Pledge of Mortgage Loans

The form of assignment to the Corporation of each mortgage deed of trust relating to Mortgage Loans purchased from the proceeds of the Bonds or originated from surplus revenues will expressly recite the interest of the Trustee on behalf of the holders of outstanding bonds of the Corporation in the mortgaged property. That assignment will be recorded with the appropriate real property recording office for the jurisdiction in which the property is located. The Indenture pledges to the Trustee and the holders of the Bonds, the Mortgage Loans, Deeds of Trust, Pledged Revenues and any and all assets held in any fund or account under the Indenture. Section 18.56.120 of the Act provides that such a pledge is valid and binding from the time the pledge is made and, further, that any assets or revenues so pledged are immediately subject to the lien of the pledge without physical delivery or any further act and without regard to whether any third party has notice of the lien of the pledge. Physical custody of each mortgage note is retained by the Corporation and the related deed of trust is retained by the originating lending institution. Notwithstanding the fact that the Trustee does not have physical possession of those instruments, and while Bond Counsel is unaware of any controlling judicial precedent, it is the opinion of Bond Counsel that the effect of (i) recording the assignment in the form described, (ii) execution and delivery of the Indenture and (iii) the statutory provisions referred to above afford the Trustee (on behalf of holders of Bonds of the Corporation) priority as against any competing claimants alleging any financial interest in the Mortgage Loans which have been so assigned.

Alaska Foreclosure Laws

The real estate security instrument customarily used in the State is the deed of trust. The parties to the deed of trust are the trustor (debtor), trustee and beneficiary (lender). Trustees are commonly title insurance companies. Both summary and judicial foreclosure proceedings are permitted. The deed of trust does not effect a conveyance of legal title, which remains in the trustor. The beneficiary acquires a security interest (lien) which may be enforced in accordance with the terms of the deed of trust and State statutes. Failure of the trustor to perform any of the covenants of the deed of trust generally constitutes an event of default entitling the beneficiary to declare a default and exercise its right of foreclosure.

Summary foreclosure may be used if provided for in the deed of trust. All deeds of trust securing loans to be funded from the proceeds of the Bonds contain provisions which permit summary foreclosure. Following a default by the trustor, upon request of the beneficiary and not less than three months before the sale, the trustee must record a notice of default in the recording district in which the property is located. Within 10 days after recording the notice of default, the trustee must mail a copy of the notice of default to the trustor, any successors in interest to the trustor, anyone in possession or occupying the property, and anyone who has an interest subsequent to the interest of the trustee in the deed of trust. If the default may be cured by the payment of money, the trustor may cure the default at any time prior to sale by payment of the sum in default without acceleration of the principal which would not then be due in the absence of default, plus actual costs and attorney's fees due to the default. If default has been cured under the same deed of trust after notice of default two or more times, the trustee may elect to refuse payment and continue the foreclosure proceeding to sale. Notice of the sale must be posted in three public places within five miles of where the sale is to be held, not less than 30 days before the day of sale and by publishing a copy of the notice four times, once a week for four successive weeks, in a newspaper of general circulation published nearest the place of sale. The sale must be made at public auction at a courthouse of the superior court in the judicial district where the property is located, unless the deed of trust provides for a different place. After the sale, an affidavit of mailing the notice of default and an affidavit of publication of the notice must be recorded in the recording district where the property is located. The foreclosure sale and conveyance transfers all the title and interest which the trustor had in the property sold at the time of the execution of the deed of trust plus all interest the trustor may have acquired before the sale and extinguishes all junior liens. There is no right of redemption unless otherwise provided by the deed of trust. A deficiency judgment is prohibited where summary foreclosure is utilized.

Judicial foreclosure is also permitted. A deficiency judgment is allowed where judicial foreclosure is utilized, but judicial foreclosure is much more time-consuming than summary foreclosure. The judgment debtor under a judicial foreclosure proceeding has the right to redeem the property within 12 months from the order of confirmation. If the judgment debtor redeems the property, the foreclosure proceeding is terminated. Otherwise, within 60 days after the order confirming the foreclosure sale, any subsequent lien creditor can redeem the property. There can be as many redemptions as there are subsequent lien creditors. Upon expiration of the redemption period, the purchaser or redeemer is entitled to a conveyance of the property.

ASSUMPTIONS REGARDING THE 2007 BONDS AND 2008 BONDS STRUCTURE

The Corporation will use 2007 Bond proceeds and 2008 Bond proceeds and, subsequent to refunding the Refunded Obligations, transferred proceeds from such refunding to purchase Program Obligations which, together with investment earnings thereon, are expected to be sufficient to pay the debt service on the 2007 Bonds and 2008 Bonds. The Program Obligations consisting of Mortgage Certificates and Mortgage Loans are expected to provide for level monthly payments of principal and interest.

The Corporation has determined that it may reduce its future financing requirements by hereafter acquiring Mortgage Loans or other Program Obligations representing new Mortgage Loans from revenues which are expected to be generated primarily from repayments and prepayments of principal on Mortgage Loans represented by (or held directly as) Program Obligations. The Indenture requires that all such excess revenues be used either to redeem Bonds or purchase Program Obligations upon delivery to the Trustee of the Bond Coverage Certificate. The 2007 Bonds and 2008 Bonds have been structured to mature no later than June 1, 2038, in order to permit the Corporation to acquire future Program Obligations through recycling of loan repayments and prepayments. However, should the Corporation elect not to recycle, it is expected that a substantial portion of the 2007 Bonds and 2008 Bonds would be

redeemed prior to their scheduled maturity. The Corporation's election to purchase new Program Obligations will depend on various factors not now determinable, including the level of future interest rates and the availability of tax-exempt financing.

Upon each purchase of new Program Obligations, the Corporation will deliver to the Trustee a Bond Coverage Certificate which is designed to determine that, using various assumptions as to prepayments of principal and interest on such Program Obligations and investment earnings thereon at assumed rates, revenues will be sufficient to pay the principal and interest on the Bonds. The Corporation may in the future use a method of calculation other than the method specified in the Indenture if the new method will not cause any of Moody's Investors Service Inc. ("Moody's"), Standard & Poor's Rating Group ("S&P"), or Fitch Ratings ("Fitch Ratings" or "Fitch") to lower or withdraw the ratings it has assigned to the Bonds.

Upon each purchase of new Mortgage Loans not exchanged for Mortgage Certificates, the Corporation will deliver to the Trustee a certification to the effect that the Over Collateralization Requirement established with respect to the proposed delivery of such Mortgage Loans has been satisfied through the contribution by the Corporation of additional Program Obligations, Investment Securities or funds to the OCR Fund. The Over Collateralization Requirement established with respect to a delivery of Mortgage Loans not exchanged for Mortgage Certificates will vary as a percentage of such Mortgage Loans to be acquired based upon the mix of particular mortgage loan characteristics including loan to value ratio, type and amount of mortgage insurance and property type. The Corporation may be required to deliver additional Program Obligations, Investment Securities or funds to the OCR Fund in an amount equal to the Over Collateralization Requirement each time the Trustee disburses Bond proceeds to acquire Mortgage Loans not exchanged for Mortgage Certificates. The OCR Fund was established to mitigate potential losses, if any, on Mortgage Loans that have not been converted to Mortgage Certificates, but will only be used to supplement revenues in the event that funds on deposit in the Revenue Fund and the Redemption Fund are insufficient to meet a Debt Service Payment on the Bonds. The Corporation may in the future use a different method of satisfying the Over Collateralization Requirement or change the method of calculation thereof if such difference or change will not adversely affect the current ratings assigned to the Bonds without regard to bond insurance or any other form of credit enhancement by Moody's, S&P, and Fitch Ratings.

A number of factors, including general economic conditions, changing mortgage market interest rates and homeowner mobility, will affect the prepayment experience with respect to the Mortgage Loans pledged to secure the Bonds and, therefore, the average life of the 2007 Bonds and 2008 Bonds. Among the principal other factors which could affect the average life of the 2007 Bonds and 2008 Bonds are:

(a) The refinancing of Mortgage Loans currently held by the Corporation may continue to represent a substantial future activity. Refinancing may involve the prepayment of outstanding Mortgage Loans and the possible redemption of Bonds at par or prepayment of bonds and notes originally issued to finance the purchase of the Mortgage Loans. Accordingly, prepayment of the Mortgage Loans securing the Bonds could result from future refinancing programs offered by the Corporation. Conversely, if the Corporation's refinancing program were to cease, prepayments of the Corporation's Mortgage Loans might decline significantly.

(b) Mortgage Loan delinquencies can lead to foreclosures that result in prepayments. At September 30, 2007, approximately 1.05% of the Corporation's veterans program mortgage loans were reported as delinquent or in foreclosure. The Corporation foreclosed on $346,006 of veterans program mortgage loans in the 3 months ended September 30, 2007 and $1,126,834 in the 12 months ended June 30, 2007. In view of the time required to complete foreclosure

proceedings and other uncertainties inherent in the foreclosure process, such delinquencies and foreclosures will not necessarily result in a rapid prepayment of the Mortgage Loans.

(c) Provisions of the current form of a Mortgage Loan financed by the Corporation permitting the assumption of such loans by eligible mortgagors will affect the Corporation's prepayment experience. When a mortgage loan is assumed by the purchaser of the related property, the existing mortgage loan is not prepaid. Future changes in this form may also affect its prepayment experience.

(d) The Indenture permits the Corporation to deliver a variety of Program Obligations, including but not limited to Mortgage Loans and Mortgage Certificates. The Program Obligations may have original terms ranging from not less than 15 years to not more than 30 years. Existing Program Obligations may have shorter remaining terms. Shorter loan terms may result in a shorter average life of the 2007 Bonds than if the 2007 Bonds were secured exclusively by new Program Obligations representing 30-year Mortgage Loans.

(e) The Corporation retired veterans program debt obligations from excess revenues (including prepayments of the principal on Mortgage Loans), prior to their stated maturity, in the following amounts for the time periods indicated: during the 3 months ended September 30, 2007, $-0-, and during the 12 months ended June 30, 2007, $24,110,000.

(f) There is no assurance that Program Obligations will be purchased within the estimated time, and if they are not purchased, a certain amount of unexpended moneys may be used to redeem the 2007 Bonds and 2008 Bonds.

For these reasons, the Corporation cannot offer any assurances as to the rate at which Mortgage Loans will be acquired from 2007 Bond proceeds and 2008 Bond proceeds, the rate at which such Mortgage Loans will be prepaid, sold or assigned or the rate at which the Corporation may acquire new Mortgage Loans or other Program Obligations during the life of the Bond issue.

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 financial statements of the Corporation dated June 30, 2007, and the September 2007 Mortgage and Bond Disclosure Report of the Corporation. Copies of such financial statements and the unaudited financial statements as of and for the three months ended September 30, 2007, 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:

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

Loan Program	Original Principal Balance of Mortgage Loans Purchased During FY 2006	Original Principal Balance of Mortgage Loans Purchased During FY 2007	Original Principal Balance of Mortgage Loans Purchased During the Three Months Ended September 30, 2007
Tax-Exempt First-Time Homebuyer	$141,594,498	$275,029,956	$74,886,625
Veterans Mortgage Program	11,783,085	114,744,164	69,567,241
Taxable First-Time Homebuyer	61,426,321	58,603,569	16,650,414
Rural	117,833,327	86,210,565	24,541,448
Taxable Other	80,098,440	32,101,459	8,119,433
Multi-Family	31,285,300	14,839,300	1,300,900
Streamline Refinance†	4,209,959	812,271	64,989

† For information only. These amounts are already included in the categories above.

Mortgage Portfolio Summary

	As of June 30, 2006	As of June 30, 2007	As of September 30, 2007
Mortgages and Participation Loans	$3,254,861,682	$3,378,026,530	$3,469,748,840
Real Estate Owned and Insurance Receivables	210,027	485,426	488,655
Total Mortgage Portfolio	$3,255,071,709	$3,378,511,956	$3,470,237,495

Mortgage Delinquency and Foreclosure Summary

	As of June 30, 2006	As of June 30, 2007	As of September 30, 2007
Delinquent 30 Days	1.91%	2.00%	2.07%
Delinquent 60 Days	0.64	0.63	0.67
Delinquent 90 Days or More	0.47	0.62	0.71
Total Mortgage Delinquency	3.02%	3.25%	3.45
Total Foreclosures	$3,475,127	$4,001,470	$1,126,834

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.

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 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

Bond Program	Issued through September 30, 2007	Issued During the Three Months Ended September 30, 2007	Outstanding as of September 30, 2007
Home Mortgage Revenue Bonds	$3,342,990,353	$0	$1,045,384,750
Collateralized Bonds	2,502,500,000	0	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	519,480,000	0	217,855,000
Other Bonds	1,772,080,000	0	86,255,000

Summary of Bonds Issued and Remaining Outstanding

	Issued through September 30, 2007	Issued During the Three Months Ended September 30, 2007	Outstanding as of September 30, 2007
Tax-Exempt Bonds	$11,488,684,122	$0	$2,966,659,451
Taxable Bonds	4,313,215,000	0	106,525,000
Total Bonds	$15,801,899,122	$0	$3,073,184,451
Self-Liquidity Bonds†	$563,740,000	0	$ 310,305,000

† 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 June 13, 2007, the Corporation's Board of Directors authorized a domestic Commercial Paper Notes Program with a major dealer under which the maximum principal amount of notes outstanding at any one time shall not exceed $300,000,000 less the principal amount of obligations then outstanding under the Corporation's Draw Down Bonds program. The Commercial Paper Notes Program is rated "P-1" by Moody's, "A-1+" by S&P, and "F1+" by Fitch. This 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.

Reverse Repurchase Agreements. The Corporation may enter into reverse repurchase agreements in such amounts as it deems necessary for carrying out its purpose.

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.

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 25 to the Corporation's audited annual financial statements dated June 30, 2007 contained in "APPENDIX B—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:

(a) the lesser of (i) $103,000,000 and (ii) the respective percentage of adjusted change in net assets for such fiscal year set forth in the table below, less

(b) debt service on certain State Capital Project Bonds, less

(c) any legislative appropriation of the Corporation's unrestricted, unencumbered funds other than appropriations for the Corporation's operating budget.

Fiscal Year	Percentage of Adjusted Change in Net Assets
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.

Transfer Type	Pre-FY07	FY07	Total
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	277,866,000	9,935,000	287,801,000
Total	$1,489,823,000	$339,253,000	$1,829,076,000

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.

DESCRIPTION OF THE INDENTURE

Following is a summary of certain provisions of the Indenture. It is not comprehensive. Reference should be made to the full text of the Indenture.

All capitalized terms hereinafter used under this caption have the same meanings as in the Indenture if not otherwise defined herein.

Certain Definitions

"*Bondholder*" or "*holder*" or words of similar import, when used with reference to a Bond or Bonds, shall mean any person who shall be the bearer of any Outstanding Bond or Bonds registered to bearer or not registered, or the registered owner of any Outstanding Bond or Bonds at the time registered other than to bearer.

"*Bond Proceeds Account*" shall mean, for any Series, the Bond Proceeds Account established within the Program Obligation Fund for such Series.

"*Certificate*" shall mean a signed document either attesting to or acknowledging the circumstances, representations or other matters therein stated or set forth or setting forth matters to be determined by an authorized officer pursuant to the Indenture; every certificate of the Corporation with respect to compliance with any agreement, condition, covenant or term contained in the Indenture shall include (1) a statement that the person or persons making or giving such certificate have read such agreement, condition, covenant or term and the definitions in the Indenture relating thereto; (2) a brief statement as to the nature and scope of the examination or investigation upon which the certificate or opinion is based; (3) a statement that, in the opinion of such person, such person has made or caused to be made such examination or investigation as is necessary to enable such person to express an informed opinion with respect to the subject matter referred to in the instrument to which such person's signature is affixed; and (4) a statement as to whether, in the opinion of such person, the Corporation has complied with such provision.

"*Counsel's Opinion*" shall mean an unqualified opinion signed by an attorney or firm of attorneys of nationally recognized standing in the field of law relating to state and municipal financing (who may be counsel to the Corporation) selected by the Corporation.

"*Credit Enhancement*" shall mean a letter of credit, a line of credit, a credit facility, a surety bond, bond insurance, or any other instrument or arrangement obtained in connection with the issuance of a Series of Bonds to further secure the payment of principal and interest of the Bonds of such Series but does not include any Liquidity Facility.

"*Credit Enhancement Fund*" shall mean a Fund or Account authorized to be created by the Corporation pursuant to a Supplemental Indenture authorizing the issuance of a Series of Bonds for the purposes of holding and disbursing the proceeds of, or holding only, Credit Enhancement securing such Series.

"*Debt Service Payment*" shall mean any scheduled payment of principal of or interest on Bonds and any payment of the Redemption Price of and accrued interest on any Bonds that are redeemed.

"*Debt Service Payment Date*" shall mean any date on which any Debt Service Payment shall be due, including any redemption date for any Bonds.

"*Eligible Funds*" shall mean (1) any Pledged Revenues and Bond proceeds, (2) any moneys or Investment Securities which are not the proceeds of the Bonds and which are at any time on deposit in any Fund other than the Debt Service Account and the OCR Fund and (3) any moneys, Investment Securities or other assets on deposit in the Debt Service Account but excluding any amounts that may be received pursuant to the guaranty of the Bonds by the State of Alaska. Notwithstanding the above, moneys, Investment Securities or other assets that are not (i) Pledged Revenues, (ii) Bonds proceeds or (iii) contributions by the Corporation shall not be "Eligible Funds" until such moneys, Investment Securities or other assets shall have been on deposit hereunder for at least 93 days during which no proceeding by or against the payer of such moneys, Investment Securities or other assets shall have been commenced under the United States Bankruptcy Code or successor statute.

"*General Account*" shall mean, for any Series, the General Account established within the Redemption Fund for such Series.

"*Interest Payment Date*" shall mean, for any Series, any date upon which interest on the Bonds of such Series is payable in accordance with their terms and the terms of the Master Indenture or the Supplemental Indenture authorizing the issuance of such Series. "*Interest Payment Date*" for the 2007 Bonds and 2008 Bonds shall mean each June 1 and each December 1, commencing June 1, 2008.

"*Investment Agreement*" shall mean a guaranteed investment contract which may be entered into among the Corporation or the Trustee and any corporation (including the Trustee) meeting the requirements established in the Indenture.

"*Liquidity Facility*" shall mean an agreement or other instrument or arrangement to further secure the payment of the purchase price of any Bonds in connection with a tender of such Bonds pursuant to the terms thereof and the terms of the Supplemental Indenture authorizing the issuance of such Series of Bonds.

"*Liquidity Facility Fund*" shall mean a Fund or Account authorized to be created by the Trustee pursuant to a Supplemental Indenture authorizing the issuance of a Series of Bonds for the purposes of holding and disbursing the proceeds of, or holding only, a Liquidity Facility relating to such Series.

"*Minimum Debt Service Account Requirement*" shall mean 2% of the outstanding aggregate principal balance of the Mortgage Loans <u>excluding</u> Mortgage Loans that have been exchanged for Mortgage Certificates.

"*Outstanding*," when used with reference to Bonds, shall mean, as of any date, all Bonds theretofore or thereupon being authenticated and delivered under the Indenture except:

(a) Any Bonds canceled by the Corporation or the Trustee at or prior to such date;

(b) Bonds (or portions of Bonds) for the payment or redemption of which there shall be held in trust hereunder and set aside moneys or Investment Securities that are either direct obligations of the United States or of agencies or instrumentalities thereof that are guaranteed by the United States, the principal of and interest on which when due will provide moneys which, together with the moneys, if any, deposited at the same time, will be sufficient to pay the principal or Redemption Price thereof, as the case may be, with interest to the date of maturity or redemption date (whether at or prior to the maturity or redemption date) and, if such Bonds are to be redeemed, for which notice of such redemption shall have been given as provided in the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice;

(c) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to the Indenture; and

(d) Bonds deemed to have been paid as provided in the Indenture.

"*Over Collateralization Requirement*" shall mean the "OCR" as set forth in the Indenture.

"*Pledged Program Obligation*" shall mean all Pledged Mortgage Loans and Pledged Mortgage Certificates and all other Program Obligations acquired with amounts disbursed pursuant to the Indenture.

"*Pledged Revenues*" shall mean (i) all payments of principal of and interest on Pledged Program Obligations immediately upon receipt thereof by the Corporation or any Depository or the Trustee (including payments representing prepayments of Mortgage Loans and any payments received from FNMA pursuant to its guarantee of the FNMA MBSs and from GNMA pursuant to its guarantee of the GNMA Certificates and from FHLMC pursuant to its guarantee of the FHLMC Certificates) and all other net proceeds of such Pledged Program Obligations, and (ii) amounts required to be deposited as Pledged Revenues pursuant to the Indenture.

"*Program Expenses*" shall mean all the Corporation's expenses in carrying out and administering the Program and shall include, without limiting the generality of the foregoing, salaries, supplies, utilities, mailing, labor, materials, office rent, maintenance, furnishings, equipment, machinery and apparatus, insurance premiums, legal, accounting, management, consulting and banking services and expenses, the fees and expenses of the Trustee, any Credit Enhancement Agency, any Liquidity Facility Provider, the Depositories and the Paying Agents, Costs of Issuance not paid from proceeds of Bonds, and payments for pension, retirement, health and hospitalization and life and disability insurance benefits, all to the extent properly allocable to the Program.

"*Rating Agencies*" shall mean any of the following which, at the time of consideration, provides a published rating for the Bonds: Moody's Investors Service Inc., Standard & Poor's Ratings Group, Fitch Ratings, and any other national securities rating service requested by the Corporation to rate the Bonds.

"*Record Date*" shall mean the twentieth day of the month preceding an Interest Payment Date, regardless of whether such day is a Business Day, for the 2007 Bonds and 2008 Bonds.

"*Redemption Price*" shall mean, with respect to any Bond, the principal amount thereof plus the applicable premium, if any, payable upon redemption thereof pursuant to the provisions of such Bond or the Indenture or any Supplemental Indenture.

"*Series*" shall mean all the Bonds authenticated and delivered on original issuance pursuant to a Supplemental Indenture and designated as a Series therein and any Bonds thereafter authenticated and

delivered upon the transfer or exchange of or in lieu of or in substitution for (but not to refund) such Bonds as provided in the Indenture, regardless of variations in maturity, interest rate, Sinking Fund Payments, or other provisions. Except as otherwise provided in the 2007 and 2008 Supplemental Indenture, the 2007 Bonds and 2008 Bonds are a "Series" for the purposes of the definition of such term in the Indenture.

"*Sinking Fund Payment*" shall mean, as of any particular date of calculation and with respect to the Outstanding Bonds of any Series, the amount required to be paid at all events by the Corporation on a single future date for the retirement of Bonds of such Series which mature after said future date, but does not include any amount payable by the Corporation by reason only of the maturity of a Bond.

"*Supplemental Indenture*" shall mean an indenture supplemental to or amendatory of the Indenture, adopted by the Corporation and effective as provided in the Indenture.

Guaranty by the State

The following statement in the form set forth below will be on each Bond and constitutes the unconditional guaranty by the State of the payment of the principal and interest on the Bond according to its terms:

> The payment of this Bond as to principal and interest according to its terms is hereby unconditionally guaranteed by the State of Alaska. The full faith, credit and resources of the State of Alaska are pledged to the payment of the principal and interest on this Bond, and the principal and interest on this Bond are secured by the general obligation of the State of Alaska.

Revenues

The Corporation will establish a Revenue Fund for the 2007 Bonds and 2008 Bonds. The Revenue Fund will have the following accounts:

Interest Account
Debt Service Account
Recycling Account.

The Corporation will establish a Redemption Fund for the 2007 Bonds and 2008 Bonds. The Redemption Fund will have the following accounts:

Principal Account
Operating Account
General Account.

The Trustee will distribute and apply the Pledged Revenues in the following order of priorities:

> FIRST, to the Interest Account of the Revenue Fund the amount required, together with other amounts on deposit in the Interest Account, to pay the interest on any Series of Bonds on the next Interest Payment Date or to reimburse any amounts drawn for such purpose under any Credit Enhancement or Liquidity Facility. The Trustee will apply funds in the Interest Account to payment of interest on such Bonds or to make such reimbursement on the due dates.

SECOND, to the Redemption Fund the remaining Pledged Revenues. The Trustee will deposit and apply the funds in the Redemption Fund as follows: to the Principal Account the amount necessary to pay all Principal Installments for each Series of Bonds Outstanding coming due on the next Principal Installment date for each Series; to the Debt Service Account, the amount required, if any, to increase the balance to the Minimum Debt Service Account Requirement; to the Operating Account, the amount required to pay or reimburse the Corporation for the payment of Program Expenses, but in no event may such amount in any semi-annual interest period exceed .055% of the outstanding principal balance of the Program Obligations held in the Program Obligation Fund as of the date of determination as determined by the Corporation; and to the General Account, together with certain other amounts to be deposited in the General Account pursuant to the Indenture, for application to the special redemption of the Bonds pursuant to the provisions of the Supplemental Indenture authorizing the issuance of such Bonds, except that under certain circumstances the Corporation may direct these amounts to be transferred to the Recycling Account of the Program Obligation Fund.

The Corporation may establish an OCR Fund in order to meet the Over Collateralization Requirement with respect to Mortgage Loans not exchanged for Mortgage Certificates that are to be deposited in the Program Obligation Fund.

If three Business Days preceding any Interest Payment Date the amount on deposit, or to be deposited on such Interest Payment Date, in the Interest Account of the Revenue Fund and the Principal Account and the General Account of the Redemption Fund shall be less than the amount required to pay interest, principal or Sinking Fund Payments on the Bonds of any Series on such Interest Payment Date, any such deficiency shall be immediately satisfied with a transfer of Eligible Funds from the Debt Service Account to the applicable Account, or, if insufficient, by a deposit to the applicable Account of any other funds of the Corporation available therefor, including amounts available in the OCR Fund.

Issuance of Additional Bonds

The Master Indenture authorizes additional bonds to be issued from time to time, subject to the terms, conditions and limitations set forth therein. The additional bonds are to be executed by the Corporation and delivered to the Trustee for authentication and delivery only upon receipt by the Trustee of:

(a) a Counsel's Opinion to the effect, among other things, that such additional bonds have been duly and validly authorized and issued in accordance with the Constitution and statutes of the State, including the Act as amended to the date of such opinion, and in accordance with the Indenture;

(b) a written order as to the authentication and delivery of such additional bonds;

(c) executed counterparts of the Master Indenture;

(d) an executed original of the Supplemental Indenture authorizing such Series;

(e) the amount of proceeds of such Series to be deposited in any Fund or Account;

(f) a Certificate of an Authorized Officer stating that the Corporation is not in default in the performance of any of the covenants, conditions, agreements or provisions contained in the Indenture;

(g) a Bond Coverage Certificate;

(h) written verification from the Rating Agencies that the issuance of such Series of Bonds will not, in and of itself, cause a withdrawal or reduction in the rating assigned by the Rating Agencies to any Outstanding Bonds of any prior Series;

(i) if such Series of Bonds is to have the benefit of a Liquidity Facility or be secured by Credit Enhancement, the executed Liquidity Facility or Credit Enhancement or evidence that all conditions precedent to the issuance of such Liquidity Facility or Credit Enhancement have been met as of the date of issuance of such Series of Bonds; and

(j) such further documents and moneys as set forth in the Master Indenture or any Supplemental Indenture.

One or more Series of additional bonds ("Refunding Bonds") may be issued pursuant to the Master Indenture to refund any Outstanding Bonds. Refunding Bonds may be issued only upon receipt by the Trustee of the documents and moneys, if any, referred to in the preceding paragraph and irrevocable instructions to the Trustee to give any required notices with respect to the refunded Bonds, and upon receipt by the Trustee of either (a) moneys sufficient to effect payment of the Bonds to be refunded, or (b) direct obligations of the United States or of agencies and instrumentalities thereof that are guaranteed by the United States of America the principal of and interest on which when due, together with the moneys (which may include all or a portion of the proceeds of the Refunding Bonds to be issued), if any, contemporaneously deposited with the Trustee, will be sufficient to pay when due the applicable redemption price of the Bonds to be refunded, together with accrued interest on such Bonds to the redemption date.

The Trustee will establish a Program Obligation Fund for the 2007 Bonds and 2008 Bonds and a Rebate Fund for the 2007 Bonds and 2008 Bonds, if necessary. The Trustee shall establish within any Account such additional subaccounts for the purposes of such Account as the Corporation shall determine by Supplemental Indenture.

Rebate

The Corporation will establish a Rebate Fund for the 2007 Bonds and 2008 Bonds if necessary to hold moneys required to be rebated to the federal government which shall not be subject to the lien and pledge of the Indenture.

Investments

Except as otherwise provided in the Indenture, all amounts held under the Indenture by the Trustee or any Depository shall be invested continuously and fully in Investment Securities for the benefit of the Corporation and the holders of the Bonds. "Investment Securities" are limited to: (a) direct obligation of or obligations insured or guaranteed by the United States or agencies or instrumentalities of the United States; (b) demand and time deposits in, certificates of deposit of, banker acceptances issued by, or federal funds sold by, any bank or trust company organized under the laws of the United States of America or any state thereof and subject to supervision and examination by federal and/or state banking authorities, or any foreign bank with a branch or agency licensed under the laws of the United States of America or any state thereof or under the laws of a country the Moody's sovereign rating for bank deposits in respect of which is "Aaa," so long as at the time of such investment (i) the unsecured debt obligations of such bank or trust company have credit ratings from each Rating Agency at least equal to the then existing ratings of the Bonds; or (ii) the investment matures in six months or less and such bank

or trust company has outstanding commercial paper rated "A-1+" by Standard & Poor's and "P-1" by Moody's and having comparable ratings from (or otherwise acceptable to) Fitch and from any other Rating Agency and has outstanding debt obligations rated as least "Aa" by Moody's; (c) repurchase obligations held by the Trustee or a third party acting as agent for the Trustee with a maturity date not in excess of 30 days with respect to (i) any security described in paragraph (a) or (ii) any other security issued or guaranteed by an agency or instrumentality of the United States of America, in either case entered into with the Trustee or any other bank or trust company (acting as principal) that has outstanding commercial paper rated "A-1+" by Standard & Poor's and "P-1" by Moody's and having comparable ratings from (or otherwise acceptable to) Fitch and from any other Rating Agency and that has outstanding debt obligations rated at least "Aa2" by Moody's; (d) securities (other than securities of the types described in the other paragraphs under this definition of "Investment Securities") which at the time of such investment have ratings from Standard & Poor's and Moody's at least equal to the highest ratings available from Standard & Poor's and Moody's for obligations similar to the Bonds and having comparable ratings from (or otherwise acceptable to) Fitch and from any other Rating Agency and which evidence a debt of any corporation incorporated under the laws of the United States of America or any state thereof; provided, however, that such securities issued by any particular corporation will not be Investment Securities to the extent that investment therein will cause the then outstanding principal amount of securities issued by such corporation and held under the Indenture to exceed 10% of the aggregate outstanding principal balances and amounts of all Mortgage Loans and Investment Securities held under the Indenture; (e) commercial paper with a maturity date not in excess of 270 days rated "A-1+" by Standard & Poor's and "P-1" by Moody's and having comparable ratings from (or otherwise acceptable to) Fitch and from any other Rating Agency at the time of such investment, issued by an entity incorporated under the laws of the United States or any state thereof or under the laws of a country the Moody's sovereign rating for bank deposits in respect of which is "Aa"; provided, however, that at the time of such investment the issuer of such commercial paper shall also have outstanding debt obligations rated at least "Aa2" by Moody's; (f) an Investment Agreement; (g) money market funds rated "AAAm" or "AAAm-G" by Standard & Poor's and "P-1" by Moody's and having comparable ratings from (or otherwise accepted 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; and (h) any other investment that is of Rating Quality and that is not unacceptable to the Trustee upon written direction to the Issuer.

Powers of Amendment

A Supplemental Indenture may be adopted at any time or from time to time, without the consent of any holder of the Bonds, upon filing with the Trustee, in order to: (a) close the Indenture against, or provide limitations and restrictions in addition to the limitations and restrictions contained in the Indenture on, the authentication and delivery of Bonds or the issuance of other evidences of indebtedness; (b) add other covenants and agreements to be observed by the Corporation not contrary to or inconsistent with the Indenture; (c) add to the limitations and restrictions in the Indenture other limitations and restrictions to be observed by the Corporation which are not inconsistent with the Indenture; (d) surrender any right, power or privilege of 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) authorize bonds of a Series and, in connection therewith (i) to specify and determine certain matters and things referred to as being matters or things to be determined or specified in a Supplemental Indenture authorizing a Series of Bonds and also any other matters and things relative to such Bonds which are not contrary to or inconsistent with the Indenture as theretofore in effect, (ii) to amend, modify or rescind any such authorization, specification or determination at any time prior to the first authentication and delivery of such Bonds, or (iii) to add such provisions to the Indenture and, if necessary, amend the provisions of the Indenture as may be necessary to permit and provide for the issuance of such Bonds as bearer Bonds; (f) confirm any pledge under, or the subjection to any lien or

pledge created by, the Indenture; (g) modify any of the provisions of the Indenture in any respect whatsoever, provided that (i) such modification shall be, and be expressed to be, effective only after all Bonds of any Series Outstanding at the date of the adoption of such Supplemental Indenture shall cease to be Outstanding, and (ii) such Supplemental Indenture shall be specifically referred to in the text of all Bonds of any Series authenticated and delivered after the effective date of such Supplemental Indenture and of Bonds issued in exchange therefor or in place thereof; and (h) to make such additions, deletions or modifications as may be necessary to assure compliance with the Code or to obtain a satisfactory rating on a Series of Bonds from a Rating Agency, provided that no such additions, deletions or modifications intended to obtain a satisfactory rating shall cause a reduction in any ratings assigned by a Rating Agency to Bonds then Outstanding. A Supplemental Indenture may also be adopted at any time or from time to time, without the consent of Bondholders, upon filing with the Trustee and upon consent of the Trustee to: (a) cure any ambiguity, supply any omission or cure or correct any defect or inconsistent provision; (b) 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) provide for additional duties of the Trustee in connection with the Mortgage Loans and Mortgage Certificates; or (d) make any other changes not materially adverse to the interests of the Bondholders.

Any modification or amendment of any provision of the Indenture or 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 (i) of the holders of at least two-thirds in principal amount of the Bonds Outstanding, (ii) 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 two-thirds in principal amount of the Bonds of each Series so affected and Outstanding at the time such consent is given, and (iii) in case the modification or amendment changes the terms of any Sinking Fund Payment, of the holders of at least two-thirds in principal amount of the bonds of the particular Series and maturity entitled to such Sinking Fund Payment and Outstanding at the time such consent is given; except that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified like Series and maturity remain Outstanding, the consent of the holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under the Indenture. 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 rate thereon or a reduction in the principal amount or 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 any of the rights or obligations of any Fiduciary without its written assent thereto. For these purposes, 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 discretion determine whether, in accordance with the foregoing powers of amendment, Bonds of any particular Series or maturity would be affected by any modification or amendment hereof and any such determination shall be binding and conclusive on the Corporation and all holders of Bonds.

Events of Default

Each of the following events is an "Event of Default": (a) the Corporation defaults in the payment of the principal (including Sinking Fund Payments) or Redemption Price, if any, of any Bond within two Business Days after the same becomes 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 within two Business Days after the same becomes due; (c) the Corporation fails or refuses to comply with the provisions of the Indenture or defaults in the performance or observance of any of the covenants, agreements or conditions contained therein or in any Supplemental Indenture or the Bonds, and such failure, refusal or default continues for a

period of 45 days after written notice thereof by the Trustee or the holders of not less than 25% in principal amount of the Outstanding Bonds; or (d) any Event of Default as designated by a Supplemental Indenture occurs and remains uncured.

Remedies

Upon the happening and continuance of any Event of Default specified in clause (a) or (b) above, the Trustee will proceed, or upon the happening and continuance of any Event of Default specified in clause (c) or (d) above, the Trustee may proceed, and upon the written request of the holders of not less than 25% in principal amount of the Outstanding Bonds, subject to certain provisions relating to the Trustee (except that, with respect to an Event of Default specified in clause (c) or (d) above, the provisions of the Supplemental Indenture to which such Event of Default relates may direct the Trustee to so proceed without regard to Bondholder request or to proceed or not proceed upon the occurrence of other conditions set forth in such Supplemental Indenture), will proceed, in its own name, to protect and enforce its rights and the rights of the Bondholders by such of the following remedies as the Trustee, being advised by counsel, will deem most effectual to protect and enforce such rights: (a) by mandamus or other suit, action or proceeding at law or in equity, to enforce all rights of the Bondholders, including the right to require the Corporation to receive and collect revenues and assets adequate to carry out the covenants and agreements as to, and pledge of, such revenues and assets, and to require the Corporation to carry out any other covenant or agreement with Bondholders and to perform its duties under the Act; (b) by bringing suit upon the Bonds; (c) by action or suit in equity, 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, enjoin any acts or things which may be unlawful or in violation of the rights of the holders of the Bonds; or (e) by taking possession of and retaining the Program Obligations for the benefit of Bondholders.

Trustee

U.S. Bank National Association is appointed as the Trustee. The Trustee shall be removed by the Corporation if at any time so 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 attorneys-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 by the Corporation, the Corporation may remove the Trustee at any time for such cause as shall be determined by the Corporation. Any successor to the Trustee is required to be a trust company or bank having the powers of a trust company within or outside the State of Alaska and having capital and surplus aggregating at least $25,000,000. The Corporation will pay to the Trustee reasonable compensation for all services rendered.

Defeasance

If the Corporation pays or causes 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 assets thereby pledged and all other rights granted thereby will be discharged and satisfied.

Bonds or interest installments for the payment or redemption of which moneys have been set aside and held in trust by fiduciaries (through deposit by the Corporation of funds for such payment or redemption or otherwise), at the maturity or redemption date thereof, will be deemed to have been paid within the meaning and with the effect expressed in the preceding paragraph. All Outstanding Bonds will, prior to the maturity or redemption date thereof, be deemed to have been paid within the meaning and with the effect expressed in the preceding paragraph if (a) in case any of said Bonds are to be redeemed on any date prior to their maturity, the Corporation gives to the Trustee in form satisfactory to it

irrevocable instructions to provide notice of redemption of the Bonds, (b) there has been deposited with the Trustee either moneys in an amount which are sufficient, or Investment Securities which are direct obligations of the United States or of agencies or instrumentalities thereof that are guaranteed by the United States the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, will be sufficient, to pay when due the principal or redemption price, if any, 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 (c) in the event the Bonds are not by their terms subject to redemption within the next succeeding 60 days, the Corporation gives the Trustee in form satisfactory to it irrevocable instructions to mail a notice to the holders of such Bonds stating that the deposit required by (b) above has been made with the Trustee and that the 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, of the Bonds. Neither the Investment Securities nor the moneys so deposited with the Trustee nor principal or interest payments on any such Investment Securities will be withdrawn or used for any purpose other than, and will be held in trust for, the payment of the principal or Redemption Price, if any, of and interest on the bonds, but any cash received from such principal or interest payments on such obligations deposited with the Trustee, if not then needed for such purpose, will, be reinvested to the extent practicable in those Investment Securities described above maturing at times and in amounts sufficient to pay when due the principal or Redemption Price, if any, and interest to become due on the bonds on and prior to such redemption date or maturity date thereof, as the case may be, and interest earned from such reinvestments will be paid over to the Corporation, as received by the Trustee, free and clear of any trust, lien or pledge.

TAX MATTERS

The Code substantially restricts the use of tax-exempt bonds to finance single-family and multifamily housing. In general, interest on bonds that are used to purchase single-family mortgages is not exempt from federal income tax unless the bonds are part of a "qualified mortgage issue" or a "qualified veterans mortgage issue." The 2007 Bonds and 2008 Bonds will, collectively, meet the requirements of a single "issue" for purposes of the Code and, thus, the requirements of the Code will be satisfied by the 2007 Bonds and 2008 Bonds on a composite basis. In order to ensure that the 2007 Bonds and 2008 Bonds are part of a "qualified veterans mortgage issue," the Corporation established its mortgage loan eligibility standards and program guidelines to restrict the class of eligible borrowers and to implement other standards necessary for the mortgage loan to comply with the Code.

Among the principal requirements of the Code and Corporation program requirements with which the Corporation must comply are:

(a) the residence securing the Mortgage Loan must be the principal residence of the borrower;

(b) 95% of net proceeds (i.e., bond proceeds less amounts in a reasonably required reserve fund) must be used to provide residences for qualifying veterans;

(c) a Mortgage Loan may not be assumed unless the residence will be the assuming mortgagor's principal residence and the requirement of clause (b) above is met; and

(d) subject to certain exceptions, no part of the bond proceeds is used to acquire or replace existing mortgages.

Compliance with certain of the requirements of the Code may increase the period of time during which the Corporation will originate the Mortgage Loans which will secure the 2007 Bonds and 2008 Bonds. The Code also contains certain arbitrage restrictions, rebate requirements, limitations on financing issuance costs and public approval and information reporting requirements with which the Corporation will comply.

The Code effectively requires that 95% or more of the net proceeds of the 2007 Bonds and 2008 Bonds (net of amounts in a reasonably required reserve fund) be applied to the financing of Mortgage Loans which meet each of the principal requirements set forth above at the time the mortgage is executed. Under the applicable Temporary Treasury Regulations, compliance with certain administrative procedures, such as an examination of and reliance on a Mortgage Loan applicant's affidavits, will be sufficient to satisfy the mortgage eligibility standards for purposes of this 95% requirement. The Indenture, the Corporation's regulations and other related documents contain restrictions which permit the financing of Mortgage Loans only in accordance with the requirements of the Code. The Corporation has also developed explanatory materials describing the foregoing requirements, certification procedures by which the mortgagor confirms compliance with those requirements and procedures for verifying the accuracy of such certifications. Based upon these procedures and the provisions of such Temporary Regulations, the Corporation does not anticipate any difficulty in achieving and maintaining complete compliance with this 95% requirement of the Code. An issue of bonds is treated as meeting the arbitrage requirements of the Code if (a) the Corporation in good faith attempted to meet such requirements and (b) any failure to meet such requirements is due to inadvertent error after taking reasonable steps to comply with the requirements.

The Code limits the amount of qualified veterans bonds that may be issued for Alaska, excluding certain refunding bonds, to $10,000,000 in 2007 and $15,000,000 in 2008. The limit increases $5,000,000 in 2009 and 2010. For 2010 and each year thereafter, the limit will be $25,000,000.

The Corporation has amended its own regulations to implement the qualified veterans mortgage bond program as a part of the Special Mortgage Loan Purchase Program and to meet the requirements of the Code.

The Corporation augments its mortgage underwriting procedures in response to the restrictions of the Code. The expanded procedures are generally applicable to the underwriting of the Mortgage Loans. The Corporation requires that each loan package contain affidavits from each mortgagor which represent and warrant that the mortgagor will occupy the premises as a principal residence within 60 days after the Mortgage Loan is made, that the property will not be used for business purposes and that other requirements of the Code or the regulations will be met. In addition, the Corporation requires adequate proof of the qualification of the borrower as a veteran under the Code.

The Corporation analyzes, among other things, the information contained in the loan package to determine the applicant's credit worthiness as well as eligibility under the Code, verifies the location of the residence within the State, the size of the property on which the residence is located and the likelihood of the use of the property as a principal residence rather than for recreation, business or investment purposes. The Corporation has published supplements to its lenders' guides describing the process each Seller/Servicer must perform with respect to each Mortgage Loan.

The Seller/Servicer is required at the time the loan application is submitted to obtain from the mortgagor the necessary affidavits evidencing the mortgagor's understanding of and compliance with certain requirements of the Code. If misstatements or misrepresentations by the mortgagor in these affidavits are discovered, an event of default under the Mortgage Loan will be deemed to have occurred, allowing the Corporation to remove the Mortgage Loan from the Program Obligation portfolio. An event

of default will permit the Corporation to either (i) increase the interest rate on the Mortgage Loan to the current rate for conventional mortgages; (ii) accelerate payment of the Mortgage Loan by the mortgagor; or (iii) institute foreclosure procedures. If misstatements or misrepresentations by a Seller/Servicer are discovered by the Corporation, the Seller/Servicer is required to repurchase the Mortgage Loan to which such misstatements or misrepresentations relate.

Except with respect to certain arbitrage restrictions and rebate requirements, the Code requirements outlined above do not apply to Mortgage Loans purchased with, or represented by, Certificates or mortgage-backed securities purchased with amounts transferred to the Program Obligation Fund from the Corporation's own funds or the surplus revenues related thereto.

Certain Sellers/Servicers have been designated as delegated underwriters and such Sellers/Servicers will undertake the entire review and analysis process which is described above as being undertaken by the Corporation. The Corporation will monitor the performance of such Sellers/Servicers to ensure that such Sellers/Servicers are properly carrying out such review and analysis process.

Opinions of Counsel

In the opinion of Birch, Horton, Bittner and Cherot, Bond Counsel, and Hawkins Delafield & Wood LLP, Special Tax Counsel to the Corporation, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the 2007 Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Code, (ii) interest on the 2008 Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Code, (iii) interest on the Subseries A-1 (Non-AMT) Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest however, is included in adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations, and (iv) interest on the Subseries A-2 (AMT) Bonds and 2008 Bonds is treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code. In the opinion of Bond Counsel, under existing laws, interest on the 2007 Bonds and 2008 Bonds is exempt from taxation by the State of Alaska except for inheritance and estate taxes and taxes of transfers by or in anticipation of death. In rendering such opinions, Bond Counsel and Special Tax Counsel have relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Corporation in connection with the 2007 Bonds and 2008 Bonds, and Bond Counsel and Special Tax Counsel have assumed compliance by the Corporation with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the 2007 Bonds and 2008 Bonds from gross income under Section 103 of the Code. Bond Counsel and Special Tax Counsel express no opinion as to any other matter with respect to the exemption of interest of the 2007 Bonds and 2008 Bonds from federal income taxation or as to the treatment of any such 2007 Bond or 2008 Bond for tax purposes by any state, city, county, or other jurisdiction. Bond Counsel and Special Tax Counsel render their opinions under existing statutes and court decisions as of the issue date, and assume no obligation to update their opinions after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. Bond Counsel and Special Tax Counsel express no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for federal income tax purposes of interest on the 2007 Bonds and 2008 Bonds, or under State and local tax law.

Certain Ongoing Federal Tax Requirements and Covenants

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the 2007 Bonds and 2008 Bonds in order that interest on the 2007 Bonds and 2008 Bonds

be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the 2007 Bonds and 2008 Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the federal government or paid to mortgagors. Noncompliance with such requirements may cause interest on the 2007 Bonds and 2008 Bonds to become included in gross income for federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The Corporation has covenanted to comply with the applicable requirements of the Code to assure the exclusion of interest on the 2007 Bonds and 2008 Bonds from gross income under Section 103 of the Code.

Certain Collateral Federal Tax Consequences

Prospective owners of the 2007 Bonds and 2008 Bonds should be aware that the ownership of such obligations may result in collateral federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for federal income tax purposes. **Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the 2007 Bonds and 2008 Bonds.**

Legislation, Regulatory Action and Litigation

Legislation affecting municipal bonds is regularly under consideration by the United States Congress. There can be no assurance that legislation enacted or proposed after the date of issuance of the 2007 Bonds and 2008 Bonds will not have an adverse effect on the tax-exempt status or market price of the 2007 Bonds and 2008 Bonds. 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 2007 Bonds and 2008 Bonds. An example of such litigation is the case of *Davis v. Kentucky Department of Revenue*, 197 S.W.3d 557 (2006), the oral argument for which was heard by the U.S. Supreme Court on November 5, 2007 with a decision expected to be rendered in the spring of 2008, 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 2007 Bonds and 2008 Bonds or the market value thereof would be impacted thereby. Purchasers of the 2007 Bonds and 2008 Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Bond Counsel and Special Tax 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 2007 Bonds and 2008 Bonds, and Bond Counsel and Special Tax Counsel have expressed no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

Compliance by the Corporation

The Corporation has included provisions in the relevant documents and has established procedures (including receipt of certain affidavits and representations from mortgage lenders and mortgagors respecting eligibility requirements) in order to assure compliance with the qualified mortgage eligibility requirements and the other requirements which must be met subsequent to the date of issuance of the 2007 Bonds and 2008 Bonds. To such end, the Corporation has also agreed to adopt and maintain

appropriate procedures for compliance with applicable federal tax law. See "TAX MATTERS—Certain Ongoing Federal Tax Requirements and Covenants" above. The Corporation believes that the procedures, documents and requirements established for the purpose of fulfilling this covenant are sufficient to assure that the proceeds of the 2007 Bonds and 2008 Bonds will be applied in accordance with the requirements of the Code so as to assure that the interest on the 2007 Bonds and 2008 Bonds will be excluded from gross income for federal income tax purposes.

CONTINUING DISCLOSURE UNDER SEC RULE 15C2-12

In order to assist the 2007 Bond and 2008 Bond purchasers in complying with Section (b)(5) of Securities and Exchange Commission Rule 15c2-12 under the Securities Exchange Act of 1934 as the same may be amended from time to time (the "Rule"), the Corporation and the State will enter into separate written agreements (collectively, the "Agreement") for the benefit of the holders of the 2007 Bonds and 2008 Bonds to provide continuing disclosure. The State and the Corporation will undertake for the benefit of the beneficial owners and holders of the Bonds to provide each Nationally Recognized Municipal Securities Information Repository ("NRMSIR"), and if and when one is established, the Alaska State Information Depository, on an annual basis on or before 210 days after the end of each fiscal year for the State and on or before 135 days after the end of each fiscal year for the Corporation, commencing the fiscal year ending June 30, 2007, with respect to the State and commencing the fiscal year ending June 30, 2007, with respect to the Corporation, the financial and operating data concerning the State and the Corporation outlined in the Agreement. The State will undertake to provide the State's annual financial statements prepared in accordance with generally accepted accounting principles as prescribed by the Government Account Standards Board. In addition, the Corporation will undertake, for the benefit of the beneficial owners and holders of the 2007 Bonds and 2008 Bonds, to provide to each NRMSIR or to the Municipal Securities Rulemaking Board ("MSRB"), and to the Alaska State Information Depository, if any, in a timely manner, the notices described in the Agreement.

The sole and exclusive remedy for breach or default under the Agreement to provide continuing disclosure described above is an action to compel specific performance of the undertakings of the State and/or the Corporation, and no person, including a holder of the 2007 Bonds and 2008 Bonds, may recover monetary damages thereunder under any circumstances. A breach or default under the Agreement 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 Agreement, insofar as the provision of the Rule no longer in effect required the provision of such information, will no longer be required to be provided.

The foregoing undertakings are intended to set forth a general description of the type of financial information and operating data that will be provided; and where an undertaking calls for information that no longer can be generated or is no longer relevant because the operations to which it related have been materially changed or discontinued, a statement to that effect will be provided. As a result, the parties to the Agreement do not anticipate that it often will be necessary to amend the informational undertakings. The Agreement, however, may be amended or modified under certain circumstances set forth therein. Copies of the Agreement are attached hereto as Appendix E.

The Corporation and the State are in compliance with all prior undertakings made pursuant to the Rule.

RATINGS

It is a condition of the issuance of the 2007 Bonds and 2008 Bonds that they be rated "AAA" by S&P, "Aaa" by Moody's and "AAA" by Fitch Ratings. The ratings of "AAA," "Aaa" and "AAA" are the

highest ratings that S&P, Moody's and Fitch Ratings, respectively, assign to bonds. A security rating is not a recommendation to buy, sell, or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organization. Any further explanation of the significance of these ratings should be obtained directly from the appropriate rating agency.

FINANCIAL STATEMENTS

The unaudited financial statements of the Corporation as of and for the three months ended September 30, 2007, included in Appendix B 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, 2007, the unaudited financial statements of the Corporation as of and for the three months ended September 30, 2007, 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.

INDEPENDENT AUDITORS

The financial statements of Corporation as of and for the year ended June 30, 2007, included in Appendix B 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 2007 Bonds and 2008 Bonds, or in any way contesting or affecting the validity of such 2007 Bonds and 2008 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 2007 Bonds and 2008 Bonds, or the existence or powers of the Corporation.

LEGAL MATTERS

All legal matters incident to the authorization, sale and delivery of the 2007 Bonds and 2008 Bonds and certain federal and state tax matters are subject to the approval of Birch, Horton, Bittner and Cherot, Anchorage, Alaska, Bond Counsel to the Corporation. Certain federal tax matters will be passed upon for the Corporation by Birch, Horton, Bittner and Cherot, Anchorage, Alaska, Bond Counsel and Hawkins Delafield & Wood LLP, New York, New York, Special Tax Counsel to the Corporation.

LEGALITY FOR INVESTMENT

Subject to any applicable federal requirements or limitations, the 2007 Bonds and 2008 Bonds are eligible for investment by all public officers and public bodies of Alaska and its political subdivisions, and, to the extent controlled by Alaska 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 2007 Bonds and 2008 Bonds.

FINANCIAL ADVISOR

First Southwest Company is employed as Financial Advisor to the Corporation in connection with the issuance of the 2007 Bonds and 2008 Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the 2007 Bonds and 2008 Bonds is contingent upon the issuance and delivery of the 2007 Bonds and 2008 Bonds. First Southwest Company has agreed, in its Financial Advisory contract, not to bid for the 2007 Bonds and 2008 Bonds, either independently or as a member of a syndicate organized to submit a bid for the 2007 Bonds and 2008 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 2007 Bonds and 2008 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.

SALE BY COMPETITIVE BIDDING

The 2007 Bonds and 2008 Bonds were awarded pursuant to electronic competitive bidding held via BiDCOMP/Parity on Tuesday, December 4, 2007 to Merrill Lynch & Co. (the "Underwriter"). The Underwriter has supplied the information as to the initial yields on the 2007 Bonds and 2008 Bonds as set forth on the inside cover of this Official Statement. The 2007 Bonds and 2008 Bonds are being purchased from the Corporation by the Underwriter at an aggregate discount of $492,372 from the initial reoffering prices derived from the yields set forth on the inside cover of this Official Statement. The Underwriter may offer to sell the 2007 Bonds and 2008 Bonds to certain dealers and others at prices lower than the initial offering prices, and the public offering prices may be changed from time to time by the Underwriter.

ADDITIONAL INFORMATION

All quotations from and summaries and explanations of the Act and the Indenture contained herein do not purport to be complete, and reference is made to the Act and the Indenture for full and

complete statements of their provisions. The Appendices attached hereto are a part of this Official Statement. Copies, in reasonable quantity, of the Act and the Indenture (the 2007 and 2008 Supplemental Indenture, in preliminary form, and the Master Indenture) may be obtained during the offering period upon request directed to the Corporation, Post Office Box 101020, Anchorage, Alaska 99510, or to the Financial Advisor, First Southwest Company, 250 West 57th Street, Suite 1420, New York, New York 10107.

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 2007 Bond or 2008 Bond.

APPENDIX A

INFORMATION CONCERNING THE STATE OF ALASKA

The information of the State of Alaska (the "State") set forth in this Appendix is dated as of the date of the Official Statement. The information contained herein which is excerpted from Comprehensive Annual Financial Reports of the State for the fiscal year ended June 30, 2006 is subject in all respects to the complete text of that financial report. Information excerpted from other reports or documents is also subject in all respects to the complete text of those documents. The information contained herein has been obtained from sources which are believed to be reliable but is not guaranteed as to accuracy.

The Comprehensive Annual Financial Reports for the State are available from the Department of Administration, Division of Finance, P.O. Box 110204, Juneau, Alaska 99811-0204; Telephone: (907) 465-2240; Fax: (907) 465-2169; and on the Internet at website http://fin.admin.state.ak.us/dof/main/index.jsp

The Alaska Public Debt 2006-2007 report is available from the Department of Revenue, Treasury Division, P.O. Box 110405, Juneau, Alaska 99811-0405; telephone: (907) 465-3409; fax: (907) 465-2902; and on the Internet at website http://www.revenue.state.ak.us/treasury/debt.asp.

The Spring 2007 Revenue Sources Book is available from the Department of Revenue, Tax Division, P.O. Box 110420, Juneau, Alaska 99811-0420; telephone: (907) 465-2320; fax: (907) 465-2375; and on the Internet at website http://www.revenue.state.ak.us.

Alaska's Public Debt

TABLE 1.1
State of Alaska
State and State Agency Debt by Type of Debt and Issuer
($ in Millions)

	Principal Outstanding 6/30/06	Interest to Maturity 6/30/06	Total Debt Service to Maturity 6/30/06
State Debt			
State of Alaska General Obligation Bonds	$414.3	$163.3	$577.6
State Supported Debt			
Lease-Purchase Financings	74.8	20.8	95.6
State Reimbursement of Municipal School Debt Service	890.6	379.7	1,270.3
State Reimbursement of capital projects	31.5	13.4	44.9
Capital Leases	79.9	30.0	109.9
Total State Supported Debt	1,076.8	443.9	1,520.7
State Guaranteed Debt			
Alaska Housing Finance Corporation State Guaranteed Bonds (1991-2002 Veterans' Mortgage Program)	293.0	165.5	458.5
State Moral Obligation Debt			
Alaska Municipal Bond Bank:			
1976 General Resolution General Obligation Bonds	333.5	140.4	473.9
2005 General Resolution General Obligation Bonds	25.7	10.3	36.0
1997 Series A General Resolution Revenue Bonds	1.5	0.1	1.6
1998 Series A General Revenue Bond	5.5	0.9	6.4
1998 Series B General Revenue Bond	0.9	0.1	0.9

State Moral Obligation Debt (cont.)			
1999 Series A General Revenue Bond	1.6	0.7	2.3
2000 Series B General Revenue Bond	2.6	1.2	3.9
2001 Series A General Revenue Bond	1.5	0.5	2.0
2001 Series B General Revenue Bond	2.2	0.8	2.9
2002 Series A General Revenue Bond	4.9	1.0	5.9
2003 Series A General Revenue Bond	1.5	0.0	1.5
2003 Series B General Revenue Bond	19.0	9.1	28.1
2003 Series C General Revenue Bond	0.6	0.6	1.2
2004 Series A General Revenue Bond	28.8	26.2	55.0
2004 Series B General Revenue Bond	5.3	4.5	9.7
Alaska Energy Authority:			
Power Revenue Bonds #1 (Bradley Lake Hydroelectric Project)	6.6	0.1	6.7
Power Revenue Bonds #2 (Bradley Lake Hydroelectric Project)	11.5	0.0	11.5
Power Revenue Refunding Bonds #3 (BLHP)	44.9	20.1	65.0
Power Revenue Refunding Bonds #4 (BLHP)	37.4	24.5	61.9
Power Revenue Refunding Bonds #5 (BLHP)	30.6	21.2	51.8
Utility Revenue Bonds (City and Borough of Sitka)	22.4	8.2	30.6
Utility Revenue Refunding Bonds (City and Borough of Sitka)	20.6	13.7	34.3
Alaska Student Loan Corporation Student Loan Revenue Bonds	568.0	335.0	903.0
Alaska Student Loan Corporation Capital Project Revenue Bonds	145.4	30.7	176.1
Total State Moral Obligation Debt	1,322.5	649.9	2006.3
State Revenue Debt			
Sportfish Revenue Bonds	68.1	37.9	106.0
International Airports Revenue Bonds	644.7	254.5	899.2
University of Alaska Debt			
University of Alaska Revenue Bonds	94.0	50.2	144.2
University Indebtedness to AK Housing Finance Corporation[1]	23.0	4.1	27.1
Installment Contracts	1.4	0.2	1.6
Total University of Alaska Debt	118.4	54.5	172.9
Total State Revenue and University Debt	831.1	346.9	1,170.0
State Agency Debt			
Alaska Housing Finance Corporation:			
Commercial Paper	150.0	N/A	150.0
Reverse Repurchase Agreement	94.0	N/A	94.0
AHFC-Public Housing Division:			
Wrangell 221(d)(3) Indebtedness	0.5	0.0	0.5
Alaska Municipal Bond Bank Coastal Energy Loan Bonds	11.0	0	11.0
Alaska Railroad	39.0	13.0	52.0
2000 & 2001 Tobacco Settlement Asset-Backed Bonds	209.7	179.1	388.8
Total State Agency Debt	504.2	192.1	696.3
State Agency Collateralized or Insured Debt			
Alaska Housing Finance Corporation:			
Collateralized Home Mortgage Bonds & Mortgage Revenue Bonds:			
1997 Through 2006 (First Time Homebuyer Program)	686.5	656.4	1,342.9
2000 & 2002 Taxable FTHB Bonds	16.1	22.2	38.3
General Mortgage Revenue Bonds 1997 through 2002	639.9	858.9	1,498.8
Housing Development Bonds 1997 through 2004	401.2	388.4	789.6
General Housing Purpose Bonds 1992, 2003 and 2005	470.4	345.4	815.8
Government Purpose Bonds 1997 & 2001	255.1	182.4	437.5
State Capital Project Bonds 2001 and 2002	117.6	44.8	162.4
State Building Lease Bonds 1999 Series A	12.3	1.9	14.2
Alaska Industrial Development and Export Authority:			
Revolving Fund and Refunding Revolving Fund Bonds	197.2	108.4	305.6

State Agency Collateralized or Insured Debt (cont.)			
Power Revenue Bonds, First Series (Snettisham Hydro Project)	85.3	80.5	165.8
Total State Agency Collateralized or Insured Debt	2,881.6	2,689.3	5,570.9
Total State and State Agency Debt	7,315.5		
Municipal Debt			
School G.O. Debt	1,307.5	N/A	N/A
Other G.O. Debt	1,050.5	N/A	N/A
Revenue Debt	606.0	N/A	N/A
Total Municipal Debt	2,964.0		
Less: State Reimbursable Debt and Capital Leases[**]	-1,002.0		
Less: Alaska Municipal Bond Bank Debt included in Municipal Debt	-423.3		
	1,538.6		
Total Alaska Public Debt	$8,854.1		

NOTES
1. University debt owed to AHFC is double counted in detail, but eliminated from Total Alaska Public Debt.
[**]Reimbursable school G.O. debt is included in "state supported debt"
Capital Leases are included in State Agency Collateralized or Insured Debt
State Reimbursement of Capital Projects is included in University and Municipal Debt
Sources: Alaska Public Debt 2006-2007 (1/06)

State Debt

State Debt includes general obligation bonds and revenue anticipation notes. The State Constitution provides that general obligation bonds must be authorized by law and ratified by the voters. The State Constitution permits authorization of general obligation bonds only for capital improvements. The amount and timing of a bond sale must be approved by the State Bond Committee. The legal provisions regarding general obligation bonds are contained in Section 8, Article IX of the Alaska Constitution and AS 37.15, the State Bonding Act. For both general obligation bonds and revenue anticipation notes, the full faith, credit and resources of the State are pledged to the payment of principal and interest. If future State revenues are insufficient to make the required principal and interest payments, the State is legally required to raise taxes in order to provide sufficient funds for this purpose.

General Obligation Bonds Annual Debt Service

($ in Thousands)

	payments due during year ended 6/30/06		
balance outstanding at 6/30/06	principal	interest	total
$414,250	$24,120	$21,531	$45,651

Source: Department of Revenue bond documents

State Supported Debt

State Supported Debt is debt for which the ultimate source of payment is, or may include, appropriations from the State's General Fund. This debt does not have the full faith and credit of the

State pledged to it, but this debt may have the full faith and credit of another public issuer pledged to it. State Supported Debt is not considered debt under the Alaska Constitution because the State's payments on this debt are subject to annual legislative appropriation. Voter approval of such debt is not required. State Supported Debt (detailed, in its entirety, in the debt statement shown above) includes lease-purchase financing obligations (shown below), and the share of municipal general obligation bonds issued for school construction which is reimbursable by the State. Lease-purchase financing consists of lease revenue bonds and certificates of participation issued by lessors of facilities used by the State. State Supported Debt includes lease-purchase financing obligations or certificates of participation ("COPs"), the share of municipal general obligation bonds issued for school construction which is reimbursable by the State, and Capital Leases the State has entered for the Atwood Office Building with AHFC and the Anchorage Jail with the Municipality of Anchorage. As of June 30, 2006, State Supported Debt was outstanding in the total amount of $1,076.8 million, comprised of $74.8 million State COPs (see footnote to COPs table shown below), $890.6 million State reimbursement of municipal school debt, $31.5 million in State reimbursement of capital projects, and $79.9 million of Capital Leases.

Lease-Purchase/Certificate of Participation Obligations. Lease-purchase financing consists of lease revenue bonds and certificates of participation issued by lessors of facilities **used** by the State. Some State Supported Debt has been authorized by local voter referendum as in the case of municipal school debt and some by law as in certificates of participation issued after 1994.

State of Alaska
Lease-Purchase/Certificates of Participation Obligations
Outstanding as of June 30, 2006[(1)]
($ in Thousands)

	Date	Amount Issued	Debt Outstanding 6/30/06	Final Maturity
Spring Creek Correctional Center (Refunding)	6/15/98	28,040	855	9/1/06
Alaska Psychiatric Institute	4/15/02	16,000	14,025	7/15/16
Seafood and Food Safety Lab	8/1/03	14,145	12,725	1/15/19
Refunding Certificates of Participation	1/15/05	25,725	23,165	2/15/03
State Virology Lab 2005 B	10/1/2005	24,000	24,000	2/1/2021
Total Certificates of Participation		$107,910	$74,770	

(1) Excludes Alaska State Housing Authority lease revenue bonds.
Source: Alaska Public Debt 2006-2007

State Guaranteed Debt

The only purpose for which State Guaranteed Debt may be issued is for payment of principal and interest on revenue bonds issued by the Alaska Housing Finance Corporation for the purpose of purchasing mortgage loans made for residences of qualifying veterans. These bonds are general obligation bonds of the State and they must be authorized by law, ratified by the voters and approved by the State Bond Committee. These bonds are known as "double-barrel bonds" because there are two distinct forms of security behind the bonds. The first lien is on the revenue stream generated by payments on the mortgage loans made from bond proceeds. Additional security to bondholders is provided by the general obligation pledge of the State to make the required debt service payments in the event that pledged revenues from mortgage repayments are insufficient. As of June 30, 2006, State Guaranteed Debt outstanding totaled $293.0 million. Proceeds of the bonds are invested in FNMA, GNMA, and other government mortgage backed securities.

State Moral Obligation Debt

State Moral Obligation Debt consists of bonds issued by certain State agencies or authorities which are secured, in part, by a capital reserve fund to which is attached a discretionary replenishment provision which permits, but does not legally obligate, the Alaska State Legislature (the "Legislature") to appropriate to the particular State agency or authority the amount necessary to replenish the respective capital reserve fund up to its funding requirement which requirement is generally equal to the maximum amount of debt service required in any year. State Moral Obligation debt is payable in the first instance by revenues generated for the respective projects financed from bond proceeds. Among those State agencies which have the ability to issue State Moral Obligation Debt are: Alaska Aerospace Development Corporation ("AADC") which has not issued any debt; Alaska Energy Authority ("AEA"); Alaska Housing Finance Corporation ("AHFC"); Alaska Industrial Development and Export Authority ("AIDEA"); Alaska Municipal Bond Bank Authority ("AMBBA"); and Alaska Student Loan Corporation ("ASLC"). As of June 30, 2006, State Moral Obligation Bonds were outstanding in the total amount of $1,322.5 million.

State and University Revenue Debt

This type of debt is issued by the State or by the University of Alaska but is secured only by revenues derived from projects financed from bond proceeds. Revenue Debt is not a general obligation of the State or of the University and does not require voter approval. Such debt is authorized by law and issued by the State Bond Committee or the University of Alaska for projects approved by the Commissioner of Transportation and Public Facilities or the University of Alaska. This type of debt includes Sportfish Revenue Bonds, International Airports Revenue Bonds, various University Revenue Bonds and Notes, and Toll Facilities Revenue Bonds. As of June 30, 2006, $831.1 million of State Revenue and University of Alaska Revenue Bonds, Notes and Contracts were outstanding.

State Agency Debt

State Agency Debt is secured by revenues generated from the use of bond proceeds or the assets of the agency issuing the bonds. This debt is not a general obligation of the State nor does the State provide security for the debt in any other manner, i.e., by appropriations, guarantees, or moral obligation pledges. As of June 30, 2006, there was $2,881.6 million of State Agency Debt outstanding comprised of $244.0 million AHFC obligations generally secured by mortgages purchased with bond proceeds, general assets, pledges of federal grants or, in the case of collateralized debt, secured by mortgage-backed securities; $11.0 million AMBBA obligations certain bonds of which are secured by the State's moral obligation pledge to the debt service reserve fund and all bonds of which are secured by the full faith and credit of the participating municipality; $39.0 million Alaska Railroad Notes secured by enterprise revenues; and $209.7 million of obligations of the Northern Tobacco Securitization Corporation.

State Agency Collateralized or Insured Debt

As security for State Agency Collateralized or Insured Debt, the particular State agency pledges mortgage loans or other securities as primary security which, in turn, may be 100% insured or guaranteed by another party with a superior credit standing. This upgrades the credit rating on the debt and lowers the interest cost and makes very remote any likelihood that the State will assume responsibility for the debt. At June 30, 2006, State Agency Collateralized or Insured Debt was $2,881.6 million comprised of $2,599.1 million issued by the AHFC and $282.5 million issued by AIDEA. Details of this debt are shown in this section of this Official Statement.

Municipal Debt

Political subdivisions within the State are termed "municipalities." The five categories of municipalities are: home rule city, general law city, home rule borough, general law borough, and unified municipality. This type of debt is secured by local taxes or revenues generated from the project financed. Alaska municipalities had approximately $2,358.0 million in general obligation bonds outstanding at June 30, 2006. Alaska municipalities' general obligation debt has decreased from its peak of almost $2.7 billion in 1986. At June 30, 2006, Alaska municipalities had approximately $606.0 million in municipal revenue bonds outstanding.

Industrial Development Bonds

The City of Valdez issued approximately $1.7 billion of Industrial Development Bonds during the period 1976 through 1986 to finance construction of the Trans Alaska Pipeline System. These bonds, repaid solely by revenues from major oil companies, are not general obligations of the State or the City of Valdez.

Description of Various Issuers of Debt: State Agencies or Instrumentality and Municipalities

Following are summaries of each State Agency or instrumentality and State Municipal Debt (shown in alphabetical order) which had debt outstanding as of June 30, 2006. See "THE CORPORATION" in the Official Statement to which this Appendix is attached for a summary of the Corporation's debt outstanding.

Alaska Energy Authority

The Alaska Energy Authority ("AEA") was created by the Legislature in 1976 to finance, construct and operate power production and transmission facilities. In 1993, the Legislature significantly reorganized AEA, transferring AEA's programs affecting rural Alaska to the Alaska Department of Community and Regional Affairs (now known as the Department of Commerce, Community & Economic Development). The legislation provided that AEA may no longer construct and acquire power projects. It continues to own a number of large power projects in the State, including the Bradley Lake Project. As further provided in the legislation, the Board of Directors of AIDEA became the Board of Directors of AEA with the Chairman and Vice Chairman of AIDEA's Board serving as officers of AEA. There is, however, no commingling of funds between AEA and AIDEA, and there was no assignment to AIDEA of liability for outstanding AEA indebtedness.

As of June 30, 2006, AEA's debt outstanding was $174.1 million.

Alaska Energy Authority
Debt Obligations Outstanding as of June 30, 2006
($ in Thousands)

	Date	Amount Issued	Debt Outstanding 6/30/05	Final Maturity
Power Revenue Bonds, First Series (Bradley Lake Hydroelectric Project)	09/07/89	111,755	6,640	07/01/21
Power Revenue Bonds, Second Series (Bradley Lake Hydroelectric Project)	08/28/90	68,445	11,520	07/01/20
Power Revenue Bonds, Third Series (Bradley Lake Hydroelectric Project)	04/06/99	59,485	44,930	07/01/17

Power Revenue Bonds, Fourth Series (Bradley Lake Hydroelectric Project)	04/04/00	47,710	37,390	07/01/21
Power Revenue Bonds, Fifth Series (Bradley Lake Hydroelectric Project)	04/13/99	30,640	30,640	07/01/21
Utility Revenue Bonds (City and Borough of Sitka)	05/14/92	56,890	22,365	07/01/15
Utility Revenue Bonds (City and Borough of Sitka)	11/25/97	22,080	20,635	07/01/20
Total		$397,005	$174,120	

Alaska Housing Finance Corporation

The finances of the Alaska Housing Finance Corporation are described in the Official Statement to which this document is an appendix.

Alaska Industrial Development and Export Authority

The Alaska Industrial Development and Export Authority ("AIDEA") was created by the Legislature in 1967 to promote, develop and advance the general prosperity and economic welfare of the people of the State and to relieve problems of unemployment, and now serves as a catalyst for economic development in the State and as a primary source of financing for that purpose. AIDEA may issue both revenue bonds and bonds which are general obligations of AIDEA. None of the bonds issued by AIDEA are a debt or a liability of the State. However, certain of the general obligation bonds of AIDEA are secured by capital reserve funds. AIDEA has covenanted to notify the Legislature of any failure to maintain the capital reserve funds at their respective required levels. The Legislature may appropriate funds to AIDEA to restore the capital reserve funds to their respective required amounts. (See "State Moral Obligation Debt"). However, since 1990, and in the future, bonds sold, other than refunding bonds, are the general obligations of AIDEA and any capital reserve fund does not have the moral obligation of the State, unless specifically provided for by legislation.

AIDEA has issued revenue bonds secured by the revenues of the project financed with the proceeds thereof which do not constitute general obligations of AIDEA for facilities owned by third parties. As of June 30, 2006, AIDEA had issued bonds for 306 projects aggregating approximately $1.04 billion under its revenue bond program.

AIDEA had outstanding, as of June 30, 2006, general obligation indebtedness secured by its full faith and credit totaling $282.4 million. AIDEA has issued, beginning in 1990, bonds designated as revolving fund bonds which are general obligation bonds secured by the full faith and credit of AIDEA. The proceeds of the revolving fund bonds have been used to finance projects owned by AIDEA and operated by a third party.

Alaska Industrial Development and Export Authority
Debt Issued and Outstanding as of June 30, 2006
($ in Thousands)

	Date	Amount Issued	Debt Outstanding 6/30/05
Development Bonds Power Revenue Bonds, First Series (Snettisham Hydroelectric Project)	8/18/98	100,000	82,265
Total		100,000	82,265

Revolving Fund Bonds			
Refunding	3/30/94	11,435	525
Red Dog Port Facility Expansion and Refunding	3/27/97	150,000	114,115
Healy Clean Coal Project (Refunding)	5/14/98	85,000	68,325
Federal Express Maintenance Facility (Refunding)	6/20/02	20,475	14,720
Total		$369,755	$197,160
Total Bonds		$469,755	$282,425

Alaska International Airports System

Bonds have been issued to finance improvements to the State's two international airports. Revenue bonds to finance improvements to Alaska International Airports are not general obligations of the State. Debt service on these bonds is payable solely from and secured by a first lien on gross revenues derived from operations of the Anchorage and Fairbanks International Airports.

International Airports System

Debt Issued and Outstanding as of June 30, 2006
($ in Thousands)

Revenue Bond:	Amount Issued	Debt Outstanding
Series 1999A	162,500	143,115
Series 1999B	16,675	6,125
Series 1999C	25,000	22,530
Series 2002A	13,060	6,605
Series 2002B	127,720	32,095
Series 2003A	73,025	67,710
Series 2003B	21,900	21,900
Series 2006A	118,975	118,975
Series 2006B	70,760	70,760
Series 2006C	50,000	50,000
Series 2006D	104,860	104,860
	$784,475	$644,675

Alaska Municipal Bond Bank Authority

The Alaska Municipal Bond Bank Authority (the "Bond Bank") was created as a public corporation by the State in 1975 for the purpose of lending money to governmental units within the State for their capital projects. The Bond Bank is empowered to issue bonds, the proceeds of which are used to purchase bonds, notes or certificates of participation of State municipalities. Most of the Bond Bank bonds maintain a capital reserve fund with the State's moral obligation attached. Bonds of the Bond Bank are not a debt or a liability of the State.

As of June 30, 2006, the total principal amount of outstanding bonds and notes of the Bond Bank was $446.1 million. Of this total amount outstanding, $359.3 million represents general obligations bonds and $75.8 million represents revenue bonds. In addition, the Bond Bank has outstanding $11.0 million principal amount of notes issued under the Coastal Energy Impact Program and the Coastal

Energy Loan Program. These notes do not have a claim on any capital reserve funds but are payable solely from the payments of the municipalities participating in the Program.

The Bond Bank's bonds are serviced by the revenues of the Bond Bank and are secured, in part, by certain State appropriations, bond proceeds, and additional moneys of the Bond Bank placed in a statutory capital reserve fund. The Bond Bank has covenanted to notify the Legislature of any failure to maintain the capital reserve funds at their required levels. The Legislature may appropriate funds to the Bond Bank to restore any such capital reserve fund to the required amount. See "Moral Obligation Debt."

ALASKA MUNICIPAL BOND BANK
Debt Issued and Outstanding as of June 30, 2006
($ in Thousands)

	Amount Issued	Bonds Outstanding 6/30/06
General Obligation Bonds	$748,075	359,275
Revenue Bonds	174,805	75,840
Coastal Energy Loan Fund	20,525	11,006
Coastal Energy Bonds	21,348	-0-
Total Alaska Municipal Bond Bank Debt	$964,753	446,121

Alaska Railroad Corporation

The federal government operated the Alaska Railroad until its sale to the State in January 1985 at which time the Alaska Railroad Corporation ("ARRC") commenced operations. ARRC has the power to issue bonds if such issuance is approved by the Legislature. Bonds issued by the ARRC would not bear the full faith and credit of the State. ARRC is not authorized to issue State moral obligation bonds. ARRC finances certain equipment purchases with notes payable. The notes payable obligation on June 30, 2006 was $39 million. ARRC has also entered into long term lease purchase contracts for equipment with an outstanding principal amount of $29.0 million. These note obligations are not debt obligations of the State and are payable from the operating revenues of ARRC.

Alaska Student Loan Corporation

The Alaska Student Loan Corporation ("ASLC") was created in 1987 by an act of the Legislature as a public corporation and government instrumentality within the Department of Education but having a legal existence independent of and separate from the State. ASLC was created for the purpose of enhancing the Alaska student loan program, a program under which State residents have been given loans to finance a portion of the cost of postsecondary education in or out of the State since 1971. It is intended that ASLC finance through the issuance of its bonds, notes, or other obligations student loans. Bonds of ASLC are not a debt or liability of the State.

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As of June 30, 2006, the total principal amount outstanding of bonds was $713.4 million. These bonds are general obligation bonds of ASLC secured by a pledge of student loans, all payments on such pledged student loans, and the right to receive the same, and all other property credited to the funds and accounts pledged under the bond financing documents. The bonds are secured by a capital reserve fund. ASLC has covenanted to notify the Legislature of any failure to maintain the capital reserve fund to the required amount. (See, "State Moral Obligation Debt").

Alaska Student Loan Corporation
Debt Outstanding as of June 30, 2006
($ in Thousands)

Student Loan Revenue Bonds	Date	Amount Issued	Debt Outstanding	Final Maturity
1996 Series A	6/18/96	38,000	26,000	7/1/2012
1997 Series A	6/18/97	75,000	60,000	7/1/2014
1998 Series A	6/30/98	88,570	49,000	7/1/2015
1999 Series A	6/23/99	40,000	32,500	7/1/2016
2000 Series A	6/21/00	40,000	38,400	7/1/2017
2001 Series A	6/28/01	33,345	20,650	7/1/2010
2002 Series A	6/4/02	42,500	21,100	6/1/2037
2002 Series B	6/4/02	15,000	15,000	6/1/2037
2003 Series A-1	6/5/03	16,500	16,500	6/1/2016
2003 Series A-2	6/5/03	30,500	30,500	6/1/2038
2004 Series A-1	5/19/04	45,500	45,500	4/1/2044
2004 Series A-2	5/19/04	47,600	47,600	4/1/2044
2004 Series A-3	5/19/04	22,015	22,015	6/1/2017
2005 Series A	7/28/05	58,250	58,250	6/1/2017
2005 Series A-1	5/25/06	30,000	30,000	6/1/2017
2005 Series A-2	5/25/06	55,000	55,000	6/1/2017
Capital Project Revenue Bonds				
2004 Series A	3/11/04	75,140	63,405	7/1/2018
2005 Series A	3/30/05	88,305	82,000	7/1/2014
		$752,975	$713,420	

University of Alaska

In addition to general obligation bonding of the State to finance University of Alaska (the "University") related projects, the University issues revenue obligations for specific purposes secured by a pledge of student fees, user charges, and unrestricted revenues, but not including government

appropriations, endowment fund earnings and revenues from trust land. Facilities which have been financed include the Anchorage and Fairbanks student centers, student housing units and the Fairbanks Utility System.

University of Alaska
Debt Issued and Outstanding as of June 30, 2006
($ in Thousands)

	Date	Amount Issued	Principal Outstanding 6/30/06
Revenue Bonds			
1997 Series G	6/1/97	10,000	645
1998 Series H	12/17/98	9,820	9,820
1999 Series J	4/27/99	14,295	9,510
2002 Series K	7/31/02	33,515	30,535
2003 Series L	12/9/03	9,970	8,750
2004 Series M	1/8/04	11,070	10,520
2005 Series N	8/31/05	24,355	24,355
Total		113,025	94,090
Installment Contracts	varies	2,504	1,369
Notes Payable	5/14/97	33,000	
Alaska Housing Finance Corporation			22,924
Total University Debt		$148,529	$118,383

Municipal School Debt Reimbursement

Alaskan municipalities had approximately $2.4 billion in general obligation debt outstanding at the end of June 2006. While there has been an increase of roughly $400 million in Alaska municipalities' general obligation debt over the last five years, there has been a long term decrease from the peak of almost $2.7 billion in 1986.

High levels of State appropriations for municipal capital projects beginning in FY 1981 depressed municipal bond issuance for most purposes. However, liberalization in FY 1978 of State reimbursement of municipal school debt to 80 percent or higher from a previous 50 percent greatly stimulated issuance for school construction. The other major element of municipal G.O. debt has been the capital construction program of the North Slope Borough. More recently several municipal school debt reimbursement authorizations at the 70% level, and in some cases 60% including a limited amount of current authorization, have stimulated borrowing at the local level.

When State reimbursement is netted out of municipal school debt, it becomes apparent that many Alaska municipalities have substantial debt capacity based on comparisons to national debt ratios.

Proration of State Reimbursement of Municipal School Debt ($ in Thousands)

Fiscal Year	Amount of Payments (1983-2006) or Appropriations (2007)	Percent of Entitlement
1983	$36,203	83%
1984	90,600	100%
1985	93,161	100%
1986	106,315	97%
1987	115,845	91%
1988	109,472	92%
1989	109,472	96%
1990	107,831	89%
1991	116,668	94%
1992	128,986	100%
1993	127,603	100%
1994	99,146	100%
1995	103,345	100%
1996	79,700	100%
1997	62,476	100%
1998	61,640	100%
1999	61,991	100%
2000	64,350	100%
2001	52,099	100%
2002	54,057	100%
2003	51,973	100%
2004	60,593	100%
2005	72,025	100%
2006	81,095	100%
2007	93,335	100%

Source: Alaska Public Debt 2006-2007

State Financial Information--Revenues And Expenditures

The State accounts for its operations through a series of funds. The asset balances of these funds are continuously invested by the Treasury Division of the Department of Revenue and accounted for by the Division of Finance of the Department of Administration. Assets of funds not required by law to be invested separately are pooled and invested together. The principal fund is the General Fund which provides for most general government functions and which accounts for all revenues and expenditures except those specifically directed to other funds, primarily those noted below.

The State of Alaska, Division of Finance issued the Fiscal Year ("FY") 2006 Comprehensive Annual Financial Report in December 2006 complying with all the financial requirements of Governmental Accounting Standards Board ("GASB") Statement 34.

Enterprise Funds

Enterprise Funds are operated by the State for "self-supported" activities which render goods and/or services to the public on a charged payment basis, such as the International Airports Fund and a number of State loan program funds.

Constitutional Budget Reserve Fund

Following ratification by the voters, Article IX, Section 17 of the Alaska Constitution took effect on January 2, 1991. This amendment requires that proceeds from certain oil and gas tax and mineral revenue disputes received after July 1, 1990, be deposited into a Constitutional Budget Reserve Fund ("CBRF"). From 1991 through 1993 the State deposited into the CBRF all moneys received through formal administrative proceedings resolving oil tax and mineral royalty disputes. During the same time, the State received moneys as a result of informal administrative proceedings of oil tax and mineral royalty disputes which the State deposited in the General Fund. In January 1994, the Alaska Supreme Court ruled that the moneys received from informal administrative proceedings should have been deposited into the CBRF, not the General Fund, and ordered that the CBRF be restored, with interest. The constitutional provision permits appropriation out of the CBRF by three-fourths vote of the Legislature or whenever the amount available for appropriation for a fiscal year is less than the amount appropriated for the previous fiscal year.

On June 30, 2006, the CBRF undesignated fund balance totaled $2.4 billion. Since its inception, the CBRF has been utilized to meet the State's short term cash flow needs as well as a source of longer term fiscal stability in light of volatile oil prices and declining petroleum production. The Treasury's investment policies for the CBRF have changed over the years as the balances and the expected uses of the CBRF have changed. In September 1999, the Treasury Division implemented an investment policy recognizing a two-year investment horizon for the entire balance of the CBRF. The shift to a two-year investment horizon was due to very large draws on the CBRF to balance the FY 1998 and FY 1999 budgets together with a projected $600 million to $1 billion draw in the FY 2000 budget. The policy reduced the anticipated time horizon for the balance of the fund and affected investment policy accordingly. The draw on the CBRF in FY 2000, however, was smaller than anticipated. Accordingly, in April 2000, the Treasury Division implemented an investment policy recognizing the balance in the CBRF exceeded the State's two year reserve requirement and the State's cash flow needs. Higher than anticipated oil prices and significant settlements led to the larger balance. An additional significant change occurred in 2000 when the 21st Legislature created a special $400 million subaccount in the CBRF in order to "yield higher returns than might be feasible to obtain with other money in the budget reserve fund." In July, 2000, the legislation creating the subaccount in the CBRF was implemented and the investments were rebalanced to recognize the newly created account. Effective July 1, 2000, the main account of the CBRF investment strategy is: (1) 25 percent held in the Treasury Division's broad market fixed income investment pool, (2) 65 percent held in the intermediate term fixed income investment pool, and (3) 10 percent held in the Treasury Division's short-term fixed income investment pool. Effective July 1, 2000, the subaccount of the CBRF investment strategy is: (1) 42 percent held in the Treasury Division's broad market fixed income investment pool, (2) 41 percent held in the Treasury Division's Domestic Equity Investment Pool, and (3) 17 percent held in the Treasury Division's international equity investment pool. While reviewed annually, this investment policy has remained in force since implementation.

The State believes that it will receive additional back taxes and royalties that are subject to deposit in the CBRF. Because the recovery of these amounts depends on the outcome of negotiations and potential litigation, the amounts that the State may recover cannot be accurately projected. The Departments of Revenue and Law currently estimate that the State will receive approximately $45 million annually from future settlements of mineral revenue disputes.

As of June 30, 2006, the audited total liabilities and fund balance in the CBRF was $7,937,529,000 of which $5,247,636,000 was due from the general fund, $422,677,000 was securities lending collateral, $1,447,000 was interest and dividends receivable, and $2,265,578,000 was cash and investments.

Trust and Agency Funds

Trust and Agency Funds are maintained to account for assets held by the State acting in the capacity of custodian or fiduciary agent. Major funds in this category include retirement plans and funds invested for the benefit of public schools of the State and the University of Alaska (the "University").

Capital Projects Funds

Capital Projects Funds account for the use of the proceeds of general obligation bond issues and matching federal funds for capital outlay. In general, all capital outlay projects except those being financed by the General Fund through direct appropriation and funds of the International Airports are accounted for through Capital Projects Funds.

Special Revenue Funds

Except for the Permanent Fund and the Constitutional Budget Reserve amendments, the Alaska Constitution prohibits, in general, the segregation of revenues into special funds unless established prior to statehood, required in order to receive federal money or required by federal law. Examples of other special revenue funds which do exist are the School Fund, the Fish and Game Fund, and the Disaster Relief Fund.

Permanent Fund

On November 2, 1976, the voters of the State approved a Constitutional amendment providing for the establishment of a Permanent Fund. The amendment provides that: "At least twenty-five percent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses received by the State shall be placed in a Permanent Fund, the principal of which shall be used only for those income-producing investments specifically designated by law as eligible for Permanent Fund investments. All income from the Permanent Fund shall be deposited in the General Fund unless otherwise provided by law." The effective date of the amendment was February 21, 1977.

In 1980, legislation was enacted which provided for the management of the Permanent Fund by a public corporation and government instrumentality within the Department of Revenue, managed by a board of trustees. The same legislation modified the contribution rate to the Permanent Fund from 25% to 50% of all mineral lease rentals, royalties, royalty sale proceeds, net profit shares, federal mineral revenue sharing payments and bonuses received by the State from mineral leases issued after December 1, 1979 or, in the case of bonuses, after February 15, 1980. The contribution rate was subsequently returned to 25% by legislation in 2003.

In 1982, legislation was enacted making four significant amendments to existing law: (1) changes were made in the composition of the board of trustees to provide greater continuity with changes in administration; (2) the authorized list of investments was expanded to include real estate and equities as well as fixed-income marketable debt; (3) a portion of each year's Permanent Fund income was targeted for reinvestment back into said Fund to offset inflation; and (4) a Permanent Fund dividend program was established; each year, transfers are made from the earnings reserve account in accordance with appropriations, first for dividends, then for inflation-proofing.

The authorized list of investments has since been expanded by the Legislature; in 1989 to include investments in non-U.S. securities, and in 1992 to include A-rated corporate bonds, in 1999 to expand prudent investments by 5% , in 2000 to expand the limit of equity investments, and in 2004 to expand prudent investments a further 10%.

In addition to the constitutionally and statutorily mandated dedicated revenues, the Legislature has made special appropriations to the Permanent Fund totaling $6.6 billion.

Permanent Fund

Special Principal Appropriations
($ in Millions)

Year	Amount	Source
FY 81-85	$2,700	Surplus mineral reserves
FY 87	1,264	Earnings reserve account
FY 96	1,842	Earnings reserve account
FY 97	803	Earnings reserve account
FY 00	250	Earnings reserve account

Realized income of the Permanent Fund earned during the fiscal year is credited during the year to an earnings reserve account in the Permanent Fund. The earnings reserve account is not part of the State's General Fund, but, as discussed below, the unencumbered portion is available for appropriation.

Dividends are paid each year to qualified residents of the State in accordance with a formula established in Alaska Statutes 37.13.140 and .145. This formula is designed to produce a stable flow of dividends over time and is calculated as follows: (1) add together the Permanent Fund's net income for the last five years; (2) multiply that number by 21%; (3) divide that number in half; and (4) divide that money equally among all qualified applicants, including children. In 2007, the amount of the per capita check paid to Alaskans was $1654.00 with a total distribution of $1.0 billion. From the inception of the dividend program in 1982, $15.7 billion of Permanent Fund income has been distributed to qualified dividend applicants through 2007.

Since 1982, $10.8 billion of Permanent Fund income has been added to principal for inflation proofing purposes, through June 30, 2007.

If any income remains after the transfer, it remains in the earnings reserve account as undistributed income. In future years, if there is insufficient net income to fully pay dividends or inflation-proofing, any previously accumulated undistributed income in the earnings reserve account could be appropriated by the Legislature for those purposes. The Legislature may appropriate funds from the earnings reserve account at any time for any lawful purpose.

Alaska Permanent Fund Asset Value

Assets	June 30, 2007
Cash & temporary investments	1,651,091,000
Receivables, prepaid expenses & other assets	394,248,000
Marketable Debt Securities	10,324,896,000
Preferred & Common Stock	22,863,064,000
Real Estate	3,155,699,000
Alternative Investments	1,909,330,000
Alaska Certificates of Deposit	167,982,000
Securities Lending Collateral Invested	4,881,893,000
Total	$45,348,203,000

The following schedule provides a summary of Permanent Fund operations and the amount available for the past three fiscal years ended June 30, 2006 and June 30, 2007.

Years Ended June 30	**2006**	**2007**
Total Assets	$42,675,469,000	$45,348,203,000
Total Liabilities	9,765,750,000	7,522,107,000
Fund Balances		
Reserved		
Contributions	26,104,252,000	27,496,893,000
Unrealized Appreciation	4,220,699,000	6,197,582,000
Total Reserved	30,324,951,000	33,694,475,000
Unreserved		
Realized Earnings	2,584,768,000	4,131,621,000
Total Fund Balances	32,909,719,000	37,826,096,000
Total liabilities and Fund Balances	$42,675,469,000	$45,348,203,000

Source: Alaska Permanent Fund Annual Reports

General Fund

The General Fund receives and accounts for all State revenues not allocated to the specific purposes identified above. Due to the constitutional prohibition against dedicated receipts, the General Fund serves as the general operating account of the State. Most revenues are received by, and most expenditures are disbursed from, the General Fund.

All governmental, expendable trust, and agency funds are reported on the modified accrual basis. Under the modified accrual basis of accounting, revenues are recognized when they become measurable and available to finance operations during the current year or to liquidate liabilities existing at the end of the year. Major revenues that are determined to be susceptible to accrual include federal grants-in-aid, charges for services, investment income, and petroleum related taxes and royalties.

Restricted revenues, primarily federal grants, include a portion of receivables which correspond to reimbursable disbursements for program operations. Such receivables are only those specifically identified at year end.

Once money received is deposited in the State Treasury, no money may be withdrawn from the Treasury except in accordance with an appropriation made by law. Those amounts received by component units are disbursed in accordance with their particular statutory authority.

The budgetary process is used to establish a balancing of estimated revenues coming into a fund with requested appropriations for that fund. Annual operating budgets are prepared for practically every fund and are submitted to the Legislature for the enactment of appropriations. An appropriation is an authorization to spend money and to incur obligations. Each appropriation is limited as to purpose, time, and amount, and each of these limitations is legally binding. Budgetary control is maintained at the appropriation level as specified in the enabling legislation.

Appropriations as enacted by the Legislature and signed by the Governor are entered into the accounting records. The balance of an appropriation is reduced when funds are expended or encumbered. Appropriations are encumbered for anticipated expenditures in the form of purchase orders, contracts, and other obligations. Encumbrances outstanding at year end are reported as reservations of fund balances

and do not constitute expenditures or liabilities. Unencumbered annual appropriations lapse at the end of the fiscal year.

Expenditures of funds are made only upon properly approved requests for payment. The total of expenditures and encumbrances (obligations) may not exceed the appropriations to which they pertain. Agencies faced with potential over expenditure of appropriations must (1) reduce the rate of expenditure, (2) seek relief through supplemental appropriations, or (3) request necessary approvals to record appropriation transfers.

The State's revenues are subject to a minimum of earmarking or dedication, with two major exceptions--the Alaska Permanent Fund and the CBRF. Aside from the Permanent Fund, the few other minor dedicated revenues, and various enterprise funds, all revenues of the State flow into the General Fund.

Revenue received by the General Fund can be classified as unrestricted, restricted, or interagency receipts. Unrestricted revenues may be appropriated for any State program. Such revenues include taxes, licenses and permits, fees, and investment earnings, as well as a portion of oil royalties and oil lease bonus sales. Restricted revenues are those received for specific purposes, primarily from the federal government. Interagency receipts are transfers made from one agency of State government to another. Revenue received by dedicated funds (special revenue funds) and enterprise funds is classified as special fund revenue.

Unrestricted Revenues. Unrestricted revenues are the largest component of State revenue. The State collected general purpose unrestricted revenues of $4,200.4 million for FY 2006, as compared to $3,188.8 for FY 2005, $2,345.6 million for FY 2004, $1,947.6 million for FY 2003, $1,660.3 million in FY 2002, $2,281.9 million in FY 2001, $2,081.7 million in FY 2000, $1,352.2 million in FY 1999, and $1,825.8 million in FY 1998. Revenues by source are presented in detail in the *Revenue Sources Book* published twice a year by the Department of Revenue.

Petroleum Revenues. The most important sources of unrestricted revenues are derived from petroleum production activities. The State receives oil and gas revenue from four sources: oil and gas production tax, property tax, royalties and corporate income tax. The bulk of the revenue goes into the General Fund for general purpose spending. Of the royalties, 25% goes into the principal of the Alaska Permanent Fund and 0.5% goes into the Public School Trust Fund. There also are two other funds that receive specific oil and gas revenues: the National Petroleum Reserve-Alaska (NPRA) Fund, which receives the State's share of all lease bonuses from sales in the NPRA; and the Constitutional Budget Reserve Fund (CBRF), which receives settlements of tax and royalty disputes between the State and oil and gas producers.

Together, petroleum revenues constituted about 88 percent of unrestricted revenues for FY 2006, as compared to an average of 80 percent over the 10 year period since FY 1996. Royalties and the production tax constitute the largest part–83%–of restricted and unrestricted oil revenue combined.

Oil and Gas Royalties. These include oil and gas royalties from both State and federal lands. The State currently receives 50 percent of royalties and lease bonuses and rents received by the federal government from leases of federal lands in the National Petroleum Reserve-Alaska (NPRA). The State receives 90 percent of federal royalties and bonuses on all other federal lands located within State borders. The State also receives 27 percent of federal royalties and lease bonuses and rents from federal waters between 3 and 6 miles off shore.

The State receives a royalty of 12.5 percent on most oil and gas production from State leases. At present, about 99 percent of all oil production is from State land, including the reserves at Prudhoe Bay. The State may elect to receive its royalties in kind or in value. The Department of Natural Resources holds about two lease sales a year. Pursuant to legislation, which became effective in 1978, the Commissioner of Natural Resources may choose the leasing method from various alternatives including various combinations of a fixed cash bonus with royalty share no less than 12.5%, a sliding scale royalty share or a share of net profit. All leasing options must be found to be in the best interests of the State.

Oil and Gas Severance Taxes. In August 2006 a new production tax was passed by the Alaska legislature titled the Petroleum Profits Tax or PPT and it replaced the system that had been in place for over 15 years that used the Economic Limit Factor or ELF.

The PPT was adopted to provide incentives for oil company investment in the State and to provide a fair share of revenue to the State at high oil prices. Under the PPT, a production tax value is calculated by subtracting eligible capital and operating expenses from the gross production value of petroleum. The basic tax rate is 22.5% on the production tax value of oil and gas with a progressivity surcharge. Should the production tax value exceed $40 per barrel of oil produced (or the equivalent in gas), the tax rate increases 0.25% for every dollar the per-barrel production tax value is over $40. A tax floor is provided to protect State revenues at low oil prices. Tax liability may be reduced in three categories: (1) a credit of 20% for qualified capital expenditures; (2) a transition credit that rewards companies for capital expenditures in the five years prior to implementation of the PPT; and (3) a base allowance credit of $12 million that benefits companies that produce less than 50,000 barrels per year. At an oil price of $70 and production of approximately 800,000 barrels per day, it was estimated that the new PPT would generate as much as $3.6 billion a year, an increase of $2.2 billion over the prior ELF tax system.

PPT Tax Liability = [(Value – Costs) x Tax Rate] – Credits

The terms used in the equation are defined as follows:

Value = Volume of Oil and Gas Produced x Wellhead Value

Costs = Operating Expenditures + Capital Expenditures

Tax Rate = 22.5% + 0.25% for every $1 per barrel that this "net income" exceeds $40

Credits = (20% x Capital Expenditures) + (20% x Eligible Transition Expenditures) + Base Allowance

The previous production tax system utilized the Economic Limit Factor or ELF.

Under the ELF system the tax on oil production was equal either to the percentage-of-value or $.80 per barrel, whichever was greater, multiplied by an economic limit factor. The percentage-of-value was 12.25 percent of the value of production for a property coming into commercial production after June 30, 1981, for its first five years of production. Thereafter and for all other existing oil production, including Prudhoe Bay, the percentage-of-value amount was 15 percent of the value of production. The economic limit factor (in certain instances) reduced the tax rate to zero, depending on the average rate of production for the lease or property and the size of the reservoir being produced. As average daily well

production and/or the total oil reservoir daily production decreased, the economic limit factor lowered the effective tax rates. The tax was zero for any field with productivity of 300 barrels per well per day or less. Legislation enacted in 1989 modified the economic limit factor such that the severance tax in place at that time increased the tax on oil fields producing more than 150,000 barrels per day, namely Kuparuk and Prudhoe Bay, and decreased or was eliminated for all other fields. Prudhoe Bay bore the highest tax rate followed in order by the highly productive new fields at Alpine and Northstar. For natural gas, the amount of tax was equal either to 10 percent of value or $0.064 per mcf of gas produced, whichever was greater, multiplied by an economic limit factor. The 1989 legislation did not change the application of the economic limit factor for gas.

Governor Sarah Palin has called a special session of the State Legislature to consider a new petroleum production tax system called Alaska Clear and Equitable Share or ACES.

At the time of this writing, the proposed Alaska Clear and Equitable Share (ACES) plan has not been passed by the legislature. If ACES does pass, it will be the second new severance tax system in two years. The new system is projected to increase State revenues by $1 billion a year and will boost the basic tax rate to 25% of net profits, with a 20% capital credit. A 10% gross tax floor on two mature fields secures a basic State revenue level and progressivity is triggered when the production tax value exceeds $30 per barrel (currently progressivity is triggered at $40 per barrel). Both oil and natural gas will be taxed under the system, including natural gas that would pass through the proposed natural gas pipeline.

Oil and Gas Property Taxes. The State collects a 20 mill ad valorem tax on oil and gas transportation facilities and on facilities used in oil and gas exploration or production. Most notable of the properties subject to this tax are the Trans Alaska Pipeline System or TAPS (including the terminal at Valdez) and the field production system at Prudhoe Bay. The assessed value of all existing properties subject to this tax as of January 1, 2007, is approximately $15.6 billion, compared with $14.4 billion as of January 1, 2006, $13.0 billion as of January 1, 2005, and $13.3 billion as of January 1, 2004.

Local governments may also tax these properties at their individual mill rates up to 20 mills using the assessed values determined by the State. Any difference between the local mill rate and the 20 mill state levy benefits the State. The property taxes paid to the local governments are credits to the taxpayer when paying the full 20 mill levy to the State. The local tax is limited in one of two ways and each year the local government chooses which one will apply to it for that year: either the total tax revenues collected may not exceed $1,500 per capita or the total assessed value subject to the local property tax may not exceed the product of 225 percent of the average per capita assessed value of all property in the State multiplied by the number of residents within the boundaries of the local government. The rate of tax may not exceed 30 mills. However, a local government may tax in excess of these limits as necessary in order to meet debt service on its general obligation bonds. Property taxes paid to a local government for property subject to the State's ad valorem tax are credited against the State tax up to a taxpayer's liability.

General Fund Comparative Balance Sheet
($ in Thousands)

Years Ended June 30	2005	2006
ASSETS		
Cash and Investments:	$3,484,303	$4,435,656
Accounts Receivable – Net	240,468	346,525
Interest and Dividends Receivable	4,376	8,315
Due from Other Funds	613,556	773,284
Due from Component Units	7,142	19,876
Due from Government Units	357,321	456,232
Loans, Notes and Bonds Receivable	14,995	18,604
Inventories	11,240	12,242
Securities Lending Collateral	90,678	865,459
Other Assets	18,720	12,650
Total Assets	$4,842,799	$6,949,025
LIABILITIES AND FUND BALANCES		
Liabilities		
Accounts Payable and Accrued Liabilities	456,241	482,676
Obligations Under Securities Lending	90,678	865,459
Due to Other Funds	22,553	7,202
Due to Other Component Units	104	1,653
Due to Other Governments	7,310	139
Unearned and Deferred Revenue	195,240	267,745
Other Liabilities	938	851
Total Liabilities	773,064	1,625,725
Fund Balance:		
Reserved:		
Encumbrances	157,567	289,710
Nonliquid Assets	5,190,938	5,119,467
Other Purposes	18,841	37,908
Unreserved		
Undesignated	(1,297,611)	(123,785)
Total Fund Balance	4,069,735	5,323,300
Total Liabilities and Fund Balance	4,842,799	6,949,025

Source: Comprehensive Annual Financial Report (CAFR) of the State for the fiscal year ended June 30, 2005 and June 30, 2006.

The following are from the Notes to the Financial Statements for the fiscal year ended June 30, 2006. These notes explain the large interfund liability and deficit unreserved, undesignated fund balance in the general fund.

Interfund Liabilities

The general fund interfund liability is composed primarily of amounts appropriated from the Constitutional Budget Reserve Fund ("CBRF"). Because Article IX, section 17(d) of the Alaska Constitution provides that amounts appropriated from the CBRF are to be repaid, these appropriations are recognized as a liability in the general fund. The composition of the amount owed to the CBRF is as follows:

Long-term Portion	
Chapter 14, SLA 1994, section 7	$1,006,038,474
Chapter 14, SLA 1994, section 8	49,608,135
Chapter 14, SLA 1994, section 9	368,581,990
Subtotal FY 94	1,424,228,599
Chapter 3, FSSLA 1994, section 39(c)	22,417,986
Chapter 3, FSSLA 1994, section 40	68,738,958
Chapter 3, FSSLA 1994, section 22(a)	11,250,000
Chapter 6, FSSLA 1994, section 1	130,300,000
Article IX, section 17(d) Alaska Constitution (FY 95)	(95,506,853)
Subtotal FY 95	137,200,091
Chapter 94, SLA 1995, section 43(a)	95,506,853
Chapter 94, SLA 1995, miscellaneous operating appropriations	8,356,516
Chapter 94, SLA 1995, section 43(b)	284,873,567
Article IX, section 17(d) Alaska Constitution (FY 96)	(74,352,026)
Subtotal FY 96	314,384,910
Chapter 5, FSSLA 1996, section 1(a)	74,352,026
Chapter 94, SLA 1995, miscellaneous operating appropriations	8,316,412
Article IX, section 17(d) Alaska Constitution (FY 97)	(166,019,445)
Subtotal FY 97	(83,351,007)
Chapter 98, SLA 1997, section 35(a)	166,019,445
Chapter 98, SLA 1997, page 47, line 3	529,258
Chapter 98, SLA 1997, section 35(b)	423,319,190
Article IX, section 17(d) Alaska Constitution (FY 98)	(89,264,067)
Subtotal FY 98	500,603,826
Chapter 139, SLA 1998, section 42(a)	89,264,067
Chapter 2, SLA 1999, section 16(c)	446,949
Chapter 27, SLA 1999, Y2K appropriations	2,336,290
Chapter 2, FSSLA 1999, section 21(a)	1,042,014,840
Article IX, section 17(d) Alaska Constitution (FY 99)	(94,632,453)
Subtotal FY 99	1,039,429,693
Chapter 2, SLA 1999, Section 16(c)	13,051
Chapter 27, SLA 1999, Section 2(a), Y2K Appropriations	5,594,185
Chapter 84, SLA 1999 section 35(a)	94,632,453
Chapter 2, FSSLA 1999, section 21(b)	295,898,497
Chapter 8, SLA 2000, section 8(a)	3,227,666
Chapter 75, SLA 2000, section 1(b)	100,000,000
Article IX, section 17(d) Alaska Constitution (FY 00)	(111,438,806)
Subtotal FY 00	387,927,046

Chapter 133, SLA 2000, Section 11a	111,438,806
Chapter 75, SLA 2000, Section 1c	500,000
Chapter 135, SLA 2000, Section 18c	121,672
Article IX Section 17(d) Alaska Constitution (FY 01)	(115,416,319)
Subtotal FY 01	(3,355,841)
Chapter 61, SLA 2001, section 93(a)	101,947,305
Chapter 61, SLA 2001, section 93(b)	884,311,765
Chapter 61, SLA 2001, section 93(c)	125,000
Article IX, section 17(d) Alaska Constitution (FY 02)	(130,695,249)
Subtotal FY 02	855,688,821
Chapter 1, SSSLA 2002, section 94(a)	130,695,249
Chapter 1, SSSLA 2002, section 94(b)	498,120,073
Chapter 1, SSSLA 2002, section 94(a)	121,425
Article IX, section 17(d) Alaska Constitution (FY 03)	(88,755,533)
Subtotal FY 03	540,181,214
Chapter 159, SLA 2004, section 61(a)	88,755,533
Chapter 159, SLA 2004, section 61(b)	10,784,830
Chapter 159, SLA 2004, section 61(c)	109,120
Article IX, section 17(d) Alaska Constitution (FY 04)	(94,626,898)
Subtotal FY 04	5,022,585
Chapter 159, SLA 2004, section 61(d)	94,626,898
Chapter 159, SLA 2004, section 61(e)	34,922,767
Chapter 159, SLA 2004, section 61(f) and Chapter 159, SLA 2004, section 61(a)	125,940
Article IX, section 17(d) Alaska Constitution (FY 05)	(85,513,723)
Subtotal FY 05	44,161,882
Chapter 3, FSSLA 2005, section 61(a)	85,513,723
Chapter 6, SLA 2005, section 17(a)	24,060
Chapter 3, FSSLA 2005, section 61(c)	167,000
Article IX, section 17(d) Alaska Constitution (FY 06)	(156,696,777)
Subtotal FY 06	(70,991,994)
Chapter 159, SLA 2004, section 61(d)	94,626,898
Total appropriated from the CBRF	$5,091,129,825

Source: Comprehensive Annual Financial Report of the State for the fiscal year ended June 30, 2006

Deficit Fund Balance

General Fund Comparative Statement of Revenue, Expenditures, and Changes in Fund Balance
($ in Thousands)

Years Ended June 30	2005	2006
Revenues		
Taxes	$1,734,515	$2,333,869
Licenses and Permits	95,946	102,094
Charges for Services	152,603	158,204
Fines and Forfeitures	10,926	10,368
Rents and Royalties:	1,435,932	1,802,250
Premiums and Contributions	10,605	11,567
Interest and Investment Income	147,376	179,024
Federal Grants-in-Aid	1,924,927	1,970,439
Payments In from Component Units	121,312	104,555
Other Revenues	13,485	57,418
Total Revenues	5,647,627	6,729,788
Expenditures		
Current Operating:		
General Government	$211,793	$234,921
Alaska Permanent Fund Dividend	552,232	505,093
Education	1,027,453	1,164,369
University	237,021	258,942
Health & Human Services	1,743,390	1,789,841
Law, Justice	139,727	169,236
Public Protection	524,932	526,396
Natural Resources	174,306	198,556
Development	120,134	460,785
Transportation	741,726	833,547
Intergovernmental Revenue Sharing	43,081	59,477
Debt Service:		
Principal	10,295	10,875
Interest and Other Charges	3,567	3,739
Total Expenditures	5,529,657	6,215,777
Excess (Deficiency) of Revenues Over (Under Expenditures)	117,970	514,011
Other Financing Sources (Uses)		
Refunding Bonds Issued	25,725	N/A
Refunding Bond Premium	1,251	N/A
Payment to Refunded Bond Escrow	(26,858)	N/A
Bonds Issued	N/A	24,000
Bonds Issued Premium	N/A	562
Other Debt Proceeds	N/A	1,957
Capital Leases	10,751	8,628
Transfers in from Other Funds	573,103	761,190
Transfer (Out to) Other Funds	(54,138)	(57,176)
Total Other Financing Sources and Uses	529,834	739,161
Net Change in Fund Balance	647,804	1,253,172
Fund Balance, Beginning of Year	3,439,863	4,069,735
Prior Period Adjustment	(17,932)	393
Fund Balance, End of Year	$4,069,735	$5,323,300

Source: *Comprehensive Annual Financial Report of the State for the fiscal year ended June 30, 2005 and June 30, 2006.*

Constitutional Budget Reserve Fund Comparative Balance Sheet
($ in Thousands)

Years Ended June 30	2005	2006
Assets		
Cash and Investments	$2,184,137	$2,265,578
Interest and Dividends Receivable	977	1,447
Due from Other Funds	5,247,630	5,247,827
Securities Lending Capital	78,128	422,677
Total Assets	7,510,878	7,937,529
Liabilities		
Accounts Payable and Accrued Liabilities	12	27
Obligations Under Securities Lending	78,128	422,677
Due to Other Funds	34,923	0
Total Liabilities	113,063	422,704
Fund Balances:		
Nonliquid Assets	5,162,122	5,091,130
Unreserved:		
Undesignated	2,235,693	2,423,695
Total Fund Balances	7,397,815	7,514,825
Total Liabilities and Fund Balance	7,510,878	7,937,529

Constitutional Budget Reserve Fund Schedule of Revenues, Expenditures, and Changes in Fund Balance
($ in Thousands)

Revenues	2005	2006
Taxes	$17,449	$24,732
Fines and Forfeitures	682	3
Rents and Royalties	0	0
Interest and Investment Income	112,018	107,624
Net Decrease in Fair Value of Investments	0	0
Federal	0	0
Total Revenues	130,149	132,359
Expenditures		
Current Operating:		
General Government	5,498	15,540
Total Expenditures	5,498	15,540
Excess (Deficiency) of Revenues Over (Under Expenditures)	124,651	116,819
Other Financing Sources (Uses)		
Transfer in from Other Funds	126	191
Transfers (Out to) Other Funds	0	0
Total Other Financing Sources and Uses	126	191
Special Items		
Alaska Science and Technology Endowment Liquidation		
Interest Earned on Grants Administered by AIDEA		
International Trade and Business Endowment Liquidation		
Net Change in Fund Balance	124,777	117,010
Fund Balances - Beginning of Year (Restated)	7,273,038	7,397,815
Fund Balances - End of Year	$7,397,815	$7,514,825

Source: State of Alaska Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2005 and June 30, 2006.
NOTE: It is uncertain when, or if, "Due From Other Funds" amounts will be repaid from the State's General Fund. Repayments total $86 million over the life of the fund.

Long-Term Revenue Outlook

The State's current official ten-year forecast of unrestricted general purpose revenue released in April 2007 shows a decline in unrestricted revenue after FY 2007, with 2011 unrestricted revenue predicted to be about 14 percent lower than 2006 unrestricted revenue. This forecast assumed the State's tax and royalty regime that was in place in the Spring of 2007 [ACES was not proposed until after the Spring forecast]. In addition, the forecast does not include any revenue from investment of the CBRF or the Permanent Fund as unrestricted revenue. The State's total investment income exceeded its income from oil taxes and royalties in fiscal years 1998, 1999 and 2000. The projected income from the Permanent Fund is described elsewhere in this official statement.

Oil revenues continue to dominate the unrestricted revenue picture and will continue to provide at least 85% of Unrestricted General Purpose Revenue through FY 2014. However, North Slope oil production is declining. In FY 2006, ANS output was 0.845 million barrels per day compared to a peak of 2.006 million barrels a day in FY 1988. While production declined by almost 58% over that period, the market price of oil has more than tripled. For FY 2007, we project oil production will continue to decrease to 0.740 million barrels per day. The implementation of the PPT tax regime will modify future revenue projections, and the relationship between well size and tax paid will not remain a factor in determining tax collection

Before the run-up in crude oil prices, beginning in about 2003, the Constitutional Budget Reserve Fund (CBRF) was used to balance the State's budget in 10 of 15 years. Even if prices remain high, the rapid fall in North Slope crude oil volumes could lead to future budget shortfalls and draws on the CBRF.

The table on the following page from the Alaska Department of Revenue shows projected General Fund spending contrasted with non-oil and oil revenues. The State faces a fiscal gap unless additional revenues are generated from taxes or other sources.

Historical and Forecast General Fund Activity

($ in Millions)

	Fiscal Year	General Fund Spending[1]	General Fund Non-Oil Revenues[2]	General Fund Petroleum Revenues[3]	Reappropriation & Carryforward Funding	Surplus/ (Deficit)
Actual						
	1995	2,470	307	2,077	n/a	(85)
	1996	2,421	467	666	n/a	(287)
	1997	2,419	484	2,011	n/a	76
	1998	2,359	493	1,333	n/a	(533)
	1999	2,336	439	913	n/a	(984)
	2000	2,300	439	1,642	n/a	(152)
	2001	2,291	396	1,875	n/a	60
	2002	2,504	340	1,320	n/a	(779)
	2003	2,496	309	1,639	n/a	(466)
	2004	2,319	292	2,054	n/a	76
	2005[2]	3,046	339	2,850	n/a	252
	2006[3]		501	3,700		
Forecast						
	2007[4]		656	4,325		
	2008		580	2,967		
	2009		573	2,893		
	2010		572	2,983		

(1) Historical and Projection: Department of Revenue Spring 2007 revenue forecast.

(2) $400 million of the FY 2005 surplus revenues forward funded the State's Public Education Fund for FY 2006.

(3) FY 2006 surplus revenues were carried forward. $300 million was designated for future capital projects, $565 million funded the Public Education Fund for FY 2007, and $300 million funded the Public Education Fund for FY 2008.

(4) The revenue projections shown for FY 2007 and beyond do not reflect any potential impact of the Alaska Clear and Equitable Share plan, which has been proposed by Governor Sarah Palin and has not passed the State legislature at the time of this writing.

As approved by voters in 1990, all receipts from oil and gas tax and royalty settlements are deposited into the Constitutional Budget Reserve Fund (CBRF). The State has deposited about $5.8 billion into the reserve fund, generating about $1.9 billion in investment earnings. Since the increase in oil prices beginning in about 2003, no CBRF withdrawals have been necessary to balance the State's budget. However, given price volatility and the decline expected in volumes from the North Slope, the State may have to depend on the CBRF in the future. Through February 28, 2007, approximately $5.1 billion had been borrowed from the CBRF to balance the budget, leaving a balance of $2.5 billion. According to the State Constitution, the $5.1 billion must be repaid to the CBRF.

Two tables presented below are extracted from the Spring 2007 Revenue Sources Book to help the reader understand the time period in which the CBRF would be depleted. Figure 2-14(A) presents the case where all surpluses are deposited in the CBRF. Figure 2-14(B) presents the case where no surpluses are deposited in the CBRF. For example, using the DOR price and revenue forecast and assuming a General Fund appropriations budget of $4.4 billion in FY 2007 and a flat appropriations budget of $3.9 billion thereafter, the CBRF would be depleted by May 2015 if all budget surpluses were deposited into the CBRF (see Figure 2-14(A)). By contrast, if none of the budget surpluses were deposited into the CBRF, the CBRF would be depleted in October 2014 (see Figure 2-14(B)).

Figure 2-14 (A). CBRF Run-Out Date With Excess Revenue Deposited into CBRF[1]

Annual State Budget After FY 08 ($ billion)	Spring 2007 Oil Price Forecast[2]	$25	$35	$45	$55	$65
$2.3	N/A	Aug 2014	Jul 2019	N/A	N/A	N/A
$2.7	N/A	Jun 2012	Aug 2014	N/A	N/A	N/A
$3.0	N/A	Jul 2011	Dec 2012	Aug 2019	N/A	N/A
$3.3	N/A	Jan 2011	Nov 2011	Feb 2016	N/A	N/A
$3.7	Oct 2016	Jul 2010	Jan 2011	Jul 2013	N/A	N/A
$3.9	May 2015	Apr 2010	Sep 2010	Jun 2012	Aug 2017	N/A
$4.0	Mar 2015	Mar 2010	Aug 2010	Mar 2012	Jan 2017	N/A
$4.3	Feb 2014	Jan 2010	May 2010	May 2011	Oct 2014	N/A
$4.6	Feb 2013	Nov 2009	Feb 2010	Nov 2010	Feb 2013	Jun 2019

Figure 2-14 (B). CBRF Run-Out Date Without Excess Revenue Deposited into CBRF[1]

Annual State Budget After FY 07 ($ billion)	Spring 2007 Oil Price Forecast[2]	$25	$35	$45	$55	$65
$2.3	N/A	Oct 2013	Aug 2016	N/A	N/A	N/A
$2.7	N/A	Feb 2012	Nov 2013	N/A	N/A	N/A
$3.0	Apr 2018	Apr 2011	Aug 2012	Oct 2017	N/A	N/A
$3.3	Nov 2016	Oct 2010	Jul 2011	Jan 2015	N/A	N/A
$3.7	Sep 2015	Apr 2010	Oct 2010	Jan 2013	Nov 2018	N/A
$3.9	Oct 2014	Feb 2010	Jun 2010	Jan 2012	Feb 2016	N/A
$4.0	Aug 2014	Feb 2010	Jun 2010	Nov 2011	Oct 2015	N/A
$4.3	Nov 2013	Nov 2009	Mar 2010	Feb 2011	Jan 2014	May 2020
$4.6	Sep 2012	Oct 2009	Dec 2009	Sep 2010	Sep 2012	Nov 2017

(1) Matrix allows reader to select specific fiscal year price (from FY 2009-beyond) to determine CBRF exhaustion date. Spring 2007 forecasted production volumes are used. N/A in the matrix indicates that the CBRF does not run out during matrix timeframe.

(2) Spring 2007 forecast ANS prices projections are $54.72 per barrel in FY 2008, $53.86 per barrel in FY 2009, $54.12 per barrel in FY 2010, $55.30 per barrel in FY 2011, $56.02 per barrel in FY 2012 and $56.90 per barrel in FY 2013. ANS oil prices are projected to average $41.03 per barrel in FY 2014, then increase at 2.75% per year.

State's Retirement Systems

The State administers two major "defined benefit" retirement systems: the Alaska Public Employees' Retirement System (for State employees and employees of political subdivisions which elect to join the system) and the Alaska Teachers' Retirement System (for teachers and school administrators). During the 2006 legislative session, a new retirement plan tier was established for the public employees' (Tier IV) and teachers' (Tier III) retirement systems with a defined contribution and health reimbursement arrangement plan for employees hired after July 1, 2006. An actuarial valuation is typically performed for both systems annually. The primary source of the following information is Buck Consultants "State of Alaska Public Employees' Retirement System Actuarial Valuation Report as of June 30, 2006" and "State of Alaska Teachers' Retirement System Actuarial Valuation Report as of June 30, 2006." Information for 2005 was also extracted from valuation reports prepared by Buck Consultants.

Information prior to 2005 is located in actuarial valuation reports prepared by Mercer Human Resource Consulting, the systems' consulting actuary during those years.

Alaska Public Employees' Retirement System. Membership in the Public Employees' Retirement System ("PERS") includes full-time and part-time permanent employees of the State and participating political subdivisions, excluding those covered by other retirement systems or by specific agreement. As of June 30, 2006, there were 34,071 active members and 28,120 retirees (includes terminated members with future benefits) and beneficiaries of PERS. The average age of active members of PERS is 45.04 years and the average length of service is 8.92 years. The normal retirement benefit is 2% (with certain exceptions for fire and police employees) of average monthly compensation for each of the first ten years of service, 2.25% for the next ten years, and 2.50% for service in excess of twenty years. The average monthly compensation is computed as the highest average monthly compensation during three consecutive payroll years of credited service.

Police and fire employees contribute 7.5% of their salary to PERS. Other members contribute 6.75% of their salary. The State pays the required rate according to Alaska Statute to contribute for future service liabilities, after allowing for member contributions, plus an amount to amortize the unfunded liability. The State's contribution rate is 17.65% of compensation for FY 2006, 22.65% for FY 2007, and 22.00% in FY 2008. These rates are sufficient, when combined with the funds appropriated by the Alaska Legislature during FY 2007 and 2008, to provide for the full amount of future service liabilities and to amortize past service liabilities for both post-retirement pension and healthcare benefits over a 25-year period. The table below shows the status of PERS as of June 30 in each of the past five fiscal years:

Alaska Public Employees' Retirement System
($ in Millions)

	2006	2005	2004	2003	2002
Accrued Liability[1]	$14,388	$12,845	$11,444	$10,562	$9,856
Valuation of Assets	9,041	8,443	8,030	7,687	7,413
Unfunded Liability	5,347	4,402	3,414	2,875	2,443
Funding Ratio (Including Medical)	62.8%	65.7%	70.2%	72.8%	75.2%

(1) Accrued liability includes post-retirement health care benefits.

Alaska Teachers' Retirement System. Membership in the Teachers' Retirement System ("TRS") is compulsory for eligible, certified teachers, certified school nurses, principals and other supervisory personnel, resident professional and administrative personnel of the University, and certain other employees of the State, excluding those University personnel covered by another retirement system. As of June 30, 2006, there were 9,710 active members and 10,181 retirees (includes terminated members with future benefits) and beneficiaries of TRS. The average age of active members is 45.02 years and the average length of service is 10.87 years. The normal retirement benefit is 2% of the member's average salary for each of the first twenty years of service, and 2.5% for all remaining service. The average base salary is the average of the member's salary during the three highest school years.

Members contribute 8.65% of base salary during each fiscal year. TRS employers contribute the amounts required, in addition to employees' contributions, to fund the benefits of TRS according to Alaska Statute. In addition, the Alaska Legislature appropriated funding to TRS in FY 2007 and 2008. The State's contribution rate was 21.00% of compensation for FY 2006, 26.00% for FY 2007, and

12.56% in FY 2008. The table below shows the status of TRS as of June 30 in each of the past five fiscal years:

Alaska Teachers' Retirement System
($ in Millions)

	2006	2005	2004	2003	2002
Accrued Liability[1]	$7,230	$6,499	$6,124	$5,836	$5,412
Valuation of Assets	4,142	3,959	3,845	3,752	3,689
Unfunded Liability	3,088	2,540	2,278	2,084	1,723
Funding Ratio (Including Medical)	57.3%	60.9%	62.8%	64.3%	68.2%

(1) Accrued liability includes post-retirement health care benefits.

State's Supplemental Benefits System

In 1979, State employees elected to withdraw from the Social Security system. The withdrawal became effective January 1, 1980. The State established a benefit program, effective January 1, 1980, which supplements the existing public employee retirement plan. Participation in the supplemental benefit system is mandatory for each State employee and the sixteen other employers participating in the plan. A combined employer/employee contribution of 12.26% of wages (one-half contributed by employees; up to the wage limit in effect for Social Security in a current year) is deposited into each employee's annuity plan account. Separate contributions are allowed to a cafeteria style supplemental benefit plan to provide death, survivor, disability, and health benefits.

As of January 31, 2007, the Plan had approximately 35,000 participants. At January 31, 2007, net assets available for plan benefits were $2,190.6 million. These assets are held in trust for the exclusive benefit of employees and beneficiaries.

State's Deferred Compensation Plan

The State maintains a Deferred Compensation Plan (the "Plan") for the benefit of its employees. Participants under the Plan defer receipt of a portion of their salary until termination of State employment. As of December 31, 2006, the Plan had approximately 8,500 participants. At December 31, 2006, the net assets available for plan benefits were $524 million. These assets are held in trust for the exclusive benefit of employees and beneficiaries.

State's Annual/Personal Leave and Sick Leave

The cost of annual/personal leave and sick leave for State employees is charged against agency appropriations when leave is used rather than when leave is earned. This is true except when an employee terminates from State service. In that instance, the accumulated annual/personal leave balance is charged to a terminal leave liability account that is funded by a charge to each agency's operating budget.

State Government

Organization

The Alaska Constitution provides an organizational structure for State government with legislative, judicial and executive branches. The Governor and Lieutenant Governor are the only elected executive officials and serve four-year terms. The Governor may not serve more than two full terms consecutively. Day-to-day operations are the direct responsibility of the Governor under whose office are 15 executive departments which provide State services. Each department head (except the Commissioners of the Department of Education and Early Development and the Department of Fish and Game) is appointed by and serves at the pleasure of the Governor, subject to legislative confirmation. The Commissioner of Education and Early Development and the Commissioner of Fish and Game are appointed by the Board of Education and Early Development and the Board of Fish and Game, respectively. Those Boards serve at the pleasure of the Governor.

The legislative branch is responsible for enacting the laws of the State and appropriating money to operate the government. The bicameral legislature is composed of the House of Representatives whose 40 members elected from 40 House election districts serve two-year terms, and the Senate whose 20 members elected from 20 Senate election districts serve four-year terms. Half of the Senate is elected every even-numbered year. House and Senate election districts are determined on the basis of population. Under the State Constitution, redistricting is accomplished every ten years after the reporting of the decennial federal census.

The judicial branch is comprised of four levels of courts: the supreme court, the court of appeals, the superior court and the district court. The supreme court is comprised of five judges and has appellate jurisdiction in civil and criminal cases. The three-judge panel of the court of appeals decides criminal appeals. The 32 judges of the superior court have original jurisdiction over major criminal and civil cases and serve as an appellate court over cases from district court and administrative panels. The district court consists of 17 judges who decide minor criminal and civil cases. Magistrates preside over certain district court matters.

The State Bond Committee is composed of the Commissioner of the Department of Commerce, Community & Economic Development, the Commissioner of Revenue and the Commissioner of Administration. The State Bond Committee is primarily responsible for obtaining financing for State capital improvement projects.

Land Ownership

The United States purchased Alaska from Russia according to the 1867 Treaty of Cession. When the Alaska Statehood Act ("Statehood Act") was passed by Congress in 1958, the federal government owned 99.8% of the 586,412 square miles (or about 365 million acres) of land in the State. The Statehood Act gave the State the right to select 103 million acres of federal lands in the State. To date, approximately 80% of this grant has been conveyed to the State. In addition, the State acquired an estimated 65 million acres of submerged lands, some of which contain producing oil and gas fields and others which may have high potential for oil and gas production.

In December 1971, the 92nd Congress of the United States passed the Alaska Native Claims Settlement Act ("ANCSA") which, in terms of its impact on the State and its people, was the most notable federal legislation since statehood. The 1884 Organic Act, creating the land district of Alaska, provided, among other things, that "the Indians or other persons in said district shall not be disturbed in the possession of any lands actually in their use or occupation or now claimed by them." Discovery of

large oil deposits in the North Slope of the State in the 1960's led to ANCSA as a legislative resolution of native land claims. Under ANCSA, 13 regional corporations and over 200 village corporations were established to ensure that the eligible natives (Indians, Eskimos and Aleuts) derive maximum benefits from this settlement enacted on their behalf. ANCSA gave native corporations the right to select approximately 44 million acres of federal lands, including both subsurface as well as surface rights. ANCSA also required payment of $962.5 million to the regional corporations, and extinguished aboriginal rights.

The Alaska National Interest Lands Conservation Act (the "Lands Act") was enacted in December 1980 in response to executive land withdrawals in 1978, authorized by ANCSA, and presidential designations of national monuments, authorized by the Antiquities Act of 1906. The Lands Act addressed the 1978 withdrawals and national monuments, and provided for 120 million acres of withdrawals for inclusion in national parks, refuges and other conservation systems. The Lands Act also attempted to limit future executive land withdrawals in the State.

The State presently owns approximately 28% of Alaska's lands, the Native corporations about 12%, and the federal government about 60%. Less than 1% is currently under other private, non-native ownership.

Local Government

Local government in the State is vested in cities and boroughs of several classes. Boroughs, most comparable to counties, have area-wide powers such as assessment and taxation, education, planning and zoning, and may assume other powers of cities within the borough in accordance with statutory procedures. First-class cities outside boroughs must establish a public school system. Second-class cities have no school responsibility and a more limited power to levy property taxes.

The assessed valuation and estimated actual value for real and personal property within all incorporated political subdivisions of the State and the unorganized boroughs are shown in the table below. As of June 30, 2005, the aggregate tax-supported (general obligation) bonded indebtedness of the State's incorporated municipalities totaled approximately $2,346 billion. This amount represents 3.5% of the January 1, 2005 estimated full value of taxable property.

Full Value Determination Summary
Twenty-Year History
1986-2006

Calendar Year	Municipal Full Value	State Assessed Full Value	Total Full Value
1986	$32,664,787,900	$19,551,019,700	$52,215,807,600
1987	29,645,668,100	18,259,909,850	47,905,577,950
1988	24,540,925,100	17,709,383,490	42,250,308,590
1989	22,416,411,900	17,150,567,930	39,566,979,830
1990	22,763,083,200	16,905,403,210	39,668,486,410
1991	23,895,910,400	17,037,634,540	40,933,544,940
1992	25,576,072,700	16,702,122,880	42,278,195,580
1993	26,413,302,900	15,944,178,550	42,357,481,450
1994	27,895,656,000	15,934,252,630	43,829,908,630
1995	28,940,781,800	15,439,219,080	44,394,000,880
1996	30,175,451,700	15,090,053,520	45,265,505,220
1997	32,389,875,600	14,623,436,210	47,013,311,810
1998	33,323,196,900	14,217,875,230	47,541,072,130
1999	35,612,191,100	13,545,550,690	49,157,741,790
2000	37,412,684,100	13,310,194,510	50,722,878,610
2001	39,967,702,300	13,258,682,440	53,226,384,740
2002	41,725,315,500	13,521,258,640	55,246,574,140
2003	44,918,227,839	13,442,617,020	58,360,844,859
2004	48,171,839,839	13,299,140,690	61,470,980,529
2005	53,265,534,577	13,043,228,988	66,308,763,565
2006	60,754,709,886	14,389,898,170	75,144,608,056

Municipal Full Value: The full and true value of all property taxable under State law (Alaska Statutes 29.45) includes property exempted by local option.

State Assessed Full Value: The value of oil and gas exploration, production, and pipeline transportation property as determined and certified by the Department of Revenue using standards defined in Alaska Statutes 43.56.

Total Full Value: The full and true value of all property taxable under Alaska Statutes 29.45 and 43.56 as determined by the Department of Community and Economic Development under standards defined in Attorney General Opinion No. 18, 1962.

NOTE: Five new boroughs have incorporated since 1986; however, the value they have added to the State Assessed Full Value represents only a small percentage of the total.

Source: Alaska Department of Community and Economic Development.

State's Oil and Gas

Oil and Gas Reserves

With the 1968 discovery of a large oil and gas reservoir on lands near Prudhoe Bay on the Arctic Coast, Alaska became the state with the second largest oil reserves in the United States and third with regard to natural gas. In 2006, Alaska accounted for approximately 14.5 percent of the daily production of oil in the United States.

A 2005 U.S. Geological Survey (USGS) fact sheet estimated the State's remaining, discovered reserves in the Central North Slope area to be 7 billion barrels of oil and 35 trillion cubic feet of gas. The

USGS also estimates there are between 2.6 and 5.9 billion barrels of recoverable undiscovered oil in the Central North Slope assessment area which lies between National Petroleum Reserve Alaska (NPRA) and Alaska National Wildlife Refuge (ANWR).

According to the 2006 Annual Report from the Alaska Division of Oil and Gas, Department of Natural Resources, the Prudhoe Bay reservoir and satellite fields, with remaining recoverable reserves of approximately 2.9 billion barrels of oil and approximately 24.5 trillion cubic feet of gas, are larger than any oil field previously found in North America. The Kuparuk oil field is the State's second largest field and contains recoverable reserves of 1.3 billion barrels of oil and 1.2 trillion cubic feet of gas. The remainder of the State's known recoverable oil reserves are found in smaller fields on the North Slope including Alpine, North Star, Endicott, Lisburne, Pt. McIntyre, Milne Pt., Niakuk, Badami and Pt. Thomson as well as the smaller satellite fields Polaris, Orion, Aurora, West Sak, Tarn, Tabasco, Meltwater, Schrader Bluff, Eider, and Sag River; and in the Cook Inlet in south central Alaska. Exploration continues with currently unexploited resources discovered in the NPRA and at Sourdough, and Liberty in the Beaufort Sea, among others.

On June 2, 2004 five oil companies bid $53.9 million for the right to develop 1.4 million acres in the NPRA. The bids covered 123 individual tracts of land, with the highest bid for a single tract being $13.74 million made by Fortuna Energy Inc. a subsidiary of Calgary, Alberta based Talisman Energy Inc. NPRA covers about 23.5 million acres of land west of Prudhoe Bay that is estimated to contain oil reserves of between 6 and 13 billion barrels of oil. NPRA production is projected at roughly at 10,000 barrels per day by 2011 and peak at 60,000 barrels per day in FY 2014. Plans currently under consideration to improve on infrastructure (such as the proposed road from the Trans-Alaska oil pipeline's Pump Station Two to Nuiqsuit) in the NPRA could help increase the prospects for more development in NPRA.

Other major projects that currently have not been sanctioned for development but which are expected to be developed include the Liberty field in the Beaufort Sea as well as the condensate field at Point Thomson. Point Thomson development economics are tied very closely to a major gas development as this field is conservatively estimated to hold 8 trillion cubic feet of natural gas. Plans are currently being considered for a road east from Prudhoe Bay (the Bullen Point road) to facilitate development in the Point Thompson area.

The Alaska Division of Oil and Gas is projecting that two recent discoveries will be commercialized. One is in the vicinity of Oliktok Point which is north of Kuparuk and the other is in Gwydyr Bay north of Prudhoe Bay. At peak production in 2010, these fields are projected to be producing 30,000 barrels per day.

Oil Production and Transportation

Construction of the Trans-Alaska Pipeline System (TAPS), an 800-mile, 48-inch crude oil pipeline from the State's Arctic coast to Valdez in south central Alaska, started in April 1974 and began shipping oil on June 20, 1977. Crude oil production from Alaska's North Slope (ANS) peaked in FY (July to June) 1988 at 2.006 million barrels per day. Production in FY 2007 averaged 738,000 barrels per day. Since the opening of TAPS, more than 15.0 billion barrels of oil and natural gas liquids have been shipped from the State's North Slope.

Production from Alaska's North Slope has been declining since 1988, at a rate that has averaged 3.2 percent year through fiscal year 2007. The decline in production has been dominated by the depletion of the supergiant Prudhoe Bay field. The adoption of enhanced recovery methods and advanced technologies such as three dimensional seismic mapping, coiled tubing and directional drilling has

allowed operators to identify and produce significant additional oil from Prudhoe Bay. These technologies have led to the discovery and development of many new "satellite" fields.

These are small accumulations of oil that have been identified within or very near to existing production. Perhaps the best example is the Tarn field located just southwest of Kuparuk. This field may hold as much as 100 million barrels of recoverable oil, with official estimates at 50 million barrels. Recently, the Fiord field, a satellite of the Alpine field, came on line and is expected to produce 12,000 barrels per day by FY 2009. The new fields of Fiord, and Nanuq will add almost 17,000 barrels per day in FY 2007 and 27,000 barrels per day by FY 2009.

In FY 2007, the Prudhoe Bay field and the Prudhoe Bay satellite fields' production accounted for around 43 percent of all ANS production. Forecasted FY 07 North Slope average production is 740,000 barrels per day, down 12.4% from the FY 06 average of 845,000 barrels per day. A significant portion of this decline relates to corrosion problems at Prudhoe Bay, Lisburne and Milne Point. Production is forecasted to decline over the next decade with volumes at 682,000 barrels per day in 2016. However, FY 08 production is projected to increase to 764,000 barrels per day and it is assumed there will be no major disruptions.

Enhanced oil recovery and exploration and development programs have succeeded in replacing at least some of the depleted reserves at Prudhoe Bay. The 500 million barrel Alpine field in the Colville River area began producing in November 2000. The 160 million barrel offshore Northstar field began producing in October 2001. Elsewhere, expanded development at Milne Point has resulted in an increase of production from a 1995 average of 20,000 barrels per day up to a high of 55,000 barrels per day in 1999. Production has since declined to 41,000 barrels per day in 2006.

The Department of Revenue projects the potential for production growth by the end of the decade as reserves from NPRA, offshore fields, and heavy oil are developed. Technological innovation and the expansion of the production infrastructure are working to increase proven reserves on the ANS.

All ANS crude oil since April 2000 has been refined on the West Coast of the United States including Alaska and Hawaii. Between 1996 and 2000, roughly 70,000 barrels/day on average of ANS was exported to the Far East. ANS exports were banned until 1996 when the ban was lifted. Although exports could again resume, at this point growing energy demand on the West Coast can easily absorb all projected State production.

Gas Production and Transportation

Natural gas produced in conjunction with oil production is currently used either on site, delivered to the TAPS, or reinjected into the ANS oil fields. About 90% of the 8 to 9 billion cubic feet produced per day is reinjected for enhanced oil recovery. The other 10 percent is either used in operations or sold in minor markets.

At Prudhoe, the Central Gas Facility separates liquids from the gas production stream. Some of the lighter liquids are made into what is called miscible injectant for use in enhanced oil recovery projects in the field. About 25,000 barrels per day of the natural gas liquids are shipped to the Kuparuk field for enhanced recovery. Roughly 30,000 barrels per day of the gas liquids recovered are shipped to TAPS where they are commingled with the oil production for shipment to market.

According to a 2005 report from the Institute of Social and Economic Research, production from natural gas fields in the Cook Inlet Basin exceeded 190 billion cubic feet per year. Approximately 15 percent was used to heat homes and businesses in South Central Alaska and 20 percent was used to

generate electricity. About 40 percent was processed into liquefied natural gas (LNG) and 20 percent was used to produce fertilizer; both of these products are exports of the Alaskan economy.

The Legislature passed the Alaska Stranded Gas Development Act, passed in 1998 and amended in 2003, in an effort to encourage the building of an Alaska gas pipeline or other form of technology that would commercialize the stranded gas resources on Alaska's North Slope. The Act allows the State to negotiate fiscal terms with an applicant that would provide additional incentives to move a project forward as well as provide fiscal stability for the term of the contract. The State of Alaska has received several applications under the Act, and the Governor presented a draft contract with ConocoPhillips, BP and ExxonMobil (the "Producers") to the Legislature earlier this year. The contract would set fiscal and other terms for the construction of a pipeline from Alaska's North Slope, through Canada to markets in the Midwest and throughout the United States. The State and the Producers are continuing negotiations on a mutually agreeable contract, with a revised contract expected to be presented to the Legislature during a special session in September 2006. Contract negotiations have also taken place with three other groups: TransCanada, which proposed to build a similar pipeline from Alaska's North Slope to markets in Canada and the United States; the Alaska Gasline Port Authority, which proposed to build a pipeline from Alaska's North Slope to a liquified natural gas ("LNG") plant in Valdez; and the Alaska Natural Gas Development Authority, which also proposed a pipeline to a Valdez LNG plant.

Production from natural gas fields in the Cook Inlet Basin currently totals over 200 billion cubic feet per year. This production serves the energy needs of approximately 300,000 people in the upper Cook inlet, has been exported in the form of liquid natural gas to Tokyo Electric on long-term contract since 1967, and is used to manufacture ammonia and urea for worldwide export.

Recent Events in Oil and Gas

Since the August 2006 shutdown at Prudhoe Bay due to corrosion in certain transit pipelines, there has been greater scrutiny of maintenance and downtime at the North Slope. In the first ten months of 2007, twenty-four events were reported, half of which were considered to be unplanned. Seven events were "major," impacting 80,000 barrels per day or more. The average length of an event was 8.2 days. Three events involved partial shutdown of the Trans-Alaska Pipeline System due to weather, high inventories in Valdez, or planned maintenance.

State Revenue from Oil and Gas

In 1991, the State created its Constitutional Budget Reserve Fund (CBRF) as a source of funds for the State to draw upon in the event of a deficit. The CBRF's audited June 30, 2004 cash and investment balance was $2.01 billion, the audited June 30, 2005 balance was $2.24 billion, the audited June 30, 2006 balance was $2.27 billion, and the unaudited June 30, 2007 balance was $2.73 billion. Carrying the current budget forward and applying the Spring Revenue Forecast revenue generation indicates a draw down of the complete balance of the CBRF in State FY 2010.

During the past three decades, the petroleum industry has had a significant impact upon the economy of the State. After a number of years of rapid growth, the State economy turned down sharply in 1986 due to substantial reductions in the price of crude oil, which also reduced State revenues. This caused substantial reductions in State expenditure in FY 1987 and 1988. Since FY 1992 the State has relied on funds from the CBRF to bridge crude oil price cycles and balance the budget in all but four years. In FY 1999 when oil prices averaged $12.73 per barrel, $1.0 billion or about one-third of the reserve was drawn upon to meet budgeted expenditures. ANS West Coast price averaged $28.32 per barrel from October 1999 to October 2004. In FY 2005, ANS West Coast price averaged $43.44 per barrel; in FY 2006 the price of ANS on the West Coast averaged $60.80 per barrel, and in FY 2007 the

price of ANS on the West Coast averaged $61.63. High prices allowed the State to effectively balance the budget in FY 2001 and 2004, and provided surpluses in 2005 and 2006; however, lower oil prices required a CBRF draw of $779 million in FY 2002 and $465 million in FY 2003. If current high prices remain, another year of surplus is likely despite short term production difficulties.

Current worldwide demand for oil has grown at such a rapid pace that almost all available spare production capacity is being utilized. This has happened during a market that is increasingly concerned about both security of supply from the Middle East and sufficiency of excess capacity to meet any potential interruptions of supply. According to the International Energy Agency, worldwide oil demand grew about .78 million barrels per day or 0.94% in 2006. Demand growth was led by Asia (0.44 million barrels per day) and the Middle East (0.33 million barrels per day). Between the Organization of the Petroleum Exporting Countries (OPEC) and non-OPEC countries, an increase in oil production of approximately .77 million barrels per day was seen in 2006. The futures market is not predicting a significant price correction in the near future, with prices for West Texas Intermediate in the mid to high $70s per barrel through 2015.

ANS delivered to the west coast oil price averaged $21.78 per barrel in FY 2002, $28.16 per barrel in FY 2003, $31.74 per barrel in FY 2004, $43.44 in FY 2005, $60.80 in FY 2006, and $61.63 in FY 2007. By comparison, ANS market price averaged only $12.64 per barrel for all of FY 1999. In April 2007, the State's Department of Revenue, Tax Division, projected prices to average $59.81 per barrel in FY 2007, $54.72 per barrel in FY 2008, and $53.86 in FY 2009. Oil prices, at these levels, would result in estimated State budget surplus of approximately $1,263 million in FY 2007 followed by budget deficit of $75 million in FY 2008, and $1,307 million in FY 2009.

A number of measures to meet the long term projected budget deficit have been examined including (i) using Permanent Fund earnings, (ii) re-instituting a state income tax or instituting a state sales tax, (iii) reducing state expenditures and (iv) providing incentives for additional petroleum development. While the monies set aside in the Permanent Fund cannot be expended without authorization from the voters, investment earnings or funds held in the earnings reserve account may be appropriated by a majority vote in the Legislature and concurrence of the governor.

Petroleum Asset Ownership Restructuring

Following the BP acquisition and subsequent divestiture of ARCO's Alaska assets in 1999, BP came to an agreement with the other Prudhoe Bay owners to equalize the ownership of the oil rim and gas cap in that field. The separate ownership shares of the two sizeable Prudhoe petroleum assets had been the source of operational and financial disputes over the years. This agreement will increase operational efficiency and align the interests of all parties in the commercialization of the gas resource.

The realignment of disparate ownership interests in Prudhoe Bay to a common set of ownership interests of separate properties is part of an overall trend across the North Slope. Over the last few years interests in Kuparuk and its satellites as well as other fields in the Prudhoe Bay unit have been realigned and redefined into common sets of ownership percentages in areas with more than one oil field that use common production facilities. This will allow more efficient production with attendant cost savings and will free up capital for additional investment that ultimately increases production.

THE ECONOMY

Economic Summary

Alaska's economy has grown every year since 2001. From 2001 to 2006, Alaska's Gross State Product (GSP) increased from $26.6 billion to $41.1 billion.[1] As discussed in the previous section, the performance of the State's economy is in part attributable to sustained high oil prices, with oil trading at record prices of around $80 per barrel as of September 2007. However, Alaska's economy has matured since the boom and bust cycles of the last few decades and is better prepared for any possible oil price declines. Alaska has achieved steady positive employment growth every year since 1988, even with wide swings in crude oil prices.[2] Additionally, during the last oil price collapse in 1998 and 1999, Alaska did not experience the real estate collapse or negative growth it experienced during the late 1980s price collapse. In fact, population, employment and personal income continued to grow in 1998 and 1999 and through 2006 (the latest year for which data is available).

Minerals extraction – including oil and gas – has long been an important basic industry in Alaska. There are ten other industries, however, that employ more than 10,000 people in the State. These include construction, manufacturing (including seafood processing), retail, transportation, finance, professional and business services, education and health services, leisure and hospitality, other services and government. Of these, transportation and other services were the only industries that did not grow by at least 1,000 employees over the 2001-2006 period, and other services was the only industry to show a decline.

The following description of Alaska's economy begins with an overview of income and inflation, employment and population statistics. The description then focuses on the 11 largest sectors of the economy in terms of employment.

Descriptive Statistics

This section provides an overview of income and inflation, employment and population statistics.

Income and Inflation

Between 2005 and 2006, personal income in Alaska grew by 6.5 percent, about the same as the U.S. rate. In 2006, the State ranked 14th in the nation in per capita personal income. However, as a result of Alaska's relatively low tax burden, large household size and high labor force participation, the State ranked 8th in per capita personal disposable income.[3] At 8.9 percent, Alaska has the ninth lowest percentage of people below the poverty level in the U.S.[4]

From 2005 to 2006, inflation grew by 3.2 percent in Anchorage, equal to the U.S. rate (Anchorage is the only Alaska city included in the Consumer Price Index). The average annual inflation rate for 2000-2006 in Anchorage was 2.6 percent, compared to 2.8 percent for the U.S.[5]

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[1] United States Department of Commerce, Bureau of Economic Analysis.
[2] Alaska Department of Labor and Workforce Development, Research and Analysis, email inquiry.
[3] United States Department of Commerce, Bureau of Economic Analysis.
[4] United States Department of Commerce, Census Bureau, Current Population Survey.
[5] United States Department of Labor, Bureau of Labor Statistics.

Employment

Total nonfarm employment was 314,700 in 2006. Employment grew by 1.6 percent in 2006, with an average growth rate of 1.7 percent from 2001-2006. Employment growth was led by gains of over 1,000 workers in the following industries: mining (including oil and gas), construction, manufacturing (including seafood processing), retail, finance, professional and business services, education and health services, leisure and hospitality and government. The employment growth was broad-based, and no industry lost more than 500 jobs from 2001-2006.[6]

Between 2000 and 2006, the Alaska unemployment rate increased by 0.5 percentage points and the U.S. unemployment rate increased by a similar 0.6 percentage points. Alaska's 2006 unemployment rate was 6.7 percent, below the preceding 10-year average of 6.9 percent but above the U.S. rate of 4.6 percent. Historically, Alaska's unemployment rate has exceeded the national rate because of the relative isolation of many of Alaska's rural communities. In Anchorage, the State's largest city, the unemployment rate was 5.3 percent in 2006: still slightly above the national average but 1.4 percentage points lower than for the State as a whole.[7]

Population

In the 1990s, population grew at an average annual rate of 1.3 percent. Growth from 2000-2006 was slightly slower at 1.1 percent. Recent growth has been concentrated in the population center of the Anchorage / Mat-Su area (the Matanuska-Susitna Borough, frequently referred to as the "Mat-Su," lies outside the city of Anchorage but comprises part of the Anchorage metropolitan statistical area). From 2000-2006, population in the Anchorage / Mat-Su area increased by about 40,000, representing 94 percent of total population growth. The table below summarizes population growth for the State as well as the three largest population centers: Anchorage / Mat-Su, Fairbanks North Star Borough and the City and Borough of Juneau.[8]

Population of Alaska and Largest Population Centers

Population Area	2000 population	2006 population	Change	Average annual growth
Alaska Total	626,931	670,053	+ 43,122	1.1 %
Anchorage / Mat-Su	319,605	359,987	+ 40,382	1.9 %
Fairbanks North Star Borough	82,840	87,849	+ 5,009	0.9 %
City and Borough of Juneau	30,711	30,650	- 61	0.0 %

Source: Alaska Department of Labor and Workforce Development, Research and Analysis, "Alaska Population Estimates 2000-2006

Largest Industries

This section describes the 11 largest sectors of Alaska's economy in terms of employment. Recent growth has generally been broad-based, a divergence from the oil-driven cyclical economy of Alaska's past. From 2001 to 2006, total nonfarm employment grew by 25,400 to 314,700. Oil and gas accounted for only 700 of the additional jobs. By 2014, employment is forecast to grow by an additional 34,850 to 349,550. Oil and gas will account for only 1,100 of these new jobs.[9]

[6] Alaska Department of Labor and Workforce Development, Research and Analysis, "Current Employment Statistics."
[7] Alaska Department of Labor and Workforce Development, Research and Analysis, "Historical Unemployment Rates."
[8] Alaska Department of Labor and Workforce Development, Research and Analysis, "Alaska Population Estimates 2000-2006."
[9] This and all industry employment forecasts from Alaska Department of Labor and Workforce Development, Research and Analysis, "November 2006 Alaska Economic Trends."

Mining (including Oil and Gas)

The mining industry as discussed here includes both oil and gas extraction, and other mining. Other mining includes primarily precious and base metals, coal, and sand and gravel mining.

Oil and gas extraction has benefited from record oil prices, even in light of declining Alaska oil production. From FY 2000 to FY 2006[10], average prices for Alaska North Slope crude oil rose from $23.27 per barrel to $60.80 per barrel. However, North Slope oil production declined from 1.044 million barrels per day to 0.845 million barrels per day over that time. As a result, total North Slope production value rose from $8.9 billion to $18.8 billion from FY 2000 to FY 2006. Looking forward, the Alaska Department of Revenue projects that oil prices will decline somewhat but remain above $40 though FY 2014, while North Slope oil production will average 0.755 million barrels per day in FY 2014.[11]

Oil and gas employment increased slightly from 9,500 to 10,200 from 2001 to 2006, as reduced labor needs from lower production was offset by increased exploration and development activity because of higher oil prices. The Alaska Department of Labor and Workforce Development forecasts flat employment in core oil and gas extraction activities and an increase of 1,100 support workers by 2014. This reflects a trend in the industry towards contracting out for many technical aspects of oil and gas work.

There is tremendous upside potential to the oil and gas industry. In June 2007, Governor Sarah Palin signed the Alaska Gasline Inducement Act (AGIA). This law provides a framework for soliciting and evaluating proposals for a natural gas pipeline to bring North Slope natural gas to market in the continental U.S. or elsewhere. Proposals under AGIA are due November 30, 2007. The State will then select a winning proposal and provide various inducements to assist with project planning. The Alaska Department of Labor and Workforce Development estimates that pipeline construction would create 6,500 direct jobs over the short term, and 50,000 long-term jobs including oil and gas jobs as well as indirect effects.[12]

From 2000 to 2006, the production value of minerals other than oil and gas climbed from $1.1 billion to $2.8 billion.[13] Most of this increase was due to higher minerals prices: zinc prices increased from $1,137 to $3,248 per ton. Zinc accounts for over half of non-petroleum minerals values. Gold, silver and other minerals also saw price increases over the period.

Looking forward, historically high minerals prices should be augmented by several new mines in the State. These include the Pogo gold mine in interior Alaska, which started production in 2006, and several mines in development: the Kensington gold mine in southeast Alaska, the Chuitna coal mine near Anchorage, and the Donlin Creek gold mine in central Alaska. The largest potential development, however, is the Pebble mine, a copper-gold-molybdenum development in Southwest Alaska, owned by Northern Dynasty mines and Anglo American. This project would produce 2,000 jobs during construction and 1,000 long-term mining jobs. Total resources are currently 67 billion pounds of copper, 82 million ounces of gold and 4 billion pounds of molybdenum, with additional exploration still taking place. If developed, the Pebble mine would be one of the largest mining projects in the world.[14] There are also several smaller new mines in exploration or development in the State.

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[10] State fiscal years run from July to June. For example, FY 2000 represents the period from July 1, 1999 to June 20, 2000.
[11] Alaska Department of Revenue, "Spring 2007 Revenue Sources Book."
[12] Alaska Department of Labor and Workforce Development, Alaska Job Center Network, "Oil and Gas Employment and Training Opportunities."
[13] Alaska Department of Natural Resources and Alaska Department of Commerce, Community and Economic Development, "Alaska's Minerals Industry 2002" and "Alaska's Minerals Industry 2006."
[14] Northern Dynasty Mines, "Pebble Facts," www.ndmpebblemine.com

Non-petroleum minerals employment increased from 700 to 1,100 from 2001 to 2006. The Alaska Department of Labor and Workforce Development forecasts an increase to 2,050 workers by 2014, as several new mines enter production.

Construction

Construction employment jumped from 14,900 to 18,100 from 2001 to 2006, due to a national construction boom and increased capital spending by government entities and companies in Alaska. The Alaska Department of Labor and Workforce Development forecasts an increase to 21,400 workers by 2014.

Manufacturing

Manufacturing employment grew from 11,700 to 13,100 from 2001 to 2006. The biggest portion of this industry is from seafood processing, such as canning of salmon. This segment grew from 7,900 to 9,300, accounting for the entire increase in manufacturing employment. The Alaska Department of Labor and Workforce Development forecasts 12,500 workers by 2014, a small decline that mostly represents uncertainty about the fortunes of seafood processing.

The outlook for seafood processing depends on fisheries volumes and values, which have historically shown volatility based on the size of fisheries runs and market prices. Recently, values have increased: total taxable fisheries values increased from $1.2 billion to $1.5 billion from 2000-2006, and should grow to $1.6 billion by 2007.[15]

Finance

Finance employment increased from 13,800 to 14,900 from 2001 to 2006, certainly helped by a strong national economy and real estate market. The Alaska Department of Labor and Workforce Development forecasts an increase to 16,300 workers by 2014.

Retail

Retail employment increased from 33,200 to 35,700 from 2001 to 2006, reflecting national growth in consumer spending as well as growth in Alaska tourism. Alaska saw 1.6 million summer visitors to Alaska in 2006 versus 1.2 million in 2001.[16] The Alaska Department of Labor and Workforce Development forecasts an increase to 39,750 workers by 2014.

Transportation

Because of the State's size, isolation and dependence on natural resource exports, the transportation sector is particularly important. Additionally, strong growth in tourism and airfreight in the last ten years has made transportation even more vital. Although all forms of transportation are important in the State, air transportation has played the largest role in Alaska's development. The transportation segment is somewhat tied to the global economy as major shipping companies maintain hubs in Alaska.

Transportation, warehousing and utilities employment increased from 20,800 to 21,400 from 2001 to 2006. Given growth in trade, the Alaska Department of Labor and Workforce Development forecasts an increase to 22,400 workers by 2014.

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[15] Alaska Department of Revenue, Tax Division analysis.

[16] Alaska Department of Commerce, Community and Economic Development, Office of Economic Development, "Alaska Visitor Statistics."

Government

Government continues to be a key employer in Alaska. Government employment increased from 78,800 to 81,400 from 2001 to 2006, with projections for 84,600 workers by 2014. Government employment consists primarily of federal, state and local government.

Total federal government was flat from 2001-2006, with growth in military employment offsetting declines elsewhere. Alaska's total military population as of July 1, 2004 (the last date for which data is available) was 46,269, comprised of 20,172 uniformed members and 26,097 dependents. This was an increase of over 4,000 from 2001 and represented about 7 percent of the total population.[17]

Total federal government employment held steady, going from 16,800 to 16,700 from 2001 to 2006. The Alaska Department of Labor and Workforce Development forecasts 17,150 federal workers by 2014.

State and local government spending was restrained following the oil price collapse of the late 1990s. The combination of much higher oil prices and overall economic growth has helped the budget picture, and spending growth has resumed as a result. Total state and local government employment increased from 62,000 to 64,700 from 2001 to 2006. The Alaska Department of Labor and Workforce Development forecasts further growth to 67,450 state and local workers by 2014.

Other Top Services Industries

Services have become an important part of the Alaska economy. In addition to the industries previously discussed, four services industries employ over 10,000 workers each. These include professional and business services, education and health services, leisure and hospitality and other services.

Professional and business services employment increased from 22,800 to 24,300 from 2001 to 2006. The Alaska Department of Labor and Workforce Development forecasts an increase to 27,350 workers by 2014.

Education and health services employment increased from 27,900 to 37,100 from 2001 to 2006. The largest portion of this category is health services, which had 26,500 employees in 2006. An aging population will mean strong growth, especially for health services, in coming years. The Alaska Department of Labor and Workforce Development forecasts an increase to 45,850 workers by 2014.

Leisure and hospitality employment increased from 28,300 to 31,400 from 2001 to 2006, reflecting national growth in consumer spending as well as growth in Alaska tourism. Alaska saw 1.6 million summer visitors to Alaska in 2006 versus 1.2 million in 2001.[18] The Alaska Department of Labor and Workforce Development forecasts an increase to 39,700 workers by 2014.

Other services employment showed a small decline from 11,900 to 11,400 from 2001 to 2006. The Alaska Department of Labor and Workforce Development forecasts an increase to 13,000 workers by 2014. While this category includes many different types of services, the key is that employment is forecast to remain strong.

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[17] Alaska Department of Labor and Workforce Development, Research and Analysis, "2004 Population Overview."

[18] Alaska Department of Commerce, Community and Economic Development, Office of Economic Development, "Alaska Visitor Statistics."

LITIGATION

There is no known controversy or litigation of any nature now pending or, to the knowledge of the State of Alaska, threatened to restrain or enjoin the issuance, sale, execution or delivery of the 2007 Bonds and 2008 Bonds, or in any way contesting or affecting the validity of the 2007 Bonds and 2008 Bonds or any proceedings of the State of Alaska taken with respect to the issuance or sale of them, or the pledge or application of any monies or security provided for the payment of the 2007 Bonds and 2008 Bonds, or the existence or powers of the State of Alaska.

Upon the delivery of the 2007 Bonds and 2008 Bonds, the State will furnish a certificate, in form satisfactory to the Underwriter, to the effect that, among other things, there is no known litigation pending in any court to restrain or enjoin the issuance or delivery of the 2007 Bonds and 2008 Bonds or in any way contesting the validity or enforceability of the 2007 Bonds and 2008 Bonds.

The State is involved in royalty, tariff and other litigation in which adverse decisions could adversely affect its finances. No estimate is given as to the likelihood or financial effect of an adverse decision.

The following summarizes several of the legal matters in which the State is involved:

Tobacco Securitization Litigation

In 1998, Alaska was among 46 states that entered into a settlement of claims against the nation's major tobacco companies. The companies agreed to pay $4.5 billion in 2000 with annual increases until payments reach $9 billion in 2019 and each year thereafter. The State's share, based on its proportionate tobacco consumption, is about .034 percent of the yearly payment. This income stream is indefinite as long as Alaskans continue to consume tobacco products.

As of the date of this document, the Legislature authorized the State to sell to the Alaska Housing Finance Corporation (AHFC) 80% of the State's annual settlement income. AHFC's purchase was financed through the issuance of revenue bonds by the Northern Tobacco Securitization Corporation (NTSC), a subsidiary which AHFC established and to which the right to receive the settlement revenues was transferred. NTSC is using the income stream to pay off the bonds. When the bonds are paid off, the settlement income reverts to the State. The State is using the bond proceeds to pay for a variety of construction and maintenance projects including rural schools, ports and harbors.

The master settlement is being challenged in federal court in other jurisdictions; if there is an adverse decision as to the enforceability of the agreement, the State could experience an impairment of its right to receive the remaining 20 percent of revenue that is not pledged to the NTSC. Additionally, the master settlement agreement provides for a payment adjustment mechanism that, when triggered, could also result in the impairment of the State's right to receive the remaining 20% of revenue that is not pledged to the NTSC. This payment adjustment mechanism has been triggered for the years 2003 and 2004. States that have diligently enforced its qualifying statute will be exempted from the application of this adjustment mechanism. As of the date of this document, the "diligent enforcement" proceeding has not yet commenced.

Oil and Gas Tax Litigation

There are a number of disputed tax assessments against oil and gas corporations which are at the administrative level and thus confidential under Alaska Statute 43.05.230(a). The assessments involve the corporate income tax (Alaska Statute 43.20) or the oil and gas production tax (Alaska Statute 43.55).

Because the taxpayers, the tax years, and the amounts involved are confidential, a more detailed description of the cases cannot be given. Due to the confidentiality statute and because the disputed tax assessments are ongoing, the State cannot give an estimate of how much is expected to be eventually recovered through settlement, the administrative proceedings, or adjudication.

Rural Police Services Litigation

In November 1999, Ten Alaska tribal entities, two Native rights organizations, and several individuals sued the State. The organizations are the Alaska Inter-Tribal Council ("AITC") and the Alaska Native Justice Center. Plaintiffs claim the State's police service to rural Alaska, and particularly the program for the Village Police Safety Officers ("VPSO"), is unconstitutional and racially discriminatory. They contend that the majority of communities off the State's road system have little or no tax base with which to provide police services, that the VPSO are inadequate where used, and that State troopers are not able to police these off-road communities in the same way as communities on the road system. Because the majority of the population in off-road communities is Alaska Native, the plaintiffs contend that the State's use of VPSO and its allocation of State troopers to predominantly non-Native populations on the State road system constitutes a "disparate impact" on Alaska Natives, and therefore is a violation of equal protection.

Along with the initial complaint in November 1999, plaintiffs filed for an injunction to stop the State from spending federal funds for law enforcement and from reducing police services to rural Alaska. The injunction was denied and eight of the ten villages were dismissed from the case.

After a two-week trial, the State prevailed on all claims. Plaintiffs appealed to the Alaska Supreme Court. *Alaska Inter-Tribal Council v. Godfrey*. Alaska Supreme Court No. S-10844. The Alaska Supreme Court issued its decision on April 15, 2005, affirming the decision of the lower court; thus the State prevailed on all issues.

Facilities Funding for Schools Litigation

On September 1, 1999, the Alaska Superior Court in *Kasayulie, et al. v. State of Alaska*, Alaska Superior Court No. 3AN-97-3782 CI, granted partial summary judgment against the State, ruling that the State's method of funding new construction and major maintenance of Regional Educational Attendance Area schools violates the education clause, the equal protection clause and Title VI of the Civil Rights Act of 1964, and was a violation of the State's trust duties. The State's methods of financing new construction and major maintenance involve reimbursement of municipal school debt for municipal school districts and direct appropriations for rural school districts. Plaintiffs contend that debt reimbursement receives a higher priority for funding by the Legislature.

The litigation also involves alleged breach of trust committed when the State Legislature in 1978 transformed all public school trust land into general grant land. In the same legislation, the Legislature provided for allocations into a public school trust fund of one-half of one percent of all State land revenue (which has included State oil & gas revenues). As a result, this public school trust fund has grown from $200,000 at statehood (1915 – 1959), to $8.5 million in 1978, to over $330 million at the end of FY 2006. Income generated to support public schools has likewise grown from $560,000 in FY 1978 to $8.5 million in FY 2001. Plaintiffs contend that the trust was not fairly compensated for the value of former school trust land.

Foundation Funding for Schools Litigation

This case was filed by three school districts, the National Education Association (NEA), an organization of school districts (CEAAC), and a few individuals. The plaintiffs' complaint alleged that the quality of the education offered in the State did not meet the requirements of the Education Clause of the Alaska Constitution, and that the level of funding of education also did not meet the requirements of the Education Clause. They also alleged that the State's education violated the due process clause. After a month-long trial in October 2006, the Superior Court issued an opinion in the case in June 2007. The court established a four-part test for adequacy of education under the Education Clause, which included both adequate funding and adequate oversight of school districts by the State. The court held that the Legislature was providing adequate funding, and that, except for a few districts, the State was in compliance with all parts of the four part test. For those few districts, however, the court held that the State needed to be more involved in oversight. The court stayed its order for one year, to allow the State time to provide additional oversight in the districts that needed additional oversight. Finally, the court found that the due process clause would prohibit the State from enforcing the high school exit exam in those districts in which education was not sufficient. This ruling was also stayed for one year, to allow the State to provide the needed assistance in the affected districts. *Moore v. State*, Superior Ct. Case No. 3AN-04-9756 CI.

Subsistence Issues

On July 1, 1990, the Federal government assumed responsibility for the management of the subsistence taking of wildlife by federally-qualified rural Alaska residents on federal public lands. In 1999, that authority was extended to fish in navigable waters in which the federal government had reserved water rights. The Legislature has declined to approve a Constitutional amendment that would allow a subsistence priority for rural residents. The State is challenging the United States' identification of reserved water rights in federal district court. Briefing is underway. *Katie John v. U.S.*, U.S. District Court no. A05-0006 –cv (HRH).

Nonresident Commercial Fishing Permit and License Fees Litigation

The State charges nonresident fishers higher annual fees for commercial crewmember licenses and for limited entry permits than it charges comparable residents. In 1984, nonresidents filed a class action lawsuit claiming that the fee differential violates several clauses of the U.S. Constitution. Their claim has been before the Alaska Supreme Court four times.

In its first ruling, entered in 1990, the court held that resident and nonresident fees had to be substantially equal but that oil revenues, which pay for much of the State's commercial fisheries management costs, could be credited to the residents. In a second ruling, entered in 1996, the court established a formula for calculating, on an annual basis, the permissible nonresident fee differentials. It also ruled that charging higher nonresident fees does not implicate the commerce clause of the U.S. Constitution. The class asked the U.S. Supreme Court to review those rulings, but it declined.

In 2003, the court ruled that certain types of State costs may be included in the fee differential formula, and it made several rulings that apply to fee refunds, if those become due. In the meantime, in 2001 the Legislature amended the fee statutes to bring them into line with the court's decisions.

In 2004, the superior court rejected a State motion for summary judgment in which the State argued that when the fee differential derived from the Supreme Court's formula is applied to the class as a whole, rather than to individual fishers, the nonresident fees are constitutional. The superior court denied the motion and granted plaintiffs' motion for entry of judgment against the State.

In October 2004, the State filed a notice of appeal with the Alaska Supreme Court and a motion to stay the judgment of the superior court pending the appeal. Briefing has been completed and oral argument was held in 2006. We are awaiting a decision. *Carlson v. CFEC*, Superior Court, 3AN-84-5790 CI; Supreme Court Case No. S11677.

Submerged Lands Litigation

The State filed an action against the United States in November 1999 to quiet title to the lands underlying marine waters in Southeast Alaska. The State claims title to the lands underlying all marine waters of the Alexander Archipelago, including those within the boundaries of the Tongass National Forest and Glacier Bay National Park. Because the case addresses a boundary dispute between sovereigns, the State was permitted to file it in the United States Supreme Court.

The court appointed a special master, who made recommendations to the court. The State filed exceptions with the court. Oral argument was held in early 2005. The court issued its decision in June 2005, accepting the special master's recommendations. The court entered final judgment on January 23, 2006. *State of Alaska v. United States*, Orig. No. 128.

Tort Claims

The Attorney General's office is involved in defending numerous tort claims asserted against the State and agencies. No estimate is given as to the likelihood or financial effect on the outcome of such appeals.

Medicaid Payment Rate Appeals

The Attorney General's Office is involved in defending numerous Medicaid payment rate appeals filed by providers. No estimate is given as to the likelihood or financial effect on the outcome of such appeals.

Employment Claims

The Attorney General's Office is involved in defending numerous employment-related claims filed by present or former employees. No estimate is given as to the likelihood or financial effect on the outcome of such claims.

State Loans

Sea Hawk claims the Division of Investments (ADI) perpetrated a fraudulent conveyance with Valdez Fisheries Development Association (VFDA) in 1997 after Sea Hawk obtained a $2.5 million judgment against VFDA. ADI, VFDA's major lender, is owed over $8 million which loans are secured by all assets owned by VFDA. Sea Hawk received $1.55 million from VFDA in settlement of its judgment and is now claiming that ADI should pay it the remaining portion of the judgment, in excess of $900,000. ADI claims there was no fraudulent conveyance or conspiracy with VFDA and is a third party beneficiary of the settlement between Sea Hawk and VFDA. The State has been successful in federal bankruptcy court in defeating any claim for paying the additional portion. Seahawk prevailed in an appeal to the 9th Circuit Court concerning the jurisdiction of the bankruptcy court in this matter. The superior court recently ruled that the State's sovereign immunity against claims of intentional torts under AS 09.50.250(3) precludes Sea Hawk's claims against the State. Sea Hawk has filed a motion for reconsideration claiming it has the right to amend its petition to name individual state employees as defendants. *Sea Hawk Seafoods, Inc. v. State of Alaska, Division of Investments*, 3AN-95-3500.

Insurance

Premera Blue Cross is seeking refund of retaliatory fees it paid in 1995 and 1996 under provisions of the insurance code that, in total, approximate $1 million. Under the insurance code, an insurance company is subject to retaliatory fees if the premium tax rate in its home state (that would be imposed on an Alaska insurer) is higher than the premium tax rate on the insurance company doing business in Alaska. The fee is equal to the difference between taxes that would be paid in the home state versus the taxes that would be paid in Alaska based on the same volume of business. Premera's home state is Washington, which imposes a 2% tax on premiums written for all insurers including hospital medical service corporations like Premera. Alaska, however, taxes hospital medical service corporations at 6% of premiums written less paid claims. This results in a significantly lower tax burden in Alaska than in Washington. Premera claims it does not owe retaliatory fees, because of assessments it pays to the Alaska Comprehensive Health Insurance Association and the Small Employer Health Reinsurance Association. According to Premera, these assessments should be included in the Alaska side of the retaliatory fee calculation, resulting in a higher burden in Alaska than in Washington and, thus, no retaliation. The State's Division of Insurance has rejected Premera's interpretation of the statute and Premera has appealed. Premera also brought a declaratory judgment action to challenge the constitutional basis of the statute and the division's interpretation for years going forward. The appeal and the declaratory judgment action have been consolidated. After briefing on the legal issues, Anchorage Superior Court Judge John Reese issued a decision affirming the order of the division of insurance denying Premera's request for refund and granting summary judgment to the State regarding its interpretation of the retaliation statute. Premera has appealed to the Alaska Supreme Court. The Alaska Supreme Court issued its decision in 2007 affirming the decision of the Division of Insurance. Under the Superior Court judgment, Premera Blue Cross now owes the State approximately $3 million. *Premera Blue Cross vs. State of Alaska, Div. Of Insurance*, Case No. S11486.

APPENDIX B

FINANCIAL STATEMENTS OF THE CORPORATION

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a component unit of the State of Alaska

Quarterly Unaudited Financial Statements

September 30, 2007

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FINANCIAL STATEMENTS

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This is a publication of Alaska Housing Finance Corporation. For comments or questions:
http://www.ahfc.state.ak.us/financials/financials.cfm or 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 September 30, 2007

(in thousands of dollars)

	Administrative Fund	Housing Development Bonds	Other Non-Major Funds	Total September 30, 2007
ASSETS				
Cash	11,406	-	18,968	30,374
Investments	348,198	138,797	737,240	1,224,235
Accrued interest receivable	3,516	2,352	15,181	21,049
Inter-fund due to/from	(13,442)	3,012	10,430	-
Mortgage loans, notes and other loans	644,604	291,897	2,509,189	3,445,690
Net investment in direct financing lease	-	-	26,035	26,035
Unamortized bond issuance costs	-	3,571	20,767	24,338
Capital assets - non-depreciable	139	-	18,355	18,494
Capital assets - depreciable, net	169	-	99,543	99,712
Other assets	27,472	39	8,791	36,302
Intergovernmental receivable	35	-	1,163	1,198
Total Assets	1,022,097	439,668	3,465,662	4,927,427
LIABILITIES				
Bonds and notes payable	86,255	387,360	2,583,690	3,057,305
Short term debt	121,295	-	-	121,295
Accrued interest payable	1,036	5,557	39,295	45,888
Other liabilities	5,980	71	4,349	10,400
Intergovernmental payable	-	-	3,433	3,433
Total Liabilities	214,566	392,988	2,630,767	3,238,321
NET ASSETS				
Invested in capital assets, net of related debt	308	-	117,404	117,712
Restricted by bond resolutions	-	-	607,196	607,196
Restricted by contractual or statutory agreements	162,517	-	38,694	201,211
Unrestricted net assets, (deficit)	644,706	46,680	71,601	762,987
Total Net Assets	807,531	46,680	834,895	1,689,106

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 Three Months Ended September 30, 2007

(in thousands of dollars)

	Administrative Fund	Housing Development Bonds	Other Non-Major Funds	Total September 30, 2007
OPERATING REVENUES				
Mortgage and loans revenue	10,746	5,221	34,096	50,063
Investment interest	4,227	1,206	7,041	12,474
Net change in the fair value of investments	(267)	164	5,414	5,311
Total Investment Revenue	3,960	1,370	12,455	17,785
Externally funded programs	-	-	16,794	16,794
Rental	3	-	1,882	1,885
Other	21	-	147	168
Total Operating Revenues	14,730	6,591	65,374	86,695
OPERATING EXPENSES				
Interest	2,543	4,712	30,763	38,018
Mortgage and loan costs	674	164	2,406	3,244
Financing expenses	603	104	910	1,617
Provision for loan loss	153	(301)	3,413	3,265
Operations and administration	829	410	8,804	10,043
Rental housing operating expenses	23	-	2,258	2,281
Housing grants and subsidies	16	-	19,472	19,488
Total Operating Expenses	4,841	5,089	68,026	77,956
Operating Income (Loss)	9,889	1,502	(2,652)	8,739
NONOPERATING EXPENSES, SPECIAL ITEM & TRANSFERS				
Contributions to the State of Alaska or other State agencies	-	-	(4,105)	(4,105)
Transfers - Internal	(1,424)	(7,370)	8,794	-
Change in Net Assets	8,465	(5,868)	2,037	4,634
Net assets at beginning of year	799,066	52,548	832,858	1,684,472
Net Assets at End of Period	807,531	46,680	834,895	1,689,106

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 Three Months Ended September 30, 2007

(in thousands of dollars)

	Administrative Fund	Housing Development Bonds	Other Non-Major Funds	Total September 30, 2007
Cash flows from operating activities:				
Interest income on mortgages and loans	8,106	5,063	32,221	45,390
Principal payments received on mortgages and loans	14,460	5,118	84,478	104,056
Purchases of mortgages and loans	(195,271)	-	-	(195,271)
Receipt (payment) for loan transfers between funds	148,069	(8,243)	(139,826)	-
Payments to employees and other payroll disbursements	(4,294)	-	(2,552)	(6,846)
Payments for goods and services	(3,967)	-	(1,852)	(5,819)
Cash received for externally funded programs	-	-	8,014	8,014
Cash received for Federal HAP subsidies	-	-	8,486	8,486
Payments for Federal HAP subsidies	-	-	(8,610)	(8,610)
Interfund Receipts	155,006	15,135	137,915	308,056
Interfund Payments	(175,894)	(10,270)	(121,892)	(308,056)
Grant payments to other agencies	(4,078)	-	(6,565)	(10,643)
Other operating cash receipts	463	28	2,186	2,677
Other operating cash payments	(3,872)	-	(310)	(4,182)
Net cash provided by (used for) operating activities	(61,272)	6,831	(8,307)	(62,748)
Cash flows from noncapital financing activities:				
Proceeds from the issuance of bonds	-	-	-	-
Principal paid on bonds	(5)	-	(3,037)	(3,042)
Payment of bond issuance costs	-	-	-	-
Interest paid	(2,514)	(732)	(3,251)	(6,497)
Proceeds from issuance of short term debt	137,292	-	-	137,292
Payment of short term debt	(135,698)	-	-	(135,698)
Contributions to the State of Alaska or other State agencies	(1,395)	-	(958)	(2,353)
Transfers (to) from other funds	48,904	(8,000)	(40,904)	-
Other cash payments	-	-	-	-
Net cash provided by (used for) noncapital financing activities	46,584	(8,732)	(48,150)	(10,298)
Cash flows from capital financing activities:				
Acquisition of capital assets	(1,104)	-	-	(1,104)
Proceeds from the disposal of capital assets	-	-	18	18
Proceeds from the issuance of capital notes	-	-	-	-
Principal paid on capital notes	-	-	(578)	(578)
Payment of bond issuance costs	-	-	-	-
Interest paid on capital notes	-	-	(453)	(453)
Proceeds from the direct financing lease payments	-	-	1,734	1,734
Other cash payments	(8,885)	-	-	(8,885)
Net cash provided by (used for) capital financing activities	(9,989)	-	721	(9,268)
Cash flows from investing activities:				
Purchase of investments	(1,588,304)	(69,673)	(554,639)	(2,212,616)
Proceeds from maturity of investments	1,609,897	69,160	589,176	2,268,233
Interest received from investments	4,256	2,414	4,437	11,107
Net cash provided by (used for) investing activities	25,849	1,901	38,974	66,724
Net Increase (decrease) in cash	1,172	-	(16,762)	(15,590)
Cash at the beginning of year	10,234	-	35,730	45,964
Cash at the end of period	11,406	-	18,968	30,374
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities				
Operating income (loss)	9,889	1,502	(2,652)	8,739
Adjustments:				
Depreciation expense	21	-	1,597	1,618
Provision for loan losses	153	(301)	3,413	3,265
Amortization of bond issuance costs	-	34	243	277
Net change in the fair value of investments	267	(164)	(5,414)	(5,311)
Transfers between funds for operating activity	(10,880)	630	10,250	-
Interest received from investments	(4,256)	(2,414)	(4,437)	(11,107)
Interest paid	2,514	732	3,704	6,950
Changes in assets and liabilities:				
Net increase (decrease) in mortgages and loans	(32,742)	(3,125)	(55,348)	(91,215)
Net increase (decrease) in assets and liabilities	(26,238)	9,937	40,337	24,036
Net cash provided by (used for) operating activities	(61,272)	6,831	(8,307)	(62,748)

See accompanying notes to the financial statements.

FOOTNOTE INDEX

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FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2007
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2007)

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 full 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.

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 Bonds.

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. 17, 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 on which foreclosure is anticipated. 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.

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.

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):

	September 30, 2007	June 30, 2007
Restricted cash	$19,027	$35,730
Unrestricted	11,347	10,234
Carrying amount	$30,374	$45,964
Bank balance	$32,204	$47,288

Of the $30,374,000 carrying amount at September 30, 2007, approximately $12,886,000 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.

Investment Maturities (In Years)

	Less Than 1	1-5	6-10	More than 10	September 30, 2007	June 30, 2007
Bank investment contracts	$ 85,521	$ -	$ -	$ -	$ 85,521	$ 72,564
U. S. Treasury securities	1,038	13,031	-	-	14,069	23,587
Securities of U.S. Government agencies and corporations	158,209	9,845	-	463	168,517	153,019
Asset-backed securities	527	2,479	-	-	3,006	1,718
Certificates of deposit	15,000	-	-	-	15,000	20,000
Commercial paper and medium-term notes	592,826	6,168	847	-	599,841	636,804
Guaranteed investment contracts	301,984	-	-	-	301,984	353,707
Money market funds	36,297	-	-	-	36,297	13,145
Total AHFC portfolio	$ 1,191,402	$ 31,523	$ 847	$ 463	$ 1,224,235	$ 1,274,544

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):

	September 30, 2007	June 30, 2007
Restricted investments	$ 1,124,809	$ 1,080,535
Unrestricted	99,426	194,009
Carrying amount	$ 1,224,235	$ 1,274,544

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.

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):

	September 30, 2007	June 30, 2007
Ending unrealized holding gain	$ 7,109	$ 1,933
Beginning unrealized holding gain	1,933	859
Net change in unrealized holding gain	5,176	1,074
Fair value of investment transferred to state agency	-	575
Net realized gain (loss)	135	565
Net increase (decrease) in fair value	$ 5,311	$ 2,214

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-backed 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 an outstanding unsecured long-term obligations rating, or a claims paying or investment agreement rating of 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;

- 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 its Fiscal Policies and relevant governing agreements, 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 September 30, 2007, as determined by nationally recognized statistical rating organizations, are shown below (in thousands). $14,069,000 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	$ 168,517
Asset-backed securities:			
	Aaa	AAA	3,006
Commercial paper & medium-term notes:			
	Aaa	AAA	604
	Aa1	AA	297
	Aa1	AA-	637
	Aa1	AA+	519
	Aa2	AA	537
	Aa2	AA-	303
	Aa2	A+	130
	Aa3	AA	1,966
	Aa3	AA-	3,393
	Aa3	A+	-
	A1	AA-	-
	P-1	A-1+	529,556
	P-1	A-1	61,052
	--	A-1	-
	Baa3	BBB	847
			599,841
Money market funds			
	--	AAAm	36,297
Unrated investments:			
Bank investment contracts			85,521
Certificates of deposit			15,000
Guaranteed investment contracts			301,984
			402,505
			$1,210,166

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): • Adjustable rate funds • Bank investment contracts • Certificates of deposit • Commercial paper & medium-term notes • Deposits in and investments of a commercial bank or credit union • Floating or variable rate notes • Guaranteed investment contracts • Money market funds • Repurchase agreements	60%	5%
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 Policies 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 September 30, 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 Corporation	$ 225,574	18.43 %
Citigroup Funding Inc	158,934	12.98
FSA Capital Management Services	105,000	8.58
Federal Home Loan Bank	100,128	8.18
AEGON	87,713	7.16
Citigroup Financial Products, Inc.	86,502	7.07
Bayerische Landesbank	85,521	6.99
AIG Funding, Inc.	61,642	5.04

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 $32,204,000 bank balance at September 30, 2007, cash deposits in the amount of $15,955,000 were uninsured and uncollateralized.

Of the Corporation's $1,224,235,000 total investments at September 30, 2007, bank investment contracts in the amount of $85,521,000 were uninsured, unregistered, and held by the counterparty or its agent, but not in the Corporation's name.

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 September 30, 2007:

		Investment Fair Value	Modified Duration
Bank investment contracts	$	85,521	0.000
U.S. Treasury securities:			
Treasury coupon securities		14,069	0.578
Securities of U.S. Government agencies and corporations:			
Federal agency discounts		152,919	0.045
Federal agency coupon securities		14,717	1.092
Federal agency pass through securities		881	3.048
Asset-backed securities		3,006	2.495
Certificates of deposit		15,000	0.134
Commercial paper & medium-term notes:			
Commercial paper discounts		591,612	0.149
Corporate bonds		359	2.422
Medium-term notes		7,023	1.498
Municipal bonds		847	6.276
Guaranteed investment contracts		301,984	0.000
Money market funds		36,297	0.000
	$	1,224,235	
Portfolio modified duration			0.458

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 September 30, 2007, are as follows (in thousands):

	Fair Value	Rate	Maturity
Northern Tobacco Securitization Corporation	$847	6.276%	June 1, 2015

4 INTERFUND RECEIVABLE/PAYABLE

		Due From		
Due To		Administrative Fund	Other Non Major Funds	Total
	Administrative Fund	$ -	$ 22,648	$ 22,648
	Housing Development	3,012	-	3,012
	Other Non Major Funds	33,078		33,078
	Total	$ 36,090	$ 22,648	$ 58,738

The balances of $3,012,000 due to Housing Development and of $33,078,000 due to the Other Non-Major Funds from the Administrative Fund resulted primarily from monies belonging to these funds being deposited in an Administrative Fund account to obtain a greater rate of return.

Of the $22,648,000 due from the Other Non-Major Funds to the Administrative Fund, $179,000 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):

	September 30, 2007	June 30, 2007
Mortgage loans	$ 3,237,030	$ 3,139,975
Multi-family loans	232,921	238,236
Other notes receivable	74,236	74,811
	3,544,187	3,453,022
Less:		
Allowance for losses	(98,497)	(95,268)
Net Mortgage loans, notes and other loans	$ 3,445,690	$ 3,357,754

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

	September 30, 2007	June 30, 2007
Delinquencies and foreclosures:		
Loans delinquent 30 days or more	$ 119,851	$ 109,641
Foreclosures during period	577	1,711
Loans in foreclosure process	12,359	10,584
Mortgage-related commitments:		
To purchase mortgage loans	96,148	116,805
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.

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 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, Series 1999, 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 its General Housing Purpose Bonds, 2005 Series C, to defease $16,485,000 of the State Building Lease Bonds, Series 1999. 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 September 30:		Future Minimum Payments Due
2008	$	3,467
2009		3,467
2010		3,467
2011		3,467
2012		3,467
Thereafter		15,602
Gross payments due		32,937
Less: Unearned revenue		(6,902)
Net investment in direct financing lease	$	26,035

9 CAPITAL ASSETS

Capital assets activity for the three months ended September 30, 2007, and a summary of balances are shown below (in thousands):

	July 1, 2007	Additions	Reductions	September 30, 2007
NON-DEPRECIABLE CAPITAL ASSETS:				
Land	$ 13,753	$ -	$ -	$ 13,753
Construction in progress	3,668	1,073	-	4,741
TOTAL NON-DEPRECIABLE	17,421	1,073	-	18,494
DEPRECIABLE CAPITAL ASSETS:				
Buildings	193,470	-	-	193,470
Computers & Equipment	2,746	21	(59)	2,708
Leasehold Improvements	88	-	-	88
Vehicles	2,041	-	(18)	2,023
	198,345	21	(77)	198,289
Less: Accumulated depreciation				
Buildings	(92,727)	(1,535)	-	(94,261)
Computers & Equipment	(2,441)	(49)	59	(2,431)
Leasehold Improvements	(49)	(5)	-	(55)
Vehicles	(1,806)	(29)	5	(1,830)
	(97,023)	(1,618)	64	(98,577)
TOTAL DEPRECIABLE, NET	101,322	(1,597)	(13)	99,712
TOTAL CAPITAL ASSETS, NET	$ 118,743	$ (524)	$ (13)	$ 118,206

The depreciation expense charged by the Corporation was $1,618,000 for the three months ended September 30, 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 $3,837,000 at September 30, 2007.

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 are 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	September 30, 2007	June 30, 2007
Revolving Fund Bonds:			
Draw Down Bonds			
Tax-Exempt:			
• Series 2007 A, Floating rate*, monthly payments, 4.59% at September 30, 2007, due 2019	$ 32,290	$ 32,290	$ 32,290
• Series 2007 C, Floating rate*, monthly payments, 4.49% at September 30, 2007, due 2019	29,395	29,395	29,395
• Series 2007 D, Floating rate*, monthly payments, 4.49% at September 30, 2007, due 2019	24,570	24,570	24,570
Total Revolving Fund Bonds	86,255	86,255	86,255
First-Time Home Buyer Bonds:			
Mortgage Revenue Bonds:			
Tax-Exempt:			
• 1997 Series A, 4.9% to 6.0%, due 2037	160,000	35,530	35,530
Accreted interest		9,059	8,756
Unamortized discount		(348)	(352)
• 1998 Series A, 4.65% to 5.4%, due 2007-2035	70,000	30,810	30,810
• 1999 Series A1 & A2 5.25% to 6.25%, due 2007-2031	200,000	100,210	100,210
Unamortized discount		(110)	(110)
• 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	32,275	32,275
Unamortized discount		(54)	(71)
• 2001 Series A, 3.5% to 5.3%, due 2007-2031	32,740	22,405	22,405

	Original Amount	September 30, 2007	June 30, 2007
• 2001 Series B,			
4.15% to 5.45%, due 2007-2041	104,450	48,325	48,325
Unamortized premium		60	61
• 2002 Series A, Floating Rate*,			
3.87% at September 30, 2007 due 2032, 2036	170,000	170,000	170,000
• 2006 Series A,			
3.4% to 5.0%, due 2007-2036	98,675	95,360	95,360
Unamortized premium		1,009	1,045
• 2006 Series B,			
3.5% to 5.0%, due 2007-2036	75,000	73,420	73,420
Unamortized premium		679	703
• 2006 Series C,			
3.9% to 5.5%, due 2007-2037	75,000	74,450	74,450
Unamortized premium		1,367	1,425
• 2007 Series A, Floating Rate*			
3.84% at September 30, 2007 due 2041	75,000	75,000	75,000
Deferred debt refunding		(1,992)	(2,009)
• 2007 Series B, Floating Rate*			
3.90% at September 30, 2007, due 2041	75,000	75,000	75,000
Deferred debt refunding		(1,992)	(2,009)
• 2007 Series C			
3.75% to 4.80%, due 2008-2038	89,370	89,370	89,370
• 2007 Series D, Floating Rate*			
3.79% at September 30, 2007 due 2041	89,370	89,370	89,370
Deferred debt refunding		(2,442)	(2,462)
Taxable:			
• 2000 Series D,			
7.25% to 7.32%, due 2007-2020	25,740	1,145	1,145
Total First-Time Homebuyer Bonds	1,471,240	1,050,621	1,050,362
Veterans Mortgage Program Bonds:			
Collateralized State Guaranteed Bonds:			
Tax-Exempt:			
• Collateralized Bonds 1997 First Series,			
5.5%, due 2039	100,000	3,500	3,500
• Collateralized Bonds 1998 First and Second Series,			
4.7% to 5.5%, due 2007-2040	60,000	16,400	16,400
Unamortized discount		(169)	(170)
• Collateralized Bonds 1999 First Series,			
5.0% to 6.25%, due 2007-2039	110,000	41,625	41,625
• Collateralized Bonds 2000 First Series,			
5.5% to 6.45%, due 2007-2039	70,000	22,065	22,065
• Collateralized Bonds 2002 First Series,			
4.15% to 5.65%, due 2007-2034	50,000	23,180	23,180

	Original Amount	September 30, 2007	June 30, 2007
• Collateralized Bonds 2005 First Series, 4.8%, due 2035	15,000	14,690	14,690
• Collateralized Bonds 2006 First Series, 3.75% to 4.9%, due 2008-2037	190,000	190,000	190,000
Total Veterans Mortgage Program Bonds	595,000	311,291	311,290
Other Housing Bonds:			
Housing Development Bonds:			
Tax-Exempt:			
• 1997 Series A, 4.9% to 5.7%, due 2007-2029	6,510	125	125
• 1997 Series B, 5.0% to 5.8%, due 2007-2029	17,000	325	325
• 1999 Series A, 4.95% to 6.3%, due 2007-2029	1,675	1,485	1,485
• 1999 Series B, 5.0% to 6.37%, due 2007-2029	5,080	4,535	4,535
• 1999 Series C, 4.875% to 6.2%, due 2007-2029	50,000	44,470	44,470
• 2000 Series B, Floating Rate*, monthly payments, 3.87% at September 30, 2007 due 2030	41,705	41,705	41,705
• 2002 Series A, 3.0% to 5.3%, due 2007-2033	8,440	3,140	3,140
• 2002 Series B, 2.85% to 5.15%, due 2007-2022	8,690	7,300	7,300
• 2002 Series C, 2.85% to 5.25%, due 2007-2032	70,000	64,470	64,470
• 2002 Series D, Floating Rate*, monthly payments, 3.90% at September 30, 2007, due 2037	37,870	35,100	35,100
• 2004 Series A, 2.0% to 4.85%, due 2007-2030	33,060	30,985	30,985
• 2004 Series B, 1.8% to 4.75%, due 2007-2032	52,025	48,340	48,340
Taxable:			
• 1997 Series C, 6.8% to 7.55%, due 2007-2029	23,895	380	380
• 2004 Series D, 3.65% to 5.6%, due 2008-2043	105,000	105,000	105,000
Sub-Total Housing Development Bonds	460,950	387,360	387,360

	Original Amount	September 30, 2007	June 30, 2007
General Mortgage Revenue Bonds:			
Tax-Exempt:			
• 1999 Series A,			
4.85% to 6.05%, due 2007-2049	302,700	246,305	246,305
Unamortized deferred debt refunding expense		(1,469)	(1,543)
Unamortized discount		(1,523)	(1,490)
• 2002 Series A,			
3.45% to 5.0%, due 2010-2040	150,000	150,000	150,000
Unamortized deferred debt refunding expense		(1,184)	(1,195)
Unamortized premium		555	559
Government Purpose Bonds:			
Tax-Exempt:			
• 1997 Series A, Floating Rate* monthly payments,			
3.85% at September 30, 2007, due 2027	33,000	23,300	23,300
• 2001 Series A, Floating Rate*,			
3.90% at September 30, 2007, due 2030	76,580	67,485	67,485
2001 Series B, Floating Rate*,			
3.83% at September 30, 2007, due 2030	93,590	82,465	82,465
Total Other Housing Bonds	1,116,820	953,294	953,246
Non-Housing Bonds:			
State Capital Project Bonds:			
Tax-Exempt:			
• 2002 Series A,			
3.0% to 5.0%, due 2007-2011	32,905	16,240	19,855
Unamortized premium		751	791
• 2002 Series B, Floating Rate Auction Bonds**			
Payments every four weeks,			
3.80% at September 30, 2007 due 2024	14,555	14,555	14,555
• 2002 Series C, Floating Rate*			
3.87% at September 30, 2007, due 2022	60,250	60,250	60,250
• 2006 Series A,			
3.5% to 5%, due 2007-2040	100,890	100,040	100,040
Unamortized discount		(1,960)	(2,055)
Unamortized premium		2,073	2,157
State Building Lease Bonds:			
Tax-Exempt:			
• 1999 Series,			
4.875% to 5.8%, due 2007-2017	40,000	10,285	10,285
Unamortized discount		(70)	(71)
General Housing Purpose Bonds:			
Tax-Exempt:			
• 1992 Series A,			
6.1% to 6.6%, due 2007-2023	200,000	12,780	12,780
• 2003 Series A, Floating Rate*, monthly payments,			
3.78% at September 30, 2007, due 2023	143,995	126,275	126,275

	Original Amount	September 30, 2007	June 30, 2007
• 2003 Series B, Floating Rate*, monthly payments, 3.78% at September 30, 2007, due 2023	16,095	16,095	16,095
• 2005 Series A, 2.2% to 5.25%, due 2007-2041	143,235	141,735	141,735
Unamortized premium		4,257	4,404
• 2005 Series B, 2.7% to 5.25%, due 2007-2030	147,610	141,135	141,135
Unamortized deferred debt refunding expense		(11,902)	(12,072)
Unamortized premium		6,011	6,275
• 2005 Series C, 2.7% to 5%, due 2007-2017	16,885	16,800	16,800
Total Non-Housing Bonds	916,420	655,350	659,234
Other Program Funds:			
Home Ownership Notes:			
Tax-Exempt:			
• Wrangell Project HUD Note, monthly payments, 1.0%-3.0%, due 2007	1,161	494	500
Total Other Programs	1,161	494	500
Total Bonds and Notes Payable	$ 4,186,896	$ 3,057,305	$ 3,060,887

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 related discounts and costs of issuance of the old debt is included in a deferred debt refunding account and amortized as interest expense. 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 three months ended September 30, 2007, the Corporation made no special revenue redemptions and no current refundings. The Corporation made special revenue redemptions of $180,245,000 and a current refunding of $220,350,000 during fiscal year 2007.

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):

	September 30, 2007	June 30, 2007
State Building Lease Bonds, 1999 Series	$ 16,485	$ 16,485

Debt Service Requirements**

For all mortgage bonds and notes in the preceding schedules, the Corporation's debt service requirements through 2012 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):

	Administrative Fund Bonds		Housing Development Bonds (Various Issues)		Other Non-Major Bonds	
12 Months Ending September 30	**Principal**	**Interest**	**Principal**	**Interest***	**Principal**	**Interest***
2008	$ -	$ 3,746	$ 6,780	$ 18,905	$ 44,020	$ 121,625
2009	-	3,737	6,770	18,660	48,635	119,635
2010	-	3,741	7,060	18,411	45,555	117,725
2011	-	3,741	7,370	18,128	51,085	115,655
2012	-	3,746	7,705	17,818	53,880	113,309
2013-2017	-	18,702	45,560	83,341	305,050	526,401
2018-2022	86,255	5,310	56,755	70,811	372,080	449,236
2023-2027	-	-	66,405	54,849	435,471	367,318
2028-2032	-	-	111,460	33,471	485,564	272,703
2033-2037	-	-	35,310	14,700	475,506	168,093
2038-2042	-	-	30,670	6,494	187,205	43,861
2043-2047	-	-	5,515	207	54,750	16,520
2048-2049	-	-	-	-	24,285	1,835
	$ 86,255	$ 42,723	$ 387,360	$ 355,795	$ 2,583,086	$ 2,433,916

* Interest requirements for variable-rate bonds have been computed using the effective interest rate at September 30, 2007

** Also see Note 11 – Derivatives.

Total Debt Service

Principal	Interest	Total
$ 50,800	$ 144,276	$ 195,076
55,405	142,032	197,437
52,615	139,877	192,492
58,455	137,524	195,979
61,585	134,873	196,458
350,610	628,444	979,054
515,090	525,357	1,040,447
501,876	422,167	924,043
597,024	306,174	903,198
510,816	182,793	693,609
217,875	50,355	268,230
60,265	16,727	76,992
24,285	1,835	26,120
$ 3,056,701	$ 2,832,434	$ 5,889,135

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 eight 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 September 30, 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
2008	$ 4,640	$ 22,997	$ 2,700	$ 30,337
2009	5,135	24,219	2,785	32,139
2010	5,465	24,016	2,749	32,230
2011	5,710	23,803	2,711	32,224
2012	6,895	23,580	2,671	33,146
2013-2017	72,360	111,004	12,265	195,629
2018-2022	114,910	93,322	9,928	218,160
2023-2027	126,695	69,090	7,041	202,826
2028-2032	119,985	45,322	3,956	169,263
2033-2037	105,065	23,961	1,422	130,448
2038-2042	67,265	6,670	142	74,077
	$ 634,125	$ 467,984	$ 48,370	$ 1,150,479

Significant Terms

The terms, fair values and credit ratings of the Corporation's outstanding swaps as of September 30, 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[6]
GP01A[1]	$ 67,485	$ 71,576	$ (4,091)	08/02/01	4.1427%	67% of LIBOR[4]	12/01/30	A+/A1
GP01B	82,465	87,419	(4,954)	08/02/01	4.1427%	67% of LIBOR	12/01/30	A+/Aa3
E021A1[2]	50,000	52,707	(2,707)	05/16/02	4.1030%	68% of LIBOR	06/01/32	AAA/Aaa
E021A2	120,000	124,971	(4,971)	05/16/02	4.3430%	68% of LIBOR	12/01/36	AAA/Aaa
SC02B[3]	14,555	14,567	(12)	12/05/02	3.7700%	70% of LIBOR	07/01/24	AAA/Aaa
SC02C	60,250	62,468	(2,218)	12/05/02	4.3030%	SIFMA[5]+0.115%	07/01/22	AAA/Aaa
E071A1[2]	143,622	143,229	393	06/01/07	3.6720%	70% of LIBOR	12/01/41	AAA/Aaa
EO71A2	95,748	95,392	356	06/01/07	3.6720%	70% of LIBOR	12/01/41	AAA/Aaa
	$ **634,125**	**$ 652,329**	**$ (18,204)**					

1. Governmental Purpose Bonds
2. Home Mortgage Revenue Bonds
3. State Capital Project Bonds
4. London Interbank Offered Rate
5. Securities Industry and Financial Markets Municipal Swap Index
6. Standard & Poor's/Moody's

Fair Value

Due to relatively lower interest rates six of the Corporation's earlier interest rate swaps had a negative fair value as of September 30, 2007. Both 2007 agreements, which were priced in early 2006 when forward swap curve yields were optimal, had positive fair values. 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 September 30, 2007, the Corporation was not exposed to credit risk only on the E071A1 and E071A2 swaps in the amount equal to the swaps' fair value. 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 five separate counterparties. Approximately 76% of the total notional amount of swaps is held with three separate counterparties, all 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+/A1, approximating 13% and 11%, respectively, of the total outstanding notional swap value.

b. Basis Risk

All of the Corporation's variable-rate demand obligation bond coupon payments are based on the tax exempt SIFMA index. Therefore, the Corporation is exposed to basis risk on swaps where the variable payment received on the swaps is based on a taxable LIBOR index and does not offset the variable rate paid on the bonds, which is based on the SIFMA index. The SC02C swap is based on the SIFMA index and, thus is not exposed to any basis risk. As of September 30, 2007, SIFMA was 3.84% and LIBOR was 5.13%, resulting in a positive 1.29% spread. The spread between LIBOR and SIFMA has fluctuated since the agreements became effective, but as the spread increases, so does the anticipated cost savings from the swaps.

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 GP01A and GP01B swaps cover only a portion of the total debt issuance, allowing any increase in the speed of mortgage prepayments to be directed at the unswapped portion of the debt. The E021A1 and E021A2 swaps 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

Termination risk is the risk of an unscheduled termination of a swap prior to its planned maturity. 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, including downgrades and events of default.

12 LONG TERM LIABILITIES

The activity for the three months ended September 30, 2007 is summarized in the following schedule (in thousands):

	June 30, 2007	Additions	Reductions	September 30, 2007	Due Within One Year
Draw down bonds	$ 86,255	$ -	$ -	$ 86,255	$ -
Bonds and notes payable	2,974,632	698	(4,280)	2,971,050	50,800
Total bonds and notes payable	3,060,887	698	(4,280)	3,057,305	50,800
Compensated absences	3,683	562	(659)	3,586	2,101
Other liabilities	4,190	107	(3,744)	553	-
Total other long-term liabilities	7,873	669	(4,403)	4,139	2,101
	$ 3,068,760	$ 1,367	$ (8,683)	$ 3,061,444	$ 52,901

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	September 30, 2007	June 30, 2007
Lowest	5.60%	5.26%
Highest	5.27%	5.29%

Short term debt activity for the three months ended September 30, 2007 is summarized in the following schedule (in thousands):

	July 1, 2007	Additions	Reductions	September 30, 2007
Commercial Paper	$ 120,300	$ 138,422	$ (137,360)	$ 121,362
Unamortized discount	(574)	(1,130)	1,637	(67)
Commercial paper, net	$ 119,726	$ 137,292	$ (135,723)	$ 121,295

14 TRANSFERS

Transfers for the three months ended September 30, 2007 are summarized in the following schedule (in thousands):

	Transfer From			
	Administrative Fund	**Housing Development Fund**	**Other Non-Major Funds**	**Total**
Administrative Fund	$ -	$ 8,000	$ 41,994	$ 49,994
Housing Development Fund	630	-	-	630
Other Non-MajorFunds	11,340	-	-	11,340
Total	$ 11,970	$ 8,000	$ 41,994	$ 61,964

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):

	September 30, 2007	**June 30, 2007**
Liquidity facility	$ 901,690	$ 901,690
Bond insurance	1,821,495	1,825,110
	$ 2,723,185	$ 2,726,800

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 September 30, 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.

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):

	September 30, 2007	**June 30, 2007**
Arbitrage expense	$ 81	$ 2,694
Arbitrage paid	3,725	407

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". The total state authorizations from FY1995–FY2008 were $1,371,299,000; payments up thru September 30, 2007 were $1,208,782,000 resulting in total remaining commitments of $162,517,000 as of September 30, 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. Debit 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):

Fiscal Year	Transfer Plan Amount
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):

	September 30, 2007	Cumulative Prior Fiscal Year	Total Payments to State
State debt repayment	$ -	$ 29,800	$ 29,800
Asset purchases	-	252,300	252,300
Dividends	-	114,300	114,300
Direct cash transfers	-	567,503	567,503
Other State appropriations	-	302,654	302,654
Non-Housing capital projects	3,148	278,680	281,828
Various bond's proceeds disbursed	957	290,623	291,580
Total	$ 4,105	$ 1,835,860	$ 1,839,965

18 GRANTS

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

Program	September 30, 2007
Administration Programs	
▪ Rural Alaska Sanitation Coalition (RASC)	$ 16
Energy Programs:	
▪ Energy Efficiency Monitoring Research	125
▪ Low-Income Home Energy Assistance	317
▪ Low Income Weatherization Assistance	954
	1,396
Section 8 Vouchers and Contract Administration	6,866
Other Housing Assistance Programs	
▪ AMHTA Short Term Housing Assistance	-
▪ Beneficiaries and Special Needs Housing	546
▪ Centers for Medicare/Medicaid Services	-
▪ Denali Commission	2,223
▪ Drug Elimination	36
▪ Grant Match Program	-
▪ HOMD Investment Partnership	755
▪ Homeless Assistance Program	279
▪ Homeless Information Management System	-
▪ Housing Loan Program	1,617
▪ Housing Opportunities for Persons with AIDS	94
▪ Housing Preservation	28
▪ Resident Opportunity and Support Service	-
▪ Section 8 Contract Administration	1,744
▪ Shelter Plus Care	145
▪ Special Program for the Aging	-
▪ Senior Citizen Housing Development Grant	614
▪ Supportive Housing Grant Match	112
▪ Supplemental Housing Grant	2,992
▪ Technical Assistance Grant	25
	11,210
Total Housing Grant Expenses	19,488
Other Program Funds:	
▪ Legislative Appropriations	3,148
▪ University of Alaska FY99	-
Total Non-Housing Capital Project Grants	3,148
Total Grants	$ 22,636

In addition to grant payments made, the Corporation has advanced grant funds of $5,220,000 and committed to third parties a sum of $60,877,000 in grant awards at September 30, 2007.

19 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 New Program consists of Corporate owned low-income housing facilities at various locations, Wrangell Market Housing, and contract administration of HUD contracts directly with landlords:

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

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

- Drug Elimination Program
- 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
- Resident Opportunity and SupporitiveServices
- 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

- Low-Income Weatherization Program
- Residential Energy Rehab Program (Enhanced Weatherization)
- Energy Efficiency Education
- Alaska Native Tribal Health Consortium/Rural Alaska Sanitation Coalition (RASC)
- Association of Alaska Housing Authorities Grant
- Low-Income Home Energy Assistance Program (LIHEAP)
- State Energy Conservation Program and Special Projects
- Research Information Center
- Cold Climate Housing Research Center
- Alaska Building Science Network (Energy Education)

Housing Units Owned, Managed or Administered

As of September 30, 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	33
Section 8 Existing – Housing Assistance:	
Housing Choice Vouchers	4,213
Single Room Occupancy	70
	5,973

20 PENSION PLAN

As of September 30, 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.

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 22% 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 the greater of 22% of annual covered salary or 6.57% of the annual covered salary to the Defined Contribution account plus $1,531.27 annually as a flat dollar amount per employee to a health reimbursement arrangement.

The contributions to the pension plan for the three months ended September 30, 2007 by the employees was $10,000 and by the Corporation was $8,000. The Corporation also contributed $19,000 to a health reimbursement arrangement.

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 first 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, 2007	$ 3,542	100.00%	$ -
June 30, 2006	2,780	100.00%	-
June 30, 2005	1,780	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 $1,206,000 and $1,149,000 as of September 30, 2007 and June 30, 2007, 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 Events

On October 3, 2007 the Corporation issued $95,525,000 State Capital Project Bonds, 2007 Series A and B. The bonds are general obligations of the Corporation that bear interest at fixed interest rates between 4.0% and 5.25%, payable on each June 1 and December 1, with a final maturity of December 1, 2029. The scheduled debt service on the Bonds is guaranteed under an insurance policy issued by MBIA Insurance Corporation. The Bonds will be secured by the accounts established under the Indenture.

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.

23 FIVE YEAR FINANCIAL INFORMATION

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

	June 30, 2007	June 30, 2006	June 30, 2005	June 30, 2004	June 30, 2003
ASSETS					
Cash	$ 45,964	$ 11,583	$ 9,769	$ 7,939	$ 21,215
Investments	1,274,544	1,768,178	1,219,415	1,143,547	1,518,997
Accrued interest receivable	19,340	19,013	20,762	19,897	22,349
Mortgage loans, notes and other loans	3,357,754	3,240,209	3,325,182	3,355,300	3,312,511
Net investment in direct financing lease	27,085	29,110	32,843	34,547	36,165
Unamortized bond issuance costs	24,616	24,584	25,135	26,404	29,024
Capital assets, net	118,743	120,030	116,073	110,813	105,065
Other assets	28,854	16,869	13,754	10,033	10,185
Total Assets	$ 4,896,900	$ 5,229,576	$ 4,762,933	$ 4,708,480	$ 5,055,511
LIABILITIES					
Bonds and notes payable	$ 3,060,887	$ 2,907,223	$ 2,898,730	$ 2,890,879	$ 3,110,941
Short term debt	119,726	242,449	138,375	70,145	149,995
Accrued interest payable	14,847	17,340	14,147	14,562	15,627
Other liabilities	16,968	72,532	28,608	26,435	41,382
Total Liabilities	3,212,428	3,239,544	3,079,860	3,002,021	3,317,945
Total Fund Equity	$ 1,684,472	$ 1,990,032	$ 1,683,073	$ 1,706,459	$ 1,737,566

	June 30, 2007	June 30, 2006	June 30, 2005	June 30, 2004	June 30, 2003
OPERATING REVENUES					
Mortgage and loans revenue	$ 195,028	$ 193,573	$ 201,386	$ 206,300	$ 220,393
Investment interest	76,631	60,220	43,162	46,358	57,013
Net change in fair value of investments	2,214	(1,830)	(1,653)	(9,554)	9,877
Total Investment Revenue	78,845	58,390	41,509	36,804	66,890
Externally funded programs	63,043	59,587	57,877	56,084	53,702
Rental	6,988	6,575	6,183	6,109	6,812
Other	1,085	807	2,252	743	644
Total Operating Revenues	344,989	318,932	309,207	306,040	348,441
OPERATING EXPENSES					
Interest	158,145	146,971	141,161	151,165	172,939
Mortgage and loan costs	14,034	13,133	13,130	13,059	12,894
Operations and administration	41,410	38,858	35,530	36,240	35,339
Financing expenses	8,945	4,836	11,941	6,168	10,496
Provision for loan loss	5,490	406	(103)	(1,861)	(12,232)
Housing grants and subsidies	65,689	56,829	56,506	48,640	52,023
Rental housing operating expenses	10,799	11,221	10,985	10,149	9,905
Total Operating Expenses	304,512	272,254	269,150	263,560	281,364
Operating Income	40,477	46,678	40,057	42,480	67,077
NON-OPERATING & SPECIAL ITEM					
Contribution from the State of Alaska	-	300,000	-	-	-
Contribution to State or State agency	(346,037)	(46,845)	(67,288)	(66,136)	(95,321)
Special item	-	7,126	3,845	(7,451)	-
Change in Net Assets	$ (305,560)	$ 306,959	$ (23,386)	$ (31,107)	$ (28,244)

Schedule of Funding Progress for PERS (in thousands):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess or (Unfunded) AAL (a) – (b)	Funded Ratio (a) / (b)	Covered Payroll (c)	Excess or (Unfunded) AAL as a Percentage of Covered Payroll ((a) – (b)) / (c)
Pension:						
June 30, 2006	$ 55,301	$ 63,612	$ (8,311)	87%	$ 17,588	(47%)
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%)
Postretirement Health:						
June 30, 2006	23,670	46,162	(22,492)	51%	17,587	(128%)
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%)

a component unit of the State of Alaska

Financial Statements

And Independent Auditors' Report

June 30, 2007

With Summarized Financial Information for June 30, 2006

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Alaska Housing FINANCE CORPORATION

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This is a publication of Alaska Housing Finance Corporation. For comments or questions:
http://www.ahfc.state.ak.us/financials/financials.cfm or dboyce@ahfc.state.ak.us

Mikunda, Cottrell & Co.
Certified Public Accountants & Consultants

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, 2007, 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 2006 financial statements and in our report dated September 1, 2006, 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, 2007, 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 October 1, 2007, 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.

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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 43 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
October 1, 2007

3601 "C" Street, Suite 600 * Anchorage, Alaska 99503 * (907) 278-8878 * Fax (907) 278-5779 *
www.mcc-cpa.com

OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report of the Alaska Housing Finance Corporation's ("the Corporation") 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 2006 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 Corporation's 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, 2007. This information is being presented to assist the reader in identifying 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 not included in 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, investment 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 components of 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 2007, 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
- 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, 2007, the Administrative Fund reported net assets of $799 million, a decrease of $338 million from June 30, 2006. The decrease in net assets can be primarily attributed to contributions to Alaska Housing Capital Corporation of $300 million, internal transfers from the Administrative fund of $65 million offset by Operating income of $44 million. Approximately $90 million, or 11%, of the Administrative Fund's net assets are restricted by contractual or statutory agreements and $709 million, or 89%, are unrestricted and may be used for operations and to meet the continuing obligations of the Corporation.

The Administrative Fund reported operating income of $44 million for FY 2007, an increase of $4 million from FY 2006, due primarily to an increases in investment revenue of $5 million, a decrease in operations and administration expenses of $1 million, a decrease in provision for loan loss of $2 million, and offset by an increase in interest expense of $3 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 $40 million, down 13% from FY 2006. Profitability, based on operating income, as measured by the adjusted return on average assets (excluding the change in the fair value of investments) decreased to .8% at June 30, 2007, compared to 1% at June 30, 2006. 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, 2007, by $1.68 billion (net assets).
- The Corporation's mortgage loan portfolio is one of its primary assets. During the fiscal year ended June 30, 2007, mortgage loans increased by 3.6%, due to new loan purchases exceeding collection of loan payments.
- During the fiscal year ended June 30, 2007, the Corporation's total assets decreased by $333 million due primarily to the transfer to Alaska Housing Capital Corporation of $300 million pooled investments and the related security lending agreements. Total liabilities decreased by $27 million due primarily to the removal of the short term reverse repurchase agreement program and issuance of draw down bonds.

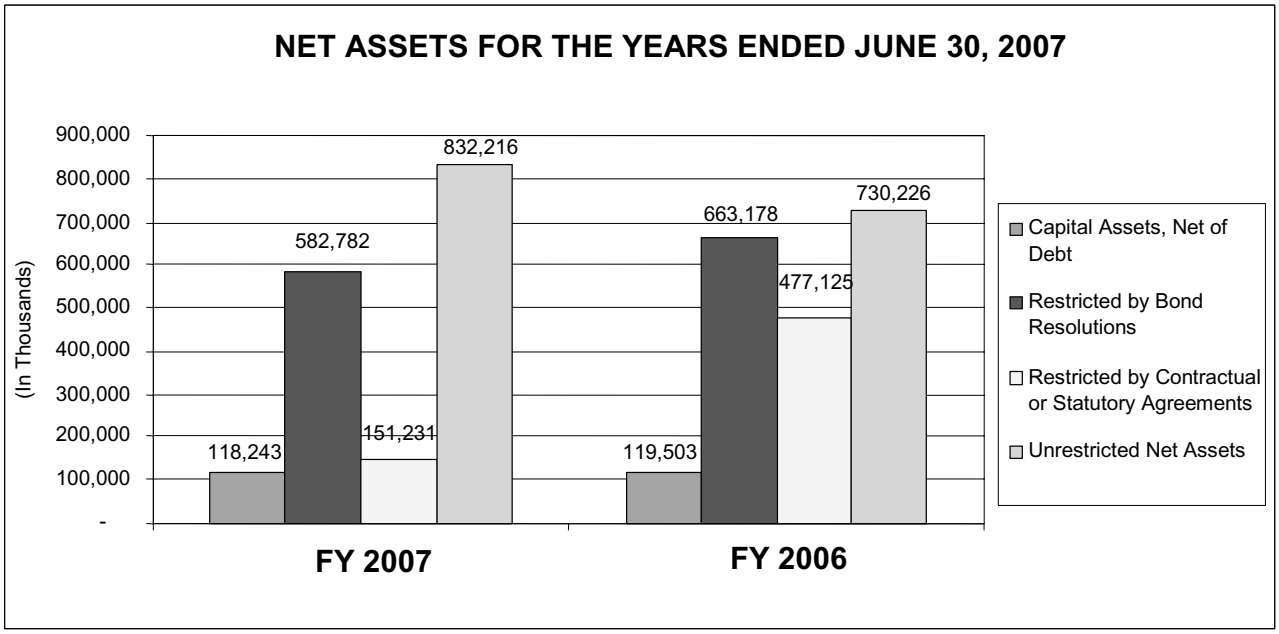
CONDENSED STATEMENT OF NET ASSETS

The following table presents condensed information about the financial position of the Corporation as of June 30, 2007 and 2006, and changes in the balances of selected items during the fiscal year ended June 30, 2007 (in thousands):

As of June 30, 2007, total assets decreased by $333 million from June 30, 2006. The decrease in total assets can be primarily attributed to a decrease in investments of $494 million resulting from a $300 million contribution to Alaska Housing Capital Corporation . The decrease in total assets was offset partially by a $118 million increase in mortgages owing to loan purchases exceeding loan payments. Total liabilities decreased by $27 million from June 30, 2006. The decrease in total liabilities is primarily due to an increase bond debt of $154 million offset by a decrease in short term debt of $123 million.

	2007	2006	Change Increase (Decrease)	
Investments	1,274,544	1,768,178	(493,634)	(27.9)%
Mortgage loans, notes and other loans, net	3,357,754	3,240,209	117,545	3.6 %
Capital assets, net	118,743	120,030	(1,287)	(1.1)%
Total assets, net	4,896,900	5,229,576	(332,676)	(6.4)%
Bonds and notes, net	3,060,887	2,907,223	153,664	5.3 %
Short term debt	119,726	242,449	(122,723)	(50.6)%
Total liabilities	3,212,428	3,239,544	(27,116)	(0.8) %
Total net assets, net	1,684,472	1,990,032	(305,560)	(15.4)%

The chart below represents the classification of unrestricted and restricted net assets, and capital assets, net of debt, for FY 2007 and FY 2006.

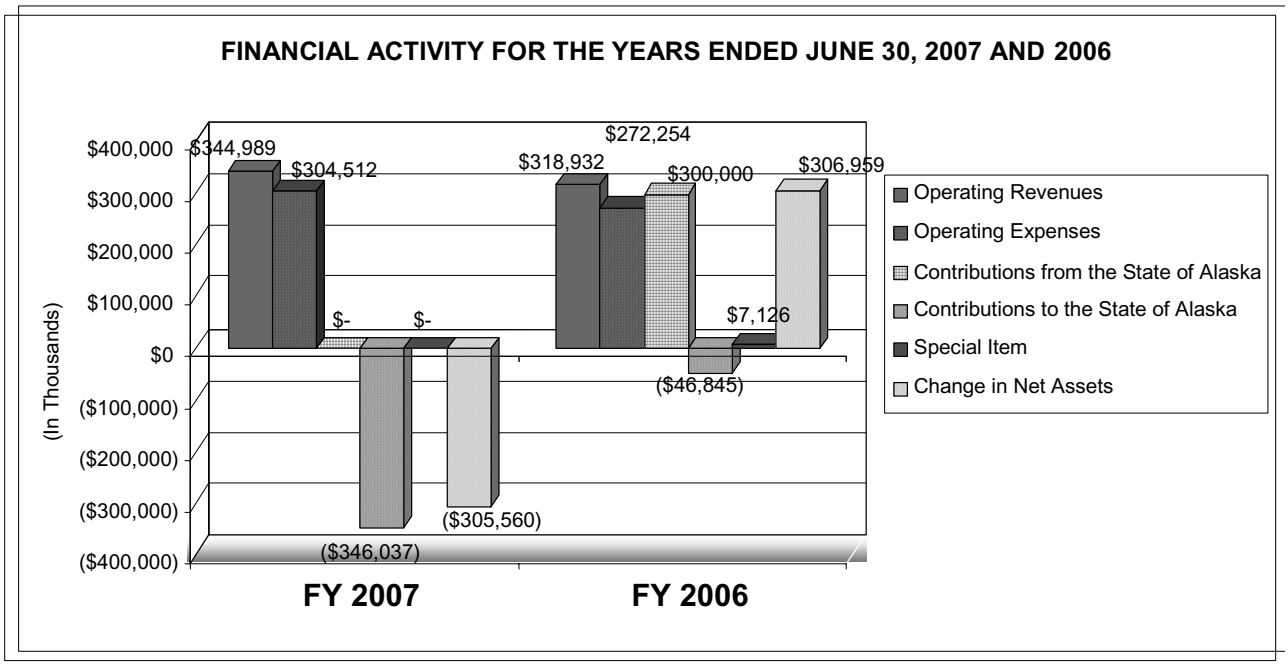


In fiscal year 2007, net assets restricted by contractual or statutory agreements decreased by $326 million primarily due to the $300 million contribution to Alaska Housing Capital Corporation.

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, 2007 and 2006, and the variance from the prior fiscal year (in thousands):

	2007	2006	Change Increase (Decrease)	
Mortgages and loan revenue	195,028	193,573	1,455	0.8 %
Investment interest income	76,631	60,220	16,411	27.3 %
Net change in the fair value of investment	2,214	(1,830)	4,044	221.0%
Externally funded programs	63,043	59,587	3,456	5.8 %
Total operating revenues	344,989	318,932	26,057	8.2 %
Interest expense	158,145	146,971	11,174	7.6 %
Operations and administration	41,410	38,858	2,552	6.6 %
Housing grants and subsidies	65,689	56,829	8,860	15.6 %
Total operation expenses	304,512	272,254	32,258	11.8 %
Operating income	40,477	46,678	(6,201)	(13.3)%
Contributions from the State of Alaska	-	300,000	(300,000)	-
Contributions to the State of Alaska or other State agencies	(346,037)	(46,845)	299,192	638.7%
Special item	-	7,126	(7,126)	-
Change in net assets	(305,560)	306,959	(612,519)	(199.5)%



Total operating revenues increased by a net amount of $26 million, or 8.2%, during FY 2007 primarily due to an increase in investment revenue. Total operating expenses increased by $32 million, or 11.8%. The net effect of changes in operating revenues and expenses was a $6 million or 13.3% decrease in operating income from FY 2006.

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 2007 were $80 million and for FY 2006 was $103 million. In FY 2007 the Transfer Plan called 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 FY 2006, the Corporation recorded a gain on sale of a loan in the amount of $7 million. 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. There were no special items for fiscal year 2007.

The Change in Net Assets for FY 2007 was a decrease of $305 million primarily due to the $300 million contribution to the Alaska Housing Capital Corporation. 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.

DEBT ADMINISTRATION

As of June 30, 2007, the Corporation had $3 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 $86 million in Draw Down Bonds;
- Issued $404 million in Tax-Exempt Home Mortgage Revenue Bonds, some used to refund current debt;
- Issued $190 million in Tax-Exempt Veterans Mortgage Revenue Bonds;
- Issued $101 million in Tax-Exempt State Capital Project Bonds;
- Redeemed bonds through surplus redemption provisions of their respective indentures in the amount of $180 million;
- Current refunding $220 million of General Mortgage Revenue Bonds 1997 series;
- Issued $347 million and redeemed $441 million of short-term reverse repurchase agreements. The reverse repurchase agreement program ended in FY 2007.

The Operating Budget of the State of Alaska for the fiscal year ended June 30, 2007, 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 during the periods reported. If you have questions about this report or need additional financial information, please visit the Corporation's web site www.ahfc.state.ak.us or contact the Financial Reporting Officer at 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 June 30, 2007

(in thousands of dollars)

	Administrative Fund	Housing Development Bonds	Other Non-Major Funds	Total June 30, 2007
ASSETS				
Cash	10,234	-	35,730	45,964
Investments	370,058	138,120	766,366	1,274,544
Accrued interest receivable	3,402	3,507	12,431	19,340
Inter-fund due to/from	(35,507)	7,875	27,632	-
Mortgage loans, notes and other loans	649,071	288,472	2,420,211	3,357,754
Net investment in direct financing lease	-	-	27,085	27,085
Unamortized bond issuance costs	-	3,605	21,011	24,616
Capital assets - non-depreciable	139	-	17,282	17,421
Capital assets - depreciable, net	168	-	101,154	101,322
Other assets	18,204	70	9,927	28,201
Intergovernmental receivable	1	-	652	653
Total Assets	1,015,770	441,649	3,439,481	4,896,900
LIABILITIES				
Bonds and notes payable	86,255	387,360	2,587,272	3,060,887
Short term debt	119,726	-	-	119,726
Accrued interest payable	1,109	1,576	12,162	14,847
Other liabilities	9,614	165	5,129	14,908
Intergovernmental payable	-	-	2,060	2,060
Total Liabilities	216,704	389,101	2,606,623	3,212,428
NET ASSETS				
Invested in capital assets, net of related debt	307	-	117,936	118,243
Restricted by bond resolutions	-	-	582,782	582,782
Restricted by contractual or statutory agreements	89,794	-	61,437	151,231
Unrestricted net assets, (deficit)	708,965	52,548	70,703	832,216
Total Net Assets	799,066	52,548	832,858	1,684,472

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 Year Ended June 30, 2007

(in thousands of dollars)

	Administrative Fund	Housing Development Bonds	Other Non-Major Funds	Total June 30, 2007
OPERATING REVENUES				
Mortgage and loans revenue	39,672	22,576	132,780	195,028
Investment interest	19,645	5,843	51,143	76,631
Net change in the fair value of investments	762	(15)	1,467	2,214
Total Investment Revenue	20,407	5,828	52,610	78,845
Externally funded programs	-	-	63,043	63,043
Rental	10	-	6,978	6,988
Other	396	-	689	1,085
Total Operating Revenues	60,485	28,404	256,100	344,989
OPERATING EXPENSES				
Interest	10,645	19,109	128,391	158,145
Mortgage and loan costs	3,816	834	9,384	14,034
Financing expenses	877	527	7,541	8,945
Provision for loan loss	(770)	832	5,428	5,490
Operations and administration	1,400	2,309	37,701	41,410
Rental housing operating expenses	119	-	10,680	10,799
Housing grants and subsidies	-	-	65,689	65,689
Total Operating Expenses	16,087	23,611	264,814	304,512
Operating Income (Loss)	44,398	4,793	(8,714)	40,477
NONOPERATING EXPENSES, SPECIAL ITEM & TRANSFERS				
Contributions to the State of Alaska or other State agencies	(318,232)	-	(27,805)	(346,037)
Special Item (note XX)	-	-	-	-
Transfers - Internal	(65,116)	13,486	51,630	-
Change in Net Assets	(338,950)	18,279	15,111	(305,560)
Net assets at beginning of year	1,138,016	34,269	817,747	1,990,032
Net Assets at End of Period	799,066	52,548	832,858	1,684,472

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 Year Ended June 30, 2007

(in thousands of dollars)

	Administrative Fund	Housing Development Bonds	Other Non-Major Funds	Total June 30, 2007
Cash flows from operating activities:				
Interest income on mortgages and loans	34,002	22,297	126,243	182,542
Principal payments received on mortgages and loans	49,941	51,116	360,456	461,513
Purchases of mortgages and loans	(585,133)	-	-	(585,133)
Receipt (payment) for loan transfers between funds	389,198	(64,483)	(324,715)	-
Payments to employees and other payroll disbursements	(17,554)	-	(10,400)	(27,954)
Payments for goods and services	(14,640)	(11)	(6,325)	(20,976)
Cash received for externally funded programs	-	-	29,122	29,122
Cash received for Federal HAP subsidies	-	-	32,179	32,179
Payments for Federal HAP subsidies	-	-	(31,685)	(31,685)
Interfund Receipts	756,716	65,908	479,287	1,301,911
Interfund Payments	(701,838)	(73,783)	(526,290)	(1,301,911)
Grant payments to other agencies	(15,672)	-	(17,634)	(33,306)
Other operating cash receipts	3,416	-	8,669	12,085
Other operating cash payments	(2,636)	(43)	(3,194)	(5,873)
Net cash provided by (used for) operating activities	(104,200)	1,001	115,713	12,514
Cash flows from noncapital financing activities:				
Proceeds from the issuance of bonds	86,255	-	695,252	781,507
Principal paid on bonds	-	(13,860)	(597,531)	(611,391)
Payment of bond issuance costs	(2,392)	-	-	(2,392)
Interest paid	(9,613)	(19,146)	(138,559)	(167,318)
Proceeds from issuance of short term debt	951,545	-	-	951,545
Payment of short term debt	(1,074,744)	-	-	(1,074,744)
Contributions to the State of Alaska or other State agencies	(31,431)	-	(12,636)	(44,067)
Transfers (to) from other funds	96,441	10,157	(106,598)	-
Other cash payments	-	-	(4,582)	(4,582)
Net cash provided by (used for) noncapital financing activities	16,061	(22,849)	(164,654)	(171,442)
Cash flows from capital financing activities:				
Acquisition of capital assets	(2,444)	-	(2,122)	(4,566)
Proceeds from the disposal of capital assets	91	-	-	91
Proceeds from the issuance of capital notes	-	-	-	-
Principal paid on capital notes	-	-	(1,885)	(1,885)
Payment of bond issuance costs	-	-	-	-
Interest paid on capital notes	-	-	(2,107)	(2,107)
Proceeds from the direct financing lease payments	-	-	3,467	3,467
Other cash payments	(11,872)	-	(2,056)	(13,928)
Net cash provided by (used for) capital financing activities	(14,225)	-	(4,703)	(18,928)
Cash flows from investing activities:				
Purchase of investments	(6,958,299)	(388,923)	(5,478,043)	(12,825,265)
Proceeds from maturity of investments	7,044,464	405,052	5,512,744	12,962,260
Interest received from investments	19,928	5,719	49,595	75,242
Net cash provided by (used for) investing activities	106,093	21,848	84,296	212,237
Net Increase (decrease) in cash	3,729	-	30,652	34,381
Cash at the beginning of year	6,505	-	5,078	11,583
Cash at the end of period	10,234	-	35,730	45,964
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities				
Operating income (loss)	44,398	4,793	(8,714)	40,477
Adjustments:				
Depreciation expense	84	-	5,731	5,815
Provision for loan losses	(770)	832	5,428	5,490
Amortization of bond issuance costs	-	139	1,447	1,586
Net change in the fair value of investments	(762)	15	(1,467)	(2,214)
Transfers between funds for operating activity	(44,959)	3,079	41,880	-
Interest received from investments	(19,928)	(5,719)	(49,595)	(75,242)
Interest paid	9,613	19,146	140,666	169,425
Changes in assets and liabilities:				
Net increase (decrease) in mortgages and loans	(145,994)	(13,367)	35,741	(123,620)
Net increase (decrease) in assets and liabilities	54,118	(7,917)	(55,404)	(9,203)
Net cash provided by (used for) operating activities	(104,200)	1,001	115,713	12,514
Noncash investing, capital and financing activities:				
Asset transfers	(3,026)		3,026	
Contributions to Alaska Housing Capital Corporation	300,576			
Transfer of investments	(358,868)			
Transfer of other liabilities	58,292			

See accompanying notes to the financial statements.

FOOTNOTE INDEX

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FOR THE YEAR ENDED JUNE 30, 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.

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 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.

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.

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, 2007	June 30, 2006
Restricted cash	$35,730	$ 5,078
Unrestricted	10,234	6,505
Carrying amount	$45,964	$ 11,583
Bank balance	$47,288	$ 12,297

Of the $45,964,000 carrying amount at June 30, 2007, approximately $10,141,000 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.

Investment Maturities (In Years)

	Less Than 1	1-5	6-10	More than 10	June 30, 2007	June 30, 2006
Bank investment Contracts	$ 72,564	$ -	$ -	$ -	$ 72,564	$ 158,358
U S Treasury securities	10,402	13,185	-	-	23,587	187,967
Securities of U.S. Government agencies and corporations	143,756	8,792	-	471	153,019	240,257
Asset-backed securities	545	1,173	-	-	1,718	11,263
Certificates of deposit	20,000	-	-	-	20,000	15,000
Commercial paper and medium term notes	630,764	5,194	846	-	636,804	655,598
Guaranteed investment contracts	353,707	-	-	-	353,707	130,170
Money market funds	13,145	-	-	-	13,145	10,697
Total AHFC portfolio	$ 1,244,883	$ 28,344	$ 846	$ 471	$ 1,274,544	1,409,310
SOA investment pools (note 17)					-	358,868
Total investments					$ 1,274,544	$ $1,768,178

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, 2007	June 30, 2006
Restricted investments	$ 1,080,535	$ 1,411,309
Unrestricted	194,009	356,869
Carrying amount	$ 1,274,544	$ 1,768,178

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.

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, 2007	June 30, 2006
Ending unrealized holding gain	$ 1,933	$ 859
Beginning unrealized holding gain	859	423
Net change in unrealized holding gain	1,074	436
Fair value of investment transferred to state agency	575	-
Net realized gain (loss)	565	(2,266)
Net increase (decrease) in Fair Value	$ 2,214	$ (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;

- 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 June 30, 2007, as described by nationally recognized statistical rating organizations, are shown below (in thousands). $23,587,000 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	$153,019
Asset-backed securities:			
	Aaa	AAA	1,718
Commercial paper & medium-term notes:			
	Aaa	AAA	602
	Aa1	AA	294
	Aa1	AA-	675
	Aa2	AA	536
	Aa2	AA-	1,299
	Aa2	A+	-
	Aa3	AA	1,954
	Aa3	AA-	3,972
	Aa3	A+	166
	A1	AA-	-
	P-1	A-1+	551,310
	P-1	A-1	65,384
	--	A-1	9,767
	Baa3	BBB	845
			636,804
Money market funds			
	--	AAAm	13,145
Unrated investments:			
Bank investment contracts			72,564
Certificates of deposit			20,000
Guaranteed investment contracts			353,707
			446,271
			$1,250,957

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): • Adjustable rate funds • Bank investment contracts • Certificates of deposit • Commercial paper & medium term notes • Deposits in and investments of a commercial bank or credit union • Floating or variable rate notes • Guaranteed investment contracts • Money market funds • Repurchase agreements	60%	5%
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, 2007, the Corporation had investment balances, greater than 5 percent of the Corporations total investments, with the following issuers (in thousands).

Issuer	Investment Fair Value	Percentage of Total Portfolio
GE Capital Corp CP	$191,593	15.03%
AEGON	137,110	10.76
Abbey Nat NA LLC	136,454	10.71
FSA Cap Management Services	105,000	8.24
CFPI	86,351	6.78
Bayerische Landesbank	68,764	5.40

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 $47,288,000 bank balance at June 30, 2007, cash deposits in the amount of $20,094,000 were uninsured and uncollateralized.

Of the Corporation's $1,274,544,000 total investments at June 30, 2007, bank investment contracts in the amount of $72,564,000 were uninsured, unregistered, and held by the counterparty or its agent, but not in the Corporation's name.

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, 2007:

	Investment Fair Value	Modified Duration
Bank investment contracts	$ 72,564	0.000
U.S. Treasury securities:		
Treasury coupon securities	23,587	0.573
Securities of U.S. Government agencies and corporations:		
Federal agency discounts	135,588	0.069
Federal agency coupon securities	16,467	1.076
Federal agency pass through securities	964	2.922
Asset-backed securities	1,718	2.215
Certificates of deposit	20,000	0.139
Commercial paper & medium term notes:		
Commercial paper discounts	629,550	0.276
Corporate bonds	355	2.609
Medium term notes	6,053	1.555
Municipal bonds	846	6.521
Guaranteed investment contracts	353,707	0.000
Money market funds	13,145	0.000
	$ 1,274,544	
Portfolio modified duration		0.5428

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, 2007, are as follows (in thousands):

	Fair Value	Rate	Maturity
Northern Tobacco Securitization Corporation	$ 846	4.75%	June 1, 2015

4 INTERFUND RECEIVABLE/PAYABLE

Due To	Due From: Administrative Fund	Due From: Other Non Major Funds	Due From: Total
Administrative Fund	$ -	$ 15,892	$ 15,892
Housing Development	7,875	-	7,875
Other Non Major Funds	43,524	-	43,524
Total	$ 51,399	$ 15,892	$ 67,291

The balances of $7,875,000 due to Housing Development and of $43,524,000 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 $15,892,000 due from the Other Non-Major funds to the Administrative fund, $403,000 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):

	June 30, 2007	June 30, 2006
Mortgage loans	3,139,975	$3,041,707
Multi-family loans	238,236	260,757
Other notes receivable	74,811	26,726
	3,453,022	3,329,190
Less:		
Allowance for losses	(95,268)	(88,981)
Net Mortgage loans, notes and other loans	3,357,754	3,240,209

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

	June 30, 2007	June 30, 2006
Delinquencies and foreclosures:		
Loans delinquent 30 days or more	109,641	$ 98,249
Foreclosures during period	1,711	1,315
Loans in foreclosure process	10,584	7,828
Mortgage-related commitments:		
To purchase mortgage loans	116,805	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.

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):

12 Months Ending June 30:	Future Minimum Payments Due
2008	3,467
2009	3,467
2010	3,467
2011	3,467
2012	3,467
Thereafter	17,335
Gross payments due	34,670
Less: Unearned revenue	(7,585)
Net investment in direct financing lease	$ 27,085

9 CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2007 and a summary of balances are shown below (in thousands):

	July 1, 2006	Additions	Reductions	June 30, 2007
NON-DEPRECIABLE CAPITAL ASSETS:				
Land	$ 13,762	$ -	$ (9)	$ 13,753
Construction in progress	25,773	4,386	(26,491)	3,668
TOTAL NON-DEPRECIABLE	39,535	4,386	(26,500)	17,421
DEPRECIABLE CAPITAL ASSETS:				
Buildings	166,979	26,491	-	193,470
Computers & Equipment	2,708	65	(27)	2,746
Leasehold Improvements	88	-	-	88
Vehicles	2,023	86	(68)	2,041
	171,798	26,642	(95)	198,345
Less: Accumulated depreciation				
Buildings	(87,258)	(5,469)	-	(92,727)
Computers & Equipment	(2,270)	(198)	27	(2,441)
Leasehold Improvements	(27)	(22)		(49)
Vehicles	(1,748)	(126)	68	(1,806)
	(91,303)	(5,815)	95	(97,023)
TOTAL DEPRECIABLE, NET	80,495	20,827	-	101,322
TOTAL CAPITAL ASSETS, NET	$ 120,030	25,213	(26,500)	118,743

The depreciation expense charged by the Corporation was $5,815,000 for the year ended June 30, 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 $2,935,000 at June 30, 2007.

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 are 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	June 30, 2007	June 30, 2006
Revolving Fund Bonds:			
Draw Down Bonds			
Tax-Exempt:			
• Series 2007 A, Floating rate*, monthly payments, 4.48% at June 30, 2007, due 2019	$ 32,290	$ 32,290	$ -
• Series 2007 C, Floating rate*, monthly payments, 4.38% at June 30, 2007, due 2019	29,395	29,395	-
• Series 2007 D, Floating rate*, monthly payments, 4.38% at June 30, 2007, due 2019	24,570	24,570	-
Total Revolving Fund Bonds	86,255	86,255	-
First-Time Home Buyer Bonds:			
Mortgage Revenue Bonds:			
Tax-Exempt:			
• 1997 Series A, 4.9% to 6.0%, due 2037	160,000	35,530	51,135
Accreted interest		8,756	7,593
Unamortized discount		(352)	(371)
• 1998 Series A, 4.65% to 5.4%, due 2007-2035	70,000	30,810	32,680
• 1999 Series A1 & A2 5.25% to 6.25%, due 2007-2031	200,000	100,210	109,140
Unamortized discount		(110)	(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	32,275	35,510
Unamortized discount		(71)	(179)
• 2001 Series A, 3.5% to 5.3%, due 2007-2031	32,740	22,405	24,245

	Original Amount	June 30, 2007	June 30, 2006
• 2001 Series B,			
4.15% to 5.45%, due 2007-2041	104,450	48,325	57,895
Unamortized premium		61	64
• 2002 Series A, Floating Rate*,			
3.81% at June 30, 2007 due 2032, 2036	170,000	170,000	170,000
• 2006 Series A,			
3.4% to 5.0%, due 2007-2036	98,675	95,360	98,185
Unamortized premium		1,045	1,216
• 2006 Series B,			
3.5% to 5.0%, due 2007-2036	75,000	73,420	75,000
Unamortized premium		703	812
• 2006 Series C,			
3.9% to 5.5%, due 2007-2037	75,000	74,450	-
Unamortized premium		1,425	
• 2007 Series A, Floating Rate*			
3.75% at June 30, 2007 due 2041	75,000	75,000	-
Deferred debt refunding		(2,009)	
• 2007 Series B			
3.72% at June 30, 2007, due 2041	75,000	75,000	-
Deferred debt refunding		(2,009)	
• 2007 Series C			
3.75% to 4.80%, due 2008-2038	89,370	89,370	-
• 2007 Series D			
3.70% at June 30, 2007 due 2041	89,370	89,370	-
Deferred debt refunding		(2,462)	
Taxable:			
• 2000 Series D,			
7.25% to 7.32%, due 2007-2020	25,740	1,145	4,535
• 2002 Series B, Floating Rate*	30,000	-	11,545
Total First-Time Homebuyer Bonds	1,501,240	1,050,362	711,607
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	3,500	10,495
• Collateralized Bonds 1998 First and Second Series,			
4.7% to 5.5%, due 2007-2040	60,000	16,400	21,725
Unamortized discount		(170)	(177)
• Collateralized Bonds 1999 First Series,			
5.0% to 6.25%, due 2007-2039	110,000	41,625	47,950
• Collateralized Bonds 2000 First Series,			
5.5% to 6.45%, due 2007-2039	70,000	22,065	25,960
• Collateralized Bonds 2002 First Series,			
4.15% to 5.65%, due 2007-2034	50,000	23,180	26,905

	Original Amount	June 30, 2007	June 30, 2006
• 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 Bonds 2006 First Series, 3.75% to 4.9%, due 2008-2037	190,000	190,000	-
Total Veterans Mortgage Program Bonds and Notes	740,000	311,290	292,858
Other Housing Bonds:			
Housing Development Bonds:			
Tax-Exempt:			
• 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, 3.72% at June 30, 2007 due 2030	41,705	41,705	41,705
• 2002 Series A, 3.0% to 5.3%, due 2007-2033	8,440	3,140	3,280
• 2002 Series B, 2.85% to 5.15%, due 2007-2022	8,690	7,300	7,625
• 2002 Series C, 2.85% to 5.25%, due 2007-2032	70,000	64,470	65,760
• 2002 Series D, Floating Rate*, monthly payments, 3.73% at June 30, 2007, due 2037	37,870	35,100	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
Taxable:			
• 1997 Series C, 6.8% to 7.55%, due 2007-2029	23,895	380	735
• 2004 Series C, Floating Rate Auction Bonds**	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	387,360	401,220

	Original Amount	June 30, 2007	June 30, 2006
General Mortgage Revenue Bonds:			
Tax-Exempt:			
• 1997 Series A,			
5.1% to 6.1%, due 2007-2037	434,911	-	241,851
Accreted interest		-	7,716
• 1999 Series A,			
4.85% to 6.05%, due 2007-2049	302,700	246,305	248,060
Unamortized deferred debt refunding expense		(1,543)	(1,624)
Unamortized discount		(1,490)	(1,579)
• 2002 Series A,			
3.45% to 5.0%, due 2010-2040	150,000	150,000	150,000
Unamortized deferred debt refunding expense		(1,195)	(1,239)
Unamortized premium		559	576
Government Purpose Bonds:			
Tax-Exempt:			
• 1997 Series A, Floating Rate* monthly payments,			
3.74% at June 30, 2007, due 2027	33,000	23,300	23,300
• 2001 Series A, Floating Rate*,			
3.72% at June 30, 2007, due 2030	76,580	67,485	69,190
2001 Series B, Floating Rate*,			
3.73% at June 30, 2007, due 2030	93,590	82,465	84,555
Taxable:			
• 2001 Series C, Floating Rate*, monthly payments,	100,000	-	78,070
Total Other Housing Bonds	1,693,856	953,246	1,300,096
Non-Housing Bonds:			
State Capital Project Bonds:			
Tax-Exempt:			
• 2001 Series A,			
4.0% to 5.25%, due 2007	74,535	-	19,500
Unamortized premium		-	958
• 2002 Series A,			
3.0% to 5.0%, due 2007-2011	32,905	19,855	23,320
Unamortized premium		791	956
• 2002 Series B, Floating Rate Auction Bonds**			
Payments every four weeks,			
3.70% at June 30, 2007 due 2024	14,555	14,555	14,555
• 2002 Series C, Floating Rate*			
3.72% at June 30, 2007, due 2022	60,250	60,250	60,250
• 2006 Series A,			
3.5% to 5%, due 2007-2040	100,890	100,040	-
Unamortized discount		(2,055)	-
Unamortized premium		2,157	-

	Original Amount	June 30, 2007	June 30, 2006
State Building Lease Bonds:			
Tax-Exempt:			
• 1999 Series,			
4.875% to 5.8%, due 2007-2017	40,000	10,285	12,270
Unamortized discount		(71)	(73)
General Housing Purpose Bonds:			
Tax-Exempt:			
• 1992 Series A,			
6.1% to 6.6%, due 2007-2023	200,000	12,780	18,705
• 2003 Series A, Floating Rate*, monthly payments,			
3.70% at June 30, 2007, due 2023	143,995	126,275	131,625
• 2003 Series B, Floating Rate*, monthly payments,			
3.70% at June 30, 2007, due 2023	16,095	16,095	16,095
• 2005 Series A,			
2.2% to 5.25%, due 2007-2041	143,235	141,735	142,740
Unamortized premium		4,404	5,117
• 2005 Series B,			
2.7% to 5.25%, due 2007-2030	147,610	141,135	144,415
Unamortized deferred debt refunding expense		(12,072)	(12,755)
Unamortized premium		6,275	7,617
• 2005 Series C,			
2.7% to 5%, due 2007-2017	16,885	16,800	16,840
Total Non-Housing Bonds	990,955	659,234	602,135
Other Program Funds:			
Home Ownership Notes:			
Tax-Exempt:			
• Wrangell Project HUD Note, monthly payments,			
1.0%-3.0%, due 2007	1,161	500	527
Total Other Programs	1,161	500	527
Total Bonds and Notes Payable	$ 5,013,467	$ 3,060,887	$ 2,907,223

Note: Debt service payments on the above mentioned bonds and notes are semi-annual unless otherwise mentioned.
*Interest rates on annotated variable-rate bonds are established by the Remarketing Agents on each Rate Determination Date.
**Interest rates on annotated variable-rate auction bonds are established by 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 related discounts and costs of issuance of the old debt is included in a deferred debt refunding account and amortized as interest expense. 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, 2007, the Corporation made special revenue redemptions of $180,245,000 and a current refunding of $220,350,000. 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):

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

Debt Service Requirements**

For all mortgage bonds and notes in the preceding schedules, the Corporation's debt service requirements through 2012 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):

	Administrative Fund Bonds		Housing Development Bonds (Various Issues)		Other Non-Major Bonds	
12 Months Ending June 30	**Principal**	**Interest**	**Principal**	**Interest***	**Principal**	**Interest***
2008	$ -	$ 3.748	$ 6.780	$ 18.792	$ 43.874	$ 121.627
2009	-	3,734	6,770	18,544	48,450	119,654
2010	-	3,741	7,060	18,297	45,360	117,763
2011	-	3,741	7,370	18,016	50,850	115,706
2012	-	3,748	7,705	17,710	55,965	113,374
Total Five Years 2008-2012	-	18,712	35,685	91,359	244,499	588,124
Five Years Ending June 30						
2013-2017	-	18,700	45,560	82,818	304,500	526,835
2018-2022	86,255	6,253	56,755	70,337	371,400	450,050
2023-2027	-	-	66,405	54,432	438,996	367,726
2028-2032	-	-	121,375	37,259	560,032	313,994
2033-2037	-	-	25,395	11,106	401,037	127,014
2038-2042	-	-	30,670	6,494	187,205	43,860
2043-2047	-	-	5,515	207	54,750	16,520
2048-2049	-	-	-	-	24,286	1,835
	$ 86,255	$ 43,665	$ 387,360	$ 354,012	$ 2,586,705	$ 2,435,958

* Interest requirements for variable-rate bonds have been computed using the effective interest rate at June 30, 2007

** Also see Note 11 – Derivatives.

Total Debt Service

Principal	Interest	Total
$ 50,654	$ 144,167	$ 194,821
55,220	141,932	197,152
52,420	139,801	192,221
58,220	137,463	195,683
63,670	134,832	198,502
280,184	698,195	978,379
350,060	628,353	978,413
514,410	526,640	1,041,050
505,401	422,158	927,559
681,407	351,253	1,032,660
426,432	138,120	564,552
217,875	50,354	268,229
60,265	16,727	76,992
24,286	1,835	26,121
$ 3,060,320	$ 2,833,635	$ 5,893,955

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 eight 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, 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
2008	$ 4,640	$ 23,477	$ 2,132	$ 30,249
2009	5,135	23,532	2,105	30,772
2010	5,465	23,336	2,076	30,877
2011	5,710	23,130	2,045	30,885
2012	6,895	22,914	2,013	31,822
2013-2017	72,360	107,882	9,074	189,316
2018-2022	114,910	90,752	6,996	212,658
2023-2027	126,695	67,368	4,675	198,738
2028-2032	119,985	44,121	2,397	166,503
2033-2037	105,065	23,292	593	128,950
2038-2042	67,265	6,465	(90)	73,640
	$ 634,125	$ 456,269	34,016	$ 1,124,410

Significant Terms

The terms, fair values and credit ratings of the Corporation's outstanding swaps as of June 30, 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[6]
GP01A[1]	$ 67,485	$ 69,877	$ (2,392)	08/02/01	4.1427%	67% of LIBOR[4]	12/01/30	A/A2
GP01B	82,465	85,336	(2,871)	08/02/01	4.1427%	67% of LIBOR	12/01/30	AA-/Aa3
E021A1[2]	50,000	51,357	(1,357)	05/16/02	4.1030%	68% of LIBOR	06/01/32	AAA/Aaa
E021A2	120,000	122,412	(2,412)	05/16/02	4.3430%	68% of LIBOR	12/01/36	AAA/Aaa
SC02B[3]	14,555	14,137	418	12/05/02	3.7700%	70% of LIBOR	07/01/24	AAA/Aaa
SC02C	60,250	61,097	(847)	12/05/02	4.3030%	SIFMA[5]+0.115%	07/01/22	AAA/Aaa
E071A1[2]	143,622	138,617	5,005	06/01/07	3.6720%	70% of LIBOR	12/01/41	AAA/Aaa
EO71A2	95,748	92,277	3,471	06/01/07	3.6720%	70% of LIBOR	12/01/41	AAA/Aaa
	$ **634,125**	**$ 635,110**	**$ (985)**					

1. Governmental Purpose Bonds
2. Home Mortgage Revenue Bonds
3. State Capital Project Bonds
4. London Interbank Offered Rate
5. Securities Industry and Financial Markets Municipal Swap Index
6. Standard & Poor's/Moody's

Fair Value

Due to relatively lower interest rates five of the Corporation's earlier interest rate swaps had a negative fair value as of June 30, 2007. Both 2007 agreements, which were priced in early 2006 when forward swap curve yields were optimal, had positive fair values. 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, 2007, the Corporation was not exposed to credit risk only on the SC02B, E071A1 and E071A2 swaps in the amount equal to the swaps' fair value. 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 five separate counterparties. Approximately 76% of the total notional amount of swaps is held with three separate counterparties, all 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+/A1, approximating 13% and 11%, respectively, of the total outstanding notional swap value.

b. Basis Risk

All of the Corporation's variable-rate demand obligation bond coupon payments are based on the tax exempt SIFMA index. Therefore, the Corporation is exposed to basis risk on swaps where the variable payment received on the swaps is based on a taxable LIBOR index and does not offset the variable rate paid on the bonds, which is based on the SIFMA index. The SC02C swap is based on the SIFMA index and, thus is not exposed to any basis risk. As of June 30, 2007, SIFMA was 3.73% and LIBOR was 5.32%, resulting in a positive 1.59% spread. The spread between LIBOR and SIFMA has fluctuated since the agreements became effective, but as the spread increases, so does the anticipated cost savings from the swaps.

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 GP01A and GP01B swaps cover only a portion of the total debt issuance, allowing any increase in the speed of mortgage prepayments to be directed at the unswapped portion of the debt. The E021A1 and E021A2 swaps 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

Termination risk is the risk of an unscheduled termination of a swap prior to its planned maturity. 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, including downgrades and events of default.

12 LONG TERM LIABILITIES

The activity for the year ended June 30, 2007 is summarized in the following schedule (in thousands):

	July 1, 2006	Additions	Reductions	June 30, 2007	Due Within One Year
Draw down bonds	$ -	$ 86,255	$ -	$ 86,255	$ -
Bonds and notes payable	2,907,223	691,257	(623,848)	2,974,632	50,654
Total bonds and notes payable	2,907,223	777,512	(623,848)	3,060,887	50,654
Compensated absences	3,339	2,548	(2,204)	3,683	2,251
Other liabilities	1,512	3,609	(931)	4,190	3,644
Total other long-term liabilities	4,851	6,157	(3,135)	7,873	5,895
	$ 2,912,074	$ 783,669	$ ($626,983)	$ 3,068,760	$ 56,549

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	June 30, 2007	June 30, 2006
Lowest	5.2600%	3.2200%
Highest	5.2900%	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 year ended June 30, 2007 is summarized in the following schedule (in thousands):

	July 1, 2006	Additions	Reductions	June 30, 2007
Commercial Paper	$ 150,000	$ 611,302	$ (641,002)	$ 120,300
Unamortized discount	(1,201)	(7,040)	7,667	(574)
Commercial paper, net	148,799	604,262	(633,335)	119,726
Reverse repurchase	93,650	347,283	(440,933)	-
	$ 242,449	$ 951,545	$ (1,074,268)	$ 119,726

14 TRANSFERS

Transfers for the year ended June 30, 2007 are summarized in the following schedule (in thousands):

	Transfer From					
Transfer To		Administrative Fund		Other Non Major Funds	Total	
	Administrative Fund	$	-	$ 355,302	$	355,302
	Housing Development Fund		13,236	-		13,236
	Other Non Major Funds		290,584	-		290,584
	Total	$	303,820	$ 355,302	$	659,122

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):

	June 30, 2007	June 30, 2006
Liquidity facility	$ 901,690	$ 761,080
Bond insurance	1,825,110	2,045,546
	$ 2,726,800	$ 2,806,626

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, 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.

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):

	June 30, 2007	June 30, 2006
Arbitrage expense	2,694	$(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 June 30, 2007 the Corporation had no share of pool investments. At June 30, 2006, the Corporation's share of pool investments was as follows:

	Fair Value			
Investment Type	Short-term Fixed Income Pool	Intermediate-term Fixed Income Pool	Securities Lending Collateral	Total
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	$ 126,492	$ 174,083	$ 58,293	$ 358,868

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 June 30, 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.

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 were $ 1,289,887; payments up thru June 30, 2007 were $1,200,093 resulting in total remaining commitments of $89,794,000 as of June 30, 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. Debit 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):

Fiscal Year	Transfer Plan Amount
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):

	June 30, 2007	Cumulative Prior Fiscal Year	Total Payments to State
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	15,262	263,418	278,680
Various bond's proceeds disbursed	12,757	277,866	290,623
Total	$ 346,037	$ 1,489,823	$ 1,835,860

19 GRANTS

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

Program	June 30, 2007
Energy Programs:	
▪ Energy Efficiency Monitoring Research	726
▪ Low-Income Home Energy Assistance	349
▪ State Energy Program Special Project	86
▪ Low Income Weatherization Assistance	4,989
	6,150
Section 8 Vouchers and Contract Administration	24,924
Other Housing Assistance Programs	
▪ AMHTA Short Term Housing Assistance	187
▪ Beneficiaries and Special Needs Housing	347
▪ Centers for Medicare/Medicaid Services	327
▪ Denali Commission	7,491
▪ Drug Elimination	262
▪ Grant Match Program	-
▪ HOMD Investment Partnership	4,009
▪ Homeless Assistance Program	1,283
▪ Homeless Information Management System	7
▪ Housing Loan Program	2,400
▪ Housing Opportunities for Persons with AIDS	579
▪ Housing Preservation	50
▪ Resident Opportunity and Support Service	113
▪ Section 8 Contract Administration	6,741
▪ Shelter Plus Care	576
▪ Special Program for the Aging	14
▪ Senior Citizen Housing Development Grant	1,280
▪ Supportive Housing Grant Match	966
▪ Supplemental Housing Grant	7,866
▪ Technical Assistance Grant	117
	34,615
Total Housing Grant Expenses	65,689
Other Program Funds:	
▪ Legislative Appropriations	15,169
▪ University of Alaska FY99	93
Total Non-Housing Capital Project Grants	15,262
Total Grants	$ 80,951

In addition to grant payments made, the Corporation has advanced grant funds of $6,118,000 and committed to third parties a sum of $40,090,000 in grant awards at June 30, 2007.

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)

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 June 30, 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 June 30, 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.

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 year ended June 30, 2007 by the employees was $27,000 and by the Corporation was $24,000

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):

Year Ended	Annual Pension and Postretirement Health Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2007	$ 3,542	100.00%	$ -
June 30, 2006	2,780	100.00%	-
June 30, 2005	1,780	100.00%	-

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 $1,149,000 and $553,000 as of June 30, 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.

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.

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
ASSETS					
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
Total Assets	$ 5,229,576	$ 4,762,933	$ 4,708,480	$ 5,055,511	$ 5,182,154
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
Total Liabilities	3,239,544	3,079,860	3,002,021	3,317,945	3,416,344
Total Fund Equity	1,990,032	1,683,073	1,706,459	1,737,566	1,765,810

	June 30, 2006	June 30, 2005	June 30, 2004	June 30, 2003	June 30, 2002
OPERATING REVENUES					
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
Total Operating Revenues	318,932	309,207	306,040	348,441	349,230
OPERATING EXPENSES					
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
Total Operating Expenses	272,254	269,150	263,560	281,364	273,570
Operating Income	46,678	40,057	42,480	67,077	75,660
NON-OPERATING & SPECIAL ITEM					
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
Change in Net Assets	$ 306,959	$ (23,386)	$ (31,107)	$ (28,244)	$ (7,867)

Schedule of Funding Progress for PERS (in thousands):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess or (Unfunded) AAL (a) – (b)	Funded Ratio (a) / (b)	Covered Payroll (c)	Excess or (Unfunded) AAL as a Percentage of Covered Payroll ((a) – (b)) / (c)
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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APPENDIX C

FORM OF OPINIONS OF BOND COUNSEL

_____, 2007

Alaska Housing Finance Corporation
4300 Boniface Parkway
Anchorage, AK 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 $42,885,000 aggregate principal amount of Collateralized Bonds, 2007 First Series (Veterans Mortgage Program) (the "2007 Bonds") consisting of $13,660,000 Subseries A-1 (Non-AMT) and $29,225,000 Subseries A-2 (AMT) (the "Subseries A-1 Bonds" and "Subseries A-2 Bonds" respectively) 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 the Act and a resolution of the Corporation adopted October 17, 2007, and are issued pursuant to the Indenture authorized by said resolution by and between the Corporation and U.S. Bank Trust National Association, as predecessor trustee, dated as of October 1, 1999, and the 2007 First Series and 2008 First Series Supplemental Indenture, by and between the Corporation and U.S. Bank National Association, as successor trustee (the "Trustee") dated as of December 1, 2007, executed pursuant to said 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, the Corporation's Regulations and Program Materials 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 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. 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.

5. The 2007 Bonds are valid and legally binding general obligations of the State of Alaska for the payment of which, in accordance with their terms, the full faith and credit of the State 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.

6. 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 and 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.

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

8. Interest on the Subseries A-1 Bonds is not treated as a preference item for purposes of calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations; however, such interest is included in calculating the "adjusted current earnings" of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations.

9. Interest on the Subseries A-2 Bonds is treated as a preference item for purposes of calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations.

10. 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 estate and inheritance taxes and taxes of transfers by or in anticipation of death).

11. 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 _____
Kenneth E. Vassar

_____, 2008

Alaska Housing Finance Corporation
4300 Boniface Parkway
Anchorage, AK 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 $15,000,000 aggregate principal amount of Collateralized Bonds, 2008 First Series (Veterans Mortgage Program) (AMT) (the "2008 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 2008 Bonds are authorized and issued pursuant to the Act and a resolution of the Corporation adopted October 17, 2007, and are issued pursuant to the Indenture authorized by said resolution by and between the Corporation and U.S. Bank Trust National Association, as predecessor trustee, dated as of October 1, 1999, and the 2007 First Series and 2008 First Series Supplemental Indenture, by and between the Corporation and U.S. Bank National Association, as successor trustee (the "Trustee") dated as of December 1, 2007, executed pursuant to said Indenture (together, the "Indenture").

The 2008 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 2008 Bonds in order for interest on the 2008 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 2008 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 2008 Bonds, the Corporation's Regulations and Program Materials 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 2008 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 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. The 2008 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.

5. The 2008 Bonds are valid and legally binding general obligations of the State of Alaska for the payment of which, in accordance with their terms, the full faith and credit of the State 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.

6. The 2008 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 and 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.

7. Under existing laws, regulations, rulings and judicial decisions, interest on the 2008 Bonds is excluded from gross income for federal income tax purposes.

8. Interest on the 2008 Bonds is treated as a preference item for purposes of calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations.

9. Under existing laws, interest on the 2008 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 estate and inheritance taxes and taxes of transfers by or in anticipation of death).

10. 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 2008 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 _____
Kenneth E. Vassar

APPENDIX D

FORM OF OPINIONS OF SPECIAL TAX COUNSEL

_____, 2007

Alaska Housing Finance Corporation
4300 Boniface Parkway
Anchorage, AK 99504

Dear Directors:

We have acted as Special Tax Counsel to the Corporation in connection with the offering of the Alaska Housing Finance Corporation's $42,885,000 Collateralized Bonds, 2007 First Series (Veterans Mortgage Program) (the "2007 Bonds") consisting of $13,660,000 Subseries A-1 (Non-AMT) and $29,225,000 Subseries A-2 (AMT) (the "Subseries A-1 Bonds" and "Subseries A-2 Bonds" respectively). In connection therewith, we have examined the provisions of Sections 103 and 141 through 150 of the Internal Revenue Code of 1986, as amended (the "Code"), and the regulations promulgated thereunder and have also examined the following:

(a) an Indenture between the Alaska Housing Finance Corporation (the "Corporation") and U.S. Bank Trust National Association, as predecessor trustee, dated as of October 1, 1999, and a 2007 First Series and 2008 First Series Supplemental Indenture between the Corporation and U.S. Bank National Association as successor trustee (the "Trustee"), dated as of December 1, 2007, authorizing the issuance of the 2007 Bonds (together, the "Indenture");

(b) the opinion of even date herewith of Birch, Horton, Bittner and Cherot, Bond Counsel, approving the legality of the 2007 Bonds and other matters;

(c) the certificate, of even date herewith, of an authorized officer of the Corporation, to the effect that the 2007 Bonds are not "arbitrage bonds" within the meaning of the Code and as to other matters affecting the tax-exempt status of the 2007 Bonds; and

(d) such other matters of fact and law as we have deemed relevant to the rendering of this opinion.

In such examination, 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. We have relied, to the extent we deemed such reliance proper, on certificates and opinions provided to us. In rendering the opinions expressed below, we have relied, without independent investigation, upon the opinion of counsel referred to above that the Bonds have been duly and validly authorized and issued by the Corporation in accordance with the Constitution and statutes of the State of Alaska and other matters not related to federal income taxation.

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the 2007 Bonds in order that interest on the 2007 Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the 2007 Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the federal government or paid to mortgagors. Noncompliance

with such requirements may cause interest on the 2007 Bonds to become included in gross income for federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered.

Based upon the foregoing, we are of the opinion that under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the 2007 Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Code, (ii) interest on the Subseries A-1 Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations, and (iii) interest on the Subseries A-2 Bonds is treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code. In rendering our opinion, we have relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Corporation in connection with the 2007 Bonds, and we have assumed compliance by the Corporation with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the 2007 Bonds from gross income under Section 103 of the Code.

Except as stated in the paragraph above, we express no opinion as to any other matter with respect to the exemption of interest on the 2007 Bonds from federal income taxation or as to the treatment of any such 2007 Bonds for tax purposes by any state, city, county or other jurisdiction. We render our opinion under existing statutes and court decisions as of the issue date, and assume no obligation to update our opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. We express no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for federal income tax purposes of interest on the 2007 Bonds, or under state and local tax law.

As Special Tax Counsel we were not retained to pass on, and assume no responsibility for, matters other than those covered by the specific opinions above. We did not participate in the preparation of the Official Statement with respect to the 2007 Bonds and do not express herein any views with respect thereto.

Very truly yours,

_____, 2008

Alaska Housing Finance Corporation
4300 Boniface Parkway
Anchorage, AK 99504

Dear Directors:

We have acted as Special Tax Counsel to the Corporation in connection with the offering of the Alaska Housing Finance Corporation's $15,000,000 Collateralized Bonds, 2008 First Series (Veterans Mortgage Program) (AMT) (the "2008 Bonds"). In connection therewith, we have examined the provisions of Sections 103 and 141 through 150 of the Internal Revenue Code of 1986, as amended (the "Code"), and the regulations promulgated thereunder and have also examined the following:

(a) an Indenture between the Alaska Housing Finance Corporation (the "Corporation") and U.S. Bank Trust National Association, as predecessor trustee, dated as of October 1, 1999, and a 2007 First Series and 2008 First Series Supplemental Indenture between the Corporation and U.S. Bank National Association as successor trustee (the "Trustee"), dated as of December 1, 2007, authorizing the issuance of the 2008 Bonds (together, the "Indenture");

(b) the opinion of even date herewith of Birch, Horton, Bittner and Cherot, Bond Counsel, approving the legality of the 2008 Bonds and other matters;

(c) the certificate, of even date herewith, of an authorized officer of the Corporation, to the effect that the 2008 Bonds are not "arbitrage bonds" within the meaning of the Code and as to other matters affecting the tax-exempt status of the 2008 Bonds; and

(d) such other matters of fact and law as we have deemed relevant to the rendering of this opinion.

In such examination, 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. We have relied, to the extent we deemed such reliance proper, on certificates and opinions provided to us. In rendering the opinions expressed below, we have relied, without independent investigation, upon the opinion of counsel referred to above that the Bonds have been duly and validly authorized and issued by the Corporation in accordance with the Constitution and statutes of the State of Alaska and other matters not related to federal income taxation.

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the 2008 Bonds in order that interest on the 2008 Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the 2008 Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the federal government or paid to mortgagors. Noncompliance with such requirements may cause interest on the 2008 Bonds to become included in gross income for

federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered.

Based upon the foregoing, we are of the opinion that under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the 2008 Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Code, and (ii) interest on the 2008 Bonds is treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code. In rendering our opinion, we have relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Corporation in connection with the 2008 Bonds, and we have assumed compliance by the Corporation with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the 2008 Bonds from gross income under Section 103 of the Code.

Except as stated in the paragraph above, we express no opinion as to any other matter with respect to the exemption of interest on the 2008 Bonds from federal income taxation or as to the treatment of any such 2008 Bonds for tax purposes by any state, city, county or other jurisdiction. We render our opinion under existing statutes and court decisions as of the issue date, and assume no obligation to update our opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. We express no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for federal income tax purposes of interest on the 2008 Bonds, or under state and local tax law.

As Special Tax Counsel we were not retained to pass on, and assume no responsibility for, matters other than those covered by the specific opinions above. We did not participate in the preparation of the Official Statement with respect to the 2008 Bonds and do not express herein any views with respect thereto.

Very truly yours,

APPENDIX E

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 $42,885,000 aggregate principal amount of its Collateralized Bonds, 2007 First Series (Veterans Mortgage Program) (the "2007 Bonds") and $15,000,000 aggregate principal amount of its Collateralized Bonds, 2008 First Series (Veterans Mortgage Program) (the "2008 Bonds" and, together with the 2007 Bonds, the "Bonds"). The Bonds are being issued pursuant to an Indenture by and between the Corporation and U.S. Bank National Association, as trustee (the "Trustee"), dated as of October 1, 1999 and a 2007 First Series and 2008 First Series Supplemental Indenture thereto, by and between the Corporation and the Trustee, dated as of December 1, 2007 (collectively with the General Indenture, the "Indenture"). The Corporation covenants and agrees with the registered owners and beneficial owners of the 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 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 12-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 purposes referred to in the Rule. Currently, the following are National Repositories:

Bloomberg Municipal Repository
100 Business Park Drive
Skillman, NJ 08558
Telephone: (609) 279-3225
Facsimile: (609) 279-5962
http://www.bloomberg.com/markets/rates/municontacts.html
E-mail: Munis@Bloomberg.com

DPC Data Inc.
One Executive Drive
Fort Lee, NJ 07024
Telephone: (201) 346-0701
Facsimile: (201) 947-0107
http://www.MuniFILINGS.com
E-mail: nrmsir@dpcdata.com

Interactive Data Pricing and Reference Data, Inc.
Attn: NRMSIR
15th Floor
100 William Street
New York, NY 10038
Telephone: (212) 771-6999; (800) 689-8466
Facsimile: (212) 771-7390
http://www.interactivedata-prd.com
E-mail: NRMSIR@interactivedata.com

Standard & Poor's Securities Evaluations, Inc.
45th Floor
55 Water Street
New York, NY 10041
Telephone: (212) 438-4595
Facsimile: (212) 438-3975
www.disclosuredirectory.standardandpoors.com/
E-mail: nrmsir_repository@sandp.com

* Source: www.sec.gov/info/municipal/nrmsir.htm; last modified 4/27/2007.

"*Official Statement*" shall mean the Corporation's final Official Statement with respect to the Bonds, dated December 4, 2007.

"*Participating Underwriter*" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with the offering of the 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.

"*Tax-Exempt*" shall mean that interest on the Bonds is excluded from gross income for federal income tax purposes, whether or not such interest is includable as an item of tax preference or otherwise includable directly or indirectly for purposes of calculating any other tax liability, including any alternative minimum tax.

Section 3. Provision of Annual Reports.

(a) The Corporation shall provide to each Repository an Annual Report for the preceding Fiscal Year (commencing with the Fiscal Year ending June 30, 2008) 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.

(b) If, within 15 Business Days after the date specified in subsection (a) for providing the Annual Report to Repositories, the Trustee has not received a copy of the Annual Report, the Trustee shall contact the Corporation to determine if the Corporation is in compliance with subsection (a).

(c) If the Trustee is unable to verify that an Annual Report has been provided to the Repositories by the date required in subsection (a), the Trustee shall send a notice to the Municipal Securities Rulemaking Board in substantially the form attached as Exhibit A.

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, (v) the application of funds deposited in the 2007/2008 Bonds Redemption Fund, and (vi) financial information and operating data with respect to any series of Bonds of the Corporation.

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 Bonds or any other bonds of the Corporation;

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 Bonds;

7. Modifications to rights of the holders of the Bonds;

8. Unscheduled Bond calls;

9. Defeasance of the Bonds;

10. Release, substitution or sale of property securing repayment of the Bonds; and

11. Rating changes for the 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 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 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 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 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 Bonds, and shall create no rights in any other person or entity.

Date: _____, 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 ISSUER: Alaska Housing Finance Corporation (the "Corporation")

NAME OF ISSUE: $42,885,000 Collateralized Bonds, 2007 First Series (Veterans Mortgage Program) (the "2007 Bonds") and $15,000,000 Collateralized Bonds, 2008 First Series (Veterans Mortgage Program) (the "2008 Bonds")

DATE OF ISSUANCE: _____, 2007 for the 2007 Bonds and _____, 2008 for the 2008 Bonds

NOTICE IS HEREBY GIVEN that Corporation has not provided an Annual Report with respect to the above-named Bonds as required by the agreement between the Corporation and the Trustee.

Dated: _____

ALASKA HOUSING FINANCE CORPORATION

By _____
Name _____
Title _____

CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Agreement") is executed and delivered by the State of Alaska, acting by and through its State Bond Committee (the "State") in connection with the issuance of $42,885,000 aggregate principal amount of Collateralized Bonds, 2007 First Series (Veterans Mortgage Program) (the "2007 Bonds"), and $15,000,000 aggregate principal amount of Collateralized Bonds, 2008 First Series (Veterans Mortgage Program) (together with the 2007 Bonds, the "Bonds") of the Alaska Housing Finance Corporation (the "Corporation"). The Bonds are being issued pursuant to an Indenture by and between the Corporation and U.S. Bank National Association, as trustee (the "Trustee"), dated as of October 1, 1999, and a 2007 First Series and 2008 First Series Supplemental Indenture thereto, by and between the Corporation and the Trustee, dated as of December 1, 2007 (collectively referred to herein as the "Indenture"). The State guarantees payment of principal of and interest on the Bonds. The State and the Trustee covenant and agree with the registered owners and beneficial owners of the Bonds as follows:

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

SECTION 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Agreement 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 State pursuant to, and as described in, Sections 3 and 4 of this Agreement.

"Disclosure State Representative" shall mean the Chairman of the State Bond Committee of the State 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 Agreement.

"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

[*] Source: www.sec.gov/info/municipal/nrmsir.htm; last modified: 4/27/2007.

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

Interactive Data Pricing and Reference Data, Inc.
Attn: NRMSIR
100 William Street, 15th Floor
New York, NY 10038
Phone: 212-771-6999; 800-689-8466
Fax: (212) 771-7390
http://www.interactivedata-prd.com
Email: 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

"Official Statement" shall mean the Corporation's final Official Statement with respect to the Bonds, dated December 4, 2007.

"Participating Underwriters" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the 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 Agreement, there is no State Repository.

"Tax-Exempt" shall mean that interest on the Bonds is excluded from gross income for federal income tax purposes, whether or not such interest is includable as an item of tax preference or otherwise includable directly or indirectly for purposes of calculating any other tax liability, including any alternative minimum tax.

SECTION 3. Provision of Annual Reports.

(a) The State 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 Agreement. The Annual Report shall be provided not later than

210 days after the Fiscal Year to which it relates. At the same time the Annual Report is provided to each Repository, the State shall provide the Annual Report to the Trustee. 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 Agreement; provided that the audited financial statements of the State 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.

(b) If, within fifteen (15) Business Days after the date specified in subsection (a) for providing the Annual Report to Repositories, the Trustee has not received a copy of the Annual Report, the Trustee shall contact the State to determine if the State is in compliance with subsection (a).

(c) If the Trustee is unable to verify that an Annual Report has been provided to the Repositories by the date required in subsection (a), the Trustee shall send a notice to the Municipal Securities Rulemaking Board in substantially the form attached as Exhibit A.

SECTION 4. Content of Annual Reports. The State's Annual Report shall be substantially in the form of the Comprehensive Annual Financial Report for the Fiscal Year ending June 30, 2006, and the Alaska Public Debt 2006-2007 report (together, the "Annual Report"). The Annual Report shall contain financial and general data of the type contained in Appendix A to the Official Statement following the caption "Alaska's Public Debt," "State Financial Information -- Revenues and Expenditures," and "Government" or in such other form as may be required by AS 37.05.210 as then in effect or by any successor statute of the State. The financial statements of the State contained in the Annual Report will be prepared in conformity with generally accepted accounting principles established by the Governmental Accounting Standards Board, if available, or unaudited financial statements for such year as in effect from time to time.

If not provided as part of the Annual Report by the date required (as described under "Provisions of Annual Reports"), the State shall provide audited financial statements, when 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 State 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 State 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 Bonds or any other bonds of the Corporation;

2. Non-payment related defaults under the Indenture and any supplemental indenture;

3. Unscheduled draws on debt service reserve 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 Bonds;

7. Modifications to rights of the holders of the Bonds;

8. Unscheduled Bond calls;

9. Defeasance of the Bonds;

10. Release, substitution or sale of property securing repayment of the Bonds;

11. Rating changes for the Bonds.

Whenever the State obtains knowledge of the occurrence of a Listed Event that is material, the State shall as soon as possible file notice of such occurrence with the Repositories.

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 and no notice of a Listed Event need be given by the State if notice has theretofore been given by the Corporation.

SECTION 6. Termination of Reporting Obligation. The State's obligations under this Agreement shall terminate upon the defeasance, prior redemption or payment in full of all of the Bonds.

SECTION 7. Dissemination Agent. The State 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 Agreement, the State may amend this Agreement 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 State or the type of business conducted thereby;

(b) The Agreement, as amended, would have complied with the requirements of the Rule at the time of the issuance of the 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 Bonds, as determined either by a party unaffiliated with the State (such as Bond Counsel) or by approving vote of the registered owners of a majority in the principal amount of the 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. 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 State to comply with the provisions of this Agreement 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 Agreement shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Agreement in the event of any failure of the State or the Trustee to comply with this Agreement shall be an action to compel performance.

SECTION 10. Beneficiaries. This Agreement shall inure solely to the benefit of the Corporation, the State, and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 11. Governing Law. This Agreement shall be construed and interpreted in accordance with the laws of the State of Alaska, and any suits and actions arising out of this Agreement shall be instituted in a court of competent jurisdiction in the State, provided that, to the extent this Agreement addresses matters of federal securities laws, including the Rule, this Agreement shall be construed in accordance with such federal securities laws and official interpretations thereof.

SECTION 12. Counterparts. This Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Date: _____, 2007.

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

By _____

STATE OF ALASKA

By _____
DEVEN MITCHELL
State Debt Manager

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Alaska Housing Finance Corporation (the "Corporation")

Name of Issue: $42,885,000 Collateralized Bonds, 2007 First Series (Veterans Mortgage Program) (the "2007 Bonds") and $15,000,000 Collateralized Bonds, 2008 First Series (Veterans Mortgage Program) (the "2008 Bonds")

Date of Issuance: _____, 2007, for the 2007 Bonds and _____, 2008, for the 2008 Bonds.

NOTICE IS HEREBY GIVEN that _____ as required by the agreement between the State and the Trustee.

Dated: _____

State of Alaska

By _____

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ALASKA HOUSING FINANCE CORPORATION • COLLATERALIZED BONDS (VETERANS MORTGAGE PROGRAM)

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