# Education Trust of Alaska

**Financial Statements**
**June 30, 2009**

# Education Trust of Alaska
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## Report of Independent Auditors

To the Board of Regents of the University of Alaska,
Trustee for the Education Trust of Alaska:

In our opinion, the accompanying statement of net assets and the related statement of operations and changes in net assets present fairly, in all material respects, the financial position of the Education Trust of Alaska (the "Trust") at June 30, 2009, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America. 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

November 9, 2009

# Education Trust of Alaska
## Statement of Net Assets
## June 30, 2009

| | Operating Fund | Participant Accounts | Total |
|---|---|---|---|
| **Assets** | | | |
| Receivables for securities and units sold | $ - | $ 2,148,046 | $ 2,148,046 |
| Due from Participant Accounts (Note 3) | 104,280 | - | 104,280 |
| Interest receivable | 15,673 | - | 15,673 |
| Receivables, other | 1,000 | 5,328 | 6,328 |
| Seed money due from Participant Accounts (Note 1) | 100,300 | - | 100,300 |
| Investments (Note 4) | 7,886,099 | 2,840,401,398 | 2,848,287,497 |
| Total assets | 8,107,352 | 2,842,554,772 | 2,850,662,124 |
| **Liabilities** | | | |
| Payables for securities sold and units repurchased | - | 2,139,386 | 2,139,386 |
| Program fees due to Operating Fund | - | 104,280 | 104,280 |
| Seed money due to Operating Fund (Note 1) | - | 100,300 | 100,300 |
| Payables, other and accrued expenses | 153,239 | 1,566,794 | 1,720,033 |
| Tuition-Value Guarantee (Note 7) | 5,210,000 | - | 5,210,000 |
| Total liabilities | 5,363,239 | 3,910,760 | 9,273,999 |
| Net assets | $ 2,744,113 | $ 2,838,644,012 | $ 2,841,388,125 |

The accompanying notes are an integral part of these financial statements.

# Education Trust of Alaska
## Statement of Operations and Changes in Net Assets
## Year Ended June 30, 2009

| | Operating Fund | Participant Accounts | Total |
|---|---|---|---|
| **Revenues and other additions** | | | |
| Participant contributions | $ - | $ 631,304,707 | $ 631,304,707 |
| Net investment income | 280,861 | 77,192,858 | 77,473,719 |
| Net realized and unrealized gains and (losses) | (873,914) | (545,077,407) | (545,951,321) |
| Program fees retained | 1,139,057 | - | 1,139,057 |
| | 546,004 | 163,420,158 | 163,966,162 |
| **Expenses and other deductions** | | | |
| Distributions to participants | 228,649 | 478,277,416 | 478,506,065 |
| Distributions from net investment income | - | (604,138) | (604,138) |
| Program and administrative fees (Note 5) | - | 19,505,902 | 19,505,902 |
| Administrative expenses of the Trust (Note 6) | 923,006 | - | 923,006 |
| Provision for Tuition-Value Guarantee (Note 7) | 1,690,000 | - | 1,690,000 |
| | 2,841,655 | 497,179,180 | 500,020,835 |
| Net decrease in net assets | (2,295,651) | (333,759,022) | (336,054,673) |
| **Net assets** | | | |
| Beginning of year (Note 6) | 5,039,764 | 3,172,403,034 | 3,177,442,798 |
| End of year | $ 2,744,113 | $ 2,838,644,012 | $ 2,841,388,125 |

The accompanying notes are an integral part of these financial statements.

### 1. Organization and Summary of Significant Accounting Policies

The Education Trust of Alaska (the "Trust"), formerly the University of Alaska Savings Trust, was established on April 20, 2001 to help participants provide for the increasing cost of higher education through tax-advantaged savings and investments in accordance with the provisions of Section 529 of the Internal Revenue Code. The University of Alaska (the "University"), serves as Trustee and T. Rowe Price Associates, Inc. (the "Program Manager") serves as program manager. For financial reporting purposes the Trust consists of two funds: the Operating Fund and Participant Accounts.

Operating Fund: The Operating Fund represents net assets retained as a reserve for payment of the University of Alaska tuition-value guarantees, program administrative costs, and participant benefits and other purposes of the Trust. The Operating Fund invests in a blend of equities, fixed income and money market funds.

Participant Accounts: The Participant Accounts consist of accounts established by participants in the University of Alaska College Savings Plan (the "Alaska Plan"), the T. Rowe Price College Savings Plan (the "Price Plan") and John Hancock Freedom 529 (the "Hancock Plan"), (collectively "the Plans"). The Alaska Plan is primarily distributed in Alaska, and the Price Plan is distributed nationally by T. Rowe Price. The Hancock Plan is distributed nationally by John Hancock Distributors LLC through brokers and other financial intermediaries. The plans offer enrollment-based and static portfolios, each of which invests in predetermined underlying equity, fixed-income, and/or money market mutual funds. In addition to other investment options, the Alaska Plan offers the ACT Portfolio that carries a University of Alaska tuition-value guarantee.

#### Basis of Presentation

The accompanying financial statements were prepared in accordance with accounting principles generally accepted in the United States of America, which require the use of estimates by the Program Manager and the Trustee. Actual amounts could differ from those estimates and the differences could have a material impact on the financial statements. Further, management believes no events have occurred between June 30, 2009 and November 9, 2009, the date the financial statements were available to be issued, that require adjustment of, or disclosure in, the financial statements.

#### Federal Income Taxes

The Trust is designed to operate as a qualified tuition program under Section 529 of the Internal Revenue Code of 1986, as amended. Accordingly, the Trust is exempt from general income tax and has no unrelated business income; therefore, it makes no provision for federal income taxes.

#### Investment Income and Transactions

Income and capital gain distributions from the underlying mutual fund investments are recorded on the ex-dividend date. Expenses are recorded on the accrual basis. Realized gains and losses from investment transactions are reported on the identified cost basis. Investment transactions in shares of the underlying mutual fund investments are accounted for based on the trade date.

#### Sales Charges

The Alaska Plan and the Price Plan are offered with one class of units and have no sales charges or load. The portfolios of the Hancock Plan currently are offered in up to three classes of units. Class A units pay a 5.25% front-end sales load, except that: 1) contributions are subject to reduced sales charges at defined asset levels, based on an account holder's total plan assets and 2) additions to certain accounts established prior to June 3, 2002, are generally charged the original 3.5% sales load. Class B units are subject to a Contingent Deferred Sales Charge (CDSC) of up to 5.00%, declining annually, on withdrawals made within six years of the contribution. Class B units automatically convert to Class A units in the seventh year. Class C and Class C2 units incur no front-end sales loads. Class C units are available only in certain portfolios and only to Class C accounts established prior to October 1, 2002. In all other respects, each class has the same rights and obligations as the other classes.

**Program Fees Retained by the Trust**

The Trust retains a portion of the program fee equal to 5 basis points (0.05% annualized) of the average daily net assets of the Hancock Plan. Effective December 1, 2007, the Trust agreed to forego the retention of any portion of the Program Fee for the Money Market Fund and to reimburse the Program Manager for program costs at 1 basis point (annualized 0.01%) of the average daily net assets, exclusive of the Money Market Portfolio.

The Trust also retains 4 basis points (0.04% annualized) of the program fee for the Alaska and Price plans when the combined assets exceed $750 million. The Trust retains an additional 6 basis points (0.06%) on assets over $1 billion when the combined assets of the two plans exceed $1 billion. The portion retained by the Trust is determined monthly based upon the combined average daily net assets of the Alaska and Price plans. Effective July 1, 2007, the ACT Portfolio was excluded from calculation of program fees retained by the Trust.

The program fees retained by the Trust are used exclusively for expenses of the program and other purposes of the Trust.

**Seed Money**

As new portfolios are established, the Operating Fund provides "seed money" to open the portfolios for administrative purposes, such as initial net asset value calculations. The seed money is returned to the Operating Fund with earnings. On May 29, 2009, the Trust advanced $100,000 to seed a new portfolio. The market value of the portfolio at June 30, 2009 was $100,300.

**New Accounting Pronouncement**

On July 1, 2007, the Trust adopted Statement of Financial Accounting Standards No. 157 (FAS 157), Fair Value Measurements. FAS 157 defines fair value, establishes the framework for measuring fair value, and expands the disclosures of fair value measurements in the financial statements. Adoption of FAS 157 had no impact on the Trust's net assets or results of operations.

## 2. Investment Valuation

Investments of the Trust are reported at fair value as defined under FAS 157. Investments in underlying mutual funds are valued at the underlying mutual fund's closing net asset value (NAV) per share on the date of valuation. The NAV is calculated as of the close of the New York Stock Exchange, normally 4 p.m. ET, each day that the exchange is open for business. Each portfolio's assets are valued and totaled, liabilities are subtracted, and each class's proportionate share of the balance, called net assets, is divided by the number of units outstanding of that class.

Investments for which such valuation procedures are inappropriate or are deemed not to reflect fair value are stated at fair value as determined in good faith by or under the supervision of the program manager, as authorized by the Trustee. Additional information on the valuation policy of the underlying mutual funds can be found in the financial statements of each fund.

Various inputs are used to determine the value of investments. These inputs are summarized in the three broad levels listed below:

- Level 1 – quoted prices in active markets for identical securities
- Level 2 – observable inputs other than Level 1 quoted prices (including, but not limited to, quoted prices for similar securities, interest rates, prepayment speeds, and credit risk)
- Level 3 – unobservable inputs

Observable inputs are those based on market data obtained from sources independent of the Trust, and unobservable inputs reflect the Trust's own assumptions based on the best information available.

The input levels are not necessarily an indication of the risk or liquidity associated with investments at that level. Investments are summarized by level, based on the inputs used to determine their values. Because the underlying mutual funds in which the Trust invests are actively traded at publicly available NAVs, all investments are classified as Level 1 on June 30, 2009.

## 3. Due from Participant Accounts

Due from Participant Accounts represents program fees due to the Operating Fund for administration of the program. As of June 30, 2009, program fees of $104,280 were due to the Operating Fund from Participant Accounts.

## 4. Investments

### Operating Fund

At June 30, 2009, the Trust's Operating Fund included the following investments in T. Rowe Price Mutual funds:

| | |
|---|---|
| T. Rowe Price Equity Index 500 Fund | $ 2,589,945 |
| T. Rowe Price Extended Equity Market Index | 658,484 |
| T. Rowe Price Prime Reserve Fund | 31,951 |
| T. Rowe Price Summit Cash Reserves Fund | 213,233 |
| T. Rowe Price U.S. Bond Index Fund | 4,392,486 |
| | $ 7,886,099 |

### Participant Accounts

The Alaska Plan and Price Plan are distributed and managed by T. Rowe Price Associates, Inc. with investments in portfolios composed of T. Rowe Price mutual funds. Participant contributions are recorded and invested in the Alaska Plan or the Price Plan according to instructions provided by the participants on the trade date. Total investments in the plans were $933,252,151 at June 30, 2009 and were invested in the following mutual funds:

| | |
|---|---|
| T. Rowe Price Blue Chip Growth Fund | $ 57,150,192 |
| T. Rowe Price Emerging Markets Stock Fund | 16,792,356 |
| T. Rowe Price Equity Index 500 Fund | 270,580,023 |
| T. Rowe Price Extended Equity Market Index Fund | 3,847,099 |
| T. Rowe Price International Growth & Income Fund | 26,623,539 |
| T. Rowe Price International Stock Fund | 31,037,416 |
| T. Rowe Price Mid-Cap Growth Fund | 24,724,391 |
| T. Rowe Price Mid-Cap Value Fund | 24,461,024 |
| T. Rowe Price Overseas Stock Fund | 28,154,745 |
| T. Rowe Price Short-Term Income Fund | 55,765,889 |
| T. Rowe Price Small-Cap Stock Fund | 33,841,265 |
| T. Rowe Price Spectrum Income Fund | 237,068,249 |
| T. Rowe Price Summit Cash Reserves Fund | 33,998,144 |
| T. Rowe Price Total Equity Market Index Fund | 7,892,742 |
| T. Rowe Price U.S. Bond Index Fund | 26,046,433 |
| T. Rowe Price Value Fund | 55,268,644 |
| | $ 933,252,151 |

The Hancock Plan is distributed by John Hancock Distributors LLC and managed by T. Rowe Price Associates, Inc. The Hancock Plan is invested in portfolios with underlying T. Rowe Price and other mutual funds. Total investments in the plan were $1,907,149,247 at June 30, 2009 and were invested in the following mutual funds:

| | | |
|---|---|---|
| American Mutual Fund F | $ | 65,257,028 |
| John Hancock Classic Value Fund I | | 47,659,283 |
| John Hancock Funds II Capital Appreciaton | | 135,000,536 |
| John Hancock Funds II Emerging Markets Value | | 26,786,723 |
| John Hancock Funds II Fundamental Value | | 51,234,517 |
| John Hancock Funds II International Value | | 86,585,965 |
| John Hancock Funds II Lifestyle Balanced Portfolio, Class 5 | | 21,975,901 |
| John Hancock Funds II Lifestyles Growth Portfolio, Class 5 | | 49,529,532 |
| John Hancock Funds II Lifestyles Moderate Portfolio, Class 5 | | 9,427,322 |
| John Hancock Funds II Total Return | | 268,510,809 |
| Oppenheimer International Growth Fund Y | | 70,779,358 |
| T. Rowe Price Blue Chip Growth Fund | | 203,461,792 |
| T. Rowe Price Equity Income Fund | | 156,888,480 |
| T. Rowe Price Financial Services Fund | | 10,035,542 |
| T. Rowe Price Health Sciences Fund | | 9,734,455 |
| T. Rowe Price Mid-Cap Value Fund | | 91,669,814 |
| T. Rowe Price New Horizons Fund | | 97,531,340 |
| T. Rowe Price Science & Technology Fund | | 10,876,972 |
| T. Rowe Price Short-Term Bond Fund | | 12,136,165 |
| T. Rowe Price Short-Term Income Fund | | 133,852,971 |
| T. Rowe Price Small-Cap Stock Fund | | 6,510,593 |
| T. Rowe Price Spectrum Income Fund | | 266,321,195 |
| T. Rowe Price Summit Cash Reserves Fund | | 75,382,954 |
| | $ | 1,907,149,247 |
| Total Investments, all portfolios | $ | 2,840,401,398 |

## 5. Program and Administrative Fees

Program and administrative fees deducted from the Participant Accounts represent fees charged to participants for the administration, promotion and distribution of the plans. For the Alaska and Price plans, the Trust charges accounts an annual account fee of $25 per account and a program management fee of 28 basis points (0.28% annualized) of the average daily net assets of an account. Accounts of the ACT Portfolio are not subject to any account fee or program management fee.

For the Hancock Plan accounts, the Trust charges an annual account fee of $25 and a basic program fee of 35 basis points (0.35% annualized) except for the Money Market Portfolio for which a program fee of 30 basis points (0.30% annualized) is charged. A Trust fee of 5 basis points (0.05% annualized) is charged on all accounts except for the Money Market Portfolio for which the Trust fee is waived entirely. Distribution fees, which range from 25 to 100 basis points (0.25% to 1.00% annualized) depending upon the unit class are also charged to all accounts.

Certain program and administrative fees are waived or reduced for accounts and account holders that achieve specified account balance levels, invest in the ACT Portfolio, or participate in authorized automatic payment, payroll deduction, or employer programs. All fees, except for the portions retained by the Trust as described in Note 1, are transferred to the Program Manager for program management services.

## 6. Administrative Expenses of the Trust

Program and administrative expenses charged to the Operating Fund represent payments to the University of Alaska, as Trustee, for administration of the Trust including reimbursement of marketing, compensation and benefits and other expenses incurred by the University of Alaska on behalf of the Trust. During the prior year the Trust assumed responsibility for funding most of its direct costs including compensation and benefits of its staff, promotion and advertising, and the cost of audit services for the Alaska, Price and Hancock plans. In addition, effective December 1, 2007, the Trust commenced reimbursing the Program Manager monthly for costs incurred by the Program Manager in connection with the Hancock Plan at a rate of 1 basis point (0.01% annualized) times the average daily assets of the Hancock Plan excluding the Money Market Portfolio. For FY2009 the Trustee incurred direct costs of $747,358 for administration of the Trust and its College Savings Program which were eligible for reimbursement by the Trust. The Trust also paid or accrued charges of $175,648 for FY2009 in connection with its cost and revenue sharing agreement with the Program Manager. At June 30, 2009, the Trust had a payable to the Trustee for reimbursement of support costs in the amount of $138,225 and to the Program Manager in the amount of $15,014 for cost sharing.

The Trust records an accrual of certain administrative expenses incurred during the year but reimbursed to the University of Alaska subsequent to year-end. Due to an error in recording the accrual for the year ended June 30, 2008, payables, other and accrued liabilities were understated and net assets were overstated at June 30, 2008 by $76,488. Management has revised beginning net assets on the Statement of Operations and Changes in Net Assets for the year ended June 30, 2009 from $5,116,252 to $5,039,764 to account for this prior period error.

## 7. Tuition–Value Guarantee

The University of Alaska tuition-value guarantee represents a guarantee by the Trust that the long-term earnings applicable to investments in the ACT Portfolio, which are redeemed for payment of regular tuition at the University of Alaska, will keep pace with tuition inflation at the University of Alaska. As of June 30, 2009, the Trustee estimates the liability for the tuition-value guarantee to be approximately $5,210,000. The Trustee utilized a methodology to estimate the liability, which is based in part on the number of ACT credits assigned to each account, at June 30, 2009. An ACT credit is a unit of education equal to one upper-division credit hour charge at the University of Alaska's largest campus in Anchorage. The actuarial analysis is based on several significant assumptions including: 1) that distribution and tuition utilization patterns for the most recent 5-year period will continue, 2) that the average annual tuition inflation for the University of Alaska will be similar to its average tuition inflation for the previous 28 years of approximately 8.00%, and 3) that average portfolio earnings will be approximately 6.00% based on target asset allocations and management's long-term capital market return estimate. The actuarial assumptions are consistent with those of the prior year, but resulted in increasing the estimated Tuition-Value Guarantee by $1,690,000 to $5,210,000 primarily due to market conditions.

## 8. Related Party Transactions

As described in Note 1 the University of Alaska (University) serves as Trustee for the Trust. Certain University employees serve as management and staff for the Trust and the College Savings Plans. The direct costs incurred by the University for these positions and other costs of the College Savings Program are reimbursed by the Trust. Other University departments provide accounting and legal services without charge. Additional information regarding cost reimbursements to the University is provided in Note 6.

## 9. Portfolio Changes

### The Alaska and Price Plans

Effective May 15, 2009, Portfolio 2009 matured, all investments were sold, and all outstanding units were exchanged into the Portfolio for College at the net asset value per unit on that date.

Effective May 29, 2009, Portfolio 2030 was seeded with a $100,000 investment by the Trust and commenced operations. The portfolio was available for investment by participants on June 1, 2009.

### The Hancock Plan

Effective August 1, 2008, the John Hancock Funds II Emerging Markets Value Fund (subadvised by Dimensional Fund Advisors) was added as a third underlying international equity fund option to the portfolios that have international equity allocations.

Effective April 1, 2009, the Short-Term Bond Portfolio was reopened for investment in Class A and C2; accordingly, Class A, Class B, and Class C2 are available for new accounts and all classes are available for new contributions to existing accounts.

## 10. Market Conditions

The traditional securities and financial markets underwent significant unrest and volatility during the year ended June 30, 2009. As a result, the Trust experienced a substantial decline in the value of many of its investment portfolios since June 30, 2008. The change in the value of the individual portfolios for the fiscal year ranged from approximately +4% to -6% for the more conservative portfolios, -8% to -17% for moderate portfolios and from -16% to -27% for some of the more aggressive portfolios. Although asset values were down approximately $335 million at June 30, 2009, management does not anticipate any significant disruption to the Trust's functions and operations

## 11. Subsequent Events

### Portfolio Changes

Effective July 1, 2009, the John Hancock Classic Value I was replaced with the John Hancock Disciplined Value I (subadvised by Robeco) as an underlying equity fund option for certain portfolios.