

Education Trust of Alaska

Financial Statements

June 30, 2011

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, 2011, and the results of its operations and changes in net assets 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 11, 2011

Education Trust of Alaska
Statement of Net Assets
June 30, 2011

	Operating Fund	Participant Accounts	Total
Assets			
Receivables for securities and units sold	\$ -	\$ 2,541,077	\$ 2,541,077
Due from (to) Participant Accounts (Note 3)	177,289	(177,289)	-
Interest receivable	16,704	-	16,704
Due from the Trustee	17,404	-	17,404
Seed money (Note 2)	29,200	(29,200)	-
Investments (Notes 5, 8)	11,828,163	4,337,958,407	4,349,786,570
	<u>12,068,760</u>	<u>4,340,292,995</u>	<u>4,352,361,755</u>
Liabilities			
Payables for securities and units purchased	-	2,398,325	2,398,325
Payables, other and accrued expenses	180,934	2,250,127	2,431,061
Suspended accounts (Notes 5, 8)	512,546	-	512,546
Tuition-Value Guarantee (Note 9)	4,490,000	-	4,490,000
	<u>5,183,480</u>	<u>4,648,452</u>	<u>9,831,932</u>
Net assets	<u>\$ 6,885,280</u>	<u>\$ 4,335,644,543</u>	<u>\$ 4,342,529,823</u>

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, 2011

	Operating Fund	Participant Accounts	Total
Revenues and other additions			
Participant contributions	\$ -	\$ 1,099,656,229	\$ 1,099,656,229
Net investment income	287,789	85,551,378	85,839,167
Net realized and unrealized gains and (losses)	1,114,471	652,395,766	653,510,237
Program fees retained	1,952,926	-	1,952,926
Provision for Tuition-Value Guarantee (Note 9)	850,000	-	850,000
	<u>4,205,186</u>	<u>1,837,603,373</u>	<u>1,841,808,559</u>
Expenses and other deductions			
Distributions to participants	155,962	874,430,645	874,586,607
Program and administrative fees (Note 6)	-	27,055,891	27,055,891
Administrative expenses of the Trust (Note 7)	1,136,839	-	1,136,839
	<u>1,292,801</u>	<u>901,486,536</u>	<u>902,779,337</u>
Net increase in net assets	2,912,385	936,116,837	939,029,222
Net assets			
Beginning of year	<u>3,972,895</u>	<u>3,399,527,706</u>	<u>3,403,500,601</u>
End of year	<u>\$ 6,885,280</u>	<u>\$ 4,335,644,543</u>	<u>\$ 4,342,529,823</u>

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

Education Trust of Alaska

Notes to Financial Statements

June 30, 2011

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, 2011 and November 11, 2011, the date the financial statements were available to be issued, which 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 3.50% 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 and are not subject to any CDSC. Class C units are available only in certain

Education Trust of Alaska

Notes to Financial Statements

June 30, 2011

portfolios and only to Class C accounts established prior to October 1, 2002. Transactions in the JH Money Market Portfolio incur no sales loads. In all other respects, each class has the same rights and obligations as the other classes.

Program Fees Retained by the Trust

For the Hancock Plan, 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 excluding the Money Market Portfolio. Effective December 1, 2007, the Trust agreed to forego the retention of any portion of the Program Fee for the Money Market Portfolio 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.

For the Alaska and Price Plans, the Trust retains 4 basis points (0.04% annualized) of the program fee. The Trust also retains an additional 6 basis points (0.06%) on the combined assets of the two plans in excess of \$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 excluding the ACT Portfolio.

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

2. 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 subsequently returned to the Operating Fund with earnings. On April 29, 2011, the Trust advanced \$30,000 to seed a new portfolio. The market value of the portfolio at June 30, 2011 was \$29,200.

3. Due from (to) Participant Accounts

Due from (to) Participant Accounts represents program fees due to the Operating Fund for administration of the program. As of June 30, 2011, program fees of \$177,289 were due to the Operating Fund from Participants Accounts.

4. Investment Valuation

Investments of the Trust are reported at fair value as defined under FASB Accounting Standards Codification 820. 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. Each day that the New York Stock Exchange is open for business the assets of each portfolio 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.

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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, 2011.

5. Investments

Operating Fund

At June 30, 2011, the Trust's Operating Fund included the following investments in T. Rowe Price Mutual funds:

T. Rowe Price Equity Index 500 Fund	\$ 3,893,081
T. Rowe Price Extended Equity Market Index	872,807
T. Rowe Price Prime Reserve Fund	17,951
T. Rowe Price Summit Cash Reserves Fund - Operating Account	22,872
T. Rowe Price Summit Cash Reserves Fund - Suspended Accounts (Note 8)	512,546
T. Rowe Price U.S. Bond Index Fund	6,508,906
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	\$ 11,828,163

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 \$1,470,155,775 at June 30, 2011 and were invested in the following mutual funds:

T. Rowe Price Blue Chip Growth Fund	\$ 100,837,007
T. Rowe Price Emerging Markets Stock Fund	23,664,817
T. Rowe Price Equity Index 500 Fund	418,280,144
T. Rowe Price Extended Equity Market Index Fund	4,694,218
T. Rowe Price International Growth & Income Fund	37,995,444
T. Rowe Price International Stock Fund	40,666,140
T. Rowe Price Mid-Cap Growth Fund	33,556,971
T. Rowe Price Mid-Cap Value Fund	33,647,012
T. Rowe Price Overseas Stock Fund	39,553,679
T. Rowe Price Small-Cap Stock Fund	45,297,058
T. Rowe Price Spectrum Income Fund	312,333,888
T. Rowe Price Summit Cash Reserves Fund	32,052,652
T. Rowe Price Total Equity Market Index Portfolio	18,104,900
T. Rowe Price U.S. Bond Index Fund	35,698,803
T. Rowe Price Value Fund	97,570,520
T. Rowe Price New Income Fund	93,250,400
T. Rowe Price Inflation Focused Bond Fund	102,952,122
	<hr/>
	\$ 1,470,155,775

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 \$2,867,802,632 at June 30, 2011 and were invested in the following mutual funds:

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American Mutual Fund, Class F1	\$ 93,974,366
John Hancock Disciplined Value Fund I	71,682,631
John Hancock Funds II International Value	113,288,469
John Hancock Funds II - Lifestyle Growth Portfolio, Class 5	116,590,989
John Hancock Funds II - Lifestyle Balanced Portfolio, Class 5	60,165,768
John Hancock Funds II - Lifestyle Moderate Portfolio, Class 5	26,252,562
John Hancock Funds II Capital Appreciation	200,113,912
John Hancock Funds II Emerging Markets Value	30,331,874
John Hancock Funds II Fundamental Value	73,316,639
John Hancock Funds II Total Return	402,709,760
Oppenheimer International Growth Fund	92,814,690
T. Rowe Price Blue Chip Growth Fund	292,558,232
T. Rowe Price Equity Income Fund	253,095,626
T. Rowe Price Financial Services Fund	14,969,696
T. Rowe Price Health Sciences Fund	15,164,166
T. Rowe Price Inflation Focused Bond Fund	241,842,235
T. Rowe Price Mid-Cap Value Fund	136,072,943
T. Rowe Price New Horizons Fund	119,560,667
T. Rowe Price Science & Technology Fund	15,144,487
T. Rowe Price Short-Term Bond Fund	25,157,443
T. Rowe Price Small-Cap Stock Fund	13,207,478
T. Rowe Price Spectrum Income Fund	401,236,867
T. Rowe Price Summit Cash Reserves Fund	58,551,132
	<u>\$ 2,867,802,632</u>
Total Investments, all portfolios	<u>\$ 4,337,958,407</u>

6. 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 \$20 per account and a program management fee of 20 basis points (0.20% 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) included in the program fee is charged on all accounts except for the Money Market Portfolio, which is not subject to the Trust fee. 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.

During the year ended June 30, 2011, the Trustee authorized the Program Manager to waive all or a portion of the applicable program management fee and distribution and service fees for the Money Market Portfolios in the Alaska, Price and Hancock Plans to the extent necessary to maintain a net

Education Trust of Alaska

Notes to Financial Statements

June 30, 2011

yield of at least 0.00% for any specific day. Pursuant to this arrangement, fees of \$59,000 were waived for the Money Market Portfolio in the Alaska and Price Plans, collectively, and \$178,000 for the Money Market Portfolio in the Hancock Plan. In addition, the Program Manager voluntarily agreed to limit the ratios of direct and indirect expenses for the Hancock Plan Fixed Income Portfolio to 1.34% for Class A, 2.09% for Classes B and C2, and 1.59% for Class C. Expenses in excess of the expense limit totaling \$16,000 were reimbursed by the Program Manager and will not be subject to future repayment.

7. 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. The Trust has assumed responsibility for funding 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 the fiscal year ended June 30, 2011 the Trust incurred direct costs of \$881,922 for administration of its College Savings Program. The Trust also incurred charges of \$254,917 for the fiscal year ended June 30, 2011 in connection with its cost sharing agreement with the Program Manager. At June 30, 2011, the Trust had payables and accrued expenses in the amount of \$180,934 of which \$22,619 is payable to the Program Manager as cost sharing.

8. Suspended Accounts

When a Participant's Account remains inactive for any consecutive seven-year period after the Beneficiary's 20th birthday and the Program Manager has not been able to contact the Account Holder, the account balance is transferred to a Suspended Account Liability pending further contact with the Account Holder and reinstatement of the suspended account balance. During the year ended June 30, 2011, 366 accounts from the UA College Savings Plan totaling \$512,546 met the criteria for suspension and were transferred to T. Rowe Price Summit Cash Reserve and recorded as a Suspended Accounts Liability.

9. 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, 2011, the Trustee estimates the liability for the tuition-value guarantee to be approximately \$4,490,000. 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, 2011. 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 30 years of approximately 8.00% and 3) that average portfolio earnings will be approximately 5.50% based on target asset allocations and management's long-term capital market return estimate. In addition, the expected payments needed from the Trust to provide the guarantee were discounted to a present value at June 30, 2011 using the risk-free spot rates of interest implied by the U.S. Treasury yield curve as of June 30, 2011. The actuarial assumptions and methodology are consistent with those of the prior year, except that tuition for the first two years is expected to be 6.95% and 8.00% rather than approximately 10.00% as used

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Notes to Financial Statements

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last year and the average earnings assumption was reduced to 5.50% from 6.00%. These differences and portfolio earnings of approximately 15% rather than the 6% assumption utilized in the calculation resulted in decreasing the estimated Tuition-Value Guarantee by \$850,000 to \$4,490,000.

10. Related Party Transactions

As described in Note 1, the 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.

11. Portfolio Changes

The Alaska and Price Plans

Beginning in December 2009, the Portfolio for College and Portfolio 2012 near dated enrollment-based portfolios began gradually transitioning from the Spectrum Income Fund allocations to the New Income Fund in an effort to reduce short-term volatility. The transition for the Portfolio for College was completed by July 2011 and it is expected that the transition for Portfolio 2012 will be complete after June 2012.

Effective July 7, 2010, the T. Rowe Price Short-Term Income Fund, which currently serves as an underlying fund of the direct plans, has been renamed the T. Rowe Price Inflation Focused Bond Fund. Consistent with the name change, the T. Rowe Price Inflation Focused Bond Fund will focus more of its investments on securities that are indexed to inflation.

Effective May 6, 2011, the T. Rowe Price U.S. Bond Index Fund, which currently serves as an underlying fund of the direct plans, has been renamed the U.S. Bond Enhanced Index Fund (the fund). The fund's investment objective was modified to reflect a more active management style; the fund seeks to provide a total return that matches or incrementally exceeds the performance of the U.S. investment-grade bond market.

The Hancock Plan

Effective July 7, 2010, the T. Rowe Price Short-Term Income Fund, which currently serves as an underlying fund of the direct plans, has been renamed the T. Rowe Price Inflation Focused Bond Fund. Consistent with the name change, the T. Rowe Price Inflation Focused Bond Fund will focus more of its investments on securities that are indexed to inflation.

Effective July 7, 2010, the T. Rowe Price Inflation Focused Bond Fund was added as an underlying fixed income fund option of Portfolio 2013-2016.

On April 29, 2011, Portfolio 2029-2032 was seeded with a \$10,000 investment per share class, for a total of \$30,000, by the Trust and commenced operations. The Portfolio was available for investment by the public on May 2, 2011.

As scheduled, at the close of business on May 20, 2011, Portfolio 2009-2012 matured, all investments were sold, and all outstanding units were exchanged into the College Portfolio at the net asset value per unit on that date.

12. Market Conditions

For the Alaska and Price plans, with the exception of the Money Market Portfolio, all of the portfolios had returns of 10.05% to 32.55% for the year. For the Hancock Plan, with the exception of the Money Market and Short-Term Bond portfolios, all of the portfolios had returns of (2.60)% to 50.20% for the year. The Money Market and Short-Term Bond portfolios all had returns of 0%.

13. Subsequent Events

Portfolio Changes

Effective with the issuance of new plan disclosure documents for each of the Plans the following changes will be implemented to the enrollment-based portfolios, Portfolio for College, Equity Portfolio and Balanced Portfolio of the Direct Plans and the enrollment-based portfolios and Equity Portfolio of the Hancock Plan:

- The neutral asset allocation to international equities will be increased to 30% of the equity exposure for the portfolios and the increase will be gradually implemented over a twelve month period.
- The T. Rowe Price Real Assets Fund will be added to all of the portfolios at a neutral allocation level of 5% of the equities exposure of the respective portfolio and the change will be implemented over a three to twelve month period.