# Education Trust of Alaska

## Combined Financial Statements
## June 30, 2012

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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 combined statements of net assets and the related combined statements 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, 2012, 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 audits. We conducted our audits 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 audits 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 audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

November 9, 2012

# Education Trust of Alaska
## Combined Statements of Net Assets
## June 30, 2012

| | Operating Fund | Participant Accounts | Total |
|---|---|---|---|
| **Assets** | | | |
| Receivables for securities and units sold | $ - | $ 2,415,800 | $ 2,415,800 |
| Due from Participant Accounts (Note 3) | 191,539 | - | 191,539 |
| Interest receivable | 18,734 | - | 18,734 |
| Due from the Trustee | 13,785 | - | 13,785 |
| Receivables, other | 4,469 | - | 4,469 |
| Seed money (Note 2) | 132,730 | - | 132,730 |
| Investments (Notes 5, 8) | 13,199,273 | 4,610,740,244 | 4,623,939,517 |
| | 13,560,530 | 4,613,156,044 | 4,626,716,574 |
| **Liabilities** | | | |
| Payables for securities and units purchased | - | 2,367,423 | 2,367,423 |
| Payables, other and accrued expenses | 192,631 | 2,376,440 | 2,569,071 |
| Due to Participant Accounts (Note 3) | - | 191,539 | 191,539 |
| Seed money (Note 2) | - | 132,730 | 132,730 |
| Suspended accounts (Notes 5, 8) | 494,204 | - | 494,204 |
| Tuition-Value Guarantee (Note 9) | 4,840,000 | - | 4,840,000 |
| | 5,526,835 | 5,068,132 | 10,594,967 |
| **Net assets** | $ 8,033,695 | $4,608,087,912 | $4,616,121,607 |

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

# Education Trust of Alaska
## Combined Statements of Operations and Changes in Net Assets
## Year Ended June 30, 2012

| | Operating Fund | Participant Accounts | Total |
|---|---|---|---|
| **Revenues and other additions** | | | |
| Dividend income | $ 293,657 | $ 82,389,712 | $ 82,683,369 |
| Program fees retained | 2,205,676 | - | 2,205,676 |
| Total income | 2,499,333 | 82,389,712 | 84,889,045 |
| **Expenses and other deductions** | | | |
| Guarantees to participant accounts | 162,280 | - | 162,280 |
| Program and administrative fees (Note 6) | - | 29,731,050 | 29,731,050 |
| Administrative expenses of the Trust (Note 7) | 1,304,382 | - | 1,304,382 |
| Provision for Tuition-Value Guarantee (Note 9) | 350,000 | - | 350,000 |
| Total expenses | 1,816,662 | 29,731,050 | 31,547,712 |
| Fees waived by program manager | - | (238,445) | (238,445) |
| Total net expenses | 1,816,662 | 29,492,605 | 31,309,267 |
| Net investment income | 682,671 | 52,897,107 | 53,579,778 |
| **Net realized and unrealized gain and (loss)** | | | |
| Net realized gain (loss) | 23,073 | 73,513,222 | 73,536,295 |
| Change in unrealized gain (loss) | 442,671 | (63,078,002) | (62,635,331) |
| Net realized and unrealized gain and (loss) | 465,744 | 10,435,220 | 10,900,964 |
| Increase in net assets from operations | 1,148,415 | 63,332,327 | 64,480,742 |
| **Capital unit transactions** | | | |
| Units sold | - | 742,265,504 | 742,265,504 |
| Units redeemed | - | (533,154,462) | (533,154,462) |
| Increase in net assets from capital share transactions | - | 209,111,042 | 209,111,042 |
| Net increase in net assets | 1,148,415 | 272,443,369 | 273,591,784 |
| **Net assets** | | | |
| Beginning of year | 6,885,280 | 4,335,644,543 | 4,342,529,823 |
| End of year | $ 8,033,695 | $4,608,087,912 | $4,616,121,607 |

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, 2012 and November 9, 2012, the date the financial statements were available to be issued, which require adjustment of, or additional 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 loads. 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 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 and May 31, 2012, the Trust advanced $30,000 and $100,000 respectively to seed new portfolios. The market value of the seed accounts at June 30, 2012 was $132,730.

## 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, 2012, program fees of $191,539 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. 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, 2012.

## 5. Investments

### Operating Fund

At June 30, 2012, the Trust's Operating Fund included the following investments in T. Rowe Price Mutual funds:

| | | |
|---|---|---|
| T. Rowe Price Equity Index 500 Fund | $ | 4,362,116 |
| T. Rowe Price Extended Equity Market Index | | 1,000,943 |
| T. Rowe Price Prime Reserve Fund | | 57,951 |
| T. Rowe Price Summit Cash Reserves Fund - Operating Account | | 193,184 |
| T. Rowe Price Summit Cash Reserves Fund - Suspended Accounts (Note 8) | | 494,204 |
| T. Rowe Price U.S. Bond Index Fund | | 7,090,875 |
| | $ | 13,199,273 |

### 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 $1,590,238,758 at June 30, 2012 and were invested in the following mutual funds:

| | | |
|---|---|---|
| T. Rowe Price Blue Chip Growth Fund | $ | 103,989,300 |
| T. Rowe Price Emerging Markets Stock Fund | | 37,278,479 |
| T. Rowe Price Equity Index 500 Fund | | 404,067,778 |
| T. Rowe Price Extended Equity Market Index Fund | | 5,254,743 |
| T. Rowe Price Inflation Focused Bond Fund | | 124,789,426 |
| T. Rowe Price International Growth & Income Fund | | 47,434,816 |
| T. Rowe Price International Stock Fund | | 53,366,713 |
| T. Rowe Price Mid-Cap Growth Fund | | 32,004,615 |
| T. Rowe Price Mid-Cap Value Fund | | 31,314,615 |
| T. Rowe Price New Income Fund | | 132,950,501 |
| T. Rowe Price Overseas Stock Fund | | 47,961,056 |
| T. Rowe Price Real Asset Fund | | 25,744,904 |
| T. Rowe Price Small-Cap Stock Fund | | 40,607,585 |
| T. Rowe Price Spectrum Income Fund | | 319,461,991 |
| T. Rowe Price Summit Cash Reserves Fund | | 36,942,692 |
| T. Rowe Price Total Equity Market Index Portfolio | | 20,728,814 |
| T. Rowe Price U.S. Bond Index Fund | | 37,697,277 |
| T. Rowe Price Value Fund | | 88,643,453 |
| | $ | 1,590,238,758 |

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 $3,020,501,486 at June 30, 2012 and were invested in the following mutual funds:

| | |
|---|---|
| American Mutual Fund Class F1 | $ 84,157,442 |
| John Hancock Disciplined Value Fund I | 63,952,536 |
| John Hancock Fund II International Value | 137,213,242 |
| John Hancock Funds II-Lifestyle Growth | 126,938,644 |
| John Hancock Funds II-Lifestyle Balanced | 70,212,796 |
| John Hancock Funds II-Lifestyle Moderate | 33,096,393 |
| John Hancock II Capital Appreciation | 177,944,718 |
| John Hancock II Emerging Markets Value Fund | 41,734,442 |
| John Hancock II Fundamental Value Fund | 63,400,397 |
| John Hancock II Total Return Fund | 445,641,855 |
| Oppenheimer International Growth Fund | 117,168,212 |
| T. Rowe Price Blue Chip Growth Fund | 279,225,795 |
| T. Rowe Price Equity Income Fund | 262,809,258 |
| T. Rowe Price Financial Services Fund | 14,966,903 |
| T. Rowe Price Health Sciences Fund | 15,192,308 |
| T. Rowe Price Inflation Focused Bond Fund | 253,636,976 |
| T. Rowe Price Mid-Cap Value Fund | 120,236,960 |
| T. Rowe Price New Horizons Fund | 107,053,171 |
| T. Rowe Price Real Asset Fund | 40,004,694 |
| T. Rowe Price Science & Technology Fund | 15,087,232 |
| T. Rowe Price Short-Term Bond Fund | 28,325,798 |
| T. Rowe Price Small-Cap Stock Fund | 13,685,739 |
| T. Rowe Price Spectrum Income Fund | 447,982,855 |
| T. Rowe Price Summit Cash Reserves Fund | 60,833,120 |
| | $ 3,020,501,486 |
| Total Participant Investments | $ 4,610,740,244 |

## 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, 2012, 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 yield of at least 0.00% for any specific day. Pursuant to this arrangement, fees of approximately $67,000 were waived for the Money Market Portfolio in the Alaska and Price Plans, collectively, and $172,000 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 $11,000 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, 2012 the Trust incurred direct costs of $1,026,700 for administration of its College Savings Program. The Trust also incurred charges of $277,682 for the fiscal year ended June 30, 2012 in connection with its cost sharing agreement with the Program Manager. At June 30, 2012, the Trust had payables and accrued expenses in the amount of $191,539 of which $23,720 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. At June 30, 2012, 357 accounts from the UA College Savings Plan totaling $494,204 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, 2012, the Trustee estimates the liability for the tuition-value guarantee to be approximately $4,840,000. 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, 2012. 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 31 years of approximately 8.00% and 3) that average portfolio earnings will be approximately 5.00% based on target asset allocations and management's long-term capital market return estimate. The expected payments needed from the

Trust to provide the guarantee were discounted to a present value at June 30, 2012 using the risk-free spot rates of interest implied by the U.S. Treasury yield curve as of June 30, 2012. The actuarial assumptions and methodology are consistent with those of the prior year, except that tuition for the first year is expected to be 2.00% rather than 6.95% as used last year and the average earnings assumption was reduced to 5.00% from 5.50%. These differences resulted in increasing the estimated Tuition-Value Guarantee by $350,000 to $4,840,000.

### 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. As expected the transition for Portfolio 2012 was completed by the close of business on May 18, 2012 and all of the outstanding participant units exchanged into the Portfolio for College at the net asset value per unit on that date.

Effective October 1, 2011, the T. Rowe Price Real Assets Fund was added as an underlying equity fund option for each of the portfolios of the plan.

On May 31, 2012, Portfolio 2033 was seeded with a $100,000 investment by the trust (see note 2) and was available for investment by the public on June 1, 2012.

In an effort to increase diversification within the portfolios, allocations to international equity funds have been introduced in the Portfolio for College, Portfolio 2012 and Portfolio 2015. The introduction of the funds is expected to occur on an incremental basis over an approximate 12 month period, and will come proportionately from the portfolios' existing domestic allocation.

#### The Hancock Plan

Similar to the Alaska and Price Plans, in an effort to increase diversification within the College Portfolio, increased allocations to international equity funds are being introduced.

Effective October 1, 2011, the T. Rowe Price Real Assets Fund was added as an underlying equity fund option for each of the portfolios of the plan.

### 12. Market Conditions

For the Alaska and Price plans, all of the portfolios had returns of (0.67)% to 6.58% for the year. For the Hancock Plan, all of the portfolios (Class A, B, C, and C2) had returns of (4.25)% to 6.32% for the year with the exception of the Templeton International Value 529 Portfolio that had a return of (18.82)%.

## 13. Subsequent Events

### Suspended Accounts

All individual participant accounts classified as suspended as of June 30, 2012 (see note 8) will be reinstated in their original portfolios and respective accounts after adjusting the account balances for any shortfall in earnings resulting from the earlier reclassification to the Operating Fund.