

# **Education Trust of Alaska**

**Financial Statements**

**June 30, 2008**

**Education Trust of Alaska**  
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**June 30, 2008**

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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, 2008, 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 14, 2008

**Education Trust of Alaska**  
**Statement of Net Assets**  
**June 30, 2008**

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	<b>Operating Fund</b>	<b>Participant Accounts</b>	<b>Total</b>
<b>Assets</b>			
Receivables for securities and units sold	\$ -	\$ 4,408,164	\$ 4,408,164
Due from Participant Accounts (Note 3)	122,803	-	122,803
Interest receivable	18,405	-	18,405
Receivables, other	4,150	914	5,064
Investments (Note 4)	<u>8,569,221</u>	<u>3,174,354,731</u>	<u>3,182,923,952</u>
Total assets	<u>8,714,579</u>	<u>3,178,763,809</u>	<u>3,187,478,388</u>
<b>Liabilities</b>			
Payables for securities sold and units repurchased	-	4,397,112	4,397,112
Program fees due to Operating Fund	-	122,803	122,803
Payables, other and accrued expenses	78,327	1,840,860	1,919,187
Tuition-Value Guarantee (Note 7)	<u>3,520,000</u>	<u>-</u>	<u>3,520,000</u>
Total liabilities	<u>3,598,327</u>	<u>6,360,775</u>	<u>9,959,102</u>
Net assets	<u>\$ 5,116,252</u>	<u>\$ 3,172,403,034</u>	<u>\$ 3,177,519,286</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, 2008**

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	Operating Fund	Participant Accounts	Total
<b>Revenues and other additions</b>			
Participant contributions	\$ -	\$ 675,268,956	\$ 675,268,956
Net investment income	318,392	81,742,206	82,060,598
Net realized and unrealized gains and (losses)	(406,309)	(300,531,134)	(300,937,443)
Program fees retained	1,464,455	-	1,464,455
	<u>1,376,538</u>	<u>456,480,028</u>	<u>457,856,566</u>
<b>Expenses and other deductions</b>			
Distributions to participants	187,169	328,984,155	329,171,324
Distributions from net investment income	-	1,228,528	1,228,528
Program and administrative fees (Note 5)	-	24,823,763	24,823,763
Administrative expenses of the Trust (Note 6)	1,014,471	-	1,014,471
Provision for Tuition-Value Guarantee (Note 7)	1,300,000	-	1,300,000
	<u>2,501,640</u>	<u>355,036,446</u>	<u>357,538,086</u>
Net increase (decrease) in net assets	(1,125,102)	101,443,582	100,318,480
<b>Net assets</b>			
Beginning of year	<u>6,241,354</u>	<u>3,070,959,452</u>	<u>3,077,200,806</u>
End of year	<u>\$ 5,116,252</u>	<u>\$ 3,172,403,034</u>	<u>\$ 3,177,519,286</u>

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

# Education Trust of Alaska

## Notes to Financial Statements

### June 30, 2008

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#### 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.

#### **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.

# Education Trust of Alaska

## Notes to Financial Statements

### June 30, 2008

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#### 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 will retain 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. Effective July 1, 2007, the combined total net asset calculation will exclude the assets of the ACT Portfolio.

#### 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. As of June 30, 2008, the Trust had no funded seed money accounts in any of the portfolios.

#### 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. For the Plans, the net asset value per unit (NAV) for each class of units 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. To calculate the NAV, 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.

For the Trust, investments in underlying mutual funds are valued at the underlying mutual fund's closing net asset value per share on the date of valuation. 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.

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.

**Education Trust of Alaska**  
**Notes to Financial Statements**  
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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 invest are actively traded at publicly available NAVs, all investments are classified as Level 1 on June 30, 2008.

**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, 2008, program fees of \$122,803 were due to the Operating Fund from Participant Accounts.

**4. Investments**

**Operating Fund**

At June 30, 2008, the Trust's Operating Fund included the following investments in T. Rowe Price Mutual funds:

T. Rowe Price Equity Index 500 Fund	\$ 2,619,769
T. Rowe Price Extended Equity Market Index	703,512
T. Rowe Price Prime Reserve Fund	53,801
T. Rowe Price Summit Cash Reserves Fund	351,055
T. Rowe Price U.S. Bond Index Fund	4,841,084
	<u>\$ 8,569,221</u>

**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 \$1,028,723,098 at June 30, 2008 and were invested in the following mutual funds:

T. Rowe Price Blue Chip Growth Fund	\$ 91,864,423
T. Rowe Price Emerging Markets Stock Fund	15,611,786
T. Rowe Price Equity Index 500 Fund	308,164,837
T. Rowe Price Extended Equity Market Index Fund	3,935,068
T. Rowe Price International Growth & Income Fund	28,854,112
T. Rowe Price International Stock Fund	34,476,225
T. Rowe Price Mid-Cap Growth Fund	33,732,637
T. Rowe Price Mid-Cap Value Fund	24,617,298
T. Rowe Price Overseas Stock Fund	32,346,007
T. Rowe Price Short-Term Income Fund	58,085,859
T. Rowe Price Small-Cap Stock Fund	38,637,922
T. Rowe Price Spectrum Income Fund	256,880,699
T. Rowe Price Summit Cash Reserves Fund	15,723,986
T. Rowe Price Total Equity Market Index Fund	7,102,996
T. Rowe Price U.S. Bond Index Fund	27,389,593
T. Rowe Price Value Fund	51,299,650
	<u>\$ 1,028,723,098</u>



**Education Trust of Alaska**  
**Notes to Financial Statements**  
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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 \$2,145,631,633 at June 30, 2008 and were invested in the following mutual funds:

American Mutual Fund F	\$ 88,975,959
John Hancock Classic Value Fund I	61,390,101
John Hancock Funds II Capital Appreciaton	187,012,730
John Hancock Funds II Fundamental Value	71,552,908
John Hancock Funds II International Value	95,221,383
John Hancock Funds II Lifestyle Balanced Portfolio, Class 5	22,341,935
John Hancock Funds II Lifestyles Growth Portfolio, Class 5	53,436,120
John Hancock Funds II Lifestyles Moderate Portfolio, Class 5	6,425,295
John Hancock Funds II Total Return	285,085,310
Oppenheimer International Growth Fund Y	74,659,420
T. Rowe Price Blue Chip Growth Fund	271,470,839
T. Rowe Price Equity Income Fund	189,280,067
T. Rowe Price Financial Services Fund	11,812,186
T. Rowe Price Health Sciences Fund	13,570,172
T. Rowe Price Mid-Cap Value Fund	127,140,107
T. Rowe Price New Horizons Fund	111,897,793
T. Rowe Price Science & Technology Fund	13,106,813
T. Rowe Price Short-Term Bond Fund	7,146,969
T. Rowe Price Short-Term Income Fund	137,065,156
T. Rowe Price Small-Cap Stock Fund	8,357,799
T. Rowe Price Spectrum Income Fund	282,678,435
T. Rowe Price Summit Cash Reserves Fund	26,004,136
	<u>\$ 2,145,631,633</u>
Total Investments, all portfolios	<u>\$ 3,174,354,731</u>

**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 charged accounts an annual account fee of \$25 per account and a program 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 fee.

For the Hancock Plan accounts effective December 1, 2007, the Trust reduced the annual account fee from \$30 to \$25 and reduced the basic program fee from 45 to 35 basis points (0.45% to 0.35% annualized) except for the Money Market Portfolio for which the program fee was reduced to 30 basis points (0.30% annualized). The Trust fee and the distribution fees, which were previously included in the reported program fee, remained unchanged: the Trust fee at 5 basis points (0.05% annualized) except for the Money Market Portfolio for which the Trust fee is waived entirely and the distribution fees, which range from 25 to 100 basis points (0.25% to 1.00% annualized) depending upon the unit class.

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.

# Education Trust of Alaska

## Notes to Financial Statements

### June 30, 2008

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See Note 1 regarding Program Fees Retained by the Trust. All fees, except for the portions 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, some compensation and benefits and other expenses incurred by the University of Alaska on behalf of the Trust. At June 30, 2008, the Trust had a payable to the Trustee for reimbursement of support in the amount of \$60,457. Prior to this fiscal year, the University provided substantial in-kind support in excess of the fee charged to the Trust. As of July 1, 2007, the Trust assumed responsibility for the majority of its direct costs including the cost of audit services for the Alaska, Price and Hancock plans. See Note 9 for further information concerning in-kind support provided. 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.

#### **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 tuition at the University of Alaska, will keep pace with tuition inflation at the University of Alaska. As of June 30, 2008, the Trustee estimates the liability for the tuition-value guarantee to be approximately \$3,520,000. The Trustee utilized a modified methodology to estimate the liability, which was based in part on the number of ACT credits assigned to each account, at June 30, 2008. 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 was 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 27 years of approximately 8.00%, and 3) that average portfolio earnings will be 6.00% based on target asset allocations and management's long-term capital market return estimate. Based on refinements in the data analysis and longer-term trends, the actuarial assumptions regarding distribution patterns were also revised and resulted in increasing the estimated Tuition-Value Guarantee by \$1,300,000 to \$3,520,000. As part of the conversion to the ACT Credit system, the Trust recalculated the amount of the guarantees applicable to distributions since inception of the ACT Portfolio, which resulted in retrospective adjustments to participant accounts in FY2008 of approximately \$85,000.

#### **8. Portfolio Changes**

##### **The Alaska and Price Plans**

Effective July 1, 2007, the T. Rowe Price Emerging Markets Stock Fund was added as an underlying international equity fund option for Portfolio 2012, Portfolio 2015, Portfolio 2018, Portfolio 2021, Portfolio 2024, Portfolio 2027, the Equity Portfolio, and the Balanced Portfolio.

##### **The Hancock Plan**

Effective December 1, 2007, certain underlying mutual funds, or in some cases the share class in which the portfolios invested, were changed to lower-cost fund options with similar investment objectives, as reflected below. All shares of the eliminated underlying funds/share classes were sold by the portfolios and, on that same date, shares of the new underlying funds/share classes were purchased. These changes affected the enrollment-based and static portfolios.

**Education Trust of Alaska**  
**Notes to Financial Statements**  
**June 30, 2008**

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New	Eliminated
John Hancock Funds II International Value Fund (subadvised by Templeton Investment Counsel, Inc.)	Templeton Foreign Fund A
John Hancock Classic Value Fund I	John Hancock Classic Value Fund A
John Hancock Funds II Total Return Fund (subadvised by Pacific Investment Management Company)	PIMCO Total Return Fund Admin
John Hancock Funds II Fundamental Value Fund (subadvised by Davis Selected Advisors)	Davis NY Venture Fund A
Oppenheimer International Growth Fund Y	Oppenheimer International Growth Fund A
John Hancock Funds II Capital Appreciation Fund (subadvised by Jennison Associates LLC)	Fidelity Advisor Equity Growth Fund A

At the close of business on November 30, 2007, the Templeton Foreign 529 Portfolio and the Fidelity Equity Growth 529 Portfolio ceased operations, at which time all accounts were exchanged in-kind into the Templeton International Value 529 Portfolio and the Jennison Capital Appreciation 529 Portfolio, respectively. The exchange transactions were processed at the net asset value of the portfolios on the date of exchange and had no impact on the value of individual participant accounts.

**9. Subsequent Events**

**Administrative Expenses of the Trust**

Effective July 1, 2008, the Trustee commenced charging the Trust a portion of the compensation and benefits for all employees who administer the Trust.

**Portfolio Changes**

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 for certain portfolios.

**Market Conditions**

The traditional securities and financial markets have undergone significant unrest and volatility in recent months. As a result, the Trust has experienced a substantial decline in the value of many of its investment portfolios since June 30, 2008. Management continues to monitor this situation, but does not anticipate any significant disruption to the Trust's functions and operations. As of November 10, 2008, declines in the value of the individual portfolios has ranged from approximately 6% for some of the more conservative fixed income portfolios to 35% for some of the more aggressive equity portfolios.