

**ALASKA
PERMANENT
FUND
CORPORATION**

**1980 ANNUAL REPORT
AND FINANCIAL STATEMENTS**

ALASKA PERMANENT FUND CORPORATION

Chairman

Elmer E. Rasmuson

Board Members

Thomas K. Williams, Vice-Chairman
Wilson L. Condon
Peter B. McDowell
George W. Rogers
Robert W. Ward

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Alaska Permanent Fund Corporation
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Telephone: (907) 465-2350

STATE OF ALASKA

DEPARTMENT OF REVENUE

TREASURY DIVISION

JAY S. HAMMOND, GOVERNOR

ELEVENTH FLOOR
STATE OFFICE BUILDING
POUCH SB
JUNEAU, ALASKA 99811
PHONE: 465-2350

September 30, 1980

The Honorable Jay S. Hammond
Governor of the State of Alaska
Pouch A
Juneau, Alaska 99811

Dear Governor Hammond:

It is with great pleasure that the Alaska Permanent Fund Corporation presents to you and to the Alaskan public the 1980 Annual Report of the Alaska Permanent Fund in accordance with AS 37.13.170.

This is the first report by the Corporation under the terms of permanent legislation enacted earlier this year. Prior to the establishment of the Corporation by that legislation, the Department of Revenue managed the Alaska Permanent Fund pursuant to interim authority conferred in 1977 by AS 37.10.065. During most of Fiscal Year 1980 the Alaska Permanent Fund was managed under that interim authority.

Very truly yours,



Elmer E. Rasmuson
Chairman of the Board
of Trustees

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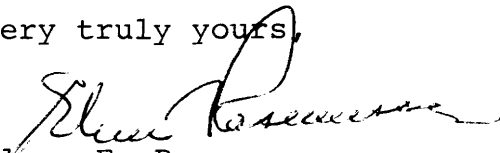
The Honorable Clem V. Tillion
President of the Senate
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Dear Mr. President:

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POUCH SB
JUNEAU, ALASKA 99811
PHONE: 465-2350

September 30, 1980

The Honorable Terry Gardiner
Speaker of the House
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Dear Mr. Speaker:

It is with great pleasure that the Alaska Permanent Fund Corporation presents to you and to the Alaskan public the 1980 Annual Report of the Alaska Permanent Fund in accordance with AS 37.13.170.

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Elmer E. Rasmuson
Chairman of the Board
of Trustees

TABLE OF CONTENTS

	<u>PAGE</u>
BACKGROUND OF THE FUND	
Early History/Voter Approval	1
Interim Management	1
Alaska Permanent Fund Corporation	2
Corporation's Organization Meeting	2
FUND PERFORMANCE BEFORE 1980	
Source Of Fund Contributions	3
Fund Balances-Inception To June 1979	3
Investment Strategies	4
Performance	4
Audits	5
FUND PERFORMANCE DURING 1980	
Fund Balance During The Year	6
Investment Strategy	6
Performance-Numbers	6
Performance vs. Goals	7
Audit	8
OUTLOOK FOR FISCAL YEAR 1981	
Allowed Investments	9
Economic Outlook And Investment Strategy	10
Contributions To The Fund And Balances	11
PERMANENT FUND DIVIDENDS	
The Program	12
Dividend's Source	12
Litigation	12
EXHIBITS	
Summary Financial Data	13
Financial Statements With Auditor's Opinion	14-21

BACKGROUND OF THE FUND

Early History/Voter Approval

The permanent fund idea in Alaska gained popularity only after the \$900 million North Slope lease sale in 1969. Following this sale, the Brookings Institute conducted a series of seminars concerning "The Future of Alaska." More than 100 Alaskans were invited to attend, to explore some of the major emerging policy issues and to set forth a plan for Alaska's future. The participants agreed that the "Alaska way of life" should be preserved. They defined this life-style as one which combines the conveniences of technological innovation with the opportunity and values of living as close to nature as possible.

After the Brookings seminars, several bills were introduced in the 1970 legislative session to establish some sort of "permanent fund" with the \$900 million. However, other more immediate uses for the money were judged to be more important, and no permanent fund was established.

A bill, which would have created a permanent fund by statute, passed the legislature in 1975. However, because the bill would have violated the ban in the State Constitution against dedicated funds, the governor vetoed it. The 1976 legislature passed House Joint Resolution 39, calling for a constitutional amendment to establish the Alaska Permanent Fund. The voters approved that amendment in November 1976 by a margin of nearly nine to one.

The amendment lifted the prohibition against special dedicated funds to allow a minimum of 25 percent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue-sharing payments, and bonuses to accumulate in a special fund separate from the General Fund. The only restriction on the use of the principal of the fund is that it must be for "income-producing investments" and, therefore, not for the general operating costs of government. The income from these investments is to be deposited in the State's General Fund unless otherwise provided for by law.

Interim Management

Interim management of the Fund, until a more permanent structure could be determined, was placed with the Commissioner of Revenue by the legislature by enactment of AS 37.10.065 in the 1977 legislative session.

The Commissioner of Revenue, through the Department of Revenue, Treasury Division, conducted Fund management from March 1977 until the enactment of recent legislation which established the Alaska Permanent Fund Corporation.

Alaska Permanent Fund Corporation

During the 1980 legislative session Senate Bill 161 was enacted (Ch. 18, SLA 1980) which provided for a permanent management structure for the Fund. The Alaska Permanent Fund Corporation was established. The corporation is managed by a Board of Trustees. The purpose of the Board is to manage and invest the assets of the corporation (the Fund) in accordance with provisions allowed by law.

Corporation's Organization Meeting

On September 12, 1980 the Board of Trustees held its first meeting. At that meeting the Board elected officers, reviewed accounting procedures, financial statements, past investment strategy, adopted a budget and by-laws and resolved to notice draft regulations necessary for the conduct of corporation business.

The Board has retained, for the time being, the Department of Revenue as its agent until it has a chance to deal more fully with the Corporation's future structure. The Board of Trustees, in any case, remains in full control of Corporation activities.

Future meetings were scheduled as follows:

- November 21, 1980 - Juneau - Draft regulations to be reviewed
- March 20, 1981 - Open
- June 19, 1981 - Open
- September 11, 1981 - Open

Notice of the place of each meeting and major agenda topics will be published at least 30 days prior to the meeting date.

FUND PERFORMANCE BEFORE 1980

Source Of Fund Contributions

The 1976 constitutional amendment passed by the voters provided, in part, that at least twenty-five percent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses, received by the State be placed in the Permanent Fund. The only restriction on the use of the principal of the fund is that it must be for "income-producing investments" and not for the general operating costs of government.

Legislation passed in April 1980 modified the contribution rate to the Permanent Fund from 25% to 50% of all mineral lease rentals, royalties, royalty sale proceeds, net profit shares, federal mineral revenue sharing payments and bonuses received by the State from mineral leases issued after December 1979 or, in the case of bonuses, after February 15, 1980.

This has the effect of retaining proceeds from Prudhoe Bay and the Beaufort Sea lease sale bonuses at the lower 25% rate, but increasing future revenues transferable to the Fund from Beaufort Sea production and any future lease sale bonuses to the higher 50% rate.

A special appropriation of \$900 million in addition to regular contributions was made in May 1980 to be placed in the Fund during Fiscal Year 1981.

Fund Balances - Inception To June 1979

The Fund's balances at the end of each quarter from inception to June 1979 were as follows:

<u>Quarter Ended</u>	<u>Amount</u>
March 1977	\$ 1,530,416
June 1977	3,956,711
September 1977	11,289,531
December 1977	25,322,543
March 1978	37,332,307
June 1978	54,467,673
September 1978	73,665,544
December 1978	91,702,181
March 1979	111,244,299
June 1979	138,307,041

Investment Strategies

The initial investment strategy in 1977 was to purchase a mix of short, intermediate, and long term securities. By 1978 increasing concern about the inflation outlook caused management to get out of the long term bond market and instead purchase securities with maturities of four years or less.

Allowable investments during this time period included:

1. U.S. Treasury Bills, Notes and Bonds.
2. U.S. Federal agency obligations.
3. Certificates of Deposit issued by U.S. domestic banks which are members of the FDIC and are secured as to payment of principal and interest.
4. Corporate investment-grade securities.
5. Banker's Acceptances drawn on and accepted by U.S. banks who have capital in excess of \$100 million.
6. Repurchase Agreements (securities sold under agreements to repurchase at some future date); related to items 1-5 above.
7. Deposits of federally insured savings and loan associations not to exceed 10 percent of an institutions deposits excluding federal, state and municipal deposits.
8. Debt Certificates of federally insured credit unions not to exceed 10 percent of each credit union's shares.

Performance

The realized rate of return on the Fund's principal (based on accrued income) and cash earnings transferred from the Permanent Fund to the State's General Fund are as follows:

<u>Time Period</u>	<u>Realized Rate of Return</u>	<u>Cash Earnings Transferred</u>
March-June 1977	5.54%	\$ 27,019
Fiscal Year 1978	7.53%	\$ 900,434
Fiscal Year 1979	8.24%	\$5,702,926

Audits

The Fund has been audited by independent certified public accountants, Deloitte-Haskins & Sells for 1977 and 1978. The Division of Legislative Audit conducted the audit for 1979.

The auditor's expressed an unqualified "clean" opinion in each year as to the funds Statements of Net Assets, Investment Income and Changes in Net Assets.

FUND PERFORMANCE DURING 1980

Fund Balances During The Year

The Fund's balances at the end of each month for Fiscal Year 1980 in terms of net assets were as follows:

<u>Month Ended</u>	<u>Amount</u>
July 1979	\$148,999,756
August 1979	166,706,694
September 1979	184,033,872
October 1979	200,571,347
November 1979	218,028,379
December 1979	256,009,284
January 1980	370,014,659
February 1980	391,075,433
March 1980	411,698,106
April 1980	434,738,312
May 1980	460,460,777
June 1980	483,208,487

Total market securities of the Fund at June 30, 1980 had a cost value of \$493,427,071 and a market value of \$493,444,000. The difference between the value of marketable securities and the net balance shown above is due to income yet to be paid over to the General Fund for Fiscal Year 1980 which is included in the marketable securities figure.

Investment Strategy

Fund managers during 1980 became increasingly "defensive" as short term interest rates rose substantially in reaction to inflationary pressures and increased money supply. New investments were placed in securities that matured in under one year. Toward the end of the fiscal year some securities in the two year range were purchased.

Performance - Numbers

The realized rates of return, investment income (including amounts earned but not received by year end) and cash earnings transferred from the Permanent Fund to the General Fund for each year since inception are as follows:

	<u>1977</u> <u>(4 months)</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
Rate of Return	5.54%	7 53%	8.24%	11.29%
Investment Income	\$ 36,000	\$1,791,000	\$7,967,131	\$32,426,923
Cash Transferred	\$ 27,019	\$ 900,434	\$5,702,926	\$23,675,560

It should be noted that as the fund experiences continued growth the cash transfers will necessarily lag behind total investment income as transfers are only made when the cash has actually been received.

Performance vs. Goals

The members of the Corporation were appointed during June 1980. The recently enacted legislation requires that the Corporation's performance be compared to the intended goals contained in AS 37.13.020. Obviously, due to the Corporation's short existence, it has been unable to address these goals in detail. Nevertheless, past performance will be evaluated.

1. The corporation should provide a means of conserving a portion of the state's revenues from mineral resources to benefit all generations of Alaskans.

The legislation itself provides for twenty-five percent contributions to the fund of all mineral lease rentals, royalties, royalty sale proceeds and net profit shares on leases issued on or before December 1, 1979. A higher fifty percent rate was instituted for leases after December 1, 1979. Additionally, \$900 million was appropriated to the Fund for Fiscal Year 1981.

The Board will deal with suggested changes to contribution formulas and extra appropriations during the next year.

2. The corporation's goals should be to maintain safety of principal while maximizing total return.

Net realized gains on marketable securities transactions for Fiscal Year 1980 in the amount of \$265,539 have been retained in the Fund's principal. Present Fund investments as of June 30, 1980 are in what are considered to be by the general investment community of high grade quality. In fact, the market value, in total, of these securities exceeds the cost paid for them. As may be seen from the preceding table, the rate of return has improved steadily.

3. The corporation should be used as a savings device managed to allow the maximum use of disposable income for the purposes designated by law.

All principal contributions have been retained in the Fund's balance. Disbursement of income earned has been limited to cash amounts received; any net gains are retained in Fund principal. There have been no net losses. Nevertheless, erosion of the purchasing power of the Fund's principal as the result of continued high inflation remains a serious concern of the corporation.

Audit

The Fund was audited by Deloitte-Haskins & Sells, independent certified public accountants, for 1980. The auditors expressed an unqualified "clean" opinion as to Statements of Net Assets, Investment Income and Changes in Net Assets.

In the "Exhibits" section you will find the Auditor's Report, which includes Financial Statements for the years ended June 30, 1980 and 1979 with Auditor's Opinion.

The following statements are included:

Statements of Net Assets

This statement shows the assets available in the Fund as of the end of 1980 and 1979.

Statements of Investment Income

This statement shows that amount of income earned by the Fund by type of investment. Income includes both cash receipts and income earned but not yet received as of year end.

Statements of Changes in Net Assets

This statement details from what sources monies were received that account for the increase in Fund assets during the year. It also describes which asset categories increased or decreased as these funds were put to use.

Notes to Financial Statements

These notes provide further descriptive information relating to various items presented in the Financial Statements.

In Note 2, "Significant Accounting Policies - Marketable Securities" you will find a listing of the market value of the marketable securities held by the Fund.

OUTLOOK FOR FISCAL YEAR 1981

Allowed Investments

The present law establishes a list of types of investments in which the Corporation may invest the Permanent Fund. Principal of the Fund may only be used for income-producing investments, and the Corporation may not borrow funds or guarantee the obligations of others.

The Board may invest in:

1. U.S. Treasury Bills, Notes and Bonds.
2. U.S. Federal agency obligations.
3. The following when they are fully secured at all times as to principal and interest:
 - Certificates of deposit issued by U.S. domestic banks for which a generally recognized secondary market exists;
 - Shares of federally chartered savings and loans associations;
 - Savings certificates issued by State-chartered savings and loan associations;
 - Deposits with mutual savings banks in Alaska; and
 - Debt certificates of federally insured credit unions.
4. Corporate debt securities which are rated AA or better. No more than 25% of the Fund's assets may be invested this way.
5. Commercial paper (short-term corporate promissory notes) which have the highest national ratings.
6. Banker's acceptances drawn on and accepted by U.S. banks having capital in excess of \$200 million.
7. Repurchase agreements (securities sold under agreements to repurchase at some specific future date).
8. Federal Small Business Administration loans - guaranteed portion.
9. First lien real estate mortgages portion guaranteed by the Federal Veterans Administration.

10. Portions of business and industrial loans made under the Rural Development Act of 1972 which are guaranteed by the Farmer's Home Administration.
11. Guaranteed portion of Farmer's Home Administration loans.
12. Residential real estate mortgage loans in Alaska where private mortgage insurance (PMI) exists for at least 10% if more than 10% down payment was received and PMI of at least 20% where 10% or less down payment was received. No more than 15% of the Permanent Fund's assets may be invested in this way.

The Board may enter into future contracts for sale of investments only for the purposes of "hedging" an existing equivalent ownership position. The Board must invest in in-State investments allowed by law to the extent they are available and have a risk level and expected yield comparable to alternative investment opportunities.

The Board has placed on its future agenda a discussion of changes that may be necessary to invest even more effectively in an inflationary environment.

Economic Outlook and Investment Strategy

Of central concern to the development of any investment strategy is the ability of the U.S. Government to come to grips with inflation. We find it extremely difficult to believe that inflation will be brought under satisfactory control in the short or immediate term. As long as this country must continue to import enormous amounts of crude oil from OPEC countries and has not developed sufficient alternative energy sources to stabilize prices in the face of rising long term energy demand, the inflation problem appears difficult to solve. Significant deficits in the federal budget exacerbate this problem.

Both short and long term interest rates have risen substantially recently amid a number of signs that the recession is either over or virtually over and fears that a more restrictive monetary policy will soon be adopted by the Federal Reserve Bank.

As for the immediate future, there seems to be a growing consensus among economists that we shall experience some improvement in economic conditions over the balance of the year. It is also anticipated that interest rates will fluctuate at current levels or slightly lower until year-end. With the New Year, interest rates are expected to rise again, producing eventually what has been characterized as a "double dip" recession.

Given this type of investment environment, a continuation of our past conservative investment strategy, emphasizing short and intermediate term debt securities, appears best suited to providing high rates of return while at the same time minimizing the risks of capital depreciation. As opportunities are provided, consideration will also be given to reducing or eliminating long term commitments. The Board of Trustees of the Alaska Permanent Fund Corporation has endorsed a policy that limits investments to securities no longer than four years in maturity.

Contributions to the Fund and Balances

Following is a projection of contributions estimated to be received by the Fund from mineral lease rentals, royalties, royalty sale proceeds, bonus, etc. during Fiscal Year 1981. Included is the planned contribution of the \$900 million separately appropriated to the Fund.

(Estimated as of September 30, 1980)

<u>Month Ended</u>	<u>Regular Contributions (in millions)</u>	<u>\$900 Million (in millions)</u>
July 1980	\$23.8	\$ 50.0
August 1980	18.4	100.0
September 1980	28.0	150.0
October 1980	43.3	100.0
November 1980	29.6	100.0
December 1980	29.5	200.0
January 1980	31.3	200.0
February 1980	34.1	-
March 1980	31.7	-
April 1980	36.0	-
May 1980	37.1	-
June 1980	39.3	-
Totals	\$382.1	\$900.0

The Fund's projected balance at June 30, 1981 is \$1,800.0 million, which includes some income to be transferred to the General Fund but undisbursed at year end.

PERMANENT FUND DIVIDENDS

The Program

On April 15, 1980, the Alaska Legislature passed and the Governor signed a bill providing for payment of a dividend of \$50 for each full year that an individual has been a state resident after January 1, 1959. The maximum dividend payable for 1979 is \$1,050 (21 years times \$50 per year).

The Purposes of the program are to distribute a portion of the oil monies back to Alaska residents, to encourage persons to stay in Alaska and to make them more aware of the management and expenditure of the Alaska Permanent Fund itself.

Dividend's Source

In order to provide for the payment of these annual dividends, the legislation established a Dividend Fund which will receive 50% of the income of the Permanent Fund each year. If in any year, transfers from the Permanent Fund to the Dividend Fund are insufficient to pay the minimum dividend of \$50 per year of residency, the Legislature may appropriate additional amounts to correct the deficiency from the State's General Fund. The appropriation is an interest free loan which will be repaid to the General Fund over several years by using 10% of the Permanent Fund's income each year to pay off the loan.

In Fiscal Year 1981, \$128.5 million from the General Fund was appropriated to pay 1979 dividend payments.

Litigation

A suit was filed against the State in superior court on April 28, 1980 stating that the law was unconstitutional and should not be enforced.

Judge Ralph Moody on June 27, 1980 ruled that the law was unconstitutional because it denied certain residents equal treatment under the Alaska Constitution. He enjoined the making of any dividend payments.

This case is now pending before the Alaska Supreme Court, and as of September 30, 1980, no decision has been rendered.

ALASKA PERMANENT FUND
 REALIZED RATES OF RETURN, INCOME, AND PORTFOLIO BALANCES
 FOR THE FISCAL YEARS ENDED JUNE 30, 1980, 1979, & 1978

	FISCAL YEAR <u>1980</u>	FISCAL YEAR <u>1979</u>	FISCAL YEAR <u>1978</u>
REALIZED RATES OF RETURN (BASED ON ACCRUED INCOME)	11.29%	8.24%	7.53%
INVESTMENT INCOME (INCL AMTS EARNED BUT NOT RECD BY YEAR END)	\$ 32,426,923	\$ 7,967,131	\$ 1,791,000
(3) CASH EARNINGS RECEIVED TRANSFERRED TO GENERAL FUND	\$ 23,675,560	\$ 5,702,926	\$ 900,434
AVERAGE PORTFOLIO BALANCE	\$287,255,000	\$ 96,700,000	\$ 23,800,000
MARKETABLE SECURITIES AT JUNE 30, AT COST	\$493,427,071	\$137,783,958	\$ 54,387,000
MARKETABLE SECURITIES AT JUNE 30, AT MARKET	\$493,444,000	\$136,140,000	\$ 52,300,000

ALASKA PERMANENT FUND
Financial Statements
Years Ended June 30, 1980 and 1979
(With Auditors' Opinion)

AUDITORS' OPINION

Alaska Permanent Fund:

We have examined the statement of net assets of the Alaska Permanent Fund as of June 30, 1980 and the related statements of investment income and of changes in net assets for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances, including confirmation of investments held by the bank trustee at June 30, 1980 by correspondence with the trustee. The statements as of June 30, 1979 and for the year then ended were examined by the State of Alaska Division of Legislative Audit, whose report dated December 5, 1979 expressed an unqualified opinion on those statements.

In our opinion, the 1980 financial statements referred to above present fairly the net assets of the Alaska Permanent Fund as of June 30, 1980 and its investment income and changes in its net assets for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Deloitte Haskins & Sells

August 29, 1980

ALASKA PERMANENT FUND

STATEMENTS OF NET ASSETS
AS OF JUNE 30, 1980 AND 1979

	1980	1979
CASH IN SAVINGS ACCOUNT.....	\$ 39,019	\$ 30,714
CONTRIBUTIONS RECEIVABLE FROM THE STATE GENERAL FUND.....	34,251	239,701
INTEREST RECEIVABLE.....	9,376,844	2,441,133
MARKETABLE SECURITIES - At cost:		
U.S. Treasury notes and bonds.....	303,963,813	72,434,149
Certificates of deposit.....	111,879,066	5,013,836
Bankers acceptances.....	23,509,738	28,352,723
U.S. Treasury bills.....	20,582,673	
Corporate bonds.....	13,487,625	13,487,625
Federal agency notes and bonds.....	13,004,156	7,995,625
Securities purchased under agreements to resell.....	7,000,000	500,000
Commercial paper.....		10,000,000
Total.....	493,427,071	137,783,958
AMOUNTS DUE TO THE STATE GENERAL FUND.....	(19,668,698)	(1,948,764)
NET ASSETS.....	<u>\$483,208,487</u>	<u>\$138,546,742</u>

See notes to financial statements.

ALASKA PERMANENT FUND

STATEMENTS OF INVESTMENT INCOME
FOR THE YEARS ENDED JUNE 30, 1980 AND 1979

	1980	1979
INTEREST:		
U.S. Treasury notes and bonds.....	\$13,060,157	\$2,759,074
Certificates of deposits.....	10,130,332	1,832,828
Bankers acceptances.....	5,251,043	900,264
Corporate bonds.....	1,140,002	1,133,389
Federal agency notes and bonds.....	1,068,874	630,000
U.S. Treasury bills.....	808,031	
Commercial paper.....	386,809	273,789
Securities purchased under agreements to resell.....	306,125	391,429
Savings account.....	10,011	5,961
Total.....	<u>32,161,384</u>	<u>7,926,734</u>
NET GAINS REALIZED FROM TRANSACTIONS IN MARKETABLE SECURITIES.....	<u>265,539</u>	<u>40,397</u>
INVESTMENT INCOME.....	<u>\$32,426,923</u>	<u>\$7,967,131</u>

See notes to financial statements.

ALASKA PERMANENT FUND

STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 1980 AND 1979

	1980	1979
ASSETS WERE PROVIDED BY:		
Investment income.....	\$ 32,426,923	\$ 7,967,131
Royalties and other State receipts.....	<u>344,396,206</u>	<u>84,054,222</u>
Total assets provided.....	376,823,129	92,021,353
TRANSFERS OF INVESTMENT INCOME TO THE STATE GENERAL FUND.....	<u>(32,161,384)</u>	<u>(7,967,131)</u>
INCREASE IN NET ASSETS.....	<u>\$344,661,745</u>	<u>\$ 84,054,222</u>
INCREASE (DECREASE) IN COMPONENTS OF NET ASSETS:		
Cash in savings account.....	\$ 8,305	\$ 10,154
Contributions receivable.....	(205,450)	147,147
Interest receivable.....	6,935,711	1,853,004
U.S. Treasury notes and bonds.....	231,529,664	56,960,809
Certificates of deposit.....	106,865,230	(685,839)
Bankers acceptances.....	(4,842,985)	17,621,343
U.S. Treasury bills.....	20,582,673	
Federal agency notes and bonds.....	5,008,531	
Securities purchased under agreements to resell.....	6,500,000	(500,000)
Commercial paper.....	(10,000,000)	10,000,000
Amounts due to the State General Fund...	<u>(17,719,934)</u>	<u>(1,352,396)</u>
INCREASE IN NET ASSETS.....	<u>\$344,661,745</u>	<u>\$ 84,054,222</u>

See notes to financial statements.

ALASKA PERMANENT FUND

NOTES TO FINANCIAL STATEMENTS

1. ENTITY

In fiscal 1977 the voters approved an amendment to the Constitution of the State of Alaska which requires certain mineral lease rentals, bonuses, royalties, royalty sale proceeds, and Federal mineral revenue-sharing payments received by the State to be set aside for the use and benefit of present and future Alaskans. For fiscal 1979, transfers to the State General Fund included interest income and net gains realized from transactions in marketable securities. For fiscal 1980, such transfers were limited to interest income as a result of changes in the State statutes applicable to such transactions.

2. SIGNIFICANT ACCOUNTING POLICIES

Marketable securities are generally intended to be held until maturity and are stated at cost. The market values of such securities at June 30, 1980 and 1979 were:

	<u>1980</u>	<u>1979</u>
U. S. Treasury notes and bonds.....	\$304,967,000	\$ 72,259,000
Certificates of deposit.....	113,899,000	5,005,000
Bankers acceptances.....	23,692,000	28,356,000
U. S. Treasury bills.....	20,924,000	
Corporate bonds.....	10,753,000	12,470,000
Federal agency notes and bonds.....	12,209,000	7,550,000
Securities purchased under agreements to resell.....	7,000,000	500,000
Commercial paper.....		10,000,000
Total.....	<u>\$493,444,000</u>	<u>\$136,140,000</u>

Gross unrealized gains and losses were \$6,954,000 and \$6,937,000, respectively, at June 30, 1980.

Security transactions are generally recorded on their settlement date.

Interest income is recognized using the accrual method of accounting.

Administrative and other expenses are paid by the State and are not included in the accompanying statements.

3. BALANCES AVAILABLE FOR INVESTMENT

Due to the timing of receipts, balances as of the end of June are not necessarily representative of average balances available to the Fund for investment purposes. The average balances available to the Fund were approximately \$287,255,000 during fiscal 1980 and \$96,700,000 during fiscal 1979.
