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# **Alaska Permanent Fund Corporation**

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**1983 Annual Report  
and Financial Statements**

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# Alaska Permanent Fund Corporation

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## Members of the Board of Trustees

George W. Rogers, Ph.D., Chairman

Arnold G. Espe, Vice-Chairman

Steve Cowper

Norman C. Gorsuch

Robert D. Heath

Byron I. Mallott



Photo courtesy of Goldbelt, Incorporated

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## Telex:

099-46-323

## Legislative Oversight Committee

Legislative Budget and Audit Committee

Chairman

Representative Bob Bettisworth

Senator Jan Faiks

Senator Vic Fischer

Senator Joe Josephson

Senator John Sackett

Vice-Chairman

Senator Bettye Fahrenkamp

Representative Al Adams

Representative Jim Duncan

Representative Terry Martin

Representative M. W. Miller

## Special Legislative Liaison Committee

The Special Committee consists of the members of the Legislative Budget and Audit Committee and Representative Hugh Malone, appointed for this purpose by the Speaker of the House.

## Staff

Executive Director

David A. Rose

Chief Investment Officer

William L. Means

Investment Officer

Richard E. Alexander

Investment Officer

Robert D. Storer

Comptroller

Peter A. Bushre

Accountant

Joyce St. Clair

Accountant

Drusilla Westall

Office Manager

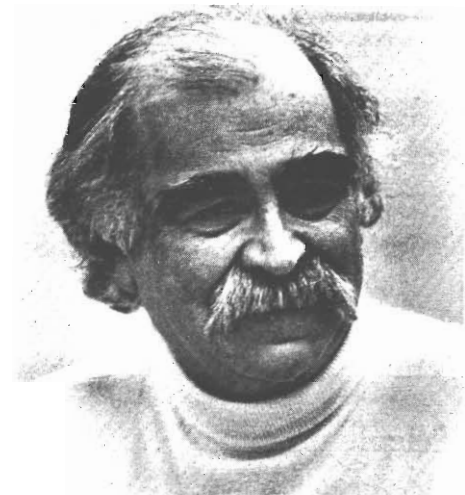
Melanie Wilhelm

Secretary

Alison Farnan

Research & Liaison Officer

James B. Rhode



George W. Rogers, Ph.D.  
Chairman  
Board of Trustees  
July 1982 through July 1983

## Chairman's Message

It is with a great deal of pleasure that I forward the Annual Report and Financial Statements for the Fiscal Year ended June 30, 1983.

This reporting period was highlighted by significant change and lasting accomplishment. The Corporation was transformed from a ward of the State treasury to a strong, viable and independent organization. At last, after many years, the Trustees solidified the Permanent Fund as an institution complete with its own professional staff, physical facilities, accounting systems and internal controls.

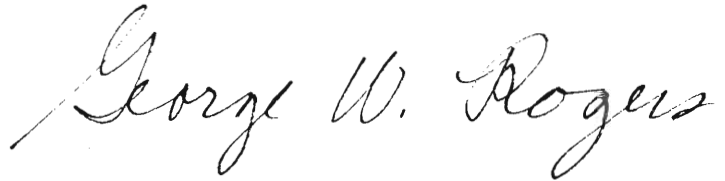
For the first time, the Trustees established long term goals for rates of return and formally enunciated an asset allocation policy designed to achieve these goals.

Fiscal Year 1983 marked the first time that the Corporation was permitted by statute to retain earnings for "inflation-proofing": the protection of the future purchasing power of the Permanent Fund. A total of \$231,192,000 was added to the principal of the Fund for this purpose.

New ground was also broken with the move toward investment in common stock and the careful search for—and retention of—active and passive equity managers. The five managers selected have achieved some of the best long range performance in the nation and we look forward to outstanding returns in this investment area.

Finally, the year would not have been a total success without superior results from investment operations. I am proud to report net earnings of \$471,125,000 representing a 12.76 percent earnings rate and a real rate of return of 6.66 percent.

As I conclude my term both as Chairman and as a Trustee, I look back on this past year with a great deal of personal pride and satisfaction. Our success, however, is the result of the efforts of many. While the Trustees and staff have been in the forefront; the support, the concern and the understanding of Alaskans throughout our State have built the framework for a strong and lasting institution.



George W. Rogers, Ph.D.  
Chairman  
Board of Trustees



Photograph courtesy of Alaska Tourism Collection, Alaska Historical Library

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# The Year In Review

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More changes occurred in Fiscal Year 1983 than in any year since the inception of the Alaska Permanent Fund. These included: a shift in the composition and membership of the Board of Trustees; the move to independent status from the State treasury; the exercise of new investment authority granted under the 1982 amendments to the Permanent Fund Act; and the first distributions of Fund income under the changes in accounting rules adopted in those same amendments, notably the command to “inflation-proof” the principal of the Fund.

The Trustees and staff faced the challenging task of executing a complex transition in an orderly, sound and well-timed manner. This transition was accomplished against the backdrop of major adjustments in financial markets. In addition to the momentous management, organizational, accounting systems, internal control and investment policy changes, the Fund was able to produce superior investment performance results.

## The Trustees — A New Team

George Rogers served as Chairman of the Trustees this past year. Arnold Espe was Vice-Chairman. The posts of Secretary and Treasurer were held by David Rose, who also served as Executive Director responsible for all daily operations.

The composition of the six-person Board of Trustees was altered as a result of 1982 legislative action which replaced one cabinet officer with a Trustee from the public. The Board is now composed of four public members and two cabinet officers.

At the conclusion of the year, there had been a complete turnover of the Board of Trustees as follows:

<b>Former Members</b>	<b>replaced by</b>	<b>Present Members</b>
Elmer Rasmuson		Byron Mallott
Commissioner Robert Ward		Arnold Espe
Peter McDowell		Steve Cowper
Commissioner Thomas Williams		Commissioner Robert Heath
Atty. General Wilson Condon		Atty. General Norm Gorsuch
George Rogers		Clyde Sherwood

The Trustees, except for the two cabinet officers, are citizen volunteers who are fully employed in the private sector. The cabinet members have major public responsibilities and are engaged in operating large state departments.

Because they are not full time employees of the Permanent Fund Corporation, the Trustees recognize a need to seek advice, to evaluate their own performance as policy makers and confer with others in a similar role. To this end, they have sought out peers who are responsible for overseeing other major trust funds or who are recognized financial managers.

Pursuant to extended discussion among the Trustees, it was decided not to create a standing Committee of Financial Advisors, but to draw on a variety of persons for differing periods of time. The Trustees believe that this provides both continuity and flexibility.

The advisors chosen to be the initial core of this undertaking are Mr. Elmer Rasmuson, prominent banker and former Chairman of the Trustees; Mr. George Bennett, former Treasurer of Harvard and responsible for the management of the University's endowment, and principal of State Street Investment Corporation of Boston; and Mr. Robert E. Greeley, former advisor to the Saudi Arabian Monetary Authority and currently Manager of Corporate Investments for Hewlett-Packard Company, based in Palo Alto, California.

## Move Toward Independence — The Prelude

During the 1982 legislative session, the Legislature agreed to make the Permanent Fund independent of the State treasury where it had resided for six years. Independence had always been urged by professional investment advisors to the Legislature and the Trustees, “. . . to insulate savings from spending . . . and to insure that investment operations would be conducted on a sound economic, rather than socio-political, basis”. Further, with the growing size and changing mix of the Fund's assets and differing investment objectives, it was doubted that the Fund would continue to have the desired attention from treasury staff. Most importantly, the central advantage of independence was high visibility which not only meant greater scrutiny of its policies and performance but insured that, as the Trustees noted last year, “. . . efforts by interest groups to win concessions from the Fund would be more readily seen . . .”

Working by subcommittee, the Trustees began the move to independence by drawing formal job descriptions for the Board and its Chairman. The key tasks reserved to the Trustees were the hiring of the Executive Director and the setting of general investment policy. The chief duties of the Chairman were to approve an agenda and conduct meetings, coordinate the use of financial advisors and other consultants, and be the spokesperson for the Fund.

In deciding the role of the Executive Director, the Trustees consciously followed the approach favored in the legislative history of the enabling law. For the sake of clear accountability, the head of the staff is alone responsible for operational decisions, for making policy recommendations, and for the hire, promotion, dismissal, assignment, and direction of his subordinates.

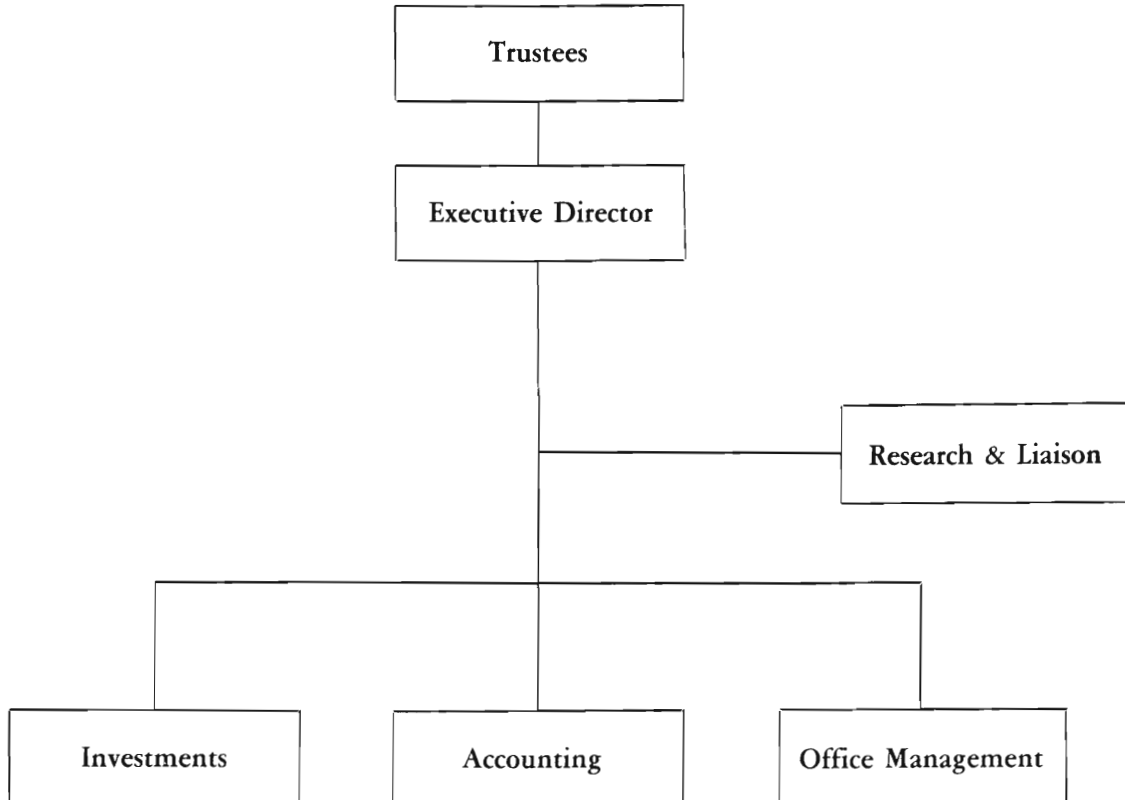
Subsequently, a search committee of Trustees screened applicants for the post of Executive Director, placing first emphasis on Alaskans with a proven record of administrative experience. The unanimous choice was David A. Rose, a financial manager with degrees in accounting and business, former director of both the Alaska Municipal Bond Bank Authority and the Alaska Industrial Development Authority, past Chairman of the Anchorage Municipal Assembly, past President of the Alaska Municipal League, and longtime Anchorage businessman.

## The Move To Independence — Execution

Taking up his post in early December 1982, Mr. Rose began the myriad, parallel steps to house the Permanent Fund in leased private space, secure communications equipment linked with national markets, retain professional staff, design an accounting and internal control system, transfer assets, and draft a comprehensive, long-term investment strategy for Trustee review and action.

The Trustees agreed that the staff of the Fund should have those responsibilities it could perform as ably as outside managers at the same or lower cost. Additionally, the staff should assume those responsibilities for which it would be unwise to place sole reliance upon an outsider; such as regular accounting and the monitoring of external managers. The Executive Director implemented this approach by hiring a team of investment officers: two for the fixed income portfolio and one to administer an indexed stock fund and to monitor stock and real estate transactions by specialty managers. They were joined by a comptroller who directs two others in keeping the books of the Fund, safeguarding securities and rendering financial reports; subject to a yearly, independent audit. One person has care of drafting certain internal reports and of liaison with the State government, the media, and the public. Two others provide vital administrative and clerical support. Thus, the total organization has a modest staff of ten.

## Permanent Fund Corporation Organization



## Investments — Objectives and Strategies

At their meeting in March 1983, the Trustees enunciated a long-term investment objective for the Fund and an implementing strategy. They acknowledged the statutory mandate to place the preservation of capital first and the production of income second. This goal was best served, they stated, by striving for a consistent return of three percent above inflation over the long-run. This, in turn, depended on honoring the "Prudent Investor Rule" through a cautious diversity of investments (by type, geographic location, length of term, and styles of management), and defending the principle of inflation-proofing the Fund's corpus. They saw the five-year averaging of Fund income as essential to a stable flow of earnings for both payments to the State and to the inflation-proofing of the Fund. Without the averaging and the existence of undistributed earnings, there is greater pressure to accept higher risks or the premature sale of assets that are rising in value.

Under the 1982 amendments to the Permanent Fund Act, a wider investment authority was conferred. Permissible investments were increased to include common stocks, income property held on a pooled or joint basis (may not exceed 40 percent of the investment), loans for commercial real estate, and deposits of U.S. dollars held overseas. Unlike the State pension funds, foreign stocks and bonds were excluded. Investment in gold, because it is not an "income producing" class of investment, is barred by the statutory and constitutional language creating the Fund. The additional authority was granted to offer more diversity and better yields, recognizing that the old list providing for investments in government securities had brought significant real earnings only twice in this century; 1931 and the past four years. The newest instruments, over time, have matched the long-term growth of the U.S. economy, two to four percent above inflation or higher.

Of these, only two were deemed appropriate for investment during this period. Consistent with their standing promise, the Trustees entered these areas in a deliberate, gradual manner. It was decided to put a maximum of 15 percent of Fund holdings in common stock over a two-year period. Income property (office complexes, shopping centers, and the like) will be no more than 10 percent of assets, purchased over three years.

With the aid of a prominent analytical firm, A. G. Becker, an initial field of 350 stock managers was reduced to 16 and, using written criteria and extensive interviews by a Trustee subcommittee and the staff, four companies were selected.

### Stock Managers Selected

Eaton and Howard, Vance Sanders, Inc.	Boston/San Francisco
Lehman Management Co., Inc.	New York
Batterymarch Financial Management	Boston
Rosenberg Capital Management	San Francisco

These equity managers will be responsible for 25 percent of the assets allocated to the purchase of common stocks. The other 75 percent will be placed under passive investment in an "indexed" account which statistically mirrors the nationally recognized Standard and Poor's 500. Bankers Trust Co., New York has been selected as the index fund manager.

In the matter of income property, limits were imposed on the pace of entry into this arena by the Fund due to the very nature of these investments. They are complex, have long lead times, and there is a lack of standard performance measures of managers. Further, there is a restriction by U.S. tax law which bars the commingling of Fund money with that of pension funds. This severely limits the number of pools which the Fund may enter. This argues for joint ventures, but they carry the burden of more detailed review of proposals. As of this writing, the Trustees are still framing policy in this area through a subcommittee which will offer recommendations to the full Board. From the first, a major concern has been to participate in Alaskan properties without direct competition with Alaska's private sector investors, developers or property owners.

## The New Accounting Rules

A part of the 1982 amendments to the enabling law was a change in the accounting rules by which income is calculated, held, and distributed. Two changes deserve attention here. First, the actual income distributed as well as the income reported will henceforth be on the accrual rather than cash basis. That is, the income truly earned in the fiscal year but not yet received will be paid over. Second, up to one-half the five-year average of income on this basis, plus, if need be, past income retained because it was in excess of the five-year average, may be reached to inflation-proof the principal of the Fund. This means the Fund will buy as much in the future as it would today and the buying power of the earnings will be kept up in the same proportion.

There are substantial amounts of money left over after the five-year average of earnings has been calculated. As this "undistributed income" has attracted legislative interest on a number of fronts, it would be well to review the rationale for this provision of the law. The purpose of the averaging is to maintain a stable flow of dollars to the State (currently for dividends, which have first claim on the earnings). Additionally, the averaging, and the reserves it creates, has the added benefit of providing sums available for inflation-proofing. The existence of the undistributed income account has the ancillary benefit of deterring managers from selling off assets prematurely in order to show rapid gains, and also, of encouraging them to depart from unprofitable areas of investment. This occurs because gains and losses alike, although booked during the year in which they occur, impact the distribution of earnings on a five-year basis at the rate of 20 percent each year.

In short, ending the five-year average exposes payments for the State and for inflation-proofing to large fluctuations.

To be sure, in the early years of rapid growth for the Fund, and given the exceptional yields of recent years, the accumulated reserves appear generous. If the conservative estimates of the Fund are borne out by events (income of nine percent in the face of six percent inflation), the reserves will prevent the amount for dividends (or some other use) from falling and permit the full inflation-proofing of Fund principal. However, the return of severe inflation or unfavorable market conditions might erode the reserves below the minimum

required. The central point is that the amount of undistributed income could only be found "excessive" after each five-year cycle has ended, and even then it could not be predicted with confidence that such excess would be unneeded later. Were the account invaded too far, the alternatives would lie between special appropriations to restore the original value of the Fund, reducing payments to the State, or accepting that the Fund is self-liquidating in the face of inflation.

## 1983 Legislation

Although some 30 pieces of legislation affecting the Permanent Fund were introduced in the past session, none were enacted into law. The Trustees did not ask for, nor support any proposals, wishing to have more experience with independence and with the 1982 amendments. However, as in the past, a Special Legislative Liaison Committee meets with the Trustees and staff to discuss policies, operations, problems, and suggested changes in the law.

## Audit

Price Waterhouse, independent public accountants, audited the Fund for the 1983 Fiscal Year. The auditors expressed an unqualified opinion as to the Statements of Assets, Liabilities the Fund Equity, and the related Statements of Revenues and Expenditures, of Changes in Financial Position, and of Changes in Fund Equity. The auditors' opinion and the financial statements are included as part of this report.

## Meetings and Information

Four regular meetings and three special meetings were held during Fiscal Year 1983. Dates and places are noted below. Summary minutes are available for all meetings. The public is always encouraged to attend meetings and is given an opportunity to address agenda items.

<b>Regular Meetings</b>	<b>Special Meetings</b>
September 17, 1982 - Anchorage	August 5, 1982 - Juneau
December 3, 1982 - Juneau	November 4 - 5, 1982 - Juneau
March 30, 1983 - Juneau	January 21, 1983 - Juneau
May 20, 1983 - Juneau	

The Permanent Fund has printed a fact sheet describing its origins and operations which is available to any interested group or individual. As they are prepared, materials for the coming public information and education program, including a short history of the Permanent Fund, will also be available.



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# Fund Performance

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## Performance Versus Goals

State law requires that the annual report include a comparison of the Fund's performance with its goals: 1) conservation of a portion of the State's mineral resource revenues to benefit all generations of Alaskans; 2) maintenance of safety of principal while maximizing total return; and 3) management of the Fund as a savings device to allow maximum use of disposable income for the purposes defined by law. Each goal and performance against that goal is discussed below:

### Conservation of mineral resource revenue

During the fiscal year, the balance of the Permanent Fund grew from \$3,212,836,000 on July 1, 1982 to a total of \$4,375,036,000 on June 30, 1983 (including undistributed income).

This substantial increase of \$1,162,200,000 was generated primarily from contributions of revenues derived from the state's mineral resources; \$420,957,000 directly from these revenues as provided for by the 1976 Constitutional Amendment which created the Fund and by the Permanent Fund Act of 1980, and \$400,000,000 indirectly from mineral resource revenues through the legislative appropriation process.

### Maintenance of principal while maximizing total return

All principal contributions since inception have been retained in the Fund's balance. The Fund has not suffered from a total net realized loss nor does a comparison of portfolio value on a cost versus market basis reflect net potential unrealized losses. The rate of return earned during the year was 12.76 percent. In addition to the above earnings, \$64,000 was provided in realized gains. Total net income for the year was \$471,125,000.

### Management as a savings device to allow use of disposable income

In order to preserve the Fund as a true savings device, it is necessary to protect its purchasing power from the future ravages of inflation. In accordance with law, the Trustees have retained, and placed into the principal of the Fund, an amount equal to the rate of inflation multiplied by the principal (less undistributed earnings) as of June 30, 1983. The rate of inflation utilized is the calendar year average rate of change, 1981 to 1982, of the U.S. Consumer Price Index for all urban consumers. The amount retained was \$231,192,000.

Income to be transferred from the Fund as the result of Fiscal Year 1983 operations as prescribed by statute, to include special transitional provisions of the 1982 legislation, include \$107,875,000 to the State Dividend Fund and \$109,535,000 to the State General Fund. Clearly, enough net income was generated through operations to enable payment of these amounts.

## Investment Strategy

During the third quarter of Fiscal Year 1982, the Trustees adopted a strategy which recognized the potential for a continued drop in investment yields, a further reduction in inflation and above average real rates of return. This strategy involved a significant extension of maturities.

This strategy was adhered to during the remainder of Fiscal Year 1982 and all of Fiscal Year 1983. The average life of the fixed income securities portfolio moved from eight months to almost five years during this period. On June 30, 1983, 40.0 percent of the holdings mature within two years, 37.2 percent mature between two and five years, 14.4 percent mature between five and ten years, and 8.4 percent mature over ten years.

Investments in Alaskan residential mortgages continued throughout the year with \$80 million allocated for this purpose. At year end, \$31,521,000 was invested. In addition to mortgages, the Fund held mortgage backed securities issued by the Alaska Housing Finance Corporation. These taxable bonds, in the amount of \$16.0 million, met the investment criteria of "AA" corporate bonds as set forth in statute, had attractive yields and offered a reasonable degree of liquidity. Another major Alaska-oriented investment was comprised of certificates of deposit issued by financial institutions. A total of \$50 million of these holdings was maintained throughout the year.

The Trustees recognize the need for diversification of investment instruments and the probability that high real rates of return on government securities will not prevail over the long run. Therefore, on March 30, 1983 the Trustees allocated 15 percent of portfolio assets to the purchase of common stock over two years and ten percent of the portfolio to commercial real estate instruments over three years. As of the end of this reporting period, no investments had been made in these two areas.

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# History of Operations

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	<u>1983</u>	<u>1982</u>
Rate of Return	12.76%	15.10%
Consumer Price Index	6.10%	10.37%
Real Rate of Return	6.66%	4.73%
Net Income	\$ 471,125,000	\$ 368,426,000
Income distributable to:		
State Dividend Fund	\$ 107,875,000	\$ 91,706,000
State General Fund	\$ 109,535,000	\$ 91,705,000
Provision for Inflation	\$ 231,192,000	—
Total Assets	\$4,592,994,000	\$3,301,655,000
Unrealized Gains (Losses)	\$ 13,194,000	(\$ 42,007,000)
Realized Gains (Losses)	\$ 64,000	(\$ 3,000)

Year Ended June 30,				Four Months Ended June 30,
1981	1980	1979	1978	1977
16.00%	11.29%	8.24%	7.53%	5.54%
13.52%	11.26%	7.66%	6.45%	5.77%
2.48%	.03%	.58%	1.08%	(.23%)
\$ 149,867,000	\$ 32,427,000	\$ 7,967,000	\$ 1,791,000	\$ 36,000
\$ 45,452,000	\$ 16,081,000	—	—	—
\$ 45,452,000	\$ 16,080,000	\$ 7,967,000	\$ 1,791,000	\$ 36,000
—	—	—	—	—
\$1,874,638,000	\$502,877,000	\$140,496,000	\$54,997,000	\$3,966,000
(\$ 51,806,000)	(\$ 17,000)	(\$ 1,911,000)	(\$ 2,123,000)	(\$ 19,000)
\$ 219,000	\$ 266,000	\$ 40,000	\$ 8,000	—

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# The Year Ahead

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## The Future of the Fund — Public Information and Education

For more than a year, the Trustees have concluded that the debate over the future of the Fund is mounting at the same time Alaska's politicians, media, and public have become even more transient than when the Fund was created in 1976. In the seven years following, limited public information and education has been attempted, with infrequent use of radio and television and virtually no approach to the school system. A mounting debate over an institution that affects everyone, when fewer and fewer understand its history or the alternative for it, ". . . does not", as one staff paper noted, "bode well for Alaska or the Permanent Fund . . ."

The Trustees have decided that a systematic effort to inform and educate the public should be made over the next year, focused on maximum public access to the Trustees and using all possible free air time on radio and television, the means by which most people learn of current events today. This effort will offer basic facts on what the Fund is and how it operates, on the financial and legal reasons for the Fund's investment policies, and center attention on the one fundamental question that is not yet resolved: "What is the long-range purpose of the Permanent Fund, for what is the money being saved?"

It will be role of the Trustees to press this question, taking every step necessary to insure that Alaskans learn about the risks and consequences of the various answers that have been (or will be) advanced. It will be for the public acting through elected officials and, perhaps, special ballots, to choose the proper goal(s). These could include: paying a direct benefit to this and future generations; meeting the costs of future budgets as the oil revenues decline; providing infrastructure and other incentives to build a more diversified private economy; breaking open the Fund to pay for a number of large projects; or some other goals. All of these choices require legislative action. Some would require constitutional amendment. But the failure to make a choice on the long-range purpose of the Fund increases the danger that an early decision will be made on short-range considerations. Ironically, the larger the Fund and the more capably managed, the more tempting the target becomes.

## Economic Outlook

The economic outlook for the second half of 1983 and calendar year 1984, barring a financial crisis, will be dominated by the continuing impasse between Congress and the President over fiscal policy. The Federal budget deficit for the current fiscal year ending September 30, 1983 will be approximately \$200 billion. In addition, spending programs to which the country is already committed for the next several years come perilously close to utilizing all the additional revenues generated by a normal business expansion. In the view of most observers, it is highly unlikely that the question of reducing the deficit will be addressed in any meaningful manner prior to the 1984 elections. Congressional and presidential candidates can be expected to shun proposals for massive tax increases and expenditure cuts at a time they are campaigning for office.

In our opinion the lows in interest rates have already been seen for this economic cycle. The extremely strong economic recovery which the country is currently experiencing, accompanied by rapid gains in employment, argues for an upward bias in interest rates. The rise will undoubtedly be punctuated by sudden upward spikes in interest rates as the Federal Reserve Bank tightens monetary policy to curb excessive monetary growth followed by downdrafts as the central bank eases its policy. A high level of volatility will characterize the financial markets.

By mid-1984, increasing credit demands of an expanding economy will come into conflict with the insatiable credit demands of the United States Treasury putting more pronounced pressure on interest rates. The financial markets will certainly become nervous with regard to the outcome of the elections. Uppermost in the minds of most investors will be the question whether the President in 1985 and the new Congress will be able to work together harmoniously to develop a rational plan, within a reasonable period of time, to curb Federal spending and increase Federal revenues. If investors perceive in their elected officials an unwillingness to come to grips with these issues, both interest rates and inflation are likely to soar.

The amount of interest due yearly on the Federal debt is a good indicator of the magnitude of the problem which the country faces. For Fiscal Year 1983 net interest payments on the Federal debt are estimated to be \$89 billion. The Congressional Budget Office has projected that these payments should rise by more than 40 percent to \$126 billion for Fiscal Year 1986. Of concern to all investors is the possibility that without a satisfactory resolution of the deficit problem, governmental officials at some point in the future will come to the conclusion that the only sensible way to deal with the problem is to promote further inflation in order to pay interest on the debt with grossly inflated dollars and reduce the deficit's impact on the economy.

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# Alaska Permanent Fund Corporation

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Financial Statements  
June 30, 1983 and 1982



Photograph courtesy of Alaska Tourism Collection, Alaska Historical Library



101 WEST BENSON BOULEVARD  
ANCHORAGE, ALASKA 99503  
907 279-1424

August 12, 1983

To the Board of Trustees  
Alaska Permanent Fund Corporation

In our opinion, the accompanying statements of assets, liabilities and fund equity and the related statements of revenue and expenditures and of changes in fund equity present fairly the financial position of the Alaska Permanent Fund Corporation at June 30, 1983 and 1982, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were 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.

*Price Waterhouse*

# Alaska Permanent Fund Corporation

## Statement of Assets, Liabilities and Fund Equity

	1983	June 30, 1982
ASSETS		
Cash	\$ 183,000	\$ 68,000
Receivables and prepaid expenses	152,265,000	124,895,000
Investments:		
Marketable Securities -		
Repurchase agreements	18,800,000	200,000
Short-term issues	612,557,000	2,131,207,000
Intermediate and long-term issues	<u>3,727,503,000</u>	<u>970,842,000</u>
Total marketable securities	4,358,860,000	3,102,249,000
Loans and mortgages	31,521,000	24,443,000
Alaska certificates of deposit	50,000,000	50,000,000
Property and equipment, net of accumulated depreciation	<u>165,000</u>	<u>                    </u>
Total assets	<u>\$4,592,994,000</u>	<u>\$3,301,655,000</u>
LIABILITIES		
Accounts payable	\$ 548,000	
Income distributable to the State of Alaska	<u>217,410,000</u>	<u>\$ 88,819,000</u>
Total liabilities	<u>217,958,000</u>	<u>88,819,000</u>
EQUITY		
Contributed equity	4,021,226,000	2,969,077,000
Undistributed income	<u>353,810,000</u>	<u>243,759,000</u>
Total equity	<u>4,375,036,000</u>	<u>3,212,836,000</u>
Total liabilities and equity	<u>\$4,592,994,000</u>	<u>\$3,301,655,000</u>

See accompanying notes to financial statements

# Alaska Permanent Fund Corporation

## Statement of Revenues and Expenditures

	<u>Year Ended June 30,</u>	
	<u>1983</u>	<u>1982</u>
Revenues:		
Investments	\$472,178,000	\$368,429,000
Loaned securities	22,000	
Total interest	472,200,000	368,429,000
Gains (losses) on sales of securities	64,000	(3,000)
Gross revenues	<u>472,264,000</u>	<u>368,426,000</u>
Expenses:		
Salaries and benefits	462,000	
Travel	67,000	
Trustee honoraria	23,000	
Contractual services	563,000	
Supplies and materials	12,000	
Depreciation	12,000	
Total operating expenditures	<u>1,139,000</u>	
Net income	<u>\$471,125,000</u>	<u>\$368,426,000</u>

See accompanying notes to financial statements



# Alaska Permanent Fund Corporation

## Statement of Changes in Financial Position

	<u>Year Ended June 30,</u>	
	<u>1983</u>	<u>1982</u>
Financial Resources Were Provided By:		
Net income	\$ 471,125,000	\$ 368,426,000
Items not affecting funds -		
Amortization	(801,000)	(372,000)
Depreciation	(12,000)	
Increase in receivables and prepaid expense	(27,370,000)	(51,409,000)
Increase in accounts payable	548,000	
Funds provided by operations	<u>443,490,000</u>	<u>316,645,000</u>
Sales of marketable securities	2,255,919,000	568,942,000
Maturities of debt obligations	1,647,650,000	4,689,945,000
Loan and mortgage repayments	3,840,000	387,000
Redemption of Alaska certificates of deposit	3,000,000	86,100,000
Contributions from the State	<u>820,957,000</u>	<u>1,200,522,000</u>
Total funds provided	5,174,856,000	6,862,541,000
Financial Resources Were Used For:		
Marketable securities	5,140,755,000	6,603,941,000
Loans and mortgages	10,918,000	23,744,000
Alaska certificates of deposit	3,000,000	100,000,000
Equipment	177,000	
Total purchases	<u>5,154,850,000</u>	<u>6,727,685,000</u>
Distributions of income to the State	<u>1,291,000</u>	<u>141,931,000</u>
Total funds used	<u>5,156,141,000</u>	<u>6,869,616,000</u>
Net change in funds	<u>\$ 18,715,000</u>	<u>\$ (7,075,000)</u>
Summary Of Changes:		
Increase in cash	\$ 115,000	\$ 25,000
Increase (decrease) in repurchase agreements	<u>18,600,000</u>	<u>(7,100,000)</u>
Net change in funds	<u>\$ 18,715,000</u>	<u>\$ (7,075,000)</u>

See accompanying notes to financial statements

# Alaska Permanent Fund Corporation

Notes to the Financial Statements

June 30, 1983 and 1982

## NOTE 1 - ENTITY:

The Constitution of the State of Alaska was amended by public referendum in 1976 to provide for the automatic segregation of a portion of certain natural resource revenues which are dedicated to the Permanent Fund. The principal of the Permanent Fund is invested in perpetuity; the earnings are transferred to the general fund of the State unless otherwise provided by law.

In 1980 the State Legislature created the Alaska Permanent Fund Corporation ("Corporation"), a public corporation separate from the agencies of State government and governed by a Board of Trustees, to manage the investments of the Permanent Fund. The Legislature also provided that a portion of the annual earnings would be transferred to the State for the payment of dividends, an equal amount for general purposes, and that the balance would be retained as undistributed income. In 1982 the Legislature amended the law to provide that a portion of the annual earnings would be made available to the State for the payment of dividends and that a portion would be contributed to the principal of the Permanent Fund sufficient to offset the impact of inflation. The balance would be retained as undistributed income.

## NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES:

### Contributions -

Contributions by operation of statute are recorded when they become due from the State, i.e., when certain revenues are received by the State Department of Natural Resources.

Contributions by appropriation are recorded when they are received.

### Depreciation -

Furniture and equipment is depreciated on a straight-line basis over a three year useful life. Other property is depreciated on a straight-line basis over a five year useful life.

### Distributable Income -

Distributable income is a five year moving average of the net income of the Corporation.

### Funds -

For purposes of the Statement of Changes in Financial Position, the term "Funds" has been defined as cash and repurchase agreements.

### Inflation Impact -

The impact of inflation is measured by the 1982 United States Consumer Price Index calendar year average for all urban

consumers applied against the balance of contributed equity at the end of the fiscal year.

Interest Income -

Interest income on all securities is accrued monthly as earned.

Interest income is shown net of amortization of premiums and accretion of discounts.

Marketable Securities -

Marketable securities are carried at cost adjusted for amortization of premiums and accretion of discounts.

Gains or losses on the sale of securities are determined by specific identification.

Restatement of Prior Year -

Prior year balances have been restated to conform with a change in reporting format. This restatement has had no effect on previously reported earnings.

Undistributed Income -

Net earnings are credited to the undistributed income account at the end of the fiscal year. Earnings attributed to the investment of undistributed income are based upon the balance at the beginning of the fiscal year.

NOTE 3 - INVESTMENT SECURITIES:

The estimated market values of investment securities at June 30, 1983 and 1982 are as follows:

	<u>1983</u>	<u>June 30,</u> <u>1982</u>
Repurchase agreement	\$ 18,800,000	\$ 200,000
Short-term issues	639,236,000	2,201,721,000
Intermediate and long-term issues	<u>3,737,790,000</u>	<u>936,411,000</u>
	<u>\$4,395,826,000</u>	<u>\$3,138,332,000</u>

No market values have been estimated for loans and mortgages and Alaska certificates of deposit due to the lack of an established secondary market for these investments. All of the Corporation's investment securities are held by commercial lending institutions pursuant to custodial agreements, except for the Alaska certificates of deposit.

NOTE 4 - CONTRIBUTED EQUITY:

The principal balances of the Alaska Permanent Fund at June 30, 1983 and 1982 are as follows:

	<u>1983</u>	<u>June 30,</u> <u>1982</u>
Dedicated state revenues	\$1,690,034,000	\$1,269,077,000
Appropriations from the State	2,100,000,000	1,700,000,000
Provision for inflation	<u>231,192,000</u>	<u>                    </u>
	<u>\$4,021,226,000</u>	<u>\$2,969,077,000</u>

In 1980 the State Legislature appropriated \$900,000,000 from general fund revenues to the Permanent Fund. This appropriation has been paid in full. In 1981 the Legislature appropriated an additional \$1,800,000,000 from general fund revenues to the Permanent Fund. This appropriation bill directs the Commissioner of Revenue to make monthly deposits of general fund operating surplus until the balance is reached. At June 30, 1983, \$1,200,000,000 (June 30, 1982, \$800,000,000) of this appropriation had been deposited in the Permanent Fund. During July, 1983, the Commissioner of Revenue deposited an additional \$100,000,000 of this appropriation in the Permanent Fund, leaving a balance due of \$500,000,000.

NOTE 5 - CONTINGENT LIABILITY:

Current law directs that at least one-half of distributable income be made available for the payment of dividends each year. The actual transfer to the State dividend fund, however, must be appropriated by the Legislature. For the year ended June 30, 1983, the appropriation was less than one-half of distributable income as calculated under the statutory formula, and the shortfall could be appropriated by the Legislature during a subsequent session. This amount is summarized below:

Statutory accrual of distributable income	\$127,730,000
Appropriated by the Legislature	<u>107,875,000</u>
Contingent liability	<u><u>\$ 19,855,000</u></u>

NOTE 6 - INCOME DISTRIBUTABLE TO THE STATE OF ALASKA:

Income distributable to the State of Alaska is that portion of net income for the years ended June 30, 1983 and 1982 which must be transferred to the State by operation of law. An amount payable to the State dividend fund has been appropriated by the Legislature. (See Note 5.) An amount payable to the State general fund is due under a special one-time transition rule which accompanied the 1982 amendments for the year ended June 30, 1983, and under the State Constitution for the year ended June 30, 1982. The activity for the years ended June 30, 1983 and 1982 is summarized as follows:

	<u>Total</u>	<u>Dividend Fund</u>	<u>General Fund</u>
Balance, June 30, 1981	\$ 47,339,000	\$ 23,670,000	\$ 23,669,000
Add: 1982 accrual of distributable income	<u>183,411,000</u>	<u>91,706,000</u>	<u>91,705,000</u>
	<u>230,750,000</u>	<u>115,376,000</u>	<u>115,374,000</u>
Less: Cash transfers - Applicable to 1981 accruals	(47,339,000)	(23,670,000)	(23,669,000)
Applicable to 1982 accruals	<u>(94,592,000)</u>	<u>(47,296,000)</u>	<u>(47,296,000)</u>
	<u>(141,931,000)</u>	<u>(70,966,000)</u>	<u>(70,965,000)</u>
Balance, June 30, 1982	88,819,000	44,410,000	44,409,000
Add: 1983 accrual of distributable income	<u>217,410,000</u>	<u>107,875,000</u>	<u>109,535,000</u>
	<u>306,229,000</u>	<u>152,285,000</u>	<u>153,944,000</u>
Less: Cash transfers applicable to 1982	(1,291,000)	(646,000)	(645,000)
Transition rule adjust- ment	<u>(87,528,000)</u>	<u>(43,764,000)</u>	<u>(43,764,000)</u>
	<u>(88,819,000)</u>	<u>(44,410,000)</u>	<u>(44,409,000)</u>
Balance, June 30, 1983	<u>\$217,410,000</u>	<u>\$107,875,000</u>	<u>\$109,535,000</u>

	<u>Total</u>	<u>Dividend Fund</u>	<u>General Fund</u>
<u>1983 Provision Charged To:</u>			
Earnings on undistributed income	\$ 31,104,000	\$ 31,104,000	
Balance of undistributed income	<u>98,778,000</u>	<u>33,007,000</u>	<u>\$ 65,771,000</u>
Sub-total	129,882,000	64,111,000	65,771,000
Transition rule adjustment	<u>87,528,000</u>	<u>43,764,000</u>	<u>43,764,000</u>
Income distributable to the State	<u>\$217,410,000</u>	<u>\$107,875,000</u>	<u>\$109,535,000</u>

NOTE 7 - INCOME BY SOURCE:

Interest income was provided by the following investments during the fiscal years ended June 30, 1983 and 1982:

	<u>1983</u>	<u>1982</u>
Securities purchased under agreements to resell	\$ 5,310,000	\$ 2,123,000
Commercial paper		4,868,000
Bankers acceptances	20,270,000	118,490,000
Certificates of deposit	59,621,000	60,955,000
U.S. Treasury bills	109,382,000	97,402,000
U.S. Treasury notes and bonds	270,270,000	80,714,000
Federal agency securities	979,000	1,081,000
Corporate bonds	1,740,000	1,051,000
Savings account	12,000	66,000
Loans, mortgages and other interest income	<u>4,616,000</u>	<u>1,679,000</u>
	<u>\$472,200,000</u>	<u>\$368,429,000</u>

NOTE 8 - OPERATING EXPENDITURES:

Prior to July 1, 1982, the State Legislature provided by law that all costs of operating the Alaska Permanent Fund Corporation would be paid by the State general fund. In 1982 the Legislature amended the law to provide that the operating costs would be funded by the earnings of the Corporation. Certain services, including master servicing of loans and mortgages, are provided at no cost to the Corporation by the State of Alaska. All distributions and retentions of earnings for the year ended June 30, 1983 are net of the cost of operations.

NOTE 9 - PROVISION FOR INFLATION:

By law, an amount equal to the impact of inflation on principal is transferred each year from undistributed income to contributed equity. The "principal" of the Fund consists of (i) constitutionally dedicated State revenues, (ii) appropriations by the State Legislature, and (iii) all provisions for inflation of past years. For purposes of calculation, the Trustees have resolved that it is the balance of principal at the end of the fiscal year, not the average balance during the fiscal year, that is to be protected from inflation. The question will ultimately be settled by an opinion of the Attorney General of the State. If he decides that the law implies an average balance, \$34,655,000 will be returned to undistributed income from contributed equity.