
ALASKA PERMANENT FUND Corporation

1982 Annual Report
And Financial Statements

ALASKA PERMANENT FUND Corporation

Members of the Board of Trustees

Elmer E. Rasmuson, Chairman
Thomas K. Williams, Vice-Chairman
Peter B. McDowell, Secretary
Wilson L. Condon
George W. Rogers, Ph.D.
Robert W. Ward

Acting Executive Director

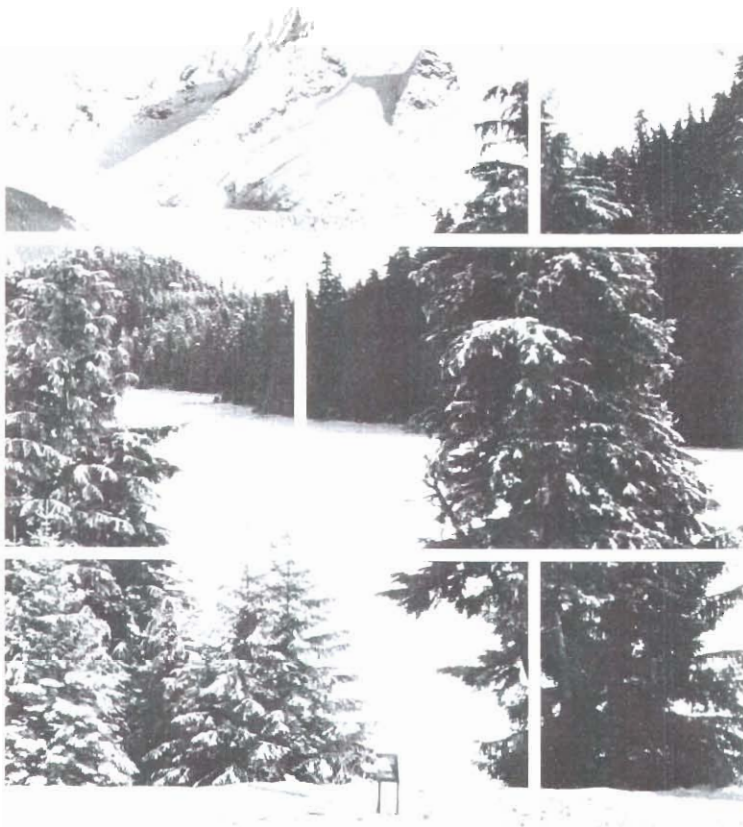
Peter A. Bushre, Treasurer

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Legislative Oversight Committee

Legislative Budget and Audit Committee
Senator Arliss Sturgulewski, Chairman

Special Legislative Liaison Committee

Senator Arliss Sturgulewski, Chairman
Senator Ed Dankworth
Senator Vic Fischer
Senator Bob Mulcahy
Senator Patrick Rodey
Representative Al Adams
Representative Bob Bettisworth
Representative Sam Cotten
Representative Oral Freeman
Representative Ernie Haugen
Representative Hugh Malone

Elmer E. Rasmuson
Chairman
Board of Trustees
September, 1980 through June, 1982



"A Chairman's Retrospect"

In looking back at my second and last year as Chairman of the Trustees, I am pleased to report that nearly all we hoped for was done, and more than many thought possible.

After more than a year of seminars and work sessions, your Trustees and the Special Liaison Committee of the Legislature, chaired by Senator Arliss Sturgulewski, were able to reach substantial agreement on recommendations for limited changes. Most of these emerged in the Permanent Fund Act of 1982.

By this Act, a majority of the Trustees (four of six) will be appointed from the public and for terms of four years instead of three — to reduce the effects of a change in state administration. Our investment list was modernized so as to be more diverse and to better perform against inflation by adding pooled income property investments, other commercial real estate, common stocks, and deposits of U.S. dollars held off-shore. Most importantly, the Permanent Fund is directed to return to principal that portion of income, after expenses and the payment of dividends, needed to protect the buying power of the Fund's principal and income. This straightforward action to meet inflation gives us a **permanent** fund in the truest sense. This action has not been fully taken by some famous private investment funds and has been done less often still by public bodies.

With the approval of two budget measures, the Permanent Fund has won the means to have staff and managers of its own choosing. This is necessary because the Trustees are held responsible for all that is done in their name. However, the standard controls over the Fund's activities will continue. The Fund is gaining a needed independence from politics as usual while giving a proper accounting to elected officials.

In this latter regard I very much hope that something like the Special Liaison Committee for the Permanent Fund will always have a place at Trustee meetings. I hope, too, that the present good faith between the two groups will be preserved.

The success of the past year is owed to the many Alaskans who felt a personal involvement in fixing the goals of the Fund and gave their support. A continuing involvement is vital because the proper management and direction of the Fund is an on-going affair. The basic concept of the Fund, like liberty, must ever be vigilantly defended and guarded. It will perform to the best interests of all Alaskans to the extent that those responsible take the necessary time and interest to make it work.

I deeply appreciate the opportunity of having served as a Trustee during this formative period. My personal concern for the Fund will remain down the years.

A handwritten signature in blue ink, appearing to read "Elmer Rasmuson". The signature is fluid and cursive, with a large initial "E" and "R".

Elmer Rasmuson
Chairman
Board of Trustees

THE YEAR IN REVIEW

Continuity and achievement were hallmarks of the Alaska Permanent Fund during Fiscal Year 1982. The major challenges from the prior year continued to confront the Trustees during 1982 . . . the organization and management of the Permanent Fund Corporation, the establishment of investment guidelines for the Fund, and the adequacy of the current provisions of law regarding the Permanent Fund. The process begun by the Trustees in Fiscal Year 1981 of providing a forum for public discussion of these challenging questions about the nature and role of the Permanent Fund for the future culminated in a series of recommendations by the Trustees to Governor Hammond for legislation to improve the Permanent Fund Management Act. The Governor introduced legislation incorporating the Trustees' proposals. Without major alteration the Legislature passed the bill and the Governor signed it into law, to take effect July 1, 1982.

Organization and Management

The membership of the Board of Trustees of the Permanent Fund remained unchanged from the prior year. Trustee Peter McDowell, whose term expired at the end of Fiscal Year 1981, was reappointed by Governor Hammond to a full three-year term. At their annual meeting in September 1981, the Trustees re-elected Elmer Rasmuson as Chairman of the Board and Thomas Williams as Vice Chairman. Peter McDowell was appointed Secretary. Peter Bushre, Acting Executive Director of the Corporation, was appointed Treasurer. At the end of the fiscal year Mr. Rasmuson's term on the Board expired, and at his request he was not reappointed. Replacing him is Byron Mallott, who was named by Governor Hammond in July 1982.

After studying the history of the Permanent Fund Amendment and the enabling act of 1980, seeking fresh counsel from investment specialists, and taking public testimony, the Trustees concluded that there was a clear directive for an independent Permanent Fund. Having a fund that is beyond the executive control of a governor or legislature and free to choose the staff and outside managers who act for it, ensures that the Trustees alone can be held to answer for investment decisions. Any efforts by interest groups to win concessions from the Fund will be more readily seen if the Fund is more visible. This step would reveal the direct expenses of the Fund, now mingled with the budget of the Treasury. The dangers of abusing independence are greatly reduced by the unique charter of the Fund. The permitted activities of the Fund are modest in scope and set out very specifically, the budget is approved by the Legislature, and the Fund is subject to as much oversight as is applied to any line agency of state government. In short, the goal of independence is to have insulation rather than isolation.

The Trustees' examination of the organization and management of the Permanent Fund clearly defined the Fund as a public trust which should not be political in nature. The Permanent Fund will always be a subject of political discussion, even debate, but the Trustees unanimously agreed that the actions taken by the Fund must never become political or even appear to be politically motivated. Extensive public hearings around the state revealed that the public strongly agreed with this position. The public sees the Permanent Fund as something special which should not be subverted to benefit special interests or to advance political fortunes.

In keeping with the non-political or independent nature of the Fund the Trustees critically examined their institutional membership. Half the members of the Board were cabinet officers of the State, serving at the pleasure of the Governor. Coupled with the fact that each year the term of one Trustee from the public would expire, this meant that with each new Governor there could be a new majority of the Board within seven months of

that Governor's election and inauguration. The Trustees feared that this could lead to a significant loss of continuity of policy and perspective with each change in administration. They also feared that such changes could also lead to major shifts in policy which would be seen as being made for political reasons.

The Trustees recommended to Governor Hammond that one of the cabinet officers on the Board be replaced with a member chosen from the public and that the four Trustees from the public serve staggered terms of four years each instead of three. This defers the time when a majority of Trustees would be appointees of a new administration until a year and a half into its first term.

The role of the Board was seen to be a mixture of policy determination and general management functions. The proposed change in the composition of the membership reflected the view that these functions would be centered in the public sector of the Board. This was furthered by the proposal that the public Trustees be paid an annual stipend equal to that of a legislator to assure that they make an equivalent amount of time available for these functions. There was not unanimity of agreement among the Trustees on this matter, however, and the subsequent rejection of the compensation proposal by the Legislature has indicated that the direct involvement of the Board in day-to-day operations should be limited to general overview, review and control.

Although the degree to which the Trustees were to be involved in direct management was not fully resolved by the Trustees, there was full agreement that the Trustees, not the staff, should make the policies of the Corporation. This assures that policy decisions and basic managerial decisions of the Permanent Fund are made where there is a ready forum for public comment and scrutiny, and where there is clear accountability. The Trustees provide such a forum through their meetings, all of which are public. The actual decisions are all made at those meetings, which gives the public an opportunity to express their views before the decisions are made. This will also advance the objective of keeping the Fund's management from becoming political in nature.

The move to fuller independence was prepared through sub-committee recommendations and Trustee decisions. Among the questions being decided are: which investments should be managed internally and which by outside managers; with growing expertise, in which areas should the Fund's internal managers assume additional investment responsibilities; the proper number of investment firms to be retained, suitable fees, and the evaluation of their work; competitive levels of staff pay, the Trustees being authorized to depart from the regular civil service pay rates if warranted; target rates of return in the light of inflation; allocation of funds among different investment categories; sound measures of performance, with the objective of reaching mutual agreement between the Fund and the Legislature on appropriate investment goals; and the "prudent investor rule" and other possible legal exposure of the Fund.

Investments

Until the recent changes in the list of permissible investments, the Permanent Fund was limited to fixed income investments. Confronted by high inflation, highly volatile markets, and significant economic uncertainty, the Trustees chose to adopt a conservative investment approach. Fund investments were focused on U.S. Treasury bills, U.S. Treasury notes and bonds, certificates of deposit of the largest banks, and bankers' acceptances (bank guaranteed instruments largely used to finance export-import trade). As a result of the investment emphasis being placed on very short maturities, the Permanent Fund was essentially operated as a "money market fund" until February 1982.

The purchase of Alaskan residential mortgages, a subject of growing interest, was given extended consideration by the Trustees. Beginning with a series of informal work sessions

with realtors, lenders, and builders, a consensus in principle was reached in two areas. First, the Permanent Fund could be a supplementary, not a primary, source of funds. Even if its total assets were fully used for such purposes they would meet the current housing demands for a bare three years. More importantly the primary purpose of the Fund would be undermined, for a fund so committed would fall in value with the worsening of economic conditions. This fear was heightened by the oil "glut" and collapse in oil revenues to about one-half their peak of the year before. Secondly, it was agreed that an adjustable rate mortgage program was the course most likely to protect the long-term yield of the Fund and the resale value of mortgages, given the inflationary climate of the decade. Specifically, the Trustees adopted a plan with the Federal Home Loan Bank Board index as the starting interest rate and the basis for yearly adjustment in the monthly payment, up or down. However, long delays in obtaining the necessary Federal approval of the regulations led to emergency regulations adopting a plan which already has such approval. Other mortgage programs, with adjustable features, were to be considered as the year progressed.

The investment discussions also provided the forum for public discussion of "Alaskanizing" the Permanent Fund, an issue that has arisen repeatedly in the six years of the Fund. Chairman Rasmuson, reflecting the consensus of the Trustees, noted on several occasions the dilemmas posed by the issue. He observed that the Fund, at just over \$3 billion, was already equal to half the size of the Alaskan economy, where investment opportunities are largely met by private capital. Even if the Fund were to advance every business loan or could offer subsidies to carry non-commercial ventures, the Fund's assets would deteriorate along with any contraction of the Alaskan economy. "The very hour that we most needed to turn to the Fund," Mr. Rasmuson noted, "would be the hour of its greatest losses and least availability of ready cash."

The Trustees conferred extensively with the managers of major private endowments, trusts, and foundations with similar long-term perspectives and investment goals as the Permanent Fund. These managers all pointed to the statutory limitation on the Fund's investments to debt instruments only, as a serious flaw in the Permanent Fund Act. This limitation left out all equity-type investments. Equities should be added to the list of authorized investments, the other fund managers said, in order to protect the Permanent Fund against the types of economic risks that jeopardize debt-based investments. Many of these risks do not significantly affect the performance of equity investments or do so to a much lesser degree than they affect debt investments. Some factors may even enhance the opportunities for an equity portfolio at the very time they imperil investments in bonds and other debt instruments. Moreover, equities historically have outperformed debt with regard to investment yields.

The Trustees included among their recommendations to the Governor an expansion of the list of authorized investments to include equity-type investments. This remained largely intact in the legislation that was passed this year.

The 1982 Legislation

The Trustees and the Special Liaison Committee, chaired by Senator Strugulewski, continued the series of seminars and work sessions on the possible futures of the Permanent Fund. Meeting at various points in the state, the group weighed the ideas of economists, financial specialists, major Alaskan interests, and the general public. More can be learned of this effort in the 1981 Annual Report and in "The Trustee Papers" of 1982. The issues were examined in the broad context of how all the oil revenues were being spent, or might be spent. This was to ensure that any new role for the Fund would be consistent with its original aims and with other existing state programs, and was best lodged in the Fund rather than another place.

Despite the diverse backgrounds and philosophies of the participants, the consensus that emerged was that the fundamental goal of the Fund was providing high quality savings and stability of income. This was not only to restrain the acceleration of public spending, but to offer future financial security for a state whose economy is largely shaped by powerful and erratic economic and political forces beyond its control. On the other hand, charging the Fund with business and housing development, or loans for capital projects, was seen as posing many dangers. The conclusion was that Fund performance was most readily measured by financial standards and that economic, social and political goals were best carried out, and best adjudged, in the open forum of regular government, that is, the on-going democratic political process.

In the course of their work, the Trustees and the liaison panel came to substantial agreement on recommending a number of limited changes in the management and investment of the Permanent Fund. These changes introduced as SB 684, passed without major amendment as Chapter 81, SLA 1982. The key provisions of this measure and the reasoning for them are set out below.

First, one commissioner among the six Trustees was replaced by a public member, giving the working majority to the four public members and insuring that a majority of the Trustees will have special qualifications and sufficient time for their office. By extending the terms of public members from three to four years, the effects of a change in administration or political mood were reduced.

Second, to offer more diversity and better yields, the list of permitted investments was made parallel to that of the state pension funds, with some added restrictions and excepting gold and foreign stocks and bonds. The existing list of "money market" securities held small promise of returns above inflation. These instruments have brought real earnings but twice in this century, the past two years, and in the early 1930's. In contrast, the investment areas that have been added (common stocks, income property held on a pooled basis, other commercial real estate, and deposits of U.S. dollars held overseas) have brought yields in line with the long-term growth of the U.S. economy, two to four percent beyond inflation or higher. Specific limits were placed on the extent to which these investment areas may be entered and the Trustees have committed to entering them only in a gradual, deliberate manner.

Finally, the central provision of the new law requires the reinvestment of sufficient income, after operating expenses and meeting payments under the Permanent Fund Dividend Act of 1982, to protect the Fund's principal from inflation. The remaining income is available for use at the discretion of the Legislature. By existing statute, one-half of the average net income for the last five years is annually transferred to a separate fund for distribution as Permanent Fund dividends. The income averaging will tend to stabilize the amount of dividends despite changes in net income due to fluctuation in state oil revenues. During the growing years of the Fund, annual net income is expected to exceed the five-year average. Income which is not transferred to the dividend fund will be retained in a reserve account and may be appropriated by the Legislature for any public purpose.

Before the reinvestment requirement, the Permanent Fund was compared to a rain barrel with a gaping hole in the bottom. Adding large amounts of water promptly will keep the barrel full only as long as water is at hand. Water on the ground is lost forever. The urgency of meeting inflation is shown by considering a \$10 billion fund, earning a 15 percent return, suffering 10 percent inflation, but paying over all of its earnings. Over a period of 30 years, Fund principal would fall in value to less than what \$250 million will buy today. The buying power of the earnings will decline by the same ratio, from \$1.5 billion the first year to \$89 million three decades later. In like manner, a dividend check of \$1,500 then would buy what \$89 buys now.

Meetings and Information

Four regular meetings and three special meetings were held during Fiscal Year 1982. Dates and places are noted below. Summary minutes are available for all meetings.

A collection of papers by guest speakers appearing before the Trustees, including an executive summary, has been issued as "The Trustee Papers". An official history of the Permanent Fund through 1982 is to be available in the first part of 1983. Copies of these publications will be furnished upon request to any interested groups or individuals.

Regular Meetings

September 10 and 11, 1981 — Juneau

December 3 and 4, 1981 — Juneau

March 19, 1982 — Juneau

June 18, 1982 — Juneau

Special Meetings

August 20, 1981 — Fairbanks

October 22 and 23, 1981 — Anchorage

February 10 and 11, 1982 — Juneau

Future meetings in 1982 were scheduled for August 5 in Juneau, September 17 in Anchorage, November 4 and 5, and December 3 in Juneau. The public is always encouraged to attend meetings and is given an opportunity to address the agenda items.

Audit

Price Waterhouse, independent public accountants, audited the Fund for the 1982 fiscal year. The auditors expressed an unqualified opinion as to Statement of Assets, Liabilities and Fund Balance, and the related Statements of Investment Income, of Changes in Financial Position, and of Changes in Fund Balance. The auditors' opinion is included in this report on page 18.

FUND PERFORMANCE DURING FISCAL YEAR 1982

(July 1, 1981 through June 30, 1982)



Investment Strategy

In February 1982, the investment managers proposed to the Trustees that in light of substantially reduced inflation and the emergence of substantial real rates of return (investment yield above inflation) some extension of maturities was advisable. Accordingly the investment managers proposed to the Trustees that the Permanent Fund begin a program to acquire over the ensuing 18 months, securities with maturities of one to four years so that at the end of 18 months, 30 percent of the fixed income securities in the portfolio would be in this maturity range. Subsequently, the Board adopted the proposal.

The Trustees held to a plan to place up to five percent of the Fund in in-state federally guaranteed mortgages; \$30 million was allocated for owner-occupied one-to-four unit dwellings at fixed rates; and \$50 million was allocated for variable rate mortgages. The Board continued to work toward holding five percent of the Fund with Alaskan banks in the form of time certificates of deposit with maturities established in one-year increments, with funds to be rebid at maturity.

By the end of the fiscal year, the average weighted life of marketable securities in the Fund was 11 months as compared to eight months at the end of January and 13 months on the same date in 1981. On June 30, 1982, 12.3 percent of the holdings matured after two years, 87.7 percent within two years, 82.4 percent within one year and 40.6 percent within three months.

Performance Versus Goals

State law (AS 37.13.170) 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 (AS 37.13.020).

Through the regular contributions required by the Constitutional Amendment and by the Permanent Fund Act of 1980, plus \$800 million of a \$1.8 billion special appropriation made in the 1981 Legislative Session, the balance of the Permanent Fund grew from \$1,827, 299,000 on June 30, 1981 to \$3,212,836,000 on June 30, 1982 (including undistributed income). However, the language diverting the \$1 billion from the Fund has been read as permitting the present or a later governor to transfer all or part of this sum into the Fund, depending on revenues and the cash draw for state operations.

The realized rate of return on fund investments has climbed steadily and was 15.1 percent as of June 30, 1982. All principal contributions have been retained in the Fund's balance, and disbursement of income earned has been limited to cash amounts received.

In June 1982, the U.S. Supreme Court ruled unconstitutional the Permanent Fund Dividend Act of 1980, which based dividend payments from Fund income on years of residency after Statehood (the year Alaska first had rights to potential oil lands). The Dividend Act of 1982 provides for equal payments of \$1,000 to all persons of at least six months residency, with dividends for minors paid jointly to parent or guardian and child. The distribution of \$1,000 per person is funded by an appropriation from the general fund as well as income in the dividend fund. Future annual dividends paid only from Permanent Fund income will likely be smaller.

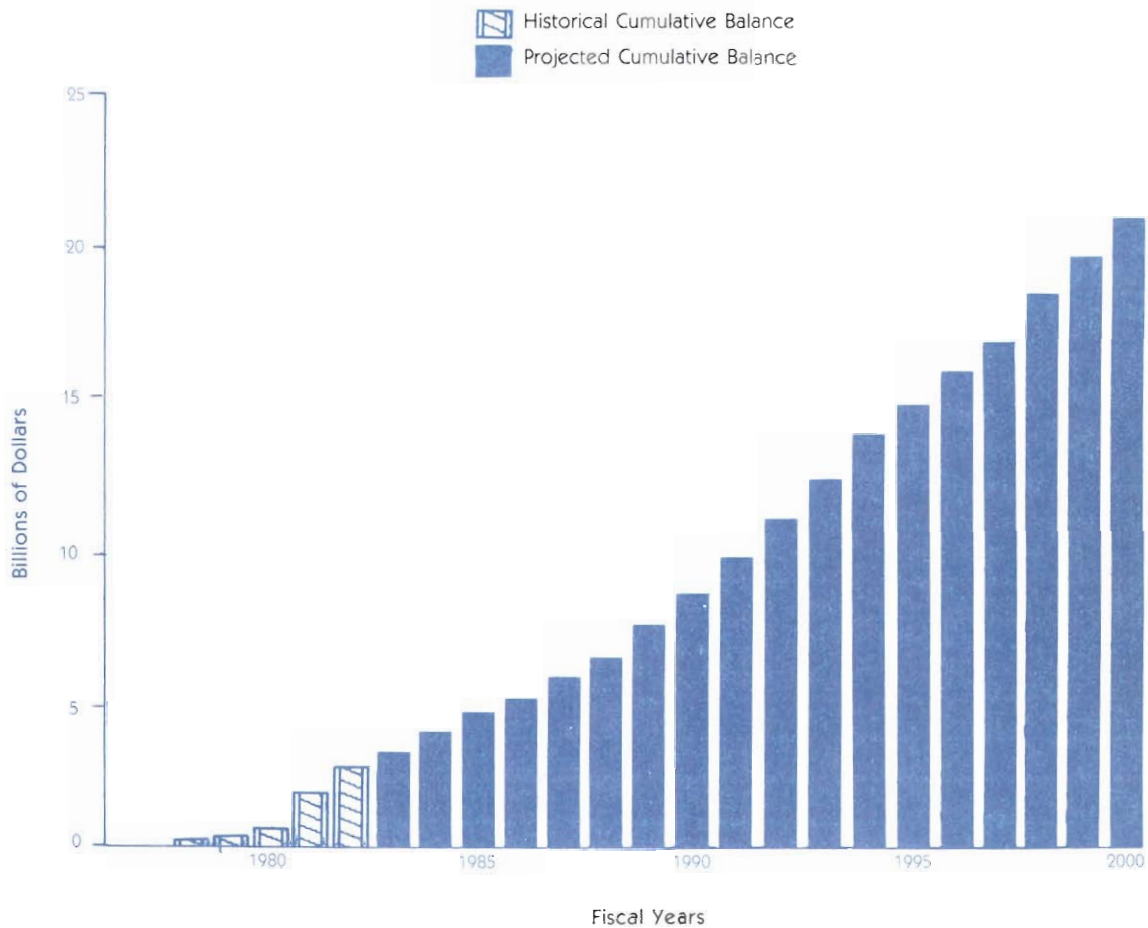
Two things are immediately clear about the dividend issue thus far: it has provoked the expected debate, and the dividends are the most tangible product of creating the Permanent Fund.

It should be noted that the Trustees have not taken any formal position on this or any other use of the Fund's income available for distribution.

OUTLOOK FOR FISCAL YEAR 1983



Alaska Permanent Fund Historical and Projected Cumulative Balances



Fund Balance

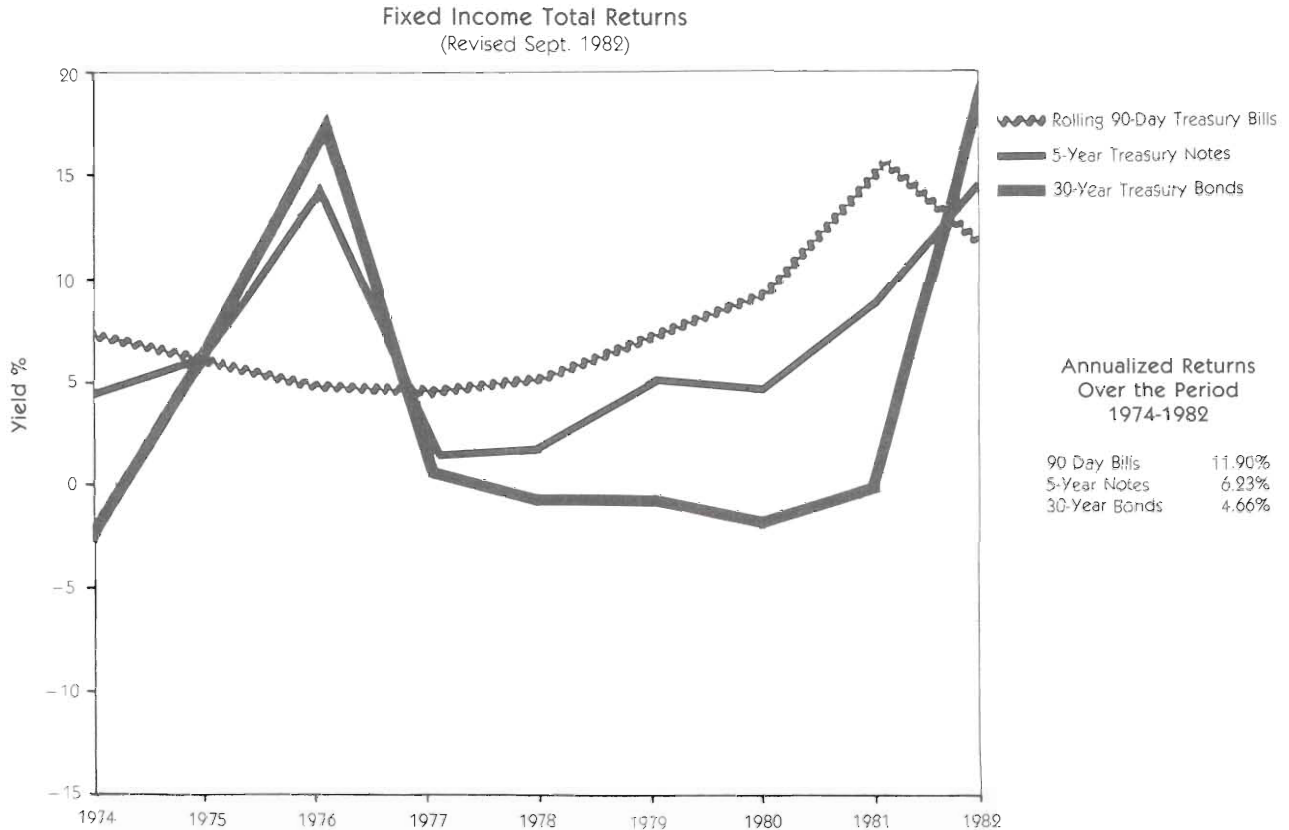
A special appropriation of \$1.8 billion was made to the Permanent Fund under the provisions of Chapter 61, SLA 1981. Of that sum, \$1 billion has not yet been transferred. With the \$800 million received, plus regular contributions, the Fund is projected to be \$3.56 billion on June 30, 1983.

Source: Division of Legislative Finance

Economic Outlook

In 1982, a record 65-70 percent of total savings available for net investment in the United States will be absorbed by the Federal deficit. Assuming no additional taxes, a number of private economists are predicting that the Federal deficit will exceed \$250 billion a year within the next three years. Given the magnitude of the current deficit and this outlook for the future, no acceptable policy is available to the Federal Reserve Bank. If the Bank provides the funds necessary to accommodate the deficits and moderate economic growth, investors will view such a policy as a harbinger of a renewed surge in inflation. If, on the other hand, the Federal Reserve Bank fails to provide money for economic expansion, the outlook will be for economic stagnation punctuated by periodic unexpected corporate bankruptcies.

Major deficit reducing programs are essential for the country's economic health. Should the \$98 billion tax bill currently before Congress fail without a substitute being enacted that would raise comparable revenue, the effect would likely be to destroy what little confidence remains in the credit markets. Pressures on debtors, the U.S. and world banking systems, and foreign economies would mount with possible serious repercussions. Even assuming the passage of this tax bill, the magnitude of the deficits will continue to be a serious problem for the credit markets.



Alaska Permanent Fund

Realized rates of return, income, and portfolio balances
for the fiscal years ended June 30, 1982, 1981, 1980 & 1979

	Fiscal Year 1982	Fiscal Year 1981	Fiscal Year 1980	Fiscal Year 1979
Realized rates of return (based on accrued income)	15.10%	16.00%	11.29%	8.24%
Investment income (including amounts earned but not received by year end)	\$ 368,426,000	\$ 149,867,000	\$ 32,426,923	\$ 7,967,131
Cash earnings received transferred to general fund	\$ 141,931,481	\$ 63,234,110	\$ 14,441,450	\$ 5,702,926
Average portfolio balance	\$2,438,967,000	\$ 936,243,000	\$287,255,000	\$ 96,700,000
Marketable securities on June 30, at cost	\$3,230,339,000	\$1,846,492,000	\$493,427,071	\$137,783,958
Marketable securities on June 30, at market	\$3,188,225,000	\$1,794,439,000	\$493,444,000	\$136,140,000

The great concern currently being expressed by Congressmen, economists, investors, businessmen, and the general public about the large deficits generated by current policies provides hope that Federal taxes will be increased significantly. A second phase of tax increases, coinciding with economic recovery, and coupled with reductions in presently planned Federal expenditures, is a distinct possibility in 1983. Such higher taxation and reduced spending should bring downward pressures on interest rates and help alleviate investors' anxieties about Federal deficits. Once investors can see that the Federal budget is moving toward balance, downward pressures on interest rates should become more pronounced and more orderly, noninflationary economic growth should follow.

Assuming that responsible tax legislation is enacted, there is an excellent prospect that interest rates over the next year or two will decline. At the same time, it is highly unlikely that real rates (the amount by which interest rates exceed inflation) will remain high, encouraging people to save a greater proportion of their income. This decline will by no means be continuous and will be subject to dramatic temporary reversals. But in a stop-go-stop economy interest rates will gradually ratchet down.

ALASKA PERMANENT FUND Corporation

Financial Statements
June 30, 1982 and 1981





101 West Benson Boulevard
Anchorage, Alaska 99503
907-279-1424

August 19, 1982

To the Board of Trustees
Alaska Permanent Fund Corporation

In our opinion, the accompanying statements of assets, liabilities and fund balance and the related statements of investment income, of changes in financial position and of changes in fund balance present fairly the financial position of the Alaska Permanent Fund Corporation at June 30, 1982 and 1981, 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.

A handwritten signature in blue ink that reads "Price Waterhouse".

Price Waterhouse

ALASKA PERMANENT FUND Corporation**Statement of Assets, Liabilities and Fund Balance**

	<u>June 30,</u>	
	<u>1982</u>	<u>1981</u>
Cash in Savings Account	\$ 68,000	\$ 43,000
Contributions receivable from royalties and other state receipts	171,000	92,000
Interest receivable	46,634,000	26,925,000
Loans and Mortgages	24,443,000	1,086,000
Investment Securities, at cost		
U.S. Treasury notes and bonds	944,351,000	670,771,000
Bankers' acceptances	473,612,000	537,715,000
U.S. Treasury bills	1,170,684,000	466,615,000
Certificates of deposit	615,000,000	137,600,000
Corporate bonds	13,489,000	13,487,000
Federal agency notes	13,003,000	13,004,000
Securities purchased under agreements to resell	200,000	7,300,000
Total assets	\$3,301,655,000	\$1,874,638,000
Amount due to the State General and Segregated Funds including \$1,290,000 and \$931,000 of undisbursed cash income received in 1982 and 1981, respectively	<u>\$ 88,819,000</u>	<u>\$ 47,339,000</u>
Fund Balance		
Appropriations, royalties and other state receipts	2,969,077,000	1,768,555,000
Undistributed income account	<u>243,759,000</u>	<u>58,744,000</u>
	<u>3,212,836,000</u>	<u>1,827,299,000</u>
	\$3,301,655,000	\$1,874,638,000

See accompanying notes to financial statements

ALASKA PERMANENT FUND Corporation

Statement of Investment Income

	Year Ended June 30,	
	1982	1981
Interest Income:		
U.S. Treasury notes and bonds	\$ 80,714,000	\$ 61,279,000
U.S. Treasury bills	97,402,000	32,229,000
Bankers' acceptances	118,490,000	28,115,000
Certificates of deposit	60,952,000	22,636,000
Securities purchased under agreements to resell	2,123,000	1,950,000
Corporate bonds	1,051,000	1,140,000
Federal Agency notes and bonds	1,081,000	1,082,000
Commercial paper	4,868,000	1,062,000
Savings account	66,000	35,000
Loans, mortgages and other interest income	1,679,000	120,000
	<u>368,426,000</u>	<u>149,648,000</u>
Net securities gains		219,000
Investment income	\$368,426,000	\$149,867,000

See accompanying notes to financial statements

ALASKA PERMANENT FUND Corporation**Statement of Changes in Fund Balance**

	<u>For the Years Ended June 30, 1982 and 1981</u>		
	<u>Total</u>	<u>Appropriations, Royalties and Other State Receipts</u>	<u>Undistributed Income</u>
Balance, July 1, 1980	\$ 483,208,000	\$ 483,208,000	
Appropriations from State of Alaska General Fund	900,000,000	900,000,000	
Royalties and other state receipts	385,128,000	385,128,000	
Investment income	149,867,000		\$149,867,000
Transfer of net investment gains to principal		219,000	(219,000)
Distributable income due to State General and Segregated Funds	<u>(90,904,000)</u>		<u>(90,904,000)</u>
Balance, June 30, 1981	1,827,299,000	1,768,555,000	58,744,000
Appropriation from State of Alaska General Fund	800,000,000	800,000,000	
Royalties and other state receipts	400,522,000	400,522,000	
Investment income	368,426,000		368,426,000
Distributable income due to State General and Segregated Funds	<u>(183,411,000)</u>		<u>(183,411,000)</u>
Balance, June 30, 1982	\$3,212,836,000	\$2,969,077,000	\$243,759,000

See accompanying notes to financial statements

ALASKA PERMANENT FUND Corporation

Statement of Changes in Financial Position

	Year Ended June 30,	
	1982	1981
Financial Resources Were Provided By:		
Investment income	\$ 368,426,000	\$ 149,867,000
Appropriations from State of Alaska General Fund	800,000,000	900,000,000
Royalties and other state receipts	400,522,000	385,128,000
Total sources	1,568,948,000	1,434,995,000
Financial Resources Were Used For:		
Distributable income due to State General and Segregated Funds	(183,411,000)	(90,904,000)
Net increase in financial resources	\$1,385,537,000	\$1,344,091,000
Analysis of Changes in Resources:		
Increase (Decrease) in Components of Financial Resources —		
Cash in savings account	\$ 25,000	\$ 4,000
Contribution receivable from royalties and other state receipts	79,000	58,000
Interest receivable	19,709,000	17,548,000
Loans and mortgages	23,357,000	1,086,000
U.S. Treasury notes and bonds	273,580,000	366,807,000
U.S. Treasury bills	704,069,000	446,032,000
Certificates of deposit	477,400,000	25,721,000
Corporate bonds	2,000	
Securities purchased under agreements to resell	(7,100,000)	300,000
Bankers' acceptances	(64,103,000)	514,205,000
Federal Agency notes	(1,000)	
Amount due to the State General and Segregated Funds	(41,480,000)	(27,670,000)
	\$1,385,537,000	\$1,344,091,000

See accompanying notes to financial statements

ALASKA PERMANENT FUND Corporation

Notes to Financial Statements
June 30, 1982 and 1981

Note 1 — Authorization:

The State of Alaska Constitution was amended by voter approval in 1977 to provide for the segregation of certain mineral lease rentals, bonuses, royalties, royalty sale proceeds and federal mineral revenue sharing payments received by the State for the use and benefit of present and future residents.

Distributable income from the Corporation is defined by statute and further clarified by administrative regulation to be the lesser of the latest fiscal year's income or the average annual current income calculated using a simple average of the last five years or the number of years in existence if less than five after adjustment for capital gains and losses.

Under amendments, effective July 1, 1982, income available for distribution is defined as the average net income of the Corporation for the last five fiscal years, including the fiscal year just ended, but may not exceed net income of the Corporation for the fiscal year just ended plus the balance in the undistributed income account. The undistributed income account shall be comprised of all income earned prior to July 1, 1982 that is not income available for disbursement. A transition clause further provides that the amount transferred shall be reduced by an amount equal to one-half of the income available for disbursement for fiscal year 1983 with the amount of the reduction to be transferred to the General Fund.

All of the Corporation's investment securities are held by commercial lending institutions pursuant to custodial agreements, except for certain certificates of deposit purchased from Alaska's banks.

Note 2 — Summary of Significant Accounting Policies:

The accounting and reporting policies of the Alaska Permanent Fund Corporation conform to generally accepted accounting principles. The more significant accounting policies are as follows:

Interest Income

Interest income on loans is accrued monthly as earned.

Interest income on investments is shown net of amortization of premium and accretion of discount.

Investment Securities

Investment securities are carried at cost adjusted for amortization of premium and accretion of discount. Investment securities are expected to be held to maturity and, therefore, will be fully realized.

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

Provision for Loan Losses

The provision for loan losses is determined from specific evaluation of delinquencies and would be charged directly to operations in the period that the loss exposure becomes known. At June 30, 1982 no provision has been made since no losses are presently anticipated.

Royalties and Other State Receipts

Royalties and other state receipts are recorded when received or become known.

Note 3 — Marketable Securities:

The cost and estimated market value of investment securities at June 30, were as follows:

	<u>1982</u>		<u>1981</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
U.S. Treasury notes and bonds	\$ 944,351,000	\$ 917,705,000	\$ 670,771,000	\$ 633,501,000
Bankers' acceptances	473,612,000	472,454,000	537,715,000	536,411,000
U.S. Treasury bills	1,170,684,000	1,166,176,000	466,615,000	464,330,000
Certificates of deposit	615,000,000	612,985,000	137,600,000	134,120,000
Corporate bonds	13,489,000	7,635,000	13,487,000	8,135,000
Federal Agency notes	13,003,000	11,070,000	13,004,000	10,642,000
Securities purchased under agreements to resell	200,000	200,000	7,300,000	7,300,000
	<u>\$3,230,339,000</u>	<u>\$3,188,225,000</u>	<u>\$1,846,492,000</u>	<u>\$1,794,439,000</u>

Note 4 — General Fund Appropriation:

For the year ended June 30, 1981, the State of Alaska Legislature appropriated \$900,000,000 to the Corporation from the General Fund. For the year ended June 30, 1982, the Legislature appropriated an additional \$1,800,000,000 to the Corporation from the General Fund of which \$800,000,000 was deposited during the year ended June 30, 1982. The appropriated balance to be transferred remains in effect until it is paid.

Note 5 — Amount Due to the State General and Segregated Funds:

The amount due to the State General and Segregated Funds is determined on the basis of the current year's distributable income as provided by statute adjusted for actual cash distributions and prior year's accrued amount due to the Funds. Summarized below is the activity for the fiscal years ended June 30, 1982 and 1981.

Balance, July 1, 1980			\$ 19,669,000
Add: 1981 accrual of distributable income			90,904,000
Less: Cash transfers made —			
Amounts transferred applicable to 1980		\$(19,669,000)	
Amounts transferred applicable to 1981		(43,565,000)	(63,234,000)
Balance, June 30, 1981			47,339,000
Add: 1982 accrual of distributable income			183,411,000
Less: Cash transfers made —			
Amounts transferred applicable to 1981		(47,339,000)	
Amounts transferred applicable to 1982		(94,592,000)	(141,931,000)
Balance, June 30, 1982			\$ 88,819,000

Note 6 — Administrative Expenses (Unaudited):

Administrative and other expenses are paid by the State of Alaska General Fund and are not included in the accompanying statements. The related budget and actual expenses for 1982 and budgeted expenses for 1983 for operations of the Permanent Fund Corporation are as follows (unaudited):

	<u>1982</u>		<u>1983</u>
<u>Budget</u>		<u>Actual</u>	<u>Budget</u>
\$450,500		\$391,200	\$3,070,500