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NEWS RELEASE



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**ALASKA ATTORNEY GENERAL ISSUES OPINION
CLARIFYING PERMANENT FUND ACCOUNTING
PROCEDURES**

(Juneau) - Attorney General Gregg Renkes today released an opinion clarifying that the Alaska Permanent Fund Corporation should only consider realized investment income in calculating the amount available for dividends and inflation-proofing.

After a thorough review of Alaska statutory and case law, the attorney general determined that existing law requires only realized income from investments should be used for expenditures and the calculation of income. Alaska law (AS 37.13.140) is explicit that net income shall be computed "excluding any unrealized gains or losses." Moreover, this is consistent with what the generally accepted accounting principles were prior to 1997, when unrealized gain or loss was not a part of the income determination.

The Permanent Fund Board of Trustees requested the opinion from the attorney general in order to resolve an apparent inconsistency between that law and revised accounting principles, the attorney general said.

"We hope this opinion will resolve the ambiguity created by differences between our law and standard accounting practices regarding the treatment of unrealized gains and losses," Renkes said. "This is important because it could affect the amount of money available for Permanent Fund dividends and will affect the calculations the funds necessary for inflation-proofing."

Alaska law requires the corporation to transfer funds from the Fund's earnings reserve account at the end of each fiscal year to distribute dividend checks and inflation-proof the principal. While the Alaska Legislature this year made the necessary appropriations authorizing each transfer, declining stock and financial markets had raised concerns that the earnings reserve account would not be big enough to cover those appropriations.

These concerns were exacerbated by an apparent conflict between state law and changes in the Generally Accepted Accounting Principles (GAAP) regarding calculation of the balance of the earnings reserve account, the attorney general said.

State law holds that only realized earnings (i.e., the gains and losses from the sale of investments, bond interest, stock dividends, and rental property income) were recorded as income in the earnings reserve account. However, 1998 changes to the GAAP required the Permanent Fund Corporation to record the Fund's readily marketable investments at current fair value in its financial statements. In other words, all unrealized earnings (i.e., the difference between market value and the original cost of assets held in the fund) were required to be included in determining Fund income for accounting purposes.

"This inconsistency resulted in large differences between net income as calculated under Alaska law, and net income as calculated using the new generally accepted accounting principles," Renkes said. "The Permanent Fund Trustees looked to us to resolve that inconsistency in their March 14 request for an opinion."

"Although financial markets have significantly rebounded over the past several months, it was imperative that these issues be addressed today," said Renkes. "By clarifying these standards, we ensure that the earnings reported by the Permanent Fund are an accurate representation of its value. It is important that the public and the trustees understand the correct application of the law and that the corporation's financial statements properly inform the public."

As of June 30, 2002 the Permanent Fund recorded net assets totaling \$23.5 billion. Of that total, \$21.8 billion was principal. Since 1982, \$7.5 billion of permanent fund income has been added to principal for inflation-proofing, through June 30, 2002. In addition to the constitutionally and statutorily mandated dedicated revenues, the legislature has made special appropriations to the permanent fund totaling \$6.9 billion. In FY04 the Legislature appropriated an additional amount to principal which could not be determined as of the date of this opinion.

The Permanent Fund Corporation will announce the amount of this year's dividends on September 24, 2003.

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