

STATE OF NEVADA
PERMANENT SCHOOL FUND

FINANCIAL STATEMENTS
FOR THE QUARTER ENDED SEPTEMBER 30, 2004

KATHY AUGUSTINE
STATE CONTROLLER
CARSON CITY, NEVADA



State of Nevada
Office of State Controller
Carson City, Nevada 89701-4786

Kathy Augustine
State Controller

Office: (775) 684-5777

January 25, 2005

The Honorable Kenny C. Guinn
Chairman, State Board of Finance
101 N. Carson Street, Suite 1
Carson City, NV 89701-4786

Dear Governor Guinn:

Pursuant to NRS 387.013, I am pleased to provide you with the financial statements of the Permanent School Fund for the quarter ending September 30, 2004.

Sincerely,

A handwritten signature in cursive script that reads "Kathy Augustine".

Kathy Augustine
State Controller

KA:js

Legislative Counsel Bureau	(2)
State Board of Education	(2)
Department of Administration	(2)
Department of Conservation	(2)
Office of the State Treasurer	(2)
State Board of Finance	(1)
Nevada Tax Commission	(1)
Division of State Lands	(1)
State Library and Archives	(12)

STATE OF NEVADA
PERMANENT SCHOOL FUND

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STATE OF NEVADA
PERMANENT SCHOOL FUND

BALANCE SHEETS
September 30, 2004 and 2003

	<u>9/30/2004</u>	<u>9/30/2003</u>
		Exhibit A
Assets		
Cash and cash equivalents	\$ 8,896,023	\$ 15,854,418
Accrued interest		
Investments	1,086,121	879,312
Treasurer	36,348	74,107
Total accrued interest	<u>1,122,469</u>	<u>953,419</u>
Receivables		
Fines and penalties	412,654	423,007
Purchased interest	28,089	23,416
Total receivables	<u>440,743</u>	<u>446,423</u>
Investments		
U.S. Government securities	<u>137,962,626</u>	<u>106,199,378</u>
Total Assets	<u><u>\$ 148,421,861</u></u>	<u><u>\$ 123,453,638</u></u>
Liabilities		
Due the Distributive School Account	\$ 3,937,227	\$ 5,674,310
Due to heirs	786,871	714,759
Deferred revenue	20,016	-
Total liabilities	<u>4,744,114</u>	<u>6,389,069</u>
Fund balances		
Reserved: Permanent Fund Principal	<u>143,677,747</u>	<u>117,064,569</u>
Total Liabilities and Fund Balances	<u><u>\$ 148,421,861</u></u>	<u><u>\$ 123,453,638</u></u>

The notes to the financial statements and schedules are an integral part of this statement.

STATE OF NEVADA
PERMANENT SCHOOL FUND

STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

For the Quarters Ended September 30, 2004 and 2003

	<u>Quarter Ended 9/30/2004</u>	<u>Exhibit B Quarter Ended 9/30/2003</u>
Revenues		
Fines - State Penal Laws		
Justice Courts	\$ 946,667	\$ 875,021
District Courts	143,355	186,078
Other Fines and Penalties	35,000	5,000
Total fines	<u>1,125,022</u>	<u>1,066,099</u>
Investment income (loss)	2,520,691	(62,268)
Land sales	240,500	34,250
Escheated estates	(42,301)	(5,705)
Miscellaneous	774	1,171
Total revenues	<u>3,844,686</u>	<u>1,033,547</u>
 Other Financing Sources (Uses)		
Transfer (to) from Distributive School Account	<u>(2,520,691)</u>	<u>62,268</u>
Net change in fund balances	1,323,995	1,095,815
Fund balances, beginning of period	<u>142,353,752</u>	<u>115,968,754</u>
Fund balances, September 30	<u><u>\$ 143,677,747</u></u>	<u><u>\$ 117,064,569</u></u>

The notes to the financial statements and schedules are an integral part of this statement.

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GENERAL

Article 11, Section 3 of the Constitution of the State of Nevada provides that all estates that escheat to the state; proceeds from the sale of lands given or bequeathed under this section; and fines collected under the penal laws of the state shall be pledged for educational purposes only, and shall not be transferred to any other funds for other uses. The 1956 special session of the Legislature enacted Chapter 32, which provided for the creation of the State Permanent School Fund to account for the money accruing to the State of Nevada under Article 11, Section 3 of the State Constitution.

The Permanent School Fund is classified as a permanent fund in accordance with Governmental Accounting Standards Board Statement No. 34. This designation ensures that the corpus of the Fund will be preserved. All earnings on the Fund's assets are transferred to the Distributive School Account of the General Fund that apportions it among the several school districts of the state, in accordance with State Statutes.

The 1997 legislature added Nevada Revised Statutes 387.513 through 387.528. These statutes allow school districts to enter into guarantee agreements with the State Treasurer whereby the money in the Permanent School Fund is used to guarantee the debt service payments on certain bonds issued by the school districts. The amount of the guarantee for bonds of each school district outstanding, at any one time, must not exceed \$25 million. Bond guarantees at September 30, 2004 were:

School District	Issue Date	Original Amount	Balance
White Pine	March 1, 1998	7,510,000	6,990,000
Douglas	April 1, 1998	8,710,000	8,280,000
Nye	April 1, 1999	17,545,000	12,940,000
Churchill	August 1, 2000	3,655,000	3,655,000
Carson City	February 1, 2001	9,000,000	8,800,000
Lyon	February 1, 2001	12,000,000	11,670,000
Mineral	June 1, 2001	4,425,000	4,270,000
Churchill	December 1, 2001	4,565,000	3,540,000
Carson City	February 1, 2002	9,000,000	9,000,000
Nye	February 1, 2002	2,950,000	2,950,000
Lyon	May 1, 2002	13,000,000	12,750,000
Nye	September 1, 2002	2,325,000	2,325,000
Lincoln	December 15, 2002	2,925,000	2,880,000
Carson City	February 1, 2003	3,750,000	3,600,000
Churchill	February 1, 2003	6,405,000	5,905,000
Douglas	February 1, 2003	5,750,000	5,705,000
Humboldt	February 1, 2003	5,075,000	4,705,000
Pershing	February 1, 2003	5,135,000	4,585,000
Washoe	January 1, 2004	11,820,000	11,820,000

REVENUE SOURCES

The following schedule illustrates some of the potential revenue sources of the Permanent School Fund:

- Surplus on sale of unclaimed freight after charges of common carriers and warehousemen (NRS 108.430)
- Surplus on sale of property after charges of bailees for hire (NRS 108.460)
- Escheated estates (NRS 154.115)
- Fees of the State Land Registrar (NRS 321.065)
- All moneys accruing to the State of Nevada from sale of lands heretofore given or bequeathed, or that may hereafter be given or bequeathed, for public school purposes (Art. 11, Sec. 3)
- All fines collected under the penal laws of the state (Art. 11, Sec. 3)
- Fines imposed by courts-martial (NRS 412.086)
- Fines resulting from suits on excavations (NRS 455.050)
- All fines and penalties for violations of the criminal provisions of the Unemployment Compensation Act (NRS 612.585)
- Penalties imposed on banks for failure to make certain reports (NRS 665.115)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO FINANCIAL STATEMENTS

Basis of Accounting:

Transactions are recorded on the modified accrual basis of accounting in accordance with generally accepted accounting principles.

Treasurer's Interest Accrual:

For the quarter ended September 30, 2004, the Permanent School Fund's average balance in the State Treasurer's investment pool was \$8,610,721. Accrued earnings from the investment pool are transferred quarterly to the Permanent School Fund based on its proratable share of average weekly cash balances.

For the quarter ended September 30, 2004, funds held by the State Treasurer earned interest at an effective rate of 1.69 percent.

Investments:

Investments are stated at fair value, which approximates market value. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

STATE OF NEVADA
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SCHEDULE OF INVESTMENTS
September 30, 2004

Schedule 1

Fixed Income Securities	Interest Rate	Maturity Date	Face Amount	Cost	Fair Value
Fed. Farm Credit Bank	6.000	6/11/2008	\$ 10,000,000	\$ 10,042,460	\$ 10,896,900
Fed. Farm Credit Bank	3.500	7/2/2007	6,000,000	5,997,000	6,056,280
Fed. Farm Credit Bank	2.700	11/24/2006	10,000,000	10,000,000	9,946,900
Fed. Farm Credit Bank	3.375	6/12/2008	10,000,000	10,000,000	9,978,100
Fed. Farm Credit Bank	1.840	4/7/2006	5,000,000	4,910,000	4,940,650
Fed. Farm Credit Bank	2.150	4/5/2007	8,000,000	7,709,360	7,827,520
Fed. Home Loan Bank Note	5.125	3/6/2006	9,000,000	8,839,080	9,323,460
Fed. Home Loan Bank Note	3.375	11/15/2004	7,000,000	7,002,030	7,013,160
Fed. Home Loan Bank Note	4.875	8/15/2005	5,600,000	5,970,216	5,727,736
Fed. Home Loan Bank Note	3.880	11/29/2005	4,000,000	4,170,200	4,065,000
Fed. Home Loan Bank Note	2.050	6/22/2006	6,500,000	6,401,590	6,424,860
Fed. Home Loan Bank Note	3.875	6/22/2008	6,500,000	6,491,420	6,526,390
Fed. Home Loan Bank Note	4.000	7/23/2010	13,000,000	12,864,922	12,878,190
Fed. Home Loan Bank Note	2.625	2/17/2007	6,100,000	6,117,690	6,033,266
Fed National Mortgage Assoc.	5.750	2/15/2008	10,675,000	9,760,953	11,495,694
Fed National Mortgage Assoc.	3.250	5/14/2008	5,000,000	4,999,219	4,975,000
Fed National Mortgage Assoc.	2.290	6/24/2005	2,000,000	1,954,327	1,967,600
US Treasury Notes	1.125	6/30/2005	4,000,000	3,981,250	3,971,880
US Treasury Notes	2.000	5/15/2006	4,000,000	4,038,750	3,972,640
US Treasury Notes	2.625	5/15/2008	4,000,000	4,035,625	3,941,400
Total Investments			<u>\$ 136,375,000</u>	<u>\$ 135,286,092</u>	<u>\$ 137,962,626</u>

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SCHEDULE OF JUSTICE COURT FINES BY COUNTY

For the Quarters Ended September 30, 2004 and 2003

County	<u>Schedule 2</u>	
	Quarter Ended 9/30/2004	Quarter Ended 9/30/2003
Carson City	\$ 6,281	\$ 11,618
Churchill	17,799	11,240
Clark	352,371	320,833
Douglas	35,169	7,588
Elko	40,381	42,833
Esmeralda	6,048	1,060
Eureka	3,823	4,896
Humboldt	-	155
Lander	1,196	1,195
Lincoln	2,307	1,715
Lyon	22,040	18,025
Mineral	40	-
Nye	74,058	46,764
Pershing	1,251	2,581
Storey	-	-
Washoe	380,618	402,038
White Pine	3,285	2,480
Total	\$ 946,667	\$ 875,021

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SCHEDULE OF DISTRICT COURT FINES BY COUNTY

For the Quarters Ended September 30, 2004 and 2003

County	<u>Schedule 3</u>	
	Quarter Ended 9/30/2004	Quarter Ended 9/30/2003
Carson City	\$ 5,060	\$ 4,731
Churchill	2,688	2,755
Clark	84,640	88,700
Douglas	5,122	23,572
Elko	8,203	12,064
Esmeralda	-	-
Eureka	-	40
Humboldt	1,069	1,030
Lander	695	877
Lincoln	125	980
Lyon	1,845	3,395
Mineral	295	5
Nye	1,990	2,317
Pershing	285	45
Storey	-	-
Washoe	27,412	43,316
White Pine	3,926	2,251
Total	<u>\$ 143,355</u>	<u>\$ 186,078</u>

STATE OF NEVADA
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SCHEDULE OF INVESTMENT INCOME EARNED
For the Quarter Ended September 30, 2004

Schedule 4

Interest:

<u>Investments:</u>	<u>Rate of Interest</u>	<u>Face Amount</u>	<u>Investment Income</u>
Fed Farm Credit Bank	6.000	10,000,000	150,000
Fed Farm Credit Bank	2.700	10,000,000	67,500
Fed Farm Credit Bank	3.375	10,000,000	84,375
Fed Farm Credit Bank	1.840	5,000,000	23,000
Fed Farm Credit Bank	2.150	8,000,000	43,000
Fed Farm Credit Bank	3.500	6,000,000	52,500
Fed. Home Loan Bank Note	5.125	9,000,000	115,312
Fed. Home Loan Bank Note	3.375	7,000,000	59,063
Fed. Home Loan Bank Note	4.875	5,600,000	68,250
Fed. Home Loan Bank Note	3.880	4,000,000	38,800
Fed. Home Loan Bank Note (Adjustment)	1.125	4,660,000	(6,553)
Fed. Home Loan Bank Note	2.050	6,500,000	33,313
Fed. Home Loan Bank Note	3.875	6,500,000	62,969
Fed. Home Loan Bank Note	4.000	13,000,000	130,000
Fed. Home Loan Bank Note	2.625	6,100,000	40,031
Fed. Nat'l. Mortgage Assoc.	5.750	10,675,000	153,453
Fed. Nat'l. Mortgage Assoc.	3.250	5,000,000	40,625
Fed. Nat'l. Mortgage Assoc.	2.200	2,000,000	11,000
US Treasury Notes	1.125	4,000,000	11,250
US Treasury Notes	2.000	4,000,000	20,000
US Treasury Notes	2.625	4,000,000	26,250
Total interest on investments			<u>1,224,138</u>

Interest received from Cash Equivalent 208

First quarter Treasurer's distribution 36,347

Total interest 1,260,693

Change in fair value of investments:

First quarter change in fair value of investments 1,259,998

Total investment income earned for the quarter ended September 30, 2004 \$ 2,520,691