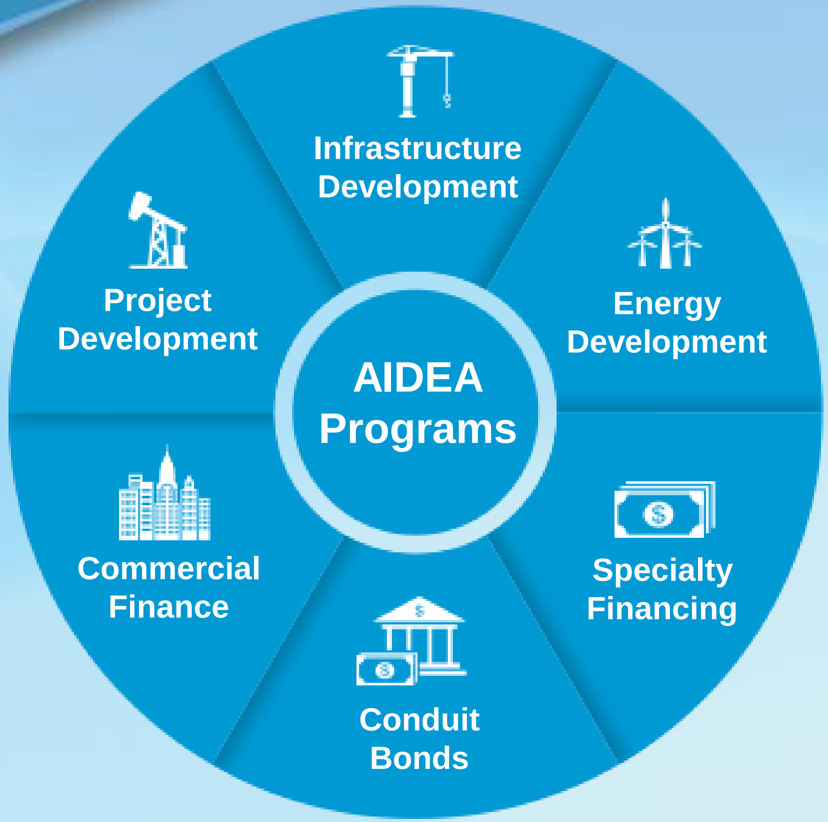


ALASKA'S DEVELOPMENT FINANCE AUTHORITY

Proposed Changes to AIDEA Dividend Statutes HB 268 / SB 149

Investing in Alaskans

Dividend Problem #1:
“Market Value” Adjusting Entries

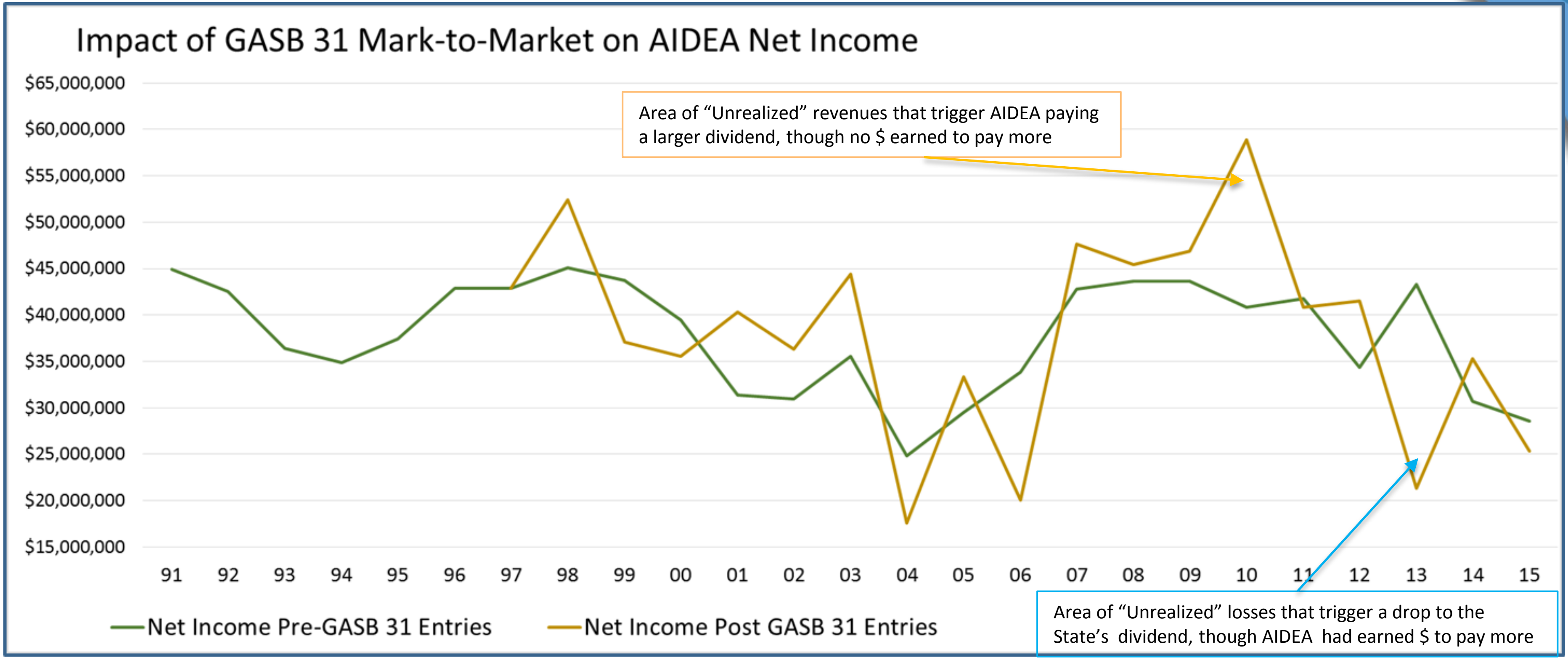
Problem #1:

1. ***G.A.A.P.* keeps evolving**, requiring booking/recording *“market value”* adjusting entries. Essentially, act like something happened that didn’t happen, and book it as though it did…

2. The result: **AIDEA’s *“net income”* swings**, sometimes materially, which means **the *State’s dividend* swings** sometimes materially year-over-year, *we want to fix this.*

3. And in the end, ultimately, the **dividend payment is a cash based transaction**. *(Paying it when cash hasn’t been earned is a problem -- for AIDEA, but likewise, not paying it when it has been earned, and is available, is a problem -- for the State.)*

GASB 31 Impact to *Net Income*



Dividend Problem #2:
“Dividend-Penalty” Effect Adjusting Entries

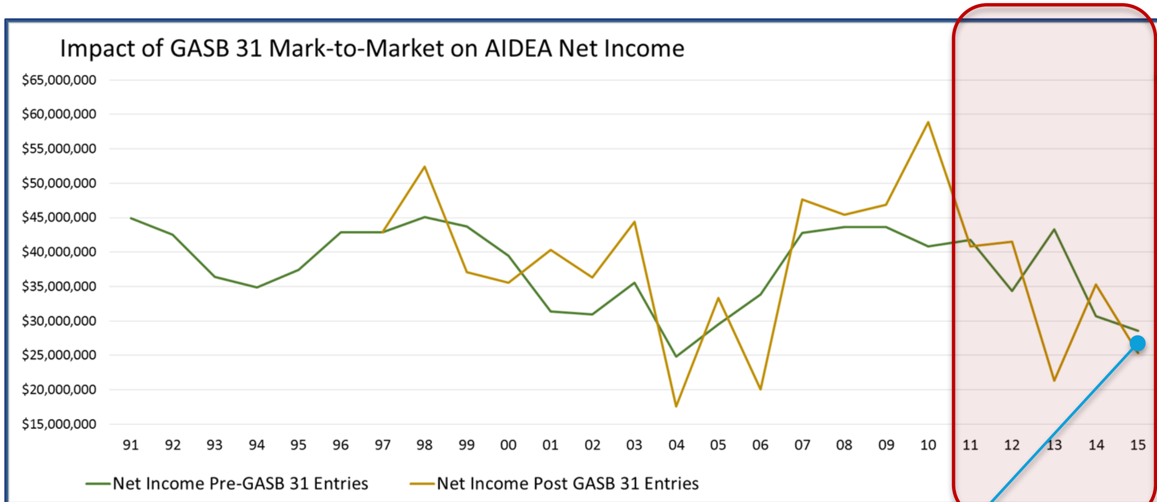
Problem #2:

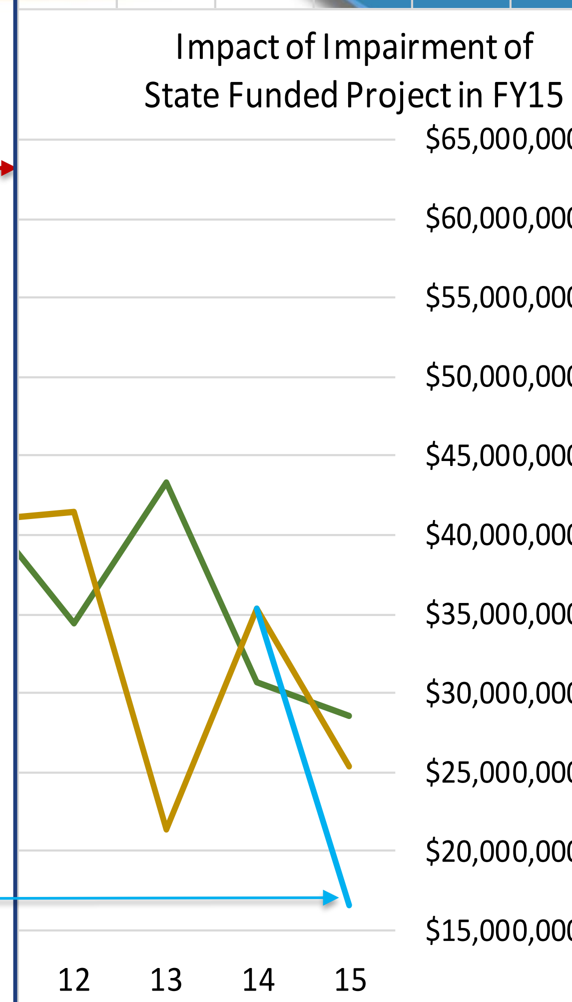
1. When the **value** of a project has been determined to have been **permanently reduced,** for some reason, G.A.A.P. requires booking/recording an adjusting entry between the Balance Sheet and the Income Statement to *reduce and/or remove some or all of the value of an asset or a project from AIDEA’s Balance Sheet*.

2. The resulting entry **reduces net income**. The consequence (depending on the facts), could possibly either reduce the State’s dividend from a project it funded due to an adjusting entry reducing value, and/or have AIDEA paying a dividend on top of a project it funded due to an adjusting entry reducing value.

3. Thus, **there could be** up to a 25% to 50% “dividend penalty” from an adjusting entry, *we want to fix this too*.

Hypothetical State Funded Non-172 Project, if Stopped, Impact to "*Net Income*"





Area of "Unrealized" losses that trigger a drop to the State's dividend, though AIDEA had earned $ to pay more

Loss Impact: Net Income Becomes $8.8M Lower

Consequence: The "Dividend Penalty" to the State would be a ($4.4M) smaller dividend (@ 50%)

Summary

The proposed statutory change of HB 268 / SB 149:

1) Removes the ***"market value" entries*** that impact the dividend, thus better stabilizing the dividend amount paid to the State year-over-year.

2) Removes the ***"dividend-penalty"*** result on the financier of an investment project that did not materialize as originally planned.

3) Modernizes and aligns statutory language to the fact that the dividend is a check to the State, and thus, is a cash based transaction. Language changes better connect the payment to the actual realized results of operations. *Paying it when cash hasn't been earned is a problem (for AIDEA), and not paying it when it has been earned, and is available, is a problem (for the State).*