

ALASKA'S DEVELOPMENT FINANCE AUTHORITY

*SB 57 - Proposed Language Changes to
Modernize AIDEA's Dividend Statute*

AIDEA's Dividend: History, Goal, Statutory Language, and Two Accounting Problems Working to Fix

Dividend Statute Language Needs Modernizing, As Accounting Rules Have Evolved Over Time



3 Accounting Transaction Types, #3 Causes Dividend Problems:

1. Entries from “**real transactions**” that actually occurred, they are historic in nature. *Examples: booking what was paid for an asset, revenue that is generated, payroll that is paid, taxes paid, what was cash received and why, etc.*
2. Entries from “**estimates and allocations**”. *Examples: booking depreciation and amortization expenses which recognizes and records that an asset used up some of its estimated useful life over the period of operations.*
3. Entries from “**market value adjustments**”. These are entries related to transactions that didn't happen, but, AIDEA must record them for the audit as though they did to comply with G.A.S.B. and have a G.A.A.P. audit.
(SB 57 proposes to update the existing “excluding...” statutory language and remove G.A.S.B. “market value” impacts on the AIDEA dividend calculation) Example: booking the gain or loss that would have resulted from selling your marketable securities on the last day of the year (GASB 31).

Sec. 44.88.088. Payment of dividend to state.

The Pertinent Language:

The authority **shall** adopt a policy for payment of a dividend... to the state each fiscal year.

... The amount of the dividend payable... may not be less than 25 percent nor more than 50 percent of the ***net income*** ...for the base fiscal year...

... "***net income***" means **the change in net position**, or the equivalent term under **generally accepted accounting principles**, ... as set out in the **audited financial statements** of the authority for the base fiscal year, **excluding** amounts attributable to intergovernmental transfers, capital contributions, grants, or impairment losses on development projects financed under AS 44.88.172;

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, *SB 57 will correct this.*
3. Ultimately, the **dividend payment is a cash based transaction**. (*Paying it when cash hasn’t been earned is a problem -- for AIDEA. Not paying it when cash has been earned is a problem -- for the State.*)

Problem #1 Analogy of



“Market Value”
Entries Impacts

\$ Based Tax Payer Analogy

Form 1040		Department of the Treasury—Internal Revenue Service (99)		2015		OMB No. 1545-0074		IRS Use Only—Do not write or staple in this space.	
For the year Jan. 1–Dec. 31, 2015, or other tax year beginning , 2015, ending , 20									
Your first name and initial				Last name				See separate instructions. Your social security number	
If a joint return, spouse's first name and initial				Last name				Spouse's social security number	
Home address (number and street). If you have a P.O. box, see instructions.								Apt. no.	
City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).									
Foreign country name				Foreign province/state/country				Foreign postal code	
Filing Status Check only one box. 1 <input type="checkbox"/> Single 2 <input type="checkbox"/> Married filing jointly (even if only one had income) 3 <input type="checkbox"/> Married filing separately. Enter spouse's SSN above and full name here. ▶ 4 <input type="checkbox"/> Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶ 5 <input type="checkbox"/> Qualifying widow(er) with dependent child									
Exemptions 6a <input type="checkbox"/> Yourself. If someone can claim you as a dependent, do not check box 6a. b <input type="checkbox"/> Spouse c Dependents: (i) First name Last name (2) Dependent's social security number (3) Dependent's relationship to you (4) <input type="checkbox"/> if child under age 17 qualifying for child tax credit (see instructions)									
If more than four dependents, see instructions and check here <input type="checkbox"/>									
Boxes checked on 6a and 6b: No. of children on 6c who: • lived with you • did not live with you due to divorce or separation (see instructions) Dependents on 6c not entered above Add numbers on lines above ▶									
Income Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld. If you did not get a W-2, see instructions.									
7 Wages, salaries, tips, etc. Attach Form(s) W-2 8a Taxable interest. Attach Schedule B if required b Tax-exempt interest. Do not include on line 8a 8b 9a Ordinary dividends. Attach Schedule B if required b Qualified dividends 9b 10 Taxable refunds, credits, or offsets of state and local income taxes 11 Alimony received 12 Business income or (loss). Attach Schedule C or C-EZ 13 Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/> 14 Other gains or (losses). Attach Form 4797 15a IRA distributions 15a b Taxable amount 16a Pensions and annuities 16a b Taxable amount 17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E 18 Farm income or (loss). Attach Schedule F 19 Unemployment compensation 20a Social security benefits 20a b Taxable amount 21 Other income. List type and amount 22 Combine the amounts in the far right column for lines 7 through 21. This is your total income ▶									
Adjusted Gross Income 23 Educator expenses 24 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ 25 Health savings account deduction. Attach Form 8889 26 Moving expenses. Attach Form 3903 27 Deductible part of self-employment tax. Attach Schedule SE 28 Self-employed SEP, SIMPLE, and qualified plans 29 Self-employed health insurance deduction 30 Penalty on early withdrawal of savings 31a Alimony paid b Recipient's SSN ▶ 31a 32 IRA deduction 33 Student loan interest deduction 34 Tuition and fees. Attach Form 8917 35 Domestic production activities deduction. Attach Form 8903 36 Add lines 23 through 35 37 Subtract line 36 from line 22. This is your adjusted gross income ▶									

Form 1040 Impact Analogy



Income							
7	Wages, salaries, tips, etc. Attach Form(s) W-2			7	100,000		
8a	Taxable interest. Attach Schedule B if required			8a	1,500		
b	Tax-exempt interest. Do not include on line 8a	8b					
9a	Ordinary dividends. Attach Schedule B if required			9a	6,000		
b	Qualified dividends	9b					
10	Taxable refunds, credits, or offsets of state and local income taxes			10			
11	Alimony received			11			
12	Business income or (loss). Attach Schedule C or C-EZ			12			
13	Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/>			13			
14	Other gains or (losses). Attach Form 4797			14			
15a	IRA distributions	15a		b	Taxable amount	15b	
16a	Pensions and annuities	16a		b	Taxable amount	16b	
17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E			17			
18	Farm income or (loss). Attach Schedule F			18			
19	Unemployment compensation			19			
20a	Social security benefits	20a		b	Taxable amount	20b	
21	Other income. List type and amount			21	1,500		
22	Combine the amounts in the far right column for lines 7 through 21. This is your total income			22	109,000		

Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.

If you did not get a W-2, see instructions.

GASB Statements 31, 68, 72, & 75



NO. 144-A | MARCH 1997

Governmental Accounting Standards Series

Statement No. 31 of the Governmental Accounting Standards Board

Accounting and Financial Reporting for Certain Investments and for External Investment Pools



Governmental Accounting Standards Board
of the Financial Accounting Foundation

NO. 327-C | JUNE 2012

Governmental Accounting Standards Series

Statement No. 68 of the Governmental Accounting Standards Board

Accounting and Financial Reporting for Pensions

an amendment of GASB Statement No. 27



GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION

NO. 347 | FEBRUARY 2015

Governmental Accounting Standards Series

Statement No. 72 of the Governmental Accounting Standards Board

Fair Value Measurement and Application



GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION

NO. 350 | JUNE 2015

Governmental Accounting Standards Series

Statement No. 75 of the Governmental Accounting Standards Board

Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions



GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION

Form 1040 Analogy – Add GASB Impacts

(Now adjust your **1040 total income** as if “GASB Type” adjustments were required at year-end)

Income	7	Wages, salaries, tips, etc. Attach Form(s) W-2	7	100,000
	8a	Taxable interest. Attach Schedule B if required	8a	1,500
	b	Tax-exempt interest. Do not include on line 8a	8b	
	9a	Ordinary dividends. Attach Schedule B if required	9a	6,000
Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.	b	Qualified dividends	9b	
	10	Taxable refunds, credits, or offsets of state and local income taxes	10	
	11	GASB 31 - Unrealized gain or loss on marketable securities (10% on \$250k portfolio)	11	25,000
	12	Business income or (loss). Attach Schedule C or C-EZ	12	
If you did not get a W-2, see instructions.	13	Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/>	13	
	14	Other gains or (losses). Attach Form 4797	14	
	15a	IRA distributions	15a	
	b	Taxable amount	15b	
	16a	GASB 68 – Value adjustment from Retirement 401k Account (5% on \$200k growth)	16b	10,000
	17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	17	
	18	GASB 72 – Fair value adjustment for your rental property (5% on \$400k value)	18	20,000
	19	Unemployment compensation	19	
	20a	GASB 75 – Fair value adjustment for your other post employment benefits	20b	5,000
	21	Other income. List type and amount	21	1,500
	22	Combine the amounts in the far right column for lines 7 through 21. This is your total income	22	169,000

Under this analogy you'd have \$60,000 more income that you'd have to pay taxes on if you had to recognize “market value” adjustments on your personal tax return, without having earned the \$ to pay the taxes... (Note: any of these adjustments could go in either direction.)

SB 57 Impact To 1040 Analogy

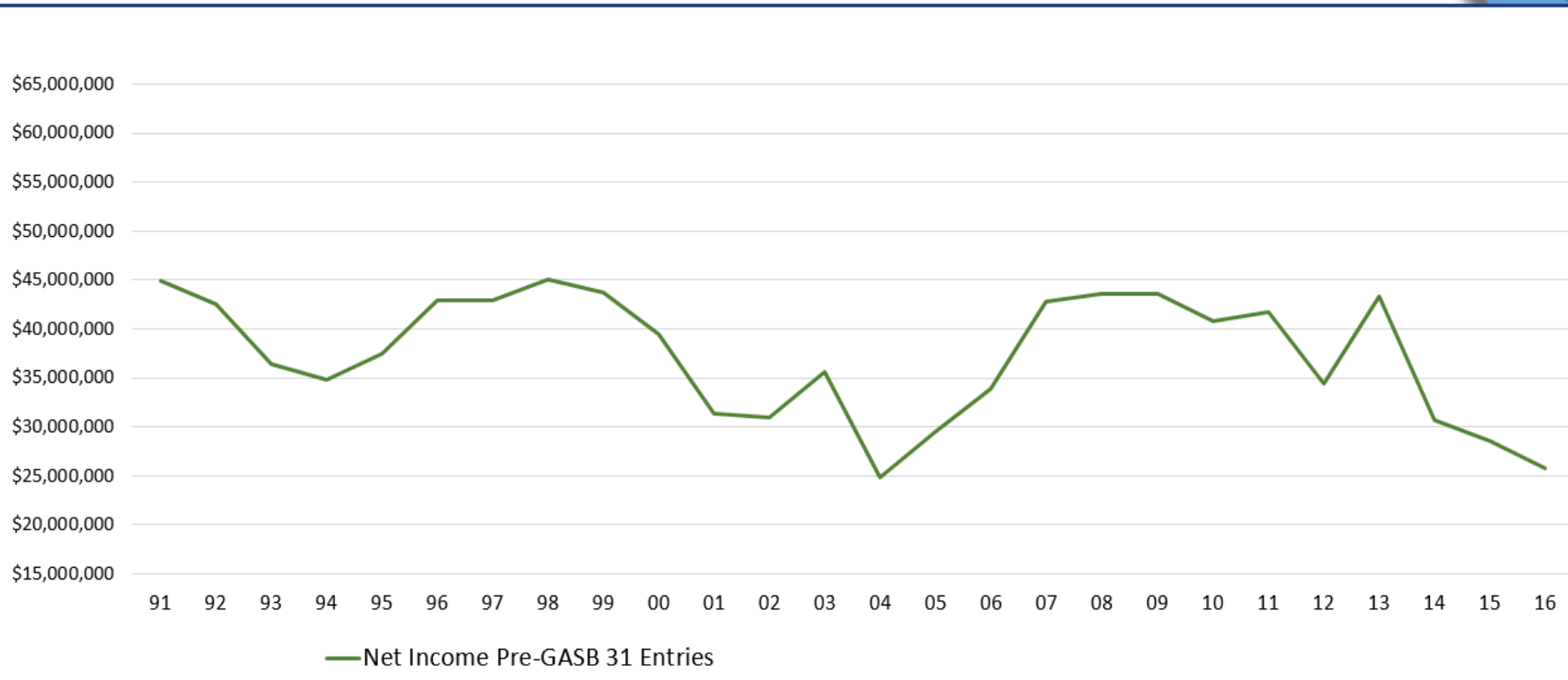
Income	7	Wages, salaries, tips, etc. Attach Form(s) W-2	7	100,000
8a	Taxable interest. Attach Schedule B if required	8a	1,500	
b	Tax-exempt interest. Do not include on line 8a	8b		
9a	Ordinary dividends. Attach Schedule B if required	9a	6,000	
b	Qualified dividends	9b		
10	Taxable refunds, credits, or offsets of state and local income taxes	10		
11	GASB 31 - Unrealized gain or loss on marketable securities (10% on \$250k portfolio)	11	25,000	
12	Business income or (loss). Attach Schedule C or C-EZ	12		
13	Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/>	13		
14	Other gains or (losses). Attach Form 4797	14		
15a	IRA distributions	15a		
b	Taxable amount	15b		
16a	GASB 68 - Value adjustment from Retirement 401k Account (5% on \$200k growth)	16b	10,000	
17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	17		
18	GASB 72 - Fair value adjustment for your rental property (5% on \$400k value)	18	20,000	
19	Unemployment compensation	19		
20a	GASB 75 - Fair value adjustment for your other post employment benefits	20b	5,000	
21	Other income. List type and amount	21	1,500	
22	Combine the amounts in the far right column for lines 7 through 21. This is your total income	22	109,000	

SB 57 removes these impacts

Revised line 22 total taxable income post market value if recognized

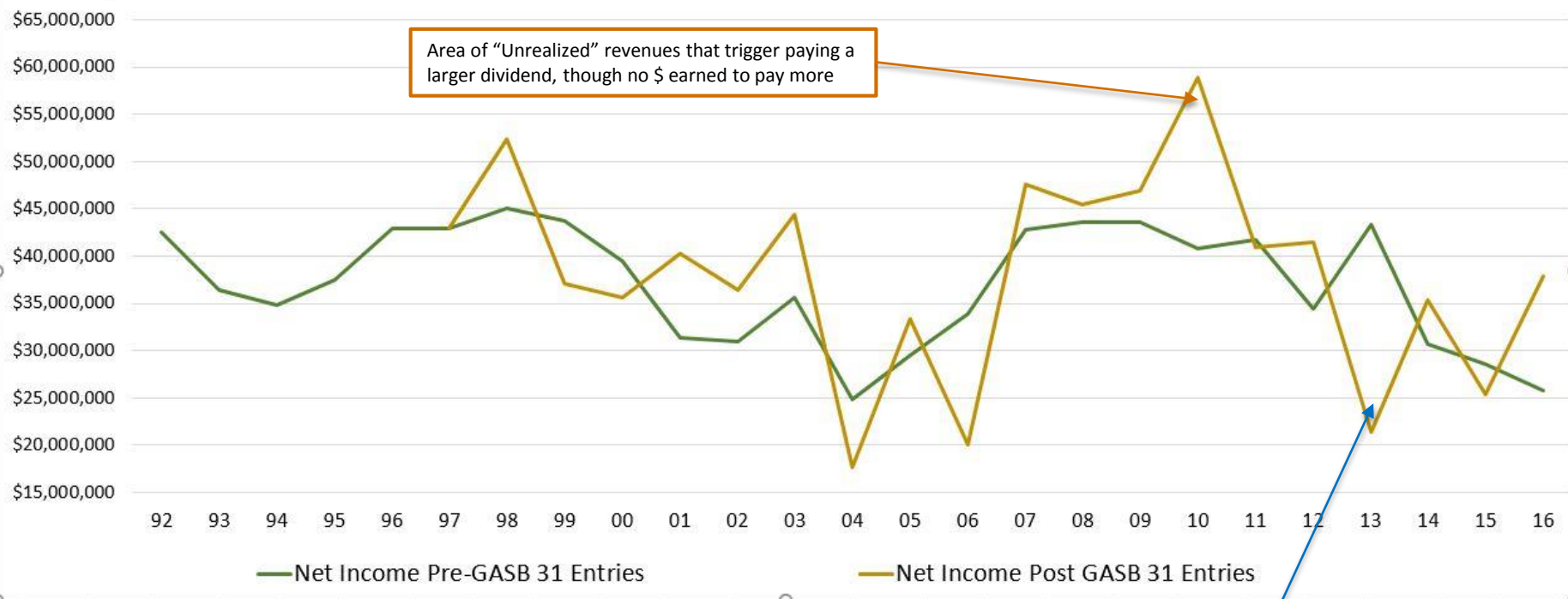
~~169,000~~

AIDEA's *Net Income*, Pre-G.A.S.B. 31 “*Market Value*” Adjusting Entries



GASB 31 Impact to *Net Income*

Impact of GASB 31 Mark-to-Market on AIDEA Net Income



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

Problem #2

“Dividend Penalty”

Adjusting Entries

Dividend Problem #2:

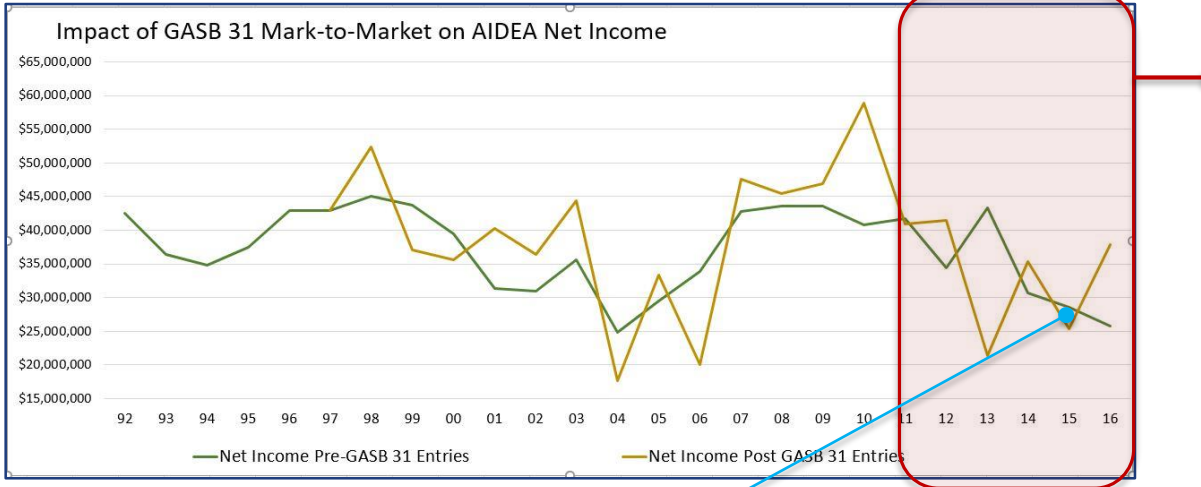
“Dividend-Penalty” Effect Adjusting Entries



Problem #2:

1. When the **value** of a project has been determined to have been **permanently reduced**, G.A.A.P. requires recording an adjusting entry between the Balance Sheet and the Income Statement to *reduce 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 could either reduce the State's dividend from a project it funded or have AIDEA adjusting its dividend calculation to offset the reduction in project value.
3. Thus, **there could be** up to a 25% to 50% **“dividend penalty”** from an adjusting entry. *SB 57 will correct this.*

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 had earned \$ to pay more

Consequence: The “Dividend Penalty” to the State would be a (\$4.7M) smaller dividend (@ 50%)

Loss Impact: Net Income Becomes \$9.3M Lower



Proposed Statutory Language Explanation

The proposed statutory change of SB 57:

- 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**” resulting from 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.



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