

ALASKA'S DEVELOPMENT FINANCE AUTHORITY

*HB 119 - 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.
(HB 119 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,
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 U.S. Individual Income Tax Return		2015	OMB No. 1545-0074	IRS Use Only—Do not write or staple in this space
Department of the Treasury—Internal Revenue Service (99)				
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.
If a joint return, spouse's first name and initial		Last name		Your social security number
Home address (number and street). If you have a P.O. box, see instructions.		Apt. no.		Spouse's social security number
City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).				Make sure the SSN(s) above and on line 6c are correct.
Foreign country name		Foreign province/state/county		Presidential Election Campaign
Foreign postal code				Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund.
<input type="checkbox"/> You		<input type="checkbox"/> Spouse		
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:				
(1) First name	Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) <input checked="" type="checkbox"/> if child under age 17 qualifying for child tax credit (see instructions)
If more than four dependents, see instructions and check here ►				
d Total number of exemptions claimed				
Income				
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				
9a Ordinary dividends. Attach Schedule B if required				
b Qualified dividends				
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 ►				
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				
31a	b Recipient's SSN ►	31a		
32 IRA deduction				
32		32		
33 Student loan interest deduction				
33		33		
34 Tuition and fees. Attach Form 8917				
34		34		
35 Domestic production activities deduction. Attach Form 8903				
35		35		
36 Add lines 23 through 35				
36		36		
37 Subtract line 36 from line 22. This is your adjusted gross income ►				
Add numbers on lines above ►				
Boxes checked on 6a and 6b				
No. of children on line 6c who:				
• lived with you				
• did not live with you due to divorce or separation (see instructions)				
Dependent on 6c not entered above				
Add numbers on lines above ►				
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.				
For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions.				
Cat. No. 11320B				
Form 1040 (2015)				

Form 1040 Impact Analogy

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	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
16a	Pensions and annuities	16a	b Taxable amount
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
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

GASB Statements 31, 68, 72, & 75



NO. 144-A | MARCH 1987

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
Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.	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	
If you did not get a W-2, see instructions.	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
	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.)

HB 119 Impact To 1040 Analogy

The “market value” unrealized adjustments would be excluded from “**Net Income**.”

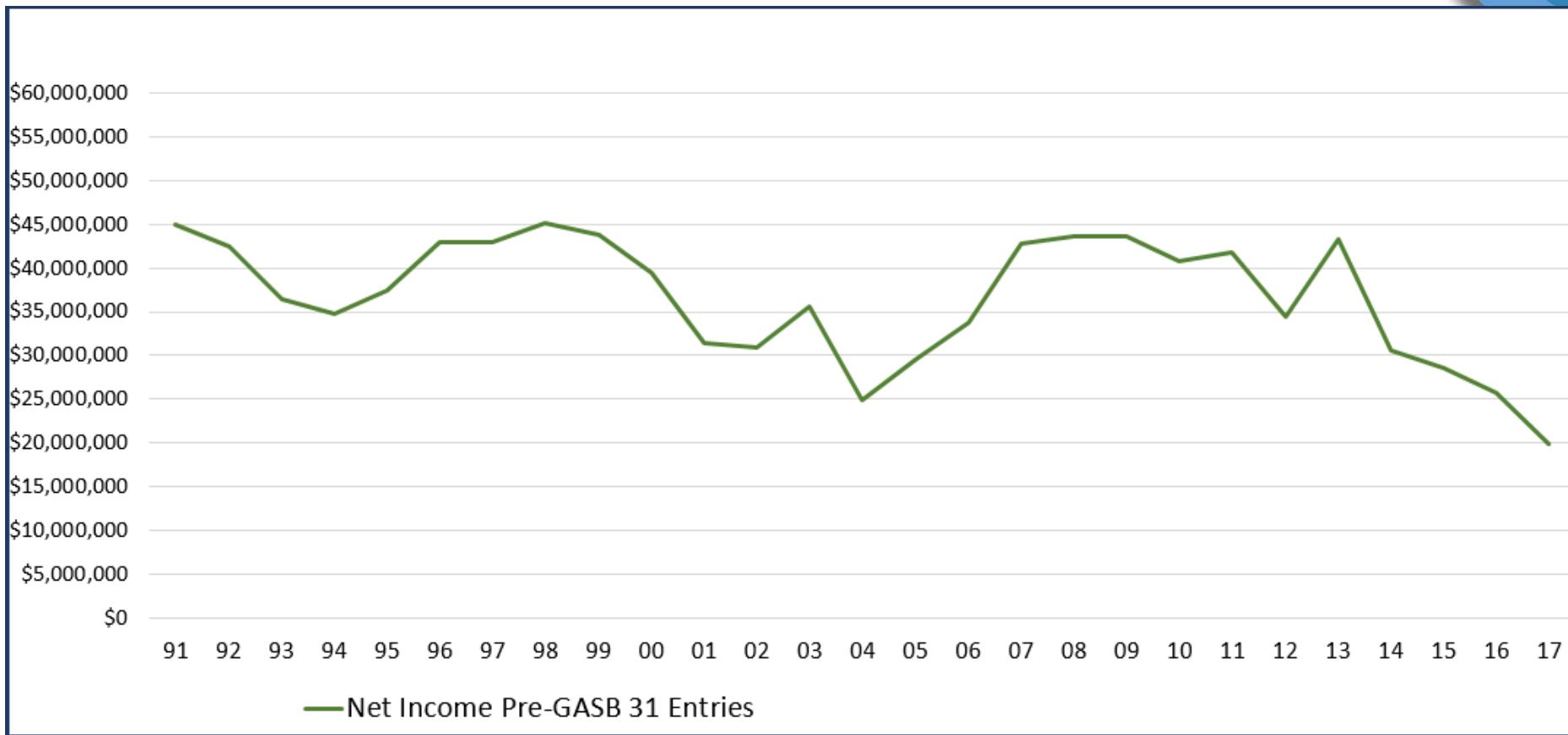
Income	7 Wages, salaries, tips, etc. Attach Form(s) W-2	7	100,000
Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.	8a Taxable interest. Attach Schedule B if required	8a	1,500
	b Tax-exempt interest. Do not include on line 8a	8b	
	9a Ordinary dividends. Attach Schedule B if required	9a	6,000
	b Qualified dividends	9b	
If you did not get a W-2, see instructions.	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

Revised line 22 total taxable income post market value if recognized

~~109,000~~

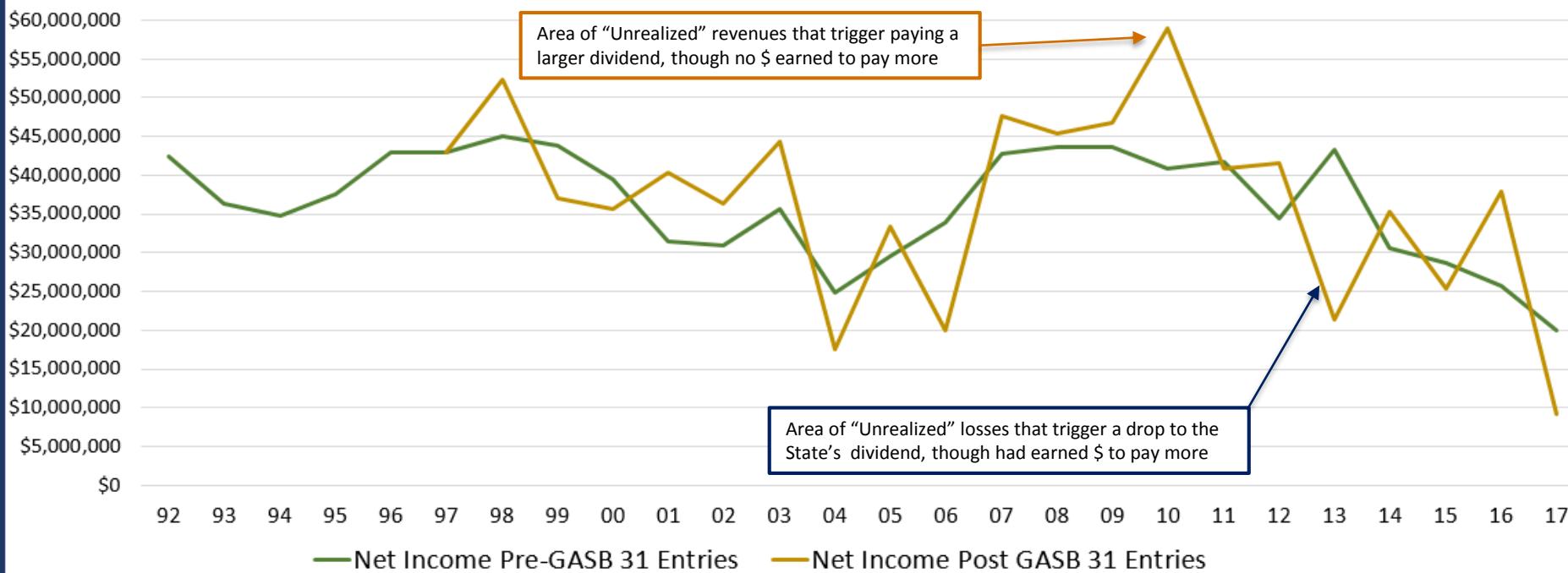
AIDEA's Net Income, Pre-G.A.S.B. 31

“Market Value” Adjusting Entries



GASB 31 Impact to Net Income

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



Problem #2

“Dividend Penalty”

Adjusting Entries

Dividend Problem #2:

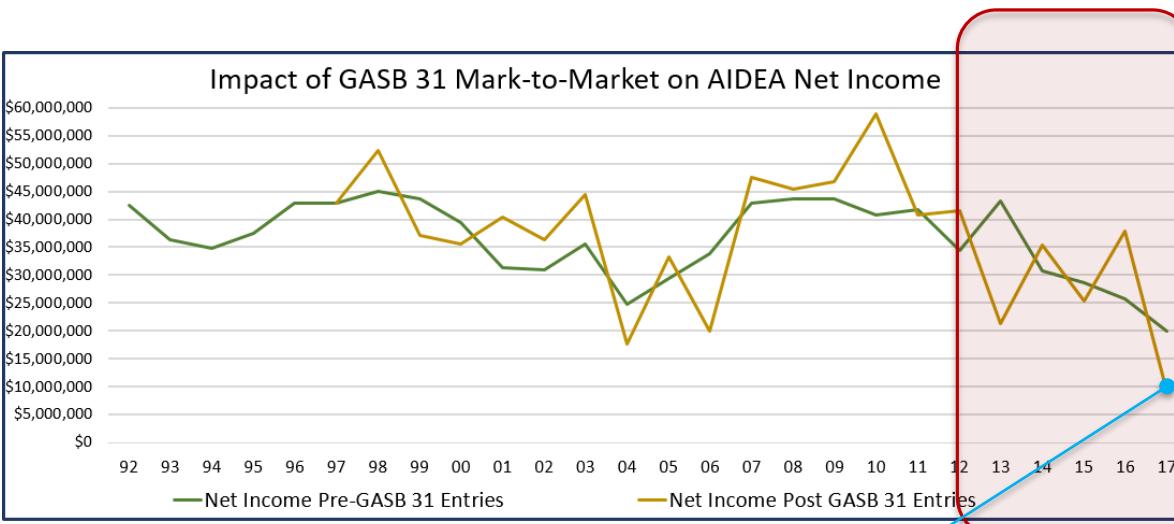
“Dividend-Penalty” Effect Adjusting Entries



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.

Hypothetical State Funded Non-172 Project, if Stopped, Impact to “Net Income”



Impact of Impairment of State Funded Project in FY17



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 result in **no dividend** to the State

Loss Impact: Net Income Becomes \$10.9M Lower

Proposed Statutory Language Explanation

Summary

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 a state funded non-172 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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#AIDEA 

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