MEMORANDUM

Department of Natural Resources

STATE OF ALASKA

Support Services Division
Financial Services Section

TO:	Division of Agriculture Board of Agriculture and Conservation Board Members	DATE:	02/07/2005
		FILE NO:	
		TELEPHONE:	269-8681
FROM:	Cathy Poulos DNR Revenue Accountant	SUBJECT:	Alaska Farmer's Coop & Mat Maid Creamery

I have received a request from ARLF staff members to provide the Board members some background on the Alaska Farmer's Cooperative, Inc. (AFC) and The Creamery Corporation (Mat Maid).

ALASKA FARMER'S COOPERATIVE, INC.

In September 1993 the State entered into an agreement with the AFC. In exchange for writing off eight loans the AFC relinquished to the ARLF three parcels of land and 62,759.41 shares of preferred, non-voting, non-convertible stock with a par value of $100 per share. The number of shares of preferred stock was calculated as the total of principal ($3,849,641) plus interest ($2,617,360) less the value of the land recovered ($191,060) for a total then owing of $6,275,941.

One of the parcels of land was sold to Fairbanks Sand and Gravel in 2000. The ARLF owns 98% of the remaining two parcels. Those parcels are leased to the AFC for $1.00/year for 25 years with an option to renew for another 25 years, or as long as the AFC continues to operate as an agricultural cooperative for the benefit of Alaskans.

A short time later it was determined that the value of the shares could not exceed the outstanding capital at the time of the settlement. The final book value was determined using the 12/31/1992 AFC Balance Sheet values adjusted for the settlement. AFC assets less liabilities, adjusted per the settlement left a capital value of $2,787,153. The capital plus the $191,060 value of the land recovered resulted in total assets recovered of $2,978,213. The land was booked as inventory; the preferred stock presented a problem.

There were numerous discussions regarding the proper method of accounting for the preferred stock. The final decision from Kevin Worley (Department of Administration, Division of Finance) and Cheryl Crawford (Department of Administration, Legislative Audit) is as follows:

The stock should be listed at the lower of Fair Market Value or cost at the time it was received by ARLF. Generally Accepted Accounting Principles does not provide for either an allowance account or an annual

Lower of Cost or Market adjustment for preferred stock. Therefore, ARLF continues to carry the stock at the originally booked value of $2,787,153 until the AFC ceases to do business.

Four of the loans written off were ARLF loans; four were General Fund (GF) loans. The ratio of the amount owed the GF was 35.07%. Since the ARLF expects to recover little, if anything, from the stock, the 35.07% owed to the GF should be recorded with a zero net value. In any circumstances, no recovery can be made until AFC goes out of business. To keep track of the potential liability that ARLF has with the GF, $1,044,420.57 (35.07% of the total assets recovered) is recorded in the Due To/Due From other funds accounts, and the same amount is set up in an allowance account for each fund.

THE CREAMERY CORPORATION

The Creamery Corporation (Mat Maid) filed for Chapter 11 bankruptcy protection on November 25, 1983. On November 14, 1984, the bankruptcy court permitted the ARLF to take over the operations of the Anchorage Mat Maid Creamery and Palmer feed mill. The ARLF directly received the Palmer feed mill through foreclosure proceedings. The Anchorage Mat Maid Creamery real and personal property remain under the corporation. On November 29, 1985 the ARLF repossessed Mat Maid and title to all real property and assets was transferred effective that date. A manager was hired by the State to keep Mat Maid operating in order to provide a market for the milk produced on ARLF financed dairies. The State established the Creamery Corporation on December 8, 1988 for the management of the assets and the daily operations. All outstanding shares of the Creamery Corporation's common stock have been issued to the ARLF. At the time of title foreclosure the outstanding principal balance of the loans owed by Mat Maid to the ARLF was $4,470,359.

In a memo dated October 15, 1992, Kevin Worley (Department of Administration, Division of Finance) in collaboration with Ken Schermann from the Governmental Accounting Standards Board determined the appropriate reporting method for this asset. They determined that Mat Maid should be booked as an investment, not a subsidiary, of the ARLF, and should be booked using the equity method. The equity method requires that changes in the ARLF's equity in the investment based on Mat Maid's earnings or losses for the year should be reported as non-operating revenue/expenses.

The ARLF booked a value of $3,854,541.93 at the fiscal year end close of FY92 for this asset. This number represented the actual Total Equity for Mat Maid as of 6/30/1992. Using the audited Financial Statements presented by the certified public accounting firm of Sramek Hightower that value has been increased or decreased appropriately every fiscal year end and currently stands at $5,250,044.

SUMMARY

The difference in the manner of recording these two investment assets is directly related to the kind of stock issued at settlement. The AFC maintained ownership of its assets and liabilities, relinquishing to the state the value of its capital in preferred stock. Mat Maid relinquished ownership of the assets and liabilities, giving the state the value of its capital in common stock.

Preferred stocks differ greatly from the common stocks. The preferred stocks are more like bonds in that ownership of the shares represents not ownership of the company, but debt, plus interest, owed to the owner of the shares by the issuing company.

Common stocks represent equity ownership in a corporation, providing voting rights, and entitling the holder to a share of the company's success through dividends and/or capital appreciation.